Court File No. CV-18-611219-00CL

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

BETWEEN:

FTI CONSULTING CANADA INC.,
in its capacity as Court-appointed monitor in proceedings
pursuant to the *Companies' Creditors Arrangement Act*, RSC 1985, c. c-36

Plaintiff

and

ESL INVESTMENTS INC., ESL PARTNERS, LP, SPE I PARTNERS, LP, SPE MASTER I, LP, ESL INSTITUTIONAL PARTNERS, L.P., EDWARD S. LAMPERT, WILLIAM HARKER and WILLIAM CROWLEY

Defendants

Court File No. CV-18-611214-00CL

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

BETWEEN:

SEARS CANADA INC., by its Court-appointed Litigation Trustee,
J. DOUGLAS CUNNINGHAM, Q.C.

Plaintiff

and

ESL INVESTMENTS INC., ESL PARTNERS LP, SPE I PARTNERS, LP, SPE MASTER I, LP, ESL INSTITUTIONAL PARTNERS, L.P., EDWARD LAMPERT, EPHRAIM J. BIRD, DOUGLAS CAMPBELL, WILLIAM CROWLEY, WILLIAM HARKER, R. RAJA KHANNA, JAMES MCBURNEY, DEBORAH ROSATI and DONALD ROSS

Defendants

JOINT RESPONDING MOTION RECORD OF THE MONITOR AND THE LITIGATION TRUSTEE

(Motion for Pre-Pleading Productions)
(returnable March 20, 2019)

VOLUME 2

February 21, 2019

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TO: LITIGATION SERVICE LIST

JOINT RESPONDING MOTION RECORD OF THE MONITOR AND THE LITIGATION TRUSTEE
(Motion for Pre-Pleading Productions)
(returnable March 20, 2019)

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Volume 3

This is **Exhibit "J"** referred to in the

Affidavit of Geoff Mens

sworn before me, this **21st** day

of **February, 2019**

A Commissioner for taking Affidavits

Court File No. CV-18-00611219-00CL

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

BETWEEN:

FTI CONSULTING CANADA INC.,
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ESL INSTITUTIONAL PARTNERS, LP, EDWARD S. LAMPERT, WILLIAM HARKER
and WILLIAM CROWLEY

Defendants

BRIEF OF DOCUMENTS (REDACTED FOR PRIVILEGE)

February 20, 2019

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as Court-Appointed Monitor

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Tab No.	Document Date (DD/MM/YYYY)	Document
23	12/12/2012	Notice of Special Board Meeting dated December 12, 2012
24	12/12/2012	Dividend Discussion dated December 12, 2012
25	12/12/2012	Officer's Certificate dated December 12, 2012

Volume 2

Tab No.	Document Date (DD/MM/YYYY)	Document
26	12/12/2012	Minutes of the Board dated December 12, 2012
27	13/06/2013	Real Estate Update dated June 13, 2013 (with Real Estate Update dated April 29, 2013 attached)
28	13/06/2013	Minutes of the Board dated June 13, 2013
29	04/09/2013	Strategic Session dated September 4-5, 2013
30	23/09/2013	Board Presentation – Next Steps dated September 23, 2013
31	23/09/2013	Board Minutes dated September 23, 2013
32	25/09/2013	Email from F. Perugini to the Board dated September 25, 2013
33	25/09/2013	Excel Spreadsheet dated September 25,2013
34	24/10/2013	Real Estate Update dated October 24, 2013
35	28/10/2013	Minutes of the Board dated October 28, 2013
36	08/11/2013	Board Presentation re: Westcliffe Joint Venture
37	08/11/2013	Email from W. Crowley to the Board dated November 8, 2013
38	19/11/2013	Board Materials dated November 18 and 19, 2013
39	18/11/2013	Officer's Certificate dated November 18, 2013
40	19/11/2013	Minutes of the Board dated November 18 and 19, 2013
41	13/12/2013	Executive Summary dated December 13, 2013
42	14/12/2013	**[REMOVED DUE TO PRIVILEGE]**
43	15/12/2013	Email from R. Khanna to F. Perugini dated December 15, 2013
44	13/03/2014	Email from EJ Bird to the SCI Board dated March 13, 2014 (with attachments)

Tab No.	Document Date (DD/MM/YYYY)	Document
45	13/03/2014	Minutes of the Board dated March 13, 2014

TAB 1

Private and Confidential

Sears

2009 – 2011 Strategic Plan

August, 2008

Prelude

Enclosed are materials intended to provide you with information, facts and goals to discuss the strategic plan for the 2009 – 2011 period. The materials are not exhaustive but hopefully, are sufficient to enable informed and constructive two-way discussions at the August 7th offsite.

The breadth of the Sears business makes a single day discussion of all businesses and strategies impractical. Therefore, we will focus our discussions at the offsite on the priority topics. If any Board member(s) wish to have follow up discussions then we are most willing to do so.

At the offsite, we hope to have discussions that make you feel a creative part of the 2009 – 2011 plan and be sufficiently informed and involved to be comfortable supporting the plan.

In November, we will present a detailed plan for 2009 and 2010, and a more high level plan for 2011. At this time, we will seek your formal approval of the 2009 and 2010 plan.

We really appreciate the time and effort you will expend working with us at the offsite and we hope to meet and exceed your expectations.

Introduction

The 2009 – 2011 plan is intended to be more strategic than prior plans – this does not mean that the #1 priority is not continuous improvement and the pursuit of fixing the basics ...

- A 2009 – 2011 detailed plan is being created versus a single year plan, as in prior years, to enable a longer term visionary plan – a single year plan has a tendency to be too tactical and not address longer term trends

- The plan consists of two components:

  1. Overarching strategies: these are intended to describe a business vision which is rational, practical and economic and which positions Sears for growth beyond what continuous improvement activities will yield

  2. Continuous improvement: a focus on fixing the basics at Sears – assortments, talent quality, cultural mindsets, etc. More than 90% of the activities of the existing organization are dedicated to continuous improvement; the scope of continuous improvement is broad, examples include:

     - Expanding women's contemporary fashions to increase the number of customers below age 45 – the market share above 45 years old is growing at Sears

     - Create a commission model to sell electronics and achieve an EBITDA margin of 4%

     - Reduce shrink in stores to 0.66% of revenues, from 0.86% in 2008

     - Grow the B2B business to $10 MM EBITDA in 2011, from $3.5 MM in 2008

     - Etc.

- This document covers the overarching strategies, the lesser strategies and continuous improvements will be covered in November at the Board meeting

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Agenda

7:00 – 7:15	Introduction	Dene Rogers
7:15 – 7:30	2009 – 2011 Financials	Dave Merkley
7:30 – 9:30	Retail Strategy	Dene Rogers / All
9:30 – 10:00	Retail Stores	Dennis Singh
10:00 – 10:45	Real Estate	Robbie Wasserman, Dennis Singh
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2:45 – 3:30	Business Capability	Cathy McConnell, Tim Flemming
3:30 – 4:15	Sustainability	James Gray-Donald
4:15 – 4:30	Wrap Up / Next Steps	Dene Rogers

Historical Summary

2008 Plan EBITDA best since the late 90's economic growth era and will be achieved without the capital requirements of the historic credit and financial services business ...

				Pro Forma							
Fiscal Year	2008 Plan	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Results for the Year (in millions)											
Revenue	$ 5,736	$ 5,845	$ 5,933	$ 5,933	$ 6,307	$ 6,300	$ 6,590	$ 6,741	$ 6,486	$ 5,939	$ 5,284
Gross Margin	1,986	1,946	1,912	1,865	1,859	1,917	2,040	1,917	1,953	1,791	1,564
Other Income	688	663	667	651	1,002	987	930	913	916	865	811
Expenses	2,108	2,087	2,115	2,169	2,376	2,374	2,440	2,361	2,264	2,050	1,847
EBITDA - Operating	**566**	**522**	**464**	**346**	**486**	**530**	**530**	**469**	**606**	**606**	**529**
Capital Expenditures	115	72	50	86	161	208	219	159	482	249	142

- Growth in late 90's due to improved economic conditions and an era of significant cost reductions and supplier rationalization resulting in improved margins
- Early 2000 sales growth was almost wholly due to the Eatons acquisition, however, this was unprofitable
  - Lack of scale with only 7 stores in the Eatons banner
  - Downtown store footprints too large, and subsequently selling space has been reduced
- 2002 emerged with improved profitability as Eatons stores were converted to the Sears banner (excludes unusual item write-off of $150 MM capital and $30 MM operating)
- 2005 pro-forma represents the first full year excluding the credit and financial services business; EBITDA reduced ~ $120 MM after sale
- 2006 and 2007 focused on improving productivity including margins and expenses and stemming a 5-year same-store-sales CAGR of 3.6%

Financial Outcomes for 2009 – 2011

By 2011, achieve $686.8 MM of EBITDA – nearly double the 2005PF EBITDA …

Key Financial Goals and Metrics ($ MM)

	2008 Plan		2009 Plan		2010 Plan		2011 Plan	
Net Merchandise Sales	$5,017.5		$5,117.9	+ 2%	$5,220.2	+ 2%	$5,324.6	+ 2%
Gross Margin	1,985.8	40.8%	2,058.9	41.4%	2,125.4	41.9%	2,193.8	42.4%
Other Income	688.4		709.1	+ 3%	730.4	+ 3%	752.3	+ 3%
Expenses	2,108.3		2,162.5		2,207.9		2,259.3	
EBITDA	565.9		605.5	+ 7%	647.9	+ 7%	686.8	+ 6%
EBITDA %	9.9%		10.3%		10.8%		11.2%	
Capital Expense (approx.)	$115		$110		$115		$120	

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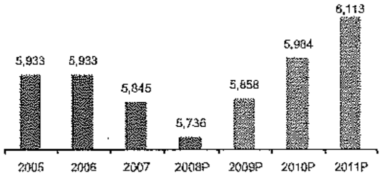
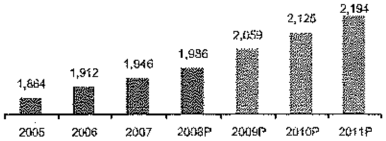
Summary – Financials

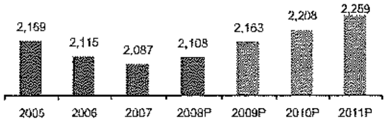
The 2009 – 2011 plan will deliver the largest EBITDA in the history of the company …



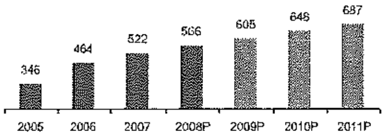
Revenue



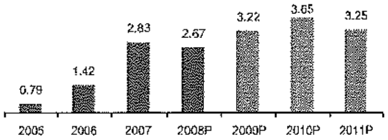
Gross Margin



Expenses



EBITDA



EPS - Operating

$ millions (excl EPS)	2005 Pro forma [1, 2]	2006 Actual [2]	2007 Actual [3]	2008 Plan [4]	2009 Plan	2010 Plan	2011 Plan
Total Revenue	5,933.1	5,932.9	5,844.9	5,735.9	5,858.1	5,984.1	6,113.0
% Chg	0.2%	0.0%	(1.5)%	(1.9)%	2.1%	2.2%	2.2%
Gross Margin	1,864.5	1,911.9	1,945.7	1,985.8	2,058.9	2,125.4	2,193.8
% Chg	0.7%	2.5%	1.8%	2.1%	3.7%	3.2%	3.2%
Gross Margin Rate	36.7%	37.5%	38.7%	40.8%	41.4%	41.9%	42.4%
Other Income	651.0	667.7	662.5	688.4	709.1	730.4	752.3
% Chg	4.3%	2.6%	(0.8)%	3.9%	3.0%	3.0%	3.0%
Income B4 Expenses	2,515.5	2,579.6	2,608.1	2,674.2	2,768.0	2,855.8	2,946.0
% Chg	1.6%	2.5%	1.1%	2.5%	3.5%	3.2%	3.2%
Total Expenses	2,169.4	2,115.1	2,086.5	2,108.3	2,162.5	2,207.9	2,259.3
% Chg	3.0%	(2.5)%	(1.4)%	1.0%	2.6%	2.1%	2.3%
EBITDA	346.1	464.4	521.6	565.9	605.5	647.9	686.8
% Chg	(5.9)%	34.2%	12.3%	8.5%	7.0%	7.0%	6.0%
Net Income	84.6	152.6	304.2	287.2	346.5	393.0	349.4
% Chg	(12.5)%	80.4%	99.3%	(5.6)%	20.7%	13.4%	(11.1)%
EPS - Operating	0.79	1.42	2.83	2.67	3.22	3.65	3.25
% Chg	(12.9)%	78.8%	99.3%	(5.6)%	20.7%	13.4%	(11.1)%

1 Based on pro forma statements

2 Fiscal year January to December

3 Fiscal year February to January; restated for IFRS inventory changes; % change to non-comparable 2006 Actuals

4 2008 Plan % versus 2007 actual comparable period

Agenda

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Overarching Strategies – Summary

The major change is to restructure the organization into brands that are customer centric and create enterprise wide support groups …

1. New Retail Brands

   As the core Sears customer ages, it becomes increasingly difficult to be a relevant brand to all people across various ages and income brackets, particularly when it comes to fashion. Apparel sales have suffered as consumers move towards an ever-growing array of segment-targeted and largely off-mall shopping options. Sears will counter this trend by:

   - Re-launching the Eatons brand in Direct channels and select stores targeted at mid to high income shoppers aged 30-55
   - Creating a "Brand X" banner targeting "younger minded" customers (primarily targeting people aged late 20's to early 40's) with a new service model, new European-inspired fashion-forward apparel sold in shared-Sears and off-mall locations
   - Creating a "Brand Y" banner targeting young (shoppers in their 20's to 30's) consumers with a low price point model and new brands

2. Sears Home Concept

   A large portion of Sears business comes from hardlines products that are relevant to customers of all ages and incomes, and thus the retail brands mentioned above. Sears is proposing to develop larger Home stores in major urban markets with the floor space required to offer a wide range of major appliances, electronics and furniture (home fashion and décor) uniquely designed to attract a broad range of customers from large geographical areas

3. Tying Brands Together

   While the new retail brands will be kept isolated from "Sears" to maintain their individual brand integrities, "sticky points" such as branded credit cards and loyalty programs will provide information to an enhanced customer data warehouse enabling targeted cross-promotion and customer retention programs

4. Support Structure

   Build enterprise-wide support organizations to manage all non-customer facing facets of the business (e.g. SKU lifecycle management, finance, business capability) to improve productivity, reduce risk, and enable easier cultural transformation. Offloading these functions into expert groups will furthermore allow brands to primarily focus on customers and less on operational issues

Overarching Retail Strategy

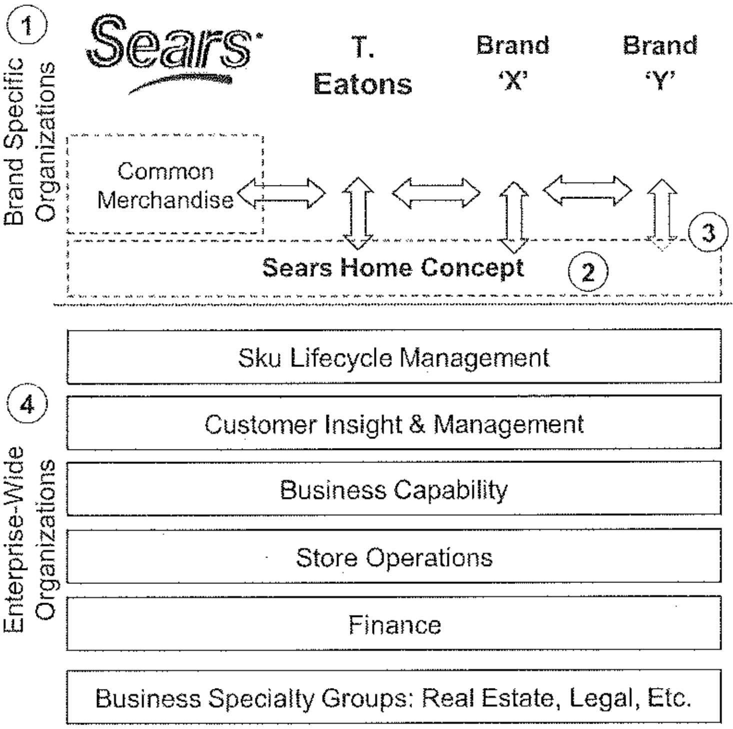
Overarching Retail Strategy

The retail strategy is intended to achieve the following ...

1. Acquire new customers via repositioning existing, low financial productivity stores as new retail brands, which are planned to be primarily catalogue / internet based businesses with a few flagship stores:
   - Re-launch the T. Eatons brand as a more fashionable, higher ticket apparel/accessories brand
   - Create a new brand (Brand X) that appeals to younger minded fashion customers, with price points that are comparable to Sears, with a focus on people aged approximately late 20's to early 40's
   - Later in 2010, and based on learnings from Eatons and Brand X, develop a Brand Y, targeting disposable, lower price point fashions for people aged in their 20's to 30's
2. Target the "home" as an emerging market where numerous products and services can be aggregated to make Sears "the" home store – aggregate appliances and furniture, and a comprehensive range of services including energy efficiency, independent living, home improvements (replacing roofs), insurance, and so on – the current Home stores provide sufficient space to present competitive electronics, mattress and furniture assortments, but are not large enough to allow for significant growth in furniture – thus, in major cities, larger stores are proposed
3. Given the range of products and services Sears provides, and especially if the Eatons and Brand X retail concepts are successful, the need for enhanced cross-brand loyalty incentives, such as the loyalty program, is paramount – these include:
   - An enhanced loyalty program with complementary partners such as Rogers Communications, Tim Hortons, Sobeys, etc., and travel rewards provided by Sears Travel
   - A CRM capability that allows direct, targeted marketing propositions to increase cross-brand/cross-business loyalty and which offers some relief to the current dependency on the flyer which is expensive and losing productivity
   - An expansion of services that are not fashion taste dependent, such as gift registry, home décor services and the home strategy described above, which appeal to all customer segments and which leverage Sears #1 position as the most trusted brand in Canada
4. Align the organization into two basic categories:
   - Customer focused teams that consist of merchandising/marketing/brand management that perform less operational activities – organized by retail brand: Sears, Eatons, Brand X, etc.
   - Enterprise-wide support organizations that are not customer focused but more operational, process oriented and able to support each retail brand so that:
     - Expert groups are established, e.g., an expert group that provides replenishment, versus having disparate groups organized by merchant team, as is now the case
     - Minimize headcount
     - Increase governance and control of key processes, e.g., inventory management

Retail Vision

The main goal is to acquire new customers by launching new retail fashion brands …



① Brand Specific Organizations

Sears

T. Eatons

Brand 'X'

Brand 'Y'

Common Merchandise

③

Sears Home Concept ②

④ Enterprise-Wide Organizations

Sku Lifecycle Management

Customer Insight & Management

Business Capability

Store Operations

Finance

Business Specialty Groups: Real Estate, Legal, Etc.

① **New Retail Brands**

- Form brand-centric retail teams that consist of merchandising, marketing, customer insights and brand management
- Launch new retail brands that use low financial productivity stores – grow sales primarily via catalogue / internet
- Eatons to target higher ticket, more fashionable customers
- Brand X for younger minded customers, 30's – early 40's
- Brand Y (later in 2010) to target customers 20's – early 30's

② **Sears Home Concept**

- Develop a larger sized furniture (home fashion and décor) store that offers hardlines products and services relevant to all customers

③ **Tying Brands Together**

- Develop "sticky" Sears brand loyalty programs including evolving the current loyalty program and new businesses such as gift registry and "common merchandise" such as baby furniture, patio sets, and other less fashionable product

④ **Support Structure**

- Form enterprise-wide organizations that enables expert groups to be formed and to minimize overhead

New Retail Brands

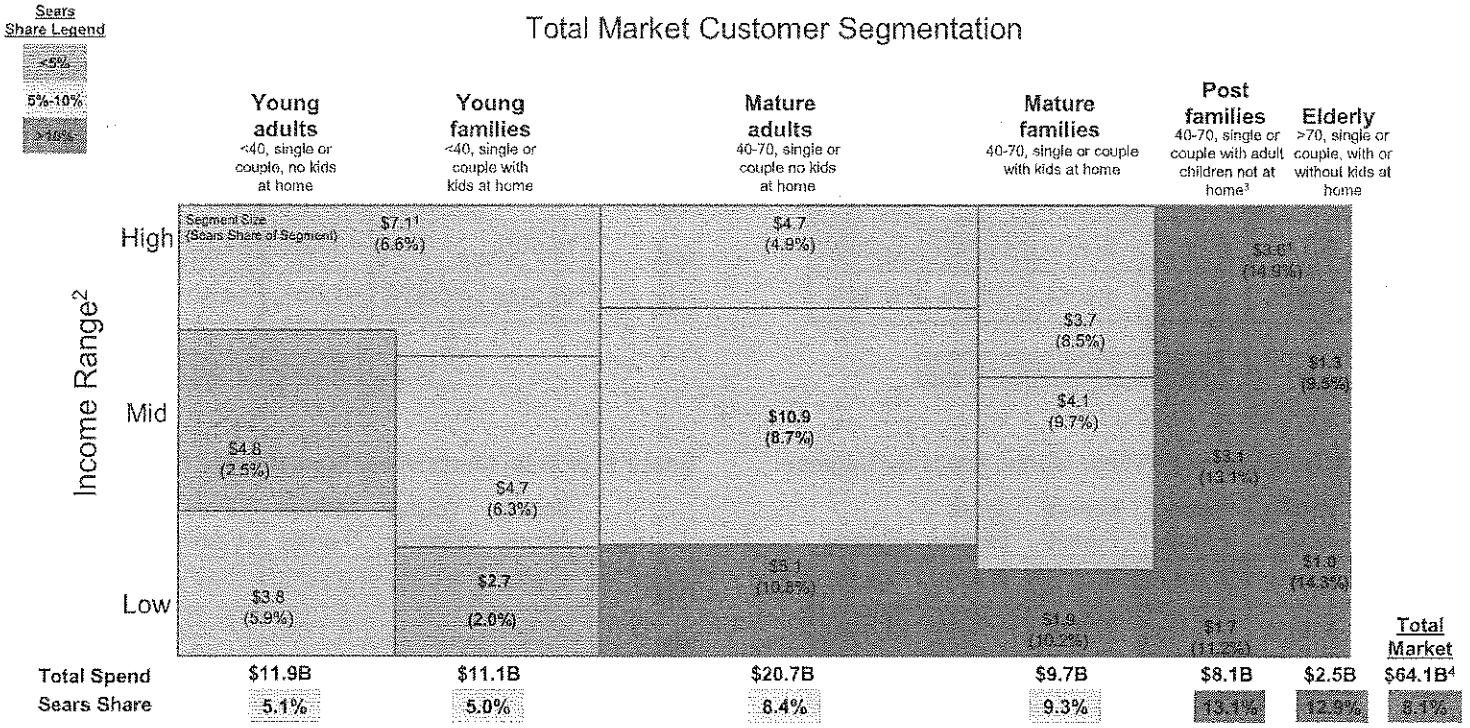
New Retail Brands – Rationale

1. Sears current customers
    - In the fashions categories, Sears attracts a more mature, classic, mid-price point customer and should focus on this customer base, which is growing as a percent of the population, versus attempting to be "all things to all people"
2. The size of the fashions market
    - Segments of younger minded customers represent estimated sales of $23 billion[1] – this is a market where Sears is relatively underpenetrated
3. Sears brand perception
    - Tends to limit the Sears brand expanding into younger-minded / younger customer segments
4. Store space constraints
    - Insufficient space is available to expand assortments to provide critical scale to appeal to a broader customer base unless other valuable categories are removed
5. Vendor constraints
    - Vendors, and the products they sell, often will not place their products in Sears stores (even if it was possible to physically fit them into stores)
6. Underperforming existing real estate
    - Several urban stores, such as the Toronto Eaton Centre, are not profitable if FMV lease rates are applied and which can be repositioned as new retail brands that are more relevant to the customers in the trade area

[1] Statistics Canada

Sears customer locus is a post-family, elderly customer …

Total Market Customer Segmentation



1. Segments combined to maintain minimum sample size. 2. Annual household income ranges: High = >$100K, Mid = $50K-$100K, Low = $<50K. 3. Includes very small segment of "<40 with adult children not at home" households who are not a significant influencer of overall segment (6K HH's, 0.05% of population). 4. Across the board adjustments made where necessary to map reported market spend to Statscan; no adjustments made within subsegments (age, income, or HH type). Source: Ipsos Canada Online Omnibus survey, conducted July 2ⁿᵈ, 2008, n = 1,028. Figures weighted for national representation. Notes: Size of banner circles not drawn to scale. Households where other adult relatives are living at home are placed into 'family' segments according to age of responder (6.5% of households). Table is mutually exclusive and collectively exhaustive, representing all households in Canada.

Sears Current Customers (II)

In non-fashion categories, such as appliances, the Sears brand/product offering has broad appeal – the same is less true of the fashions categories that skew to an older customer …

Sears % of Total Market Sales By Segment

	Young Adults	Young Family	Mature Family	Post Family	Elderly
High	2.28%	5.35%	6.14%	4.68%	5.98%
Mid	4.31%	5.76%	5.39%	6.24%	6.25%
Low	4.33%	4.21%	4.40%	5.81%	6.38%

< 2.5%	2.5-3%	>3%

Sears % of Total Major Appliances Market Sales By Segment

	Young Adults	Young Family	Mature Family	Post Family	Elderly
High	13.30%	23.20%	22.40%	19.50%	33.30%
Mid	19.60%	21.50%	18.80%	24.00%	14.80%
Low	13.20%	15.60%	12.00%	14.80%	16.90%

< 15%	15-20%	> 20%

Sears % of Total Women's Wear Market Sales By Segment[1]

	Young Adults	Young Family	Mature Family	Post Family	Elderly
High	2.34%	6.88%	6.33%	4.47%	5.83%
Mid	5.35%	7.94%	7.58%	9.51%	9.44%
Low	7.11%	8.13%	6.72%	9.54%	10.68%

< 6%	6-9%	> 9%

Sears % of Total Men's Wear Market Sales By Segment

	Young Adults	Young Family	Mature Family	Post Family	Elderly
High	1.56%	6.03%	6.29%	3.88%	6.14%
Mid	4.86%	6.53%	6.17%	7.45%	8.81%
Low	5.28%	4.86%	4.53%	6.53%	6.11%

< 3%	3-6%	> 6%

1. The fashion components of women's and men's cannot be excluded; if they could then the skew to older customers would be more pronounced

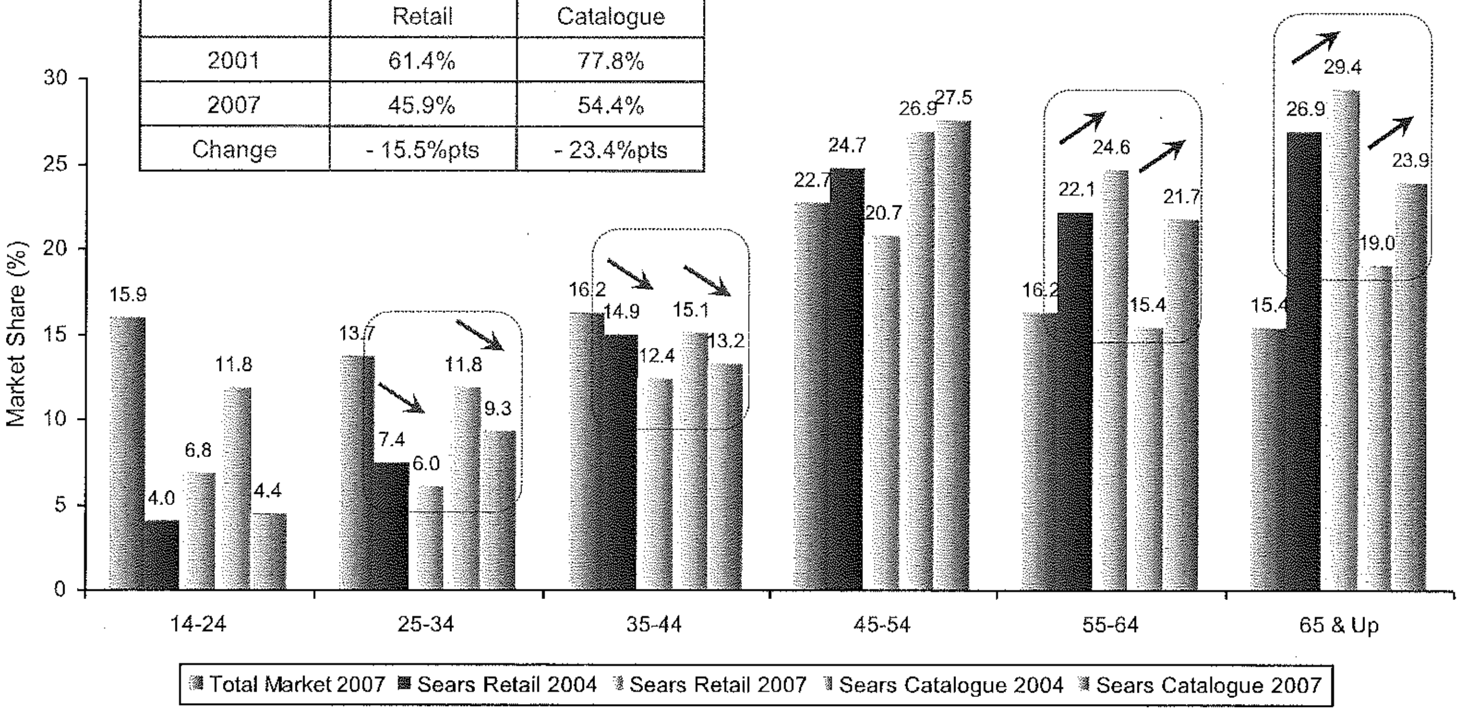
Note: Data is share of market held by Sears Card holders. Actual Sears market share is approximately 100% larger and assumed to be of similar distribution

Sears Current Customers (III)

New Retail Brands

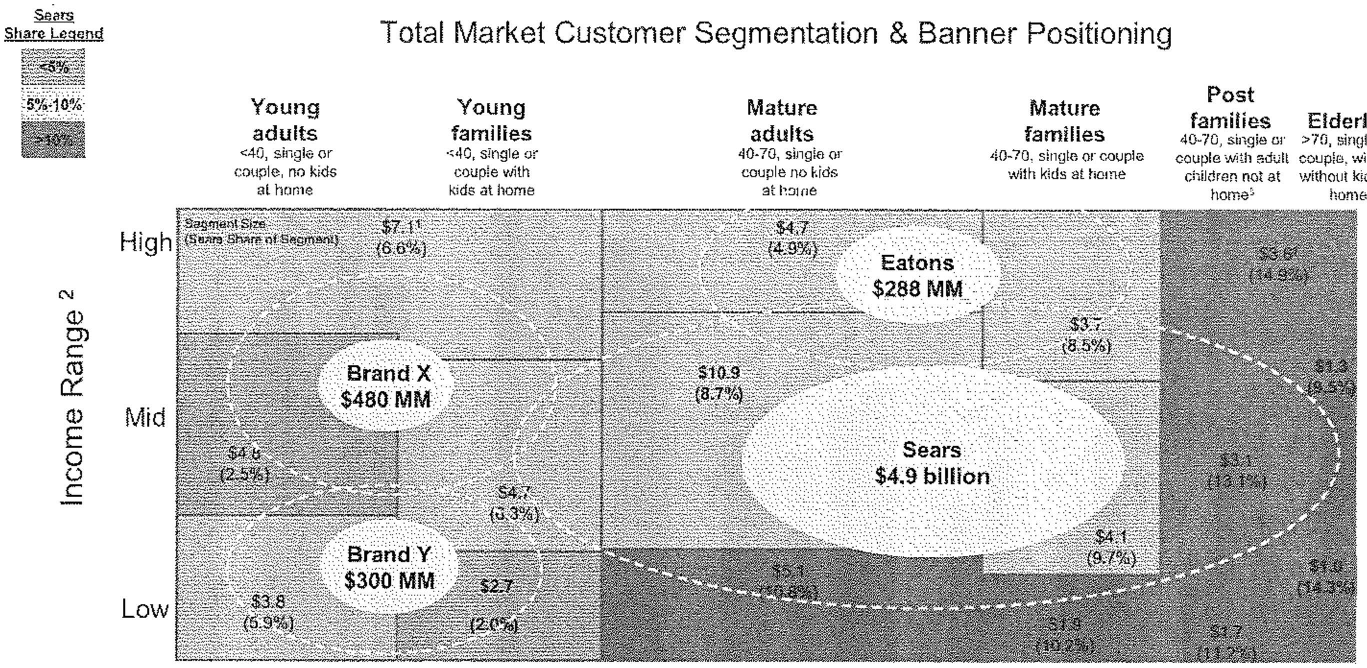
While Sears is growing share in the women 45 – 55 segment, the segment under 45 years old is declining …

Percentage $'s of Sears Sales Driven by Consumers Under Age 55		
	Retail	Catalogue
2001	61.4%	77.8%
2007	45.9%	54.4%
Change	- 15.5%pts	- 23.4%pts



1. Source: Sears Internal

Three new "fashions" retail brands are proposed for piloting, and if successful, rolling out to acquire new customers ...



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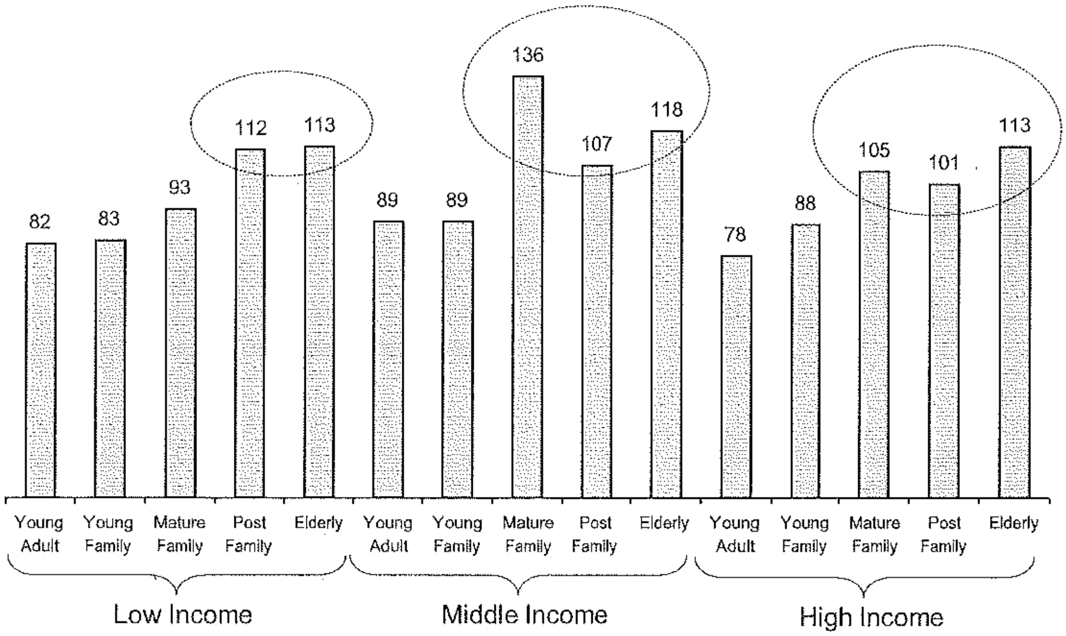
1. Segments combined to maintain minimum sample size. 2. Annual household income ranges: High = >$100K, Mid = $50K-$100K, Low = $<50K. 3. Includes very small segment of "<40 with adult children not at home" households who are not a significant influencer of overall segment (6K HH's, 0.05% of population). 4. Across the board adjustments made where necessary to map reported market spend to Statscan; no adjustments made within subsegments (age, income, or HH type). Source: Ipsos Canada Online Omnibus survey, conducted July 2ⁿᵈ, 2009, n = 1,028. Figures weighted for national representation. Notes: Size of banner circles not drawn to scale. Households where other adult relatives are living at home are placed into 'family' segments according to age of responder (6.5% of households). Table is mutually exclusive and collectively exhaustive, representing all households in Canada.

The Sears brand is reasonably stronger among people in the mature family and elderly segments ...

Sears Brand Equity by Segmentation

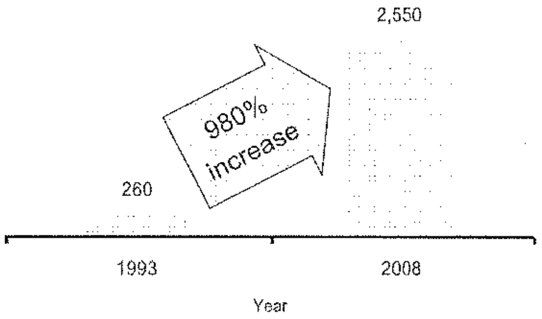


1. Source: IPSOS Brand Survey, 2008

Store Space Constraints – Home & Hardlines

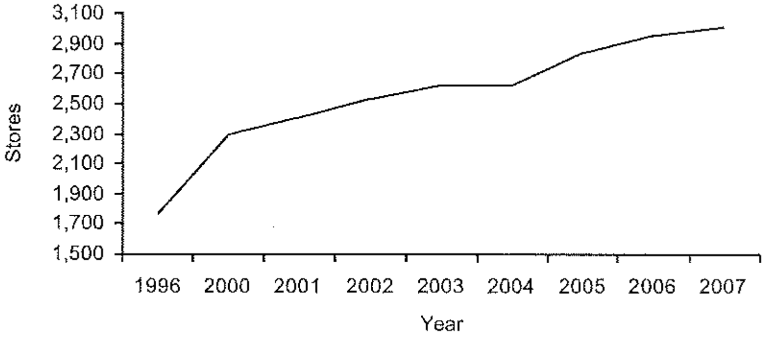
The number of SKU's available to consumers has grown dramatically since the early 1990's, placing pressure on the ability of Sears to present broader assortment within a fixed square footage store ...

Major Appliance SKU's at Sears



- As consumer tastes expand and manufacturing technology advances, categories like major appliances experience exponential SKU growth at Sears and other retailers

Total Major H&H Stores in Canada [1]



- At the same time, the number or retailers has grown steadily, providing consumers with even more purchasing choices

[1] Source: Ryerson Centre for the Study of Commercial Activity

Store Space Constraints – Apparel & Accessories

New Retail Brands

The number of fashion choices has grown dramatically, both in terms of stores number and target customer segments ...

Selected New Entrants into the Canadian A&A Market, 1970 - 2008

1970-1985

- Eddie Bauer (1977)
- Costco (1985)

1986-1990

- Price Club (1986)
- Sunglass Hut (1989)
- The Gap (1989)
- Winners (1990)

1991-1995

- Boca Rattan (1991)
- Cole Haan (1991)
- Land's End (1991)
- L.L. Bean (1991)
- Talbot's (1991)
- Eagle (1992)
- Value Village (1992)
- Banana Republic (1994)
- Sportmart (1994)
- Sports Authority (1994)
- Wal-Mart (1994)

1996-2000

- Incredible Universe (1996)
- Spiegel Catalogue (1996)
- Urban Outfitters (1996)
- Payless Shoe Source (1997)
- Nike (Stores) (1998)
- bebe (1999)
- Linens n' Things (2000)

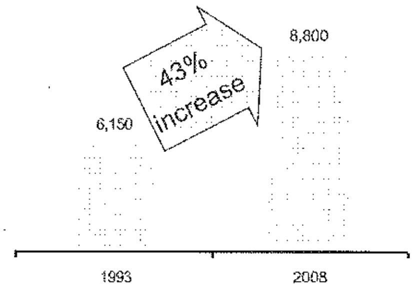
2001-2005

- American Eagle Outfitters (2001)
- Old Navy (2001)
- Pottery Barn, PB Kids (2001)
- Sketchers (2001)
- Children's Place (2002)
- Sam's Club (2003)
- Hennes and Mauritz (2004)
- Outdoor World (2004)
- Lane Bryant (2004)
- Sephora (2004)
- Burlington Coat Factory (2005)
- Josef (2005)

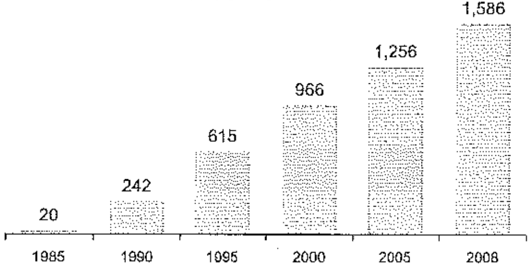
2006-2008

- Mango (Spain) (2006)
- Zara (2006)
- MARTIN + OSA
- American Eagles Sportwear (2006)
- Cassis (2006)
- TNA (2006)
- Abercrombie & Fitch (Fall 2006)
- "Fashion Lab" (2006)
- Agent Provocateur (2007/2008)
- Quicksilver (2007)
- Change (2007)
- Olsen Europe (2007)
- Aeropostale (2007)
- Crate and Barrel (2008)

Cosmetics SKU's at Sears



New Fashions Stores
(Aggregated)



1. Source: Ryerson Centre for the Study of Commercial Activity – Full list of H&H stores in Appendix

Vendor Constraints

New Retail Brands

New retail brands remove constraints applied on Sears by vendors unwilling to sell their products in Sears stores ...

Sears Has Limited Vendors

Women's Wear
- Point Zero
- Haggar
- Levis
- Liz Claiborne

Men's Wear
- Chaps
- Dickies
- Buffalo
- Pierre Cardin

Shoes & Accessories
- Sketchers
- Florsheim
- Victorinox

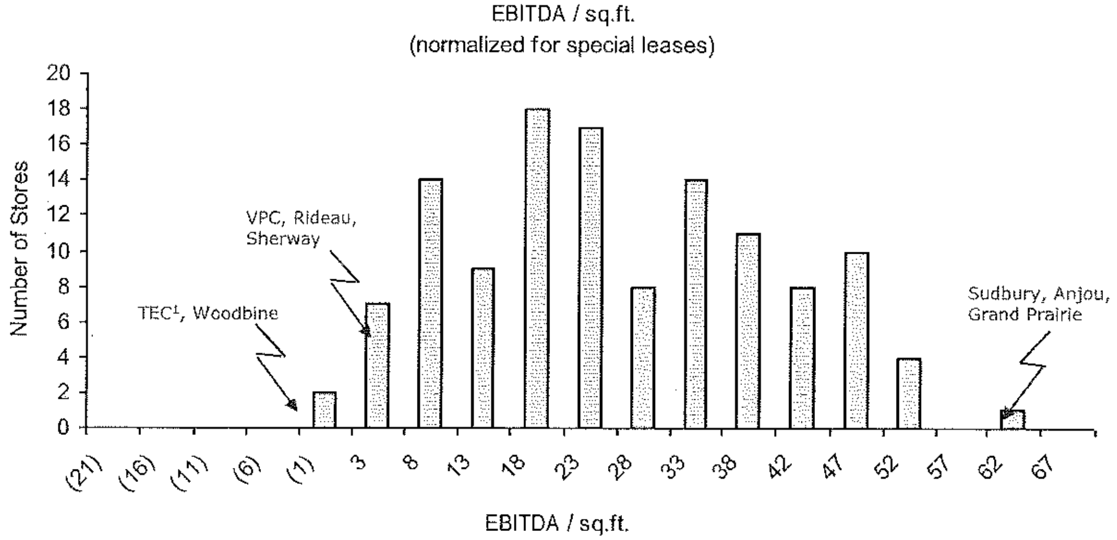
Many Eatons Vendors Won't Sell to Sears

Women's Wear
- Michael Kors
- Citizens of Humanity
- Juicy Couture
- Seven for All Mankind

Men's Wear
- Penguin
- Ben Sherman
- Lucky Brand Jeans

Shoes & Accessories
- Puma
- Ugg
- Heys Luggage

The ex-Eaton stores located in urban markets are cash flow positive but underperform on a square foot basis compared to other stores ...



	Former Eatons Stores			"Sweet Spot" Suburban Stores		
2007 Sales	69,004	48,834	25,602	42,037	26,824	33,304
2007 EBIDTA	463	971	626	7,331	4,277	4,739
Retail Area (sq.ft.)	326	265	187	122	81	102
EDIBTA / sq.ft.^{2}	3.6	6.0	7.1	60.4	54.1	51.4

1. TEC rent currently at $1 psf; adjustment to FMV rates would result in EBITDA/sf ~ $(15) to $(20)
2. EDIBTA/ sq.ft. has been adjusted to normalize for special lease rates

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Sears Home Concept

Rationale

Sears Home Concept

The goal is to develop a larger store concept to grow the furniture business and aggregate a fulsome range of home products and services ...

1. While Sears market share is 29% of the $3.2 billion major appliance market, it is only 8.5% of the $9.1 billion furniture and electronics market [1]
    - Furniture assortment is incomplete and more space is required to be more relevant to more customers
    - Sears competition (Ikea, Leon's) currently has a wider assortment in larger stores and is more comprehensively merchandised
2. For appliances, electronics, and mattresses, Sears has a competitive assortment and a broad range of home services
    - Sears has 350 appliance SKU's on its current Home store floor (vs. 180 at Leon's), 59 mattress SKU's (vs. 51 at Sleep Country), and 45 television SKU's (vs. 110 SKU's at Future Shop)
    - Sears has the most holistic product / service offering as compared to its competitors – from home improvement, energy efficient products and services, etc.
3. The "home" is an emerging, holistic market where a convergence of products and services will be demanded by time constrained customers and an advantage will accrue to retail / service providers that aggregate / bundle offerings
4. Can free up sub-scale Home stores for other uses, e.g. Brand X, etc. – customers will travel longer distances to buy larger ticket items, so the need for local stores is relatively less

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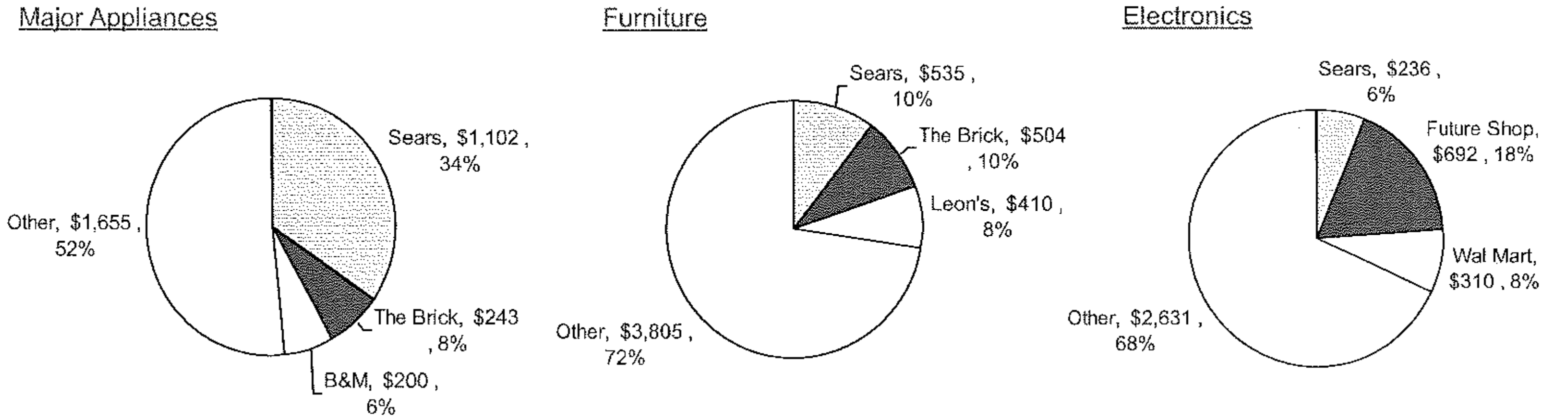
[1] Source: Statistics Canada and Sears Internal

Sears Market Share

Sears Home Concept

Sears is the dominant market share leader in appliances, but has opportunity for growth in furniture and electronics …



Source: Synovate, 2007

5/0

Sears Market Share (II)

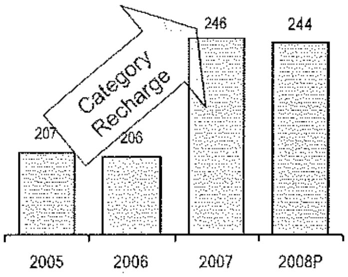
Sears Home Concept

In 2006 – 2007, electronics and mattresses underwent successful category recharges leading to increased sales and merchandise margin ...

Category Recharges

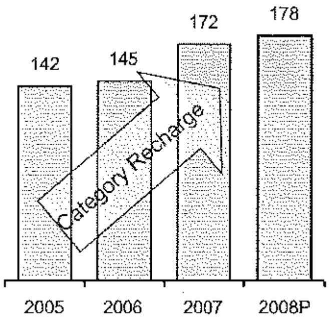
- Key elements included:
  - New and relevant assortment (electronics)
  - New value propositions e.g., free delivery, free gift with purchase (mattresses)
  - New promotional events and methods (both)

Sears Electronics Sales ($ MM)



	2005	2006	2007	2008P
Merch Margin ($MM)	$43.1	$42.3	$54.7	$61.0

Sears Mattress Sales ($ MM)

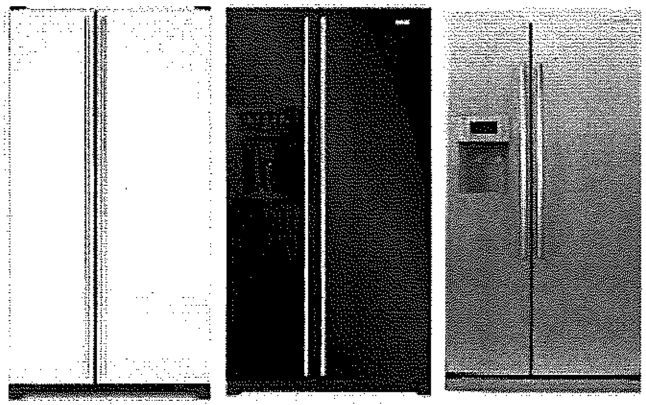


	2005	2006	2007	2008P
Merch Margin ($MM)	$58.5	$59.6	$71.4	$78.7

Furniture vs. Appliances Retailing

Increasingly, customers want more choices in furniture and understand how the whole room looks – it is less of a single item purchase than appliances ...

Buying a Refrigerator



- Customers assess the item characteristics (size, functionality) and have less choices (colour, style and fashionability)
- Customer will buy sight unseen, which enables internet orders to be placed, e.g. a slightly larger or smaller size in the same model may not be on the floor but customers will be comfortable buying

Buying a Living Room Piece

- Furniture is becoming less of a commodity (swivel chair, desk) business versus a fashion category where the "whole room" is considered, akin to women's fashion where the "whole outfit" becomes more important than an individual piece
- Customers won't buy sight unseen, e.g. a different style can be easily envisaged

5/2

The Limitations of Store Space

The Home stores have sufficient capacity to display a large selection of mattresses, electronics and appliances, however insufficient square footage exists to grow effectively in furniture …

Sears

Typical Sears Home Store	SKU's	sq. ft
Major Appliances	228	6,950
Microwaves	20	200
Stoves	41	1,215
Dishwashers	65	2,600
Laundry	59	2,065
Refrigeration	44	870
Consumer Electronics	245	2,050
Televisions	20	300
Cameras	20	100
Computers	15	75
Audio	25	375
Components	40	600
Speakers	25	300
Accessories	100	300
Mattresses	38	8,800
Sleep sets	25	6,250
Mattresses	5	1,250
Box Springs	4	800
Cots	2	300
Air Beds	2	200
Furniture	690	19,200
Bedroom	10	2,500
Living Room	10	3,500
Dining Room	10	1,500
Home Décor	500	2,500
Chairs	90	3,600
Sofas	70	5,600
Non-Sales Space	-	3,000
Total	**1,201**	**40,000**

Comparable appliance floor space

Comparable electronics space

Leon's mattress space more than double Sears space

Leon's furniture space more than double Sears space

Leon's

Typical Leon's Store	SKU's	sq. ft
Major Appliances	215	6,150
Microwaves	25	250
Stoves	40	1,200
Dishwashers	40	1,600
Laundry	60	2,100
Refrigeration	50	1,000
Consumer Electronics	390	2,860
Televisions	40	600
Cameras	30	150
Computers	20	100
Audio	30	450
Components	40	600
Speakers	30	360
Accessories	200	600
Mattresses	90	19,500
Sleep sets	50	12,500
Mattresses	10	2,500
Box Springs	10	2,000
Cots	10	1,500
Air Beds	10	1,000
Furniture	1,455	42,750
Bedroom	15	3,750
Living Room	20	7,000
Dining Room	20	3,000
Home Décor	1,000	5,000
Chairs	200	8,000
Sofas	200	16,000
Non-Sales Space	-	10,000
Total	**2,150**	**81,260**

Furniture retailers have tended to open larger store footprints as they expand to new retail concepts ...

Older Stores	Average Sq.Ft
Sears Home	40,000
Ikea	120,000
The Brick	40,000
Leon's	80,000

Today's Stores	Average Sq.Ft
Sears New Concept	100,000 – 120,000
Large Ikea (e.g., Vaughan, Etobicoke)	350,000
The Brick Superstore (e.g., Mississauga)	110,000
Large Leon's (e.g., Newmarket)	120,000

Sears has Extensive Offerings and Capabilities

Sears Home Concept

Growing product assortments is key, and just as important is growing home services capabilities – Sears already has (or will have) the broadest offering ...

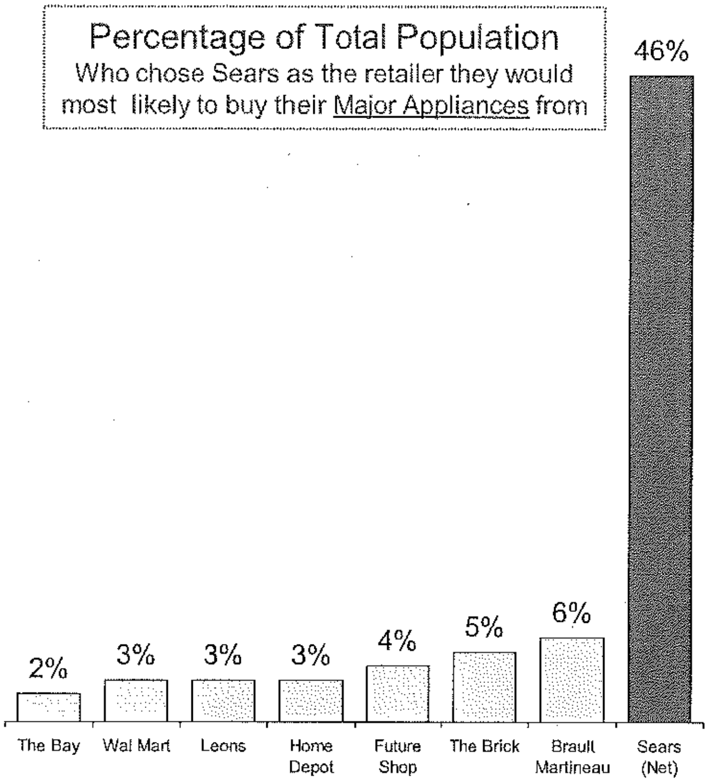
	Hardware/Home Improvement	Power Tools / Outdoor Power Equipment	Floor Care	Home Fashions / Hardwares	Small Appliances	Major Appliances	Furniture	Electronics	Central AC	Furnaces	Air Cleaners	Gas Fireplaces	Water Tanks	Tankless Heaters	Window Coverings	Floor Coverings	Installation	Upholstery and Carpet Cleaning	Duct Cleaning	Home Security	DFM Roofing	DFM Windows and Doors	Kitchen & Bath Reno	Home Inspection	ecoENERGY Evaluations
Sears	▨	▨	▨	▨	▨	▨	▨	▨	▨	▨	▨	▨	▨	▨	▨	▨	▨	▨	▨	▨	▨	▨	▨	▨	▨
Wal-Mart/ Sam's Club	▨	▨	▨	▨	▨	▨	▨	▨							▨	▨									
Zellers	▨	▨	▨	▨	▨	▨	▨	▨																	
Costco	▨	▨	▨	▨	▨	▨	▨	▨	▨	▨	▨	▨	▨	▨	▨	▨									
The Bay/ Home Outfitters	▨	▨	▨	▨	▨	▨	▨	▨										▨	▨						
Canadian Tire	▨	▨	▨	▨	▨	▨	▨	▨							▨	▨									
Loblaws/ Superstore			▨	▨	▨		▨	▨																	
Winners/ Home Sense				▨	▨		▨																		
Home Hardware	▨	▨	▨	▨	▨	▨	▨																		
Home Depot	▨	▨	▨	▨	▨	▨	▨		▨	▨	▨	▨	▨	▨	▨	▨	▨	▨	▨		▨	▨	▨		
London Drugs			▨	▨	▨																				
Best Buy / Future Shop			▨	▨	▨	▨		▨																	
Brault & Martineau			▨	▨	▨	▨	▨	▨																	
The Brick				▨		▨	▨	▨																	
Rona	▨	▨	▨	▨	▨	▨	▨	▨							▨	▨		▨							
Ikea	▨			▨		▨	▨																		
Leon's						▨	▨	▨																	
Direct Energy									▨	▨	▨	▨	▨	▨					▨		▨	▨			
Pro Hardware	▨	▨																							
Reliance Home Comfort									▨	▨	▨		▨	▨						▨					

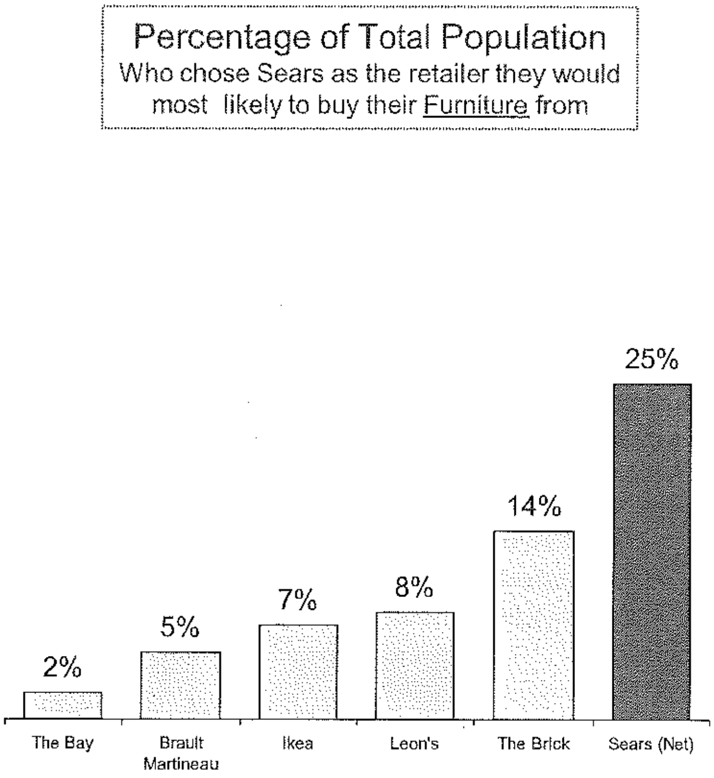
An example of the need to aggregate services – to provide a solution – is home energy efficiency where the services are fragmented …

Household Efficiency Improvements Value Chain

Awareness	Audit	Choose Products	Choose Contractor / DIY	Finance
Realize potential energy inefficiencies	Obtain energy audit to get tax benefits	Identify product options for energy improvements	Find contractors with capacity and qualifications	Paying for improvements
Questions …	Questions …	Questions …	Questions …	Questions …
What options do I have and where do I start?	Who can help me and what will it cost?	How "green" is this product? What is its payback period?	How am I going to pay for this? How is it installed and maintained?	How to make this cash flow neutral in year 1?
Pitfalls …	Pitfalls …	Pitfalls …	Pitfalls …	Pitfalls …
Information overload Lack of a one-stop shop for resources	Don't want to wait for audit or go through rebate application process	Skepticism around actual "green" benefits Customers often only undertake projects with very short paybacks	Process may require several contractors for different kinds of work Rebate / incentive program complicated	Need deferred payment program, tax and allowances

Sears has a dominant top of mind with appliances and, to a lesser extent, furniture which is partly from limited assortments …


Percentage of Total Population
Who chose Sears as the retailer they would most likely to buy their Major Appliances from


Percentage of Total Population
Who chose Sears as the retailer they would most likely to buy their Furniture from

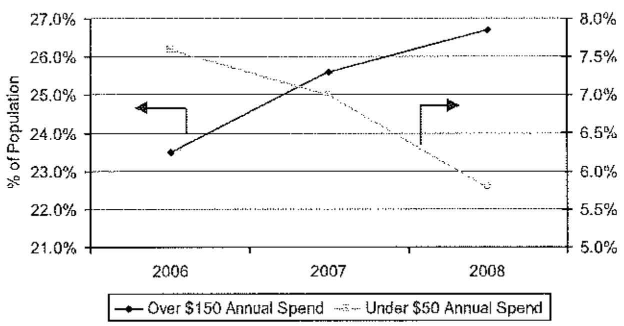
5/7 7

"Home" is an Emerging Market - Rationale

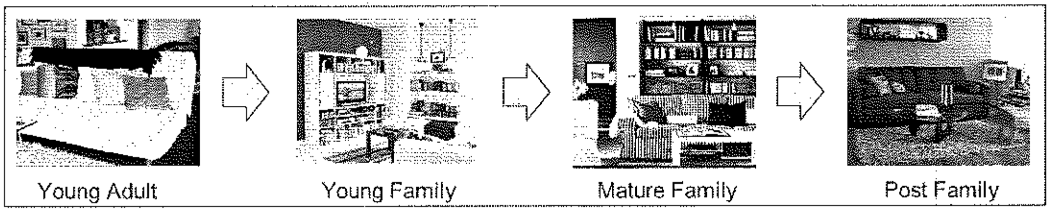
As people have less disposable time, the trend will be to converge products than services – this represents a big opportunity for Sears …

1. Our customers are increasingly time-constrained and want help managing their homes:
    - Over 70% of houses are now dual income, up from 34% in 1967 [1]
    - New services are emerging to facilitate home management:
        - Energy efficiency
        - Home automation
2. Consumers no longer want to purchase individual items based on price alone – the house is becoming a fashion statement and services need to reflect that:
    - HGTV is now the #1 specialty channel among women[2], teaching them how to decorate their whole home / rooms
    - Consumers are looking for design idea "solutions" for a room, rather than a multitude of furniture options without context
3. As the home becomes an expression of a person's identity, the furniture market is segmenting by life-stage and the number of SKU's is growing faster, e.g. IKEA:
    - New store formats in excess of 300,000 square feet
    - 1/3 of assortment is trend/innovation and refreshed each year
    - Children's IKEA introduced 1997, Youth IKEA introduced 2008

Consumer Spending on Household Accessories



Source: 1) Statistics Canada
2) Media in Canada Magazine



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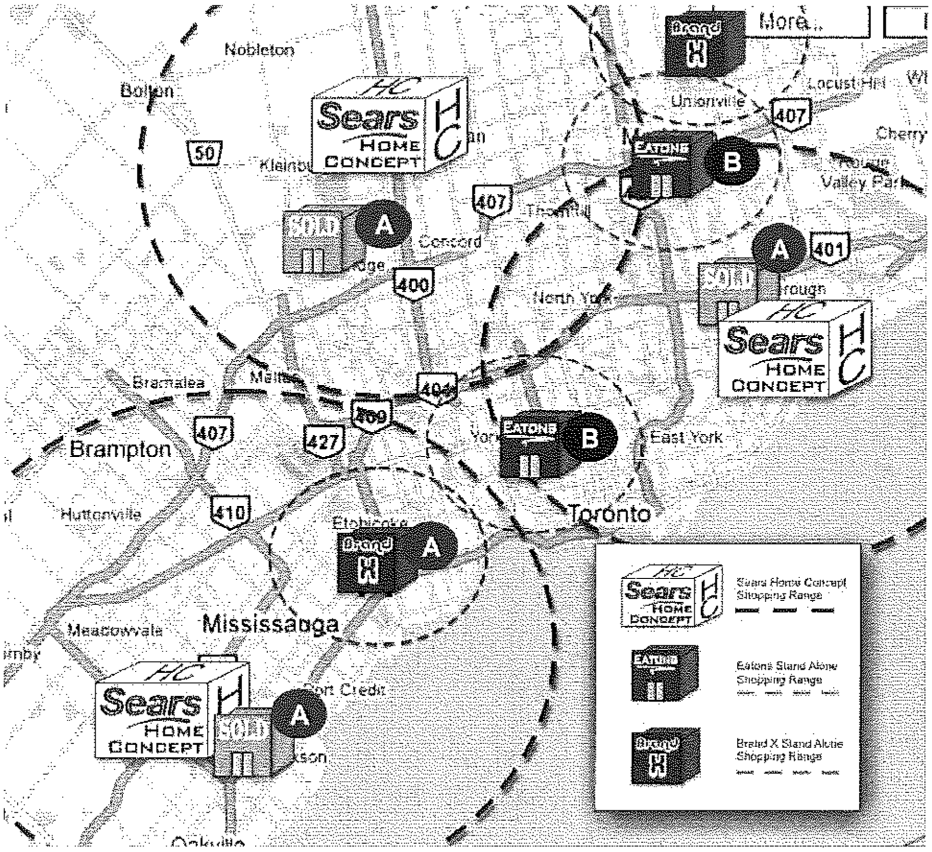
Developing larger Home stores in major markets will free up some real estate for stand alone Eatons, Brand X or Brand Y off-mall stores …



- Opportunities to repurpose or dispose of low performing real estate locations, for example, Greater Toronto Area:

Home Stores Ⓐ

- Despite significant consumer real estate activity (~ 70k housing starts and ~ 95k resales in 2007[1]), sales declining or flat:

	CAGR 2005 – 2007
Woodbridge	+ 1.1%
Scarborough	– 2.5%
Mississauga	– 0.5%
Sherway	– 0.6%

- Larger home concept to be more relevant in these active home markets; existing real estate could be repurposed for new retail brands (e.g. Brand X)

Full Line Stores Ⓑ

- Opportunity to repurpose under performing full line stores in dense urban markets with retail brands more relevant to the trade area, e.g. convert part of Yorkdale to Eatons to appeal to upscale fashion shoppers

Note: Store locations are for illustrative purposes only and do not necessarily reflect planned locations

[1] Housing starts: Statistics Canada; Resale transactions: Toronto Real Estate Board

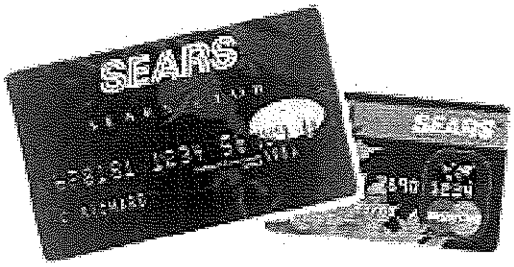
Tying Brands Together

Concepts and Goals

Tying Brands Together

"Sticky tools" that increase customer shopping frequency, such as branded credit cards and loyalty program need to be enabling targeted cross-promotion and customer retention programs ...

1. Increase the effectiveness of loyalty program and share of Sears credit cards
2. Direct marketing and customer relationship management
   - Opportunity to introduce new retail brands
   - Opportunity for cross-promotion and customer transition between stores and services
3. Leverage "common interest merchandise" in Sears stores:
   - Categories such as infant furniture, patio, etc., that is less fashionable
4. New services that are not "fashions" oriented:
   - Gift registry
   - Home products and services
   - Insurance

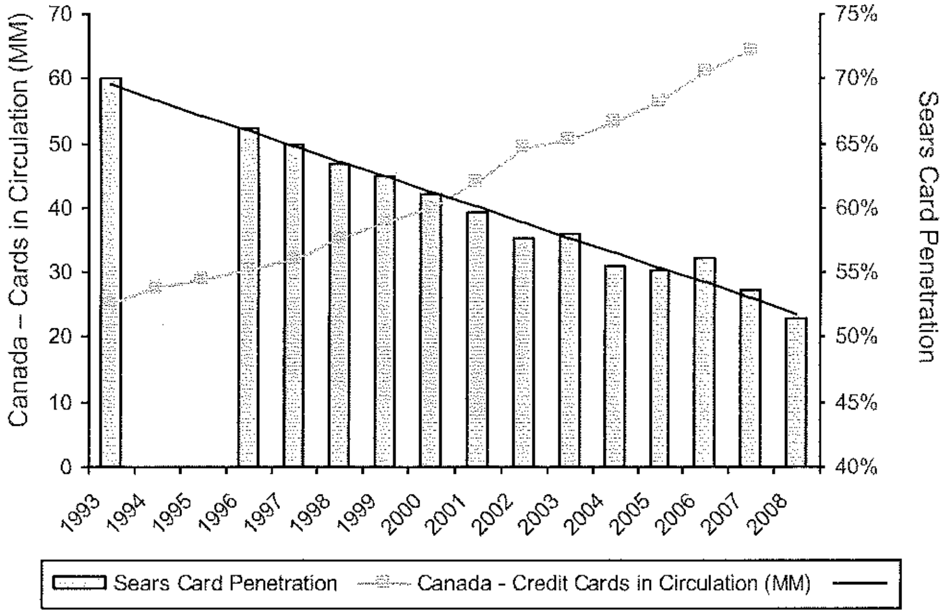


1. Sears Credit Card

Tying Brands Together

The Sears branded credit card is losing market share as the number of competitive cards is continually growing – change is required ...

Sears Card Performance



Weaknesses

- Redemption options limited to Sears
- Does not have a comprehensive travel reward
- Being out-spent in marketing

Opportunities

- Develop loyalty program: partner with complementary retailers such as Tim Hortons, Rogers Communications, Sobeys
- Use partnership to offer more redemption options and create a "zero net cost" redemption / reward model among partners
- Use continued partnership to increase overall marketing spend
- Use Sears Travel as the travel redemption – need to expand beyond package offerings

2. Direct Marketing

Tying Brands Together

By using an enhanced data warehouse that captures customer information across all brands, Sears can introduce its customer base to the new retail brands and produce cross-promotional programs ...

- Customer Relations Management, run from the Sears customer data can have the power to:
  - Entice consumers to new banners by providing unique offers customized by previous shopping habits
  - Develop analytically-driven custom marketing and promotional programs targeted at specific groups (direct mail) or even individuals (e-mail)

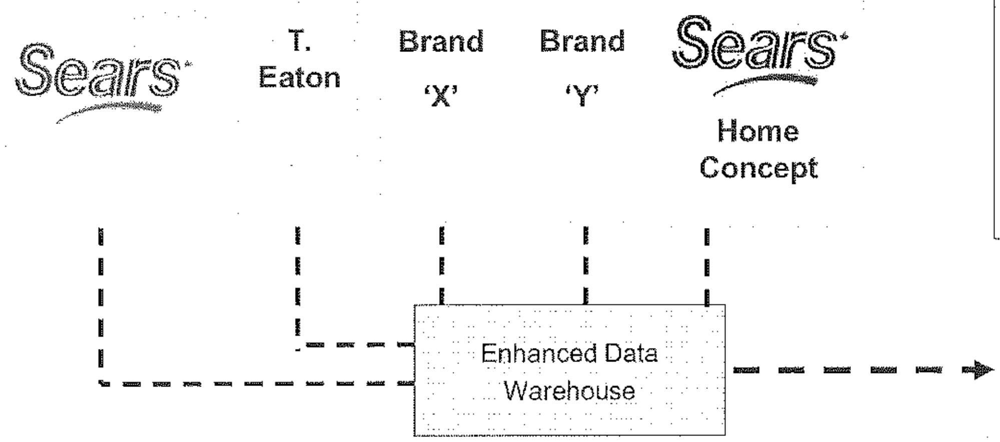
Customer Profile:
Sarah, Age 34

Purchase History:

GE Profile Gas Range, Sears Home Expo – December

Guess Perfume, Brand X – January

Based on Sarah's address and purchase history we can extrapolate that she has a higher disposable income and does not currently buy her clothing at Sears. Statistically she is 44% likely to respond to this offer[1]



Sears

T. Eaton

Brand 'X'

Brand 'Y'

Sears Home Concept

Enhanced Data Warehouse

Sarah's Promotional Offer:
%30 Citizens of Humanity Jeans with purchase of Guess perfume at Eatons

1. Fictional example for illustrative purposes

3. *Common Interest Merchandise*

Sears has vast categories of product that is not fashion oriented – leveraging this product to cause cross-brand shopping between Sears and new retail brands is critical …

Examples: Common Interest Merchandise

- Basic apparel – socks, Nike shoes, T-shirts
- Skin care and mass fragrances such as Lancome
- Infants – furniture, apparel, car seats, strollers, etc.
- Outdoor living – grills, patio sets, lawn mowers, snow blowers, etc.
- Electronics
- Games
- Toys
- And so on…

Examples: Driving Cross-Shopping

- Loyalty program – e.g. offer double points for promotions to those who buy $100 in Eatons and Sears
- Make Sears common interest merchandise available on Eatons / Brand X websites and include direct marketing pieces in catalogues / internet
- Ship in of common merchandise to Eatons / Brand X stores when seasonally relevant, e.g. snow / rain outerwear in November

4. Common Services & Home Products

Tying Brands Together

Many new Sears services and home products are relevant across consumers of all retail brands ...

Gift Registry

- Sears Gift Registry can span across all banners, providing users with a larger selection of items to choose from and introducing new customers to other retail brands
- Sears breadth and depth of assortments and services will be a key differentiator in the competitive landscape (e.g., customers could register for major appliances, furniture, electronics, HIPS, travel, etc.)
- Data gathered from gift registry can be used in the customer data warehouse for future sales opportunities

Home Products and Services

- Opportunity to generate leads across all retail brands for universal home services (e.g., HVAC)
- Cater home services to specific customer segments, e.g. a younger-minded, eco-conscious Brand X customer might be targeted for ecoEnergy audit; an affluent Eatons customer might be targeted for maid services, etc.

Insurance

- Introduce new insurance products that can be marketed to customers across all retail brands – home, auto, income protection, grandparent birthday, etc.
- Opportunity to sell protection or merchandise replacement agreements for H&H items across all retail brands

Enterprise-Wide Support Organizations

Rationale

Enterprise-Wide Support

Enterprise-wide organizations will be key to fulfilling the retail vision by improving performance and reducing expenses...

- Create expert teams, comprising of more job-specific skilled people versus attempting to train / improve existing associates that have inadequate basic skills and low career potential, e.g. for retail marketing:

Retail Marketing	Sears Today	Future – Expert Enterprise Wide
• Quantitative skills	Low	High
• Use of elasticity tools to estimate sales / GP%	Low	High
• Time to assess all promotional programs	Limited	Adequate
• Career potential	Limited	Basic skills that are fungible

- Reduce headcount: expert groups can save headcount – the current merchandising project will reduce headcount by 25%, from ~ 800 to ~ 600, and:
  - Save approximately $12 MM expenses
  - De-risk organization through better processes and tools
  - Lessen the cultural challenges of legacy Sears associates

Rationale (II)

Enterprise-Wide Support

Enterprise-wide organizations will build efficiencies among teams that are critical to enabling the retail vision …

- If the number of SKUs continues to grow to be more relevant to more people (expanded by ~ 50,000 or 12% over the past 12 months), and the range of businesses such as Eatons / Brand X expands, then the need to simplify management of key processes / functions is increased as compared to Sears in 2005, e.g. CRM:

Element of CRM	Sears Today	Future – Expert Enterprise Wide
• IT systems	"Many-to-many" structure	"Many-to-one" structure (linked to central customer hub)
• Different customer bases	Multiple definitions of same customer	One customer definition
• Capability	Low – dispersed among multiple groups (Direct, Retail, Home Services, Travel, etc.)	High - one expert group
• Effectiveness	Low	High

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Agenda

7:00 – 7:15	Introduction	Dene Rogers
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Retail Stores

Grow profitable retail sales by introducing new business models and developing integrated solutions for our customers ...

Continuous Improvement

- Merchandising and marketing segmentation

Financials (incremental):

	Annualized
EBITDA	$10.0 MM

- Create a selling culture

Financials (incremental):

	Annualized
EBITDA	$7.7 MM

- Inventory shrinkage reduction

Financials (incremental):

	Annualized
EBITDA	$5.0 MM

Strategic Initiatives

- Pharmacy

Financials (incremental):	2009	2010
EBITDA	$0.3 MM	$3.0 MM

- One Sears home solutions

Financials (incremental):	2009	2010
EBITDA	$3.3 MM	$5.8 MM

- Gift registry

Financials (incremental):	2009	2010
EBITDA	$8.0 MM	$16.0 MM

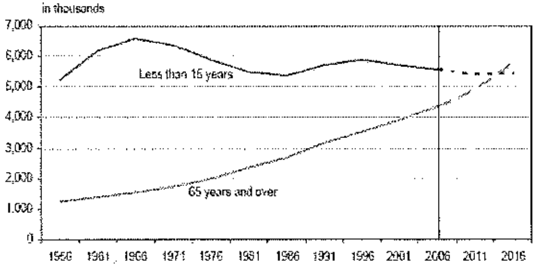
- Outlet format remix

Financials (incremental):	2009	2010
EBITDA	$4.2 MM	$8.4 MM

Market Opportunity: Pharmacy

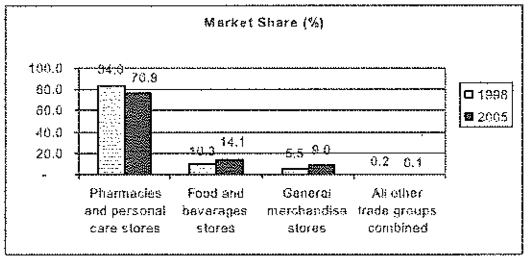
The pharmacy industry is expected to grow rapidly over the next few years due to accelerated growth of the elderly population …

Population growth, 65 years and over

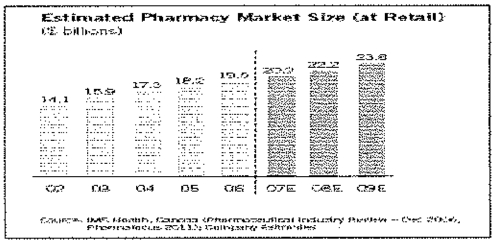


Sources: Statistics Canada, censuses of population, 1956 to 2006; and Alain Bélanger, Laurent Martel and Éric Caron Malenfant, 2005. *Population Projections for Canada, Provinces and Territories 2005-2031*, Statistics Canada Catalogue no. 91-520, scenario 3.

Market share by trade group sector



Pharmacy market size



Source: IMS Health, Canada (Pharmaceutical Industry Review – Dec 2006), Pharmafocus 2011; Company estimates

Market/competitive overview:

- 1 in 7 Canadians is over 65 years old (13.7% of the Canadian population, an increase of 11.5% from 2001-2006)
- Growth of the elderly population will start accelerating in 2011, when the first baby-boomers turn age 65
- Average of 36.8 prescriptions annually for people 60+ (implies frequent pharmacy visits)
- $20.9 billion business in 2007; estimate of $23.8 billion business in 2009 (13.8% growth in two years)
- General merchandise and food stores have gained 7.3% market share in pharmacy from 1998 to 2005

Strategic Response: Pharmacy

Capture market share in this growth industry through the introduction of pharmacy in full line stores …

- Very relevant to the Sears customer
  - 25% (1 million) Sears card holders are over the age of 65
- Significant halo effect on women's traditional brands, children's wear, and cosmetics
- Develop partnership with a national pharmacy
- Test and learn in a minimum of 5 locations in 2009
- Pharmacy located in or adjacent to cosmetics environment for improved synergies
- Rollout of 50 stores in 2010

Financials (incremental):	2009	2010
EBITDA	$0.3 MM	$3.0 MM

Risks:
- Inability to secure a pharmacy partner
- Inability to attract and retain pharmacists

Mitigants:
- Provide licensee with main floor location
- Ability to be aligned with a national company
- On-line possibility

Market Opportunity: One Sears Home Solutions

Home installed products & services is a strong growth market, with major competitors currently capturing market share …

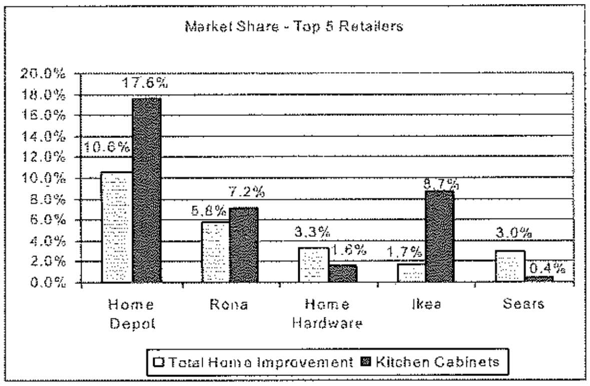
Market/competitive overview:

- Overall window treatment sales have been declining over the last 5 years
  - Ready made sales have decreased by an average of 4.7% per year
  - In store lead generation for custom solutions have been stagnant, averaging fewer than 2 leads per day per store
- Major competitors are gaining market share with the introduction of introduction of Lowes and the expansion of existing total solution providers including Rona, Home Depot, and Home Hardware
- Based on a consumer study, the second most common renovation expected to be undertaken in the next 12 months is kitchen renovations

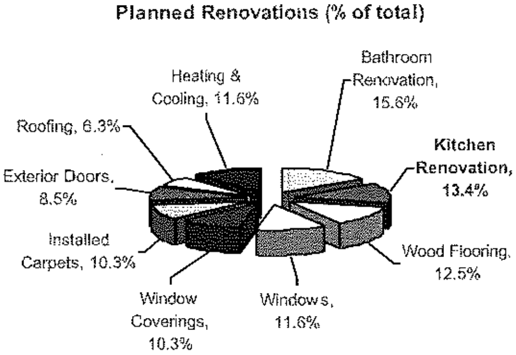
Opportunity:

- Sears products and services are not currently integrated, with each of the businesses operating in "silos"
- Leverage the opportunity to provide customers with total solutions including kitchen cabinets, major appliances (including high end), furniture and electronics

Kitchen cabinet market share



Planned renovations



Strategic Response: One Sears Home Solutions

Integrate retail stores and home installed products to provide customers with a holistic (One Sears) shopping experience …

Merchandise integration

- Create a dominant décor assortment by integrating the floor presentation of installed (HIPS) and take-with window treatment
- Create greater relevancy to the customer
- 3 store test conducted in TEC, Mississauga and Fairview
    - HIPS lead generation: 23.9% increase
    - Ready made window treatment sales: 6.7% increase
- 34 store rollout in progress, to be completed by September 2008

Associate integration

- Grow profitable sales by integrating the HIPS lead developer role into the store structure, thereby enhancing daily accountability by store leadership
- Phased implementation beginning in September 2008

Kitchen cabinets and major appliance integration

- Develop a business model to aggressively acquire market share in the kitchen solutions business
- Offer customers a total (One Sears) kitchen solution including the cross promotion of major appliances, furniture and electronics
- Test and learn in fall 2008

Financials (incremental):	2009	2010
EBITDA	$3.3 MM	$5.8 MM

Risks:

- Market share erosion due to the increasingly competitive landscape

Mitigants:

- Build life long customer relationships by offering holistic home solutions

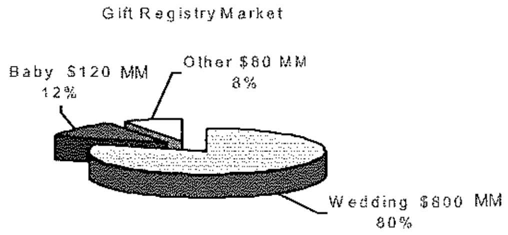
Market Opportunity: Gift Registry

The gift registry market is estimated at a total $1 billion and is dominated by wedding & baby registries ...

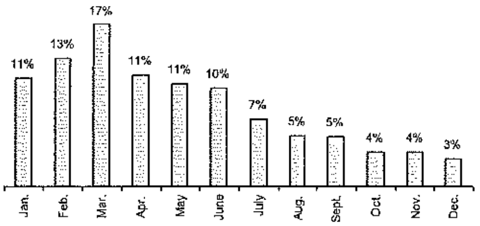
Market/competitive overview:

- The wedding registry market size is estimated at $800 MM
- 150k weddings occur every year
- The baby registry market size is estimated at $120 MM
- 340k births occur every year
- Wedding registry sign-up is seasonal and occurs predominantly January through June
- The market leader for wedding registry is The Bay, with estimated sales of $500 MM
- The market leader for baby registry is Babies R Us

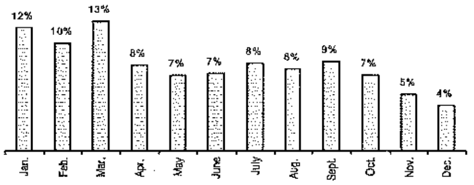
Gift registry market



Wedding registry seasonality (Sears registrant sign-up)



Baby registry seasonality (Sears registrant sign-up)



Strategic Response: Gift Registry

Gain market share and drive incremental profitable sales through a gift registry recharge ...

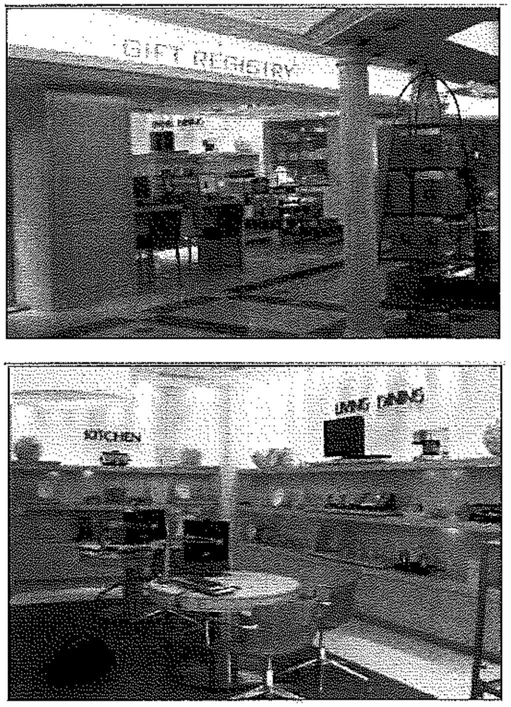
- New in-store concept includes dedicated registry consultants, floor space, performance measurement, training, and in-store marketing
- Enhanced gift and bridal merchandise assortment in home decor
- Capitalize on our assortment strengths in infant's apparel, hardware, major appliances, furniture, electronics, and home installed products & services
- Active participation in regional gift and bridal shows
- Develop customers for life (average age of brides is 28 – 30)
- Pilot the new concept in 4 Winnipeg stores (Polo Park, Garden City, Kildonon, and St. Vital Centre)
- Rollout to 50 stores in 2009 and to the remainder of stores in 2010
- IT capital of $3.5 MM is needed for terminals and scanners

Financials (incremental):	2009	2010
Sales	$40.0 MM	$80.0 MM
EBITDA	$8.0 MM	$16.0 MM

Risks:
- Market share erosion by not competing in gift registry
- High IT costs

Mitigants:
- Structured in-store concept including staffing, training & management engagement
- Enhanced marketing and merchandise assortment

The Bay in-store presentation



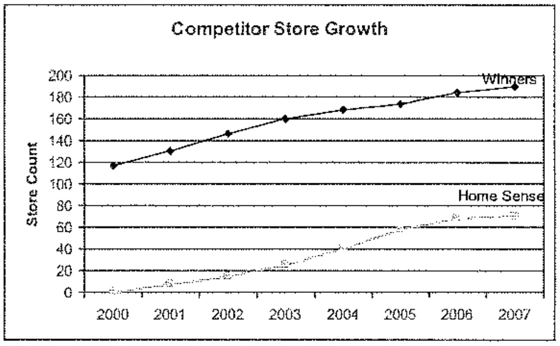
Market Opportunity: Outlet Format Remix

The discount retail market is becoming increasingly competitive with new alternatives for outlet shoppers …

Market/competitive overview:

- TJX Companies has become the market leader through rapid expansion of its Winners and Home Sense banners, adding 73 Winners and 71 Home Sense locations since 2000
- The "Winners" model is currently re-inventing the discount retail market, offering customers sharp prices on distressed inventory and the draw of well priced brand names
- Outlet shopping is faced with increased competition from both on-line and cross border

Competitor store growth



Sears Response: Outlet Format Remix

Improve outlet profitability through operating efficiencies and enhanced merchandise mix ...

- Implement the Winners type model ("thrill of the hunt")
  - 50% distressed inventory, 50% opportunity buys
- Reduce existing number of outlet stores from 12 to 9
- Open more regional locations to reduce transportation costs
  - Future vision: Vancouver, Alberta, Regina, Quebec, 3 Ontario (Brampton/Dixie/Ottawa), London and Halifax
  - This requires an added Alberta location and reducing GTA stores by five (close Brampton, Shoppers World, Brampton Liquidation, Markham, and Kenmore)
- Leverage national purchasing power to establish 50% of inventory for special opportunity buys
- Appoint a national outlet director

Financials (incremental):	2009	2010
Sales	($8.0 MM)	($16.0 MM)
EBITDA	$4.2 MM	$8.4 MM

Risks:
- Excess catalogue backlog

Mitigant:
- SKU life cycle management alternatives to clear distressed inventory

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Real Estate Strategy

Optimize store count and square footage in markets and locations that best serve Sears core customers, through new environmentally efficient and cost effective building prototypes that can be operated more profitably...

Goals for 2009 – 2011

1. Expand into high profit markets with no / underpenetrated Sears presence
2. Dispose of real estate in at risk markets in which stores are in decline, e.g. southern Ontario auto markets
3. Re-purpose underperforming real estate such as the large urban Eatons stores
4. Monetize heavily depreciated saleable real estate such as the Vaughan distribution centre

1. Expansion into Profitable Markets

Leveraging Sears Environics tool, conduct market analyses to identify the correct locations for new off mall stores in profitable markets...

- 2008 action plan includes:
  - Identify high growth communities and areas of urban centres based on 2006 census data
  - Capture market demographics of each existing store's trade area
  - Overlay Sears customer segmentation data – scheduled for September, 2008
  - Map geographic postal codes where each existing store's customers live, through existing card share and delivery data; alternatively, run semi-annual POS postal code surveys
  - National identification of under stored markets
  - Identify where in each market to best locate a store and mine existing data to determine whether there are competitors we should always locate near to draw their traffic, and others we should always avoid as they damage sales in a category
  - Identify where markets have grown to the point we should buy out an existing dealer store and convert to a corporate store
  - Enclosed malls – only The Bay / Lord & Taylor, and Sears remain as credible anchors. Where can we capitalize on the lack of existing anchors to get the landlords to pay for us to be in better physical plant. The Bay / Lord & Taylor may divest some real estate – what Bay locations could we take if they divest? (e.g. Mic Mac Mall in Dartmouth NS)

1. Expansion into Profitable Markets (II)

While low unemployment and population growth have occurred in western provinces, attracting & retaining talent has been challenging …

Employment Rates

	Unemployment (%)*			Labour Participation (%)*		
	2008	2007	Growth	2008	2007	Growth
Newfoundland	11.0	11.5	-4%	62.5	61.6	1%
P.E.I	6.4	7.1	-10%	72.8	70.8	3%
Nova Scotia	6.6	7.4	-11%	65.4	64.9	1%
New Brunswick	8.1	5.8	40%	67.2	66.3	1%
Quebec	6.3	6.1	3%	66.8	66.7	0%
Ontario	6.5	6.3	3%	69.2	68.9	0%
Manitoba	3.4	3.9	-13%	70.7	70.5	0%
Saskatchewan	3.4	3.9	-13%	70.4	70.7	0%
Alberta	2.8	3.4	-18%	75.7	75.3	1%
British Columbia	4.1	4.1	0%	67.5	67.1	1%

- Declining unemployment rates in western provinces has challenged retailers' ability to attract and retain talent
- Labour shortages have been experienced in high growth provinces such as Alberta and Saskatchewan

Immigration

Immigration - New Permanent Residents (persons)

Province	2003	2004	2005	2006	2007	5 Yr Growth
Newfoundland	359	579	497	508	545	52%
P.E.I.	154	310	330	565	992	544%
Nova Scotia	1474	1771	1929	2586	2520	71%
New Brunswick	666	795	1091	1646	1643	147%
Quebec	39554	44243	43313	44681	45208	14%
Ontario	119721	125090	140524	125910	111312	-7%
Manitoba	6503	7426	8096	10047	10955	68%
Saskatchewan	1668	1942	2108	2724	3517	111%
Alberta	15833	16474	19404	20716	20857	32%
British Columbia	35231	37027	44770	42084	38941	11%

- Although the western provinces have the lowest unemployment rates in Canada, Quebec and Ontario have the highest immigration, which is the main driver of Canadian population growth

Population Growth

Population by Province (000's)

Province	2003	2004	2005	2006	2007	5 Yr Growth
Newfoundland	518	517	514	509	506	-2%
P.E.I.	137	137	138	138	138	1%
Nova Scotia	936	938	936	935	934	0%
New Brunswick	751	752	751	749	749	0%
Quebec	7494	7549	7598	7651	7700	3%
Ontario	12262	12420	12565	12705	12803	4%
Manitoba	1161	1170	1174	1178	1186	2%
Saskatchewan	994	994	990	987	996	0%
Alberta	3161	3208	3280	3370	3474	10%
British Columbia	4155	4203	4260	4320	4380	5%

- Quebec and Ontario have the highest populations in Canada, although Alberta has the highest population growth

* - 2008 and 2007 values are taken from the month of June of that year

1. Expansion into Profitable Markets (III)

There is an opportunity for Sears to expand into underserved Ontario and eastbound markets where rents are lower, immigration is higher and there is a greater availability of labour compared to the western markets...

- Rent for a 1 floor unfinished 100,000 sq ft Charlottetown-style big box vary by province due to market conditions

Province	City	Est. Rental Rate (psf)	Est. Capitalization Rate (psf)
Newfoundland	St. John's	$8.50 - $10.50	8.0% - 9.0%
Nova Scotia	Halifax	$8.00 - $10.00	7.75% - 8.25%
New Brunswick	Fredericton	$10.00 - $12.00	7.75% - 8.25%
Quebec	Montreal	$13.00 - $15.00	7.0% - 7.5%
Ontario	Toronto	$15.00 - $17.00	6.75% - 7.25%
Manitoba	Winnipeg	$12.00 - $14.00	7.25% - 7.75%
Saskatchewan	Regina	$18.00 - $22.00	7.25% - 7.75%
Alberta	Calgary	$21.00 - $24.00	6.25% - 6.75%
British Columbia	Vancouver	$22.00 - $25.00	6.25% - 6.75%

- For full line, the sales per square foot on average is higher in Ontario and Quebec than in the Prairies. Associate turnover and hourly wages are also generally lower in Ontario and Quebec compared to the Prairies where the cost of construction and rent is higher

Region	Net Sales / sq ft	Associate Turnover %	Avg Hourly Wage
Atlantic	$239.81	51.8	$10.35
Quebec	$246.66	46.8	$11.08
Ontario E	$269.03	43.5	$11.23
Ontario C	$224.14	38.1	$11.94
Ontario W	$232.90	36.2	$11.59
Prairies E	$242.42	49.8	$10.84
Prairies W	$235.19	91.0	$12.08
Pacific	$239.88	49.7	$12.57

1. Expansion into Profitable Markets (IV)

Once profitable markets have been identified, employ the successful Charlottetown one floor full line prototype …

- Charlottetown full line store delivering strong EBITDA performance (EBITDA of $2.8 MM or 16%)
- Overall costs to build a full line store have increased since 2004 when the Charlottetown full line store was built. The table below includes estimated construction costs for a 100,000 full line store by province:

(per sq ft)	**Building costs**	**Lease Hold Improvements**	**Fixturing**	**Total***
Nova Scotia	$59.20	$34.16	$22.54	$115.90
P.E.I.	$59.20	$34.88	$24.95	$119.03
Quebec	$59.28	$34.20	$22.54	$116.02
Ontario	$61.28	$35.70	$24.34	$121.32
Manitoba	$61.28	$35.63	$24.12	$121.03
Saskachewan	$70.01	$39.84	$24.12	$133.97
Alberta	$74.40	$41.48	$22.54	$138.42
British Columbia	$70.65	$40.15	$24.12	$134.92
Cost to build Charlottetown store in 2004	$51.50	$30.46	$22.27	$104.23

- The vision is to continuously re-engineer the building prototype for each retail store format to reduce the construction cost per foot and increase the ability of achieving 20% IRR on new store proposals

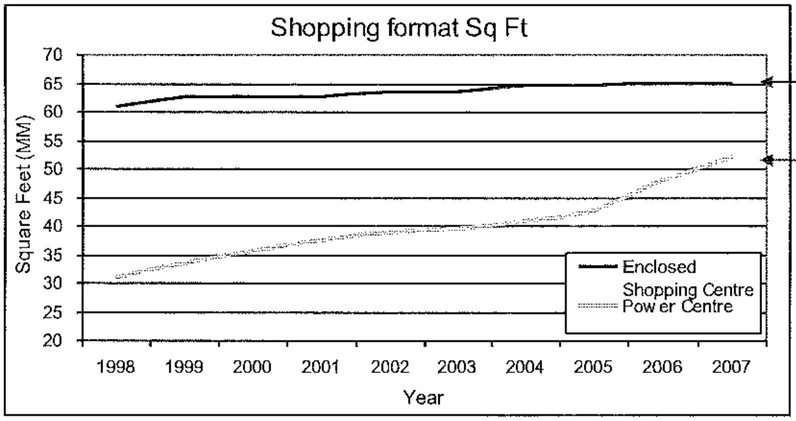
- Green technology should also be incorporated into the building design to reduce operating costs and position Sears as a market leader in sustainability initiatives

- LED lights and an energy management system are just a couple of examples of key drivers for this initiative:
  - LED Lights ($17,751 savings per store)
  - EMS Management System ($2,029 savings per store)

* - adjusted for inflation to reflect 2009 costs

1. Expansion into Profitable Markets (V)

Power centre square footage has increased by 69% since 1998; during this same period, enclosed shopping mall square footage increased by only 6% because only 1 regional mall has been built in Canada since 1991…



Shopping mall

10 Yr Growth: 6%

Power centre

10 Yr Growth: 69%

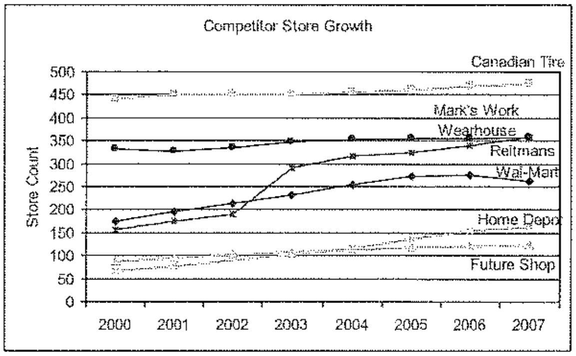
1. Expansion into Profitable Markets (VI)

Retail space & market share is shifting away from shopping malls to power centres …

Market/Competitive Overview

- Power centres are branded as "destination shopping" locations by consumers
  - Shopping malls are becoming less relevant to Canadian consumers as key retailers are migrating to power centers
  - Survey's indicate that the majority of Canadians find that power centers provide convenient one-stop shopping (72%) and lower prices (68%)
- Major US retailers facilitated power centre expansion, including Best Buy, Old Navy, Home Depot, Wal-mart, Staples and Winners
- Canadian retailers are converting to power centre formats, including Rona, Canadian Tire, Danier Leather, Harry Rosen, Jacob, Loblaws, Zellers, Mark's Work Wearhouse, & Reitmans
- Power center specialty retailers have gained market share
  - Mark's Work Wearhouse gained 2.7% market share, while Sears retail declined 1.4% (men's wear, 2007 vs 2004)
  - Mark's Work Wearhouse is now the market leader in men's apparel
  - Reitmans gained 0.8% market share, while Sears retail declined 0.6% (women's wear, 2007 vs 2004)

Competitor Store Growth



1. Expansion into Profitable Markets (VII)

Capitalize on profitable market growth and attract new customers through the introduction of retail stores in power centre locations …

Full Line Off Mall Stores

- Roll-out of 80,000 sq. ft. Charlottetown store model
- Charlottetown model delivering strong EBITDA performance (EBITDA of $2.8 MM or 16%)
  - Payroll expense is 100 bps below the full line average
  - Shrinkage expense is 36 bps below the full line average
- Market opportunities identified in Whitby and Kanata, build stores in 2010
- Opportunity for additional 8 off mall locations by 2011

Financials (incremental):	2010
Sales	$48.0 MM
EBITDA	$6.9 MM

Specialty Store Banners

- Proliferation of apparel specialty stores in power centres
- Mark's Work Wearhouse has 358 stores expanding by 60-70 stores annually over the next four years
- Reitmans has 375 stores under the Reitmans name and more than 900 stores overall under eight different banners (Reitmans, Smart-Set, RW&Co, Penningtons, MXM, Thyme Maternity, Addition-Elle, Cassis)
- Need to test and learn men's & women's free standing stores
- Propose 3 in women's wear and 3 in men's wear
- Rollout 10 additional women's wear and 10 additional men's wear stores in 2010

Financials (incremental):	2009	2010
Sales	$17.3 MM	$149.5 MM
EBITDA	$1.4 MM	$12.0 MM

2. *Dispose of Real Estate in at Risk Markets in Decline*

Action the worst performers – develop an analytically based and internally coordinated process to evaluate whether to refurbish, relocate, or exit poor performing stores...

Lowest performing Sears stores by EBITDA and lease end dates

Full Line Store Name	G.L.A (000's)	EBITDA (000's)	EBITDA %	End of Lease Term Date	Notice of Renewal Date
001322-FAIRVIEW	158.9	293.8	0.98	30/11/2017	30/11/2016
001311-ST GEORGE DE BEAUCE	54.2	242.9	3.40	10/03/2012	10/03/2011
001417-REGINA - CORNWALL	122.9	226.0	1.29	16/09/2016	16/09/2015
001627-NEW MINAS	30.9	200.9	4.33	18/10/2009	18/10/2008
001626-NEW GLASGOW	36.3	135.0	2.80	20/09/2016	20/09/2015
001317-COBOURG	31.7	80.5	1.66	22/08/2009	22/08/2008
001320-WOODBINE	131.9	-87.6	-0.47	31/08/2015	31/08/2015
001039-CHATHAM	91.8	-246.6	-2.40	10/12/2017	10/12/2016

Home Store Name	G.L.A (000's)	EBITDA (000's)	EBITDA %	End of Lease Term Date	Notice of Renewal Date
001394-STE FOY HOME	43.7	-79.1	-0.92	09/12/2013	09/06/2013
001353-LONDON HOME	43	-128.5	-1.21	07/08/2013	07/02/2013
001335-ORION GATE HOME	35.4	-149.6	-2.02	30/11/2009	01/01/2009
001349-PTE. CLAIRE HOME	45.7	-151.0	-1.84	19/03/2013	19/09/2012
001362-SHERWAY HOME	48.5	-179.4	-1.32	31/5/2012	30/11/2011
001351-BROSSARD HOME	61.3	-195.2	-2.27	02/02/2010	02/08/2009
001348-LAVAL HOME	43.5	-212.3	-2.83	26/3/2018	26/3/2017
001356-LASALLE HOME	44.3	-289.5	-3.56	30/09/2010	30/09/2009
001350-LACHENAIE HOME	50	-431.5	-8.61	20/10/2012	20/10/2011
001395-WINDSOR HOME	51.5	-697.3	-9.66	04/07/2011	04/01/2011

Action Approach:

- Using market analytics, identify declining markets to exit – e.g. Windsor ON and the decline in the auto industry
- Isolate all Sears stores due for lease renewal within the next 5 and 10 years; Corporate Stores to prioritize which ones to stay in, renovate, relocate; investigate repositioning of older stores (average enclosed mall full line store is 32 years old, versus average freestanding home store at 8 years old)

3. Repurpose Underperforming Real Estate

Opportunity to split oversized flagship stores into multiple banner offerings in underperforming urban malls …

- Primary candidates are Vancouver Pacific Centre (VPC) and Toronto Eaton Centre (TEC). Each is an old department store model with 100,000 sf floor plates on 7 levels

- The EBITDA of these stores is in the lowest 25th percentile and if FMV leases were applied, would perform more poorly

- It is challenging to drive customers to shop above the 3rd floor. Furthermore, and it is challenging to operate cost-effectively in a high vertical environment

- Best producing floors are lower mall, mall-level, and floors 1 and 2. Potential to put a different banner on each floor, for example:
  - Brand X on lower mall to meet the younger customer demographic that shops that level
  - Eatons on mall level
  - Sears on floors 1 and 2, with an edited assortment suited to a downtown urban customer

- Similar approach (but potentially less radical) could be taken in other A-level malls with two floor stores that underperform for the market (e.g., Toronto Yorkdale)

3. *Repurpose Underperforming Real Estate (II)*

Opportunities to reduce and monetize unused space in dense urban locations like TEC and VPC …

Opportunity: Landlord Recovery

- Sears occupancy costs at TEC and VPC are well below market rents:

Store	Rent / sq ft	CAM	Tax*	Occupancy Costs	GLA	2007 Sales / sf GLA	2007 Sales Index to Canada
TEC	$ 1.38	$ 0.08	$ 4.90	$ 6.36	816,070	$134	0.822
VPC	$ 2.16	$ 0.04	$ 2.06	$ 4.26	630,455	$123	0.755

- The landlord, Cadillac Fairview, is interested in recovering some space to redeploy to uses that can generate more income, such as a lease to commercial retail unit tenants at approx. $ 70 – 100 psf
- In VPC, floors 5 – 7 are vacant. Option to re-introduce discussions with landlord, Cadillac Fairview, to reduce our footprint on the lower levels and sell back the upper levels. Similarly, the footprint on the lower levels of TEC could be reduced and sold back to Cadillac Fairview.
- Past discussions failed due to an inability to reach an appropriate price. With Sears now wanting to retain portions to operate its multi-banner offering and the value of the real estate higher due to lower cap rates, perhaps now there is a greater ability to find common ground.

Opportunity: Sears Canada HQB Move to TEC

- Beginning fall 2008, HQB moving to ½ of floor 4, and 5, 6, 7

Sale / leaseback of owned distribution centres, could raise Sears over $300 MM in cash. This capital can be re-invested to support store growth and other strategic opportunities ...

- Below are estimated values of Sears distribution centres adjusted by Colliers from its earlier appraisals:

Distribution Centre Location		Value		Value Incl. Excess Land	
City	Address	Appraisal	Adjusted	Appraisal	Adjusted
Montreal	3075 Thimes Blvd.	$59.5M	**$68.3M - $82.0M**		
Belleville	500 College Street	$60.4M	**$70.2M - $79.6M**		**$75.2M - $84.6M**
Vaughan	9501-9601 Hwy 50	$75.0M	**$54.5M - $63.5M**		
Regina	885 Park Street	$4.6M	**$8.7M - $9.8M**	$5.4M	**$10.1M - $11.2M**
	1050 Broad Street	$16.6M	**$29.2M - $31.6M**	$18.0M	**$31.5M - $33.9M**
Calgary	25 Dufferin Place SE	$44M	**$59.8M - $64.7M**		
	5500 Dufferin Place SE	$5.5M	**$6.2M - $6.6M**		
Port Coquitlam	1488 Coast Meridian Rd	$13.4M	**$17.0M - $18.5M**		
Total		$277.9M	**$313.9M - $356.3M**	$ 280.1M	**$322.6 - $365.0M**

- Sears will be able to capture ~ $300 MM in net cash flow before transaction costs:

Scenario	Total Tax Expense	Deferred Tax Expense	Current Tax Payable	Net Cash Flow	Tax Value of Reduction in UCC Pool (Recapture)	NPV of Reduction in UCC Pool
High	31,130,093	11,840,827	19,289,266	337,010,734	70,305,135	25,565,504
Low	20,057,089	4,390,660	15,666,429	298,233,571	63,211,785	22,986,104

- Tax implications:
  - There is no tax rollover available on an exchange of our DC properties for retail properties, since property uses are different
  - Sears will have a further future tax cost of $23 MM - $25.6 MM, due to the reduction in our UCC pool

4. *Monetize Depreciated Assets (II)*

Unlocking more value through sale / leaseback ...

Unlocking More Value

- We could unlock more value without the early termination rights we've planned for in the leaseback of Vaughan, Calgary, and Port Coquitlam properties, but that would sacrifice flexibility
- Timing – the credit crunch makes it more difficult to find a player with the resources to do this type of transaction. More suitors are available without an exchange for retail properties as part of the proposed transactions
- We might gain a rollover and avoid the tax implications if the sale-leaseback is done with our owned store properties in exchange for other store properties

Sears Owned Retail Properties

Location	Channel	Building Area (sq.ft)	Land Area (acres)	Valuation as at 1/30/2006
Quebec Fleur de Lys	Full Line Store	210,885	12.0	$ 14,000,000
Kitchener	Full Line Store	177,230	12.6	valuation not available
Windsor	Full Line Store	305,628	18.5	$ 23,000,000
Peterborough	Full Line Store	104,418	6.8	valuation not available
Barrie	Full Line Store	117,473	10.5	$ 8,500,000
Trois Rivieres	Full Line Store	144,677	8	valuation not available
Montreal Place Vertu	Full Line Store	197,052	13.4	$ 8,600,000
Quebec Levis	Full Line Store	125,258	8.9	valuation not available
Newmarket	Full Line Store	144,923	12.0	$ 11,900,000
Charlottetown	Full Line Store	108,400	15.0	$ 11,200,000
Calgary North Hill	Full Line Store	237,616	12.9	$ 21,900,000
Winnipeg Garden City	Full Line Store	92,306	10.8	valuation not available
Chilliwack	Full Line Store	97,014	10.6	valuation not available
Burnaby Metrotown	Full Line Store	278,916	12.3	$ 20,400,000
Newmarket	Home	35,500	4.0	valuation not available
Regina	Home	43,000	3.2	valuation not available
Totals		**2,420,296**	**171.5**	$ 119,500,000

Agenda

7:00 – 7:15	Introduction	Dene Rogers
7:15 – 7:30	2009 – 2011 Financials	Dave Merkley
7:30 – 9:30	Retail Strategy	Dene Rogers / All
9:30 – 10:00	Retail Stores	Dennis Singh
10:00 – 10:45	Real Estate	Robbie Wasserman, Dennis Singh
10:45 – 11:45	Direct Strategy	Rick Brown, Chris Peters, Simon Rodrigue
11:45 – 12:30	Lunch	
12:30 – 1:15	Home Services	Arv Gupta
1:15 – 2:00	Financial Services	Rick Brown
2:00 – 2:45	SKU Lifecycle Management	Tim Flemming
2:45 – 3:30	Business Capability	Cathy McConnell, Tim Flemming
3:30 – 4:15	Sustainability	James Gray-Donald
4:15 – 4:30	Wrap Up / Next Steps	Dene Rogers

Significant potential exists to grow the Direct business today – the biggest constraint is organizational capability …

1. Reduce our dependency on catalogues (now 68% of sales) to be less than half of the Direct business (JC Penney and Lands' End currently at 43% and 32% respectively), the EBITDA margin benefit is approximately 600 bps
2. Transition to a holistic business model operating as a multi-channel retailer with more cross-channel promotions and in-store use of the internet
3. Expand the SKU universe via partners such as Otto, La Redoute, Marks & Spencer and others to become more relevant to more customer segments
4. Launch additional Direct businesses under the Eatons and Brand X banners – the goal is to make the direct channels more than 50% of the sales by 2011
5. Transition the Direct organization from being a "copy and paste" group with limited capabilities to a highly competent, energetic, entrepreneurial and growth generating team

6.5

Competitive Landscape

Market trends favour internet growth ...

Market Trends

- Generational Consumer Trends
  - Increased ease of shopping and transacting online
  - "Pull" marketing vs. "push" marketing; opt in/out
  - Brand/banner trust important for Direct purchases
  - Tendency to be critical of inferior technology
- Shifting Economics
  - Rising cost of paper, printing & distribution negatively impact traditional paper-based direct marketing resulting in increased eCommerce activity
  - Increased sustainability awareness
  - Increased traffic and fuel/transportation cost favour consumer migration to online/direct
- Technology Advancements/New Media and Channels
  - Internet, wireless/mobile, CRM, rapid technology
  - Ubiquitous data access (speed, storage, size, cost)
  - Increasing data/customer insight
  - Internet applications & media consumption:
    - E-commerce, online communities, blogs
- Government Legislation/Social Advocacy
  - Privacy/Regulations continue to drive the way retailers are able to collect and use information

Threats

- Weakness of US currency and a more competitive retail environment has led to attractive online U.S. shopping options for Canadians
- Canadian government is not taking action when U.S. retailers are not compliant – allows U.S. retailers more rapid/lower cost expansion
- New store growth (e.g. Wal-Mart) occurring in the rural markets, the bastion of Sears business (65% of sales)
- More retailers will be able to "plug and play" with partners/networks to rapidly bring to market relevant assortments demanded by consumers
- Retailers will implement more sophisticated customer relationship management processes to maximize engagement

Canadian E-Commerce Landscape

Online B2C sales in Canada are expected to grow over 2x between 2007 and 2011 ...

Canadian B2C E-Commerce Metrics, 2006 - 2011

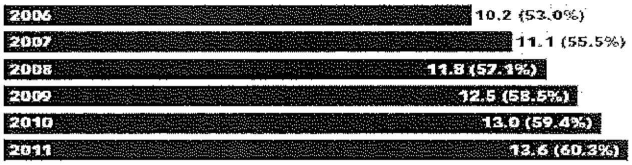
	2006	2007	2008	2009	2010	2011
B2C e-commerce sales* (billions)						
C$	$11.0	$15.7	$20.9	$26.2	$31.7	$37.2
% Change	-	42.4%	33.4%	25.2%	20.9%	17.4%
Online shoppers and buyers (millions)						
Internet users ages 14+	19.2	20.0	20.7	21.3	21.9	22.6
Online shopers ages 14+	13.5	14.2	14.7	15.2	15.8	16.2
% of Internet users who are online shoppers	70.2%	70.9%	71.3%	71.7%	71.8%	71.9%
Online buyers ages 14+	10.2	11.1	11.8	12.5	13.0	13.6
% of Internet users who are online buyers	53.0%	55.5%	57.1%	58.5%	59.4%	60.3%
Online buyers % of online shoppers	75.6%	78.2%	80.1%	81.7%	82.7%	83.8%
Average annual amount spent online per buyer						
C$	$ 1,079	$ 1,415	$ 1,773	$ 2,103	$ 2,429	$ 2,734
% Change	-	31.1%	25.3%	18.7%	15.5%	12.6%

Note: Includes online travel, event tickets and digital download spending
Source: eMarketer, November 2007

Internet Users in Canada, by Age, 2007 (% of each group)

Note: all locations; personal, nonbusiness use
Source: Statistics Canada, "Canadian Internet Use Survey," June 12, 2008
095577 www.eMarketer.com

Online Buyers in Canada, 2006-2011 (millions and % of Internet users)



Note: ages 14+; Internet users who have made at least one purchase online within the past year
Source: eMarketer, November 2007
089763 www.eMarketer.com

- Over 60% of Canadian internet users will buy on-line by 2011; sales in 2011 expected to be $37.2B, up 133% from 2007
- By 2011, the Canadian on-line consumer is expected to spend $2,734 annually, up 93% from 2007

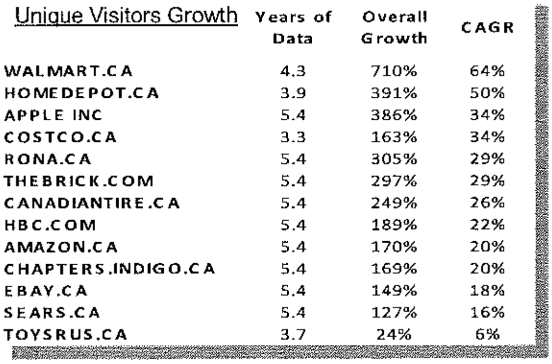
- Internet penetration in Canada is very high, however, ecommerce market is underdeveloped
- Traditional Sears customers show the lowest propensity to shop on-line today
- As we aspire to move to a broader demographic, we will need to upgrade the internet capabilities to meet future expectations

6.7

Competition

Sears Canada's online competitors are actively improving their capabilities ...

Constantly Upgrading	Re-Launching in 2008	Re-Launching in 2009	Launching in 2009	US Retailers selling into Canada (a selection)
• Costco (~$150MM in 2 years) • Future Shop / Best Buy • Chapters (extending offering to non book categories)	• HBC • Zellers • The Bay (Phase 2 includes a Gift Registry rebuild) • Home Outfitters	• Home Depot (complete site rebuild) • Canadian Tire • Rona (Full site re-launch planned for late 2008) • TSC (looking to expand with Vendor to consumer)	• Loblaws (CE & Apparel) • Holt Renfrew (small offering to start) • Wal-Mart (transactional) • Lowes (transactional) • Shoppers (full commerce offering – focus on cosmetics)	• Amazon.ca (Full Line) • Crate and Barrel • Overstock.ca • Williams Sonoma • Bed, Bath and Beyond • Brooks Brothers • LL Bean • JC Penny • J Crew

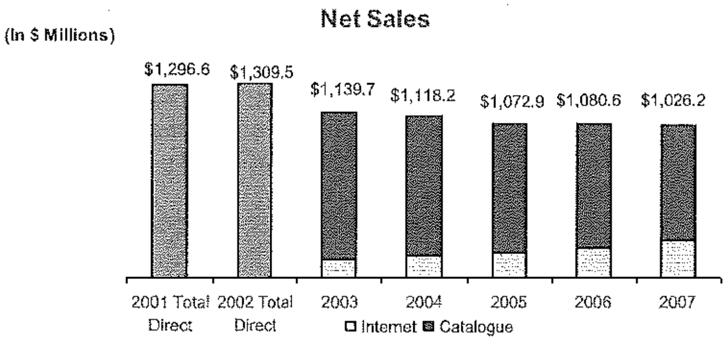


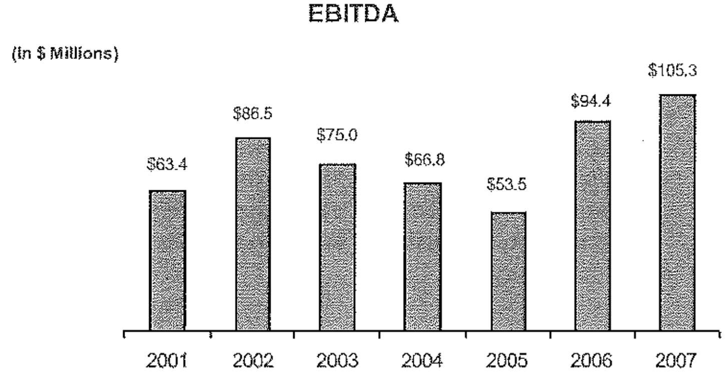
Unique Visitors Growth	Years of Data	Overall Growth	CAGR
WALMART.CA	4.3	710%	64%
HOMEDEPOT.CA	3.9	391%	50%
APPLE INC	5.4	386%	34%
COSTCO.CA	3.3	163%	34%
RONA.CA	5.4	305%	29%
THEBRICK.COM	5.4	297%	29%
CANADIANTIRE.CA	5.4	249%	26%
HBC.COM	5.4	189%	22%
AMAZON.CA	5.4	170%	20%
CHAPTERS.INDIGO.CA	5.4	169%	20%
EBAY.CA	5.4	149%	18%
SEARS.CA	5.4	127%	16%
TOYSRUS.CA	3.7	24%	6%

- Wal-Mart has experienced significant growth at 64% even though they do not offer a fully transactional site today
- Although our consumers are loyal, we are losing market share and not attracting consumers at the same rate as our competitors
  - Sears unique visitors, an indicator of total customers, during the last 12 month are down 11% vs. the same time last year

Financial Performance

Although sales have decreased over the past seven years, EBITDA has increased two fold because of better inventory management and cost reductions …


Net Sales

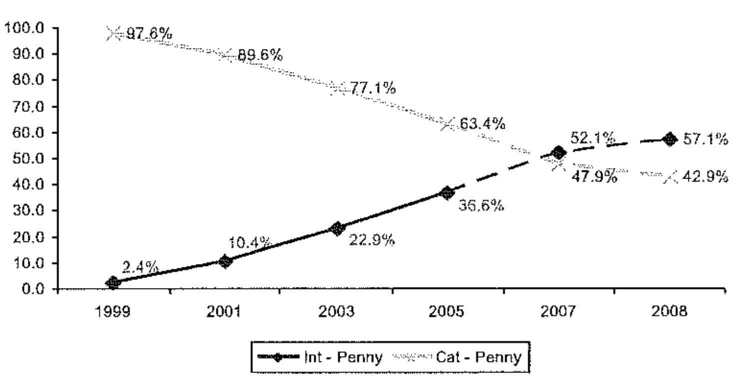

EBITDA

- The response rate on all catalogues have declined over the last five years (e.g. General Books have declined from 35.1% in 2003 to 30.6% in 2007)
- Specialogues deliver the lowest productivity; decline is mostly due to lower circulation levels, and test/learn Otto programs
- Internet growth has been steady at a 23% CAGR over the past two years but because of the relatively low internet sales base, this has not been sufficient to offset the erosion in catalogue sales
- Gross profit has been under competitive pressure but gross margin has been maintained over the last 3 years because of gains in vendor subsidies and foreign exchange
- EBITDA is increasing because of cost take outs & increased handling charge revenues. Over the last two years, handling charges have delivered $13MM per annum and merchandise losses have been reduced by $12MM per annum
- Between 2005 and 2007 Internet sales increased by $83MM resulting in an EBITDA benefit of $5MM due to a lower cost operating model

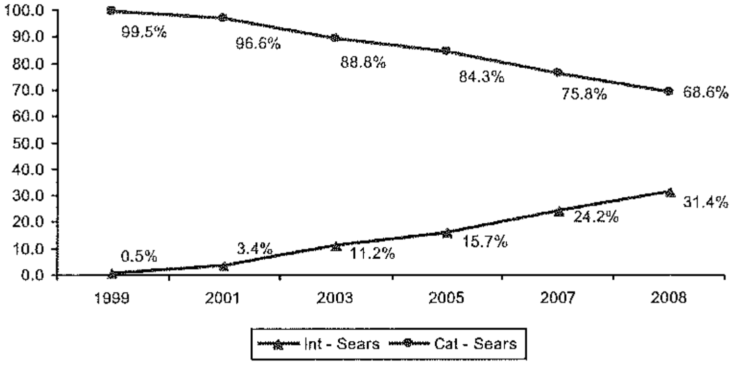
JC Penney (JCP)

JC Penney shifted sales away from traditional catalogues to the internet …

JCP Internet & Catalogue Balance of Sale



Sears Internet & Catalogue Balance of Sale



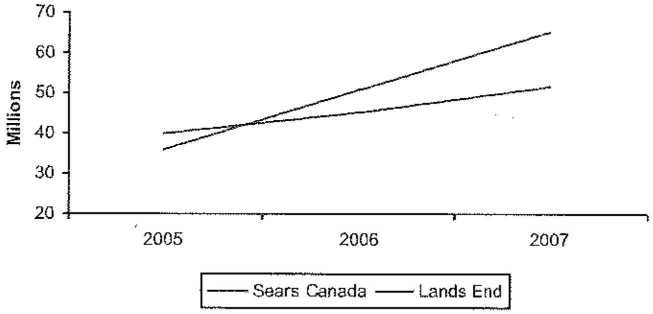
- JCP catalog sales have been declining at a rate of 7% each year over the last 3 years while internet has been growing at 28% over the same time period
- JCP made a substantial move in 2004 to invest in new systems and technology ($260MM) to position itself as a multi-channel retailer; investing in an enterprise wide solution that integrated POS and inventory systems across both channels
- JCP forecasts an internet balance of sale of 70% by 2010

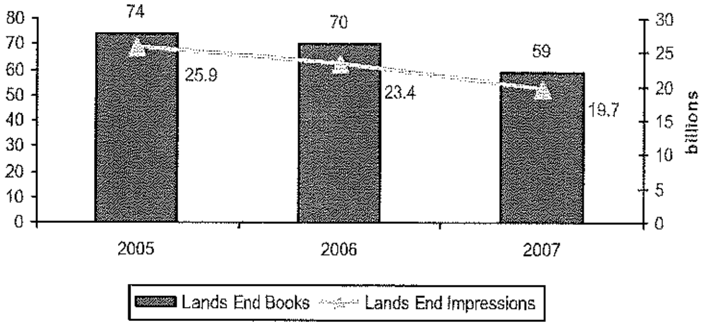
(Note 1: 2006-2008 are Sears estimates)

- Sears Canada catalogue sales have been declining at a rate of 6% each year over the last 3 years
- Sears internet sales have been growing at 19% over the same time; however, industry growth within e-commerce in Canada has been close to 25%

Lands' End

Lands' End has moved to a 68% internet balance of sale versus catalogue at 32% ...

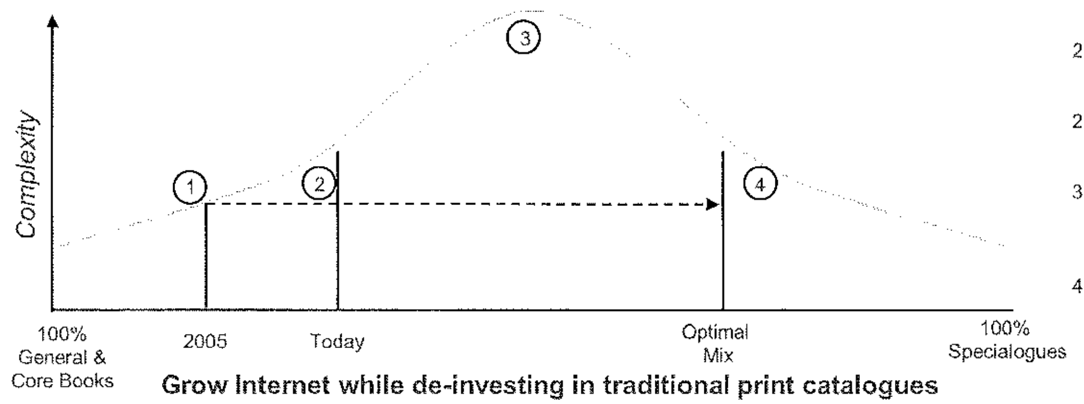

Website Visitors


# of Books vs. Impressions

- Lands' End website traffic grew 2x times that of Sears between 2006 and 2007 (29% vs. 14%)
- Lands' End is increasing web traffic despite reduced catalogue impressions through other forms of interactive marketing
- Lands' End catalog sales have been declining at a rate of 22% per year over the last 3 years; while internet sales have been growing at 16% on a much larger sales base than Sears Canada
- Sears catalogue has been declining at 6% per year while internet has grown 19% per year over the same time period

Catalogue Strategy

Transition to a media plan focused on the internet, supported by targeted specialogues and core catalogues ...



1) 2005: 20 Generalogues
1 Specialogue

2) 2008: 17 Generalogues
25 Specialogues

2) 2009: 17 Generalogues/6 Eatons
22 Specialogues

3) Peak complexity and risk of over frequency, cannibalization of core & specialogues and reduced ROI

4) Balance blend of targeted specialogues, (including multi-channel vehicles and sears.ca)

Grow Internet while de-investing in traditional print catalogues

Increase catalogue productivity:

- Accurate sales forecasting and inventory buys
- Reduce distribution costs
- Improve page productivity via better analytics

Improve catalogue customer experience:

- Increase in-stock position
- Deliver customized offers for key segments
- Improve presentation and content

Create new catalogue media plan:

- Reduce core book investment
- Continue to develop specialogue program but need to double profitability
- Implement new vendor page subsidies
- Increase test and learn activities, combine proven winners with new Otto/M&S content

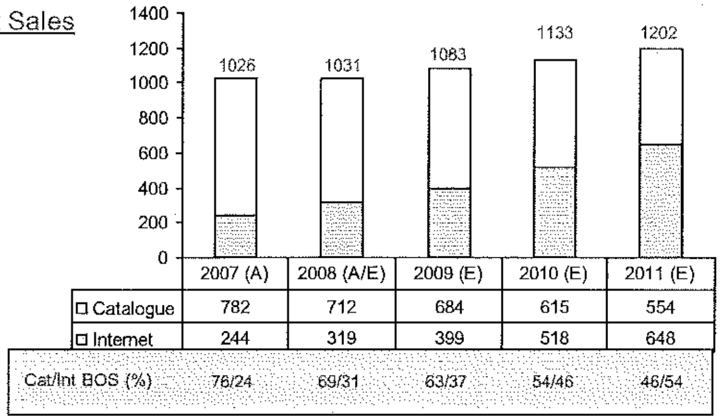
Optimize customer targeting:

- Operationalize customer segmentation to target existing best customers
- Implement new customer management tests to acquire, retain and reactivate customers
- Leverage modernized and de-duped customer database to improve catalogue response rates

Transition – From Catalog to Internet

The 2009 Direct sales plan grows by 5% YoY overall via a reduction in catalogue sales of 4% and internet growth of 25% …

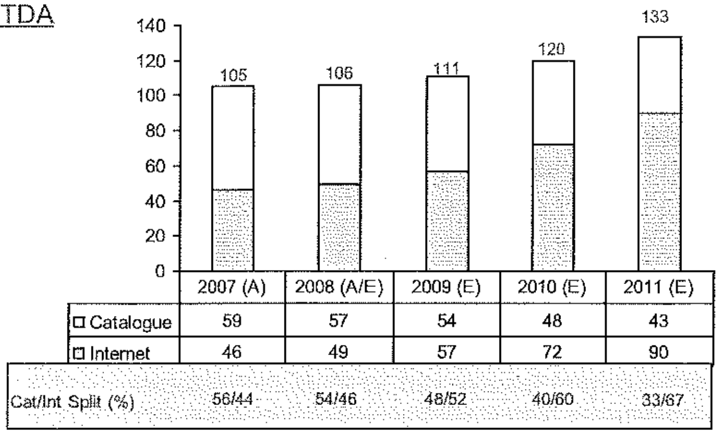
Net Sales



	2007 (A)	2008 (A/E)	2009 (E)	2010 (E)	2011 (E)
□ Catalogue	782	712	684	615	554
□ Internet	244	319	399	518	648
Cat/Int BOS (%)	76/24	69/31	63/37	54/46	46/54

- Shift media plan to more seasonally relevant targeted offers
- Increase productivity by 600bps in catalogues to offset anticipated continuing sales erosion
- Internet sales drivers include increased content, improved customer marketing, enhanced site functionality and enhancements to site navigation leading to increased traffic and conversion
- Grow SKU base through new partners, brands and Vendor to Customer (V2C) solution

EBITDA



	2007 (A)	2008 (A/E)	2009 (E)	2010 (E)	2011 (E)
□ Catalogue	59	57	54	48	43
□ Internet	46	49	57	72	90
Cat/Int Split (%)	56/44	54/46	48/52	40/60	33/67

- Shift in advertising expense to email, search and increased internet spend
- Operational improvements to reduce expenses as more business shifts to direct to customer (D2C), agency partnerships, and miscellaneous income through handling charges
- Catalogue continuous improvement focus on returns and omits rates to reduce expense while driving sales

(Note Internet EBITDA is not fully burdened with its share of catalogue production and distribution expense)

Sears.ca – Enhance customer experience

Focus on specific online tactics to drive sales via three key levers …

Traffic (Customer Marketing)

- Search marketing investment
  - Move from Cost per Click to Cost per Acquisition
- Community development
- Behavioural retargeting
  - Retarget non purchasing customers after they leave the site
- Search engine optimization
- Remnant/display ad purchasing
- Shopping site expansion
- E-mail expansion
  - Focus on relevance to the consumer
- Contest
- Affiliate Marketing

Average Ticket (Site Relevance)

- Cross/up selling
  - Automated suggestions of relevant product
- Shopping cart improvements
  - Testing and flow improvement
- Category display, product discovery
  - Home page and category page rebuilds to feature depth and breadth of assortment
- Site relevancy and re-targeting
- Buying guide program
  - Content for consumers to explore and understand complex product purchases

Conversion (Presentation/Search)

- Product content improvements
  - Providing the information needed for a consumer to make the buying decision
- Site tweaks and testing
  - Agile development model that allows for many smaller changes
- Product review improvements
  - Re-launch user review program
- Product Q & A
  - Introduce forums for consumers to ask questions on products and categories
- Search result refinements
- Navigational improvement

The above tactics may require a redirection in our platform strategy away from Amazon Services. A scoping exercise will begin in the next 30 days to determine development timelines (feasibility of '09 launch), leverage points from Sears Holdings and the current sears.ca cart, product and customer registration process as well as the impacts of leaving Amazon prior to contract expiration in Jun 2011.

Evolving the Business – A True Multi-channel Business

The internet becomes the enabler to a multi-channel business …

Customer Insights…

- Linking segmentation across stores and Direct to acquire customers
- Customization of offers that are unique and/or shared across channels (push or pull strategy)
- Utilize the wealth of data at Sears through a central hub to trend and mine segments of growth and opportunity to increase customer insight
- Expand targeted customer contact programs to test/evaluate new brands and products

Align Value Proposition…

- Develop expanded assortments that resonate across channels or become unique to a channel
- Standardized pricing across all channels for "One Sears" categories and common items
- Migrate to a multi-channel compliance model

Synchronize Marketing…

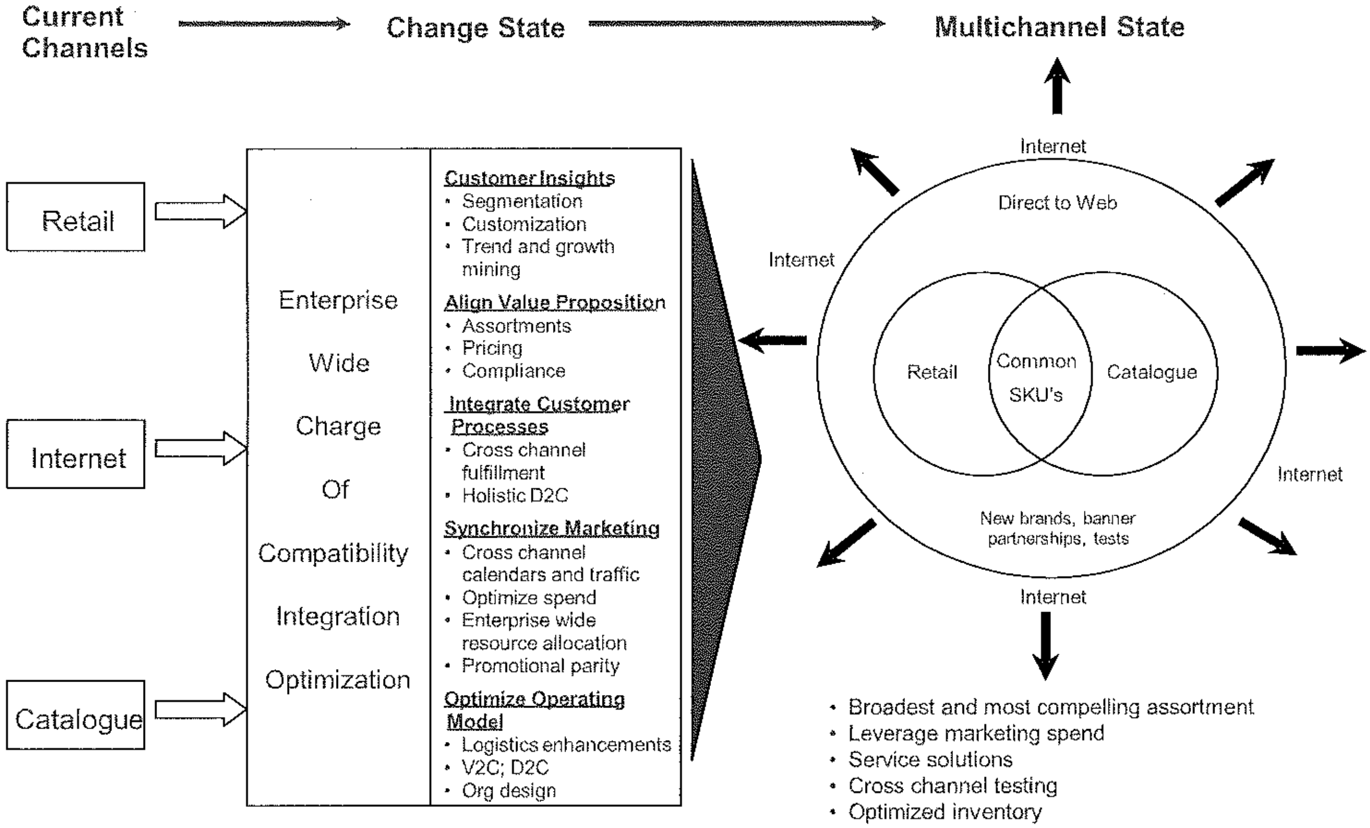
- Create a unified marketing strategy that supports cross channel calendars and traffic; leverage unique events but capitalize on joint events
- Optimize corporate wide media spend based on return
- Create promotional price parity on core assortments across channels
- Implement consistent and compatible messaging to customers

Optimize Operating Model & Processes…

- Enable the ability for cross channel fulfillment
- Create a true end-to-end Direct to Customer model
- Develop an enterprise-wide inventory system to reduce omits
- Deploy a Vendor to Customer model to allow for SKU expansion without inventory costs
- Create an optimal organization to satisfy the cross channel marketing plan
- Build an open, flexible IT infrastructure
- Integrate direct-to-customer assessment capabilities into merchandise planning process

Sears as a Multi-channel Retailer

A significant transformation in the way Sears does business is required to become a multi-channel retailer …



Current Channels → **Change State** → **Multichannel State**

- Retail
- Internet
- Catalogue

Enterprise Wide Charge Of Compatibility Integration Optimization

Customer Insights
- Segmentation
- Customization
- Trend and growth mining

Align Value Proposition
- Assortments
- Pricing
- Compliance

Integrate Customer Processes
- Cross channel fulfillment
- Holistic D2C

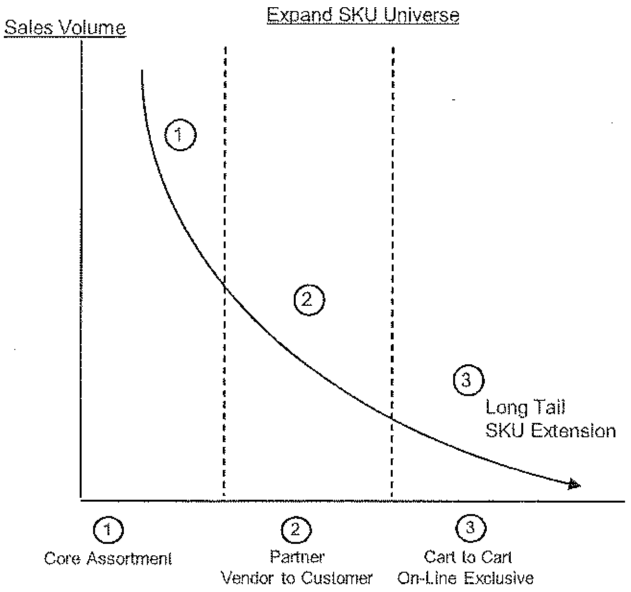
Synchronize Marketing
- Cross channel calendars and traffic
- Optimize spend
- Enterprise wide resource allocation
- Promotional parity

Optimize Operating Model
- Logistics enhancements
- V2C; D2C
- Org design

- Broadest and most compelling assortment
- Leverage marketing spend
- Service solutions
- Cross channel testing
- Optimized inventory
- Increased purchase power
- Seamless customer experience

SKU Universe

An expanded SKU universe will allow Direct to be more relevant to more customer segments …



1) Extend Partnerships and Direct to Web

- Extend Otto partnership to include home décor, specialty sizes as well as a broader extension of their assortment
- Expand La Redoute and Together assortments
- Develop Marks & Spencer partnership
- Form new relationships via new banners to become more relevant and attract new customers
- Continued growth in exclusive offers to the web

2) Vendor to Customer

- Create an endless aisle shopping experience that is supported by "drop shipment" model to the customer
- Linkage to over 120 unique Canadian vendors while expanding assortment with existing vendors to carry a broader selection of their line
- Align V2C model to support a test and learn, action-chaining to support internet growth

3) Cart to Cart

- Deploy a "plug & play" model to integrate shopping carts with other vendors to instantly access a greater number of SKUs

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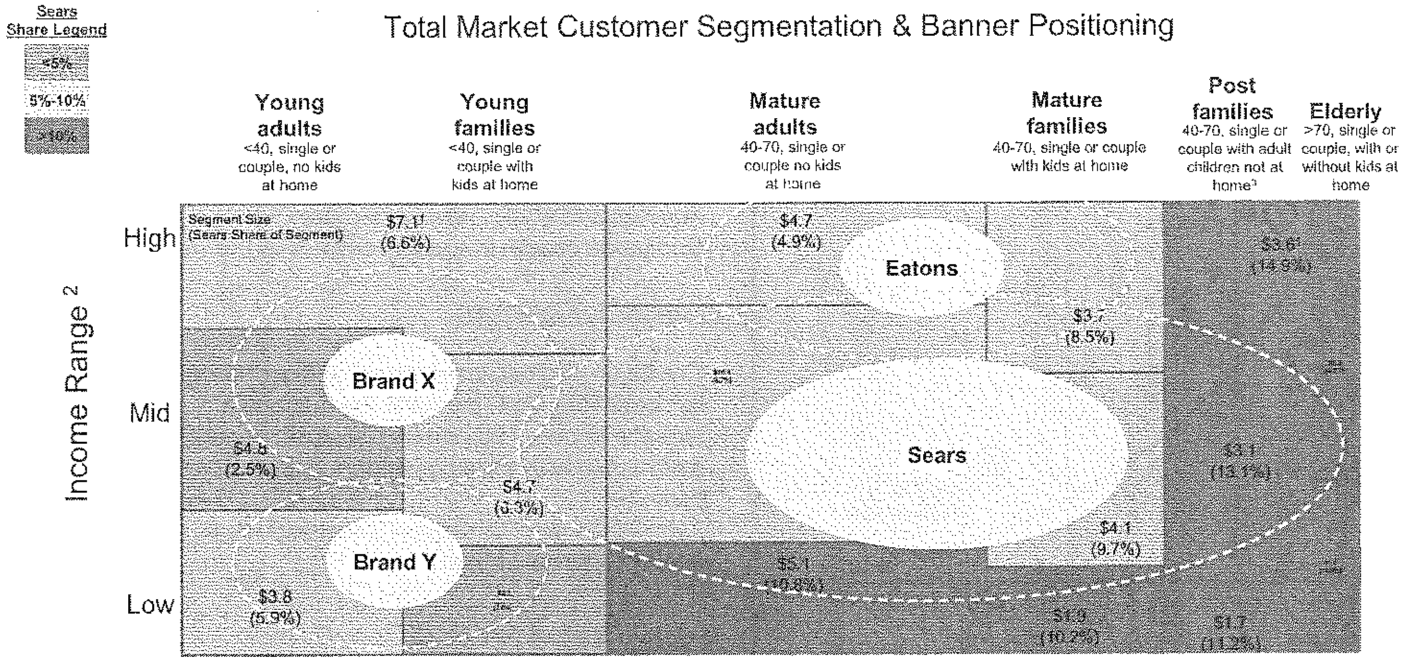
Customer Segmentation

Sears will develop new retail brands to attract new customer segments …



Total Market Customer Segmentation & Banner Positioning

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1. Segments combined to maintain minimum sample size. 2. Annual household income ranges: High = >$100K, Mid = $50K-$100K, Low = $<50K. 3. Includes very small segment of "<40 with adult children not at home" households who are not a significant influencer of overall segment (6K HH's, 0.05% of population). 4. Across the board adjustments made where necessary to map reported market spend to Statscan; no adjustments made within subsegments (age, income, or HH type). Source: Ipsos Canada Online Omnibus survey, conducted July 2ⁿᵈ, 2008, n = 1,028. Figures weighted for national representation. Notes: Size of banner circles not drawn to scale. Households where other adult relatives are living at home are placed into 'family' segments according to age of responder (6.5% of households). Table is mutually exclusive and collectively exhaustive, representing all households in Canada.

New Banner: Eatons (High Level Project Road Map)

The 2009 direct plan for Eatons includes the planned release of three core books …

Oct 18: Catalogue Validation

Sep 22: MTP

Aug 5: 1st mock up review

TBD: Transactional website launch

2008

2009

2010

Aug 8: T. Eaton Fall/ Winter Validation

Oct 18: Website Live (Non Transactional)

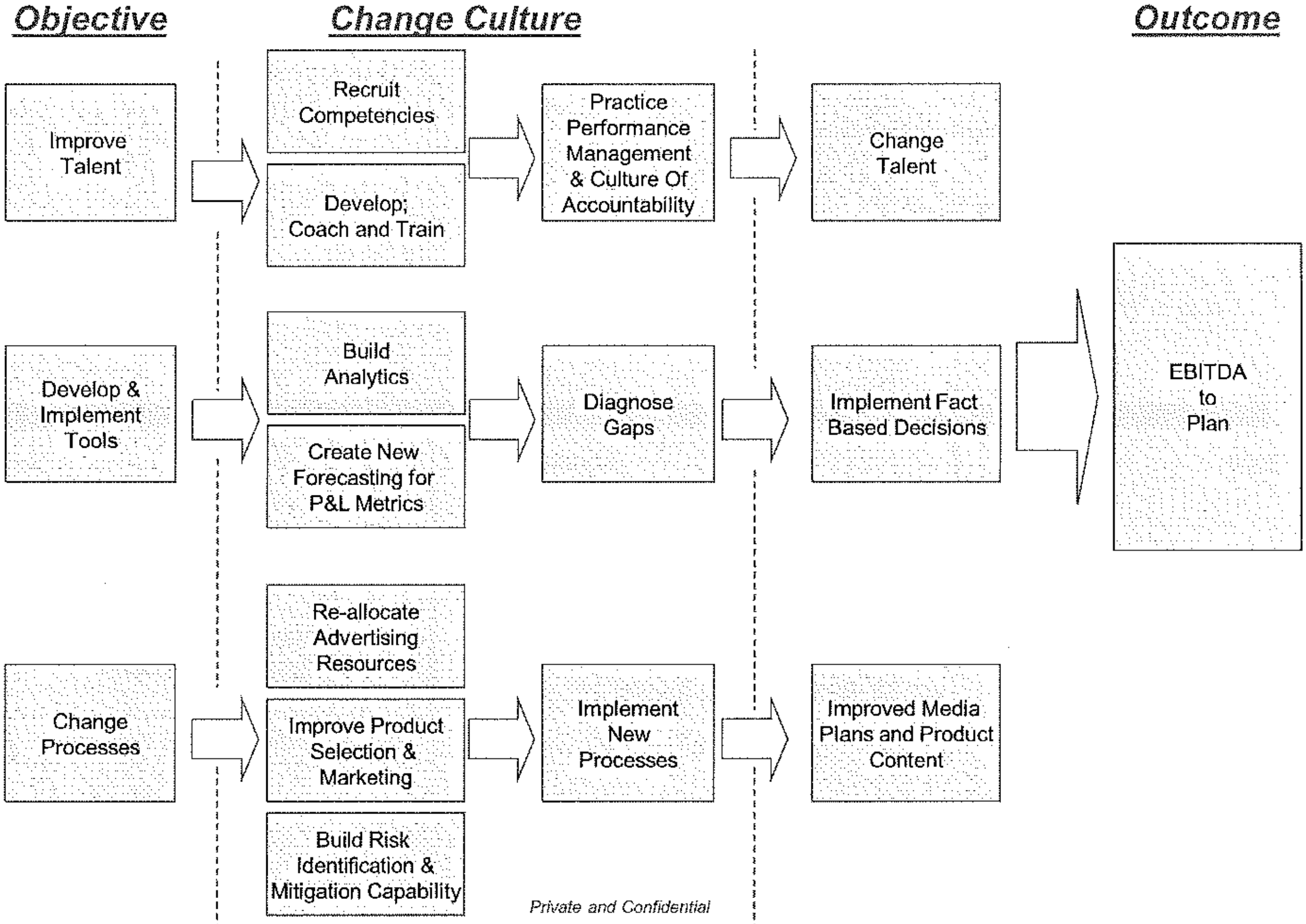
May 9: T. Eaton Spring/ Summer Validation

Jul 31: Spring Buying Begins

Mar 7: T. Eaton Spring Validation

Direct Business Capability: Talent Improvement

Focus on people, tools, and processes to achieve Direct results ...



Objective

Change Culture

Outcome

Improve Talent

Recruit Competencies

Develop; Coach and Train

Practice Performance Management & Culture Of Accountability

Change Talent

Develop & Implement Tools

Build Analytics

Create New Forecasting for P&L Metrics

Diagnose Gaps

Implement Fact Based Decisions

EBITDA to Plan

Change Processes

Re-allocate Advertising Resources

Improve Product Selection & Marketing

Build Risk Identification & Mitigation Capability

Implement New Processes

Improved Media Plans and Product Content

Direct Business Capability: Talent Improvement

Recruit talent that is competent, energetic, entrepreneurial, and focused on sales and growth ...

Q2 Actions

- ✓ New DVP A&A appointed to improve product offer content, develop new growth opportunities
- ✓ New E-Commerce Leader appointed to drive sears.ca sales growth
- ✓ New Director, Strategy and Business Improvement Merchandising appointed to optimize new growth business
- ✓ New Direct Business Analyst appointed to provide analytics and diagnostics for fact-based decision making
- ✓ Implemented new Direct Merchandising organization

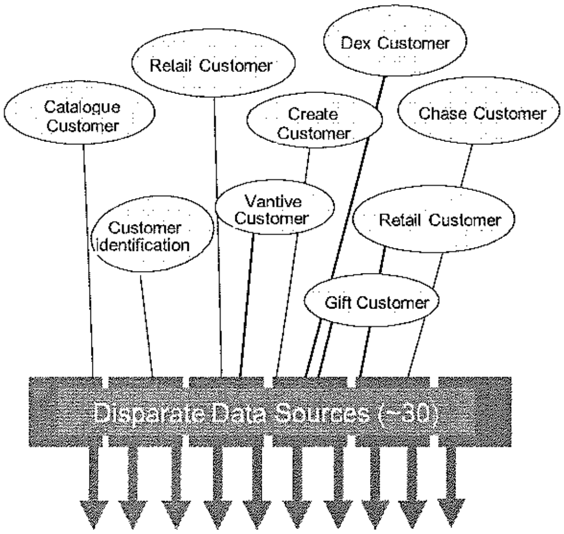
Q3 Actions

- New E-Commerce Customer Experience Director and Director of Interactive Marketing and Community
- New Finance leadership planned to improve forecasting, P&L control, revenue generation, expense reduction
- New Media Planning analytics to improve resource allocation decisions and catalogue productivity improvement
- Re-assessment of Q2 Direct Merchandising re-organization
- Review of Direct Organizational structure to match current and future business needs
- Succession Plan for all key roles

Customer Relationship Management

Today's architecture is a "many-to-many" data sources structure - to achieve optimal customer insight, a many-to-one CRM structure is required …

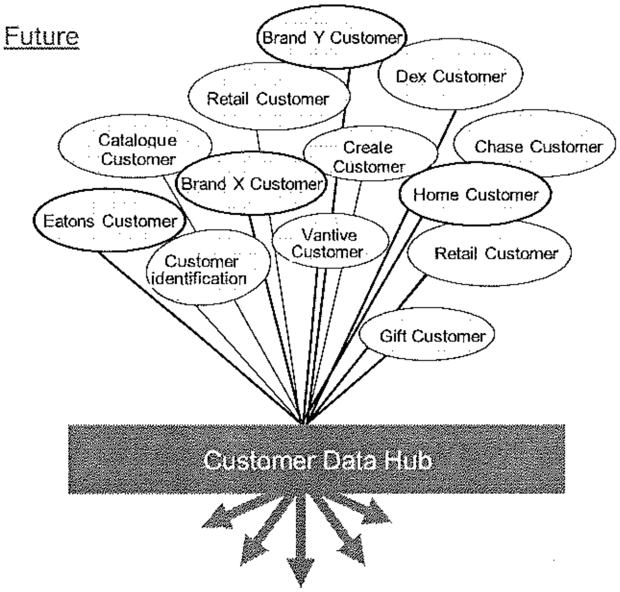
Today



Dex Customer
Retail Customer
Catalogue Customer
Create Customer
Chase Customer
Vantive Customer
Customer identification
Retail Customer
Gift Customer
Disparate Data Sources (~30)

- Disparate, siloed usage
- Multiple definitions of the same customer
- Resources inefficiency on multiple sources
- No clear "owner" of customer, siloed ownership

Future

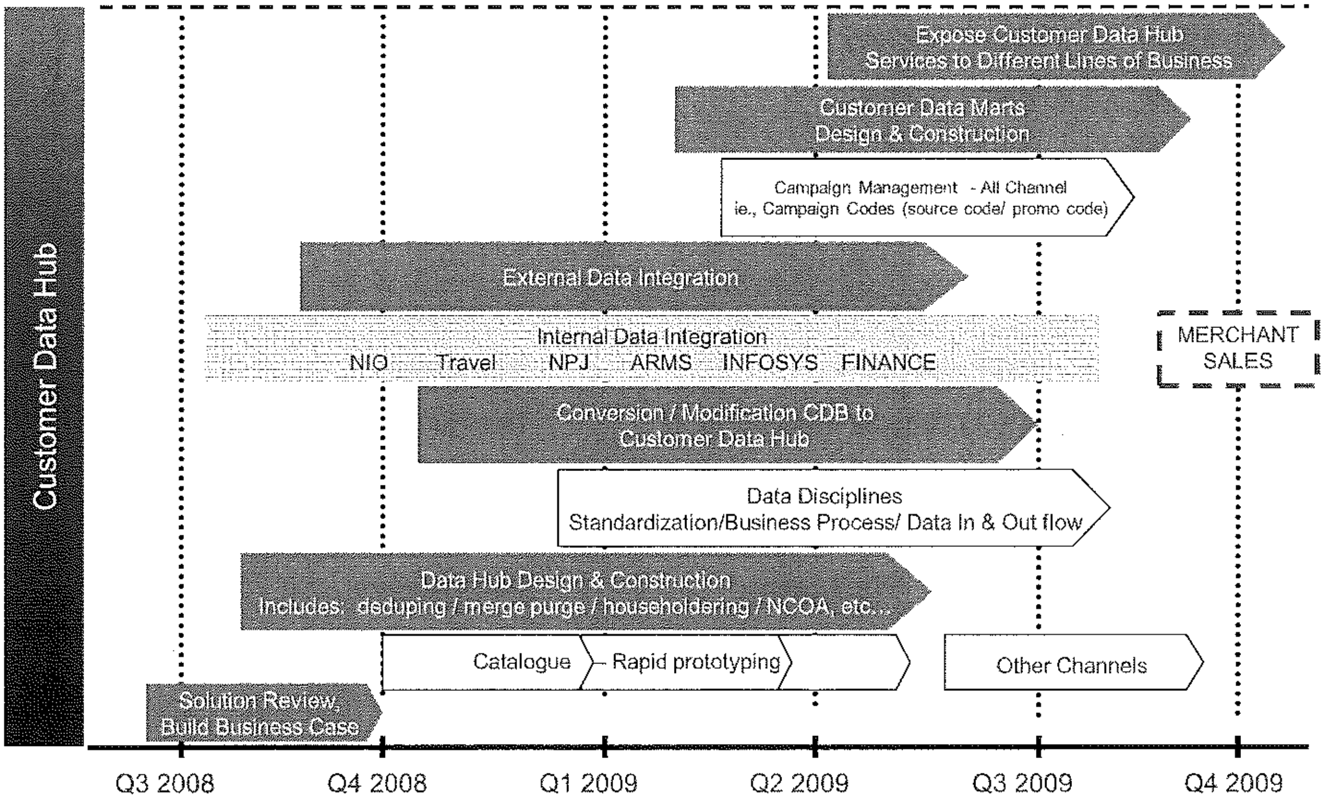


Brand Y Customer
Dex Customer
Retail Customer
Catalogue Customer
Create Customer
Chase Customer
Brand X Customer
Home Customer
Eatons Customer
Vantive Customer
Customer identification
Retail Customer
Gift Customer
Customer Data Hub

- Deliberate, concerted usage across all banners
- One end customer definition
- Efficient maintenance
- Ownership residing with a centralized, expert team

CRM – Project Timeline

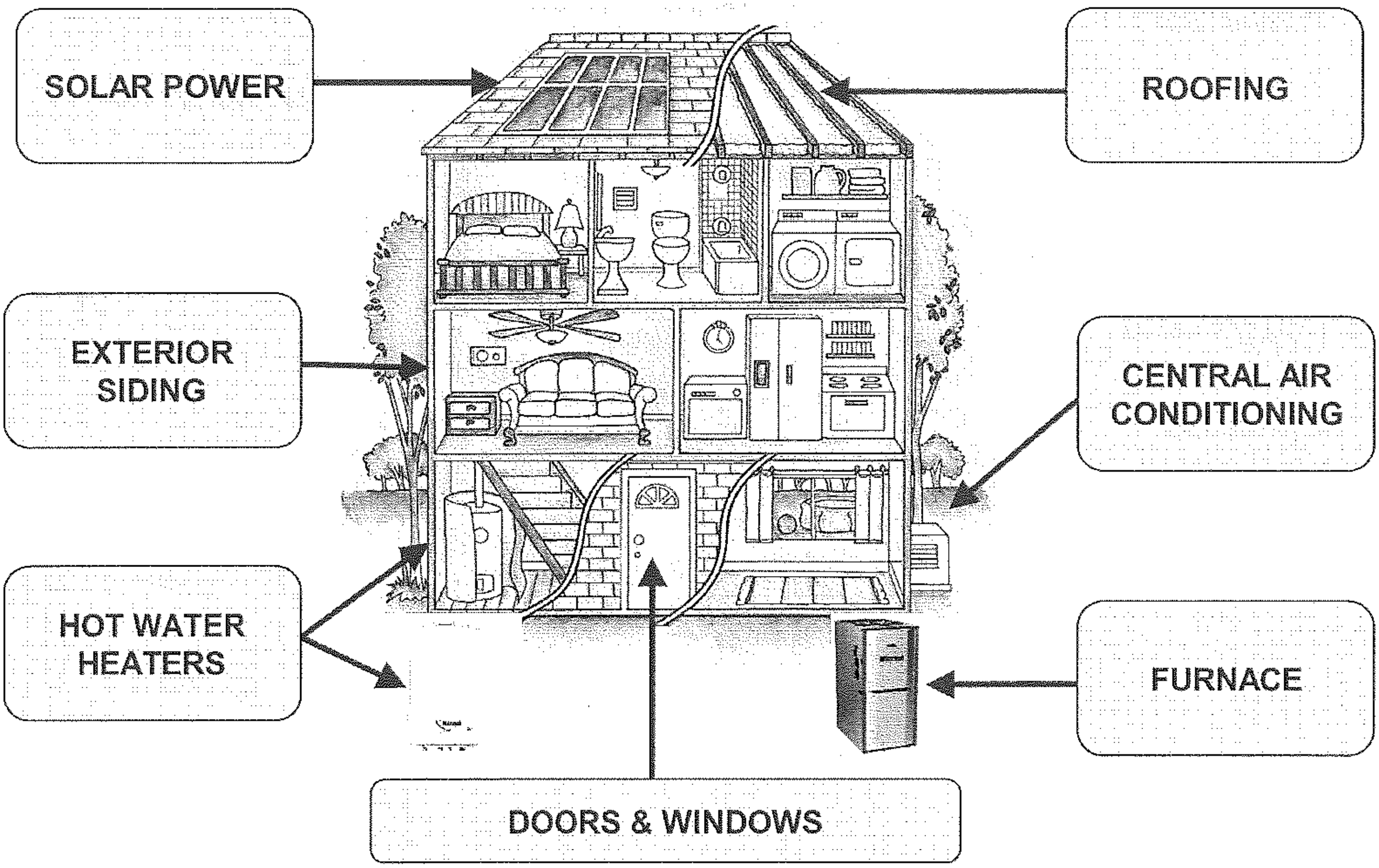
Pending solution review and business case approval in late 2008, a cross functional team will deliver the customer data hub solution by Q4 2009 …



Agenda

7:00 – 7:15	Introduction	Dene Rogers
7:15 – 7:30	2009 – 2011 Financials	Dave Merkley
7:30 – 9:30	Retail Strategy	Dene Rogers / All
9:30 – 10:00	Retail Stores	Dennis Singh
10:00 – 10:45	Real Estate	Robbie Wasserman, Dennis Singh
10:45 – 11:45	Direct Strategy	Rick Brown, Chris Peters, Simon Rodrigue
11:45 – 12:30	Lunch	
12:30 – 1:15	Home Services	Arv Gupta
1:15 – 2:00	Financial Services	Rick Brown
2:00 – 2:45	SKU Lifecycle Management	Tim Flemming
2:45 – 3:30	Business Capability	Cathy McConnell, Tim Flemming
3:30 – 4:15	Sustainability	James Gray-Donald
4:15 – 4:30	Wrap Up / Next Steps	Dene Rogers

HOME INSTALLED PRODUCTS AND SERVICES



SOLAR POWER

ROOFING

EXTERIOR SIDING

CENTRAL AIR CONDITIONING

HOT WATER HEATERS

FURNACE

DOORS & WINDOWS

Home Installed Products and Services (HIPS) – Financial Overview

The HIPS team plans to grow its EBITDA to $40 MM by 2010, which is double 2008 levels…

							TARGET GROWTH PLAN			
	2006 ACTUALS	%	2007 ACTUALS	%	2008 PLAN	%	2009 TARGET	%	2010 TARGET	%
Total Revenue *	263.2		267.1		301.4		377.9		437.6	
% of Increase	.		*1.5%*		*12.8%*		*25.4%*		*15.8%*	
Income B4 Expenses	83.8		87.0		97.8		126.0		146.4	
% to Revenue	31.9%		32.6%		32.4%		33.3%		33.5%	
Payroll & Benefits	34.8	13.2	36.9	13.8	39.9	13.2	47.6	12.6	51.4	11.8
Merchant Commission	0.7	0.3	0.9	0.4	0.8	0.3	0.8	0.2	0.8	0.2
Advertising	7.8	3.0	7.9	3.0	8.9	2.9	11.5	3.0	12.7	2.9
Occupancy	4.3	1.6	4.3	1.6	4.1	1.4	4.1	1.1	4.1	0.9
Other Expenses	24.9	9.5	** 21.9	8.2	22.7	7.5	31.8	8.4	37.4	8.5
Total Expenses	72.5	27.6	71.9	26.9	76.4	25.4	95.9	25.4	106.4	24.3
EBITDA	11.3	4.3	15.1	5.7	21.4	7.1	30.0	7.9	40.0	9.1
% of Increase	.		*33.4%*		*41.4%*		*40.7%*		*33.0%*	

* Total Revenue includes grossed up misc income

** Excludes one time roofing warranty credit of $4.0mm

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HIPS Business Overview

Installed Products				Home Maintenance	Renovation (Do-it-for-me)			Services
HVAC	**Window Coverings**	**Floor Coverings**	**Installation**		**Roofing**	**Doors & Windows**	**General Renovations**	
Central A/C	Drapery / Blinds	Carpets	Appliances	Upholstery Cleaning	Shingle Roofing	Entrance Doors	Bath Reno	Home Inspections
Furnaces	Indoor Shutters	Area Rugs	Central Vac	Maid Services	Soffit / Fascia / Gutters / Siding	Garage Doors	Kitchen Reno	ecoENERGY Evaluations
Air Cleaners		*Hard Flooring*	Garage Door Openers	Carpet Cleaning		Windows	Cabinet Refacing	Home Staging
Gas Fireplaces				Duct Cleaning & Services		Awning & Shutters	Independent Living	
Hot Water Tanks				Home Security			Fencing/ Decks	
Tankless				Painting			Stair Railings	
Power Pipe				General Plumbing			Landscaping	
Thermostats				Electrical				
Rental								
Solar Water Heater								

LEGEND

☐ Existing Businesses ☐ In Development ☐ Future Potential

2007 Market Share – Home Improvement (DIY & DIFM)

	Total Home Improvement	Central Air Conditioning	Entry Doors	Furnaces	Gas Fireplaces	Kitchen Cabinets	Roofing	Siding	Soffit, Facia and Guttering	Windows
TOP 5 RETAILERS - TOTAL CATEGORY										
Home Depot	***10.6%***	*3.1%*	*14.7%*	*7.4%*	*4.9%*	*17.6%*	*9.4%*	*9.2%*	*14.2%*	*9.0%*
Rona Inc. all banners	***5.8%***	*1.2%*	*10.0%*	*5.8%*	*9.7%*	*7.2%*	*9.5%*	*4.2%*	*6.8%*	*0.5%*
Home Hardware	***3.3%***	-	*5.0%*	*0.9%*	*1.9%*	*1.6%*	*7.0%*	*7.5%*	*5.7%*	*1.3%*
Sears (Total all banners)	***3.1%***	*11.6%*	*2.9%*	*4.1%*	*9.9%*	*0.4%*	*2.1%*	*1.7%*	*0.9%*	*3.0%*
Ikea	***1.7%***	-	-	-	-	*8.7%*	-	-	-	-
FULL RETAILER LIST										
Major department stores	***3.4%***	*12.3%*	*2.9%*	*5.3%*	*11.6%*	*0.4%*	*2.1%*	*3.0%*	*0.9%*	*3.1%*
Mass and discount retailers	***2.2%***	*3.5%*	*0.4%*	*3.5%*	*2.5%*	*3.3%*	*2.3%*	*2.6%*	*2.9%*	*0.3%*
Drug stores	***0.1%***	-	-	-	-	*0.3%*	-	-	-	-
Warehouse clubs	*	-	*0.2%*	-	*0.6%*	-	-	-	-	-
Hardware & home improvement stores	***28.1%***	*5.0%*	*38.2%*	*16.5%*	*17.2%*	*29.5%*	*40.1%*	*37.2%*	*42.1%*	*21.4%*
Electronics stores	***0.1%***	*1.5%*	-	-	-	-	-	-	-	-
Furniture/furniture & appliance stores	***2.2%***	*1.2%*	*0.3%*	-	*3.9%*	*9.4%*	*0.3%*	*0.2%*	-	-
Home furnishing stores	***1.5%***	*0.7%*	*2.2%*	*2.8%*	*1.3%*	*0.9%*	*0.4%*	*1.3%*	*0.5%*	*2.8%*
Paint & home decoration stores (added Jan/07)	***0.1%***	-	-	-	-	-	*0.3%*	*0.7%*	-	-
Other type of retail stores	***6.9%***	*18.1%*	*8.8%*	*14.1%*	*22.4%*	*7.1%*	*2.4%*	*0.9%*	*0.4%*	*4.4%*
Non-retail store locations	***43.0%***	*45.4%*	*37.9%*	*52.0%*	*26.7%*	*36.4%*	*39.4%*	*38.6%*	*41.9%*	*53.9%*
None of the above	***12.1%***	*12.3%*	*9.1%*	*5.0%*	*14.0%*	*12.7%*	*12.6%*	*15.5%*	*11.3%*	*13.8%*

Source: Synovate, 2008

SWOT

STRENGTHS

- Trusted name: SEARS
- Strong brands - Kenmore, Carrier
- National installation group
- National sales organization
- Product warranties
- Various financial options, such as one year deferred, 24 month equalized billing, unrestricted time period IP at 9.9%
- Sears Club points and rewards
- Sears flyer reach
- National service organization - trained technical workforce
- Call center infrastructure
- Customer information – data rich
- Capital to invest

WEAKNESSES

- Field organizational capability
    - Relationship building skills
    - Sales skills
    - Aging technical workforce
    - Quality, quantity, process consistency and standards of installation and services are variable
- Price competition with independents
- Difficulty reaching non-Sears traditional customers
- Liability – warranty obligations (old jobs)
- In-store showroom space constraints

OPPORTUNITIES

- 1.3 MM home visits per year – ability to develop life-long relationships
- DIFM (Do It For Me) increasing
- Energy management awareness
- Rising fuel costs
- Government grant programs for energy efficiencies
- Leveraging strength of HVAC business
- 500k resale homes per year
- In-store displays and lead generation
- Service contracts -> replacement sales
- Extended warranty sales capability
- 10% of Canadians still use oil heating

THREATS

- Fragmented market – many competitors
- Aging and shrinking installation/service workforce not being replaced as quickly with students finishing trade school
- Installation not keeping up with sales – HVAC, roofing
- Increasing competition (Home Depot and Lowes, factory direct)
- "Do Not Call" registry challenging telemarketing efforts
- Rising fuel costs

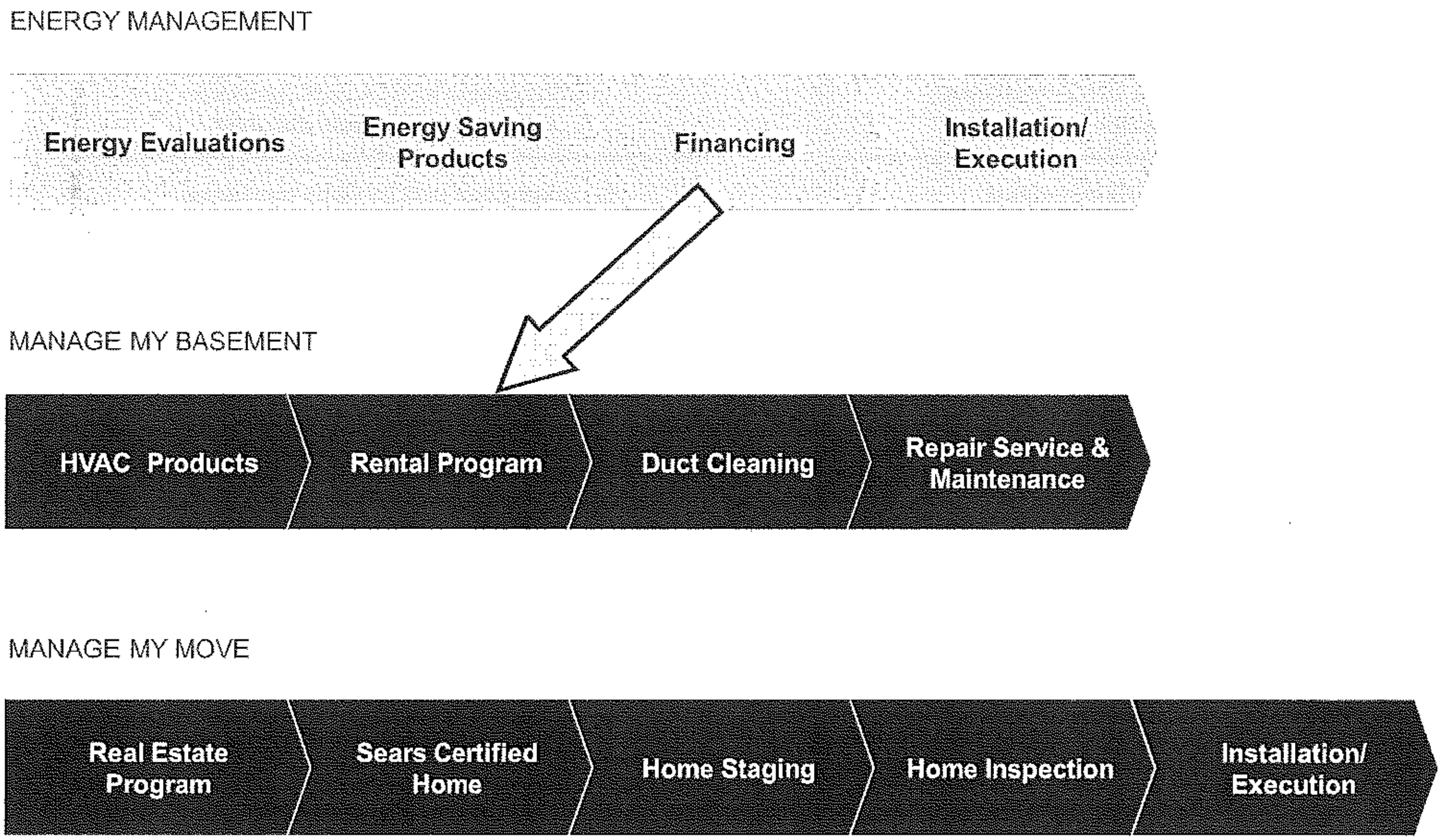
Home Services - Strategy

Grow in-home visits to build life long customer relationships, and grow service & cross-channel sales…

		BUSINESS	SERVICE	2009 EBITDA	2010 EBITDA	2009-2010 ACTIVITIES
BUILD COMPETITIVE ADVANTAGE WITH IN-HOME VISITS	Leverage Current In-Home Visits	Manage my Basement	HVAC Installations			Increase leads by leveraging all points of contact w/ Sears Customers
			Rental	$0.3MM	$2.3 MM	Pilot Hot Water Tank Rental – expand markets and products
			Oil Products & Services	$1.3 MM	$4.0 MM	Acquire S & E businesses – market electric and gas conversions
			Maintenance & Duct Cleaning	$2.2 MM	$2.4 MM	Leverage acquisition of EXCELL / SICAS
		Energy Management	ecoENERGY Evaluations	$0.3 MM	$0.4 MM	Strategic alliance with AmeriSpec
			Energy Saving Products	$1.6 MM	$2.4 MM	Strategic alliance with SkyPower Search,develop&market new energy savings products & services
			Financing			Innovative financing such as Home equity lines of credit & Rental
	Generate New In-Home Visits	Manage my Move	Real Estate Home Staging Sears Certified Home			Strategic alliance with Realtors Explore alliance with Home Staging partner
			Home Inspections	$0.4 MM	$0.6 MM	Management Services contract with Carson Dunlop
		Efficient "Green" Home	Energy Management Air & Water Quality			Search, develop & market new energy savings products and services
		Outdoor Living	Decks/Fencing Lawn & Garden Maintenance Landscaping			Develop business model
		Professional Services	Electrical Plumbing Handyman Services	$0.1 MM	$0.2 MM	Develop business model
		Independent Living	Independent Living	$0.3 MM	$0.8 MM	Acquisition

BUILD LIFE LONG RELATIONSHIPS WITH CUSTOMERS

Key Initiatives



ENERGY MANAGEMENT

Energy Evaluations

Energy Saving Products

Financing

Installation/ Execution

MANAGE MY BASEMENT

HVAC Products

Rental Program

Duct Cleaning

Repair Service & Maintenance

MANAGE MY MOVE

Real Estate Program

Sears Certified Home

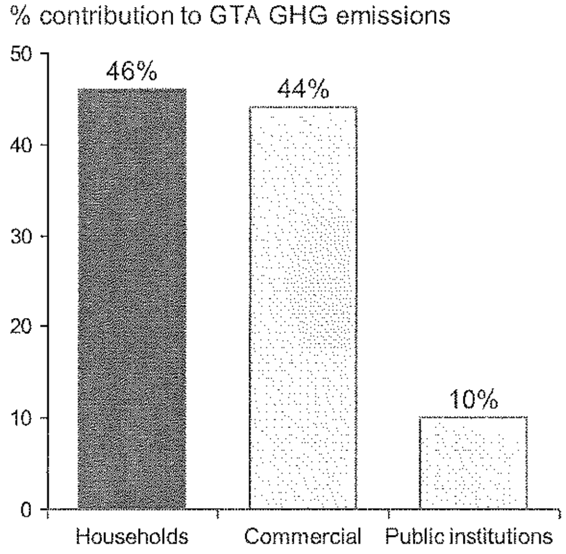
Home Staging

Home Inspection

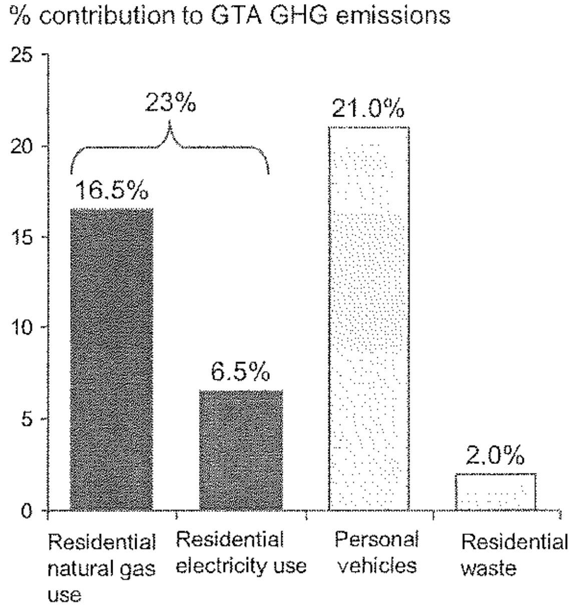
Installation/ Execution

Households responsible for >45% of GTA's green house gas emissions, 23% of that resulting from in-home energy use…

Contribution to GTA GHG emissions
by sector



Contribution to GTA GHG emission
by end use (households only)



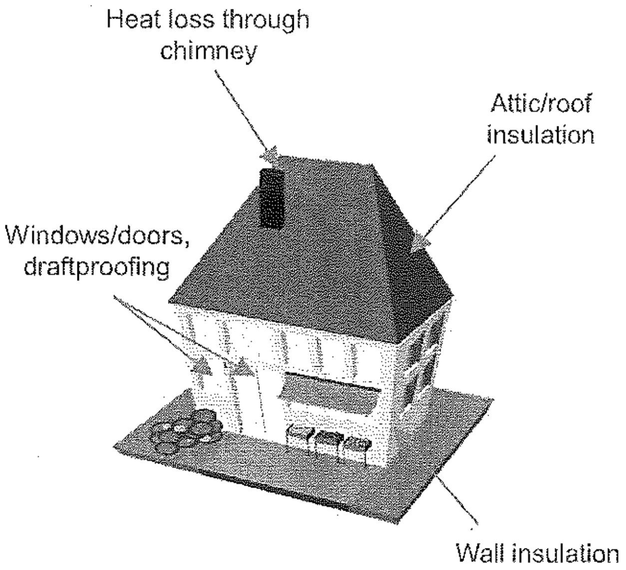
Most household electricity and natural gas consumption attributable to space heating/cooling and water heating

Source: BCG "Greening Greater Toronto – Overview of HVAC Initiative" June 2008

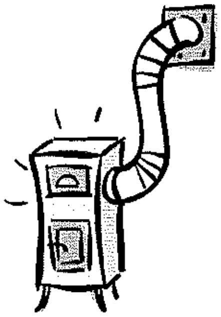
Energy Management (II)

Opportunity to improve household efficiency through two key initiatives...

Home retrofits

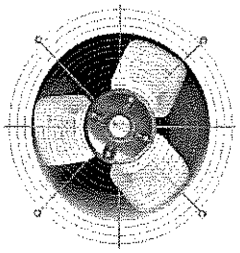


HVAC and water heater efficiency improvements



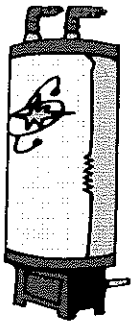
Furnaces

- Efficiency improvements (replace old models with new ones



Central air conditioners

- Efficiency improvements (replace old models with new ones



Water heaters

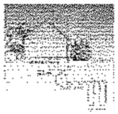
- Efficiency improvements (replace old models with new ones
- Renewable energy (e.g., solar thermal)

Source: BCG "Greening Greater Toronto – Overview of HVAC Initiative" June 2008

Several options exist to reduce CO_2 emissions through space heating…

Furnaces

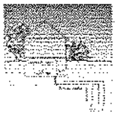
Energy Star furnaces



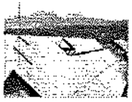
Geothermal systems

Air Conditioning

Energy Star air conditioners



Geothermal systems

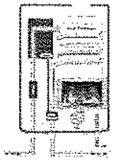


Solar power

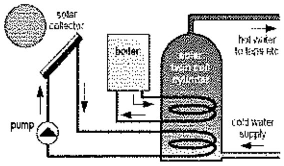
peak saver

Hydro company reductions

Hot Water



Tankless water heaters



Solar thermal water heaters

Water heater insulation

Power Pipe

Area of greatest opportunity is replacing old models with newer, more efficient ones (e.g., EnergyStar)

Source: BCG "Greening Greater Toronto – Overview of HVAC Initiative" June 2008

Energy Management (VI)

Ontario home retrofit market size estimated between $500 MM and $1.25 billion excluding audit revenues...

	Current	Low case	High case	100% case
% of Ontario homes audited	4%	15%	25%	100%
Number of Ontario homes audited	135k	501k	836k	3,300k
% of audits resulting in at least one improvement	24%	50%	75%	100%
Number of audits resulting in at least one improvement	43k	251k	627k	3,300k
Average incentives/retrofit	$993	$993	$993	$993
Average value/retrofit[1] (assumes 2x incentives)	$1,987	$1,987	$1,987	$1,987
Ontario market size (excl. audit)	n/a	$498 MM	$1,245 MM	$6,643 MM
+Value per audit (pre + post)	$450	$450	$450	$450
Ontario market size (incl. audit)	n/a	$724 MM	$1,622 MM	$8,148 MM

Source: BCG "Greening Greater Toronto – Overview of HVAC Initiative" June 2008

Ontario space heating retrofit market size up to $2 billion…

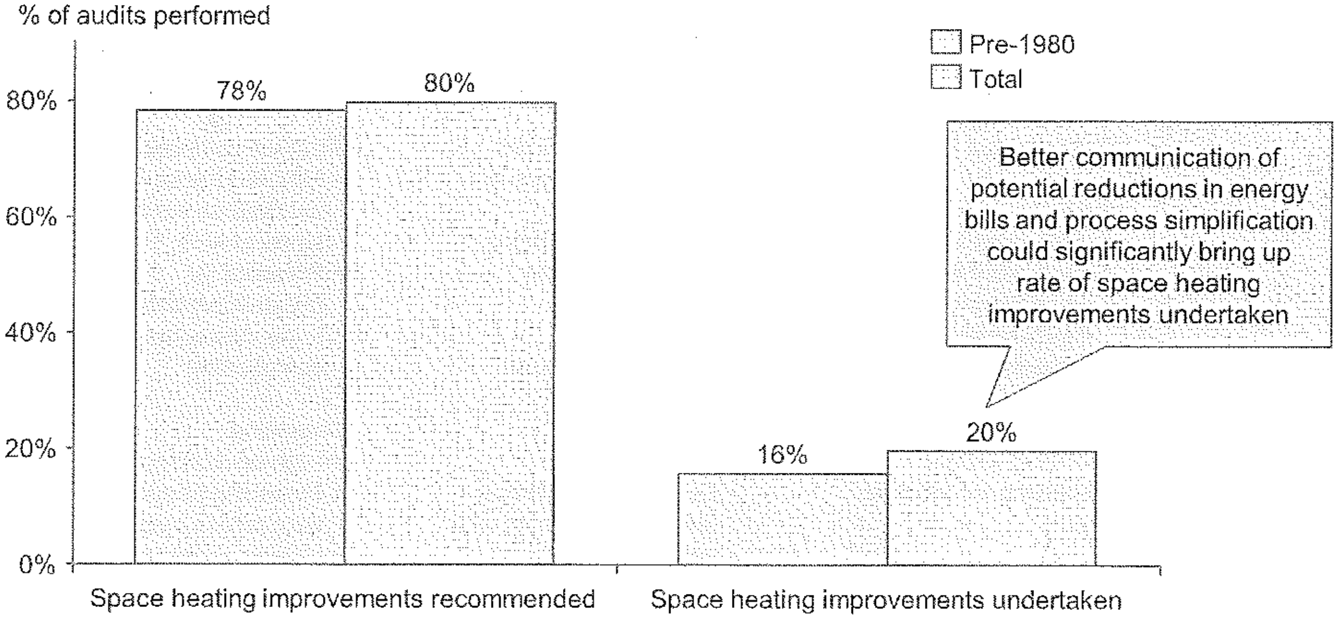
	Current	Low case	High case	100% case
% of Ontario homes audited	4%	15%	25%	100%
Number of Ontario homes audited	135k	501k	836k	3,300k
% of audits recommending space heating improvements	80%	80%	80%	80%
% of audits resulting in space heating improvements	25%	50%	75%	100%
# of space heating improvements	n/a	200K	499K	$993
Average estimated revenues/furnace	n/a	$2,700	$4,000	$3,350
Ontario market size (excl. audit)	n/a	$539 MM	$1,995 MM	$3,913 MM

Market size estimate DOES NOT include installation revenues

Source: BCG "Greening Greater Toronto – Overview of HVAC Initiative" June 2008

Energy Management (VI)

~80% of audited homes in need of space heating equipment improvements, but only ~20% purchase...



Better communication of potential reductions in energy bills and process simplification could significantly bring up rate of space heating improvements undertaken

Note: Based on ecoENERGY program

Source: BCG "Greening Greater Toronto – Overview of HVAC Initiative" June 2008, Natural Resources Canada

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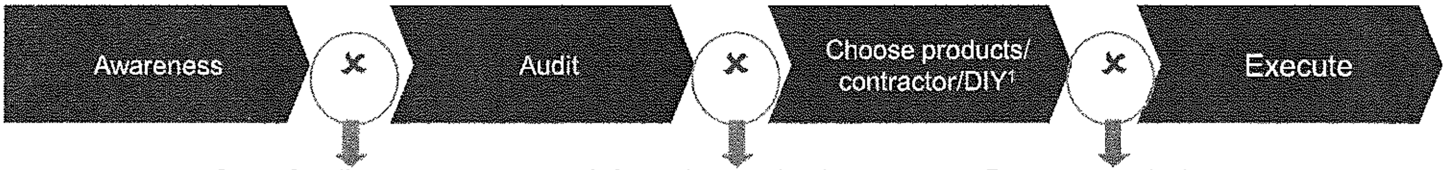
Energy Management (VII)

From a customer's perspective, there are no single providers of Energy Management. Sears can occupy this position …



Cost of audit

Time
- Don't want to wait for audit, want to buy equipment/make improvements immediately

Incremental hassle
- Finding auditor, applying for rebates, etc.)

Overwhelmed
- Information overload

Information overload
- Don't know where to start
- Confusion regarding options available

Lack of trust
- Skepticism around greenwashing[2]

Long paybacks
- Customers often only undertake projects with very short paybacks (2-3 years)

Process complexity
- Auditors cannot recommend contractors

Process complexity
- May require several contractors for different types of work
- Potential for rebate/incentive process to be viewed as complicated

Financing
- High up-front cost
- Financing opportunities vary across jurisdictions
- Lack of consideration of lifetime savings (i.e., net present value of energy cost savings)

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1. Do it yourself 2. The act of misleading consumers regarding the environmental practices of a company or the environmental benefits of a product or service

Source: BCG "Greening Greater Toronto – Overview of HVAC Initiative" June 2008

The ecoENERGY evaluation will allow Sears to gain customer leads in energy efficient products …

Background

- Federal rebates, up to $5k, are available for homeowners, who make energy efficiency upgrades. Many provinces are also matching these federal rebates. Some federal rebate examples include:

Eligible Improvements/Retrofits	Federal Rebates
Heating System – Replace existing heating equipment with ENERGY STAR qualified gas furnace that has 92% AFUE or better and a DC variable –speed motor	$500
Cooling System – Replace central air-conditioning system with an ENERGY STAR qualified SEER 14 system	$200

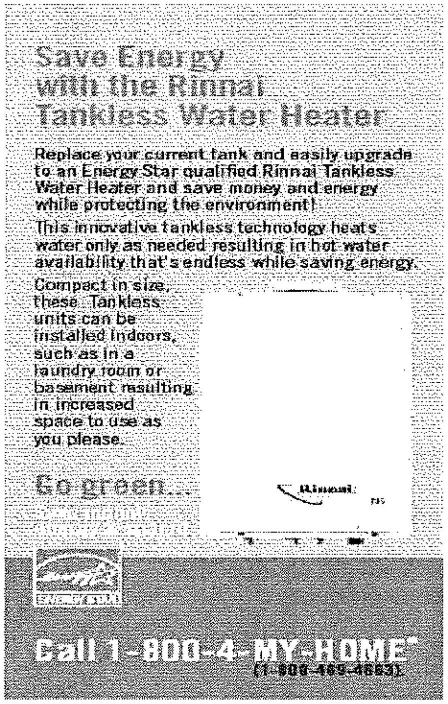
- The market is fragmented with currently only one national service provider, AmeriSpec
    - Who is AmeriSpec?
        - Currently provides both home inspections and ecoENERGY evaluations
        - Owned by Service Master (2006 operating revenues of $3.4 billion) who provide other services (carpet and upholstery cleaning, disaster restoration, furniture repair, maid services, specialty cleaning)
        - National exposure – 75 franchises within 62 territories and also have franchises in the US

Opportunity

- Sears recently applied and received a license with Natural Resources Canada to provide the service of ecoENERGY evaluations throughout Canada
- Provide fully integrated, branded, home energy efficiency solutions for customers, including ecoENERGY evaluations and fulfillment
- Sears and AmeriSpec are in the midst of forming a strategic alliance whereby AmeriSpec will conduct the evaluations. Sears will be the exclusive recipient of customer leads on energy efficient products

Tankless and Power Pipe products are energy saving products currently available on the market…The solar water heater is a emerging product…

Tankless



Save Energy with the Rinnai Tankless Water Heater

Replace your current tank and easily upgrade to an Energy Star qualified Rinnai Tankless Water Heater and save money and energy while protecting the environment!

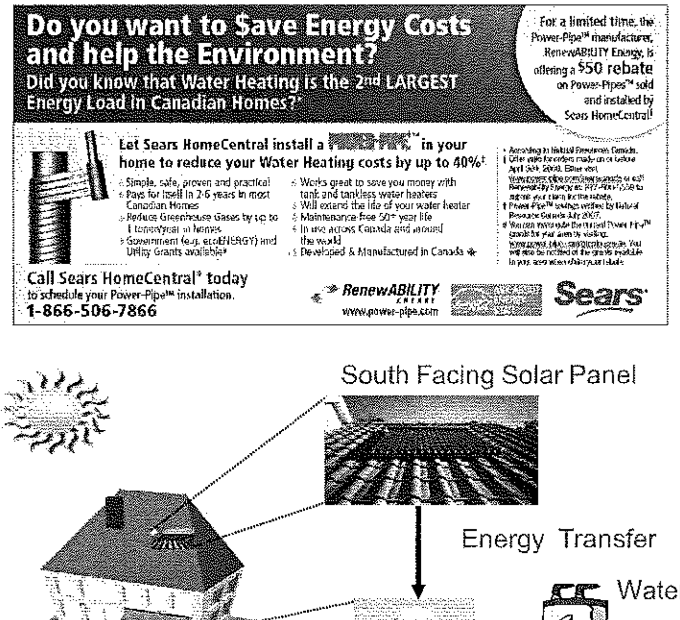
This innovative tankless technology heats water only as needed resulting in hot water availability that's endless while saving energy.

Compact in size, these Tankless units can be installed indoors, such as in a laundry room or basement resulting in increased space to use as you please.

Go green...

Call 1-800-4-MY-HOME*
(1-800-469-4663)

Power-Pipe



Do you want to $ave Energy Costs and help the Environment?

Did you know that Water Heating is the 2nd LARGEST Energy Load in Canadian Homes?*

For a limited time, the Power-Pipe™ manufacturer, RenewABILITY Energy, is offering a $50 rebate on Power-Pipes™ sold and installed by Sears HomeCentral‡

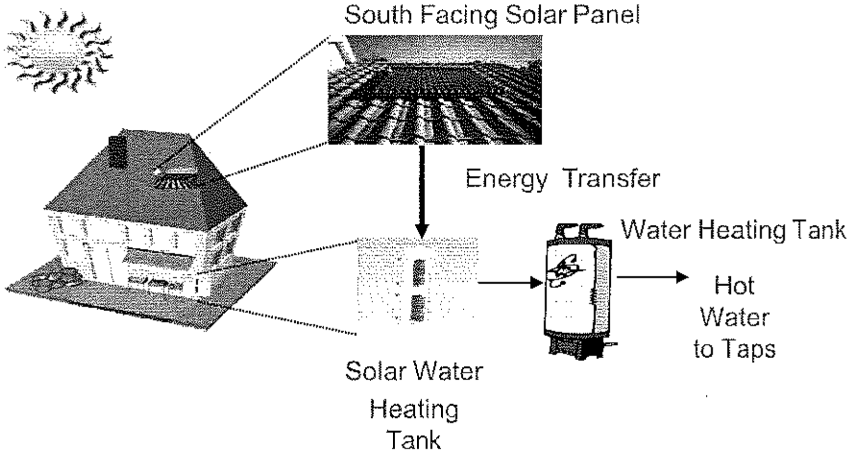
Let Sears HomeCentral install a Power-Pipe™ in your home to reduce your Water Heating costs by up to 40%†

- Simple, safe, proven and practical
- Pays for itself in 2-6 years in most Canadian Homes
- Reduce Greenhouse Gases by up to 1 tonne/year in homes
- Government (e.g. ecoENERGY) and Utility Grants available¥
- Works great to save you money with tank and tankless water heaters
- Will extend the life of your water heater
- Maintenance-free 50+ year life
- In use across Canada and around the world
- Developed & Manufactured in Canada

Call Sears HomeCentral® today to schedule your Power-Pipe™ installation.
1-866-506-7866

RenewABILITY ENERGY
www.power-pipe.com

Sears



Energy Saving Products (III)

The installation of solar water heaters is an opportunity for Sears to introduce a new energy saving product that is not currently available in the residential market...

Background

- Residential solar power is an emerging growth market in Canada
- Currently, there are no national retail providers of turn-key residential solar energy systems
- The market potential is high as a result of escalating non-renewable energy prices and "green" climate change strategies being introduced by different levels of government
- Ontario Government mandate to install 100k solar water heaters
- The adoption of solar water heaters is international,

  > "All new homes in Hawaii will be required to have solar water heaters installed starting in 2010 under a law approved by the Legislature. Hawaii becomes the first state requiring the energy-saving systems in homes" (Associated Press, May 6, 2008)
  >
  > "90% of Israeli homes already have solar water heaters" (www.cleantechnica.com, July 7,2008)

- The market potential is high. There are currently 8.7 MM single family owned households that have water heaters in Canada. Although the replacement rate is only 7.8% per year, customers can add the solar portion without having to replace their water heater

Opportunity

- The solar power program is an opportunity for Sears to acquire new customers and increase in-home visits and diversify into a new business where Sears can leverage existing expertise systems & processes
- With every solar installation, convert the competitor's water heater rental to a Sears rented product

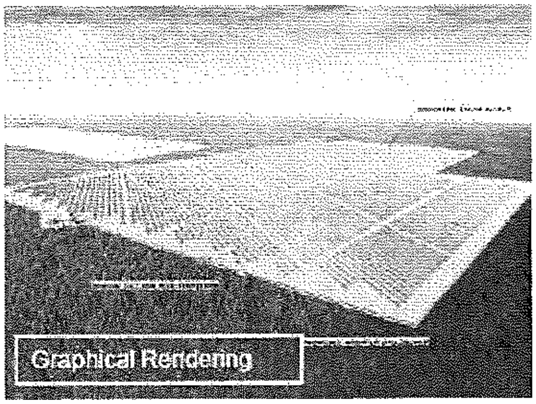
Value Proposition for Customers.

- Offsets over 50% of household hot water needs - a typical family of four can save between $200-325 and between 600 – 760 kg of greenhouse gas emissions (an average sized car generates about 1 ton of greenhouse gas emissions per year) depending on whether the water heater is fueled by electricity or gas
- ROI for customer is 6-7 years
- Customers can receive additional government incentives

Energy Saving Products (IV)

Sears is entering into a strategic alliance with a key industry solar power provider which will enable speed to market and a dominate market position nationally…

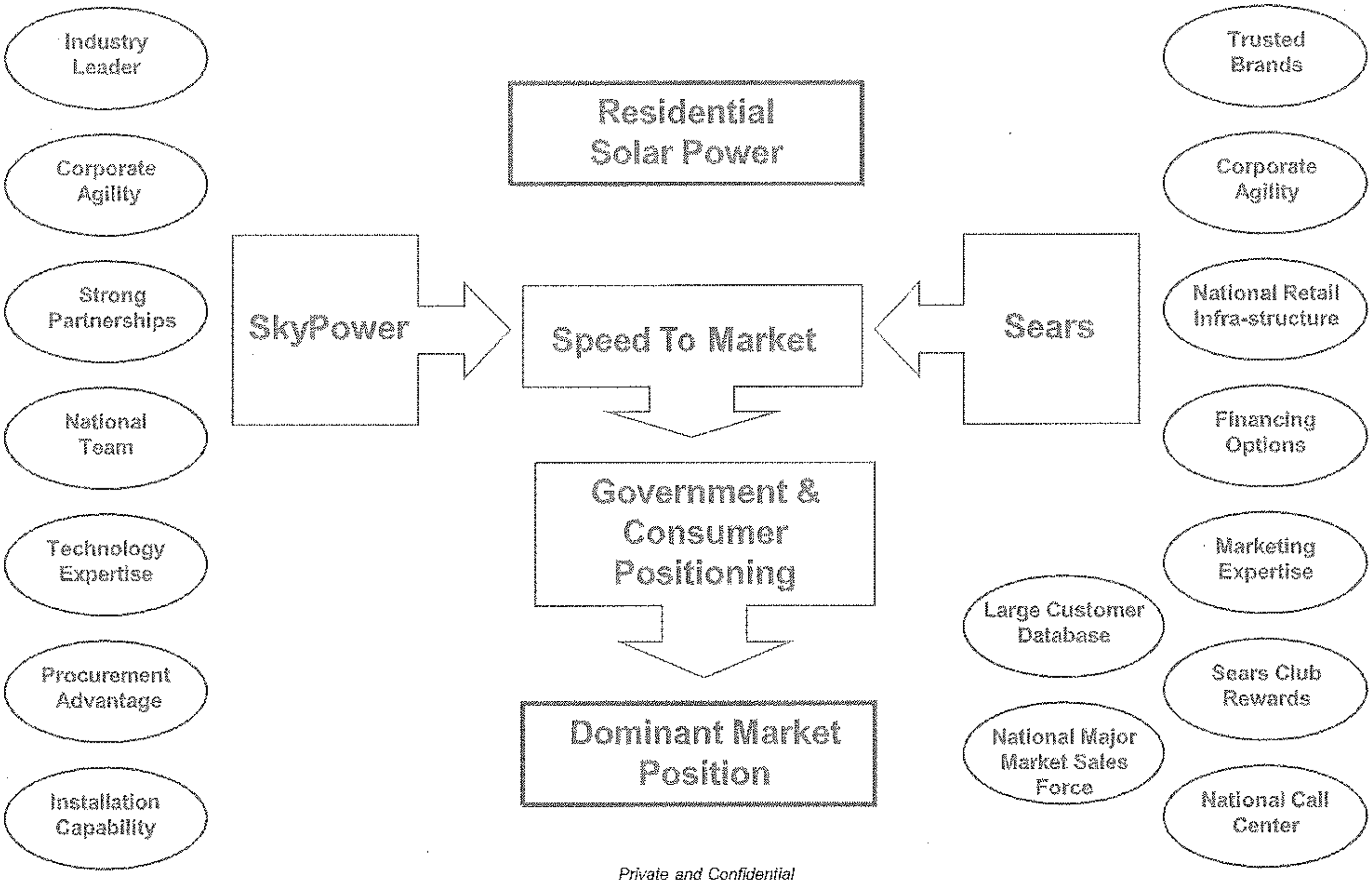
- SkyPower is the leading developer of renewable energy projects and is the largest independent renewable energy company in Canada
- SkyPower is owned by Lehman Brothers Company (NYSE:LEH). Net income (2007) of US$4.2 billion. Total assets of US$691 billion (as of November 30, 2007)
- Lehman Brothers is a member of various environmental action groups and committees and is committed to environmental action
- SkyPower is one of Canada's leading independent renewable energy developers with…
    - Over 140 wind and solar projects under development in Canada, US & India and over 6 million acres across Canada
    - Currently developing large scale photovoltaic parks throughout Canada to generate over 11,000 MW of energy
    - Developing the largest North American solar farm near Kingston, Ontario



- SkyPower Lite is a subsidiary of SkyPower specializing in residential solar hot water systems
- Recent acquisition of specialized installation capability

Sears/Sky Power Alliance

A Sears / SkyPower alliance is a non-competing, complimentary partnership that leverages the core capabilities of each organization…



Industry Leader

Corporate Agility

Strong Partnerships

National Team

Technology Expertise

Procurement Advantage

Installation Capability

Residential Solar Power

SkyPower

Speed To Market

Sears

Government & Consumer Positioning

Dominant Market Position

Trusted Brands

Corporate Agility

National Retail Infra-structure

Financing Options

Marketing Expertise

Large Customer Database

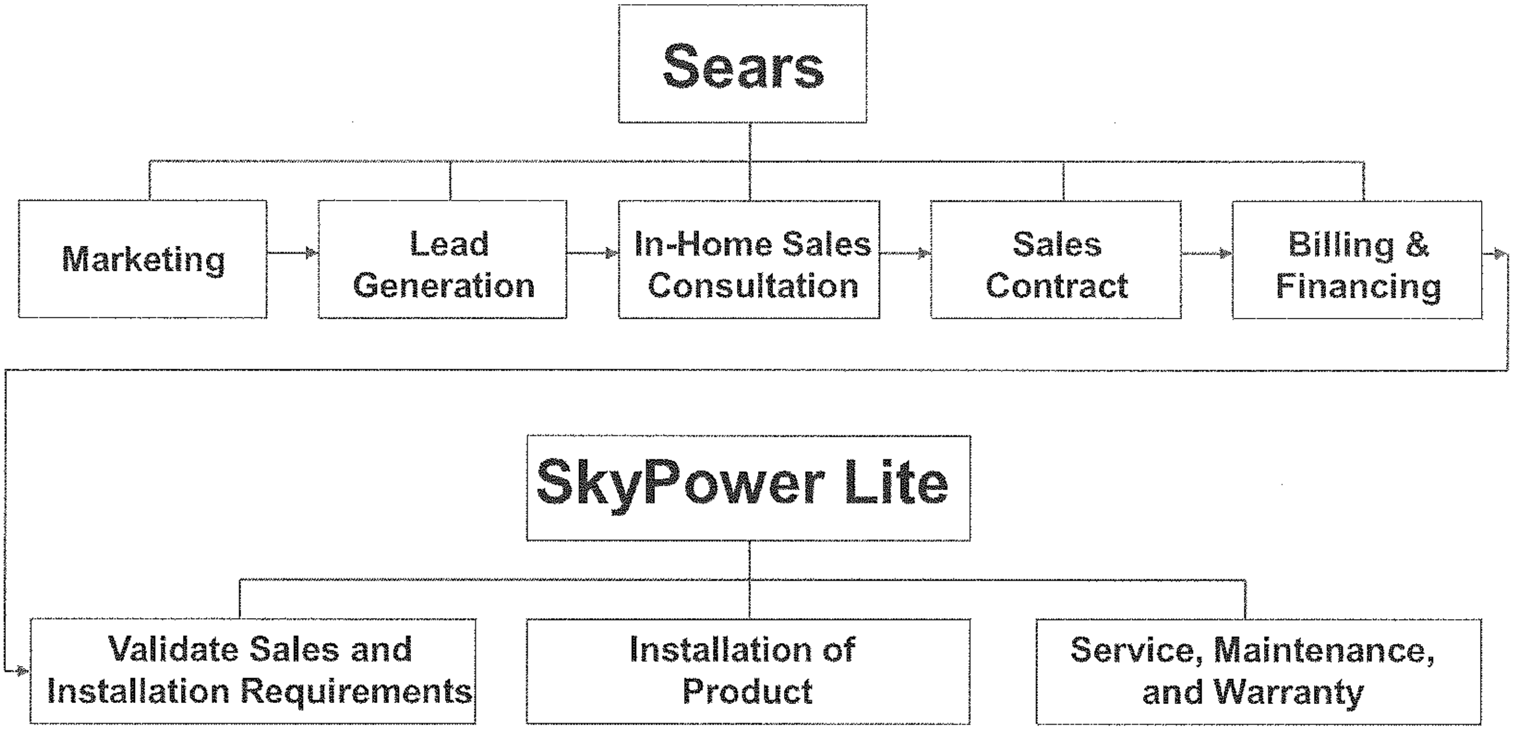
Sears Club Rewards

National Major Market Sales Force

National Call Center

Potential Structure

An exclusive supply agreement for installed products and services with SkyPower Lite could be an efficient and effective way of structuring a partnership arrangement…



Sears

Marketing

Lead Generation

In-Home Sales Consultation

Sales Contract

Billing & Financing

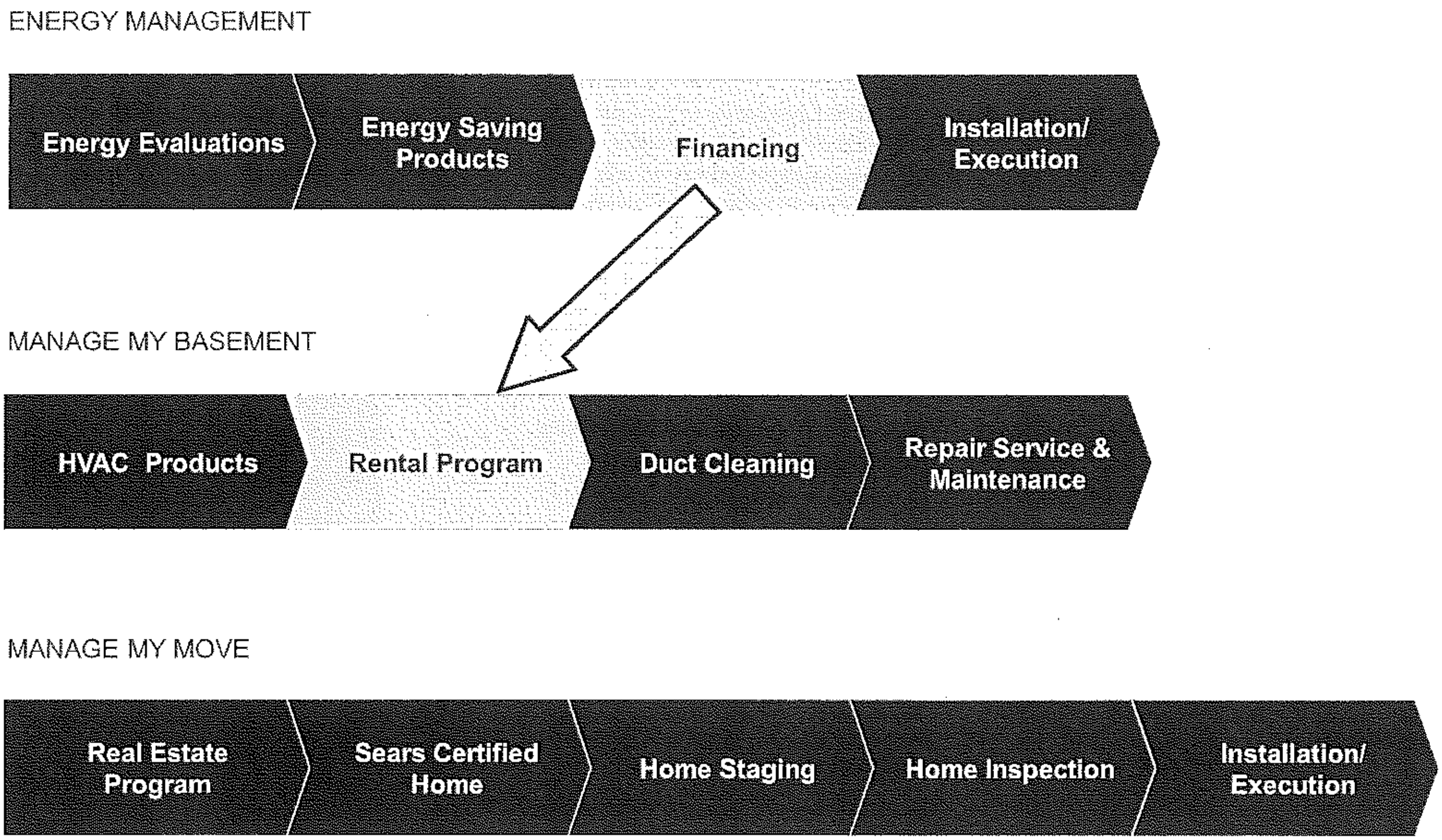
SkyPower Lite

Validate Sales and Installation Requirements

Installation of Product

Service, Maintenance, and Warranty

Key Initiatives



ENERGY MANAGEMENT

- Energy Evaluations
- Energy Saving Products
- Financing
- Installation/ Execution

MANAGE MY BASEMENT

- HVAC Products
- Rental Program
- Duct Cleaning
- Repair Service & Maintenance

MANAGE MY MOVE

- Real Estate Program
- Sears Certified Home
- Home Staging
- Home Inspection
- Installation/ Execution

Rental Program

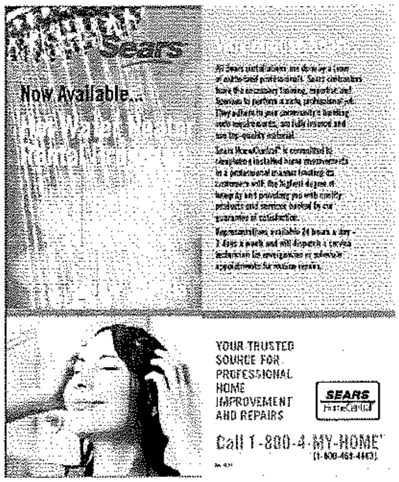
The rental program is an opportunity for Sears to acquire continuous cash flow with no weather dependencies...

Background

- The Canadian water heater rental market is based primarily in Ontario, Quebec, and some parts of the Atlantic with approximately 54% Ontario homeowners renting their water heaters (2.5 MM water heaters)
- During a marketing campaign to convince consumers to switch to natural gas, natural gas distributers installed and rented water heaters to consumers. By 1999, due to increased competition among natural gas utilities, many gas utilities began focusing on their core operations, which led them to divest their non-core businesses. This divestiture led to two dominate competitors which account for 90% of the market
  - Consumers' Waterheater Income Fund (public, widely held)
    - 1.4 MM water heater customers with 2007 EBTIDA of $143 MM, expecting to increase to $160 MM in EBITDA by 2009
  - Reliance Limited Partnership (owned by Alinda Capital Partners)
    - 1.1 MM water heater customers, 300k HVAC rental customers
- The profitability of the water heater rental business is dependent upon:
  - Rental rates (approximately 1.8% of installed retail price)
  - Increasing the customer base through new home construction and replacements
  - Level of attrition from buyouts and termination (1.3%-2.1%)
- The key risks include:
  - Preference of owning versus renting
  - Slow down in housing starts
  - No long-term written contracts

Opportunity

  - Expansion into western Canada
  - Expand product offering and include bundling (HVAC, tankless water heaters, Power Pipe, solar water heater, etc.)
  - Continuous cash flow with no seasonality
  - "Own" the customer's basement through products and/or services



Rental Program (II)

The rental of hot water tanks (HWT), furnaces and air conditioners is an opportunity for Sears to acquire new customers and diversify into a related business in which Sears can capitalize on their synergies. The market potential is high (estimated at $278.2 MM annually)…

Market Opportunity – Potential Rental Revenue – Single Family Dwellings only

Type of Unit	**# of owned Hshlds (apts not included)**	**Replace-ment per year***	**Monthly Rental Rate - Competitors**	**Market Opportunity Size Per year**
Hot water tanks	8.7 MM	7.8%	$13.00 (40 Gallon)	$105.9 MM
Forced Air Furnace	5.7 MM	2.8%	$60.00	$114.9 MM
Central A/C	2.9 MM	3.3%	$50.00	$57.4 MM
TOTAL				**$278.2 MM**

Source: "2003 – Survey of Household Energy Use", Natural Resources Canada
"2007 HRAI Industry Shipments"
Direct Energy, Reliance Home Comfort

Market Landscape

Location	**Rental of hot water tanks**	**Rental of HVAC equipment**
Maritimes	X	
Quebec	X	
Ontario	X Dominated by Direct Energy	X Dominated by Reliance
West of Ontario		Limited

Rental Program (III)

Of an estimated total urban market opportunity of $194.5 MM (urban + rural = $278.2 MM), HIPS estimates the following share for the first five years...

HOT WATER TANKS

MKT SHARE GRWTH	Year 1	Year 2	Year 3	Year 4	Year 5
Atlantic	1.00%	2.00%	2.50%	3.00%	4.00%
Quebec	0.50%	1.00%	1.50%	2.50%	3.00%
Ontario	0.50%	1.00%	2.00%	2.00%	3.00%
Praires	2.00%	3.75%	3.75%	3.75%	3.75%
BC	2.00%	3.75%	3.75%	3.75%	3.75%
CANADA	**0.91%**	**1.75%**	**2.32%**	**2.64%**	**3.22%**

YEARLY REPLACEMENTS

	Year 1	Year 2	Year 3	Year 4	Year 5
Atlantic	78	156	196	235	313
Quebec	705	1,411	2,116	3,527	4,232
Ontario	948	1,896	3,791	3,791	5,687
Praires	1,390	2,607	2,607	2,607	2,607
BC	1,086	2,035	2,035	2,035	2,035
CANADA	**4,207**	**8,105**	**10,745**	**12,195**	**14,874**

YEARLY RENTAL INCOME

	Year 1	Year 2	Year 3	Year 4	Year 5
Atlantic	6,084	24,336	51,792	85,410	128,154
Quebec	54,990	220,038	495,144	935,298	1,540,500
Ontario	73,944	295,776	739,362	1,330,758	2,070,042
Praires	108,420	420,186	826,878	1,233,570	1,640,262
BC	84,708	328,146	645,606	963,066	1,280,526
CANADA	**328,146**	**1,288,482**	**2,758,782**	**4,548,102**	**6,659,484**

FURNACES

MKT SHARE GRWTH	YR 1	YR 2	YR 3	YR 4	YR 5
Atlantic	0.00%	0.00%	0.00%	0.00%	0.00%
Quebec	1.00%	2.00%	3.00%	5.00%	7.00%
Ontario	1.00%	2.00%	3.00%	5.00%	7.00%
Praires	1.00%	2.00%	3.00%	5.00%	7.00%
BC	1.00%	2.00%	3.00%	5.00%	7.00%
CANADA	**1.00%**	**2.00%**	**3.00%**	**5.00%**	**7.00%**

YEARLY REPLACEMENTS

	YR 1	YR 2	YR 3	YR 4	YR 5
Atlantic	-	-	-	-	-
Quebec	207	413	620	1,034	1,447
Ontario	511	1,022	1,533	2,554	3,576
Praires	366	732	1,098	1,829	2,561
BC	30	61	91	152	213
CANADA	**1,114**	**2,228**	**3,342**	**5,569**	**7,797**

YEARLY RENTAL INCOME

	YR 1	YR 2	YR 3	YR 4	YR 5
Atlantic	-	-	-	-	-
Quebec	74,520	297,720	669,600	1,265,040	2,158,200
Ontario	183,960	735,840	1,655,640	3,126,960	5,333,760
Praires	131,760	527,040	1,185,840	2,239,560	3,819,960
BC	10,800	43,560	98,280	185,760	317,160
CANADA	**401,040**	**1,604,160**	**3,609,360**	**6,817,320**	**11,629,080**

AIR CONDITIONERS

MKT SHARE GRWTH	Year 1	Year 2	Year 3	Year 4	Year 5
Atlantic	0.00%	0.00%	0.00%	0.00%	0.00%
Quebec	1.00%	2.00%	3.00%	5.00%	7.00%
Ontario	1.00%	2.00%	3.00%	5.00%	7.00%
Praires	1.00%	2.00%	3.00%	5.00%	7.00%
BC	1.00%	2.00%	3.00%	5.00%	7.00%
CANADA	**1.0%**	**2.0%**	**3.0%**	**5.0%**	**7.0%**

YEARLY REPLACEMENTS

	Year 1	Year 2	Year 3	Year 4	Year 5
Atlantic	-	-	-	-	-
Quebec	41	82	123	205	287
Ontario	434	868	1,302	2,170	3,038
Praires	186	372	558	930	1,302
BC	29	58	87	145	204
CANADA	**690**	**1,380**	**2,070**	**3,450**	**4,831**

YEARLY RENTAL INCOME

	Year 1	Year 2	Year 3	Year 4	Year 5
Atlantic	-	-	-	-	-
Quebec	12,300	49,200	110,700	209,100	356,700
Ontario	130,200	520,800	1,171,800	2,213,400	3,775,800
Praires	55,800	223,200	502,200	948,600	1,618,200
BC	8,700	34,800	78,300	147,900	252,600
CANADA	**207,000**	**828,000**	**1,863,000**	**3,519,000**	**6,003,300**

<u>YEAR 5</u>

Rental Income = $24.3 MM

EBITDA = $20.5 MM

Rental Program (IV) - P&L (Operating Type Lease – Capitalize Merchandise, Installation Cost & Sales Commission)

EBITDA is forecasted to grow to $20.5 MM by year 5 (2013)...

	Year 1	%	Year 2	%	Year 3	%	Year 4	%	Year 5	%	Year 6	%	Year 7	%	Year 8	%	Year 9	%	Year 10	%	Year 11	%	Year 12	%
Other Revenue - New Rental Income	936,186		1,848,270		2,662,230		3,991,050		5,416,392		5,416,392		5,416,392		5,416,392		5,416,392		5,416,392		5,416,392		5,416,392	
Other Revenue - Previous Rental Income	-		1,872,372		5,568,912		10,893,372		18,875,472		29,708,256		40,541,040		51,373,824		62,206,608		73,039,392		83,872,176		94,704,960	
TOTAL REVENUES	936,186		3,720,642		8,231,142		14,884,422		24,291,864		35,124,648		45,957,432		56,790,216		67,623,000		78,455,784		89,288,568		100,121,352	
Attrition + Removal Cost	42,787	1.50%	127,510	1.50%	250,707	1.50%	440,285	1.50%	699,664	1.50%	959,044	1.50%	1,218,423	1.50%	1,477,802	1.50%	1,737,181	1.50%	1,996,560	1.50%	2,255,939	1.50%	2,515,318	1.50%
Gross Margin	**893,399**	**95.43%**	**3,593,132**	**96.57%**	**7,980,435**	**96.95%**	**14,444,137**	**97.04%**	**23,592,200**	**97.12%**	**34,165,604**	**97.27%**	**44,739,009**	**97.35%**	**55,312,414**	**97.40%**	**65,885,819**	**97.43%**	**76,459,224**	**97.46%**	**87,032,629**	**97.47%**	**97,606,034**	**97.49%**
Financial Services Income	15,447	1.65%	61,391	1.65%	135,814	1.65%	245,593	1.65%	400,816	1.65%	579,557	1.65%	758,298	1.65%	937,039	1.65%	1,115,780	1.65%	1,294,520	1.65%	1,473,261	1.65%	1,652,002	1.65%
Other Income		0.00%		0.00%		0.00%		0.00%		0.00%		0.00%		0.00%		0.00%		0.00%		0.00%		0.00%		0.00%
Income Before Expenses	**908,846**	**97.08%**	**3,654,522**	**98.22%**	**8,116,249**	**98.60%**	**14,689,730**	**98.69%**	**23,993,015**	**98.77%**	**34,745,161**	**98.92%**	**45,497,307**	**99.00%**	**56,249,453**	**99.05%**	**67,001,598**	**99.08%**	**77,753,744**	**99.11%**	**88,505,890**	**99.12%**	**99,258,036**	**99.14%**
Payroll	66,550	7.11%	129,665	3.49%	278,794	3.39%	334,468	2.25%	403,828	1.66%	403,828	1.15%	403,828	0.88%	403,828	0.71%	403,828	0.60%	403,828	0.51%	403,828	0.45%	403,828	0.40%
Paid Absences																								
Benefits	6,498	0.69%	12,660	0.34%	27,220	0.33%	32,656	0.22%	39,428	0.16%	39,428	0.11%	39,428	0.09%	39,428	0.07%	39,428	0.06%	39,428	0.05%	39,428	0.04%	39,428	0.04%
TOTAL PAYROLL & BENEFITS	**73,047**	**7.80%**	**142,325**	**3.83%**	**306,014**	**3.72%**	**367,124**	**2.47%**	**443,256**	**1.82%**	**443,256**	**1.26%**	**443,256**	**0.96%**	**443,256**	**0.78%**	**443,256**	**0.66%**	**443,256**	**0.56%**	**443,256**	**0.50%**	**443,256**	**0.44%**
Outsourcing Costs																								
Merchant Commission																								
Delivery Expense																								
Vehicle Operating Costs																								
Local Advertising																								
Display																								
Equipment Rental Costs																								
Fuel, Water, Current																								
Maintenance																								
Supplies	21,629	2.31%	42,704	1.16%	61,520	0.75%	92,269	0.62%	125,240	0.52%	125,240	0.36%	125,240	0.27%	125,240	0.22%	125,240	0.19%	125,240	0.16%	125,240	0.14%	125,240	0.13%
Postage & Courier																								
Communications																								
Unclassified Expense	98,315	10.50%	194,109	5.22%	279,638	3.40%	419,498	2.82%	569,273	2.34%	569,273	1.62%	569,273	1.24%	569,273	1.00%	569,273	0.84%	569,273	0.73%	569,273	0.64%	569,273	0.57%
Transaction Expense																								
Bad Debt Expense	14,043	1.50%	55,810	1.50%	123,467	1.50%	223,266	1.50%	364,378	1.50%	526,870	1.50%	689,361	1.50%	851,853	1.50%	1,014,345	1.50%	1,176,837	1.50%	1,339,329	1.50%	1,501,820	1.50%
Licensing Fee - InfoSys	72,840	7.78%	10,500	0.28%	10,500	0.13%	10,500	0.07%	10,500	0.04%	10,500	0.03%	10,500	0.02%	10,500	0.02%	10,500	0.02%	10,500	0.01%	10,500	0.01%	10,500	0.01%
Total Controllable Expense	**279,875**	**29.90%**	**445,447**	**11.97%**	**781,140**	**9.49%**	**1,112,566**	**7.47%**	**1,512,647**	**6.23%**	**1,675,139**	**4.77%**	**1,837,631**	**4.00%**	**2,000,122**	**3.52%**	**2,162,614**	**3.20%**	**2,325,106**	**2.96%**	**2,487,598**	**2.79%**	**2,650,089**	**2.65%**
Unit Contribution B4 General	**628,971**	**67.18%**	**3,209,075**	**86.25%**	**7,335,109**	**89.11%**	**13,577,164**	**91.22%**	**22,480,368**	**92.54%**	**33,070,022**	**94.15%**	**43,659,676**	**95.00%**	**54,249,330**	**95.53%**	**64,838,984**	**95.88%**	**75,428,638**	**96.14%**	**86,018,292**	**96.34%**	**96,607,946**	**96.49%**
Rent																								
NLB Services	39,326	4.20%	77,644	2.09%	111,855	1.36%	167,762	1.13%	227,709	0.94%	227,709	0.65%	227,709	0.50%	227,709	0.40%	227,709	0.34%	227,709	0.29%	227,709	0.26%	227,709	0.23%
Insurance (WCB)	3,509	0.37%	6,837	0.18%	14,760	0.18%	17,636	0.12%	21,293	0.09%	21,293	0.06%	21,293	0.05%	21,293	0.04%	21,293	0.03%	21,293	0.03%	21,293	0.02%	21,293	0.02%
Taxes																								
Sears Club Expense	10,115	1.08%	40,198	1.08%	88,929	1.08%	160,851	1.08%	262,449	1.08%	379,487	1.08%	496,524	1.08%	613,561	1.08%	730,599	1.08%	847,636	1.08%	964,674	1.08%	1,081,711	1.08%
Advertising	165,003	17.62%	530,000	14.24%	530,000	6.44%	530,000	3.56%	530,000	2.18%	530,000	1.51%	530,000	1.15%	530,000	0.93%	530,000	0.78%	530,000	0.68%	530,000	0.59%	530,000	0.53%
Total General Expense	**217,950**	**23.28%**	**654,678**	**17.60%**	**745,485**	**9.06%**	**876,209**	**5.89%**	**1,041,451**	**4.29%**	**1,158,489**	**3.30%**	**1,275,526**	**2.78%**	**1,392,564**	**2.45%**	**1,509,601**	**2.23%**	**1,626,638**	**2.07%**	**1,743,676**	**1.95%**	**1,860,713**	**1.86%**
Total Expense	**497,824**	**53.10%**	**1,100,126**	**29.57%**	**1,526,624**	**18.55%**	**1,988,775**	**13.36%**	**2,554,098**	**10.51%**	**2,833,628**	**8.07%**	**3,113,157**	**6.77%**	**3,392,686**	**5.97%**	**3,672,215**	**5.43%**	**3,951,744**	**5.04%**	**4,231,273**	**4.74%**	**4,510,803**	**4.51%**
Distribution of Expense																								
Profit Contribution B4 Overhead	**411,022**	**43.90%**	**2,554,396**	**68.65%**	**6,589,625**	**80.06%**	**12,700,954**	**85.33%**	**21,438,917**	**88.26%**	**31,911,533**	**90.85%**	**42,384,150**	**92.22%**	**52,856,767**	**93.07%**	**63,329,383**	**93.65%**	**73,802,000**	**94.07%**	**84,274,617**	**94.38%**	**94,747,233**	**94.63%**
Overhead																								
Sears club advertising expense	5,617	0.60%	22,324	0.60%	49,387	0.60%	89,307	0.60%	145,751	0.60%	210,748	0.60%	275,745	0.60%	340,741	0.60%	405,738	0.60%	470,735	0.60%	535,731	0.60%	600,728	0.60%
- IN-WARRANTY	130,684	13.96%	257,839	6.93%	370,621	4.50%	552,386	3.71%	748,282	3.08%	748,282	2.13%	748,282	1.63%	748,282	1.32%	748,282	1.11%	748,282	0.95%	748,282	0.84%	748,282	0.75%
- BONUS / PROFIT SHARE																								
-OTHER																								
Variable Overhead	**136,301**	**14.56%**	**280,162**	**7.53%**	**420,008**	**5.10%**	**641,693**	**4.31%**	**894,033**	**3.68%**	**959,030**	**2.73%**	**1,024,027**	**2.23%**	**1,089,023**	**1.92%**	**1,154,020**	**1.71%**	**1,219,017**	**1.55%**	**1,284,013**	**1.44%**	**1,349,010**	**1.35%**
E.B.I.T.D.A	**274,720**	**29.34%**	**2,274,234**	**61.12%**	**6,169,617**	**74.95%**	**12,059,262**	**81.02%**	**20,544,884**	**84.58%**	**30,952,504**	**88.12%**	**41,360,123**	**90.00%**	**51,767,743**	**91.16%**	**62,175,363**	**91.94%**	**72,582,983**	**92.51%**	**82,990,603**	**92.95%**	**93,398,223**	**93.29%**

Expansion of Oil Products and Services

The expansion of oil products and services will allow Sears to target 10% of the Canadian market ...

Background

- In December 2002, Sears proceeded with a formal offer to purchase IOL service receivables from Imperial Oil for $10.5 MM. Based on revenues of $32.4MM with 7% EBIT, made up of 82k service plans, 180k service calls, 40k lease/rentals, 1.4k installs
- Sears entered into an exclusive marketing agreement which prohibited actively marketing alternative fuel options, which will expire September 26, 2008

Opportunity

- 10% of Canadian households heat their homes with oil, representing roughly 1.35 MM homes (primarily in Quebec, Ontario and Atlantic Canada)
  - Based on an average lifespan of 20 years, there is approximately 55k new units eligible replacements each year (rented, leased or purchased for oil or alternative fuel)
  - Sears wants to be the supplier of choice for these conversions through sales or rental agreements
  - On average 50-60% of new installs may lead to a parts protection plan after the expiration of warranty terms
  - Sears rental program allows for ease of conversion with a viable financing option
- 4% of hot water heaters are oil fired representing an opportunity for conversion to more energy efficient sources and financing through the new rental program
- Imperial Oil only represents 10.5% market share, which is dominated other major integrated oil companies and many independents. A study conducted in May 2008 (SBR Global) identified 50 potential acquisition targets. Sears current business infrastructure could handle increased volume with minimal incremental fixed costs

Approach

- Purchase new service and equipment receivables at a discounted rate to reflect the high attrition given the increase in oil prices
- Promote conversion capabilities to new customers and be “top of mind” when decisions are made
- Link conversions to Sears rental program and bundling opportunities with other energy efficient / conservation products
- Cross promote additional Sears products and services

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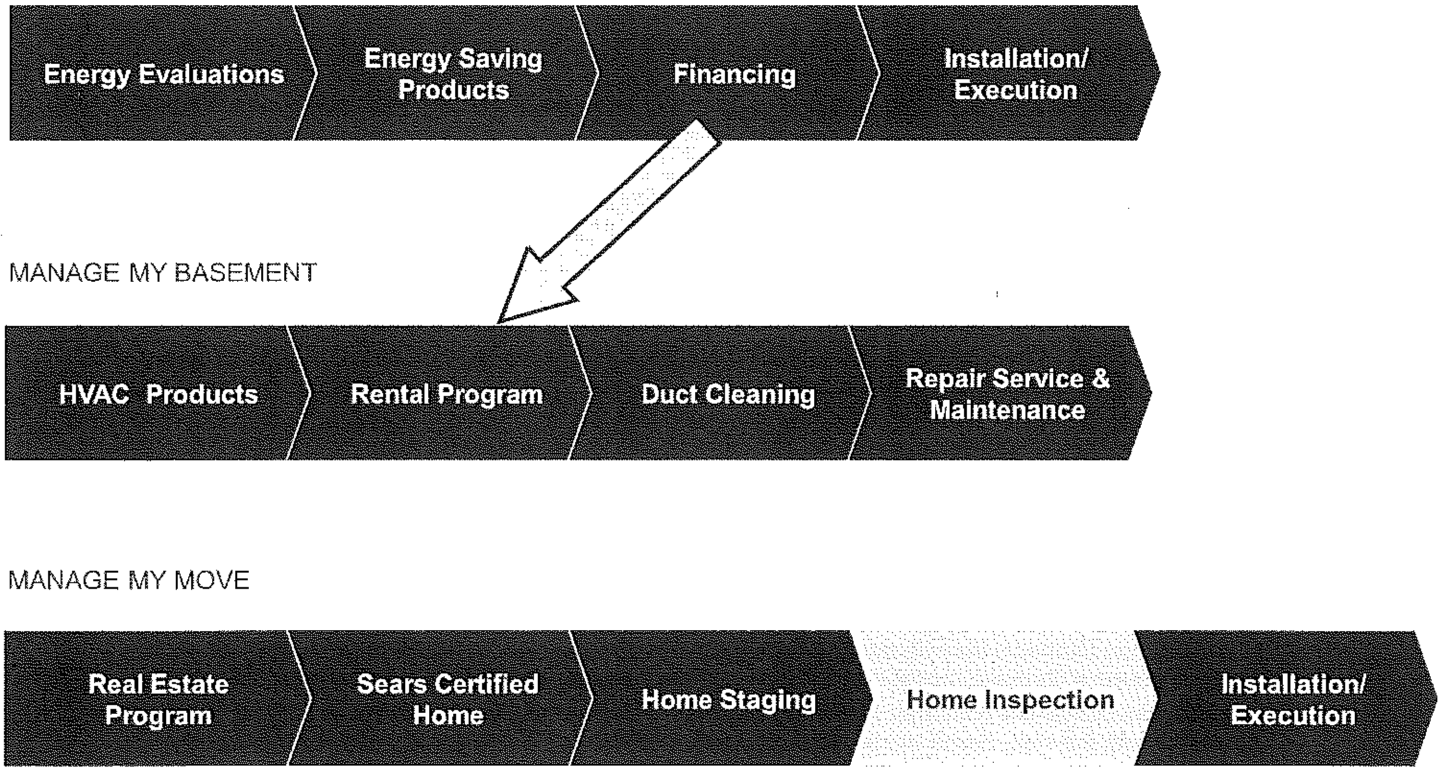
Key Initiatives



ENERGY MANAGEMENT

Energy Evaluations

Energy Saving Products

Financing

Installation/ Execution

MANAGE MY BASEMENT

HVAC Products

Rental Program

Duct Cleaning

Repair Service & Maintenance

MANAGE MY MOVE

Real Estate Program

Sears Certified Home

Home Staging

Home Inspection

Installation/ Execution

A home inspection may be a catalyst in developing a life long relationship with a customer...

Background

- There are approximately 500k resale homes in Canada every year, with 245k in major centres (excluding condos)
- The home inspection business is fragmented, with two key players – Pillar to Post and AmeriSpec who each have equal market share at 10% (25k inspections per year) .The rest of this market is made up of smaller independents
- Carson Dunlop is the industry leader in home inspection education with over 30 years experience in the industry. They currently have two inspection companies within the GTA – Carson Dunlop and Boulevard, who each complete 3k and 1.5k inspections respectively

Opportunity:

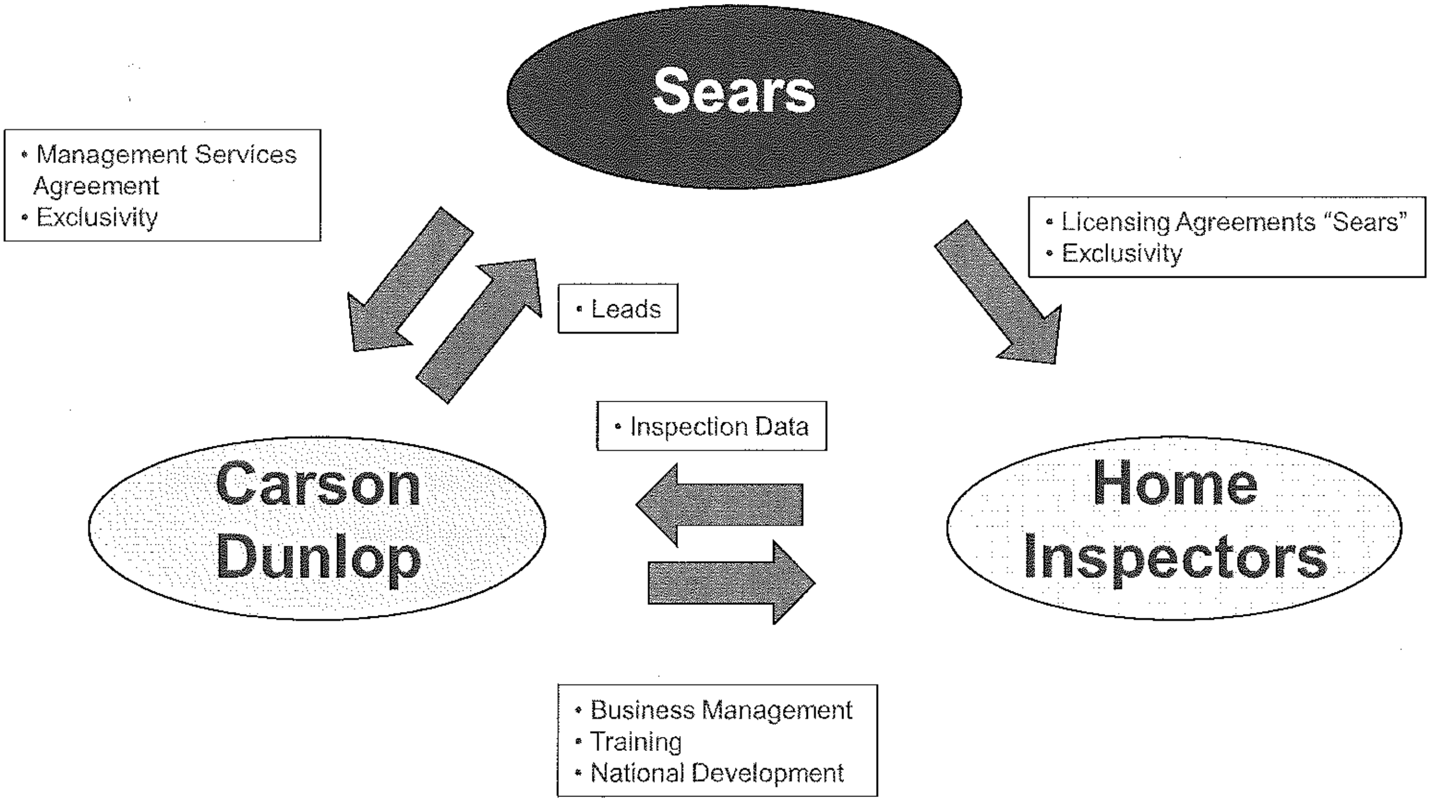
- Sears is entering the home inspection business nationally to facilitate lead generation opportunities and to begin a life long relationship at a critical time
- Over the first 3 years after a move, on average a mover will spend $1,300 on general household purchases, $3,950 on furniture and appliances and $7,465 on renovations ("Economic Impact of MLS Home Sales 2004-2006," Canadian Real Estate Association)

Approach

- Enter into an alliance with Carson Dunlop to facilitate a "Sears" branded home inspection business
- Convert the Boulevard business to the Sears branded home inspection business immediately
- Through Carson Dunlop's training relationships with independents, build the Sears Home Inspection business through a licensee model that will consolidate these independents over the next few months
- A potential risk is that the customer may not consider a house inspection by Sears to be independent. In order to mitigate the risk, Sears will provide the customer with full transparency, disclosure and signoff
- Continue to leverage relationships with real estate agents and banks for lead generation

Home Inspections (II)

The proposed structure facilitates a flexible partnership that will enable timely growth on a national scale, minimizing the investment by Sears…



Sears

- Management Services Agreement
- Exclusivity

- Leads

- Licensing Agreements "Sears"
- Exclusivity

- Inspection Data

Carson Dunlop

Home Inspectors

- Business Management
- Training
- National Development

Agenda

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2:45 – 3:30	Business Capability	Cathy McConnell, Tim Flemming
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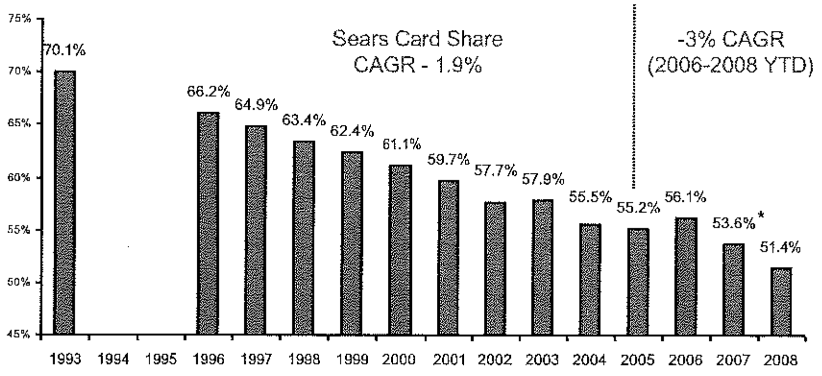
Current Assessment

Card share has been on steady decline since 1993 when Sears introduced the acceptance of 3rd party credit cards - card share has eroded with volume moving to 3rd party card...



* - If Sears card share in 2007 was the same as in 2001 (59.7%), Sears would have increased its bps by $6 MM

Contributing factors to this decline include:

- Continued expansion of number of cards in Canada
- Taking all tender types starting in 1993
- Managing down pool of promotional financing from almost $1 billion to $600 MM in 2005
- Moving some historical cardholder only events to tender agnostic events
- Reducing redemption rate on the Sears Card from 4% to 3% in 2007
- Perceived superiority of competitor's card value propositions by consumer

Card share erosion has been moving to 3rd Party Cards with perceived "best in class" reward programs

- The top five 3rd Party Cards account for 75% of the total 3rd party spend in Sears stores
- These five cards all have an associated loyalty program
- Top five 3rd Party Cards are:
  - Bank of Montreal Mosaik MasterCard
  - CIBC Aerogold VISA
  - RBC Avion VISA
  - PC Financial MasterCard
  - Canadian Tire MasterCard

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Current Assessment

Sears Card share pressure has been felt with the Private Label card, where key metrics demonstrate a consistent downward trend; MasterCard performance has exceeded expectations since fall 2007 both in terms of internal and external sales...

Private label vs MasterCard Comparison

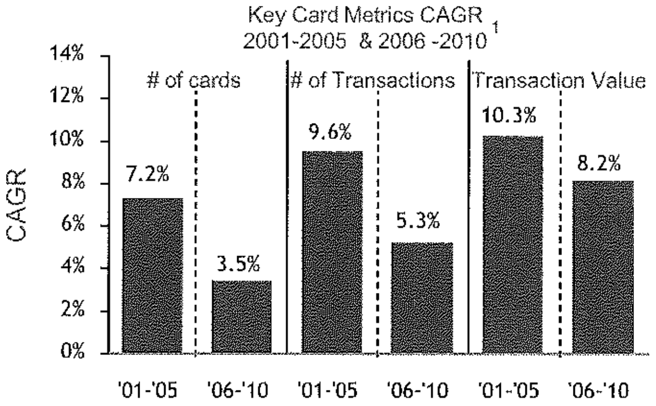
	Private Label (May YTD vs LY)	MasterCard (May YTD vs LY)
# of Statements	-264,000	+221,800
# of New Accounts	-140,404	+237,184
Net Sales on Card	-$176.6 MM	+$220.5 MM
Outstandings Growth	-$84.7 MM	+$221.0 MM

- Sears has one of the few remaining Private Label cards in the Canadian market; many retailers have converted their private label portfolios to MasterCard (Canadian Tire) or are in the process of doing so (HBC)

- To offset the card share decline, it is necessary to leverage the success of the MasterCard product which has demonstrated relevance with our customers. Usage outside of our store and features consistent with other VISA and MasterCard products are expected by Canadian consumers

Credit Card Environment In Canada

Credit Card debt is growing rapidly as Canadians acquire more cards and spend more per card - growth is projected to continue across all key metrics...



- # Cards ↑
- Spend / Card ↑
- Size of transactions ↑
- # of transactions ↑
- Outstandings ↑

Source: [1]Datamonitor Canada Card Report

Strong Competitive Credit Card Market in Canada

The Canadian credit card market has expanded in Canada since 2000 through the introduction of new cards, many with compelling value propositions (universal acceptance, loyalty programs, rates, segmented customer service, etc)...

- There were over 64.1 MM VISA and MasterCards in circulation in 2007 compared to 40.1 MM in 2000
- The number of accounts with balances have also grown from 18.5 MM in 2000 to over 27.0 MM in 2007
- In 2000 there were 19 issuers of VISA and MasterCards and today there are 23 issuers that market to Canadians for a VISA or MasterCard product

Strong Competitive Credit Card Market in Canada

Canadians are steadily increasing their debt...

- Sears can capitalize on the increasing debt with its Sears Cards by ensuring the product is relevant and competitive
- An aggressive conversion to MasterCard will align our product with competitors that are eroding our card share such as:
  - CIBC Aerogold
  - RBC Avion
  - PC Financial
  - BMO Mosaik
  - Canadian Tire MC

Top five 3rd party credit cards

Population Growth Rate Projected @ Record Low 3.8%

- 2001-2006 saw 5% growth rate, highest among G8 Countries

Baby Boomers to Represent 1/3 of the Population

- Baby Boomers tend to be more established & loyal to FI and FI products / services – more challenging to switch[2]

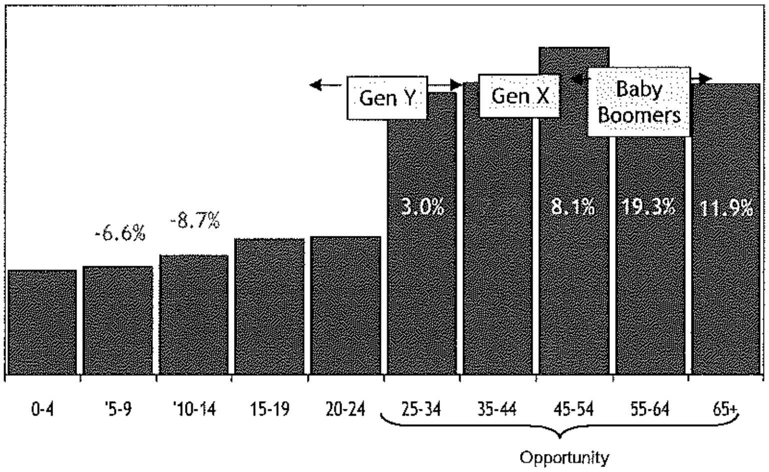
35-44 Year Old Prime Lending Group Will Shrink 7.4%

- Segment that tends to spend the most and require credit shrinking & all banks are targeting them

Immigration Will Continue to Be Key Driver of Growth

- Immigration driving growth (250,000 new entrants per year) with 70%+ of immigration concentrated in the largest cities

Canadian Population Growth, By Segment, 2005 - 2010 [1]



Source: [1]Datamonitor; [2]Note: According to Ipsos 2007 Card Study, Baby Boomers less likely to switch versus younger age segments

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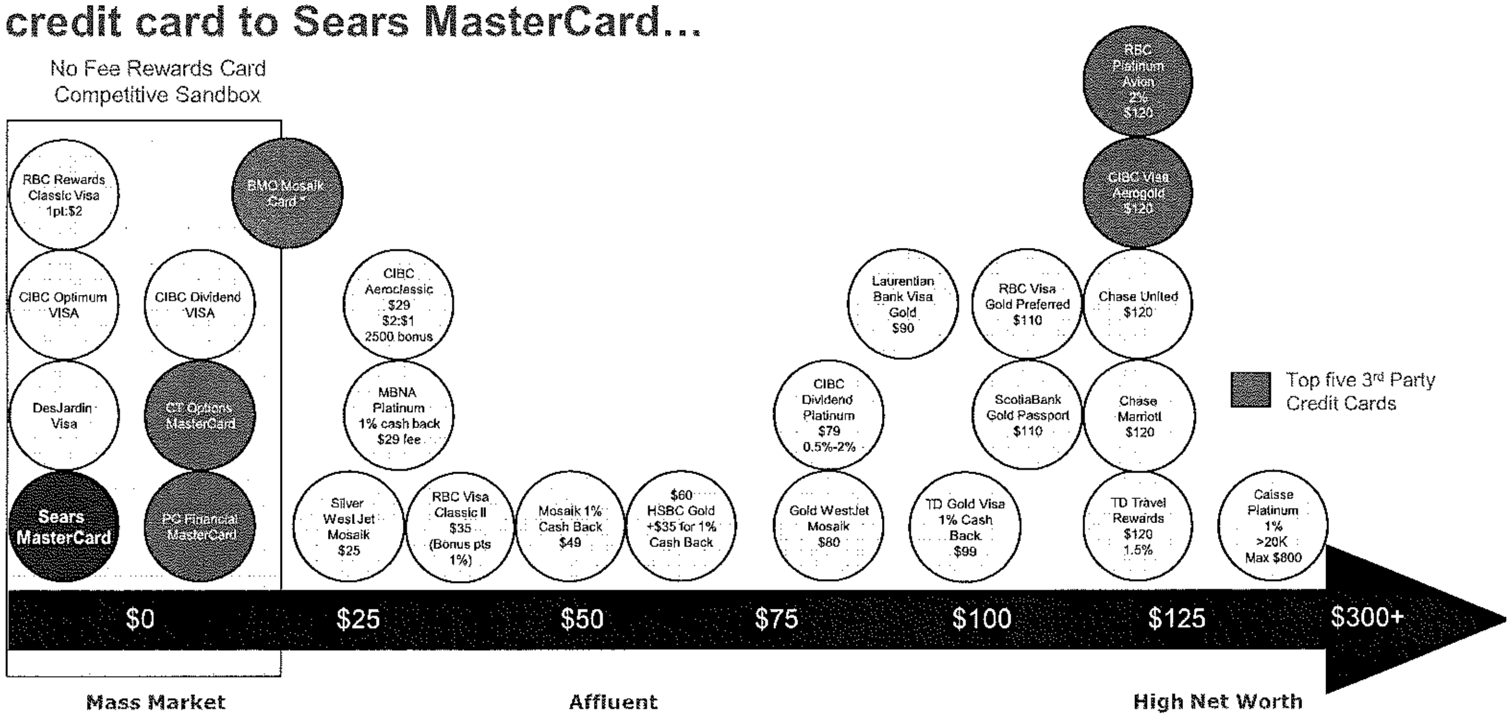
Strong Competitive Credit Card Market in Canada

A competitive value proposition can allow Sears to convert 3rd party credit card to Sears MasterCard...



No Fee Rewards Card
Competitive Sandbox

RBC Rewards Classic Visa 1pt:$2

BMO Mosaik Card *

CIBC Optimum VISA

CIBC Dividend VISA

DesJardin Visa

CT Options MasterCard

Sears MasterCard

PC Financial MasterCard

CIBC Aeroclassic $29 $2:$1 2500 bonus

MBNA Platinum 1% cash back $29 fee

Silver WestJet Mosaik $25

RBC Visa Classic II $35 (Bonus pts 1%)

Mosaik 1% Cash Back $49

$60 HSBC Gold +$35 for 1% Cash Back

CIBC Dividend Platinum $79 0.5%-2%

Gold WestJet Mosaik $80

Laurentian Bank Visa Gold $90

TD Gold Visa 1% Cash Back $99

RBC Visa Gold Preferred $110

ScotiaBank Gold Passport $110

RBC Platinum Avion 2% $120

CIBC Visa Aerogold $120

Chase United $120

Chase Marriott $120

TD Travel Rewards $120 1.5%

Caisse Platinum 1% >20K Max $800

▨ Top five 3rd Party Credit Cards

$0 $25 $50 $75 $100 $125 $300+

Mass Market	Affluent	High Net Worth
Value Proposition: Lower Cost Value from 1-2% and few benefits Average Household Income: $35-50k % of Cdn Households: 14.5%	Value Proposition: Slightly more expensive value cost through more insurance or acceleration offers Average Household Income: $50k % of Canadian Households: 49.5%	Value Proposition: High Cost Value, Redemption Options and Flexibility; Automated Fulfillment and Richer Insurance Benefits Average Household Income: $12.5k % of Canadian Households: 3.1%

Note: Gen 5 Model Used to isolate income and household numbers; Exclusions based on charge off rates & risk / reward model; Total Canadian Households 12,444,000
* BMO Mosaik has no fee and fee options

Financial Services – Strategic Direction

To enhance the value of Sears Canada's credit cards, strategies are in place for 2009 to drive customer card spend and deepen the relationship with the customer…

1. Convert Private Label portfolio to MasterCard to maximize revenue potential and reinforce customer relationships with relevant promotional activity to drive spend to Sears
    - Assumption: Customers who use their Sears MasterCard outside of Sears will also be inclined to do so inside Sears
    - Opportunity to leverage "outside spend" information to drive customers back to Sears
    - Tactic to move Sears MasterCard "up in the wallet"

2. Develop a loyalty coalition program with key partners to enhance the Sears brand, increase card and loyalty brand awareness, and subsidize the reserve expense
    - Create a common platform to engage our customers across a variety of participating partners and achieve a singular view of our common customer
    - Drive a significant and sustained change in customer behaviour that will increase card share, sales and positive ROI from loyalty investment
    - Add value and build a loyalty solution that continues to facilitate the usage of the Sears MasterCard and drives business to partner companies and Sears

3. Leverage the cardholder base and strengthen the relationship with our customers through the introduction of new product offerings
    - Home equity line of credit to support growth businesses like HIPS and Travel
    - Expanded insurance offers

Private Label Conversion

Conversion to the Sears MasterCard from the Sears Private Label will increase competitiveness against other flexible reward card programs and drive profitability through an improved loyalty program...

- The long term future of Sears Private Label is limited since its product features are unable to compete with newer, more flexible reward card programs
- Card share is falling as customers focus on gathering points within Sears through competitor loyalty programs (e.g. Aeroplan, RBC Avion)
- Sears must offer customers an attractive 3rd party credit card (MC) that can be used outside of Sears. Failure to do so will result in Sears customers increasingly using competitor cards both inside and outside of Sears
- Competitor card products and marketing efforts have exploded in quality and marketing spend over the past decade, eroding card share. Sears must continually improve its card product features and marketing program, otherwise card share decline will only accelerate
- 76% of Sears MasterCard revenue is due to external spend and the more popular the Sears MC, the more revenue earned from Chase
- 1% loyalty earned on external spend will subsidize the higher 2% internal spend cost while driving customers into Sears to spend
- As the spend on the Private Label decreases, it is necessary to convert to the Sears MasterCard since it is more competitive, more profitable, and better equipped to ensure a healthy loyalty program and improved EBITDA

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External MasterCard Spend Intelligence

Outside MasterCard spend data allows Sears to target cardholder spend back to Sears to address card share gap...

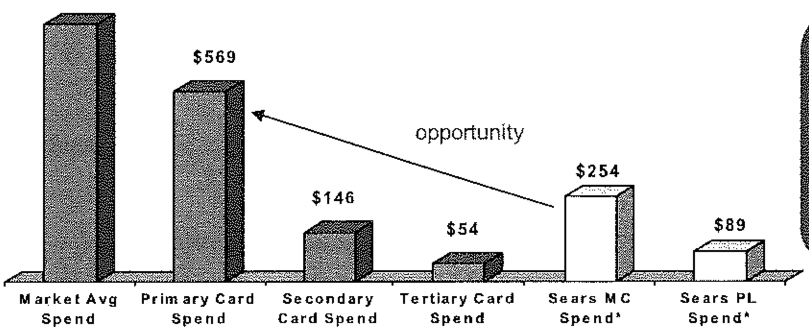
What Credit Card do you carry?

What is the total dollar amount you put on all your Credit Cards in a typical month for personal spending?

Which one card do you put most of your personal spending on? Then what % of your total spending goes on that Card

Which of the other reported cards do you use next most often?

Average Monthly Spend

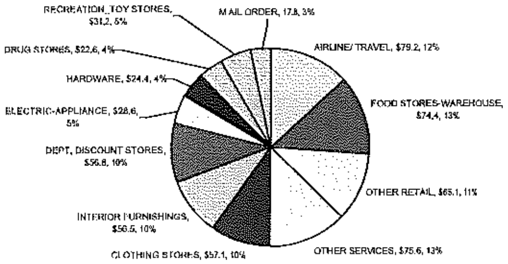


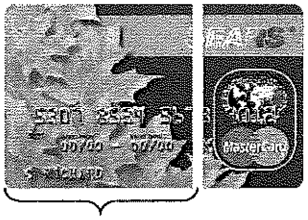
Opportunities

1. Leverage Outside Spend Intelligence Back To Sears
2. Stimulate Spend Outside Sears To Move Card Up In Wallet

Sears MC Outside Spend
(April '07 – April '08): $850 MM

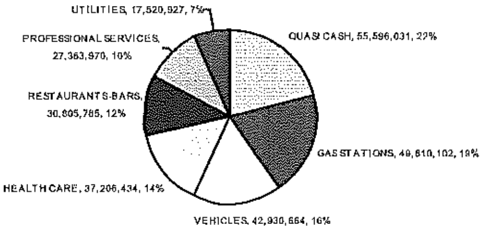
Sears Category Outside Spend: $589 MM





69% of outside purchases are in categories that Sears competes in

Non-Sears Category Outside Spend: $261 MM



Source: Ipsos Reid Dynamics of the Canadian Card Market 2007 Personal Cardholder Study. Card spend data is self reported .

Average Sears Spend based on monthly average per 90 day SA Acct in 2007

Loyalty Coalition

An opportunity exists to partner with successful corporations to build a unique coalition loyalty program that will drive incremental business to each partner through a combined value proposition...

Objective of a Loyalty Coalition:

- Create a common currency for subsidized promotions
- Create a common platform to further engage our most profitable customers across all companies and achieve a singular view of our common customer
- Provide a compelling differentiator for Sears Canada and other companies' value propositions
- Demonstrate a significant and sustained change in customer behaviour evidenced by consistent share growth, increase in sales and positive year over year ROI from loyalty investment
- Add value and build a loyalty solution that continues to facilitate the usage of the Sears MasterCard and drives business to partner companies
- Coalition approach allows for partners to participate in the design process to ensure business specific objectives are achieved

Mock up of potential loyalty card

Financial Products

Sears is able to deepen the customer relationship with our cardholders with the introduction of market relevant products that can facilitate big purchases (e.g. Home Equity Line of Credit) and provide peace of mind (e.g. Insurance products) from a company that most Canadians trust...

- Introduce Home Equity Line of Credit that will support Big Ticket business, HIPS and Travel to accommodate larger purchases
  - Opportunity to expand JP Morgan Chase relationship, if functionality and product offering can be supported by Chase
  - Mortgages can be second phase
  - Plan calls for 2500 Home Equity Line of Credits with a $50k spend – this would translate to over $2 MM in Chase revenue less loyalty expense

- Introduce new insurance products that align to the Sears Brand – Home and Auto, Income Protection, Grandparent Birthday
  - Products can leverage existing marketing channels
  - Opportunity to increase exposure of insurance products within our Stores and other selling units
  - Larger presence is planned with the launch of a Financial Services Website within Sears.ca

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SKU Lifecycle Management

"SKU Lifecycle Management" has three primary goals which will allow Sears to achieve its strategic imperatives for 2009 forward …

1 **Increase SKU return on investment (ROI)** → Improve management of the procure, promote, replenish, secondary-plan-to-sell processes, many of which are now operationalized through consistent process & governed by economic analysis

2 **Enable a futuristic merchandising organization** → Remove operational activities from the merchants and marketers allowing them to become more customer centric - without the operational/process intensive activities of their current role

3 **Strong SKU management capability** → Effectively manage approx. 500,000 unique SKU's allowing Sears to be more relevant to more people, reversing the shrinking department store trend, acquiring new customers, and enable a true multi-channel state

Evolution Of SKU Lifecycle Management

A shift is underway to increase inventory ROI and reduce risk …

Historical Habits	Current Status	Future State
• Economics of inventory clearance not clearly understood.	• Analytical rigor and financial acumen incorporated into all decision making.	• Regular markdown process incorporated into dynamic price management system.
• Buyers "disowned" SKU when first markdown taken. Merchandising focus was "buy, flush, rebuy".	• Buyers are responsible for SKU's until SKU's sold at the highest yield. Secondary Plan to Sell a common practice.	• Buyer plans the life of a SKU, end to end – at the time of purchasing inclusive of expected net merchandise margin.
• Acceptance of low quality talent, low accountability.	• Staff reviews conducted, performance management installed.	• Buying teams with analytical talent. Internal training enhanced. Performance management.
• Vendor base not leveraged to full potential or held fully accountability.	• Implementation of vendor financial support for currency and non-conformance.	• New vendor agreements leveraged to ensure financial gains inclusive of guaranteed margin.
• Direct import opportunities not consistently realized.	• Inconsistent growth fueled by improper planning and preparation.	• Material direct import growth achieved with strategic planning, fabric and vendor harmonization and perfect process execution.
• Promotions programs focused on inventory surplus reduction.	• Promotions focused on increasing traffic and maximizing profit.	• Financial/promotional analytics consistently applied and advertising spend is optimized.
• Total product needs bought at start of season. Replenishment was untimely and not store centric.	• New replenishment (NR) model applied successfully in selected apparel categories. Product needs bought carefully (70%) and winners pursued.	• NR model rolled out to large group of vendors who are heavily engaged in the inventory flow.

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2009-2010 Financial Overview

SKU Lifecycle Management has the potential to add as much as $50.0 MM and $77.1 MM incremental margin in 2009 and 2010 ...

Procure

- Negotiate and consolidate with key vendors on foreign exchange, return privileges, margin guarantees, payables and quick response
- Commodity buyers focus on sourcing best price for product
- Plan the life of a SKU

Promote

- De-couple inventory levels and pricing - leverage secondary plan-to-sell
- Plan media space to flex re-listing opportunities
- Analyze and react to flyer effectiveness, working with finance partners

Allocate and Replenish

- Deploy the (NR) new replenishment model
- Replenish what is selling at SKU/ rack/ store level based on checkout rates
- Improve "speed to market" by reducing in-transit times

Secondary Plan-to-sell

- Leverage multi-channel business to increase inventory effectiveness
- Weekly markdown management for retail
- Full utilization of outlet internet site as an opportunity channel

		Procure		Promote	Allocate & Replenish		Secondary Plan-to-sell		
		Direct Imports	Vendor Management	Promotional Analytics	Inventory Planning	Logistics	Lifecycle Management	Returns	Totals
2009	Merch. Margin	$7.6	$7.7	$6.3	$11.8	$2.1	$11.3	$3.2	$50.0
	EBITDA	$7.5	$8.5	$9.9	$10.4	$1.1	$10.6	$3.0	$51.0
2010	Merch. Margin	$14.5	$10.9	$ 10.6	$19.5	$4.8	$11.5	$5.3	$77.1
	EBITDA	$14.3	$13.9	$14.2	$16.8	$2.5	$10.8	$4.9	$77.4

N.B. All figures are incremental over 2008 (in $ millions)

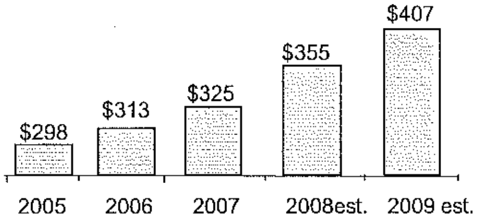
6/9

Procure: Direct Import Growth

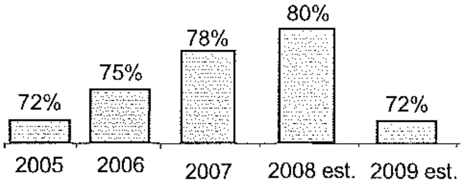
Direct Imports will drive increased merchandise margin by leveraging current resources and optimizing alternate sourcing models ...

1. Increase growth of direct imports by 15% from 2008 to 2009
   - Identify new products and categories such as organic cotton for kids, rechargeable "green" lawn care products and performance fabrics for apparel
   - Convert best of breed importers specializing in fit, design and quick turn around time from domestic to direct import
   - Convert national brands including luggage, apparel, air conditioners and power tools from domestic to direct import
   - **Plan:** $5.7 MM++ in 2009 and $10.0 MM++ in 2010 EBITDA
2. Utilize alternate sourcing model and reduce China dependency by 10%
   - Leverage SHC supplier base, product development, fabrication and print designs
   - Grow direct imports from duty free countries including Bangladesh and Cambodia to maximize margin
   - Leverage Otto and Li & Fung overseas resources and vendors (e.g. Bangladesh ,India, Pakistan, and Turkey) for improved delivery and control
   - **Plan:** $1.5 MM ++ in 2009 and $3.2 MM++ in 2010 EBITDA
3. Execute fabric harmonization plan to optimize buying power, e.g.:
   - Sears will consolidate business volume to strategic partners, focusing each vendor on specific fabrication for improved cost efficiency, and reducing MOQ and lead time
   - Sears goal will be to consolidate vendors for denim, cut and sew, knit, fleece and woven garments
   - Fabric harmonization will take place across gender and departments e.g. consolidate knit fabrics in children's wear from 25 to 9
   - **Plan:** $0.3 MM++ in 2009 and $1.1 MM++ in 2010 EBITDA

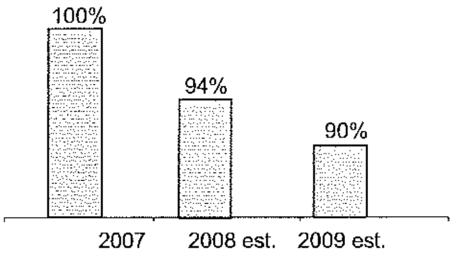
Direct Import Volumes ($ MM)



Imports Sourced From China



Savings From Fabric Harmonization (Base: 2007)



Drive incremental merchandise margin by increasing competitive negotiations and strengthening buying arrangements ...

1. Grow competitive negotiations to 25% of corporate purchases from 18% in 2007
    - Increases will come from all merchandise (hot buy/door crasher, private label) and non-merchandising (RFP, RFQ, contracts) categories
    - Sears Canada will leverage all Sears Holdings SSI and ALR vendor agreements when possible
    - Expand recruitment and qualification of prospective suppliers

   Plan: $3.9 MM++ in 2009 and $5.6 MM++ in 2010 EBITDA

2. Redesign partnership agreements to make suppliers accountable for their products
    - Formalize the structure of partnership agreement negotiation and vendor accountability leveraging current Universal Terms and Conditions
    - Implement tools to track vendor yield and report vendor performance by type (RTV vendor, process payment, guaranteed margin, support non-conformance,)
    - Expand decision tools for the buyer to do 'what if' calculations when negotiating
    - Implement updated guidelines and training to enable buyers to negotiate more structured agreements that establish expectations for performance

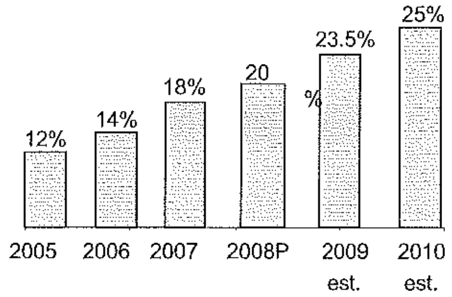
   Plan: $1.6 MM ++ in 2009 and $3.7 MM++ in 2010 EBITDA

3. Implement enhanced vendor scorecard to improve merchandise margin and drive expense reduction
    - Vendor data warehouse will provide vendors with an online view to performance at daily/store/SKU level and allows two way sharing of data between vendors and Sears
    - Buying teams will be able to hold vendors more accountable for their performance
    - The goal is to have 400 suppliers using the vendor data warehouse by 2010 encompassing 90% of merchandise purchases.
    - Expand category captains where relevant and use vendor supported merchandise flow analysts
    - Extend performance management practices to non-merchandise vendors

   Plan: $2.1 MM ++ in 2009 and $3.0 MM++ in 2010 EBITDA

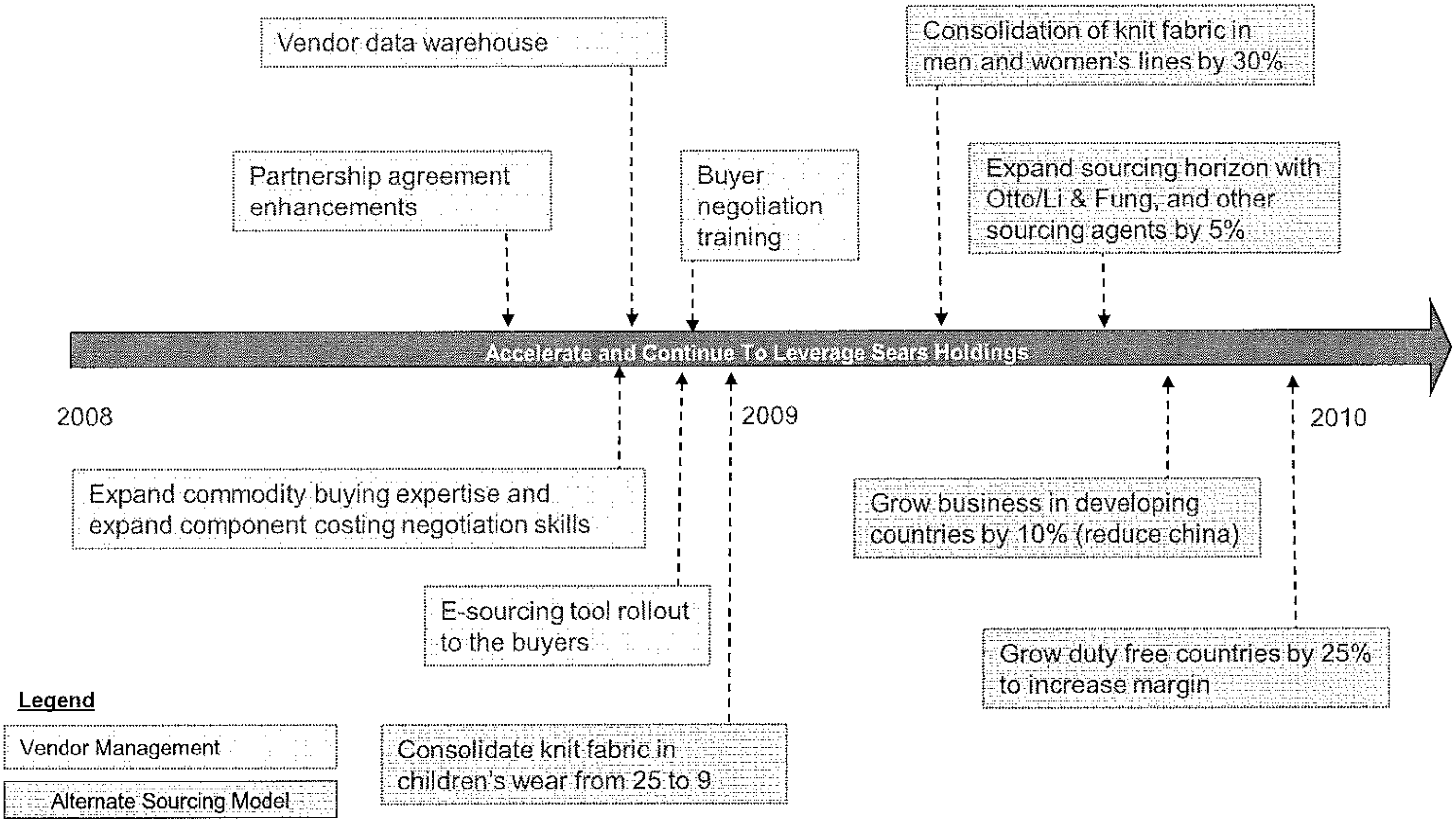
4. Other initiatives: improve ordering practices for non-merchandise (i.e. expanded on-line product offering to optimize actual spend)

Competitive Negotiations
% of Corp Purchases



Procure

To achieve the goals of SKU lifecycle management, the procurement organization will complete the following key deliverables …



Vendor data warehouse

Partnership agreement enhancements

Buyer negotiation training

Consolidation of knit fabric in men and women's lines by 30%

Expand sourcing horizon with Otto/Li & Fung, and other sourcing agents by 5%

Expand commodity buying expertise and expand component costing negotiation skills

E-sourcing tool rollout to the buyers

Consolidate knit fabric in children's wear from 25 to 9

Grow business in developing countries by 10% (reduce china)

Grow duty free countries by 25% to increase margin

Legend

Vendor Management

▨ Alternate Sourcing Model

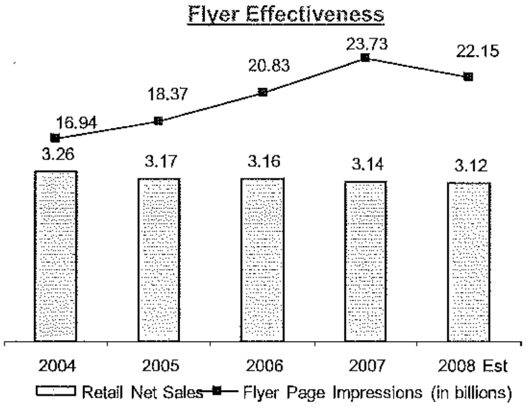
Developing capabilities to leverage the depth and breadth of data in day-to-day decision making is key to attaining market leadership …

1. Develop integrated promotional planning tool
   - Detailed analysis of each media type (television, radio, pre-print, etc.) performance through monthly post-mortems
   - Change promotional strategic and tactical decision making (e.g. media planning, promotional pricing, etc.) to fully leverage proven facts and actionable information
   - Develop promotional planning and analytical tools that minimize human judgment
   - Minimize last minute changes and eliminate reactive marketing approach

   Plan: $5.7 MM++ in 2009 and $6.0 MM++ in 2010 EBITDA
2. Create media space optimization model
   - Optimize space in retail flyer and resource allocation between different media through statistically based analysis of historical media performance
   - Improve the effectiveness of existing assets, and reduce advertising costs without affecting the sales or profitability of the business
   - Develop space optimization model for catalog

   Plan: $2.5 MM ++ in 2009 and $2.8 MM++ in 2010 EBITDA
3. Introduce promotional price optimization
   - Optimize promotional pricing to increase offer profitability without significant impact on the top line sales using price elasticity information
   - Increase certain pricing while maintaining a competitive price impression in the market place. Develop specific response to address Major Appliance price compression in Canadian marketplace.
   - Develop price optimization approach for catalog

   Plan: $1.2 MM++ in 2009 and $1.3 MM++ in 2010 EBITDA
4. Direct vendor participation in promotional planning process through direct auction of front/back pages driven by guaranteed sales and gross profit performance.
5. Other initiatives: checkerboard optimization, price optimization in direct



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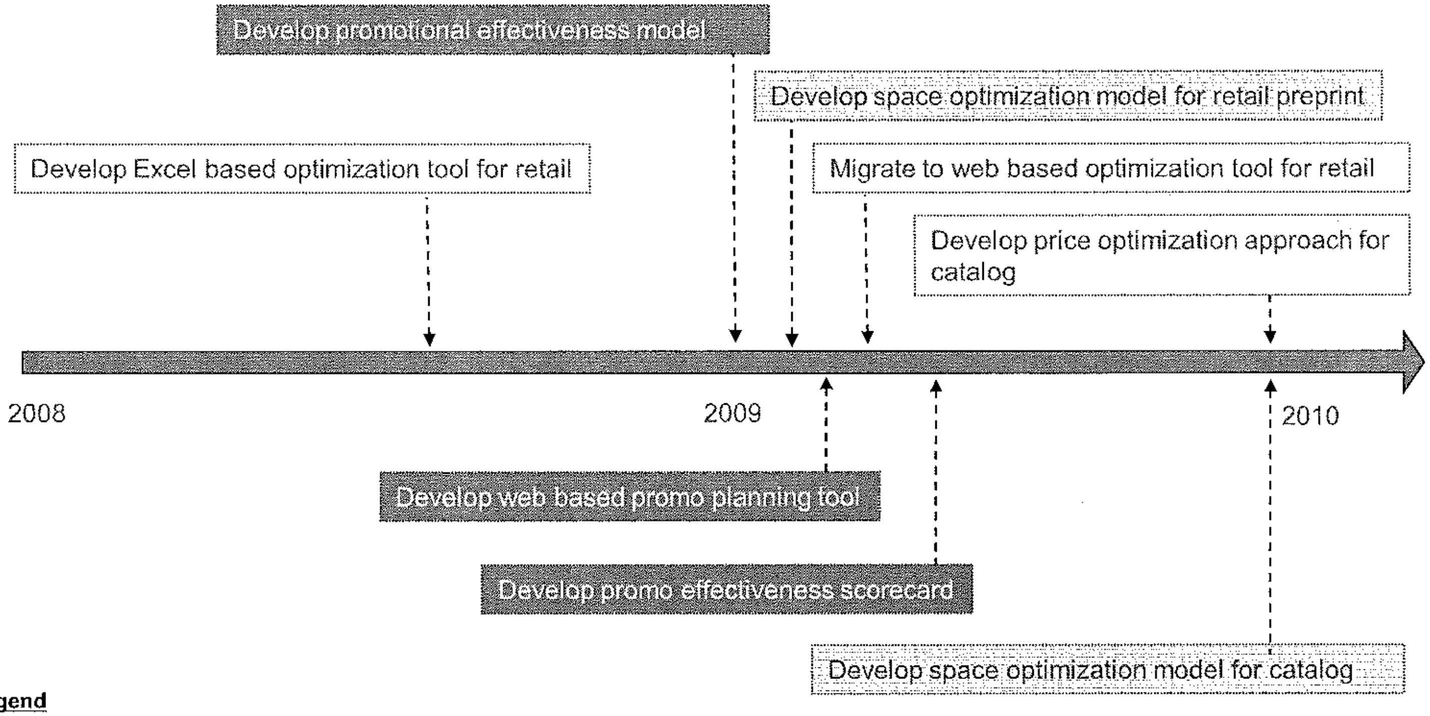
Promotional Media Analytics and Pricing

To achieve the goals of SKU lifecycle management, the promotions and price analytics team will complete the follow key deliverables …



Develop promotional effectiveness model

Develop space optimization model for retail preprint

Develop Excel based optimization tool for retail

Migrate to web based optimization tool for retail

Develop price optimization approach for catalog

Develop web based promo planning tool

Develop promo effectiveness scorecard

Develop space optimization model for catalog

Legend

- ☐ Promotional Price Optimizer
- ▨ Media Space Optimization
- ■ Integrated Promotional Planning

Allocation and Replenishment: Inventory Planning

Planning, inventory management and inventory flow are critical to improving Sears ability to grow profitability and service the customer's needs ...

1. Planning is critical to maximize SKU Lifecycle Management
    - Rigorous financial and assortment planning with seasonal strategy reviews
    - Incorporation of planning organization; began with Women's Apparel early in 2008
    - Media planning process with Inventory and financial sign off + line review
    - Full inventory participation in promotional planning process

    Plan: $7.0 MM++ in 2009 and $12.4 MM++ in 2010 EBITDA

2. Improved inventory management will provide increased flexibility and reduce inventory
    - Tight inventory control to reduce inventory, improve flow of goods and increase profitability using Sku Lifecycle Management principles has the potential to reduce working capital needs by 90MM
    - Inventory rationalization with one view of inventory despite physical location
    - Implementation of 2 way chaining between catalogue facilities enables in stock inventory to serve customers' demand from either facility
    - Increased opportunity for facility chaining - big ticket from Vaughan and Montreal
    - Alternative inventory models limit risk vendor direct to customer, consignment, vendor owned Inventory
    - Sku base expansion with no additional inventory. Transfer risk to the vendor

    Plan: $1.9 MM++ in 2009 and $3.8 MM++ in 2010 EBITDA

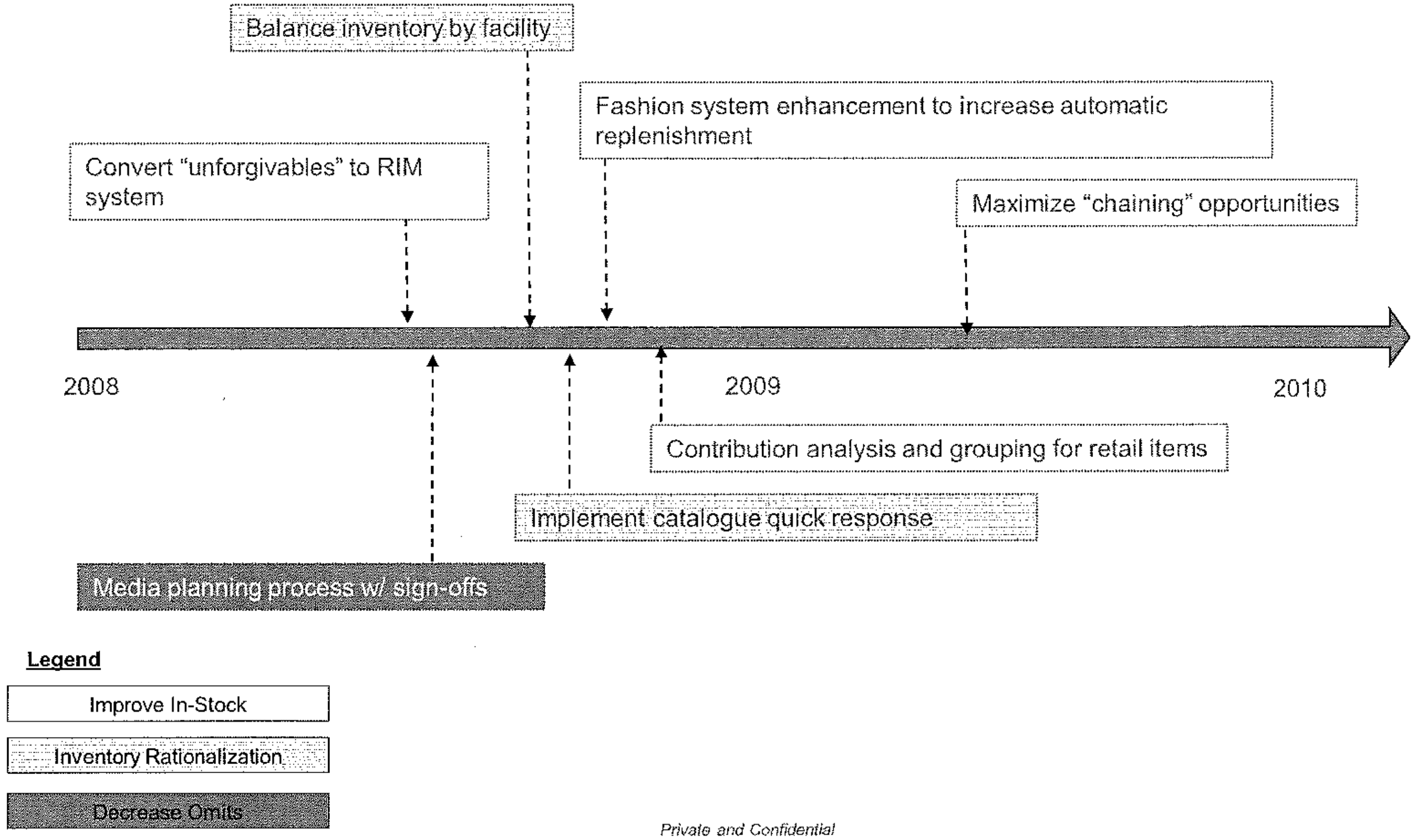
3. New replenishment model increases flexibility and improves inventory flow
    - Apparel rack assortment planning with inventory forecasts
    - Split shipments to better replenish in season merchandise to better performing stores
    - Increased replenishment frequency from vendor or facility to improve inventory turns

    Plan: $1.4 MM++ in 2009 and $1.4 MM++ in 2010 EBITDA

4. Other initiatives: decrease omits and reduce in-stock

Allocation and Replenishment: Inventory Planning

To achieve the goals of SKU lifecycle management, allocation and replenishment will complete the following key deliverables ...



Optimizing Sears logistics network will improve inventory flow, speed to market and save ~ $1.4 MM in freight expense per annum …

1. Developing the west coast distribution system allows Sears to better compete in the western retail market
   - Establish a west coast distribution centre for direct Imports (small ticket/fashion)
   - Positions Sears closer to a growing Canadian market (Alberta, British Columbia)
   - Reduce time in transit to western markets thereby reducing markdown risk
   - Currently reviewing options:

   a) Third party logistics
      - Added flexibility
      - Minimize upfront capital
      - Quick set up time

   b) Lease
      - Minimize upfront capital
      - Potential to lease a larger facility than could be constructed

   c) Own
      - Build to suit
      - Negative: large upfront capital investment

   d) Partner with existing firm
      - Minimize upfront capital
      - Facility optimization can be questionable in this scenario
      - Likely limited capacity

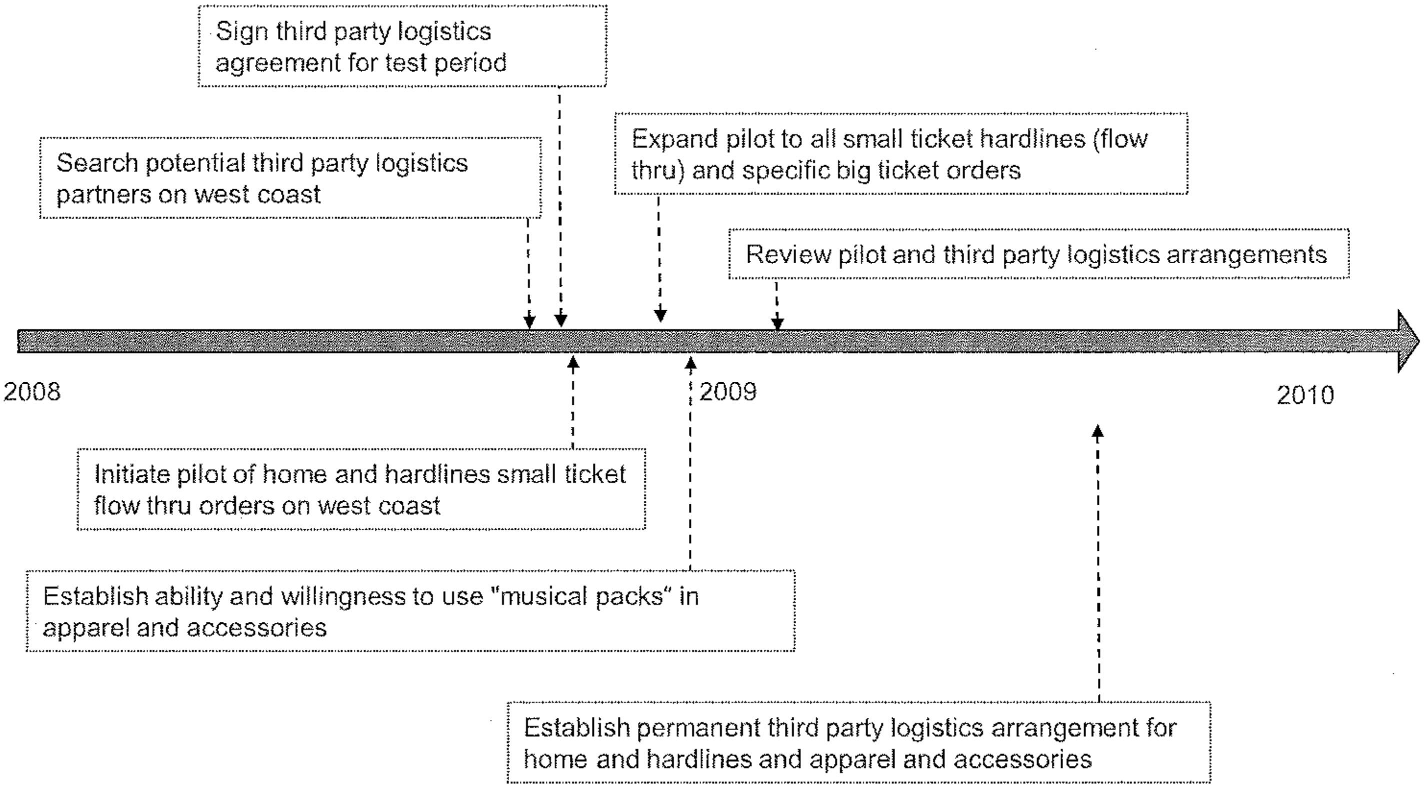
Potential Savings	
Destination	Gain in Transit Time (days)
BC	16-24
Calgary	11-20
Winnipeg	8-17
Vaughan	3-17
Montreal	4-13

2. Reducing facility order processing times and in-transit times to improve in-stock rates
   - The goal is to reduce facility order processing time from 2-7 days down to 2 days
   - By optimizing scheduling and transportation alternatives Sears can eliminate ~2 days in-transit

Plan: $1.1 MM ++ in 2009 and $2.5 MM++ in 2010 EBITDA

Allocation and Replenishment: Logistics

To achieve the goals of SKU lifecycle management, the logistics team will complete the following key deliverables …



Sign third party logistics agreement for test period

Search potential third party logistics partners on west coast

Expand pilot to all small ticket hardlines (flow thru) and specific big ticket orders

Review pilot and third party logistics arrangements

2008

2009

2010

Initiate pilot of home and hardlines small ticket flow thru orders on west coast

Establish ability and willingness to use "musical packs" in apparel and accessories

Establish permanent third party logistics arrangement for home and hardlines and apparel and accessories

Secondary Plan-to-sell and Markdown Management

Profitable management of slow selling inventory will continue to improve cash flow year over year …

1. Managing regular markdowns will reduce profit loss
   - Regular markdown dollars = $450-$480 MM (~15% of net sales)
   - Focus and accountability will be given to improving financial performance through pricing
   - Daily execution requires analytical focus on timing, monitoring price performance and determining optimal price levels
   - Implementation plan:
     - Develop a strategic approach to managing and reducing regular markdowns
     - Appoint project leader and pricing analysts in Q3 2008
     - Expand regional markdown capabilities on seasonal product and apparel in Q4 2008
     - Pricing team will develop strategic action plan and pricing cadence direction for commodities in Q4 2008
     - Expand "white ticket" pricing program to reduce regular price without increasing clearance content in Q4
     - Initialize evaluation of new price management system for markdowns and promotions in Q1 2009

   Plan: $6.5 MM++ in 2009 and $7.1 MM++ in 2010 EBITDA

2. Multi-Channel inventory repurpose will reduce retail clearance content from 14% to 11.5% by 2010
   - Enable cost efficient methods of moving repurposed inventory to a secondary channel
   - Incremental profitability comes from closing gaps between low profit liquidation to the ideal re-purpose opportunity
   - Usage is now in place and infrastructure is available to handle small re-purpose efforts, but greater emphasis will take place in 2009-2010 to enhance IT, finance and logistics capabilities:
     - Inter-store transfers currently used minimally, however, there is an opportunity to balance between stores
     - Transfers between storage facilities and channels needs to be automated
     - IT, merchandising, procurement, SLM, logistics are working together to solve challenges and optimize inventory

   Plan: $2.0 MM ++ in 2009 and $2.5 MM++ in 2010 EBITDA

3. Other initiatives: alternative outlet options (e.g. Craig's list, e-bay, etc.)

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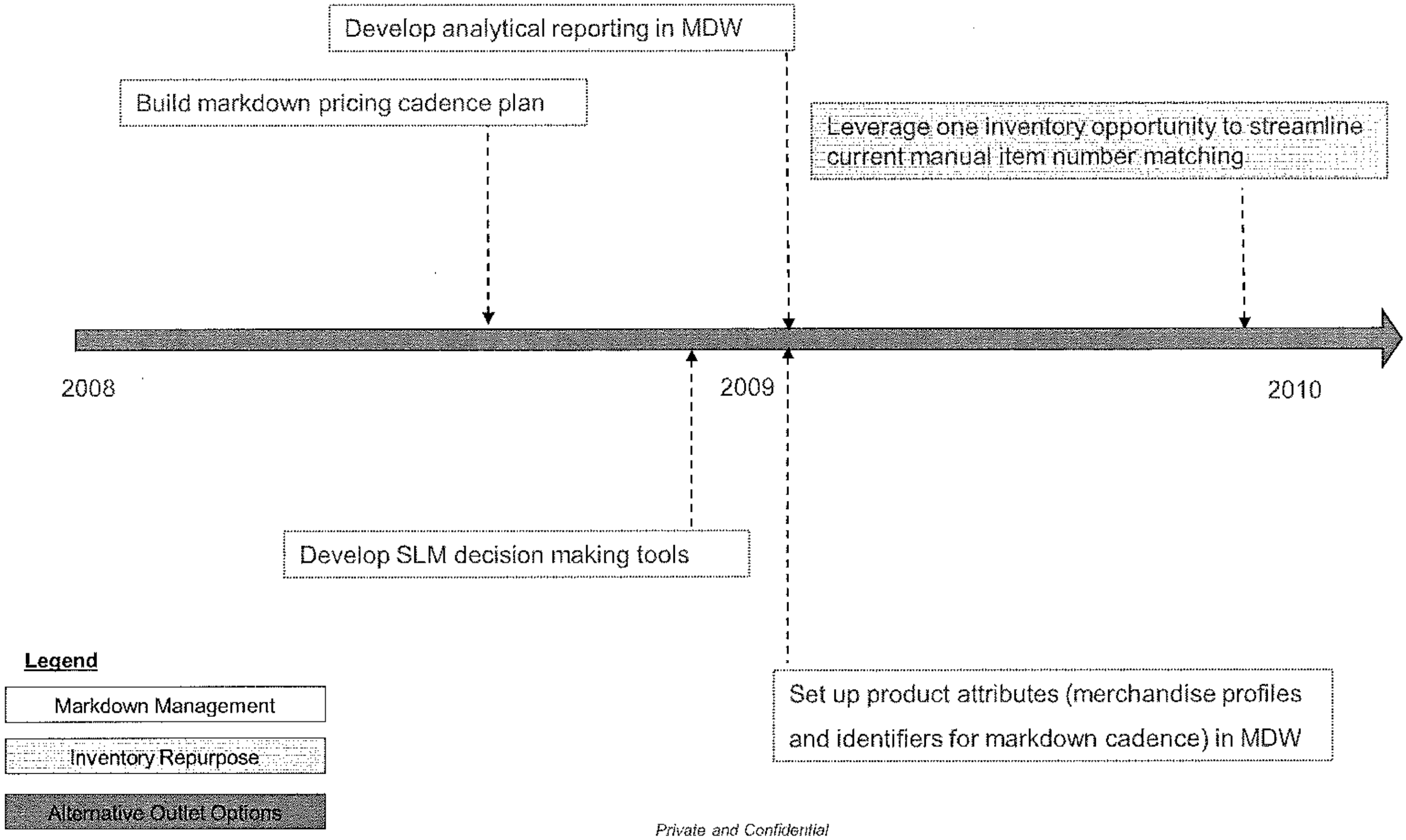
Secondary Plan-to-sell and Markdown Management

To achieve the goals of SKU Lifecycle Management, the secondary plan to sell team will complete the following key deliverables …



Develop analytical reporting in MDW

Build markdown pricing cadence plan

Leverage one inventory opportunity to streamline current manual item number matching

Develop SLM decision making tools

Set up product attributes (merchandise profiles and identifiers for markdown cadence) in MDW

Legend

Markdown Management

Inventory Repurpose

Alternative Outlet Options

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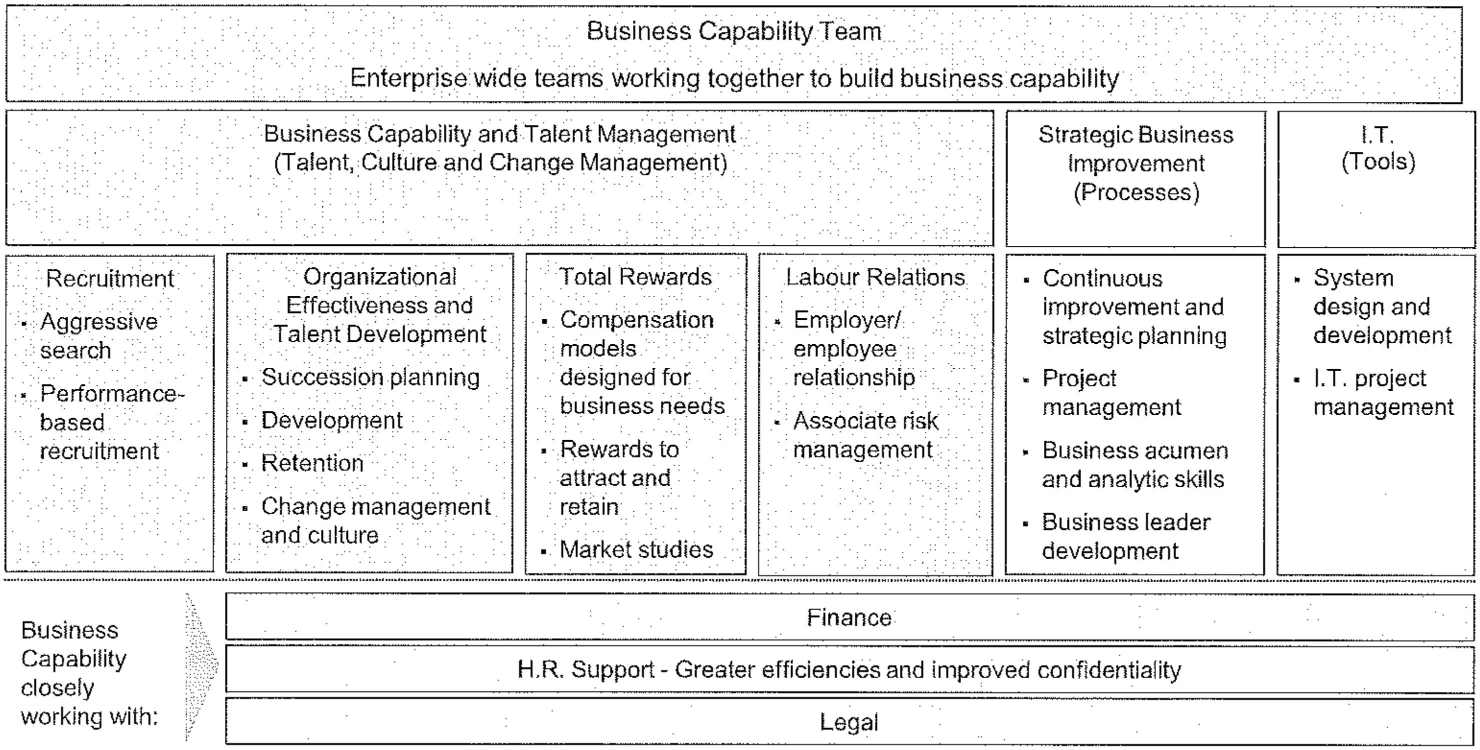
Agenda

7:00 – 7:15	Introduction	Dene Rogers
7:15 – 7:30	2009 – 2011 Financials	Dave Merkley
7:30 – 9:30	Retail Strategy	Dene Rogers / All
9:30 – 10:00	Retail Stores	Dennis Singh
10:00 – 10:45	Real Estate	Robbie Wasserman, Dennis Singh
10:45 – 11:45	Direct Strategy	Rick Brown, Chris Peters, Simon Rodrigue
11:45 – 12:30	Lunch	
12:30 – 1:15	Home Services	Arv Gupta
1:15 – 2:00	Financial Services	Rick Brown
2:00 – 2:45	SKU Lifecycle Management	Tim Flemming
2:45 – 3:30	Business Capability	Cathy McConnell, Tim Flemming
3:30 – 4:15	Sustainability	James Gray-Donald
4:15 – 4:30	Wrap Up / Next Steps	Dene Rogers

Business Capability Team Implemented

Financial results are directly impacted by capability gaps within the organization; in January 2008, transactional/administrative work was moved to Finance and the Business Capability team was formed to address these gaps ...



Business Capability Team

Enterprise wide teams working together to build business capability

Business Capability and Talent Management (Talent, Culture and Change Management)

Recruitment
- Aggressive search
- Performance-based recruitment

Organizational Effectiveness and Talent Development
- Succession planning
- Development
- Retention
- Change management and culture

Total Rewards
- Compensation models designed for business needs
- Rewards to attract and retain
- Market studies

Labour Relations
- Employer/ employee relationship
- Associate risk management

Strategic Business Improvement (Processes)
- Continuous improvement and strategic planning
- Project management
- Business acumen and analytic skills
- Business leader development

I.T. (Tools)
- System design and development
- I.T. project management

Business Capability closely working with:
- Finance
- H.R. Support - Greater efficiencies and improved confidentiality
- Legal

Capability Gaps of the Organization

Capability gaps across the organization include selling skills, merchant capabilities, analytic capabilities, financial acumen, proactive planning and innovative thinking ...

Selling Skills

- Competencies specific to sales will increase success
- Testing for competencies to be introduced
- Incentives to be developed aligning compensation to the business (e.g. Men's Dress Wear)
- Coaching skills required to support ongoing performance management

Merchant Capabilities

- Customer centric focus (understanding and tools)
- Simplification of role (reduce or eliminate other activities such as marketing, procurement, planning and design)
- Tools include customer segmentation information, automated reports, merchant scorecards

Analytics

- Fact based decision making
- Introduction of talent to increase level of analytic capability (e.g. 6 associates with work experience and engineering degrees to be hired in August to increase analytic capabilities in Planning and Allocation)
- Changes to business models will be tested through pilots to prove success prior to full implementation to ensure appropriate allocation of resources

Financial Acumen

- Includes an understanding of cash flow and profitability, ability to ask strategic questions that uncover customer needs
- Financial leadership required to support the business strategy
- Improvements to business understanding, decision-making and financial results required
- Improvements needed in talent acquisition (education, business experience, competencies) and performance management (role clarity, goal setting based on business goals, developmental plans and career paths)

Proactive Planning

- Long term planning
- Analytic skills
- Clearly defined goals and communication
- Milestones and measurements as checkpoints
- Identifies and includes all functions across organization

Innovation

- Requires inspiration, new ideas, solutions or approaches
- Test and learn and analysis
- Successful implementation

Leaders must develop performance management, proactive planning and change management capabilities along with specific leadership competencies in order to effect a new culture quickly and effectively …

Leadership Capabilities

- Performance Management
  - Role clarity
  - Performance plan with clearly defined performance goals
  - Enhanced performance management education and tools for leaders
  - Associate development including challenging experiences, stretch jobs, coaching, and mentoring. Improve the frequency and honesty feedback and structured mentoring
  - Clearly defined actions and milestones to fulfill expectations
- Proactive Planning
  - Able to anticipate the needs of the business and plan resources accordingly
- Change Management
  - Clear, timely communication using appropriate messaging methods
  - Ensuring processes are in place and well defined in order to enable effective change
  - Clear and consistent articulation of vision and direction for business units
  - Re-assignment of roles, responsibilities and expectations without gaps and/or redundancies

Competencies for success profiles of leaders include:

- Analytic decision making
- Builds effective teams/talent development
- Customer focus
- Strong business acumen
- Innovative thinking/innovation management
- Managerial courage
- Performance management
- Personal drive
- Proactive/action oriented
- Self-awareness
- Strategic agility

Continuous Improvement and Strategy

- With stable and strong current operations, leaders are able to dedicate time to more strategic thinking while also leading continuous improvement

Talent Upgrade

Actions have begun to address deficient succession plans and capability gaps, poor performance management practices and retention risks ...

Issue to be Addressed	Actions
1. Deficient succession plan	• Key roles have been identified and success profiles created • Identify high potential internal candidates for development and recruit externally to fill gaps • Build teams by aggressively stealing top talent from 'best in class' companies
2. Recruitment	• Contract with aggressive external recruiters; internal recruiters have hired and are compensated for performance; referrals from new hires • Partnerships developed with top schools/recruit talent with higher levels of education (in addition to experience and required competencies) • Strategic Business Improvement Team (MBA graduates; 27 hired since program inception); initiative to elevate competencies within planning and allocation (Engineering graduates Aug'08) • Tools for leaders to increase level of success in selection of candidates (testing program in development with Sept'08 pilot planned, increased number of interviews per candidate, quicker response following interviews)
3. Development	• Implement consistent and realistic performance management practices • Clearly defined roles and processes defining work • Performance management and performance improvement processes • Skills assessment tools • Mentoring programs
4. Retention	• Address increased competition, cultural gaps and declining associate engagement in key businesses • Performance based promotions and rewards • Improved employer brand • Employment agreement implemented including non-compete

Business Capability Priorities

The key business capability priorities are being addressed through improvements to talent, processes and tools ...

HIPS (Home Installed Products and Services)

- Opportunity to leverage in-home presence of the workforce and to "Own the Home"
- 2007 turnover: 19% HIPS (16% voluntary), 33% PRS (27% voluntary)
- 2007 associate performance levels:
  HIPS: 10% Not Achieved, 58% Achieved, 19% Exceeded

Goal: +40.7% and 33.0% EBITDA increase in 2009 and 2010

- Rewards based compensation models
- Introduction of new business models (e.g. rental program)
- Moving from an operational to a sales focused organization

Sales Planning and Promotion

- Event and flyer planning are lacking effective processes and tools, thereby causing delays and errors
- Need to create offers that are timely and customer relevant
- 2007 turnover: 10% (voluntary statistic unavailable)
- 2007 associate performance levels:
  3% Not Achieved, 83% Achieved, 3% Exceeded

Goal: Improve retail sales through the effective coordination of functions within and between business units

- Implement event planning, rigorous processes and automated tools to eliminate errors and duplication of work
- Use analytics to diagnose issues, estimate results and identify opportunities for improvement

Direct (Catalogue and Internet)

- Talent is underdeveloped and difficult to recruit due to complexity of roles
- Performance management and developmental plans require improvement in order to develop a high performance organization
- 2007 turnover: 8% (nearly 100% voluntary)
- 2007 associate performance levels:
  7% Not Achieved, 58% Achieved, 23% Exceeded

Goal: Significant reversal in financial performance trend

- Recruit talent with required education and competencies (e.g. AVP E-Commerce)
- Performance management
- Improved analytics and planning
- Improved merchant capabilities

Women's Apparel

- Difference in Merchandise Margin 2007 vs. 2006 of $13.9 MM
- Sales 2007 vs. 2006 declined by 7.4%
- Buyer role is complex with little focus on the customer ability to hire external talent is challenging due to complexity of role
- 2007 turnover: 22% WA (16% voluntary)
- 2007 associate performance levels:
  WA: 17% Not Achieved, 41% Achieved, 6% Exceeded*

Goal: Achieve levels of performance comparable to 2006

Women's Apparel issues will be addressed and goals will be achieved through the implementation of the merchandising project designed to address capability gaps through changes to talent, processes, tools and culture

Merchandising Project Goals and Actions

The merchandising project includes proposed changes that will impact multiple functions across the merchandising organization with expected outcomes including improvements in talent, processes, tools and culture ...

Current State Capability Gaps	Goals	Actions
▪ Talent shortage; recruitment challenging	▪ Reduce time to fill positions by 50% ▪ Raise level of organizational capability by adding new talent	▪ Recruitment planning to build pipeline of talent ▪ Maximize selection through testing and rigorous interviewing process
▪ Developmental opportunities are not optimal as career paths are unclear or limited	▪ Create more clearly defined career paths and opportunities	▪ Create roles within teams that provide attractive career development (e.g. marketing, planning) to more senior roles and enable with communication, mentoring, and coaching
▪ Headcount 800 across target functions (customer insight, design, merchandising, sourcing, marketing and promotions, planning and inventory management)	▪ Headcount reduction by 20-30%, generating savings of ~ $12 MM	▪ Outsource product design and specialize roles in merchandising and buying ▪ Automated reporting and replenishment ▪ Simplified marketing processes ▪ Reinforce high-performance culture
▪ Limited capabilities on existing teams	▪ Create expert organizations to improve performance and capability	▪ Build new teams through leadership, identified competencies and role clarity ▪ Set high expectations and continually challenge for further improvements
▪ Processes and clear accountabilities lacking	▪ Increase governance and control applied to each business	▪ Establish rigorous checks in support of clear expectations in job descriptions ▪ Enhance performance based incentives for individuals
▪ Organizations do not work cross-functionally	▪ Reduce the culture of 'silos' and create cross-functional processes for teams	▪ Create a culture of accountability and teamwork through leadership, cross-functional processes and tools for measuring progress

Proposed changes would impact many functions, with the biggest impact in merchandising and inventory planning and allocation ...

	Net headcount impact	Net salary implication[1]	High level assumptions
Customer insight	-2	\$375	- Centralize multiple insight groups and eliminate redundant management
Design	-41 (PMs, CAD etc.)	\$2,715	- Eliminate internal product development roles in A&A, H&H (eg, Product Managers, CAD Designers) - Maintain limited technical capability (eg, size/fit)
Merchandising	-99 (Buyers, AB) -50 (BBA) +8 (IM)	\$9,326	- Eliminate current GMM/DMM, Buyers and AB roles - Add dedicated Planners and Innovation Directors (IDs) - Significant BBA reduction as tasks automate (eg, EIW)
Sourcing	-34 (Sourcing) +81 (CB, ACB)	-\$4,177	- Build commodity buying organization for strategic sourcing support - Maintain execution support resources (eg, AB or Coordinator)
Marketing & promotions	-11 (Editors & media planning)	\$933	- Marketing centralized under enterprise wide mandate reducing redundant management - Marketing processes simplified to minimize duplication, rework
Planning & inventory management	-78 (NOM, MFA, MFC) +14 (Planners)	\$2,732	- Inventory planning resources reduce by ~30% due to system automation, greater outsourcing to vendors - Add 14 dedicated Planning resources to support
Total	-212	\$11,905	

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1. Fully loaded – base, bonus benefits

Performance Benefits

Many benefits of proposed changes beyond resourcing efficiencies would be realized …

Expected performance benefits

Deliver more compelling product assortment

- ✓ Better item selection -- higher sales floor productivity, and margins
  - More best sellers and fewer 'losers'
  - Fewer returns and lower markdowns
- ✓ Increased in-store traffic and conversion
  - More frequent visits and purchases
- ✓ Increased market share

Optimize allocation, replenishment & clearance

- ✓ Reduced stock-outs, overbought; faster replenishment
- ✓ Reduced inventory risk from product misses
- ✓ Lower overhead costs

Improve marketing capability

- ✓ Higher return on market spend; greater productivity and profitability from promotional offers
- ✓ Increased traffic from new customer segments

Enhance sourcing expertise

- ✓ Lower purchasing costs and increase vendor responsiveness
- ✓ Improve product quality and consistency without driving up price

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End-State Enablers and Requirements to Ensure Success

Four key enablers are necessary in order to realize end-state benefits …

End-state enabler	Requirements
1. Strong progress in building high performance talent base	• Qualified, high potential talent identified to fill critical new, evolving roles • Role expectations re-set based on objective standard, not individual capabilities – Short-term gaps addressed through greater training effort and performance management • Culture of accountability driven by enhanced performance measurement system – Top performers nurtured and rewarded; low performers addressed
2. Rigorous processes with clear roles and accountabilities	• Everyone knows and executes on role; no overlaps and no gaps • More rigorous timelines and well-defined processes enable shift from "Merchant as quarterback" to "coordinated specialist" model – e.g., Disciplined line planning process starting 10-12 mo. before floor reset – e.g., More analytical flyer planning process that optimizes space for Sears – e.g., Well-documented vendor expectations to support further outsourcing
3. Highly automated inventory management and planning solution	• Reliable, long-term solution developed to automate significant share of manual inventory planning & allocation tasks (eg, item set-up, replenish, markdowns) • Automated solution can be scaled across categories at acceptable ROI – Investment required to address current gaps (eg, Apparel rack planning)
4. Deep partnerships established across vendor base	• External partners identified with demonstrated design expertise and sufficient customer insight to replace internal product development in most categories • Vendors capable, willing to accept increased accountability for other key activities – e.g., inventory mgmt. support, flyer design

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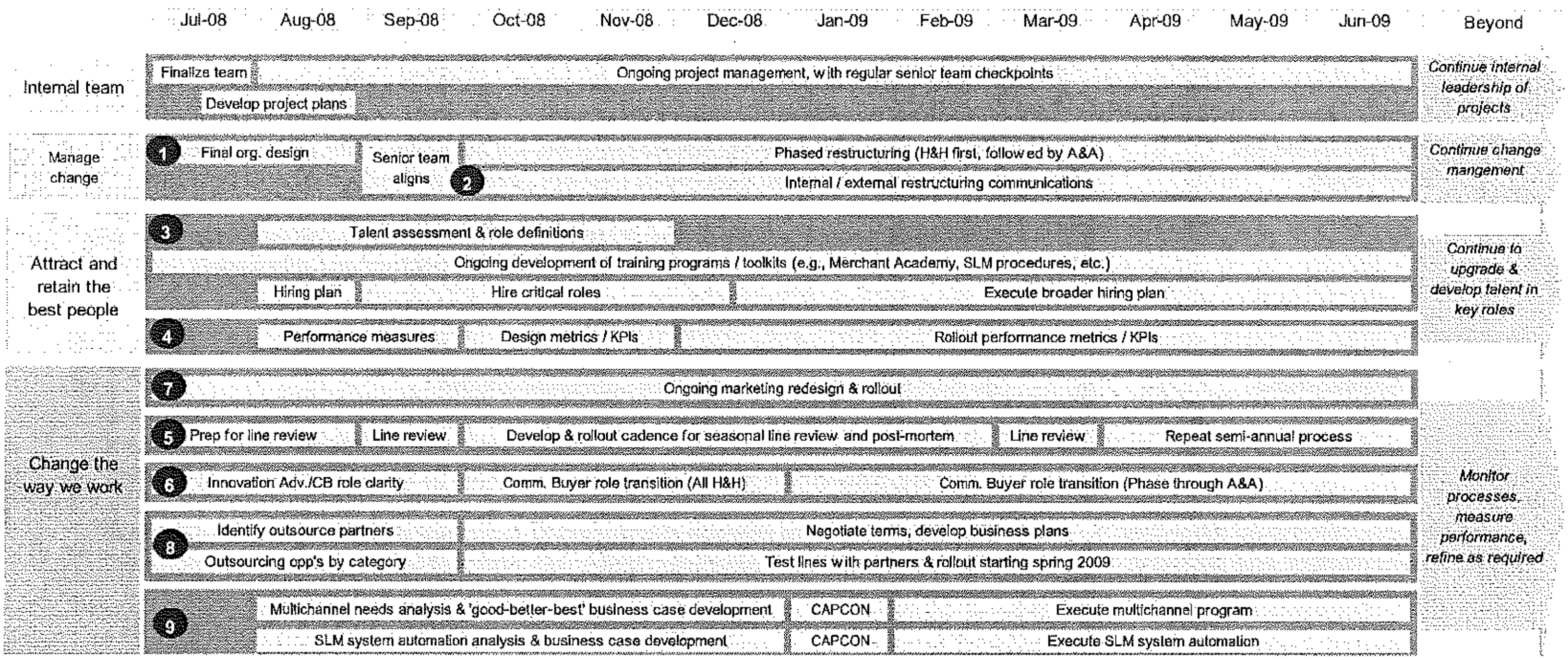
Merchandising Project Timelines

Working teams will make significant progress by end of 2008 …



Jul-08 Aug-08 Sep-08 Oct-08 Nov-08 Dec-08 Jan-09 Feb-09 Mar-09 Apr-09 May-09 Jun-09 Beyond

Internal team
- Finalize team
- Ongoing project management, with regular senior team checkpoints
- Develop project plans
- *Continue internal leadership of projects*

Manage change
- ① Final org. design
- Senior team aligns
- Phased restructuring (H&H first, followed by A&A)
- ② Internal / external restructuring communications
- *Continue change mangement*

Attract and retain the best people
- ③ Talent assessment & role definitions
- Ongoing development of training programs / toolkits (e.g., Merchant Academy, SLM procedures, etc.)
- Hiring plan
- Hire critical roles
- Execute broader hiring plan
- ④ Performance measures
- Design metrics / KPIs
- Rollout performance metrics / KPIs
- *Continue to upgrade & develop talent in key roles*

Change the way we work
- ⑦ Ongoing marketing redesign & rollout
- ⑤ Prep for line review
- Line review
- Develop & rollout cadence for seasonal line review and post-mortem
- Line review
- Repeat semi-annual process
- ⑥ Innovation Adv./CB role clarity
- Comm. Buyer role transition (All H&H)
- Comm. Buyer role transition (Phase through A&A)
- ⑧ Identify outsource partners
- Negotiate terms, develop business plans
- Outsourcing opp's by category
- Test lines with partners & rollout starting spring 2009
- ⑨ Multichannel needs analysis & 'good-better-best' business case development
- CAPCON
- Execute multichannel program
- SLM system automation analysis & business case development
- CAPCON
- Execute SLM system automation
- *Monitor processes, measure performance, refine as required*

① Restructuring

② Change Mgmt & Communication

③ Talent Recruitment & Training

④ High Performance Culture

⑤ Assortment Strategy & Planning

⑥ Sourcing Redesign & Commodity Buyer Integration with Merchandising

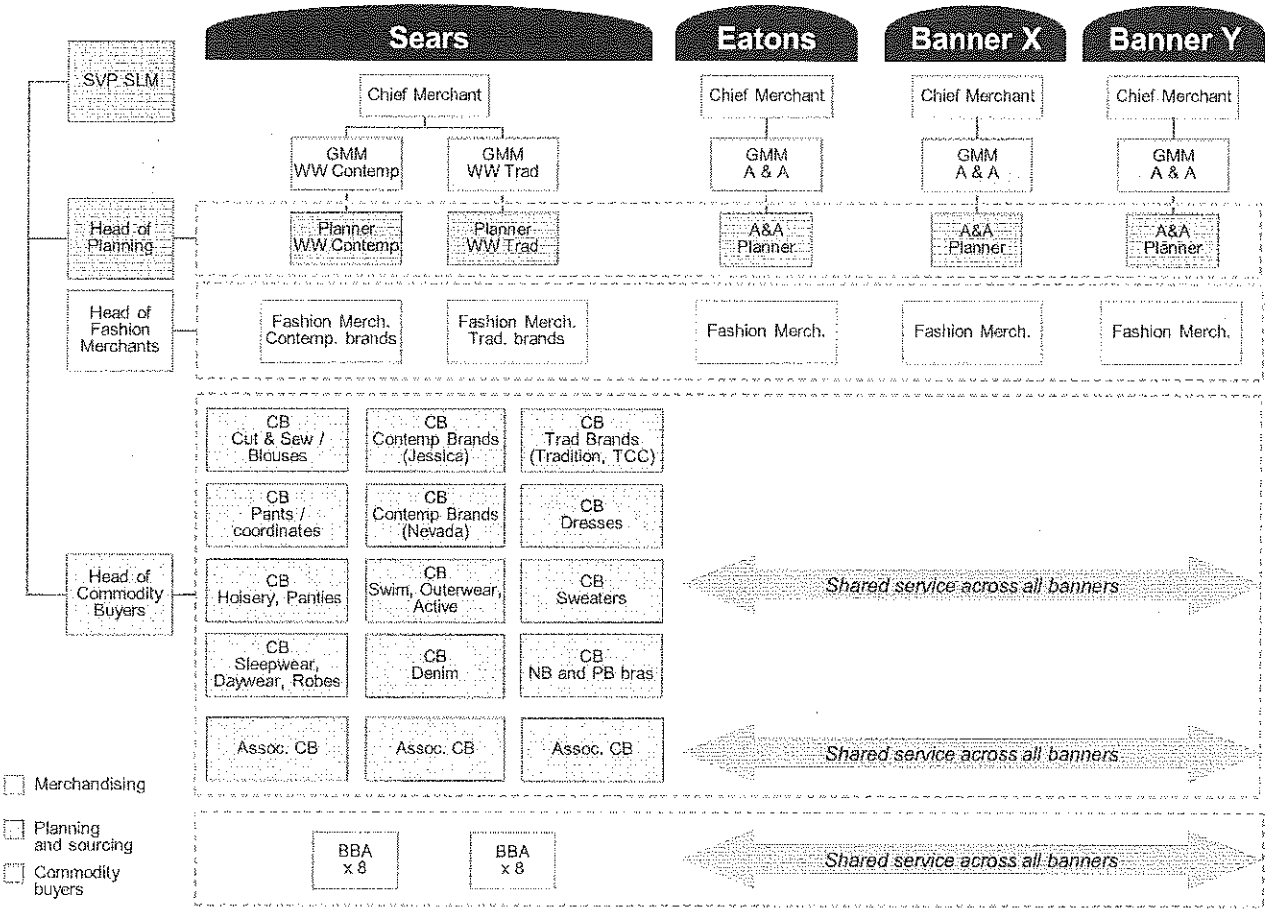
⑦ Marketing Redesign

⑧ Product Development Outsourcing

⑨ Multi-channel Excellence; Allocation Planning & NR System Planning

Merchandising Organization (Preliminary)

Preliminary view of the future state organization (A&A) …



Roles

- GMM: Owns P&L, shop strategy assortment plan, and banner / category customer
- Leads line review and approves or request changes to proposed plan

- Conducts hindsight analysis, sets assortment guidelines and projects financial impact

- Monitors trends and recommends innovative products across all banners (understands all target customers)

- Buys entire line with direction from GMM/ Planner
- Interfaces with vendor to review product offering and understand product options
- Quality checks vendor deliveries

- Supports CB with vendor execution (e.g., collects samples and follows up on orders)

- Provides admin support for CB

Agenda

7:00 – 7:15	Introduction	Dene Rogers
7:15 – 7:30	2009 – 2011 Financials	Dave Merkley
7:30 – 9:30	Retail Strategy	Dene Rogers / All
9:30 – 10:00	Retail Stores	Dennis Singh
10:00 – 10:45	Real Estate	Robbie Wasserman, Dennis Singh
10:45 – 11:45	Direct Strategy	Rick Brown, Chris Peters, Simon Rodrigue
11:45 – 12:30	Lunch	
12:30 – 1:15	Home Services	Arv Gupta
1:15 – 2:00	Financial Services	Rick Brown
2:00 – 2:45	SKU Lifecycle Management	Tim Flemming
2:45 – 3:30	Business Capability	Cathy McConnell, Tim Flemming
3:30 – 4:15	Sustainability	James Gray-Donald
4:15 – 4:30	Wrap Up / Next Steps	Dene Rogers

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The 2009-2011 roadmap has to be practical, profitable, multi-year and invigorate our culture with a new sense of satisfaction …

The new AVP & Sustainability Leader will drive forward three priority areas:

Priority Areas	Goal 2009 – 2011
• Increase the portfolio of customer facing "green" products and services	$250 MM of incremental sales
• Reduce the environmental impact of operations and internal resource use	Reduce $25 MM per year of net costs
• Nurture a culture of sustainability with its associates	Associates are literate in sustainability, motivated and able to deliver the first two priority areas

Vision: Green Products and Services

Sears is the #1 provider of sustainable home solutions ...

Initiative	Content	Sales Goal ($ MM)	Total Sales ($ MM)
HIPS	• ecoENERGY Evaluations	$ 8.3	$112.0
	• Solar Water Heater	36.0	
	• Rental of Tankless	1.4	
	• Rental of Powerpipe	0.1	
	• Rental of Furnaces & A/C	4.6	
	• Sale of Tankless	0.8	
	• Sale of Powerpipe	0.3	
	• Sale of HVAC equipment	54.3	
	• Innovative Green Products	3.1	
	• Innovative Green Services	3.1	
H&H	• Major Appliances -High efficiency shop, new signage, introduce more European appliances, appliance recycling programs	$64.0	$80.0
	• Eco-cleaning products	2.0	
	• Eco-flooring, shades, blinds, curtains	2.0	
	• Eco lawn mowers and yard products	2.0	
	• Organic, natural and hypo-allergenic baby wear and products	5.0	
	• Organic, natural and bamboo bed and bath products	5.0	
A&A	• Organic apparel	$20.0	$50.0
	• Bamboo apparel	20.0	
	• Ethically sourced jewelry	2.0	
	• Alternative health counter	8.0	
Travel	• Eco-adventure travel • Eco-tourism • Carbon off-sets	$2.0	$2.0
B2B	• Hotel Association of Canada: Green Keys program	$4.0	$8.0
	• Wholesale of appliances to building contractors	2.0	
	• Corporate rewards programs	2.0	
		Total	$252.0

Vision: Sears Operations

Sears reduces its resource consumption costs by $25 million …

Initiative	Content	Up-front cost	Annual return	Life (years)
Distribution Centres	• ISO 14,000 annual audits • Solar roofs • Styrofoam recycling • White goods recycling	$160k $500k Minimal Minimal	Reduced risk $60-90k $100k TBD	Annual 20+ Annual Annual
Corporate Stores	• Annual facility energy audits (worst 10% of stores) • Daylighting of suitable locations • Lease roof for solar generation	$2.1MM High None	$270k + 40% sales 1cent/ kwh	10 10 25
Waste	• Waste diversion at 85% • Cardboard bailers • End of life disposal of customer products via Sears (carpet, electronics, appliances)	TBD $3.75 MM Low	$1+ MM $1+ MM Increased sales	- -
Electricity	• LED spotlight conversion • Energy monitoring centre • Electricity demand management	$8 MM $200k Minimal	$3 MM $343k $215k	10 - 25
Transport	• Carpooling for associates and customers • SLH fleet top of class fuel efficiency	$5k TBD	+ Retention $4-10 MM	
Packaging	• Reusable break packs • 5% reduction	TBD	TBD	5
Supply Chain	• Reduce product miles to get on shelf		$7-10 MM	
Carbon	• Enterprise carbon management system • Carbon reductions via retaining right to customers carbon emissions credits	$80k -	TBD Reduced risk	
Total		$10.4 MM	$22.0 MM	

Attract and retain associates by offering them a role to play in reducing the ecological footprint of Sears as well as creating sustainable homes and communities …

Initiative	Content	Up-front Cost	Annual Cost	Value
Green teams	Each location has a green team connected to Health & Safety committees	$400k	$100k	Motivation, monitoring of resource consumption
Store level rewards	Recycling, energy and water use posted in every store's bulletin boards. Competitions held, with awards given to local charities on behalf of stores	$100k	5% of cost savings	Increased motivation, reduced resource consumption
Sustainability training	2 x 1 hour per associate about new recycling programs and energy conservation	-	$800k	Ability to act on increased technical knowledge
Personal sustainability pages	Each employee has a 'Facebook' like page where they can show the changes they have made, share green links, access range of eco content. Corporate green messages and product info will be posted	$80k	$10k	Increased awareness, pride and communication
Green benefits plan	Based on regular performance metrics and environmental metrics, provide points tradable for Sears gift cards on home energy audit and eco-products	$50k	$0.5 - 35MM	Increased retention rates
Charity	Partner with national ENGO to offer eco programs connected to local schools and encourage associates to volunteer	-	$200k	Increased community connections, enhanced corporate reputation
Total of initiative costs		$630k	$1,610k+	Implement first two priority areas of roadmap
Likely benefits	Increase Associate productivity by 2-10%	-	TBD	
	Associate turnover down by 2% ($2MM / year)	-	minus $2,000k	

Green product choices …

- Shopping at retailers that have taken an environmental stance is gaining momentum in Canada, but has yet to reach the consumer fully
- Today's consumers are already overwhelmed with the number of product choices on the market. Purchase conversion among those who consider green products is favourable
- Conclusion: eco products that are convenient, easy, are part of habitual activity and cost comparable will have the most success
- Currently, the most commonly considered eco product categories are (in order)
  - "Green" cleaning products (82%)
  - Food/groceries (74%)
  - Major appliances (73%)
  - Cosmetics and accessories (43%)
  - Clothing (31%)
  - Bed and bath linen (31%)
- Though visitation to Sears in the past six months includes three in five consumers, the purchase of environmentally friendly products at the store (3%) trails that of other retailers in the consideration set (average 9%)

Market Research: The Canadian Citizen (II)

For the first time, the majority of Canadians – especially the 50+ group – is personally taking responsibility for the environment and wants to do something positive, and is willing to pay a premium …

Problem:

- They don't know what to do, there are too many options

Answer:

- Understand the sustainable lifestyle Canadians want and make it easy for them to achieve that lifestyle
  - Integrate products and services
  - Provide simple to understand comparison charts
  - Provide simple payment plans (especially when they show cash positive purchases)
  - Pre-select products that are truly green, thereby reducing work needed by consumer and to generate higher trust in Sears

Environmental activities of US citizens by age
(April 2008, Harris Interactive)

	18-31	32-43	44-62	63+	Total
Reduced the amount of energy used in my home	61%	57%	64%	70%	63%
Purchased more energy efficient appliances	32%	42%	47%	52%	43%
Purchased more locally grown food	23%	26%	25%	35%	27%
Stopped drinking bottled water	23%	17%	19%	27%	21%
Purchased a hybrid car	3%	1%	2%	3%	2%
Purchased carbon-offsets	3%	2%	1%	1%	2%
Other	14%	20%	16%	8%	15%
Nothing	29%	31%	26%	20%	27%

Notes Summary:

Slide 76: 'Validate #s'
Slide 122: 'In 2006, there were a number of factors that contributed to the overall profile and importance of card share:

Sears Canada was in the 1st year since the sale of the credit card portfolios to JP Morgan & Chase
There was heightened awareness at Sears that we maintain our card share in order to maintain a healthy revenue stream from Chase, to mitigate any potential loss because of the sale of the credit card portfolios
Advertising and Marketing was focused on the Cards
1st time that credit revenue was posted to channel/unit P&Ls'

TAB 2

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For Discussion Purposes

Capital Structure Update

April 23rd, 2010

1.3

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Agenda

7.4

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Executive Summary

- Sears Canada generated approximately $1,143.7 MM of cash flow from operations between 2006 - 2009 and is forecasted to generate approximately $500 MM in fiscal 2010

(CAD in millions)

Year	Annual Cash Flow from Operations	Cumulative Cash Flows from Operations	Debt Repayment	Cash Balance
2006	$256.4	$256.4	-	$722.9
2007	225.3	481.7	-	871.6
2008	165.9	647.6	-	819.8
2009	496.1	1,143.7	-	1,397.6
2010F	459.0	1,602.7	(300.0)	419.8

- Total cash, restricted cash and investments ("cash") was $1,397.6 MM at the end of 2009 and without any changes in debt or capital structure, is estimated to be $2,704.8 MM by fiscal 2014 with debt of $4.4 MM

- The Company is earning 25 bps on it's $1,397.6 MM excess cash at the end of 2009 to protect the cash from risk

- In order to maximize returns, operating effectiveness and efficiency, the Board of Directors of the Company may consider:
  - Recapitalizing the Company's capital structure; and
  - In lieu of other strategic uses of the cash, issue a dividend and maintain sufficient cash / liquidity to operate comfortably
- The forward curve for the U.S. 10 year Treasury Note indicates a rise of approximately 50 bps over the next 12 months. In Canada, the bank of Canada maintained its policy rate of 0.25% and reaffirmed its conditional commitment to holding the current rate. Futures contracts, however, now price up to 159bps in rate hikes over the next 8 meetings (12 months) by the BOC with initial rate increases expected in mid 2010

Executive Summary - Scenario Analysis

For discussion purposes, four capital structure scenarios based on base case financial forecasts have been modeled. Under these different scenarios, by Q3 2010 the Company is able to have approximately $600 MM to $2,000 MM of cash available for a dividend or other corporate uses and still maintain sufficient liquidity to operate comfortably...

1: No New Debt - $600 MM Dividend

(CAD in millions)	At Close				
	7/31/10	FY 2010	FY 2011	FY 2012	FY 2013
Cash & Equivalents	$531.3	$881.1	$1,202.6	$1,557.3	$1,825.2
Less: Current Portion of Debt	$111.2	$9.2	$4.3	$7.4	$11.2
Excess Cash	$420.2	$871.8	$1,198.3	$1,549.9	$1,814.0
Revolver Availability	$0.0	$0.0	$0.0	$0.0	$0.0
Total Liquidity	$420.2	$871.8	$1,198.3	$1,549.9	$1,814.0
Total Debt	$143.1	$36.5	$27.3	$23.0	$15.6
LTM EBITDA	$490.6	$490.2	$499.1	$513.7	$528.6
Debt/EBITDA	0.3x	0.1x	0.1x	0.0x	0.0x
Adj. Debt/EBITDAR	1.8x	1.7x	1.6x	1.6x	1.5x
Financing Costs (Fees and Interest)	$0.5	$0.5	$0.0	$0.0	$0.0

2: $400 MM ABL - $1,000 MM Dividend

(CAD in millions)	At Close				
	7/31/10	FY 2010	FY 2011	FY 2012	FY 2013
Cash & Equivalents	$123.5	$472.1	$791.3	$1,143.5	$1,408.9
Less: Current Portion of Debt	$111.2	$9.2	$4.3	$7.4	$11.2
Excess Cash	$12.3	$462.9	$787.0	$1,136.1	$1,397.7
Revolver Availability	$400.0	$400.0	$400.0	$400.0	$400.0
Total Liquidity	$412.3	$862.9	$1,187.0	$1,536.1	$1,797.7
Total Debt	$143.1	$36.5	$27.3	$23.0	$15.6
LTM EBITDA	$490.6	$490.2	$499.1	$513.7	$528.6
Debt/EBITDA	0.3x	0.1x	0.1x	0.0x	0.0x
Adj. Debt/EBITDAR	1.8x	1.7x	1.6x	1.6x	1.5x
Financing Costs (Fees and Interest)	$8.4	$10.7	$4.0	$4.0	$4.0

3: $400 MM ABL/$425 MM HY - $1,500 MM Dividend

(CAD in millions)	At Close				
	7/31/10	FY 2010	FY 2011	FY 2012	FY 2013
Cash & Equivalents	$100.0	$373.5	$668.4	$995.9	$1,236.4
Less: Current Portion of Debt	$111.2	$9.2	$4.3	$7.4	$11.2
Excess Cash	($11.1)	$364.2	$664.1	$988.5	$1,225.3
Revolver Availability	$336.8	$400.0	$400.0	$400.0	$400.0
Total Liquidity	$325.7	$764.2	$1,064.1	$1,388.5	$1,625.3
Total Debt	$631.2	$461.5	$452.3	$448.0	$440.6
LTM EBITDA	$490.6	$490.2	$499.1	$513.7	$528.6
Debt/EBITDA	1.3x	0.9x	0.9x	0.9x	0.8x
Adj. Debt/EBITDAR	2.6x	2.3x	2.3x	2.2x	2.2x
Financing Costs (Fees and Interest)	$25.9	$48.7	$38.0	$38.0	$38.0

4: $400 MM ABL/$1,000 MM HY - $2,000 MM Dividend

(CAD in millions)	At Close				
	7/31/10	FY 2010	FY 2011	FY 2012	FY 2013
Cash & Equivalents	$100.0	$419.6	$681.8	$975.7	$1,182.5
Less: Current Portion of Debt	$111.2	$9.2	$4.3	$7.4	$11.2
Excess Cash	($11.1)	$410.4	$677.5	$968.3	$1,171.3
Revolver Availability	$398.7	$400.0	$400.0	$400.0	$400.0
Total Liquidity	$387.6	$810.4	$1,077.5	$1,368.3	$1,571.3
Total Debt	$1,144.4	$1,036.5	$1,027.3	$1,023.0	$1,015.6
LTM EBITDA	$490.6	$490.2	$499.1	$513.7	$528.6
Debt/EBITDA	2.3x	2.1x	2.1x	2.0x	1.9x
Adj. Debt/EBITDAR	3.5x	3.3x	3.2x	3.1x	3.1x
Financing Costs (Fees and Interest)	$36.8	$85.8	$84.0	$84.0	$84.0

Note: Refer to p.29 for a description of the scenario assumptions. All scenarios are net of fees and reflect cash flow impacts of each transaction. For modeling purposes, assumed special dividend paid in Q2 2010 and minimum cash balance of $100 MM.

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Executive Summary - Scenario Sensitivity Analysis

Additionally, Sears Management modeled a downside case on the four capital structure scenarios to reflect the potential financial impact of an ongoing recession continuing for the next 5 years…

1: No New Debt - $600 MM Dividend

(CAD in millions)	At Close				
	7/31/10	FY 2010	FY 2011	FY 2012	FY 2013
Cash & Equivalents	$319.1	$585.2	$741.7	$862.4	$997.4
Less: Current Portion of Debt	$111.2	$9.2	$4.3	$7.4	$11.2
Excess Cash	$207.9	$576.0	$737.4	$855.0	$986.3
Revolver Availability	$0.0	$0.0	$0.0	$0.0	$0.0
Total Liquidity	$207.9	$576.0	$737.4	$855.0	$986.3
Total Debt	$143.1	$36.5	$27.3	$23.0	$15.6
LTM EBITDA	$440.5	$397.1	$376.3	$356.4	$340.0
Debt/EBITDA	0.3x	0.1x	0.1x	0.1x	0.0x
Adj. Debt/EBITDAR	2.0x	2.0x	2.0x	2.1x	2.1x
Financing Costs (Fees and Interest)	$0.5	$0.5	$0.0	$0.0	$0.0

2: $400 MM ABL - $1,000 MM Dividend

(CAD in millions)	At Close				
	7/31/10	FY 2010	FY 2011	FY 2012	FY 2013
Cash & Equivalents	$100.0	$174.6	$324.1	$441.1	$573.6
Less: Current Portion of Debt	$111.2	$9.2	$4.3	$7.4	$11.2
Excess Cash	($11.1)	$165.3	$319.8	$433.7	$562.5
Revolver Availability	$210.9	$400.0	$400.0	$400.0	$400.0
Total Liquidity	$199.7	$565.3	$719.8	$833.7	$962.5
Total Debt	$332.2	$36.5	$27.3	$23.0	$15.6
LTM EBITDA	$440.5	$397.1	$376.3	$356.4	$340.0
Debt/EBITDA	0.8x	0.1x	0.1x	0.1x	0.0x
Adj. Debt/EBITDAR	2.3x	2.0x	2.0x	2.1x	2.1x
Financing Costs (Fees and Interest)	$8.4	$13.2	$10.3	$5.8	$4.0

3: $400 MM ABL/$425 MM HY - $1,500 MM Dividend

(CAD in millions)	At Close				
	7/31/10	FY 2010	FY 2011	FY 2012	FY 2013
Cash & Equivalents	$100.0	$100.0	$197.3	$285.3	$391.9
Less: Current Portion of Debt	$111.2	$34.0	$4.3	$7.4	$11.2
Excess Cash	($11.1)	$66.0	$193.0	$277.9	$380.7
Revolver Availability	$124.2	$375.2	$400.0	$400.0	$400.0
Total Liquidity	$113.1	$441.2	$593.0	$677.9	$780.7
Total Debt	$843.9	$486.3	$452.3	$448.0	$440.6
LTM EBITDA	$440.5	$397.1	$376.3	$356.4	$340.0
Debt/EBITDA	1.9x	1.2x	1.2x	1.3x	1.3x
Adj. Debt/EBITDAR	3.2x	2.8x	2.9x	3.0x	3.1x
Financing Costs (Fees and Interest)	$25.9	$52.1	$48.8	$45.4	$39.5

4: $400 MM ABL/$1,000 MM HY - $2,000 MM Dividend

(CAD in millions)	At Close				
	7/31/10	FY 2010	FY 2011	FY 2012	FY 2013
Cash & Equivalents	$100.0	$121.8	$211.9	$266.3	$338.2
Less: Current Portion of Debt	$111.2	$9.2	$4.3	$7.4	$11.2
Excess Cash	($11.1)	$112.5	$207.6	$259.0	$327.1
Revolver Availability	$186.1	$400.0	$400.0	$400.0	$400.0
Total Liquidity	$174.9	$512.5	$607.6	$659.0	$727.1
Total Debt	$1,357.0	$1,036.5	$1,027.3	$1,023.0	$1,015.6
LTM EBITDA	$440.5	$397.1	$376.3	$356.4	$340.0
Debt/EBITDA	3.1x	2.6x	2.7x	2.9x	3.0x
Adj. Debt/EBITDAR	4.1x	3.9x	4.0x	4.2x	4.3x
Financing Costs (Fees and Interest)	$36.8	$88.7	$93.5	$91.5	$86.7

Note: Refer to p.29 for a description of the scenario assumptions. All scenarios are net of fees and reflect cash flow impacts of each transaction. For modeling purposes, assumed special dividend paid in Q2 2010 and minimum cash balance of $100 MM.

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Current Situation

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Current Capitalization for Sears Canada

Capitalization as of January 31, 2010

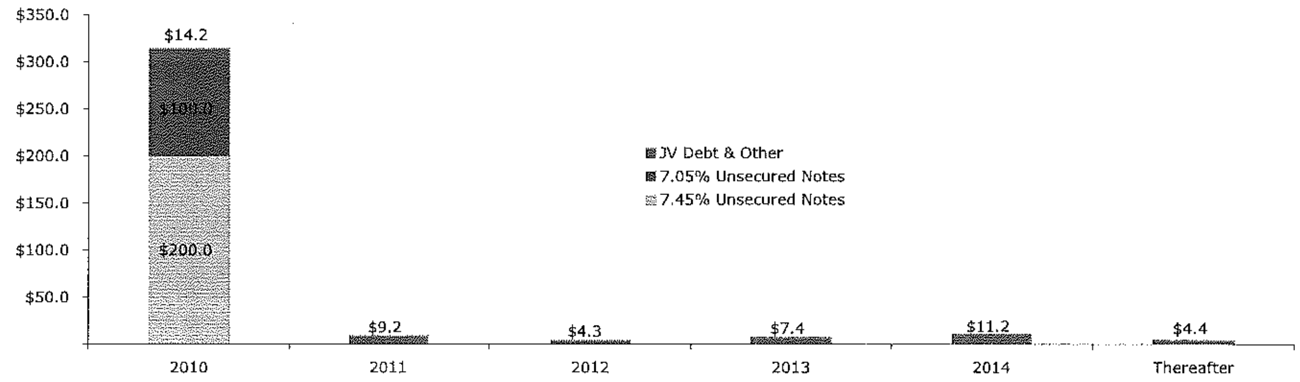
(CAD in Millions) Description	Capitalization $	 %	Cum. Leverage	Cum. Adj. Leverage[1]	Current Pricing	Maturity Date
Cash and Equivalents [2]	$1,397.6					
7.45% Unsecured Notes	200.0	10.0%	0.4x	1.9x	7.45%	May 2010
7.05% Unsecured Notes	100.0	5.0%	0.6x	2.1x	7.05%	Sep 2010
JV Debt & Other	50.7	2.5%	0.7x	2.1x		
Total Debt	**$350.7**	17.5%	0.7x	2.1x		
Net Debt	**($1,046.9)**	(52.3%)	(2.1x)	(0.1x)		
Total Book Equity	1,652.4	82.5%				
Total Capitalization	**$2,003.1**	100.0%				
Based on LTM 1/31/10 EBITDA of:			$497.6			
Based on LTM 1/31/10 EBITDAR of:				$619.8		

[1] Adjusted debt includes 8.0x rent expense of $122.3 million.

[2] Includes $15.8 million of restricted cash.

Maturity Schedule as of January 31, 2010

(CAD in Millions)



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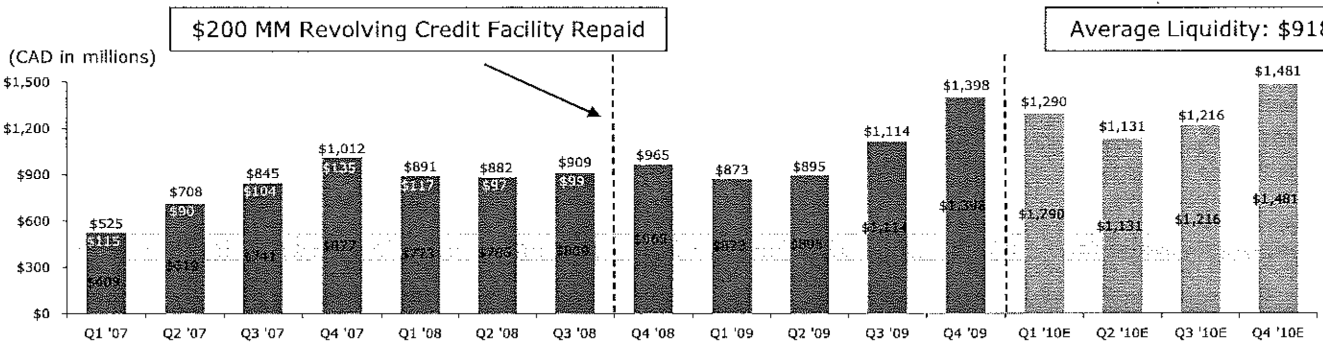
Liquidity Benchmarking

While most publicly traded retailers have a revolver as part of their liquidity mix, Sears Canada has operated since 2009 without a revolver, relying on its significant cash position to provide liquidity…

Sears Canada Historical and Projected Cash and Available Borrowings

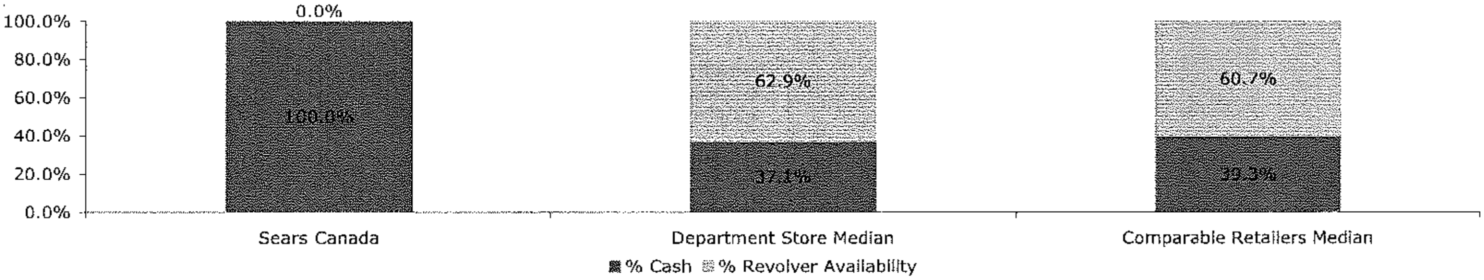

$200 MM Revolving Credit Facility Repaid

Average Liquidity: $918 million

Target Liquidity: $350 + MM

Source: Sears Canada public filings
Note: Revolving credit facility expired in December 2008. Excludes availability under current letter of credit facility. Includes restricted cash.

Cash vs. Revolver Availability



Source: Sears Canada and public company filings. Department stores include Belk, Dillards, J.C. Penney, Kohl's, Macy's, Nordstrom and Sears Holdings. Comparable Retailers include Advance Auto Parts, Canadian Tire, Dick's Sporting Goods, Dollar Tree, Family Dollar, O'Reilly Auto Parts, Petsmart, RadioShack, Rona and Ross Stores.

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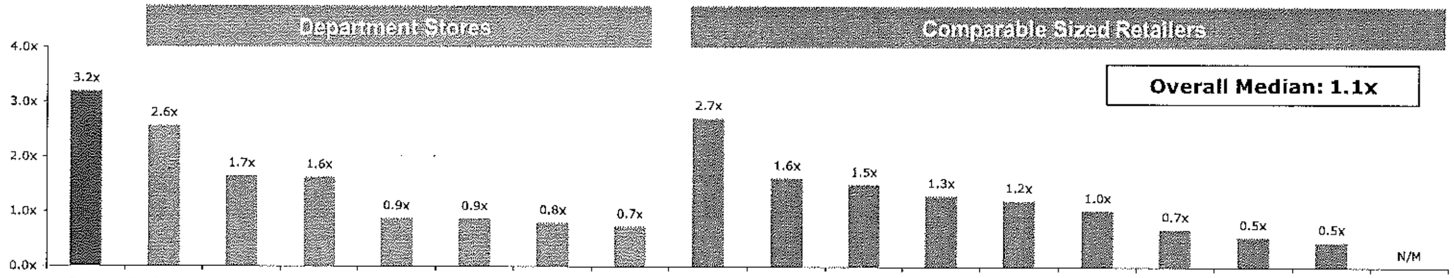
Liquidity Benchmarking

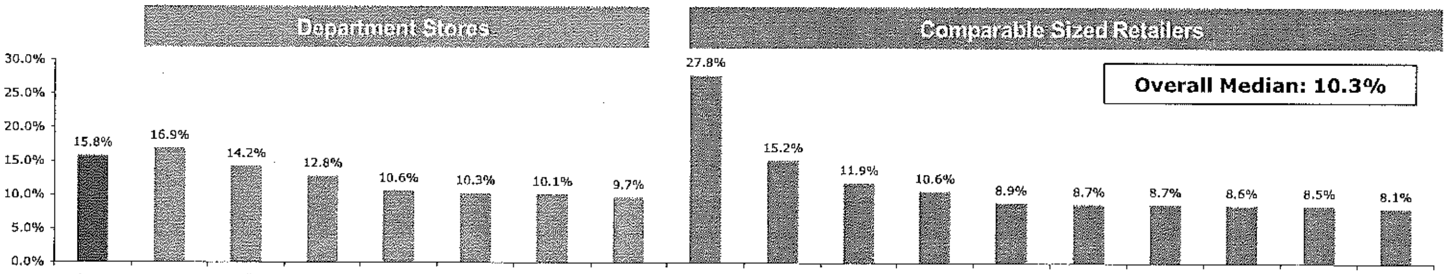
Sears Canada evaluated several liquidity metrics of comparable companies to benchmark their appropriate liquidity levels ...

(1) Multiple of Inventory net of Payables: 1.1 X $180 MM (Avg. 2010E Inventory net of AP) = $200 MM
(2) Percentage of Sales: 10.3% of $5,366 MM (2010E Sales) = $551 MM

3-Year Average Cash + Available Borrowings / 3-Year Average Inventory net of Payables



3-Year Average Cash + Available Borrowings / 3-Year Average Sales



Source: Public filings.

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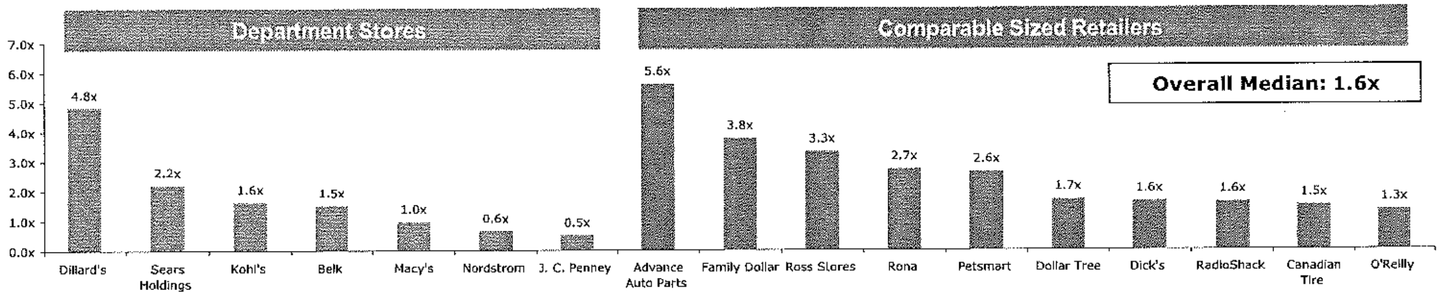
Liquidity Benchmarking (cont.)

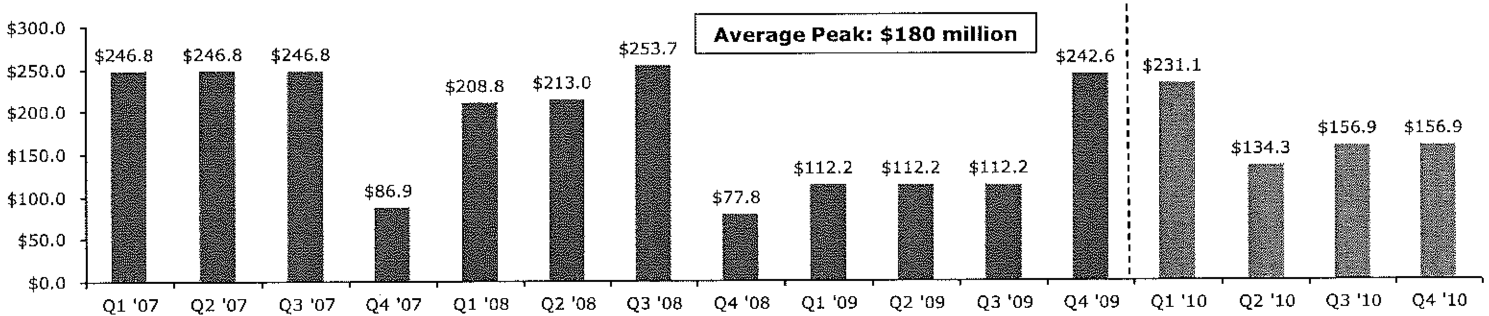
To support working capital, LCs and maintain an appropriate cushion, Sears Canada should have access to a revolver in the $400 MM range …

(3) Multiple of Max Peak to Trough WC: 1.6 X $180 MM = $288 MM
(4) SCC Max WC Change ($180 MM) + SCC LCs ($20 MM) + Cushion/Other ($185 MM) = $385 MM

3-Year Average Revolver Size / 3-Year Max Peak to Trough Working Capital



Sears Canada Rolling Average Four Quarters Peak to Trough Working Capital Usage



Source: Public filings.
Note: Working capital is calculated as accounts receivable plus inventory less accounts payable

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Liquidity Benchmarking (cont.) - Additional Liquidity – Real Estate Monetization

Sears Canada has access to other liquidity options including approx. $470 MM of owned and $343 MM of joint venture real estate…

Sears Owned Properties

Location	Channel	Building Area (sq.ft)	Land Area (acres)	2009 Estimated Market Value
Quebec Levis, Quebec	Excess land	-	1.0	$1,100
Burnaby Metrotown, BC	Excess land	-	1.0	$1,615
Chicoutimi, BC	Excess land	-	2.0	$2,585
Quebec Fleur de Lys, Quebec	Full Line Store	210,885	12.0	$15,400
Kitchener, Ontario	Full Line Store	177,230	12.6	$13,965
Windsor, Ontario	Full Line Store	305,628	18.5	$24,150
Peterborough, Ontario	Full Line Store	104,418	6.8	$8,190
Barrie, Ontario	Full Line Store	117,473	10.5	$8,925
Trois Rivieres, Quebec	Full Line Store	144,677	8	$10,566
Montreal Place Vertu, Quebec	Full Line Store	197,052	13.4	$9,460
Quebec Levis, Quebec	Full Line Store	125,258	8.9	$9,240
Newmarket, Ontario	Full Line Store	144,923	12.0	$12,495
Charlottetown, PEI	Full Line Store	108,400	15.0	$11,760
Calgary North Hill, Alberta	Full Line Store	237,616	12.9	$20,805
Winnipeg Garden City, Manitoba	Full Line Store	92,306	10.8	$6,000
Chilliwack, BC	Full Line Store	97,014	10.6	$6,740
Burnaby Metrotown, BC	Full Line Store	278,916	12.3	$19,380
Newmarket, Ontario	Home	35,500	4.0	$3,150
Regina, Sask.	Home	43,000	3.2	$3,380
Edmonton Slh Land, Alberta	Trailer parking	-	3.0	$1,425
Belleville & SLH, Ontario	Warehouse	1,813,096	242.0	$63,000
Regina Parkway, Sask.	Warehouse	283,694	33.4	$11,000
Regina Broad, Sask.	Warehouse	870,023	13.2	$24,000
Calgary NSC includes Slh, Alberta	Warehouse	682,467	45.7	$46,000
Vaughan NSC includes Slh, Ontario	Warehouse	925,472	77.3	$56,000
Montreal, Quebec	Warehouse	1,639,457	84.9	$67,000
Port Coquillam, BC	Warehouse	96,137	11.5	$12,800
Totals		**8,730,642**	**686.5**	**$470,131**

Sears Joint Venture Properties

Location	JV Interest	Market Value @ 100%	Sears Market Value
St. Jerome, Quebec	50.0%	$124.0	$62.0
St. Jean, Quebec	50.0%	$92.0	$46.0
Lasalle, Quebec	50.0%	$214.0	$107.0
Drummondville, Quebec*	50.0%	$71.0	$35.5
Lasalle, Quebec	50.0%	$9.5	$4.8
St. Jean, Quebec	50.0%	$4.5	$2.3
Hull., Quebec	15.0%	$62.9	$9.4
Trois Rivieres, Quebec	15.0%	$141.0	$21.2
Winnipeg, Manitoba	20.0%	$94.0	$18.8
Chatham, Ontario	50.0%	$13.0	$6.5
Medicine Hat, Alberta	40.0%	$73.7	$29.5
		$899.6	**$342.9**

Source: Sears Canada data

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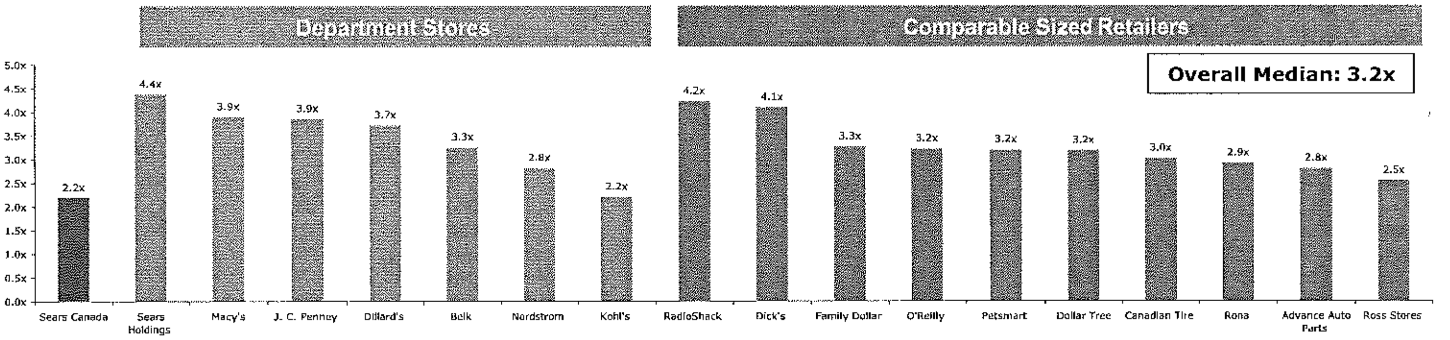
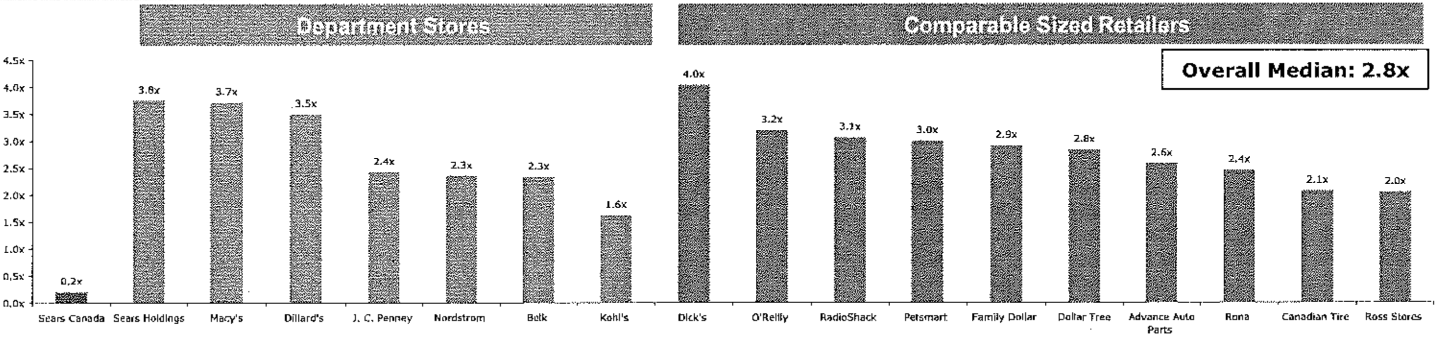
Adjusted Leverage Benchmarking

Given Sears Canada's cash flow and lack of new store growth, its leverage level is lower than the median adjusted leverage of 3.2x of its competitors …

Adjusted Debt / LTM EBITDAR



Net Adjusted Debt / LTM EBITDAR



Note: Sears Canada operating leases capitalized at 8.0x. SCC data as of Q3 '09.
Source: Public company filings

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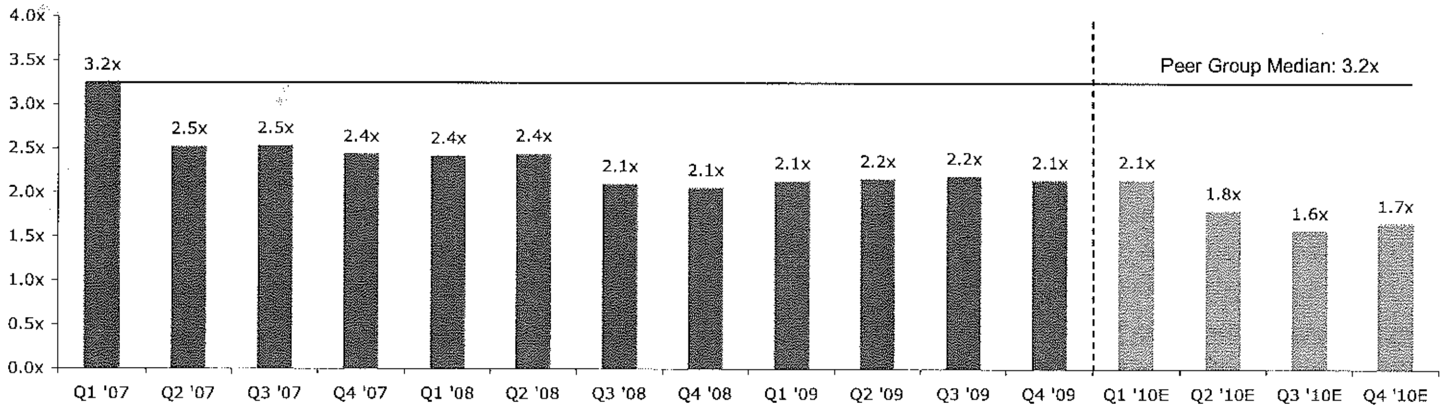
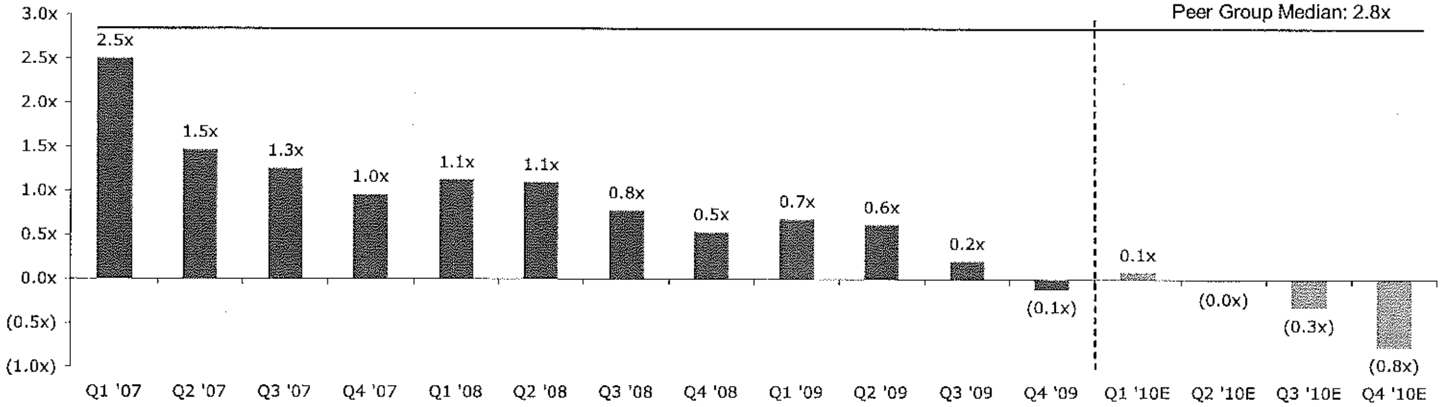
Adjusted Leverage Benchmarking (cont.)

Sears Canada Historical and Projected Adjusted Debt / LTM EBITDAR



Sears Canada Historical and Projected Net Adjusted Debt / LTM EBITDAR[1]



Source: Sears Canada filings and estimates according to 2010 Plan. Peer group median comprised of comparable sized retailers and department stores.

[1] Includes restricted cash.

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Rating Agency Commentary

Moody's (Sears Canada)

Sears Holdings: Rating: Ba2 / Stable

Sears Canada: Rating: Ba1 / Stable

> "The Ba1 corporate family rating recognizes Sears Canada's solid franchise and strong credit metrics. It also recognizes the potential impact on financial policy of decisions that could be made by its ultimate 74% owner, Sears Holdings (Corporate Family Rating Ba2)."
>
> *--Marie Menendez, Moody's, 7/20/09*

What could change the rating up?

- Due to Sears Canada's potential for an aggressive financial policy, an upgrade is unlikely.
  - Positive momentum could result if Company reduces debt levels through free cash flow generation and the retail business sustains operating margins greater than 7%.
- Additionally, continued financial policy balance at the parent company is necessary to gain upward rating momentum.

What could change the rating down?

- Financial policy changes such that it takes on additional debt to finance dividends.
- Company's operating performance declines leading to deterioration in operating margins and liquidity.
  - Debt to EBITDA exceeding 3.5x and operating margin sustained below 2.0%.
- Financial policy decisions at the parent company that are a clear detriment to debtholders or increases the risk profile.

S&P (Sears Holdings)

Sears Holdings: Rating: BB- / Stable

- Ratings reflect the relatively high business risk associated with Sears department stores and Kmart discount stores, weak profitability relative to its peers, and S&P's expectation that both concepts will still face challenges in improving sales and store productivity.
- Parent company's use of cash flow to fund share repurchases and its diminishing reinvestment of cash for capital expenditures also causes concern.

What could change the rating up?

- Will likely not consider a higher rating until a sustained recovery in sales is achieved at both Sears and Kmart, which more successful merchandising strategies would fuel.

What could change the rating down?

- The current sales recovery reverses or if profitability is worse than expected because of poor execution or greater than expected sales pressure from weakening consumer spending.
  - Sales and operating margins at Sears Holdings decrease such that total debt to EBITDA approaches 5x.
- Share repurchase activity is higher than expected.

> "The company's short-term credit factors include a weak business profile and below-average operating margins. Because Sears participates in the highly competitive low-to-moderate department store sector and the highly competitive discount department store sector, we believe its prospects for a material improvement in market position and profitability are not high."
>
> *--Ana Lai, S&P, 2/25/10*

Source: S&P and Moody's.

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Case Study: Sears Canada 2005 Dividend

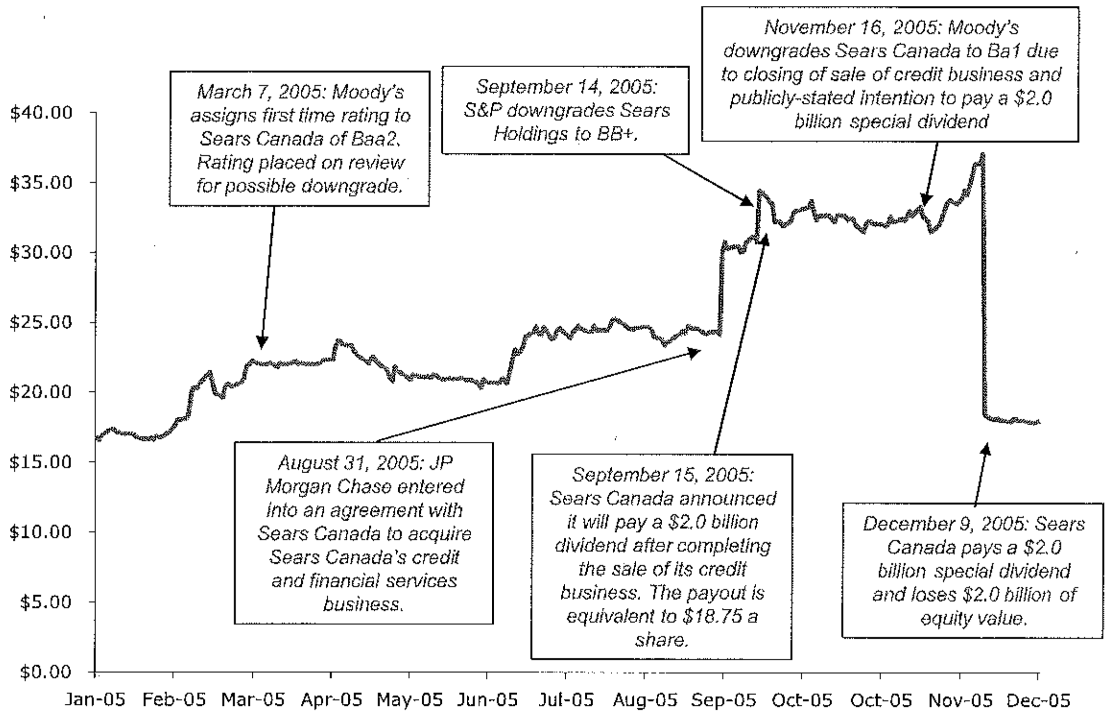
In 2005, the impact of the special dividend to shareholders was a ratings downgrade from Baa2 to Ba1 and a corresponding drop in equity value equal to the amount of the dividend...

Annotated Stock Chart

Pre-Deal Metrics (LTM 10/1/05):
Adjusted Leverage: 3.2x

PF Post-Deal Metrics (LTM 12/31/05):
Adjusted Leverage: 3.4x

> "The downgrade results from the closing of the sale of Sears Canada's credit business to JP Morgan Chase for CAD$2.3 billion, and Sears Canada's publicly-stated intention to distribute 100% of net proceeds, or roughly CAD$2 billion to stockholders via a special dividend – indicating a significantly more aggressive financial policy."
> *--Angela Jameson, Moody's, 11/16/05*



March 7, 2005: Moody's assigns first time rating to Sears Canada of Baa2. Rating placed on review for possible downgrade.

September 14, 2005: S&P downgrades Sears Holdings to BB+.

November 16, 2005: Moody's downgrades Sears Canada to Ba1 due to closing of sale of credit business and publicly-stated intention to pay a $2.0 billion special dividend

August 31, 2005: JP Morgan Chase entered into an agreement with Sears Canada to acquire Sears Canada's credit and financial services business.

September 15, 2005: Sears Canada announced it will pay a $2.0 billion dividend after completing the sale of its credit business. The payout is equivalent to $18.75 a share.

December 9, 2005: Sears Canada pays a $2.0 billion special dividend and loses $2.0 billion of equity value.

Source: Capital IQ.

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Conclusions: Current Capital Structure

In lieu of an alternate use of excess cash, Sears Canada should consider recapitalizing the Company to allow a significant dividend to be paid to shareholders ...

- Sears Canada maintains an underlevered capital structure compared to its peers
  - Q3 '09 Adjusted leverage of 2.2x is below a peer group median of 3.2x
  - Debt to capitalization is approximately 12% versus the peer group median of ~35%
  - Potential to optimize its capital structure and reduce cost of capital through a recapitalization

- The Company generates significant free cash flow and has averaged over $900 MM of liquidity since 2007
  - Covers internal working capital (inventory net of payables) requirements by a multiple of 3.2x versus peer median of 1.1x
  - Based on a peer analysis, Sears Canada should maintain approximately $350 to $450 MM of liquidity

- The Company's current capital structure and resulting credit metrics support an investment grade rating; however, the rating agencies have awarded a lower rating due largely to the controlling vote of Sears Holdings and potential for aggressive financial policies
  - Subject to consultation and agreement with the rating agencies, Sears Canada should be able to increase adjusted leverage to 3.0x, which would keep Sears Holdings leverage below 5.0x, and maintain current ratings for both Sears Canada and Sears Holdings
- Sears Canada could raise up to $1,500 MM in credit while maintaining its financial flexibility to comfortably execute it's business plan and to provide sufficient liquidity

Capital Structure Alternatives

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Recapitalization – Asset-Based Facility

The first source of debt could be raised by issuing a facility secured by inventory and accounts receivable …

Pros

- *Low cost senior debt*
- *Flexibility – no maintenance covenants as long as Company meets liquidity tests*
- *Liquid ABL market*
- *Favorable Terms:*
  Lengthening terms (4 year committed/5 year target)
  Accordion feature in place
  No pricing floor
- *Prepayable debt*

Cons

- *Limited borrowing base*
- *Current noteholders will be pari passu*
- *Ongoing monitoring*
- *Appraisal requirements*

Type of Debt	Fixed/Floating Interest Rate	Upfront Fees	Undrawn Commitment Fees	Other Costs, Other Than Interest	Security
ABL	Floating: Bankers Acceptance (BA) + 350 to 400 bps No BA Floor Term: 3/4 Years Current Interest Rate 4.5%	1% to 2% of Notional	0.75% to 1% of Undrawn Amount	Rating Agency and Admin Fees and Legal Costs	Secured Against Inventory

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Recapitalization – High Yield Notes

The balance of debt could be raised in the high yield market …

Pros	*Cons*
Significant capacity: *Canada: $150 MM to $500 MM* *US: up to $1,000 MM*	*More expensive option*
Active high yield market	*Non-call period*
Longer tenor (7-10 years)	*GAAP/Public Filing Requirements*
No amortization	*Market risk*
No maintenance covenants	

Type of Debt	Fixed/Floating Interest Rate	Underwriting Fees	Other Costs, Other Than Interest	Security
High Yield Notes	$400M-$700M Notes: Fixed: 7.50% area $1,000M Notes: Fixed: 7.75% area Term: 7-10 Years	~2.0% of Notional	Rating Agency and Admin Fees and Legal Costs	None

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Canada Only Solution

Canadian market has capacity to support a meaningful sized transaction while offering pricing and hedging cost benefits relative to a U.S. issue...

- The Canadian high yield market remains extremely active and open to broad range of issuers
- Structural changes in the market will continue to support demand from quality high yield issuers
  - Upcoming changes to income trust model removes large supply of yield product from the market
  - Shift in investor landscape has resulted in broad distribution of recent issues
- The CAD investor base has depth and has priced offerings aggressively relative to U.S. levels
  - Recent Garda and Cascades issues have priced inside of U.S. levels on a swapped-equivalent basis
  - Sears Canada, a well known Canadian brand entity, could raise up to C$750MM in the Canada
- Given requirement for CAD, there are certain considerations relating to cross-currency swap for U.S. issue
  - Given the anticipated tenor and size of the HY transaction, the impact of a currency swap will be material to Sears' overall new issue costs
  - Term cross currency interest rate swaps require significant credit lines generally ranking pari passu with senior secured debt or ABL facility i.e. 5 yrs approx 35%; 7 yr approx 40% of notional principal ($500MM x 35%-40% = USD 175-200mm)
- Covenant package would be same in Canada and U.S. from an economic and bondholder rights perspective
- Lower transaction costs than U.S. market – not required to become a registered U.S. filer
- Simple and quick issuance process – short form prospectus or private placement offering memorandum
  - Canadian prospectus allows retail as well as institutional distribution
- U.S. dealers can be recognized with co-manager roles in a Canadian transaction

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Canadian issuers with bonds in both the U.S. and Canadian markets have traded tighter in Canada ...

- Recent high yield issuers that came to both the Canadian and U.S. markets simultaneously include Garda and Cascades
- Garda came to market in March, 2010 with a 2-tranche Canadian and U.S. deal:
  - Canadian tranche was a C$75MM 9.75% 7-year issue with a yield at issue of 10.12%
  - U.S. tranche was a US$250 9.75% 7-year issue with a U.S. yield at issue of 10.12% (swapped to CAD equivalent of 10.28%)
- Cascades came to market in November, 2009 with a 2-tranche Canadian and U.S. deal:
  - Canadian tranche was a C$200MM 7.75% 7NC4-year issue with a yield at issue of 7.90%
  - U.S. tranche was a US$500 7.75% 8NC4-year issue with a U.S. yield at issue of 8.00% (swapped to CAD equivalent of 8.06%)
- For Canadian issuers with more liquid Canadian and U.S. bonds outstanding, the Canadian market continues to trade tighter

  CDP Financial
  - In Canada, the $1Bn 4.60% Jul/2020 bond trades at a yield of 4.64%
  - In the U.S., the US$1.75Bn 4.40% Nov/2019 bond is trading at 4.62% (swapped CAD equivalent is 4.95%)

  TransCanada
  - In Canada, the $150MM 9.45% Mar/2018 bond trades at a yield of 4.56%
  - In the U.S., the US$850MM 6.50% Aug/2018 bond is trading at 4.53% (swapped CAD equivalent is 4.90%)

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Financing Discussion – Scenario 1

Transaction Summary:

- Repay existing 2010 Notes as they mature with cash on hand
- Special dividend of $600 million to maintain approximately $400 million of liquidity

Advantages:

- No incremental fees and expenses through debt issuance

Issues for Consideration:

- Resulting leverage does not optimize the Company's cost of capital
- Resulting leverage is well below industry norms
- Unusual for a publicly traded retailer to not have a revolver in its liquidity mix

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Financing Discussion – Scenario 2

Transaction Summary:

- $400 million new ABL Revolver
- Repay existing 2010 Notes as they mature with cash on hand or revolver borrowings
- Special dividend of $1.0 billion to maintain approximately $400 million of liquidity

Advantages:

- Ample operating flexibility
- Opportunity to capitalize on strong ABL market conditions today

Issues for Consideration:

- Issuance of new ABL Revolver will require blocking availability prior to maturity of the existing notes; upon repayment of the notes the block is released
- Resulting leverage does not optimize the Company's cost of capital
- Resulting leverage is well below industry norms

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Financing Discussion – Scenario 3

Transaction Summary:

- $400 million new ABL Revolver
- Up to $425 million new Senior Notes
    - Target tenor of 7 years or longer
- Repay existing 2010 Notes as they mature with cash on hand or revolver borrowings
- Special dividend of $1.5 billion while maintaining approximately $325 million of liquidity

Advantages:

- Long term capital structure with no near-term maturities
- Ample operating flexibility
- Opportunity to capitalize on strong ABL and HY market conditions today
- Company generates sufficient excess cash to repay Senior Notes prior to maturity
- Likely maintains credit ratings

Issues for Consideration:

- Issuance of new ABL Revolver will require blocking availability prior to maturity of the existing notes; upon repayment of the notes the block is released
- Increases foreign exchange risk

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Financing Discussion – Scenario 4

Transaction Summary:

- $400 million new ABL Revolver
- Up to $1.0 billion new Senior Notes
    - Target tenor of 7 years or longer
- Repay existing 2010 Notes as they mature with cash on hand or revolver borrowings
- Special dividend of $2.0 billion while maintaining approximately $375 million of liquidity

Advantages:

- Long term capital structure with no near-term maturities
- Ample operating flexibility
- Opportunity to capitalize on strong ABL and HY market conditions today
- Company generates sufficient excess cash to repay Senior Notes prior to maturity

Issues for Consideration:

- Issuance of new ABL Revolver will require blocking availability prior to maturity of the existing notes; upon repayment of the notes the block is released
- Increases foreign exchange risk

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Financing Discussion – Credit Ratings Impact

For the four capital structure scenarios modeled, the implied impact on Moody's credit ratings metrics for Sears Canada is ...

1: No New Debt - $600 MM Dividend

Rating Category	At Close 7/31/10	Implied Rating	FYE 1/31/11	Implied Rating
Debt / EBITDA	1.8x	**Aa**	1.7x	**Aa**
RCF / Net Debt	78.6%	**Aaa**	190.6%	**Aaa**
EBITA / Interest	6.7x	**A**	8.2x	**Aa**
FCF / Net Debt	79.2%	**Aaa**	124.0%	**Aaa**
CFO / Debt	54.7%	**Aaa**	45.4%	**Aaa**

2: $400 MM ABL - $1,000 MM Dividend

Rating Category	At Close 7/31/10	Implied Rating	FYE 1/31/11	Implied Rating
Debt / EBITDA	1.8x	**Aa**	1.7x	**Aa**
RCF / Net Debt	45.4%	**Aaa**	69.2%	**Aaa**
EBITA / Interest	6.3x	**A**	7.6x	**Aa**
FCF / Net Debt	45.7%	**Aaa**	44.9%	**Aaa**
CFO / Debt	54.4%	**Aaa**	45.1%	**Aaa**

3: $400 MM ABL/$425 MM HY - $1,500 MM Dividend

Rating Category	At Close 7/31/10	Implied Rating	FYE 1/31/11	Implied Rating
Debt / EBITDA	2.6x	**A**	2.4x	**A**
RCF / Net Debt	28.3%	**A**	37.8%	**Aaa**
EBITA / Interest	4.2x	**Baa**	4.8x	**Baa**
FCF / Net Debt	28.5%	**Aaa**	23.8%	**Aa**
CFO / Debt	37.2%	**Aaa**	30.4%	**Aa**

4: $400 MM ABL/$1,000 MM HY - $2,000 MM Dividend

Rating Category	At Close 7/31/10	Implied Rating	FYE 1/31/11	Implied Rating
Debt / EBITDA	3.5x	**Baa**	3.3x	**Baa**
RCF / Net Debt	19.1%	**Baa**	23.1%	**A**
EBITA / Interest	2.9x	**Baa**	3.2x	**Baa**
FCF / Net Debt	19.3%	**Aa**	13.8%	**Baa**
CFO / Debt	26.2%	**Aa**	20.2%	**A**

Note: For illustration purposes only. The rating agencies may derive a different financial impact and award a rating that may differ from our estimates and resulting implied rating.

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Next Steps and Timeline

Concurrent offerings minimizes execution risk / maximizes transparency with rating agencies and investors …

Week	ABL	High Yield
Week 1	▪ Organizational Meeting and Initial Due Diligence ▪ Begin drafting Confidential Information Memorandum ("CIM") ▪ Begin drafting rating agency presentation	▪ Organizational Meeting and Initial Due Diligence ▪ Begin drafting Offering Memorandum ("OM") ▪ Begin drafting rating agency presentation
Week 2	▪ Presentation with rating agencies ▪ Finalize term sheet ▪ Continue drafting CIM ▪ Begin drafting credit agreement	▪ Presentation with rating agencies ▪ Continue drafting OM ▪ Begin drafting Description of Notes ("DON") ▪ Begin drafting roadshow presentation
Week 3	▪ Announce transaction ▪ Deliver term sheet to potential Agent banks ▪ Lender meeting	▪ Continue drafting OM, DON and roadshow presentation
Week 4	▪ Negotiate credit agreement	▪ Finalize OM and DON
Week 5	▪ Receive ratings ▪ Finalize credit agreement	▪ Receive ratings ▪ Finalize roadshow presentation
Week 6		▪ Analyst due diligence call ▪ Print and mail bond OM
Week 7	▪ Lender commitments due ▪ Distribution of documentation	▪ Announce high yield transaction ▪ Roadshow begins
Weeks 8 & 9	▪ Comments on documentation ▪ Finalize documentation ▪ Close transaction	▪ Roadshow continues ▪ Price and allocate bond deal ▪ Print and mail final OMs ▪ Close Transaction

Appendix

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Overview of Assumptions

We modeled the four scenarios based on current expectations (Base Case) and a more conservative forecast to stress test liquidity (Downside Case)…

	Base Case	Downside Case
Total Revenue	• Increase in 2010 of 3.2% followed by 2% growth through 2017	• Decreases of 6% in 2010, 2% in 2011, and 1.5% in 2012 and 2013, followed by and 0% revenue growth through 2017
Gross Margin	• Gross margin improvement of 134 bps through 2017 to 40.3% from 2010 gross margin of 39.7%	• Gross margin erosion of 75 bps to 2014 level of 38.2% from 2010 gross margin of 38.9% and remaining constant through 2017
Payroll & Benefits	• From 2010 to 2017, payroll and benefits increase to 18.0% of revenue from 2009 level of 17.2%	• From 2010 to 2017, payroll and benefits decrease on an absolute basis but, as a percentage of revenue, experiences an increase to 18.2% of revenue, representing the fixed nature of payroll
Inventory	• Maintain current efforts to reduce inventory. Decrease inventory from $852 MM in 2009 to $588 MM in 2012 at which time inventory grows at a flat rate of 1.5% per annum	• Inventory increases each year from 2010 to peak in 2012 at $950MM and then is forecast to be reduced to current levels by 2017
Accounts Payable	• Days payable reduced from 68 days to 60 days from 2010 to 2017	• Days payable reduced from 68 days to 45 days by 2014 to reflect the risk that vendors decide not to provide credit to SCC
Pension	• Current registered pension plan solvency deficit of $220 MM amortized over 5 years beginning in 2012	• Current registered pension plan solvency deficit of $220 MM amortized over 5 years beginning in 2012

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WACC Benchmarking

- To calculate the Weighted Average Cost of Capital (WACC), we take a weighted average of the cost of equity and the cost of debt
  - To derive the cost of equity we apply the Capital Asset Pricing Model (CAPM) using a 2-year adjusted beta and small company size premiums where applicable per Ibbotson's 2009 yearbook
  - To derive the cost of debt we use the YTW of medium-term Company notes where applicable or use an estimated YTW from our cost of debt vs. adjusted leverage analysis, applying 25 bps new issue premium to both and a country-specific standard statutory tax rate to calculate the after-tax cost of debt

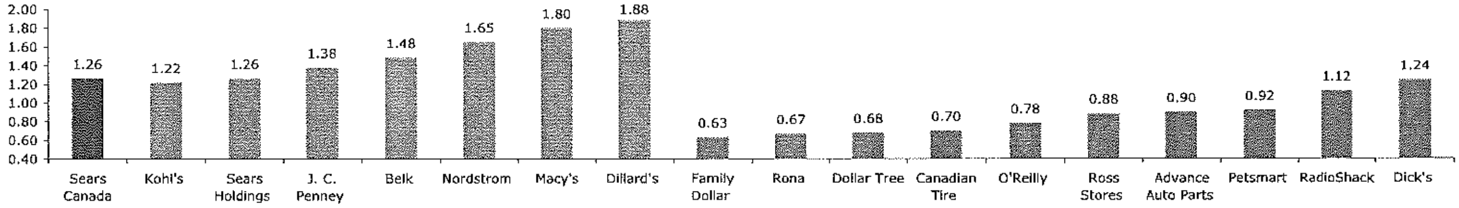
Adjusted Beta

Department Stores

Group Median: 1.48

Comparable Sized Retailers

Group Median: 0.83



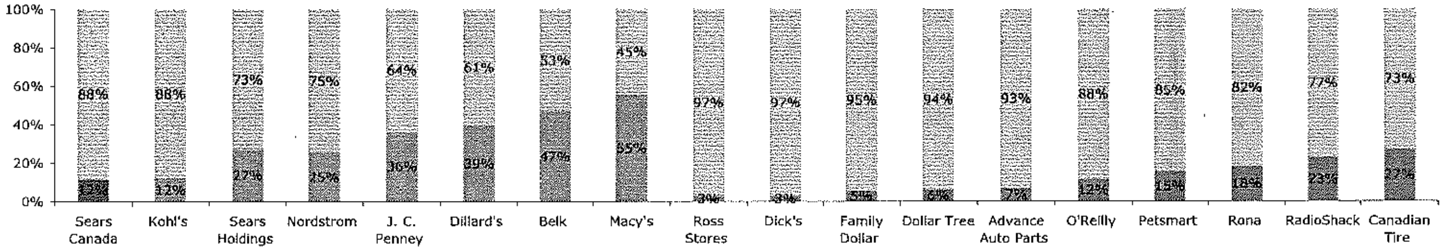
Debt / Capitalization

Department Stores

Group Median: 36%

Comparable Sized Retailers

Group Median: 9%



Source: Bloomberg, Company filings and Morningstar.
Note: Used SHLD adjusted beta when calculating Sears Canada's cost of equity due to Company's low float %. Debt/Capitalization as of Q3 '09.

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WACC Benchmarking (cont'd)

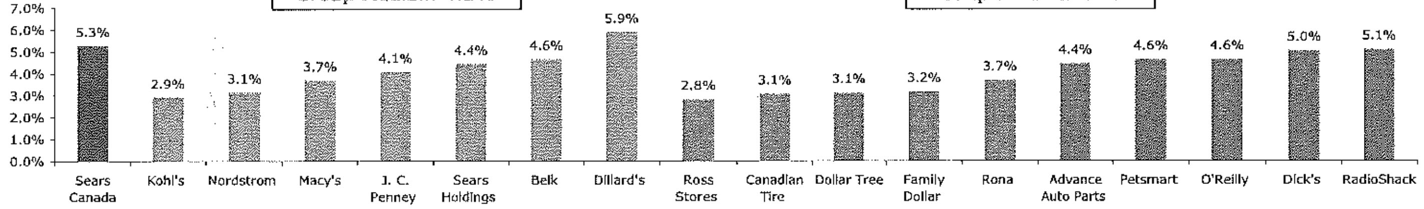
After-Tax Cost of Debt

Department Stores

Group Median: 4.1%

Comparable Sized Retailers

Group Median: 4.1%



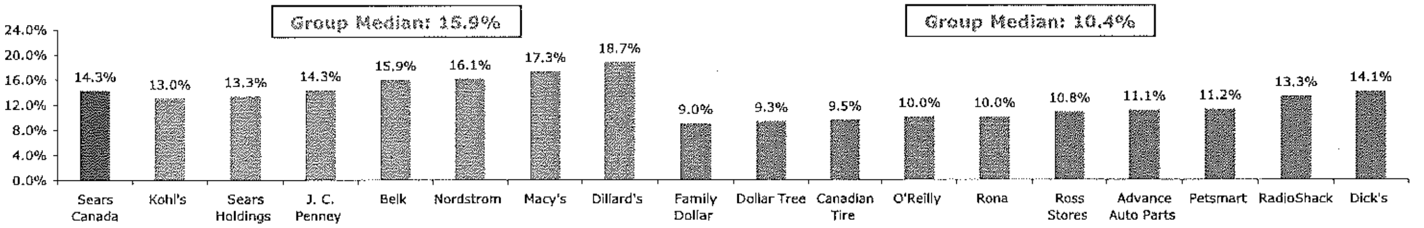
Cost of Equity

Department Stores

Group Median: 15.9%

Comparable Sized Retailers

Group Median: 10.4%



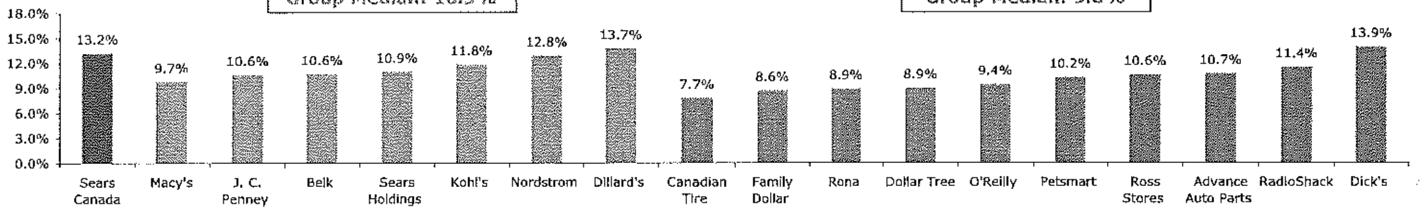
Weighted Average Cost of Capital

Department Stores

Group Median: 10.9%

Comparable Sized Retailers

Group Median: 9.8%



Source: Bloomberg, Company filings and Morningstar.

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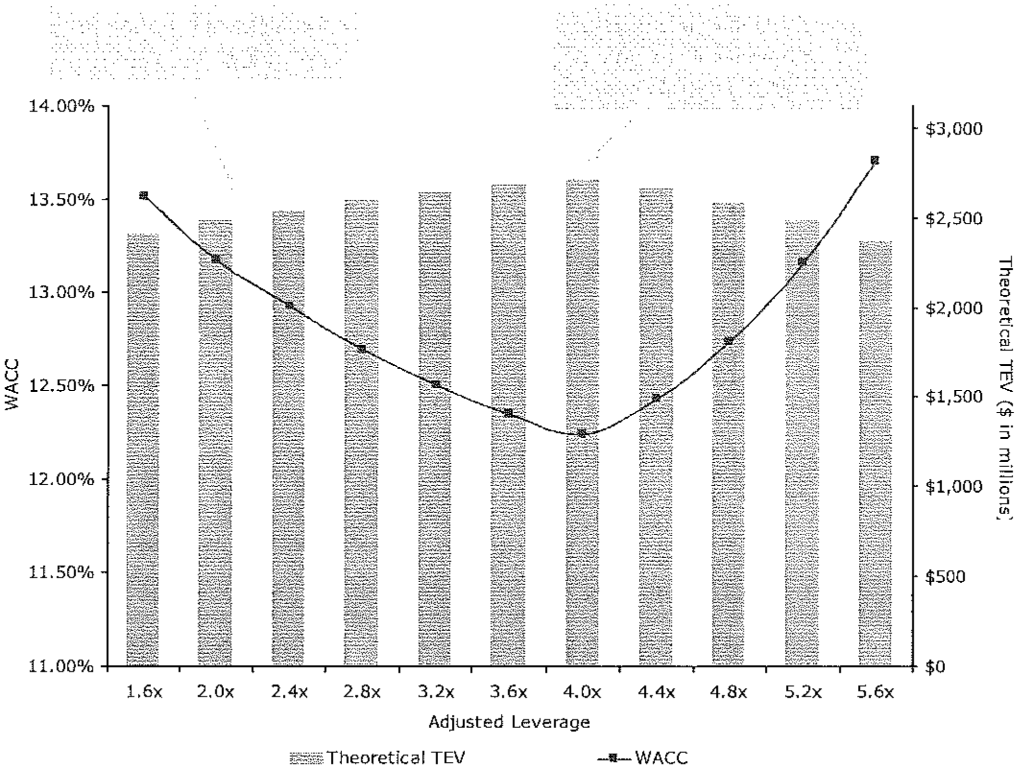
Theoretical Optimal Leverage Level

Sears Canada can reduce its Weighted Average Cost of Capital and increase its theoretical Enterprise Value by raising additional debt

- Weighted Average Cost of Capital ("WACC") is the factor used by equity analysts to discount future Free Cash Flow in order to determine their view on the theoretical fair value of the enterprise



Note: All calculations use market price of debt per Wells Fargo estimates.

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Rating Agency Parameters

- Moody's approach to rating the retail sector relies upon a common set of credit considerations which can be distilled down into six key rating factors: Business and Cash Flow Volatility, Market Positioning, Execution Ability, Real Estate Assets Positioning, Financial Policies, and Key Indicator Ratios
- Each of the six factors is comprised of sixteen sub-factors, of which nine have quantitative elements and seven are purely qualitative

Weighting Factors and Rating Scores

Rating Factors	Factor Weighting	Relevant Sub-Factor	Sub-Factor Weighting
Business & Cash Flow Volatility	13.0%	Product Volatility Geographic Diversification Seasonality of Cash Flow From Operations	6.0% 4.0% 3.0%
Market Positioning of a Retailer	26.5%	Scale Segmental Market Share & Competitive Position Cost Efficiency and Profitability	10.0% 10.0% 6.5%
Execution Ability	12.0%	Quality of Merchandising Supply Chain	5.0% 7.0%
Real Estate Assets Positioning	7.5%	Investments in Store Quality Barriers to Entry	2.5% 5.0%
Financial Policies/Liquidity	8.0%		8.0%
Key Indicator Ratios	33.0%	Debt / EBITDA RCF / Net Debt EBITA / Interest FCF / Net Debt CFO / Net Debt	8.0% 8.0% 7.0% 3.0% 7.0%
Total	100.0%		

- When examining credit metrics, Moody's utilizes metrics which measure both the absolute capacity of the issuer to service its debt and the size of the debt burden relative to that of peers
- Leverage ratios aim to capture how easily an issuer can repay its debt
- Coverage and return ratios focus more on the ability to service its debt prior to repayment
- Different measures of cash flows (e.g. EBITA or EBITDA, retained cash flows, cash flows from operations, and free cash flows) aim to isolate different movements in cash flows

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Rating Agency Parameters (cont'd)

Rating Grid Mapping

Rating Category	**Aaa**	**Aa**	**A**	**Baa**	**Ba**	**B**	**Caa**
a) Debt / EBITDA	< 1.25x	1.25x - 2.25x	2.25x - 3.0x	3.0x - 4.0x	4.0x - 5.0x	5.0x - 6.5x	> 6.5x
b) RCF / Net Debt	> 36%	30% - 36%	22% - 30%	14% - 22%	12% - 14%	8% - 12%	< 8%
c) EBITA / Interest	> 10x	7.0x - 10.0x	5.0x - 7.0x	2.5x - 5.0x	1.5x - 2.5x	1.0x - 1.5x	< 1.0x
d) FCF / Net Debt	> 25%	18% - 25%	14% - 18%	12% - 14%	9% - 12%	0% - 9%	Negative
e) CFO / Debt	> 35%	25% - 35%	20% - 25%	13% - 20%	9% - 13%	6% - 9%	< 6%

- Moody's five indicator ratios:
  - Debt/EBITDA: Debt incorporates all adjustments Moody's customarily makes to debt figures, including operating leases using a factor of 8x, pensions, and other off-balance sheet arrangements deemed to be debt-like
  - Retained Cash Flow/Net Debt: Retained cash flow is defined as cash flows from operations before working capital changes minus dividends. It aims to capture the ability of cash flows from operations to repay net debt
  - EBITA/Interest: EBITA/Interest is a measure of interest coverage, adjusted for Moody's capitalization of operating leases: interest expense incorporates the "interest component" of rents (1/3), and depreciation incorporates the "capital component" of rents (2/3)
  - Free Cash Flow/Net Debt: Free cash flows are all cash flows excluding cash flows from financing activities and reflect the cash flows truly available to repay debt
  - Cash Flows from Operations/Gross Debt: Cash flow from operations typically equals the cash flow from operations after working capital reported by retailers; this metric is also adjusted to add back the capital component of operating leases
- While Sears Canada's credit metrics are in line with those of an investment grade company, the Company's relationship with Sears Holdings, along with the anticipation of a dividend paid to its parent, gives it a rating in the Ba range.

Sears Canada's Credit Metrics

Rating Category	FYE 1/31/08	Implied Rating	FYE 1/31/09	Implied Rating
Debt / EBITDA	2.1x	**Aa**	2.1x	**Aa**
RCF / Net Debt	111.8%	**Aaa**	94.4%	**Aaa**
EBITA / Interest	5.0x	**Baa**	6.3x	**A**
FCF / Net Debt	33.9%	**Aaa**	14.3%	**A**
CFO / Debt	22.5%	**A**	18.7%	**Baa**

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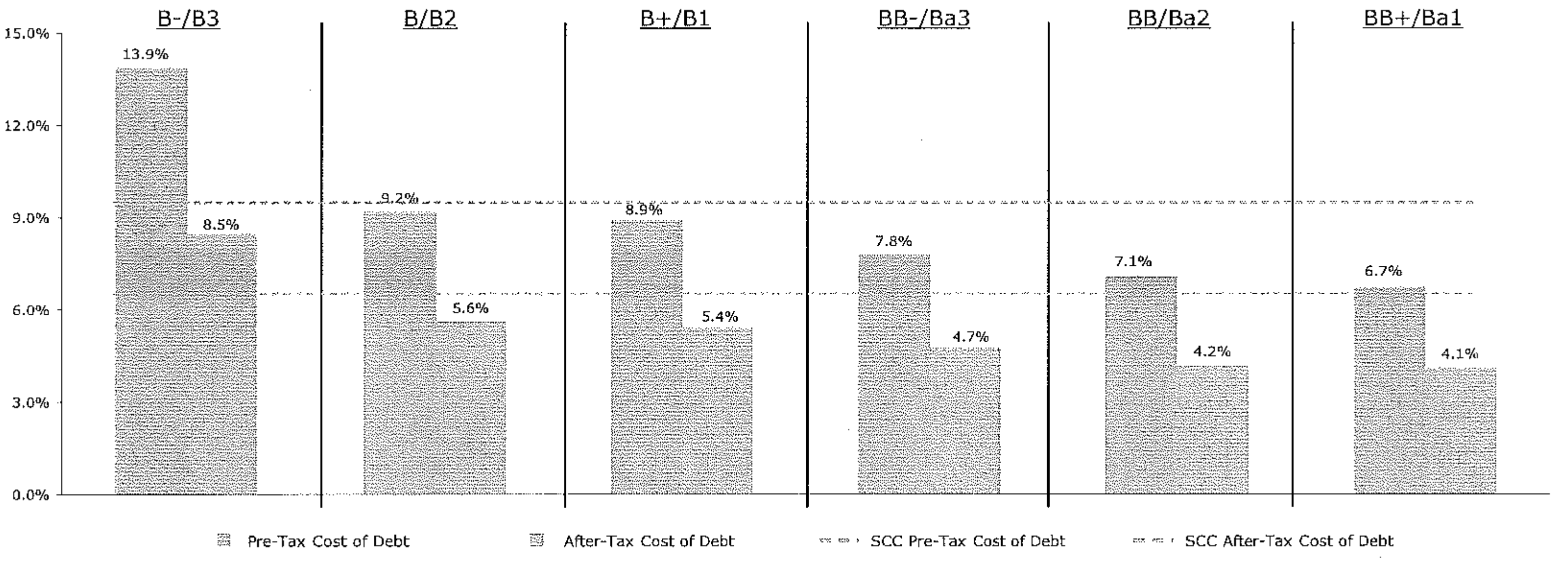
Credit Ratings & Cost of Debt

For comparably rated companies, the range of pre-tax cost of debt and after-tax cost of debt was 6.7% to 13.9% and 4.1% to 8.5%, respectively…

Average Cost of Debt by Rating



Median Adj. Lev.: 6.9x	6.4x	5.3x	3.8x	4.0x	2.7x

Source: Capital IQ, Bloomberg and Company filings

Note: B- Companies include BBI, BONT, Burlington Coat Factory, BWS, CHRS, Claire's Stores, DDS, Duane Reade, Michaels Stores, NBC Acquisition Corp, PBY, RAD and SKS; B Companies include Neiman Marcus, ODP, OMX, Toys "R" Us and VSI; B+ Companies include ETH, Eye Care Centers of America, FL, GCO, HGG, JAS, PSS and SBH; BB- Companies include Ace Hardware, DG, JCG and SHLD; BB Companies include JCP, LTD, M, PETM, RCII and RSH; BB+ Companies include AAP, GME and GPS

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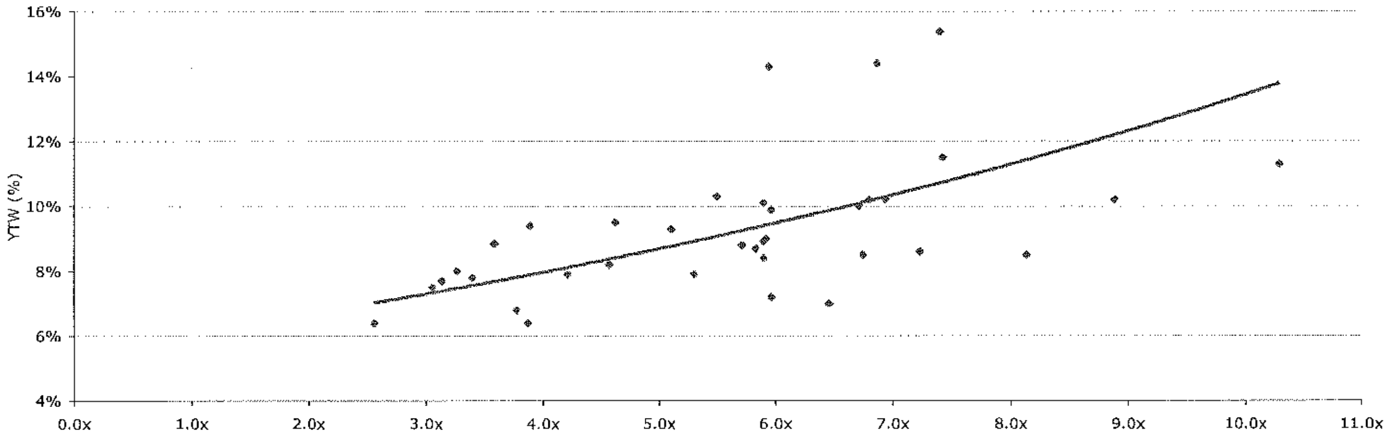
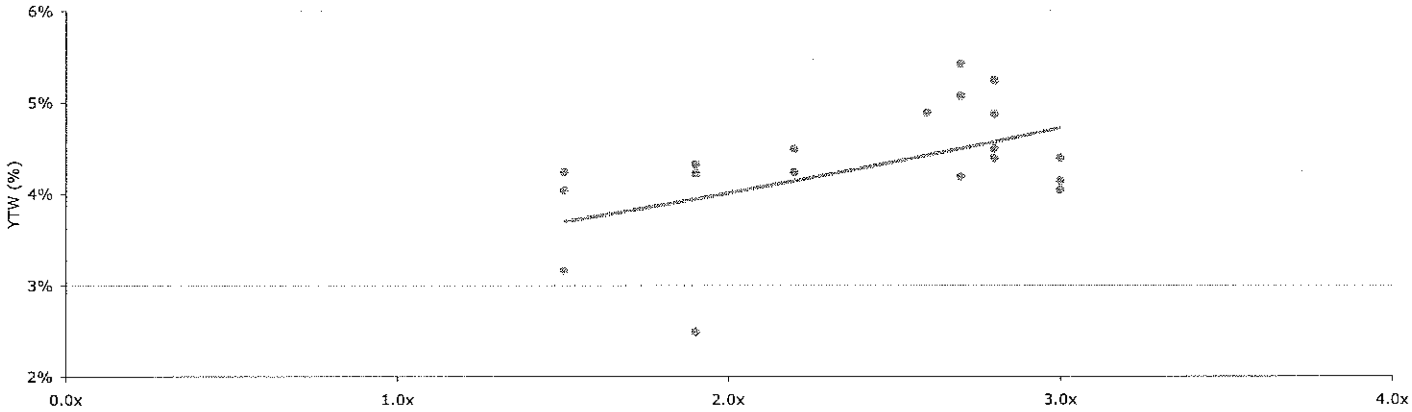
Effects of Leverage on Cost of Debt

Non-Investment Grade: YTW vs. Adjusted Leverage



Investment Grade: YTW vs. Adjusted Leverage



Source: Bloomberg and Wells Fargo research.
Note: Excludes bond maturities within the next two years.

Benchmarks would indicate that Sears Canada should expect to pay a facility spread of between 3.5% to 4.0% on a 3 to 4 year deal for a credit rating similar to Sears Canada rating of BB-/Ba1 …

ABL Financing Comparables

Borrower	Industry	Rating	Close Date	Size ($US MM)	Facility Type	Maturity	Drawn (bps)	Undrawn (bps)	LIBOR Floor	Comments
Michaels Stores	Retail	B-/Caa1	Feb-10	$900	Revolver	4 Years	350 bps	63 bps	n/a	Refinance existing debt
Shopko Stores	Retail	NR	Jan-10	$400	Revolver	4 Years	400 bps	75 bps	n/a	Refinance existing debt
Burlington Coal Factory	Retail	B-/B3	Jan-10	$600	Revolver	4 Years	350 bps	75 bps	n/a	Refinance existing debt
Bon-Ton Stores	Retail	B-/Caa1	Dec-09	$675	Revolver	3.5 Years	400 bps	75 bps	1.25%	Refinance existing debt
Saks Incorporated	Retail	B-/B2	Nov-09	$500	Revolver	4 Years	350 bps	100 bps	n/a	Refinance existing debt
Barnes & Noble	Retail	NR	Sep-09	$1,000	Revolver	4 Years	375 bps	100 bps	n/a	Acquistion
C&S Wholesale Grocers	Wholesale	NR	Sep-09	$800	Revolver	4 Years	375 bps	75 bps	n/a	General Corporate Purposes
Mohawk Industries	Textiles & Apparel	BB+/Ba1	Sep-09	$600	Revolver	4 Years	375 bps	75 bps	n/a	General Corporate Purposes
RSC Holding II	Auto	Ba3/BB	Jul-09	$819	Revolver	4 Years	375 bps	75 bps	n/a	General Corporate Purposes
Neiman Marcus	Retail	BB-/B3	Jul-09	$600	Revolver	3.5 Years	425 bps	Utilization < 50% = 100 bps Utilization > 50% = 75 bps	n/a	Refinance existing debt
Skechers USA Inc	Consumer	NR	Jun-09	$250	Revolver	4 Years	400 bps	Utilization < $75 MM = 100 bps Utilization < $150 MM = 75 bps Utilization > $150 MM = 75 bps	n/a	Refinance existing debt
Smithfield Foods Inc	Beverage, Food and Tobacco	Ba3/B	Jul-09	$1,000	Revolver	3 Years	450 bps	100 bps	n/a	Debt Repayment
Rite Aid Corp	Retail & Supermarkets	Caa3/B-	Jun-09	$1,000	Revolver	3.25 Years	450 bps	100 bps	2.50%	General Corporate Purposes
United States Steel	Steel Production	Baa3/BB	Jun-09	$750	Revolver	2.92 Years	350 bps	75 bps	n/a	General Corporate Purposes
Toys 'R' Us	Retail	BB-/B3	May-09	$2,000	Revolver	2.92 Years	400 bps	Utilization < 33% = 100 bps Utilization < 67% = 75 bps Utilization > 67% = 50 bps	1.50%	Refinance existing debt
Jones Apparel Group	Retail	BB-/Ba2	May-09	$650	Revolver	3 Years	450 bps	100 bps	n/a	Refinance existing debt

n/a means "not applicable

The drawn spreads are priced in addition to LIBOR. In Canada the spreads would be priced in addition to bankers acceptance (BA) not LIBOR

Interest rate spreads have tightened significantly. Currently, Sears Canada could expect to pay approximately 7.5% to 7.75% for a bond maturing in 7-10 years ...

Comparable Trading Levels

													March 2, 2010	
Issue Date	**Issuer**	**Ticker**	**Coupon**	**Security**	**Ratings**	**Outlook**	**Amount (in $MMs)**	**Maturity**	**Call Date**	**Call Price**	**Price**	**YTW**	**YTW Date**	**STW**
01/19/01	Sears Roebuck	SHLD	7.000%	Senior Notes	Ba3/BB-	Stable/Neg	1,000	02/01/11	NA	NA	101.625	5.13%	02/01/11	+483 bps
11/10/09	Toys R Us	TOY	8.500%	Senior Notes	Ba2/B+	Pos/Stable	725	12/01/17	12/01/13	104.250	101.625	8.14%	12/01/15	+567 bps
07/01/09	Toys R Us	TOY	10.750%	Senior Notes	B3/B+	Pos/Stable	950	07/15/17	07/15/13	105.375	109.625	8.47%	07/15/15	+610 bps
06/08/09	Rite Aid Corp	RAD	9.750%	Sr. Secured	B3/B+	Stable/Stable	410	06/12/16	06/12/13	104.875	107.125	8.06%	06/12/15	+573 bps
07/16/08	HSN Inc.	HSNI	11.250%	Senior Notes	Ba3/BB-	Stable/Neg	240	08/01/16	08/01/12	105.625	111.875	7.90%	08/01/12	+691 bps
06/28/07	Dollar General	DG	10.625%	Senior Notes	B3/B-	Pos/Pos	1,175	07/15/15	07/15/11	105.313	109.000	7.33%	07/15/11	+686 bps
11/17/04	Jones Apparel Group	JNY	5.125%	Senior Notes	Ba3/B+	Stable/Neg	250	11/15/14	NA	NA	96.625	5.96%	11/15/14	+388 bps
10/19/04	Limited Brands Inc.	LTD	5.250%	Senior Notes	Ba3/BB-	Stable/Stable	500	11/01/14	NA	NA	96.500	6.12%	11/01/14	+401 bps
07/12/07	Limited Brands Inc.	LTD	6.900%	Senior Notes	Ba3/BB-	Stable/Stable	700	07/15/17	NA	NA	97.875	7.28%	07/15/17	+419 bps
06/23/08	Macys Inc.	M	5.750%	Senior Notes	Ba2/BB	Stable/Stable	650	07/15/15	NA	NA	109.625	6.71%	07/15/15	+433 bps
07/30/98	Dillards Inc.	DDS	7.130%	Senior Notes	B3/B-	Neg/ Pos	200	08/01/18	NA	NA	89.750	8.89%	08/01/18	+551 bps
09/22/09	QVC Inc.	QVC	7.500%	Senior Notes	Ba2/BB+	Stable/Stable	1,000	10/01/19	10/01/14	04/12/00	101.375	7.26%	10/01/17	+410 bps
07/27/07	Sally Beauty Holdings	SBH	9.250%	Senior Notes	B3/B	Stable/Stable	430	11/15/14	NA	NA	105.250	7.07%	11/15/12	+588 bps
04/19/07	Yankee Candle Inc.	YCC	8.500%	Senior Notes	B3/B-	Stable/Stable	325	02/15/15	NA	NA	99.750	8.56%	02/15/15	+636 bps
Recent Canadian dollar transactions														
01/07/10	Videotron		7.125%	Senior Notes	Ba2/BB-	NA/ Stable	300	01/15/20	01/15/15	103.563	101.875	6.86%	01/15/20	+349 bps
12/15/09	Cascades		7.750%	Senior Notes	Ba3/B+	Stable/ Stable	200	12/15/16	12/15/13	103.875	100.125	7.72%	12/15/15	+509 bps

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Summary Indicative Terms - Senior Notes

Issuer:	Sears Canada Inc. ("Issuer," same as existing)
Issue:	Up to CAD $1,000 million Senior Notes (the "Notes") * to be issued in US dollars
Assumed Ratings:	Ba1/BB-
Yield:	7.50% - 7.75% area (lower coupon issued at a discount to par)
Maturity:	7 - 10 years
Ranking:	The unsecured Notes will be subordinated to all existing and future secured debt of the Issuer, pari passu to all senior unsecured debt of the Issuer, and senior to all existing and future senior subordinated debt obligations of the Issuer
Guarantors:	Direct and indirect subsidiaries of the Issuer
Security:	None
Optional Redemption:	NC4/NC5 (callable at declining premiums to par); make-whole at T + 50 during non-call period
Equity Clawback:	Up to 35% for the first 3 years following issuance at par plus coupon
Covenants:	Investment grade covenant package
Change of Control:	101% offer
Distribution:	144A with registration rights

Sears

Notes Summary:

No speaker notes are contained in this presentation.

TAB 3

MINUTES of the meeting of the Board of Directors of **SEARS CANADA INC.** (the "Corporation") held in the Boardroom of the Corporation, 290 Yonge Street, Toronto, Ontario on Friday, April 23, 2010 at 9:00 a.m., Eastern time

PRESENT

W. C. Crowley (Ch.)
E. J. Bird
D. D. Cheeks Merriwether
W. R. Harker (via telephone)
R. R. Khanna
J. McBurney
D. L. Rogers
D. E. Rosati

MANAGEMENT

A. Ravas
Senior Vice-President and Chief Financial Officer
S. Driscoll
Senior Vice-President, Finance
K. Leshnjani
Vice-President and General Counsel
F. Perugini
Associate General Counsel and Corporate Secretary

The Chairman of the Board, Mr. W. C. Crowley, acted as Chairman of the meeting and the Secretary of the Corporation, Mr. F. Perugini, acted as Secretary of the meeting.

CONSENT AGENDA

1. The Chairman called the meeting to order and took a roll call. The Secretary advised the Board that a Consent Agenda would be used to approve certain items on the agenda without any formal presentation or a full discussion, unless a member requested that an item be presented for a full discussion. Resolutions numbered 2 to 5 below were approved in accordance with the Consent Agenda.

APPOINTMENT OF CHAIR

2. **ON MOTION**, duly made and seconded, Mr. William C. Crowley having abstained from voting, it was unanimously resolved:

THAT Mr. William C. Crowley be appointed as Chairman of the Board of Directors of the Corporation and to hold such office until his successor is duly appointed.

MINUTES

3. **ON MOTION**, duly made and seconded, it was unanimously resolved:

THAT the minutes of the meeting held on Tuesday, March 23, 2010, be approved.

APPOINTMENT OF OFFICERS

4. **ON MOTION**, duly made and seconded, Mr. Dene Rogers having abstained from voting, it was unanimously resolved:

THAT the following persons be appointed Officers of the Corporation to hold such office during the ensuing year or until their successors are duly appointed:

Dene Rogers	-	President and Chief Executive Officer
Tim Flemming	-	Senior Vice-President, Corporate Procurement and Supply Chain
Allen Ravas	-	Senior Vice-President and Chief Financial Officer
Dennis Singh	-	Senior Vice-President, Retail Stores

APPOINTMENT OF COMMITTEE MEMBERS AND LEAD DIRECTOR

5. **ON MOTION**, duly made and seconded, it was unanimously resolved:

(i) **THAT** the following individuals named below be appointed as members of the Committees of the Board of Directors of the Corporation to hold such office during the ensuing year or until their successors are duly appointed;

(ii) **THAT** the Chair of each Committee shall be the member so designated below;

(iii) **THAT** Mr. F. Perugini be appointed as Secretary of each Committee to hold such office during the ensuing year or until his successor is duly appointed; and

(iv) **THAT** Mr. E.J. Bird be appointed as Lead Director of the Board of Directors of the Corporation to hold such office during the ensuing year or until his successor is duly appointed.

HUMAN RESOURCES and COMPENSATION	**AUDIT**	**NOMINATING and CORPORATE GOVERNANCE**
W. C. Crowley **(Ch.)**	E. J. Bird **(Ch.)**	R. R. Khanna **(Ch.)**
W.R. Harker	R. R. Khanna	J. McBurney
D. Cheeks Merriwether	J. McBurney	D. E. Rosati
D. E. Rosati	D. E. Rosati	
(F. Perugini - Secretary)	(F. Perugini - Secretary)	(F. Perugini - Secretary)

INVESTMENT

SEARS REGISTERED RETIREMENT FUND
SEARS CANADA INC. SUPPLEMENTARY RETIREMENT PLAN
SEARS CANADA INC. HEALTH AND WELFARE PLAN TRUST FUND

W. R. Harker **(Ch.)**
E. J. Bird
D. Cheeks Merriwether
W. C. Crowley
A. Ravas

(F. Perugini - Secretary)

Lead Director: E. J. Bird

IFRS EDUCATION SESSION

6. Ms. Nicole Ballestrin, Associate Vice-President, Finance, presented on IFRS, which included the following:

- External reporting impact of IFRS
- IFRS accounting policy selections
- Mock-up of IFRS financial statements

CAPITAL STRUCTURE

7. At the request of the independent directors of the Board, Management made a presentation on the capital structure of the Corporation, which included the following items:

- Current capitalization
- Liquidity benchmarking
- Leverage benchmarking
- Rating agency considerations
- Capital structure alternatives
- Next steps and timeline

The Board discussed the options available to the Corporation for the cash on hand and the independent directors expressed the view that the declaration and payment of a sizable dividend would be the best option.

At the request of the Board, Management will provide further information on the high yield market, and indicate whether the peak-to-trough capital depiction includes taxes payable by the Corporation. Management will incorporate suggested changes into the presentation for a follow up Board discussion in May and work with financial institutions to reduce the time to market timeline.

OTHER BUSINESS

8. The following material was provided to the Board for reference only:

- Analyst Reports
- SCI Top twenty Registered Shareholders list
- and CDS participant list
- Trading Volume

IN-CAMERA SESSION

9. The representatives of Management, including management Directors, left the meeting so that the Board could meet privately. Following the Committee's *in-camera* session, all the non-independent directors were excused so that the independent directors could then meet privately.

There were no items discussed during the *in-camera* session that were not raised during the meeting.

There being no further business, the meeting was then terminated.

Chairman of the Meeting

Secretary of the Meeting

Date

TAB 4

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Sears

Dividend / Capital Structure

Board of Directors

May 7th, 2010

Introduction

- Management is presenting four options for the Board to consider as uses for the Company's excess cash position

  - Option #1: Declaration of an extraordinary dividend
  - Option #2: Declaration of an extraordinary dividend with financing
  - Option #3: Normal Course Issuer Bid
  - Option #4: Substantial Issuer Bid

- Also, Management has provided responses to follow-up items from the April 23rd, 2010 Board meeting

Appendix

- Dividend declaration process
- Sample documents to be completed and filed after the Board resolves to declare a dividend
  - Officer's Certificate
  - Resolutions
  - Press release
- Torys LLP memorandum outlining two main types of share buybacks
- OSC Rule 61-101 of the Ontario Securities Act ("61-101")

700

Summary

The Company can declare up to a $700 MM dividend from available cash with sufficient cash remaining to operate the business …

- Forecast cash at 5/30/10 is $940 MM ($873 MM vs LY), net of $200 MM note repayment (due 5/10/10) leaving $145.3 MM of debt
- Approximately $200 MM of excess liquidity is required to operate the business over the balance of the year period leaving up to $700 MM of cash available for a dividend or another strategic use
- In F2010, The Company's "downside" case (refer to p.4) forecasts an incremental $250 MM cash flow (post 5/30/10) to be generated from operations for the balance of the year, net of the $100 MM note repayment due 09/18/10
- The "downside" forecast assumes: (refer to p.4 for full assumption disclosure)
  - Sales decrease of 4.9% in 2010 vs 2009
  - Gross margin erosion of 75 bps to 38.1% to 2014
  - Payroll, as a percentage of sales, increase of 0.9 bps to 18.1% to 2017
  - Inventory increases to peak in 2012 at $950 MM
  - Estimated $220 MM registered pension plan solvency deficit amortized over 5 years beginning in 2012
- If the Company needed, or decided, to borrow up to $750 MM of debt, this could be arranged in an approximately 6 week time frame based on discussions with potential lenders over the past 3 months
- The Board may approach, obtain and rely in good faith on the advice of a third party expert to assess the financial strength of the Company going forward and the Company's ability to support an extraordinary dividend distribution
- A future acquisition, after paying a dividend of up to $700 MM, is feasible given the availability of up to $750 MM of secured financing and the use of the Company's stock

Forecast Assumptions

Management's "base" and "downside" forecasts assume ...

	Base Case	Downside Case
Total Revenue	Increase in 2010 of 2.1% followed by 2% growth through 2017	Decreases 4.9% in 2010, 2% in 2011, 1.5% in 2012 and 2013, followed by and 0% revenue growth through 2017
Gross Margin	Gross margin improvement of 57 bps through 2017 to 40.3% from 2010 gross margin of 39.7%	Gross margin erosion of 75 bps to 2014 level of 38.1% from 2010 gross margin of 38.8%, remaining constant to 2017
Payroll & Benefits	From 2010 to 2017, payroll and benefits increase to 17.9% of revenue from 2009 level of 17.2%	From 2010 to 2017, payroll and benefits decrease but, as a percentage of revenue, experience an increase to 18.1% of revenue, representing the fixed nature of payroll
Inventory	Maintain current efforts to reduce inventory. Decrease inventory from $852 MM in 2009 to $586 MM in 2012 at which time inventory grows at a flat rate of 1.5% per annum	Inventory increases each year from 2010 to peak in 2012 at $950MM and then is forecast to be reduced to current levels by 2017
Accounts Payable	Days payable reduced from 68 days to 58 days from 2010 to 2017	Days payable reduced from 68 days to 44 days by 2014 to reflect the risk that vendors decide not to provide credit
Pension	Current registered pension plan solvency deficit of $220 MM amortized over 5 years beginning in 2012	Current registered pension plan solvency deficit of $220 MM amortized over 5 years beginning in 2012

Sears Canada Inc. - Recession Case	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	Jan-11	2010
Ending Cash (from Cash Flow Statement)	$1,268.5	$1,254.3	$1,243.3	$939.7	$934.4	$927.5	$931.3	$914.0	$970.7	$1,033.6	$1,205.1	$1,193.8	$1,193.9
Current Operational Liquidity Requirements:													
-Restricted cash / Letters of Credit	$20.0	$20.0	$20.0	$20.0	$20.0	$20.0	$20.0	$20.0	$20.0	$20.0	$20.0	$20.0	$20.0
-Cash in Transit (weekend sales + cash in tills)	$42.6	$54.9	$58.7	$55.5	$52.8	$46.7	$49.8	$68.8	$58.6	$77.8	$53.9	$41.5	$41.5
-Cushion	$100.0	$100.0	$100.0	$100.0	$100.0	$100.0	$100.0	$100.0	$100.0	$100.0	$100.0	$100.0	$100.0
Cash available for strategic uses	$1,106.0	$1,079.4	$1,064.6	$764.2	$761.6	$760.7	$761.6	$725.1	$792.1	$835.8	$1,031.2	$1,032.3	$1,032.4

Option #1: Dividend Declaration – Board Governance Considerations

Statutory Solvency Tests

- Section 42 of the *Canada Business Corporations Act ("CBCA") states that* :

  "A Corporation shall not declare or pay a dividend if there are reasonable grounds for believing that

  (a) the Corporation is, or would after the payment be, unable to pay its liabilities as they become due; or

  (b) the realizable value of the corporation's assets would thereby be less than the aggregate of its liabilities and stated capital of all classes."

- The Board will receive a certificate from the Chief Financial Officer setting forth the analysis and conclusions with respect to the above requirements at the time the extraordinary cash dividend is declared

Corporate Governance/Process

- Section 122(1) of the *CBCA* requires that:

  "Every director and officer of a corporation in exercising their powers and discharging their duties shall

  (a) act honestly and in good faith with a view to the best interests of the corporation; and

  (b) exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances."

- The Directors may obtain the advice of financial advisors and may rely in good faith on a third party expert and Management advice in making a decision

Option #1: Dividend Declaration Process and Next Steps

Dividend Declaration Process

- When the Corporation resolves to declare and pay a dividend, then:
  - Press release issued as soon as possible following the Board decision
    - Declaring that the dividend is to be paid
    - Confirming the record date (date upon which shareholders of record entitled to receive dividend)
  - The record date must be at least 7 trading days following the date the press release is issued and may not be greater than 60 days before the payment of the dividend
  - The payment of the dividend can occur as soon as the day following the record date
- For further details, please refer to the attached appendix, Dividend Declaration Process

(in millions)

Dividend Declaration Impact

Declared Dividend	*Dividend / Share Outstanding*	*Excess Cash Available*
$200.0	$1.86	$564.2
$400.0	3.72	364.2
$600.0	5.58	164.2
$700.0	6.50	64.2

Appendices: Sample documents to be completed and filed after the Board resolves to declare a dividend

- Officer's Certificate
- Resolutions
- Press Release

Option #2: Dividend Declaration with Financing

The Company recapitalizes to allow a significant dividend to be paid to shareholders ...

- The Company maintains an underlevered capital structure compared to its peers
  - Q3 '09 Adjusted leverage of 2.2x is below a peer group median of 3.2x (refer to p.16)
  - Debt to capitalization is approximately 12% versus the peer group median of ~35%
  - Potential to optimize its capital structure and reduce cost of capital through a recapitalization

- The Company generates significant free cash flow and has averaged over $900 MM of liquidity since 2007
  - Covers internal working capital (inventory net of payables) requirements by a multiple of 3.2x versus peer median of 1.1x
  - Based on a peer analysis, the Company should maintain approximately $350 to $450 MM of liquidity

- The Company's current capital structure and resulting credit metrics support an investment grade rating; however, the rating agencies have awarded a lower rating due largely to the controlling vote of Sears Holdings. S&P maintains a policy that allows up to a two notch differential between the Company and Sears Holdings whereas Moodys rate the Company based on its own quantitative and qualitative factors
  - Subject to consultation and agreement with the rating agencies, the Company should be able to increase adjusted leverage to 3.0x and maintain current ratings

- The Company could raise up to $1,500 MM in credit while maintaining its financial flexibility to comfortably execute it's business plan and to provide sufficient liquidity

Option #2: Dividend Declaration with Financing (continued)

Four capital structure scenarios based on base case financial forecasts have been modeled. Under these different scenarios, by Q3 2010 the Company is able to have approximately $700 MM to $2,000 MM of cash available for a dividend or other corporate uses and still maintain sufficient liquidity to operate comfortably…

1: No New Debt - $700 MM Dividend

(CAD in millions)	At Close				
	7/31/10	FY 2010	FY 2011	FY 2012	FY 2013
Cash & Equivalents	$364.1	$781.2	$1,093.1	$1,444.5	$1,726.6
Less: Current Portion of Debt	$114.1	$17.4	$4.3	$7.4	$11.2
Less: Operational Cash Requirements	$0.0	$280.0	$280.0	$280.0	$280.0
Excess Cash	$250.0	$483.8	$808.8	$1,157.1	$1,435.4
Revolver Availability	$0.0	$0.0	$0.0	$0.0	$0.0
Total Liquidity	$250.0	$483.8	$808.8	$1,157.1	$1,435.4
Total Debt	$146.0	$44.7	$27.3	$23.0	$15.6
LTM EBITDA	$487.3	$490.1	$495.1	$509.6	$524.4
Debt/EBITDA	0.3x	0.1x	0.1x	0.0x	0.0x
Adj. Debt/EBITDAR	1.8x	1.7x	1.6x	1.6x	1.5x
Financing Costs (Fees and Interest)	$0.6	$0.6	$0.0	$0.0	$0.0

2: $400 MM ABL - $1,000 MM Dividend

(CAD in millions)	At Close				
	7/31/10	FY 2010	FY 2011	FY 2012	FY 2013
Cash & Equivalents	$100.0	$471.8	$781.3	$1,130.2	$1,409.9
Less: Current Portion of Debt	$114.1	$17.4	$4.3	$7.4	$11.2
Less: Operational Cash Requirements	$0.0	$280.0	$280.0	$280.0	$280.0
Excess Cash	($14.1)	$174.4	$497.1	$842.8	$1,118.7
Revolver Availability	$356.2	$400.0	$400.0	$400.0	$400.0
Total Liquidity	$342.2	$574.4	$897.1	$1,242.8	$1,518.7
Total Debt	$189.8	$44.7	$27.3	$23.0	$15.6
LTM EBITDA	$487.3	$490.1	$495.1	$509.6	$524.4
Debt/EBITDA	0.4x	0.1x	0.1x	0.0x	0.0x
Adj. Debt/EBITDAR	1.9x	1.7x	1.6x	1.6x	1.5x
Financing Costs (Fees and Interest)	$8.4	$11.1	$4.0	$4.0	$4.0

3: $400 MM ABL/$425 MM HY - $1,500 MM Dividend

(CAD in millions)	At Close				
	7/31/10	FY 2010	FY 2011	FY 2012	FY 2013
Cash & Equivalents	$100.0	$366.6	$483.3	$807.4	$1,062.2
Less: Current Portion of Debt	$114.1	$52.4	$4.3	$7.4	$11.2
Less: Operational Cash Requirements	$0.0	$280.0	$280.0	$280.0	$280.0
Excess Cash	($14.1)	$34.2	$199.0	$520.0	$771.0
Revolver Availability	$268.6	$365.0	$400.0	$400.0	$400.0
Total Liquidity	$254.5	$399.2	$599.0	$920.0	$1,171.0
Total Debt	$702.4	$504.7	$452.3	$448.0	$440.6
LTM EBITDA	$487.3	$490.1	$495.1	$509.6	$524.4
Debt/EBITDA	1.4x	1.0x	0.9x	0.9x	0.8x
Adj. Debt/EBITDAR	2.8x	2.4x	2.3x	2.3x	2.2x
Financing Costs (Fees and Interest)	$25.9	$49.0	$38.0	$38.0	$38.0

4: $400 MM ABL/$1,000 MM HY - $2,000 MM Dividend

(CAD in millions)	At Close				
	7/31/10	FY 2010	FY 2011	FY 2012	FY 2013
Cash & Equivalents	$100.0	$404.7	$657.2	$947.8	$1,168.8
Less: Current Portion of Debt	$114.1	$17.4	$4.3	$7.4	$11.2
Less: Operational Cash Requirements	$0.0	$280.0	$280.0	$280.0	$280.0
Excess Cash	($14.1)	$107.3	$372.9	$660.4	$877.7
Revolver Availability	$329.3	$400.0	$400.0	$400.0	$400.0
Total Liquidity	$315.3	$507.3	$772.9	$1,060.4	$1,277.7
Total Debt	$1,216.7	$1,044.7	$1,027.3	$1,023.0	$1,015.6
LTM EBITDA	$487.3	$490.1	$495.1	$509.6	$524.4
Debt/EBITDA	2.5x	2.1x	2.1x	2.0x	1.9x
Adj. Debt/EBITDAR	3.6x	3.3x	3.2x	3.2x	3.1x
Financing Costs (Fees and Interest)	$36.8	$86.4	$84.0	$84.0	$84.0

Note: Refer to p.4 for a description of the scenario assumptions. All scenarios are net of fees and reflect cash flow impacts of each transaction. For modeling purposes, assumed special dividend paid in Q2 2010. Operational cash requirements are net of minimum $100 MM cash balance cushion that is reflected in Cash & Equivalents.

Option #2: Dividend Declaration with Financing (continued)

Additionally, Sears Management modeled a downside case on the four capital structure scenarios to reflect the potential financial impact of an ongoing recession continuing for the next 5 years...

1: No New Debt - $700 MM Dividend

(CAD in millions)	At Close				
	7/31/10	FY 2010	FY 2011	FY 2012	FY 2013
Cash & Equivalents	$227.5	$493.9	$651.0	$768.9	$918.3
Less: Current Portion of Debt	$111.2	$9.2	$4.3	$7.4	$11.2
Less: Operational Cash Requirements	$0.0	$280.0	$280.0	$280.0	$280.0
Excess Cash	$116.3	$204.6	$366.7	$481.5	$627.1
Revolver Availability	$0.0	$0.0	$0.0	$0.0	$0.0
Total Liquidity	$116.3	$204.6	$366.7	$481.5	$627.1
Total Debt	$143.1	$36.5	$27.3	$23.0	$15.6
LTM EBITDA	$459.0	$405.5	$372.8	$352.6	$336.0
Debt/EBITDA	0.3x	0.1x	0.1x	0.1x	0.0x
Adj. Debt/EBITDAR	1.9x	1.9x	2.0x	2.1x	2.2x
Financing Costs (Fees and Interest)	$0.6	$0.6	$0.0	$0.0	$0.0

2: $400 MM ABL - $1,000 MM Dividend

(CAD in millions)	At Close				
	7/31/10	FY 2010	FY 2011	FY 2012	FY 2013
Cash & Equivalents	$100.0	$183.3	$334.4	$449.3	$596.2
Less: Current Portion of Debt	$111.2	$9.2	$4.3	$7.4	$11.2
Less: Operational Cash Requirements	$0.0	$280.0	$280.0	$280.0	$280.0
Excess Cash	($11.2)	($106.0)	$50.1	$161.9	$305.0
Revolver Availability	$219.3	$400.0	$400.0	$400.0	$400.0
Total Liquidity	$208.1	$294.0	$450.1	$561.9	$705.0
Total Debt	$323.8	$36.5	$27.3	$23.0	$15.6
LTM EBITDA	$459.0	$405.5	$372.8	$352.6	$336.0
Debt/EBITDA	0.7x	0.1x	0.1x	0.1x	0.0x
Adj. Debt/EBITDAR	2.2x	1.9x	2.0x	2.1x	2.2x
Financing Costs (Fees and Interest)	$8.4	$13.0	$9.0	$4.8	$4.0

3: $400 MM ABL/$425 MM HY - $1,500 MM Dividend

(CAD in millions)	At Close				
	7/31/10	FY 2010	FY 2011	FY 2012	FY 2013
Cash & Equivalents	$100.0	$100.0	$207.8	$294.1	$415.7
Less: Current Portion of Debt	$111.2	$25.2	$4.3	$7.4	$11.2
Less: Operational Cash Requirements	$0.0	$280.0	$280.0	$280.0	$280.0
Excess Cash	($11.2)	($205.2)	($76.5)	$6.7	$124.5
Revolver Availability	$132.6	$384.0	$400.0	$400.0	$400.0
Total Liquidity	$121.5	$178.8	$323.5	$406.7	$524.5
Total Debt	$835.4	$477.5	$452.3	$448.0	$440.6
LTM EBITDA	$459.0	$405.5	$372.8	$352.6	$336.0
Debt/EBITDA	1.8x	1.2x	1.2x	1.3x	1.3x
Adj. Debt/EBITDAR	3.1x	2.8x	2.9x	3.0x	3.1x
Financing Costs (Fees and Interest)	$25.9	$51.8	$47.5	$43.9	$38.6

4: $400 MM ABL/$1,000 MM HY - $2,000 MM Dividend

(CAD in millions)	At Close				
	7/31/10	FY 2010	FY 2011	FY 2012	FY 2013
Cash & Equivalents	$100.0	$130.5	$222.4	$275.1	$362.2
Less: Current Portion of Debt	$111.2	$9.2	$4.3	$7.4	$11.2
Less: Operational Cash Requirements	$0.0	$280.0	$280.0	$280.0	$280.0
Excess Cash	($11.2)	($158.8)	($61.9)	($12.3)	$71.1
Revolver Availability	$194.5	$400.0	$400.0	$400.0	$400.0
Total Liquidity	$183.3	$241.2	$338.1	$387.7	$471.1
Total Debt	$1,348.6	$1,036.5	$1,027.3	$1,023.0	$1,015.6
LTM EBITDA	$459.0	$405.5	$372.8	$352.6	$336.0
Debt/EBITDA	2.9x	2.6x	2.8x	2.9x	3.0x
Adj. Debt/EBITDAR	4.0x	3.8x	4.1x	4.2x	4.4x
Financing Costs (Fees and Interest)	$36.8	$88.6	$92.1	$89.9	$85.6

Note: Refer to p.4 for a description of the scenario assumptions. All scenarios are net of fees and reflect cash flow impacts of each transaction. For modeling purposes, assumed special dividend paid in Q2 2010. Operational cash requirements are net of minimum $100 MM cash balance cushion that is reflected in Cash & Equivalents.

Option #3 (1): Normal Course Issuer Bid ("NCIB") - Overview

Historically, the Company has participated in NCIBs that permitted the Company to purchase for cancellation up to 5% of its outstanding common shares ...

- Share repurchase programs are defined under the Ontario Securities act as "Issuer Bids"
- NCIBs do not require an information circular and are exempt from disclosure requirements of OSC rule 61-101 of the *Ontario Securities Act* (Protection of Minority Security Holders in Special Transactions)
- Purchases occur on the open market at prevailing market prices
- NCIBs purchases are limited to:
  - The greater of 5% of the issued and outstanding shares or 10% of the public float within a 12 month period
    - Public float excludes holders greater than 10%, senior officers and directors, and pooled/escrowed shares
  - Daily purchases limited to the greater of (i) 25% of the average daily trading volume of the listed securities subject to the NCIB; and (ii) 1,000 securities
    - There is a weekly Block Trade Purchase Exemption that entitles and issuer to make 1 block trade per calendar week which exceeds the daily repurchase restriction, subject to the annual aggregate limits
- Cannot re-purchase while Issuer contains undisclosed material information (unless done through automatic security re-purchases)
- Share repurchases must be made at a price which is not higher than the last independent trade of a board lot (100 securities) of the common shares

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(1) Attached as an appendix to this presentation is a memorandum from Torys LLP outlining the two main types of share buybacks

Option #3: Normal Course Issuer Bid ("NCIB") - Continued

A Normal Course Issuer Bid must follow TSX procedures ...

- **Notice of intention to acquire shares:** must file with the TSX a Form 12 stating the intention to acquire shares and the number of shares to be repurchased
    - The Form 12 must be filed 2 days prior to the commencement of any purchases under the bid
- **Duration:** cannot extend for a period of more than one year from when the purchases begin
- **Press release:** must issue a press release indicating intention to make a bid, the number of shares to be purchased and the reasons for the bid
- **Disclosure to shareholders:** must include a summary of the material information of the bid in the next annual report, annual information circular, quarterly report or other document mailed to shareholders
- **Intent to purchase:** At the time of filing a notice of intention to make a normal course issuer bid (Form 12), the Company must have a present intention to acquire shares at or below the market price. Section 629(b) of the TSX Company Manual specifies that the notice may not be filed absent this intention. Section 629(l)1 sets out the applicable price limitations (no higher than the last independent trade of a board lot). The notice must set out both (a) the maximum number of shares that may be acquired under the NCIB; and (b) the number of shares that the Company intends to acquire.

Beyond these requirements, there is nothing "compelling" the Company to purchase shares under a normal course issuer bid. However, absent a material increase in the market price or other good reasons, the TSX would expect the Company to proceed with purchases under the NCIB.

Historical Sears Canada Share Buyback Programs

1987 – 1990	3,546,600 common shares were repurchased for an aggregate cost of $40,596,474
1999 – 2000	41,500 common shares were repurchased for an aggregate cost of $1,188,745
2001 – 2003	No common shares were repurchased
2004 – 2005	573,301 common shares were repurchased for an aggregate cost of $9,298,324 (1)
2005 – 2006	No common shares were repurchased
2007 – 2010	The Company did not renew Normal Course Issuer Bid buyback program

(1) Included 311,501 common shares from Sears, Roebuck and Co. pursuant to and in accordance with the arrangement with Sears Roebuck to sell to the Company the number of common shares sufficient to ensure that Sears Roebuck's percentage interest in the Company did not increase as a result of the Company's purchases under the Normal Course Issuer bid.

Option #4 (1): Substantial Issuer Bid ("SIB") - Overview

A Substantial Issuer Bid allows the repurchase and cancellation of outstanding shares by way of issuer bid circular ...

- SIBs are governed under OSC rule 61-101(2) of the Ontario Securities Act (Bids, Issuer Bids, Going Private Transactions and Related Party Transactions) and therefore require an information circular to be prepared, filed and distributed to shareholders
- Rule 61-101 allows for exemptions from a formal valuation provided that:
    - A liquid market exists for the offeror's shares; and
    - It is reasonable to conclude that the market for those shareholders who do not tender will not be materially less liquid after the transaction has occurred
- Liquidity test requires that during the twelve month period prior to offering:
    - number of outstanding shares was, at all times, at least 5,000,000, excluding shares held by related parties or otherwise not freely tradable
    - aggregate trading volume was at least 1,000,000 shares
    - at least 1,000 trades with an aggregate trading value of at least $15,000,000
    - market value at least $75,000,000 for month preceding month in which bid made
- Board may request an opinion from financial advisors stating the offer price does not exceed fair market value of shares

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(1) Attached as an appendix to this presentation is a memorandum from Torys LLP outlining the two main types of share buybacks

(2) Attached as an appendix to this presentation

Option #4: Substantial Issuer Bid ("SIB") - Continued

Under a SIB shares can be repurchased in the following two ways …

Fixed Price Bid

- Under the fixed price method, the Company would set the price and the maximum number of Shares to be repurchased
- Shareholders tender their Shares and the Company must take-up and pay the fixed price
- If more than the maximum is tendered, shareholders (usually except odd lots) are pro rated
- There is a chance fewer than the desired number of Shares are tendered

Dutch Auction

- Under a Dutch Auction, the Company would pre-determine the price range at which it is willing to buy back a fixed number of Shares
- Each shareholder elects how many Shares (if any) they would tender at their chosen price (within the range)
- The lowest bid price that "clears" the maximum number of Shares offered becomes the tender price
  - This price is received by all shareholders who tendered at or below such price
- If oversubscribed, shareholders have their offers pro rated
- The Company can institute a "Proportionate Interest Bid" mechanism which will allow tendering shareholders to maintain their pro-rata interest in the Company

Issuer Bid Impact

An offer to acquire outstanding common shares made by the Company via a permitted issuer buy-back has the resulting impact on the Company's cash ...

(in millions)

Normal Course Issuer Bid ("NCIB")

% of Common Shares Outstanding	*Shares Purchased*	*Cash Used @ $25/share*	*Cash Used @ $30/share*
1%	1.1	$26.9	$32.3
2%	2.2	53.8	64.6
3%	3.2	80.7	96.9
4%	4.3	107.6	129.1
5%	5.4	134.5	161.4

(in millions)

Substantial Issuer Bid ("SIB")

% of Common Shares Outstanding	*Shares Purchased*	*Cash Used @ $25/share*	*Cash Used @ $30/share*
1.0%	1.1	$26.9	$32.3
2.0%	2.2	$53.8	$64.6
3.0%	3.2	$80.7	$96.9
4.0%	4.3	$107.6	$129.1
5.0%	5.4	$134.5	$161.4
6.0%	6.5	$161.4	$193.7
7.0%	7.5	$188.3	$226.0
8.0%	8.6	$215.2	$258.3
9.0%	9.7	$242.1	$290.6
9.6%	10.3	$258.3	$309.9

Note: The total cash available is $700 MM so any of the cash used for a NCIB and/or a SIB will reduce cash available for other strategic uses including the payment of dividends

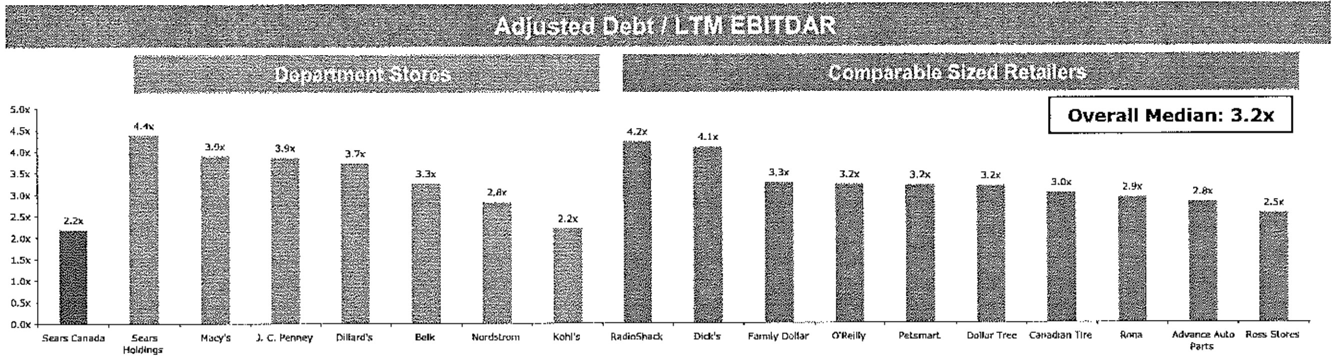
April 23rd Board Follow-up items

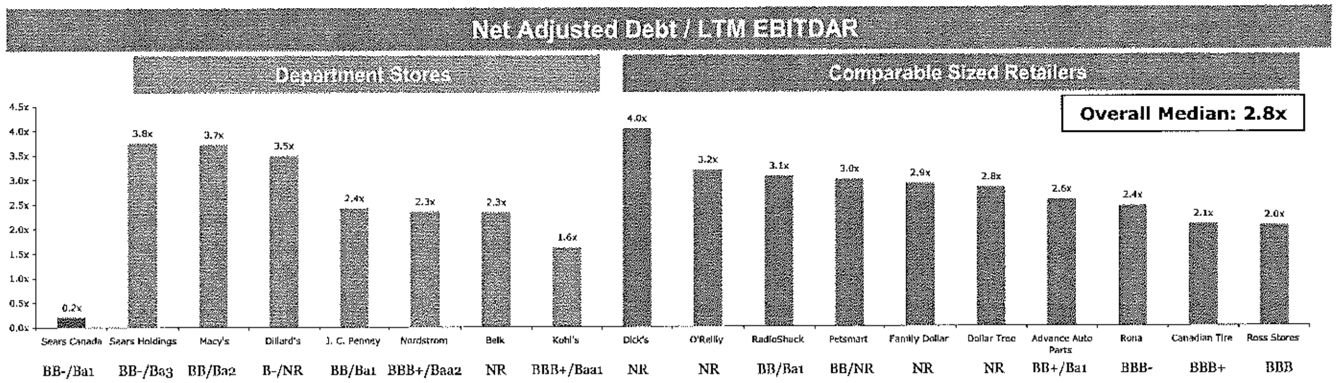
At the April 23rd Board meeting requests were made by the Board to be responded to separately or to be included / updated in the draft Capital Structure discussion document that was presented by Management ...

Board Question	Management Response
Canadian high yield market overview	Refer to pages 20-21 of the Capital Structure presentation of April 23, 2010
Ratings of comparable companies	Refer to page 16
Updated ABL indicative pricing terms by Wells Fargo	BA + 275 to 350 bps, no BA floor, with a 3/4 year term
Is the Company permitted to hold its bonds in it's pension fund investments	The current Statement of Investment Policy and Procedure ("SIP&P"), which prohibits the practice of investing in Sears Canada, Sears Holdings, or any associated companies, in a segregated account, may be amended by the Investment Committee to permit such investments, if requested
Impact of investment grade rating on proposed financing (s)	Refer to page 17
Costs associated for an independent assessment, by the rating agencies, of the Company as a stand-alone credit	**Moodys Rating Assessment Service ("RAS"):** Charge $155k for evaluating up to three separate capital structure scenarios **S&P Ratings Evaluation Service ("RES"):** Charge approx. $100k - $150k for evaluating up to three separate capital structure scenarios **DBRS Impact Assessment Service ("IAS"):** Charge approx. $125k - $175k for evaluating a single capital structure scenario. Additional scenarios can be evaluated at an incremental cost of $5k per scenario
Revised financing timetable, with goal to reduce time-to-market timeline	Refer to page 18

April 23rd Board Follow-up items (continued)

Given the Company's cash flow and lack of new store growth, its leverage level is lower than the median adjusted leverage of 3.2x of its competitors ...





Note: Sears Canada operating leases capitalized at 8.0x. SCC data as of Q3 '09.
Source: Public company filings

April 23rd Board Follow-up items (continued)

Sears, as an investment grade issuer, could raise capital on more favourable terms compared to issuing capital as a non-investment grade issuer, including reduced borrowing costs of $10 to $25 MM annually, issuing capital with longer maturities, and less restrictive covenants …

	Investment Grade	Non-Investment Grade
Market Access	• Broad market access • Greater potential for retail participation	• Narrower market access vs investment grade (limited at times) • Eliminates investment grade-only investors
Price (1) ABL	• L+275 to 350 bps - BMO	• L+300 to 350bps - BMO
Debt	• Mid BBB (Up to 250bps lower than HY – Wells Fargo) Low BBB (100-200bps lower than HY - BMO)	• Premium to investment grade (7.0% - 7.5% for Sears Canada)
Issue Size Capacity	• Canada – potential to grow beyond $750 MM • U.S. – Size only constrained by ratings	• Canada - $500 MM to $750 MM achievable • U.S. - up to $1.0b achievable
Tenor	• Up to 10 years in US and Canada	• Up to 10 years in the US • Up to 7 years in Canada (only one completed 10 year deal in Canada)
Covenants	• Typically most favourable terms achieved (minimal covenants required) – Covenants not required include: Incurrence of indebtedness, restricted payments, sales of assets and affiliate transaction limitations	• Incurrence based covenants such as Debt Incurrence Test and Restricted Payments Test • Certain strong BB high yield transactions have been done with investment grade style covenants or are structured with covenants that fall-away upon achieving investment grade rating
Management Time / Docs	• Similar requirements	• Similar requirements

(1) Based on discussions with Wells Fargo and BMO Capital Markets.

April 23rd Board Follow-up items (continued)

Given the Company is a new issuer it is anticipated that the Company will engage in a fully marketed deal that will take approx. six weeks …

Week	ABL	High Yield (US & Canada)
1	• Review and Finalize Terms • Execute Mandate Letter • Receipt of Due Diligence Information and Projection Model • Review Syndication Strategy	• Organizational meeting • Engage issuer/dealer counsel • Drafting session for offering documents • Detailed due diligence • Begin rating agency dialog
2	• Deliver Bank Commitment • Distribute Term Sheet & Projections to Existing Lenders • Begin Drafting Offering Materials	• Continue drafting sessions • Complete due diligence • Prepare for rating agency and marketing presentations
3	• Receive Existing Lender Feedback • Finalize Syndication Strategy • Review and Finalize Offering Materials • Begin Legal Documentation	• Road Show dry run • Dry run and formal presentations to rating agencies • Arrange investor meetings in the U.S. and Canada
4	• Distribute Offering Materials to Existing and Targeted New Lenders • Prepare Lender Meeting Presentation • Lender Meeting	• Print and distribute preliminary offering memorandum • Trustee review documents
5	↑	• Start Road Show • Receive outcome of ratings review • Launch issue
6	• Syndicate Credit and Due Diligence Process • Receive Lender Commitments • Finalize and Distribute Legal Documentation • Close	• Complete Road Show • Arrange CUSIP number • Price-execute underwriting agreement (Last day of Road Show)
7	↓	• Distribute closing memorandum • Prepare legal opinions, certificates & other closing papers • Distribute bring down letter • Closing

Note: Being an investment grade issuer would not have a material impact on timing.

Dividend and Capital Structure Illustrative Timetables

May						
S	M	T	W	T	F	S
						1
2	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17	18	19	20	21	22
23	24	25	26	27	28	29
30	31					

June						
S	M	T	W	T	F	S
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30			

July						
S	M	T	W	T	F	S
				1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	31

August						
S	M	T	W	T	F	S
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30	31				

▨ Milestone

⬚ Holiday in US or Canada

Dividend Timetable

May 7th	Board call – Discuss special divided
May 10-15th	Management to review cash flow projections with Board members as requested
May 18th	Board meeting – Follow-up from Board call
May 18th	Board resolves to declare a dividend
May 18th/19th	Press release issued: - Declare dividend to be paid - Confirm record date
May 28th/31st	Earliest record date (min. 7 trading days from press release)
June 3rd	Earliest payment of special dividend
Aug. 16th	Latest payment of special dividend

Capital Structure Timetable (1)

May 7th	Board call – Follow-up from April 23rd Board meeting
May 18th	Board meeting – Revisit capital structure discussion
May 18th	Board agrees on next steps

(1) A more detailed indicative timeline for possible ABL and High Yield financings on p. 8

Appendix

DIVIDEND DECLARATION PROCESS

Excerpts from TSX Company Manual and Canada Business Corporations Act

TSX Company Manual; Sec. 428

- "the Exchange requires that at least seven trading days' notice be given to the Exchange in advance of the dividend of the record date, the record date being the date of closing of the transfer hooks of the company. Companies with tentative dividend plans should schedule their board meetings well in advance of the proposed record date."

Canada Business Corporations Act; Sec 134(3)(a)(b)

- "When record date fixed – If a record date is fixed, unless notice of the record date is waived in writing by every holder of a share of the class or series affected whose name is set out in the securities register at the close of business on the day the directors fix the record date, notice of the record date must be given within the prescribed period

  (a) by advertisement in a newspaper published or distributed in the place where the corporation has its registered office and in each place in Canada where it has a transfer agent or where a transfer of its shares may be recorded; and

  (b) by written notice to each stock exchange in Canada on which the shares of the corporation are listed for trading."

Canada Business Corporations Regulation, Act; Sec 43

- 43(1) Subject to subsection (3), for the purposes of paragraphs 134(1)(a), (b) and (e) of the Act, the prescribed period for the directors to fix the record date is not more than 60 days before the particular action to be taken.

  (3) For the purposes of paragraphs 134(3) of the Act, the prescribed period for the directors provide notice of the record date shall begin not less than seven days before the date fixed.

OFFICER'S CERTIFICATE

SOLVENCY TESTS UNDER SECTION 42 OF THE CBCA

TO: THE BOARD OF DIRECTORS OF SEARS CANADA INC.

I, Allen Ravas, the Chief Financial Officer of Sears Canada Inc. (the "Corporation"), hereby certify as an officer of the Corporation (not in my personal capacity and, on the basis that I have acted in the manner set out in paragraph 1 of this certificate, without personal liability), as follows:

1. In giving this certificate:
   (a) I have acted honestly and in good faith with a view to the best interests of the Corporation; and
   (b) I have exercised the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.
2. I am familiar with the financial position of the Corporation and the circumstances surrounding the proposed extraordinary cash dividend of up to Cdn. $● million, to be paid on ●, 2010, to holders of common shares of the Corporation of record on ●, 2010.
3. I reviewed, and discussed with the Corporation's lawyers, the provisions of section 42 of the *Canada Business Corporations Act*. I understand those provisions.
4. I have made such examinations and investigations, received such advice from the Corporation's advisors and reviewed such documents as are, in my opinion, necessary to provide a reasonable basis for the conclusion in paragraph 6 below including:
   (a) the audited financial statements of the Corporation for the year ended January 30, 2010;
   (b) an internally prepared cash flow statement which sets out a projected analysis of the Corporation's cash flow for the period from 2010 to 2012;
   (c) a *pro forma* balance sheet of the Corporation for all months within 2010, which has been prepared on the basis that the proposed extraordinary cash dividend has been paid;
   (d) the nature of the Corporation's business; and

(e) such other information as I considered necessary for the purposes of giving this certificate.

5. In arriving at the conclusion in paragraph 6 below, I took the following approaches and made the following determinations:

As to the conclusion in paragraph 6(a) below:

(a) I determined whether the Corporation is, or after paying the proposed extraordinary cash dividend would be, able to pay its "liabilities as they become due" on the basis of the projected cash flow of the Corporation and the Corporation's direct liabilities, but not including contingent liabilities of the Corporation because it is unlikely that the Corporation will be required to make payment in respect of any contingent liability within a reasonably foreseeable period.

As to the conclusion in paragraph 6(b) below:

(b) I estimated the "realizable value" of the Corporation's assets as being the amount which the Corporation could reasonably expect to receive as proceeds of sale of its assets if sold in the manner most likely to be employed in the present circumstances of the Corporation over a reasonable period of time, taking into account the nature of the assets, the costs of disposition and any taxes payable by the Corporation in connection with those sales.

(c) As of the date of this certificate, the realizable value of the Corporation's assets is not less than $●billion, the aggregate of its liabilities is not more than $●billion, and the stated capital of all classes of shares issued by the Corporation is $●billion.

6. Based on the foregoing advice, enquiries, calculations and determinations, and applying the approaches and determinations described in paragraph 5 above, I have concluded that as of the date of this certificate:

(a) there are no reasonable grounds for believing that the Corporation is, or after payment of the proposed extraordinary cash dividend would be, unable to pay its liabilities as they become due; and

(b) there are no reasonable grounds for believing that the realizable value of the Corporation's assets, after giving effect to the payment of the proposed extraordinary cash dividend, would be less than the aggregate of the Corporation's liabilities and the stated capital of all classes.

DATED this ●th day of ●, 2010.

Allen Ravas
Chief Financial Officer

1. **<u>Resolution</u>** authorizing the declaration of an extraordinary cash dividend to be paid on ●, 2010, to shareholders of record on ●, 2010

WHEREAS the Corporation has retained earnings in excess of $● million as at April , 2010;

WHEREAS the Board of Directors has considered the interests of shareholders ("Shareholders") and other stakeholders of the Corporation, including creditors and debenture holders in determining the appropriate use of the retained earnings;

WHEREAS the Corporation has sufficient cash on hand;

WHEREAS the Board of Directors has determined that it would be in the best interests of the Corporation to declare an extraordinary cash dividend in the amount of approximately $● million to be distributed to Shareholders on a pro-rata basis; and

WHEREAS the Board of Directors has received a certificate from management of the Corporation confirming that the declaration and payment of the extraordinary cash dividend is in compliance with section 42 of the *Canada Business Corporations Act*.

<u>ON MOTION</u>, duly made and seconded, it was unanimously resolved:

THAT an extraordinary cash dividend in the amount of $● million be paid pro-rata, in Canadian currency, on the ● day of ●, 2010, to the Shareholders of record as at the close of business on the ● day of ●, 2010.

THAT any Director or Officer of the Corporation be authorized and directed for and on behalf of the Corporation to do all things necessary or desirable to give effect to this resolution.

2. **<u>Resolution</u>** approving draft Press Release

<u>ON MOTION</u>, duly made and seconded, it was unanimously resolved:

THAT the Corporation be authorized to finalize and issue the draft press release relating to the declaration and payment of an extraordinary cash dividend, which was circulated to the Board in advance of the meeting.

Draft: Not For Release

Contact for Media:
Vincent Power
Sears Canada, Corporate Communications
416-941-4422
vpower@sears.ca

Sears Canada Declares Extraordinary Cash Dividend

TORONTO – ●, 2010 – Sears Canada Inc. (TSX: SCC) announced today that the Board of Directors of the Corporation has declared the payment of $ ■ or $ ■ per share on all Common Shares of the Corporation to be made on ●, 2010 to shareholders of record as at ●, 2010 by way of an extraordinary cash dividend.

"We trust that shareholders will be pleased with the added value we have been able to create," said Dene Rogers, President and Chief Executive Officer, Sears Canada Inc. "Thanks in large part to the efforts of our associates across the country, we are in a position where we are able to distribute a meaningful return to our shareholders. "

This release contains information which is forward-looking and is subject to important risks and uncertainties. Forward-looking information concerns the Company's future financial performance, business strategy, plans, goals and objectives. Factors which could cause actual results to differ materially from current expectations include, but are not limited to: the ability of the Company to successfully implement its cost reduction, productivity improvement and strategic initiatives and whether such initiatives will yield the expected benefits; the results achieved pursuant to the Company's long-term marketing and servicing alliance with JPMorgan Chase Bank, N.A.; general economic conditions; competitive conditions in the businesses in which the Company participates; changes in consumer spending; seasonal weather patterns; customer preference toward product offerings; changes in the Company's relationship with its suppliers; interest rate fluctuations and other changes in funding costs; fluctuations in foreign currency exchange rates; the possibility of negative investment returns in the Company's pension plan; the outcome of pending legal proceedings; and changes in laws, rules and regulations applicable to the Company. While the Company believes that its forecasts and assumptions are reasonable, results or events predicted in this forward-looking information may differ materially from actual results or events.

Sears Canada is a multi-channel retailer with a network of 196 corporate stores, 182 dealer stores, 57 home improvement showrooms, over 1,800 catalogue merchandise pick-up locations, 106 Sears Travel offices and a nationwide home maintenance, repair, and installation network. The Company also publishes Canada's most extensive general merchandise catalogue and offers shopping online at www.sears.ca.

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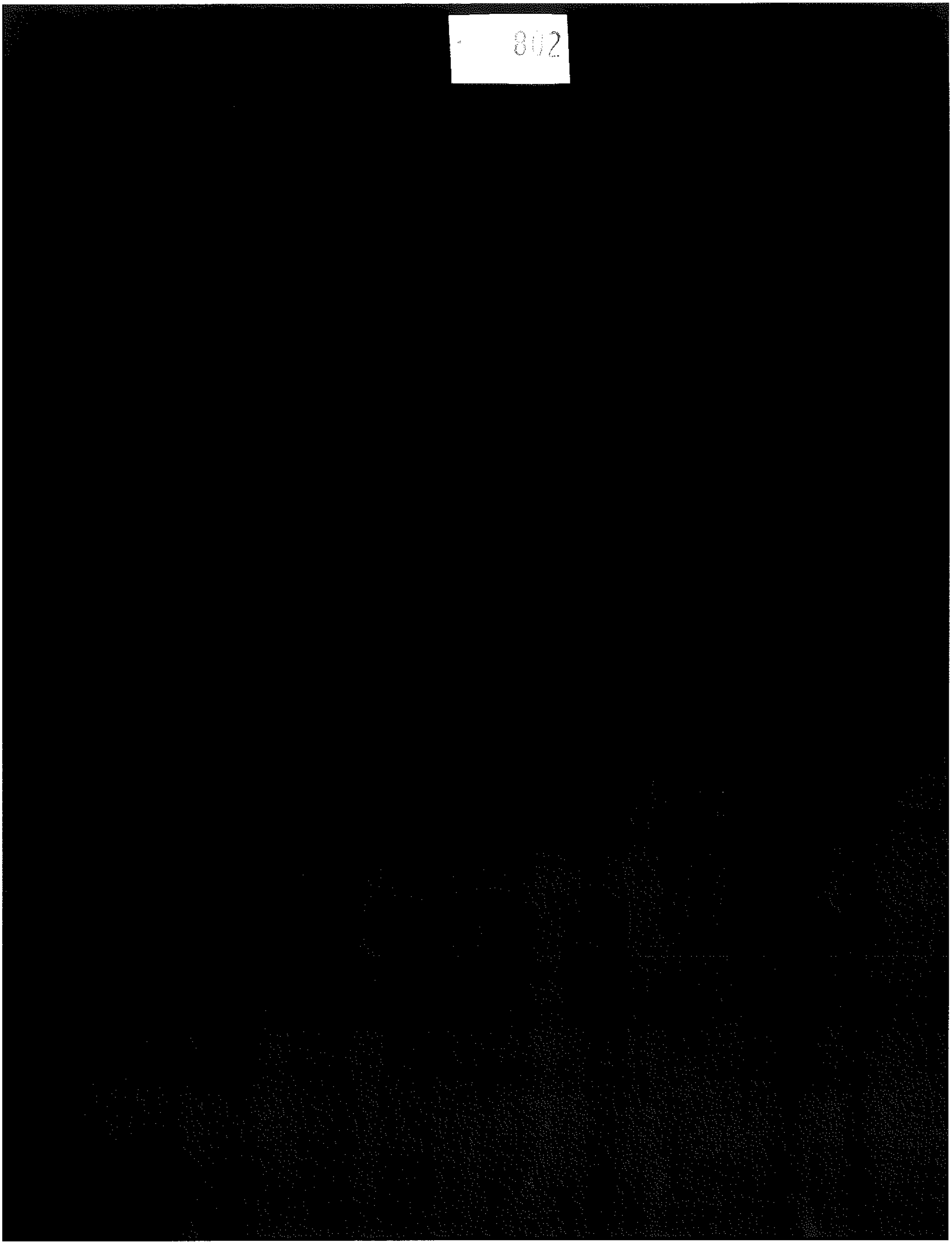

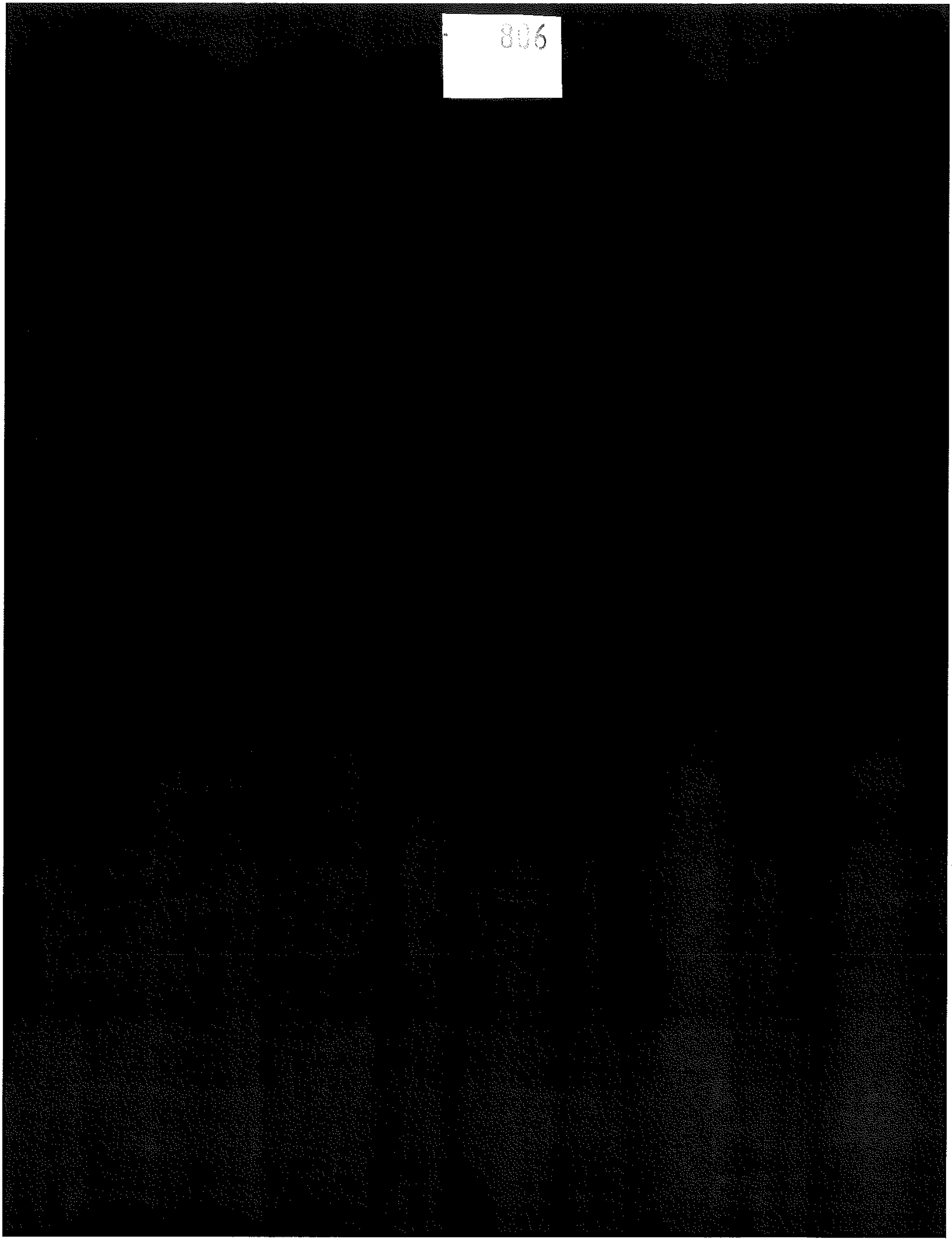

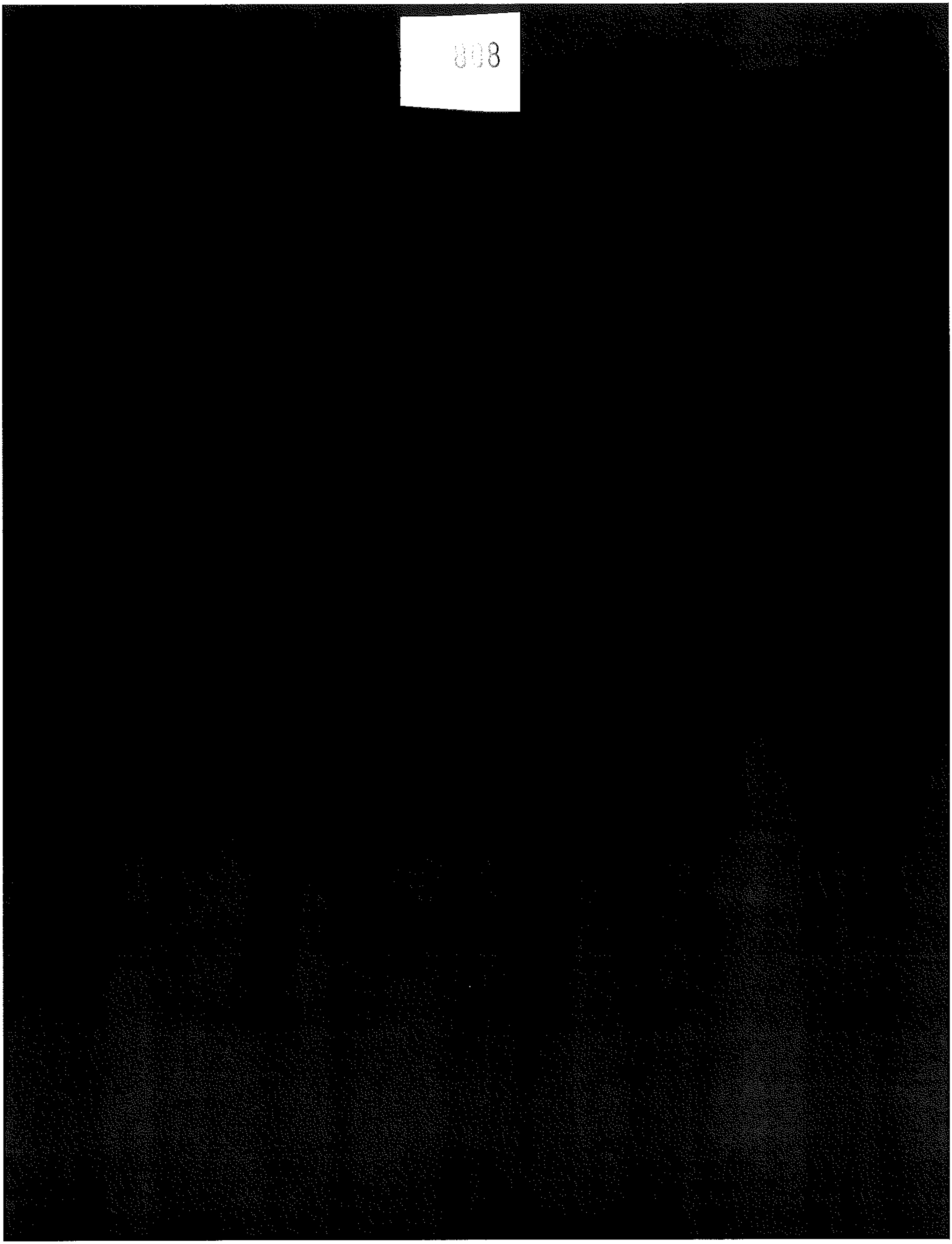

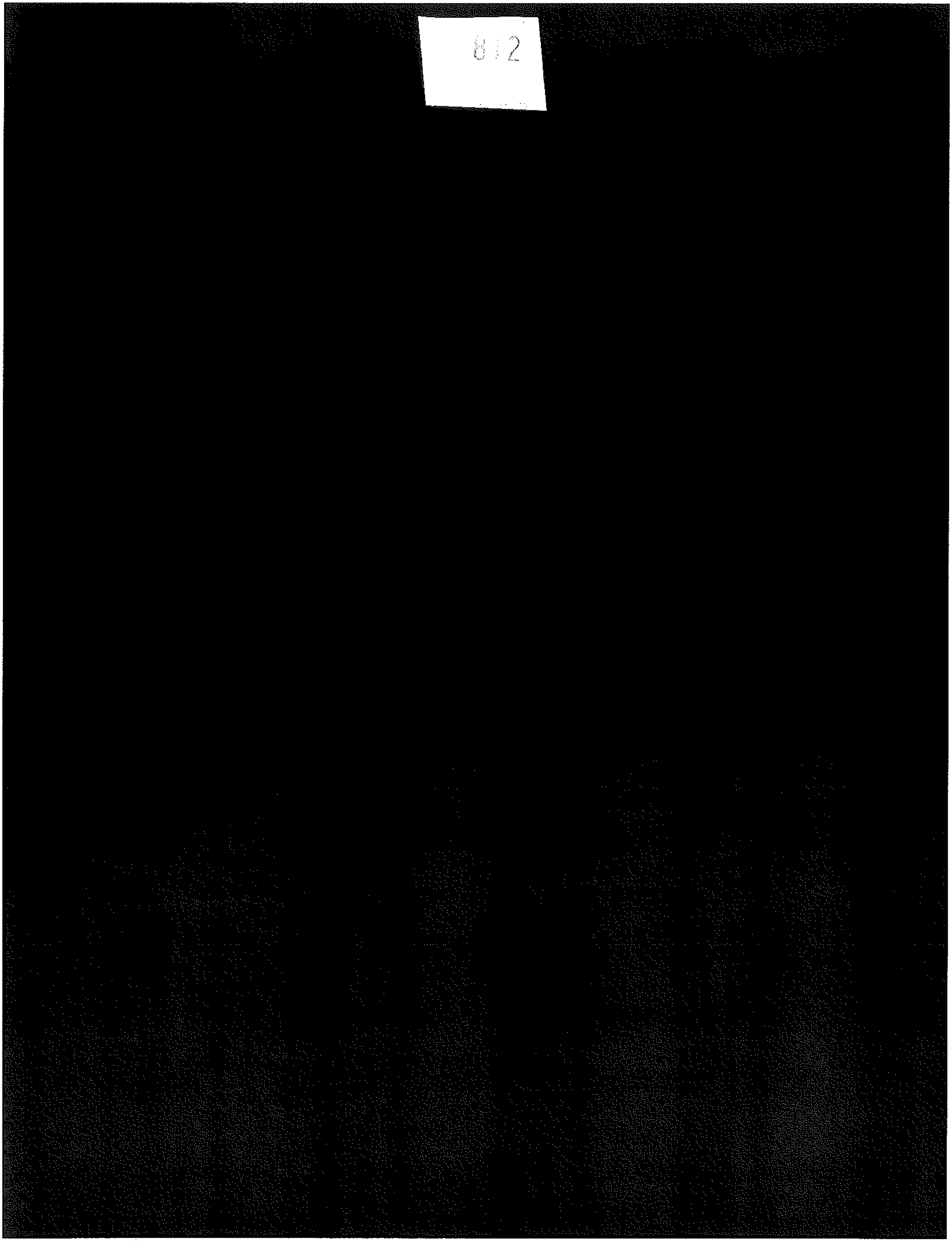

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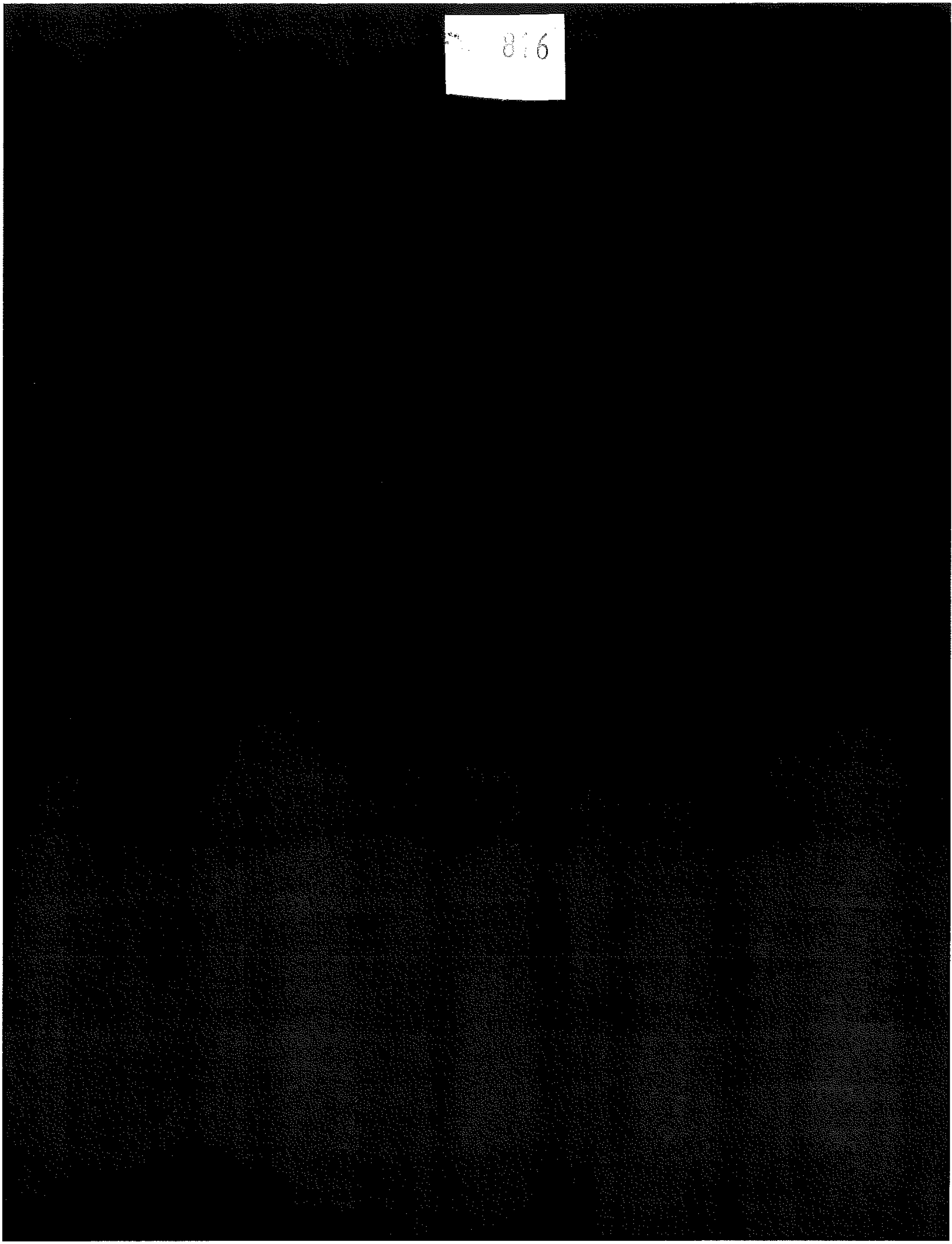

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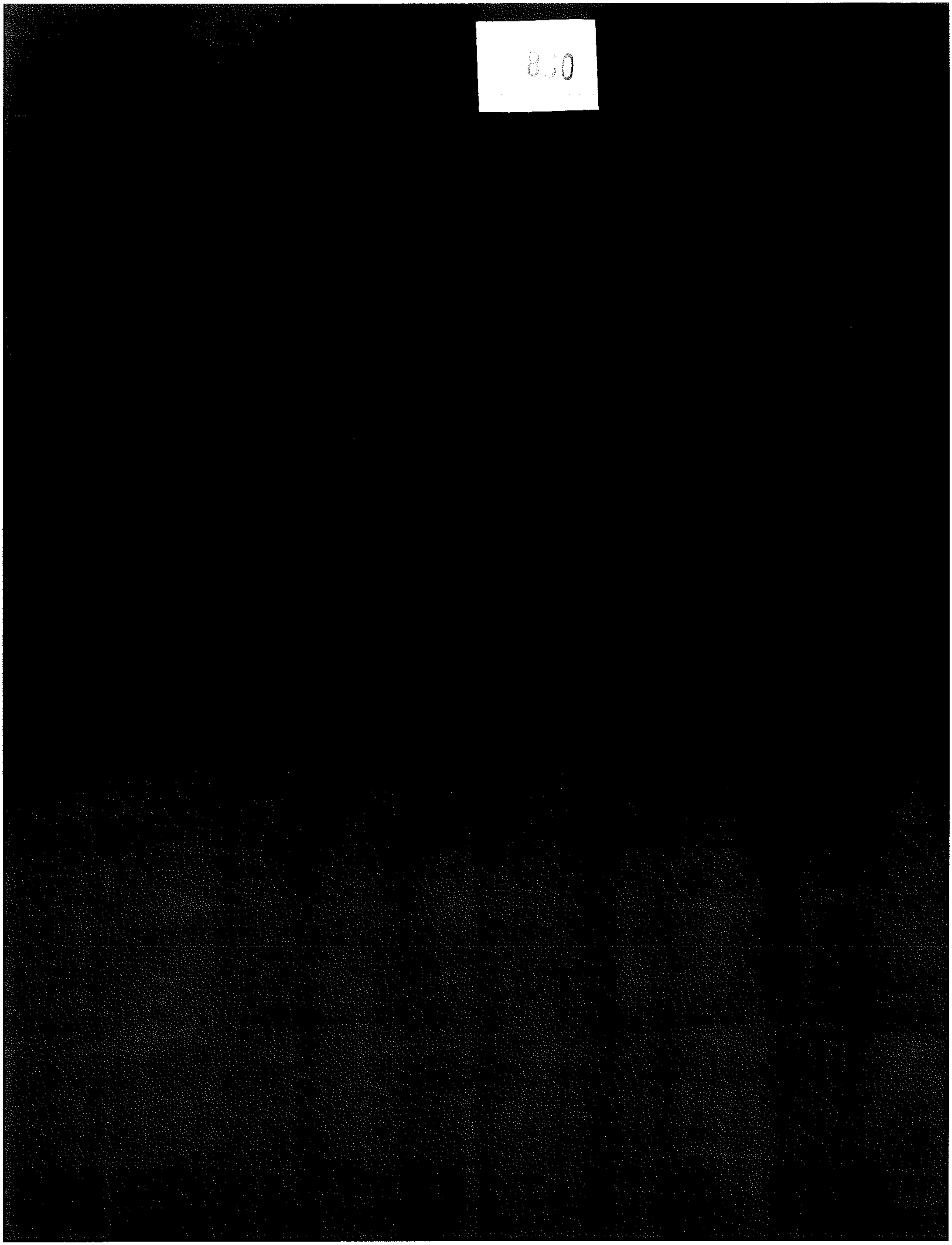

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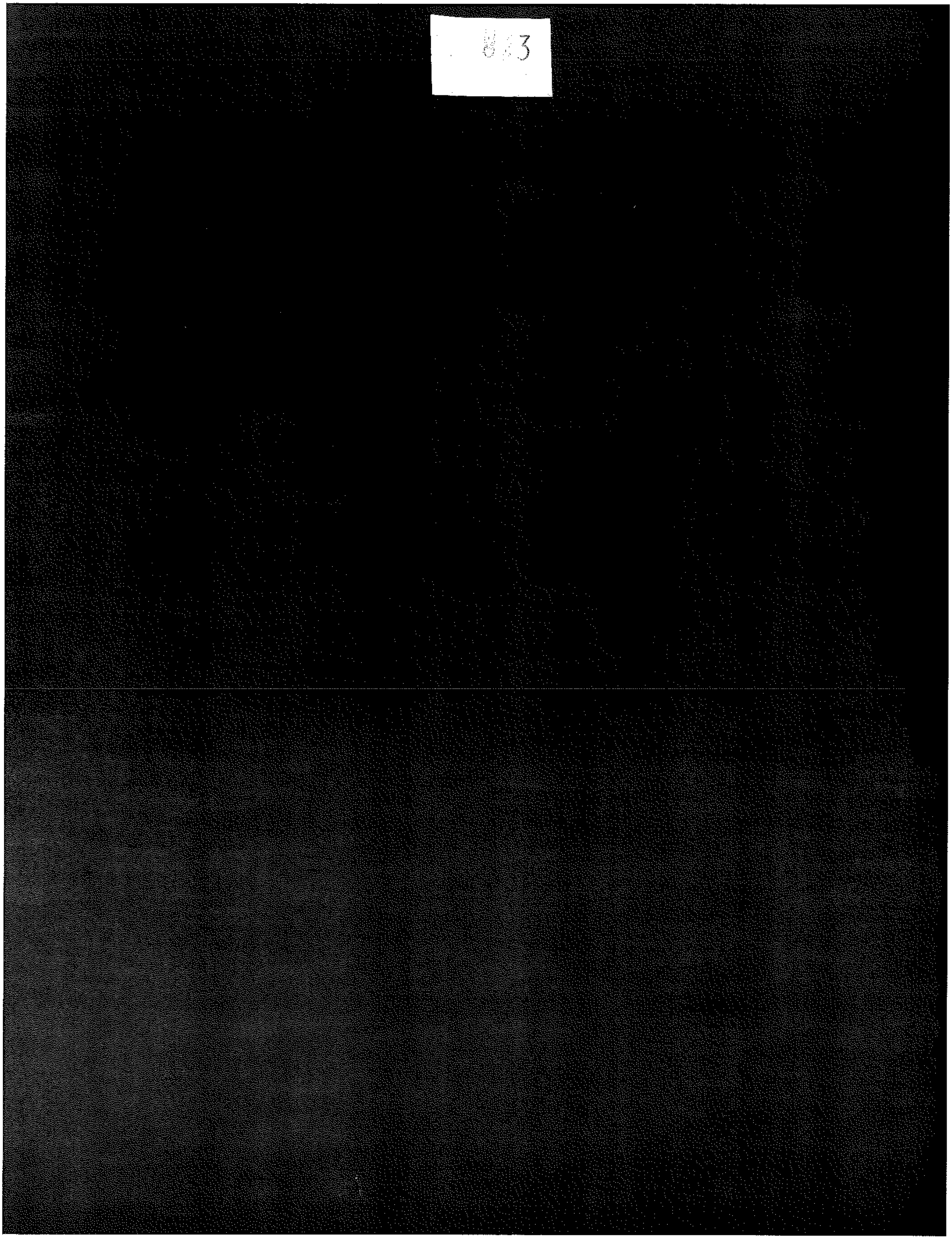

[redacted]

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TAB 5

MINUTES of the telephone meeting of the Board of Directors of **SEARS CANADA INC.** (the "Corporation") held in the Boardroom of the Corporation, 290 Yonge Street, Toronto, Ontario on Friday, May 7, 2010 at 1:00 p.m., Eastern time

PRESENT (via telephone)

W. C. Crowley (Ch.)
E. J. Bird
D. D. Cheeks Merriwether
W. R. Harker
R. R. Khanna
J. McBurney
D. L. Rogers (in person)
D. E. Rosati

MANAGEMENT (in person)

A. Ravas
Senior Vice-President and Chief Financial Officer
S. Driscoll
Senior Vice-President, Finance
K. Leshnjani
Vice-President and General Counsel
F. Perugini
Associate General Counsel and Corporate Secretary
T. Dalglish
Divisional Vice President, Treasurer

The Chairman of the Board, Mr. W. C. Crowley, acted as Chairman of the meeting and the Secretary of the Corporation, Mr. F. Perugini, acted as Secretary of the meeting.

CALL TO ORDER

1. The Chairman called the meeting to order and took a roll call.

DIVIDEND / CAPITAL STRUCTURE

2. Mr. Todd Dalglish, Divisional Vice President and Treasurer of the Corporation made a presentation regarding the capital position of the Corporation and presented various uses for the Corporation's excess cash. The following four basic uses were discussed:

- Declaration of an extraordinary dividend
- Declaration of an extraordinary dividend with financing
- Normal Course Issuer Bid
- Substantial Issuer Bid

Mr. Dalglish reported that the Corporation can declare a dividend of up to $700 million from available cash, with sufficient cash remaining to operate the business. Forecast cash as at May 30, 2010 is $940 million, net of the $200 million note repayment due May 10, 2010. The Board discussed the assumptions in Management's base case and downside case forecasts. Management explained the statutory solvency tests set out in section 42 of the Canada Business Corporations Act and confirmed that if a dividend were to be declared, the Board would receive a certificate from the Chief Financial Officer setting for the analysis and conclusions with respect to the statutory tests.

The Board discussed the dividend declaration process, including next steps, and the Chairman encouraged the independent directors to continue discussions regarding the various options and the process, including with outside counsel in an in-camera session.

INDEPENDENT SESSION

3. The non-independent directors left the meeting (except Mr. Rogers, who was asked by the independent directors to remain on the call), in order that the independent directors could further discuss the matter with Mr. Simon Romano of the Stikemans law firm.

[redacted]

The independent directors agreed that it would be beneficial to continue discussions among the independent directors with respect to the matters discussed at this meeting.

There being no further business, the meeting was then terminated.

Chairman of the Meeting

Secretary of the Meeting

Date

TAB 6

Minutes of a Meeting of Independent Directors of Sears Canada Inc. (the "Company")

Wednesday, May 12, 2010 at 11:00 a.m. (ET)

MINUTES of a telephonic meeting of the independent directors of the Company held on Wednesday, May 12, 2010 at 11:00 a.m. ET.

PRESENT:

E. J. Bird
R. Raja Khanna
James R. G. McBurney
Debi E. Rosati

INVITATION:

Mr. Simon Romano (Stikeman Elliott LLP)

1. Call to Order

Mr. Bird took the chair and called the meeting to order. At the request of the Chair, and with the consent of the meeting, Mr. Romano of Stikeman Elliott LLP ("**Stikemans**"), who is advising as legal counsel, also agreed to act as Secretary for the meeting.

2. Discussion of Potential Dividend

Mr. Bird summarized the discussions at the recent board meeting concerning a possible extraordinary dividend and invited comments.

The independent directors discussed the Company's current capital structure, the desirability of a special dividend at this time, and the importance of continuing to review the Company's capital structure on a regular basis.

A discussion ensued as to the appropriate size of the dividend, and the directors present were of the view that they were satisfied with the Company's ability to pay a significant special dividend, but that prudence was important, especially recognizing the uncertain nature of the global economy. Similarly, the directors present were of the view that a special dividend was more appropriate than a regular dividend, as it allows for more consideration of all relevant factors at the time of payment of a dividend. A regular dividend policy could be fettering. It was not considered necessary or desirable to incur the costs of retaining a financial advisor in the context of the dividend decision.

3. Discussion of Potential Normal Course Issuer Bid

Mr. Bird summarized the discussions at the recent board meeting concerning a possible normal course issuer bid for up to 5% of the outstanding shares and invited comments.

Consistent with their views respecting a dividend, the independent directors were of the view that they were satisfied with the Company's ability to fund a normal course issuer bid and that it would be an appropriate use of cash given current market prices, which were seen to be undervalued (having regard to the recent transaction between sophisticated parties at $30 per share, the trading prices of similar companies and the low price/EBITDA multiple).

It was agreed that a normal course issuer bid was more appropriate than a substantial issuer bid, which could lead to a delisting or suspension of the Shares on the Toronto Stock Exchange and/or a complete privatization of the Company. The risks of delisting or suspension were felt to be very remote in the context of a normal course issuer bid and the number of registered shareholders.

It was noted that as Sears Holdings already owns in excess of 90% of the shares, there would be no expected impact on minority approval requirements by reducing the public float, as no such requirements are expected to apply. However, a normal course issuer bid, by reducing the public float, could make a potential future privatization by Sears Holdings simpler by reducing the number of potentially dissenting shareholders. However, a normal course issuer bid is optional -- no shareholder is compelled to sell, and those who believe the shares to be worth more than the market price are free to continue to hold on to their shares.

In order to ensure that all shareholders have access to all material information at the same time and as early as possible, it was considered appropriate, subject to any objection from the Toronto Stock Exchange, to announce both the dividend and the normal course issuer bid simultaneously, recognizing that it was not entirely possible to predict how the shares would trade in response to the special dividend.

It was recognized that a normal course issuer bid would likely improve liquidity in the short term (and possibly for longer if it were to be extended), at the potential expense of longer term liquidity. This was seen to be a reasonable trade-off, and the request of some shareholders for a normal course issuer bid at the recent AGM was noted.

The independent directors were comfortable supporting a normal course issuer bid to provide additional liquidity to shareholders and as a good use of the Company's cash. Once again, it was not considered necessary or desirable to incur the costs of retaining a financial advisor in the context of this decision.

4. Termination

There being no further business, the meeting was terminated by unanimous consent of the directors present.

EJ Bird

E. J. Bird
Chair

Simon Romano
Secretary

TAB 7

MINUTES of the telephone meeting of the Board of Directors of **SEARS CANADA INC.** (the "Corporation") held on Tuesday, May 18, 2010 at 3:15 p.m., Eastern time (Boardroom of the Corporation, 290 Yonge Street, Toronto, Ontario)

PRESENT (via telephone)

W. C. Crowley (Ch.)
E. J. Bird
D. D. Cheeks Merriwether
W.R. Harker
R. R. Khanna
J. McBurney
D. L. Rogers (in person)
D. E. Rosati (in person)

MANAGEMENT (in person)

A. Ravas
Senior Vice-President and Chief Financial Officer
S. Driscoll
Senior Vice-President, Finance
K. Leshnjani
Vice-President and General Counsel
F. Perugini
Associate General Counsel and Corporate Secretary

The Chairman of the Board, Mr. W. C. Crowley, acted as Chairman of the meeting and the Secretary of the Corporation, Mr. F. Perugini, acted as Secretary of the meeting.

ROLL CALL/CONSENT AGENDA

1. The Chairman called the meeting to order and took a roll call. The Secretary advised the Board that a Consent Agenda would be used to approve certain items on the agenda without any formal presentation or a full discussion, unless a member requested that an item be presented for a full discussion. Items numbered 4, 5, 6 and 7 were approved in accordance with the Consent Agenda.

AUDIT COMMITTEE REPORT

2. The Chair of the Audit Committee, Mr. E. J. Bird, presented his report on the meeting of the Committee held on May 18, 2010, which covered a number of matters including:

(a) Approval of first quarter results;
(b) Report by the External Auditors which confirmed that they were not aware of any material modification that needs to be made for the first quarter statements to be in accordance with Canadian generally accepted accounting principles;
(c) Internal Audit Update;
(d) Secretary's Report – Ethics Hotline
(e) Litigation Summaries (for reference)

DISCUSSION ON EXTRAORDINARY CASH DIVIDEND AND NORMAL COURSE ISSUER BID

3. On May 12, 2010 the Independent Directors of the Corporation held a meeting with external counsel to discuss the extraordinary cash dividend and the normal course issuer bid ("NCIB"). Minutes of that meeting will be filed with the minutes of the Corporation.

Mr. Allen Ravas, Senior Vice-President and Chief Financial Officer, reviewed Management's recommendation regarding the payment of an extraordinary cash dividend and the commencement of a NCIB. Management confirmed that a dividend payment of $3.50 per share and the commencement of the NCIB, will leave the Corporation with adequate operating cash to operate throughout 2010.

MINUTES

4. **ON MOTION**, duly made and seconded, it was unanimously resolved:

THAT the minutes of the meetings held on Friday, April 23, 2010 and Friday, May 7, 2010, be approved.

APPROVAL OF EXTRAORDINARY CASH DIVIDEND

5. **WHEREAS** the Corporation has cash, restricted cash and investments in excess of approximately $1.294 billion as at May 1, 2010;

WHEREAS the Board of Directors has considered the interests of shareholders ("Shareholders") and other stakeholders of the Corporation, including creditors and debenture holders in determining the appropriate use of the cash on hand;

WHEREAS the Corporation has sufficient cash on hand;

WHEREAS the Board of Directors has determined that it would be in the best interests of the Corporation to declare an extraordinary cash dividend in the amount of approximately $376.7 million to be distributed to Shareholders on a pro-rata basis;

WHEREAS the Corporation will continue to have sufficient cash on hand following the payout of the extraordinary cash dividend; and

WHEREAS the Board of Directors has received a certificate from management of the Corporation confirming that the declaration and payment of the extraordinary cash dividend is in compliance with section 42 of the *Canada Business Corporations Act*.

ON MOTION, duly made and seconded, it was unanimously resolved:

THAT an extraordinary cash dividend in the amount of approximately $376.7 million be paid pro-rata, in Canadian currency, on the 4th day of June, 2010, to the Shareholders of record as at the close of business on the 31st day of May, 2010.

THAT the Corporation be authorized to finalize and issue the draft press release relating to the declaration and payment of an extraordinary cash dividend, which was circulated to the Board in advance of the meeting.

THAT any Director or Officer of the Corporation be authorized and directed for and on behalf of the Corporation to do all things necessary or desirable to give effect to this resolution.

APPROVAL OF NORMAL COURSE ISSUER BID

6. Management recommended that the Corporation be authorized to buy back up to a maximum of 5% of the issued and outstanding common shares of the Corporation ("Shares") by commencing a NCIB.

The Corporation will be required to file a Notice of Intention to make a Normal Course Issuer Bid with the Toronto Stock Exchange ("TSX"). In addition, the Secretary circulated a questionnaire to ascertain the intention of directors and officers regarding the sale of any Shares under their control or the control of their associates, all in accordance with regulatory requirements.

After discussion, **ON MOTION**, duly made and seconded, it was unanimously resolved:

a) **THAT** the Corporation is hereby authorized to purchase up to a maximum number of 5,381,049 Shares representing 5% of its issued and outstanding Shares through the facilities of the TSX and in compliance with the by-laws and rules of the TSX relating to normal course issuer bids, over a one-year period from the time the bid commences;

b) **THAT** based on the financial position of the Corporation as of the date hereof, there are no reasonable grounds for believing that (i) the Corporation is or, after the purchase of up to 5% of its Shares at prices at or about the current market price of such Shares on the TSX, would be unable to pay its liabilities as they become due, or (ii) the realizable value of the Corporation's assets, after a purchase of its Shares on the foregoing basis, would be less than the aggregate of its liabilities and stated capital of all classes (collectively, the "solvency tests");

c) **THAT** prior to each purchase of Shares pursuant to this resolution, the Senior Vice-President and Chief Financial Officer of the Corporation is hereby directed to conduct such an examination of the financial affairs of the Corporation as is necessary to determine that the purchase will not contravene the solvency tests set out in paragraph (b) above based on the number of Shares to be purchased and the market value thereof at that time;

d) **THAT** upon the acquisition of Shares by the Corporation as authorized by this resolution, such Shares shall be cancelled; and

e) **THAT** the Chairman of the Board and the Chairman of the Audit Committee (collectively, the "Chairs") be authorized to determine all aspects of the acquisition of any Shares, including but not limited to, the timing, price and quantum of Shares to be acquired and upon communication by the Chairs to Management of the Share purchase particulars, Management shall be authorized and directed to do such things and to execute such documents and other material as may be necessary or desirable to carry out the Share purchase.

APPROVAL OF AMENDMENTS TO BY-LAW NO. 1

7. **ON MOTION**, duly made and seconded, it was unanimously resolved that the following amendments to By-Law No.1 of the Corporation be approved:

BY-LAW NO. 1
AMENDMENTS

Amendments to Section 4.05 and Article VI of By-law No. 1 of Sears Canada Inc. (the **"Corporation"**)

BE IT ENACTED as amendments to By-law No. 1 of the Corporation:

1. Section 4.05 of By-law No. 1 of the Corporation is hereby repealed and the following substituted therefor:

4.05 Chairman
The Chairman of the Board shall be appointed from among the directors and when present shall be the chair of meetings of directors and shall have such other powers and duties as the directors may determine. If the Chairman is absent for a meeting, the President if a director, or in his absence a director chosen by the directors at the meeting, shall be the chair of any meeting of directors.

2. Article VI of By-law No. 1 of the Corporation is hereby amended by adding the following section:

6.04 Chairman
The Chairman of the Board may act as chair of any meeting of shareholders or may delegate the responsibility of chairing a meeting of shareholders to any other director or officer present at such meeting. If the Chairman is absent for a meeting of shareholders, and has not so delegated to another director or officer present at the meeting, then the President, or in his absence a director or officer chosen by those directors present at the meeting (failing which, by the shareholders at the meeting), shall be the chair of any meeting of shareholders.

OTHER BUSINESS

8. The Board received the following items for reference only:

- SCI Top twenty Registered Shareholders list and CDS participant list
- Trading Volume

IN-CAMERA SESSION

9. The representatives of Management, including management Directors, left the meeting so that the Board could meet privately. Following the Board's *in-camera* session, all the non-independent directors were excused so that the independent directors could then meet privately.

There being no further business, the meeting was then terminated.

Chairman of the Meeting

Secretary of the Meeting

Date

TAB 8

Capital Structure Update

Board of Directors

August 3rd, 2010

Introduction

This presentation is an update of Management's evaluation of the Company's capital structure, as requested by the Board, and an update on current activities ...

- Over the past few years the Board of Directors of Sears Canada and Management have been evaluating alternatives with respect to the Company's capital structure
- Observations about the current capital structure include:
  - Under-levered balance sheet with significant cash position relative to industry peers
  - Potential to optimize capital structure and reduce cost of capital through a recapitalization
  - Cash flow from operations profile can support significant debt
  - Rating agencies rate Sears Canada as a BB credit, but acknowledge that the Company has investment grade rating characteristics, however the rating is determined by the relationship/influence of Sears Holdings
- Management approached several banks to evaluate capital structure alternatives
- Based on the evaluation of alternatives, Asset Based-Lending ("ABL") is the recommended first step to recapitalization
- Before any change in the Company's capital structure is made Management will seek Board approval

ABL Update - Summary

The Company has been evaluating the arrangement of a senior credit facility to provide future financial capacity for Sears Canada ...

- Management has been evaluating, and is moving forward with, the arrangement of a senior secured credit facility for up to CAN$800 MM from a syndicate of lenders secured by the Company's inventory and credit card receivables
- Terms and conditions are being negotiated with Wells Fargo; management expects to execute an engagement letter (see page 4 for summary terms and conditions)
- The next phase of the arrangement of the secured facility will require the Company to work with the lead arrangers to syndicate the facility across multiple lenders to achieve up to $800 MM of bank commitments
  - As part of this syndication process, Management and the lead lenders will compile marketing documentation that will be disseminated and presented by Management to prospective lenders (confidential information memorandum, lenders presentation, forecasted financials) to solicit interest in the facility and finalize commitment levels
- Board approval of the credit facility is required
- At the close of marketing and upon the successful negotiation and settlement of legal documentation required to close and fund the proposed lending facility, Management will present to the Board a fully negotiated and committed facility for the Board's approval and signing by the Company, together with any related press release (which would include a summary description of the key terms of the facility and the intended purpose of the funds)

ABL Update – Syndication and Key Terms and Conditions

The Company and the Lead Arrangers will be syndicating the facility with several banks with the following key terms and conditions …

Syndication of Sears Canada $800 MM Secured Credit Facility

(CAD in millions)

Institution	Amount	Role	Commitment
Wells Fargo	$200.0	Lead Arranger	Firm
GE Capital	200.0	Co Lead Arranger	Firm
Bank of Montreal	100.0 - 150.0	Arranger	Tentative
Bank of America	50.0	Agent	Tentative
Sub-Total	550.0 - 600.0		
Other Canadian Lenders	100.0 - 150.0	Agent	Tentative
Other Lenders	100.0 - 150.0	Agent	Tentative
Total	$750.0 - $900.0		

The key negotiated terms and conditions of the credit facility include:

- Four (4) year, $800 MM credit facility with the ability to increase the facility by $200 MM at the Company's discretion
- Secured by a first lien on the Company's inventory and credit card receivables
- Committed fees to co-leads of approximately $6.4 MM and follow-on fees to lending syndicate of an incremental $3.0 MM for a total of $9.4 MM
- Interest rates on the facility will be charged as a spread (275 to 300 bps) over the 3 month Canadian Bankers Acceptance ("BA") rate (104 bps as at 07/28/10)
- The Company will be able to draw up to the lesser of the Facility Amount ($800 MM) and 85% of the liquidation value of the inventory subject to certain incurrence tests
- Restricted payments (dividends, stock repurchases, acquisitions, etc) are permitted if the Company maintains excess availability exceeding 10% of the Facility Amount and a fixed charge coverage ratio of not less than 1.5x based on trailing four quarters

ABL Update – Timeline

The timeline for a successful ABL Facility to be arranged and syndicated to potential lenders will require up to six weeks to close ...

Description of Key Events	**Status (tentative)**
Inventory valuation assessment (Tiger Valuation Services)	Completed April 27th, 2010
Lead arranger commitment letter (Wells Fargo & GE Capital)	Finalizing Agreement to be completed Aug. 4, 2010
Field examination / field work / banker due diligence (Spain, Price, Reader & Thompson, P.C.)	Started July 05, 2010 and due to be completed Aug. 3, 2010
Syndication of credit facility	Starting Aug. 9th, 2010 and due to be completed Aug. 30th, 2010
Board approval to close	Post syndication, Aug.30th, 2010 timeframe
Press release	Upon Board approval, Aug. 30th time frame
Closing and funding	Upon Board approval, Aug. 30th timeframe

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2010 Financial Overview – Q2 Outlook

Revenue $1,214 MM, or -2.9% vs. LY with EBITDA forecasted to be $74 MM. Excluding 1-time items, EBITDA miss is $22.2 MM vs. LY …

Income Statement

ACTUAL / FORECAST (in millions)	Forecast Q2 2010	Plan Q2 2010	2009 Q2 2009
Total Revenue	$1,213.7	$1,304.5	$1,249.9
% Growth	-2.9%	4.4%	-12.0%
Gross Margin	$385.4	$424.5	$407.8
% Margin	38.04%	38.99%	38.81%
Total Other Income	$156.1	$161.3	$153.9
Payroll & Benefits	$218.1	$229.2	$224.7
Advertising	$63.1	$61.9	$60.8
Rent	$31.7	$30.5	$31.4
Other Operating Expenses	$154.6	$155.2	$136.2
Total Operating Expenses	$467.5	$476.9	$453.0
% Margin	38.5%	36.6%	36.2%
EBITDA	$74.1	$109.0	$108.7
Depreciation & Amortization	$24.8	$26.2	$28.8
Interest expense (income) - net	$2.7	$3.1	$5.8
Profit Before Tax	$46.5	$79.7	$74.1
% Margin	4.2%	6.1%	5.9%
Income Tax	$15.6	$25.5	$25.0
% Rate	33.5%	32.0%	33.7%
Net Income	$31.0	$54.1	$49.1
EPS	$ 0.29	$ 0.50	$ 0.46

Balance Sheet

ACTUAL / FORECAST (in millions)	Forecast Jul-10	Plan Jul-10	2009 Jul-09
Current Assets			
Cash	$ 718.5	$ 1,131.4	$ 895.0
Accounts Receivable	132.8	122.5	136.0
Inventory	917.5	926.8	952.9
Other Current Assets	145.3	114.0	175.7
Total Current Assets	1,914.0	2,294.7	2,159.7
Total Long-Term Assets	902.7	927.3	939.0
Total Assets	$ 2,816.7	$ 3,221.9	$ 3,098.7
Current Liabilities			
Accounts Payable	$ 630.7	$ 613.9	$ 522.1
Accrued Liabilities	345.3	356.4	366.5
Inc. Taxes Payable (Incl. Other Taxes)	37.0	36.9	32.6
Total Current Liabilities	1,013.0	1,007.3	921.2
Total Debt	146.0	146.0	361.7
Total Long-Term Liabilities	343.7	346.9	325.6
Total Liabilities	1,502.6	1,500.2	1,608.5
Total Equity	1,314.0	1,721.8	1,490.2
Total Liabilities & Equity	$ 2,816.7	$ 3,221.9	$ 3,098.7

Q2 Comparable EBITDA Summary

Comparable EBITDA:

2009 Q2 EBITDA	$108.7 MM
1-time items (Sears Club Adj & Unshipped sales)	(9.1 MM)
Comparable Q2 2009 EBITDA	**$99.6 MM**
2010 Q2 Forecasted EBITDA	$ 74.1 MM
1-time items (mainly Vaughan related)	3.3 MM
Comparable Q2 2010 EBITDA	**$77.4 MM**
Variance to 2009 Q2 Comparable EBITDA	($22.2 MM)

Commentary

- Revenue miss is driven by big ticket sales challenges particularly in Major Appliances (making up 41% of the total revenue miss due to industry-wide price compression), Leisure & Seasonal categories (23% of the total revenue miss due to assortment issues in patios and grills) and Children's Wear (17% of the total revenue miss due to heightened competition)
- GM $385.4 MM (38.04%), down $22.4MM or -77bps vs. LY due primarily to GP erosion from volume miss (-$14 MM) and rate decline due to deeper promotions (-$8MM)
- Total expenses up $14.5 MM vs. LY due to higher costs associated with SLH ($8MM) due to an increase in internal and external revenue (revenue up $10MM; EBITDA up $2MM vs. LY), the Vaughan Distribution Facility continuity plan ($5 MM), advertising ($2 MM) and the one-time Sears Club reserve adj. LY ($7 MM), partially offset by improved payroll savings ($3 MM in flex benefit savings, $2.5 MM from logistics and Vaughan and $2 MM in merchant commissions)
- Cash $412.9 MM below Plan, primarily due to the $376 MM extraordinary dividend paid out in June

2010 Outlook

Forecasted EBITDA of $470 MM and ending cash balance of $1,058 MM …

Income Statement

ACTUAL/FORECAST (in millions)	Actual Q1 2010	Fcst Q2 2010	Fcst Q3 2010	Fcst Q4 2010	Fcst 2010
Total Revenue	$1,067.0	$1,213.7	$1,385.3	$1,610.3	$5,276.3
% Growth	-4.4%	-2.9%	5.8%	5.6%	1.5%
Gross Margin	$351.4	$385.4	$473.4	$552.1	$1,762.3
% Margin	39.17%	38.04%	39.18%	39.90%	39.42%
Total Other Income	$144.6	$156.1	$171.8	$176.2	$648.7
Payroll & Benefits	$214.7	$218.1	$229.7	$242.7	$905.1
Advertising	$65.3	$63.1	$90.2	$73.5	$292.0
Rent	$31.4	$31.7	$31.2	$30.5	$124.8
Other Operating Expenses	$138.0	$154.6	$159.1	$167.4	$619.2
Total Operating Expenses	$449.4	$467.5	$510.2	$514.0	$1,941.1
% Margin	42.1%	38.5%	36.8%	31.9%	36.8%
EBITDA	$46.6	$74.1	$135.0	$214.3	$470.0
Depreciation & Amortization	$25.7	$24.8	$22.9	$22.7	$96.1
Interest expense (income) - net	$5.9	$2.7	$1.5	$0.8	$10.9
Profit Before Tax	$15.0	$46.5	$110.6	$190.8	$363.0
% Margin	1.4%	3.8%	8.0%	11.8%	6.9%
Income Tax	$7.8	$15.6	$33.2	$57.5	$114.1
% Rate	52.0%	29.7%	29.7%	29.7%	31.4%
Net Income	$7.2	$31.0	$77.4	$133.3	$248.8
EPS	$ 0.07	$ 0.29	$ 0.72	$ 1.24	$ 2.31

Balance Sheet

ACTUAL/FORECAST (in millions)	Actual Apr-10	Fcst Jul-10	Fcst Oct-10	Fcst Jan-11
Current Assets				
Cash*	$ 1,293.8	$ 718.5	$ 752.6	$ 1,058.2
Accounts Receivable	132.4	132.8	118.1	112.6
Inventory	915.8	917.5	1,047.9	842.1
Other Current Assets	130.0	145.3	110.2	88.2
Total Current Assets	$ 2,471.9	$ 1,914.0	$ 2,028.8	$ 2,101.2
Total Long-Term Assets	893.9	902.7	929.4	919.3
Total Assets	3,365.8	2,816.7	2,958.2	3,020.5
Current Liabilities				
Accounts Payable	$ 613.8	$ 630.7	$ 760.0	$ 661.3
Accrued Liabilities	369.3	345.3	365.6	355.9
Inc. Taxes Pay. (Incl. Other Taxes)	41.3	37.0	44.4	76.5
Total Current Liabilities	1,024.4	1,013.0	1,170.0	1,093.6
Total Debt	349.2	146.0	38.7	38.7
Total Long-Term Liabilities	338.0	343.7	360.1	366.3
Total Liabilities	1,711.6	1,502.6	1,568.7	1,498.6
Total Equity*	1,654.1	1,314.0	1,389.5	1,521.9
Total Liabilities & Equity	$ 3,365.8	$ 2,816.7	$ 2,958.2	$ 3,020.5

"Bank Case" vs. Internal Outlook

- The banks were provided with a more conservative 2010 outlook:
  - Revenue decline of -1.5% vs. growth of +1.5% (Internal)
  - GM $1,696.7 MM (39.20%) vs. $1,762.3 MM (39.42%) (Internal)
  - EBITDA $440.2 MM vs. $470.0 MM (Internal)
  - Cash $905.2 MM vs. $1,058.2 MM (Internal)

Cash Flow Statement

ACTUAL/FORECAST (in millions)	Actual Q1 2010	Fcst Q2 2010F	Fcst Q3 2010F	Fcst Q4 2010F	Fcst 2010F
Cash Flow from Operations					
Net Income	$ 7.2	$ 31.0	$ 77.4	$ 133.3	$ 248.8
Non-cash items included in net income	25.6	20.4	12.3	28.5	86.8
Changes in non-cash working capital	(128.7)	(16.4)	88.5	162.3	105.7
Total Cash Flow from Operations	(95.8)	35.0	178.1	324.1	441.4
Total Capital Expenditures	(6.5)	(30.4)	(36.7)	(18.5)	(92.0)
Cash Flow from Financing					
Dividends Paid	-	(376.6)	-	-	(376.6)
Due May 2010	-	(200.0)	-	-	(200.0)
Due September 2010	-	-	(100.0)	-	(100.0)
JV Debt and Capital Leases	(1.5)	(3.2)	(7.3)	-	(12.0)
Total Cash Flow from Financing	(1.5)	(579.8)	(107.3)	-	(688.6)
Total Cash Flow	(103.7)	(575.3)	34.1	305.6	(339.3)
Beginning Cash	1,397.6	1,293.8	718.5	752.6	1,397.6
Ending Cash	$1,293.8	$ 718.5	$ 752.6	$ 1,058.2	$ 1,058.2

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* Excludes activity under NCIB for forecasting purposes

Notes Summary:

No speaker notes are contained in this presentation.

TAB 9

MINUTES of the telephone meeting of the Board of Directors of **SEARS CANADA INC.** (the "Corporation") held in the Boardroom of the Corporation, 290 Yonge Street, Toronto, Ontario on Tuesday, August 3, 2010 at 12:00 p.m., Eastern time

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PRESENT (via telephone)

W. C. Crowley (Ch.)
E. J. Bird
D. D. Cheeks Merriwether
W. R. Harker
R. R. Khanna
J. McBurney
D. L. Rogers (in person)
D. E. Rosati

MANAGEMENT (in person)

A. Ravas
Senior Vice-President and Chief Financial Officer
S. Driscoll
Senior Vice-President, Finance
K. Leshnjani
Vice-President and General Counsel
F. Perugini
Associate General Counsel and Corporate Secretary

The Chairman of the Board, Mr. W. C. Crowley, acted as Chairman of the meeting and the Secretary of the Corporation, Mr. F. Perugini, acted as Secretary of the meeting.

CALL TO ORDER

1. The Chairman called the meeting to order and took a roll call. The Chairman indicated that this meeting was arranged to update the Board of Directors on the capital structure of the Corporation only and not to make any decisions or approve any changes to the structure.

CAPITAL STRUCTURE UPDATE

2. Mr. Allen Ravas, Senior Vice President and Chief Financial Officer of the Corporation made a presentation regarding Management's evaluation of the Corporation's capital structure which included the following:

- Under-levered balance sheet with significant cash position relative to industry peers;
- Potential to optimize capital structure and reduce cost of capital, as compared to the current cost of capital, through a recapitalization;
- Cash flow from operations profile can support significant debt; and
- Rating agencies rate the Corporation as a BB credit, but acknowledge that the Corporation has investment grade rating characteristics, however the rating is influenced by the relationship with Sears Holdings Corporation.

Mr. Ravas reported that Management approached several banks to evaluate capital structure alternatives and, based on this evaluation, the first step to recapitalization is Asset Based-Lending. Mr. Ravas confirmed that the entering into of any credit facility is subject to the approval of the Board of Directors. Management has been evaluating the arrangement of a four (4) year senior secured credit facility for up to CAN$800 million from a syndicate of lenders secured by the Corporation's inventory and third party credit card receivables, with the ability to increase the credit facility by CAN$200 million at the Corporation's discretion. Management is negotiating with Wells Fargo to assist with the syndication process. As part of the syndication process, Management and the lead lenders will compile marketing documentation to be presented by Management to prospective lenders to solicit interest in the facility and finalize commitment.

Mr. Ravas indicated that the committed fees to co-leads will be approximately $6.4 million and follow-on fees to the lending syndicate will be an incremental $3.0 million, equal to a total of $9.4 million.

When the negotiations for the proposed lending facility are completed, Management will present to the Board of Directors a fully negotiated facility which has been fully committed to by the lending banks, together with a related press release for the Board of Directors' approval. As requested, Management will provide a further update on the credit facility at the Audit Committee meeting scheduled for August 16, 2010.

2010 FINANCIAL OVERVIEW

3. Mr. Ravas provided an overview of the financial outlook for the second quarter and financial year end of 2010. Forecasted revenue for the second quarter of 2010, is expected to be below plan at $1,214 million due to big ticket sales challenges, particularly in Major Appliances and Leisure & Seasonal, and sales misses in Children's Wear. Cash is expected to be below plan at $412.9 million due to the $376 million extraordinary dividend paid out in June, 2010. EBITDA is forecasted to be $74 million, which is down by $22.2 million on a comparable basis to the same quarter last year.

A conservative forecast for 2010 has been provided to the banks, including a revenue decline of 1.5%, EBITDA of $440.2 million and Cash of $905.2 million. A more detailed presentation of the second quarter results will be provided at the Audit Committee meeting scheduled for August 16, 2010.

There being no further business, the meeting was then terminated.

Chairman of the Meeting

Secretary of the Meeting

Date

TAB 10

Sears

Capital Structure Update

September 9, 2010

Agenda

- ABL Update
- Capital Structure High Yield Update
- Dividend in September, 2010 ($3.50 or $5.00 / share)
- Excess Cash Proposal – Loan to Sears Holdings

ABL Update

Update of ABL progress since the August 16th meeting ...

- Facility term remains at 5 years
- Pricing grid remains at 250 bps (first 3-months locked in at 275 bps) over the 3 month Canadian Bankers Acceptance ("BA") rate (116 bps as at close 09/03/2010)
  - Coupon rate for current notes due September 20, 2010 at 7.05%
- Bank meeting completed on August 19th, 2010 – positive response, over-subscription
- Bank Syndicate now complete:
  - Total bank commitment sized at $1.0b and approved through respective credit committees

Institution	Title	Commitment ($CAD MM)	Allocation ($CAD MM)
Wells Fargo	Joint Lead Arranger / Joint Bookrunner / Administrative Agent	$200.0	$150.0
GECC	Joint Lead Arranger / Joint Bookrunner / Documentation Agent	200.0	200.0
Bank of Montreal	Joint Lead Arranger / Joint Bookrunner / Co-Syndication Agent	150.0	120.0
CIBC	Joint Lead Arranger / Joint Bookrunner / Co-Syndication Agent	150.0	120.0
RBC	Participant	100.0	60.0
TD	Participant	100.0	60.0
Bank of America	Participant	50.0	50.0
Deutsche Bank	Participant	50.0	40.0
Total		$1,000.0	$800.0

- Total fee approximately $9.4 MM ($CAD)
- Timeline:
  - September 3rd, 2010: Distribution of Documentation to Sears Canada lender group
  - September 10th, 2010: Possible closing date pending Board approval
- At the close of marketing and upon the successful negotiation and settlement of legal documentation required to close and fund the proposed lending facility, Management will present to the Board a fully negotiated and committed facility for the Board's approval (via resolution in lieu of meeting) and signing by the Company, together with any related press release

ABL Update - Summary Terms and Conditions

Negotiated ABL Terms & Conditions ...

Borrower: Sears Canada Inc.

Facility Amount: $800MM

LC Sub-Limit: $100MM

Maturity: 5 years

Borrowing Base: The lessor of the Facility Amount or the sum of the following (the "Line Cap"):

- 85.0% of the cost of eligible inventory or 85.0% of the appraised net orderly liquidation value ("NOLV") of eligible inventory; plus,
- 85.0% of eligible credit card accounts receivables; less
- Customary reserves

Applicable Margin:

Level	Excess Availability	BA AND CDOR Rate Loans	CAN Base Rate Loans	Standby L/C Fee	Documentary L/C Fee
I	>50%	2.50%	2.00%	2.50%	2.00%
II	>= 25% but < 50%	2.75%	2.25%	2.75%	2.25%
III	< 25%	3.00%	2.50%	3.00%	2.50%

LIBOR Floor: None

Unused Line Fee: 0.5% per annum

Prepayment Premium: None

Cash Dominion: Springing Cash Dominion when excess availability is less than 15% of Line Cap

Financial Covenants: Excess availability declining below 12.5% of the Line Cap triggers a fixed charge coverage ("FCC") test of 1.1:1.0.

Restricted Payments: Subject to (i) Excess Availability exceeding 10% of the Line Cap and an FCC of not less than 1.5:1.0 based on trailing four quarters or (ii) Excess Availability on a projected and pro forma basis exceeding 20% of the Line Cap and a fixed charge coverage of not less than 1.1:1.0 based on trailing four quarters

Collateral: First lien on credit cards receivable and inventory

Monitoring

- Monthly borrowing base with trigger to weekly when excess availability falls below 20% of the Line Cap for (3) three days during any 30 day period
- Audit and appraisal of 1x per annum, triggering to 2x when excess availability falls below 65% and 3x when excess availability falls below 20% of the Facility

Accordion Feature / Increase Option Up to $200 MM

Capital Structure High Yield Update

With the ABL near completion, the next step in the recapitalization of Sears Canada is to review the high yield debt market …

- Expected Capacity in High Yield (HY) Market:

(in millions)	BMO	BOA	RBC	Deutsche Bank
Capacity				
CAD$ Market	$500-$700	$300	$500-$700	$300
U.S.$ Market	$1,000+	$1,000	$750	$700+
Total Capacity	$1,500 - $1,700	$1,300	$1,250 - $1,450	$1,000+

- Coupon rate varies depending upon size, market and maturity

8/1

Capital Structure Key Metrics

Sears Canada can currently support up to $1.5b of high yield debt, but current "Ba" credit rating supports $1.25b of high yield debt ...

Summary of Capital Structure Key Metrics

(in millions except ratios)						
HY	$0.0	$500.0	$750.0	$1,000.0	$1,250.0	$1,500.0
Dividend	$1,200.0	$1,700.0	$1,950.0	$2,150.0	$2,250.0	$2,500.0
	Jan 2011	Jan 2011	Jan 2011	Jan 2011	Jan 2011	Jan 2011
Cash & Equivalents	$ 162.9	$ 187.5	$ 181.6	$ 225.6	$ 209.7	$ 166.0
Less: Current Portion of Debt	9.3	9.3	9.3	9.3	9.3	9.3
Excess Cash	153.7	178.2	172.3	216.4	200.4	156.8
ABL Excess Availability	75.9	34.7	33.1	31.5	190.0	226.5
Total Liquidity Available	229.6	212.9	205.4	247.9	390.4	383.3
Operational Needs	200.0	200.0	200.0	200.0	200.0	200.0
Excess Cash for Strategic Uses	$ 29.6	$ 12.9	$ 5.4	$ 47.9	$ 190.4	$ 183.3
Total Debt (end of 2010)	$ 432.1	$ 973.3	$ 1,224.9	$ 1,476.5	$ 1,568.0	$ 1,781.4
ABL Draw	393.4	434.7	436.2	437.8	279.3	242.8
ABL Availability (85% x Line Cap)	469.3	469.3	469.3	469.3	469.3	469.3
LTM EBITDA*	440.2	440.2	440.2	440.2	440.2	440.2
Debt/LTM EBITDA	1.0x	2.2x	2.8x	3.4x	3.6x	4.0x
Adj. Debt/LTM EBITDAR	2.8x	3.8x	4.2x	4.7x	4.8x	5.2x
Fixed Cost Coverage Ratio	9.0x	7.3x	6.7x	6.2x	5.8x	5.5x
Retained Earnings (Post-Dividend)	$ 282.1	$ (225.0)	$ (478.3)	$ (681.7)	$ (785.0)	$ (1,038.0)
Credit rating (issue): Moody's**	Ba1	Ba2 to Ba3	Ba2 to Ba3	Ba2 to Ba3	Ba3 to B1/BB-	B1
Credit rating (issue): S&P**	BB-	BB-	BB-	BB-	BB- to B+	BB- to B+
7-8 Year Maturity Rate (CAD)**	N/A	7.50% - 7.75%	7.875% - 8.125%	8.00% - 8.25%	8.00% - 8.25%	9.375% - 9.875%
7-8 Year Maturity Rate (USD)**	N/A	N/A	7.875% - 8.125%	8.00% - 8.25%	8.00% - 8.25%	9.125% - 9.625%
10 Year Maturity Rate (USD unswapped)**	N/A	7.75%	7.75%	7.75%	7.75%	8.00%
Covenants - Investment Grade / High Yield**	N/A	Possible IG	Probable HY	HY	HY	HY

*Note: "Bank" case scenario used (i.e. FY2010 EBITDA: $440.2 MM)

**Note: Estimates provided by banks included in the ABL syndicate

8/2

Limitations on Borrowing for Dividends in Excess of Retained Earnings

If the Board were to consider a dividend in excess of retained earnings, the interest on borrowing for dividends in excess of retained earnings is not deductible ...

- **Interest on borrowing used to pay a dividend in excess of retained earnings is not deductible because the loan is not being used to finance operations and earn business income**

Example:

(in millions)	Opening Balance as at 9/01/2010	Loan Financed Dividend	Closing Balance as at 9/30/2010	Ineligible Portion of Loan	Estimated Net Income Impact
Retained Earnings	$1,200	($800)	$400	-	-
Loan	-	$800	$800	-	-
Retained Earnings	$1,200	($1,400)	($200)	-	-
Loan	-	$1,400	$1,400	$200	$1.4

- **Sears can pay a higher dividend in excess of retained earnings and maintain tax deductibility as long as it is paid out in stages and the dividends are funded through borrowings**
  - Pay dividend in stages:
    - Use borrowed money to pay dividend up to retained earnings and ***preserve cash***
      - Interest on borrowed money used to pay dividend out of retained earnings is deductible
    - Use cash on hand to pay dividend from negative retained earnings
      - No interest deductibility issue arises because there is no borrowing for ineligible use
  - By staging the payments the company is able to pay a dividend in excess of retained earnings and still deduct the interest on the borrowed funds
    - Without staging, dividend maximum to avoid tax deductibility est @ $1,450 MM at January 30, 2011
    - With staging, dividend maximum est @ $2,200 MM, or $2,400 MM with IFRS implementation in Q1 2011
  - The Company has requested a ruling from the CRA on Management's interpretation on the tax matter with an answer expected in October

8/3

Scenario 1 – September Dividend $3.50 / share

Staging the dividend in tranches maximizes the amount that can be paid out; A short term dividend should come from the ABL ...

Scenario 1: $800 MM ABL (Sept), $1.2b HY (Nov), $2.2b Total Dividend (with $3.50/share Dividend in Sept)

	Aug 2010	Sep 2010	Oct 2010	Nov 2010	Dec 2010	Jan 2010	Total	Feb 2011	Mar 2011	Apr 2011
Cash & Equivalents	$ 648.0	$ 570.2	$ 804.9	$ 735.3	$ 903.4	$ 86.9		$ 156.8	$ 180.0	$ 180.0
Less: Current Portion of Debt	112.8	13.5	6.9	7.7	8.5	9.2		8.8	8.4	8.0
Excess Cash	535.3	556.6	798.0	727.6	894.9	77.7		147.9	171.6	172.0
ABL Excess Availability	-	195.8	-	390.5	211.8	199.9		109.3	102.5	107.6
Total Liquidity Available	535.3	752.5	798.0	1,118.1	1,106.7	277.6		257.2	274.1	279.6
Operational Needs	200.0	200.0	200.0	200.0	200.0	200.0		200.0	200.0	200.0
Excess Cash for Strategic Uses	$ 335.3	$ 552.5	$ 598.0	$ 918.1	$ 906.7	$ 77.6		$ 57.2	$ 74.1	$ 79.6
Sources of Cash for Dividend	$ -	$ 376.7	$ -	$ 1,000.0	$ -	$ 823.3	$ 2,200.0	$ -	$ -	$ -
HY	-	-	-	1,000.0	-	-	1,000.0	-	-	-
ABL	-	376.7	-	-	-	-	376.7	-	-	-
Cash	$ -	$ -	$ -	$ -	$ -	$ 823.3	$ 823.3	$ -	$ -	$ -
Key Metrics										
Total Debt (end of 2010)	$ 146.0	$ 522.7	$ 718.7	$ 1,528.2	$ 1,528.2	$ 1,528.2		$ 1,675.6	$ 1,734.5	$ 1,710.4
High Yield (HY)	-	-	-	1,200.0	1,200.0	1,200.0		1,200.0	1,200.0	1,200.0
ABL Draw	-	476.7	680.0	289.5	289.5	289.5		437.7	497.4	474.1
ABL Availability (85% x Line Cap)	-	672.5	680.0	680.0	501.3	489.4		547.0	599.9	581.7
Adj. Debt/EBITDAR	2.3x	3.0x	3.3x	4.7x	4.9x	5.2x		5.6x	5.8x	5.8x
Fixed Cost Coverage Ratio	7.6x	7.7x	6.6x	8.7x	6.8x	5.5x		4.5x	3.9x	3.4x
Retained Earnings (Post-Dividend)	1,299.7	951.0	971.1	5.6	51.7	(760.0)		(787.0)	(791.5)	(782.1)
Retained Earnings (Pre-Dividend)	$ 1,299.7	$ 1,327.7	$ 971.1	$ 1,005.6	$ 51.7	$ 63.3		$ (787.0)	$ (791.5)	$ (782.1)

Assumptions

- Downside Case ($393.9 MM EBITDA in FY2010) with $800.0 MM ABL in September
- $376.7.0 MM dividend paid in September ($3.50/share)
- $100.0 MM notes due in September paid through ABL
- $1.2b HY in November with $1.0b MM ($9.29/share) dividend paid through HY
- $390.5 MM of the ABL facility is paid down by the HY ($360 MM) and cash ($30.5 MM) in Nov. to ensure change in debt < retained earnings
- $823.3 MM ($7.65/share) dividend paid in January funded through cash on hand
- Total dividend $2.2b ($20.44/share, not including $376.7 MM dividend paid in June)
- Note 1: Adj Debt / EBITDAR potentially moves Sears Canada's rating down from Ba to B grade using downside financials
- Note 2: Refer to slides 18-20 in the Appendix for pro forma financials of Scenario 1

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Scenario 2 – September Dividend $5.00 / share

Up to $5.00 / share dividend can be paid in September while still providing excess cash for other strategic uses ...

Scenario 2: $800 MM ABL (Sept), $1.2b HY (Nov), $2.2b Total Dividend (with $5.00/share Dividend in Sept)

	Aug	Sep	Oct	Nov	Dec	Jan		Feb	Mar	Apr
	2010	2010	2010	2010	2010	2010		2011	2011	2011
Cash & Equivalents	$ 648.0	$ 570.2	$ 643.7	$ 734.2	$ 902.2	$ 87.1		$ 158.1	$ 180.0	$ 180.0
Less: Current Portion of Debt	112.8	13.5	6.9	7.7	8.5	9.2		8.8	8.4	8.0
Excess Cash	535.3	556.6	636.8	726.5	893.8	77.8		149.3	171.6	172.0
ABL Excess Availability	-	34.5	-	390.4	211.7	199.8		108.0	102.6	107.7
Total Liquidity Available	535.3	591.2	636.8	1,116.9	1,105.5	277.7		257.2	274.2	279.7
Operational Needs	200.0	200.0	200.0	200.0	200.0	200.0		200.0	200.0	200.0
Excess Cash for Strategic Uses	$ 335.3	$ 391.2	$ 436.8	$ 916.9	$ 905.5	$ 77.7		$ 57.2	$ 74.2	$ 79.7
							Total			
Sources of Cash for Dividend	$ -	$ 538.0	$ -	$ 840.0	$ -	$ 822.0	$ 2,200.0	$ -	$ -	$ -
HY	-	-	-	840.0	-	-	840.0	-	-	-
ABL	-	538.0	-	-	-	-	538.0	-	-	-
Cash	$ -	$ -	$ -	$ -	$ -	$ 822.0	$ 822.0	$ -	$ -	$ -
Key Metrics										
Total Debt (end of 2010)	$ 146.0	$ 684.0	$ 718.7	$ 1,528.3	$ 1,528.3	$ 1,528.3		$ 1,676.9	$ 1,734.5	$ 1,710.4
High Yield (HY)	-	-	-	1,200.0	1,200.0	1,200.0		1,200.0	1,200.0	1,200.0
ABL Draw	-	638.0	680.0	289.6	289.6	289.6		439.0	497.4	474.0
ABL Availability (85% x Line Cap)	-	672.5	680.0	680.0	501.3	489.4		547.0	599.9	581.7
Adj. Debt/EBITDAR	2.3x	3.2x	3.3x	4.7x	4.9x	5.2x		5.6x	5.8x	5.8x
Fixed Cost Coverage Ratio	7.6x	7.7x	6.6x	8.7x	6.8x	5.5x		4.5x	3.9x	3.4x
Retained Earnings (Post-Dividend)	1,299.7	789.7	809.9	4.3	50.4	(760.0)		(787.0)	(791.4)	(782.1)
Retained Earnings (Pre-Dividend)	$ 1,299.7	$ 1,327.7	$ 809.9	$ 844.3	$ 50.4	$ 62.0		$ (787.0)	$ (791.4)	$ (782.1)

Assumptions

- Downside Case ($393.9 MM EBITDA in FY2010) with $800.0 MM ABL in September
- $538.0 MM dividend paid in September ($5.00/share)
- $100.0 MM notes due in September paid through ABL
- $1.2b HY in November with $840 MM ($7.81/share) dividend paid through HY
- $390.4 MM of the ABL facility is paid down by the HY ($360 MM) and cash ($30.4 MM) in Nov. to ensure change in debt < retained earnings
- $822 MM ($7.63/share) dividend paid in January funded through cash on hand
- Total dividend $2.2b ($20.44/share, not including $376.7 MM dividend paid in June)
- Note 1: Adj Debt / EBITDAR potentially moves Sears Canada's rating down from Ba to B grade using downside financials
- Note 2: Refer to slides 21-23 in the Appendix for pro forma financials of Scenario 2

Scenario 3 – IFRS Impact and September Dividend $3.50 / share

IFRS implementation in Q1, 2011 is forecasted to increase retained earnings by approximately $300 MM as a result of elections that are available to the Company upon conversion to IFRS; impact to be finalized by Q3, 2010 …

Scenario 3: $800 MM ABL (Sept), $1.4b HY (Feb), $2.4b Total Dividend (with $3.50/share Dividend in Sept)

	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	
	2010	2010	2010	2010	2010	2010	2011	2011	2011	
Cash & Equivalents	$ 648.0	$ 570.2	$ 813.9	$ 956.8	$ 951.3	$ 954.7	$ 10.8	$ 180.0	$ 180.0	
Less: Current Portion of Debt	112.8	13.5	6.9	7.7	8.5	9.2	8.8	8.4	8.0	
Excess Cash	535.3	556.6	807.0	949.1	942.8	945.4	2.0	171.6	172.0	
ABL Excess Availability	-	204.8	-	-	0.0	0.0	267.6	113.9	118.6	
Total Liquidity Available	535.3	761.5	807.0	949.1	942.8	945.5	269.5	285.5	290.5	
Operational Needs	200.0	200.0	200.0	200.0	200.0	200.0	200.0	200.0	200.0	
Excess Cash for Strategic Uses	$ 335.3	$ 561.5	$ 607.0	$ 749.1	$ 742.8	$ 745.5	$ 69.5	$ 85.5	$ 90.5	
										Total
Sources of Cash for Dividend	$ -	$ 367.7	$ -	$ -	$ -	$ -	$ 2,032.3	$ -	$ -	$ 2,400.0
HY	-	-	-	-	-	-	1,190.0	-	-	1,190.0
ABL	-	367.7	-	-	-	-	-	-	-	367.7
Cash	$ -	$ -	$ -	$ -	$ -	$ -	$ 842.3	$ -	$ -	$ 842.3
Total Debt (end of 2010)	$ 146.0	$ 513.7	$ 718.7	$ 718.7	$ 540.0	$ 528.1	$ 1,717.3	$ 1,923.1	$ 1,899.5	
High Yield (HY)	-	-	-	-	-	-	1,400.0	1,400.0	1,400.0	
ABL Draw	-	467.7	680.0	680.0	501.3	489.4	279.4	486.0	463.2	
ABL Availability (85% x Line Cap)	-	672.5	680.0	680.0	501.3	489.4	547.0	599.9	581.7	
Adj. Debt/EBITDAR	2.3x	2.9x	3.3x	3.3x	3.0x	3.3x	5.7x	6.1x	6.2x	
Fixed Cost Coverage Ratio	7.6x	7.7x	6.6x	8.6x	8.4x	7.8x	7.2x	5.7x	4.6x	
Retained Earnings (Post-Dividend)	1,299.7	960.0	980.1	1,014.6	1,066.2	1,082.4	(971.9)	(977.4)	(968.6)	
Retained Earnings (Pre-Dividend)	$ 1,299.7	$ 1,327.7	$ 980.1	$ 1,014.6	$ 1,066.2	$ 1,082.4	$ 1,060.4	$ (977.4)	$ (968.6)	
Retained Earnings (Post-Dividend, Post IFRS)							$ (671.9)	$ (677.4)	$ (668.6)	
Retained Earnings (Pre-Dividend, Post IFRS)							$ 1,360.4	$ (677.4)	$ (668.6)	

Assumptions

- Downside Case
- $800.0 MM ABL in September
- $367.7 MM dividend paid in September ($3.50/share)
- $100.0 MM notes due in September paid through ABL
- IFRS implementation in Q1 2011 is forecasted to increase Retained Earnings by $300 MM, therefore, total debt and dividend can increase $300 MM as well
- $1.4b HY in February 2011 with $2.03b dividend ($18.88/share) paid through HY ($1.19b) and cash ($842.3 MM)
- Note: $210 MM of ABL paid off in February from $1.4b HY
- Total dividend $2.4b ($22.30/share, not including $376.7 MM dividend paid in June)
- Note: Adj Debt / EBITDAR potentially moves Sears Canada's rating down from Ba to B grade using recession financials

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Capital Structure

The Company can declare in September up to $5.00/share, or $538 MM, dividend financed from the ABL facility while still providing excess cash for other strategic uses ...

- Dividend funded through ABL facility
- Repayment of $100 MM of medium term notes due September 20, 2010 also funded through ABL facility (notes at 7.05% interest rate, ABL at 3.66% based on September 3, 2010 3-month BA rate + 250 bps)
- The Company's "downside" case forecasts $391.2 MM in excess cash for strategic uses, net of the $100 MM note repayment in September, 2010
- The downside forecast assumes:
    - Sales decrease of 4.8% in 2010 vs. 2009
    - Gross margin erosion of 13 bps to 38.80% in 2010 vs. 2009
    - EBITDA of $393.9 MM or down 19.3% vs. 2009
- The Board may approach, obtain and rely in good faith on the advice of a third party expert to assess the financial strength of the Company going forward and the Company's ability to support an extraordinary dividend distribution
- Appendix includes:
    - Board governance considerations regarding dividend declaration
    - Dividend declaration process
    - Pro Forma financials (refer to slides 18-26 in the Appendix)

Excess Cash Proposal

After securing the $800 MM ABL, issuing the $3.50/share dividend in September and repaying $100 MM in debt (refer to Scenario 1), Sears Canada has ~$550 MM of excess cash at the end of September, 2010 …

- The Board should consider the following options to improve the current rate of return:
  - Currently, treasury earnings rate is 56 bps
  - Sears Canada can invest the excess cash in the following options:
    1. Invest in investment grade commercial paper at ~90 bps for 60 days
    2. Make loan to Sears Holdings at 190 bps for 60 days - up to $400 MM
       - Refer to Sears Holdings – Credit Overview in Appendix (slides 27-32)
- Management recommends Option 2 as it is the more profitable alternative, however a fair market check must be performed:
  - Need to ensure the loan interest is at fair market rate, two key pieces of information supporting a loan to SHC at 190 bps is at market are:
    1. Sears Holdings has issued commercial paper at 190 bps and can borrow at 190 bps
    2. 190 is approximately a 100 bps premium vs. investment grade paper
  - Documentary evidence of a fair market rate is required
    - (e.g. SHC existing loan documents with similar terms, offers from third party lenders, published rates, etc.)

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Excess Cash Proposal (continued)

25% Limitation

- A loan between Sears Canada and Sears Holdings would be considered a "related party transaction" and would require minority shareholder approval if the FMV of the transaction is greater than 25% of the market cap of Sears Canada (*National Instruments 61-101 Sec 5.7*)
- Market cap: Common Shares Outstanding x Market Price (as of Sept. 2, 2010)
  107.6 MM x $23.99 = $2,581.8 MM (or 25% = $645.5 MM)
- Market price: The weighted average price in the 21 days preceding the loan
- Proposed loan of up to $400 MM is less than 25% of the market cap, or $645.5 MM (as of Sept. 2, 2010)

Process

- Audit Committee approval of transaction

Disclosure

- It is Management's judgment that the proposed intercompany loan at 1.9% is not material and therefore would not require an immediate press release because:
  - Would not significantly affect market price or value of shares;
  - Sears Canada did not issue a press release about the credit facility placed in 2005 for $600 MM
- Intercompany transaction would be disclosed within Q3, 2010 Financial Statements, Notes and the MD&A

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Next Steps

- At the close of marketing and upon the successful negotiation and settlement of legal documentation required to close and fund the proposed lending facility, Management will present to the Board a fully negotiated and committed facility for the Board's approval (via resolution in lieu of meeting) and signing by the Company, together with any related press release

- Board review of dividend and circulation of resolution in lieu for the Board's approval, together with any related press release

- Audit Committee review and approval of intercompany loan

- Continued discussions with Banks regarding high yield market capacity

- Review IFRS election options
  - Finalize fair value assessment of PP&E
  - Finalize Pension corridor approach options

- Update on CRA opinion on Management's interpretation on dividend tax treatment expected in October

Appendix

Contents:

1. *Board Governance Considerations – Dividend Declaration*

Statutory Solvency Tests

- Section 42 of the Canada Business Corporations Act ("CBCA") states that:
  - "A Corporation shall not declare or pay a dividend if there are reasonable grounds for believing:
    - (a) The Corporation is, or would after the payment be, unable to pay its liabilities as they become due; or
    - (b) The realizable value of the corporation's assets would thereby be less than the aggregate of its liabilities and stated capital of all classes"
- The Board will receive a certificate from the Chief Financial Officer setting forth the analysis and conclusions with respect to the above requirements at the time the extraordinary cash dividend is declared

Corporate Governance / Process

- Section 122(1) of the CBCA requires that:
  - "Every director and officer of a corporation in exercising their powers and discharging their duties shall:
    - (a) Act honestly and in good faith with a view to the best interests of the corporation; and
    - (b) Exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances"
- The Directors may obtain the advice of financial advisors and may rely in good faith on a third party expert and Management advice in making a decision

2. *Dividend Declaration Process*

Dividend Declaration Process

- When the Corporation resolves to declare and pay a dividend, then:
  - Press release issued as soon as possible following the Board decision
    - Declaring that the dividend is to be paid
    - Confirming the record date (date upon which shareholders of record entitled to receive dividend)
  - The record date must be at least 7 trading days following the date the press release is issued and may not be greater than 60 days before the payment of the dividend
  - The payment of the dividend can occur as soon as the day following the record date

3. Scenario 1 – Pro Forma Financials ($3.50 / share dividend in September)

Sears Canada Inc. - Recession Case - Div $377 MM + ABL Due Sept 2015 of $800 MM + C$HY $1200 MM

Cash Flow Statement

	Fiscal 2010	Fiscal 2010	Fiscal 2010	Fiscal 2010	Fiscal 2010	Fiscal 2010	Fiscal 2010	Fiscal 2010	Fiscal 2010	Fiscal 2011
FORECAST	Aug-10	Sep-10	Oct-10	Q3 2010	Nov-10	Dec-10	Jan-11	Q4 2010	2010	Q1 2011
Cash Flow from Operations										
Net Income (Before One-Time)	$3.5	$27.9	$20.1	$51.6	$34.5	$46.1	$11.6	$92.2	$182.9	($22.1)
Depreciation & Amortization	$6.7	$8.4	$7.0	$22.1	$7.2	$8.8	$7.2	$23.3	$96.1	$28.4
(Gain) loss on dispositions	($21.9)	($3.3)	($3.6)	($28.8)	$2.9	($2.8)	$4.1	$4.2	($24.1)	$13.1
Changes in non-cash working capital balances	($46.9)	($87.8)	$27.1	($107.7)	$102.8	$121.8	($10.3)	$214.2	($58.2)	($89.8)
Total Cash Flow from Operations	**($58.5)**	**($54.8)**	**$50.5**	**($62.9)**	**$147.4**	**$174.0**	**$12.6**	**$333.9**	**$196.7**	**($70.4)**
Cash Flow from Investing										
Capital Expenditures	($20.0)	($12.5)	($11.7)	($44.2)	($4.1)	($5.9)	($5.8)	($15.8)	($75.2)	($18.8)
Cash Flow from Financing										
Dividends Paid	$0.0	($376.7)	$0.0	($376.7)	($1,000.0)	$0.0	($823.3)	($1,823.3)	($2,576.7)	$0.0
Debt										
ABL Revolving Credit Facility	$0.0	$476.7	$203.3	$680.0	($390.5)	$0.0	$0.0	($390.5)	$289.5	$184.6
CDN $ Senior Unsecured Notes Due Nov, 2017	$0.0	$0.0	$0.0	$0.0	$1,200.0	$0.0	$0.0	$1,200.0	$1,200.0	$0.0
Due May 2010	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	($200.0)	$0.0
Due September 2010	$0.0	($100.0)	$0.0	($100.0)	$0.0	$0.0	$0.0	$0.0	($100.0)	$0.0
JV Debt	$6.1	$0.0	($7.4)	($1.3)	$0.0	$0.0	$0.0	$0.0	($9.9)	($2.3)
Capital Leases	($1.7)	$0.0	$0.0	($1.7)	$0.0	$0.0	$0.0	$0.0	($2.2)	$0.0
Financing Fees	$0.0	($10.6)	$0.0	($10.6)	($22.3)	$0.0	$0.0	($22.3)	($32.9)	$0.0
Total Cash Flow from Financing	**$4.4**	**($10.6)**	**$195.9**	**$189.8**	**($212.8)**	**$0.0**	**($823.3)**	**($1,036.1)**	**($1,432.1)**	**$182.3**
Total Cash Flow	**($74.2)**	**($77.9)**	**$234.7**	**$82.7**	**($69.6)**	**$168.1**	**($816.5)**	**($718.0)**	**($1,310.6)**	**$93.1**
Beginning Cash	$722.2	$648.0	$570.2	$722.3	$804.9	$735.3	$903.4	$804.9	$1,397.6	$86.9
Ending Cash	**$648.0**	**$570.2**	**$804.9**	**$804.9**	**$735.3**	**$903.4**	**$86.9**	**$86.9**	**$86.9**	**$180.0**

3. Scenario 1 – Pro Forma Financials ($3.50 / share dividend in September)

Sears Canada Inc. - Recession Case - Div $377 MM + ABL Due Sept 2015 of $800 MM + C$HY $1200 MM

Balance Sheet

	Fiscal 2010	Fiscal 2010	Fiscal 2010	Fiscal 2010	Fiscal 2010	Fiscal 2010	Fiscal 2010	Fiscal 2010	Fiscal 2010	Fiscal 2011
FORECAST	Aug-10	Sep-10	Oct-10	Q3 2010	Nov-10	Dec-10	Jan-11	Q4 2010	2010	Q1 2011
Current Assets										
Cash	$648.0	$570.2	$804.9	$804.9	$735.3	$903.4	$86.9	$86.9	$86.9	$180.0
Accounts Receivable	$128.0	$152.4	$155.2	$155.2	$153.2	$148.3	$125.4	$125.4	$125.4	$129.7
Inventory	$1,020.8	$1,059.0	$1,061.8	$1,061.8	$1,062.2	$911.6	$882.2	$882.2	$882.2	$961.6
Prepaid	$70.1	$70.6	$59.9	$59.9	$66.1	$51.9	$55.0	$55.0	$55.0	$55.2
Income Tax Assets	$40.3	$40.3	$69.6	$69.6	$32.2	$32.2	$50.6	$50.6	$50.6	$48.7
Total Current Assets	**$1,907.2**	**$1,892.4**	**$2,151.4**	**$2,151.4**	**$2,049.1**	**$2,047.4**	**$1,200.1**	**$1,200.1**	**$1,200.1**	**$1,375.2**
Long-Term Assets										
Net PP&E	$612.7	$614.8	$620.5	$620.5	$615.2	$614.3	$609.7	$609.7	$609.7	$601.6
Deferred Charges	$175.0	$174.6	$174.2	$174.2	$173.8	$173.4	$173.0	$173.0	$173.0	$172.5
Goodwill & Intangible Assets	$40.4	$45.9	$48.7	$48.7	$48.6	$49.9	$49.6	$49.6	$49.6	$36.5
Other Long-Term Assets	$89.5	$99.7	$99.4	$99.4	$120.0	$119.3	$118.5	$118.5	$118.5	$118.4
Total Long-Term Assets	**$917.6**	**$935.0**	**$942.8**	**$942.8**	**$957.6**	**$956.9**	**$950.8**	**$950.8**	**$950.8**	**$929.0**
Total Assets	**$2,824.8**	**$2,827.4**	**$3,094.3**	**$3,094.3**	**$3,006.6**	**$3,004.3**	**$2,150.8**	**$2,150.8**	**$2,150.8**	**$2,304.2**
Current Liabilities										
Accounts Payable	$653.3	$627.8	$678.3	$678.3	$701.1	$653.0	$612.0	$612.0	$612.0	$601.5
Accrued Liabilities	$334.3	$332.7	$331.2	$331.2	$329.7	$328.2	$326.3	$326.3	$326.3	$324.7
Income Taxes Payable (Includes Other Taxes)	$23.5	$23.5	$23.5	$23.5	$69.5	$69.5	$69.5	$69.5	$69.5	$69.5
Total Current Liabilities	**$1,011.1**	**$984.0**	**$1,033.0**	**$1,033.0**	**$1,100.3**	**$1,050.7**	**$1,007.8**	**$1,007.8**	**$1,007.8**	**$995.7**
Debt										
ABL Revolving Credit Facility	$0.0	$476.7	$680.0	$680.0	$289.5	$289.5	$289.5	$289.5	$289.5	$474.1
CDN $ Senior Unsecured Notes Due November 01, 2017	$0.0	$0.0	$0.0	$0.0	$1,200.0	$1,200.0	$1,200.0	$1,200.0	$1,200.0	$1,200.0
Due September 2010	$100.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
JV Debt	$46.0	$46.0	$38.7	$38.7	$38.7	$38.7	$38.7	$38.7	$38.7	$36.3
Total Debt	**$146.0**	**$522.7**	**$718.7**	**$718.7**	**$1,528.2**	**$1,528.2**	**$1,528.2**	**$1,528.2**	**$1,528.2**	**$1,710.4**
Long-Term Liabilities										
Accrued Benefit Liability	$179.6	$181.3	$183.0	$183.0	$184.7	$186.4	$188.0	$188.0	$188.0	$193.4
Other Long-Term Liabilities	$162.1	$163.1	$164.1	$164.1	$165.1	$166.1	$167.1	$167.1	$167.1	$167.1
Future Income Tax Liabilities	$4.1	$4.1	$4.1	$4.1	$4.1	$4.1	$4.1	$4.1	$4.1	$4.1
Total Long-Term Liabilities	**$345.7**	**$348.4**	**$351.1**	**$351.1**	**$353.8**	**$356.5**	**$359.2**	**$359.2**	**$359.2**	**$364.5**
Total Liabilities	**$1,502.8**	**$1,855.2**	**$2,102.8**	**$2,102.8**	**$2,982.3**	**$2,935.3**	**$2,895.2**	**$2,895.2**	**$2,895.2**	**$3,070.7**
Equity										
Capital Stock	$15.7	$15.7	$15.7	$15.7	$15.7	$15.7	$15.7	$15.7	$15.7	$15.7
Retained Earnings	$1,299.7	$951.0	$971.1	$971.1	$5.6	$51.7	($760.0)	($760.0)	($760.0)	($782.1)
Accum Other Comprehensive Income	$6.6	$5.6	$4.7	$4.7	$3.1	$1.6	$0.0	$0.0	$0.0	$0.0
Total Equity	**$1,322.0**	**$972.3**	**$991.5**	**$991.5**	**$24.4**	**$69.0**	**($744.3)**	**($744.3)**	**($744.3)**	**($766.4)**
Total Liabilities & Equity	**$2,824.8**	**$2,827.4**	**$3,094.3**	**$3,094.3**	**$3,006.7**	**$3,004.3**	**$2,150.9**	**$2,150.9**	**$2,150.9**	**$2,304.2**

3. Scenario 1 – Pro Forma Financials ($3.50 / share dividend in September)

Sears Canada Inc. - Recession Case - Div $377 MM + ABL Due September 2015 of $800 MM + C$HY $1200 MM

Income Statement

	Fiscal 2010	Fiscal 2010	Fiscal 2010	Fiscal 2010	Fiscal 2010	Fiscal 2010	Fiscal 2010	Fiscal 2010	Fiscal 2010	Fiscal 2011
FORECAST	Aug-10	Sep-10	Oct-10	Q3 2010	Nov-10	Dec-10	Jan-11	Q4 2010	2010	Q1 2011
Total Revenue	$341.5	$487.0	$408.6	$1,237.1	$446.8	$645.6	$344.2	$1,436.5	$4,953.5	$1,045.6
% Growth	-5.5%	-5.5%	-5.5%	-5.5%	-5.5%	-5.5%	-6.8%	-5.8%	-4.8%	-2.0%
Gross Margin	$110.1	$161.3	$136.9	$408.3	$157.7	$217.4	$110.3	$485.5	$1,633.4	$335.8
% Margin	38.58%	38.93%	39.62%	38.56%	41.49%	37.86%	38.52%	39.28%	38.80%	38.28%
Total Other Income	$45.0	$56.6	$49.7	$151.4	$52.2	$58.9	$42.8	$153.8	$604.9	$141.7
Total Operating Expenses	$142.5	$169.5	$150.6	$462.6	$151.2	$191.7	$120.4	$463.4	$1,844.5	$453.5
EBITDA	$12.7	$48.4	$36.0	$97.1	$58.7	$84.6	$32.7	$175.9	$393.9	$24.0
Depreciation & Amortization	$6.7	$8.4	$7.0	$22.1	$7.2	$8.8	$7.2	$23.3	$96.1	$28.4
EBIT	$5.9	$40.1	$29.1	$75.0	$51.4	$75.7	$25.5	$152.6	$297.8	($4.4)
Interest expense (income) - net	$0.9	$0.3	$0.4	$1.6	$2.4	$10.1	$8.9	$21.5	$30.8	$26.2
Profit Before Tax	$5.0	$39.7	$28.7	$73.4	$49.0	$65.6	$16.5	$131.2	$267.0	($30.6)
Income Tax	$1.5	$11.8	$8.5	$21.8	$14.6	$19.5	$4.9	$39.0	$84.1	($8.5)
Net Income	$3.5	$27.9	$20.1	$51.6	$34.5	$46.1	$11.6	$92.2	$182.9	($22.1)
EPS	$ 0.03	$ 0.26	$ 0.19	$ 0.48	$ 0.32	$ 0.43	$ 0.11	$ 0.86	$ 1.70	$ (0.21)

3. Scenario 2 – Pro Forma Financials ($5.00 / share dividend in September)

Sears Canada Inc. - Recession Case - Div $538 MM + ABL Due Sept 2015 of $800 MM + C$HY $1200 MM

Cash Flow Statement

	Fiscal 2010	Fiscal 2010	Fiscal 2010	Fiscal 2010	Fiscal 2010	Fiscal 2010	Fiscal 2010	Fiscal 2010	Fiscal 2010	Fiscal 2011
FORECAST	Aug-10	Sep-10	Oct-10	Q3 2010	Nov-10	Dec-10	Jan-11	Q4 2010	2010	Q1 2011
Cash Flow from Operations										
Net Income (Before One-Time)	$3.5	$27.9	$20.2	$51.6	$34.5	$46.1	$11.6	$92.2	$182.9	($22.1)
Depreciation & Amortization	$6.7	$8.4	$7.0	$22.1	$7.2	$8.8	$7.2	$23.3	$96.1	$28.4
(Gain) loss on dispositions	($21.9)	($3.3)	($3.6)	($28.8)	$2.9	($2.8)	$4.1	$4.2	($24.1)	$13.1
Changes in non-cash working capital balances	($46.9)	($87.8)	$27.1	($107.7)	$102.8	$121.8	($10.3)	$214.2	($58.2)	($89.8)
Total Cash Flow from Operations	**($58.5)**	**($54.8)**	**$50.6**	**($62.8)**	**$147.4**	**$174.0**	**$12.6**	**$333.9**	**$196.7**	**($70.5)**
Cash Flow from Investing										
Capital Expenditures	($20.0)	($12.5)	($11.7)	($44.2)	($4.1)	($5.9)	($5.8)	($15.8)	($75.2)	($18.8)
Cash Flow from Financing										
Dividends Paid	$0.0	($538.0)	$0.0	($538.0)	($840.0)	$0.0	($822.0)	($1,662.0)	($2,576.7)	$0.0
Debt										
ABL Revolving Credit Facility	$0.0	$638.0	$42.0	$680.0	($390.4)	$0.0	$0.0	($390.4)	$289.6	$184.4
CDN $ Senior Unsecured Notes Due Nov, 2017	$0.0	$0.0	$0.0	$0.0	$1,200.0	$0.0	$0.0	$1,200.0	$1,200.0	$0.0
Due May 2010	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	($200.0)	$0.0
Due September 2010	$0.0	($100.0)	$0.0	($100.0)	$0.0	$0.0	$0.0	$0.0	($100.0)	$0.0
JV Debt	$6.1	$0.0	($7.4)	($1.3)	$0.0	$0.0	$0.0	$0.0	($9.9)	($2.3)
Capital Leases	($1.7)	$0.0	$0.0	($1.7)	$0.0	$0.0	$0.0	$0.0	($2.2)	$0.0
Financing Fees	$0.0	($10.6)	$0.0	($10.6)	($22.3)	$0.0	$0.0	($22.3)	($32.9)	$0.0
Total Cash Flow from Financing	**$4.4**	**($10.6)**	**$34.6**	**$28.5**	**($52.7)**	**$0.0**	**($822.0)**	**($874.7)**	**($1,432.0)**	**$182.1**
Total Cash Flow	**($74.2)**	**($77.9)**	**$73.5**	**($78.6)**	**$90.5**	**$168.1**	**($815.2)**	**($556.6)**	**($1,310.5)**	**$92.9**
Beginning Cash	$722.2	$648.0	$570.2	$722.3	$643.7	$734.2	$902.2	$643.7	$1,397.6	$87.1
Ending Cash	**$648.0**	**$570.2**	**$643.7**	**$643.7**	**$734.2**	**$902.2**	**$87.1**	**$87.1**	**$87.1**	**$180.0**

3. *Scenario 2 – Pro Forma Financials ($5.00 / share dividend in September)*

Sears Canada Inc. - Recession Case - Div $538 MM + ABL Due Sept 2015 of $800 MM + C$HY $1200 MM

Balance Sheet

	Fiscal 2010	Fiscal 2010	Fiscal 2010	Fiscal 2010	Fiscal 2010	Fiscal 2010	Fiscal 2010	Fiscal 2011
FORECAST	**Aug-10**	**Sep-10**	**Oct-10**	**Nov-10**	**Dec-10**	**Jan-11**	**2010**	**Q1 2011**
Current Assets								
Cash	$648.0	$570.2	$643.7	$734.2	$902.2	$87.1	$87.1	$180.0
Accounts Receivable	$128.0	$152.4	$155.2	$153.2	$148.3	$125.4	$125.4	$129.7
Inventory	$1,020.8	$1,059.0	$1,061.8	$1,062.2	$911.6	$882.2	$882.2	$961.6
Prepaid	$70.1	$70.6	$59.9	$66.1	$51.9	$55.0	$55.0	$55.2
Income Tax Assets	$40.3	$40.3	$69.6	$32.2	$32.2	$50.5	$50.5	$48.7
Total Current Assets	**$1,907.2**	**$1,892.4**	**$1,990.2**	**$2,047.9**	**$2,046.3**	**$1,200.2**	**$1,200.2**	**$1,375.2**
Long-Term Assets								
Net PP&E	$612.7	$614.8	$620.5	$615.2	$614.3	$609.7	$609.7	$601.6
Deferred Charges	$175.0	$174.6	$174.2	$173.8	$173.4	$173.0	$173.0	$172.5
Goodwill & Intangible Assets	$40.4	$45.9	$48.7	$48.6	$49.9	$49.6	$49.6	$36.5
Other Long-Term Assets	$89.5	$99.7	$99.4	$120.0	$119.3	$118.5	$118.5	$118.4
Total Long-Term Assets	**$917.6**	**$935.0**	**$942.8**	**$957.6**	**$956.9**	**$950.8**	**$950.8**	**$929.0**
Total Assets	**$2,824.8**	**$2,827.4**	**$2,933.0**	**$3,005.5**	**$3,003.1**	**$2,151.0**	**$2,151.0**	**$2,304.2**
Current Liabilities								
Accounts Payable	$653.3	$627.8	$678.3	$701.1	$653.0	$612.0	$612.0	$601.5
Accrued Liabilities	$334.3	$332.7	$331.2	$329.7	$328.2	$326.3	$326.3	$324.7
Income Taxes Payable (Includes Other Taxes)	$23.5	$23.5	$23.5	$69.5	$69.5	$69.5	$69.5	$69.5
Total Current Liabilities	**$1,011.1**	**$984.0**	**$1,033.0**	**$1,100.3**	**$1,050.7**	**$1,007.8**	**$1,007.8**	**$995.7**
Debt								
ABL Revolving Credit Facility	$0.0	$638.0	$680.0	$289.6	$289.6	$289.6	$289.6	$474.0
CDN $ Senior Unsecured Notes Due November 01, 2017	$0.0	$0.0	$0.0	$1,200.0	$1,200.0	$1,200.0	$1,200.0	$1,200.0
Due September 2010	$100.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
JV Debt	$46.0	$46.0	$38.7	$38.7	$38.7	$38.7	$38.7	$36.3
Total Debt	**$146.0**	**$684.0**	**$718.7**	**$1,528.3**	**$1,528.3**	**$1,528.3**	**$1,528.3**	**$1,710.4**
Long-Term Liabilities								
Accrued Benefit Liability	$179.6	$181.3	$183.0	$184.7	$186.4	$188.0	$188.0	$193.4
Other Long-Term Liabilities	$162.1	$163.1	$164.1	$165.1	$166.1	$167.1	$167.1	$167.1
Future Income Tax Liabilities	$4.1	$4.1	$4.1	$4.1	$4.1	$4.1	$4.1	$4.1
Total Long-Term Liabilities	**$345.7**	**$348.4**	**$351.1**	**$353.8**	**$356.5**	**$359.2**	**$359.2**	**$364.5**
Total Liabilities	**$1,502.8**	**$2,016.5**	**$2,102.8**	**$2,982.4**	**$2,935.4**	**$2,895.3**	**$2,895.3**	**$3,070.6**
Equity								
Capital Stock	$15.7	$15.7	$15.7	$15.7	$15.7	$15.7	$15.7	$15.7
Retained Earnings	$1,299.7	$789.7	$809.9	$4.3	$50.4	($760.0)	($760.0)	($782.1)
Accum Other Comprehensive Income	$6.6	$5.6	$4.7	$3.1	$1.6	$0.0	$0.0	$0.0
Total Equity	**$1,322.0**	**$811.0**	**$830.2**	**$23.1**	**$67.7**	**($744.3)**	**($744.3)**	**($766.4)**
Total Liabilities & Equity	$2,824.8	$2,827.4	$2,933.0	$3,005.5	$3,003.1	$2,151.0	$2,151.0	$2,304.2

3. *Scenario 2 – Pro Forma Financials ($5.00 / share dividend in September)*

Sears Canada Inc. - Recession Case - Div $538 MM + ABL Due Sept 2015 of $800 MM + C$HY $1200 MM

Income Statement

	Fiscal 2010	Fiscal 2010	Fiscal 2010	Fiscal 2010	Fiscal 2010	Fiscal 2010	Fiscal 2010	Fiscal 2010	Fiscal 2010	Fiscal 2011
FORECAST	Aug-10	Sep-10	Oct-10	Q3 2010	Nov-10	Dec-10	Jan-11	Q4 2010	2010	Q1 2011
Total Revenue	$341.5	$487.0	$408.6	$1,237.1	$446.8	$645.6	$344.2	$1,436.5	$4,953.5	$1,045.6
% Growth	-5.5%	-5.5%	-5.5%	-5.5%	-5.5%	-5.5%	-6.8%	-5.8%	-4.8%	-2.0%
Gross Margin	$110.1	$161.3	$136.9	$408.3	$157.7	$217.4	$110.3	$485.5	$1,633.4	$335.8
% Margin	38.58%	38.93%	39.62%	38.56%	41.49%	37.86%	38.52%	39.28%	38.80%	38.28%
Total Other Income	$45.0	$56.6	$49.7	$151.4	$52.2	$58.9	$42.8	$153.8	$604.9	$141.7
Total Operating Expenses	$142.5	$169.5	$150.6	$462.6	$151.2	$191.7	$120.4	$463.4	$1,844.5	$453.5
EBITDA	$12.7	$48.4	$36.0	$97.1	$58.7	$84.6	$32.7	$175.9	$393.9	$24.0
Depreciation & Amortization	$6.7	$8.4	$7.0	$22.1	$7.2	$8.8	$7.2	$23.3	$96.1	$28.4
EBIT	$5.9	$40.1	$29.1	$75.0	$51.4	$75.7	$25.5	$152.6	$297.8	($4.4)
Interest expense (income) - net	$0.9	$0.3	$0.3	$1.6	$2.4	$10.1	$8.9	$21.5	$30.7	$26.2
Profit Before Tax	$5.0	$39.7	$28.7	$73.5	$49.0	$65.6	$16.5	$131.2	$267.1	($30.6)
Income Tax	$1.5	$11.8	$8.5	$21.9	$14.6	$19.5	$4.9	$39.0	$84.1	($8.5)
Net Income	$3.5	$27.9	$20.2	$51.6	$34.5	$46.1	$11.6	$92.2	$182.9	($22.1)
EPS	$ 0.03	$ 0.26	$ 0.19	$ 0.48	$ 0.32	$ 0.43	$ 0.11	$ 0.86	$ 1.70	$ (0.21)

3. *Pro Forma Financials - $5.00/share Dividend with $400 MM Loan*

Sears Canada Inc. - Recession Case

Cash Flow Statement

	Fiscal 2010	Fiscal 2010	Fiscal 2010	Fiscal 2010	Fiscal 2010	Fiscal 2010	Fiscal 2010	Fiscal 2010	Fiscal 2010	Fiscal 2011
FORECAST	Aug-10	Sep-10	Oct-10	Q3 2010	Nov-10	Dec-10	Jan-11	Q4 2010	2010	Q1 2011
Cash Flow from Operations										
Net Income (Before One-Time)	$3.5	$27.9	$20.2	$51.7	$34.5	$51.6	$16.2	$102.3	$193.0	($5.6)
Depreciation & Amortization	$6.7	$8.4	$7.0	$22.1	$6.8	$8.5	$6.9	$22.2	$95.0	$27.3
(Gain) loss on dispositions	($21.9)	($3.3)	($3.6)	($28.8)	$2.9	($2.8)	$4.1	$4.2	($24.1)	$13.1
After-Tax One-Time Charge	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Changes in non-cash working capital balances	($46.9)	($487.8)	$27.1	($507.7)	$502.8	$121.8	($6.0)	$618.5	($53.9)	($95.1)
Total Cash Flow from Operations	**($58.5)**	**($454.8)**	**$50.6**	**($462.8)**	**$547.0**	**$179.0**	**$21.1**	**$747.2**	**$210.0**	**($60.3)**
Cash Flow from Investing										
Capital Expenditures	($20.0)	($12.5)	($11.7)	($44.2)	($4.1)	($5.9)	($5.8)	($15.8)	($75.2)	($18.8)
Cash Flow from Financing										
Dividends Paid	$0.0	($538.0)	$0.0	($538.0)	$0.0	$0.0	$0.0	$0.0	($914.7)	$0.0
Debt										
ABL Revolving Credit Facility	$0.0	$672.5	$7.5	$680.0	$0.0	($178.7)	($11.9)	($190.6)	$489.4	($489.4)
Due May 2010	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	($200.0)	$0.0
Due September 2010	$0.0	($100.0)	$0.0	($100.0)	$0.0	$0.0	$0.0	$0.0	($100.0)	$0.0
JV Debt	$6.1	$0.0	($7.4)	($1.3)	$0.0	$0.0	$0.0	$0.0	($9.9)	($2.3)
Capital Leases	($1.7)	$0.0	$0.0	($1.7)	$0.0	$0.0	$0.0	$0.0	($2.2)	$0.0
Financing Fees	$0.0	($10.6)	$0.0	($10.6)	$0.0	$0.0	$0.0	$0.0	($10.6)	$0.0
Total Cash Flow from Financing	**$4.4**	**$23.9**	**$0.1**	**$28.5**	**$0.0**	**($178.7)**	**($11.9)**	**($190.6)**	**($747.9)**	**($491.7)**
Total Cash Flow	**($74.2)**	**($443.4)**	**$39.0**	**($478.5)**	**$542.9**	**($5.6)**	**$3.4**	**$540.7**	**($613.1)**	**($570.8)**
Beginning Cash	$722.2	$648.0	$204.7	$722.3	$243.7	$786.6	$781.0	$243.7	$1,397.6	$784.4
Ending Cash	**$648.0**	**$204.7**	**$243.7**	**$243.7**	**$786.6**	**$781.0**	**$784.4**	**$784.4**	**$784.4**	**$213.7**

3. *Pro Forma Financials - $5.00/share Dividend with $400 MM Loan*

Sears Canada Inc. - Recession Case

Balance Sheet

	Fiscal 2010	Fiscal 2010	Fiscal 2010	Fiscal 2010	Fiscal 2010	Fiscal 2010	Fiscal 2010	Fiscal 2011
FORECAST	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	Jan-11	2010	Q1 2011
Current Assets								
Cash	$648.0	$204.7	$243.7	$786.6	$781.0	$784.4	$784.4	$214.9
Accounts Receivable	$128.0	$552.4	$555.2	$153.2	$148.3	$125.4	$125.4	$129.7
Inventory	$1,020.8	$1,059.0	$1,061.8	$1,062.2	$911.6	$882.2	$882.2	$961.6
Prepaid	$70.1	$70.6	$59.9	$66.1	$51.9	$55.0	$55.0	$55.2
Income Tax Assets	$40.3	$40.3	$69.6	$32.2	$32.2	$46.3	$46.3	$49.4
Total Current Assets	**$1,907.2**	**$1,926.9**	**$1,990.2**	**$2,100.3**	**$1,925.0**	**$1,893.3**	**$1,893.3**	**$1,410.8**
Long-Term Assets								
Net PP&E	$612.7	$614.8	$620.5	$615.2	$614.3	$609.7	$609.7	$601.6
Deferred Charges	$175.0	$174.6	$174.2	$173.8	$173.4	$173.0	$173.0	$172.5
Goodwill & Intangible Assets	$40.4	$45.9	$48.7	$48.6	$49.9	$49.6	$49.6	$36.5
Other Long-Term Assets	$89.5	$99.7	$99.4	$98.0	$97.7	$97.4	$97.4	$98.3
Total Long-Term Assets	**$917.6**	**$935.0**	**$942.8**	**$935.6**	**$935.3**	**$929.6**	**$929.6**	**$909.0**
Total Assets	**$2,824.8**	**$2,861.9**	**$2,933.0**	**$3,035.9**	**$2,860.3**	**$2,822.9**	**$2,822.9**	**$2,319.8**
Current Liabilities								
Accounts Payable	$653.3	$627.8	$678.3	$701.1	$653.0	$612.0	$612.0	$601.5
Accrued Liabilities	$334.3	$332.7	$331.2	$329.7	$328.2	$326.3	$326.3	$324.7
Income Taxes Payable (Includes Other Taxes)	$23.5	$23.5	$23.5	$69.5	$69.5	$69.5	$69.5	$69.5
Total Current Liabilities	$1,011.1	$984.0	$1,033.0	$1,100.3	$1,050.7	$1,007.8	$1,007.8	$995.7
Debt								
ABL Revolving Credit Facility	$0.0	$672.5	$680.0	$680.0	$501.3	$489.4	$489.4	$0.0
Due September 2010	$100.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
JV Debt	$46.0	$46.0	$38.7	$38.7	$38.7	$38.7	$38.7	$36.3
Total Debt	**$146.0**	**$718.5**	**$718.7**	**$718.7**	**$540.0**	**$528.1**	**$528.1**	**$36.3**
Long-Term Liabilities								
Accrued Benefit Liability	$179.6	$181.3	$183.0	$184.7	$186.4	$188.0	$188.0	$193.4
Other Long-Term Liabilities	$162.1	$163.1	$164.1	$165.1	$166.1	$167.1	$167.1	$167.1
Future Income Tax Liabilities	$4.1	$4.1	$4.1	$4.1	$4.1	$4.1	$4.1	$4.1
Total Long-Term Liabilities	**$345.7**	**$348.4**	**$351.1**	**$353.8**	**$356.5**	**$359.2**	**$359.2**	**$364.5**
Total Liabilities	**$1,502.8**	**$2,051.0**	**$2,102.8**	**$2,172.8**	**$1,947.1**	**$1,895.1**	**$1,895.1**	**$1,396.6**
Equity								
Capital Stock	$15.7	$15.7	$15.7	$15.7	$15.7	$15.7	$15.7	$15.7
Retained Earnings	$1,299.7	$789.7	$809.9	$844.4	$896.0	$912.1	$912.1	$907.5
Accum Other Comprehensive Income	$6.6	$5.6	$4.7	$3.1	$1.6	$0.0	$0.0	$0.0
Total Equity	**$1,322.0**	**$811.0**	**$830.2**	**$863.2**	**$913.2**	**$927.8**	**$927.8**	**$923.2**
Total Liabilities & Equity	**$2,824.8**	**$2,861.9**	**$2,933.0**	**$3,036.0**	**$2,860.4**	**$2,822.9**	**$2,822.9**	**$2,319.8**

3. *Pro Forma Financials - $5.00/share Dividend with $400 MM Loan*

Sears Canada Inc. - Recession Case

Income Statement

	Fiscal 2010	Fiscal 2010	Fiscal 2010	Fiscal 2010	Fiscal 2010	Fiscal 2010	Fiscal 2010	Fiscal 2010	Fiscal 2010	Fiscal 2011
FORECAST	Aug-10	Sep-10	Oct-10	Q3 2010	Nov-10	Dec-10	Jan-11	Q4 2010	2010	Q1 2011
Total Revenue	$341.5	$487.0	$408.6	$1,237.1	$446.8	$645.6	$344.2	$1,436.5	$4,953.5	$1,045.6
% Growth	-5.5%	-5.5%	-5.5%	-5.5%	-5.5%	-5.5%	-6.8%	-5.8%	-4.8%	-2.0%
Gross Margin	$110.1	$161.3	$136.9	$408.3	$157.7	$217.4	$110.3	$485.5	$1,633.4	$335.8
% Margin	38.58%	38.93%	39.62%	38.56%	41.49%	37.86%	38.52%	39.28%	38.80%	38.28%
Total Other Income	$45.0	$56.6	$49.7	$151.4	$52.2	$58.9	$42.8	$153.8	$604.9	$141.7
Total Operating Expenses	$142.5	$169.5	$150.6	$462.6	$151.2	$191.7	$120.4	$463.4	$1,844.5	$453.5
EBITDA	$12.7	$48.4	$36.0	$97.1	$58.7	$84.6	$32.7	$175.9	$393.9	$24.0
Depreciation & Amortization	$6.7	$8.4	$7.0	$22.1	$6.8	$8.5	$6.9	$22.2	$95.0	$27.3
EBIT	$5.9	$40.1	$29.1	$75.0	$51.8	$76.1	$25.8	$153.8	$298.9	($3.3)
Interest expense (income) - net	$0.9	$0.3	$0.3	$1.5	$2.7	$2.7	$2.8	$8.2	$17.5	$4.4
Profit Before Tax	$5.0	$39.7	$28.8	$73.5	$49.1	$73.4	$23.0	$145.5	$281.4	($7.7)
Income Tax	$1.5	$11.8	$8.5	$21.9	$14.6	$21.8	$6.8	$43.3	$88.4	($2.1)
Net Income	$3.5	$27.9	$20.2	$51.7	$34.5	$51.6	$16.2	$102.3	$193.0	($5.6)
EPS	$ 0.03	$ 0.26	$ 0.19	$ 0.48	$ 0.32	$ 0.48	$ 0.15	$ 0.95	$ 1.79	$ (0.05)

4. Sears Holdings: Credit Overview

SEARS HOLDINGS

Short Term Loan to SHC

September 2010

Sears kmart Kenmore CRAFTSMAN DieHard LANDS' END

Existing Capitalization

- **Sears Holdings Corporation is well capitalized and has low leverage**

	Actual		
($ in millions)	**As of 7/31/10**	**FYE EBITDA**	**FYE EBITDAR [3]**
Cash and Cash Equivalents	$1,193		
ABL Revolving Credit Facility [1]	822		
First Lien Term Loan	-		
Unsecured Commercial Paper	396		
Unsecured Notes and Debentures	1,352		
Capitalized Lease Obligations	616		
Total Debt	**$3,186**	**1.8x**	3.9x
Net Debt	$1,993	1.1x	3.4x
Market Value of Equity [2]	7,176		
Total Capitalization	$10,362	5.9x	
Enterprise Value	$9,169	5.2x	
LTM 7/31/10 Adjusted EBITDA		**$1,753**	
LTM 7/31/10 Adjusted EBITDAR [3]			$2,617

(1) Revolver size reduced from $4.1 billion to $2.4 billion March 25, 2010. As of July 31, 2010, $638 million of letters of credit were issued and approximately $981 million of unused commitments were available under the existing senior secured revolving credit facility. As of July 31, 2010, $822 million was drawn under the existing senior secured revolving credit facility.

(2) Based on share price of $64.85 as of 8/25/10.

(3) Calculated using 8x rent expense and FY 2009 Rent Expense of $864 million.

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Low Leverage Results in Strong Credit Metrics

- **Significant cash flow, low leverage and meaningful coverage ratios**

Fiscal Year ($ in millions)	**2006**	**2007**	**2008**	**2009**
Operating Cash Flow	$1,428	$1,547	$992	$1,507
Total Debt	3,548	3,010	2,919	2,505
Adjusted EBITDA	3,664	2,551	1,607	1,822
Interest	335	286	272	265
Capital Expenditures	$508	$570	$497	$361
Total Leverage	1.0x	1.2x	1.8x	1.4x
Interest Coverage	10.9x	8.9x	5.9x	6.9x
(Adjusted EBITDA - Capital Expenditures) / Interest	9.4x	6.9x	4.1x	5.5x

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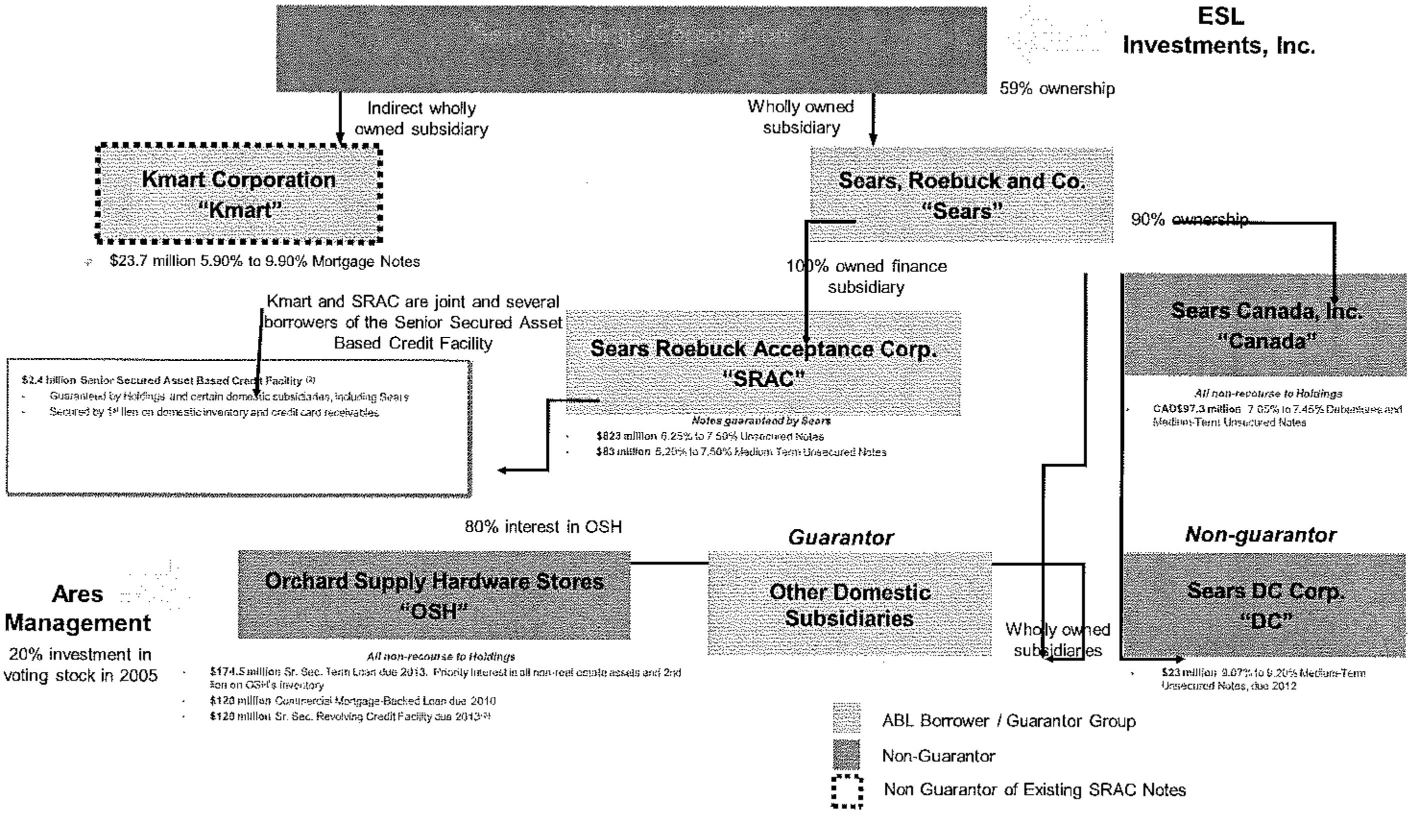
Corporate Structure $^{(1)}$ – CP Issued by SRAC



Sears Holdings Corporation
"Holdings"

ESL Investments, Inc.

59% ownership

Indirect wholly owned subsidiary

Wholly owned subsidiary

Kmart Corporation "Kmart"

- $23.7 million 5.90% to 9.90% Mortgage Notes

Sears, Roebuck and Co. "Sears"

90% ~~ownership~~

100% owned finance subsidiary

Kmart and SRAC are joint and several borrowers of the Senior Secured Asset Based Credit Facility

$2.4 billion Senior Secured Asset Based Credit Facility (2)
- Guaranteed by Holdings and certain domestic subsidiaries, including Sears
- Secured by 1st lien on domestic inventory and credit card receivables

Sears Roebuck Acceptance Corp. "SRAC"

Notes guaranteed by Sears
- $823 million 6.25% to 7.50% Unsecured Notes
- $83 million 6.25% to 7.50% Medium Term Unsecured Notes

Sears Canada, Inc. "Canada"

All non-recourse to Holdings
- CAD$97.3 million 7.05% to 7.45% Debentures and Medium-Term Unsecured Notes

80% interest in OSH

Ares Management

20% investment in voting stock in 2005

Orchard Supply Hardware Stores "OSH"

All non-recourse to Holdings
- $174.5 million Sr. Sec. Term Loan due 2013. Priority interest in all non-real estate assets and 2nd lien on OSH's inventory
- $120 million Commercial Mortgage-Backed Loan due 2010
- $120 million Sr. Sec. Revolving Credit Facility due 2013(3)

Guarantor

Other Domestic Subsidiaries

Wholly owned subsidiaries

Non-guarantor

Sears DC Corp. "DC"

- $23 million 9.07% to 9.20% Medium-Term Unsecured Notes, due 2012

▨ ABL Borrower / Guarantor Group

▩ Non-Guarantor

⬚ Non Guarantor of Existing SRAC Notes

Note: Substantially all inventory owned by wholly owned domestic subsidiaries of Holdings is held by Kmart, Sears or other guarantors of the Senior Secured Asset Based Credit Facility.

(1) Debt amounts shown as of 7/31/10.

(2) Revolver size reduced from $4.1 billion to $2.4 billion in March 2010.

(3) Revolver size is reduced to $100 million in December 2011.

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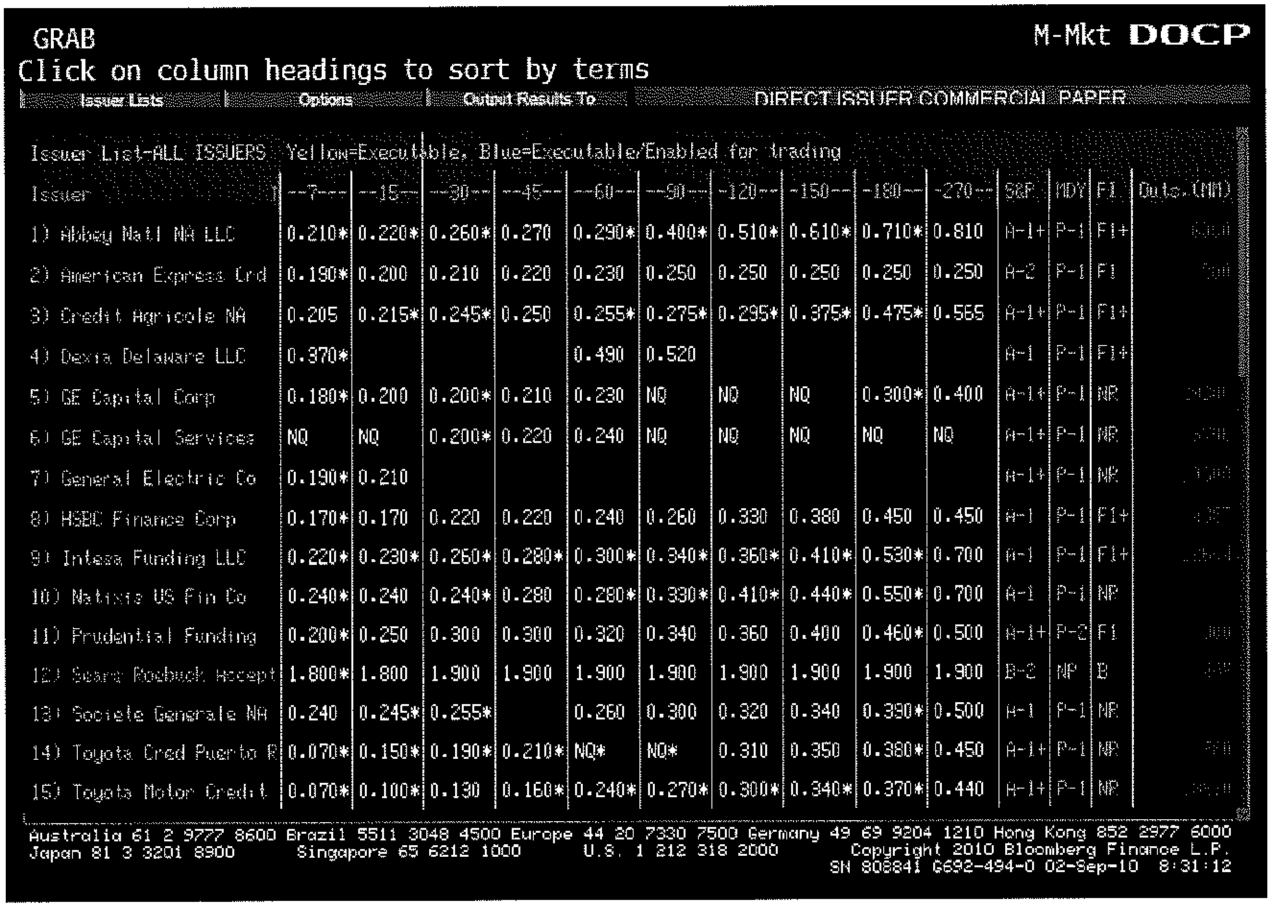
SRAC CP Rates Offer Very Attractive Returns for Short Durations



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Click on column headings to sort by terms

DIRECT ISSUER COMMERCIAL PAPER

Issuer List-ALL ISSUERS Yellow=Executable, Blue=Executable/Enabled for trading

Issuer	--7---	--15--	--30--	--45--	--60--	--90--	-120--	-150--	-180--	-270--	S&P	MDY	FI	Outs.(MM)
1) Abbey Natl NA LLC	0.210*	0.220*	0.260*	0.270	0.290*	0.400*	0.510*	0.610*	0.710*	0.810	A-1+	P-1	F1+	[illegible]
2) American Express Crd	0.190*	0.200	0.210	0.220	0.230	0.250	0.250	0.250	0.250	0.250	A-2	P-1	F1	[illegible]
3) Credit Agricole NA	0.205	0.215*	0.245*	0.250	0.255*	0.275*	0.295*	0.375*	0.475*	0.565	A-1+	P-1	F1+	
4) Dexia Delaware LLC	0.370*				0.490	0.520					A-1	P-1	F1+	
5) GE Capital Corp	0.180*	0.200	0.200*	0.210	0.230	NQ	NQ	NQ	0.300*	0.400	A-1+	P-1	NR	[illegible]
6) GE Capital Services	NQ	NQ	0.200*	0.220	0.240	NQ	NQ	NQ	NQ	NQ	A-1+	P-1	NR	[illegible]
7) General Electric Co	0.190*	0.210									A-1+	P-1	NR	[illegible]
8) HSBC Finance Corp	0.170*	0.170	0.220	0.220	0.240	0.260	0.330	0.380	0.450	0.450	A-1	P-1	F1+	[illegible]
9) Intesa Funding LLC	0.220*	0.230*	0.260*	0.280*	0.300*	0.340*	0.360*	0.410*	0.530*	0.700	A-1	P-1	F1+	[illegible]
10) Natixis US Fin Co	0.240*	0.240	0.240*	0.280	0.280*	0.330*	0.410*	0.440*	0.550*	0.700	A-1	P-1	NR	
11) Prudential Funding	0.200*	0.250	0.300	0.300	0.320	0.340	0.360	0.400	0.460*	0.500	A-1+	P-2	F1	[illegible]
12) Sears Roebuck Accept	1.800*	1.800	1.900	1.900	1.900	1.900	1.900	1.900	1.900	1.900	B-2	NP	B	[illegible]
13) Societe Generale NA	0.240	0.245*	0.255*		0.260	0.300	0.320	0.340	0.390*	0.500	A-1	P-1	NR	
14) Toyota Cred Puerto R	0.070*	0.150*	0.190*	0.210*	NQ*	NQ*	0.310	0.350	0.380*	0.450	A-1+	P-1	NR	[illegible]
15) Toyota Motor Credit	0.070*	0.100*	0.130	0.160*	0.240*	0.270*	0.300*	0.340*	0.370*	0.440	A-1+	P-1	NR	[illegible]

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Projected SHC Liquidity

Current August Management Forecast	August	September	October	November	December
Commercial Paper	400	400	400	500	250
Revolver Borrowings	961	1,167	1,322	1,209	0
Letter of Credit	563	558	553	548	543
Total Utilization	**1,524**	**1,725**	**1,875**	**1,757**	**543**
Excess Availability ($2,441mm facility)	917	716	566	684	1,898
Cash Balance	505	505	505	1,304	1,081
Total Liquidity (Availability + Cash)	**1,422**	**1,221**	**1,071**	**1,988**	**2,979**

With $3.50/share SCC Dividend in Sept.	August	September	October	November	December
Commercial Paper	400	400	400	500	250
Revolver Borrowings	961	852	1,007	894	0
Letter of Credit	563	558	553	548	543
Total Utilization	**1,524**	**1,410**	**1,560**	**1,442**	**543**
Excess Availability ($2,441mm facility)	917	1,031	881	999	1,898
Cash Balance	505	505	505	1,304	1,396
Total Liquidity (Availability + Cash)	**1,422**	**1,536**	**1,386**	**2,303**	**3,294**

With Dividend and $400mm Loan 9/15-11/15	August	September	October	November	December
Commercial Paper	400	400	400	500	250
Loan from SCC	0	400	400	0	0
Revolver Borrowings	961	452	607	894	0
Letter of Credit	563	558	553	548	543
Total Utilization	**1,524**	**1,010**	**1,160**	**1,442**	**543**
Excess Availability ($2,441mm facility)	917	1,431	1,281	999	1,898
Cash Balance	505	505	505	1,304	1,396
Total Liquidity (Availability + Cash)	**1,422**	**1,936**	**1,786**	**2,303**	**3,294**

Notes Summary:

No speaker notes are contained in this presentation.

TAB 11

MINUTES of the telephone meeting of the Board of Directors of **SEARS CANADA INC.** (the "Corporation") held in the Boardroom of the Corporation, 290 Yonge Street, 7th Floor, Toronto, Ontario, on Thursday, September 9, 2010, at 2:00 p.m., Eastern time adjourned to Thursday, September 9, 2010, at 5:00 p.m., Eastern time and adjourned further to Friday, September 10, 2010, at 3:00 p.m., Eastern time

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PRESENT

W. C. Crowley (Ch.)
E. J. Bird
D. D. Cheeks Merriwether
W. R. Harker
R. R. Khanna
J. McBurney
D. L. Rogers
D. E. Rosati (in person on September 9, 2010 at 2 p.m.)

MANAGEMENT (in person)

A. Ravas
Senior Vice-President and Chief Financial Officer
S. Driscoll
Senior Vice-President, Finance
F. Perugini
Associate General Counsel and Corporate Secretary

The Chairman of the Board, Mr. W. C. Crowley, acted as Chairman of the meeting and the Secretary of the Corporation, Mr. F. Perugini, acted as Secretary of the meeting.

CALL TO ORDER/ROLL CALL

1. The Chairman called the meeting to order and took a roll call.

MINUTES AND RESOLUTIONS IN LIEU

2. **ON MOTION**, duly made and seconded, it was unanimously resolved:

THAT the Minutes of the meetings of the Board of Directors held on Tuesday, May 18, 2010 and Tuesday, August 3, 2010 be approved.

The Board of Directors acknowledged the signing of the following Resolutions in Lieu:

- Dated May 27, 2010 approving the first quarter Management's Discussion and Analysis
- Dated May 31, 2010 appointing Mr. Peter Kalen as the Senior Vice-President Financial Services and Officer of the Corporation
- Dated August 25, 2010 approving the second quarter Management's Discussion and Analysis

AUDIT COMMITTEE REPORT

3. The Chair of the Audit Committee, Mr. E. J. Bird, presented his report on the meeting of the Committee held on August 16, 2010, which covered a number of matters including:

(a) Management's second quarter business update

- (b) Approval of second quarter results and related press release
- (c) Report by the External Auditors in respect of the second quarter
- (d) Presentation of 2010 External Audit Plan and Engagement Letters for the 2010 Audit and Quarterly Reviews
- (e) Internal Audit Update
- (f) Secretary's Report – Ethics Hotline – Litigation Summaries
- (g) Risk Oversight Committee Update
- (h) International Financial Reporting Standards
- (i) Update on Bill 198
- (j) Audited Financial Statements and the Auditors' Report for the financial year ended December 31, 2009:
    - Sears Registered Retirement Plan
    - Sears Canada Inc. Health and Welfare Trust Fund
    - Sears Profit Sharing Retirement Fund
    - Sears Plan for Sharing Profits with Employees

Mr. Bird also reported on the recent special telephone meeting of the Audit Committee attended by only the independent directors and their external legal advisor, held on September 7, 2010 and adjourned to September 8, 2010, advising that the Audit Committee had approved the $400 million loan from the Corporation to Sears Holdings Corporation.

INVESTMENT COMMITTEE REPORT

4. The Chair of the Investment Committee, Mr. W. R. Harker, presented his report on the meeting of the Committee held on September 7, 2010, which covered a number of items including:

- (a) Performance review by Towers Watson
- (b) Report on hedge fund investments
- (c) Management's Report:
    - Sears Registered Retirement Fund
    - Sears Canada Inc. Supplementary Retirement Plan
    - Sears Canada Inc. Health & Welfare Plan Trust Fund
- (d) Audited Financial Statements and the Auditors' Report for the financial year ended December 31, 2009:
    - Sears Registered Retirement Plan
    - Sears Canada Inc. Health and Welfare Trust Fund
    - Sears Profit Sharing Retirement Fund
    - Sears Plan for Sharing Profits with Employees

NOMINATING AND CORPORATE GOVERNANCE REPORT

5. The Chair of the Nominating and Corporate Governance Committee, Mr. R. R. Khanna, presented his report on the meeting of the Committee held on September 9, 2010, which covered the following items:

- (a) Review and Process of Board Effectiveness Survey
- (b) Board compensation

HUMAN RESOURCES AND COMPENSATION COMMITTEE

6. The Chair of the Human Resources and Compensation Committee, Mr. W.C. Crowley, presented his report on the meeting of the Committee held on September 9, 2010, which covered the following items:

- (a) Senior Leadership Team Compensation & Statistics
    - Business Capability Update
    - Succession Plans for the Senior Leadership Team
- (b) Long Term Incentive Plan – status reports
- (c) Annual Incentive Program – 2010 status report

(c) Governance Report
- Post Retirement Benefits
- Sears Registered Retirement Plan
- Supplementary Retirement Plan
- Registered Retirement Savings Plan

REPORT BY THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

7. The report of the President and Chief Executive Officer, the Senior Vice-President and Chief Financial Officer and the Senior Vice-President, Finance was presented during the Audit Committee telephone meeting held on August 16, 2010 and, since all of the Directors were present during the Audit Committee meeting, the Board did not require a further detailed presentation by Management.

Mr. Rogers stated that on August 16, 2010, the Audit Committee approved the unaudited comparative interim consolidated financial statements of the Corporation for the 13 and 26-week periods ended July 31, 2010, together with the press release, which was issued on August 17, 2010.

CAPITAL STRUCTURE UPDATE

8. Mr. A. Ravas, Senior Vice-President and Chief Financial Officer, provided a report on various matters related to the capital structure of the Corporation, which included the following:

(a) Asset-Based Loan ("ABL")

Mr. Ravas reported that the ABL facility term will remain at five (5) years with a pricing grid at 250 bps (first three (3) months locked in at 275 bps) over the three (3) month Canadian Bankers Acceptance rate (116 bps as at close on September 3, 2010). The syndicate of banks has been completed with a commitment sized at $1.0 billion. The ABL facility will be for $800 million with the total fee being approximately $9.4 million.

(b) Extraordinary Dividend

Mr. Ravas provided various scenarios of paying a dividend utilizing the ABL facility.

(c) Loan to Sears Holdings

Mr. Ravas presented Management's recommendation to provide a loan to Sears Holdings Corporation in the amount of $400 million at 160 bps for up to sixty (60) days.

Management considered the tax implications with respect to the timing of a) to c) above. The tax advice obtained indicated that the most tax efficient manner to proceed with respect to the extraordinary dividend was to borrow to fund the dividend, in order to claim the interest paid as a deductible expense for the Corporation. The Corporation has applied to the federal tax authorities for a ruling on the tax deductibility of the interest on the borrowed funds to be used to pay the dividend. Management expects to receive the ruling within the next several weeks.

Following the implementation of the extraordinary dividend on the tax efficient basis as set out, the Corporation would have cash available, which the Corporation could not pay out as a dividend without jeopardizing the tax ruling. As a result, the Corporation can loan the remaining cash to Sears Holdings Corporation and receive more interest on that cash than the Corporation would receive through other short term investments. Following this analysis, Management recommended proceeding by paying the extraordinary dividend using funds borrowed through the ABL and then proceeding to make a loan to Sears Holdings Corporation.

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APPROVAL OF ABL FACILITY

9. **WHEREAS** Management provided a further update regarding the progress being made in the arrangement of a senior secured credit facility of up to an aggregate amount of Cdn.$800,000,000;

WHEREAS Management recommends that the Corporation enter into: (i) a credit agreement to be dated on or about September 10, 2010 (as amended, supplemented or otherwise modified from time to time, the "**Credit Agreement**"), among, *inter alia*, the Corporation, as borrower, Wells Fargo Capital Finance Corporation Canada, as administrative agent, Wells Fargo Capital Finance Corporation Canada and GE Canada Finance Holding Company, as co-collateral agents (the "**Co-Collateral Agents**") and the lenders named therein, as lenders, and (ii) a guarantee and collateral agreement (the "**G&C Agreement**") between the Corporation, Corbeil Electrique Inc., as guarantor and the Co-Collateral Agents;

WHEREAS the Board of Directors have determined that the Credit Agreement and G&C Agreement and the transactions contemplated thereby are advisable, fair to and in the best interests of the Corporation; and

WHEREAS capitalized terms used herein but not otherwise defined shall have the meaning ascribed thereto in the Credit Agreement.

ON MOTION, duly made and seconded, it was unanimously resolved that:

1. the Corporation is authorized to enter into, execute, deliver and perform its obligations under the Credit Agreement, the G&C Agreement and any other document contemplated thereby or to be delivered in connection therewith (collectively, the "**Transaction Documents**");

2. the Corporation is authorized to mortgage, sell, assign, transfer, pledge, convey and grant a security interest in favour of the Co-Collateral Agents in the Corporation's tangible and intangible property as provided for in the G&C Agreement and the proceeds thereof, in each case to secure the payment and performance of (i) the Corporation's obligations incurred in connection with the financing transactions contemplated in the Transaction Documents and (ii) such other of the Corporation's obligations as are contemplated to be secured under the terms of the G&C Agreement and any other document contemplated thereby or to be delivered in connection therewith;

3. any one officer or director of the Corporation (each, an "**Authorized Representative**" and collectively, the "**Authorized Representatives**"), be and are hereby authorized to sign, execute and deliver on behalf of the Corporation the Transaction Documents, together with such changes and to do all such other acts and things as such Authorized Representative may consider necessary or appropriate;

4. the Corporation be, and hereby is, authorized to borrow, pay interest, repay and prepay principal and perform all its obligations under any Transaction Document;

5 a). in addition to the specific authorizations heretofore conferred upon the Authorized Representatives, each of the Authorized Representatives be, and they hereby are, acting singly, authorized and directed to take or cause to be taken all such further actions to execute and deliver or cause to be executed and delivered all such further certificates, agreements, instruments, notes and documents (including any and all financing statements and amendments required or determined to be advisable to be filed in the appropriate jurisdiction in order to perfect the security interest granted to the Co-Collateral Agents pursuant to the G&C Agreement) in the name and on behalf of the Corporation and to incur all such fees and expenses as in their judgment shall be necessary or advisable in order to carry out fully the intent and purposes of the foregoing resolutions;

5 b). For the purpose of granting security under the laws of the province of Quebec in connection with the Corporation's obligations under the Transaction Documents, Patrick

Naccache or any other lawyer practicing at Langlois Kronström Desjardins, LLP, Quebec counsel to the Corporation, each acting alone, is hereby authorized and empowered, in the name and on behalf of the Corporation, to (i) take any action and to sign, execute and deliver the following documents (collectively, the "**Quebec Security Documents**"): (a) deed of hypothec pursuant to which the Corporation grants a hypothec on the charged property referred to therein to and in favour of Wells Fargo Capital Finance Corporation Canada, as *fondé de pouvoir*, up to an amount of Cdn$ One Billion Dollars ($1,000,000,000), with interest thereon at the rate of 25% per annum (as well as any limitation of notarial liability to be executed in connection with the aforesaid deed of hypothec as required by Quebec notarial practice); (b) a bond issued by the Corporation under and secured by the said Deed of Hypothec in the principal amount of Cdn$ One Billion Dollars ($1,000,000,000), and (c) a bond pledge agreement pursuant to which the Corporation pledges and hypothecates the said bond as security to secure the payment and performance of (A) the Corporation's obligations incurred in connection with the financing transactions contemplated in the Transaction Documents, and (B) such other of the Corporation's obligations as are contemplated to be secured under the terms of the said bond pledge agreement, the whole as more fully set forth in the draft Quebec Security Documents which were submitted and approved by the board of directors of the Corporation, and (ii) sign, execute and deliver all such deeds, documents, instruments and writings and to perform and do all such acts and things as such authorized representative, may consider to be necessary, desirable or useful for the purpose of giving effect to the Quebec Security Documents.

6. all actions heretofore taken by any of the officers, representatives or agents of the Corporation, by or on behalf of the Corporation or any of its affiliates in connection with the subject matter of the foregoing resolutions and in furtherance of the transactions contemplated thereby be, and each of the same hereby is, ratified and approved; and

7. the Corporation be authorized to finalize and issue the draft press release relating to the Credit Facility, which was circulated to the Board of Directors in connection with this resolution.

APPROVAL OF EXTRAORDINARY CASH DIVIDEND AND PRESS RELEASE

10. **WHEREAS** the Corporation has cash, restricted cash and investments in excess of approximately $694.3 million as at August 31, 2010;

WHEREAS the Board of Directors has considered the interests of shareholders ("Shareholders") and other stakeholders of the Corporation, including creditors and debenture holders in determining the appropriate use of the cash on hand;

WHEREAS the Corporation has sufficient cash on hand;

WHEREAS the Board of Directors has determined that it would be in the best interests of the Corporation to declare an extraordinary cash dividend in the amount of approximately $376.7 million to be distributed to Shareholders on a pro-rata basis; and

WHEREAS the Board of Directors has received a certificate from management of the Corporation confirming that the declaration and payment of the extraordinary cash dividend is in compliance with section 42 of the *Canada Business Corporations Act*.

ON MOTION, duly made and seconded, it was unanimously resolved:

THAT an extraordinary cash dividend in the amount of CAD $3.50 per share on all Common Shares of the Company, or approximately CAD $376.7 million, be paid pro-rata, in Canadian currency, on the 24th day of September, 2010, to the Shareholders of record as at the close of business on the 22nd day of September, 2010.

THAT the Corporation be authorized to finalize and issue the draft press release relating to the declaration and payment of an extraordinary cash dividend, which was circulated to the Board in advance of the meeting.

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THAT any Director or Officer of the Corporation be authorized and directed for and on behalf of the Corporation to do all things necessary or desirable to give effect to this resolution.

APPROVAL OF LOAN TO SEARS HOLDINGS CORPORATION

11. **WHEREAS** after securing the senior secured credit facility of $800,000,000 and after paying the extraordinary cash dividend in the amount of approximately $376.7 million, the Corporation would have over $400 million in excess cash;

WHEREAS it is advantageous for the Corporation to make a loan of up to Cdn.$400 million to Sears Holdings Corporation at an interest rate of 190 bps for up to 60 days, callable on at least five business days notice (the "Loan");

WHEREAS the Loan is a related party transaction and has been approved by the Audit Committee; and

WHEREAS Management recommends that the Board of Directors approve the Loan from the Corporation to Sears Holdings Corporation as presented by Management.

ON MOTION, duly made and seconded, W. Crowley, D. Cheeks Merriwether, W. Harker and D. Rogers having abstained from voting, it was unanimously resolved:

THAT the Board of Directors approves the Loan from the Corporation to Sears Holdings Corporation as presented by Management; and

THAT the Corporation be authorized to enter into such loan documentation with Sears Holding Corporation as is required to give effect to this resolution.

OTHER BUSINESS

12. The following items were provided as a reference:

- Analyst Report
- SCI Top twenty Registered Shareholders list and CDS participant list
- Trading Volume

IN-CAMERA SESSION

13. All representatives of Management, including the President and Chief Executive Officer, left the meeting so that the Directors could meet privately. Following the Committee's *in-camera* session, all the non-independent directors were excused so that the independent directors could then meet privately.

There were no items discussed during the *in-camera* session that were not raised during the meeting.

There being no further business, the meeting was then terminated.

Chairman of the Meeting

Secretary of the Meeting

Date

TAB 12

SEARS CANADA STRATEGIC PLAN

2011 - 2014

BOARD REVIEW
SEPTEMBER 2011

Sears

INTRODUCTION – A COMPASS, NOT A ROADMAP

This strategic plan is our compass for the next three years. As you will see from our diagnostic, Sears Canada requires a full transformation to be able to compete and win in the increasingly competitive Canadian retail environment. This document is organized in three sections with the following objectives:

1. Where We are Today: sets the context of our current situation and the underlying issues facing Sears Canada
2. Building for Tomorrow: provides the formula for growth that will enable us to successfully transform Sears Canada over the next three years – our compass
3. Trading for Today: highlights our approach to deliver quick wins over the next six months

The majority of the document focuses on our strategy for transforming the organization.

This document is a 'compass' that will guide our thinking and actions over the next three years. It is a guide for the direction we know we need to go in. The financials in year three and beyond are a cumulative result of the actions we will take over the next three years, and although we cannot yet put specific financial targets next to specific initiatives, they are very relevant and achievable.

We have articulated some specific initiatives we will focus on in year one, but each year we will establish an operations plan, which will be our "roadmap" for the year. This roadmap will maintain the theme of our three year strategy, but will be adjusted to accommodate the "trading for today" challenges of the business.

Navigating the early years of our transformation will remain challenging due to tempered growth, required infrastructure investments, major internal changes, and a continuously changing competitive landscape. Additionally, three years is a long time in retail and we must have the appetite to stay the course throughout this transformation.

Our objective is for the Board to agree to this strategic plan – our "compass for the future". We will then communicate this earnestly with the business and begin dramatically transforming Sears Canada into one of the strongest and most relevant retailers in the lives of Canadians.

FIRST 90 DAYS – WHAT I'VE SEEN AND WHAT WE'VE DONE

Over my first 90 days as CEO, I have conducted a full diagnostic of the business, engaged with associates and vendors to better understand their needs and our opportunities and implemented quick wins that will start to pay off in the next six months. The findings of the diagnostic are captured in this document.

	First 30 Days	30-60 Days	60-90 Days
Diagnostic and Strategy Development	· Conducted initial diagnostic including category profitability and importance to customer, customer perceptions, competitive positioning, brand performance, format and channel review · Performed talent assessment · Conducted org diagnostic to assess decision-making efficiency · Evaluated formats: visited 15 stores across all regions of Canada · Held Executive strategy offsite	· Diagnosed businesses to explore and prioritize actions to support high potential businesses and fix or exit poor performers · Identified risks in declining new accounts (-10.7% in first half vs. last year and likely to continue); initiated new account action plan · Conducted Phase 1 catalogue review · Reviewed best and worst case transformations and lessons learned	· Evaluated DC's: visited Vaughan, Belleville, Montreal to review required network upgrades · Developed draft of business plan and growth initiatives · Completed senior org redesign · Set up transformation office and kicked-off transformation activities
Associate/ vendor engagement	· Called Top 25 vendor presidents in first week · Held colleague town halls, head office and selection of stores · Initiated 'top talent retention plan' · Communicated first 30 days memo	· Launched PAG's (Positive Action Groups) to get 'top talent' colleagues engaged in solutions · Held dealer town hall · Rebuilding broken strategic vendor relationships (LG, Chanel, Estée Lauder) · Held Major Appliances/Mattresses top sales associates conference with merchants	· Initiated weekly floor forums
Quick Wins	· Stopped distractions and non-core initiatives saving $22.5 MM for 2H - Leapfrog - Brand X (Lab) - Second half TV - Hiring freeze until costs and org sorted out · Started weekly retail meetings · Created Jay Manuel marketing campaign	· Prioritized and launched initiatives to deliver quick wins in second half – trajectory was to deliver $110 MM, now on path to deliver $175 MM · Started monthly business reviews with relevant KPIs · Initiated full line refresh pilot in Yorkdale · Launched Major Appliances and Mattresses attack plans · Laid off over 200 in Home Services · Announced new SVP, Retail Stores	· Hard Launch of Jay Manuel (micro-site, flyers, magazines, media events including participation in Toronto LG Fashion Week) · Introduce $1 M club for Major Appliances and similar program for Mattresses · Flyer rationalized and redesigned · Cut unproductive marketing spend and unprofitable synchrologues and saved $18 MM

EXECUTIVE SUMMARY – "THERE'S OPPORTUNITY IN THEM THAR HILLS"

Market conditions are tough. Customers do not want to spend, but they will; retailers just need to work harder and smarter. Good retailers are finding a way to win. Sears Canada is not a good retailer. Our business is broken: trading is awkward and inefficient, we lack product and merchandising focus and we are becoming irrelevant to customers while losing touch with our core. In short, we are a retailer without "Retail Rhythm".

But... our brand is still valued, many of our issues are self-induced and can be corrected. Customers want Sears Canada to be successful. Associates want to win, but it will take time and lots of patience and conviction from everyone. Customers did not walk away overnight, nor will they return right away. The message to all stakeholders is simple: "if you do not like change, you will like irrelevance even less." That is why this is a transformation.

We are working on a new vision statement to guide Sears Canada forward. However, we already know what we want to become: Canada's best home and apparel fashion retailer by delivering great value through inspirational products, brands and services, to the doorsteps of every Canadian family.

We have identified a formula to drive our growth: #1) Build the Core, #2) Become Customer-Driven, Marketing-Led, #3) Get Value Right, #4) Operate the Best Formats and #5) Organize the Right Talent and Create a Winning Attitude.

However, in order to grow, we need a strong base. We will also work on improving our foundation in order to enable a successful and sustainable transformation. A more efficient supply chain and effective systems are critical to becoming a great retailer; these are the two primary areas of our focus.

We will spread our initiatives over three phases in our three-year implementation plan: "Get the Basics", "Establish Retail Rhythm" and "Grow Through Innovation".

We are quick out of the gate, launching a "Top 10 in 2012" list of critical initiatives that we have already started working on. In addition, we have started to plant some seeds of innovation that will not only provide much needed future growth prospects, but in doing so, will help to start building the rhythm that makes good retailers great.

Although we are excited about our potential, we have to prove ourselves to all stakeholders. Most importantly, we have to build the confidence within the organization that we can in fact generate and execute ideas that work. This takes time and we need to set realistic expectations. There are no quick fixes. The repair required is beyond what a "can of paint and some new wallpaper" can fix. Our performance will get worse before it gets better. But it will get better, and once these changes are made and the organization is working "like a retailer works", we will deliver EBITDA numbers dramatically above our current performance.

This strategic plan will be the most significant in the Company's history. It is focused on digging out the "opportunities in them thar hills". "Digging", with all the connotations of hard, grueling, dirty, painful work, is exactly how we will get to those opportunities. It won't be pretty – it will be bumpy – but the opportunity to make Sears Canada a relevant retailer again is definitely there.

Deliver this strategic plan... and we will have done just that.

TABLE OF CONTENTS

1. Where We are Today

1.1.Operating Environment

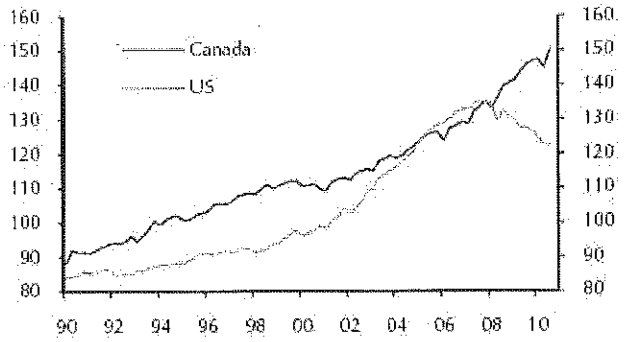
The economy is not likely to rebound in the near term and social-demographic trends present both risks and opportunities to many retailers

1.1.1. Economic Outlook – uncertainty before recovery

In the aftermath of the recession, demand for retail products and services in Canada is still weak. Although there have been some bright spots in the Canadian economy (strong housing starts and a relatively stable stock market) there are several factors that will continue to challenge Sears Canada's performance: economic uncertainty, low consumer confidence and cross-border shopping.

Economic uncertainty within the Canadian economy is a result of a number of factors including:

- High unemployment, which continued to hover around 7.2% in July 2011 vs. a pre-recession rate of 6% in 2007
- Rising consumer debt, with household debt as a percent of disposable income close to 150% (Figure 1)
- Rising expenses such as gas which is close to 2008 peak levels



(Note: Incorporates taxation laws with regard to debt to disposable income
Source: Gluskin Sheff and Capital Economics)

Figure 1: Household Debt as a Percentage of Disposable Income

These factors helped to drive consumer confidence down another 6.4% this quarter. This erosion will continue to limit consumers' willingness to spend on big ticket and discretionary items. This economic uncertainty is not forecasted to dramatically change in the near future.

Of the remaining consumer demand, an increasing portion is being spent by Canadian consumers who shop in the U.S. This is strongly correlated to the strength of the Canadian dollar, but is also exacerbated by ~20% higher prices in Canada[1] and lower sales taxes in the U.S. For example, Ontario sales tax is 13%, but sales tax in Buffalo, New York is only 8.75%. In addition, US online retailers are continuing to penetrate the Canadian market. The Canadian dollar is forecasted to continue to be strong relative to the US dollar for the foreseeable future, which means consumers will continue cross-border shopping.

1.1.2. Socio-Demographic Trends – older, healthier, ethnic and online

Although we face a challenging economic environment there are a number of socio-demographic trends that present both risks and potential opportunities for Sears Canada. These trends include:

- An aging population that will need more health and wellness products and services
- A greater focus on leading a healthy lifestyle amongst the general population
- A greater percentage of ethnic Canadians with unique needs
- An increasing number of online transactions

One of the key socio-demographic trends facing Canada is that the average age of the Canadian population will continue to increase. In 2010, 35% of the population was over 50 years of age; by 2020 this number is forecasted to rise to 39%. This will lead to opportunities related to "health" as an older population addresses health and lifestyle concerns. However, existing Sears Canada shoppers are already older, with an average age of 55[2]. This means our customer base is shrinking and will continue to shrink as they pass away (refer to Figure 2). Therefore, we need to become relevant to the 30-50 year old segment now to capture customers of the future and take advantage of this trend.

Our population is also becoming more health conscious, as demonstrated by the 20% annual growth of the North American fitness industry in the last decade[3]. Demand for related health and wellness products and services have also grown and will continue to grow.

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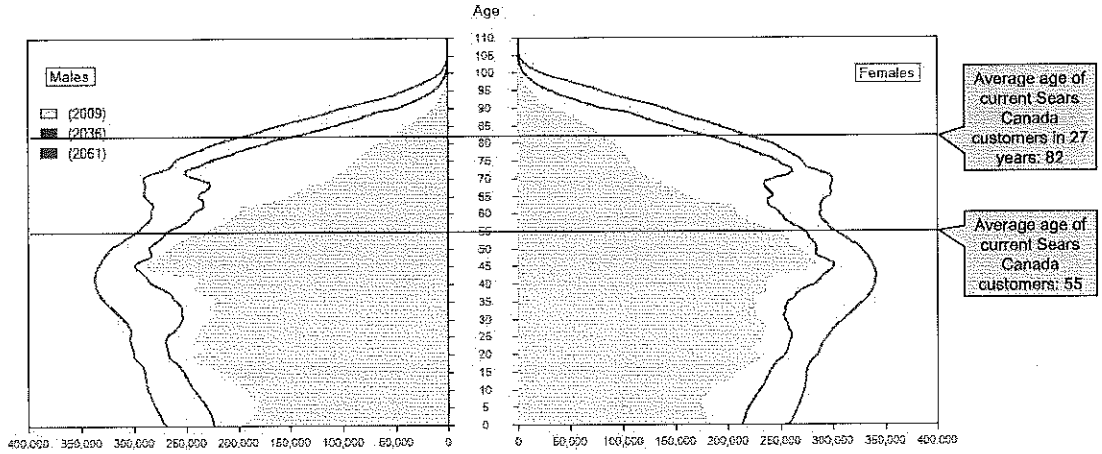
[1] BMO Capital Market study on a selection of goods, quoted in Globe and Mail (Apr 14, 2011)

[2] According to Sears Canada credit card data

[3] IHRSA 2010 statistics

Population Age Distribution (2009 – 2061)



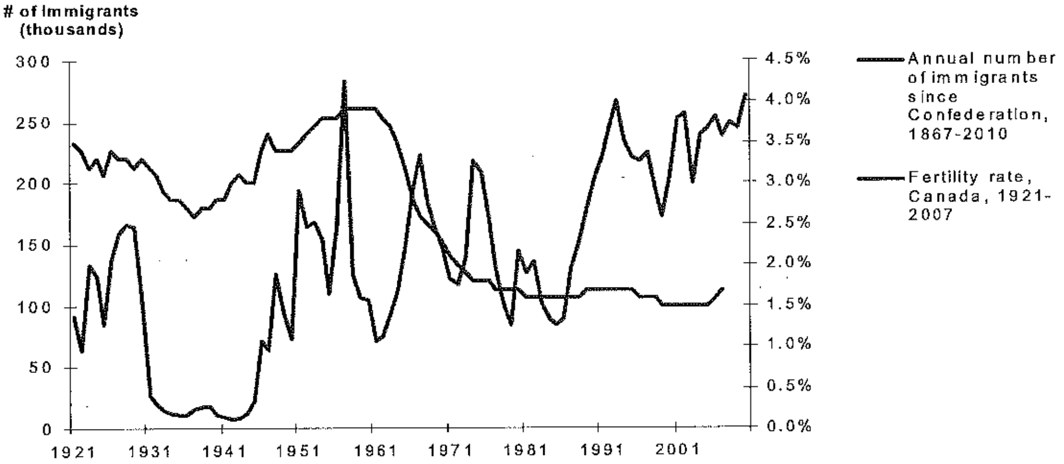
Average age of current Sears Canada customers in 27 years: 82

Average age of current Sears Canada customers: 55

Source: Statistics Canada, Demographic Division (2010)

Figure 2: Age Distribution of the Canadian population

Another trend that will impact Canadian consumer spending is the growth of the immigrant population. Immigration is presently the leading source of population growth and 70% of retail spending growth is forecasted to come from visible minority groups.



Source: HRDC Canada – Data from Statistics Canada (May 2011)

Figure 3: Immigration and Fertility Rates over Time

Finally, we cannot ignore the growth of the Canadian e-commerce market, which is projected to reach approximately $18.5 B in sales by the end of 2011 including $13 B in durable goods (excluding travel, event tickets, digital downloads/subscriptions). This market is projected to grow at a 13%-14% CAGR and reach over $30 B by 2015.

None of these trends are new; they have been the state of the nation for many years. However, Sears Canada has acted relatively slowly or not at all to position itself to capitalize on these trends.

1.2. Competitive Environment

Although we have strong market shares in many categories, we do not have equal share of customer's minds (share by default vs. by design). The competitive environment is intensifying as domestic retailers innovate and invest in stores and international retailers continue to enter a more attractive Canadian marketplace. The largest of these, Target, could impact our EBITDA by an estimated $95 MM by 2014.

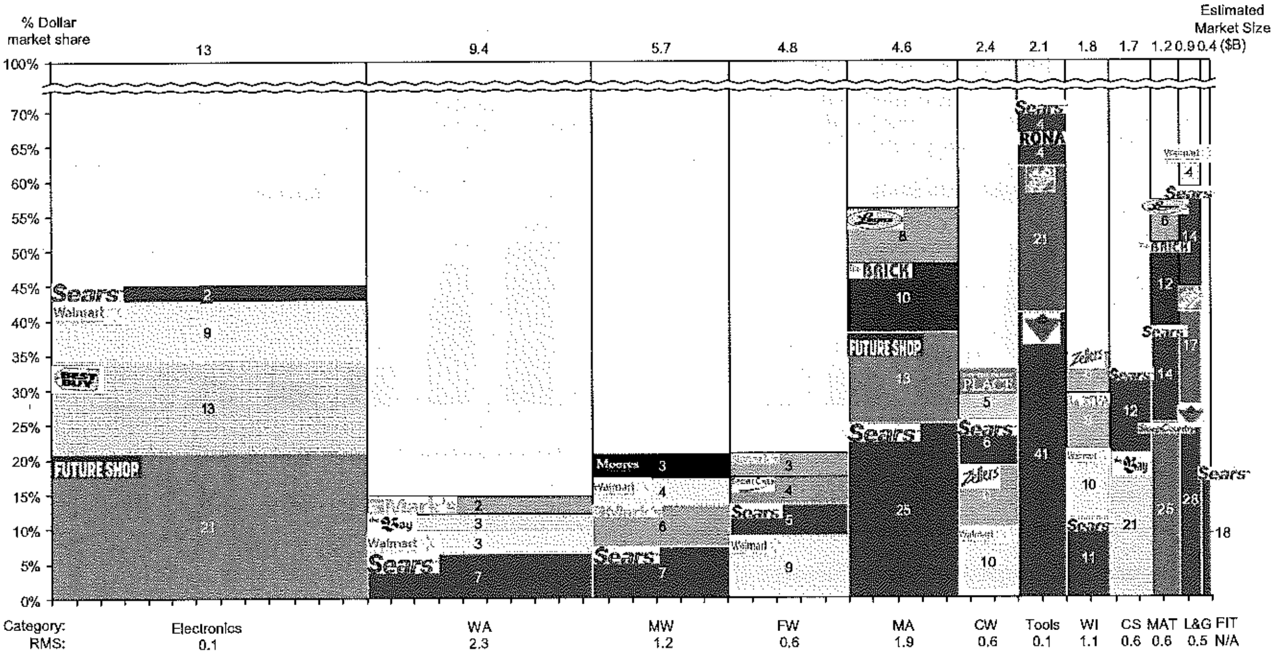
Sears Canada's major competitors have been innovating in many ways in order to remain profitable in this increasingly competitive market. We have highlighted three here:

- **Shoppers Drug Mart:** penetrated the cosmetics market by taking prestige products to a mass scale with effective marketing and promotions; invested in Beauty Boutiques, new stores and expansions with average annual capex of $615 MM (5.7% of sales) since 2008 leading to 184 new doors
- **The Bay:** began renovating its flagship stores in 2009, and in 2011 started a second wave of store renovations. In total the Bay is investing ~$500 MM to renovate 80 of its 91 stores (over $6 MM per store), providing a retail facelift to further improve the shopping experience; also enhanced product assortment by shedding poor performing brands and adding new and more relevant brands to attract new customer segments
- **Canadian Tire:** "20/20" concept store conversions – invested $1.3 B on 197 stores over 2003-08 (~$7 MM per store) to drive 20% higher sales by improving displays and assortment and increasing selling space by 20%; also creating new "Small" markets store formats of 14-18 K sq. ft. catering to smaller communities

Part of the success of Sears Canada's competitors can be explained by the fact that they have continuously invested in growing their footprint even through the recession. One thing a new store program drives, beyond absolute sales, is a focus on renewing a retailer's customer proposition. Innovating and testing new concepts that attract and meet customers' needs helps drive overall performance improvements across a retailer's portfolio.

Sears Canada's footprint growth has been moderate, primarily the result of converting small 5-8 K sq. ft. catalogue agents to dealer stores. At a category level, Sears Canada increased doors within Major Appliances (Home and Dealer stores), but has actually reduced the number of doors in Apparel as shown in the following figure. In contrast, specialists and category killers grew substantially or entered the market, creating a much more competitive environment for our categories.

Sears Canada's market shares have come down over the past five years, but we still have strong positions in Major Appliances, Women's Apparel, and Men's Wear.



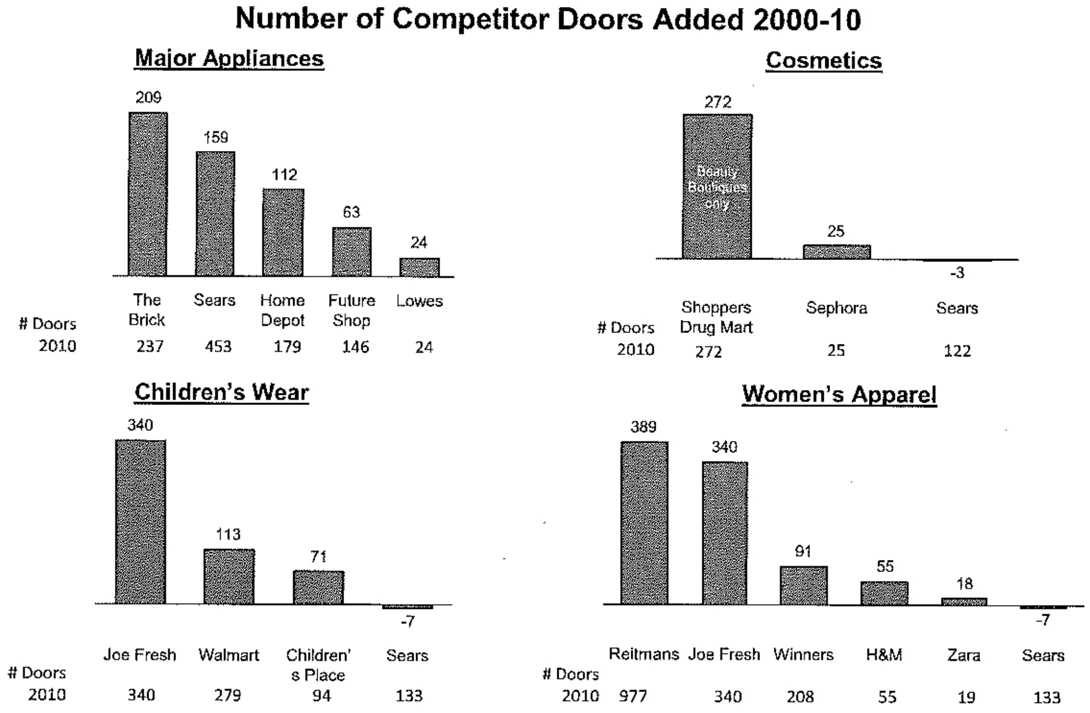
Legend: WA – Women's Apparel; MAT – Mattress (Sleep Shop); MW – Men's Wear; FW – Footwear; MA – Major Appliances; FIT- Fitness (Exercise & Fitness equipment only); CW – Children's Fashion only; WI – Women's Intimates; L&G – Lawn & Garden; CS – Cosmetics (Prestige only);

Note: Sears Gross Sales are based on IFRS for Jan '10-Dec '10 period; Home Décor data is not available

Sources: Electronics, WA, MW, FW, CW, WI data – NPD reports and SBI analysis; MAT data – Fusion Retail Analytics; MA data – Fusion Retail Analytics, Synovate & SBI analysis; FIT data – StatCan, DVP & SBI analysis; L&G data – Traqline and SBI analysis; Tools data – Synovate and SBI analysis; CS data – Euromonitor 2011, DVP & SBI analysis

Figure 4: Market Map by Category

Figure 4 shows our strong market share positions, however this does not reflect relatively low share of mind. Less than 30% of consumers "consider" Sears Canada for their purchases – this should be double given our market share positions.

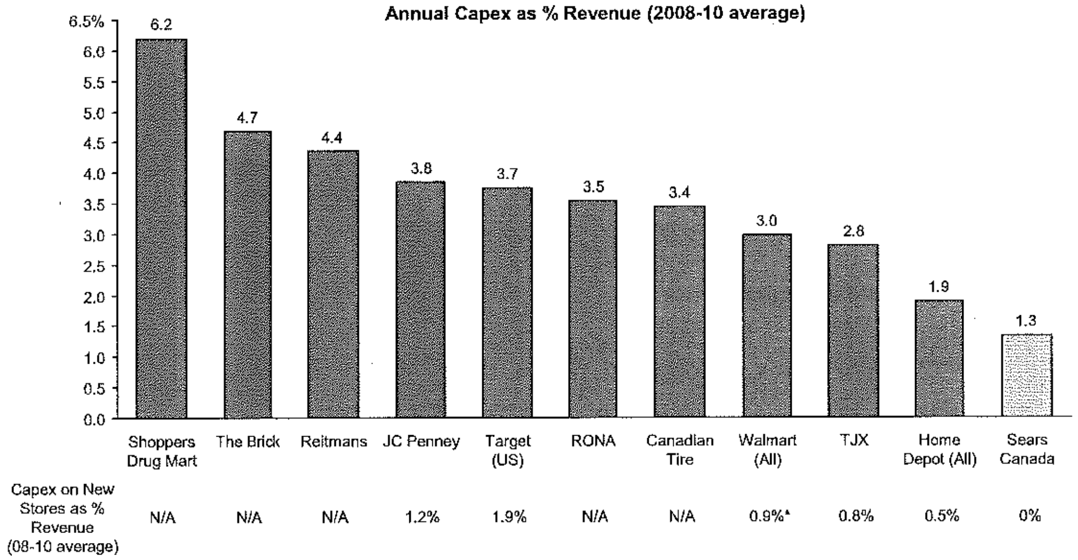


Note: Sephora and H&M started in 2004; Joe Fresh started in 2006; Lowes started in 2007

Figure 5: Competitor Door Growth (Stores by Category)

In terms of investment in new stores or refurbishments, Sears Canada's capex has actually been below depreciation or "replacement" levels both before and after the recession. On average, full-line stores have not been renovated for 14 years.

This level of capital spending is low as a percent of revenue relative to comparable retailers. This under-investment is now affecting performance as consumers and associates view our stores as tired and dated. However, to be clear, Sears Canada's issues cannot be fixed with new paint and wallpaper. As we will describe in more detail, our issues are more fundamental and we need to focus on getting the basics of retail right before we invest significantly in expanding or renovating our footprint. The primary issue is that we have not innovated, improved our customer value proposition, or remained relevant. Our stores may be tired, but the real issue is that our offer is even more tired.



Source: Bloomberg, annual reports, Sears Canada 10-year retrofit plan. * = Capex spend on new stores and store expansions in US.

Figure 6: Limited Investments for Growth: Sears Canada Capex vs. Competitors

IMPACT OF TARGET

In addition to threats from existing competitors in the Canadian retail market, we must also prepare for the entry of Target in 18 months. Target will be a significant threat for Sears Canada for several reasons:

- Target has taken over leases of up to 220 Zellers discount stores (owned by the Hudson Bay Company). They have announced that they will open ~150 stores by the end of 2013 and have already identified 106 specific locations
- Target's sales productivity averages $282/sq.ft. in the US, vs. Zellers at $175/sq.ft. Bringing the Zeller's stores up to $280/sq.ft. will result in ~$4 B in sales. Target's longer term plan is to achieve $6 B in sales by 2016 (vs. Zeller's current sales of $3 B)
- Target's customer profile is similar to Sears Canada's and their product mix overlaps on ~70% of Sears Canada's merchandise balance of sales (Figure 8), but unfortunately this is on our more profitable categories
- Of the identified locations, 39 Sears Canada full-line stores will have a Target within the same mall and an additional 49 Sears Canada stores will be within 10 kilometres of a Target store

> *" Target will succeed against 'higher tier' retailers such as Sears Canada, but cede some Zellers customers to others."*
>
> – Desjardins Securities, Morning Pulse, Feb 4, 2011

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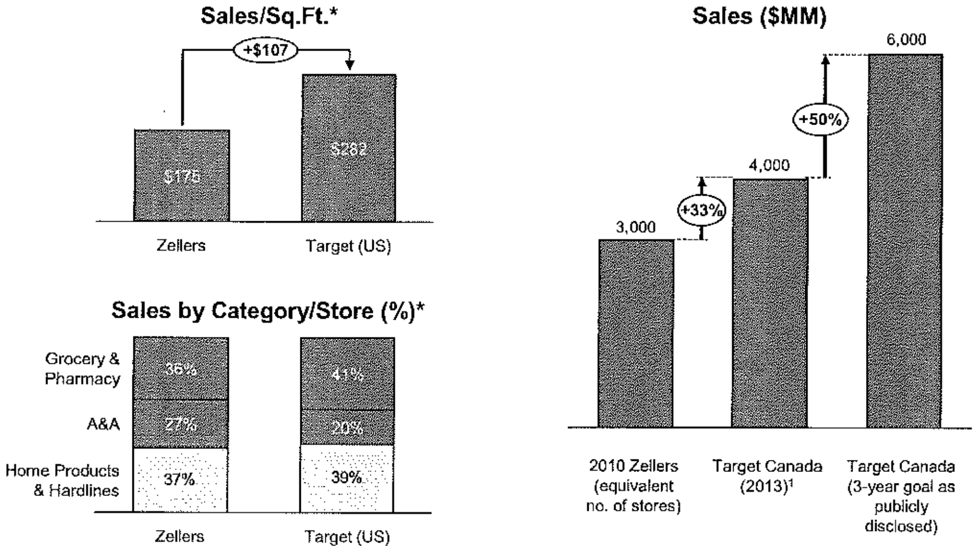
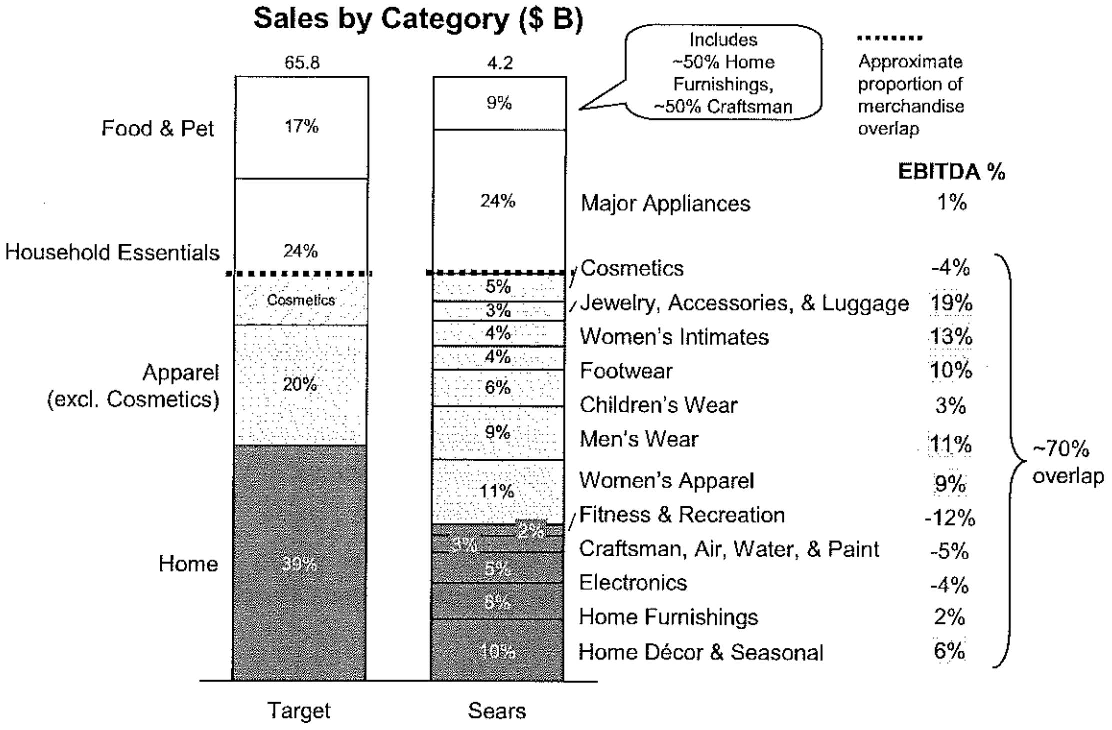


Note: 1. Sales projections based on Target's entry with 150 stores by the end of 2013 at $280 per sq foot
Source: *Desjardins – Morning Pulse February 4th 2011

Figure 7: Projections of Impact of Target on Existing Zellers Stores



Note: EBITDA figures excludes PRS, warranty, financial services, & miscellaneous income contributions
Source: *Kantar Retail (December 2010)

Figure 8: Target and Sears Canada Sales by Category and Sears Canada Profitability

The likely impact on Sears Canada's EBITDA in 2014 is a decline of ~$95 MM, with ~$55 MM coming from share loss to Target, and a further ~$40 MM from price erosion caused by Target's entry. Sales in 2014 will decline ~$165 MM , with $125 MM coming from share loss, and a further ~$40MM from price erosion.

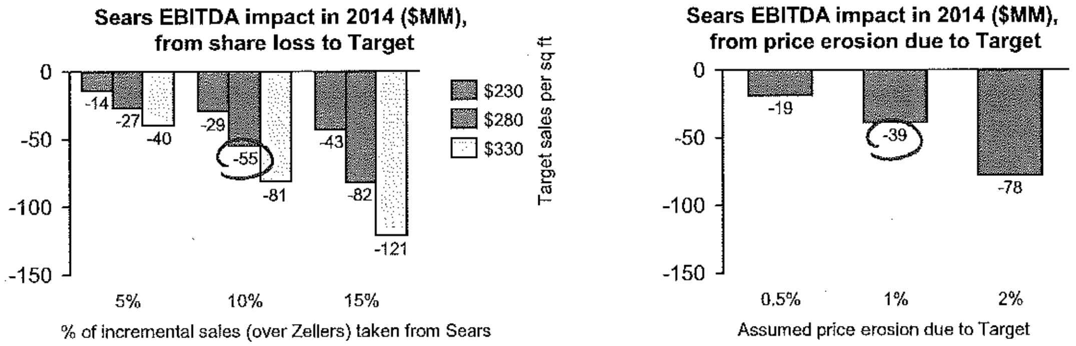


Figure 9: Impact of Target Entry on Sears Canada EBITDA (Scenarios)

These estimates are based on the following assumptions:

- **Share loss**:
  - Sales: in converted stores, we have assumed productivity will increase from $175/sq.ft. to $280/sq.ft (roughly Target's US levels of $282/sq.ft.). We have run sensitivities at $230 and $330 (Fig 9). Target's stores are significantly larger in the US (234 K sq.ft. vs. Zeller's 94 K sq.ft.), and although Target is in talks with landlords to increase their store sizes, no change has been assumed.
  - Store openings: Target has announced they will have ~150 stores open by 2013, but we have assumed 50 in March 2013, 50 in Aug 2013, and 50 in March 2014
  - Share loss to Target: analysts (CIBC World Markets, June 23, 2011) predict 20% of Target's incremental Apparel sales and 25% of incremental Home sales will come from Sears Canada. Our base assumption is that 10% of incremental Target revenue will come from Sears Canada, with sensitivities run at 5% and 15%
- **Price erosion**:
  - The greatest unknown risk is what other retailers like Walmart, Canadian Tire and Loblaw might do. They are all at risk of losing sales and will likely react by dropping prices to maintain volumes. We have assumed this will create a 1% drop in average prices (and margin).

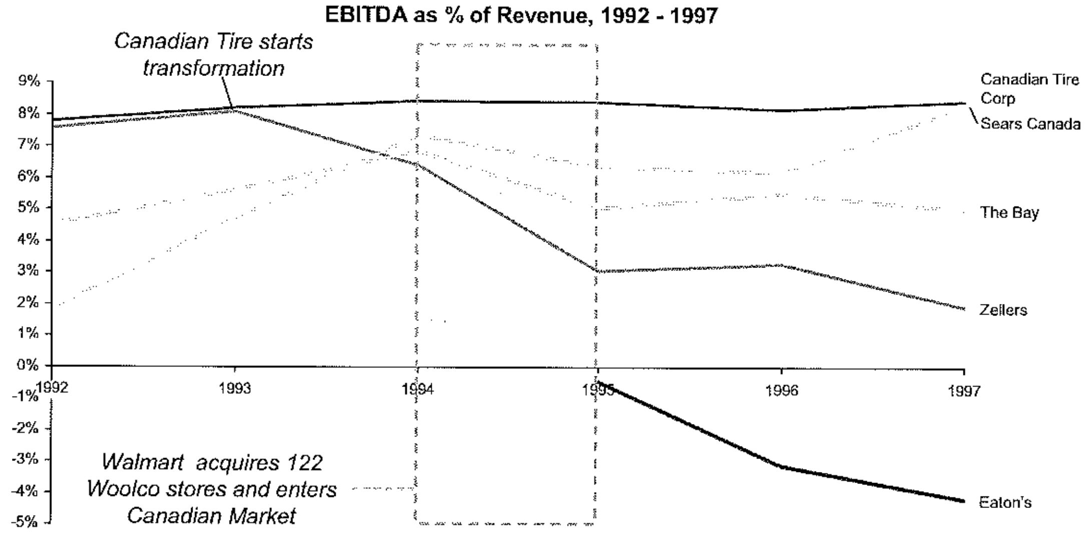
WALMART ENTRY IN 1994/95

The Canadian retail market faced a similar scenario to Target's entry in 1994, when Walmart purchased Woolco and entered the market.

- Walmart spent ~$200 MM converting 122 Woolco locations to Walmart stores (vs. a planned ~$2.3 B for ~150 Target locations)

- After entering, Walmart was able to increase sales per square foot by ~$100, doubling the productivity of Woolco (similar to Target increasing Zeller's productivity by ~$107)
- Target appears to have a better starting point – KubasPrimedia research reveals stronger interest in Canadians shopping at Target than was the case for Walmart in 1994 (61% "very or somewhat interested" in Target vs. 50% for Walmart)

Looking at financials, Walmart's entry impacted the profitability of other major Canadian retailers. After Walmart's entry, EBITDA margin declined 180 bps on average from 1994 to 1996 for the retailers shown. Given the similarities between Walmart's entry and Target's planned entry, Sears Canada may face a similar margin impact.



Source: Company Annual Reports

Figure 10: Impact of Walmart Entry on Canadian Retailers

OTHER ENTRANTS

A number of strong, US competitors are considering entry or further expansion into the Canadian market. With five stores already established in the GTA, Marshalls plans to open up to 100 stores across the country over the next two years. Discount retailer Kohl's is also eyeing the Canadian market, and has established numerous locations along the Canadian border. By the end of January 2012, Express plans to have seven Canadian stores in operation. Finally, iconic department stores such as JC Penney, Macy's, Nordstrom, and Saks Fifth Avenue (Off the Fifth) are also considering opportunities.

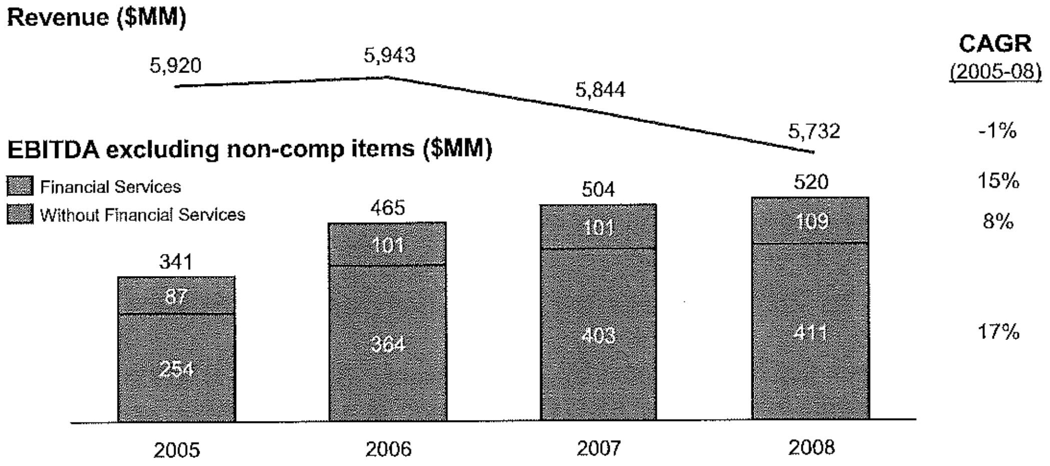
The competitive environment in Canada has intensified over the past three years and will continue to intensify as domestic competitors continue to improve their business and foreign competitors enter the market. The weakest retailers will suffer the most. With Zellers out of the market, Sears Canada is now one of the weakest retailers in Canada.

1.3. Where We Are and Where We Thought We Would Be

Sears Canada performed well prior to the recession. However, once the recession settled in, we were hit harder than our competitors.
This demonstrates that there were, and still are, fundamental flaws in our business: our ability to fight for sales was exposed, the vulnerability of our customer proposition confirmed, and the weight of our fixed costs crippling

1.3.1. 2005 to 2008 upward trajectory

Prior to the recession, Sears Canada had a strong track record. EBITDA grew at a 15% CAGR from 2005 to 2008 (excluding non-comparable items) despite 1% CAGR sales declines (Figure 11). The balance sheet also improved via a $200 MM reduction in debt and a $45 MM increase in cash while inventory increased $180 MM.



	2005	2006	2007	2008
Comparable EBITDA % of Revenue	5.7%	7.8%	8.6%	9.1%
Expenses ($MM)	2,176	2,120	2,086	2,064
Expenses % of Revenue	36.8%	35.7%	35.7%	36.0%
Cash ($MM)	775	747	872	820
Debt ($MM)	533	396	356	332
Inventory ($MM)	788	805	880	968
Merch Margin % of Sales	39.7%	40.3%	41.3%	41.6%
Gross Margin % of Sales	36.6%	36.5%	35.2%	33.9%

Note: Excludes one-time gains from asset sales, e.g. $677M in sale of credit and financial services operations in 2005 and $84M from sale of real estate including Jarvis HQ in 2007

Figure 11: 2005-2008 Historical Financials

Over this period Merchandise Margin also grew from 41% to 42.6% from 2005 to 2008, which is the equivalent to $75 MM EBITDA on 2008 sales. The various tactics that were used to achieve this margin growth are summarized below:

- Reduction in inventory risk through return-to-vendor and consignment arrangements (inventory shrinkage improved 15 bps, with a $8.5 MM benefit to EBITDA in 2008)
- Improved margin in the direct channel through internet and catalogue impulse promotions increasing EBITDA from $43 MM in 2005 to $74 MM in 2008. Internet sales also increased by 18.3% in 2008 compared to the previous year
- Implementation of a new and more limited returns policy in order to be more competitive with other retailers, e.g. introduction of a restocking fee for returning opened items

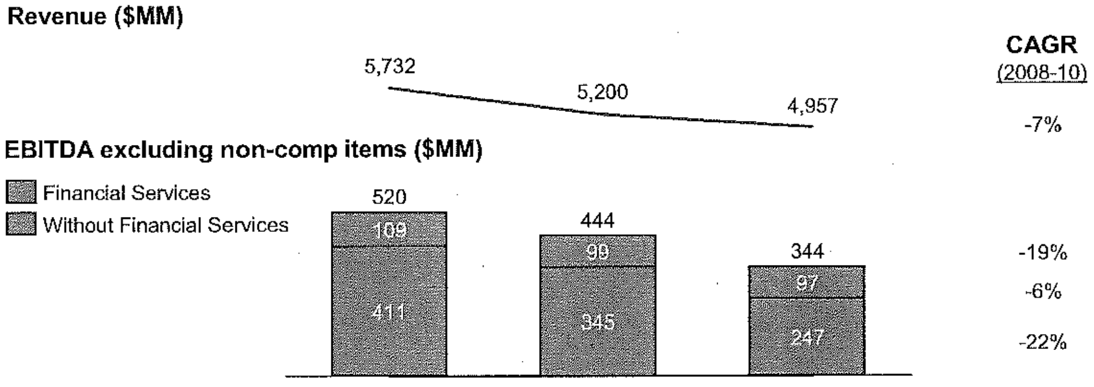
Although they are excluded from the EBITDA data shown above, a number of non-repeatable levers were used during this time period to improve Net Profit and our cash position, such as the sale of the Credit and Financial Services operations in 2005 ($677 MM) and the sale of Real Estate including the old Jarvis headquarters in 2007 ($84 MM).

Furthermore, the Canadian economy was very strong during the pre-recession period. In particular, employment and GDP steadily increased from 2005 until the onset of the recession.

1.3.2. 2008 to 2010 recession hit us harder than others

Sears Canada was heavily impacted by the recession. Sales fell at a 7% CAGR from 2008 to 2010, while comparable EBITDA declined at a 19% CAGR as reductions in fixed costs could not keep pace with sales declines (Figure 12).

The original 2010 EBITDA target for Sears Canada was $490 MM, but a concrete operational plan to reach this number was never developed. We also ignored fundamental flaws in the business which has led to ongoing declines. Companies need to be well positioned to win in challenging times and we did not have a plan that would address our challenges in order to reach our goals, nor the foundation or efficiency to adapt to a changing market.



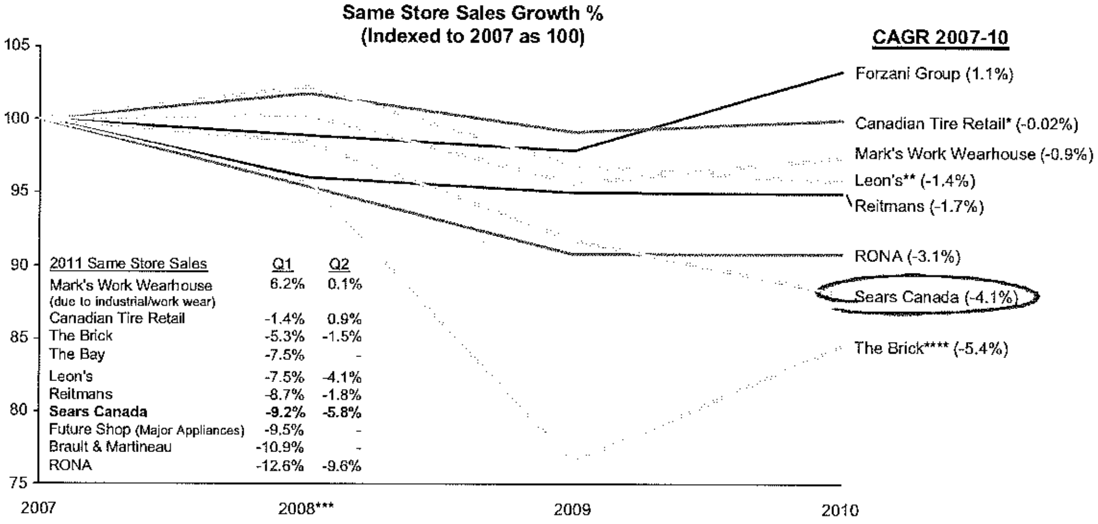
	2008	2009	2010
Comparable EBITDA % of Revenue	9.1%	8.5%	6.9%
Expenses ($MM)	2,064	1,856	1,909
Expenses % of Revenue	36.0%	35.7%	38.5%
Cash ($MM)	820	1,382	426
Debt ($MM)	332	37	131
Inventory ($MM)	968	852	953
Merch Margin % of Sales	41.6%	41.4%	40.9%
Gross Margin % of Sales	33.9%	33.2%	31.7%

Note: *Non-comp items include one-time gains from asset sales
Source: Internal flash packages with GAAP, Financial Planning & Analysis

Figure 12: Sears Canada Revenue and EBITDA (2008-2010)

The poor economy impacted Sears Canada more than our competitors. Figure 13 shows that the indexed decline in same store sales of 4.1% per year since 2007 experienced by Sears Canada is one of the sharpest declines among comparable retailers. Furthermore, in 2010 and the first half of 2011, same store sales are continuing to trend downwards while other competitors have started to see signs of recovery.

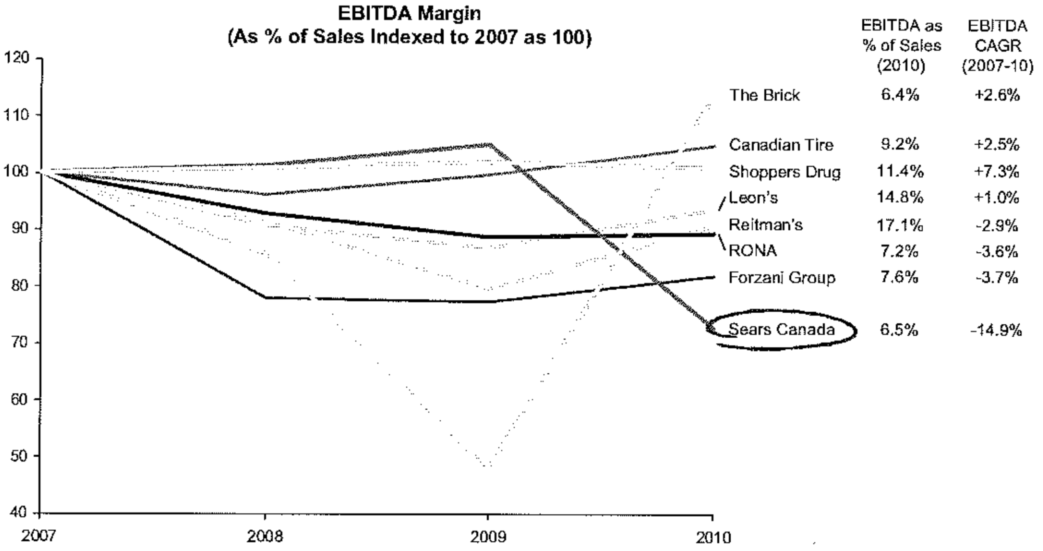
Figure 14 also illustrates the change in profitability of a similar sample of comparable retailers. Sears Canada performed relatively well until 2009, but performance dropped precipitously in 2010 as falling sales and rising costs caused overall EBITDA to decline at a 15% CAGR. It is also important to note that Sears Canada has the lowest EBITDA, as a percentage of sales, of these comparable retailers.



2011 Same Store Sales	Q1	Q2
Mark's Work Wearhouse (due to industrial/work wear)	6.2%	0.1%
Canadian Tire Retail	-1.4%	0.9%
The Brick	-5.3%	-1.5%
The Bay	-7.5%	-
Leon's	-7.5%	-4.1%
Reitmans	-8.7%	-1.8%
Sears Canada	**-9.2%**	**-5.8%**
Future Shop (Major Appliances)	-9.5%	-
Brault & Martineau	-10.9%	-
RONA	-12.6%	-9.6%

Note: *CTR & PartSource stores (excludes labour portion of auto service sales, Mark's Work Wearhouse, Petroleum, and Financial Services); **Reported as same store corporate sales; ***2008 same store sales growth figure for CTR and Mark's Work Wearhouse based on 52-week period (to be comparable with 2009, 2010); ****Reported as corporate same store sales growth
Source: Annual and Q1 reports, Sears data - merchandise net sales

Figure 13: Sales Performance vs. Competitors



	EBITDA as % of Sales (2010)	EBITDA CAGR (2007-10)
The Brick	6.4%	+2.6%
Canadian Tire	9.2%	+2.5%
Shoppers Drug	11.4%	+7.3%
Leon's	14.8%	+1.0%
Reitman's	17.1%	-2.9%
RONA	7.2%	-3.6%
Forzani Group	7.6%	-3.7%
Sears Canada	6.5%	-14.9%

Source: Annual reports; Sears financials (GAAP)

Figure 14: Profit Performance vs. Competitors

1.4. *Step 1: Admit We Have a Problem*

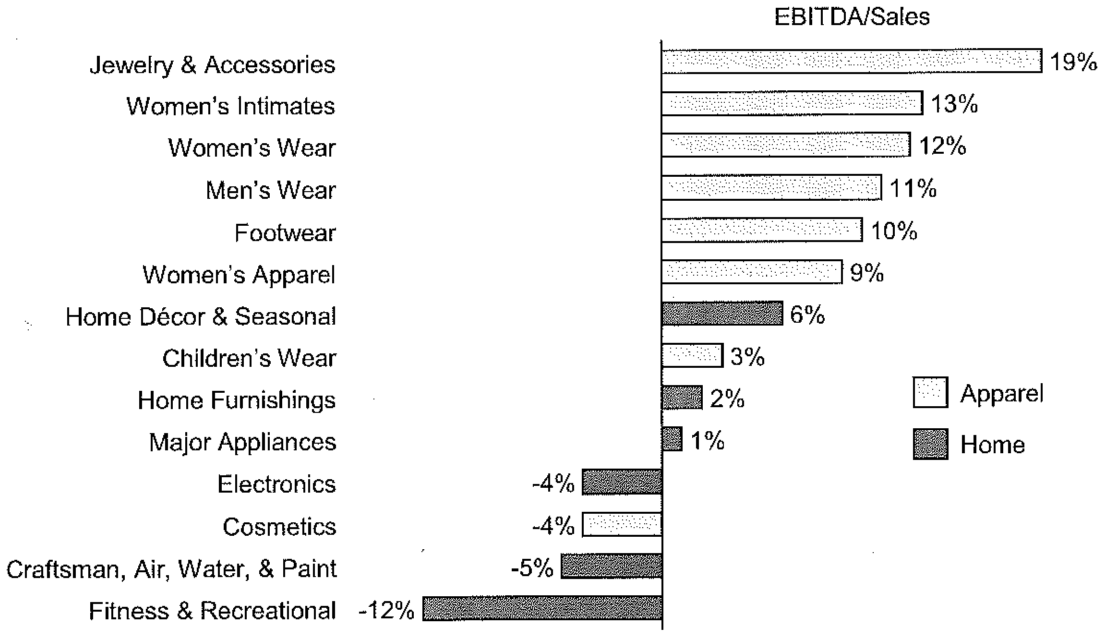
> We lack many of the fundamental processes, structures and culture of a strong retailer. In short, we lack 'retail rhythm'. However, most of our challenges are self-induced, meaning we are in a position to fix them.

1.4.1. Where We Make (and Lose) Money

We are taking a hard look at where we make and lose money in order to better support our profitable businesses and fix or exit our unprofitable ones. Sears Canada's core retail business accounted for only 57% of EBITDA in 2010. In the first half of 2011 the proportion of EBITDA from retail has continued to decline implying an even greater need to focus on improving the performance of our core retail business.

Our diagnostic has also revealed that businesses we believed to be profitable such as Catalogue and Major Appliances are actually less profitable than they appear to be when we remove revenues from Financial Services, layer in the costs (and EBITDA losses) of outlet stores, and add appropriate costs from other parts of the business.

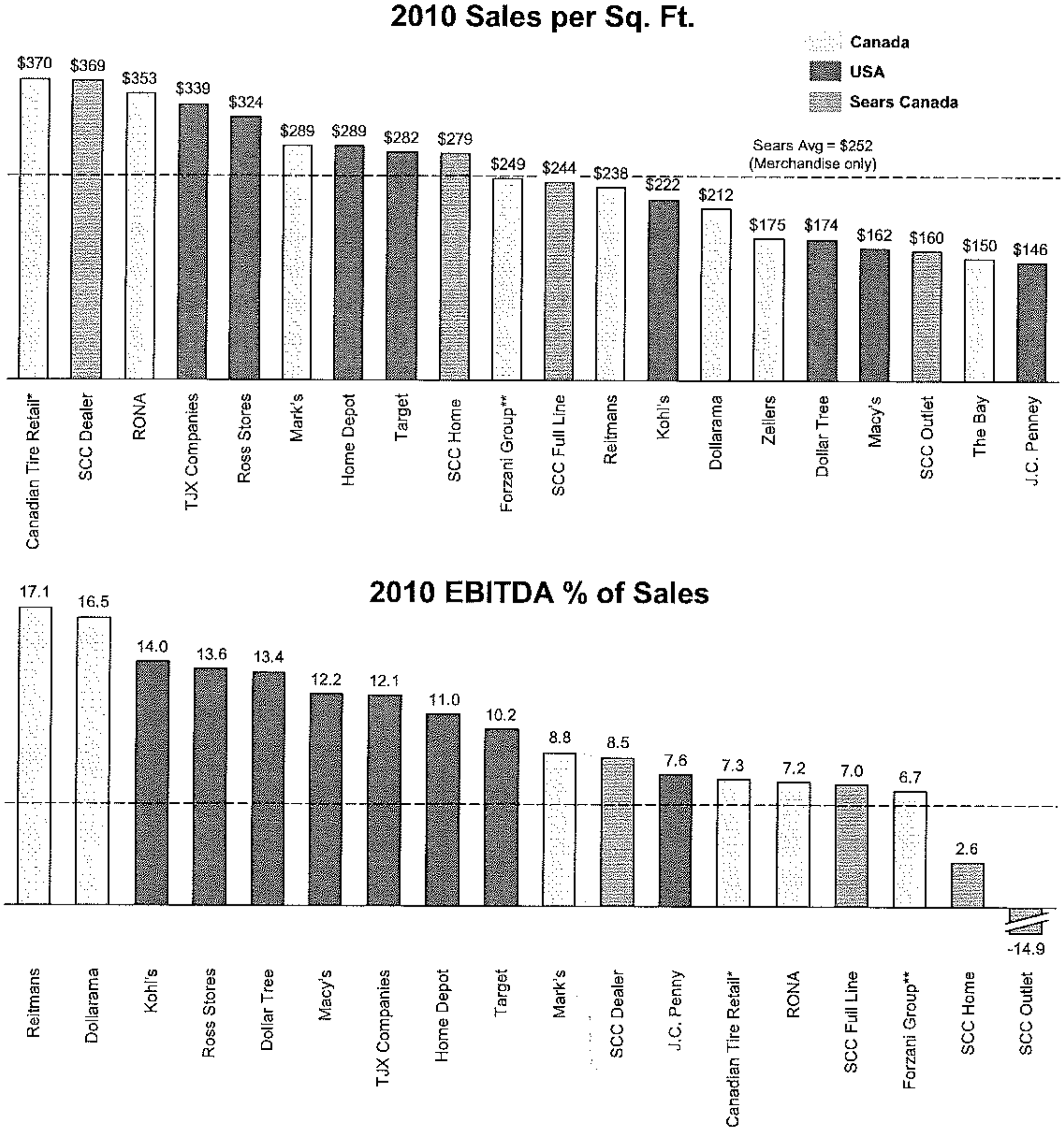
A closer look at profitability shows that four categories lost money in 2010 (total of $39 MM EBITDA) and EBITDA comes disproportionately from the Apparel business.



EBITDA excludes: Financial Services, product repair services, warranty, and other miscellaneous income, but includes allocation for SG&A
Source: Divisional P&L Flash Pcks with GAAP; Finance

Figure 15: Category Profitability (EBITDA as Percent of Sales)

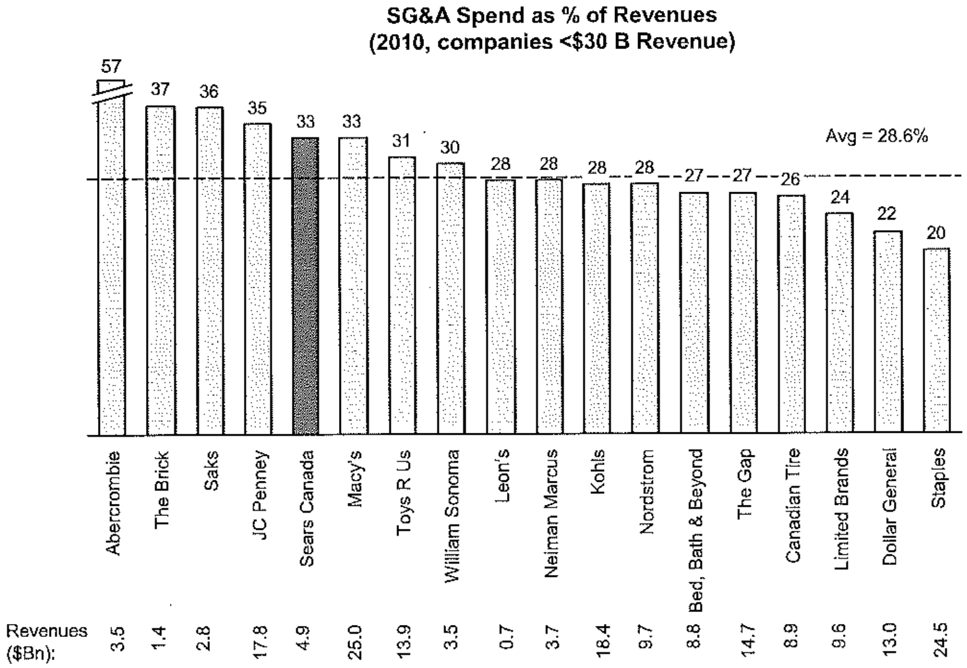
It is also important to analyze our financial performance relative to that of our competitors. Sears Canada's sales per sq. ft. are actually in line with competitors, but EBITDA is well below average implying opportunity for improvement.



Note: *Excludes Mark's and Petroleum; **Reported as "Retail System Sales" (corporate and franchise locations); Sears Canada data by format based on current allocations
Source: Finance, Annual Reports, Bloomberg, Capital IQ, Cadillac Fairview

Figure 16: Sales and EBITDA for Sears Canada and Competitors

Furthermore, Sears Canada's SG&A costs as a percent of revenues are at the high end of comparable retailers (those with less than $30 B in revenues).

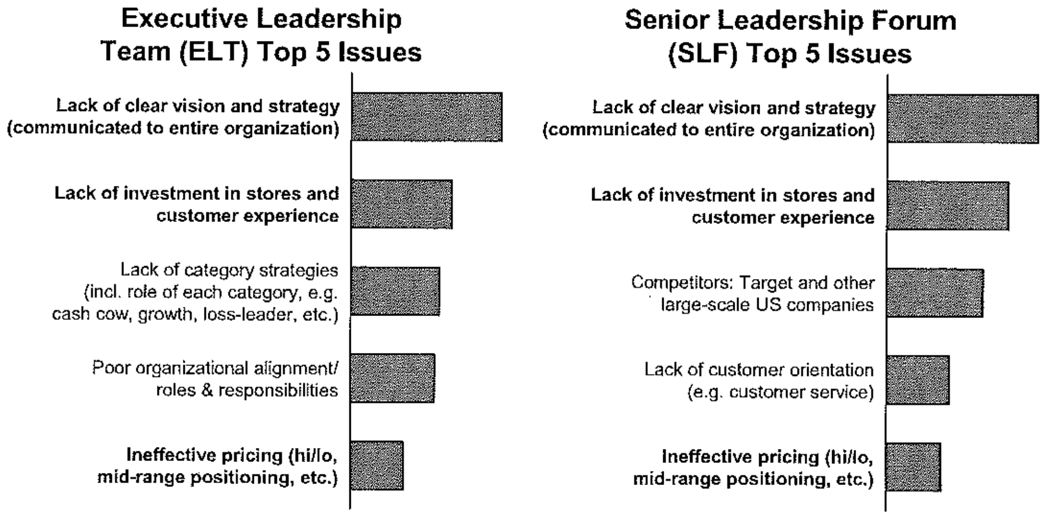


Source: BCG (Company financials – Revenues in local currency)

Figure 17: SG&A Comparison and Benchmarks

1.4.2. Self-Induced Challenges

In addition to developing better strategies for our most profitable and least profitable businesses, there is agreement among the Executive Leadership Team (ELT) and Senior Leadership Forum (SLF) that Sears Canada faces a number of significant challenges, and that these challenges are primarily internal.



Note: Force-ranked responses out of list of 27 options developed by ELT; SLF comprised of Associate Vice President and above (144)
Source: ELT strategic situation survey, July 2011, SLF strategy & organizational diagnostic survey, July 2011 (n = 124)

Figure 18: ELT and SLF Perspectives – Top Issues

The ELT and SLF surveys which were conducted during the first week of our diagnostic were supplemented with store and distribution centre (DC) visits, customer interviews, process diagnostics and financial analysis. Based on our diagnostic, the ten most critical challenges are:

1. Unclear Category Roles
2. Inconsistent Brand Management
3. Insufficient Customer Insights
4. Ineffective Promotions
5. No Credit for Value
6. The Catalogue Hangover
7. An Identity Crisis – Who are We?
8. Unclear Accountability
9. Bad Processes Driving Bad Outcomes
10. Poor Business Reporting

CHALLENGE #1: Unclear Category Roles

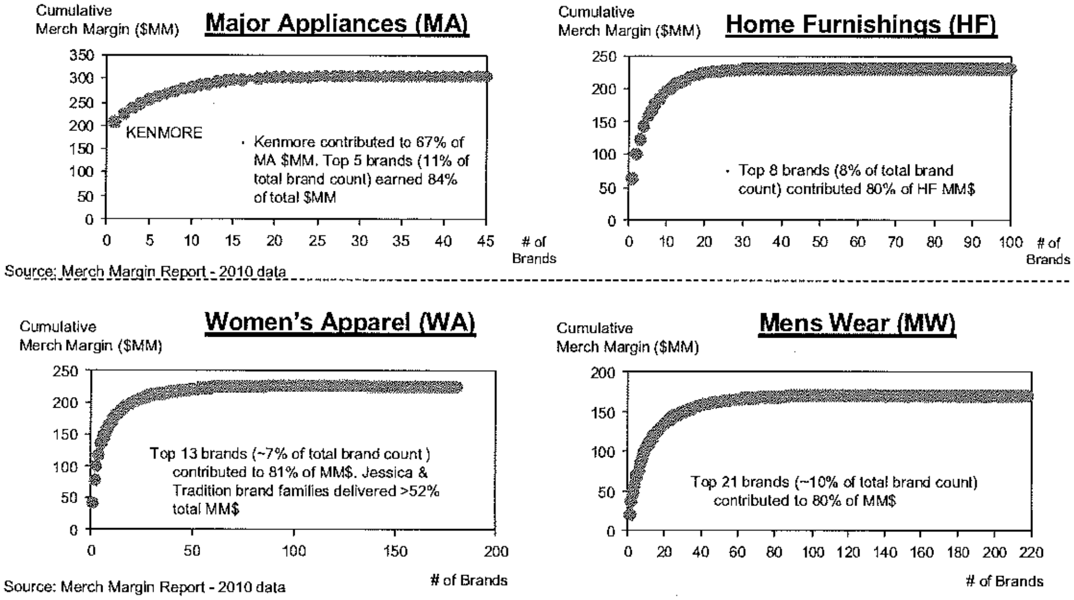
Under the previous administration, categories were thought of as equal – all should compete for resources (i.e. flyer space and floor space) without regard for their strategic strengths and weaknesses. However, some categories obviously have stronger more defendable market positions, generate greater profits and provide a compelling reason to shop at Sears Canada, while other categories are struggling to compete, breakeven or attract customers to the stores. We need to be willing to adapt and exit or right-size unprofitable non-traffic driving categories and invest in growing strong categories. Otherwise, we will never be able to optimize our resources, generate greater profits and provide customers with the products they really want from Sears Canada.

CHALLENGE #2: Inconsistent Brand Management

Brand management is lacking at Sears Canada at multiple levels:

- **Master Brand**: there is no Master Brand defining clearly what Sears Canada stands for to the Canadian consumer along with consistent brand standards
- **Brand Architecture (and Proliferation)**: Sears Canada has over 1,700 National Brands (NB) and 90 Private Label (PL) brand families. As illustrated in Figure 19, most categories have a long tail of brands that contribute relatively little in terms of margin, yet take up resources across the organization. In some categories, we have clusters of brands operating with the same product qualities within the same price points, rather than offering the customer a range of good, better and best brands and products. This limits our ability to offer customers the value they are looking for.
- **Private Label Brand Building**: Only seven of our 90 PL brands generated over $50 MM of sales in 2010 (Kenmore, Whole Home, Craftsman, Jessica, Sears-O-Pedic, Tradition and Nevada) while 50 generated less than $1 MM. If we divested these smaller brands and focused time and resources on our strong and high-potential PL brands, we could potentially develop a set of $100 MM power brands able to compete with National Brands in driving traffic, but with PL margins. With so many brands, but no clear brand managers, we get inconsistent quality and positioning, which leads to consumer confusion. We cannot support 90 private label brands. We need to back the winners and properly manage them with brand managers.
- **Private Label Margins and Vendor Management**: Within Apparel, our PL brands trade at an average of 1,339 bps above NB. But within Home, our PL brands only trade 247 bps above NB which hardly covers the added risk and increased cost of a PL brand. In some Home categories, PL merchandise margins are actually lower then NB, while in other Home categories they are 800 bps higher than NB. PL brands sourced directly from overseas vendors trade an average 900 bps higher than brands sourced in North America across Apparel and Home categories. We have the opportunity to set brand guidelines and extract greater value through our PL vendors.

- **Dormant Brands**: we also have the rights to. but very low sales volume with some potentially very strong brand names (Eatons, Vogue and Vanity Fair). These brands could easily resonate with consumers for relatively little cost if we choose to invest in them in the future.



- Kenmore contributed to 67% of MA $MM. Top 5 brands (11% of total brand count) earned 84% of total $MM

- Top 8 brands (8% of total brand count) contributed 80% of HF MM$

Source: Merch Margin Report - 2010 data

Top 13 brands (~7% of total brand count) contributed to 81% of MM$. Jessica & Tradition brand families delivered >52% total MM$

Top 21 brands (~10% of total brand count) contributed to 80% of MM$

Source: Merch Margin Report - 2010 data

Figure 19: Cumulative Margin Contribution by Brand

CHALLENGE #3: Insufficient Customer Insights

Although three different teams within Sears Canada are currently responsible for gathering customer insights, there is a general lack of understanding of our customer segments and it appears that investments are often made without deep customer insights.

> *"I feel that we don't know who we are and **what customer segment we are focusing on.**"*
>
> *– SLF Member, July 2011*

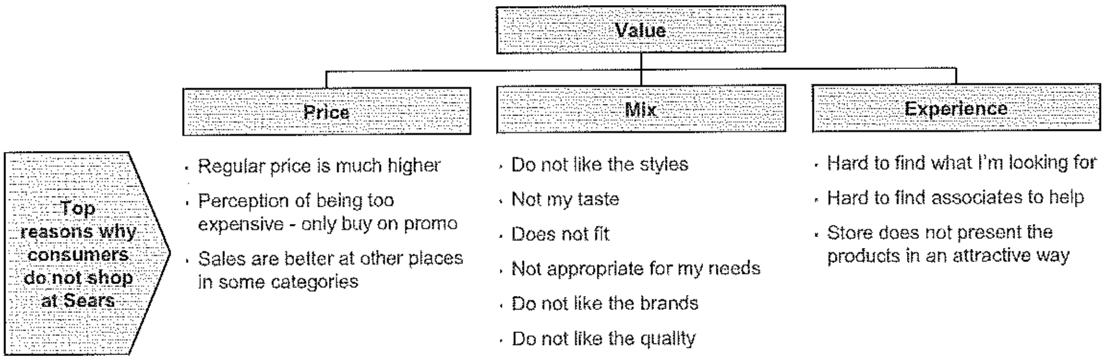
Furthermore, the quality of our customer service is poor and inconsistent across the many touch-points we have at Sears Canada, and there are currently a very limited set of reports and metrics that allow us to track our performance in this aspect.

CHALLENGE #4: Ineffective Promotions

We spent close to $270 MM on Marketing in 2010 ($90 MM on the flyer, $107 MM on catalogue, $54 MM on media/agency costs and $16 MM on internet) which is more than any retailer in Canada. We also rely on promotional discounts and clearance sales to move merchandise with 41% at promotional prices and 19% at clearance prices in the first half of 2011. Unfortunately, this extreme high-low pricing strategy is proving to be less effective at driving traffic and sales than in the past years. All together, we spend approximately $1 B (gross margin impact of promotions plus marketing expenses) to drive customer behaviour yet the investment does not match the results – transactions and traffic have continued to decline. This implies the need for a much more effective use of our relatively high marketing budget to drive traffic.

CHALLENGE #5: No Credit for Value

Sears Canada offers value to customers in many ways that customers do not recognize or give us credit for. Value is made of many elements, but if we simplify it down to the three levers of price, mix and experience, customers tell us that we do not satisfy their expectations on any of the levers (Figure 20).



Source: Customer Strategy, Decline in Shopping Studies, May & June, 2011

Figure 20: Customer Feedback on Sears Canada

An example that illustrates that we do not get credit for the value we deliver involves today's heavy reliance on high-low promotions (Figure 21). Canadian law dictates that products can only be "on sale" in a store for a certain amount of time. Therefore, in order to ensure that we can always offer products on sale, we buy more items than we need at similar price points so that we can offer some of them on sale, while others stay at regular price in order to remain compliant with the law. This creates a proliferation of SKUs which contributes to our inventory issues.

From a ***customer-facing aspect***, these extra SKUs create clutter in stores, which leads to a negative self-reinforcing cycle that leads to a poor shopping experience, which leads to decreased traffic, which leads to a desire to provide more aggressive promotions to keep traffic, which adds even more SKUs. Despite our efforts we are not providing value to our customers through this promotional tool.

From a ***vendor/internal aspect***, the increased number and complexity of our SKU base reduces our ability to negotiate volume discounts with vendors, which then limits our ability to price effectively and competitively, which reduces our sell-through, which increases our inventory levels, which leads to the need to sell more products at promotion or clearance prices.

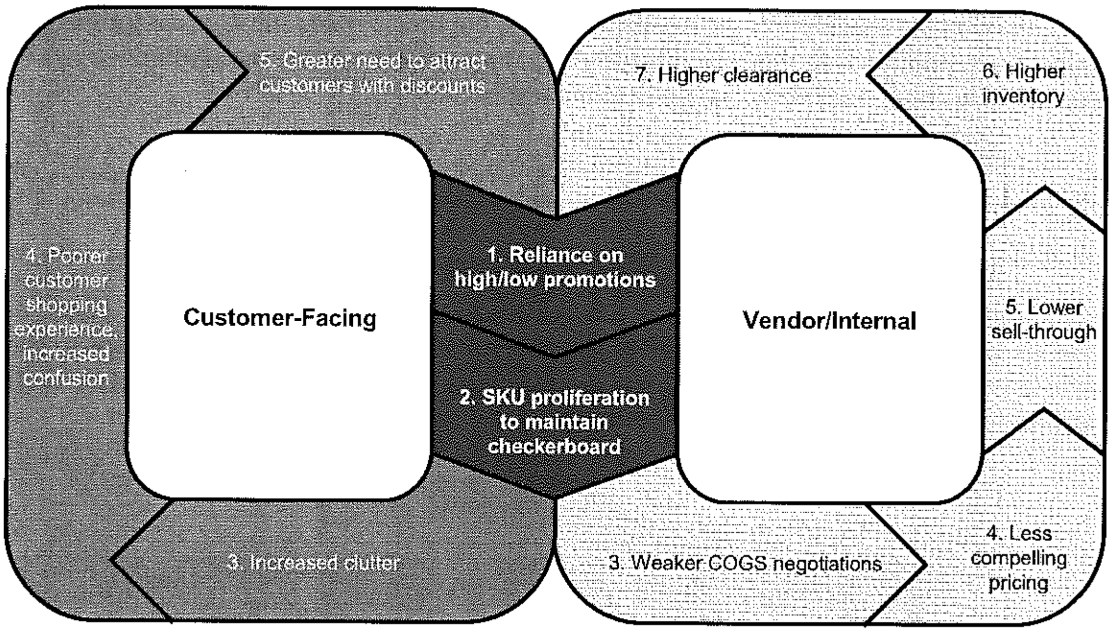


Figure 21: No Credit for Value – Checkerboard Example

CHALLENGE #6: The Catalogue Hangover

Between 2008 and 2010 catalogue sales declined by close to a 20% CAGR, while catalogue EBITDA decreased at a 58% CAGR. Once relevant, the catalogue has never really changed. Catalogue processes still drive and create internal challenges today. At less than 10% of sales, the "tail appears to be wagging the dog". We have incrementally, but not significantly, cut the fixed costs of running the catalogue business. Our initial diagnostic has uncovered a number of high-cost low-margin parts of the catalogue business:

Expenses: The Catalogue business has historically required a significant spend on pre-press, printing and distribution ($95 MM in 2010). Every $4 in net sales generates $0.06 in EBITDA, before the allocation of other costs of the catalogue. Some of the books being cut will further reduce this spend.

Circulation: In 2010, we circulated approximately 75 MM catalogues (7 K unique pages) of which 17% were distributed to customers "less likely to buy". 60% of people who receive catalogues live within close proximity to our stores and 33% of people who purchased from the catalogue also receive flyers.

Cash-on-Delivery (COD): Today, Sears Canada is the only retailer in Canada to offer COD shipments. These orders accounted for 36% of the total 2010 catalogue sales. COD also results in a large number of unclaimed shipments which leads to high excess inventory and clogs our outlet stores.

Agent Network: The Catalogue business relies on 1,800 agents that charge commissions to handle order processing, returns and retail shipments. Total commissions paid to agents for 2010 accounted for $15.6 MM (or 4% of Net Sales). Agents are serviced via dedicated "peddle runs" where trucks make pit stops at a number of locations in a given run. Initial diagnostics indicate that 80% of the "peddle runs" do not recover their costs.

Delivery Charges: Sears Canada charges a flat fee of $3 to an agent regardless of the type of item (including big ticket items) or delivery distance. The shortfall between the cost-to-serve Agents and Customers (direct-to-home shipments) and the revenue generated by these services reached approximately $22 MM in 2010. Initiatives are underway to review our agent model and revise delivery charges in the near term so that they are in line with competitive benchmarks.

In addition, the catalogue business has a number of other effects on our overall business:

- The total Catalogue specific payroll burden is approximately $12 MM (or 170 FTEs) for head office and an additional $10 MM (or 320 FTEs) attributable to Corporate Contact Centre and Field Support for Agents

- In addition, recent interviews with merchants suggest that buyers and buying associates spend anywhere from 30% to 40% of their time on average on catalogue related activities

- Catalogue inventory is different from retail store inventory and is maintained in two separate distribution centres in Regina and Belleville that have been operating below capacity

CHALLENGE #7: An Identity Crisis – Who Are We?

Internal surveys (ELT and SLF) both highlighted the lack of a clear vision and strategy as the number one issue. Feedback from external sources also stressed the need for Sears Canada to find its lost identity:

> *"**Sears has lost some of its formerly acute focus** on the middle-income, suburban family."*
>
> *– Mass Market Retailers (industry journal), February 2011*

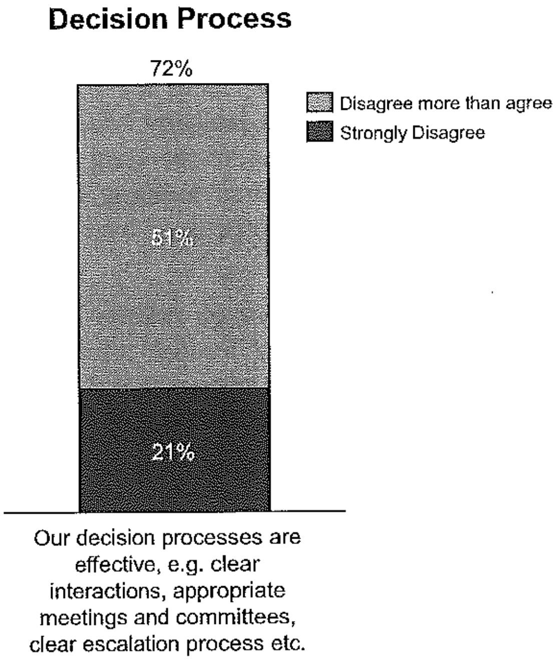
> *"I never go into Sears -- **I don't think of it as useful, modern or catering to my needs.**"*
>
> *– Comment from customer focus group*

> *"I would like to see **Sears become relevant to me again.**"*
>
> *– Comment from customer focus group*

Internally, we must clarify who we are to our Associates as well, so they can communicate that message uniformly to consumers. Developing an identity, a vision and a value proposition is vital to provide focus for our buyers, clarity to our associates and a clear and easy-to-understand identity for our customers.

One element of our identity crisis is that we have not distinguished between an urban, suburban or rural strategy despite the fact that these markets have different needs and wants. Sears Canada has a history of being very strong in the rural market dating from Sears' original joint venture with Simpsons, which restricted Sears Canada's operations to rural markets to avoid competition with the Simpsons stores. As Sears Canada moved urban with the acquisition of eight Simpsons/Bay stores and Eatons, it has lost its focus on this market. In our current position we are stuck in the middle without a relevant proposition for urban, suburban or rural markets.

CHALLENGE #8: Unclear Accountability



Source: SLF strategy and organization survey July 2011, n = 124 out of 144

Figure 22: SLF Organizational Diagnostic Survey – Decision Making Processes

Throughout the organization we have observed a lack of accountability, driven to some degree by capabilities, but primarily by our internal structures. This issue came up as a top challenge in our leadership surveys, our store visits, our customer intercepts, our business reporting and most clearly in our recent results.

Figure 22 taken from the Senior Leadership Forum survey highlights the point that 70% of top leaders do not feel we have clear decision-making or accountability.

CHALLENGE #9: Bad Processes Driving Bad Outcomes

We have found that many fundamental retail processes were broken or, in extreme cases, non-existent. We have already instituted some new basic processes (weekly and monthly merchant and business reviews), but fundamental processes, such as demand/merchandise planning still need to be fixed.

CHALLENGE #10: Poor Business Reporting

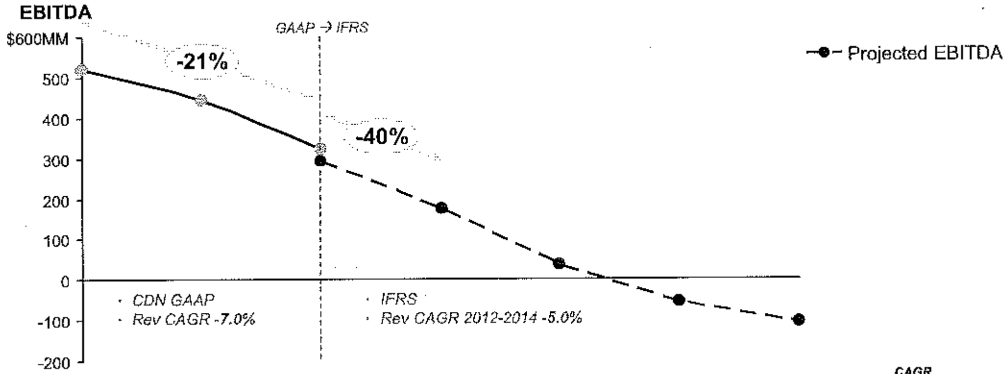
Our business reporting does not provide us with timely or accurate information, which significantly limits our ability to make smart and rapid decisions. This applies not just to financial information as there is also a general lack of visibility of information throughout the organization (competitor prices, promotional effectiveness, voice of the customer, inventory management, etc.). Within our financial systems, there are often multiple sources of data with many manual workarounds creating data integrity issues. This also leads to an inefficient Finance organization, as well as Managers spending an excessive amount of time focused on financial investigations rather than building the business. IBM and Accenture have both reviewed our systems and processes over the past 18 months. In their final assessment, IBM wrote:

> "*Our work has detected serious capability gaps [at Sears relative to its peer group] stemming from fragmented, inconsistent, manual processes that impair competitive agility. Gaps are transactional and informational, and fixing them will maintain/enhance EBITDA.*"

1.5. Where We Will Be... If Trends Continue

Recent sales trends on our high fixed-cost base combined with Target's entry will take EBITDA negative by 2013 and even more so by 2014.

Sears Canada is at a pivotal point in its history. The current trajectory of growth and margin decline would take EBITDA into negative territory if drastic action is not taken. The period from 2008 to 2011F was characterized by revenue declines of close to 7% annually and gross margins falling 100 bps per year – forcing cost containment measures to alleviate what otherwise would have been more significant EBITDA declines. External impacts that played a part in the sales and profitability decline over the past three years will continue to impact Sears Canada over the foreseeable future – stagnant consumer spending, the strong Canadian dollar, increased cross-border shopping, and increased competition through both domestic and foreign expansion in Canada. These realities will result in an even more competitive retail environment, widening the gap we need to close in order to achieve our mid-term EBITDA goals. Figure 23 highlights how quickly EBITDA could become negative, even at an annual revenue growth rate 2% higher than we have experienced over the past three years.



	2008	2009	2010	2011F	2012E	2013E	2014E	CAGR '08 - '10	 '11 – '14
Rev ($ MM)	5,733	5,300	4,938	4,691	4,457	4,234	4,022	-7.0%	-5.0%
EBITDA / Rev (%)	9.1%	8.5%	5.9%	3.7%	0.8%	-1.3%	-2.7%	-320bps	-640bps

Assumptions:
- Revenue: CAGR of -5.0%
  - Price compression Is likely to continue as competitors continue to lower prices to steal share and utilize their scale advantages
  - Foot traffic and sales are likely to decrease as competitors renovate existing stores and open new stores in our catchment areas
- Costs: Variable costs maintain same % of sale; fixed costs held constant; semi-fixed costs assumed to be 80% fixed

Figure 23: Forecasted EBITDA, 2011E-2014E

Figure 24 reiterates the continued year-on-year declines in revenue, with recent rates of decline steeper than they were in 2010. EBITDA is now eroding at a very rapid pace as we are losing our scale advantages we once had as a $6 B organization. Without the benefit of a more efficient organizational structure and operational practices, there are few cost levers available to us that would not further damage our ability to be competitive.

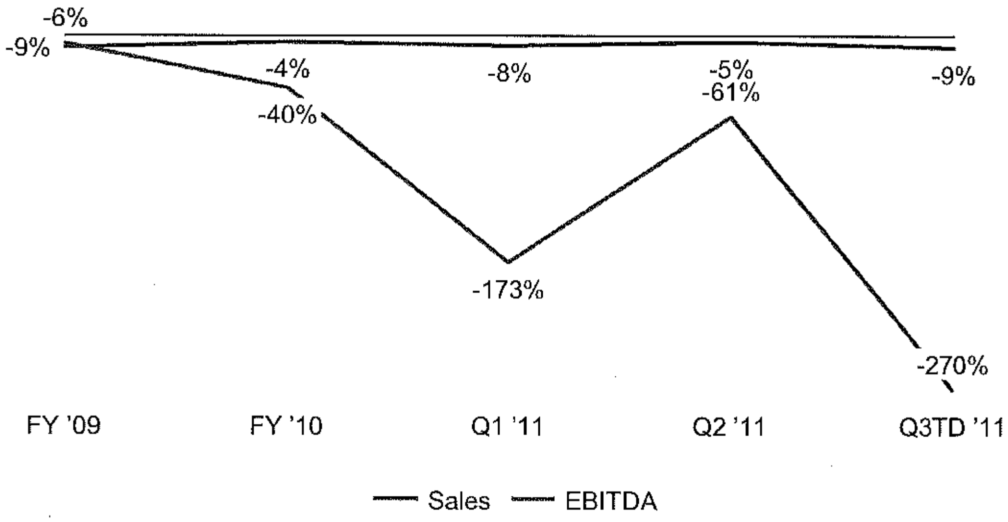


Figure 24: Sears Canada Year-on-Year Revenue and EBITDA Growth Rates

Building off the trend line in Figure 23, when layering in the impact of Target's entry, Sears Canada's EBITDA is estimated to decline a further $135 MM in 2014 to below negative $200 MM.

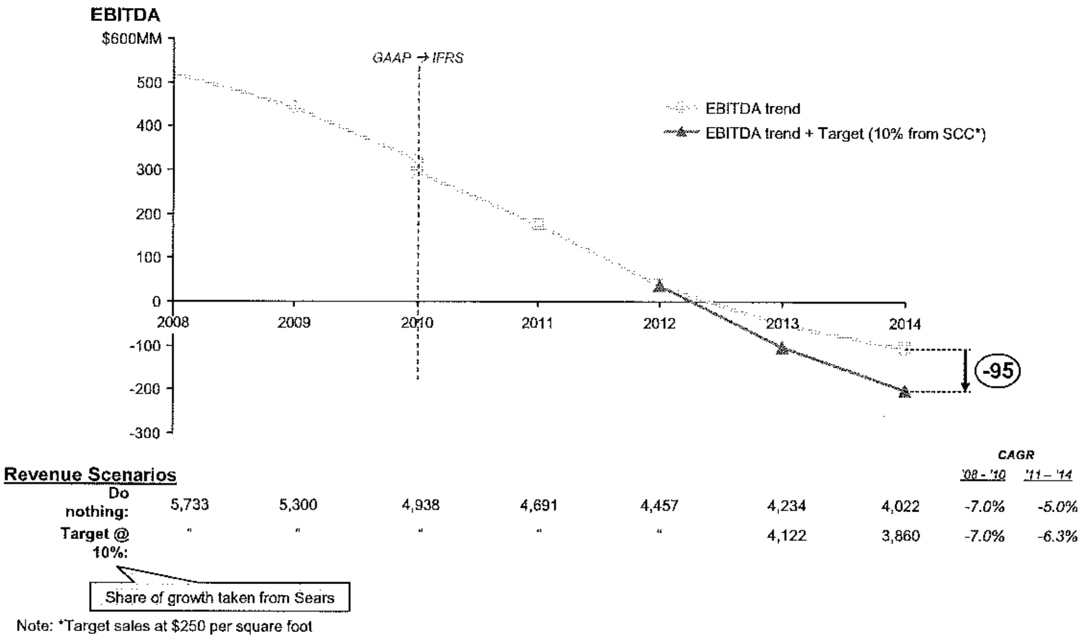


Figure 25: Forecasted EBITDA, 2011E-2014E, with Target Impact

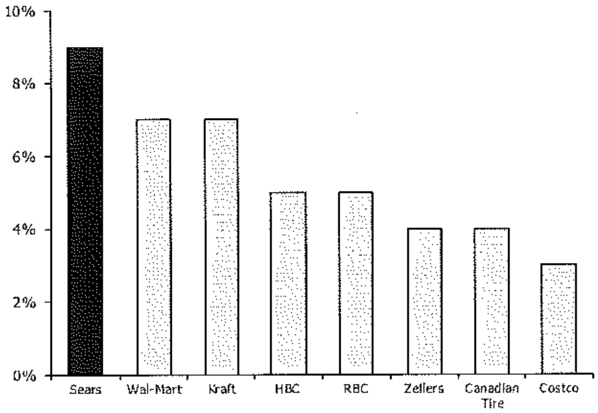
It is make or break time for Sears Canada. We must act now. We have 18 months to transform this business before Target arrives. This is going to be a long, dirty challenge, but we have stengths to build on and the potential to transform Sears Canada into a strong, relevant retailer again.

1.6. Strengths to Build On

Despite our challenges, we still have a number of strengths to build on.

Despite our challenges and this negative trend, Sears Canada still has a number of strengths to build on. A January 2011 brand equity survey revealed that Sears Canada is still the most trusted brand in Canada (Figure 26 below).

Sears is still the most trusted brand in Canada



Source: Sears Brand Equity Survey – Jan. 2010; n=813; Unprompted response to "Which companies come to mind when you think of trust?"

Figure 26: Brand Equity Survey Results

In addition to having a trusted brand, we possess a number of competitive strengths:

- Several well-respected private label brands such as Kenmore, Craftsman, Jessica and Tradition. Sears Canada has also re-launched Attitude by Jay Manuel (showcased at the LG Fashion Week)
- Market leader in Major Appliances and Apparel (across both women's and men's segments)
- #1 department store credit card
- Largest transactional online retailer in Canada with 2011 YTD visits up 12.3% to 33.3 MM
- More than 3 MM active credit card holders
- One of the most extensive retail footprints in Canada: 122 Full-Line stores, 48 Sears Home stores, 268 Hometown Dealer stores, 11 Outlets, 30 Corbeil stores, Home Services (including its coast-to-coast network), catalogue and Sears.ca
- ENERGY STAR® Retailer of the Year for four consecutive years

We will build on these strengths as we develop strategies to transform our organization.

2. Building for Tomorrow

2.1. Strategy Overview

Our transformation will follow three phases: Get the Basics, Establish a Retail Rhythm and then Grow Through Innovation

Within the next month, we will develop a new and inspiring vision statement and master brand value proposition. However, we already know our strategic intent:

"By the end of 2014, we will be on our way to being Canada's best home and apparel fashion retailer by delivering great value through inspirational products, brands and services, to the doorstep of every Canadian family."

- **BEST** = First retailer considered and shopped, and therefore leading market positions, in hero categories defined below
- **HOME** = Quality products, brands and services for customers to maintain and "fashion" their homes with key hero positions
- **APPAREL** = One-stop-shop for apparel and accessories for all Canadians, but especially children (0-14) and women over 30
- **FASHION** = Provide style and inspirational solutions for both Home and Apparel needs
- **VALUE** = Offer a compelling value equation by appropriately balancing our pricing and product mix with the customer experience; getting credit for value is achieved by having the right balance and communication plans
- **DOORSTEPS** = Use multiple formats and channels to ensure we are easily accessible
- **FAMILIES ACROSS CANADA** = We will appeal to families of all shapes and sizes across Canada – urban or rural, first generation or First Nations, big or small, young or old

Delivering on our strategic intent will take a few years and Sears Canada is embarking on a transformation journey. There will broadly be three phases to our transformation. In the first phase, "Get the Basics" we need to build the basic functions and processes of retailing, which, given what we discussed in Section 1.4, do not currently exist at Sears Canada. Once this phase is over, we will have the 'basics' necessary to more effectively adjust to the market and our customers.

The second phase, "Establish Retail Rhythm", will take Sears Canada to a point where we can operate as a retailer should, with clear attention to detail, efficient processes and a nimble structure able to quickly test new ideas and react to changing customer needs.

The third phase, "Grow Through Innovation", will build upon our newly established base to innovatively grow into adjacent markets, categories, channels, formats, etc. Although these phases will appear in sequence, signifying when the bulk of the work will occur, we have already begun to establish our retail rhythm and are planting the seeds of innovation for future growth.

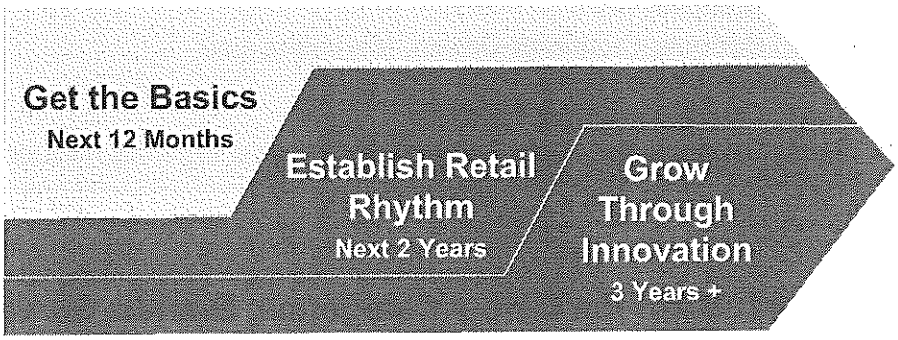


Figure 27: Three Phases of Transformation

Throughout all three phases of our transformation, we will consistently build upon five pillars of growth (Figure 28). They are simple yet vital measures necessary to reconnect with and attract new customers, offer a relevant and competitive value proposition and profitably reverse our sales declines. We also need to establish a strong base to "Enable the Transformation". This includes activities necessary to successfully deliver the formula such as supply chain and system improvements. These pillars will help us address and resolve our challenges.

Figure 28: Formula for Growth

2.2. *Formula for Growth*

Throughout the three phases of our transformation, we will focus on five pillars of growth:

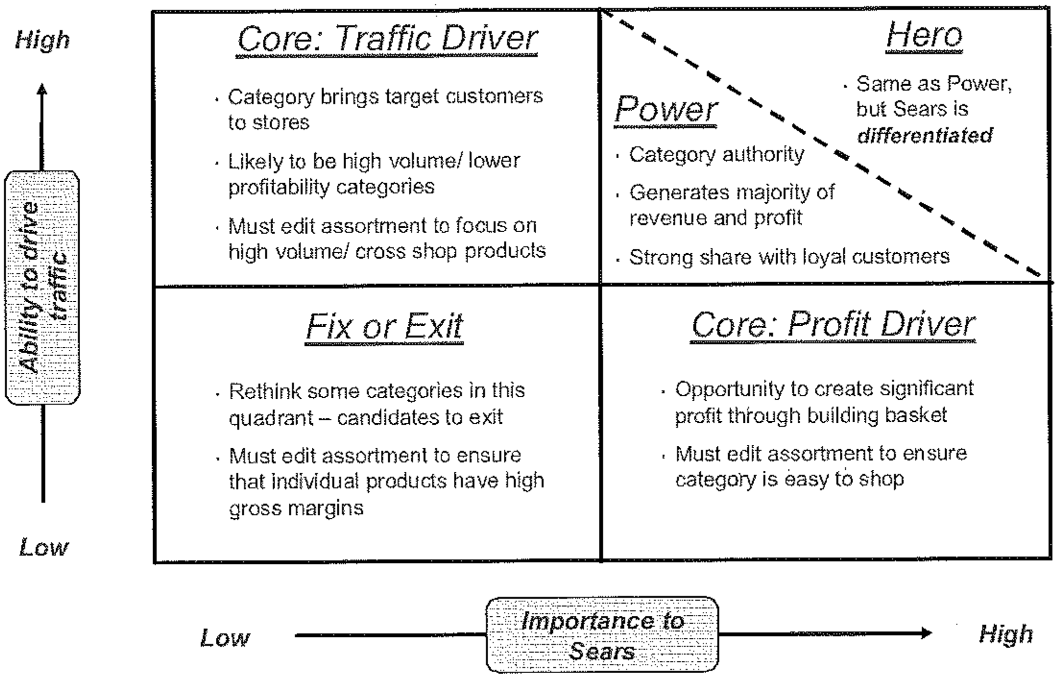
#1) Build the Core
#2) Become Customer-Driven, Marketing-Led
#3) Get Value Right
#4) Operate the Best Formats
#5) Organize the Right Talent and Create a Winning Attitude

2.2.1. Pillar #1: Build the Core – Categories, Brands, Services

Customers are time-starved and rely on retailers that have clearly defined offerings and can deliver on their needs. This has driven the growth of specialists and the decline of generalists. Sears Canada is a generalist that is lacking a clear identity in the eyes of its customers, in part driven by the fact that we lack a clear understanding of our core business. Merchandise retail now contributes only 57% to total EBITDA despite accounting for 90% of revenues. Combined with declining sales, Sears Canada has a clear need to redefine and prioritize our lines of business both in terms of their ability to attract customers, as well as their profitability to the company.

Sears Canada has the opportunity to be the only retailer that can successfully combine Home and Apparel categories, with strong brands and distinct services into a unique one-stop-shop experience that saves time for busy customers.

Categories, brands and services within our Home and Apparel businesses can be grouped as "Hero", "Power", "Core" or "Fix/Exit" based on how profitable and differentiated they are for Sears Canada and how effective they are at driving customer traffic (Figure 29). This categorization will allow us to invest more time and resources to build our high potential, differentiated Hero and Power positions, and fix or exit unprofitable businesses that do not drive substantial customer traffic.



Core: Traffic Driver

- Category brings target customers to stores
- Likely to be high volume/ lower profitability categories
- Must edit assortment to focus on high volume/ cross shop products

Power

- Category authority
- Generates majority of revenue and profit
- Strong share with loyal customers

Hero

- Same as Power, but Sears is ***differentiated***

Fix or Exit

- Rethink some categories in this quadrant – candidates to exit
- Must edit assortment to ensure that individual products have high gross margins

Core: Profit Driver

- Opportunity to create significant profit through building basket
- Must edit assortment to ensure category is easy to shop

Figure 29: The Five Strategic Classifications

Figure 30 provides a summary overview of how our businesses have been categorized according to this framework. This demonstrates how our services and brands compliment our product offering. Some of them have been highlighted as "Future" businesses we believe can be Hero brands, categories or services.

		"Hero"	"Power"	"Core – Traffic Driver"	"Core – Profit Driver"	Fix or Exit
Apparel	**Products**	Women's Apparel – Traditional Future: Kid's Room Future: Modern Shop (including Attitude)	Men's Wear Women's Intimates (including Hosiery in the future) Footwear	Cosmetics	Jewelry & Accessories	Women's Hosiery Attitude
	Services			Registries		
	Brands	*Jessica* *Tradition*				
Home	**Products**	Future: Major Appliances Future: Mattresses	Window Coverings Furniture	Home Decor	Home Furnishings	Electronics CAWP Fitness & Recreation
	Services	Sears Financial HVAC Protection Agreements	Warranty Sales Window Coverings Duct Cleaning Future: Parts & Repair (PRS)	Carpet Cleaning	Insurance	Exterior Home Services
	Brands	*Kenmore* *Sears-O-Pedic* *Future: Blue Crew*	*Whole Home*			*Craftsman*

Figure 30: Summary of Category, Service, and Brand Categorization

APPAREL

Our Apparel business currently spans several categories and divisions, and is comprised of numerous brands and lines. Figure 31 provides a ***preliminary cut of the five strategic classifications,*** which in turn is a ***starting point to discuss division roles for each of these*** businesses.

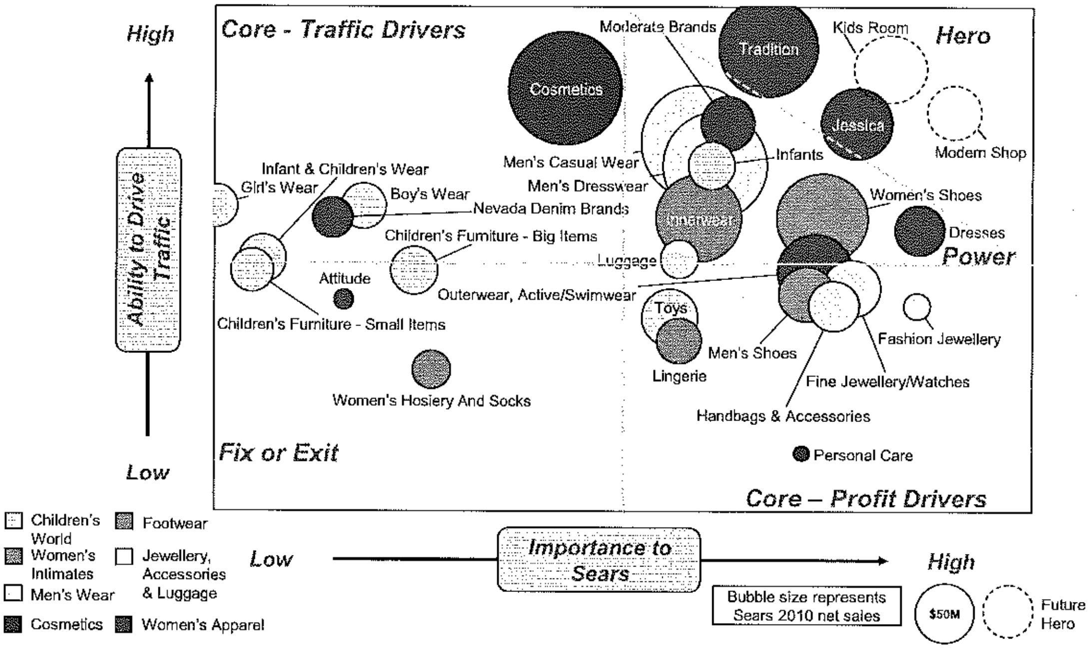


Figure 31: Category-Plot of Businesses within Apparel

Apparel Hero:

- **Jessica**: Although Jessica lost its #1 share position in Women's Apparel in 2009, it remains a Top 5 brand overall despite new entrants. Jessica participates in a wide range of commodities, which can be highly synergistic in raising brand awareness and loyalty, thus attracting shoppers to Sears Canada.
- **Traditional**: Sears Canada's Tradition private label has been the #3 brand in Women's Apparel in Canada over the last 3 years, has been gaining share, and is #1 amongst women aged 65+ and #2 amongst women aged 55-64. By also offering Tanjay and Alia (Nygård brands targeted at mature women), Sears Canada is a strong #1 retailer in this category amongst women aged 55+.

Key Apparel Power + Potential Heroes:

- **Kids Room**: Infant apparel is a power category for Sears Canada and is a key traffic driver. The Kids Room initiative is bringing children's apparel, juvenile furniture (i.e. strollers, car-seats, cribs etc) and toys together to create a one-stop shopping destination and increase average basket size. Sears Canada is the #3 retailer of children's apparel and basics after Walmart and Zellers, and bringing in younger families to Sears Canada is highly strategic for the company as a whole.

- **Modern Shop**: As a department store, Sears Canada is expected to carry a range of national brands in order to offer a sufficiently broad assortment to attract shoppers. An important portion of national brands within the Women's Apparel - Moderate Brands business, such as Buffalo, Kensie Girl, Lois etc., along with the newly launched Attitude by Jay Manuel private label, are being moved to the Modern Shop area in 78 stores to create a trendy destination for younger female shoppers. We also believe there is an opportunity to create a product offering to appeal to men as well and we will explore a Men's Modern Shop.

- **Men's Dress Wear**: Historically we had the number one position in Men's Dress Wear. Moore's, a specialist men's dress wear retailer, stole this position by offering a simpler, more compelling value proposition for men looking for dress wear, including shoes, belts, etc. There is an opportunity to copy the Moore's model and beat them at their own game.

Other Apparel Power categories, namely Women's Intimates, Women Outerwear & Active/Swimwear, Women's Footwear, and Men's Wear (Casual + Dress) will be addressed in a second phase.

Apparel Fix or Exit:

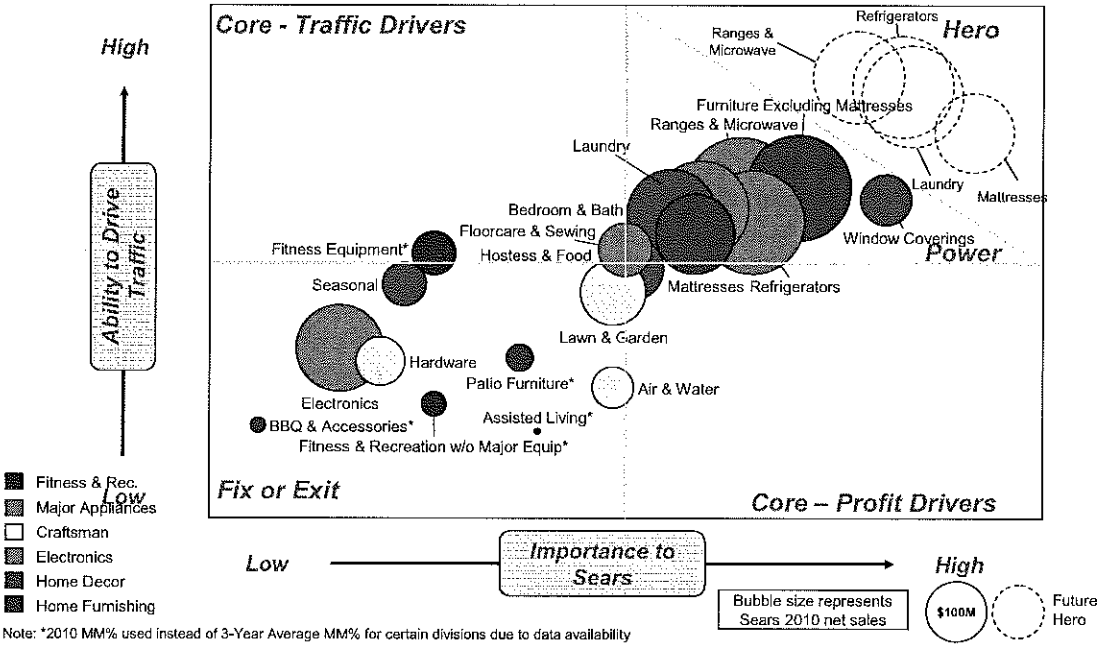
- **Women's Hosiery**: As a basic commodity, Sears Canada cannot exit Women's Hosiery as it is an integral to Women's Apparel and Intimates through cross-shopping. The key opportunity is to improve the profitability of this business to turn it into a Core – Profit Driver category.

- **Attitude**: Attitude is currently a relatively small business, but the recent Jay Manuel initiative is expected to add excitement and increased awareness as part of the **Modern Shop** concept described above in Key Apparel Power categories

In addition, we are exploring opportunities to expand on our current Apparel service offerings, such as the Baby Registry.

HOME: CATEGORIES

As with Apparel, our Home business crosses numerous categories, divisions, brands and lines. Figure 32 provides a ***preliminary cut of the five strategic classifications***, which in turn is a ***starting point to discuss division roles for each of these*** businesses.



Note: *2010 MM% used instead of 3-Year Average MM% for certain divisions due to data availability

Figure 32: Category-Plot of Businesses within Home

Home Power + Potential Heroes:

- **Major Appliances** is the largest Power category at Sears Canada with nearly $1 B in sales. The reason it is not classified as Hero is that it has a lower Merchandise Margin (30%) than other categories. Its role is to bring customers in and drive profit, due to its market leadership, product assortment and overall value. Through better communicating the value, adjusting the pricing model and assortment, and improving the shopping experience our target is to move this category to the Hero position.

- **Mattresses** is currently a traffic driver, due to its significant sales level, its profitability and its market share (#2). Our objective is to reinforce Mattresses in a Power position, by challenging (and taking share from) Sleep Country through clear communication of the value customers can find at Sears Canada.

  The growth plan is centred around an aggressive battle with the competition and objectives to beat Sleep Country on price (take 1% share), the Bay and IKEA on selection, The Brick on selection of higher price-point items, and other competitors on overall offer (take 2% share).

Home Fix/Exit:

- **Electronics** is a mixed category with a number of different lines (from televisions to GPS units). Its current EBITDA loss is driven to a large extent by the very low margin computer and video games lines.
- **CAWP** is a category with three primary divisions: Air & Water, Hardware, and Lawn & Garden. High inventory levels and broad SKU assortments lead to negative EBITDA results for the Hardware line. Lawn & Garden is on track to improve due to the success of the 2011 Tractor campaign. Air & Water is a category which is generating positive EBITDA. We target moving the category to a Core position by selectively reducing some low performance lines.
- **Fitness** is a category which has lost both market share and profitability over the last couple of years, mainly due to Canadian Tire's introduction of low priced imported fitness equipment.

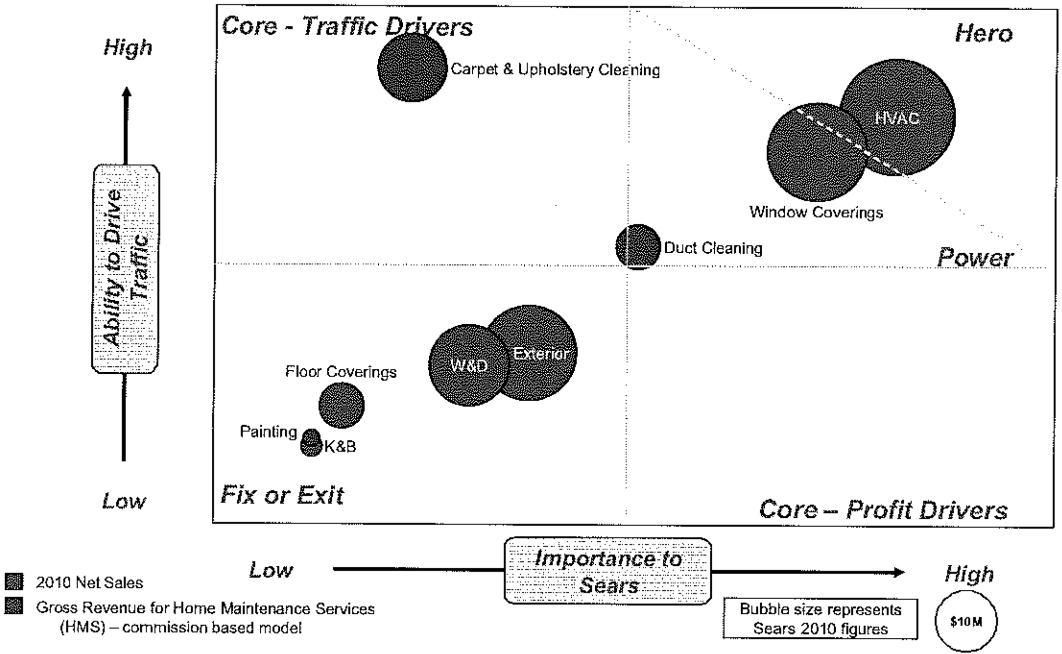
We are also conducting an evaluation of brands/vendors within the Home categories.

HOME: HOME SERVICES

In a highly fragmented market, dominated by independents and "Do it Yourself" big box retailers, Sears Home Services (SHS) can leverage Sears Canada's brand reputation for trust and access to deferred financing to become the dominant Home Services provider in Canada; positioning itself as the "Do It for Me" company with home services complementing our home product offerings.

Sears Home Services is differentiated in the market place due to its unique offer of "Don't Pay till You're Satisfied" (if paying via the Sears card), financing options as well as the ability to collect Sears Club points. As home services often entail big ticket expenditures, Sears Canada can leverage this value proposition to access a wider customer base. Over the next three years we see significant growth coming through investments in this business.

Figure 33 below provides a ***preliminary cut of the Services businesses*** split along the five strategic classifications, which in turn is a ***starting point to discuss division roles for each of these*** businesses (i.e. combination of categories, divisions, and lines). Parts & Repair Services was not included in this assessment, but is vital to "service what we sell" and maintaining our brand reputation. However, this business loses $15 MM per year and needs to be fixed in order for us to turn it into a differentiator.



Note: HVAC = Heating Ventilation & Air Conditioning, Exterior = Roofing and accessories, K&B = Kitchen & Bath (Renovations), W&D = Windows & Doors; SHS exited Maid Services earlier this year.

Figure 33: Category-Plot of Businesses within Home Services

Home Services Hero:

- **HVAC (Heating, Ventilation and Air Conditioning)**: SHS is a national market leader in this category with our proprietary brand (Kenmore) and a strong market presence. HVAC is a profitable business and offers competitive pricing to the customer.

Home Services Power + Potential Heroes:

- **Window Coverings:** This category is comprised of custom window coverings (retail window coverings are "off-the-shelf") and SHS is a market leader. SHS offers brand exclusivity on Hunter Douglas which is a leading brand in the market.

- **Protection Agreements** (not shown on Figure 33): This is a $24 MM EBITDA business that supports our Major Appliances products and Product Repair Services (PRS). In the long term, our plan is to increase protection plan close rates through additional training, product enhancement and field support and to use the protection plan customer list for marketing and cross-sell opportunities. We will also launch new protection plan products in merchandise areas where appropriate.

Home Services Fix or Exit:

- **Exterior (Roofing and Accessories)**: Despite challenges nationally, SHS is a market leader in Quebec in this category.
- **Windows & Doors**: Sears Canada is differentiated in this category, due in part to the proprietary Weather Beater brand and the ability to offer financing options on these big ticket items. However pricing (not competitive) and lead times are key issues.
- **Floor Coverings**: The business model is under review as profitability is low, market share is poor and Sears Canada's pricing is not competitive.
- **Painting:** This service offering is being evaluated and a new model, if viable, will be launched at the end of 2011.
- **Kitchen and Bathrooms:** While a decision needs to be made about the future viability of this service offering, Kitchen and Bathrooms fits SHS' strategy to be a complete "Do it for Me" home services provider.
- **Product Repair Services:** In support of the corporate position of "We Service What We Sell", PRS performs ~800 K annual service calls across multiple businesses categories. The operation is accountable to execute in-warranty, Protection Agreement, Returns/Refurbishing/Customer Service, and post warranty/paid labour service orders. With a technician work force of ~700 technicians and 1,100 independent contractors, PRS supports both Kenmore and National brand parts and service nationally. Major Appliances account for over 80% of the volume. EBITDA has been negatively impacted due to declining call revenue which has not been offset by proportional savings in infrastructure costs. Recent consolidation of field operations into eight locations and the right sizing of our associate base have mitigated part of the loss.

Over time, SHS is uniquely positioned to leverage the Sears Canada brand, financing options and the customer perception of trust to offer a full suite of "Do it for Me" home services.

HOME: FINANCIAL & SPECIALTY SERVICES

Sears Canada Financial Services is a core part of our business as our financing options are an important differentiator for home services offerings and big ticket purchases. This can be grouped into three sets of current offerings and three sets of expansion opportunities (Figure 34). We will continue to prioritize building on our strong base, with emphasis on additional card activations, while expanding into adjacent businesses in the long term.

It is important to note that our current deal with Chase expires in 2015, a year beyond this plan. This deal is very favourable for Sears Canada and may not be renewed at current levels, putting ~$20 MM EBITDA at risk. However, we are working on options to mitigate and maintain current contributions being made from Financial Services, for example by developing and offering new products.

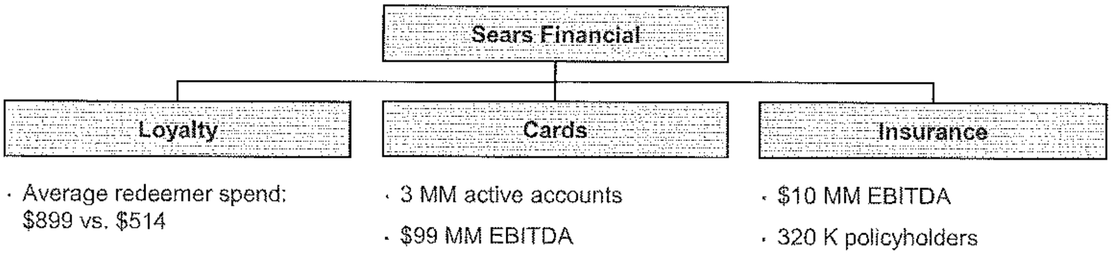


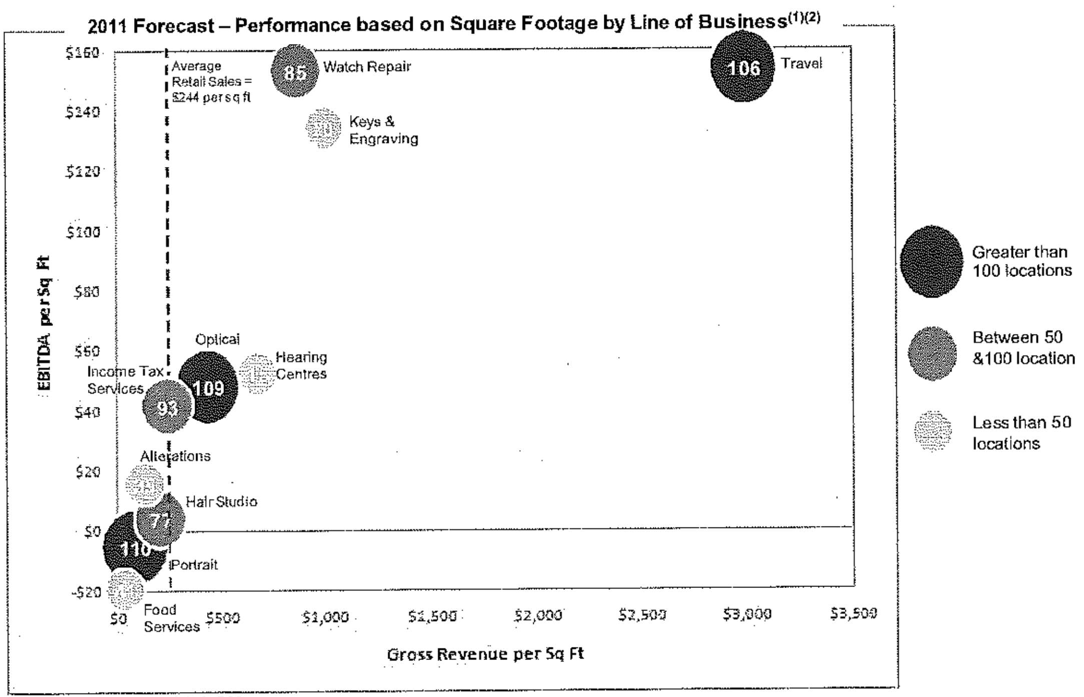
Figure 34: Financial Services Offering

SPECIALTY SERVICES

Specialty Services is a small business that generated $17 MM of EBITDA in 2010. This group is comprised of all the services we provide inside full-line stores, but it has historically had an unclear strategy and value proposition. These businesses are now being evaluated and restructured to drive growth and deliver value. Partnership criteria, tiering, and a service's ability to generate fast traffic, are being evaluated to guide decision-making in order to: 1) renegotiate; 2) change; or 3) close businesses. With the exception of Travel, which is now run by Thomas Cook, we do not anticipate any of these services being Power or Hero, but we need to make sure they make money and/or drive traffic.

Travel recently partnered with Thomas Cook as its provider for travel services – this is a very profitable business model and has a compelling offer to the customer with financing options and the ability to earn and redeem points on the Sears Card/Master Card. Travel is also relevant to retail with a strategic fit with swimwear and luggage.

We currently lose ~$2 MM in Food Services (in-store food courts and cafeterias). We are assessing whether this service drives traffic and if so in which locations, and are likely to exit the business.



Note: 2011 Forecast data is B06
(1) Excludes Lindt Chocolates (only two physical locations), Flowers (online only) & Demonstratable Products (no sq ft allocation)

Figure 35: Specialty Services Performance (2011 Forecast)

2.2.2. Pillar #2: Customer-Driven, Marketing-Led

Currently Sears Canada is neither a Customer-driven nor a Marketing-led organization. Sears Canada needs to fundamentally shift from being a category-centric organization to a customer-focused one. Becoming customer-driven involves viewing our offering (both products and services) from the customer's perspective and communicating our messages in a manner that resonates with and excites customers. We need to focus on getting an outside-in perspective and designing marketing strategies and programs that are driven by customer needs.

Several factors have contributed to our fragmented, duplicative and disjointed marketing messages. The current organizational structure results in duplication and a lack of standardized, integrated, and customer-centric marketing processes. There are three different customer analytics teams tasked with collecting customer information and insights. Marketing has historically been driven from the category level up, without a centralized function or strategic perspective. For example, space in the flyer gets allocated democratically across categories, not based on rigorous analytics about which items will drive sales or the role of specific categories.

There is also an untapped opportunity to use transaction and other customer insight data much more effectively. Sears Canada has customer data from 3 MM active credit card holders, as well as additional data from catalogue, e-commerce, and home delivery customers. This rich customer information should serve as a competitive weapon, but currently the data is not easily accessible, nor is it analyzed with the rigor required to generate insights into the purchase behaviour of our most valuable and loyal customers. We should be able to further build this database and develop powerful, compelling loyalty programs that encourage shoppers to come to Sears Canada more frequently.

Another area of significant opportunity is customer experience. While this was once a key differentiator for Sears Canada, our performance has slipped considerably. Customers tell us that we do not satisfy their expectations on experience, both in store and with our after sales service support. It is critical for us to better define how customer service fits into the Sears Canada value proposition, and specifically how that translates into each and every customer touch point so that we can consistently deliver and get credit for value from our good customer service.

As part of the Get the Basics phase of our transformation we have already launched several initiatives to become Customer-Driven and Marketing-led.

The Customer-Driven, Marketing-Led approach will improve our focus on customer needs, and enable us to deliver a value proposition that resonates with our most profitable customers. Ultimately this will attract more of our most profitable customers, while retaining or growing spend with our existing customer base.

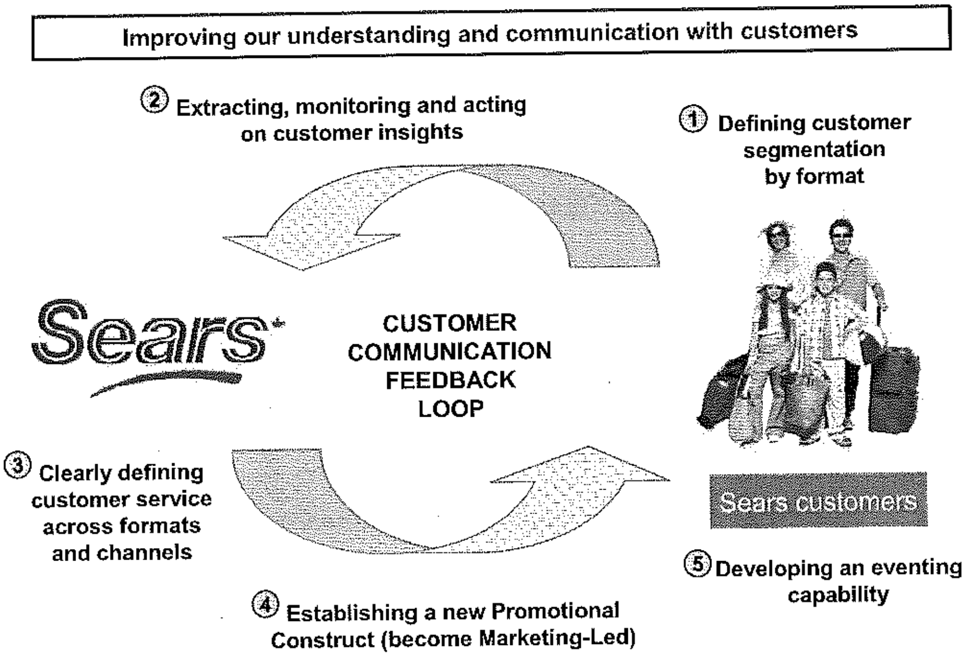


Figure 36: Customer Communication Feedback Loop

2.2.3. Pillar #3: Get Value Right

Creating a clear, consistent and strong value proposition is vital to attracting consumers as well as guiding faster, more responsive business decisions. By getting value right we will offer the right product mix at the right price to our target customer segments, through a compelling shopping experience. Unfortunately, the overall value proposition of Sears Canada, as well as its formats, categories and brands, is currently not clear to customers, vendors or employees. Where we do offer value (financing, Sears Club points, servicing what we sell, etc.), we do not get credit for this value. We tend to only advertise our "low price" story and forget to tell customers about other differentiators that generate value for them that our competitors cannot match.

This low price story with a high-low pricing strategy is not as effective at driving traffic to the store as it once was. In general, we have historically priced based on our costs plus a margin as opposed to competitively at price points our customers are willing to accept. This cost-plus pricing strategy makes our prices less competitive in some categories. Other retailers, such as Target and Canadian Tire, typically price to market, then work back with their vendors to establish profitable costs. While we are not advocating a move to EDLP, a hybrid of value-price and promotional items may be more effective.

The root causes of the issues mentioned above are:

- Lack of value proposition for Sears Canada overall, Home and Apparel
- Lack of product architecture (opening price point, good, better, best) and category management processes
- Lack of overall pricing strategy and category pricing strategies
- Lack of processes to track competitor pricing on commonly compared products

These deficiencies will be addressed as we "Get the Basics" of value. To make it simple, we need to know our price position, establish price indices and price rules. A merchant will no longer be able to raise prices and have loyal customers pay for their category management mistakes. The figure below summarizes the initiatives currently underway to get value right:

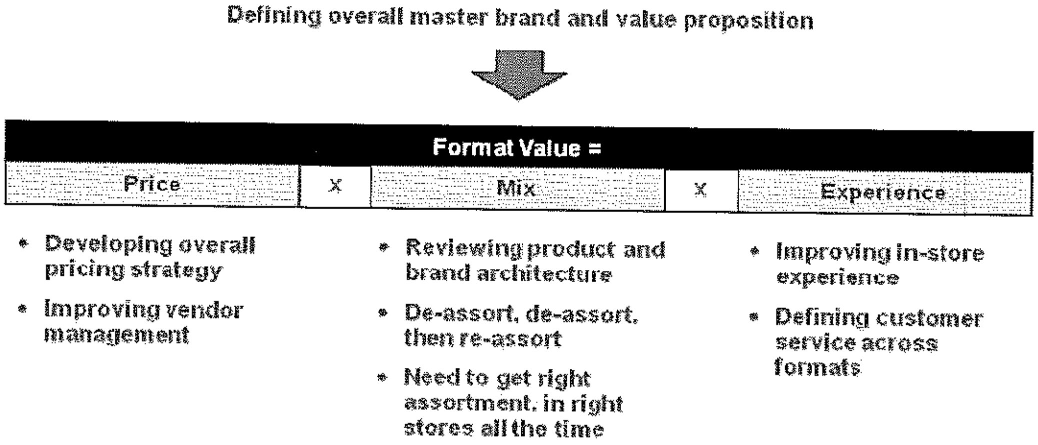


Figure 37: Get Value Right – Current Initiatives

Initiatives to improve "Mix" are being conducted as the merchant teams develop new strategies for their hero, power, core and fix/exit categories. "Experience" will be improved by initiatives such as "Full Line Store Refresh" (basic low-investment high-impact improvements to a store). "Price" will be improved by developing a new pricing strategy and improving our vendor management processes (both to be discussed later).

By fixing the various elements of value, we will be able to offer our customers the right product at the right price all the time, as well as making sure we have the right customer experience. This will increase our relevance in customers' minds resulting in increased sales and profitability.

2.2.4. Pillar #4: Operate the Best Formats

Successful retailers have a well defined and executed format strategy centred on offering the right product assortment and experience to targeted customer segments. In order to be successful, it is critical that our formats steer us to a more coherent and purposeful customer-oriented experience across our channels and formats. However, operating the best formats is less about strategies and more about simple execution – creating a consistent, shoppable, positive environment. Within our formats, the Business needs consistent execution and good lines of communication between buyers and sales associates and our customers need a clean, de-cluttered environment that delivers consistent product availability and knowledgeable associates who are happy to serve.

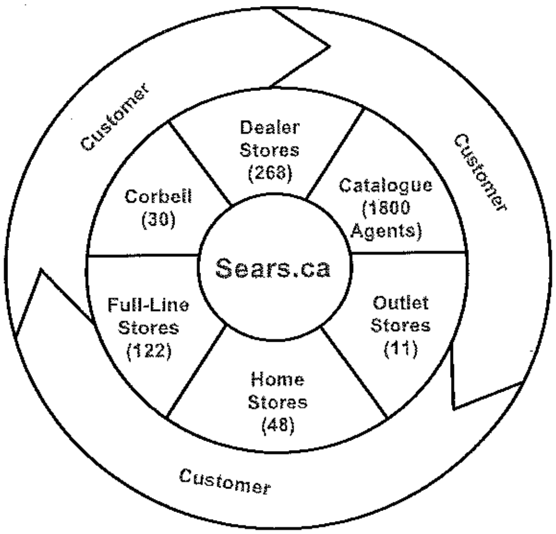


Figure 38: Formats, Channels and Support Businesses

Full-line Stores (FLS) sales and EBITDA have declined since 2008 (-5.8% and -20.4% CAGR respectively) despite having below market lease rates ($4.35/sq.ft. vs. market average of $9/sq.ft). In addition, they are the only format currently supported with a dedicated organization, dedicated marketing and a multi-channel sales structure. Yet they offer a sub-par customer experience with ineffective in-store merchandising. There is a significant opportunity for us to renovate and de-assort our stores. By showcasing a limited number of "Hero" and "Power" brands and categories, we can offer a much more compelling customer experience.

Home Stores contributed ~$530 MM in sales, but only ~$14 MM in EBITDA (~3% of Net Sales) for 2010 including Financial Services income, but despite most enjoying below market lease rates ($11.85/sq.ft. vs. Market average of $20/sq.ft.). This is compounded by the fact that 43 stores have leases up for renewal in the next five years. As such, a decision is required on the long term direction of these stores especially as recent increases in rent rates will further erode the profitability of this format. This format exists without support from a dedicated organization and a decision needs to be made whether to invest and turn this into a proper business or wind down the format to focus on other priorities.

Outlet Stores have generated a negative EBITDA since 2008 (-$7 MM in 2008 to -$15 MM in 2010). Inventory continues to build primarily coming from the Retail and Catalogue businesses. In addition, the leases for 6 of the 11 stores will be coming up for renewal in the next 2 years.

Corbeil Stores have demonstrated a positive EBITDA growth (~14% CAGR) between 2008 and 2010. In 2010 these stores drove average sales of $684/sq.ft. vs. $244/sq.ft. for Sears Full Line stores. Also, Corbeil stores co-exist with our Home and FLS stores in Quebec without cannibalizing sales. In fact, our best performing Home Store and Corbeil store in the region are only 1 KM apart. We have the opportunity to build on this success in other provinces starting with Ontario.

Dealer Stores have grown by 99 locations in the last two years and yet both Sales and EBITDA have remained flat since 2008 ($278 MM and $24 MM respectively). We don't have a clear strategy for this format and actually have made it difficult for these stores to succeed by charging high fees while only offering limited support. Due to our fees, many of these stores are located in sub-optimal locations away from the rural or small market nerve centres where major competitors such as Canadian Tire, Walmart and The Brick have moved in with smaller format stores. Dealer stores represent a potential opportunity to revive the foothold in the rural markets by transforming and improving the level of support we offer our Dealers today.

Catalogue Sales and EBITDA have declined significantly (-20% CAGR) between 2008 and 2010. This business needs to adapt to rapidly changing market conditions such as competitors opening stores in rural markets, growth in e-commerce and an aging core customer base. There are several opportunities to rationalize fixed costs in this business in the short term while we evaluate the long-term efficacy of catalogues in concentrated and non-concentrated (rural) trading areas.

Sears.ca continues to be closely integrated with the catalogue business for historical reasons. This constrains its ability to stay competitive, support other formats and offer a relevant online assortment. The online channel is experiencing declining Sales and EBITDA (-5% and -12% CAGR respectively) in a Canadian e-commerce market that is both growing (estimated to reach $30 B by 2015) and becoming increasingly competitive. Sears.ca is still the largest transactional website in Canada ($265 MM in 2010) and holds tremendous promise to be a growth driver for Sears Canada overall, but we must develop a more dedicated structure and invest to make this channel more competitive.

Customers continue to experience us through multiple formats and channels. Moreover the average profitability of our customers increases with the number of channels through which they shop. Therefore it is imperative that each format has its own unique *voice* and offers a well coordinated customer experience that is supported consistently in-store and online. With a well defined framework for formats and channels that is supported by a robust e-commerce platform, Sears Canada has the potential to win and expand its base of loyal customers.

2.2.5. Pillar #5: Organize the Right Talent and Create a Winning Attitude

Our current organizational structure and culture need significant change to enable us to operate with the adaptability and decision making of a retailer. Our structure lacks clarity, we have bad or non-existent processes that drive poor behaviours, and there is a general lack of accountability across the organization. We are addressing this by reorganizing the business, clarifying interdependencies and improving our culture to create a winning attitude.

As we develop our new organizational structure, we will align it to our growth plan and ensure there is clear accountability and decision-making. Simply put, retail is about buying and selling – fundamentally the two most important roles at Sears Canada are the merchants and the store managers – our new structure will ensure these people have an appropriate level of support and their roles are clearly defined.

Our culture lacks a winning team attitude. Bureaucratic barriers and silos have historically led to defensive, finger-pointing behaviour and an unwillingness to have honest conversations about issues impacting the organization. As a recent interviewee said, "The impression in the market is that Sears Canada has circled the wagons, but are pointing all their guns in instead of out." We will begin creating a winning attitude by defining the operating principles to institutionalize across teams and then we will start to slowly create our new culture. To simplify our change, the best way to create a winning culture is to start winning and celebrate our wins. Therefore, we are going to focus on driving quick wins and then start to build an attitude change on top of this.

Great retailers have many assets: of these, happy and engaged associates ready to serve customers is the most critical. This pillar may sound soft to some, but it is not. In fact, it is probably the most important contributor to our success. Sears cannot win if our associates are not 'winners'. The focus on our associates will also allow us to impact our customer-centric strategies. Our employees are our customers.

We have therefore set a 'lofty' 3-year goal to be recognized as one of Canada's Top 100 Employers. This is a long stretch from our current situation, but striving for it will drive the organization in the right direction, build the culture we want, attract and retain talent, and in doing all this, support our transformation.

2.3. *Enabling the Transformation*

> Establishing a strong base to support our growth is critical. Our supply chain, business reporting, systems and data must be improved to support the transformation.

Having discussed the five pillars of our formula for growth, it is important to also highlight the key enablers that will help form a stronger base for Sears Canada's transformation. Fundamental retail processes and systems are broken throughout our organization, but are necessary to enable us to compete and to support our transformation. Our initial focus is on:

1. Optimizing our Supply Chain… *to right size for our business today*
2. Improving Business Reporting… *just the facts*
3. Upgrading our Systems (Case for Change)… *not an enterprise overhaul, at least not yet*
4. Data… *need to start cleaning now*

Large scale changes to processes and systems run the risk of destabilizing solid organizations, especially ones in the midst of a transformation. As we develop plans for these initiatives we will make sure projects that have the greatest impact, both financially and structurally, go first while also identifying and mitigating risks.

2.3.1. Optimizing Supply Chain

The volume processed through our DCs is not declining at the same rate as the associated revenues. In fact, while revenue decreased 7% CAGR from 2008-10, the cubic volume only decreased 1.3% CAGR. In addition, there is overcapacity in some areas of the network (Direct DCs in Regina and Belleville), and under capacity in other areas (see Figure 39). Several elements needed to be addressed:

- The need for increased capacity in Vancouver to:
    - Improve unit cost service levels for big ticket, currently being serviced out of Calgary, with uncompetitive lead times and must shift from a QR platform (cross dock) to a JIT platform (inventoried in Sears Canada DCs) for private label big ticket goods.
    - Support the increase in big ticket products being inventoried (vs. stored in vendor warehouses). Decisions to do so were based on our ability to lessen delivery times and reduce COGS.
    - Support the increased volume of pre-packed fashion and pre-allocated small ticket flow arriving from Asia that needs to be handled in Vancouver (vs. flowing to the east for initial sortation, with 1/3 of volume then being shipped back to the west). This will reduce costs and increase speed to market.

- The review of opportunities for network consolidation, specifically in catalogue
- The definition and establishment of optimal location(s) for inventory that is available in both catalogue and retail. Currently, fashion inventory for stores is held in Montreal, while fashion for catalogue is stored in Belleville
- The review of opportunities to increase speed of initial fill and replenishment, and reduce touch points for big ticket items
- The review of flexible and cost-beneficial outsourcing opportunities to third party logistics providers

Category	Big Ticket	Retail Fashion / Small Ticket	Direct Fashion / Small Ticket
Available space (% of peak occupancy)	**Calgary:** · Bulk: 64K ft^2 (95%) · Pallets: 31K (97%) **Vaughan:** · Bulk: 90K ft^2 (61%) · Pallets: 52K (64%) **Montreal:** · Bulk: 103K ft^2 (98%) · Pallets: 20K (100%)	**Regina:** · Pallets: 6K (56%) **Belleville:** · Pallets: 49K (80%) **Montreal:** · Pallets: 4K (88%)	**Regina:** · Bins: 382K (59%) **Belleville:** · Bins: 1,274K (67%)
Processing utilization (% of peak utilization)	**Calgary:** 86% **Vaughan:** 71% **Montreal:** 88%	**Regina:** 73% **Belleville:** 86% **Montreal:** 56%	**Regina:** 28% **Belleville:** 65%

Figure 39: Sears Canada DC Capacity Utilization

A number of recommendations, both operational and network related, have been proposed for the Supply Chain strategy. The operational recommendations are important not only because they drive cost savings and increase speed to market, but also because in some cases they create capacity that is needed to be able to consolidate the network.

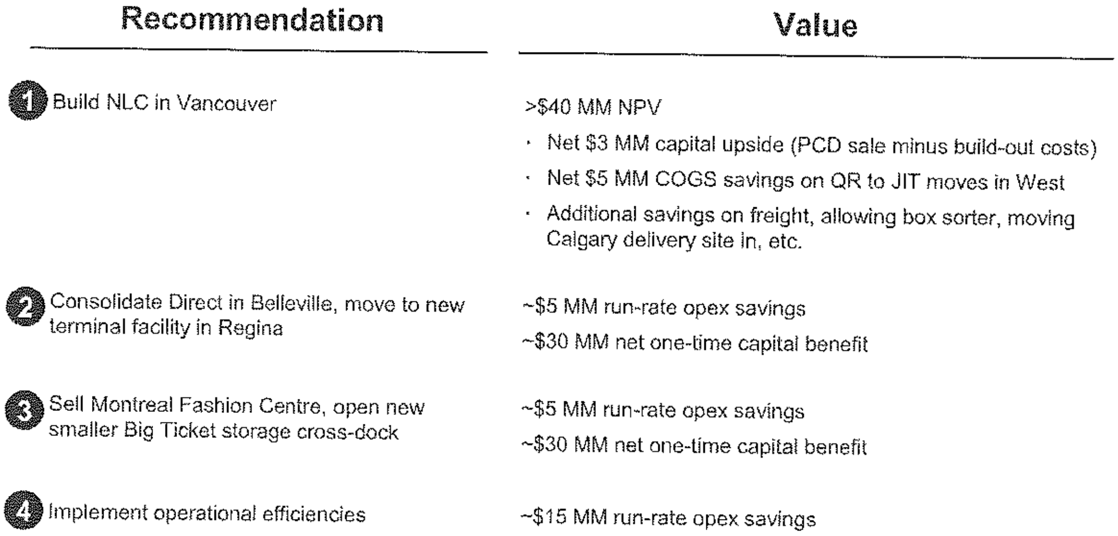
Operational recommendations:

- Increase use of pre-packs for fashion and pre-allocation of goods for small ticket. The baseline current use of pre-packs and pre-allocation is below 10%. In a third of the cases today, goods flow to the east to be sorted before being shipped back to the west. The additional benefit of the increase of pre-pack is to reduce the processing capacity needed for fashion, enabling the consolidation of the Montreal fashion allocation and replenishment into another DC
- Increase the use of rapid replenishment for goods that are of high value with high variation in demand. The fashion DC (Montreal) has been testing the value of increasing the speed of fashion replenishment from the current 4-21 days (depending on location of the store) to 2-4 days nationwide. The strategy review confirmed the potential of this program for approximately 25% of the fashion goods.
- Increase big ticket turns to reduce inventory of big ticket items in the DC by 10%

We have not yet quantified the inventory or cost improvement from implementing these recommendations, but it will improve service and enable the network savings described below.

Network-related recommendations:

There are three recommendations regarding the network assets summarized in Figure 40 below. The full potential value of these recommendations is an EBITDA improvement of $25-35 MM, while releasing $60 MM net in capital.



Recommendation	Value
① Build NLC in Vancouver	>$40 MM NPV · Net $3 MM capital upside (PCD sale minus build-out costs) · Net $5 MM COGS savings on QR to JIT moves in West · Additional savings on freight, allowing box sorter, moving Calgary delivery site in, etc.
② Consolidate Direct in Belleville, move to new terminal facility in Regina	~$5 MM run-rate opex savings ~$30 MM net one-time capital benefit
③ Sell Montreal Fashion Centre, open new smaller Big Ticket storage cross-dock	~$5 MM run-rate opex savings ~$30 MM net one-time capital benefit
④ Implement operational efficiencies	~$15 MM run-rate opex savings

Figure 40: Sears Canada Logistics Network Recommendations

2.3.2. Improving Business Reporting

Current reporting at Sears Canada does not provide accurate enough visibility to the true health of the business. There are "multiple versions of the truth" that business leaders are using to make decisions, driven by inflexible data systems, unclear or undocumented processes to generate reports, and overlapping or redundant reports.

We have assembled a team to improve business reporting and enable our leaders to make better business decisions. The team is tasked with the following:

- Identifying specific root causes that lead to "multiple versions of the truth", and addressing those that can be fixed in the immediate term while ensuring that our longer term systems roadmap addresses all root causes
- Developing a balanced scorecard for each category and major business unit, to ensure consistency in data reporting, and to align our internal business and financial reporting with industry best practices
- Eliminating redundancies in reports that are produced

2.3.3. IT Strategy – Establish Integrated, Reliable Systems

Our systems are struggling to provide the essential day-to-day retail services. Following thorough review by IBM and Accenture, significant issues exist in the current IT environment of Sears Canada, which can be grouped into three broad challenges:

1. Our application systems are aged, disparate and highly modified
2. Our responsiveness and the delivery of new business initiatives is encumbered by our current systems
3. There are functionality limitations in fundamental retail systems and processes

Firstly, Sears Canada's systems are architecturally fragmented, lack cross-channel and cross-functional continuity, and are increasingly volatile to change. Over time this will pose additional challenges with respect to operational sustainability, cost of ownership, and business process optimization.

Secondly, the IT expertise for these aged home-grown systems continues to deplete, and is difficult to re-staff, leading to significant business continuity risk. New or modified business opportunities typically require new systems requirements, but our outdated and underperforming tools often result in sub-optimal solutions and diluted benefits. Sears Canada's systems limit the business' ability to maximize operational efficiency improvements. In addition, custom-made solutions, that individual divisions or business lines have had to develop, are driving redundant activities across the enterprise as well as inaccurate data and, therefore, misguided decision-making.

Finally, the age of our systems has resulted in significant functionality gaps when compared to best-in-class benchmarks: for example, we currently have numerous spreadsheet based operations and lack consistent and reliable business intelligence. Today's basic off-the-shelf retail solutions offer significantly more functionality and adaptability.

CASE FOR CHANGE:

The objective of the Case for Change review (C4C) conducted by IBM and Accenture was to address the challenges and impediments we just discussed and ***"develop and execute a plan to upgrade our current information technology environment to support transformation to best-in-class multi-channel retailing"***. The goal was to develop a realistic and phased approach to upgrade our core business applications suite with proven advanced multi-channel solutions that can inherently drive and support the adoption of leading retail processes and capabilities.

We originally developed the C4C solution blueprint and associated business case with participation from business stakeholders and IT. There is consensus that major capability upgrades are required to support a successful business transformation and that the proposed Case for Change strategy addresses these needed upgrades. However, the full C4C solution blueprint calls for significant up-front investment ($80-$100 MM) with a minimum of two years before benefits begin to be realized ($100-$150 MM).

Given Sears Canada's current fiscal circumstances, a commitment of this magnitude and timing is not viable. The revised C4C approach would start with a "surgical" Early Value phase which calls for upgrades of specific application modules, shorter implementation timelines, and quicker time-to-benefit cycles. We proposed starting with Merchandise Financial Planning, Replenishment, Demand Forecasting and Allocation modules, then rolling in additional systems in later phases.

Although this "surgical" option will minimize risk of disruption and be a lower initial investment, this will result in an approach that will cost 15-30% more and take 12-24 months longer to achieve the C4C end-state and full potential. This revised recommendation still needs to be decided with new leadership team members and prioritized relative to new business strategies.

The abbreviated Phase I scope, timing, costs and benefits will be refined in the third quarter of 2011. Our guiding principle will be to focus on the most relevant functionalities (while avoiding future roadblocks) and to be efficiency driven with a short payback.

2.3.4. Data Cleaning and Management

Issues with data integrity and standardization are prevalent throughout Sears Canada. Along with a lack of uniform definitions and governance, the plethora of legacy systems has led to ~200 "master" SKU files (almost one for each application), ~9 "master" Customer files and multiple "master" Vendor files. Combined with poor interpretation of the multiple versions of our data that are not always comparable, this has a direct impact on the quality of our decision-making.

Based on a high-level, Sears-specific analysis, as well as external benchmarks from IBM and Accenture, we believe it could take anywhere from 12-24 months of a dedicated and focused business and IT team to clean our master data and to implement an integrated Master Data Management solution. Doing so ahead of time will greatly facilitate the eventual migration to an ERP system.

2.4. *Quick Start, But It's a Marathon*

> Top 10 "Get the Basics" initiatives for 2012 have been launched, key questions have been identified to help us establish a Retail Rhythm and activities have begun to plant the seeds for future growth. Our transformation is underway, but it will be a long and tumultuous three years that will test our patience and conviction many times.

We will be busy over the next few years: we have to be, our business is broken. Unfortunately, we do not have the liberty of just doing three things – we have to do many things. Our 2012 plans are intentionally designed to have 'much' going on. However, all initiatives support our Five Pillars of Growth, so in fact they are very focused. But there is much to be done, competition is coming, so we need to get moving and do so with many initiatives. However, we have prioritized our efforts with the greatest focus being on our foundational improvements (Get the Basics). We have established a Transformation Office that will ensure the entire organization remains on plan and, like any good retailer, we will adjust continuously as needed.

2.4.1. Driving the Transformation

This transformation will take a number of years. Not only do we need to change (or create) internal processes, structures and systems, but we need to change consumer perceptions and make Sears Canada relevant in their daily lives. Looking at examples of other successful transformations, they have taken between two and five years before substantial growth is achieved.

Over 70% of attempts at transformation fail to meet expectations[4], often because there are so many competing inputs and factors to consider. Organizational resistance to change can include:

- Poor associate buy-in
- Unrealistic expectations
- Lack of proper change management and communication
- Failure to understand the pressing need to change
- Lack of a compelling strategy and plan with appropriate organizational alignment

One of the most prevalent reasons transformations fall short is that companies fail to properly manage the amount of work required to succeed. A dedicated team of specialists is required to properly manage the volume of work required to transform. Sears Canada has already accepted the need for dedicated resources, by establishing a Transformation Management Office (TMO), reporting directly to the CEO.

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[4] Managing Change: Winning Hearts and Minds by Jayme Alexandre de Lima, Harvard Business Review, 2009

OUR APPROACH

The Sears Canada leadership team has already put a great deal of thought and effort into ensuring the transformation is successful. Communication and change management has already begun, and associates are feeling challenged yet motivated and optimistic.

The TMO will pick up on these efforts to create quick and sustainable improvements. Many opportunities for improvement have already been identified in this document. The TMO will help the business to continue to prioritize these initiatives, determine appropriate resourcing with leaders from across the business, and successfully drive results.

One tool the TMO will use in the transformation is Positive Action Groups (PAGs). These are groups of high-potential associates from across the business who will come together to address and solve a select set of our key challenges. We have created and deployed three PAGs across our Top 10 initiatives for 2012.

CHANGE MANAGEMENT

There are many books written on change management and successful transformations. Most of them come down to similar points that were summarized well in John Kotter's book, "Leading Change". Figure 41 shows his Eight Steps and how we are currently progressing against each of them.

1	**Establish Sense of Urgency**	**Underway**
2	**Create Guiding Coalition**	**Underway**
3	**Develop Vision and Strategy**	**In Progress**
4	**Communicate Change Vision**	**In Progress**
5	**Empower Broad-based Action – Create Accountability**	**In Progress**
6	**Generate Short Term Wins**	**In Progress**
7	**Consolidate Improvements and Produce More Change**	**To Come**
8	**Institutionalize New Approaches**	**To Come**

Source: Kotter "Leading Change: Why Transformation Efforts Fail", HBR Mar/Apr '95

Figure 41: Kotter's Eight Steps

This plan will ask all associates to play a leadership role in driving change and transformation, which will increase engagement by directly involving everyone in the process.

2.4.2. 2012 Initiatives

There are three major phases of our transformation: Get the Basics, Establish the Retail Rhythm and Grow Through Innovation. We have launched and prioritized the 10 top initiatives to Get the Basics in 2012. Behind the scenes we are also thinking about the key questions that will need to be answered in the next year as we start establishing our retail rhythm. This is our plan to have a plan and will form the basis for our 2013 operating plan. We also know that we need to plant seeds of growth so that by the time we have transformed the organization, we will have a number of significant growth opportunities already under development.

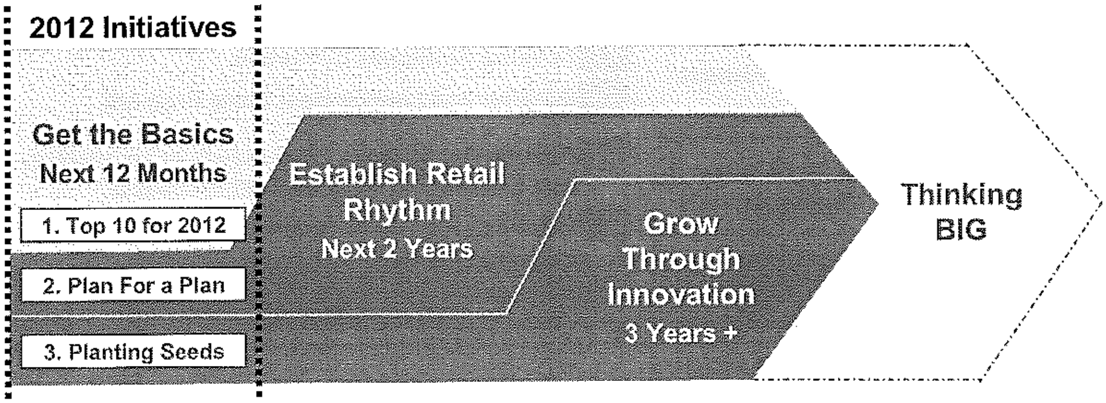
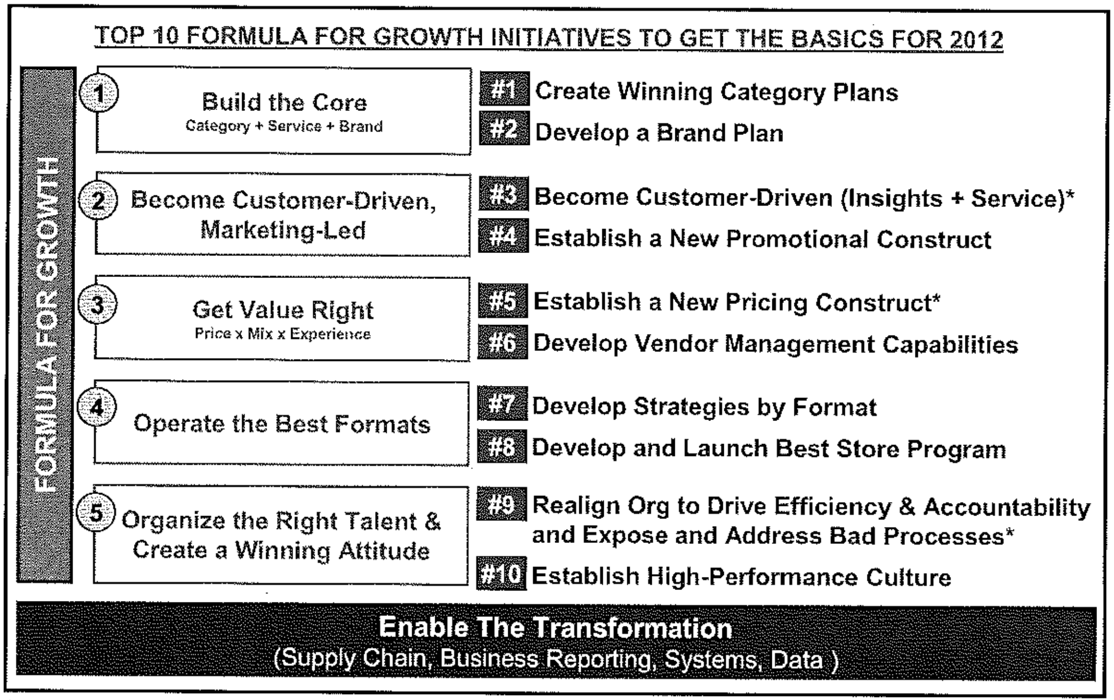


Figure 42: Phases of Our Transformation

2.4.2.1. Top 10 for 2012

Priority in 2012 is being placed on ten key initiatives to help us Get the Basics across our five pillars of growth.



*Positive Action Group (PAG) assigned

Figure 43: Formula for Growth Initiatives

#1 Create Winning Category Plans

Steven Goldsmith & Scott Silver

Apparel: Category plans are being created for the top four Hero/Power Apparel categories: Jessica (as a brand), Traditional, Kids Room and Modern Shop. These plans will be complete and implementation will begin early 2012. Category plans for other Power categories such as Men's Wear and Women's Footwear will be developed early in 2012. In conjunction with these category plans, we will also be grouping our brands into Hero, Power, Core and Fix/Exit, as we have done with our categories, and taking appropriate action including brand rationalization.

- **Jessica**: Jessica's brand identity will be redefined in order to determine how to better define and attract the brand's target customer (currently Jessica disproportionately attracts women aged 55+ while the intended target is 35-55).

- **Traditional**: Traditional is being assessed as a segment targeting mature women, and the role of the three major brands (Tradition, Tanjay and Alia) need to be analyzed to determine the best mix and create a clearer differentiation between them.

- **Kids Room Phase II**: 76 stores have just been reflowed or renovated to create a Kids Room area. A Kids Room Phase II is now being developed in the Eaton Centre to take the concept to the next level in 2012. Analysis is underway to define a category strategy and to support merchandising decision-making across apparel, juvenile furniture and toys. Brand rationalization is also underway as Kids Room has more brands than any other Hero/Power apparel category. We will be the best of Children's Place "head-to-toe" apparel, plus Pottery Barn Kids "style and merchandising", plus Babies R Us "authoritative assortment".

- **Modern Shop**: An important set of national brands within Women's Apparel, such as Buffalo, Kensie Girl, Lois etc., along with the newly launched Attitude by Jay Manuel private label, have been moved to the Modern Shop area in 78 stores to create a trendy destination for younger shoppers. Recent trials in two stores for a "fast fashion" offering have been successful and will be rolled out to more stores. A longer-term category strategy is being developed to finalize the vision for the target end-state. We are also exploring rolling out a Men's Modern Shop.

Home (Categories/Brands): Top priority is to have category plans developed for one or more lines within Major Appliances, and to have completed plans to exit lagging lines (Electronics, Fitness and CAWP) by early 2012. Detailed strategies for all other lines within the five Home categories will be developed in a second phase. In terms of brands, we have seen significant differences by category from Major Appliances with 56 brands/ vendors for ~$1 B in sales, to Home Décor with 500 brands/vendors for ~$400 MM in sales. In our detailed analysis we will identify which of these should be terminated and which should be better supported.

- **Major Appliances**: Initiatives are underway to ensure customers acknowledge the value Sears Canada provides and the plan is to provide competitive pricing, the best selection, the best value (especially with the Kenmore brand) and the best service. We will also manage the profitability of this business in an integrated way that includes all associated components such as product repair services and warranties.

- **Electronics**: Our strategy for fixing this category is to exit low margin lines and to turn the largest line assortment (TV) into a curated offer, making purchase decisions simpler to customers.

- **Fitness Equipment**: Currently at the #2 market position, we target becoming #1 and growing margins, through lower-cost purchasing and assortment optimization – taking this division closer to Power category status. Non-core lines, such as free-standing swimming pools, recreation equipment, etc. are under review.

- **CAWP**: Our recommendation is to reduce the Hardware line significantly to generate positive EBITDA. We are targeting turning Lawn & Garden into an EBITDA positive traffic driver by improving snow blowers and lawn movers similar to the 2011 Tractor campaign. We are also targeting moving Air & Water to a Core position by selectively exiting low performance lines.

#2 Develop a Brand Plan

Alison Corcoran

There is currently no Master Brand defining what Sears Canada stands for to the Canadian consumer. Additionally, we do not manage our private label brands properly. In order to enhance brand management within Sears, we will focus on the following initiatives:

- Establishing the Master Brand and new Corporate Vision. Our Master Brand strategy will ensure that our brand is differentiated from our competitors, and provides clear direction and consistency across all our lines of business
- Developing our value proposition by format (See Initiative #7 – Develop Strategies by Format for more details on our format strategy)
- Developing a private label strategy, structure and processes which should enable us to achieve more aggressive sales targets for our private label brand portfolio

#3 Become Customer-Driven (Insights + Service)

Peter Kalen & Alison Corcoran

To become Customer-Driven we recently launched a cross-functional Positive Action Group (PAG) which is tasked with delivering the following:

- Defining the specific changes required to become more customer-driven. For example, including metrics such as customer share of wallet and Net Promoter Scores on management dashboards to increase management focus on the customer
- Improving how data available from 3 MM active Sears Canada card holders is used to inform better business decisions and also take action to further increase size and richness of this database. For example, using transactional cross shop data to identify opportunities for cross category promotions
- Defining specifically how customer experience fits into the Sears Canada value proposition, and identifying changes necessary to deliver against this value proposition at each customer touch point (in store, delivery, etc.)

#4 Establish a New Promotional Construct

Alison Corcoran

There are several initiatives related to developing a new promotional construct that will enable us to become a Marketing-Led organization. Some of the initiatives we have launched include:

- Creating a marketing organizational structure
- Refining the marketing planning process and developing an annual marketing plan, seasonal calendar and media strategy by format and category
- Creating a customer marketing and eventing capability (so that we are focused more on building equity with customers instead of solely focusing on price)
- Determining and reporting on the key metrics required to track and evaluate performance

#5 Establish a New Pricing Construct

Robert Bigler

We have kicked off a Pricing Initiative with a cross-functional Positive Action Group (PAG) focused on the following objectives:

- Build centralized capability to track competitive pricing on an ongoing basis through various approaches e.g., in-store, online and flier assessment
- Define new Pricing Strategy for Sears Canada, overall and by category/format/ channel, addressing several key elements, competitive price positioning, pricing architecture, discounting and depth of promotions, price matching, cross-channel pricing, position of the High-Low EDVP continuum, etc.
- Identify capability needs and gaps, in terms of processes, tools, organizational support and governance, and develop plan to build and rollout required capabilities to support the new pricing strategy

4.1

#6 Develop Vendor Management Capabilities (especially PL) Tom Fitzgerald

We are in the process of developing and rolling out a holistic vendor management approach, to optimize our relationships with vendors, so that they can support our sales and profitability growth targets. This will be a challenging process but one with significant upside. This is broken out into the following activities:

- Continue to execute on the current COGS initiative
- Develop and implement vendor strategy for Private Label COGS, including reviewing product specifications and packaging to optimize value/pricing
- Develop and implement vendor strategy for National Brand COGS, including de-assorting ("pay-to-stay") linked to vendor pricing
- Develop and implement vendor engagement strategy focused on a balance of growth, profitability, and customer satisfaction
- Organize a vendor summit in the third quarter of this year to give vendors clarification on the way we intend to manage the relationship going forward
- Identify true strategic partners and develop clear expectations of performance in advance
- Train and better prepare merchant team to effectively plan, communicate, and negotiate requirements with vendors in a disciplined manner
- Develop a database of leading vendors globally to ensure incumbent vendors are competitive and innovative new vendors are identified

#7 Develop Strategies by Format Tom Fitzgerald

In order to start building the right foundation for a differentiated customer experience across all our formats and channels, we need to ensure that some of the basic elements are in place. We will accomplish this via effective marketing, relevant assortments and creating the right in-store experience. Several foundational initiatives are already underway:

- **Define Value Proposition by Format (360° Exercise)**: The first step in developing a foundation for our formats involves building a unique value proposition for each format. We need to better understand our target customers, key competitors and our differentiators. Our Home Stores, Dealer Stores and Agents in particular do not have a strategy nor are they structured to deliver growth. (This will also be covered under Initiative # 2 – Develop a Brand Plan.)

- **Catalogue Review**: Our Catalogue business is currently being reviewed. Several short-term initiatives are being implemented to stem the ongoing EBITDA decline. Profitability of individual catalogues is being assessed and we are taking steps to remove unprofitable books while ensuring that those remaining target the appropriate customers. So far in 2011, we have cut our catalogue circulation by 1 MM books and discontinued two profitable catalogues. Transportation costs are also being reviewed to recover more of the costs associated with delivering products to customers. At the same time, the buying process is being revised to ensure our purchases are in line with the sell-through rates to reduce distressed inventory. We are also addressing the long-term role of the Catalogue business taking into account an aging core customer, increased accessibility of the Internet and an ever growing competitor presence in rural markets.

- **Urban Store Refresh – Yorkdale**: We are in the process of refreshing an urban full-line store in Yorkdale. These refreshes will focus primarily on right-sizing the assortment (getting the product right) as well as cleaning up signage, fixtures and basic touch-ups. The total cost will be below $2.6 MM for the Yorkdale pilot. Once tested, we are prioritizing stores to refresh based on either opportunities to have strong positions in the small/rural markets (see below) or stores under the greatest threat from the 2013 entry of Target.

- **Re-ruralization of Sears Canada**: With dedicated focus, we have the opportunity to become the largest most relevant player in rural markets again. Our national brands such as Guess and Calvin Klein, which are commonly available in urban markets, would make big waves in smaller communities where we would be the only retailer offering them. We are exploring five different options of how best to serve the needs and wants of rural and small markets:

    - **Rural refresh – Belleville:** similar to the urban refresh in Yorkdale, we will focus this refresh on right-sizing the assortment, cleaning up signage, fixtures and basic touch-ups.

    - **Franchise small Full-Line Stores:** in some small-markets our stores are 20-30 K sq.ft., which is more in line with the size of a dealer store. We are not currently equipped to properly assort and support this size of a store as a FLS, but there may be opportunity for them to be more efficiently run as franchises.

    - **Small format rural store**: in the longer-term we will test a smaller (20 K sq.ft.) format full-line or Apparel-only store to cost-effectively bring our brands and experience to small and rural markets.

    - **Dealer proposition:** due to our fee structure and limited support, our dealers often end up in "B" or "C" locations competing against big box retailers that are expanding into smaller markets. We are exploring options to efficiently support this format.

    - **Agent:** 80% of our peddle runs do not cover their costs. We are looking into options to resolve this without losing sales.

4/3

- **Home Makeover:** Home Stores are about 15 years old on average, but the format has never had a clear strategy, supporting structure, or market support. We are in the process of developing a format strategy and will launch Home Store marketing this quarter, but we are also moving forward with two other key initiatives:
    - **Refresh Pilot**: Similar to the refresh at Yorkdale mall, we are about to launch a project to refresh a Home Store. This initiative will also focus on improved product assortment, in-store navigation, signage and basic touch-ups all for a limited cost.
    - **Pinecrest** is a large home store format concept (78 K total sq.ft. vs. average of 30-40 K sq.ft.) to open in the summer of 2012, which will accommodate an expanded range of home categories with an optimized in-store merchandising strategy. It will provide flexible space to optimize Home Furnishings and Major Appliances presentations and assortment while incorporating categories in Bed and Bath, Housewares, Window Coverings, Electronics and Seasonal. This combination promises to create a unique an appealing and easy to navigate environment.

#8 Develop and Launch Best Store Program

Neil Curran

Great stores start with great store managers. We will develop and launch a store training and standards program to drive consistent execution across our portfolio. The program will model out a day (week and month) in the life of a store manager and ensure appropriate training, support and monitoring occurs to improve our talent.

We will be launching a Best Store Program with the following initiatives:

- Best Store Leadership (BSL)
- Improve Customer Experience
- Sell Harder
- "Raise the Bar" for Merchandising

#9 Realign Org to Drive Efficiency & Accountability and Expose and Address Bad Processes

Ismat Mirza

We have completed our new organizational design to two levels below the CEO (Level 2 and Level 3) and are in the process of implementing it by the end of November. This reorganization will drive single point accountability, build structures that drive customer driven strategies and will include the creation of an industry standard merchandise planning position.

We will review the executive organizational chart at the Board meeting: each of the recommendations comes with a strong rationale, based on industry research and benchmarking versus other retailers. The following are the key principles used in making these structural recommendations:

- **General**: a flatter, leaner, simpler structure that is more effective and efficient – fewer spans and layers, bigger roles with more capable decision-makers, standardized titles and levels.
- **Merchants**: single point accountability for customer experience and P&L performance – from category management to flow of goods to store execution.
- **Merchandising Operations**: a central function to support merchant teams on core processes (Planning & Allocation, Pricing & Promo Analytics, Visual Merchandising, Category/Vendor Management, Store Communications, etc.). Dedicated resources are required, with central expertise (vs. buyers acting as "jacks of all trades"). This team will form a support "pod" that is dotted line to the merchants and solid line to functional areas, which will enable the right level of communication and coordinated functionality.
- **Private Brands**: a dedicated organization taking a "CPG" approach to brand management. For Sears Canada's Brands, this will involve product development, price/cost management, brand building, and sourcing/QC. For SHC Brands, this means leveraging SHC product and sourcing pipeline and building brands in the local market.
- **Marketing**: a structure with leadership and capabilities to define customer-driven brand strategies and customer-driven format strategies. This means coordinating with each Merchandising organization on category-level customer experience and promotional initiatives.
- **Services and Direct**: will remain as standalone businesses, but with selective centralization of core functions, e.g. Direct merchandising and planning
- **Stores and Supply Chain**: these become execution centres, accountable to service levels and cost management.

In addition to clarifying our decision-making and accountabilities, we will establish clear performance metrics to drive appropriate behaviours in each organizational area.

4.5

#10 Establish High-Performance Culture

Ismat Mirza

A culture transformation strategy is being developed to build a high-performance culture that can support and sustain our transformational initiatives. This strategy, supported by communication, performance management and leadership development, will involve the following:

- **Establishing a Culture Transformation Strategy:** we will review our corporate strategy and define a cultural end-state that is aligned to this

- **Conducting a Culture Assessment:** we will refine our starting hypothesis on hot points and lay out the transition to our end-state through a full cultural assessment (surveys, focus groups and interviews)

- **Designing Culture Change Initiatives:** Findings from the first two elements will be used to identify and prioritize organizational levers (e.g., structures, processes, measurements) and human levers (e.g., leadership, mindset, behavioural, business practices) to drive culture change. We will develop and prioritize culture change initiatives, assess resource requirements and develop implementation and communication plans

- **Implementing "Quick Wins":** whenever possible, we will implement "Quick Wins" to build momentum for larger initiatives (best practices for meetings, respect for individuals, etc.). We will also ensure feedback mechanisms are in place to monitor the impact of our change initiatives

To help facilitate our culture change efforts, we will regularly gauge the engagement level of various stakeholder groups. All of the above, along with direct involvement from the ELT and SLF, will facilitate the momentum required to move our culture towards high-performance. This will be an important part of achieving our goal to be recognized as one of Canada's Top 100 Employers.

2.4.2.2. Establishing a Retail Rhythm – Plan to Have a Plan

We are almost 90 days into developing the future strategy for Sears Canada. Our current priority is on "Getting the Basics," but we are already starting to think ahead to consider initiatives that will help us establish our retail rhythm. We do not have all the answers yet, but we do know the questions we want to answer in 2012, which will become the basis of our 2013 operating plan:

1. What customer-facing technologies should we take the lead in?
2. What is the opportunity to license Craftsman to RONA (or others) if we exit tools?
3. Are we an urban retailer with a flagship strategy, or should we retreat to the suburbs?
4. What is the opportunity for plus sizes in Apparel, and how can we best serve these customers across formats?
5. What roles are there (if any) for brands such as Eatons, Lands' End, etc.?
6. What is the real opportunity for gift registries?
7. How do we win Chanel back?
8. How do we attract captive brands (the "up and comers" vs. "the here and now")?
9. What is the opportunity to create services in Apparel (e.g. tuxedo rentals)?
10. Do we need a loyalty program (aside from credit cards)?

2.4.2.3. Planting the Seeds of Innovation

We are also initiating activities that will plant the seeds for the type of innovative growth we expect in the third phase of our transformation. Many of these ideas will be exploratory in nature and will not materialize. Others will be piloted and may lead to profitable lines of business. Hopefully at least 20% of the ideas we generate will prove to be effective and can be expanded to contribute to our performance. We must generate ideas to innovate, we must pilot to prove the size of the opportunity (or if an opportunity exists at all) and we must implement the most promising ideas on a national scale to reap the rewards of our efforts. If the opportunity is not sizeable or scalable, we are simply not interested. The key is to constantly innovate. If we do not innovate, we will cease to be relevant. These activities include:

PILLAR #1: BUILD THE CORE

1. **"Your Body, Your Health" Concept**: develop plans to take advantage of recent health trends, e.g. cosmetics plus lotions meets internal/ingested to enhance and improve customers' health and beauty image

2. **Financial Services Act II**: take a strong business and make it even stronger, potentially focusing on our customer return policy (up to one year hassle free for purchases made on a Sears card) and new businesses such as mortgage brokerage services, alternative services (small loans, cheque cashing and international money transfers) and retail banking

3. **Men's 'Moores' Plan**: claim back leadership of Men's Dress Wear

4. **$100 MM Home Services Plan**: develop plans to use our differentiators (trust, financing, home products) to substantially grow in the fragmented services market. However, Home Services remains the "should be, could be, but ain't" department that is always referenced as a major area of opportunity, but which has never quite materialized. Over the next two years, we will continue to fix the basics and then it either needs to grow into the large-scale opportunity frequently referenced or be exited

PILLAR #2: CUSTOMER-DRIVE, MARKETING-LED

1. **Vanity Fair Style Event**: hold a Vanity Fair Style Revival event where we showcase the latest apparel and accessories and provide customers with tips on how they can dress according to the latest fashion trends. Consider it "GQ style guide meets President's Choice Insiders Report", where our stylists are the product developers and style is their innovation delivered through the products we sell

2. **Coming of Age for 'Wish Book'**: leverage the 'Wish Book' brand equity across new channels and formats, leveraging technology to deliver an updated version of the brand to customers

PILLAR #4: OPERATE THE BEST FORMATS

1. **Corbeil Pilot in GTA**: plans are in place to test Corbeil stores in the GTA to build on the success they have had in Quebec. This is a small format platform that builds on our MA strength and will compete with other specialists in the market

2. **New In-store Concepts for Major Appliances**: engage with vendors to create an innovation pilot team to explore new ideas and concepts that provide a seamless customer experience which integrates how customers research products online with their physical in-store experience

3. **Doubling Online Sales**: our e-commerce platform is still the largest transactional website in Canada and has been identified as a channel that will increase Sears Canada's brand awareness, drive traffic to retail formats as well as provide a platform to migrate the decline in the catalogue customer base. Plans are to grow sales from $265 MM in 2010 to $600 MM in 2014 through effective execution of marketing, merchandise and technology strategies. While the long term growth strategy is still being finalized, there are several steps planned to support the projected growth of this business which will focus on:
    - Mobile development
    - Online to retail format alignment
    - Digitization of catalogue customers
    - Defining the role of expanded assortment to support hero categories
    - Role of new technologies to enhance online shopping experience

2.4.3. Thinking Big

Our current focus is on transforming Sears Canada. Given where we are, this will take some time. However, beyond this horizon, we already see opportunities to innovate and grow the business beyond the third phase of our transformation. These are nothing more than ideas at this time. Some of the opportunities we may consider include:

- **Build a "Body" Business**: to take advantage of a growing trend in health and an aging population that will need more health and wellness products and services, we anticipate building the Body business into a third pillar to sit beside our Home and Apparel business. We already have strong positions in this market in fitness equipment and skincare. Shoppers Drug Mart took our cosmetics business to the mass-merchant model, we can use our older customer-base to take their skincare and health supplements business to the department store model.

- **Canada's Contractor**: we currently offer a number of home installation services (windows and doors, flooring, kitchen and bath). The Canadian home renovation market is very fragmented, with untrustworthy contractors and based largely on word-of-mouth references. We have the opportunity to differentiate ourselves based on a trusted brand, financing options that almost no contractor could offer (deferred payment & pay by credit card), and a guarantee that we would back the quality of our contracting services in the same manner we back our appliances. This would be a higher-value "Do It For You" service relative to Home Depot's largely "Do It Yourself" model. We would initially keep the scope of our services limited to those that compliment our power and hero products, but we could build this out to eventually become "Canada's Contractor" for home renovations and redecorating – combining full-service installation with our strong product offering in home décor, home furnishings and major appliances. Potentially with Mike Holmes providing executive sponsorship.

- **Partnership with the Shopping Channel**: as catalogue becomes less relevant, there may be an opportunity to explore the Shopping Channel as an additional sales channel.

- **Potential Bolt-On Acquisitions**: as the Canadian retail landscape becomes more competitive, weaker players will be forced to sell. Once we have established our retail rhythm, we may be in a position to take advantage of these opportunities. In addition, as we address our format portfolio and our rural/urban opportunities, we may find a suitable complement to a younger/urban format if we choose to exit that space with the Sears Canada brand.

2.5. *Financial Strategy*

> We have many large-scale initiatives designed to transform the business. The potential improvement in EBITDA is dramatic. At the same time, CAPEX is likely to go up as we slowly and selectively start to invest in store refresh pilots and system upgrades. These investments will be self-funded.

In Section 1.5 we demonstrated how the current trajectory of growth and margin decline would take EBITDA into negative territory if we do not take drastic action. Figure 44 summarizes a path to rebuilding our profitability through the five pillars of growth. Initiatives currently identified, but in the very early stages of development, have the potential do deliver $400 MM of EBITDA improvements. Though we are confident in our ability to reverse negative trends, achieving this level of EBITDA turnaround will be a very significant undertaking. Due to our current trajectory and the impact of Target, this amounts to EBITDA of $450 MM in 2014. Beyond this point, we will have established ourselves as a strong, adaptable retailer able to react quickly, experiment and test concepts to innovatively grow sales.

There has been a renewed focus of the organization to identify changes we need to make in order to grow and become more relevant in the Canadian retail market. We have several promising initiatives underway and we will continue to generate new ideas. At this early stage it is difficult to predict with much certainty the full financial impacts or the precise timing of these solutions; undoubtedly there will be adjustments along the journey. As such, the financial projections used here should be viewed as directional and represent our best estimate at this time; it is a compass, not a roadmap.

FIX THE BASICS AND ESTABLISH OUR RETAIL RHYTHM

The first step to reversing our downward trends will be to get the basics and establish ourselves as a proper retailer. Our preliminary estimates for EBITDA full-potential are below, organized by the five Pillars for Growth. We estimate upwards of **$230 MM** of EBITDA benefit realization by 2014 for our Get the Basics initiatives.

Pillar #1: Build the Core

EBITDA improvements in Build the Core, estimated at **$120 MM**, will be driven by a heightened focus in our Power and Hero categories, and from fixing or exiting our unprofitable businesses. We anticipate above-market growth in many key categories, as we position our business to gain back market share lost over the past few years.

(EBITDA benefits by 2014)	**Hero/Power**	**Fix/Exit**	**Total**
Apparel	$70 MM	$0 MM	$70 MM
Home	$30 MM	$20 MM	$50 MM
Services	$30 MM	$0 MM	$30 MM
Total:	**$130 MM**	**$20 MM**	**$150 MM**

- **Apparel Heroes**: aggressive growth strategies are being developed for Jessica and Tradition lines
  - **Jessica:** the assumptions are to raise overall market share (on a net sales basis) from 1.0% of a $17.5 B market today, to 1.5% of a $19.7 B projected market by 2014. In 2008, we had an overall 1.3% share and much of the growth will come from returning many sub-categories to 2008 share levels
  - **Tradition:** the assumptions are to raise overall market share from 1.1% of a $16.5 B market today to 1.6% of a $20.6 B projected market by 2014. In 2008 Sears Canada had a 1.2% market share and future growth will again be balanced between a return to previous sub-category share
- **Apparel Power** (aspiring to be Heroes): the Modern Shop will renew its focus, building off of successes such as the Jay Manuel line; Kids Room is being re-launched as a one-stop-shop for apparel, toys and juvenile furniture
  - **Kids Room:** the plan is to return market share back to 2010 levels after a significant drop off in 2011, bringing share back to 5% across Kids Room markets, all within reasonably stable markets
- **Home Heroes:** aggressive growth plans under development to regain lost market share in Major Appliances and Mattress divisions
  - **Major Appliances:** assumptions for are for the market to remain at 2011 levels due to price erosion, with Sears Canada leveraging its #1 position to take an additional 1% of the market each year to 2014
  - **Mattresses:** assumptions for are for the market to grow 3% per year to 2014, with Sears Canada taking an additional 1% of the market each year
- **Home Fixes:** Fitness, Electronics and CAWP businesses will need to be downsized about 10% and product selection will need to be rationalized in order to return these businesses to profitability
- **Home Services:** by continuing to fix these businesses, we will turn Parts & Repair Services profitable (currently -$17 MM) and improve the remainder

Pillar #2: Customer-Driven, Marketing-Led

EBITDA benefits (~**$20 MM**) are driven by more effective and focused marketing activity spend; traffic- and conversion-driving campaigns expected to drive 4-6% sales growth.

Pillar #3: Get Value Right

Overhauling Sears Canada's pricing policies to be more competitive within the market and avoid excessive deep discounting; estimated EBITDA benefit of **$20 MM** from increasing the average effective sales price by 2%.

Pillar #4: Operate the Best Formats

We still have a significant amount of work to be done in order to fully develop and implement our format strategies. Our current estimate of **$70 MM** in EBITDA is a preliminary assessment based on the following opportunities:

- **Catalogue:** several short-term initiatives are being implemented to stem the ongoing EBITDA decline. In 2011, we have already cut our catalogue circulation by 1 MM books and discontinued 2 catalogues. Additional cost savings are expected from rationalizing categories, geographies, and books.
- **Full-line Store Refresh:** refresh of 90 Full-line Stores by the end of 2013, with the remainder occurring in 2014. Improvements to store layout and better assortment will improve the customer experience, driving top-line growth and profitability. We anticipate the investment will be approximately $2M/store.
- **Online:** improved customer experience and product navigation will drive sales growth by a 17% CAGR over next three years – to $480 MM in 2014
- **Home Store Makeover:** Home Stores is a $500 MM format. EBITDA improvements will be driven by improving the customer experience (layout, assortment) of the stores, and Home Store targeted marketing – driving productivity and operating margins
- **Re-ruralization of Sears Canada:** benefits following the development of a strategy to regain a dominant strategic position once held
- **Outlets:** right-sizing the 11 Outlet stores will drive efficiency and margin improvements

Pillar #5: Organize the Right Talent

The latest savings estimates are around **$10 MM**, representing approximately 7% of corporate payroll. Severance is estimated at approximately $10 MM.

SEEDS OF INNOVATION

In addition to the $230 MM of opportunities identified under Get the Basics, a number of more innovative growth projects are being launched, which may procure a further **$50 MM** of EBITDA benefit by 2014.

- **Men's Dress Wear:** regaining market share lost to Moore's
- **Home Services:** leverage Sears Canada's brand reputation for trust and access to deferred financing to become the dominant Home Services provider in Canada
- **Financial Services:** continuing to prioritize building on our strong base, with emphasis on additional card activations, and expansion into adjacent businesses
- **Specialty Services:** renegotiation, restructuring, or closure of services currently not delivering adequate profitability and value to the customer experience, such as Food Service
- **Corbeil:** our pilot program in the Greater Toronto Area will help determine how far we can expand outside of Quebec. The current plan is to open 14 stores by 2014 (nine of which are franchised). In addition to sales growth, we should realize efficiencies by leveraging existing management team
- **Online:** we are in the process of developing a strategy to double the Online business to $600 MM by 2014

FUNDING THE JOURNEY

There are a number of opportunities for efficiency improvements and subsequent cost reductions that have been identified following a deep review of our roughly $4.5 B cost base. Initiatives have focused on five streams of work and areas of opportunity, listed below. We view these efficiency and cost rationalization activities as fundamental to laying the platform for achieving growth outlined in the five pillars, as well as providing the capital to fund the journey. In addition to these ongoing benefits, a one-time capital infusion will be realized through a reduction in inventory levels, estimated at $100 MM – the net result of the combined operational efficiency of the following, plus anticipated system upgrades.

The estimated total EBITDA run-rate benefit to be realized through these initiatives is $120 MM (excluding impacts already projected to be achieved in 2011). The net benefit goes to **$90 MM** after adding back for AIP/LTIP accruals.

- **Supply Chain:** a number of operational and network-related recommendations were outlined by our Supply Chain team, based on the analysis and findings, as described in more detail in Section 2.3.1. Run-rate savings are estimated at $25 MM

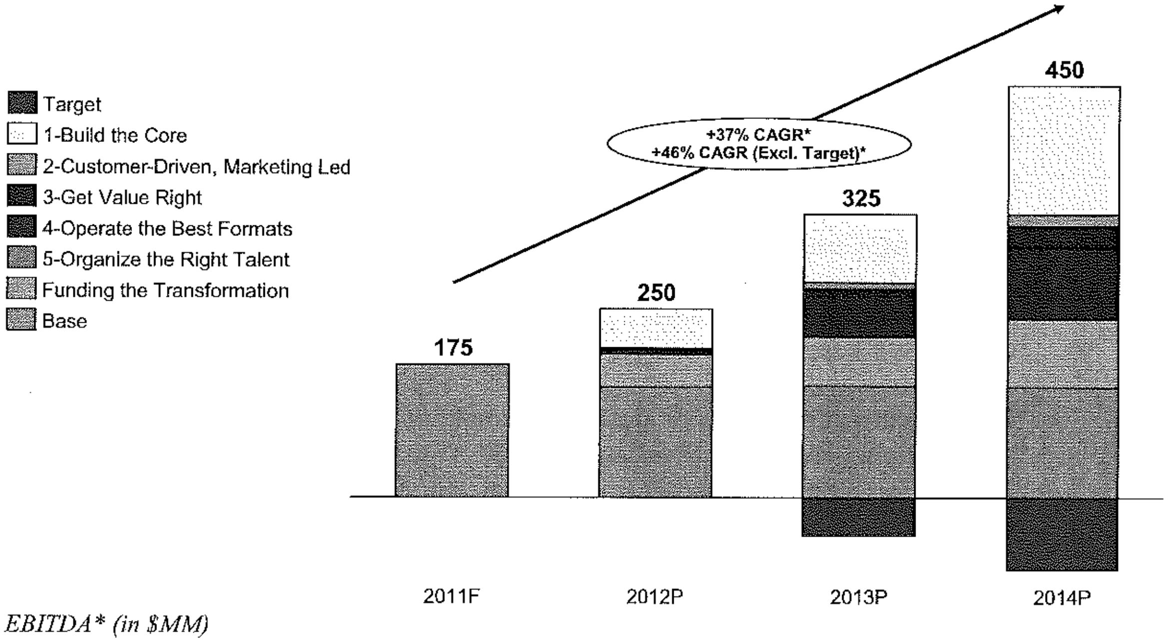
- **Non-Merch Procurement:** from an overall cost base of almost $1 B, $180 MM was deemed addressable in the first pass of this project. $20 MM in total savings was identified, with $10 MM of this being incremental to 2011. Savings to come from Home Delivery, Broadcast Media buys, Inserts and Newspaper ROP, and pre-Media spend

- **Marketing Costs:** planning to cut $20 MM of annual expense from a base of $180 MM, across Flyers, Media and Internet. Savings identified were largely through benchmarking against Sears Canada's peers. Excludes anticipated savings within the Catalogue business (captured in "Best Formats")

- **COGS:** current efforts have identified a total $65 MM of run-rate savings across both National & Private Brands. $40 MM of this ($25 MM National, $15 MM Private) is incremental to 2011. The total $65 MM translates to approximately 140 bps improvement on projected 2014 sales

- **HQ Payroll Reductions:** as outlined above, $10 MM in savings

Based on initial estimates of EBITDA improvement from these initiatives, we believe our best case scenario will hit $450 MM EBITDA by 2014 (Figure 44). This represents a CAGR of 37% (46% if we were to exclude the impact of Target). We are committed to our transformation, but realize that this represents a best-in-class retail transformation. Of other retail turnarounds we have studied, the average 3-year EBITDA CAGR is 22%. The best case was Nordstrom, which took EBITDA from $132 MM in 2000 to $334 MM in 2003 (36% CAGR), while the worst case was Canadian Tire, which only grew from $282 MM in 1993 to $321 MM in 1996 (4.4% CAGR), but that was with Walmart entering the Canadian market in the middle of their transformation (1994/95). Despite our many challenges, we believe Sears Canada has the opportunity to achieve these results and become one of the greatest retail transformations in history. This plan is a compass – we will adjust as necessary to steer towards this financial commitment. When things are not working, we will fix, shift and innovate elsewhere, but we are determined to achieve this number and deliver one of the greatest transformations in Canadian retail history.



	2011F	2012P	2013P	2014P
Total Revenue ($B)	$4.7B	$4.8B	$4.9B	$5.2B
Merchandise Sales Growth	-5.2%	1.9%	2.8%	5.1%
EBITDA %	3.7%	5.2%	6.6%	8.7%

*Excludes transformation costs and the impact of accounting policy changes

Figure 44: Rebuilding Profitability

					3 Year Plan			
	2009*	2010	2011 Plan	2011F	(Preliminary) 2012P	2013P	2014P	2014F vs. 2011 (Variance)
Total Revenue	$ 5,179.9	$ 4,918.4	$ 5,022.0	$ 4,691.3	$ 4,779.6	$ 4,919.0	$ 5,182.9	$ 491.7
Y/Y Growth	-9.5%	-5.0%	2.1%	(4.6)%	1.9%	2.9%	5.4%	
CAGR (3 year)								3.4%
Gross Margin	1,699.8	1,588.4	1,724.0	1,436.7	1,492.4	1,539.1	1,669.3	$ 232.6
GM %	38.5%	37.7%	40.2%	36.0%	36.7%	36.8%	38.0%	+201 bps
Total Expenses	1,841.0	1,858.8	1,894.4	1,799.2	1,781.3	1,756.7	1,765.3	$ (33.9)
% Revenue	35.5%	37.8%	37.7%	38.4%	37.3%	35.7%	34.1%	-429 bps
EBITDA	$ 462.8	$ 293.4	$ 400.2	$ 175.8	$ 250.0	$ 325.0	$ 450.0	$ 274.2
CAGR (3 year)								36.8%
% Revenue	8.9%	6.0%	8.0%	3.7%	5.2%	6.6%	8.7%	+494 bps

*2009 adjusted for IFRS based on management's best estimates

Figure 45: Preliminary 3-Year Plan

RISKS

The projected EBITDA improvements captured here, totaling $400 MM, represent the aspirational sum total of many significant achievements still in early stages of development. As such, these carry varying degrees of risk, as outlined at a high-level below. However, our challenge is to manage these risks accordingly – we will monitor, adjust, and innovate elsewhere to deliver our target. Excluded here are additional impacts above and beyond the $95 MM already identified due to the entry of Target.

(EBITDA benefits by 2014)	**Total**
Fix the Basics – 25% risk to $230 MM	$57 MM
Seeds of Innovation – 50% risk to $50 MM	$25 MM
Funding the Journey – 15% risk to $120 MM	$18 MM
Total:	**$100 MM**

CAPITAL REQUIREMENTS & CASH-FLOW

We want to invest to grow, but in a "self-funding" manner. The Funding the Journey efficiency improvements outlined above will provide a strong base of cash towards funding our transformation. Figure 46 and Figure 47 highlight projected capital spend and overall cash flow through to 2014, respectively. The capital spending estimates specifically linked to the identified initiatives (over and above "standard" annual capital levels) are currently estimated in the range of $300-350 MM total over three years. The majority of this capital is earmarked to fund Full-Line and Home Store refreshes, IT related system upgrades and e-commerce investments. We plan to refresh 90 full-line stores by 2013 in order to better compete against the new Target stores. Further expansions of rural stores, higher quality upgrades to existing stores or capital for acquisitions, are not included here. We will test our format investments prior to roll-out, then roll out at an appropriate pace.

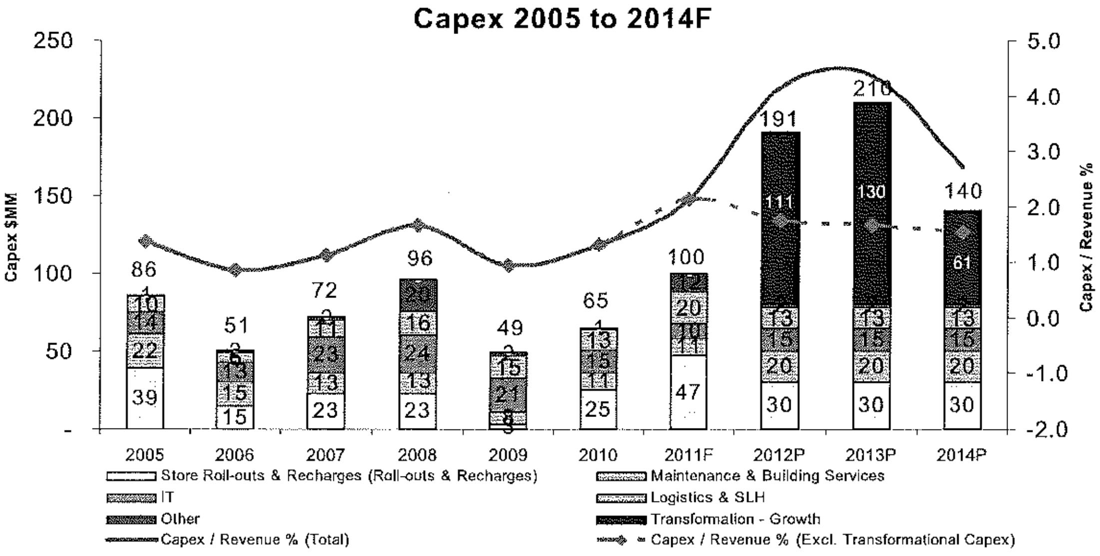


Figure 46: Capital Spend Projections

Cash Table

	2011F	2012P	2013P	2014P
Opening Cash Balance	$ 432	$ 400	$ 348	$ 431
Cash from Operations	197	147	298	381
Cash from Investing	(100)	(191)	(210)	(141)
Cash from Financing	(129)	(8)	(4)	(3)
Net Cash movements	(32)	(53)	83	237
Closing Cash Balance	$ 400	$ 348	$ 431	$ 669
Minimum WC required	$ (180)	$ (180)	$ (180)	$ (180)
Balance of Credit Line	$ 600	$ 600	$ 600	$ 600
Available Cash	$ 820	$ 768	$ 851	$ 1,089

Figure 47: Cash Flow by Year

3. Trading for Today

While we set about transforming our organization, we also need to be cognizant of the fact that we are still operating day-to-day in an intense competitive retail landscape where our sales, margins, share of mind and share of wallet are continuing to decline. We cannot call a 'time-out' while we get the basics of retail. To this effect, we are reviewing and prioritizing a number of initiatives designed to improve results in the second half. Decisions have already been made and action is being taken. In almost all cases, these initiatives actually align with the strategic direction outlined within this document. For instance, Major Appliances and Mattresses are future Hero categories, and we are launching a "Major Appliances and Mattress Attack Plan" in the second half of 2011.

In addition to delivering improved financial performance, these quick wins will also:

1. Prove to vendors that we are serious about driving growth
2. Send a signal to competitors that Sears is back
3. Demonstrate to associates that we have the capability to take action and make a difference

These quick wins are key to starting to transform our culture. They will start to bring pride back into the organization, which will start to create a winning attitude that will help sustain us and keep us fighting through the most challenging twelve months of our transformation.

4. Next 90 Days

With Board support of our direction, we will continue to execute the following 90-day plan, begin communicating with the business and carry on with our journey of dramatically transforming Sears Canada.

	Next 30 Days	30-60 Days	60-90 Days
Major Themes	**· Build Holiday Program** **· Define Master Brand and Vision**	**· Finalize 2012 Operating Plan** **· Organization Alignment Announcement**	**· Deliver Holiday**
Strategic Actions	· Open Yorkdale (urban) refresh · Track competitive prices weekly on key value items (KVI) · Implement short-term fixed cost adjustments to catalogue (rationalize books, circulation)	· Commence reduction in lines within CAWP, Electronics and Fitness and Recreation · Pilot new pricing strategy for Major Appliances · Implement org. changes · Determine Sears customer service vision and "Customer Promise"	
Ongoing Diagnostics	· Complete MA, Electronics, F&R and CAWP strategies · Design culture strategy · Complete Phase-2 Catalogue review (Long Term Strategy)	· Complete Jessica, Tradition and Kids Room and Modern Shop strategies · Develop value proposition by format · Develop Best Store Leadership · Develop pricing strategy for Major Appliances and Women's Apparel · Determine fixes for stores most at risk from Target's 2013 entry · Process mapping complete for merchandise planning, marketing · Complete on-line strategy · Complete Best Store Program training curriculum	· Conduct detailed review of Product Repair business and launch business transformation · Develop pricing strategy for remaining categories · Develop pricing strategy implementation plan · Develop strategies for "core" categories
Vendor/ Associate Engagement	· Conduct regional store manager conferences · Hold vendor forum · Store Manager Holiday kick-off	· Roll-out new vision statement · Conduct culture assessment (associate survey) · Hold Town Hall in DCs · Culture, Vision & Values - eMarketing blitz · November 1st = "Perfect Day"	
Quick Wins	· Set-up pilot Holiday store with merchant review complete · Negotiate with key vendors to capture an additional $11M · Execute Price Match Guarantee for MA and Mattresses · Test Home Store marketing · Implement new in-store service models · Revise Catalogue delivery charges	· Launch Holiday Wish campaign to promote Sears as a Gift Giving destination · Introduce Holiday Events (Gift Preview, Friends & Family, Black Friday) to drive sales through increased traffic · Drive sales through key items across Apparel and Home with in-store collateral · Launch redesigned flyer and flyer process	· Capture Q4 non-merch cost savings · Launch Boxing Week promotional events

5. Conclusion

Turning around the current financial trends of Sears Canada from a prolonged period of deep decline, and reestablishing upward momentum, will not happen overnight and will not come without challenges. Some of the changes will be felt internally and/or by our customers "immediately" (e.g., cost cutting activities, vendor management, improved product assortment), bringing some positive momentum into our growth. However, challenges will include short-term confusion (e.g., shifts in pricing strategy), longer lead-time for implementation (e.g., store refreshes, systems and organizational changes), and not getting everything perfect right out of the gate (e.g. refining our marketing message).

2012 will be a year of internal organizational change and significant strategy development and roll-out. We expect to see little to no growth when coupled with our current downward momentum.

2013 will start with most of our key initiatives in place, and we would expect to begin to see the real effects of these efforts impacting our customer's perceptions of Sears Canada – driving our top and bottom lines.

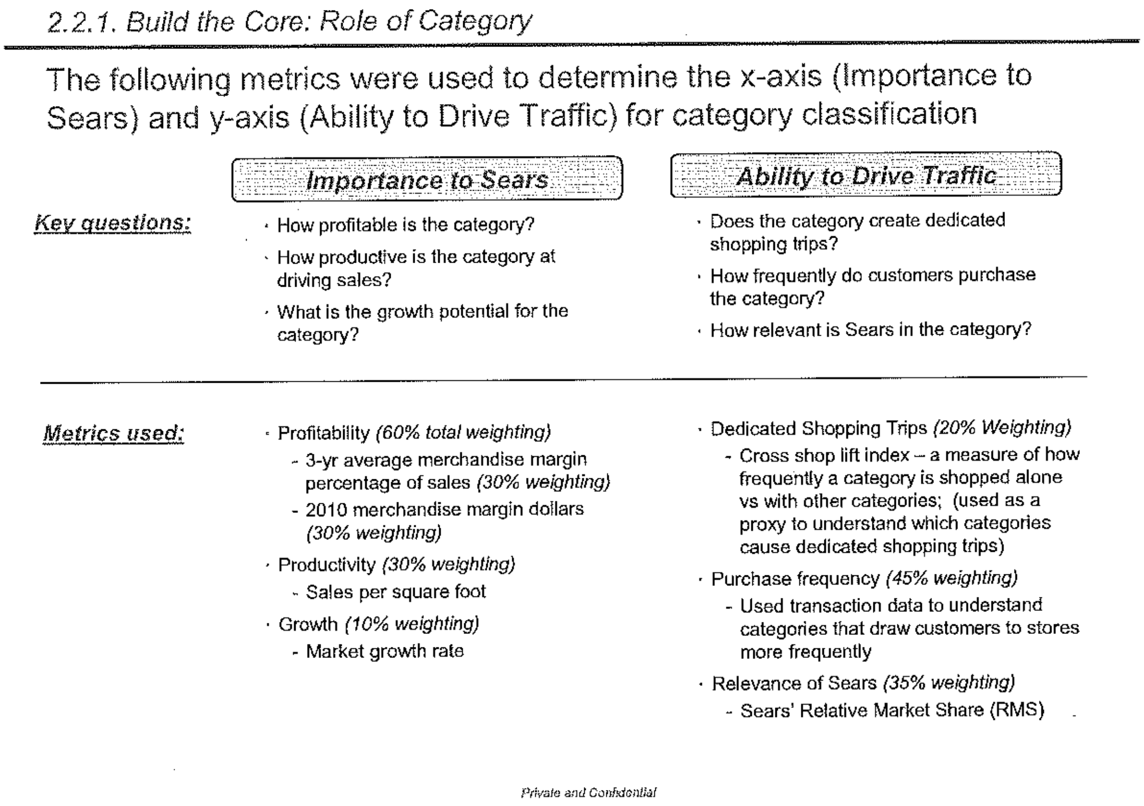
2014 onwards: having turned the corner, and with the toughest part of the transformation behind us, we will be able to focus squarely on growing market share and entering a phase of innovation.

Deliver on this strategic plan, and we would have transformed Sears Canada into a strong, more relevant Canadian retailer.

Appendix A: Analysis supporting category classification (Section 2.2.1)

Appendix B: Historical financials

Appendix A



2.2.1. Build the Core: Role of Category

The following metrics were used to determine the x-axis (Importance to Sears) and y-axis (Ability to Drive Traffic) for category classification

	Importance to Sears	***Ability to Drive Traffic***
Key questions:	· How profitable is the category? · How productive is the category at driving sales? · What is the growth potential for the category?	· Does the category create dedicated shopping trips? · How frequently do customers purchase the category? · How relevant is Sears in the category?
Metrics used:	· Profitability *(60% total weighting)* - 3-yr average merchandise margin percentage of sales *(30% weighting)* - 2010 merchandise margin dollars *(30% weighting)* · Productivity *(30% weighting)* - Sales per square foot · Growth *(10% weighting)* - Market growth rate	· Dedicated Shopping Trips *(20% Weighting)* - Cross shop lift index – a measure of how frequently a category is shopped alone vs with other categories; (used as a proxy to understand which categories cause dedicated shopping trips) · Purchase frequency *(45% weighting)* - Used transaction data to understand categories that draw customers to stores more frequently · Relevance of Sears *(35% weighting)* - Sears' Relative Market Share (RMS)

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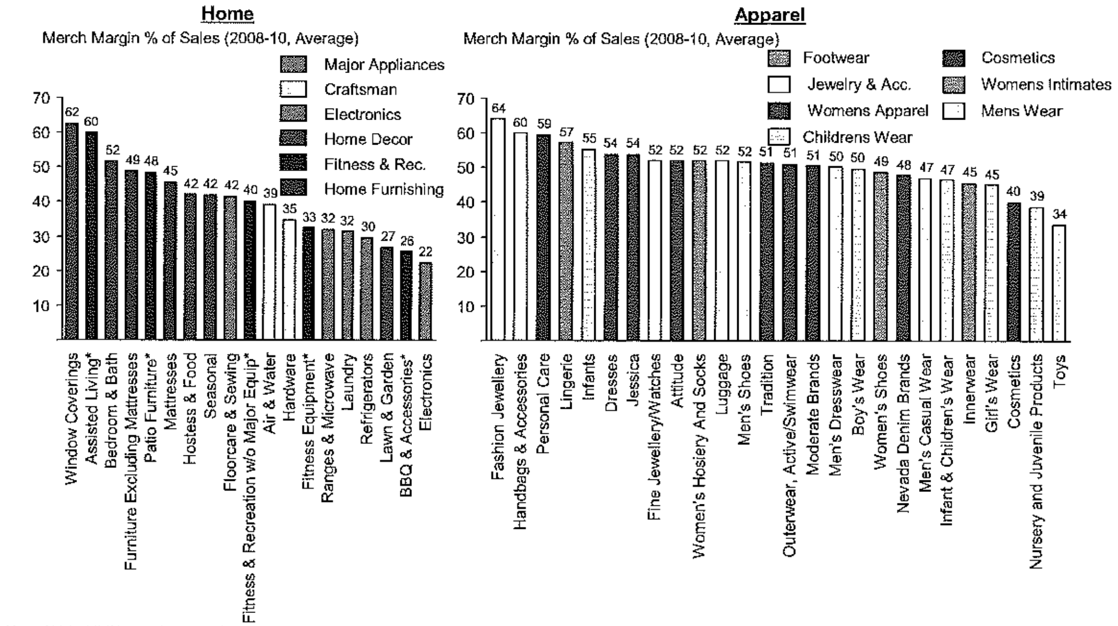
Appendix A

2.2.1. Build the Core: Importance to Sears – Profitability (1 of 2)

In Home, Merchandise Margin highest for Window Coverings; in Apparel, Fashion Jewelry and Handbags



Note: *2010 MM% used instead of 3-Year Average MM% for certain divisions due to data availability
Source: Merch Margin reports

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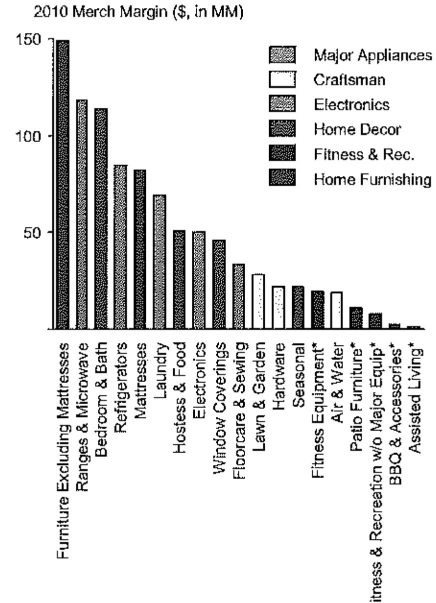
Appendix A

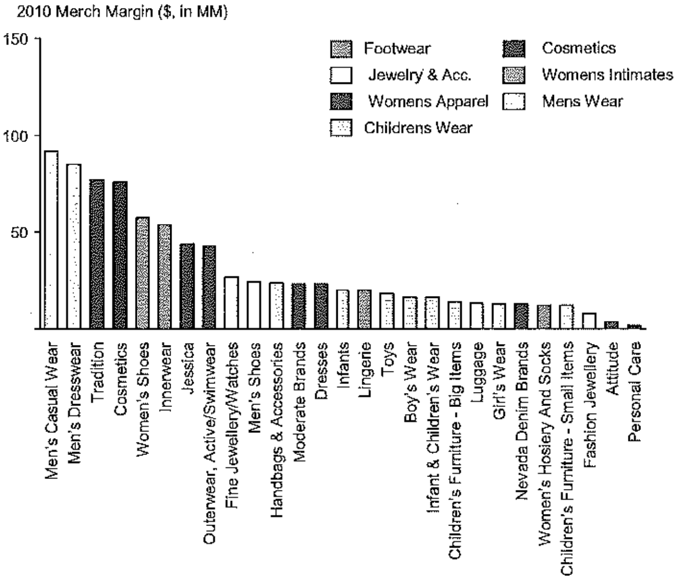
2.2.1. Build the Core: Importance to Sears – Profitability (2 of 2)

In Home, Furniture, Bedroom & Bath and Major Appliances contribute the most Merchandise Margin dollars; in Apparel, Men's Wear and Tradition

Home



Apparel



Source: Merch Margin Report

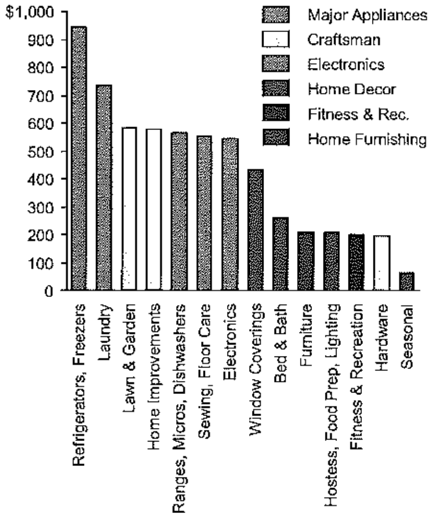
Appendix A

2.2.1. Build the Core: Importance to Sears – Productivity

In Home, sales per square foot is highest in Major Appliances; in Apparel, Toys and Footwear highest

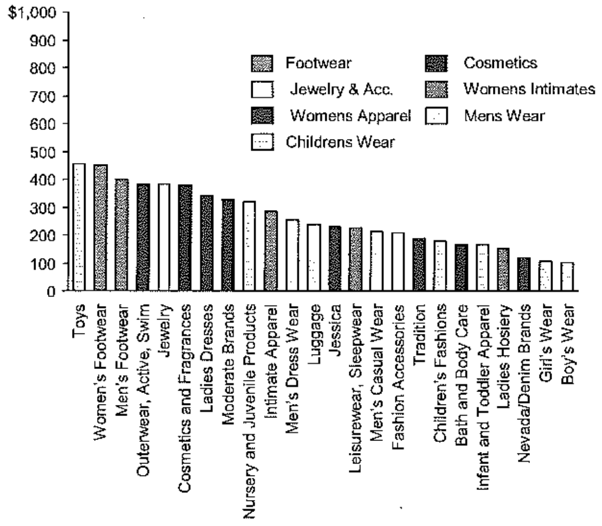
Home

Sales per square foot (all channels), 2010



Apparel

Sales per square foot (all channels), 2010



Note: Furniture 1 & 2 Divisions combined into Furniture;
Source: 2010 IFRS Retrieved from Essbase

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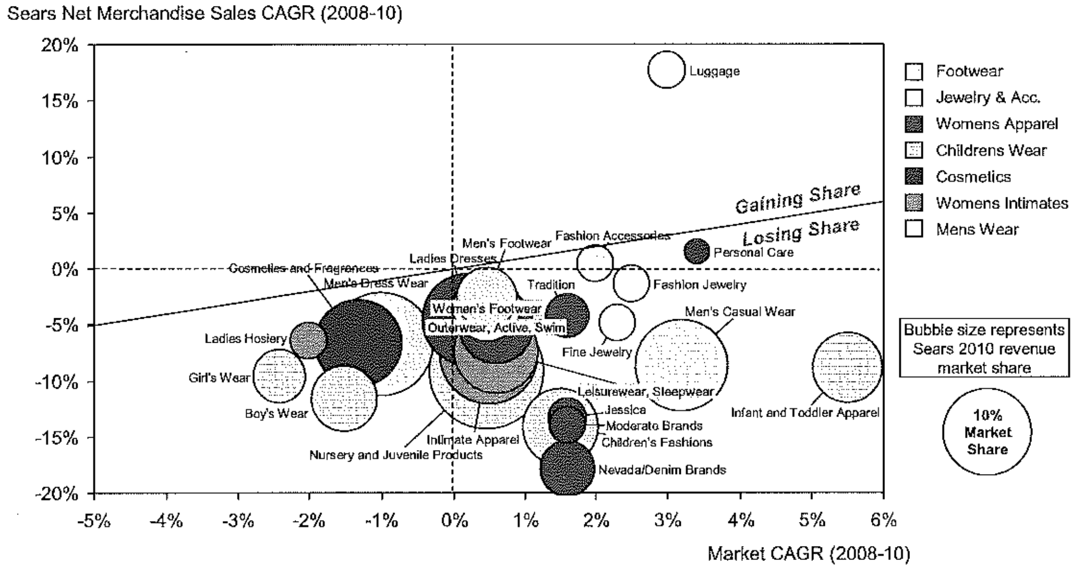
Appendix A

2.2.1. Build the Core: Importance to Sears – Apparel Growth

Infant Apparel, Bath & Body and Men's Casual are fastest growing Apparel markets; Sears has lost share in all of Apparel except Luggage



Note: Attitude excluded due to lack of historical data
Source: Net Sales by Division - GAAP 08-10 Retrieved from Essbase; Divisional Market – Synovate/NPD; StatsCan

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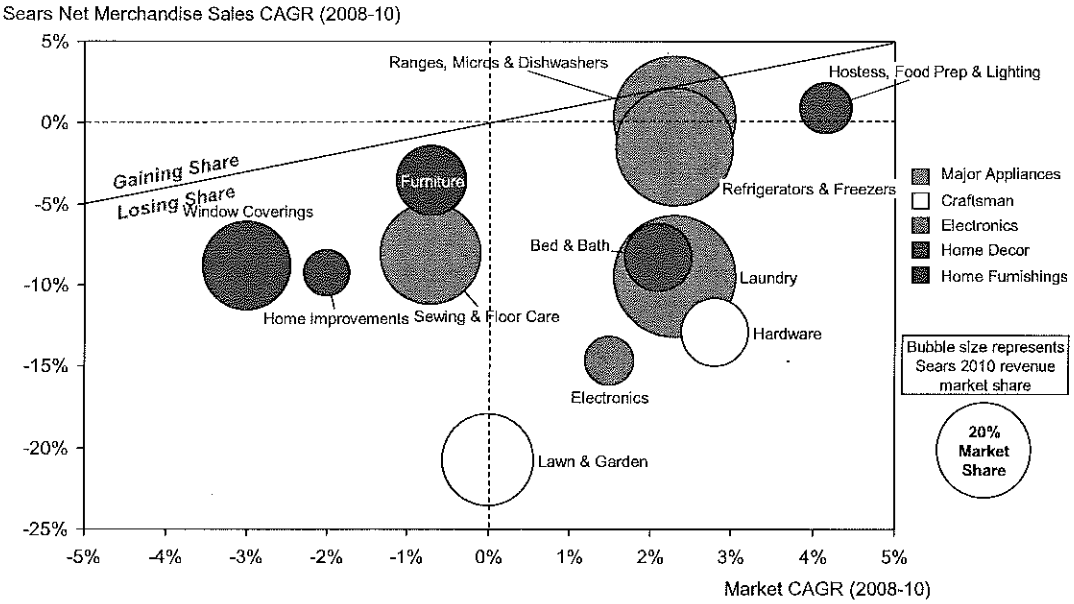
Appendix A

2.2.1. Build the Core: Importance to Sears – Home Growth

Market for most Home divisions growing within 300bps of flat;
Sears has lost market share since 2008



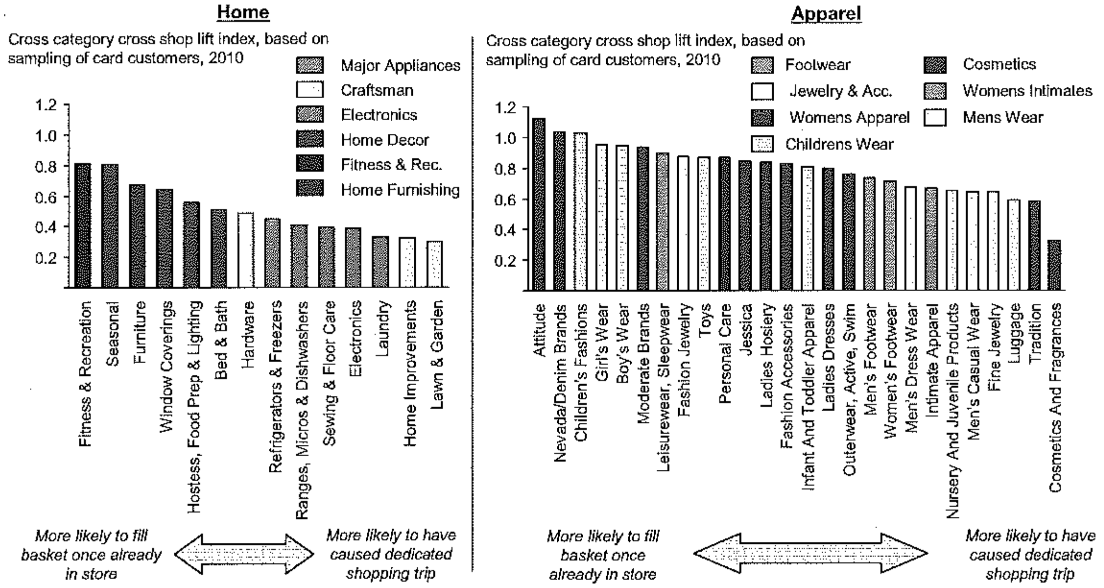
Note: F&R, Seasonal, & Toys not shown due to reclassification of divisions in 2011
Source: Net Sales by Division - GAAP 08-10 Retrieved from Essbase; Divisional Market – Synovate/NPD, StatsCan

Private and Confidential

Appendix A

2.2.1. Build the Core: Ability to Drive Traffic – Trips to Store

Major Appliances, Lawn & Garden and Home Improvements cause dedicated trips in Home; Cosmetics, Tradition and Luggage in Apparel



Note: Cross shop lift index is a proxy that represents increase in probability that divisions are purchased together
Source: Sears Financial

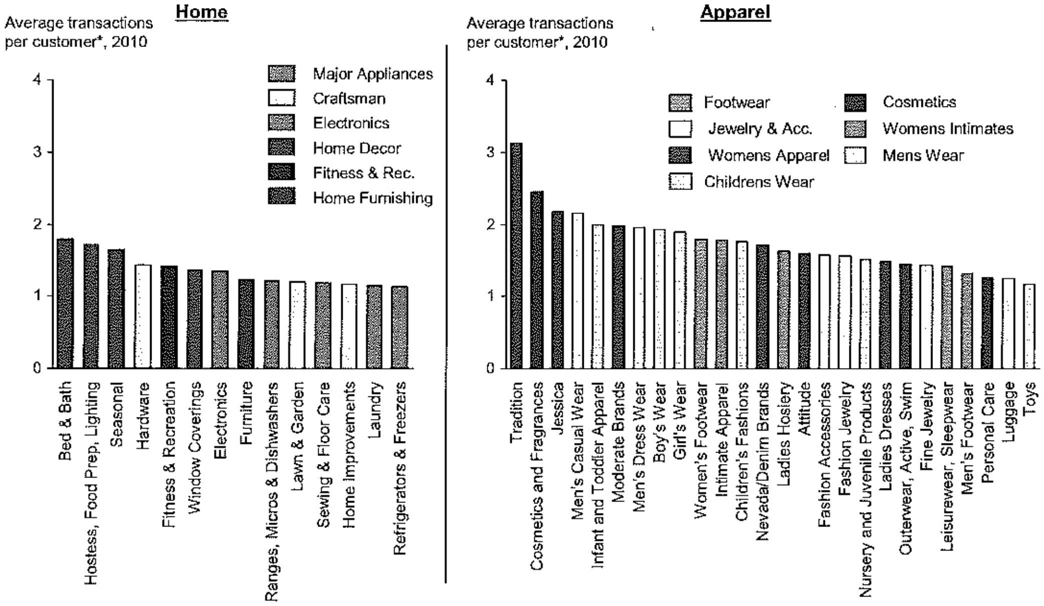
Private and Confidential

9,9

Appendix A

2.2.1. Build the Core: Ability to Drive Traffic – Purchase Frequency

Within Home, Home Décor shopped most frequently;
in Apparel, Tradition, Jessica and Cosmetics



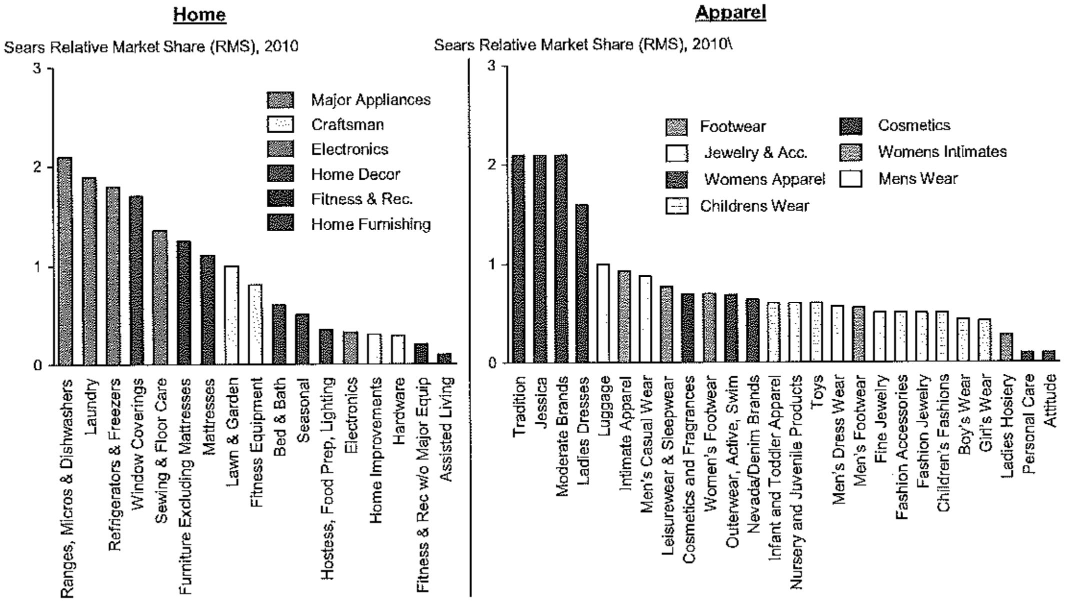
Note: *Based on sampling of customers with credit transactions in 2010 (both Sears cards and other credit cards)
Source: Sears Financial, MBA_ALL_070711; sample of card customers with transactions in Full Line stores

Private and Confidential

Appendix A

2.2.1. Build the Core: Ability to Drive Traffic – Relevance of Sears

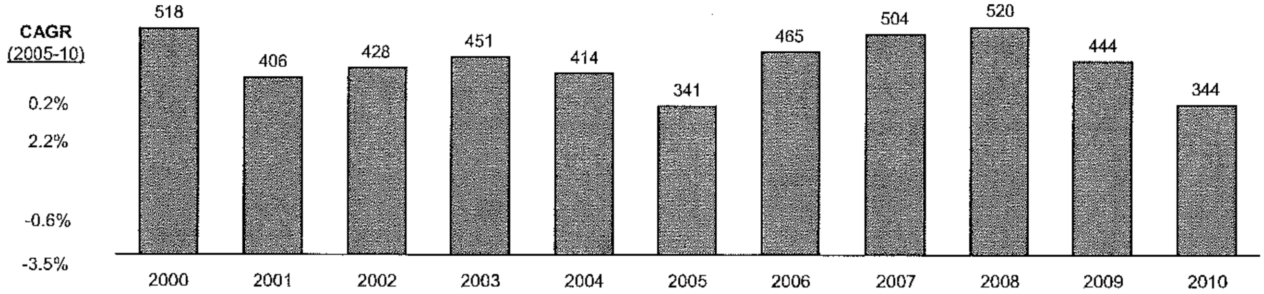
Sears is clear market leader in Major Appliances and in Women's Apparel



Note: Relative Market Share (RMS) calculated as Sears market share divided by leader's market share; where Sears is leader, RMS is Sears share divided by #2 players market share; RMS for Women's Apparel applied to Tradition, Jessica, and Moderate Brands
Source: Synovate using Gross Sales and NPD

Appendix B

EBITDA excluding non-comp items ($MM)

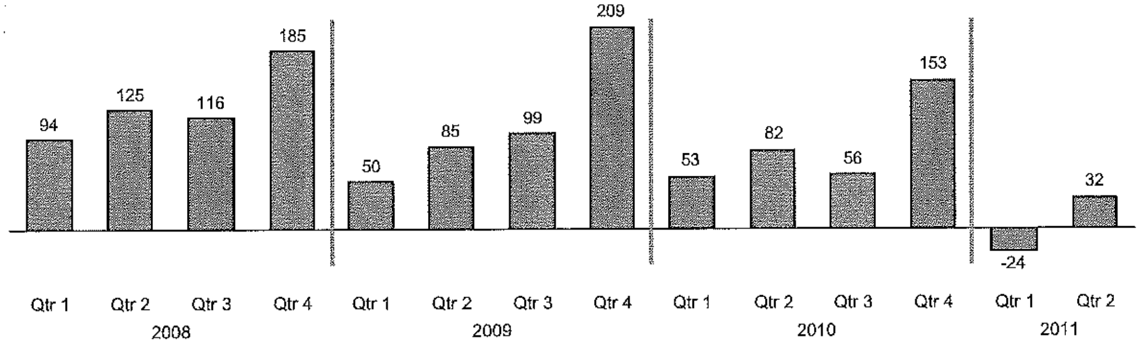


	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Revenue ($MM)	6,356	6,726	6,536	6,223	6,230	5,920	5,943	5,844	5,732	5,200	4,957
Comparable EBITDA % of Revenue	*8.1%*	*6.0%*	*6.5%*	*7.2%*	*6.6%*	*5.7%*	*7.8%*	*8.6%*	*9.1%*	*8.5%*	*6.9%*
Expenses ($MM)	2,263	2,367	2,440	2,374	2,375	2,176	2,120	2,086	2,064	1,856	1,915
Expenses % of Revenue	*35.6%*	*35.2%*	*37.3%*	*38.1%*	*38.1%*	*36.8%*	*35.7%*	*35.7%*	*36.0%*	*35.7%*	*38.5%*
Cash ($MM)	136	329	143	83	78	775	747	872	820	1,382	426
S.T Debt ($MM)	153	10	6	7	21	216	32	16	0	314	6
L.T Debt ($MM)	546	803	770	763	735	533	396	356	332	37	131
Inventory ($MM)	1015	865	754	801	790	788	805	880	968	852	953

Note: Excludes one-time gains from asset sales, e.g. $677M in sale of credit and financial services operations in 2005 and $84M from sale of real estate including Jarvis HQ in 2007

Appendix B

EBITDA excluding non-comp items by Quarter ($MM)



Revenue ($MM)	1,254	1,420	1,442	1,616	1,116	1,250	1,309	1,525	1,067	1,213	1,201	1,477	992	1,148
Comparable EBITDA % of Revenue	*7.5%*	*8.8%*	*8.0%*	*11.4%*	*4.5%*	*6.8%*	*7.6%*	*13.7%*	*5.0%*	*6.7%*	*4.7%*	*10.3%*	*-2.6%*	*2.8%*
Expenses ($MM)	487	510	547	520	458	453	484	461	449	469	488	509	441	450
Expenses % of Revenue	*38.8%*	*36.9%*	*37.9%*	*32.2%*	*41.0%*	*36.2%*	*40.0%*	*30.2%*	*42.1%*	*38.7%*	*40.6%*	*34.5%*	*44.5%*	*39.2%*

TAB 13

Board Update

March 1st, 2012

Executive Summary

Sears

- The Cadillac Fairview Corporation Limited, Pacific Centre Leaseholds Ltd., Ontrea Inc. and Viking Rideau Corp. ("Cadillac Fairview") has approached Sears Canada Inc. ("Sears") with a proposal to surrender and early terminate the following three leases for cash consideration:

– Pacific Centre (Vancouver)	$100,000,000
– Chinook Centre (Calgary)	$ 35,000,000
– Rideau Centre (Ottawa)	$ 35,000,000
Total:	$170,000,000

  - Transaction Closing Date*: April 20, 2012 with the surrender and termination of the terms of the lease on Oct 31, 2012; the three stores are to be assumed by the Landlord in "As Is" condition

- Management has reviewed the proposal and completed a valuation analysis taking into consideration different valuation approaches, historical, current and projected financial performance and financial condition, strategies and goals, business, operations and prospects, industry and market conditions

- $170,000,000 consideration represents a 20X profit contribution multiple (over 2009) or over 4X the sum of discounted cash flows

(in $ Millions)	**Sales**		**Profit Contribution (Adj)**		**Valuations**			
	2009	**2011**	**2009**	**2011**	**Discounted Cash Flow Valuation (5X Multiple)**	**10X Multiple**	**15X Multiple**	**"Proposal" 20X Multiple**
Vancouver	46.1	41,3	3.5	2.8	18	36	53	72
Calgary	23.6	21,3	2.4	1.9	12	25	37	50
Ottawa	23.3	22.3	2.3	1.3	12	24	36	48
					$42	**$85**	**$126**	**$170**

- Closing Considerations: P&L Expense ($21M) – ($25M) ; Cash impact $6M - $7M (net of inventory sell-through)

- **Based on the analysis, Management believes that the proposal represents an opportunity to drive shareholder value creation and deliver strong shareholder return**

---

* Cadillac Fairview may extend the Closing Date for Rideau by 35 business days (pending their bond financing approval)

$170M consideration represents a 20X profit contribution multiple, over 4X more than the sum of discounted cash flows ...

Valuation Assumptions:

- Reviewed FY2009 – FY2011 store profit contributions but used FY2009 as a proxy for normalized performance
- Store profitability calculated by taking profit contribution less rent expense and retained margin from sales not completely lost due to exiting store leases (assumed 20% recovery in sales from neighboring stores)

Approaches:

- Discounted Cash Flow provides a meaningful valuation of the stores on a stand-alone basis; discounted profit contributions per store based on remaining lease terms
- Comparable Trading and Transactions relative valuation not used to calculate current market value due to a lack of similar publicly-traded companies, however, Profit Contribution Multiple used below for illustrative purposes

(in $ Millions)	2009 Profit Contribution	Protection Agreements (1)	Cross Shopping Credits (2)	Retained Margin (3)	Adjusted 2009 Profit Contribution	Discounted Cash Flow Valuation (4) (5X Multiple)	10X Multiple	15X Multiple	"Proposal" 20X Multiple
Vancouver	4.8	(0.2)	(0.1)	(1.0)	3.5	18	36	53	72
Calgary	3.6	(0.2)	(0.3)	(0.7)	2.4	12	25	37	50
Ottawa	3.1	(0.1)	(0.1)	(0.6)	2.3	12	24	36	48
					$8.2	$42	$85	$126	$170

---

(1) Store P&L profit contribution overstated as it receives a 100% credit for the sale of Protection Agreements; back out 80% of these sales to align to Channel reporting

(2) Store P&L profit contribution overstated as it includes commissions for handling Catalogue pick-up desk and HIPS leads; these are backed out

(3) Not all revenue and profit contribution is assumed to be lost due to exiting stores (assumption is 20% recovery)

(4) Cash flows based on Vancouver, Calgary and Ottawa profit contributions carried forward to the end of their lease terms discounted at a 20% hurdle rate

Other Considerations

- **When is the closing date and what are the associated closing costs?**
  - Closing is April 20, 2012 with the surrender and termination of the terms of the lease on Oct 31, 2012
  - Closing costs include:

One-Time Considerations	P&L	Cash
1. Employee severance and transfers	($6M)	($6M)
2. Inventory	($7M)	$13M
3. Asset write-off for retail space of 3 stores	($8M)	$0
4. Legal, advisors, brokers, taxes, etc.	($0.4M)	($0.4M)
Total	**($21M) – ($25M)**	**$6M - $7M**

- **What are the key conditions to the agreement?**
  - The obligation of Sears to complete the transaction is subject to, on the Closing Date, Cadillac Fairview paying $170,000,000.00 and complying with all other terms of the agreement in all material respects; and on the Closing Date, all of the representations and warranties of Cadillac Fairview in the agreement shall be true and accurate in all material respects as if made as of the Closing Date. These include that Cadillac Fairview has the requisite corporate authority to complete the transaction, has the legal right to agree to the surrender and termination of the leases and by March 2, 2012 has received its internal and Board approval

  - The obligation of Cadillac Fairview to complete the transaction is subject to on the Closing Date, Sears complying with all terms of the agreement in all material respects; and on the Closing Date, all of the representations and warranties of Sears in the agreement shall be true and accurate in all material respects as if made as of the Closing Date. These include that Sears has the requisite corporate authority to complete the transaction, has the legal right to agree to the surrender and termination of the leases and by March 2, 2012 has received its internal and Board approval and
    - there are no collective bargaining agreements covering the employees of Sears employed at or in connection with any of the subject stores, nor are any collective bargaining agreements, which would cover such employees, being negotiated.

Other Considerations (continued)

- **What is the strategic rationale?**
  - -$170M cash consideration represents value that is over 4x the valuation of the discounted cash flows for three stores which could be used to generate greater shareholder returns
  - -Nearby stores would be able to mitigate some of the lost sales, which is estimated to be approx. $90M with a net EBITDA impact of approx. ($6M) for 2012; 3-year risk is~$280M in sales and $21M in EBITDA
  - -Improved working capital through improved inventory management
- **What are the accounting implications?**
  - – A subsequent event note disclosure will be required in the annual financial statement and MD&A filings
  - – The gain on sale net of closing costs will be included in Net Income and excluded from EBITDA
- **What are the tax implications?**
  - – Currently, there is incomplete information relating to the pre-Eaton's acquisition (1999) with respect to historical costs which is used in the cash tax calculation on capital gains
  - – Based on the current information, the worst case scenario, tax on the sale will be ~$21M
  - – A more likely scenario using estimates for Eaton's historical costs would indicate that the tax on the sale will be ~$15M

Recommendation

- The $170M cash consideration represents a unique and profitable opportunity for Sears Canada to drive shareholder value creation and deliver strong shareholder return with minimal disruption to the organization
- The proposal represents a store value/profit contribution multiple of ~20X, which is over 4X what the discounted cash flow valuation approach values these three stores
- From a strategic standpoint, the infusion of cash gives Sears Canada flexibility in its operations to generate greater returns to its shareholders
- For these reasons, Managements recommends that the Board of Directors approve the proposal to surrender and early terminate its leases at:
  - Pacific Centre (Vancouver)
  - Chinook Centre (Calgary)
  - Rideau Centre (Ottawa)

Appendix

- **Press Release**
- **Internal and External Communication**
- **Resolution**
- **Master Agreement to Terminate Leases**

10.1

Draft: Not For Release

Contact for Media:
Vincent Power
Sears Canada, Corporate Communications
416-941-4422
vpower@sears.ca

Sears Canada Announces Return of Three Stores to Landlord

Vancouver Pacific Centre, Calgary Chinook Centre and Ottawa Rideau Centre

TORONTO – March 2, 2012 – Sears Canada Inc. (TSX: SCC) announced today that it will return to commercial real estate developer and landlord, Cadillac Fairview Corporation Limited (Cadillac Fairview) three stores within shopping centres the developer owns and manages, for a total consideration of $170 million. The agreement is definitive and only subject to customary closing conditions. The transaction is expected to close on or around April 20, 2012.

The three Sears store locations are Vancouver Pacific Centre, Calgary Chinook Centre and Ottawa Rideau Centre. Sears plans to exit all three locations by October 31, 2012.

The associates whose employment could be potentially impacted by this transaction will have the opportunity to apply for positions for which they are qualified in nearby Sears locations which could become available between now and October 31. The Company will explore the possibility of operating other Sears stores in these areas.

"Overall, this is a very advantageous agreement for Sears Canada," said Calvin McDonald, President and Chief Executive Officer, Sears Canada Inc. "While we had no plans to close stores, the transaction for these three specific locations provides an attractive financial benefit for the Company which strategically allows us to drive growth in areas which can be most beneficial. We are investing in a refresh of our stores and piloting new formats which will provide Canadians exciting ways to access Sears products and services. This is an opportunity for Sears Canada that fits well with our vision and where our strengths are as a retailer."

"Sears continues to execute its transformation strategy and remains focused on growing the business," continued Mr. McDonald. "We will continue to unveil new customer-focused strategies and events that demonstrate our resolve in being top of mind for shoppers across the country."

Mr. McDonald added, "I want to acknowledge the effect that this announcement will have on some of our Sears associates. I appreciate the service they have given to Sears so far, and I thank them in advance for their assistance during the transition period ahead of us."

Sears has operated in Vancouver Pacific Centre and Ottawa Rideau Centre since 2000 and in Calgary Chinook Centre since 1965.

Sears Canada is a multi-channel retailer with a network that includes 196 corporate stores, 285 hometown dealer stores, 30 home services showrooms, over 1,700 catalogue merchandise pick-up locations, 108 Sears Travel offices and a nationwide home maintenance, repair, and installation network. The Company also publishes Canada's most extensive general merchandise catalogue and offers shopping online at www.sears.ca.

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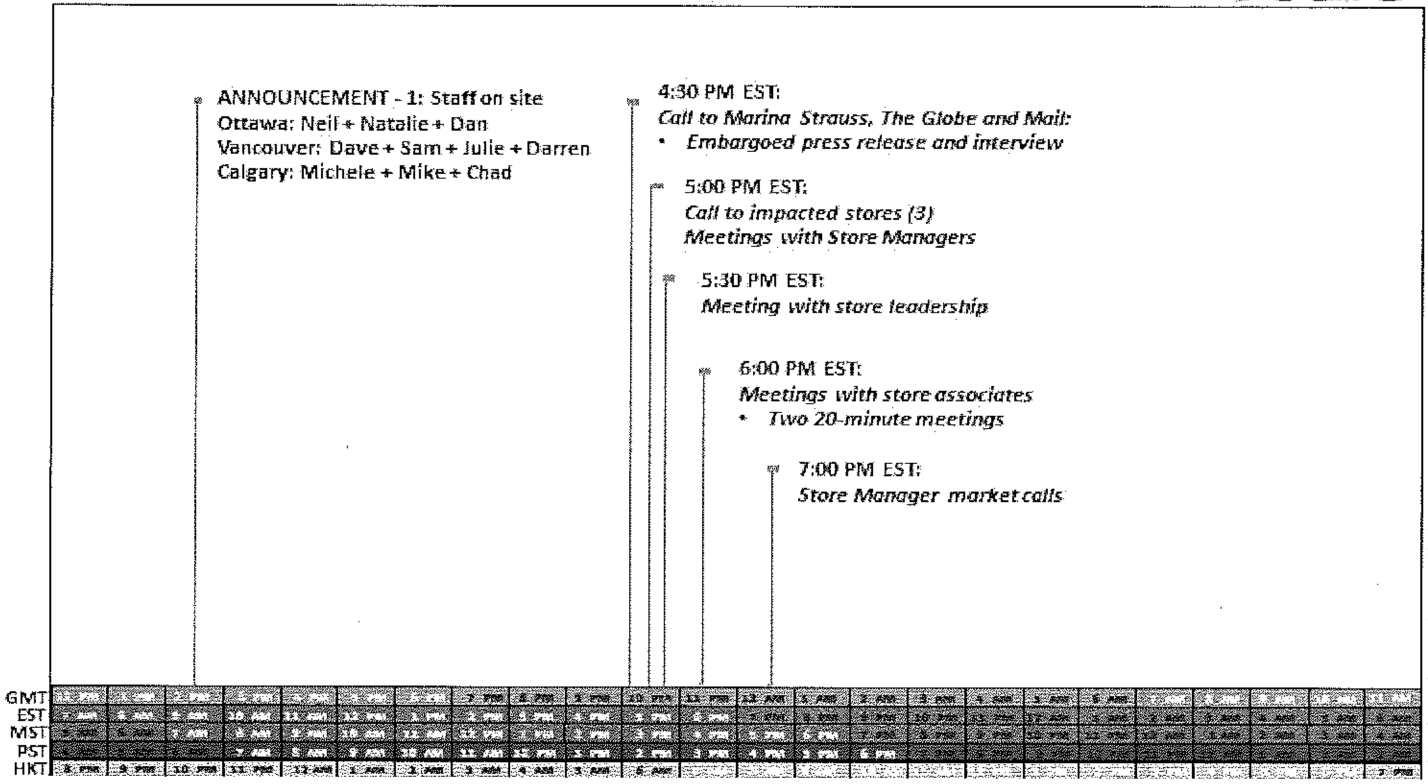
10.3

APPENDIX – INTERNAL AND EXTERNAL COMMUNICATION

Sears Canada Lease Divestiture announcement timeline (Thursday March 1)



ANNOUNCEMENT - 1: Staff on site
Ottawa: Neil + Natalie + Dan
Vancouver: Dave + Sam + Julie + Darren
Calgary: Michele + Mike + Chad

4:30 PM EST:
Call to Marina Strauss, The Globe and Mail:
- *Embargoed press release and interview*

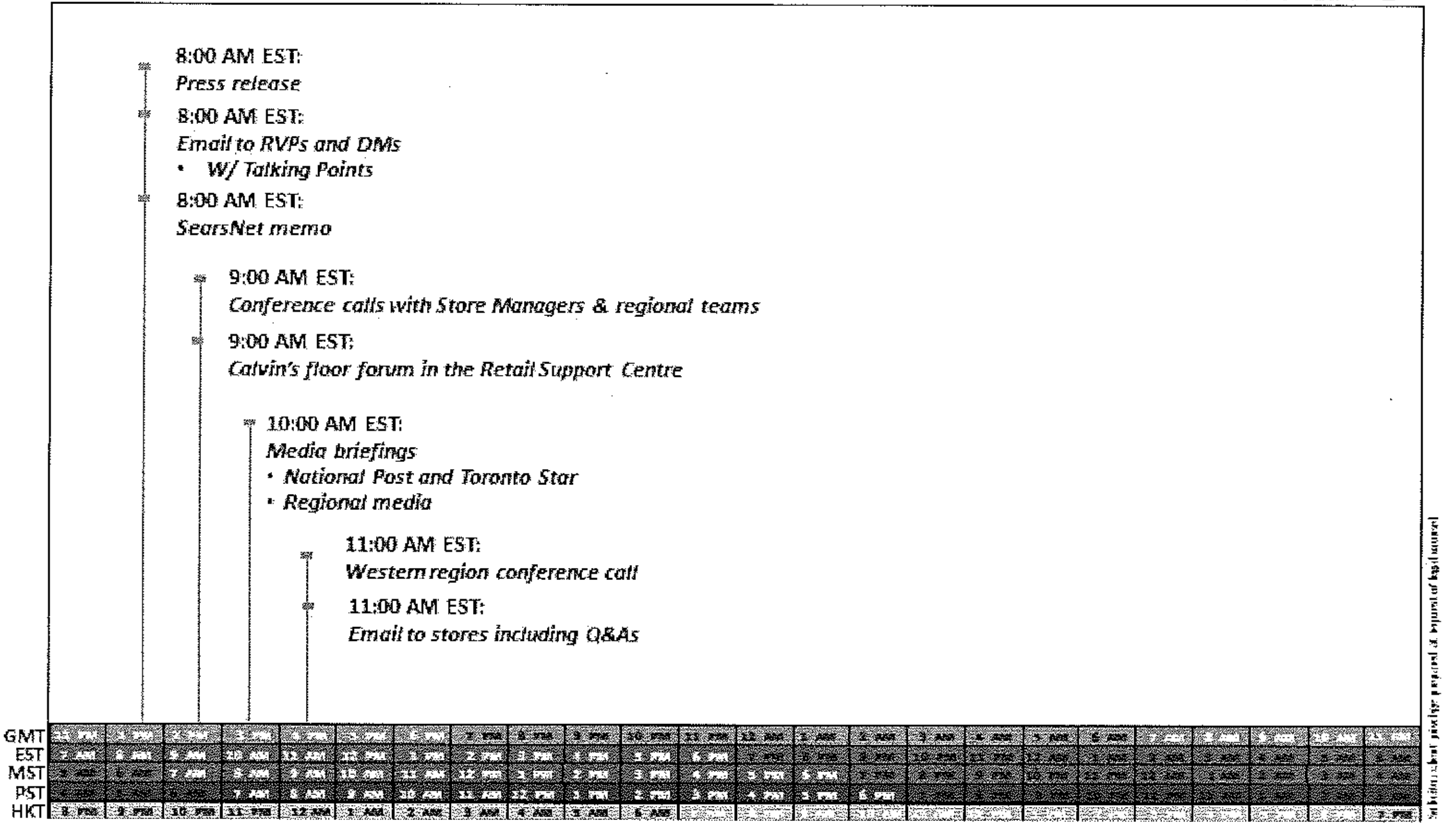
5:00 PM EST:
Call to impacted stores (3)
Meetings with Store Managers

5:30 PM EST:
Meeting with store leadership

6:00 PM EST:
Meetings with store associates
- *Two 20-minute meetings*

7:00 PM EST:
Store Manager market calls

Sears Canada Lease Divestiture announcement timeline (Friday March 2)



8:00 AM EST:
Press release

8:00 AM EST:
Email to RVPs and DMs
- *W/ Talking Points*

8:00 AM EST:
SearsNet memo

9:00 AM EST:
Conference calls with Store Managers & regional teams

9:00 AM EST:
Calvin's floor forum in the Retail Support Centre

10:00 AM EST:
Media briefings
- *National Post and Toronto Star*
- *Regional media*

11:00 AM EST:
Western region conference call

11:00 AM EST:
Email to stores including Q&As

- **Subsequent event disclosure in Q4 MD&A and Financial Statements Notes Disclosure**

10.4

RESOLUTION

OF THE BOARD OF DIRECTORS (the "Board")

OF SEARS CANADA INC. (the "Corporation")

WHEREAS the Corporation is a tenant pursuant to leases in the following locations:

- Vancouver Pacific Centre, Vancouver, British Columbia
- Chinook Centre, Calgary Alberta
- Rideau Centre, Ottawa, Ontario

(the locations are collectively referred to as the "Locations" and the leases are collectively referred to as the "Leases");

WHEREAS Cadillac Fairview Corporation ("CF") is the landlord of the Corporation at the Locations pursuant to the Leases;

WHEREAS CF has approached the Corporation and has offered to buy out the remaining terms of the Leases;

WHEREAS the Corporation has negotiated the terms of an agreement with CF for the termination of the Leases, in consideration of CF paying to the Corporation the sum of one hundred, seventy million dollars ($170,000,000);

WHEREAS the Corporation is required to obtain Board approval for any asset acquisition or disposition of greater than ten million dollars ($10,000,000.00);

WHEREAS Management has provided the Board with a presentation regarding the lease terminations, including the internal and external announcements and process leading to the ceasing of operations in the Locations; and

WHEREAS the Board considers it in the best interest of the Corporation to approve the termination of the Leases, in accordance with the terms as presented by Management.

BE IT RESOLVED:

THAT the Corporation terminate the Leases and surrender its interest in the Locations to CF in consideration of CF paying to the Corporation the sum of one hundred, seventy million dollars ($170,000,000); and

THAT the Corporation be authorized to execute and deliver all such documents and to take all such steps and do all such other acts in connection with the termination of the Leases and the surrender of the Locations, as may be necessary or desirable to give effect to this resolution.

10.5

MASTER AGREEMENT FOR SURRENDER AND TERMINATION OF LEASES
at
PACIFIC CENTRE (VANCOUVER),
CHINOOK CENTRE (CALGARY), and
RIDEAU CENTRE (OTTAWA)

**PACIFIC CENTRE LEASEHOLDS LIMITED,
ONTREA INC., VIKING RIDEAU CORPORATION and
THE CADILLAC FAIRVIEW CORPORATION LIMITED**

- and -

SEARS CANADA INC.

March 1, 2012

TABLE OF CONTENTS

ARTICLE 1
INTERPRETATION

10.7

ARTICLE 6
EMPLOYEES

ARTICLE 7
GENERAL

10.8

THIS MASTER AGREEMENT FOR SURRENDER AND TERMINATION OF LEASES made as of the 1st day of March, 2012.

BETWEEN:

PACIFIC CENTRE LEASEHOLDS LIMITED,
ONTREA INC., VIKING RIDEAU
CORPORATION AND THE CADILLAC
FAIRVIEW CORPORATION LIMITED

- and -

SEARS CANADA INC.

WHEREAS the Tenant and the Shopping Centre Parties have agreed that the Subject Leases shall be surrendered and terminated on the terms and conditions set forth in this Agreement;

NOW THEREFORE, in consideration of the mutual covenants and agreements set forth in this Agreement and for other good and valuable consideration (the receipt and sufficiency of which are hereby acknowledged), the parties hereto covenant and agree as follows:

ARTICLE 1
INTERPRETATION

1.1 Definitions

The terms defined in this Section 1.1 shall have, for all purposes of this Agreement, the following meanings, unless the context expressly or by necessary implication otherwise requires:

> **"Agreement"** means this agreement and the Schedules attached hereto, as amended from time to time in writing.
>
> **"Applicable Laws"** means all statutes, laws, by-laws, rules, regulations, ordinances, orders, judgments, decrees, decisions or other requirements having the force of law of Governmental Authorities having jurisdiction, whether federal, provincial, municipal or otherwise.
>
> **"Article"** and **"Section"** mean and refer to the specified article and section of this Agreement.
>
> **"Bond Financing"** means, in respect of the Rideau Centre, the bond financing in connection with, and currently secured by, such shopping centre pursuant to the deed of trust made as of March 10, 1999 between Viking Rideau Corporation, CIBC Mellon Trust Company and the co-owners named therein, as amended or supplemented in writing.

"Bond Financing Approvals" means, in respect of the Bond Financing for the Rideau Centre, all approvals, waivers, agreements, amendments or documents required to be obtained from the applicable trustee and bondholders thereunder in connection with the execution and delivery of the Lease Surrender Agreement in respect of the Rideau Centre Sears Lease and the surrender and termination of the Rideau Centre Sears Lease in accordance with the terms of such Lease Surrender Agreement.

"Business Day" means any day other than a Saturday, a Sunday or a statutory holiday in any of the Provinces of Alberta, British Columbia or Ontario.

"CFCL" means The Cadillac Fairview Corporation Limited.

"Chinook Centre Landlord" means Ontrea Inc.

"Chinook Centre Party" means the Chinook Centre Landlord.

"Chinook Centre Sears Lease" means the lease dated as of January 29, 1965 between the Chinook Centre Landlord and the Tenant (or their respective predecessors in interest), as amended or supplemented prior to the Execution Date, together with all options, rights and/or entitlements thereunder or related thereto (whether personal or realty).

"Claims" means all past, present and future claims, suits, proceedings, liabilities, obligations, losses, damages, penalties, judgments, costs, expenses, fines, disbursements, legal fees on a substantial indemnity basis, interest, demands and actions of any nature or any kind whatsoever.

"Closing" means the closing and consummation of the transactions contemplated by this Agreement, including, without limitation, the payment of the Surrender Payments and the delivery of the Closing Documents.

"Closing Date" means April 20, 2012.

"Closing Documents" means the agreements, instruments and other documents to be delivered to the Landlords pursuant to Section 4.2 and the agreements, instruments and other documents to be delivered to the Tenant pursuant to Section 4.3.

"Defaulting Party" has the meaning set out in Section 3.3.

"Execution Date" means the date on which this Agreement is executed and delivered by all of the parties hereto.

"Extended Closing Date" has the meaning set out in Section 2.6(a)(i)(A).

"HST/GST" means the harmonized sales tax and/or the goods and services tax payable under the *Excise Tax Act* (Canada).

"HST/GST Undertaking and Indemnity" means an HST/GST undertaking and indemnity substantially in the form attached as Schedule B hereto.

"Interim Period" means the period commencing on the Execution Date and ending upon the Surrender Date.

"Landlords" means, collectively, the Pacific Centre Landlord, the Chinook Centre Landlord and the Rideau Centre Landlord, and **"Landlord"** means any one of the Landlords.

"Lease Surrender Agreement" means, in respect of each Subject Lease, an Agreement Re: Amendment, and Surrender and Termination, of Lease to be entered into on Closing between the Tenant and the applicable Shopping Centre Party, in the form attached as Schedule A hereto with the applicable insertions, as noted in such form.

"Non-Defaulting Party" has the meaning set out in Section 3.3.

"Pacific Centre Landlord" means Pacific Centre Leaseholds Limited.

"Pacific Centre Owners" means CFCL and Ontrea Inc.

"Pacific Centre Parties" means, collectively, the Pacific Centre Landlord and the Pacific Centre Owners.

"Pacific Centre Sears Lease" means the amended and restated lease dated as of January 1, 2000 between the Pacific Centre Leaseholds Limited and the Tenant (or their respective predecessors in interest), as amended or supplemented prior to the Execution Date, together with all options, rights and/or entitlements thereunder or related thereto (whether personal or realty).

"Person" means an individual, partnership, corporation, trust, unincorporated organization, government, or any department or agency thereof, and the successors and assigns thereof or the heirs, executors, administrators or other legal representatives of an individual.

"Public Announcement" has the meaning set out in Section 2.7.

"Rideau Centre Closing" has the meaning set out in Section 2.6(a).

"Rideau Centre Landlord" means Viking Rideau Corporation.

"Rideau Centre Owners" means, collectively, CFCL and Ontrea Inc.

"Rideau Centre Parties" means, collectively, the Rideau Centre Landlord and the Rideau Centre Owners.

"Rideau Centre Sears Lease" means the amended and restated lease dated as of December 31, 1999 between the Viking Rideau Corporation and the Tenant (or their respective predecessors in interest), as amended or supplemented prior to the Execution Date, together with all options, rights and/or entitlements thereunder or related thereto (whether personal or realty).

"**Shopping Centre Parties**" means, collectively, the Chinook Centre Party, the Pacific Centre Parties and the Rideau Centre Parties, and "**Shopping Centre Party**" means any one of the Shopping Centre Parties.

"**Shopping Centre Parties' Solicitors**" means Davies Ward Phillips & Vineberg LLP or such other firm or firms of solicitors as are appointed by the Shopping Centre Parties from time to time and notice of which is provided to the Tenant.

"**Subject Leases**" means, collectively, the Pacific Centre Sears Lease, the Chinook Centre Sears Lease and the Rideau Centre Sears Lease, and "**Subject Lease**" means any one of the Subject Leases.

"**Subject Stores**" means the leasehold lands and premises, including all improvements, fixtures and/or trade fixtures in respect thereof leased by the Tenant pursuant to each of the Subject Leases, which leasehold lands and premises are more particularly described in each Subject Lease, and "**Subject Store**" means any one of the Subject Stores.

"**Surrender**" means, in respect of each Subject Lease, the surrender and termination thereof in accordance with the terms of the applicable Lease Surrender Agreement.

"**Surrender Date**" means October 31, 2012.

"**Surrender Payments**" has the meaning set out in Section 2.2, and "**Surrender Payment**" means any one of the Surrender Payments.

"**Tenant**" means Sears Canada Inc.

"**Tenant's Solicitors**" means Stikeman Elliott LLP or such firm or firms of solicitors as are appointed by the Tenant from time to time and notice of which is provided to the Landlords.

1.2 Interpretation

Unless the context otherwise requires: (i) "**or**" is not exclusive; (ii) "**this Agreement**", "**hereof**", "**herein**", "**hereto**" and similar expressions mean this Agreement together with all schedules to this agreement and all amendments and supplements that may be made to this Agreement from time to time in writing; and (iii) wherever any provision of any Schedule to this Agreement conflicts with the body of this Agreement, the body of this Agreement shall prevail.

1.3 Gender and Number

Words importing the singular include the plural and vice versa. Words importing gender include all genders.

1.4 Captions

The division of this Agreement into separate Articles and Sections and Schedules and the insertion of headings and table of contents are for convenience of reference only and in no way affect this Agreement or its interpretation.

1.5 Obligations as Covenants

Each agreement and obligation of any of the parties hereto in this Agreement, even though not expressed as a covenant, is considered for all purposes to be a covenant.

1.6 Applicable Law

This Agreement shall be construed and enforced in accordance with the laws of the Province of Ontario and the laws of Canada applicable thereto and shall be treated in all respects as an Ontario contract.

1.7 Currency

All references to currency in this Agreement shall be deemed to be references to Canadian dollars.

1.8 Invalidity

If any immaterial covenant, obligation, agreement or part thereof or the application thereof to any Person or circumstance, to any extent, shall be invalid or unenforceable, the remainder of this Agreement or the application of such covenant, obligation or agreement or part thereof to any Person or circumstance other than those to which it is held invalid or unenforceable shall not be affected thereby. Each covenant, obligation and agreement in this Agreement shall be separately valid and enforceable to the fullest extent permitted by law.

1.9 Time

Time shall be of the essence of this Agreement. If anything is required to be done under this Agreement on a day which is not a Business Day, the same shall be done on the next following Business Day. Where in this Agreement a number of days is prescribed, the number shall be computed by excluding the first day and including the last day. All references to a specific time in this Agreement shall be to Toronto time.

1.10 Entire Agreement

This Agreement constitutes the entire agreement between the parties hereto pertaining to the surrender and termination of the Subject Leases provided for herein and supersedes all prior agreements, understandings, negotiations and discussions, whether oral or written, with respect thereto, between the Tenant and the Shopping Centre Parties and there are no warranties or representations and no agreements between the parties hereto in connection with the surrender and termination of the Subject Leases except as specifically set forth in this Agreement or the Schedules attached hereto.

1.11 Schedules

The following Schedules are attached to and incorporated into this Agreement by reference and shall form part of this Agreement:

Schedule A Form of Agreement Re: Amendment and Surrender of Lease
Schedule B Form of HST/GST Undertaking and Indemnity

ARTICLE 2
AGREEMENT TO SURRENDER AND TERMINATE THE SUBJECT LEASES

2.1 Agreement to Surrender and Terminate the Subject Leases

On and subject to the terms and conditions of this Agreement, the Tenant and the Landlords hereby agree that the Subject Leases shall be surrendered and terminated with effect as of the Surrender Date.

2.2 Payment of Surrender Payments

In consideration for the surrender and termination of the Subject Leases as described in Section 2.1, on Closing the following payments (collectively, the "**Surrender Payments**") shall be made to the Tenant:

(a) in respect of the surrender and termination of the Pacific Centre Sears Lease, the Pacific Centre Landlord shall pay to the Tenant, or as the Tenant directs in writing (provided that such written direction shall be delivered to the Pacific Centre Landlord not later than the fifth Business Day prior to the Closing Date), the amount of One Hundred Million Dollars ($100,000,000);

(b) in respect of the surrender and termination of the Chinook Centre Sears Lease, the Chinook Centre Landlord shall pay to the Tenant, or as the Tenant directs in writing (provided that such written direction shall be delivered to the Chinook Centre Landlord not later than the fifth Business Day prior to the Closing Date), the amount of Thirty-Five Million Dollars ($35,000,000); and

(c) in respect of the surrender and termination of the Rideau Centre Sears Lease, the Rideau Centre Parties shall pay to the Tenant, or as the Tenant directs in writing (provided that such written direction shall be delivered to the Rideau Centre Parties not later than the fifth Business Day prior to the Closing Date), the amount of Thirty-Five Million Dollars ($35,000,000).

Each of the Surrender Payments shall be paid on Closing by the applicable payor as provided above by wire transfer from one of the five largest (by asset size) Schedule I Canadian chartered banks. Each Surrender Payment shall be exclusive of any HST/GST payable in respect of such Surrender Payment, and the applicable payor shall be responsible for, and shall fully indemnify and save harmless the Tenant from, all liabilities in respect of such HST/GST including related penalties, costs and interest.

2.3 Allocation of Surrender Payments

The Surrender Payments shall be allocated as set out on Section 2.2 and the Tenant and the Landlords shall adopt such allocations for the purposes of all tax returns and filings respectively made by them or on their behalf.

2.4 No Adjustments

There shall be no adjustments to the Surrender Payments on Closing or on Surrender.

2.5 Realty Tax Appeals

In the case of each Subject Store, upon Closing, the Tenant shall terminate and withdraw all realty tax appeals, if any, that have been initiated by or on behalf of the Tenant in respect of such Subject Store and are in existence at Closing. Following Closing, notwithstanding any other provision of this Agreement, any Subject Lease or any Lease Surrender Agreement, the Landlords shall be solely entitled to receive and retain any refunds or rebates of realty taxes resulting from any realty tax appeals in respect of the applicable shopping centres or Subject Stores pertaining to any and all periods, whether before or after the date hereof. The Tenant also agrees that it shall not initiate any realty tax appeals in respect of any of the Subject Stores at any time after the Execution Date. The provisions of this Section 2.5 shall survive the Closing and each Surrender.

2.6 Bond Financing Approvals

The Tenant acknowledges that it has been advised by the Rideau Centre Parties that the Rideau Centre Parties are not permitted to execute and deliver the Lease Surrender Agreement in respect of the Rideau Centre Sears Lease, unless the Rideau Centre Parties first obtain the Bond Financing Approvals. The Rideau Centre Parties shall use their commercially reasonably efforts to obtain the Bond Financing Approvals; provided, however, if the Rideau Centre Parties determine at any time prior to Closing that they will not be able to obtain the Bond Financing Approvals on terms and conditions acceptable to them, the Rideau Centre Parties shall deliver written notice to the Tenant, and upon delivery of such notice the following shall apply:

(a) subject to the terms of this Agreement, the Rideau Centre Parties and the Tenant shall complete the Closing as it relates to the Rideau Centre Sears Lease and the Subject Store (the "**Rideau Centre Closing**") on the thirty-fifth (35th) Business Day following the Closing Date (the "**Extended Closing Date**"), and:

    (i) all references in this Agreement:

        (A) to the "Closing Date" in respect of the Rideau Centre Closing (including the Closing Documents and deliveries to be made on Closing related thereto) shall be deemed to be references to the "Extended Closing Date"; and

(B) to Landlords, Shopping Centre Parties, Subject Leases, Subject Stores, Closing Documents and deliveries on Closing shall, for the purposes of the Rideau Centre Closing, be interpreted without reference to the Pacific Centre Landlord or the Pacific Centre Parties, the Chinook Centre Landlord or the Chinook Centre Party, the Pacific Centre Sears Lease and the Chinook Centre Sears Lease or the Subject Stores, Closing Documents and deliveries on Closing related thereto;

(ii) without limiting the generality of the foregoing Section 2.6(a)(i), the Surrender Payment payable by the Rideau Centre Landlord on the Extended Closing Date shall be (and shall only be) the Surrender Payment set out in Section 2.2(c); and

(iii) the provisions of this Agreement (including, without limitation, provisions in respect of representations and warranties, indemnities, Closing Documents and deliveries on Closing) shall apply with equal force and effect to the Rideau Centre Closing as such provisions relate to the Rideau Centre Landlord, the Rideau Centre Parties, the Rideau Centre Sears Lease and the Subject Store, and to the Closing Documents and deliveries on Closing related thereto.

(b) subject to the terms of this Agreement, the Pacific Centre Landlord and the Pacific Centre Owners, the Chinook Centre Landlord and the Tenant shall complete the Closing as it relates to the Pacific Centre Sears Lease and the Chinook Centre Sears Lease and the Subject Stores (including the Closing Documents and deliveries on Closing related thereto) on the originally scheduled Closing Date, and:

(i) all references in this Agreement:

(A) to the "Closing Date" in respect of the Pacific Centre Landlord and the Pacific Centre Owners, the Chinook Centre Landlord or the Chinook Centre Party, the Pacific Centre Sears Lease and the Chinook Centre Sears Lease and the Subject Stores (including the Closing Documents and deliveries to be made on Closing related thereto) shall be continue to be references to the originally scheduled Closing Date; and

(B) to Landlords, Shopping Centre Parties, Subject Leases, Subject Stores, Closing Documents and deliveries on Closing shall, for the purposes of such Closing, be interpreted without reference to the Rideau Centre Landlord or the Rideau Centre Owners, the Rideau Centre Sears Lease or the Subject Store or Closing Documents and deliveries on Closing related thereto;

(ii) without limiting the generality of the foregoing Section 2.6(b)(i), the Surrender Payments payable by the Pacific Centre Landlord and the Chinook Centre Landlord on the originally scheduled Closing Date shall be (and shall only be) the Surrender Payments set out in Sections 2.2(a) and 2.2(b), respectively; and

(iii) the provisions of this Agreement (including, without limitation, provisions in respect of representations and warranties, indemnities, Closing Documents and deliveries on Closing) shall apply with equal force and effect to the Closing, as such provisions relate to the Pacific Centre Landlord and the Pacific Centre Owners, the Chinook Centre Landlord, the Pacific Centre Sears Lease and the Chinook Centre Sears Lease and the Subject Stores, Closing Documents and deliveries on Closing related thereto.

2.7 Confidentiality

Until Closing, the Tenant and Landlords shall keep all provisions of this Agreement confidential and shall not disclose any of its provisions to any Person; provided that, notwithstanding the foregoing, nothing herein contained shall restrict or prohibit the Landlords or Tenant from disclosing the provisions of this Agreement to their employees, directors, shareholders, professional advisors, lenders and banks (including, without limitation, the trustees, bondholders and their respective professional advisors in connection with the Bond Financing Approval) on a "need-to-know" basis (provided that such Persons are informed that such information is confidential). Neither the Tenant nor the Landlords shall issue any press release or other public announcement or release information with respect to this Agreement or the transactions contemplated hereby to the press or the public (a "**Public Announcement**") at any time prior to the Closing, and thereafter only if the same has been mutually approved by the Tenant and the Landlords, unless such disclosure is in the good faith opinion of the Tenant required in order to comply with any laws or the rules, orders or regulations of any stock exchange, and then only after prior consultation with the Shopping Centre Parties, if possible. As at the date hereof, the Tenant confirms to the Shopping Centre Parties that it expects that disclosure will be required on the Execution Date in order to comply with the rules of the Toronto Stock Exchange applicable to the Tenant, and agrees that such disclosure shall be subject to the prior written approval of the Landlords, acting reasonably. In any event, to the extent that any Public Announcement makes reference to the amount of the Surrender Payments, such reference shall be solely to the aggregate amount of the total Surrender Payments and shall not disclose the amount of any of the individual Surrender Payments.

The provisions of this Section 2.7 shall survive the termination of this Agreement and the Closing.

2.8 Joint and Several Obligations

The Pacific Centre Parties covenant and agree with the Tenant that all obligations and liabilities of the Pacific Centre Landlord to the Tenant under this Agreement and the Closing Documents constitute joint and several obligations of all of the Persons comprising the Pacific

Centre Parties. The Rideau Centre Parties covenant and agree with the Tenant that all obligations of the Rideau Centre Landlord to the Tenant under this Agreement and the Closing Documents constitute joint and several obligations of all of the Persons comprising the Rideau Centre Parties. The provisions of this Section 2.8 shall survive the termination of this Agreement and the Closing.

ARTICLE 3
CONDITIONS

3.1 Conditions for Tenant

The obligation of the Tenant to complete the transactions contemplated by this Agreement shall be subject to fulfillment of each of the following conditions on or before the Closing Date:

(a) on the Closing Date, each Landlord shall have paid the Surrender Payment payable by it in accordance with Section 2.2 and all of the other terms, covenants and conditions of this Agreement to be complied with or performed by the Shopping Centre Parties shall have been complied with or performed in all material respects; and

(b) on the Closing Date, all of the representations and warranties of the Chinook Centre Party, the Pacific Centre Parties, and the Rideau Centre Parties set out in Section 5.2 shall be true and accurate in all material respects as if made as of the Closing Date.

The conditions set forth in this Section 3.1 are solely for the benefit of the Tenant and may be waived in whole or in part by the Tenant by notice to the Landlords by the date and time set forth above for the satisfaction of each such condition.

3.2 Conditions for Shopping Centre Parties

The obligation of the Shopping Centre Parties to complete the transactions contemplated by this Agreement shall be subject to fulfillment of each of the following conditions on or before the Closing Date or such earlier date or time as may be herein specified:

(a) on the Closing Date, all of the other terms, covenants and conditions of this Agreement to be complied with or performed by the Tenant shall have been complied with or performed in all material respects; and

(b) on the Closing Date, all of the representations and warranties of the Tenant set out in Section 5.1 (except the representation and warranty in Section 5.1(j), which must be true and accurate as of the Execution Date) shall be true and accurate in all material respects as if made as of the Closing Date.

The conditions set forth in this Section 3.2 are solely for the benefit of the Landlords and may be waived in whole or in part by the Landlords by notice to the Tenant by the date and time set forth above for the satisfaction of each such condition.

3.3 Non Satisfaction of Conditions

In the event any condition set forth in Section 3.1 or Section 3.2 is not satisfied or waived as therein provided on or before the applicable date or time referred to in Section 3.1 or Section 3.2, as the case may be, then upon notice given by the party having the benefit of the unsatisfied condition to the other party, this Agreement shall be terminated and shall be of no further force or effect whatsoever without any further action by either party and neither party to this Agreement shall (except as set out in Section 7.9) have: (i) a Claim against the other party hereto with respect to this Agreement; or (ii) any further rights, obligations or liabilities of any nature whatsoever under or in respect of this Agreement; provided that, if the reason for the condition not being satisfied is the breach by such other party (the "**Defaulting Party**") of this Agreement, then this Agreement shall not terminate as provided above unless the non-Defaulting Party elects to terminate, and the non-Defaulting Party (the "**Non-Defaulting Party**") shall be entitled to exercise all of the rights and remedies to which the Non-Defaulting Party is entitled, both at law and in equity as a result of such breach (including damages and specific performance). The provisions of this Section 3.3 shall survive the termination of this Agreement and the Closing.

3.4 Subject Stores in "As Is" Condition

Notwithstanding any other provision of this Agreement, any Subject Lease or any Lease Surrender Agreement, but subject to the Tenant complying with the provisions of Section 7 of the applicable Lease Surrender Agreement, each Landlord shall, on the Surrender Date, accept its respective Subject Store in the physical and environmental condition in which it exists it as of the Execution Date, subject to reasonable wear and tear occurring during the Interim Period; provided that, notwithstanding the foregoing and the provisions of the Subject Lease, but subject to the Tenant complying with the provisions of Section 7 of the applicable Lease Surrender Agreement, the Tenant shall not be required to carry out any repairs or replacements to or in any such Subject Store during the Interim Period or on or after the Surrender other than routine maintenance and cleaning and those repairs necessary to enable the Tenant to continue to operate its business in the Subject Store in accordance with Applicable Laws and in accordance with the requirements of the insurers of the Subject Store and the subject shopping centre, respectively, and in a safe and reasonable manner; provided that in the case of destruction of any Subject Store, or any material damage to any Subject Store that cannot be repaired by the Tenant within 30 days after commencing such repairs, using reasonable commercial efforts and proceeding diligently, the Tenant shall not be required to restore such Subject Store to its condition prior to such damage or destruction.

ARTICLE 4
CLOSING DOCUMENTS

4.1 Closing Arrangements

The Closing shall commence at 9:00 a.m. on the Closing Date at the office of the Shopping Centre Parties' Solicitors in Toronto, Ontario or at such other time or place as the parties shall mutually agree upon in writing, and shall continue until the Closing is completed or this Agreement is validly terminated in accordance with the terms hereof.

4.2 Tenant Closing Documents

On or before Closing, subject to the provisions of this Agreement, the Tenant shall execute (where it is a party thereto) and shall deliver, or cause to be delivered, to the Shopping Centre Parties the following:

(a) in respect of each Subject Lease, a Lease Surrender Agreement;

(b) in respect of each Subject Lease, all registrable instruments necessary to vacate and discharge any notices of such Subject Lease or caveats and related instruments (if any) by or in favour of the Tenant (or by or in favour of any Person claiming through the Tenant) that are registered in respect of such Subject Lease, which instruments will be registered, recorded, filed or otherwise dealt with by the Landlords on the Closing;

(c) a corporate certificate from a senior officer of the Tenant, without personal liability, in respect of the representations and warranties of such Tenant as provided for in Section 5.3(b), such certificate to be in the form to be agreed upon by the Tenant and the Landlords, each acting reasonably, by the Closing Date; and

(d) all other documents to be executed by the Tenant which the Shopping Centre Parties reasonably request to give effect to the transactions contemplated by this Agreement.

In addition, if any Surrender Payment is to be made to any Person other than the Tenant, the Tenant shall deliver to the applicable Landlord an irrevocable and unconditional written direction from the Tenant to such effect, setting out the name of any such payee, at least five Business Days prior to the Closing Date. All documentation to be signed by the Tenant shall be in form and substance acceptable to the Shopping Centre Parties and the Tenant and their respective solicitors, each acting reasonably and in good faith.

4.3 Closing Documents of the Shopping Centre Parties

On or before Closing, subject to the terms and conditions of this Agreement, the each of the Persons comprising the Shopping Centre Parties shall execute (where it is a party thereto) and shall deliver, or cause to be delivered, to the Tenant the following:

(a) in respect of each Subject Lease, a Lease Surrender Agreement;

(b) a corporate certificate of a senior officer of such Person, without personal liability, repeating on Closing the representations and warranties of the Shopping Centre Parties, in the form to be agreed upon by the Tenant and the Shopping Centre Parties, each acting reasonably, by the Closing Date;

(c) in respect of the Rideau Centre, an HST/GST Undertaking and Indemnity from CFCL; in respect of the Pacific Centre, an HST/GST Undertaking and Indemnity from the Pacific Centre Landlord; and, in the case of Chinook Centre, an HST/GST Undertaking and Indemnity from Ontrea Inc.; and

(d) all other documents which the Tenant reasonably request to give effect to the transactions contemplated by this Agreement.

All documentation to be signed by the Shopping Centre Parties shall be in form and substance acceptable to the Shopping Centre Parties and the Tenant and their respective solicitors, each acting reasonably and in good faith.

ARTICLE 5
REPRESENTATIONS, WARRANTIES AND COVENANTS

5.1 Tenant Representations

The Tenant represents and warrants to and in favour of the Landlords that as of the Execution Date and (except in the case of the representation and warranty in Section 5.1(j)) as of the Closing Date:

(a) it is a corporation subsisting under the laws of its jurisdiction of incorporation, and it has the necessary corporate authority, power and capacity to enter into this Agreement and all Closing Documents to be delivered by it pursuant hereto and to complete the transactions contemplated by this Agreement and perform its obligations under the documents to be entered into by it pursuant hereto in respect of such transactions on the terms and conditions herein contained;

(b) this Agreement and the obligations of the Tenant hereunder and each of the Closing Documents and the transactions contemplated herein, will have been duly and validly authorized by all requisite corporate proceedings and will constitute legal, valid and binding obligations of the Tenant, enforceable against the Tenant in accordance with its and their terms, subject to bankruptcy, insolvency, liquidation, reorganization and other laws affecting the enforcement of creditors' rights generally and equitable remedies such as specific performance and injunction only being available in the discretion of the court;

(c) neither the entering into nor delivery of this Agreement nor the completion by the Tenant of the transactions contemplated by this Agreement will conflict with or constitute a default under or result in a violation of: (i) any Applicable Laws; or (ii) any of the provisions of its constating documents or by-laws;

(d) it is not a non-resident of Canada for the purposes of the *Income Tax Act* (Canada) and is not acting as agent, trustee or nominee for any other Person in connection with the transactions contemplated by this Agreement;

(e) it: (i) is not an insolvent Person within the meaning of the *Bankruptcy and Insolvency Act* (Canada) or the *Winding-up and Restructuring Act* (Canada); (ii) has not made an assignment in favour of its creditors or a proposal in bankruptcy to its creditors or any class thereof; (iii) has not had any petition for a receiving order presented in respect of it; and (iv) has not initiated proceedings with respect to a compromise or arrangement with its creditors or for its winding-up, liquidation or dissolution;

(f) the Tenant is the sole legal and beneficial owner of the leasehold interest in the Subject Stores pursuant to the Subject Leases and no other Person has any right, title or interest in or to the Subject Leases and/or the Subject Stores;

(g) the Tenant has not entered into any agreement to sell, transfer, mortgage, or otherwise dispose of the right, title and interest of the Tenant in and to any Subject Store and/or Subject Lease;

(h) no Person has any right to purchase, option to purchase or right of first refusal in respect of the acquisition of the Tenant's right, title and interest in any Subject Store and/or Subject Lease;

(i) no Person (other than the Tenant and its subtenants, licensees and concessionaires whose rights and occupancies will be terminated by the Tenant, at its sole expense and risk, by the Surrender Date) is using or has any right to use, or is in possession or occupancy of, any part of such Subject Store;

(j) there are no ongoing union certification drives or pending proceedings for certifying a union for the Tenant, and to the knowledge of the Tenant, none are threatened; and

(k) there are no collective bargaining agreements covering the employees of the Tenant employed at or in connection with any of the Subject Stores, nor are any collective bargaining agreements, which would cover such employees, being negotiated.

5.2 Representations of Shopping Centre Parties

Each of the Persons comprising the Shopping Centre Parties hereby jointly and severally represents to and in favour of the Tenant that as of the Execution Date and as of the Closing Date:

(a) each of the Persons comprising the Shopping Centre Parties is a corporation subsisting under the laws of its jurisdiction of incorporation, and has the necessary corporate authority, power and capacity to enter into this Agreement and all Closing Documents to be entered into by it pursuant hereto and to complete the transactions contemplated by this Agreement and perform its obligations under the documents to be entered into by it pursuant hereto in respect of such transactions on the terms and conditions herein contained;

(b) this Agreement and the obligations of each of the Persons comprising a Shopping Centre Party hereunder, and under each of the Closing Documents to which it is a party, and the transactions contemplated herein, will have been duly and validly authorized by all requisite corporate proceedings and will constitute legal, valid and binding obligations of such Person, enforceable against such Person in accordance with its and their terms, subject to bankruptcy, insolvency, liquidation, reorganization and other laws affecting the enforcement of creditors' rights generally and equitable remedies such as specific performance and injunction only being available in the discretion of the court;

(c) neither the entering into nor delivery of this Agreement nor the completion by any of the Persons comprising any Shopping Centre Party of the transactions contemplated by this Agreement will conflict with or constitute a default under or result in a violation of: (i) any Applicable Laws; or (ii) any of the provisions of the respective constating documents or by-laws of such Person;

(d) each Shopping Centre Party has the right, full power and authority to terminate its Subject Lease in the manner contemplated in this Agreement and the Lease Surrender Agreement pertaining thereto;

(e) in the case of the Rideau Centre, CFCL is validly registered as a registrant under Subdivision d of Division V of Part IX of the *Excise Tax Act* (Canada) for the purposes of HST/GST; in the case of the Pacific Centre, the Pacific Centre Landlord is validly registered as a registrant under Subdivision d of Division V of Part IX of the *Excise Tax Act* (Canada) for the purposes of HST/GST; and, in the case of Chinook Centre, Ontrea Inc. is validly registered as a registrant under Subdivision d of Division V of Part IX of the *Excise Tax Act* (Canada) for the purposes of HST/GST;

(f) none of the Shopping Centre Parties: (i) is an insolvent Person within the meaning of the *Bankruptcy and Insolvency Act* (Canada) or the *Winding-up and Restructuring Act* (Canada); (ii) has made an assignment in favour of its creditors or a proposal in bankruptcy to its creditors or any class thereof; (iii) has had any petition for a receiving order presented in respect of it; and (iv) has initiated proceedings with respect to a compromise or arrangement with its creditors or for its winding-up, liquidation or dissolution; and

(g) the Rideau Centre Parties have delivered to the Tenant prior to the Execution date true and complete copies of all documents relating to the Bond Financing relevant to determining:

  (i) which approvals, consents and other matters constitute the Bond Financing Approvals and the conditions of giving same; and

(ii) that the Rideau Centre Landlord has the absolute right to repay in full all amounts owing under and/or secured by the Bond Financing prior to the Extended Closing Date and that upon repayment in full of all such amounts, the Bond Financing Approvals will not be required in order for the Rideau Centre Landlord to execute and deliver the Lease Surrender Agreement in respect of the Rideau Centre Sears Lease.

5.3 Survival of Representations

(a) The representations, warranties, and certifications of each of the Tenant and the Shopping Centre Parties contained in this Agreement or contained in any Closing Documents (including, without limitation, the certificates described in Section 5.3(b)) shall not merge on Closing or on any Surrender, and shall survive for an unlimited period.

(b) On Closing, each of the Tenant and each of the Persons comprising any Shopping Centre Party shall deliver to the other a corporate certificate from one of its senior officers (without personal liability) setting out the same representations and warranties that are set out in Section 5.1 or 5.2, as the case may be, except that such representations and warranties (other than the representation and warranty in Section 5.1(j)) shall be made as of the Closing Date.

(c) This Section 5.3 shall survive the termination of this Agreement or the Closing and each Surrender.

ARTICLE 6
EMPLOYEES

6.1 Employees

The Tenant shall be responsible for, and shall indemnify and save harmless the Shopping Centre Parties from and against any and all Claims that the Shopping Centre Parties may suffer or incur, whether directly or indirectly, as a result of, with respect to or arising out of any non-fulfillment of any covenant, agreement or obligation on the part of the Tenant with respect to all employees of the Tenant employed at or in connection with any of the Subject Stores or any obligation owed to such employees. This Section 6.1 shall survive the Closing and each Surrender.

ARTICLE 7
GENERAL

7.1 Amendment of Agreement

Subject to Section 7.4, no supplement, modification, waiver or termination (other than an automatic termination pursuant to the terms of this Agreement) of this Agreement shall be binding unless executed in writing by the parties hereto in the same manner as the execution of this Agreement, but nothing in this Section 7.1 prevents any party from waiving a condition that is solely for its benefit.

7.2 Further Assurances

Each of the parties hereto shall from time to time hereafter and upon any reasonable request of the other, execute and deliver, make or cause to be made all such further acts, deeds, assurances and things as may be required or necessary to more effectually implement and carry out the true intent and meaning of this Agreement.

7.3 Waiver

No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provision (whether or not similar), nor shall any waiver constitute a continuing waiver unless otherwise expressed or provided.

7.4 Solicitors as Agents and Tender

Any notice, approval, waiver, agreement, instrument, document or communication permitted, required or contemplated in this Agreement may be given or delivered and accepted or received by the Shopping Centre Parties' Solicitors on behalf of the Landlords and by the Tenant's Solicitors on behalf of the Tenant and any tender of Closing Documents and the Surrender Payment may be made upon the Tenant's Solicitors and the Shopping Centre Parties' Solicitors, as the case may be.

7.5 Survival

Except as otherwise expressly provided in this Agreement, no covenants or agreements of the Tenant and the Shopping Centre Parties in this Agreement shall survive the Closing and each Surrender. Notwithstanding the foregoing provisions of this Section 7.5, there shall be no limitation upon the period for making a Claim in respect of any indemnity which is expressly provided for in this Agreement and which survives Closing and each Surrender and such indemnities shall survive Closing and each Surrender for an unlimited period, unless otherwise expressly provided in this Agreement. For greater certainty, it is confirmed that the provisions of this Section 7.5 are not applicable to the Lease Surrender Agreements or the other Closing Documents, each of which shall be interpreted and enforceable in accordance with the provisions thereof.

7.6 Successors and Assigns

All of the covenants and agreements in this Agreement shall be binding upon the parties hereto and their respective successors and assigns and shall enure to the benefit of and be enforceable by the parties hereto and their respective successors and their permitted assigns pursuant to the terms and conditions of this Agreement.

7.7 Assignment

No party shall assign its rights and/or obligations hereunder (or agree to do so) without the prior written consent of the other parties, which consent may be withheld by such party in its sole and absolute discretion.

7.8 Notice

Any notice, demand, approval, consent, information, agreement, offer, request or other communication (a "**Notice**") to be given under or in connection with this Agreement shall be in writing and shall be given by personal delivery or by telecopier or other electronic communication (including email) which results in a written or printed notice being given, addressed or sent as set out below or to such other address or telecopy number as may from time to time be the subject of a Notice:

(a) Shopping Centre Parties:

c/o The Cadillac Fairview Corporation Limited
20 Queen Street West
Toronto, Ontario M5H 3R4

Attention: Russell Goin
Telecopy: (416) 598-8607
Email: russell.goin@cadillacfairview.com

- and -

c/o The Cadillac Fairview Corporation Limited
20 Queen Street West
Toronto, Ontario M5H 3R4

Attention: Sandra J. Hardy
Telecopy: (416) 598-8222
Email: hardys@cadillacfairview.com

and with a copy to:

Davies Ward Phillips & Vineberg LLP
44th Floor, 1 First Canadian Place
Toronto, Ontario, M5X 1B1

Attention: Gregory J. Howard/Steven Martin
Telecopy: (416) 863-0871
Email: ghoward@dwpv.com/smartin@dwpv.com

(b) Tenant:

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

Attention: Klaudio Leshnjani
Telecopy: (416) 941-2321
Email: klaudio.leshnjani@sears.ca

- and -

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

Attention: Franco Perugini,
Telecopy: (416) 941-2321
Email: franco.perugini@sears.ca

with a copy to:

Stikeman Elliott LLP
Suite 5300, Commerce Court West
199 Bay Street
Toronto, Ontario, M5L 1B9

Attention: Simon Romano and John R. Dow
Telecopy: (416) 947-0866
E-mail: sromano@stikeman.com and jdow@stikeman.com

Any Notice, if personally delivered, shall be deemed to have been validly and effectively given and received on the date of such personal delivery, telecopier/other electronic transmission or e-mail transmission, provided that such personal delivery, telecopier/other electronic transmission or e-mail transmission occurs on or prior to 5:00 p.m. on a Business Day, failing which such Notice shall be deemed to have been validly and effectively given and received on the Business Day next following the day it was sent.

7.9 Effect of Termination of Agreement

Notwithstanding the termination of this Agreement for any reason, the following provisions shall survive and shall remain in full force and effect: (i) this Section and Sections 2.7, 3.3, 5.3 and 7.10; and (ii) such other provisions the survival of which following termination are necessary to give practical effect thereto. For greater certainty, it is confirmed that termination of this Agreement does not, for the purposes of this Section, include the Closing of this Agreement and that Section 7.5 governs the survival of provisions of this Agreement after the Closing.

7.10 Expenses and Costs

Each of the parties hereto shall pay its own fees and expenses (including the fees of any attorneys, financial advisors, real estate brokers, agents or other advisors, accountants, appraisers or others engaged by such party) in connection with this Agreement and the transactions contemplated herein whether or not the such transactions are consummated. The Tenant is responsible for the cost of registration of the registrable instruments described in Section 4.2(b); provided that the Landlord shall be responsible for any land transfer, property transfer and similar taxes payable in respect of the surrender and termination of the Subject

Leases in accordance with the Lease Surrender Agreements. This Section 7.10 shall survive the termination of this Agreement or the Closing and each Surrender.

7.11 Counterparts

This Agreement may be executed and delivered in counterparts, each of which shall be an original and all counterparts together shall constitute a single document. The fact of execution and delivery of this Agreement may be communicated to the other parties by facsimile or email (with a pdf attachment) transmission of the signature page of this Agreement.

IN WITNESS WHEREOF the parties hereto have executed this Agreement by their properly authorized officers in that behalf as of the day and year first above written.

[Remainder of page left blank intentionally; signature pages follow]

PACIFIC CENTRE LEASEHOLDS LIMITED

by ______________________________
Name:

____
Name:

I/We have authority to bind the Corporation

ONTREA INC.

by ______________________________
Name:

____
Name:

I/We have authority to bind the Corporation

THE CADILLAC FAIRVIEW CORPORATION LIMITED

by ______________________________
Name:

____
Name:

I/We have authority to bind the Corporation

VIKING RIDEAU CORPORATION

by __________________________________

Name:

____

Name:

I/We have authority to bind the Corporation

SEARS CANADA INC.

by __________________________________

Name:

____

Name:

I/We have authority to bind the Corporation

SCHEDULE A

FORM OF AGREEMENT RE: AMENDMENT, AND SURRENDER AND TERMINATION, OF LEASE

THIS AGREEMENT is dated the **X** day of **X**, 20**X**.

BETWEEN:

[INSERT NAME OF APPLICABLE LANDLORD]
(the "**Landlord**")

- and -

SEARS CANADA INC.
(the "**Tenant**")

- and -

[FOR EACH OF RIDEAU CENTRE AND PACIFIC CENTRE, INSERT THE NAMES OF THE OWNERS OF SUCH CENTRE]
(the "**Owners**") **[This concept of Owners will be deleted from the agreement for Chinook Centre, since Ontrea is both the Landlord and the Owner.]**

WHEREAS by a lease dated the **X** day of **X**, 20**X**, and made between the ■ **[insert name of Chinook Centre Landlord, Pacific Centre Landlord or Rideau Centre Landlord, as the case may be]** and the Tenant (or their respective predecessors in title) (such lease, as amended or supplemented prior to the date hereof, the "**Lease**"), ■ leased to the Tenant for and during a term of **X** (**X**) years, **X** (**X**) months and **X** (**X**) days, from and including the **X** day of **X** , 20**X**, to and including the **X** day of **X**, 20**X** (the "**Term**"), subject to and upon the terms, covenants and conditions contained in the Lease, certain premises (the "**Premises**") located in the **X** (the "**Shopping Centre**"), in the City of **X**, in the Province of **X**; **[Note: Insert all applicable details.]**

AND WHEREAS the Landlord, the Tenant and the Owners have agreed that the Lease shall be amended, and surrendered and terminated in accordance with the terms and conditions hereinafter set forth;

AND WHEREAS all terms used in this Agreement but not otherwise defined herein shall have the meaning ascribed thereto in the Master Agreement (as defined in Section 15 hereof);

NOW THEREFORE THIS AGREEMENT WITNESSETH that in consideration of the sum of TWO DOLLARS ($2.00) now paid by each party to the other (the receipt and sufficiency of which is hereby acknowledged), and other mutual covenants and agreements, the parties do hereby agree as follows:

1. The parties hereby acknowledge, confirm and agree that the foregoing recitals are true in substance and in fact.

2. The Lease is hereby amended by reducing the Term so that the Lease will automatically terminate and expire at 11:59 p.m. on the 31st day of October, 2012 (the "**Surrender Date**"), and the Tenant hereby agrees that it shall surrender the Lease and deliver up vacant possession of the Premises, free and clear of all encumbrances and rights of third parties, to the Landlord on the Surrender Date in accordance with the terms of this Agreement and, to the extent not otherwise provided in this Agreement or in the Master Agreement, in accordance with the terms of the Lease. Without limiting the generality of the foregoing, it is agreed that all options (including, without limitation, all options to extend or renew the Lease), rights and/or entitlements under the Lease or related thereto (whether personal or realty) and all rights of the Tenant or any of its affiliates in respect of the Premises and the Shopping Centre shall terminate on the Surrender Date.

3. With the exception only of Continuing Liabilities, and any Claims arising from or relating thereto, the Tenant hereby unconditionally, absolutely, fully and finally releases and forever discharges the Landlord and each of the Owners from and in respect of any and all Claims of any nature whatsoever under or in respect of the Lease, the Premises or the Shopping Centre arising from, or relating to, any causes, acts, omissions, obligations, breaches, events, circumstances, things or other matters of any nature whatsoever that have occurred or existed prior to the date hereof, or otherwise exist as of the date hereof, whether known, unknown, discoverable, latent, anticipated, asserted, contingent or actual, or liquidated or unliquidated.

4. With the exception only of Continuing Liabilities, and any Claims arising from or relating thereto, the Landlord and the Owners hereby unconditionally, absolutely, fully and finally release and forever discharge the Tenant from and in respect of any and all Claims of any nature whatsoever under or in respect of the Lease, the Premises or the Shopping Centre arising from, or relating to, any causes, acts, omissions, obligations, breaches, events, circumstances, things or other matters of any nature whatsoever that have occurred or existed prior to the date hereof, or otherwise exist as of the date hereof, whether known, unknown, discoverable, latent, anticipated, asserted, contingent or actual, or liquidated or unliquidated.

5. (a) Upon the surrender and termination of the Lease there shall be no adjustment in respect of rent or other amounts payable under the Lease.

   (b) On the Surrender Date, with the exception only of Continuing Liabilities, and any Claims arising from or relating thereto, the Tenant shall be unconditionally, absolutely, fully and finally released and forever discharged (automatically and without the requirement of any further documentation) from and in respect of any and all Claims of, by or to the Landlord or the Owners of any nature whatsoever under or in respect of the Lease, the Premises or the Shopping Centre arising from, or relating to, any causes, acts, omissions, obligations, breaches, events, circumstances, things or other matters of any nature whatsoever that have occurred or existed on or before the Surrender Date, or otherwise exist as of the Surrender Date, whether known, unknown, discoverable, latent, anticipated, asserted, contingent or actual, or liquidated or unliquidated. **[In the case of Chinook Centre, insert the following: Without limiting the generality of the provisions of Sections 3, 4 and 5, for greater certainty, it is confirmed that the releases of the Tenant referred to in Sections 4 and 5(b) include all Claims arising from or relating to the Chinook Environmental Agreements and the Chinook Environmental Obligations.]**

(c) On the Surrender Date, with the exception only of Continuing Liabilities, and any Claims arising from or relating thereto, the Landlord and each of the Owners shall be unconditionally, absolutely, fully and finally released and forever discharged (automatically and without the requirement of any further documentation) from and in respect of any and all Claims of, by or to the Tenant of any nature whatsoever under or in respect of the Lease, the Premises or the Shopping Centre arising from, or relating to, any causes, acts, omissions, obligations, breaches, events, circumstances, things or other matters of any nature whatsoever that have occurred or existed on or before the Surrender Date, or otherwise exist as of the Surrender Date, whether known, unknown, discoverable, latent, anticipated, asserted, contingent or actual, or liquidated or unliquidated.

(d) Notwithstanding Sections 3 and 4 and the foregoing provisions of this Section 5, or any other provisions of this Agreement, the releases and discharges set out therein shall not be applicable in respect of the Continuing Liabilities, and any Claims arising from or relating thereto, and the Landlord, the Owners and the Tenant shall continue to be liable for all Continuing Liabilities, and any Claims arising from or relating thereto, all of which shall survive beyond the Surrender Date.

6. Notwithstanding any provisions of the Master Agreement, the Lease or this Agreement, but subject to the Tenant complying with the provisions of Section 7 hereof, the Landlord shall, on the Surrender Date, accept the Premises in the physical and environmental condition in which it existed as of the Execution Date, subject to reasonable wear and tear occurring during the Interim Period; provided that, notwithstanding the foregoing and the provisions of the Lease, but subject to the Tenant complying with the provisions of Section 7 hereof, the Tenant shall not be required to carry out any repairs or replacements to or in the Premises during the Interim Period or on or after the Surrender other than routine maintenance and cleaning and those repairs necessary to enable the Tenant to continue to operate its business in the Premises in accordance with Applicable Laws and in accordance with the requirements of the insurers of the Premises and the Shopping Centre, respectively, and in a safe and reasonable manner; provided that in the case of destruction of the Premises, or any material damage to the Premises that cannot be repaired by the Tenant within 30 days after commencing such repairs, using reasonable

commercial efforts and proceeding diligently, the Tenant shall not be required to restore the Premises to its condition prior to such damage or destruction.

7. The Tenant shall, in accordance with the terms of this Agreement and, to the extent not provided in this Agreement, in accordance with the terms of the Lease, at its expense, remove all its trade fixtures, stock-in-trade, inventory and other personal property and all of its signs and other identification from the Premises and other parts of the Shopping Centre, and the Tenant shall promptly repair at its expense any damage caused to the Premises or any other portion of the Shopping Centre, as the case may be, which may occur as a result of the installation or removal of such items. The work described in this Section 5 shall be performed by the Tenant not later than the 30th day after the Surrender Date, and the Landlord agrees that it shall permit the Tenant and its contractors access to the Premises during such period for the purpose of carrying out and completing such work, subject to the Landlord's reasonable restrictions and requirements in respect of such access.

8. The Tenant confirms that it shall be required to comply with its obligations to operate a department store in the Premises up to and including the Surrender Date in accordance with the terms of the Lease. Notwithstanding the foregoing, for the period commencing on the 120th day prior to the Surrender Date and ending on the Surrender Date the Tenant shall be permitted to conduct a liquidation sale at the Premises; provided that: (i) such liquidation sale shall be carried out by the Tenant itself (and not by any third party); (ii) such liquidation sale shall not include any inventory or goods brought to the Premises for the purposes of such liquidation sale and that was not a part of the Tenant's inventory at the Premises in the ordinary course of business; and (iii) all signage and advertising in respect of such liquidation sale shall be subject to the prior written approval of the Landlord, acting reasonably.

9. The Tenant covenants and agrees that it has the right, full power and authority to surrender and terminate the Lease and the Premises in the manner aforesaid, and that, as of the date of this Agreement the Tenant has not (and as of the Surrender Date, the Tenant shall not have) executed any other instruments, deeds or other documents pursuant to which the Lease and the unexpired portion of the Term, including any renewals or extensions thereof, shall in any way be sublet, charged, encumbered, assigned or otherwise transferred.

10. The Landlord and the Owners jointly and severally covenant and agree that they have the right, full power and authority to accept the surrender and termination of the Lease and the Premises in the manner aforesaid.

11. The Tenant shall, at its expense, promptly execute such further documentation with respect to the Premises and the Lease to give effect to this Agreement as the Landlord reasonably requires from time to time.

12. The parties confirm that in all other respects, the terms, covenants and conditions of the Lease remain unchanged and in full force and effect, except as modified by this Agreement. It is understood and agreed that all terms and expressions when used in this

Agreement, unless a contrary intention is expressed herein, have the same meaning as they have in the Lease. In the event of any conflict or inconsistency between the provisions of this Agreement and the provisions of the Lease then, notwithstanding anything contained in the Lease, the provisions contained in this Agreement shall prevail to the extent of such conflict or inconsistency.

13. The Tenant hereby acknowledges that it is of critical importance to the Landlord that the Tenant deliver vacant possession of the Premises to the Landlord on or before the Surrender Date and do the work provided for in Section 7 as provided for therein, and that any failure by the Tenant to do so will result in the Landlord suffering significant damages. The Tenant agrees that if the Tenant fails to so deliver vacant possession, then: (i) the Landlord shall be entitled to exercise all of the right and remedies to which it is entitled, at law or in equity, as a result of any such failure by the Tenant; and (ii) the Tenant shall indemnify and hold harmless the Landlord from any and all claims, expenses, costs, losses, damages and liabilities whatsoever incurred as a result thereof (including, without limitation, any loss of rentals), and if legal action is brought for the recovery of possession of the Premises, the Tenant shall pay to the Landlord, forthwith upon demand, any and all costs and expenses (including legal fees, on a substantial indemnity or solicitor and client basis, as the case may be, and expenses) incurred on account thereof together with all damages for which the Landlord may be liable. It is understood and agreed that money damages would not be a sufficient remedy for such a failure by the Tenant and that the Landlord would be entitled to specific performance and injunctive or other equitable relief as a remedy for such failure. Such remedy shall be in addition to all other remedies available at law or in equity.

14. This Agreement shall enure to the benefit of and be binding upon the parties hereto, the successors and assigns of the Landlord and the Owners and the permitted successors and permitted assigns of the Tenant.

15. In this Agreement:

(a) "**Continuing Liabilities**" means, in respect of each of the Landlord, the Owners and the Tenant: (i) all obligations and liabilities resulting or arising from a breach by such Person of its obligations pursuant to this Agreement or the Interim Period Obligations; and (ii) all representations and warranties made by such Person in the Master Agreement and all other obligations and liabilities of such Person under any provisions of the Master Agreement which are expressly stated in the Master Agreement to survive the Closing (as such term is defined in the Master Agreement);

[NTD: In the case of the Chinook Centre, insert the following definitions: "Chinook Environmental Agreements" means, collectively: (i) Section 11 of the Agreement made as of December 30, 1997 between the Landlord and the Tenant, and all definitions in such Agreement relevant to Section 11 thereof; (ii) the Agreement made as of March 5, 1999 between the Landlord and the Tenant; (iii) the letter agreement dated as of March 7, 2011 between the Landlord and the

Tenant; and (iv) the minutes of settlement dated as of April 18, 2011 between the Landlord and the Tenant.

"Chinook Environmental Obligations" means all obligations and liabilities of the Tenant pursuant to the Chinook Environmental Agreements;].

(b) "**Interim Period Obligations**" means all obligations and liabilities of the Landlord and the Tenant under or in respect of the Lease, the Premises or the Shopping Centre during or in respect of the Interim Period subject to the modifications of such obligations provided for in Sections 6, 7 and 8 of this Agreement; and

(c) "**Master Agreement**" means the agreement entitled "Master Agreement for Surrender of Leases" and dated as of March 1, 2012 between the Landlord, the Owners and the Tenant **[Note: add reference to all parties]**.

IN WITNESS WHEREOF the parties hereto have duly executed this Agreement as of the day and year first above written.

[INSERT NAMES OF APPLICABLE LANDLORD]

by ____________________________

Name:
Title:

____

Name:
Title:
I/We have authority to bind the corporation.

SEARS CANADA INC.

by ____________________________

Name:
Title:

____

Name:
Title:
I/We have authority to bind the corporation.

[INSERT NAMES AND SIGNING LINES FOR THE OWNERS, EXCEPT FOR CHINOOK CENTRE]

SCHEDULE B

FORM OF HST/GST UNDERTAKING AND INDEMNITY

TO: **SEARS CANADA INC. (the "Tenant")**

RE: **Agreement Re: Amendment and Surrender of Lease (the "Agreement") made as of ■ between the Tenant and ■ in respect of the leased premises located at ■ (the "Leased Premises")**

[Insert name of applicable Shopping Centre Party] (the "**Declarant**") hereby declares, certifies and agrees as follows:

(a) it is registered under Subdivision d of Division V of Part IX of the *Excise Tax Act* (Canada) (the "**Act**") for the collection and remittance of goods and services tax or harmonized sales tax under Part IX of the Act (any such tax, "**HST/GST**"); its registration number is R■; and such registration is in good standing and has not been revoked;

(b) [**Note to draft: For Rideau Centre Ottawa only, add "it collects and remits HST/GST as "operator" for itself and Ontrea Inc. pursuant to a joint venture election under Section 273 of the Act."**]

(c) for the purposes of the Act it is being transferred an interest in the Leased Premises (the "**Surrendered Interest**") as a result of the Surrender under the Agreement, so that there is a sale to it of the Surrendered Interest for the purposes of such Act by virtue of the Surrender; and the Surrendered Interest is being transferred for the purposes of such Act to itself for its own account and not as agent, nominee or bare trustee for any other person [**Note to draft: For Rideau Centre Ottawa only, add "other than Ontrea Inc."**]

(d) it shall be liable, shall self-assess and shall remit to the appropriate governmental authority all HST/GST which is payable under the Act in connection with the transfer of the Surrendered Interest all in accordance with the Act and shall report the consideration payable by it for such transfer in the applicable return for its reporting period that includes the Closing Date and will properly file such return by the date required by the applicable legislation; and

(e) it shall indemnify and save harmless the Tenant from and against any and all HST/GST, penalties, costs and/or interest which may become payable by or assessed against the Tenant as a result of any failure by it [**Note to draft: For Rideau Centre Ottawa only, add ", for itself and/or on behalf of Ontrea Inc. pursuant to the said joint venture election,"**] to comply with the provisions of this Undertaking and Indemnity.

All capitalized terms which are used herein but are not defined herein shall have the respective meanings ascribed to them in the Agreement. The provisions of this Undertaking and Indemnity shall survive the Closing Date and the Surrender.

The Declarant acknowledges and agrees that this undertaking and indemnity shall survive and not merge upon closing of the above noted transaction.

Dated as of the ■ day of ■, 2012.

[INSERT THE NAME OF THE DECLARANT]

by ____________________________
Name:
Title:

____
Name:
Title:
I/We have authority to bind the Corporation

TAB 14

MINUTES of the special meeting of the Board of Directors of **SEARS CANADA INC.** (the "Corporation") held by telephone on Thursday, March 1, 2012, at 2:00 p.m., Eastern time

---

PRESENT

W. C. Crowley (Ch.)
E. J. Bird
D. C. Merriwether
W. R. Harker
R. R. Khanna
J. McBurney
C. McDonald (in person)
D. E. Rosati

MANAGEMENT (in person)

S. Driscoll
Senior Vice-President and Chief Financial Officer
F. Perugini
Associate General Counsel and Corporate Secretary

The Chairman of the Board, Mr. W. C. Crowley, acted as Chairman of the meeting and the Secretary of the Corporation, Mr. F. Perugini, acted as Secretary of the meeting.

ROLL CALL

1. The Chairman called the meeting to order and took a roll call.

SURRENDER AND EARLY TERMINATION OF LEASES

2. Ms. Sharon Driscoll, Senior Vice-President and Chief Financial Officer of the Corporation provided the Board of Directors (the "Board") with a presentation regarding the surrender and early termination of three leases for three department stores of the Corporation.

Following Ms. Driscoll's presentation and discussion by the Board, the Board passed the following resolution.

WHEREAS the Corporation is a tenant pursuant to leases in the following locations:

- Vancouver Pacific Centre, Vancouver, British Columbia
- Chinook Centre, Calgary Alberta
- Rideau Centre, Ottawa, Ontario

(the locations are collectively referred to as the "Locations" and the leases are collectively referred to as the "Leases");

WHEREAS Cadillac Fairview Corporation ("CF") is the landlord of the Corporation at the Locations pursuant to the Leases;

WHEREAS CF has approached the Corporation and has offered to buy out the remaining terms of the Leases;

WHEREAS the Corporation has negotiated the terms of an agreement with CF for the termination of the Leases, in consideration of CF paying to the Corporation the sum of one hundred, seventy million dollars ($170,000,000);

WHEREAS the Corporation is required to obtain Board approval for any asset acquisition or disposition of greater than ten million dollars ($10,000,000.00);

WHEREAS Management has provided the Board with a presentation regarding the lease terminations, including the internal and external announcements and process leading to the ceasing of operations in the Locations; and

WHEREAS the Board considers it in the best interest of the Corporation to approve the termination of the Leases, in accordance with the terms as presented by Management.

BE IT RESOLVED:

THAT the Corporation terminate the Leases and surrender its interest in the Locations to CF in consideration of CF paying to the Corporation the sum of one hundred, seventy million dollars ($170,000,000); and

THAT the Corporation be authorized to execute and deliver all such documents and to take all such steps and do all such other acts in connection with the termination of the Leases and the surrender of the Locations, as may be necessary or desirable to give effect to this resolution.

There being no further business, the meeting was then terminated.

Chairman of the Meeting

March 15, 2012
Date

Secretary of the Meeting

TAB 15

Sears

Sears Real Estate

Sears Full Line: Real Estate and Trading Value Review

March 15, 2012

Overview

Objective

- To identify Sears Canada Full Line Stores that potentially have greater real estate value compared to the current trading value

Approach

- Rank and sort properties against five key criteria (ranking 1-5, then run scenario analysis)
  - Coverage - Rank based on number of Full Line and Home Stores with 15 kms, a high score indicate more stores accessible to customers
  - Mall Quality - Traffic a main consideration
  - Lease duration - Term of final expiry was used, longer term scored higher
  - Under Market Rent - Using the current Sears base rent as proxy, lower rent scores higher
  - Productivity – Lower productivity ranks higher, implies interest in returning lease

Highlights

- Large urban center locations rank high
- Potential of significant upside from redevelopment at these locations
- 30% are Sears Owned properties
- The average GLA of the top 20 ranked stores is 213k sq.ft. compared to Sears average size of 138k sq.ft.
- The top 20 stores account for 21% of Sears Full Line sales volume

Next Steps

- Project Matrix – Optimizing Sears position in the Canadian Retail Marketplace, including:
  - Completion of a market study to determine potential sales opportunity in all Markets
  - Determining the optimized store configuration (categories and size) for Market segments
  - Identifying which formats in what locations would maximize sales opportunity

Results

The top stores with potentially higher real estate value than trading:

	City	Prov.	Landlord	GLA	Years to Final Expiry	Base Rent	2011 ($ MM's) Sales	2011 ($ MM's) Contribution*	2011 A&A BOS	Occupancy** as % Sales
001110-DTN-TORONTO	Toronto	ON	Cadillac	816,070	66	1.38	58.7	3.6	69%	10.7%
001111-YORKDALE	North York	ON	Omers	184,600	82	7.48	28.2	0.5	62%	8.8%
001329-SHERWAY GARDENS	Etobicoke	ON	Cadillac	237,100	59	0.82	26.6	2.1	64%	10.0%
001819-VANCOUVER - BURNABY	Burnaby	BC	Sears	256,277	owned	-	20.8	1.7	56%	1.9%
001828-GUILDFORD	Surrey	BC	Ivanhoe	141,345	58	5.00	19.0	0.6	47%	6.5%
001836-BRENTWOOD MALL	Burnaby	BC	Shape	176,088	63	4.90	18.5	0.6	48%	8.4%
001097-TORONTO-PROMENADE	Vaughan	ON	Cadillac	173,560	74	5.00	20.6	0.6	55%	8.4%
001084-PLACE VERTU	Montreal	PQ	Sears	197,052	owned	-	12.7	0.1	54%	9.5%
001012-FLEUR DE LYS	Quebec City	PQ	Sears	210,000	owned	-	21.6	3.0	59%	4.0%
001085-LEVIS	Levis	PQ	Sears	125,258	owned	-	16.9	2.3	55%	6.1%
001411-CALGARY - NORTH HILL	Calgary	AB	Sears	237,616	owned	-	24.6	2.9	54%	4.0%
001308-SCARBOROUGH 2	Scarborough	ON	Omers	240,000	58	6.00	31.2	1.7	62%	8.1%
001015-OTTAWA-ST. LAURENT	Ottawa	ON	Morguard	137,141	82	1.94	36.5	4.7	54%	4.0%
001112-POLO PARK	Winnipeg	MB	Cadillac	270,000	211	0.00	29.5	4.3	63%	3.6%
001425-SOUTHCENTRE CALGARY	Calgary	AB	Omers	234,109	58	4.00	36.2	3.8	55%	5.8%
001436-ST. VITAL CENTRE	Winnipeg	MB	OPB	131,513	63	4.90	18.5	1.2	59%	7.9%
001424-WINNIPEG - GARDEN CITY	Winnipeg	MB	Sears	87,018	owned	-	12.5	1.0	48%	3.8%
001081-MISSISSAUGA(SQ ONE)	Mississauga	ON	Omers	144,676	27	0.76	28.7	1.8	61%	6.4%
001087-ANJOU	Anjou	PQ	Cadillac	146,570	49	1.37	34.9	5.6	63%	4.6%
001032-SHERBROOKE	Sherbrooke	PQ	Redcliff	115,558	71	0.84	18.6	3.3	67%	4.9%
Returned Stores:										
001115-DTN-VANCOUVER	Vancouver	BC	Cadillac	630,455	56	2.10	41.3	2.2	71%	10.6%
001113-DTN-OTTAWA	Ottawa	ON	Cadillac	239,954	58	6.50	22.3	0.9	77%	13.9%
001413-CALGARY - CHINOOK CENTRE	Calgary	AB	Cadillac	167,867	29	3.76	21.3	1.7	56%	7.0%

** Based on 2011 Store contribution review.*

*** Occupancy costs per store P&L's*

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Top Ranked Stores

Frequency In		Store	Rank			Real Estate Value					Trading Value		Coverage
						Mall Quality	Lease Duration		Under Mkt Rent		Productiivity		
Top 20	Top 15		Scen. 1	Scen. 2	Scen. 3	Score	Years	Score	Rent/sq.ft.	Score	Sales/sq.ft	Score	Score
3	3	001110-DTN-TORONTO	3	1	11	5	66	5	1.38	5	229	3	4
3	3	001111-YORKDALE	5	7	10	5	82	5	7.48	2	237	3	5
3	3	001329-SHERWAY GARDENS	1	2	3	4	59	5	0.82	5	182	4	4
3	3	001819-VANCOUVER - BURNABY	1	2	3	4	owned	5	-	5	178	4	4
3	3	001828-GUILDFORD	5	7	7	4	58	5	5.00	3	177	4	4
3	3	001836-BRENTWOOD MALL	5	12	2	3	63	5	4.90	3	144	5	4
3	3	001097-TORONTO-PROMENADE	5	12	3	3	74	5	5.00	3	171	4	5
3	3	001084-PLACE VERTU	3	4	1	2	owned	5	-	5	138	5	5
3	3	001012-FLEUR DE LYS	5	7	8	2	owned	5	-	5	198	4	4
3	3	001085-LEVIS	5	7	8	2	owned	5	-	5	179	4	4
3	3	001411-CALGARY - NORTH HILL	5	7	11	2	owned	5	-	5	228	3	5
3	2	001308-SCARBOROUGH 2	13	12	18	5	58	5	6.00	2	201	3	4
2	2	001015-OTTAWA-ST. LAURENT	13	5	41	4	82	5	1.94	5	350	1	4
3	2	001112-POLO PARK	5	5	16	3	211	5	0.00	5	245	3	4
3	2	001425-SOUTHCENTRE CALGARY	13	12	18	3	58	5	4.00	4	220	3	4
3	2	001436-ST. VITAL CENTRE	13	19	13	3	63	5	4.90	3	189	4	4
3	2	001424-WINNIPEG - GARDEN CITY	13	12	20	2	owned	5	-	5	205	3	4
3	2	001081-MISSISSAUGA(SQ ONE)	13	19	14	4	27	2	0.76	5	238	3	5
2	1	001087-ANJOU	19	12	47	4	49	4	1.37	5	324	1	4
1	1	001032-SHERBROOKE	22	12	46	3	71	5	0.84	5	245	3	2
		Returned Stores:											
3	3	001115-DTN-VANCOUVER	3	2	2	5	56	5	2.10	4	187	4	4
3	3	001113-DTN-OTTAWA	6	6	7	5	58	5	6.50	2	136	5	4
3	3	001413-CALGARY - CHINOOK CENTR	7	14	9	5	29	2	3.76	4	174	4	5

Methodology

For all metrics a high score correlates with higher likelihood of exit.

DESCRIPTION OF 5 CRITERIA

(1) Coverage

Rank based on number of Full Line and Home Stores within 15 kms. A high score indicates more stores accessible to customers and less risk to Sears.

Score	Stores under 15 kms	Count
1	No Corp Stores	43
2	1 Home Store	18
3	1-2, min.1 FL	11
4	3-5	37
5	> 6	13
		122

(2) Mall Quality

Estimated quality of centre. Traffic a main consideration

Score	Count	
1	32	
2	50	
3	20	
4	13	
5	7	*Highest Ranking inclusive of 3 returned stores*
	122	

(3) Lease Duration

Term to final expiry was used. A longer duration should command a higher offer

Score	Duration (Yrs)	Count
1	<20	16
2	20-30	20
3	30-40	20
4	40-50	6
5	>50	60
		122

(4) Under Market Rent

Used current Sears base rent as proxy.
Low rent generates a high score.

Score	Rent/sq.ft.	Count
1	>7.50	6
2	5.01-7.50	40
3	4.01-5.00	24
4	2.01-4.00	19
5	<=2.00	33
		122

(5) Productivity

Lower productivity generates high score and implies interest in returning the lease

Score	Productivity	Count
1	301+	13
2	251-300	20
3	201-250	50
4	150-200	28
5	<150	11
		122

SCENARIO DESCRIPTION

Scenario 1	Equal Weights for all five measures
Scenario 2	Landlord Point of View - higher weights on lease metrics (mall quality, rents, duration) High score indicates high landlord interest in capturing value of alternative tenants/use.
Scenario 3	Trading Point of View - higher weights on coverage and productivity scores. Eg., if a store has poor productivity and has a strong network in the market, Sears would likely entertain a real estate play.

Weightings	Scenarios		
	(1) Equal Weighting	(2) Landlord Point of View	(3) Trading Point of View
Coverage	20%	13%	33%
Quality of Mall	20%	25%	11%
Duration of Lease	20%	25%	11%
Base Rent	20%	25%	11%
Productivity	20%	13%	34%

Notes Summary:

No speaker notes are contained in this presentation.

TAB 16

APPENDIX

Sears

Project Matrix

March 15, 2012

Current State

Situation

- Sears Canada is at a pivotal point in its history – Trading businesses are contributing negative cash flows, despite very favourable long-term real estate arrangements

Challenges

- Customer and employee perceptions have been in decline, yet to find the bottom
- Have underinvested recently in stores relative to peers
- Foreign entrants are pushing the bar higher for operational and promotional effectiveness, while eating into the Canadian retail pie
- Sears is aging in the market place… declining cache in many malls, failing to connect with the next generation of core lifelong clientele
- Eroding brand value gradually over time

Opportunities

- Strong balance sheet with unique Real Estate assets that could be used in a variety of ways to unlock capital or leverage relationships within the retail market
- Recognized brand with a respected history that can still be salvaged
- Leading Direct business, with established infrastructure

Hypotheses

- Sears Canada is not optimally positioned within today's Canadian retail market place; from perspectives of its (a) product offerings, (b) market locations / types, nor (c) format mix
- Sears is not optimizing the return on assets from many stores – specifically Urban centers
- Sears has the ability to unlock and redistribute value by leveraging its real estate arrangements

1002

Project Matrix

Objectives

- Raise new ideas / strategies for maximizing Sears profitability and return on assets
  - Accurately measure, analyze and compare existing products, services, and format profitability… stress test existing strategies against this new model
  - Develop a robust and ongoing model and approach to measuring and evaluating strategic Product and selling Format options – shared across key analytical groups for consistency

Approach

- Develop tools (model, approach, and "building blocks" for accurate analyses) over next couple of months
- Simultaneously develop ideas for analysis… produce various analyses rapidly when tools are clean
  - Analyze various formats, trading and non trading businesses to postulate optimized business model options for Sears to achieve EBITDA targets and beyond
    - Uncover value in trading business
    - Identify and value opportunities where capital could be freed-up, EBITDA or financial flexibility could be improved, through:
      - Sale / Lease of Assets (e.g., Real Estate)
      - Sale / Lease Non-Trading Businesses (e.g., SLH, HIPS)
      - Converting fixed expenses to variable (e.g., convert owned stores or DCs into leases)
      - Exiting of non-profitable business lines
      - Streamlining Operations
    - Reinvest for Sustainable Cash Flow Generation through:
      - Right Sizing of Formats
      - Right Sizing of corporate infrastructure
      - Urban / Sub-urban / Rural focus
      - Expand Partnerships and/or Licensees
      - Category Growth or Shrinkage
    - Assess the Opportunity Cost of Capital
- Model and analytical approaches will be living and enhanced over time

Benefits

- Greater preparedness for developing and acting on strategic opportunities
- Improved set of metrics for management reporting (e.g., up-to-date square footage sales and profitability)
- Improved internal perspectives on how Sears Canada stacks up in the retail market landscape
- Greater preparedness for external inquiries for Real Estate plays, etc
- Catalogue of asset value options, with semi-developed game-plans for how to monetize if/when needed
- Improve coordination between key strategic analytical groups… One Version of the Truth

Building Blocks

Key activities to be completed to allow for robust analysis

- Clean-up the P&L
  - Alignment of internal & external P&Ls
  - Appropriate P&L placement of revenues and costs (e.g., above/below GM, SG&A…)
  - Clean business / format P&Ls – allow for Trading vs. Non-trading views, elimination of double-counts (brown dollars)
  - Fresh look at expense allocations methodology and drivers… find right balance of accuracy and simplicity
- Build robust model
  - Integrate and maintain data obtained from all other building blocks
  - Tack-on capabilities to repeat common analyses explored throughout this project and otherwise as related to strategic commercial decisions
  - Develop clear understanding of fixed vs. variable vs. "semi-variable" costs in measuring Product and Format profitability
- Value and catalogue our store real estate assets from various perspectives
  - Continuing to trade – various strategic options
  - Sale in whole or part back to landlord
  - Sub-lease options
  - Increasing licensee arrangements
- Value non-store assets (businesses, DCs, etc.)
- Catalogue the competitive footprints of the malls we operate in
  - Do we "fit" in with the mall's core customer base?
  - What is our share of floor space within the shopping center by product category
  - What impacts are the above having on our sales and profitability by store
- Cleaning up the store layouts square footage data for better sales and profitability return analytics (plan-o-grams?)
- Research and catalogue competitor profiles – Canada, North America, Global
  - Who might be most interested in entering Canada – Partnerships? Threats?
  - What can we learn from competitors and market trends… strategies, transformations & makeovers, partnerships, marketing…
- Establish a steady state Sears Canada from which to compare options to – use 2014 – extrapolate out current strategies from the 3 Year Plan… Formats x Product offerings

Possible Analyses – Key Questions Raised…

Limited brainstorming to date has produced many big questions that will lead to deeper analysis and insights

- What does "Optimal" look like for Sears Canada?
  - What is the optimal mix of formats – existing and potential?
  - What is the optimal selling space for different product types (by market type, mall, store…)?
  - What is the optimal overall size of stores?
  - Are there formats we should consider exiting – completely? Within certain market settings?
  - What market types should we consider exiting – urban centers, posh malls, dying malls…?
  - What would the optimal mix of products & services be within [20k, 50k, 100k, 200k] formats, measured separately against market types [Major – city centers, Major – suburbs, Mid, Semi-rural, Rural]… matrix view?
  - What would a store full of branded shops look like?
  - What are the optimal floor layouts by format / size of store – positioning for cross-sell, near vs. far from exits, selling vs. traffic / open areas?
  - What are the knock-on effects of format / product removals – cross-sell, cost base, marketing strategy, customer alienation/piqued interest…?
  - Extreme views – no bricks and mortar, soft or hard-lines only, no urban centers, no store over X sq.ft., no catalogue…?
- What options do we have for partnerships / licensees?
  - What are the risks and opportunities for partnering with other companies, brands, local talent…?
  - Are there locations or product areas where we can leverage our real estate advantages in Canada in order to attract foreign brands?
  - What types of licensees would promote traffic, the Sears brand, cross-selling…?
  - How can we leverage our low rents to negotiate favourable / creative arrangements with licensees?
  - If our optimal selling space is less than what we have… how does that play into decisions about how to utilize "sub-optimal" space?
  - Are there any businesses / brands worth acquiring?
- Forward looking – don't just catch-up to the present… prepare for the future…
  - What does the "2020" Canadian retail market look like?
  - Who are the competitors… where will they play?
  - What is the future role for Catalogue? Is it net beneficial now? Is that eroding over time? When if ever might we pull the plug?
  - Where are the growth markets?
  - Is the future of the big box dead?
  - What will be the split between Bricks & Mortar and Virtual buying… by product type?
  - What can we learn from other retailers – Canadian, North American, Global – about how the future may be shaping up in retail strategies?

Possible Analyses – Key Questions Raised…

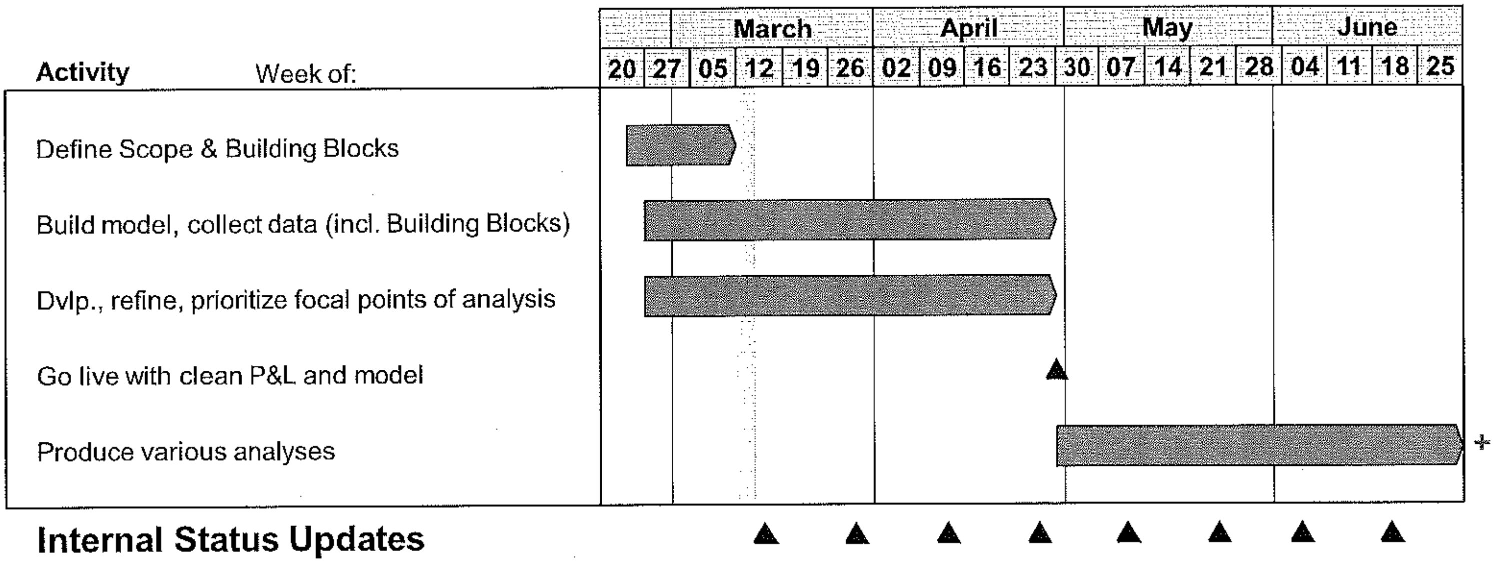
Limited brainstorming to date has produced many big questions that will lead to deeper analysis and insights

- What assets do we have that can be monetized to free-up capital for reinvestment?
    - Owned properties, leases, DCs, businesses (SLH, HIPS…)
    - What are the various ways we can leverage these to extract capital for reinvestment… sell, borrow, partner
    - What is the range of values of each?
    - How quickly could we monetize if desired?
    - How dependant are we on others versus ourselves to extract value?
- Services
    - What is the true profitability of our services?
    - What additional services might we consider owning or outsourcing under the Sears brand…where do we want to play within the customer value-chain?
    - Don't lose sight of financial services profitability being linked to gross sales
- Cost base & Flexibility
    - How does our cost base / overhead change based on types and numbers of formats we operate?
    - What options do we have to increase flexibility to grow/shrink our cost base in alignment with strategic shifts and financial results?
    - What options are there to sell-off & outsource services ala credit card business?
- What pilots could we perform to test hypotheses?

Formats Scenario Analysis – Approach

If sufficient for business needs, schedule below implies 90% of time spent to end of April preparing / 10% focus on strategies… 100% focus on strategies & analysis after April

- Building up to end of April, various analyses will effectively be performed / structured through the act of gathering essential data and building model capabilities



Notes Summary:

No speaker notes are contained in this presentation.

TAB 17

Sears Canada

Full-line Store Refresh Update

July 9, 2012

Agenda

- Store Refresh Review
    - Initial 4 Stores – Selection Process & Strategic Focus
    - How the Capital was Spent
    - Performance-to-date
    - Customer Response
    - Learnings & Adjustments

- Next 10 Refresh Stores
    - Request for Capital
    - Selection Process
    - Summary Review

Store Refresh Review: Overview

A detailed market analysis drove the selection of the four stores and within each store changes were made strategically to create a compelling shopping experience...

Selection Criteria

- Suburban & small city/towns in Ontario
- Stores that have not been renovated in for a significant amount of time (all stores selected: 13-14 years since last renovation)
- Market dynamics for each represented a strong opportunity to succeed in Hero/Power categories
    - Barrie... an average income commuter town; store last renovated in 1998
    - Belleville... a declining rural retiree community; store last renovated in 1999
    - Newmarket... high income suburb; store last renovated in 1998
    - Hamilton (Limeridge)... blue collar older stable town; store last renovated in 1998

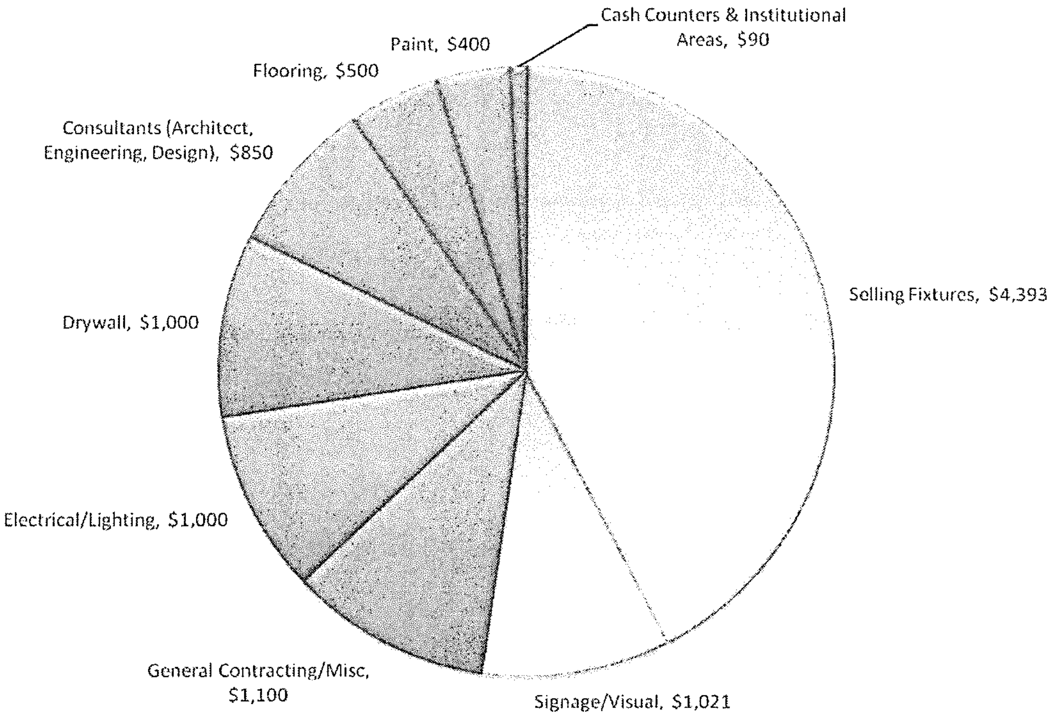
What We Did Differently

- Big bets on hero categories: Appliances, Mattresses and Kids Room & Apparel
- Merchandised apparel commodities with AUTHORITY
    - Organized by commodity, not by collection
- Focused events hubs throughout the store
- Edited assortments (30% Less) ... clearer choices
- Offer new, unique & better products
- Localized marketing to drive traffic

10/2

Store Refresh Review: How the Capital Was Spent

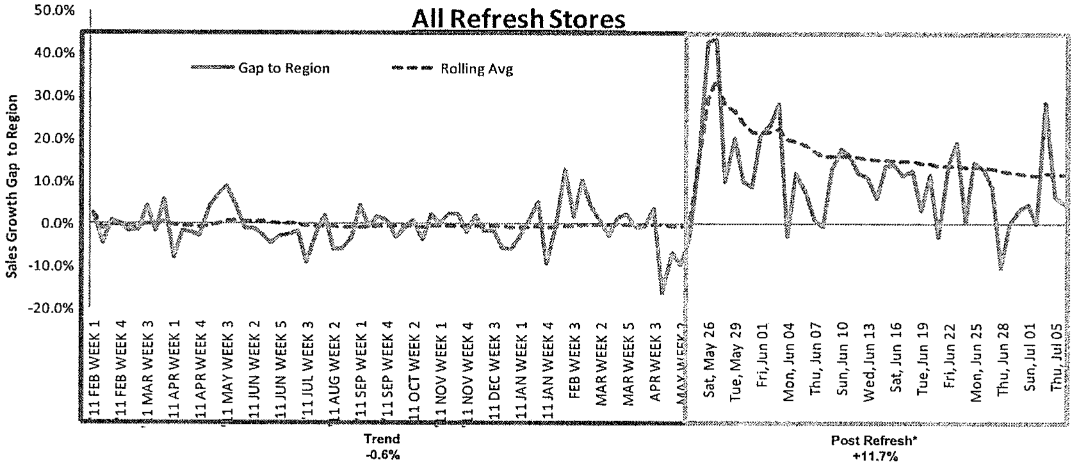
Total capital spend in these four stores summed to $10.4MM with more than 50% focused on product display and supporting visual / signage…



Store Refresh Review: Performance to Date (Sales)

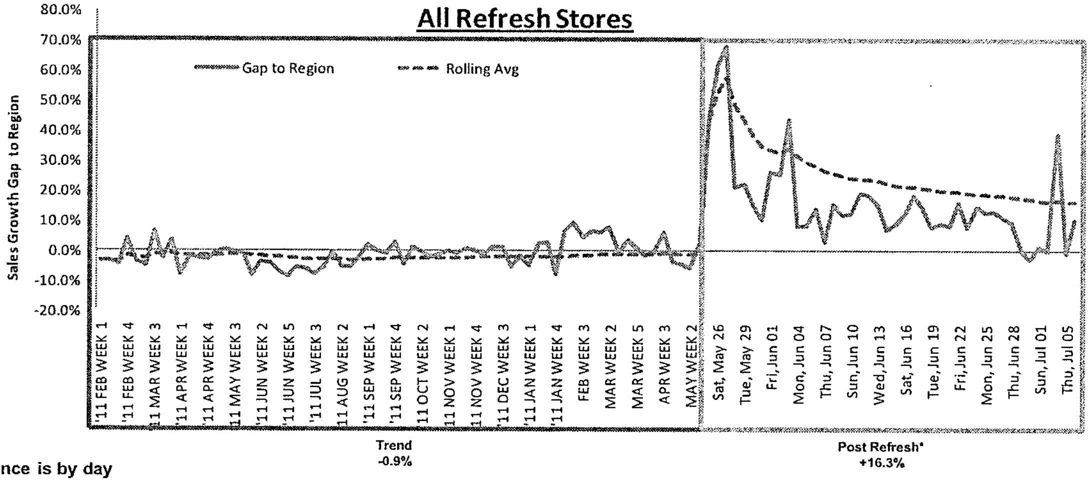
TOTAL SALES

- Refresh stores launched on May 25th, 2102 and now have seven weeks of post launch results
- Refresh stores lagged the region performance by 60 bps prior to the launch and are now performing better than region by 11.7%



A&A

- Apparel sales are up 3.7% over last year and positively gapping region results by 16.3% in stores that previously lagged the region by 90bps



***Note that the Post Refresh performance is by day**

Store Refresh Review: Sales productivity

Big bets on space allocation are performing well – Major Appliances, Mattresses and Kids Room sales are up over last year. Home and Hardlines department sales are still strong versus region performance despite reduction in SQFT …

ALL REFRESH STORES					
Time Frame: Cumulative Launch, Jul 5 2012 PTD	Net Sales			Space	
	$	VYA	VYA v. Region	New SQFT	SQFT VYA
TOTAL MERCHANDISE DIVISIONS	11,430,554	0.2%	11.7%	359,418	
APPAREL & ACCESSORIES	6,608,936	3.7%	16.3%	232,765	4.6%
HOME & HARDLINES	2,705,653	-14.0%	2.5%	97,803	-11.3%
MAJOR APPLIANCES	2,115,965	11.9%	13.2%	28,850	33.1%
MAJOR APPLIANCES*	2,115,965	11.9%	13.2%	28,850	33.1%
HOME DECOR & SEASONAL	739,962	-11.6%	3.5%	52,225	-11.6%
HOME FURNISHINGS	728,540	25.7%	35.7%	19,300	72.1%
CRAFTSMAN, AIR, WATER & PAINT	966,092	-17.7%	19.9%	15,260	-19.5%
FITNESS & RECREATION	4,007	-95.9%	-57.3%	3,745	-61.8%
ELECTRONICS	267,052	-41.7%	-6.2%	7,273	-10.6%
COSMETICS & PERSONAL CARE	659,598	-0.8%	8.9%	16,154	-1.0%
JEWELLERY, ACCESSORIES & LUGGAGE	683,719	30.8%	28.6%	20,661	6.9%
FOOTWEAR	623,013	13.8%	22.0%	12,621	7.2%
CHILDREN'S WEAR	650,838	2.6%	21.9%	48,599	14.3%
MENSWEAR	1,563,697	-1.0%	17.0%	52,983	3.7%
WOMEN'S APPAREL	1,813,933	2.5%	18.2%	65,485	12.5%
WOMEN'S INTIMATES	614,138	-6.5%	3.9%	16,262	-29.9%

**Major Appliances not in Belleville; Only received Major Rennovation of Cosmetics*

VYA (Versus a Year Ago)

Store Refresh Review: Performance to Date - Apparel & Accessories Sales & GP

&A has performed well within the refresh stores with sales growth up double igits compared to regional results…

	Belleville		Barrie		Newmarket		Limeridge	
	Sales % (TY vs LY)	BEL vs REG	Sales % (TY vs LY)	BAR vs REG	Sales % (TY vs LY)	NMKT vs REG	Sales % (TY vs LY)	LIM vs REG
al Store	-1.3%	11.1%	-4.6%	7.8%	3.3%	15.7%	-0.6%	11.8%
CS	-8.4%	0.6%	-8.0%	0.9%	7.1%	16.1%	-4.3%	4.7%
JAL	35.8%	36.4%	26.4%	27.0%	18.5%	19.1%	17.4%	17.9%
FW	6.7%	17.0%	9.1%	19.4%	30.6%	41.0%	-2.7%	7.6%
CW	-3.9%	15.2%	-5.2%	13.9%	6.6%	25.7%	2.9%	22.0%
MW	8.3%	26.0%	-4.9%	12.8%	-5.4%	12.3%	-0.7%	17.0%
WA	6.2%	22.9%	-3.2%	13.6%	-7.3%	9.5%	-0.7%	16.0%
WI	9.7%	18.9%	-20.2%	-11.0%	-3.2%	6.0%	-8.8%	0.4%
A&A	7.2%	20.9%	-3.3%	10.4%	1.9%	15.6%	-0.1%	13.6%

	Belleville		Barrie		Newmarket		Limeridge	
	GP bps Δ (TY vs LY)	BEL vs REG	GP bps Δ (TY vs LY)	BAR vs REG	GP bps Δ (TY vs LY)	NMKT vs REG	GP bps Δ (TY vs LY)	LIM vs REG
al Store	81	61	26	6	58	38	52	32
CS	81	-72	129	-23	-75	-227	-64	-217
JAL	-1034	-556	-835	-357	-587	-108	-686	-208
FW	-478	-372	167	273	283	388	301	406
CW	276	158	157	39	745	627	-120	-238
MW	193	-143	320	-16	221	-115	392	56
WA	514	48	613	147	830	364	682	216
WI	-446	59	-360	145	-498	7	-414	91
A&A	65	-89	186	32	272	118	187	33

1H - Accomplishments / Misses

- ✓ New fixture designs (Power Tower, Event Hub)
- ✓ Customer-focused in-store marketing collateral
- ✓ From collection to commodity merchandising (e.g., Men's Wear)
- ✓ Cross-category merchandising (Jewelry and Accessories +30.8% vs LY and 28.6% improvement to region)
- ✓ Jessica sales +12% over LY, 38% above region with only very minor assortment changes
- ✓ Children's Furniture +26% to LY and 38%above the region
- ✓ Early delivery of intended Fall launches (e.g., Men's Dress Wear)
- ✗ Women's Intimates and Cosmetics not performing as well

Note: Post store refresh (May 24, 2012 onwards) report generated as of July 5 2012

Source: Weekly Refreshed Store Analytics

10/6

Store Refresh Review: Performance to Date - H&H and MA Sales & GP

Expansion of major appliance and mattress displays driving sales and offsetting sales declines in downsized or exited categories…

	Belleville		Barrie		Newmarket		Limeridge	
	Sales % (TY vs LY)	BEL vs REG	Sales % (TY vs LY)	BAR vs REG	Sales % (TY vs LY)	NMKT vs REG	Sales % (TY vs LY)	LIM vs REG
Total Store	-1.3%	11.1%	-4.6%	7.8%	3.3%	15.7%	-0.6%	11.8%
HDS	-18.7%	-2.9%	-12.9%	2.8%	-11.4%	4.4%	-9.8%	6.0%
HF	31.1%	17.4%	-1.9%	-15.6%	22.9%	9.2%	62.5%	48.8%
CAWP	1.7%	31.0%	-14.7%	14.7%	-6.2%	23.2%	-28.7%	0.6%
FR	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
ELE	-54.8%	-26.2%	-28.3%	0.3%	-32.1%	-3.6%	-48.7%	-20.1%
H&H	-12.6%	2.8%	-14.0%	1.4%	-8.7%	6.7%	-16.1%	-0.7%
MA	N/A	N/A	5.2%	8.6%	19.5%	22.9%	23.9%	27.2%

	Belleville		Barrie		Newmarket		Limeridge	
	GP bps Δ (TY vs LY)	BEL vs REG	GP bps Δ (TY vs LY)	BAR vs REG	GP bps Δ (TY vs LY)	NMKT vs REG	GP bps Δ (TY vs LY)	LIM vs REG
Total Store	81	61	26	6	58	38	52	32
HDS	315	483	47	214	-867	-699	-157	11
HF	-603	-357	-729	-483	-403	-157	-367	-121
CAWP	-305	-14	-323	-32	-725	-434	-362	-71
FR	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
ELE	462	880	-49	369	343	761	-439	-21
H&H	-20	130	-215	-65	-391	-241	-25	125
MA	N/A	N/A	-103	21	-13	110	-90	33

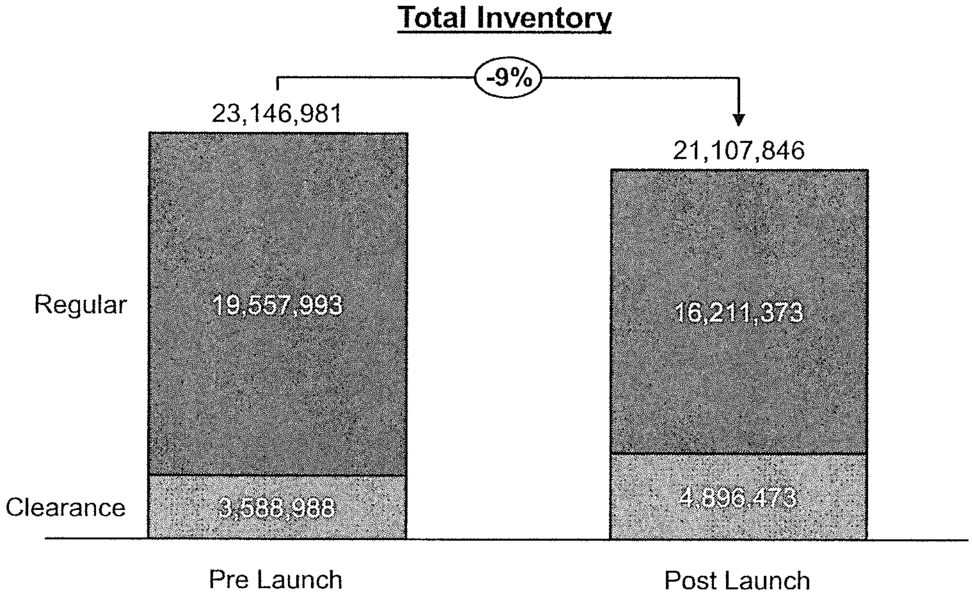
1H - Accomplishments / Misses

- ✓ Expansion to 40 beds in Bedding Aisle
- ✓ MA expansion and store adherence to merchandise priority list
- ✓ Fashion Bedding expansion
- ✓ Coffee and small apps prominence – Small apps + 25% in Limeridge
- ✓ CAWP re-assort – Hardware is +22% in Belleville
- ✓ Vacuum prominence
- ✓ ELEC re-assort driving improved G/P in Belleville and Newmarket
- ✗ Home Décor assortment
- ✗ CAWP Air and Div 9 (hardware) store/ region assortment rationalization

Note: Post store refresh (May 24, 2012 onwards)
report generated as of July 5 2012
Source: Weekly Refreshed Store Analytics

Store Refresh Review: Performance-to-date -Inventory

More effective sell-through / higher inventory turns in refresh stores improve working capital position...

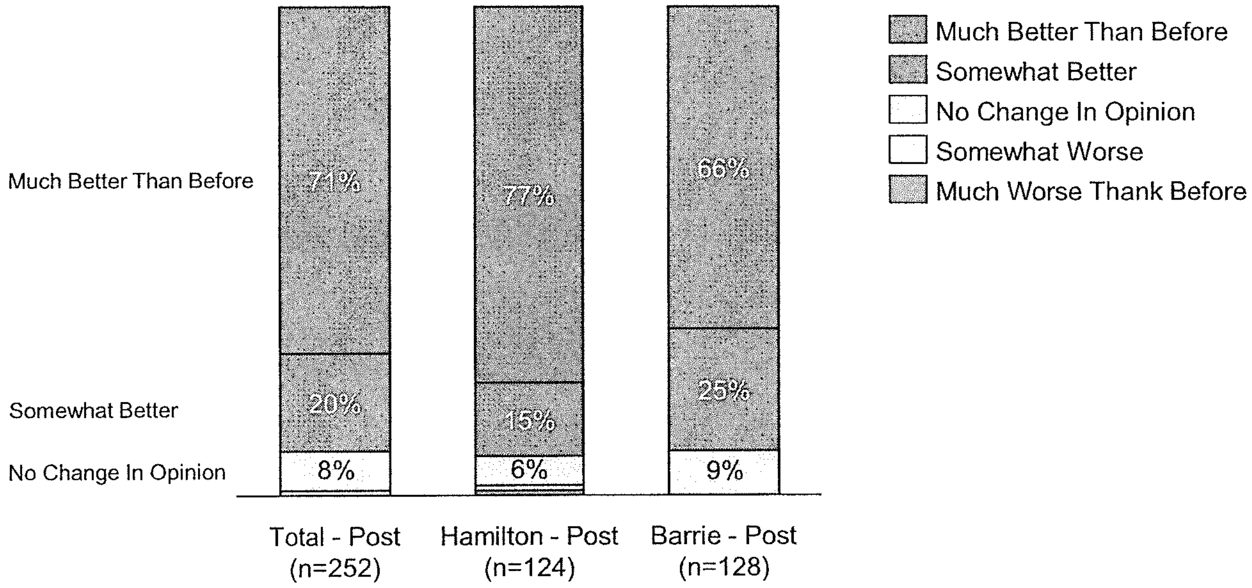


Inv Turns	Pre Launch	Post Launch	Var	% Var
Full Line Stores	0.98	1.46		
Refresh Stores	0.98	1.61		
Delta	0.00	0.15	0.15	15.1%

Store Refresh Review: Customer Response

Overall customer response to changes at the refresh stores has been very positive…

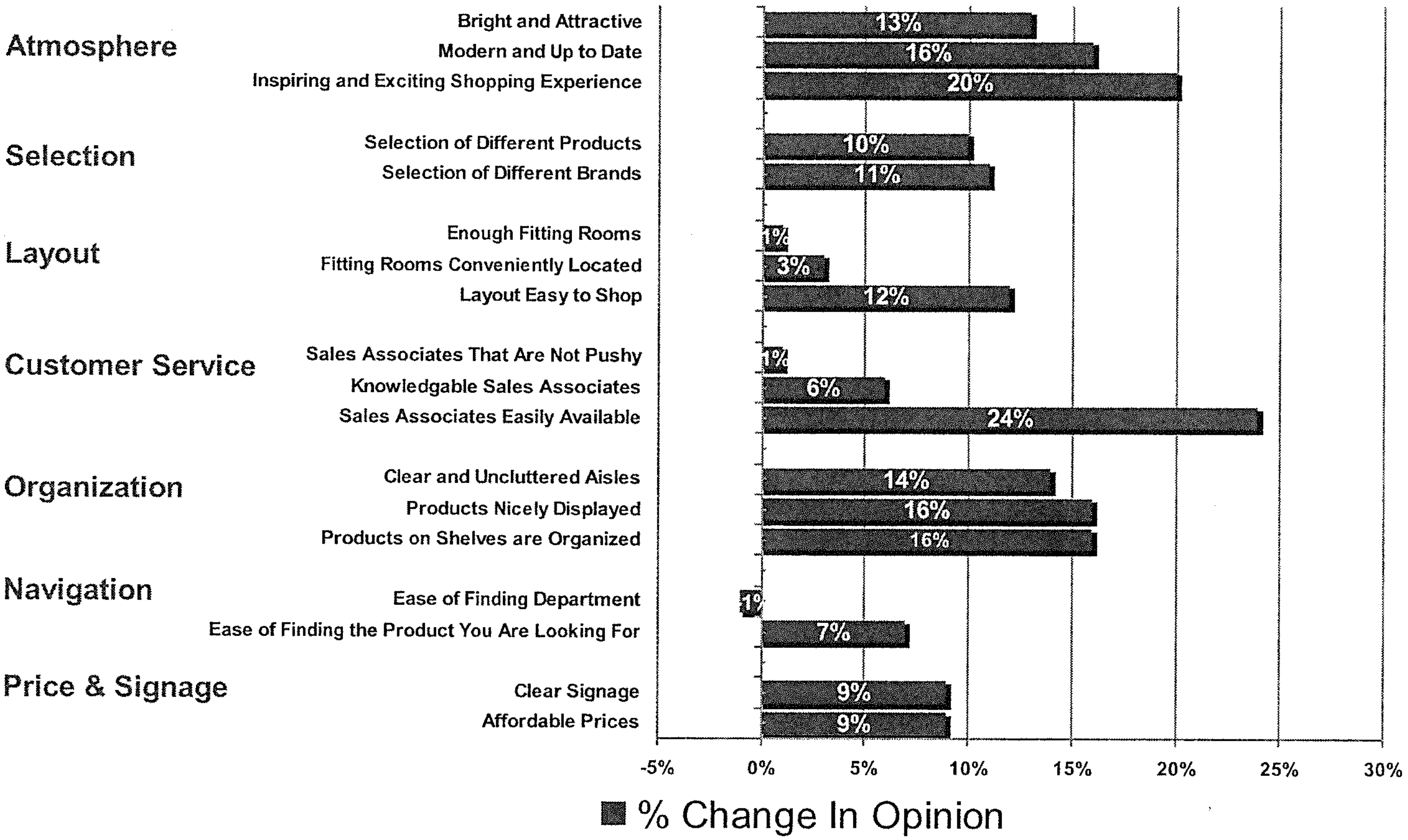
Opinion Of Changes To Store
Base: Noticed changes in the store



Q20. In your opinion, have these changes made this store…? Base: Noticed changes in the store

Store Refresh Review: Customer Response

Customers have responded positively to the customer service and the atmosphere in the refresh stores…



Private and Confidential

Store Refresh Review: Projected Return on Capital

Current run rate of store performance projects an IRR of 52.08%% and still a strong IRR of 21.79% even if current performance is cut by 50%...

	Current Run Rate	50% of Run Rate
Capital	$10.4 MM	$10.4 MM
Sales lift to trend	1230 bps year 1 100 bps years 2-5	615 bps in year 1 100 bps years 2-5
GP rate lift	150 bps	75 bps
Incremental Margin Dollars in First 12 months	$5 MM	$2.5 MM
Incremental Expense	$500 K	$500 K
IRR	52.08%	21.79%

Store Refresh Review: Learning's & Adjustments

The four refreshed stores are a success to-date with opportunity to improve…

Key Learning's

- ✓ Freshened store appearance coupled with event/product—focused fixtures dramatically change the shopping experience
- ✓ Spending money where the customer sees it, and not on ceilings/floors provides stronger visual impact
- ✓ Merchandising with authority and clarity drives more transactions

Opportunities For Improvement

- × Despite 40% growth, Men's dress wear initiative needs to be more authoritative and multi-faceted
- × Women's Apparel can be shifted to more commodity-based merchandising
- × Women's Intimate assortment did not change enough to leverage potential of new fixtures
- × Barrie store furniture corner not working
- × Bed & Bath assortment improvement required

Areas We Are Monitoring Closely

- ○ Inventory to support strong item-focused merchandising on new fixtures
- ○ Adherence to merchandising standards
- ○ Space allocations to adjust where required

Agenda

- Store Refresh Review
    - Initial 4 Stores – Selection Process & Strategic Focus
    - How the Capital was Spent
    - Performance-to-date
    - Customer Response
    - Learnings & Adjustments
- Next 10 Refresh Stores
    - Request for Capital
    - Selection Process
    - Summary Review

Next 10 Stores: Request for Capital

With the success of the initial wave of refreshed stores we are recommending the immediate launch of the next 10 stores...

- Request $25m in new capital to refresh 10 additional stores, spread across more of the country
- Expansion of program is consistent with our 3-year strategic plan, which called for 40 refreshed stores by the end of 2013
- In order to ensure preparedness for critical Q4 Holiday season and maximize benefits to 2012, recommend work start as soon as possible on next wave – target Oct. openings (early Nov. latest)
- Recommended stores:

Stores	City	Province
001319-ST BRUNO	Montreal	PQ
001035-ST JEROME	St. Jerome	PQ
001087-ANJOU	Montreal	PQ
001018-PLACE LAURIER	Quebec City	PQ
001094-LAVAL	Montreal	PQ
001037-ST. JEAN	St. Jean	PQ
001016-OSHAWA	Oshawa	ON
001811-LANGLEY, BRITISH COLUMB	Langley	BC
001823-NANAIMO	Nanaimo	BC
001416-EDMONTON - WEST EDMONTON	Edmonton	AB

Having these stores refreshed for Dec & Jan should drive an incremental $0.7MM to $1.5MM in GP

- Projected performance...

PAYBACK		Bps vs Region		
		50 bps	100 bps	150 bps
Sales	5%	>5	5	4
Gap to	10%	4	3	3
Region	15%	3	2	2

ROI (over 5 years)		Bps vs Region		
		50 bps	100 bps	150 bps
Sales	5%	-9%	18%	44%
Gap to	10%	58%	86%	113%
Region	15%	124%	153%	182%

IRR (over 5 years)		Bps vs Region		
		50 bps	100 bps	150 bps
Sales	5%	-3%	6%	14%
Gap to	10%	17%	25%	32%
Region	15%	35%	42%	49%

- **Request approval to proceed immediately with expansion of FL refresh program to 10 additional stores with an incremental $25MM capital budget**

Next 10 Stores: Selection Process

Considerations:

- Market opportunity
- Protect stores against Target opening in the same mall
- Implement the next round of store-refresh across different provinces
- Exclude 27 Major Urban stores to allow for Real Estate and Strategic Partnership opportunities

Selection Process:

- Step 1: Rank all stores on market opportunity focusing on potential size of the market opportunity (existing sales base, productivity, market share, demographics), market growth, competitive environment, and internal knowledge
- Step 2: Factor in construction complexity, capital spend, and economic factors
- Step 3: Model the opportunity & payback/ROI sensitivities

Next 10 Stores: Selection Process

Highlights of Selected Stores:

- Markets with healthy population growth over the next 10 years
- All have had significant sales decline in the last 3 years (opportunity to win back share)
- Increased competition from WalMart and Target

Store	2011 Population (10 km)	10 yr Pop Growth (10 km)	Household Spend Potential ($MM)	Spend Potential per Capita	Average Income	Sales ($MM)	Mkt Share	GLA Sqft	Sales/ GLA (per sq.ft)	Selling Sqft	Sales/ Selling (per sq.ft)	Sales Dec 2008 ($MM)	3 Yr CAGR
001016-OSHAWA	301,914	16.7%	861	2,851	84,566	27.1	2.2%	135,333	200	97,768	277	(9.9)	-10%
001319-ST BRUNO	364,310	6.8%	918	2,520	72,444	27.8	1.5%	140,086	199	104,652	266	(6.2)	-7%
001811-LANGLEY, BRITISH COLUMB	222,146	43.1%	659	2,967	92,405	22.2	2.1%	115,806	192	95,917	231	(4.7)	-6%
001035-ST JEROME	105,635	26.6%	225	2,131	60,097	25.6	5.5%	120,560	212	104,774	244	(4.7)	-5%
001416-EDMONTON - WEST EDMONTON	408,241	12.3%	1,601	3,922	95,374	25.8	0.8%	140,647	183	104,620	246	(4.4)	-5%
001087-ANJOU	1,111,527	3.9%	2,490	2,240	53,469	34.9	1.2%	147,434	237	120,654	289	(7.1)	-6%
001823-NANAIMO	84,921	14.6%	221	2,599	65,993	23.0	4.3%	130,978	176	99,063	233	(6.6)	-8%
001018-PLACE LAURIER	429,900	6.6%	1,093	2,542	62,272	31.7	1.6%	158,640	200	117,546	270	(6.5)	-6%
001094-LAVAL	791,213	9.1%	1,855	2,345	65,650	33.9	1.3%	164,485	206	139,636	243	(7.3)	-6%
001037-ST. JEAN	99,255	13.8%	215	2,167	62,601	16.3	5.2%	90,889	179	61,548	265	(3.5)	-6%

	Competition (10 km)													
	Existing Compeition											Future Competition		
Store	Reitman's Brands	Brault & Martineau	Canadian Tire	Leon's	Mark's Work Wearhouse	Moore's	The Bay	The Brick	Wal-Mart	Winners	Zellers*	Wal-Mart*	Target*	Total
001016-OSHAWA	5	0	4	1	4	1	1	1	3	2	5	1	3	26
001319-ST BRUNO	17	2	4	2	4	3	2	1	3	3	3	1	2	44
001811-LANGLEY, BRITISH COLUMB	3	0	1	0	1	1	1	1	1	1	1	0	1	11
001035-ST JEROME	2	1	1	0	1	0	0	0	1	1	2	0	1	8
001416-EDMONTON - WEST EDMONTON	11	0	3	1	6	1	4	3	1	4	5	2	3	39
001087-ANJOU	22	2	6	1	2	2	2	1	2	2	8	2	3	47
001823-NANAIMO	2	0	0	0	1	1	1	1	1	1	1	0	1	9
001018-PLACE LAURIER	22	4	6	1	3	4	3	2	3	2	4	0	4	54
001094-LAVAL	22	3	4	1	4	4	5	3	4	5	3	0	2	57
001037-ST. JEAN	2	1	1	0	1	1	0	0	1	1	1	0	1	9

*Zellers replaced by Walmart and Target and not included in the Total. The ones not converted to either a Target or a Walmart are being marketed for leasing to other retaliers

Next 10 Stores: Summary Review

- Request approval for $25m in new capital to refresh 10 stores
- Customer response has been fantastic on initial wave of refreshes
- Financial performance has outpaced expectations
- Further cash-flow benefits being realized through better inventory management
- The time to act is now – critical to open next wave of refresh stores by Oct / Nov at latest in order to be prepared for critical Q4 Holiday season & maximize benefits in 2012

Notes Summary:

No speaker notes are contained in this presentation.

TAB 18

Sears Canada

Full-line Store Refresh Update

July 20, 2012

Store Refresh Review: Overview

A detailed market analysis drove the selection of the four stores and within each store changes were made strategically to create a compelling shopping experience…

Selection Criteria

- Suburban & small city/towns in Ontario
- Stores that have not been renovated in for a significant amount of time (all stores selected: 13-14 years since last renovation)
- Market dynamics for each represented a strong opportunity to succeed in Hero/Power categories
  - Barrie… an average income commuter town; store last renovated in 1998
  - Belleville… a declining rural retiree community; store last renovated in 1999
  - Newmarket… high income suburb; store last renovated in 1998
  - Hamilton (Limeridge)… blue collar older stable town; store last renovated in 1998

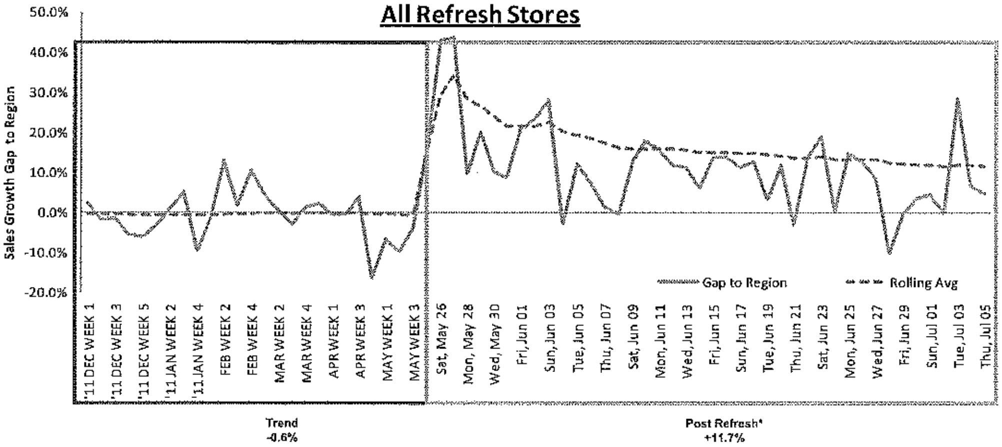
What We Did Differently

- Big bets on hero categories: Appliances, Mattresses and Kids Room & Apparel
- Merchandised apparel commodities with AUTHORITY
  - Organized by commodity, not by collection
- Focused events hubs throughout the store
- Edited assortments (30% Less) … clearer choices
- Offer new, unique & better products
- Localized marketing to drive traffic

Store Refresh Review: Performance to Date (Sales)

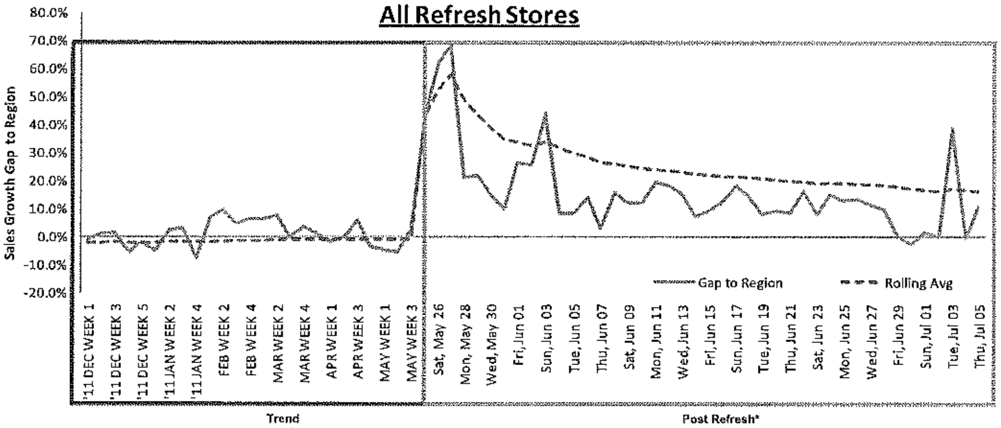
TOTAL SALES

- Refresh stores launched on May 25th, 2012 and now have seven weeks of post launch results
- Refresh stores lagged the region performance by 60 bps prior to the launch and are now performing better than region by 11.7%



A&A

- Apparel sales are up 3.7% over last year and positively gapping region results by 16.3% in stores that previously lagged the region by 90bps

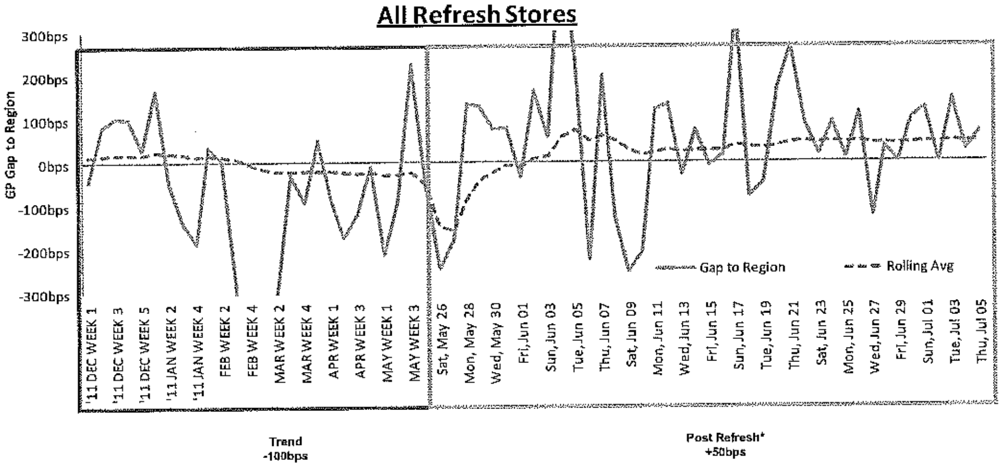


***Note that the Post Refresh performance is by day**

Store Refresh Review: Performance to Date (GP)

TOTAL GP

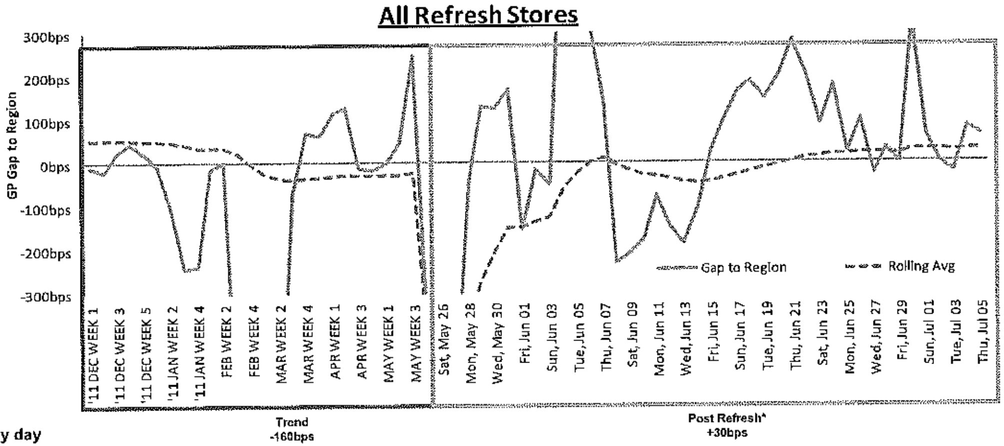
- Refresh stores launched on May 25th, 2012 and now have seven weeks of post launch results
- Refresh stores lagged the region performance by 100bps prior to the launch and are now performing better than region by 50bps



All Refresh Stores

A&A

- Apparel GP rate is positively gapping region results by 30bps in stores that previously lagged the region by 160bps



All Refresh Stores

***Note that the Post Refresh performance is by day**

10,3

Store Refresh Review: Sales productivity

Big bets on space allocation are performing well – Major Appliances, Mattresses and Kids Room sales are up over last year. Home and Hardlines department sales are still strong versus region performance despite reduction in SQFT …

ALL REFRESH STORES					
Time Frame: Cumulative Launch, Jul 5 2012 PTD	Net Sales			Space	
	$	VYA	VYA v. Region	New SQFT	SQFT VYA
TOTAL MERCHANDISE DIVISIONS	11,430,554	0.2%	11.7%	359,418	
APPAREL & ACCESSORIES	6,608,936	3.7%	16.3%	232,765	4.6%
HOME & HARDLINES	2,705,653	-14.0%	2.5%	97,803	-11.3%
MAJOR APPLIANCES	2,115,965	11.9%	13.2%	28,850	33.1%
MAJOR APPLIANCES*	2,115,965	11.9%	13.2%	28,850	33.1%
HOME DECOR & SEASONAL	739,962	-11.6%	3.5%	52,225	-11.6%
HOME FURNISHINGS	728,540	25.7%	35.7%	19,300	72.1%
CRAFTSMAN, AIR, WATER & PAINT	966,092	-17.7%	19.9%	15,260	-19.5%
FITNESS & RECREATION	4,007	-95.9%	-57.3%	3,745	-61.8%
ELECTRONICS	267,052	-41.7%	-6.2%	7,273	-10.6%
COSMETICS & PERSONAL CARE	659,598	-0.8%	8.9%	16,154	-1.0%
JEWELLERY, ACCESSORIES & LUGGAGE	683,719	30.8%	28.6%	20,661	6.9%
FOOTWEAR	623,013	13.8%	22.0%	12,621	7.2%
CHILDREN'S WEAR	650,838	2.6%	21.9%	48,599	14.3%
MENSWEAR	1,563,697	-1.0%	17.0%	52,983	3.7%
WOMEN'S APPAREL	1,813,933	2.5%	18.2%	65,485	12.5%
WOMEN'S INTIMATES	614,138	-6.5%	3.9%	16,262	-29.9%

**Major Appliances not in Belleville; Only received Major Rennovation of Cosmetics*

VYA (Versus a Year Ago)

Store Refresh Review: Performance to Date - Apparel & Accessories Sales & GP

A&A has performed well within the refresh stores with sales growth up double digits compared to regional results…

	Belleville		Barrie		Newmarket		Limeridge	
	Sales % (TY vs LY)	BEL vs REG	Sales % (TY vs LY)	BAR vs REG	Sales % (TY vs LY)	NMKT vs REG	Sales % (TY vs LY)	LIM vs REG
Total Store	-1.3%	11.1%	-4.6%	7.8%	3.3%	15.7%	-0.6%	11.8%
CS	-8.4%	0.6%	-8.0%	0.9%	7.1%	16.1%	-4.3%	4.7%
JAL	35.8%	36.4%	26.4%	27.0%	18.5%	19.1%	17.4%	17.9%
FW	6.7%	17.0%	9.1%	19.4%	30.6%	41.0%	-2.7%	7.6%
CW	-3.9%	15.2%	-5.2%	13.9%	6.6%	25.7%	2.9%	22.0%
MW	8.3%	26.0%	-4.9%	12.8%	-5.4%	12.3%	-0.7%	17.0%
WA	6.2%	22.9%	-3.2%	13.6%	-7.3%	9.5%	-0.7%	16.0%
WI	9.7%	18.9%	-20.2%	-11.0%	-3.2%	6.0%	-8.8%	0.4%
A&A	7.2%	20.9%	-3.3%	10.4%	1.9%	15.6%	-0.1%	13.6%

	Belleville		Barrie		Newmarket		Limeridge	
	GP bps Δ (TY vs LY)	BEL vs REG	GP bps Δ (TY vs LY)	BAR vs REG	GP bps Δ (TY vs LY)	NMKT vs REG	GP bps Δ (TY vs LY)	LIM vs REG
Total Store	81	61	26	6	58	38	52	32
CS	81	-72	129	-23	-75	-227	-64	-217
JAL	-1034	-556	-835	-357	-587	-108	-686	-208
FW	-478	-372	167	273	283	388	301	406
CW	276	158	157	39	745	627	-120	-238
MW	193	-143	320	-16	221	-115	392	56
WA	514	48	613	147	830	364	682	216
WI	-446	59	-360	145	-498	7	-414	91
A&A	65	-89	186	32	272	118	187	33

1H - Accomplishments / Misses

- ✓ New fixture designs (Power Tower, Event Hub)
- ✓ Customer-focused in-store marketing collateral
- ✓ From collection to commodity merchandising (e.g., Men's Wear)
- ✓ Cross-category merchandising (Jewelry and Accessories + 30.8% vs LY and 28.6% improvement to region)
- ✓ Jessica sales +12% over LY, 38% above region with only very minor assortment changes
- ✓ Children's Furniture +26% to LY and 38%above the region
- ✓ Early delivery of intended Fall launches (e.g., Men's Dress Wear)
- ✗ Women's Intimates and Cosmetics not performing as well

Note: Post store refresh (May 25, 2012 onwards) report generated as of July 5 2012
Source: Weekly Refreshed Store Analytics

Store Refresh Review: Performance to Date - H&H and MA Sales & GP

Expansion of major appliance and mattress displays driving sales and offsetting sales declines in downsized or exited categories…

	Belleville		Barrie		Newmarket		Limeridge	
	Sales % (TY vs LY)	BEL vs REG	Sales % (TY vs LY)	BAR vs REG	Sales % (TY vs LY)	NMKT vs REG	Sales % (TY vs LY)	LIM vs REG
Total Store	-1.3%	11.1%	-4.6%	7.8%	3.3%	15.7%	-0.6%	11.8%
HDS	-18.7%	-2.9%	-12.9%	2.8%	-11.4%	4.4%	-9.8%	6.0%
HF	31.1%	17.4%	-1.9%	-15.6%	22.9%	9.2%	62.5%	48.8%
CAWP	1.7%	31.0%	-14.7%	14.7%	-6.2%	23.2%	-28.7%	0.6%
FR	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
ELE	-54.8%	-26.2%	-28.3%	0.3%	-32.1%	-3.6%	-48.7%	-20.1%
H&H	-12.6%	2.8%	-14.0%	1.4%	-8.7%	6.7%	-16.1%	-0.7%
MA	N/A	N/A	5.2%	8.6%	19.5%	22.9%	23.9%	27.2%

	Belleville		Barrie		Newmarket		Limeridge	
	GP bps Δ (TY vs LY)	BEL vs REG	GP bps Δ (TY vs LY)	BAR vs REG	GP bps Δ (TY vs LY)	NMKT vs REG	GP bps Δ (TY vs LY)	LIM vs REG
Total Store	81	61	26	6	58	38	52	32
HDS	315	483	47	214	-867	-699	-157	11
HF	-603	-357	-729	-483	-403	-157	-367	-121
CAWP	-305	-14	-323	-32	-725	-434	-362	-71
FR	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
ELE	462	880	-49	369	343	761	-439	-21
H&H	-20	130	-215	-65	-391	-241	-25	125
MA	N/A	N/A	-103	21	-13	110	-90	33

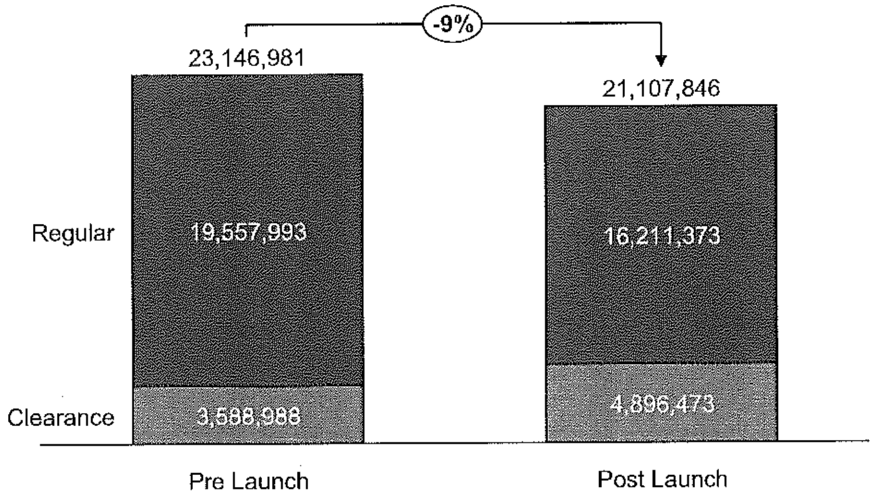
1H - Accomplishments / Misses

- ✓ Expansion to 40 beds in Bedding Aisle
- ✓ MA expansion and store adherence to merchandise priority list
- ✓ Fashion Bedding expansion
- ✓ Coffee and small apps prominence – Small apps + 25% in Limeridge
- ✓ CAWP re-assort – Hardware is +22% in Belleville
- ✓ Vacuum prominence
- ✓ ELEC re-assort driving improved G/P in Belleville and Newmarket
- × Home Décor assortment
- × CAWP Air and Div 9 (hardware) store/ region assortment rationalization

Note: Post store refresh (May 25, 2012 onwards)
report generated as of July 5 2012
Source: Weekly Refreshed Store Analytics

Store Refresh Review: Performance-to-date -Inventory

More effective sell-through / higher inventory turns in refresh stores improve working capital position…



Total Inventory

Inv Turns	Pre Launch	Post Launch	Var	% Var
Full Line Stores	0.98	1.46		
Refresh Stores	0.98	1.61		
Delta	0.00	0.15	0.15	15.1%

Store Refresh Review: Projected Return on Capital

Current run rate of store performance projects an IRR of 52.08% and still a strong IRR of 21.79% even if current performance is cut by 50%...

	Current Run Rate	50% of Run Rate
Capital	$10.4 MM	$10.4 MM
Sales lift to trend	1230 bps year 1	615 bps in year 1
	100 bps years 2-5	100 bps years 2-5
GP rate lift	150 bps	75 bps
Incremental Margin Dollars in First 12 months	$5 MM	$2.5 MM
Incremental Expense	$500 K	$500 K
IRR	52.08%	21.79%

4 Refresh Stores

	Years 0	1	2	3	4	5	6	7	8	9	10
100% Cash Flow	($10.4)	$4.9	$5.3	$5.6	$6.0	$6.4	$6.4	$6.4	$6.4	$6.4	$6.4
50% Cash Flow	($10.4)	$2.2	$2.4	$2.6	$2.8	$2.9	$2.9	$2.9	$2.9	$2.9	$2.9

100% Cash Flow		50% Cash Flow	
IRR 10 Yrs	52%	IRR 10 Yrs	22%
IRR 5 Yrs	44%	IRR 5 Yrs	7%

2012 to 2013 Cash Flows and CAPEX

Assuming 2012 EBITDA of $200M and 2013 EBITDA of $300M

Cash Table	2012F	(A) 2013F	(B) 2013F
EBITDA Assumption	$ 200.0	$ 289.2	$ 300.0
Opening Cash Balance	$ 397.4	$ 612.4	$ 612.4
Cash from Operations	232.5	255.0	269.7
Cash from Investing*	99.1	(113.5)	(163.5)
Cash from Financing	(116.5)	(7.0)	(7.0)
Net Cash movements	215.1	134.4	99.1
Closing Cash Balance	$ 612.4	$ 746.8	$ 711.6

(A) Excludes investment in 20 Refresh Stores in 2013

(B) Includes investment in 20 Refresh Stores in 2013
($2.5M per Store = $50M)

*Includes proceeds from the sale of Deerfoot ($5M) and Nanaimo ($3M)

CAPEX Table	2012F	(A) 2013F	(B) 2013F
Latest Estimate[1,2,3]	$ 84.0	$ 75.0	$ 75.0
Refresh Stores (2012)[4]	12.5	-	-
Refresh Stores (2013)[5]	-	-	50.0
JV (2013)	-	20.0	20.0
Total CAPEX	$ 96.5	$ 95.0	$ 145.0

Assuming 2012 EBITDA of $150M and 2013 EBITDA of $250M

Cash Table	2012F	(A) 2013F	(B) 2013F
EBITDA Assumption	$ 150.0	$ 240.1	$ 250.0
Opening Cash Balance	$ 397.4	$ 574.8	$ 574.8
Cash from Operations	195.3	220.2	234.3
Cash from Investing*	98.6	(113.5)	(163.5)
Cash from Financing	(116.5)	(7.0)	(7.0)
Net Cash movements	177.4	99.7	63.7
Closing Cash Balance	$ 574.8	$ 674.5	$ 638.5

CAPEX Table	2012F	(A) 2013F	(B) 2013F
Latest Estimate[1,2,3]	$ 84.0	$ 75.0	$ 75.0
Refresh Stores (2012)[4]	12.5	-	-
Refresh Stores (2013)[5]	-	-	50.0
JV (2013)	-	20.0	20.0
Total CAPEX	$ 96.5	$ 95.0	$ 145.0

[1] Includes $5.6M of landlord subsidy for Pinecrest

[2] Reduced Menswear rollout to partially fund the refresh stores

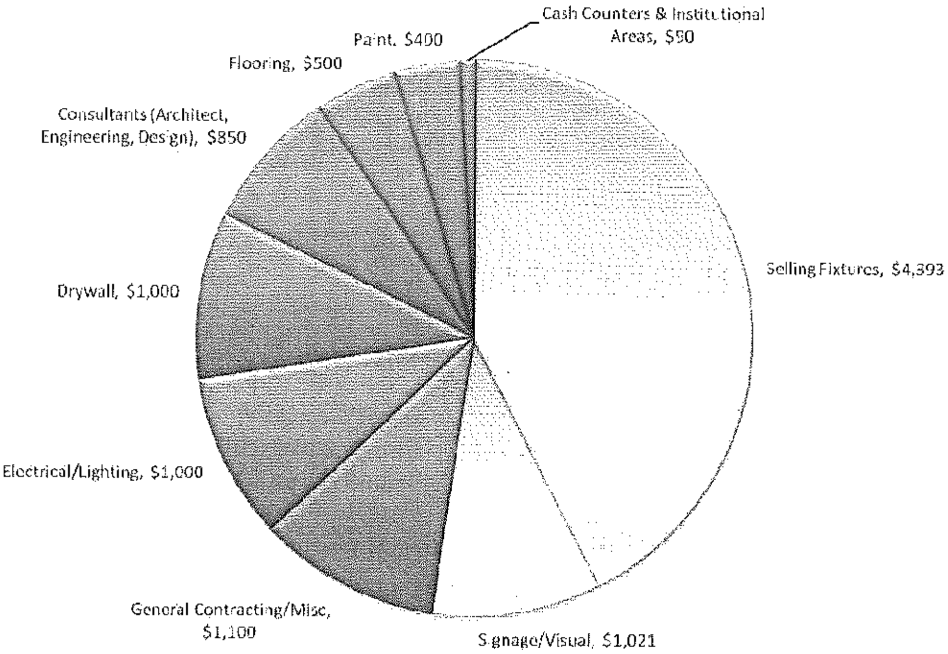
[3] Includes 4 refresh stores launched May 25 2012

[4] Additional 5 refresh stores launching 2H 2012

[5] Additional 20 refresh stores launching 2013

Store Refresh Review: How the Capital Was Spent

Total capital spend in these four stores summed to $10.4MM with more than 50% focused on product display and supporting visual / signage…



Store Refresh Review: Learning's & Adjustments

The four refreshed stores are a success to-date with opportunity to improve...

Key Learning's

- ✓ Freshened store appearance coupled with event/product—focused fixtures dramatically change the shopping experience
- ✓ Spending money where the customer sees it, and not on ceilings/floors provides stronger visual impact
- ✓ Merchandising with authority and clarity drives more transactions

Opportunities For Improvement

- × Despite 40% growth, Men's dress wear initiative needs to be more authoritative and multi-faceted
- × Women's Apparel can be shifted to more commodity-based merchandising
- × Women's Intimate assortment did not change enough to leverage potential of new fixtures
- × Barrie store furniture corner not working
- × Bed & Bath assortment improvement required

Areas We Are Monitoring Closely

- ○ Inventory to support strong item-focused merchandising on new fixtures
- ○ Adherence to merchandising standards
- ○ Space allocations to adjust where required

Next 5 Stores: Summary Review & Tests

- Request approval for $12.5m in new capital to refresh 5 stores
- Customer response has been fantastic on initial wave of refreshes
- Financial performance has outpaced expectations
- Further cash-flow benefits being realized through better inventory management
- The time to act is now – critical to open next wave of refresh stores by Oct / Nov at latest in order to be prepared for critical Q4 Holiday season & maximize benefits in 2012

Tests

- 5 refresh stores, like the first 4 stores, but plan to test differences in new stores by adjusting to learnings and through iterative changes
- 2 stores set up as control
  - Same merchandising, labour and marketing
  - No capital spend

Appendix

Next 5 Stores: Request for Capital

With the success of the initial wave of refreshed stores we are recommending the immediate launch of the next 5 stores...

- Request $12.5m in new capital to refresh 5 additional stores, spread across more of the country
- Expansion of program is consistent with our 3-year strategic plan, which called for 40 refreshed stores by the end of 2013
- In order to ensure preparedness for critical Q4 Holiday season and maximize benefits to 2012, recommend work start as soon as possible on next wave – target Oct. openings (early Nov. latest)
- Short list of recommended stores:

Stores	City	Province
001035-ST JEROME	St Jerome	QC
001094-LAVAL	Montreal	QC
001016-OSHAWA	Oshawa	ON
001416-EDMONTON - WEST EDMONTON	Edmonton	AB
001430-GRANDE PRAIRIE	Grande Prairie	AB

Having these stores refreshed for Dec & Jan should drive an incremental $0.7MM to $1.5MM in GP

- Projected performance...

PAYBACK		Bps vs Region		
		50 bps	100 bps	150 bps
Sales	**5%**	5	4	4
Gap to	**10%**	3	3	2
Region	**15%**	2	2	2

ROI		Bps vs Region		
		50 bps	100 bps	150 bps
Sales	**5%**	12%	38%	65%
Gap to	**10%**	98%	126%	154%
Region	**15%**	185%	214%	243%

IRR		Bps vs Region		
		50 bps	100 bps	150 bps
Sales	**5%**	4%	12%	19%
Gap to	**10%**	28%	35%	42%
Region	**15%**	49%	56%	63%

- **Request approval to proceed immediately with expansion of FL refresh program to 5 additional stores with an incremental $12.5M capital budget**

TAB 19

M I N U T E S of a telephone special telephone meeting of the Board of Directors (the "Board") of **SEARS CANADA INC.** (the "Corporation") held on Friday, July 20, 2012 at 10:00a.m., Eastern time

PRESENT

W. C. Crowley (Ch.)
E. J. Bird
D. Ross
W. R. Harker
R. R. Khanna
J. McBurney
C. McDonald
D. E. Rosati

MANAGEMENT (in person)

S. Driscoll
Senior Vice-President and Chief Financial Officer
K. Leshnjani
Senior Vice-President and General Counsel
F. Perugini
Associate General Counsel and Corporate Secretary

The Chairman of the Board, Mr. W. C. Crowley, acted as Chairman of the meeting and the Secretary of the Corporation, Mr. F. Perugini, acted as Secretary of the meeting.

ROLL CALL

1. The Chairman called the meeting to order and took a roll call. The Chairman explained that the purpose of this meeting was to receive updates and additional information on matters discussed at the store tour and strategic session held July 9 and 10, 2012.

STORE REFRESH

2. Sharon Driscoll, Senior Vice-President and Chief Financial Officer, provided the Board with an updated presentation on the full-line store refresh. Ms. Driscoll highlighted the projected return on capital and provided details of cash flows and capital expenditures.

The Board discussed the performance of the refresh stores and the performance of the Corporation. The Board discussed Management's request to proceed with the refresh of five additional stores. Following discussion the Board agreed to proceed with the commencement of the refresh, ordering fixtures and expending the least amount of capital as possible to start the refresh process. Management will provide an overview of the stages and timing of funding required and the Board will meet prior to September 1, 2012 to assess the performance of the current refresh stores and to decide on the completion of the refresh of the five additional stores.

JOINT VENTURE

3. Calvin McDonald, President and Chief Executive Officer, provided the Board with an update on the negotiations with Simons on the potential joint venture, explaining that negotiations have cooled. The Board urged Management to continue with the negotiations and to provide the Board with further updates as required. Any conclusive arrangement will be brought before the Board for approval.

SPIN-OUT OF SEARS CANADA SHARES AND INVESTOR RELATIONS

4. The Board discussed the partial spin-out of the Corporation's shares by Sears Holdings Corporation and related investor relations issues. At the Board's request, Management will provide an overview of the spin out process, providing the potential effective date and required next steps, together with an overview of the of the regulatory reporting requirements for the Corporation for the second quarter.

The Board discussed the Corporation's existing investor relations program and whether it should be expanded with the partial spin out of the Corporation's shares. The Board agreed to further discuss this topic at a future meeting of the Board.

IN CAMERA **SESSION**

5. All representatives of Management, including the President and Chief Executive Officer, left the meeting so that the Directors could meet privately. Following the Committee's *in-camera* session, all the non-independent directors were excused so that the independent directors could then meet privately.

There were no items discussed during the *in-camera* session that were not raised during the meeting.

There being no further business, the meeting was then terminated.

Chairman of the Meeting

Secretary of the Meeting

Date

TAB 20

SEARS CANADA INC.

MEETING OF THE BOARD OF DIRECTORS
At the offices of Watchtell, Lipton, Rosen & Katz
51 West 52nd Street, New York, New York,
Monday, November 12, 2012 at 4:00 p.m., Eastern time, and Tuesday, November 13, 2012 at 8:00 a.m., Eastern time

TELEPHONE PARTICIPANTS
☎

Canada & U.S.
Dial in Number: 800-503-2899
Passcode: 9414417

UK
Dial in Number: 0800 496 0578
Passcode: 9414417

ATTENDING:

MEMBERS

Bill Crowley (Ch.)
E.J. Bird
William R. Harker
R. Raja Khanna
James McBurney
Calvin McDonald
Deborah Rosati
Don Ross

MANAGEMENT

Sharon Driscoll
Klaudio Leshnjani
Franco Perugini

AGENDA for a meeting of the Board of Directors of **SEARS CANADA INC.** (the "Corporation") to be held at the offices of Watchtell, Lipton, Rosen & Katz located at 51 West 52nd Street, New York, New York, on Monday, November 12, 2012 at 4:00 p.m., Eastern time, and Tuesday, November 13, 2012 at 8:00 a.m., Eastern time

Monday, November 12, 2012

TAB	TIME	AGENDA	PRESENTER
1	4:00	Call to Order/Roll Call	W. C. Crowley
2	4:05	**Reports** by the Chairmen of the following Committees on meetings held on November 8 and 12, 2012: • Investment • Nominating and Corporate Governance (including report on Board Assessment Survey) • Human Resources and Compensation • Audit	W. R. Harker R. Khana W. C. Crowley E. J. Bird
3	4:20	**Report** by the President and Chief Executive Officer on the third quarter performance	C. McDonald
4	5:10	Consent Agenda	F. Perugini
5*	---	**Resolution** approving the Minutes of the meetings of the Board of Directors of the Corporation held on April 16-17, 2012, May 29, 2012, July 20, 2012, August 29, 2012 and November 1, 2012, and acknowledgement of Resolutions in Lieu of meeting as follows: • May 17, 2012 approving the 2012 First Quarter MD&A • May 18, 2012 appointing Don Ross as a Director • May 31, 2012 approving recast of 2011 and Q1 2012 Financial Statements • August 16, 2012 approving the 2012 Second Quarter MD&A • October 11, 2012 regarding EVP terminations	
6*	---	Review of the following Charters and **Resolution** approving the Amended and Restated Audit Committee Charter, Human Resources and Compensation Committee Charter and Nominating and Corporate Governance Committee Charter: • Audit • Human Resources and Compensation • Investment • Nominating and Corporate Governance	F. Perugini
7*	---	**Resolution** approving the date of the 2013 Annual Meeting of Shareholders and report on the Board and Committee meeting dates for 2013	
8*	---	**Resolution** approving the appointment of Don Ross as a member of certain Committees	
9	5:20	Other business [for information only] • Analyst Reports • SCI Top twenty Registered Shareholders list and CDS participant list • Trading Volume	

Tuesday, November 13, 2012

10	8:00	2013 Plan • Overview • Further presentations	Team
11	1:55	*In-camera* Session • Members only • Independent Members only	

* **Consent Agenda items**

1. Call to Order/Roll Call

11.2

2. **Reports** by the Chairmen of the following Committees on meetings held on November 8, 2012, and November 12, 2012, respectively:

- Investment
- Nominating and Corporate Governance
  (including report on Board Assessment Survey)
- Human Resources and Compensation
- Audit

11.3

3. **Report** by the President and Chief Executive Officer on the third quarter performance

---

Sears

Sears Canada

November 12, 2012

Trading and Transformation Update

Agenda

- Trading Update (YTD 2012)
  - What Worked and What Did Not Work
  - Quarterly and monthly review of performance to date
  - Deep dive on Q3
- Trading (Rest of The Year 2012) and Transformation Update
  - Headwinds and Tailwinds
  - Introducing the War Council
  - A Look at Q4 and 2012 overall
- A Closer Look at the HBC IPO - Comparing Numbers
- Appendix
  - Update on 10 for 12
  - Weekend vs. Weekday Performance
  - Cross Border challenge and Zellers opportunity
  - Summary and learnings from 4-Store Closures
  - Update on Refresh stores
  - Key Marketing Events for Q4 and LOOK! Performance
  - Distressed Inventory update

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October YTD: Curate's Egg

What Worked

- Rebalancing prices
  - Regular sales growth: +13.5%
- LOOK! Report three-week* sell through rate (~2x normal):
  - 15.9% for the Spring LOOK! Report
  - 21.4% for the Summer LOOK! Report
  - 15.6% for Fall LOOK! Report
- Certain categories and channels:
  - Major Appliances: +2.7%
  - Mattresses: +16.5%
  - Home Stores: +1.4%
  - Baby's Room: +9% since June launch
  - Dresses: + 5.7% since Little Black Dress October Event (+2.9% season to date prelaunch)
  - Jessica Re-launch: Reg Sales +160.8% post Sept. launch (+71.8% pre-launch); Reg GP $ +128.4% post launch (+48.9% prelaunch)
- Improved store conditions
  - Monday - Friday sales + 4.6%
- Pinecrest new format home store
  - Since re-launch in June, sales: +84.3% GP%: +334 bps vs. LY
- All four refresh stores performing significantly better than the region (GP $ growth of +11.2% vs. Region); A&A sales up 9.1% vs. Region...next set of Refresh stores off to a good start
- Diligent cost management – reduction of $84MM vs. LY
- Strong sales opportunity in B2B market for Major Appliances - total pipeline has reached $60MM with a 80% close rate (performing at +15.1% to plan YTD & +24.7% to last year)
- Begin to move to auto replenishment...pilot with a few items (e.g., Jessica easy care suit...stock outs declined from ~9% to 0.5% and up 30%+ in sales)

What Did Not Work

- Making of a weekend
  - Weekend sales: -19.4%
- Promo mix and clearance
  - Clearance sales: -20.7%
  - Promotional sales: -17.8%
- Softlines (WA, MW, and WI) and CAWP and ELEC
- Significant decline in number of promotional days
  - 10 fewer Sears Days (~$27MM sales uplift in 2011)
  - Checkerboard compliance in WA
- Execution of some elements of new pricing and promotions construct
- Cancelling three sale catalogues
  - Impact to on-line sales greater than expected
- New cross category and functional merchant teams slow to function effectively

October YTD: Summary of Additional Accomplishments

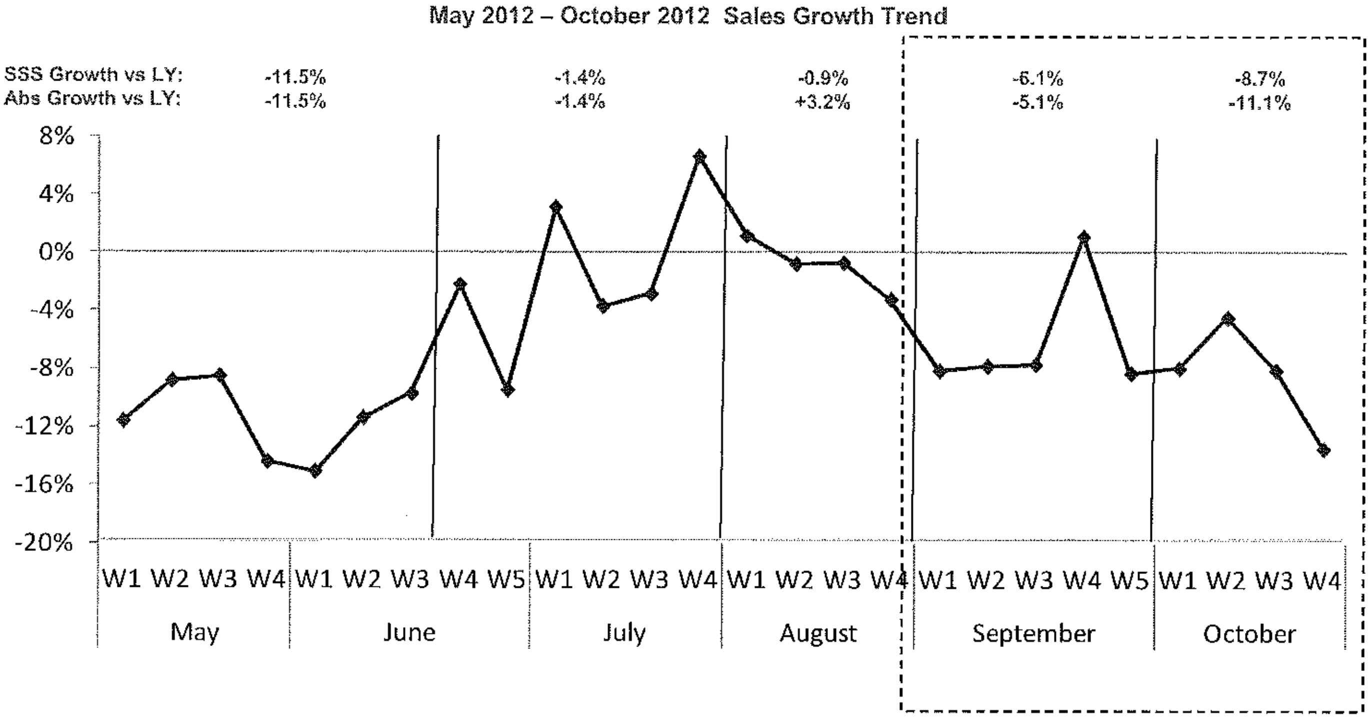
- 5000 lower prices
- New field structure in place – 45 stores now have new leaders in place; weekly visits increased from 50 to 300
- 500 Known Value Items (KVI) identified & competitor price monitoring program in place
- Merchandising Planning Allocation and Replenishment (MPAR) organization established; planning and allocation roles instituted
- SKU rationalization completed for Traditional, Modern Brands, Career Wear and Women's Intimates
- A new Corbeil store opened in Vaughan, Richmond Hill and Mississauga
- May Customer Service Event - New "Customer Promise" and returns policy launched
- Associate engagement, flawless execution & Gold Badge program launched
- Training of 20,000 associates
- Launched Sears Future Leaders program
- Launch of Canada's Best Program
- Launch of optimized Major Appliances commission rates to sales associates across Canada
- New www.sears.ca homepage
- Launched store "re-set" program
- Launched the Vendor Council

Overall Thoughts on Q3 Trading

- Trading in Q3 was very different month by month
- August saw our best sales performance to date with YoY sales up +3.2% (-0.9% excl 4 store closure)
- Sales growth in September however started to decline (-5.1% overall and -6.1% excl 4 stores) despite the vast majority of days being positive trading days as this was more than offset by 6 days of major declines including:
  - Labour day long weekend (despite winning back to school with kids up +17%)
  - A non comp Thursday Sears day that we moved to November
  - The last weekend of Sears days
- In October we decided to not chase unprofitable sales (i.e., SOAR clearance activity) and manage rate through targeted pricing improvements (e.g., targeted increases in Q3 in WA and MW generating an incremental $1.8M).... merch margin up +194 bps in Oct vs. -151 bps in Aug and -108 bps in Sept excluding 4 closed stores
- Moreover, poor sales performance to date has consistently been driven by 2 categories (CAWP and WA) that account for 47% of the YoY sales decline
  - CAWP has suffered from a decline in big ticket outdoor power sales and most recently with a decline in snow blower sales due to weather (CAWP accounted for 40% of the sales decline in Sept and 29% in Oct)
  - 88% of sales decline in WA driven by clearance
- Finally, if we adjust for one time gains/losses Q3 is actually 0.8M better on an comparable EBITDA basis to LY as compared to -$1.1MM in Q1 and -$17.2MM in Q2

May – Oct. 2012: Weekly Sales Growth Trend (excluding 4 store closure)

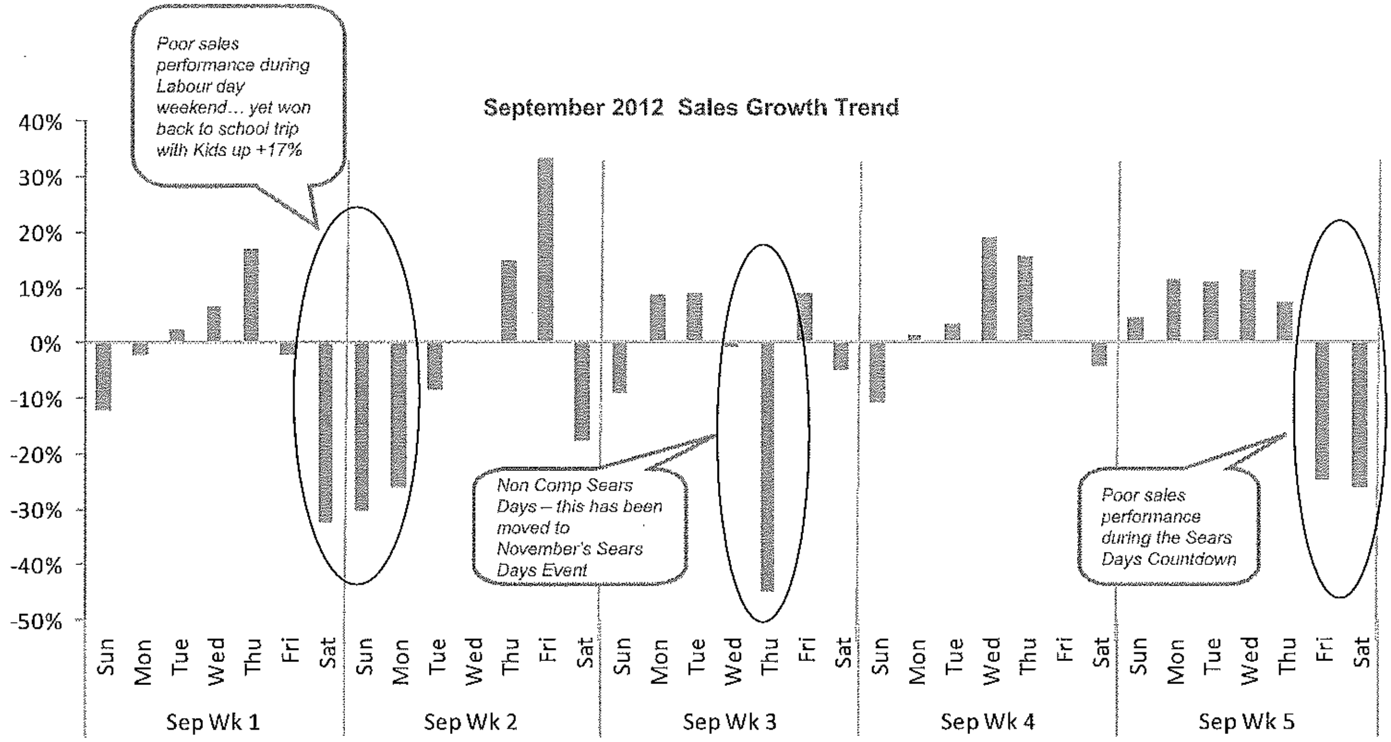
Our sales trend in October is better than early in the year, but is trending lower than August and September



Additional details on following slides

Sept. 2012: Daily Sales YoY % Change vs. LY (excluding 4 store closure)

While most days in September were strong, this was off-set by losses in two key weekends and a non comparable Sears Day



Poor sales performance during Labour day weekend… yet won back to school trip with Kids up +17%

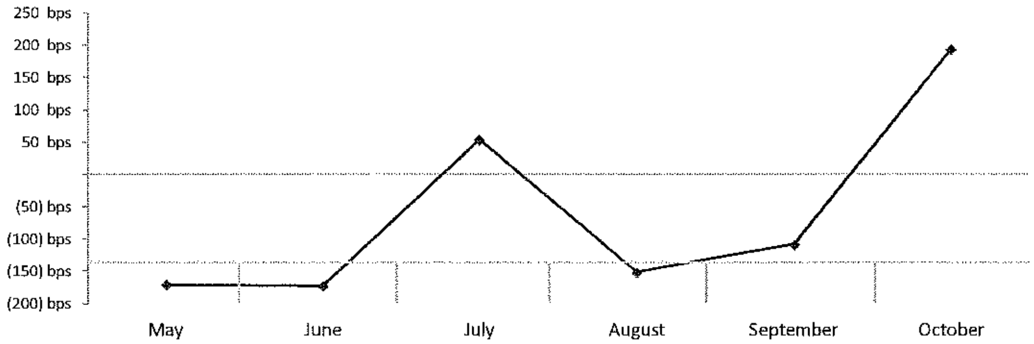
Non Comp Sears Days – this has been moved to November's Sears Days Event

Poor sales performance during the Sears Days Countdown

May 2012 – Oct. 2012: Weekly Merch Margin Trend (excluding 4 store closure)

In October, we focused on rate improvements to offset volume loss

SSS bps vs LY:	-170 bps	-172 bps	54 bps	-151 bps	-108 bps	194 bps
Abs bps vs LY:	-164 bps	-169 bps	31 bps	-224 bps	-266 bps	165 bps



MM % YOY (bps change)	AUG YTD		SEP		OCT		OCT YTD		OCT vs AUG YTD	OCT ($)	
	ALL CHANNELS	W/O 4 STORES	ALL CHANNELS	W/O 4 STORES	ALL CHANNELS	W/O 4 STORES	ALL CHANNELS	W/O 4 STORES	W/O 4 STORES	ALL CHANNEL	W/O 4 STORES
MAJOR APPLIANCES	59	61	(120)	(109)	66	64	34	36	4	5.0%	6.2%
HOME DECOR & SEASONAL	(221)	(211)	(155)	(105)	99	63	(174)	(163)	274	-10.5%	-9.5%
HOME FURNISHINGS	(108)	(104)	(151)	(109)	400	422	(67)	(56)	526	1.3%	2.8%
CRAFTSMAN, AIR, WATER & PAINT	(325)	(325)	(1228)	(1235)	56	58	(396)	(395)	382	-43.6%	-43.4%
FITNESS & RECREATION	(225)	(207)	452	483	(973)	(989)	(229)	(214)	(782)	-45.1%	-44.9%
ELECTRONICS	(299)	(276)	153	193	508	480	(151)	(129)	756	-22.5%	-22.3%
HOME & HARDLINES	(119)	(114)	(115)	(74)	351	350	(73)	(63)	464	-12.0%	-11.0%
COSMETICS & PERSONAL CARE	(68)	(65)	48	49	(333)	(308)	(83)	(76)	(243)	-17.4%	-12.4%
JEWELLERY, ACCESSORIES & LUGGAGE	(584)	(589)	(510)	(440)	(58)	(197)	(526)	(525)	392	-11.9%	-9.8%
FOOTWEAR	(407)	(394)	(342)	(26)	411	386	(284)	(226)	780	-0.8%	1.4%
CHILDREN'S WEAR	(58)	(31)	(853)	(676)	33	(17)	(169)	(125)	14	-9.4%	-8.4%
MENSWEAR	(93)	(58)	(462)	(146)	582	519	(72)	(2)	577	-7.9%	-4.8%
WOMEN'S APPAREL	(143)	(101)	(417)	351	601	918	(95)	80	1020	-6.7%	0.7%
WOMEN'S INTIMATES	(84)	(41)	(750)	(151)	536	515	(119)	(1)	556	-6.4%	-3.6%
APPAREL & ACCESSORIES	(165)	(139)	(477)	(110)	321	364	(153)	(72)	503	-7.9%	-4.1%
TOTAL MERCHANDISE DIVISIONS	(127)	(116)	(296)	(135)	211	234	(115)	(80)	350	-7.1%	-4.6%
ALL PRODUCTS	(126)	(117)	(266)	(108)	165	194	(115)	(81)	311	-6.9%	-4.4%

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Breakdown of Sales Variance to LY by Category

Poor sales performance to date has consistently been driven by 2 categories (CAWP and WA) that account for 47% of the YoY sales decline

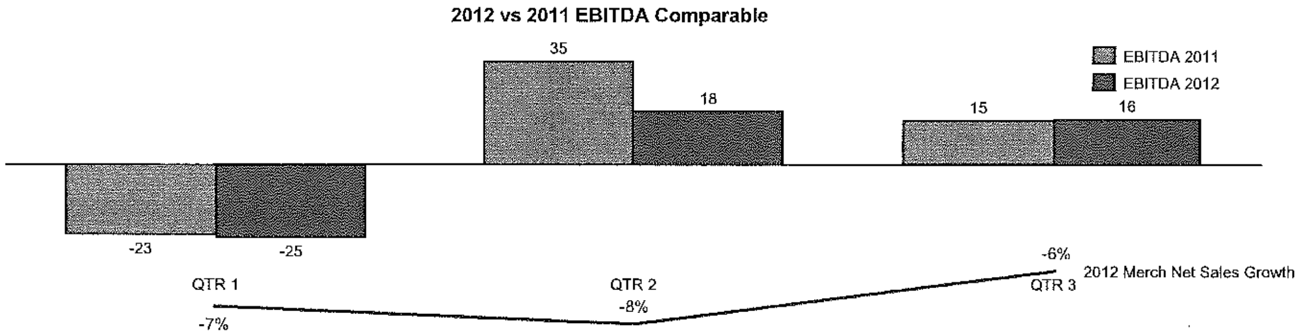
	Oct YTD		SEP		OCT		QTR 3	
	SALES VARIANCE		SALES VARIANCE		SALES VARIANCE		SALES VARIANCE	
	Y/Y Comp	% of Total Var	Y/Y Comp	% of Total Var	Y/Y Comp	% of Total Var	Y/Y Comp	% of Total Var
MAJOR APPLIANCES	**11,607**	**-8%**	**1,844**	**-9%**	**2,109**	**-10%**	**7,422**	**-17%**
HOME DECOR & SEASONAL	(13,823)	10%	120	-1%	(1,707)	8%	(2,136)	5%
HOME FURNISHINGS	5,143	-4%	(2,093)	11%	(1,548)	7%	(3,270)	8%
CRAFTSMAN, AIR, WATER & PAINT	(34,975)	25%	(7,911)	40%	(5,996)	29%	(14,338)	34%
FITNESS & RECREATION	(4,811)	3%	483	-2%	(520)	3%	(427)	1%
ELECTRONICS	(20,676)	15%	(3,580)	18%	(3,045)	15%	(8,677)	20%
HOME & HARDLINES	**(69,143)**	**50%**	**(12,980)**	**66%**	**(12,815)**	**62%**	**(28,848)**	**68%**
COSMETICS & PERSONAL CARE	(8,373)	6%	(1,006)	5%	(618)	3%	(2,434)	6%
JEWELLERY, ACCESSORIES & LUGGAGE	(2,161)	2%	(1,314)	7%	(346)	2%	(1,468)	3%
FOOTWEAR	(1,899)	1%	(1,248)	6%	(741)	4%	(1,788)	4%
CHILDREN'S WEAR	(11,181)	8%	1,160	-6%	(1,437)	7%	5	0%
MENSWEAR	(18,366)	13%	(2,454)	12%	(2,496)	12%	(5,286)	12%
WOMEN'S APPAREL	(29,899)	22%	(2,539)	13%	(3,179)	15%	(7,181)	17%
WOMEN'S INTIMATES	(9,564)	7%	(1,104)	6%	(1,141)	6%	(3,067)	7%
APPAREL & ACCESSORIES	**(81,443)**	**59%**	**(8,504)**	**43%**	**(9,958)**	**48%**	**(21,219)**	**50%**
TOTAL MERCHANDISE DIVISIONS	**(138,980)**	**100%**	**(19,640)**	**100%**	**(20,664)**	**100%**	**(42,646)**	**100%**
ALL PRODUCTS	**(134,425)**	**100%**	**(19,004)**	**100%**	**(20,155)**	**100%**	**(41,006)**	**100%**

- CAWP and WA account for 47% of the YoY sales decline
- CAWP has suffered from a decline in big ticket outdoor power sales and most recently with a decline in snow blower sales due to weather (CAWP accounted for 40% of the sales decline in Sept and 29% in Oct)
- 88% of sales decline in WA is driven by clearance

Note: Retail channel only

2012 Financials by Quarter – Non Comparable vs. Comparable EBITDA

Comparable EBITDA trending better and positive in Q3 driven by better cost and rate management



QTR 1 Comparable	2011	2012	YOY
EBITDA	(22,317)	(30,115)	(7,798)
FX (Gain) / Loss	(2,586)	(663)	1,923
EBITDA ex FX impacts	(24,903)	(30,778)	(5,874)
2011 Inventory error	1,500		(1,500)
Sales Adjustments		5,650	5,650
2012 Inventory Reserve		600	600
Comparable EBITDA	**(23,403)**	**(24,528)**	**(1,124)**
Volume			**(28,765)**
Rate			**1,228**
Cost			**26,412**

QTR 2 Comparable	2011	2012	YOY
EBITDA	30,097	17,823	(12,274)
FX (Gain) / Loss	(663)	2,787	3,449
EBITDA ex FX impacts	29,434	20,609	(8,825)
2011 Inventory error	1,500		(1,500)
Cantrex EBITDA in 2011	(1,323)		1,323
Severance	5,260		(5,260)
Sales Adjustments		2,811	2,811
2012 Inventory Reserve		(5,708)	(5,708)
Comparable EBITDA	**34,871**	**17,712**	**(17,159)**
Volume			**(36,540)**
Rate			**(8,697)**
Cost			**28,079**

QTR 3 Comparable	2011	2012	YOY
EBITDA	14,567	(3,129)	(17,696)
FX (Gain) / Loss	1,489	(301)	(1,790)
EBITDA ex FX impacts	16,056	(3,430)	(19,486)
4 Store Closure EBITDA		9,506	9,506
Remove Cantrex EBITDA	(1,351)		1,351
Severance		1,946	1,946
Sales Adjustment		2,460	2,460
2012 Inventory Reserve		5,064	5,064
Comparable EBITDA	**14,705**	**15,546**	**841**
Volume			**(28,606)**
Rate			**4,242**
Cost			**25,204**

October YTD 2012 – Financials

Comparable EBITDA YTD down less (-$17.4MM vs. -$37.8MM)

(in $millions)	Oct YTD 2012	B/(W) vs Plan	B/(W) vs LY
Total Revenue	**3,003**	**(345)**	**(251)**
Merch Net Sales	*2,629*	*-9.0%*	*-7.1%*
*Same Store Sales**	*-7.4%*		*(92) bps*
Gross Margin $	**1,102**	**(191)**	**(122)**
Gross Margin %	*36.71%*	*(193) bps*	*(92) bps*
*Gross Margin %**	*37.00%*		*(54) bps*
Total Expenses	**1,118**	**77**	**84**
Adjusted EBITDA	**(15)**	**(115)**	**(38)**
Net Income	**61**	**58**	**153**

** excludes 4 store closures*

QTR 3 YTD Comparable

	2011	**2012**	**YOY**
EBITDA	22,346	(15,421)	(37,767)
FX (Gain) / Loss	(1,759)	1,823	3,582
EBITDA ex FX impacts	20,587	(13,598)	(34,185)
4 Store Closure EBITDA		9,506	9,506
2011 Inventory Reserve	3,000		(3,000)
Remove Cantrex EBITDA	(2,674)		2,674
Severance	5,260	1,946	(3,314)
Sales Adjustment		10,921	10,921
2012 Inventory Reserve		(44)	(44)
Comparable EBITDA	**26,173**	**8,730**	**(17,442)**
Volume			**(93,911)**
Rate			**(3,227)**
Cost			**79,695**

Oct. YTD: Thoughts on Trading

- When we execute our plans, we are seeing success....this business has a pulse
- The shift in our pricing strategy has achieved the balance in regular sales required......but some teams have moved too far, eliminating promotional levers within their assortment
- Weekend Traffic continues to be our #1 issue...even with same promotions, we cannot pulse the weekends
- Promotional rate is down, as teams have tried to compensate for fewer promotions, generating lower volume and lower mix of higher margin promotions
- In addition, cycling over larger clearance sales has significantly impacted some categories....88% of WA's and 69% of MW's yoy sales decline is in clearance
- We are focusing on 'controlling the controllables' (i.e. over manage cost and rate to offset volume risk), however we cannot seem to get enough momentum in certain areas of the business to offset areas we cannot control......ie CAWP 25% of total yoy sales decline
- We are still tweaking pricing as we balance art vs. science ...most new initiatives are working, but teams have yet to get the balance right
- Overall, trading is still very awkward, obsession with the flyer and poor planning is costing sales opportunities across all formats

Agenda

- Trading Update (YTD 2012)
  - What Worked and What Did Not Work
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  - Update on 10 for 12
  - Weekend vs. Weekday Performance
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  - Key Marketing Events for Q4 and LOOK! Performance
  - Distressed Inventory update

We face several headwinds, but have some tailwinds as we enter Q4 2012

Headwinds

- Continued poor performance on weekends*
- Decline in number of promotional days due to checkerboard in key categories like WA
- Cross border shopping*
- Closing of 4 stores (learnings in appendix)*
- Zellers - 88 locations are dark, however, another 153 remain open during Holiday (in liquidation) - headwind through holidays, but tailwind in Spring*

Tailwinds

- Introduction of War Council as a turnaround-focused, action-biased corporate decision-making body (see next 2 pages for details)
- Aggressive 2H marketing plan*
- Refresh stores*
- Addition of a 53rd week
- Continued cost management
- Better product in terms of quality, depth, and focused displays

Note: * Additional details in appendix

Given poor performance to date, we have introduced a War Council that has taken several steps over the last 3 weeks to right the ship

1 Centralized command and control using existing talent
- Established war council: cross functional SWAT team empowered to drive fast change
- Less "matrix" during crisis

2 Exit ineffective leaders and recruit "change agents"
- Exited CAO, EVP A&A, SVP Logistics & Supply Chain and SVP Marketing
- OK to leave vacancy or have interim leaders in most cases

3 Set urgency with "austerity" mandates, e.g.,
- Stopped late change fees for flyer (run rate of $3.5M this year)
- Froze hiring ($2M savings)
- Stopped the addition of new vendors
- Stopped inventory purchases for any teams over plan
- Stopped unnecessary consultant spend ($2.6M savings)
- Stopped layered discounts
- Tightened controls over point of sale discounting (+7% YoY)

4 Put "Execution Officer" in place with a focus on facts and not hypothesis
- Embedded operational arm in all merchandise functions
- Ensures one step line of communications from council and merchants so priorities are consistent
- Discipline, getting into the detail of "how" and then chasing the "how" to execution
- Fact based approach rules (e.g. private brand profitability analysis)

Given poor performance to date, we have introduced a War Council that has taken several steps over the last 3 weeks to right the ship

5 Put immediate effort on initiatives to help Q4:
- COGS recovery initiatives underway
- Held working sessions with lead merchants and locked down Direct Import targets for all private label lines of businesses within Apparel & Accessories and Home & Hardlines
- Reviewed businesses to reduce expenses, prioritize projects and redirect funds in:
  - Marketing, Direct, HR, PRS, IT, Merch Planning
- Preliminary phase of outsourcing procurement function underway
- Assigned Holiday Champion

6 Begin short-term (<100 days) projects
- Reduce HQ overhead – eliminate roles and layers and accelerate performance based exits
- Basic plano-o-gram for every store as foundation for all else
- Get rate to comp+ in all categories – SWAT team determine viable "core"
- Reduce DC costs through re-flow of goods and improve productivity and speed to marked through better packing processes
- Restructure merchandise planning team

7 Build for 2013
- Prioritizing and organizing early around key 2013 initiatives and applying "war council" type approach to pursuing them

Prepping for the Q4 challenge - A&A Initiatives

Several initiatives have been created to improve A&A performance during the remainder of the year

Category at Risk	Selected Strategies to Mitigate Risk
Women's Apparel	· Cold weather attack plan and market Sears as a destination for Outerwear (while Q4 outerwear sales slow to start due to milder weather, expected to reverse as season progresses) · PCNs – more aggressive markdowns · Re-price high volume programs across TCC, Tradition and Outerwear
Women's Intimates	· Incremental growth in Sleepwear with Key Item/WOW · Incremental Clearance from Hanging Disco sales style-out
Men's Wear	· Basics with Authority incremental initiatives (launching "Buy the Basics/ Buy the Box" marketing event) · Sell through of SAMs receipts for reallocated closing store receipts
Footwear	· Incremental EDVP / Key Program in Comfort and Athletic footwear; re-pricing executed and included in all marketing · Incremental receipts in athletic footwear for Fitness Event · All- End of season Boot Event with aggressive marketing offers in place
Children's	· Toys - reducing OMITS Online & Catalogue by buying the inventory up front, virtual store, top 10 toys in retail, Wish Book exceeding plan · Baby's Room - January Baby Days event, +5M in inventory, better quality of inventory with full assortment, top selling cribs back in stock, call out to PTPA in every flyer and in store · Children's Fashions - Expanded assortment in key national brands Nike, Levis, and Adidas; addition of new brands Converse and Carters in TEC; - Incremental key items and programs: cable sweaters & basics, repeat of colored denim, launch of Canada's Best outerwear program
Jewelry & Accessories	· Fine Jewellery - weekly events in December including vendor digest · Christmas gifting accessories fully setup in stores (e.g. phone accessories, reader cases)
Cosmetics & Personal Care	· Fragrance strategy (better marketing, new brands, better in stock) · Eventing (Gala pick up, gifting event, January skincare event)

Prepping for the Q4 challenge – HH & MA Initiatives

Several initiatives have been created to improve HH & MA performance during the remainder of the year

Category at Risk	Selected Strategies to Mitigate Risk
Major Appliances	· Salesforce effectiveness – National realignment of associate commissions with profitability of sale · Discretionary discounting – Intensify sales audits to eliminate rogue discounting · Vacuums – Optimize pricing, rationalize SKUs, refine Kenmore lineup, and enhance take-with inventory · Commercial Sales – National expansion of hybrid (currently only in B.C./Prairies) · Corbeil – Expansion of Corbeil store network into Ontario/ GTA
CAWP	· Snow - targeted advertising in markets with heavy snow fall, supported by agile logistics structure - Q4 expected to improve against trend with the arrival of snow; pre-season snow sales (Q3) suppressed because of no pent up demand coming out of a very mild LY snow season. · Hardware- Pricing and promo optimization across entire lineup
Electronics	· November Black Friday and December Cyber Monday performance boost · Improve overall rate by optimizing sales mix and introducing new high-margin lines (e.g. batteries) · Subsidies- Rigorous collection of vendor subsidies and display allowances
Furniture	· Reflow – National furniture reflow with market-specific assortment customization · Home Stores- Refine Home Store strategy to define sustainable profitability growth · Imports – Shift BOS to direct imports to improve overall rate
Mattresses	· Bedding aisle expansion – Significantly increase display assortment across the nation · Specialty sleep – Significantly increase BOS for specialty sleep
Home Decor	· Enhanced Christmas seasonal assortment · Additional advertising and improved in-stock position for Small Appliances · Expanded space and advertising in Food Prep · Direct media shift; Grow Direct – Improve Rate by shifting BOS to Sears.ca · Imports- Shift BOS to Direct Imports to improve margin · Kitchen shop – Establish Sears as a "kitchen" destination
Fitness	· Line-up renewal – Introduce new programs throughout Q3 · Extended aisle – Expand online assortment and marketing

Rest of The Year 2012: Q4 2012 – Financials

Q4 and full year comparable EBITDA better than LY due to better managing rate and expenses

(in $millions)	Qtr 4 2012	B/(W) vs Plan	B/(W) vs 2011
Total Revenue	1,381	(107)	15
Merch Net Sales	*1,246*	*-6.4%*	*1.4%*
Gross Margin $	504	(82)	3
Gross Margin %	*36.54%*	*(286) bps*	*(17) bps*
Total Expenses	378	57	21
Adjusted EBITDA	126	(25)	24
Net Income	71	(17)	30

(in $millions)	Jan YTD 2012	B/(W) vs Plan	B/(W) vs 2011
Total Revenue	4,383	(453)	(236)
Merch Net Sales	*3,875*	*-8.2%*	*-4.5%*
Gross Margin $	1,607	(273)	(119)
Gross Margin %	*36.65%*	*(222) bps*	*(70) bps*
Total Expenses	1,496	134	106
Adjusted EBITDA	110	(140)	(14)
Net Income	132	41	182

QTR 4 Comparable

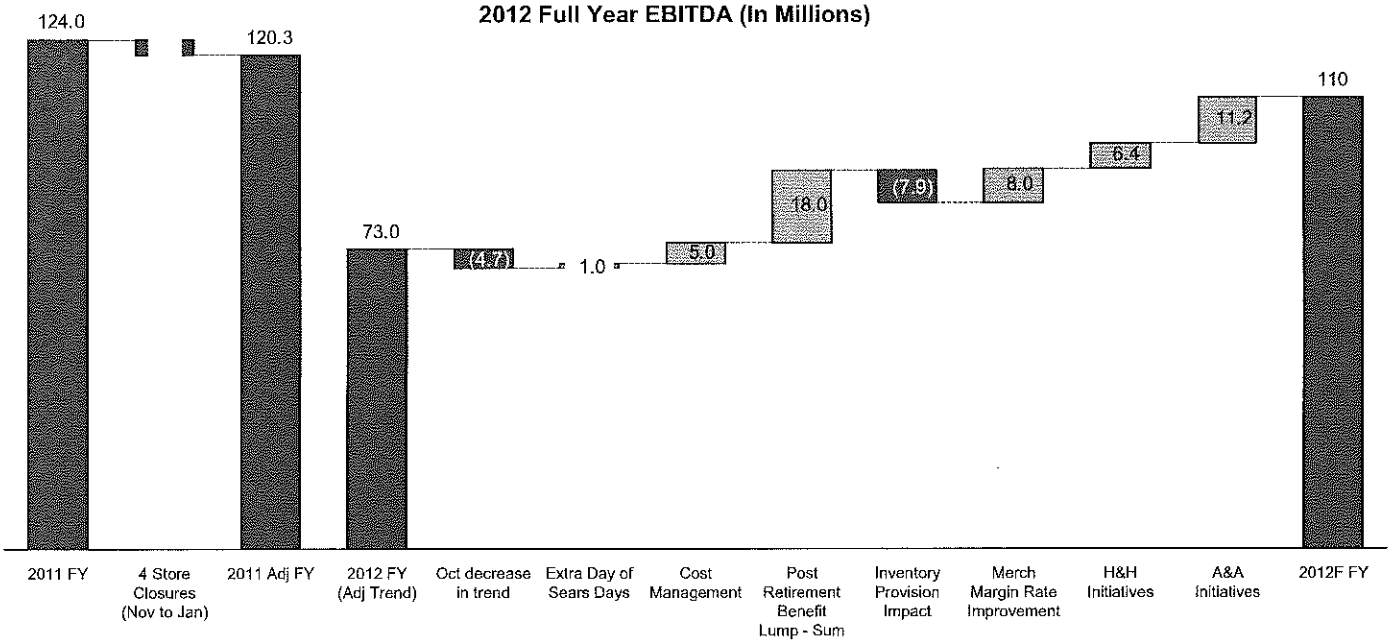
	2011	**2012**	**YOY**
EBITDA	101,611	126,109	24,497
FX (Gain) / Loss	873		(873)
EBITDA ex FX impacts	102,484	126,109	23,625
4 Store Closure EBITDA	(3,742)		3,742
Remove Cantrex EBITDa	(934)		934
Sales Adjustment		(385)	(385)
2012 Inventory Reserve		7,713	7,713
Insurance Reserve	(2,692)		2,692
Benefits Offer		(18,000)	(18,000)
53rd Week		(2,000)	(2,000)
Comparable EBITDA	**95,116**	**113,437**	**18,321**
Volume			**(13,305)**
Rate			**15,810**
Cost			**15,815**

Full Year Comparable

	2011	**2012**	**YOY**
EBITDA	123,957	110,688	(13,270)
FX (Gain) / Loss	(887)	1,823	2,709
EBITDA ex FX impacts	123,071	112,510	(10,561)
2011 Inventory Error	3,000		(3,000)
4 Store Closure EBITDA	(3,742)	9,506	13,248
Remove Cantrex EBITDa	(3,608)		3,608
Severance	5,260	1,946	(3,314)
Sales Adjustment		10,536	10,536
2012 Inventory Reserve		7,669	7,669
Insurance Reserve	(2,692)		2,692
Benefits Offer		(18,000)	(18,000)
53rd Week		(2,000)	(2,000)
Comparable EBITDA	**121,289**	**122,167**	**878**
Volume			**(107,215)**
Rate			**12,584**
Cost			**95,510**

Q4: Prepping for the Q4 Challenge - Close the Gap Plan

There are challenges to achieving targets, however, initiatives and plans are being developed to improve


2012 Full Year EBITDA (In Millions)

<u>Notes:</u>

1) 2012 FY (Adj Trend) includes the 53rd week, the impact of the Refresh stores, and an uplift in trend in Q4 (historically seen in 2011/ 2010)
2) Merch Margin Rate Improvement involves a 70 bps improvement in trended rate from -100 bps to -30 bps vs LY
3) Sears Days is starting on a Thursday compared to a Friday in 2011

Q4: Thoughts on the remainder of 2012

- The strongest marketing + product plans we have had so far this year to increase consideration and traffic …with better product in terms of quality, depth and focused displays to convert traffic

- Several headwinds (e.g., weekends, cross-border, Zellers liquidation), but some tailwinds to help offset (e.g., war council, aggressive 2H marketing plan, cost management, refresh stores)

- Building on recent pricing actions (e.g., targeted increases in Q3 in WA and MW generating an incremental $1.8MM in margin)…we're continue to take targeted action in Q4 (e.g., increases in WA worth $0.9MM and with GDOs worth $0.5MM)

- Simplified pricing architecture by removing 88 cent endings and moving to 97 cent endings (value) and 99 cent endings (promo) – easier for merchants to make pricing decisions and fewer exclusions from line offs for customers

- Opportunity in January, based on last years results..3 new events: White Sale, Fitness and Travel

- Many new trading strategies are showing results….Toys online trending at +26% October and November to date setting us up well for Q4 holiday

- Build for 2013…prioritizing and organizing early around key 2013 initiatives and applying "War Council" type approach to pursuing them

- Most critical question for Q4 is whether the new marketing campaign will help to address weekend traffic challenges, and will the better store conditions, with stronger merchandising displays convert the holiday mall traffic

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A Closer Look at the HBC IPO – performance at the Bay is not as strong as we thought

- HBC and its banners have achieved positive same store growth in the last three years (2009-2011), with Lord & Taylor driving even greater growth than the Bay (CAGR +9.7% vs. +4.5% for the Bay)

- However, it will likely get more challenging for the Bay to maintain momentum in the next few years…
  - Entry of Target
  - Drag from 64 un-leased closed Zellers stores that are poorly located*
  - Large capital remodel done in many stores
  - Closing of Zellers cuts of thousands of customers earning HBC reward points redeeming at the Bay

- HBC's capital spend (as a % of revenue) was ~2x the Sears rate over the last three years, 57% of which ($212M) was invested in store refreshes with a focus on A&A categories

- While HBC has a lower COGS ratio than Sears (59.9% vs. 63.5%) we cannot infer that HBC has lower COGS due to HBC's greater mix towards higher end/margin products and Sears' mix towards big ticket/lower margin products

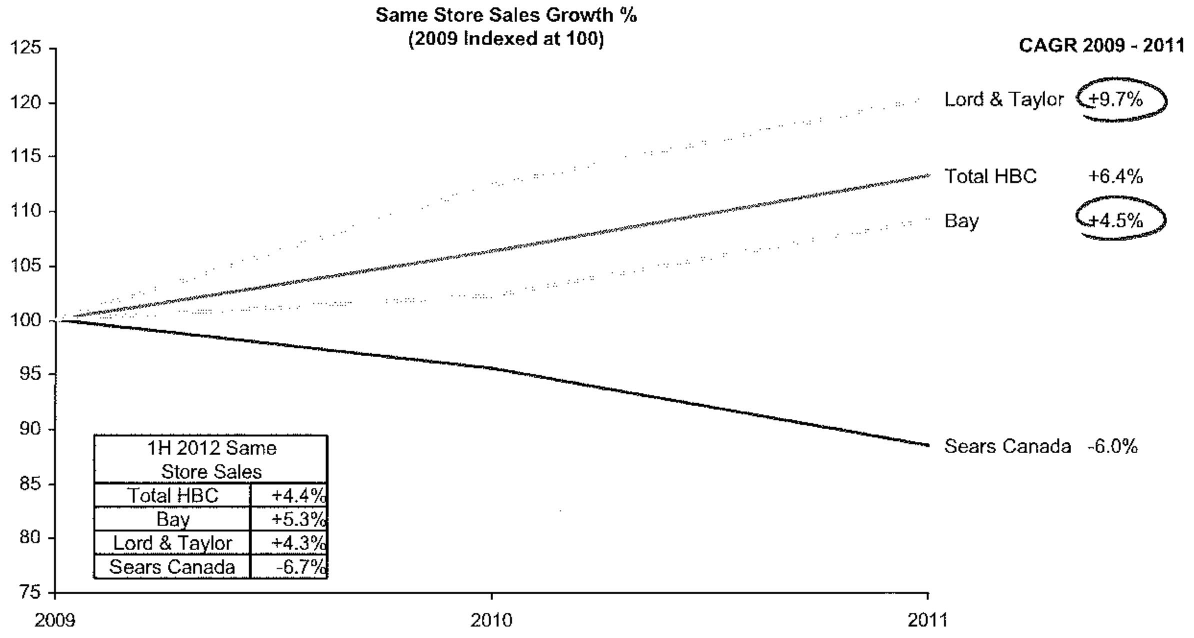
- While Sears' overall SG&A ratio is higher than HBC (37.6% vs. 35%), Sears FL Retail SG&A ratio is more comparable at 35.2%; both Sears and HBC however have much higher SG&A ratios compared to other department stores such as Kohls (23%), Macy's (30%) and JCP (30%)

- Finally, sales productivity at HBC is actually lower than Sears both overall ($168/sq ft at Sears overall vs. $152/sq ft for HBC) and even on a more comparable basis (Sears A&A full line delivers $147/sq.ft vs. the Bay at $133/sq.ft)

Note: *Hudson's Bay will pay $126.5 million in rent for Zellers stores this year. It will pay $46 million next year after they close, $31.9 million in 2014, $27 million in 2015, $24 million in 2016 and $97.5 million in the years after as reported in the Calgary Herald, November 6, 2012

A Look at the Bay's IPO – Same Store Growth

HBC has achieved strong same store growth in the last three years, with Lord & Taylor driving even greater growth than the Bay

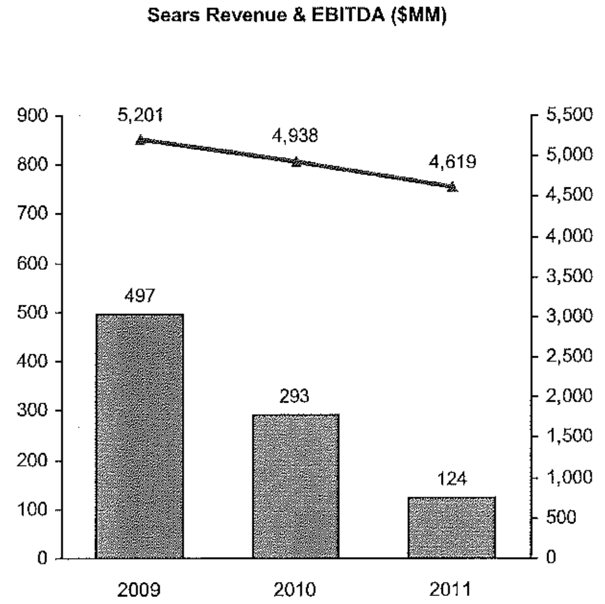


1H 2012 Same Store Sales	
Total HBC	+4.4%
Bay	+5.3%
Lord & Taylor	+4.3%
Sears Canada	-6.7%

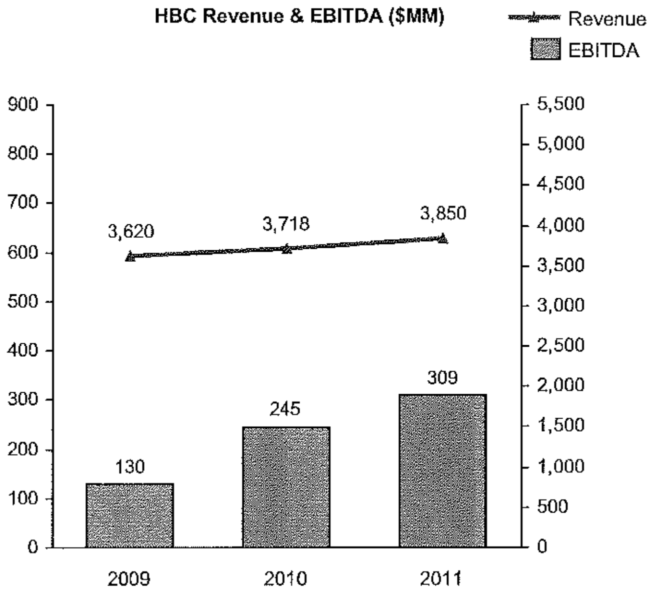
Source: Sears Finance; Sears Annual Report; HBC IPO Prospectus

A Closer Look at HBC IPO – Revenue & EBITDA Trend

HBC's EBITDA has increased from 3.6% in 2009 to 8% in 2011



Sears Revenue & EBITDA ($MM)



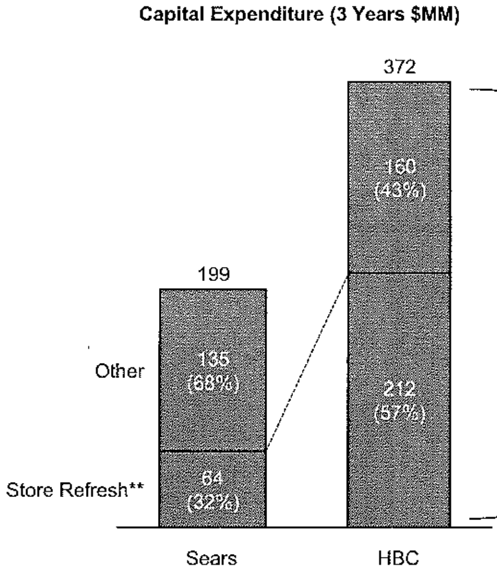
HBC Revenue & EBITDA ($MM)

EBITDA % of Total Revenue	9.6%	5.9%	2.7%
HBC - EBITDA % of Total Revenue	3.6%	6.6%	8.0%

Source: Sears Finance; Sears Annual Report; HBC IPO Prospectus

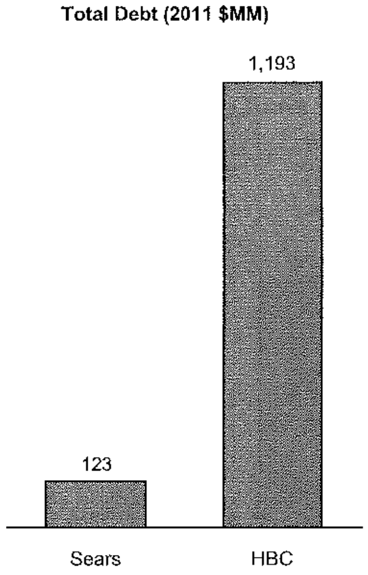
A Closer Look at HBC IPO – Capital Expenditure

HBC's capital spend was ~2x the Sears rate (as % of revenue) over the last three years, 57% of which ($212 M) was invested in store refreshes with a focus on A&A



Capital Expenditure (3 Years $MM)

- HBC increased investment in high growth A&A categories *
- These categories achieved a 12% sales growth over 2009-2011 (versus 6% HBC overall)



Total Debt (2011 $MM)

CapEx as % of 2011 Revenue	4.5%	9.7%

Total Debt/ EBITDA	1.0X	3.9X

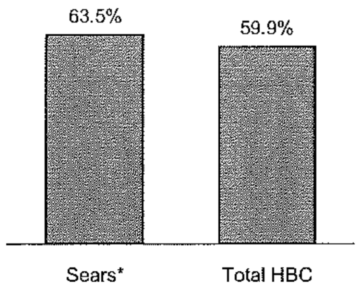
Note: * Women's Apparel, Men's Wear, Jewellery & accessories, Women's Footwear and Cosmetics; **includes all capital invested in store roll-outs and recharges

Source: Sears Finance; Sears Annual Report; HBC IPO Prospectus

A Closer Look at HBC IPO – COGS and SG&A

HBC'S SG&A rate is consistent with Sears FL Retail SG&A rate, but both are considerably higher than US department stores

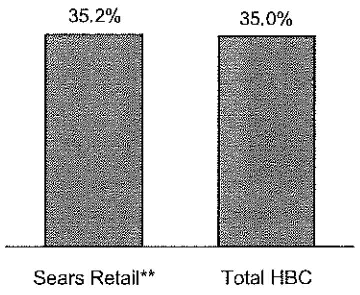
COGS (2011) **GAP** **COMMENTS**



-358 bps

- We cannot infer that HBC has lower COGS due to HBC's greater mix towards higher end/margin products and Sears' mix towards big ticket/lower margin products\

SG&A (2011)



-20 bps

- Sears FL Retail SG&A rate of 35.2% is comparable to HBC (35%) if we remove non-retail businesses (i.e. Direct, Home and other services)
- This rate would be even better if we offset SG&A with credit card revenue (total $91.4 MM in 2011 across all businesses) as does HBC
- Both companies' SG&A rates are still high compared to other department stores such as Kohls 23%, Macy's 30%, and JCP 30%

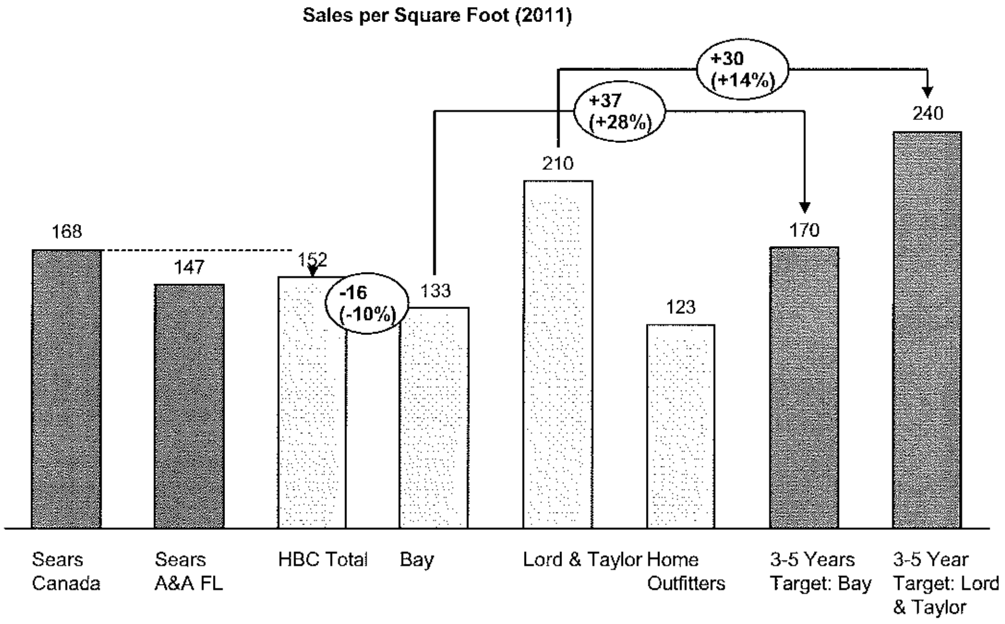
* Based on total revenue of $4,619 MM

** Based on Sears retail revenue of $3,348 MM (excludes revenue from Direct, Home and other services; overall Sears SG&A is 37.6% in 2011)

Source: Sears Finance; Sears Annual Report; HBC IPO Prospectus

A Closer Look at HBC IPO – Sales Productivity

Sears overall sales productivity is 10% higher than HBC and Sears A&A full-line is higher than The Bay


Sales per Square Foot (2011)

Note: based on gross leasable area, Sears retail stores only, not including direct sales;
Source: Sears Finance; Sears Annual Report; HBC IPO Prospectus

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Transformation Update: YTD Accomplishments and Q4 Plans

10 for '12 initiatives	Oct. YTD	Q4 Plans
1. Rebalance our prices...	5000 lower prices Refined pricing mix guardrails Targeted increases/shift (e.g., WA)	Leverage newly created promo database with historical offers to better inform advertised and unadvertised offers (item selection and depth)
2. Run our Range Relay... review, reduce, re-negotiate	Vendor, Category & Price Mgmt structure Collect ad, markdown and other subs	Enhanced Line Review process (assortment and pricing) and deep dive key lines (e.g., boxed bras, tools)
3. Become Marketing Led	Launch of Spring, Summer and Fall LOOK! Reports	Flyer Process implemented which optimizes content, format, and distribution Holiday campaign launched
4. The Making of our Heroes... (Mattresses, MA, Kids, Trad., Men's Dress, Modern Shop)	Kid's Room rollout to 59 stores Carroll Reed launched across 76 Stores Optimized Major Appliances commission rates	Establish Sears as a "kitchen" destination Launch of Our Largest Toy Shop ever Bedding aisle expansion
5. Become Item Obsessed...	Pricing construct, Promotional definitions, and store back approach defined for items (WOW, Value, Key items, ...)	Institutionalized processes for Key/ Value/ WOW item selection and flyer offers
6. Drive our Private Brands...	Private brand vendors rationalized by 15% & Assortment reduced to 20 private brands Jessica re-launch	Future state Direct Import Processes Private brand vendors rationalized add'l 15% -
7. Be 'Direct'...turn catalogue to profit and activate online	All divisions with online pricing aligned to retail prices New www.sears.ca homepage	Launch of On-line toys finder and toy chest iphone application Launch of iPad catalogue aplication Capacity & stability upgrade (final elements)
8. Kick-start our Formats...	4 Full-line Stores refreshed + 4 new New Home store opened (Pinecrest) Three new Corbeil stores opened	Open one additional Corbeil store in GTA Open a new large format Dealer model
9. Customer Service... deliver the promise, everyday, everywhere	Customer service event & new returns policy	Online parts lookup for technicians Extended product knowledge online Dashboard & case management tools
10. Best Store Leadership	Associate engagement, flawless execution & Gold Badge program Training of 20,000 associates New field structure rollout	National rollout of Operations, Customer Service and Merchandising Standards Complete store reset program for 48 worst performing stores

YTD 2012 Challenges - Weekend vs. Weekday Sales Forecast & GP YoY Change

Retail sales and GP decline largely attributed to Weekend Promo/Clearance activity

		Aug YTD	Sep	Oct	Oct YTD
Total Net Sales	Mon - Fri	5%	1%	3%	4%
	Sat - Sun	-20%	-15%	-21%	-19%
	Total	-6%	-6%	-9%	-6%
Reg Sales	Mon - Fri	8%	6%	1%	7%
	Sat - Sun	30%	21%	34%	30%
	Total	14%	11%	10%	13%
Promo Sales	Mon - Fri	10%	2%	28%	10%
	Sat - Sun	-39%	-25%	-35%	-37%
	Total	-20%	-12%	-15%	-18%
Clearance Sales	Mon - Fri	-11%	-26%	-42%	-15%
	Sat - Sun	-26%	-36%	-60%	-30%
	Total	-17%	-30%	-50%	-21%

- Weekend sales down -19%, while Weekday sales up +4%
- Overall Regular sales up +13%, however Promo and Clearance sales down -18% and -21% respectively
- Promo weekday sales up +10%, but offset by a -37% drop in weekend sales
- Weekend GP down -7% due to drop in Promo and Clearance GP of -23% and -63% respectively; partially offset by increase in Regular GP of +13%

		Aug YTD	Sep	Oct	Oct YTD
Total GP	Mon - Fri	0%	-4%	9%	0%
	Sat - Sun	-18%	-15%	-2%	-16%
	Total	-8%	-8%	4%	-7%
Reg GP	Mon - Fri	6%	9%	7%	7%
	Sat - Sun	30%	29%	44%	31%
	Total	12%	14%	17%	13%
Promo GP	Mon - Fri	-1%	-13%	17%	-2%
	Sat - Sun	-40%	-31%	-33%	-38%
	Total	-24%	-22%	-16%	-23%
Clearance GP	Mon - Fri	-73%	-54%	-43%	-70%
	Sat - Sun	-57%	-65%	-118%	-21%
	Total	-70%	-57%	-189%	-63%

		Aug YTD	Sep	Oct	Oct YTD
Total GP %	Mon - Fri	-172 bps	-140 bps	79 bps	-142 bps
	Sat - Sun	57 bps	28 bps	529 bps	108 bps
	Total	-66 bps	-68 bps	300 bps	-28 bps
Reg GP %	Mon - Fri	-71 bps	83 bps	154 bps	-27 bps
	Sat - Sun	-29 bps	250 bps	213 bps	35 bps
	Total	-69 bps	129 bps	159 bps	-19 bps
Promo GP %	Mon - Fri	-338 bps	-508 bps	-456 bps	-381 bps
	Sat - Sun	-33 bps	-256 bps	-85 bps	-80 bps
	Total	-177 bps	-395 bps	-244 bps	-226 bps
Clearance GP %	Mon - Fri	-673 bps	-340 bps	-16 bps	-601 bps
	Sat - Sun	-174 bps	-219 bps	2224 bps	32 bps
	Total	-478 bps	-285 bps	986 bps	-351 bps

Cross Border Shopping

- Based on 4 months of sales activity following the June 1 implementation of higher duty free limits on overnight visits to the US, there is compelling data to suggest that the change in regulation is impacting Sears Canada FLS sales
- Stores within 50km of a US city have declined by 9.9% June-Sept, while stores between 50km-100km have declined by 8.2%, versus only a 6% decline for stores greater than 100km
- Normalizing for incoming YTD trend, there is still nearly a 3% growth delta b/w <50km and >100km

Summary (Full Line Only)

Distance	Stores	YoY JUN - SEP	Var to >100KM	Total Growth Impact
<50KM	16	-9.9%	-4.0%	
50-100KM	41	-8.2%	-2.2%	
>100KM	57	-6.0%		
Grand Total	114	-7.0%		-1.6%

		YoY				
Distance	Stores	MAY YTD	JUN - SEP	Trend Change	Var to >100KM	Total Growth Impact
<50KM	16	-10.1%	-9.9%	0.2%	-2.9%	
50-100KM	41	-10.1%	-8.2%	1.9%	-1.2%	
>100KM	57	-9.1%	-6.0%	3.1%		
Grand Tota	114	-9.5%	-7.0%	2.5%		-1.0%

- This impact is consistent with data released by Stats Canada for June and July, indicating that overnight stays have increased by 46% YoY, which translates to an (estimated) dollar spend increase in the 5-10% range on total cross-border shopping, when factoring in more prevalent same day traffic which has increased at a more modest 2% YoY
- It is difficult to say if this strong trend would be expected to continue in light of the fact that the duty free limit change would only save $39 per two-person overnight trip – not enough to cover the expense of an overnight hotel stay (see appendix for more analysis)

Zellers Opportunity vs. Cross Border Risk (Aug-Sep 2012)

The cross border challenge will be neutralized by the Zellers opportunity, but this will only occur in Spring 2013

- The 17 full-line stores with Zellers opportunity but no Cross Border risk (i.e., >100km) outperformed the 31 stores with Cross Border risk (<100km) but no Zellers opportunity by 4.6% and 106bps over August-September
- Overall, using the 40 stores that have neither a Zellers opportunity, nor a Cross Border risk as the base comparable, there was a total net GP$ uplift of $141k over the past two months
- 88 Zellers locations are dark, however, another 153 remain open during Holiday 2012 (in liquidation) so we will only start to significantly benefit from the Zellers opportunity in Spring 2013

Zellers Opportunity

	Store Count	Sales Growth	GP% Change	GP$ Growth
Total Store	43	-5.7%	-84	-8%
Cross Border Risk (less than 100KM)	26	-6.9%	-111	-10%
No Cross Border Risk (greater than 100KM)	17	-4.0%	-43	-5%

Cross Border Risk

	Store Count	Sales Growth	GP% Change	GP$ Growth
Total Store	57	-7.7%	-128	-11%
Zellers Opportunity	26	-6.9%	-111	-10%
No Zellers Opportutity	31	-8.6%	-149	-13%

Other Stores

	Store Count	Sales Growth	GP% Change	GP$ Growth
No Cross Border Risk, no Zellers Opportunity	40	-6.6%	-113	-10%

	Incremental GP$ (in '000)*
17 Stores: Zellers Opportunity, No Cross Border Risk	1058
31 Stores: Cross Border Risk, No Zellers Opportunity	-848
26 Stores: Zellers Opportunity, Cross Border Risk	-69
Total Net Impact	141

*Incremental GP as comparing with 40 base stores (Without Zellers Opportunity and no Cross Border Risk >100KM)

# of Stores

Cross Border (<100KM)

Zellers Opportunity

	N	Y
N	40	31
Y	17	26

4-Store Closures - Learnings

Summary

- Overall EBITDA loss from the four store closure was $13.2MM
- Sale went from Jul 22 to Oct 7
- Sold $37.1MM (100% of COGS value of inventory)
- Sale included moving an additional $10.96MM in distress (aged) inventory through these stores (approx. 50% from stores, 50% from DC)
- Recovered an additional $750K in fixture sell offs (after many useful fixtures were redeployed into other stores)
- Guaranteed associates who wanted jobs roles in nearby stores ... redeployed 539 associates
  - We saved $4.4MM in severance but incurred $1.5MM incremental payroll to guarantee same number of hours; net amount saved in severance of $2.9MM
- Acquired 16,000+ customer emails to target continuity marketing to in Q4/12 and Q1/13
- Consulting/Advertising expenses approx. $2.0MM

Key Learnings:

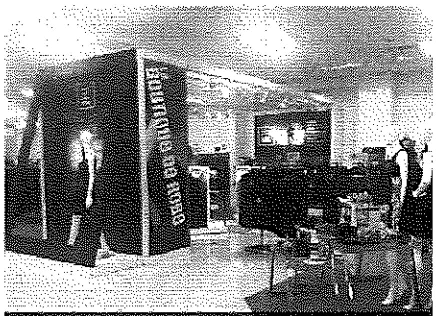
- Flow more distress (if we have) & do it earlier in the process ($6MM of $1MM was sent in last 4 weeks - ideally plan and stage more smoothly over 12 weeks)
- Test running one store without consultant expense with our own dedicated FTE (office) + onsite FTE using same discounting model (if closing more than 1 store in parallel)
  - Potential savings of ~70% in consulting cost assuming we can redeploy talent within the organization

Evolving Full-Line Re-fresh 2.0

Clearer Definition of Signature Shops, More Back-Wall Dominance


KITCHEN SHOP


SUIT SHOP


DRESS SHOP

- New graphics package & navigation to integrate new brand campaign
- Further definition of "signature shops" within store – Women's Dress Shop, Kitchen Shop, Men's Suit Shop
- Increased back wall presence of merchandise in apparel categories (Men's bottoms, Dress shirts, Jessica, Kids, WI)
- Testing elimination of electronics (Sudbury)
- Evolved Men's Suiting with commission sales model (similar to Moore's), email marketing program leveraging Sears Club, new/improved product assortment, and cross-merchandising of footwear
- Modification in Menswear to highlight collections of key brands (e.g. Calvin Klein) within commodity presentations
- Added impulse sales fixtures at CSD's integrating Gift Cards, Catalogues and impulse items <$20 to drive ATV
- Standardized placement and function of Power Towers & Event Hubs
- Introduced shelf labels on select RIM categories in A&A and HD (replenishment) inventory to improve on-floor availability

Next wave of refresh stores off to a great start

Sales Growth (First 4 Days)

Wave 2 Refresh Stores - Opened Nov 2, 2012

		4 Day Sales $ (ooo's)	Day Gwth (YOY)	*Var to Adj Full Line*
All 4 Refresh	A&A	1,349.4	*46.3%*	*52.1%*
	H & H	374.4	*-21.9%*	*5.8%*
	MA	319.2	*5.3%*	*38.4%*
	Total	**2,045.3**	***19.8%***	***37.6%***
St Jeromes	A&A	291.9	*61.5%*	*67.4%*
	H & H	87.4	*-30.3%*	*-2.6%*
	MA	107.7	*39.4%*	*72.5%*
	Total	**487.5**	***26.7%***	***44.5%***
D'Anjou	A&A	413.8	*20.4%*	*26.3%*
	H & H	88.1	*-40.8%*	*-13.1%*
	MA	74.4	*-12.2%*	*20.9%*
	Total	**576.6**	***-0.3%***	***17.6%***
Oshawa	A&A	355.4	*75.7%*	*81.5%*
	H & H	111.2	*0.8%*	*28.5%*
	MA	103.0	*49.6%*	*82.6%*
	Total	**570.7**	***49.6%***	***67.5%***
Sudbury	A&A	288.2	*47.1%*	*52.9%*
	H & H	87.7	*-7.7%*	*20.1%*
	MA	34.1	*-52.7%*	*-19.7%*
	Total	**410.5**	***13.0%***	***30.8%***
Adj FL	A&A	15,676.5	*-5.8%*	*0.0%*
	H & H	6,859.9	*-27.7%*	*0.0%*
	MA	4,818.8	*-33.1%*	*0.0%*
	Total	**27,410.0**	***-17.8%***	***0.0%***

Adjusted Full Line (Adj FL) has had the 4 Wave 1 Refresh Stores, the 4 Wave 2 Refresh Stores, Yorkdale and the 4 Closed stores removed from it.

Sales Growth (First 4 Days)

Wave 1 Refresh Stores - Opened May 25, 2012

		4 Day Sales $ (ooo's)	Day Gwth (YOY)	*Var To Adjust Region*
All 4 Refresh	A&A	1,032.1	*34.5%*	*52.3%*
	H & H	399.0	*-21.5%*	*12.1%*
	MA	281.4	*-2.4%*	*17.9%*
	Total	**1,714.8**	***9.5%***	***32.0%***
Barrie	A&A	254.3	*30.8%*	*48.5%*
	H & H	122.5	*-11.5%*	*21.8%*
	MA	97.5	*35.2%*	*54.7%*
	Total	**474.8**	***17.3%***	***39.6%***
Belleville	A&A	191.3	*47.2%*	*65.0%*
	H & H	96.6	*-15.0%*	*18.3%*
	MA	7.3	*23.9%*	*43.4%*
	Total	**295.3**	***18.4%***	***40.7%***
Limeridge	A&A	296.2	*37.3%*	*55.0%*
	H & H	94.2	*-24.8%*	*8.5%*
	MA	85.2	*-12.5%*	*7.0%*
	Total	**476.1**	***8.2%***	***30.6%***
Newmarket	A&A	290.2	*27.8%*	*45.5%*
	H & H	85.6	*-34.6%*	*-1.3%*
	MA	91.4	*-19.0%*	*0.5%*
	Total	**468.6**	***-0.6%***	***21.8%***
Adj Central Regi	A&A	3,884.1	*-17.7%*	*0.0%*
	H & H	1,655.4	*-33.3%*	*0.0%*
	MA	1,326.1	*-19.5%*	*0.0%*
	Total	**6,877.4**	***-22.4%***	***0.0%***

Central Region as defined in CDW . Adjusted Central Region defined as Central Region less Barrie, Limeridge and Newmarket.

Store Refresh Review: Performance to Date (Sales)

TOTAL SALES

- Refresh stores launched on May 25th, 2012 and now have eighteen weeks of post launch results
- Refresh stores are performing 620 bps better vs. the region performance vs. down 150 bps prior to the launch
- Excluding non-comparable clearance activity in July, the refresh stores are performing 890 bps better vs. region

A&A

- Apparel sales are flat to last year pilot to date and performing +910 bps vs. the region post refresh (excluding July +980 bps) in stores that previously were on par with the region (+30bps)

*Note that the Post Refresh performance is by day

Sales Growth vs Region

	TOTAL MERCHANDISE DIVISIONS GAP TO REGION											
	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	PILOT TO DATE
Barrie	0.1%	-3.8%	5.2%	-1.8%	-3.2%	0.3%	9.2%	3.8%	16.4%	4.3%	2.2%	7.6%
Belleville	-4.8%	-1.5%	3.3%	1.4%	-4.0%	-3.1%	13.8%	-3.1%	-3.6%	3.6%	-0.4%	4.0%
Limeridge	-5.0%	-3.1%	8.5%	-2.8%	-4.5%	-1.8%	11.5%	1.0%	2.6%	-1.0%	0.7%	3.9%
Newmarket	-1.4%	1.8%	6.3%	7.1%	-0.7%	-0.3%	18.0%	3.9%	6.4%	5.0%	4.2%	8.1%
All Refresh	-2.6%	-1.6%	6.2%	1.1%	-2.9%	-1.0%	13.1%	2.0%	6.5%	3.0%	2.1%	6.2%

Sales Growth vs Region

	A&A GAP TO REGION											
	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	PILOT TO DATE
Barrie	2.2%	-4.3%	2.5%	1.1%	-4.6%	1.6%	12.2%	0.2%	6.0%	0.4%	1.9%	5.2%
Belleville	-1.3%	5.5%	11.9%	10.2%	7.2%	9.0%	22.5%	9.2%	5.8%	11.0%	7.4%	13.2%
Limeridge	-4.7%	-1.2%	8.0%	-0.7%	-4.1%	4.0%	14.9%	-1.1%	6.0%	5.4%	4.1%	7.6%
Newmarket	-1.1%	-3.9%	6.9%	5.6%	3.0%	7.8%	17.0%	10.5%	11.1%	8.9%	5.9%	11.5%
All Refresh	-1.3%	-1.8%	6.9%	3.4%	-0.4%	5.3%	16.1%	4.3%	7.4%	6.0%	4.6%	9.1%

Store Refresh Review: Performance to Date - Apparel & Accessories Sales & GP

A&A has performed well within the refresh stores with sales growth up double digits compared to regional results...

	Belleville		Barrie		Newmarket		Limeridge		All Refresh	
	Sales % (TY vs	BEL vs REG	Sales % (TY vs	BAR vs REG	Sales % (TY vs	NMKT vs REG	Sales % (TY vs	LIM vs REG	Sales % (TY vs	REG vs REG
Total Store	-5.7%	4.0%	-2.1%	7.6%	-1.6%	8.1%	-5.8%	3.9%	-3.5%	6.2%
CS	-1.6%	7.4%	-4.6%	4.5%	2.5%	11.5%	-2.8%	6.2%	-1.5%	7.5%
JAL	10.3%	14.3%	5.3%	9.3%	8.1%	12.1%	-2.9%	1.1%	4.7%	8.6%
FW	-5.0%	0.0%	-7.3%	-2.3%	21.8%	26.8%	-3.2%	1.9%	2.7%	7.7%
CW	-6.6%	-1.1%	-0.7%	4.8%	5.2%	10.8%	5.9%	11.4%	2.1%	7.6%
MW	8.0%	20.0%	-1.2%	10.7%	2.2%	14.2%	-1.6%	10.4%	1.0%	13.0%
WA	9.6%	22.7%	-3.6%	9.5%	-5.1%	8.0%	0.5%	13.6%	-0.6%	12.5%
WI	0.2%	9.6%	-16.4%	-7.0%	-9.0%	0.4%	-15.1%	-5.7%	-11.1%	-1.7%
A&A	3.8%	13.2%	-4.2%	5.2%	2.1%	11.5%	-1.8%	7.6%	-0.4%	9.1%

	Belleville		Barrie		Newmarket		Limeridge		All Refresh	
	GP bps Δ (TY vs	BEL vs REG	GP bps Δ (TY vs	BAR vs REG	GP bps Δ (TY vs	NMKT vs REG	GP bps Δ (TY vs	LIM vs REG	GP bps Δ (TY vs	REG vs REG
Total Store	146.82	178.34	75.82	107.34	121.90	153.42	130.96	162.48	115.02	146.54
CS	140.50	-68.99	188.85	-20.64	-8.77	-218.26	181.34	-28.15	119.98	-89.52
JAL	-594.80	-285.14	-234.85	74.81	-379.99	-70.32	-343.30	-33.64	-376.64	-66.98
FW	-348.07	-0.25	-63.65	284.17	-240.13	107.69	181.46	529.28	-121.90	225.91
CW	653.36	913.03	299.33	559.00	458.68	718.35	201.41	461.07	369.57	629.24
MW	316.18	123.32	394.92	202.06	251.88	59.01	484.25	291.39	366.00	173.14
WA	344.86	-109.77	603.92	149.29	592.06	137.43	764.63	310.00	592.65	138.02
WI	-117.76	166.84	-213.35	71.26	-295.34	-10.73	-150.22	134.38	-199.99	84.62
A&A	157.63	98.33	239.05	179.74	164.73	105.42	299.17	239.86	219.00	159.70

Accomplishments / Misses

- ✓ New fixture designs (Power Tower, Event Hub)
- ✓ Customer-focused in-store marketing collateral
- ✓ From collection to commodity merchandising (e.g., Men's Wear)
- ✓ Early delivery of intended Fall launches (e.g., Men's Dress Wear)
- ✗ Women's Intimates not performing as well, however space was reduced

Note: Post store refresh (May 25, 2012 onwards)
report generated as of Oct 27, 2012
Source: Weekly Refreshed Store Analytics

Store Refresh Review: Performance to Date - H&H and MA Sales & GP

Expansion of major appliance and mattress displays driving sales and offsetting sales declines in downsized or exited categories...

	Belleville		Barrie		Newmarket		Limeridge		All Refresh	
	Sales % (TY vs	BEL vs REG	Sales % (TY vs	BAR vs REG	Sales % (TY vs	NMKT vs REG	Sales % (TY vs	LIM vs REG	Sales % (TY vs	REG vs REG
Total Store	-5.7%	4.0%	-2.1%	7.6%	-1.6%	8.1%	-5.8%	3.9%	-3.5%	6.2%
HDS	-16.0%	-9.7%	-2.0%	4.3%	-9.1%	-2.8%	-4.2%	2.1%	-7.2%	-0.9%
HF	19.1%	19.7%	10.2%	10.8%	20.1%	20.7%	12.3%	12.8%	14.3%	14.8%
CAWP	-27.0%	9.9%	-28.4%	8.4%	-31.6%	5.2%	-48.6%	-11.7%	-33.9%	2.9%
FR	-48.8%	-28.3%	-64.5%	-44.0%	-76.1%	-55.6%	-74.3%	-53.8%	-68.3%	-47.8%
ELE	-34.7%	-4.1%	-29.8%	0.8%	-39.6%	-9.0%	-41.6%	-11.0%	-37.3%	-6.6%
H&H	-21.3%	-5.8%	-12.1%	3.4%	-17.1%	-1.5%	-23.9%	-8.3%	-18.3%	-2.8%
MA	-24.1%	-21.9%	19.0%	21.2%	3.9%	6.1%	10.4%	12.6%	8.9%	11.1%

	Belleville		Barrie		Newmarket		Limeridge		All Refresh	
	GP bps Δ (TY vs	BEL vs REG	GP bps Δ (TY vs	BAR vs REG	GP bps Δ (TY vs	NMKT vs REG	GP bps Δ (TY vs	LIM vs REG	GP bps Δ (TY vs	REG vs REG
Total Store	146.82	178.34	75.82	107.34	121.90	153.42	130.96	162.48	115.02	146.54
HDS	-97.69	337.30	-121.12	313.88	-363.51	71.48	-388.36	46.64	-251.13	183.86
HF	-296.18	-390.84	-103.19	-197.86	490.01	395.35	51.54	-43.12	77.32	-17.34
CAWP	-526.61	85.98	-470.63	141.95	-657.81	-45.22	-379.56	233.03	-519.05	93.53
FR	-882.51	738.63	-414.68	1206.46	1000.92	2622.06	-519.21	1101.92	-247.09	1374.05
ELE	410.69	900.80	237.65	727.76	286.86	776.97	-333.33	156.78	89.67	579.78
H&H	-95.39	125.07	15.84	236.31	94.38	314.85	-14.59	205.87	15.87	236.33
MA	-98.19	-53.96	-207.00	-162.77	-54.46	-10.23	-98.51	-54.28	-121.60	-77.37

Accomplishments / Misses

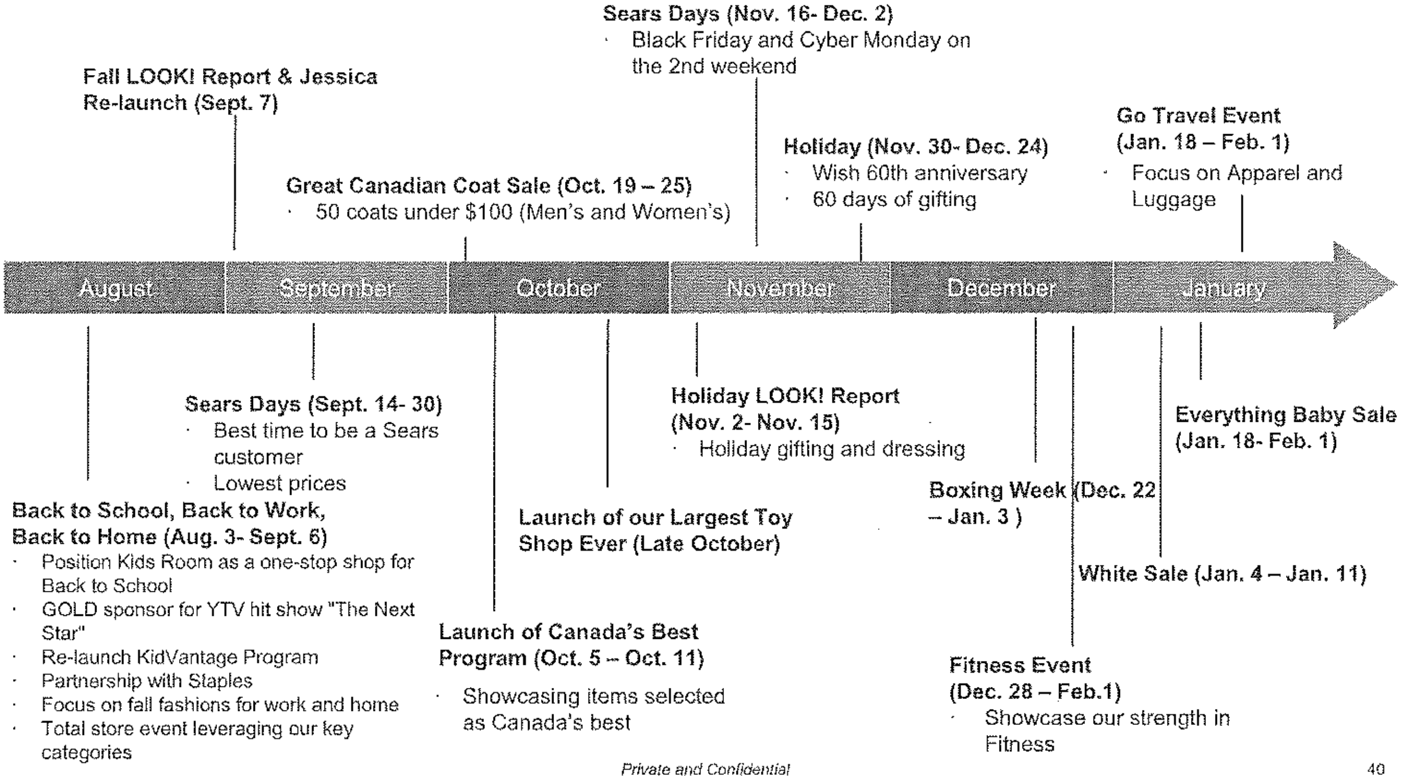
- ✓ Expansion to 40 beds in Bedding Aisle
- ✓ MA expansion and store adherence to merchandise priority list
- ✓ Fashion Bedding expansion
- ✓ Coffee and small apps prominence
- ✓ CAWP re-assort
- ✓ Vacuum prominence
- ✓ ELEC re-assort driving improved G/P in Belleville and Newmarket
- ✗ Fitness & Recreation sales

Note: Post store refresh (May 25, 2012 onwards)
report generated as of Oct 27, 2012
Source: Weekly Refreshed Store Analytics

Key Marketing Events Timeline

There are a number of key launches and big events in Q4 to drive sales

Key 2012 Marketing Events & Timeline



Fall LOOK! Report & Jessica Re-launch (Sept. 7)

Great Canadian Coat Sale (Oct. 19 – 25)
- 50 coats under $100 (Men's and Women's)

Sears Days (Nov. 16- Dec. 2)
- Black Friday and Cyber Monday on the 2nd weekend

Holiday (Nov. 30- Dec. 24)
- Wish 60th anniversary
- 60 days of gifting

Go Travel Event (Jan. 18 – Feb. 1)
- Focus on Apparel and Luggage

Back to School, Back to Work, Back to Home (Aug. 3- Sept. 6)
- Position Kids Room as a one-stop shop for Back to School
- GOLD sponsor for YTV hit show "The Next Star"
- Re-launch KidVantage Program
- Partnership with Staples
- Focus on fall fashions for work and home
- Total store event leveraging our key categories

Sears Days (Sept. 14- 30)
- Best time to be a Sears customer
- Lowest prices

Launch of Canada's Best Program (Oct. 5 – Oct. 11)
- Showcasing items selected as Canada's best

Launch of our Largest Toy Shop Ever (Late October)

Holiday LOOK! Report (Nov. 2- Nov. 15)
- Holiday gifting and dressing

Boxing Week (Dec. 22 – Jan. 3)

Fitness Event (Dec. 28 – Feb.1)
- Showcase our strength in Fitness

White Sale (Jan. 4 – Jan. 11)

Everything Baby Sale (Jan. 18- Feb. 1)

LOOK! Report – Performance

The LOOK! Report has generated strong consumer interest, resulting in an elevated perception of Sears' brand as 'modern' and 'fashionable'

"The Sears book [the LOOK! Report] makes it clear that Sears intends to tangle with Target on the fashion front. The Magazine is not your typical Sears flyer - it's glitzy and large-format, more Holt Renfrew or Fashion Week than suburban-wear circa last century"

- The Toronto Star, March 2012

"A chatty and colourful promotional publication"

- The Globe and Mail, March 2012

"Resembles a glossy J. Crew publication more than a traditional Sears catalogue."

- The Guardian, April 2012

"The magazine shows the season's top trends in everything from men's, women's and kid's wear to home apparel and décor."

- The Guardian, May 2012

LOOK! Report – Performance

The LOOK! Report has generated strong consumer interest, resulting in an elevated perception of Sears' brand as 'modern' and 'fashionable'

- Significantly improved customer perception of the Sears brand:
  - Fall LOOK! rated higher on dimensions of 'modern', 'fashionable', and 'for young shoppers' than Sears' corporate brand equity
  - About 30% identified Sears as the sponsor of LOOK!

- Demonstrated overall strong performance in 2012:
  - Readership continues to improve season over season as 67% have read some of the LOOK! Report (up 12% from Spring and 3% from Summer)
  - Awareness rates more than doubled from 9% in Summer to 20% in Fall

- Strong awareness of Fall LOOK! was driven by new distribution methods (outside of flyer)
  - Consumers who received the report via separate inclusion in flyer packages or newspapers demonstrated higher awareness of LOOK! than those who received the report via flyer insert

- Has the potential to drive positive consumer behaviour:
  - Consumers demonstrated increased motivation (+8%) and likelihood (+13%) to shop at Sears after reading LOOK!

- Appeals most favourably to Sears' target customer segment, female consumers between the ages of 35 and 54

Source: Survey data from Sears Consumer Insights

Distressed Inventory Update

During Q3 2011 a review of distressed inventory was undertaken, resulting in an action plan to address $69.0 MM of excess inventory through strategic liquidation requiring additional reserve of $38.4 MM

- As at Q3 2012 there was $12.7 MM remaining in inventory and $11.0 MM in reserves
- $13.5 MM of the distressed inventory was actioned during the quarter

	Q2 2012			**Q3 2012**			**$ Change vs. Q2**		
(in Cdn$ millions)	**Inventory**	**Incremental Reserve**	**Reserve Rate**	**Inventory**	**Incremental Reserve**	**Reserve Rate**	**Inventory**	**Incremental Reserve**	**Reserve Rate (bps)**
Seasonal Apparel	15.9	(3.1)	19.4%	5.5	0.0	0.0%	(10.4)	(3.1)	(1,936)
Replenishment	5.0	(3.1)	61.2%	2.8	(2.0)	70.9%	(2.2)	(1.1)	972
Facilities	2.0	(1.1)	56.6%	2.0	(1.3)	67.7%	(0.1)	0.2	1,108
Outlet	3.1	(2.0)	62.8%	2.3	(1.7)	72.6%	(0.8)	(0.3)	979
Total Actioned Inventory	26.1	(9.3)	35.6%	12.6	(5.0)	39.6%	(13.5)	(4.3)	404
Increase in Base Inventory Reserves									
Liquidation Agent Fees		(0.3)			(0.1)				
Incremental Logistics Expense		(1.3)			0.0				
Write-off capitalized Freight		(0.7)			(0.4)				
Total Incremental Reserves		(11.6)			(5.4)				
Base Reserves		(8.2)			(6.2)				
Total Reserves		(19.9)			(11.6)				

Disposal of inventory was executed as follows:

- $4.2 MM of Seasonal Apparel sold through the 4 closing stores at ~43.9% realization
- $3.2 MM of Seasonal Apparel was shipped to Outlet stores
- $3.0 MM of Seasonal Apparel earmarked for jobber was sold through at ~11.6% realization
- $1.5 MM of Replenishment sold through the 4 closing stores at ~52.8% realization
- $0.6 MM of Replenishment earmarked for jobber was sold through at ~16.7% realization
- $0.8 MM of Outlet inventory earmarked for In-store sell through was sold through
- Realization of the on-hand outlet distressed inventory is unchanged from Q1 estimated at 4.8%
- Realization on the other on-hand distressed inventory is not anticipated to be materially different than originally estimated as the 4 stores have closed.
- Remaining reserve relating to the on-hand distressed inventory is considered reasonable

4. Consent Agenda

SEARS CANADA INC
BOARD OF DIRECTORS' MEETING
NOVEMBER 12 & 13, 2012

CONSENT AGENDA

Each item listed below, will be adopted by a resolution of the Board without a formal presentation or a full discussion at the Board meeting. However, if you wish to have any of the items listed below presented at the Board meeting for a full discussion, please indicate that item below and return this completed document to the Secretary by fax at (416) 941-2100 or by email at franco.perugini@sears.ca .

You will also have the opportunity during the proceedings of the meeting, to move an item from the Consent Agenda to the Meeting Agenda for a full discussion.

(Please note that no action is required if you agree with Management's recommendation.)

Agenda Item	**Description**	**Recommendation**	**Full Discussion required (X)**
5	Approval of Minutes and RILs	**Resolution** approving the Minutes of the meetings of the Board of Directors of the Corporation held on April 16-17, 2012, May 29, 2012, July 20, 2012, August 29, 2012 and November 1, 2012 and acknowledgement of Resolutions in Lieu of meeting as follows: • May 17, 2012 approving the 2012 First Quarter MD&A • May 18, 2012 appointing Don Ross as a Director • May 31, 2012 approving recast of 2011 and Q1 2012 Financial Statements • August 16, 2012 approving the 2012 Second Quarter MD&A • October 11, 2012 regarding EVP terminations	
6	Approval of amended Charters	Review of the following Charters and **Resolution** approving the Amended and Restated Audit Committee Charter, Human Resources and Compensation Committee Charter, Investment Committee Charter and Nominating and Corporate Governance	

		Committee Charter. • Audit • Human Resources and Compensation • Investment • Nominating and Corporate Governance	
7	Approval of the date of the 2013 AGM and other Meeting dates	**Resolution** approving the date of the 2013 Annual Meeting of Shareholders and report on the Board and Committee Meeting dates for 2013.	
8	Approval of the appointment of Don Ross to certain committees	**Resolution** approving the possible appointment of Don Ross as a member to the Human Resources and Compensation Committee and to the Nominating and Corporate Governance Committee	

5. **Resolution** approving the Minutes of the meetings of the Board of Directors of the Corporation held on April 16-17, 2012, May 29, 2012, July 20, 2012, August 29, 2012 and November 1, 2012 and acknowledgment of Resolutions in Lieu of meeting

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ON MOTION, duly made and seconded, it was unanimously resolved:

THAT the Minutes of the meetings of the Board of Directors of the Corporation held on April 16-17, 2012, May 29, 2012, July 20, 2012, August 29, 2012 and November 1, 2012, be approved.

The Board acknowledged the signing of Resolutions in Lieu of meeting as follows:

- May 17, 2012 approving the 2012 First Quarter MD&A
- May 18, 2012 appointing Don Ross as a Director
- May 31, 2012 approving recast of 2011 and Q1 2012 Financial Statements
- August 16, 2012 approving the 2012 Second Quarter MD&A
- October 11, 2012 regarding EVP terminations

MINUTES of the meeting of the Board of Directors of **SEARS CANADA INC.** (the "Corporation") held in the Boardroom of the Corporation, 290 Yonge Street, Toronto, Ontario commenced on Monday, April 16, 2012 at 5:00 p.m., Eastern time and continued on Tuesday, April 17, 2012 at 7:00 a.m., Eastern time

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PRESENT

W. C. Crowley (Ch.)
E. J. Bird
D. C. Merriwether
W. R. Harker
R. R. Khanna
J. McBurney (via telephone)
C. McDonald
D. E. Rosati

MANAGEMENT

S. Driscoll
Senior Vice-President and Chief Financial Officer
K. Leshnjani
Senior Vice-President and General Counsel
F. Perugini
Associate General Counsel and Corporate Secretary

The Chairman of the Board, Mr. W. C. Crowley, acted as Chairman of the meeting and the Secretary of the Corporation, Mr. F. Perugini, acted as Secretary of the meeting.

CALL TO ORDER

1. The Chairman called the meeting to order and took a roll call.

TRANSFORMATION UPDATE

2. Mr. Calvin McDonald, President and Chief Financial Officer, provided an update on the Transformation underway at the Corporation. Mr. McDonald reviewed the 10 for '12 initiatives, the first quarter accomplishments and the plans for the second quarter. Mr. McDonald also reviewed the risks in the Transformation process and the lessons learned to date.

TRADING UPDATE

3. Mr. McDonald and Ms. Sharon Driscoll, Senior Vice-President and Chief Financial Officer, gave a presentation on the 2012 trading to date. The challenges for the first quarter were reviewed. Mr. McDonald reviewed what worked in the quarter, including the rebalancing of pricing, the managing of gross profit rate and the LOOK! Report, and reviewed what did not work, including weekend sales and the cancelling of spring sale catalogue. Mr. McDonald and Ms. Driscoll also provided a review of selected financial metrics for the second quarter.

MINUTES

4. **ON MOTION**, duly made and seconded, it was unanimously resolved:

THAT the minutes of the meeting held on Tuesday, March 15, 2012, be approved.

APPOINTMENT OF CHAIR

5. **ON MOTION**, duly made and seconded, Mr. William C. Crowley having abstained from voting, it was unanimously resolved:

THAT Mr. William C. Crowley be appointed as Chairman of the Board of Directors of the Corporation and to hold such office until his successor is duly appointed.

APPOINTMENT OF COMMITTEE MEMBERS AND LEAD DIRECTOR

6. **ON MOTION**, duly made and seconded, it was unanimously resolved:

(i) **THAT** the following individuals named below be appointed as members of the Committees of the Board of Directors of the Corporation to hold such office during the ensuing year or until their successors are duly appointed;

(ii) **THAT** the Chair of each Committee shall be the member so designated below;

(iii) **THAT** Mr. F. Perugini be appointed as Secretary of each Committee to hold such office during the ensuing year or until his successor is duly appointed; and

(iv) **THAT** Mr. E.J. Bird be appointed as Lead Director of the Board of Directors of the Corporation to hold such office during the ensuing year or until his successor is duly appointed.

HUMAN RESOURCES and COMPENSATION	**AUDIT**	**NOMINATING and CORPORATE GOVERNANCE**
W. C. Crowley **(Ch.)**	E. J. Bird **(Ch.)**	R. R. Khanna **(Ch.)**
W.R. Harker	R. R. Khanna	J. McBurney
D. C. Merriwether	J. McBurney	D. E. Rosati
D. E. Rosati	D. E. Rosati	
(F. Perugini - Secretary)	(F. Perugini - Secretary)	(F. Perugini - Secretary)

INVESTMENT

SEARS REGISTERED RETIREMENT FUND
SEARS CANADA INC. SUPPLEMENTARY RETIREMENT PLAN
SEARS CANADA INC. HEALTH AND WELFARE PLAN TRUST FUND

W. R. Harker **(Ch.)**
E. J. Bird
D. C. Merriwether
W. C. Crowley
S. Driscoll

(F. Perugini - Secretary)

Lead Director: E. J. Bird

APPAREL AND ACCESSORIES UPDATE

7. Mr. Steven Goldsmith, Executive Vice-President of Apparel & Accessories and Direct, provided an update on Apparel & Accessories, reviewing the key wins, misses and the opportunities for the quarter to date. Mr. Goldsmith indicated that the first quarter estimate calls for a merchandise margin shortfall of $13.2 million and outlined the process to get back on plan for 2012.

DIRECT UPDATE

8. Mr. Graeme Hartlen, Vice-President Direct, provided an update on Direct. Mr. Hartlen gave an overview of the financial results to date, including the challenges and actions in catalogue and on internet. Mr. Hartlen provided an update on the initiatives presented at the November Board meeting and outlined the timing of initiatives for 2012, including an outlook on April performance.

MAJOR APPLIANCES

9. Mr. Doug Campbell, Vice-President Major Appliances, provided an update on Major Appliances, indicating that the business is on track to achieve the 2012 plan of $946 million in sales and $280 million in merchandise margin. Mr. Campbell reviewed the key initiatives driving the improved results to date and the additional initiates critical to the continued performance this year.

NORMAL COURSE ISSUER BID DISCUSSION

10. Ms. Driscoll provided an update regarding the Normal Course Issuer Bid ("NCIB") which is set to expire May 25, 2012. Ms. Driscoll outlined the renewal process indicating that the Board will be asked to approve the NCIB renewal by resolution in lieu and the press release announcing the renewal will be included in the press release announcing the first quarter results.

DIRECTORS CODE OF CONDUCT

11. Mr. Raja Khanna, Chair of the Nominating and Corporate Governance Committee, presented for approval, a Directors Code of Conduct. The Board approved the Directors Code of Conduct and requested that it be posted on the Corporation's website.

OTHER BUSINESS

12. The following material was provided to the Board for reference only:

- Analyst Report
- SCI Top twenty Registered Shareholders list
- and CDS participant list
- Trading Volume

IN-CAMERA SESSION

13. The representatives of Management, including management Directors, left the meeting so that the Board could meet privately. Following the Committee's *in-camera* session, all the non-independent directors were excused so that the independent directors could then meet privately.

There were no items discussed during the *in-camera* session that were not raised during the meeting.

There being no further business, the meeting was then terminated.

Chairman of the Meeting

Secretary of the Meeting

Date

M I N U T E S of a telephone meeting of the Board of Directors of **SEARS CANADA INC.** (the "Corporation") held on Thursday, May 29, 2012 at 9:00a.m., Eastern time

---

PRESENT

W. C. Crowley (Ch.)
E. J. Bird
W. R. Harker
R. R. Khanna
J. McBurney
C. McDonald
D. E. Rosati *(in person)*
D. Ross

MANAGEMENT

S. Driscoll
Senior Vice-President and Chief Financial Officer
K. Leshnjani
Senior Vice-President and General Counsel
F. Perugini
Associate General Counsel and Corporate Secretary

GUEST
S. Romano *(Stikemans)*

The Chairman of the Board, Mr. W. C. Crowley, acted as Chairman of the meeting and the Secretary of the Corporation, Mr. F. Perugini, acted as Secretary of the meeting.

ROLL CALL

1. The Chairman called the meeting to order and took a roll call.

REVIEW AND APPROVAL OF SEARS CANADA'S FORM 20-F

2. Sears Holdings Corporation ("Sears Holdings"), a shareholder holding approximately 95% of the Corporation's common shares, advised Sears Canada Inc. (the "Corporation") that its board of directors has approved plans to pursue a distribution (on a pro rata basis to its stockholders) of a portion of its holdings in the Corporation such that, immediately following the spin-off, Sears Holdings would retain approximately 51% of the issued and outstanding shares of the Corporation (the "Distribution").

In order to effect the proposed Distribution, the Corporation is required under applicable securities laws to file a registration statement on Form 20-F (the "Registration Statement") with the United States Securities and Exchange Commission ("SEC").

The Board of Directors of the Corporation determined that the proposed Distribution would, if completed, be anticipated to increase the public float and potentially the liquidity of the Corporation's shares.

ON MOTION, duly made and seconded it was unanimously resolved:

THAT the Registration Statement relating to the proposed Distribution, a draft of which has been submitted to the board of directors of the Corporation, is hereby authorized and approved subject to such additions, deletions and changes therein as may be consented to by any two independent directors of the Corporation, such consent to be conclusively evidenced by the signing of such Registration Statement as contemplated further below.

THAT the inclusion of any historical financial statements of the Corporation in the Registration Statement, all as required to be included under applicable securities laws, is hereby authorized and approved.

THAT upon the consent of any two independent directors of the Corporation, the President and Chief Executive Officer, the Senior Vice-President and Chief Financial Officer or the Senior Vice-President and General Counsel of the Corporation be and any of them is hereby authorized and directed, for and on behalf of the Corporation, to sign the certificate contained in the Registration Statement.

THAT following the signing of the Registration Statement, any of the President and Chief Executive Officer, the Senior Vice-President and Chief Financial Officer or the Senior Vice-President and General Counsel of the Corporation, be and he/she is hereby authorized and directed, for and on behalf of the Corporation, to file or cause to be filed the Registration Statement with the SEC.

THAT the dissemination of any press releases in connection with the proposed Distribution as may be approved by any two independent directors of the Corporation is hereby authorized and approved.

THAT any of the President and Chief Executive Officer, the Senior Vice-President and Chief Financial Officer or the Senior Vice-President and General Counsel of the Corporation be and he or she is hereby authorized and directed, for and on behalf of the Corporation, to do and perform all such other acts and things and to sign, execute, deliver and file all such other documents, disclosures, agreements and instruments as he or she may, in his or her sole discretion, consider necessary, advisable or useful to give full force and effect to the foregoing resolutions.

THAT all actions heretofore taken by any officer or director of Corporation in connection with the proposed Distribution and any matter referred to in any of the foregoing resolutions are hereby approved, ratified and confirmed in all respects.

THAT Management be authorized to make any non-material amendments to the Registration Statement as may be required.

***IN CAMERA* SESSION**

3. All representatives of Management, including the President and Chief Executive Officer, left the meeting so that the Directors could meet privately. Following the Committee's *in-camera* session, all the non-independent directors were excused so that the independent directors could then meet privately.

There were no items discussed during the *in-camera* session that were not raised during the meeting.

There being no further business, the meeting was then terminated.

Chairman of the Meeting

Secretary of the Meeting

Date

MINUTES of a telephone special telephone meeting of the Board of Directors (the "Board") of **SEARS CANADA INC.** (the "Corporation") held on Friday, July 20, 2012 at 10:00a.m., Eastern time

---

PRESENT

W. C. Crowley (Ch.)
E. J. Bird
D. Ross
W. R. Harker
R. R. Khanna
J. McBurney
C. McDonald
D. E. Rosati

MANAGEMENT (in person)

S. Driscoll
Senior Vice-President and Chief Financial Officer
K. Leshnjani
Senior Vice-President and General Counsel
F. Perugini
Associate General Counsel and Corporate Secretary

The Chairman of the Board, Mr. W. C. Crowley, acted as Chairman of the meeting and the Secretary of the Corporation, Mr. F. Perugini, acted as Secretary of the meeting.

ROLL CALL

1. The Chairman called the meeting to order and took a roll call. The Chairman explained that the purpose of this meeting was to receive updates and additional information on matters discussed at the store tour and strategic session held July 9 and 10, 2012.

STORE REFRESH

2. Sharon Driscoll, Senior Vice-President and Chief Financial Officer, provided the Board with an updated presentation on the full-line store refresh. Ms. Driscoll highlighted the projected return on capital and provided details of cash flows and capital expenditures.

The Board discussed the performance of the refresh stores and the performance of the Corporation. Following discussion the Board agreed to proceed with the commencement of the refresh, ordering fixtures and expending the least amount of capital as possible to start the refresh process. The Board will meet prior to September 1, 2012 to assess the performance of the current refresh stores and to decide on the completion of the refresh of the five additional stores.

JOINT VENTURE

3. Calvin McDonald, President and Chief Executive Officer, provided the Board with an update on the negotiations with Simons on the potential joint venture, explaining that negotiations have cooled. The Board urged Management to continue with the negotiations and to provide the Board with further updates as required. Any conclusive arrangement will be brought before the Board for approval.

SPIN-OUT OF SEARS CANADA SHARES AND INVESTOR RELATIONS

4. The Board discussed the partial spin-out of the Corporation's shares by Sears Holdings Corporation and related investor relations issues. At the Board's request, Management will provide an overview of the spin out process, providing the potential effective date and required next steps, together with an overview of the of the regulatory reporting requirements for the Corporation for the second quarter.

The Board discussed the Corporation's existing investor relations program and whether it should be expanded with the partial spin out of the Corporation's shares. The Board agreed to further discuss this topic at a future meeting of the Board.

IN CAMERA **SESSION**

5. All representatives of Management, including the President and Chief Executive Officer, left the meeting so that the Directors could meet privately. Following the Committee's *in-camera* session, all the non-independent directors were excused so that the independent directors could then meet privately.

There were no items discussed during the *in-camera* session that were not raised during the meeting.

There being no further business, the meeting was then terminated.

Chairman of the Meeting

Secretary of the Meeting

Date

MINUTES of a special telephone meeting of the Board of Directors (the "Board") of **SEARS CANADA INC.** (the "Corporation") held on Wednesday August, 29 at 1:00p.m., Eastern time

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PRESENT

W. C. Crowley (Ch.)
E. J. Bird
D. Ross
W. R. Harker
R. R. Khanna
J. McBurney
C. McDonald (in person)
D. E. Rosati

MANAGEMENT (in person)

S. Driscoll
Senior Vice-President and Chief Financial Officer
K. Leshnjani
Senior Vice-President and General Counsel
F. Perugini (by phone)
Associate General Counsel and Corporate Secretary

The Chairman of the Board, Mr. W. C. Crowley, acted as Chairman of the meeting and the Secretary of the Corporation, Mr. F. Perugini, acted as Secretary of the meeting.

ROLL CALL

1. The Chairman called the meeting to order and took a roll call.

STORE REFRESH

2. Sharon Driscoll, Senior Vice-President and Chief Financial Officer, provided the Board with a presentation on the full-line store refresh. Ms. Driscoll provided an update on the performance of the refresh stores and the selection process for the next refresh stores. Ms. Driscoll reviewed the request to spend $12.5 million in capital to refresh the five additional stores, explaining that $5.5 million is incremental to the 2012 capital plan, which would take the capital plan from $85.0 million to $90.5 million.

The Board discussed the performance of the refresh stores and the capital required, and was in favour of proceeding as presented.

INVESTOR RELATIONS

3. Raja Khanna, led the Board in a discussion of the Corporation's existing investor relations program, as a follow up to the discussion at the Board meeting of July 20, 2012. The Board agreed that Calvin McDonald, President and Chief Executive Officer, be permitted to talk to the press and analysts and that Vince Power continue to field calls from the media, however the status quo is to be maintained with respect to investor relations until after the partial spin-out of the Corporation's shares by Sears Holdings Corporation is completed.

CHAIR AND DIRECTOR COMPENSATION

4. Messrs, Crowley and Harker excused themselves from the meeting and the Board then discussed Chair and Director compensation. Following the discussion, the Board passed the following resolution.

WHEREAS the Corporation has a policy that directors who are employees of the Corporation or its affiliates do not receive compensation as directors, which policy is disclosed in the Corporation's annual Management Proxy Circular;

WHEREAS further to discussions between members of Management and members of the Corporation's Corporate Governance Committee, Management and the Corporate Governance Committee recommends that the Board amend the policy to permit the payment of compensation to directors who are employees of affiliates in recognition of the significant time commitment required of directors of the Corporation and that employees of affiliates are not compensated by the affiliates for serving as directors of the Corporation;

WHEREAS Messrs, Crowley and Harker disclosed their interests in the subject matter of this resolution, and having abstained from voting;

ON MOTION, duly made and seconded,

IT WAS RESOLVED:

(a) **THAT** the Corporation's director compensation policy be amended to provide that, effective February 1, 2012, only directors of the Corporation who are also employees of the Corporation will not receive compensation as directors;

(b) **THAT** effective February 1, 2012, the Corporation commence compensating William C. Crowley the amount of $250,000 per annum in his capacity as the Chairman and that Mr. Crowley shall be entitled to receive all other compensation as a director of the Corporation on the same terms as provided to other directors of the Corporation;

(c) **THAT** effective February 1, 2012, the Corporation commence compensating William R. Harker in his capacity as a director of the Corporation on the same terms as provided to other directors of the Corporation; and

(d) **THAT** effective February 1, 2012, the Corporation commence compensating Deidra C. Merriwether in her capacity as a director of the Corporation on the same terms as provided to other directors of the Corporation (on a pro-rated basis up until the date of her resignation which was effective May 21, 2012).

There being no further business, the meeting was then terminated.

Chairman of the Meeting

Secretary of the Meeting

Date

RESOLUTION

OF THE BOARD OF DIRECTORS (the "Board")

OF SEARS CANADA INC. (the "Corporation")

MEETING OF NOVEMBER 1, 2012

WHEREAS the Corporation is party to a credit agreement dated as of September 10, 2010 (the "**Credit Agreement**"), among, *inter alia*, the Corporation, as borrower, Wells Fargo Capital Finance Corporation Canada, as administrative agent (the "**Administrative Agent**"), Wells Fargo Capital Finance Corporation Canada and GE Canada Finance Holding Company, as co-collateral agents (the "**Co-Collateral Agents**") and the lenders named therein, as lenders (the "**Lenders**"), providing for a senior secured credit facility of up to an aggregate amount of Cdn.$800,000,000;

WHEREAS the Co-Collateral Agents have advised the Corporation that, in light of the decision of the Ontario Courts in the Indalex matter, the Lenders intend to impose an Availability Reserve in respect of the borrowing base under the Credit Agreement;

WHEREAS in order to mitigate the impact of the proposed Availability Reserve, Management recommends that the Corporation enter into: (i) a first amending agreement to the Credit Agreement (the "**Amending Agreement**"), among, *inter alia*, the Corporation, the Administrative Agent, the Co-Collateral Agents and the Lenders, a description of which was provided by Management, and (ii) mortgages on select real estate properties owned by the Corporation, with an aggregate appraised value not to exceed Cdn.$300,000,000 (the "**Mortgages**");

WHEREAS the Board has determined that the Amending Agreement and the Mortgages, and the transactions contemplated thereby are advisable, fair to and in the best interests of the Corporation; and

WHEREAS capitalized terms used herein but not otherwise defined shall have the meaning ascribed thereto in the Credit Agreement, as amended by the Amending Agreement.

RESOLVED THAT:

1. the Corporation is authorized to enter into, execute, deliver and perform its obligations under the Amending Agreement, the Mortgages and any other document contemplated thereby or to be delivered in connection therewith (collectively, the "**Transaction Documents**");

2. the Corporation is authorized to mortgage, charge, hypothec, assign, transfer, pledge, convey and grant a security interest in favour of the Co-Collateral Agents in the Corporation's real property as provided for in the Mortgages and the proceeds thereof, in each case to secure the payment and performance of (i) the Corporation's obligations incurred in connection with the Loan Documents and (ii) such other of the Corporation's obligations as are contemplated to be secured under the terms of the Mortgages and any other document contemplated thereby or to be delivered in connection therewith;

3. any one officer or director of the Corporation (each, an "**Authorized Representative**" and collectively, the "**Authorized Representatives**"), be and are hereby authorized to sign, execute and deliver on behalf of the Corporation the Transaction Documents, together with such changes and to do all such other acts and things as such Authorized Representative may consider necessary or appropriate;

4. in addition to the specific authorizations heretofore conferred upon the Authorized Representatives, each of the Authorized Representatives be, and they hereby are, acting singly, authorized and directed to take or cause to be taken all such further actions to execute and deliver or cause to be executed and delivered all such further certificates, agreements, deeds, instruments, notes and documents (including any and all mortgages required or determined to be advisable to be filed in the appropriate jurisdiction in order to record the security interest granted to the Co-Collateral Agents pursuant to Mortgages) in the name and on behalf of the Corporation and to incur all such fees and expenses as in their judgment shall

be necessary or advisable in order to carry out fully the intent and purposes of the foregoing resolutions; and

5. all actions heretofore taken by any of the officers, representatives or agents of the Corporation, by or on behalf of the Corporation or any of its affiliates in connection with the subject matter of the foregoing resolutions and in furtherance of the transactions contemplated thereby be, and each of the same hereby is, ratified and approved.

The foregoing Resolution was passed at the meeting of the Board of Directors of the Corporation on November 1, 2012.

W. C. Crowley

J. McBurney

E. J. Bird

C. McDonald

W. R. Harker

D. Ross

R. R. Khanna

D. E. Rosati

RESOLUTION IN LIEU OF MEETING
OF THE BOARD OF DIRECTORS (the "Board")
OF SEARS CANADA INC. (the "Corporation")

WHEREAS the draft interim Management's Discussion and Analysis (the "First Quarter MD&A") and the unaudited comparative interim consolidated financial statements of the Corporation (the "First Quarter Financial Statements and Notes") for the 13 week period ended April 28, 2012, have been prepared by Management and reviewed by the Corporation's external advisors;

WHEREAS the Audit Committee has reviewed the First Quarter MD&A and the First Quarter Financial Statements and Notes, and has recommended that the Board approve same;

WHEREAS the First Quarter MD&A and the First Quarter Financial Statements and Notes will be filed with the securities regulatory authorities on or before May 31st, 2012 and mailed to Shareholders shortly thereafter.

BE IT RESOLVED:

(a) **THAT** the First Quarter MD&A and the First Quarter Financial Statements and Notes, in the form presented to the Board, be approved, subject to such amendments as the Chief Financial Officer and/or Secretary may consider necessary or desirable;

(b) **THAT** the First Quarter MD&A and the First Quarter Financial Statements and Notes be filed with the securities regulatory authorities and mailed to Shareholders in accordance with applicable securities laws; and

(c) **THAT** this Resolution may be executed in one or more counterparts and may be delivered by facsimile or other electronic means and, when so executed and delivered, shall constitute one resolution.

The foregoing Resolution is hereby signed by the Board of Directors of the Corporation as of the 17th day of May, 2012.

E. J. Bird	R. R. Khanna
D. C. Merriwether	J. McBurney
W. C. Crowley	D. E. Rosati
W. R. Harker	C. McDonald

RESOLUTION IN LIEU OF MEETING
OF THE BOARD OF DIRECTORS (the "Board")
OF SEARS CANADA INC. (the "Corporation")

WHERAS the Board, having discussed the addition of a new Director, had the opportunity to meet with Don Ross as a potential Director of the Corporation;

WHEREAS members of the Nominating and Corporate Governance Committee ("NCGC") have met with Mr. Ross, and the NCGC, having reviewed the credentials of Mr. Ross, recommends that Mr. Ross be appointed as a Director of the Corporation.

<u>BE IT RESOLVED</u>:

THAT Mr. Don Ross be appointed as a Director of the Corporation effective May 18, 2012; and

THAT Mr. Ross hold such office until the earliest of the next following Annual Meeting of Shareholders of the Corporation or the election or appointment of Mr. Ross' successor.

The foregoing Resolution is hereby signed by the Board of Directors of the Corporation as of the 18th day of May, 2012.

E. J. Bird	R. R. Khanna
D. C. Merriwether	J. McBurney
W. C. Crowley	D. E. Rosati
W. R. Harker	C. McDonald

RESOLUTION IN LIEU OF MEETING
OF THE BOARD OF DIRECTORS (the "Board")
OF SEARS CANADA INC. (the "Corporation")

2012 Q1 MD&A

WHEREAS the recast interim Management's Discussion and Analysis (the "Recast First Quarter MD&A") and the recast unaudited comparative interim consolidated financial statements of the Corporation (the "Recast First Quarter Financial Statements and Notes") for the 13 week period ended April 28, 2012, have been prepared by Management and reviewed by the Corporation's external advisors;

WHEREAS the Audit Committee has reviewed the Recast First Quarter MD&A and the Recast First Quarter Financial Statements and Notes, and has recommended that the Board approve same;

WHEREAS the Recast First Quarter MD&A and the Recast First Quarter Financial Statements and Notes will be filed with the securities regulatory authorities on or before May 31st, 2012.

BE IT RESOLVED:

(a) **THAT** the Recast First Quarter MD&A and the Recast First Quarter Financial Statements and Notes, in the form presented to the Board, be approved, subject to such amendments as the Chief Financial Officer and/or Secretary may consider necessary or desirable; and

(b) **THAT** the Recast First Quarter MD&A and the Recast First Quarter Financial Statements and Notes be filed with the securities regulatory authorities and mailed to Shareholders, if required, in accordance with applicable securities laws.

2011 ANNUAL MD&A

WHEREAS the recast 2011 Annual Management's Discussion and Analysis (the "Recast 2011 Annual MD&A") and the recast audited consolidated financial statements and the notes thereto of the Corporation (the "Recast 2011 Annual Financial Statements and Notes") for the financial year ended January 28, 2012, have been prepared by Management and reviewed by the Corporation's external advisors;

BE IT RESOLVED:

(a) **THAT** the Recast 2011 Annual MD&A and the Recast 2011 Annual Financial Statements for the financial year ended January 28, 2012, be approved;

(b) **THAT** any two officers of the Corporation be authorized and directed to do all things necessary or desirable to finalize the Recast 2011 Annual MD&A and Recast 2011 Annual Financial Statements;

(c) **THAT** W. C. Crowley and E. J. Bird be authorized to sign the said audited Consolidated Financial Statements to evidence the approval of the Board;

(d) **THAT** subject to paragraph (e), the Secretary of the Corporation be authorized and directed to file or cause to be filed the Recast 2011 Annual MD&A and the Recast 2011 Annual Financial Statements with the securities regulatory authorities in Canada, in the English and French languages, and to do all such other acts and things as may be necessary or desirable to give full effect to this resolution; and

(e) **THAT** the filing of the Recast 2011 Annual MD&A and the Recast 2011 Annual Financial Statements in the French language be subject to the receipt of a certificate from Deloitte & Touche LLP that the French language versions of the Recast 2011 Annual MD&A and the Recast 2011 Annual Financial Statements are in all material respects true and accurate translations of the English language versions thereof.

This Resolution may be executed in one or more counterparts and may be delivered by facsimile or other electronic means and, when so executed and delivered, shall constitute one resolution.

This Resolution is hereby signed by the Board of Directors of the Corporation as of the 31st day of May, 2012.

E. J. Bird	R. R. Khanna
D. Ross	J. McBurney
W. C. Crowley	D. E. Rosati
W. R. Harker	C. McDonald

RESOLUTION IN LIEU OF MEETING
OF THE BOARD OF DIRECTORS (the "Board")
OF SEARS CANADA INC. (the "Corporation")

WHEREAS the draft interim Management's Discussion and Analysis (the "Second Quarter MD&A") and the unaudited comparative interim consolidated financial statements of the Corporation (the "Second Quarter Financial Statements and Notes") for the 13 and 26 week periods ended July 28, 2012, have been prepared by Management and reviewed by the Corporation's external advisors;

WHEREAS the Audit Committee has reviewed the Second Quarter MD&A and the Second Quarter Financial Statements and Notes, and has recommended that the Board approve same;

WHEREAS the Second Quarter MD&A and the Second Quarter Financial Statements and Notes will be filed with the securities regulatory authorities in Canada and the United States on or before August 31, 2012 and mailed to Shareholders shortly thereafter.

BE IT RESOLVED:

(a) **THAT** the Second Quarter MD&A and the Second Quarter Financial Statements and Notes, in the form presented to the Board, be approved, subject to such amendments as the Chief Financial Officer and/or Secretary may consider necessary or desirable, such approval to be conclusively evidenced by the filing of the Second Quarter MD&A and Second Quarter Financial Statements and Notes;

(b) **THAT** the Second Quarter MD&A and the Second Quarter Financial Statements and Notes be filed with the securities regulatory authorities in Canada and the United States and mailed to Shareholders in accordance with applicable securities laws; and

(c) **THAT** this Resolution may be executed in one or more counterparts and may be delivered by facsimile or other electronic means and, when so executed and delivered, shall constitute one resolution.

The foregoing Resolution is hereby signed by the Board of Directors of the Corporation as of the ______ day of August, 2012.

______________________ E. J. Bird	______________________ R. R. Khanna
______________________ D. Ross	______________________ J. McBurney
______________________ W. C. Crowley	______________________ D. E. Rosati
______________________ W. R. Harker	______________________ C. McDonald

RESOLUTION IN LIEU OF MEETING
OF THE BOARD OF DIRECTORS (the "Board")
OF SEARS CANADA INC. (the "Corporation")

WHEREAS Management, after due consideration, has terminated the employment of Thomas Fitzgerald, Executive Vice-President and Chief Administrative Officer, effective October 10, 2012 and the employment of Mr. Steven Goldsmith as Executive Vice-President, Apparel and Accessories, effective October 11, 2012; and

WHEREAS the Board is prepared to acknowledge Management's decision to terminate the employment of Thomas Fitzgerald and Steven Goldsmith, and to remove both of them as Officers of the Corporation.

BE IT RESOLVED:

THAT the decision of Management to terminate the employment of Thomas Fitzgerald, Executive Vice-President and Chief Administrative Officer, effective October 10, 2012 and the employment of Mr. Steven Goldsmith as Executive Vice-President, Apparel and Accessories, effective October 11, 2012, is hereby acknowledged and that Thomas Fitzgerald and Steven Goldsmith both be removed as Officers of the Corporation, effective October 10, 2012 and October 11, 2012 respectively;

THAT this Resolution may be executed in one or more counterparts and may be delivered by facsimile or other electronic means and, when so executed and delivered, shall constitute one resolution.

The foregoing Resolution is hereby signed by all the Directors of the Corporation as of the   day of October, 2012.

____________________ E. J. Bird	____________________ W. C. Crowley
____________________ W. R. Harker	____________________ R. R. Khanna
____________________ J. McBurney	____________________ C. R. McDonald
____________________ D. E. Rosati	____________________ D. Ross

6. Review of the following Charters and **Resolution** approving the Amended and Restated Audit Committee Charter, Human Resources and Compensation Committee Charter, Investment Charter and Nominating and Corporate Governance Committee Charter:

- Audit
- Human Resources and Compensation
- Investment
- Nominating and Corporate Governance

ON MOTION, duly made and seconded, it was unanimously resolved:

THAT the draft Amended and Restated Charters of the Audit Committee, the Human Resources and Compensation Committee, the Investment Committee and the Nominating and Corporate Governance Committee, be approved by the Board of Directors of the Corporation, in the form as presented, subject to the changes recommended by the Board; and

THAT the Secretary be authorized to make such other changes to the respective draft Amended and Restated Charters as they may consider appropriate, provided that all material changes shall be brought to the attention of the Board.

AUDIT COMMITTEE
OF THE
BOARD OF DIRECTORS
OF
SEARS CANADA INC.

CHARTER

(amended and restated as of November 12, 2012)

Deleted: *4*

Deleted: *1*

1. DEFINITIONS

In this Charter the following terms have the meaning set out below:

"Affiliate" means the relationship of bodies corporate where one body corporate is the subsidiary of the other or each of them is a subsidiary of the same body corporate or is controlled by the same person;

"Board" means the Board of Directors of the Corporation;

"***Chair"*** means the chair of the Committee;

"Chief Executive Officer" or ***"CEO"*** means the Chief Executive Officer and/or the President of the Corporation or the individual holding the highest executive function of the Corporation appointed by the Board;

"CFO" means the Chief Financial Officer of the Corporation appointed by the Board;

"Committee" means the Audit Committee established by the Board;

"Corporation" means Sears Canada Inc.;

"Director" means an individual elected to the Board by shareholders of the Corporation, or appointed to and by the Board;

"External Audit Services Policy" means the policy, attached hereto and forming part of the Charter of the Committee, regarding the services provided by the External Auditor;

"External Auditor" means the external auditor appointed by the shareholders of the Corporation;

"Financially Literate" means the requirements of financial literacy as defined in Multilateral Instrument 52-110 *Audit* Committees, as amended, and includes, without limitation, the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues comparable to those that can reasonably be expected to be raised by the Corporation's financial statements;

Deleted: means

"Independent Director" means a Director who meets the requirements of independence as defined in Multilateral Instrument 52-110 *Audit* Committees, as amended, and includes, without limitation, a Director who has no direct or indirect material relationship with the Corporation or any of its Affiliates, that is, a relationship which could, in the view of the Board, reasonably interfere with the exercise of the Director's independent judgement;

"Member" means an Independent Director appointed to the Committee by the Board; and

"ROC" means the Risk Oversight Committee of the Corporation, whose purpose is to identify, assess and monitor the principal risks of the Corporation and ensure that management has a structured process in place for managing, mitigating and controlling those risks.

2. PURPOSE

The purpose of the Committee is to assist the Board in its oversight of:

(a) the integrity of the Corporation's financial reporting;

(b) the independence, qualifications, appointment and performance of the External Auditor;

(c) the mandate and performance of the Corporation's internal audit department; and

(d) management responsibility for reporting on internal controls.

3. STRUCTURE

(a) The Committee shall be composed of three or more Members.

(b) Members shall hold office from the time of their appointment until the earlier of their removal or resignation from the Committee and the conclusion of the next annual general meeting of shareholders of the Corporation.

(c) One of the Members shall be appointed by the Board as the Chair.

(d) Unless otherwise determined by resolution of the Board, the Secretary of the Board shall be the Secretary of the Committee. The Secretary of the Committee shall maintain the records of the Committee.

(e) Every Member shall be Financially Literate.

(f) No Member may accept directly or indirectly any fees from the Corporation or any of its affiliates other than remuneration for acting as a Member, Director or a member of any other committee of the Board. For greater certainty, no Member or the organization of which he or she is an employee, owner or partner shall accept any consulting, advisory or other compensatory fee from the Corporation.[1]

(g) The Committee shall establish its own procedures, including the timing and place of meetings, as it considers necessary or advisable.

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[1] For greater certainty, the indirect acceptance by a Member of any fee includes acceptance of a fee by an immediate family member or a partner, member or executive officer, or a person who occupies a similar position with an entity that provides accounting, consulting, legal, investment banking or financial advisory services to the Corporation or any of its Affiliates.

4. ROLE OF THE CHAIR

The main responsibilities of the Chair are as follows:

(a) Call and chair all meetings of the Committee. If the Chair is unavailable or unable to attend a meeting of the Committee, then the Chair shall request another Member to chair the meeting, failing which, the acting Chair shall be designated by the Members present at the meeting to chair the meeting;

(b) Develop the agenda for meetings of the Committee with or without consulting management;

(c) Hold the right to cast a vote to resolve any ties on matters that require Committee approval;

(d) Act as the primary contact between the Committee and the External Auditor and management;

(e) If required, pre-approve the services of the External Auditor services in accordance with the External Audit Services Policy;

(f) Report to the Board on all meetings and activities of the Committee; and

(g) Assume other responsibilities as this Charter, the Committee or the Board may specify from time to time.

5. RESPONSIBILITIES

The Committee shall have the following duties and responsibilities:

A. *Financial Reporting*

(1) Review with management and the External Auditor, and approve and/or recommend for approval by, and report to, the Board, as the case may be, with respect to:

(i) the annual and quarterly financial statements and the annual and interim CEO and CFO certificates and press releases related thereto, as well as accounting policies, accounting judgements, accruals, estimates, material related party transactions (and in addition, will now pre-approve all related party transactions having a value greater than $1 million) and other relevant matters;

(ii) the annual and interim Management's Discussion & Analysis;

(iii) the Annual Information Form;

(iv) all financial information which is to be included in any public disclosure documents, including the Annual Report, prospectuses, and offering memoranda;

(v) the annual certificate provided by the CEO, the CFO and the Secretary of the Board confirming, among other things, compliance with the Code of Business Conduct and the personal benefits policy and that the Corporation is current with respect to all withholdings and remittances; and

(vi) the status of any material pending litigation.

B. ***External Auditor***

(1) Appointment and Review of External Auditor

(i) Recommend to the Board the appointment of the External Auditor by the shareholders of the Corporation.

(ii) Communicate directly with the External Auditor and meet privately with the External Auditor as frequently as the Committee determines is appropriate to fulfil its responsibilities.

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(iii) Obtain annually from the External Auditor a letter of engagement, audit scope presentation and confidentiality letter addressed to the Committee.

(iv) Obtain annually from the External Auditor confirmation that it is in good standing with the Canadian Public Accountability Board.

(v) Pre-approve all services to be provided to the Corporation or its Affiliates by the External Auditor, the estimated cost thereof and any change in scope pertaining to an approved service. This responsibility may be exercised by the Chair and, in his or her absence, by any Member, in circumstances where urgent approval is necessary, provided, however, that all such approvals granted outside the regularly scheduled meetings of the Committee shall be ratified by the Committee as soon as practicable.

(vi) Oversee the services rendered by the External Auditor.

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(vii) Oversee and assist in the reconciliation of differing opinions and practices between management and the External Auditor regarding financial and other public disclosure reporting.

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(viii) Assess compliance by the External Auditor and management with the External Audit Services Policy.

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(ix) Recommend to the Board for its approval the fees and disbursements for services rendered by the External Auditor.

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(x) Review and approve the Corporation's hiring policies regarding partners, employees and former partners and employees of the External Auditor and any former external auditor of the Corporation.

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(2) Independence of External Auditor

(i) Obtain annually from the External Auditor a formal written independence affirmation disclosing all relationships between the External Auditor and its related entities and the Corporation and its Affiliates and engage in a dialogue with the External Auditor if any disclosed relationship or service may impact its objectivity and independence.

(ii) Confirm that the External Auditor has complied with the rules on rotation of certain members of the audit engagement team.

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C. *Internal Audit*

The head of the internal audit department shall report directly to the Committee and the Committee shall:

(1) Review with the head of the internal audit department, the External Auditor and management, the mandate and adequacy of resources of the internal audit department, as well as the internal audit department's unfettered access to the Committee and the records of the Corporation that are relevant to the matters being audited;

(2) Discuss with the head of the internal audit department whether there are any restrictions or limitations in the discharge of his/her responsibilities and, if required, mediate and resolve any outstanding dispute between the internal audit department and management;

(3) Review, at least quarterly, progress reports of the internal audit department with respect to its activities;

(4) Review with the External Auditor and management the performance of the internal audit department; and

(5) Approve any change in the appointment of the head of the internal audit department and any change in the reporting structure of the head of the internal audit department with respect to where the position reports.

D. *Accounting Systems and Internal Controls*

Following consultation with the External Auditor and management, determine and report to the Board on the adequacy of the existing internal control framework and ensure that adequate procedures are in place for the review of the Corporation's public disclosure of financial information and periodically assess the adequacy of those procedures.

E. *Other*

(1) Review compliance with required tax remittances and other deductions required by applicable law.

(2) Establish procedures for the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal

accounting controls, or auditing matters, and the confidential and anonymous submission of concerns by employees regarding questionable accounting or auditing matters. In connection with this responsibility, management will report regularly to the Committee regarding the operation of the Corporation's Ethics Hotline.

(3) Oversee the functioning of the Corporation's ROC and its processes. Notwithstanding the foregoing, the responsibility of establishing and assessing the principal risks of the Corporation and their parameters remains with the Board. A senior manager of the Corporation is responsible for the ROC and provides a presentation, periodically, to the Committee.

(4) Monitor, and make recommendations to the Board in connection with, emerging trends and regulatory initiatives regarding the Committee's role and responsibilities.

6. **MEETINGS**

(a) The Committee shall meet at least three times per year and may meet more often if required.

(b) The Chair of the Board, the CEO, the CFO and the Chief Financial Officer of Sears Holdings Corporation shall be entitled to attend all meetings of the Committee unless they are requested by the Committee not to do so.

(c) The quorum necessary for the transaction of business at Committee meetings shall be three Members.

(d) The Committee may meet in person or by telephone and may pass resolutions in lieu of a meeting, provided such resolutions are signed by every Member.

(e) The Committee shall hold an *in camera* session following each meeting with:

- (i) the head of the internal audit department (without management);
- (ii) the External Auditor (without management);
- (iii) management (without the External Auditor), if deemed appropriate; and
- (iv) Members only.

7. **GENERAL**

(a) The Committee shall have unrestricted access to management and pertinent information and shall be provided with the necessary resources for that purpose.

(b) The Committee shall have the authority to engage external advisors, as it deems appropriate, to assist the Committee in the performance of its duties. The Committee shall set the compensation for such external advisor and the Corporation shall cover the costs of such advisors.

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(c) The Committee shall have the authority to delegate, as appropriate, certain of its responsibilities and activities to one or more Members or to a subcommittee of the Committee.

(d) The Committee shall review and assess the currency and adequacy of this Charter and the External Audit Services Policy on an annual basis and recommend any appropriate changes thereto for approval by the Board. Notwithstanding the foregoing, the Board has the inherent jurisdiction to initiate and approve changes to this Charter and the External Audit Services Policy at any time.

(e) In conjunction with the regular assessment of Board effectiveness, review and evaluate the Committee's performance.

SCHEDULE

External Audit Services Policy forming part of the Charter of the Audit Committee of the Board of Directors of Sears Canada Inc.

(amended and restated as of November, 2011)

DEFINITIONS

"Capitalized" terms used herein shall have the meaning set forth in the Charter unless otherwise defined herein.

PURPOSE AND APPLICABILITY

The External Auditor provides annual audit and audit-related services and certain non-audit related services to the Corporation.

Sears recognizes the importance of maintaining the independence of its External Auditor and believes that the independence of the External Auditor, both in appearance and in fact, is a shared responsibility involving management, the Audit Committee (the "Committee") and the External Auditor.

This policy sets out the guidelines and procedures that have been approved by the Committee.

POLICY STATEMENT

Pre-approval

All services provided by the External Auditor, both audit and non-audit, must be pre-approved by the Committee, including the cost thereof and any change in scope pertaining to an approved service. Such pre-approval may be given at any time up to one year in advance of the commencement of the specified services. The authority to pre-approve any such service is vested in the Committee and may also be exercised by the Chair and, in his or her absence, by any independent Member of the Committee in accordance with Section B(1)(iv) of the Charter.

Audit and Audit-Related Services

The following audit and audit-related services are provided to the Corporation by the External Auditor:

- Audit of the Corporation's financial statements
- Audit of the Sears Registered Retirement Plan
- Audit of the Sears Plan for Sharing Profits with Employees
- Review of the Annual Information Form
- Review of the Management Proxy Circular
- Review of the Annual Reports of the Corporation
- Quarterly Reviews
- Accounting consultations and support related to generally accepted accounting principles (including new accounting standards, and non-recurring transactions)
- Consent letters, comfort letters, reviews of securities filings and similar services that incorporate or include the audited financial statements of the Corporation

- Audit of controls in information technology implementations and audit of systems conversions

Non-Audit Related Services

A high proportion of fees for non-audit related services in relation to the External Auditor's total annual fees could impair or be perceived to impair the External Auditor independence as the Corporation External Auditor. Fees for the non-audit related services listed below, shall not, in the aggregate, exceed fifty percent (50%) of the External Auditor's total audit and audit-related fees to the Corporation per annum without the pre-approval of the Committee. Moreover, management is responsible to monitor and report to the Committee periodically regarding the non-audit related services rendered by the External Auditor and the costs thereof.

- Tax compliance and representation
- Litigation support services
- Control assurance services
- E-Business application security and controls
- Operational audits (including assessments of system security and controls and operational and process risks)
- Strategic assessments of internal audit functions
- Employee benefit tax consulting
- International assignment services
- Acquisition due diligence (excluding business valuation)
- Loan staff arrangements in certain circumstances
- Translation Services

Prohibited Services

The provision by the External Auditor to the Corporation of the non-audit services listed below could impair or be perceived to impair the External Auditor's independence as the Corporation's External Auditor. Therefore, these services are prohibited. However, in exceptional circumstances, these services may be permitted with the pre-approval of the Committee provided that the Corporation receives from the External Auditor written assurances that all safeguards will be implemented to ensure that the External Auditor's independence is not in any way impaired or compromised by the provision of such services and, furthermore, that the Canadian Public Accountability Board does not object to the provision of such services. Notwithstanding the foregoing, in no event may the External Auditor provide services on a contingent fee basis.

- Accounting, Finance and Legal
  - Preparation of the financial statements and other supplemental information included in regulatory filings
  - Bookkeeping services (preparation or entering journal entries, creation of source documents)
  - Appraisal or valuation services
  - Business process outsourcing
  - Corporate legal services
  - Corporate re-structuring advice (e.g. Special Purpose Entities, tax, or finance structures)
  - Actuarial services

- Internal Control and Information Technology
  - Internal audit outsourcing
  - ERP implementation
  - Information systems strategy

- Information systems outsourcing
- Approving or determining the scope of the Internal Audit function
- Determining which internal audit improvements should be implemented
- System implementation services

- ☐ Strategy and Planning
    - Business planning and strategy
    - Business process design
    - E-Business strategy services
    - Forecasting and planning systems and methodology

- ☐ Human Resources
    - Human resource strategy and services
    - Executive search
    - Performance management and compensation
    - Payroll services
    - Management functions (authorizing or approving transactions or payments)

- ☐ Supply Chain
    - Procurement strategy and design
    - Supply chain design/selection
    - Logistics/warehouse strategy
    - E-Procurement selections

- ☐ Sales and Distribution
    - Web site implementation and design
    - Customer relationship management (CRM) design/selection

COMMITTEE REVIEW OF SERVICES

Reporting

The Corporation will periodically prepare and the Committee shall review the following:

- A report summarizing the services, or grouping of related services, including invoices for fees, provided by the External Auditor during the current fiscal year, on a year to date basis with comparatives for the prior year;

- A listing of newly pre-approved services since the last regularly scheduled meeting; and

- An updated projection for the current fiscal year of the estimated annual fees to be paid to the External Auditor, including a listing of anticipated non-audit related services, if the cost thereof is likely to exceed fifty percent (50%) of the total audit and audit-related services fees to the Corporation per annum.

In each year, the following documents shall be delivered by the External Auditor to the Committee:

1. Engagement Letter (addressed jointly to the Committee and the Chief Financial Officer);

2. Audit Scope Presentations (addressed to the Committee);
3. Independence Letter (addressed to the Committee); and
4. Confidentiality Letter issued by the Corporation and accepted by the External Auditor.

Disclosure

All fees paid to the External Auditor shall be disclosed in the Corporation's annual proxy statement in accordance with applicable Securities laws .

EFFECTIVE DATE

This policy first came into force on April 12, 2002.

HUMAN RESOURCES AND COMPENSATION COMMITTEE
OF THE
BOARD OF DIRECTORS
OF
SEARS CANADA INC.

CHARTER

(amended and restated as of November 12, 2012)

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1. DEFINITIONS

In this Charter the following terms have the meaning set out below:

"Affiliate" means the relationship of bodies corporate where one body corporate is the subsidiary of the other or each of them is a subsidiary of the same body corporate or is controlled by the same person;

"Board" means the Board of Directors of the Corporation;

"Chair" means the chair of the Committee;

"Chief Executive Officer" or ***"CEO"*** means the Chief Executive Officer and/or the President of the Corporation or the individual holding the highest executive function of the Corporation appointed by the Board;

"Committee" means the Human Resources and Compensation Committee established by the Board;

"Corporation" means Sears Canada Inc.;

"Director" means an individual elected to the Board by shareholders of the Corporation, or appointed to and by the Board;

"SVP HR" means the individual holding the highest executive function of the Department with the responsibility of Human Resources management;

"Independent Director" means a Director who meets the requirements of independence as defined in NI 58-101, as amended, and includes, without limitation, a Director who has no direct or indirect material relationship with the Corporation or any of its Affiliates, that is, a relationship which would, in the view of the Board, reasonably interfere with the exercise of the Director's independent judgment;

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"Member" means a Director, other than a Director who is also an employee of the Corporation, appointed to the Committee by the Board, and who shall have or develop an understanding of management resources and compensation principles and practices;

"Officer" means an officer of the Corporation appointed by the Board, including the President and CEO, certain Executive Vice-Presidents and certain Senior Vice-Presidents; and,

"Senior Leadership Team" means all Officers, Executive Vice-Presidents, Senior Vice-Presidents and Vice-Presidents of the Corporation.

2. PURPOSE

The purpose of the Committee is to assist the Board in its oversight responsibilities relating to:

(a) the development of the Corporation's overall human resources strategy for fair and competitive compensation of the Senior Leadership Team in support of the achievement of the Corporation's business strategy, as well as the development of other significant compensation programs for the benefit of all employees;

(b) reporting to shareholders on executive compensation in the Corporation's public disclosure documents;

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(c) the development of the CEO's goals and objectives and the evaluation of the CEO's performance against these goals; and

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(d) the succession plan for, and the compensation of, the Senior Leadership Team.

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3. STRUCTURE

(a) The Committee shall be composed of three or more Members.

(b) Members shall hold office from the time of their appointment until the earlier of their removal or resignation from the Committee.

(c) One of the Members shall be appointed by the Board as the Chair.

(d) Unless otherwise determined by resolution of the Board, the Secretary of the Board shall be the Secretary of the Committee. The Secretary of the Committee shall maintain the records of the Committee.

(e) The Committee shall establish its own procedures, including the timing and place of meetings, as it considers necessary or advisable.

4. ROLE OF THE CHAIR

The main responsibilities of the Chair are as follows:

(a) Call and chair all meetings of the Committee. If the Chair is unavailable or unable to attend a meeting of the Committee, then the Chair shall request another Member to chair the meetings. Failing such request, the acting Chair shall be designated by and from the Members present at the meeting.

(b) Develop the agenda for meetings of the Committee with or without consulting management.

(c) Hold the right to cast a vote to resolve any ties on matters that require Committee approval.

(d) Update, from time to time, Directors who are not Members, of any significant issues or deliberations of the Committee.

(e) Act as the primary contact between the Committee and management.

(f) Report to the Board on all meetings and activities of the Committee.

(g) Assume any other responsibilities as this Charter, the Committee or the Board may specify from time to time.

5. RESPONSIBILITIES OF THE COMMITTEE

The Committee shall have the following duties and responsibilities:

A. *Compensation Strategy*

(1) Approve the Corporation's executive compensation and human resources strategy to ensure that it is aligned to the goals and objectives of the Corporation.

(2) Assess the competitiveness and appropriateness of the Corporation's policies relating to the compensation of the Senior Leadership Team as well as the application of internal equity thereto.

(3) Assess whether the Corporation's compensation programs provide an appropriate balance of risk and reward in relation to the Corporation's overall business strategy.

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B. *Compensation Policies and Practices*

(1) Review and approve, at least annually, (i) the design of the Corporation's executive compensation policies and practices and all associate-related annual and long-term incentive plans together with performance targets thereunder in support of the Corporation's business strategy; (ii) the level of achievement of performance goals at the end of each plan year or cycle, as confirmed by the Audit Committee of the Board; and (iii) any annual or long-term incentive plan payments to Senior Leadership Team and, in summary form, to other eligible plan participants.

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(2) Perform such duties and exercise such rights and/or powers as may be delegated to the Committee pursuant to any of the Corporation's employee benefit plans.

(3) Review and approve the compensation arrangements of any executive of the controlling shareholder of the Corporation who has been seconded to the Corporation. Such review shall be carried out pursuant to the existing Executive Compensation and Sharing Agreement made between the Corporation and Sears Holdings Corporation, with the cost sharing being

subject to such modifications as may be appropriate in the circumstances.

(4) Review and approve any proposed major changes to the Corporation's benefit plans, including retirement plans and other associate programs.

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(5) Review at least annually all compensation of the Senior Leadership Team, as well as from any third party with which the Corporation has an arrangement involving the compensation of an Executive Vice-President or Senior Vice-President.

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C. ***Compensation and Appointments***

1. CEO

(a) Determine and recommend annually, for approval by the Board, the CEO's compensation based on the Committee's evaluation of the CEO's performance.

(b) Consider and recommend, for approval by the Board, any employment-related agreements between the Corporation and the CEO.

2. Senior Leadership Team

(a) Make recommendations, for approval by the Board, on the proposed appointment of Executive Vice-Presidents and Senior Vice-Presidents to become Officers of the Corporation.

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(b) Review and approve:

(i) any changes to the compensation of Executive Vice-Presidents and Senior Vice-Presidents;
(ii) the compensation of any newly appointed Executive Vice-President and Senior Vice-President; and

report to the Board regarding the foregoing at the Board's next regularly scheduled meeting.

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(c) Consider and approve any employment-related agreements between the Corporation and Executive Vice-Presidents and Senior Vice-Presidents who are Officers of the Corporation, and report its conclusions to the Board at the Board's next regularly scheduled meeting.

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¶
Review and approve annually, in summary form, the aggregate amounts allocated to management, other than the Senior Leadership Team, pursuant to short and long-term incentive plans, as applicable.¶

D. ***Performance Evaluation and Succession Planning***

Review annually the executive organizational structure and the succession plans for Officers, Executive Vice-Presidents, and Senior Vice-Presidents, provided, however, that only the Board may approve the succession plan for the CEO and appoint Executive Vice-Presidents.

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1. CEO

(a) Establish performance targets and corporate goals and objectives that are relevant to the CEO's compensation.

(b) Evaluate annually, with input from non-management Directors, the CEO's performance in light of such goals and objectives.

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2. Senior Leadership Team

Review the annual performance assessments and succession plans for the Officers and the direct reports to the CEO.

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E. Compensation Disclosure

Review and approve the report of the Committee regarding executive compensation required to be set forth in the Corporation's annual Management Proxy Circular.

6. MEETINGS

(1) The Committee shall meet at least two times per year and may meet more often if required.

(2) The CEO and the SVP HR may attend meetings of the Committee if invited by the Committee provided, however, that the CEO or the SVP HR may not be present during deliberations or voting on their respective compensation.

(3) The quorum necessary for the transaction of business at Committee meetings shall be three Members.

(4) The Committee may meet in person or by telephone and may pass resolutions in lieu of a meeting, provided such resolutions are signed by every Member.

(5) The Committee shall, as it deems appropriate, hold an *in camera* session following each meeting without management. The Independent Directors shall also meet, as they deem appropriate, after each regularly scheduled meeting.

7. GENERAL

(1) The Committee shall have the authority to engage external advisors, as it deems appropriate, to assist the Committee in the performance of its duties. Such external advisors may attend meetings of the Committee at the request of the Committee. The Corporation shall cover the costs of such advisors.

(2) The Committee shall have the authority to delegate, as appropriate, certain of its responsibilities and activities to one or more Members or to a subcommittee of the Committee.

(3) The Committee shall review and assess the currency and adequacy of this Charter on an annual basis and recommend any appropriate changes thereto for approval by the Board. Notwithstanding the foregoing, the Board has the inherent jurisdiction

to initiate and approve changes to this Charter at any time.

(4) In conjunction with the regular assessment of Board effectiveness, the Board will review and evaluate the Committee's performance.

INVESTMENT COMMITTEE OF THE BOARD OF DIRECTORS OF SEARS CANADA INC.

CHARTER

(Amended and restated as of November 12, 2012)

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1. DEFINITIONS

In this Charter, the following terms have the meaning set out below:

"Affiliate" means the relationship of bodies corporate where one body corporate is the subsidiary of the other or each of them is a subsidiary of the same body corporate or is controlled by the same person;

"Board" means the Board of Directors of the Corporation;

"***Chair"*** means the chair of the Committee;

"Chief Executive Officer" or ***"CEO"*** means the Chief Executive Officer and/or the President of the Corporation or the individual holding the highest executive function of the Corporation appointed by the Board;

"Committee" means the Investment Committee established by the Board;

"Corporation" means Sears Canada Inc.;

"Director" means an individual elected to the Board by shareholders of the Corporation, or appointed to the Board;

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"Funds" means the funds established pursuant to the Sears Canada Inc. Health and Welfare Plan, the Sears Canada Inc. Supplementary Retirement Plan, the Sears Profit Sharing Retirement Plan, and the SRRP;

"Independent Director" means a Director who meets the requirements of independence as defined in NI 58-101, as amended, and includes, without limitation, a Director who has no direct or indirect material relationship with the Corporation or any of its Affiliates, that is, a relationship which would, in the view of the Board, reasonably interfere with the exercise of the Director's independent judgment;

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"Investment Consultant" means the investment consulting firm retained by the Committee for the purposes set out in Section 7(a);

"Investment Managers" means the investment management firms retained by the Corporation to manage the Funds;

"Member" means a Director, Officer or senior manager of the Corporation appointed to the Committee by the Board;

"Officer" means an officer of the Corporation appointed by the Board;

"SIP&P" means the Statement of Investment Policies and Procedures for the SRRP; and

"***SRRP***" means the Sears Registered Retirement Plan.

2. PURPOSE

The purpose of the Committee is to assist the Board in its oversight responsibilities relating to the investment of the Funds.

3. STRUCTURE

(a) The Committee shall be composed of five or more Members. At least two of the Members shall be Directors.

(b) Members shall hold office from the time of their appointment until the earliest of their removal or resignation from the Committee and the appointment of their successors, and, in the case of a Member who is an Officer or senior manager of the Corporation, the termination of his or her employment with the Corporation.

(c) One of the Members, who is an Independent Director, shall be appointed by the Board as the Chair.

(d) Unless otherwise determined by resolution of the Board, the Secretary of the Board shall be the Secretary of the Committee. The Secretary of the Committee shall maintain the records of the Committee.

(e) The Committee shall establish its own procedures, including the timing and place of meetings, as it considers necessary or desirable.

4. ROLE OF THE CHAIR

The main responsibilities of the Chair are as follows:

(a) Call and chair all meetings of the Committee. If the Chair is unavailable or unable to attend a meeting of the Committee, then the Chair shall request another Member to chair the meeting, failing such request, the acting Chair shall be designated by and from the Members present at the meeting. In each case, the acting Chair shall be a Member who is a Director.

(b) Develop the agenda for meetings of the Committee with or without consulting Management.

(c) Hold the right to cast a vote to resolve any ties on matters that require Committee approval.

(d) Act as the primary contact between the Committee and Management.

(e) Report to the Board on all meetings and activities of the Committee.

(f) Assume other responsibilities as this Charter, the Committee or the Board may specify from time to time.

5. RESPONSIBILITIES

The Committee shall have the following duties and responsibilities:

A. *Establishment of Strategy and Policies*

(i) Consider and approve, where appropriate, the adoption of the investment policy recommended by Management and the Investment Consultant, for assets of the Funds, which policy shall include, without limitation, a statement of the long-term investment goals and long-term asset mix target for the Funds, as well as compliance with investment restrictions under applicable legislation.

(ii) Review, at least annually, the currency and adequacy of the SIP&P and make any changes thereto which are necessary or desirable.

B. *Appointment of Investment Managers*

(i) Consider and, if appropriate, approve recommendations made by Management and the Investment Consultant for hiring and terminating Investment Managers with reference to the applicable hiring or termination criteria.

(ii) Review, from time to time, and amend, as may be necessary, the general standard terms and conditions, which shall form the basis of the agreements to be entered into between the Corporation and the Investment Managers.

(iii) Review and approve the mandates and performance standards for the Investment Managers.

(iv) Monitor the performance of the Investment Managers and require that periodic presentations be made by the Investment Managers with respect to the performance and management of the Funds assigned to them.

(v) Review and, if appropriate, approve the method proposed by Management by which cash flow is allocated, from time to time, among the Investment Managers.

C. *Other*

(i) Review the annual financial statements of the Funds.

(ii) Adhere to the guidelines set forth in the SIP&P.

(iii) Discuss with, and advise, Management with respect to relevant new findings and topics concerning investment management.

6. MEETINGS

(a) The Committee shall meet at least three times per year and may meet more often if required.

(b) The Chair of the Board and the CEO shall be entitled to attend all meetings of the Committee unless they are requested by the Committee not to do so.

(c) The quorum necessary for the transaction of business at Committee meetings shall be three Members.

(d) The Committee may meet in person or by telephone and may pass resolutions in lieu of meetings, provided such resolutions are signed by every Member.

(e) The Committee shall, as it deems appropriate, hold an *in camera* session following each meeting. The Independent Directors shall also meet, as they deem appropriate, after each regularly scheduled meeting.

7. GENERAL

(a) In addition to the Investment Consultant, the Committee shall have the authority to engage other external advisors, as it deems appropriate, to assist the Committee in the performance of its duties. Except for the expenses of the Investment Managers, which shall be deducted from the investment returns of the Funds, the Corporation shall cover the costs for all such advisors.

(b) The Committee shall have the authority to delegate, as appropriate, certain of its responsibilities and activities to one or more Members or to a subcommittee of the Committee.

(c) The Committee shall review and assess the currency and adequacy of this Charter on an annual basis and recommend any appropriate changes thereto for approval by the Board. Notwithstanding the foregoing, the Board has the inherent jurisdiction to initiate and approve changes to this Charter at any time.

(d) Any Member who is neither a Director nor an Officer shall be entitled to be indemnified by the Corporation in accordance with the standard indemnification agreement provided to Directors and Officers of the Corporation, *mutatis mutandis*, and this shall constitute sufficient authority for doing so.

NOMINATING AND CORPORATE GOVERNANCE COMMITTEE
OF THE
BOARD OF DIRECTORS
OF
SEARS CANADA INC.

CHARTER

(amended and restated as of November 12, 2012)

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1. DEFINITIONS

In this Charter the following terms have the meaning set out below:

"Affiliate" means the relationship of bodies corporate where one body corporate is the subsidiary of the other or each of them is a subsidiary of the same body corporate or is controlled by the same person;

"Board" means the Board of Directors of the Corporation;

"***Chair"*** means the chair of the Committee;

"Chief Executive Officer" or ***"CEO"*** means the Chief Executive Officer and/or the President of the Corporation or the individual holding the highest executive function of the Corporation appointed by the Board;

"Committee" means the Nominating and Corporate Governance Committee established by the Board;

"Corporation" means Sears Canada Inc.;

"Director" means an individual elected to the Board by shareholders of the Corporation, or appointed to and by the Board;

"Guidelines" means the corporate governance guidelines, policies and requirements adopted from time to time by applicable securities regulatory authorities;

"Independent Director" means a Director who meets the requirements of independence as defined in NI 58-101, as amended, and includes, without limitation, a Director who has no direct or indirect material relationship with the Corporation or any of its Affiliates, that is, a relationship which would in the view of the Board, reasonably interfere with the exercise of the Director's independent judgment;

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"Lead Director" means an Independent Director appointed by the Board as Lead Director of the Board; and

"Member" means a Director, other than a Director who is also an employee of the Corporation, appointed to the Committee by the Board.

2. PURPOSE

The purpose of the Committee is to assist the Board in:

(a) developing, implementing and overseeing compliance with, the Board's corporate governance policies, practices and procedures;

(b) identifying candidates to be nominated for election or appointment to the Board;

(c) determining the compensation of Independent Directors for their service to the Board and its committees; and

(d) assessing the performance and effectiveness of the Board and its committees.

3. STRUCTURE

(a) The Committee shall be composed of three or more Members.

(b) Members shall hold office from the time of their appointment until the earlier of their removal or resignation from the Committee.

(c) One of the Members, who is an Independent Director, shall be appointed by the Board as the Chair.

(d) Unless otherwise determined by resolution of the Board, the Secretary of the Board shall be the Secretary of the Committee. The Secretary of the Committee shall maintain the records of the Committee.

(e) The Committee shall establish its own procedures, including the timing and place of meetings, as it considers necessary or advisable.

4. ROLE OF THE CHAIR

The main responsibilities of the Chair are as follows:

(a) Call and chair all meetings of the Committee. If the Chair is unavailable or unable to attend a meeting of the Committee, then the Chair shall request another Member to chair the meetings, failing such request, the acting Chair shall be designated by and from the Members present at the meeting. In each case, the acting Chair shall be an Independent Director.

(b) Develop the agenda for meetings of the Committee with or without consulting management.

(c) Hold the right to cast a vote to resolve any ties on matters that require Committee approval.

(d) Act as the primary contact between the Committee, the Lead Director, if one has been appointed, and management.

(e) Report to the Board on all meetings and activities of the Committee.

(f) Assume other responsibilities as this Charter, the Committee or the Board may specify from time to time.

5. RESPONSIBILITIES

The Committee shall have the following duties and responsibilities:

A. *Corporate Governance*

(i) Develop and recommend to the Board, for its adoption, a comprehensive set of corporate governance policies, practices and procedures, including the mandates of the Board, the CEO, the Chair of the Board and the Lead Director, in accordance with the Guidelines, and review such policies, practices and procedures periodically and recommend changes, as deemed necessary, based on emerging trends in corporate governance practices.

(ii) Assist in the implementation of, and the monitoring of compliance with, the Board's corporate governance policies, practices and procedures.

(iii) Review, periodically, the adequacy and effectiveness of the Board's corporate governance policies, practices and procedures.

(iv) Review and recommend for approval by the Board the corporate governance statements to be included in the Corporation's Management Proxy Circular.

(v) Assess shareholder proposals intended for inclusion in the Management Proxy Circular and make appropriate recommendations to the Board with respect thereto.

B. *Board Structure and Director Selection*

(i) Review the size and composition of the Board to ensure that both reflect the degree of investment of shareholders in the Corporation while maintaining adequate Board independence to safeguard the rights of all shareholders.

(ii) Develop and recommend for approval by the Board a policy setting out the appropriate criteria for the selection of Directors **(attached hereto as a Schedule)**.

(iii) When appropriate, engage an independent search firm specializing in, among other things, director recruitment with a view to identifying prospective qualified candidates for consideration by the Committee.

(iv) Identify, consider and recommend for approval by the Board qualified candidates to be nominated for election or appointment to the Board.

(v) Recommend to the Board the appointment of committee members and committee chairs.

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C. *Compensation of Directors*

(i) Conduct, at least every two years, a review of Independent Directors' compensation for their service to the Board and its committees and determine the adequacy of such compensation.

(ii) If appropriate and timely, engage an independent consulting firm to conduct a comprehensive survey of prevailing market trends and practices in director compensation and obtain a report on its findings and recommendations.

(iii) Evaluate the report received from the independent consulting firm and make appropriate recommendations to the Board with respect to the compensation of the Independent Directors based on the findings and recommendations of such report.

D. *Assessment of Directors*

(i) Develop and approve a process and methodology for assessing the performance and effectiveness of the Board and its committees.

(ii) Conduct, at least every two years, a board effectiveness survey to evaluate the performance and effectiveness of:

- the Board and the Chair of the Board;
- the Board's committees and their respective chairs; and
- each Director by way of peer review.

(iii) Review and evaluate the results of the board effectiveness survey and make recommendations as deemed appropriate, to the Board.

(iv) Review the adequacy of the orientation and education program for new Directors and the ongoing educational presentations to incumbent Directors.

6. MEETINGS

(a) The Committee shall meet at least three times per year and may meet more often if required.

(b) The CEO and the Chair of the Board shall be entitled to attend all meetings of the Committee unless they are requested by the Committee not to do so.

(c) The quorum necessary for the transaction of business at Committee meetings shall be three Members.

(d) The Committee may meet in person or by telephone and may pass resolutions in lieu of a meeting, provided such resolutions are signed by every Member.

(e) The Committee shall, as it deems appropriate, hold an *in camera* session following each meeting without management. The Independent Directors shall also meet, as they deem appropriate, after each regularly scheduled meeting.

7. GENERAL

(a) The Committee shall have the authority to engage external advisors, as it deems appropriate, to assist the Committee in the performance of its duties. The Corporation shall cover the costs for such advisors.

(b) The Committee shall have the authority to delegate, as appropriate, certain of its responsibilities and activities to one or more Members or to a subcommittee of the Committee.

(c) The Committee shall review and assess the currency and adequacy of this Charter on an annual basis and recommend any appropriate changes thereto for approval by the Board. Notwithstanding the foregoing, the Board has the inherent jurisdiction to initiate and approve changes to this Charter at any time.

(d) In conjunction with the regular assessment of Board effectiveness, review and evaluate the Committee's performance.

SCHEDULE

Director Selection Policy forming part of the Charter of the Nominating and Corporate Governance Committee of the Board of Directors of Sears Canada Inc.

The Nominating and Corporate Governance Committee (the "Nominating Committee") is responsible for recommending nominees for election as Directors at each annual shareholders' meeting and recommending nominees to fill vacancies on the Board of Directors of Sears Canada Inc. (the "Board").

When a position becomes vacant, the Chair of the Nominating Committee prepares a skills profile for that position. This profile should be consistent with the Selection Criteria below but be tailored to the particular vacancy (e.g., financial expertise required, regional representation).

The Nominating Committee must ensure that prospective nominees fully understand the role of the Board; Committees of the Board and the contribution individual directors are expected to make including, in particular, the commitment of time and energy that the Corporation expects of its directors.

Selection Criteria

Since the Board of Directors is responsible for overseeing the management of the business and affairs of the Corporation and acting with a view to the best interests of the Corporation, it is important that they each possess the following core characteristics and competencies:

Integrity and Accountability

- Directors must demonstrate high ethical standards and integrity in their personal and professional dealings, and be willing to act on – and remain accountable for – their boardroom decisions.

Informed Judgment

- The ability to provide wise, thoughtful counsel on a broad range of issue ranks high among the qualities required in directors. They must develop a depth of knowledge of retail, in order to understand and question the assumptions upon which the strategic and business plans are based, and to form an independent judgment as to the probability that such plans can be achieved.

Financial Literacy

- One of the most important roles of the Board is to monitor financial performance. To do this, directors should be financially literate. They should know how to read financial statements, and they should understand the use of financial ratios and other indices for evaluating company performance. Additional assistance in this area will be made available to individual directors, as needed.

Track Record and Experience

- In today's highly competitive world, only companies capable of performing at their highest levels are likely to prosper. Directors must bring a history of achievement that reflects high standards for themselves and others.

Teamwork

- Directors who value Board and team performance over individual performance, and who possess respect for others, facilitate superior Board performance.

Communication

- Openness to others' opinions and the willingness to listen should rank as highly as the ability to communicate persuasively. Directors must approach others assertively, responsibly and supportively, and be willing to raise tough questions in a manner that encourages open discussion.

Dedication

- Directors must be willing and able to commit the necessary time and energy required for their role on the Board. Preparation for and attendance at all of their respective meetings is expected.

In addition to these attributes, the Nominating Committee will consider such things as regional representation, business and academic qualifications, gender, Canadian residency, size of the Board, and legislative requirements when selecting nominees.

Residency and Occupation Guidelines

If there is a material change in an incumbent director's principal occupation or residency status, he or she should prepare a letter of resignation addressed to the Board. The Board will decide whether or not to accept the resignation.

7. **Resolution** approving the date of the 2013 Annual Meeting of Shareholders and report on the Board and Committee Meeting dates for 2013

The proposed date of the Annual Meeting of Shareholders is be Tuesday, April 16, 2013 and that the proposed meeting dates and times (Eastern time) for the Board of Directors and Committees in 2013 are as follows:

February 26, 2013 (tel)	**Audit Committee**	(1:00 p.m. to 3:00 p.m.)
	Investment Committee	(3:00 p.m. to 4:00 p.m.)
March 14, 2013 (tel)	**Audit Committee**	(9:00 a.m. to 11:00 a.m.)
	NCGC	(11:00 a.m. to Noon)
	HRCC	(Noon to 1:30 p.m.)
	Board	(1:30 p.m. to 3:00 p.m.)
April 15, 2013 (in person)	**Board Meeting/Dinner**	(5:00 p.m. to 8:30 p.m.)
April 16, 2013 (in person)	**Annual Shareholders Meeting**	(8:00 a.m. to 10:00 a.m.)
	Board - following Annual Shareholders Meeting	
May 21, 2013 (tel)	**Audit Committee**	(1:00 p.m. to 3:00 p.m.)
	Investment Committee	(3:00 p.m. to 4:00 p.m.)
July 16, 2013 (in person)	**Board Strategic Session**	(3:00 p.m. to 6:00 p.m.)
	Board Dinner	(6:30 p.m. to 8:30 p.m.)
July 17, 2013 (in person)	**Board Strategic Session**	(8:00 a.m. to 2:00 p.m.)
August 20, 2013 (tel)	**Audit Committee**	(1:00 p.m. to 3:00 p.m.)
	Investment Committee	(3:00 p.m. to 4:00 p.m.)
November 14, 2013 (tel)	**Investment Committee**	(8:00 a.m. to 9:30 a.m.)
	NCGC	(9:30 a.m. to 10:30 a.m.)
	HRCC	(10:30 a.m. to Noon)
November 18, 2013 (in person/NYC)	**Audit Committee**	(2:00 p.m. to 4:00 p.m.)
	Board	(4:00 p.m. to 6:00 p.m.)
	Board Dinner	(6:30 p.m. to 8:30 p.m.)
November 19, 2013 (in person/NYC)	**Board**	(8:00 a.m. to 2:00 p.m.)

ON MOTION, duly made and seconded, it was unanimously resolved:

THAT the Annual Meeting of Shareholders of the Corporation be held in Toronto, at the Head Office of the Corporation, on Tuesday, April 16, 2012, be approved.

8. Resolution approving the appointment of Don Ross as a member of certain committees

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The Board discussed the possible appointment of Don Ross to the Human Resources and Compensation Committee and to the Nominating and Corporate Governance Committee and the recommendation from the Nominating and Corportate Governance Committee with respect to the appointments.

ON MOTION, duly made and seconded, Mr. Ross having abstained from voting, it was unanimously resolved,:

> **THAT** Mr. Don Ross be appointed to the [Human Resources and Compensation Committee] and to the [Nominating and Corporate Governance Committee].

9. Other business [for information only]

- Analyst Reports
- SCI Top twenty Registered Shareholders list and CDS participant list
- Trading Volume

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Desjardins
Capital Markets

MorningPulse

Sears Canada Inc. (SCC C$10.84, TSX)

Partial spin-off of SCC shares to Sears Holdings' shareholders will leave ESL in control of SCC, with greater flexibility; maintaining Hold rating and C$14 target

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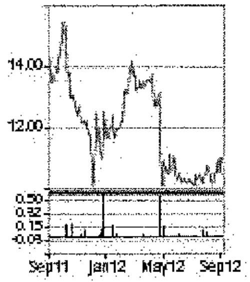
Sears Canada Inc.

Rating		Hold–Speculative
Target		C$14.00
Symbol		SCC
Exchange		TSX
Sector		Consumer Discretionary
Closing price		C$10.84
Potential return		29.2%
52-week range		C$9.76–15.55
Shares O/S		101.9m
Market cap		C$1,104.4m
TSX weighting		NA
Year-end		Jan-31
Revenue	**2012E**	C$4,405m
	2013E	C$4,165m
EBITDA	**2012E**	C$123m
	2013E	C$89m
EPS	**2012E**	C$0.01
	2013E	-C$0.15
P/E	**2012E**	NM
	2013E	NM
Book value/sh		C$11.45
LTM ROE		-1.2%
Debt/total capital		2.3%
Dividend		C$0.00
Dividend yield		NA
Quarterly data		
EPS	**2Q12A**	-C$0.10[1]
	2Q11A	C$0.00[1]
	Consensus	NM

[1] Diluted operating
Source: Desjardins Capital Markets



Highlights

Sears Holdings plans to spin off ~45m shares of Sears Canada (SCC) to Sears Holdings' (SHLD) shareholders before fiscal year-end (January 2013). No date has been set, but Sears Canada has filed a US registration statement. Sears Holdings would hold 51% of Sears Canada after the spin-off, and ESL, controlling shareholder of Sears Holdings, will directly own 27–28%.

Float of Sears Canada will increase to ~21.9m shares from ~4.5m shares. Sears Holdings plans to spin off ~45m shares of Sears Canada to Sears Holdings' shareholders on a pro rata basis. After the spin-off, Sears Holdings (controlled by ESL) will own ~51% (down from 95.5%) of Sears Canada, and ESL (controlled by Edward Lampert) will directly own 27–28%. No date for the spin-off has been set, except that it will occur before January 31, 2013. Sears Canada's shares will continue to be listed for trading only on the TSX. Our expectation is that many of the US-based shareholders of Sears Holdings will choose to sell the shares which they receive in Sears Canada.

Dividends of Sears Canada are likely to be more tax-efficient after the spin-off. Repatriation of funds (including dividends) from foreign subsidiaries of US companies generally trigger adjustments to foreign tax credits previously utilized in filing US tax returns. Occasional 'one-time' repatriation tax holidays (such as in 2005) encourage the return of excess funds to the US (this was utilized by both Safeway and Sears in 2005), but the timing of any such holiday is political and not predictable. We surmise that the spinning out of Sears Canada shares to Sears Holdings' shareholders eases the tax burden related to repatriation, with respect to shareholders other than Sears Holdings.

ESL will continue to control Sears Canada, with a direct and indirect interest of 78–79%. Mr Lampert will continue to control Sears Canada after the spin-off, through ESL which he controls. Between ESL's direct holding, post spin-off, of 27–28%, and ESL's controlling interest in Sears Holdings, which will hold 51% of Sears Canada, the future of Sears Canada will ultimately continue to be determined by Mr Lampert. It appears to us that Mr Lampert is giving executive management of Sears Canada a window of opportunity to try to turn the company around.

Valuation

There is no change to our EPS estimates or target price. Our target price remains based on the sum of 5x FY12 EBITDA, the book value of investment real estate and projected cash at fiscal year-end. Our target price is C$14.

Recommendation

Sears Canada continues to struggle with eroding market share within a weak retail spending environment in Canada. While competition may abate somewhat over the next six months with many Zellers stores closed/closing for renovation, it will intensify as those stores reopen as Target stores beginning in spring 2013. In addition, 39 of those Zellers will become Walmart stores before year-end. Sears has some valuable assets that could be monetized, such as store leases, owned real estate and a leading market share in major appliances. Our rating remains Hold–Speculative.

This report was prepared by an analyst(s) employed by Desjardins Securities Inc., and who is (are) not registered as a research analyst(s) under FINRA rules. Please see disclosure section at the end of this publication for company specific disclosures, analyst certification and legal disclaimers.

12.1

ESL will control 78–79% of SCC, after Sears Holdings spins off ~45m SCC shares to SHLD's shareholders. The planned distribution by Sears Holdings of ~45m shares of Sears Canada to Sears Holdings' shareholders will leave ESL (controlled by Mr Lampert) firmly in control of Sears Canada with a 78–79% direct and indirect shareholding. ESL will hold 27–28% of Sears Canada directly and control another 51% indirectly as a result of being the controlling shareholder of Sears Holdings.

Planned spin-out of Sears Canada shares to Sears Holdings' shareholders will leave ESL in control

Sears Canada (SCC)	
Sears Canada shares outstanding	101,877,662
Share options	9,820
Shares held by Sears Holdings	97,341,670
Percentage held by Sears Holdings	95.55
Sears Holdings (SHLD)	
Sears Holdings shares outstanding	106,454,889
Shares held by ESL Investments	65,774,084
Percentage held by ESL Investments	61.79
Distribution of SCC shares to SHLD's shareholders	
Estimated number to be distributed	45,384,062
To be received by ESL Investments	28,040,940
Direct % of SCC to be held by ESL Investments	27.52
To be received by other SHLD shareholders	17,343,122
% to be held by other SHLD shareholders	17.02
Shareholders of SCC post-distribution (%)	
Sears Holdings	51.0
ESL Investments	27.5
Other SHLD shareholders	17.0
Current minority shareholders in SCC	4.5
	100.0

Source: Desjardins Capital Markets, company reports

The spin-off will occur prior to January 31, 2013. Sears Holdings has stated the spin-off of Sears Canada shares will occur in 2H FY12 (ending January). Sears Holdings expects that there will be a two-day period prior to the record date for the distribution (which is not yet determined) when Sears Holdings shares will be traded, at the choice of each shareholder, as including or excluding the Sears Canada distribution of shares.

Process of distributing Sears Canada shares to Sears Holdings' shareholders

Up to two days prior to record date	SHLD shares will trade with a choice of 'regular way' or 'ex distribution'
Record date (TBD)	As of close of business on record date, SHLD shares will trade ex distribution
Spin-off date (TBD)	Distribution of Sears Canada shares to SHLD's shareholders on record date

Source: Desjardins Capital Markets, company reports

Sears Holdings' accounting treatment of Sears Canada unlikely to change significantly. We expect Sears Holdings to continue to consolidate the results of Sears Canada after its shareholding is reduced to 51% from 95.5%. Sears Holdings will continue to consolidate 100% of the EBITDA and cash flow of Sears Canada. Given our expectation that Sears Canada's net income will be close to breakeven in FY12 and FY13, the minority interest adjustment will be of negligible impact to Sears Holdings' income statement.

Sears Holdings' accounting of Sears Canada will not change significantly

Item	Accounting	Change
EBITDA of Sears Canada	Consolidated	No
Cash flow of Sears Canada	Consolidated	No
Net income of Sears Canada	Adjusted to reflect minority interest	Minority interest increased to 49% from 4.5%, but net income is minimal

Source: Desjardins Capital Markets, company reports

ESL will have increased flexibility in the future with respect to Sears Canada. Sears Holdings has only stated that it may increase, reduce or maintain its position in Sears Canada post the spin-off. Our view is that ESL has increased its flexibility with respect to future repatriation of funds from Canada, and with respect to whether Sears Holdings may charge Sears Canada a royalty for using the Sears, Kenmore and Craftsman brand names (which could occur if Sears Holdings' interest in Sears Canada declines below 25%).

The spin-out of shares of SCC to SHLD's shareholders increases future flexibility of ESL Investments, in our view

Areas of enhanced flexibility	Benefit
Special dividends of Sears Canada	Dividends paid directly to US shareholders of SCC other than SHLD likely to escape US repatriation taxes
Licensing of Sears Canada name	No licence fee payable as long as SHLD ownership exceeds 25% in SCC; potential to drop below 25% with ESL still in control
Licensing of Kenmore, Craftsman and certain other brand names	No licence fee payable as long as SHLD ownership exceeds 25% in SCC; potential to drop below 25% with ESL still in control

Source: Desjardins Capital Markets, company reports

Appendix 1: North American department and discount stores relative valuations (September 26, 2012)

		Share price	P/E (x)			Price chg (%)			EV/EBITDA (x)		EBITDA margin[1]	ROE	Mkt cap
Company (US$)	Ticker	($)	LTM	CFY	NFY	1w	3m	12m	TTM	CFY	(%)	(%)	($m)
Sears Holdings Corp	SHLD	54.84	NM	NM	NM	-11.0	2.8	7.5	NM	13.3	-0.15	-8.4	5,838
Sears Canada Inc (C$)	**SCC**	**10.84**	**NM**	**NM**	**NM**	**-1.5**	**4.6**	**-27.3**	**8.8**	**6.5**	**1.10**	**-1.2**	**1,104**
Bon-Ton Stores Inc/The	BONT	9.56	NM	NM	NM	-16.3	41.0	69.5	7.9	6.8	5.60	-11.7	192
Saks Inc	SKS	10.39	26.0	21.6	18.2	-7.3	3.6	14.8	6.7	6.2	9.19	6.1	1,587
Nordstrom Inc	JWN	54.90	17.4	15.7	13.8	-3.4	12.9	14.0	7.9	7.5	14.89	34.3	11,035
Wal-Mart Stores Inc	WMT	74.19	15.9	15.1	13.8	-0.2	8.2	43.1	8.4	8.3	7.76	22.3	249,386
Target Corp	TGT	63.83	14.3	14.4	13.0	-1.8	10.8	26.1	7.9	7.9	10.67	19.1	41,801
Loblaw Cos Ltd (C$)	**L**	**33.22**	**12.3**	**13.6**	**12.0**	**-3.1**	**3.4**	**-11.8**	**7.0**	**7.0**	**6.67**	**14.1**	**9,348**
Dillard's Inc	DDS	72.94	8.1	12.2	10.9	-7.4	11.3	57.0	5.7	5.4	10.64	11.0	3,438
Macy's Inc	M	37.75	12.0	11.2	9.9	-3.3	10.4	38.2	5.8	5.6	13.15	21.8	15,195
Canadian Tire Corp Ltd (C$)	**CTC.A**	**71.78**	**11.6**	**11.1**	**10.5**	**0.7**	**6.3**	**23.8**	**7.1**	**6.8**	**10.19**	**11.1**	**5,874**
JC Penney Co Inc	JCP	24.55	-49.1	-187.4	19.3	-15.6	11.8	-9.6	14.8	14.2	5.60	3.3	5,378
Average			**7.6**	**-8.1**	**13.5**	**-5.9**	**10.6**	**20.4**	**8.0**	**7.9**	**7.94**	**10.1**	**29,181**

[1] Trailing 12 months

Source: Desjardins Capital Markets, Bloomberg

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DISCLOSURES

Distribution of ratings

Rating category	Desjardins rating	Desjardins coverage universe (# of stocks)	% distribution	Desjardins Investment Banking (# of stocks)	% distribution
Buy	Top Pick/Buy	114	71	4	80
Hold	Hold	46	29	1	20
Sell	Sell	0	0	0	0
Total		**160**	**100**	**5**	**100**

COMPANY SPECIFIC DISCLOSURES

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1. Desjardins Capital Markets makes a market in the securities of the issuer.
2. Desjardins Capital Markets has performed investment banking services for the issuer in the past 12 months.
3. Desjardins Capital Markets has received compensation for investment banking services from the issuer within the past 12 months.
4. Desjardins Capital Markets has managed or co-managed a public offering of securities for the issuer in the past 12 months.
5. Desjardins Capital Markets beneficially owned 1% or more of the common equity (including derivatives exercisable or convertible within 60 days) as of the month end preceding this report.

6a. The Desjardins Capital Markets research analyst(s) and/or associate(s) who covers the issuer discussed has a long position in its common equity securities.

6b. A member of the household of the Desjardins Capital Markets research analyst(s) and/or associate(s) who covers the issuer has a long position in its common equity securities.

7a. The Desjardins Capital Markets research analyst(s) and/or associate(s) has viewed a material operation of the issuer, and the related travel expenses have not been paid for by the issuer.

7b. The Desjardins Capital Markets research analyst(s) and/or associate(s) has viewed a material operation of the issuer, and the related travel expenses have been paid for partially by the issuer.

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11. A partner, director or officer of Desjardins Capital Markets or any analyst(s) involved in the preparation of this publication has provided services (other than for investment advisory or trade execution purposes) to the issuer for remuneration within the past 12 months.
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Canadian Tire Corporation, Limited: 7a, 8, 9, 10
Loblaw Companies Limited: 7a, 8, 9, 10
Sears Canada Inc.: 7a, 8, 9, 10

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Desjardins Capital Markets

MorningPulse

Sears Canada Inc. (SCC C$10.35, TSX)

Sales trends remain weak in 2Q12; maintaining Hold rating and C$14 target

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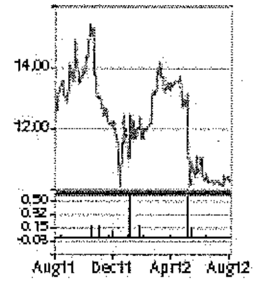
Sears Canada Inc.

Rating		Hold–Speculative
Target		C$14.00
Symbol		SCC
Exchange		TSX
Sector		Consumer Discretionary
Closing price		C$10.35
Potential return		35.3%
52-week range		C$9.76–15.55
Shares O/S		101.9m
Market cap		C$1,054.4m
TSX weighting		NA
Year-end		Jan-31
Revenue	**2012E**	C$4,405m
	2013E	C$4,165m
EBITDA	**2012E**	C$123m
	2013E	C$89m
EPS	**2012E**	C$0.01
	2013E	-C$0.15
P/E	**2012E**	NM
	2013E	NM
Book value/sh		C$11.45
LTM ROE		-1.2%
Debt/total capital		2.3%
Dividend		C$0.00
Dividend yield		NA
Quarterly data		
EPS	**2Q12A**	-C$0.10[1]
	2Q11A	C$0.00[1]
	Consensus	NM

[1] Diluted operating

Source: Desjardins Capital Markets



Highlights

Sears Canada reported a 2Q12 loss of C$0.10, compared with our forecast of a loss of C$0.06 and breakeven (restated) a year ago. For a summary of financial results, please see Appendix 1. The company does not hold conference calls with investors.

Sales trends remain weak, with a 7.1% same-store sales decline on top of a 5.8% decline a year ago. Sears continues to lose market share within the context of overall tepid consumer demand. A positive development was that sales within the major appliance and mattress categories, a focus of management, increased. Progress is being made by management on a number of fronts, but competition will intensify in 4Q12 when Walmart opens 39 stores in former Zellers locations and in 2013 when Target opens in 125 former Zellers locations.

Balance sheet is in good shape. Sears Canada ended the quarter with over C$3 in cash per share, and essentially no debt. The company should generate cash in 2H12 when sales and profits are seasonally the highest. The company has owned real estate and under-market leases of considerable value. Book value is C$11.45 per share.

Sears Holdings will dividend ~45m Sears Canada shares to its shareholders in 2H12. Sears Holdings, controlled by Edward Lampert and ESL Holdings, intends to dividend ~45m Sears Canada shares to Sears Holdings shareholders sometime before year-end. Sears Holdings will retain approximately 51% of Sears Canada, down from its current interest of 95.5%. Sears Holdings distributed its ownership in Orchard Supply (OSH, NASDAQ) to its shareholders by way of a stock dividend last year. Presently, Sears Holdings is also in the process of distributing shares in Sears Hometown Stores (the rural/small market dealer store network) to its shareholders by way of a rights issue.

Valuation

We are adjusting our EPS estimates to C$0.01 (from C$0.05) in 2012 and to -C$0.15 (from -C$0.11) in 2013. Our target price continues to be based on the sum of 5x 2012 EBITDA, the value of investment real estate on the balance sheet and projected cash at year-end. Our target price remains C$14.

Recommendation

The retail franchise of Sears Canada continues to decline heading into the turbulent period when Walmart and Target will begin opening stores in former Zellers locations. Lowes, a top-three player in major appliances in the US, continues to open stores in Canada and to seek ways to accelerate the growth of its presence in the market. Sears has monetized three under-market leases in 2012 for gross proceeds of C$175m. The four Sears department stores operating in those locations will close in October 2012. The highest and best use of other Sears locations may also potentially be realized in the hands of operators of other retail concepts. The shares are trading under book value, and the balance sheet is in excellent shape. The shares are only suitable for risk-tolerant, patient investors. Our rating remains Hold–Speculative.

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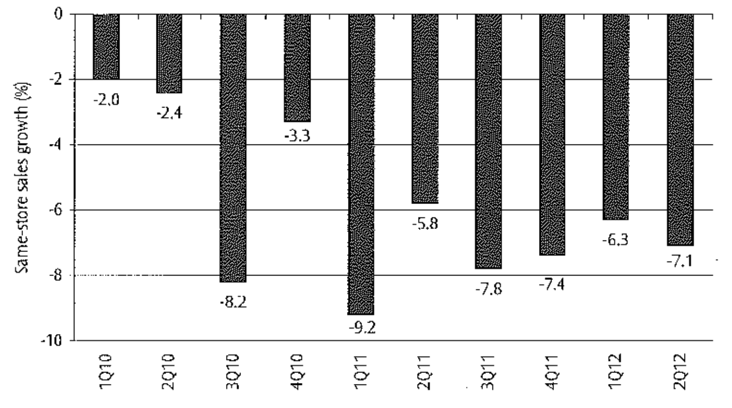
Stabilizing sales, without sacrificing gross margin, must be management's priority. The new executive team has been in place for approximately one year and has been racing to improve operations before Target arrives in Canada. Progress is in evidence within the stores and in the sales results of some product categories, such as major appliances and mattresses, but the trend of same-store sales remains negative.

Sears Canada quarterly same store sales



Source: Desjardins Capital Markets, company reports

Sears Canada is unfortunately 'paddling upstream' in its turnaround efforts. Other hard-lines retailers (eg major appliances, furniture, mattresses, electronics) in Canada generally posted weak sales results in their most recent quarters.

Big-ticket sales are weak in Canada

		Revenue		SSSG	Net income	
	Period ended	(C$m)	Chg (yoy%)	(corporate) (%)	(C$m)	Chg (yoy%)
Leon's	2Q ended June-30	207.7[1]	-0.8	-5.8	9.0	-19.7
BMTC	2Q ended June-30	185.8	-4.3	NA	13.9	-35.3
The Brick[2]	2Q ended June-30	321.6	-1.0	0.4	7.2	12.9
Best Buy/Future Shop	1Q ended May-3	NA	NA	Negative high single digits[3]	NA	NA

[1] System-wide sales of corporate and franchised stores; [2] After-tax earnings, adjusted for debenture repurchase costs; [3] Canada only
Source: Desjardins Capital Markets, company reports

Gross margin rate declined by 80bps, partially driven by negative mix shift from apparel to major appliances. While major appliance sales benefited from senior management's attention, the increase (+0.6%) in (lower margin) major appliances sales combined with the significant decline (-12.5%) in (higher margin) apparel category sales would have had a negative impact on gross margin rate.

Sales and gross margin rate both continued to decline year over year in 2Q12

Year-end Jan-31 (C$m)	2Q11	2Q12	Chg (%)	1H11	1H12	Chg (%)
Same-store sales growth (%)	-5.8	-7.1	-130bps	-7.4	-6.7	70bps
Revenue chg (yoy%)	-5.3	-8.5	-320bps	-6.2	-8.2	-198bps
Gross margin rate (%)	37.70	36.90	-80bps	37.37	36.75	-62bps
Merchandise gross margin rate (%)	35.61	34.47	-114bps	35.39	34.21	-118bps
Services gross margin rate (%)	37.79	39.56	178bps	33.73	38.26	454bps
SGA expense (excl D&A) rate (%)	35.09	35.15	6bps	37.01	37.34	33bps
Operating EBITDA margin rate (%)[1]	2.61	1.70	-92bps	0.36	-0.63	-99bps
Effective tax rate (%)	111.1	-10.1	NM	11.6	13.8	217bps
Operating net income (loss) to total revenue (%)[1,2]	0.0	-0.9	-92bps	-2.2	-2.7	-46bps
Inventory chg (yoy%)	0.3	-7.3	-756bps			
Accounts receivable + inventory – accounts payable	418.7	404.3	-3.4			
Capital expenditures/depreciation and amortization (%)	61.0	67.5	653bps	59.0	56.6	-243bps

[1] Adjusted for non-recurring gains and losses; [2] Based on applying a 27.5% tax rate to operating earnings before taxes
Source: Desjardins Capital Markets, company reports

Sears Canada will receive gross proceeds of C$175m from leases to be surrendered in 2012. The value of the prime space occupied by Sears department stores at low rental rates is illustrated by the C$175m in gross proceeds to be received by Sears Canada for surrendering four department store leases to the respective landlords. The landlords intend to replace Sears with tenants that either generate more mall traffic, pay higher rents or both.

Sears Canada has surrendered four leases for gross proceeds of C$175m

Location(s)	Date of announcement	Date of closing	Transaction value (C$m)	Pre-tax gain on sale (C$m)	Exit costs (C$m)	Date to vacate store(s)
Vancouver Pacific Centre, Calgary Chinook Centre and Ottawa Rideau Centre	March 2, 2012	April 20, 2012	170	164.3	1.4	Sears plans to exit all three locations "by October 31, 2012"
Deerfoot	July 18, 2012	October 26, 2012	5	~2.4	NA	October 26, 2012

Source: Desjardins Capital Markets, company reports

Balance sheet is in good shape. Sears Canada has net cash of over C$3 per share and will generate cash from operations in the seasonally stronger sales period of 2H12. Capital spending will be less than depreciation again in 2012, although new executive management has loosened the purse strings to test a renovation/refresh of four department stores near Toronto, and to open a new larger footprint off-mall Sears Home store in Ottawa.

Solid balance sheet heading into cash-generative 2H

Year-end Jan-31 (C$m)	As at 28-Jul-12
Cash and cash equivalents	333.5[1]
Total current assets	1,325.7
Current portion of long-term debt	4.7
Long-term obligations	22.2[2]
Availability under secured facility	544.7[3]
Total shareholders' equity	1,166.8
Per-share values (C$)	
Net cash per share	3.01[4]
Book value per share	11.45

[1] Includes C$8.1m of restricted cash and equivalents; [2] Relates to non-current finance lease obligations; [3] The credit facility is secured with a first lien on inventory and credit card receivables; [4] Includes C$22.2m relating to non-current finance lease obligations

Source: Desjardins Capital Markets, company reports

Appendix 1: Summary of financial results

Year-end Jan-31 (C$m)	**2Q11**	**2Q12**	**Chg (%)**	**1H11**	**1H12**	**Chg (%)**
Revenue	1,147.7	1,050.1	-8.5	2,140.2	1,965.2	-8.2
Cost of goods and services sold	715.0	662.6	-7.3	1,340.4	1,243.0	-7.3
Gross profit	432.7	387.5	-10.4	799.8	722.2	-9.7
Gross margin rate (%)	37.70	36.90	-80bps	37.37	36.75	-62bps
Selling, administrative and other expenses incl D&A	431.9	397.4	-8.0	849.9	791.0	-6.9
Selling, administrative and other expenses excl D&A	402.7	369.1	-8.3	792.1	733.9	-7.3
Operating EBITDA[1]	**30.0**	**17.8**	**-40.7**	**7.7**	**-12.3**	**-259.7**
Operating EBITDA margin rate (%)[1]	**2.61**	**1.70**	**-92bps**	**0.36**	**-0.63**	**-99bps**
Depreciation and amortization	29.2	28.3	-3.1	57.8	57.1	-1.2
Operating EBIT	0.8	-10.5	-1,412.5	-50.1	-69.4	38.5
Gain on lease terminations	0.0	0.0	NM	0.0	-164.3	NM
Finance costs	2.8	4.2	50.0	9.6	8.2	-14.6
Interest (income)	-0.3	-2.3	666.7	-0.9	-2.8	211.1
Share of (income) loss in joint ventures	-3.5	-2.9	-17.1	-5.4	-6.4	18.5
Operating EBT	1.8	-9.5	-627.8	-53.4	-68.4	28.1
Income tax expense (recovery)	2.0	0.9	-55.0	-6.2	13.3	-314.5
Effective tax rate (%)	111.1	-10.1	-109.1	11.6	13.8	18.7
Net earnings (loss)	-0.2	-9.8	NM	-47.2	83.2	NM
Operating net earnings (loss)[1]	**-0.2**	**-9.8**	**NM**	**-47.2**	**-52.4**	**NM**
Earnings per share (C$)						
Basic	**0.00**	**-0.10**	**NM**	**-0.45**	**0.81**	**NM**
Diluted	**0.00**	**-0.10**	**NM**	**-0.45**	**0.81**	**NM**
Diluted operating[1]	**0.00**	**-0.10**	**NM**	**-0.45**	**-0.51**	**NM**

[1] Adjusted for non-recurring gains and losses

Source: Desjardins Capital Markets, company reports

Appendix 2: North American department and discount stores relative valuations (August 15, 2012)

Company (US$)	**Ticker**	**Share price ($)**	**P/E (x) LTM**	**P/E (x) CFY**	**P/E (x) NFY**	**Price chg (%) 1w**	**Price chg (%) 3m**	**Price chg (%) 12m**	**EV/EBITDA (x) TTM**	**EV/EBITDA (x) CFY**	**EBITDA margin[1] (%)**	**ROE (%)**	**Mkt cap ($m)**
Sears Holdings Corp	SHLD	56.60	NM	NM	NM	8.1	7.0	-6.7	NM	14.0	-0.15	-8.4	6,024
Sears Canada Inc (C$)	**SCC**	**10.35**	**NM**	**NM**	**NM**	**-0.7**	**-21.3**	**-19.8**	**7.9**	**5.9**	**1.10**	**-1.2**	**1,054**
Bon-Ton Stores Inc/The	BONT	7.36	NM	NM	NM	7.3	50.5	16.5	7.3	6.7	5.60	-11.7	148
JC Penney Co Inc	JCP	23.67	-47.3	80.0	15.9	10.6	-29.0	-12.5	14.4	11.1	5.60	3.3	5,177
Saks Inc	SKS	11.61	30.6	24.8	21.1	7.0	15.5	28.0	7.6	7.2	9.19	6.1	1,849
Nordstrom Inc	JWN	56.51	17.9	16.2	14.2	1.9	11.6	26.5	8.4	7.9	14.89	34.3	11,755
Wal-Mart Stores Inc	WMT	74.45	16.1	15.1	13.8	0.2	25.4	49.0	8.6	8.3	7.76	22.3	251,905
Target Corp	TGT	64.50	14.5	14.9	13.2	2.5	17.1	33.2	8.0	8.0	10.67	19.1	42,648
Loblaw Cos Ltd (C$)	**L**	**33.85**	**12.5**	**13.7**	**12.2**	**1.4**	**4.4**	**-8.5**	**7.1**	**7.0**	**6.67**	**14.1**	**9,525**
Dillard's Inc	DDS	74.19	8.2	12.3	11.4	5.5	7.8	66.0	5.7	5.4	10.64	11.0	3,624
Macy's Inc	M	38.54	12.3	11.4	10.1	1.4	4.1	49.7	6.0	5.8	13.15	21.8	15,923
Canadian Tire Corp Ltd (C$)	**CTC.A**	**69.71**	**11.2**	**10.8**	**10.2**	**5.1**	**3.4**	**23.5**	**7.0**	**6.6**	**10.19**	**11.1**	**5,710**
Average			**8.4**	**22.1**	**13.6**	**4.2**	**8.1**	**20.4**	**8.0**	**7.8**	**7.94**	**10.1**	**29,612**

[1] Trailing 12 months

Source: Desjardins Capital Markets, Bloomberg

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Vancouver, British Columbia
V6C 3L6
(604) 678-6141

CIBC MELLON TRANSFER SYSTEM
HOLDER LIST AS AT 2012/11/02

CORPORATION 1109

WE HEREBY CERTIFY THAT THE FOLLOWING IS A TRUE AND CORRECT LIST OF HOLDERS OF CERTIFICATES OF THE COMPANY AND ISSUE(S) INDICATED AS SHOWN BY THE BOOKS OF RECORD KEPT IN THIS OFFICE AS AT THE CLOSE OF BUSINESS ON 2012/11/02

ISSUE(S)	SELECTION CRITERIA
1 - COMMON SHARES	CERTIFICATED HOLDINGS THE FIRST 20 RECORDS ARE SELECTED

E. AND O.E.______________________

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AUTHORIZED SIGNATORY, CIBC MELLON TRUST COMPANY

SEARS CANADA INC

CIBC MELLON

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PGM:N10025CI                                 CIBC MELLON TRUST COMPANY                                    DATE:2012/11/05
                                        TOP   20 HOLDER REPORT AS OF 2012/11/02                           PAGE:1

C/S/T: 1109 02 1      CORP:SEARS CANADA INC /  COMMON SHARES

         ACCOUNT                 ---------- REGISTRATION ----------          -----  HOLDINGS  -----          CLASS
         2844963                 SEARS CANADA HOLDINGS CORP,                      57,732,517                  44
                                 3711 KENNETT PIKE
                                 GREENVILLE, DE
                                 19807


         22978391                SHLD ACQUISITION CORP,                           39,609,153                  10
                                 900-1959 UPPER WATER ST
                                 HALIFAX, NS
                                 B3J 3N2


         14790                   CEDE & CO,                                        3,088,835                  11
                                 55 WATER ST
                                 NEW YORK, NY
                                 10041


         14780                   CDS & CO,                                           898,333                  11
                                 25 THE ESPLANADE
                                 BOX 1038 STATION A
                                 TORONTO, ON
                                 M5E 1W5

         2074546                 STANLEY MACDONALD,                                    3,854                   1
                                 650 PARLIAMENT ST APT 2218
                                 TORONTO, ON
                                 M4X 1R3


         389953                  DOROTHY W FRAGISKOS,                                  3,359                   2
                                 1231 SOUTHWOOD DR
                                 OTTAWA, ON
                                 K2C 3C2


         22141671                RUTH BURZESE,                                         2,908                   2
                                 30 NORDEN CRES
                                 SAULT STE. MARIE, ON
                                 P6B 5T2
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CIBC MELLON

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PGM:N10025CI                                CIBC MELLON TRUST COMPANY                                  DATE:2012/11/05
                                      TOP   20 HOLDER REPORT AS OF 2012/11/02                          PAGE:2

C/S/I: 1109 02 1     CORP:SEARS CANADA INC /  COMMON SHARES

           ACCOUNT                ---------- REGISTRATION ----------          -----  HOLDINGS  -----          CLASS
           1172601                EVELYN MURRAY,                                     2,662                    1
                                  1707 SOUTH LAKESIDE DR
                                  WILLIAMS LAKE, BC
                                  V2G 3A9


           22130345               VERNON PETERS,                                     2,660                    1
                                  24 ROSEPAC AVE
                                  BRAMPTON, ON
                                  L6Z 2S5


           11485440               JENNY CHIN,                                        2,610                    1
                                  257 POPLAR PLAINS RD
                                  TORONTO, ON
                                  M4V 2N9


           388341                 MAY VIOLET MILLER,                                 2,545                    1
                                  C/O KEVAN HILL
                                  2245 MCTAVISH ST
                                  REGINA, SK  S4T 3X3


           380165                 VALENTIN PETSCHAR,                                 2,413                    1
                                  98 SUMMERHILL AVE
                                  TORONTO, ON
                                  M4T 1B2


           14485990               LINDA PRESTYKO,                                    2,175                    1
                                  224 GAYLE ST
                                  PO BOX 883
                                  BELLE RIVER, ON
                                  N0R 1A0

           384856                 STEWART COLLIER,                                   2,164                    1
                                  215 FERNWOOD CRES
                                  HAMILTON, ON
                                  L8T 3L5
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CIBC MELLON

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PGM:N10025CI                                CIBC MELLON TRUST COMPANY                                   DATE:2012/11/05
                                        TOP   20 HOLDER REPORT AS OF 2012/11/02                         PAGE:3

C/S/I: 1109 02 1      CORP:SEARS CANADA INC /  COMMON SHARES

         ACCOUNT                 ---------- REGISTRATION ----------          ----- HOLDINGS  -----              CLASS
         14343514                BETTY M WILSON,                                    2,106                         1
                                 15806 MCBETH RD
                                 SURREY, BC
                                 V4A 5X3


         22131192                BABU MISTRY,                                       2,062                         1
                                 6885 HISTORIC TRAIL
                                 MISSISSAUGA, ON
                                 L5W 1C1


         383432                  HILDA ZAHARICHUK,                                  2,042                         1
                                 1402-13910 STONY PLAIN RD NW
                                 EDMONTON, AB
                                 T5N 3R2


         1164338                 BEATRICE LEASEHOLDS LIMITED,                       2,000                        44
                                 456 ALLIANCE AVE
                                 TORONTO, ON
                                 M6N 2H8


         1170278                 PETER LAZARUK,                                     1,826                         1
                                 1044 POTTER GREENS DR NW
                                 EDMONTON, AB
                                 T5T 6A4


         22131271                ANGELINE MUNNICK,                                  1,781                         1
                                 7700 BENAVON RD
                                 MISSISSAUGA, ON
                                 L4T 3G3
```

CIBC MELLON

CIBC MELLON TRUST COMPANY
PARTICIPANT LIST OF CDS & CO AS AT 2012/11/02

CORPORATION 1109

WE HEREBY CONFIRM THAT THE FOLLOWING IS A LIST OF PARTICIPANTS OF THE COMPANY AND ISSUE(S) INDICATED AS SHOWN BY THE BOOKS OF RECORD KEPT IN THIS OFFICE AS AT THE CLOSE OF BUSINESS ON 2012/11/02

ISSUE(S)	SELECTION CRITERIA
1 - COMMON SHARES	CERTIFICATED HOLDINGS

E. AND O.E.______________________________

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AUTHORIZED SIGNATORY, CIBC MELLON TRUST COMPANY

SEARS CANADA INC

CIBC MELLON

1226

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PGM:N10025CC                          CIBC MELLON TRUST COMPANY                              DATE:2012/11/05
                                  PARTICIPANT LIST OF CDS & CO AS AT 2012/11/02                       1

   CORP   :1109        SYS:2   ISSUE:1
   SEARS CANADA INC   /   COMMON SHARES


20053764   HOLDINGS:            760      22355741   HOLDINGS:            183      20053888   HOLDINGS:        298,658
BERKSHIRE SECURITIES INC,                BLACKMONT CAPITAL INC,                   BMO NESBITT BURNS INC,
BENJAMIN MANION                          900 181 BAY ST                           250 YONGE ST
1375 KERNS RD                            PO BOX 779                               7TH FLOOR
BURLINGTON, ON                           TORONTO, ON                              TORONTO, ON
L7R 4X8             PART ID: BSI01       M5J 2T3             PART ID: BMC01       M5B 2M8             PART ID: NTD01


20053772   HOLDINGS:            204      20053960   HOLDINGS:            755      20053792   HOLDINGS:      1,382,880
CANACCORD CAPITAL CORP,                  CIBC WORLD MARKETS INC,                  CIBC MELLON GLOBAL SECURITIES
2200 609 GRANVILLE ST                    BCE PL                                   SERVICES GSS,
PACIFIC CENTRE                           22 FRONT ST W                            320 BAY ST
P.O.BOX 10337                            7TH FLOOR                                P.O.BOX 1
VANCOUVER, BC                            TORONTO, ON                              TORONTO, ON
V7Y 1H2             PART ID: CCA02       M5J 2W5             PART ID: WGD10       M5H 4A6             PART ID: COM11


21704556   HOLDINGS:             38      20053782   HOLDINGS:         76,744      20053886   HOLDINGS:         13,577
CIBC MELLON GLOBAL SECURITIES            CITIBANK CANADA,                         THE NORTHERN TRUST COMPANY,
SERVICE GSS,                             123 FRONT ST W                           2099 GAITHER RD
320 BAY ST - P. O. BOX 1                 SUITE 1800 ATTN SECURITIES DEPT          SUITE 501
TORONTO, ON                              TORONTO, ON                              ROCKVILLE, MA
M5H 2A6             PART ID: COM05       M5J 2M3             PART ID: CIT16       20850               PART ID: NTC01


20053799   HOLDINGS:            200      20053811   HOLDINGS:          5,233      20053847   HOLDINGS:             66
CREDIT UNION CENTRAL OF BC,              DUNDEE SECURITIES CORPORATION,           JONES GABLE & COMPANY LTD,
ATTN  KEN PHELAN                         1 ADELAIDE ST E                          110 YONGE ST
1441 CREEKSIDE DRIVE-7TH FL              SUITE 2700                               SUITE 600
VANCOUVER, BC                            TORONTO, ON                              TORONTO, ON
V6J 4S7             PART ID: CUB02       M5C 2V9             PART ID: DEA01       M5C 1T6             PART ID: JGC01


23038949   HOLDINGS:        247,850      20053835   HOLDINGS:          1,383      20053842   HOLDINGS:          1,261
GOLDMAN SACHS & CO,                      GRIFFITHS MCBURNEY & PARTNERS,           HAYWOOD SECURITIES INC,
ATTN JOHN IPPILITTO                      145 KING ST W                            400 BURRARD ST
BOND & INTEREST DEPT                     SUITE 1100                               COMMERCE PL
85 BOND STREET 8TH FLR                   TORONTO, ON                              SUITE 2000
NEW YORK, NY                             M5H 1J8             PART ID: GMP01       VANCOUVER, BC
10004               PART ID: GSC03                                                V6C 3A6             PART ID: HAY01
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CIBC MELLON

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PGM:N10025CC                            CIBC MELLON TRUST COMPANY                                          DATE:2012/11/05
                                  PARTICIPANT LIST OF CDS & CO AS AT 2012/11/02                                      2

   CORP   :1109      SYS:2   ISSUE:1
   SEARS CANADA INC  /  COMMON SHARES


25563491  HOLDINGS:       194,300      23174381  HOLDINGS:           954      20053850  HOLDINGS:             58
J P MORGAN CLEARING CORP,              EDWARD JONES,                          LAURENTIAN BANK OF CANADA,
3 CHASE METROTECH CENTRE               SUSSEX CENTRE                          1981 RUE MCGILL COLLEGE
PROXY DEPT                             90 BURNHAMTHORPE RD W FLR 6            MONTREAL, QC
BROOKLYN, NY                           MISSISSAUGA, ON                        H3A 3K3              PART ID: LAU03
11245-001          PART ID: MBC40      L5B 3C3            PART ID: EDJ01



20053866  HOLDINGS:           528      20053879  HOLDINGS:            14      20053861  HOLDINGS:         26,565
MACDOUGALL MACDOUGALL & MACTIER        NBCN CLEARING INC,                     NBCN MERRILL LYNCH CDA INC,
INC,                                   1010 RUE DE LA GAUCHETIERE O           181 BAY ST
PLACE DU CANADA                        SUITE 1410 REORG DEPT                  4TH FLR
1010 DE LA GAUCHETIERE W               MONTREAL, QC                           TORONTO, ON
SUITE 2000                             H3B 5J2            PART ID: NBC01      M5J 2V8              PART ID: MLC01
MONTREAL, QC
H3B 4J1            PART ID: MMM01

20053890  HOLDINGS:           619      20053901  HOLDINGS:         1,103      20053820  HOLDINGS:          4,927
ODLUM BROWN LIMITED,                   PACIFIC INTERNATIONAL SECURITIES I     PENSON FINANCIAL SVCS CDA INC,
250 HOWE ST                            666 BURRARD STREET,                    360 ST JACQUES ST W
SUITE 1100                             666 BURRARD ST SUITE 1900              11TH FLOOR
VANCOUVER, BC                          VANCOUVER, BC                          MONTREAL, QC
V6C 3N1            PART ID: OBL01      V6C 3N1            PART ID: PIS01      H2Y 1P5              PART ID: ECE01



20053897  HOLDINGS:            66      23321995  HOLDINGS:         2,797      20053871  HOLDINGS:          7,025
PETERS & CO LIMITED,                   QTRADE SECURITIES INC,                 RAYMOND JAMES LIMITED,
3900 BANKERS HALL W                    1920-505 BURRARD ST                    925 GEORGIA ST
888 3RD ST SW                          ONE BENTALL CENTRE BOX 85              SUITE 2200
CALGARY, AB                            VANCOUVER, BC                          VANCOUVER, BC
T2P 5C5            PART ID: PEC01      V7X 1M6            PART ID: QTR01      V6C 3L2              PART ID: MSL01



20053818  HOLDINGS:       142,915      20053914  HOLDINGS:         4,040      20053905  HOLDINGS:         71,285
RBC DOMINION SECURITIES INC,           RESEARCH CAPITAL CORPORATION,          ROYAL BANK OF CANADA,
PO BOX 50                              ERNST & YOUNG TOWER                    200 BAY STREET 25TH FLOOR
TORONTO, ON                            222 BAY ST SUITE 1500                  ROYAL BANK PLAZA NORTH TOWER
M5J 2W7            PART ID: DOM01      TORONTO DOMINION CENTRE                ATTN PROXY DEPT.
                                       P.O.BOX 265                            TORONTO ON, M5J 2J5 PART ID: RBC01
                                       TORONTO, ON
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CIBC MELLON

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                                   M5K 1J5            PART ID: RCC01

PGM:N10025CC                       CIBC MELLON TRUST COMPANY                              DATE:2012/11/05
                        PARTICIPANT LIST OF CDS & CO AS AT 2012/11/02                          3

  CORP   :1109       SYS:2   ISSUE:1
  SEARS CANADA INC  /  COMMON SHARES


20053921   HOLDINGS:        58,200    20053925   HOLDINGS:        17,342    20053831   HOLDINGS:        2,147
ROYAL TRUST CORPORATION,              SCOTIA CAPITAL INC,                   TD WATERHOUSE CANADA INC,
200 BAY ST 25TH FL                    PO BOX 4085                           77 BLOOR STREET WEST
ROYAL BANK PLAZA NORTH                STATION A                             3RD FLOOR
ATTN PROXY DEPT                       TORONTO, ON                           TORONTO, ON
TORONTO,ON                            M5W 2X6           PART ID: SCO01      M4Y 2T1          PART ID: G1S01
M5J 2J5          PART ID: RTR54


20053758   HOLDINGS:         3,093    23719151   HOLDINGS:            25    20053934   HOLDINGS:      515,110
THE BANK OF NOVA SCOTIA,              TIMBER HILL CANADA COMPANY,           STATE STREET TRUST,
40 KING ST W                          8 GREENWICH OFFICE PARK               1776 HERITAGE DR
23RD FLOOR                            GREENWICH, CT                         JAB4W
SCOTIA PLAZA                          06831             PART ID: THC02      QUINCY, MA
TORONTO, ON                                                                 02171            PART ID: SST01
M4H 1H1          PART ID: BNS02


20053955   HOLDINGS:         6,957    20053962   HOLDINGS:            11
VALEURS MOBILERES DESJARDINS INC,     WOLVERTON SECURITIES LTD,
1060 UNIVERSITY ST                    777 DUNSMUIR ST 17TH FLOOR
OFFICE 101                            P.O.BOX 10115 PACIFIC CENTRE
MONTREAL, QC                          VANCOUVER, BC
H3B 5L7          PART ID: VMD01       V7Y 1J5           PART ID: WSL01


PGM:N10025CC                       CIBC MELLON TRUST COMPANY                              DATE:2012/11/05
                        PARTICIPANT LIST OF CDS & CO AS AT 2012/11/02                          4

  CORP   :1109       SYS:2   ISSUE:1
  SEARS CANADA INC  /  COMMON SHARES

                                                  BALANCE                ACCOUNTS

                        CANADA             2,119,011.0000000                33

                        U.S.A                970,862.0000000                 5


                        TOTALS             3,089,873.0000000                38
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CIBC MELLON

Date	Open	High	Low	Close	Volume	Chg	% Chg
11/2/2012	11.2	11.6	11.1	11.35	208,376	0.35	3.18%
11/1/2012	11.2	11.2	10.91	11	367,026	-0.59	-5.09%
10/31/2012	10.7	11.61	10.6	11.59	441,806	0.89	8.32%
10/30/2012	10.7	10.7	10.7	10.7	3,000	0	0.00%
10/29/2012	10.5	10.73	10.3	10.7	59,195	0.01	0.09%
10/26/2012	11.01	11.01	10.65	10.69	127,079	-0.26	-2.37%
10/25/2012	11.03	11.27	10.9	10.95	20,732	-0.06	-0.54%
10/24/2012	10.98	11.03	10.95	11.01	286,710	0.11	1.01%
10/23/2012	11.15	11.15	10.85	10.9	396,700	-0.25	-2.24%
10/22/2012	11.15	11.15	11.15	11.15	300	0.06	0.54%
10/19/2012	10.92	11.09	10.92	11.09	288	-0.01	-0.09%
10/18/2012	11.1	11.1	11.1	11.1	317	0.09	0.82%
10/17/2012	N/A	N/A	N/A	11.01	158	0	0.00%
10/16/2012	11.16	11.25	11.01	11.01	8,600	0.01	0.09%
10/15/2012	11.01	11.01	11	11	9,600	-0.53	-4.60%
10/12/2012	11	11.53	11	11.53	1,914	0.43	3.87%
10/11/2012	11.1	11.1	11.1	11.1	468	-0.69	-5.85%
10/10/2012	11.06	11.81	11	11.79	3,715	0.78	7.08%
10/9/2012	11.1	11.1	11	11.01	20,665	-0.09	-0.81%
10/5/2012	11.2	11.2	11.1	11.1	2,500	-0.1	-0.89%
10/4/2012	11.1	11.2	11.1	11.2	7,805	0	0.00%
10/3/2012	11.01	11.2	11	11.2	12,010	0.2	1.82%

10. 2012 Plan

- Overview
- Further presentations

11. *In-camera* Session

- Members only
- Independent Members only

TAB 21

MINUTES of the meeting of the Board of Directors of **SEARS CANADA INC.** (the "Corporation") held at Watchtell, Lipton, Rosen & Katz LLP, 51 West 52nd Street, New York, New York, USA) on Monday, November 12, 2012, at 4:00 p.m., Eastern time and continuing on Tuesday, November 13, 2012 at 8:00 a.m., Eastern time.

PRESENT

W. C. Crowley (Ch.)
E. J. Bird (by phone)
W. R. Harker
R. R. Khanna
J. McBurney
C. McDonald
D. E. Rosati
D. Ross

MANAGEMENT

S. Driscoll
Senior Vice-President and Chief Financial Officer
K. Leshnjani
Senior Vice-President and General Counsel
F. Perugini
Associate General Counsel and Corporate Secretary

The Chairman of the Board, Mr. W. C. Crowley, acted as Chairman of the meeting and the Secretary of the Corporation, Mr. F. Perugini, acted as Secretary of the meeting.

ROLL CALL

1. The Chairman called the meeting to order and took a roll call. The Secretary advised the Board that a Consent Agenda would be used to approve certain items on the agenda without any formal presentation or a full discussion, unless a member requested that an item be presented for a full discussion. Items numbered 7, 8, 9 and 10 were approved in accordance with the Consent Agenda.

HUMAN RESOURCES AND COMPENSATION COMMITTEE

2. The Chair of the Human Resources and Compensation Committee, Mr. W.C. Crowley, presented his report on the meeting of the Committee held on November 8, 2012, which covered the following items:

(a) Review and Approval of:
  - Organizational Structure – Future State
  - Senior Leadership Team Compensation Actions
  - Executive Compensation Strategy
  - Committee Charter
  - 2013 Committee Workplan

(b) Annual Incentive Program
  - 2013 Design Review
  - 2012 Status Report

(c) Long Term Incentive Plan
  - 2012-2015 Design Review
  - Prior performance period status reports

(d) Review of the 2013 Workplan and review and approval of changes to the Amended and Restated Charter of the Human Resources and Compensation Committee

(e) Review of:
  - Human Resources Update
  - ELT and SVP Succession Plan Update
  - SLT Compensation and Statistics Update

- Retirement Plans – Annual Governance Update
- Executive Compensation Disclosure Update for 2013

INVESTMENT COMMITTEE REPORT

3. The Chair of the Investment Committee, Mr. W. R. Harker, presented his report on the meeting of the Committee held on November 9, 2012, which covered a number of items including:

(a) Performance review by Towers Watson
(b) Management's Report:
  - Sears Registered Retirement Fund
  - Sears Canada Inc. Supplementary Retirement Plan
  - Sears Canada Inc. Health & Welfare Plan Trust Fund
(c) Review of the 2013 Workplan, the Amended and Restated Charter of the Investment Committee and the Statements of Investment Policies and Procedures

AUDIT COMMITTEE REPORT

4. The Chair of the Audit Committee, Mr. E. J. Bird, presented his report on the meeting of the Committee held on November 12, 2012, which covered a number of matters including:

(a) Review and approval of press release and attached financial statements for the third quarter results
(b) Report by the External Auditors in respect of the third quarter
(c) Internal Audit Update.
(d) Update on Store Audit
(e) Review of 2013 Workplan and review and approval of changes to the Amended and Restated Charter of the Audit Committee
(f) Secretary's Report – Ethics Hotline – Litigation Summaries
(g) Update on Bill 198

NOMINATING AND CORPORATE GOVERNANCE COMMITTEE REPORT

5. The Chair of the Nominating and Corporate Governance Committee, Mr. Raja Khanna, presented his report on the meeting of the Committee held on November 8, 2012, which covered a number of matters including:

(a) Review of the Board Effectiveness Survey, which included a Director Assessment component conducted in the third quarter of 2012. Mr. Khanna indicated that no significant issues were identified and provided a summary of certain comments and recommendations relating to board effectiveness which were common among the directors:
  i. Director compensation should continue to be reviewed
  ii. Directors would like to continue with the Director education sessions in respect of the Corporation's business
  iii. Investor communication practices should be continually reviewed

(b) Recommendation to the Board of Directors of the Corporation that Mr. Don Ross be appointed to the Human Resources and Compensation Committee and to the Nominating and Corporate Governance Committee
(c) Review of the 2013Workplan and Charter

REPORT BY THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

6. Mr. Calvin McDonald, President and Chief Executive Officer, provided a business update regarding Trading for the third quarter and gave a Transformation update. The presentation included a summary of the year-to-date accomplishments and

March 14, 2013 (tel)	Audit Committee	(9:00 a.m. to 11:00 a.m.)
	NCGC	(11:00 a.m. to Noon)
	HRCC	(Noon to 1:30 p.m.)
	Board	
April 15, 2013 (in person)	Board Meeting / Dinner	(5:00 p.m. to 8:30 p.m.)
April 16, 2013 (in person)	Annual Shareholders Meeting	(8:00 a.m. to 10:00 a.m.)
	Board – following Annual Shareholders Meeting	
May 21, 2013 (tel)	Audit Committee	(1:00 p.m. to 3:00 p.m.)
	Investment Committee	(3:00 p.m. to 4:00 p.m.)
July 16, 2013 (in person)	Board Strategic Session	(3:00 p.m. to 6:00 p.m.)
	Board Dinner	(6:30 p.m. to 8:30 p.m.)
July 17, 2013 (in person)	Board Strategic Session	(8:00 a.m. to 2:00 p.m.)
August 20, 2013 (tel)	Audit Committee	(1:00 p.m. to 3:00 p.m.)
	Investment Committee	(3:00 p.m. to 4:00 p.m.)
November 14, 2013 (tel)	Investment Committee	(8:00 a.m. to 9:30 a.m.)
	NCGC	(9:30 a.m. to 10:30 a.m.)
	HRCC	(10:30 a.m. to Noon)
November 18, 2013 (in person/ NYC)	Audit Committee	(2:00 p.m. to 4:00 p.m.)
	Board	(4:00 p.m. to 6:00 p.m.)
	Board Dinner	(6:30 p.m. to 8:30 p.m.)
November 19, 2013 (in person / NYC)	Board	(8:00 a.m. to 2:00 p.m.)

<u>**ON MOTION**</u>, duly made and seconded, it was unanimously resolved:

THAT the Annual Meeting of Shareholders of the Corporation be held in Toronto, at the Head Office of the Corporation, on April 16, 2013, be approved.

APPOINTMENT OF DON ROSS TO COMMITTEES

10. The Board discussed the possible appointment of Don Ross to the Human Resources and Compensation Committee and to the Nominating and Corporate Governance Committee and the recommendation from the Nominating and Corporate Governance Committee with respect to the appointments.

<u>**ON MOTION**</u>, duly made and seconded, Mr. Ross having abstained from voting, it was unanimously resolved:

> **THAT** Mr. Don Ross be appointed to the Human Resources and Compensation Committee and to the Nominating and Corporate Governance Committee.

OTHER BUSINESS

11. The following items were provided as a reference:
    - ➢ Analyst Reports
    - ➢ SCI Top twenty Registered Shareholders list and CDS participant list
    - ➢ Trading Volume

2013 Plan

12. Mr. McDonald presented the 2013 Plan, which included a strategy overview, 2013 financial plan and Key initiatives. The topics covered included:

- Operating Environment
- Business, Operational and Structural Issues
- Where Are We vs. Where We Thought We Would Be
- Approach to 2013
- Other Key Strategic Initiatives
- 2013 Financial Plan
- 2013-2015 Financial Plan

FURTHER PRESENTATIONS

13. Following the review of the 2013 Plan, further presentations were made by the team with respect to key areas of the business, as follows:

- SG&A Reduction Project
  Doug Campbell
- Project Matrix
  Calvin McDonald
- Sears Home Services - Home Improvement Transformation
  Peter Kalen
- Direct Update
  Peter Kalen
- Information Technology Update
  Darlene Goren

IN-CAMERA SESSION

14. All representatives of Management, including the President and Chief Executive Officer, left the meeting so that the Directors could meet privately. Following the Committee's *in-camera* session, all the non-independent directors were excused so that the independent directors could then meet privately.

There were no items discussed during the *in-camera* session that were not raised during the meeting.

There being no further business, the meeting was then terminated.

Chairman of the Meeting

Jan. 30, 2013
Date

Secretary of the Meeting

TAB 22

MINUTES of the telephone meeting of the Board of Directors of **SEARS CANADA INC.** (the "Corporation") held on November 26, 2012 at 2:00 p.m., Eastern time.

PRESENT

W. C. Crowley (Ch.)
E. J. Bird
W. R. Harker
R. R. Khanna
J. McBurney
C. McDonald
D. E. Rosati
D. Ross

MANAGEMENT (In person)

S. Driscoll
Senior Vice-President and Chief Financial Officer
K. Leshnjani
Senior Vice-President and General Counsel
S. Swartzman
Vice-President, Real Estate
S. Champion
Divisional Vice-President, Real Estate
F. Perugini
Associate General Counsel and Corporate Secretary

The Chairman of the Board, Mr. W. C. Crowley, acted as Chairman of the meeting and the Secretary of the Corporation, Mr. F. Perugini, acted as Secretary of the meeting.

ROLL CALL

1. The Chairman called the meeting to order and took a roll call.

SALE OF MEDICINE HAT JOINT VENTURE INTEREST

2. Stanley Swartzman, Vice-President, Real Estate and Stephen Champion, Divisional Vice-President, Real Estate, gave a presentation regarding the potential sale of the Corporation's 40% joint venture interest in the Medicine Hat Mall, Medicine Hat, Alberta to its joint venture partner, Sleeping Bay Building Corp. ("Sleeping Bay").

The joint venture structure is unique in that the shopping centre is built on leased land, which lease expires in 2040. At that time, the Corporation will no longer have an ownership interest in the shopping centre and the ownership of the shopping centre will revert to Sleeping Bay.

Mr. Swartzman and Mr. Champion advised that the Corporation has been in discussions with Sleeping Bay regarding the sale of the Corporation's 40% interest and that Sleeping Bay has made a verbal offer at $44 million.

The Board discussed the structure of the shopping centre interest and the projected cash flow from the joint venture. Following the discussion, the Board approved that the Corporation proceed with the sale of its 40% interest in the shopping centre for $44 million.

There being no further business, the meeting was then terminated.

Chairman of the Meeting

Jan. 30, 2013
Date

Secretary of the Meeting

TAB 23

From: Franco Perugini
To: Bill Crowley; ej.bird@hughes.net; Bill Harker; Jim McBurney; Calvin McDonald; deborah@shantiliving.ca; Don Ross; Raja Khanna; EJ Bird
Cc: Klaudio Leshnjani; Sharon Driscoll
Bcc: Jennifer Green; Amanda Lagrotta; Amie Anderson; Esther Gerassimou
Subject: Special Board Meeting - December 12, 2012, from 2:00 pm to 3:00 pm Eastern time
Date: 12/12/2012 11:24 AM

TO: THE BOARD OF DIRECTORS OF SEARS CANADA INC.

RE: BOARD MEETING

A special telephone Board meeting will be held on Wednesday, December 12, 2012, from 2:00 pm to 3:00 pm Eastern time, to consider a dividend declaration. Meeting materials will be provided in advance of the meeting.

Individuals who plan to participate by phone, please call the following applicable toll free number and follow the prompts.

Canada & U.S.
Dial in Number: 800-503-2899; or
Dial in Number: 647-723-3982
Passcode: 9414417

UK
Dial in Number: 0800 496 0578; or
Dial in Number: +44 0207 904 0083
Passcode: 9414417

Thank you.

Franco Perugini
Associate General Counsel and
Corporate Secretary
Sears Canada Inc.
290 Yonge Street
Suite 700
Toronto, Ontario
M5B 2C3
Tel: 416 941-4419
Fax: 416 941-2321

TAB 24

Sears

Dividend Discussion

Board of Directors

December 12th, 2012

Summary

Company could declare in December 2012 between $100 MM and $150 MM dividend while still providing excess cash for operational uses …

- Dividend funded through available cash
- Forecast cash at 12/30/12 is $430 MM with approx $25 MM of debt and capital leases
- The Board may approach, obtain and rely in good faith on the advice of a third party expert to assess the financial strength of the Company going forward and the Company's ability to support an extraordinary dividend distribution.
- Appendix includes:
  - Board governance considerations regarding dividend declaration
  - Dividend declaration process

ABL Considerations

Management has analyzed the liquidity available under the ABL credit facility ...

- Minimum forecast ABL availability through fiscal 2013 is in January 2013 at $460 MM
    - Based on the advance rate of 85% of net eligible inventory of approx $610 MM, less availability reserves (WEPPA, taxes, LCs, other) of approx $150 MM
    - Pension Wind-Up Reserve:
        - With a days notice, Lenders, at their discretion, can establish a wind-up reserve for an amount they deemed appropriate
        - Sears amended credit agreement in November 2012 to reduce this reserve by up to $150 MM by pledging approx $300 MM of owned real estate security (9 properties)
        - Reserve is triggered when excess availability is less than pension wind-up amount ($509 MM based on 2011 actuary valuation) plus $50 MM, less up to $150 MM for real estate security once liens in place
    - ABL Update:
        - Real estate security currently not in place (outstanding appraisals, environmental assessments)
    - Minimum ABL Availability forecast (with pension wind-up reserve)

ABL Availability:	$460 MM
Less: Pension Reserve	$509 MM (based on 2011 actuary valuation)
Plus: Real Estate Credit	$0 MM (currently not available)
Total	$0 MM

- Under the ABL, should Sears Holdings' ownership in Sears Canada fall below 50%, it triggers an event of default that would declare the commitment of each lender to be terminated and the advances, including all interest, shall be due and payable

Other Considerations

- Relationship with Sears Holdings
  - The license agreement will continue to be binding upon Sears Holdings and Sears Canada until the expiration of a period of three (3) years after Sears Holdings shall have ceased to hold, directly or indirectly, at least 25% of the voting shares of Sears Canada
  - Strategic sourcing agreements with key vendor partners ie IBM, Oracle, Whirlpool need to be considered
- Operational Risks
  - Sales and earnings trends for remainder of 2012
    - Downside case scenario includes a cash risk of $45 MM
  - Sales and earnings trends for 2013
    - Downside case scenario includes a cash risk of $235 MM
  - Loss of working capital through 2013
    - Downside case scenario includes $50 MM or an approximate 10 day loss in days payable
    - Possible receipt timing impact per month
- Other Cash Alternatives
  - Increase debt level – mortgage, bonds, secured loans
  - Realize value in owned assets
    - NBV $830 MM owned properties
    - NBV $257 MM Joint Venture assets
  - Realize value in leaseholds
  - Sell Businesses – SLH, HIPS, Formats (Full-Line, Home, Dealer, Corbeil)

Summary Financial Impact

Management forecasts the following pro forma financial impact of a $100-$150MM extraordinary dividend being paid to shareholders …

Scenario: $100M Dividend

	2012	2013	
$100M Dividend Scenario	Forecast	Plan	Downside
Cash & Equivalents	275.2	434.8	198.2
Less Restricted Cash / Cash in Transit	(60.0)	(60.0)	(60.0)
Operational needs	(150.0)	(150.0)	(150.0)
Excess cash for strategic uses	65.2	224.8	(11.8)
Asset Backed Loan			
Line Cap	475.0	506.4	513.1
Less: Current Usage	-	-	-
Less: LCs	15.0	15.0	15.0
Available Capacity	460.0	491.4	498.1
Excess Liquidity	525.3	716.2	486.3
Total Debt	36.2	17.6	17.6
EBITDA	87.4	235.0	-

Scenario: $150M Dividend

	2012	2013	
$150M Dividend Scenario	Forecast	Plan	Downside
Cash & Equivalents	225.2	384.8	148.2
Less Restricted Cash / Cash in Transit	(60.0)	(60.0)	(60.0)
Operational needs	(150.0)	(150.0)	(150.0)
Excess cash for strategic uses	15.2	174.8	(61.8)
Asset Backed Loan			
Line Cap	475.0	506.4	513.1
Less: Current Usage	-	-	-
Less: LCs	15.0	15.0	15.0
Available Capacity	460.0	491.4	498.1
Excess Liquidity	475.3	666.2	436.3
Total Debt	36.2	17.6	17.6
EBITDA	87.4	235.0	-

Dividend Illustrative Timetables

January

S	M	T	W	T	F	S
						1
2	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17	18	19	20	21	22
23	24	25	26	27	28	29
30	31					

June

S	M	T	W	T	F	S
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30	31		

▨ Milestone

░ Holiday in US or Canada

Dividend Timetable

Decr 12th	Board meeting Resolution to declare a dividend
Dec 12th	Press release issued: - Declare dividend to be paid - Confirm record date
Dec 24th	Earliest Record Date (min. 7 trading days from press release)
Dec 31st	Earliest payment of special dividend (min. 3 trading days from Record Date)

Appendix

Contents:

1. Board Governance Considerations – Dividend Declaration

Statutory Solvency Tests

- Section 42 of the Canada Business Corporations Act ("CBCA") states that:
  - "A Corporation shall not declare or pay a dividend if there are reasonable grounds for believing:
    - (a) The Corporation is, or would after the payment be, unable to pay its liabilities as they become due; or
    - (b) The realizable value of the corporation's assets would thereby be less than the aggregate of its liabilities and stated capital of all classes"
- The Board will receive a certificate from the Chief Financial Officer setting forth the analysis and conclusions with respect to the above requirements at the time the extraordinary cash dividend is declared

Corporate Governance / Process

- Section 122(1) of the CBCA requires that:
  - "Every director and officer of a corporation in exercising their powers and discharging their duties shall:
    - (a) Act honestly and in good faith with a view to the best interests of the corporation; and
    - (b) Exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances"
- The Directors may obtain the advice of financial advisors and may rely in good faith on a third party expert and Management advice in making a decision

2. Dividend Declaration Process

Dividend Declaration Process

- When the Corporation resolves to declare and pay a dividend, then:
  - Press release issued as soon as possible following the Board decision
    - Declaring that the dividend is to be paid
    - Confirming the record date (date upon which shareholders of record entitled to receive dividend)
  - The record date must be at least 7 trading days following the date the press release is issued and may not be greater than 60 days before the payment of the dividend
  - The payment of the dividend can occur as soon as the day following the record date

TAB 25

OFFICER'S CERTIFICATE

SOLVENCY TESTS UNDER SECTION 42 OF THE CBCA

TO: THE BOARD OF DIRECTORS OF SEARS CANADA INC.

I, Sharon Driscoll, the Chief Financial Officer of Sears Canada Inc. (the "Corporation"), hereby certify as an officer of the Corporation (not in my personal capacity and, on the basis that I have acted in the manner set out in paragraph 1 of this certificate, without personal liability), as follows:

1. In giving this certificate:

   (a) I have acted honestly and in good faith with a view to the best interests of the Corporation; and

   (b) I have exercised the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

2. I am familiar with the financial position of the Corporation and the circumstances surrounding the proposed extraordinary cash dividend of up to CAD $150 million, to be paid on December 31, 2012, to holders of common shares of the Corporation of record on at the close of business on December 24, 2012.

3. I reviewed, and discussed with the Corporation's lawyers, the provisions of section 42 of the *Canada Business Corporations Act.* I understand those provisions.

4. I have made such examinations and investigations, received such advice from the Corporation's advisors and reviewed such documents as are, in my opinion, necessary to provide a reasonable basis for the conclusion in paragraph 6 below including:

   (a) the audited financial statements of the Corporation for the year ended January 28, 2012;

   (b) an internally prepared cash flow statement which sets out a projected analysis of the Corporation's cash flow for the fiscal years 2012 and 2013;

   (c) a *pro forma* balance sheet of the Corporation for all months within 2013, which has been prepared on the basis that the proposed extraordinary cash dividend has been paid;

   (d) the nature of the Corporation's business; and

   (e) such other information as I considered necessary for the purposes of giving this certificate.

5. In arriving at the conclusion in paragraph 6 below, I took the following approaches and made the following determinations:

As to the conclusion in paragraph 6(a) below:

(a) I determined whether the Corporation is, or after paying the proposed extraordinary cash dividend would be, able to pay its "liabilities as they become due" on the basis of the projected cash flow of the Corporation and the Corporation's direct liabilities, but not including contingent liabilities of the Corporation because it is unlikely that the Corporation will be required to make payment in respect of any contingent liability within a reasonably foreseeable period.

As to the conclusion in paragraph 6(b) below:

(b) I estimated the "realizable value" of the Corporation's assets as being the amount which the Corporation could reasonably expect to receive as proceeds of sale of its assets if sold in the manner most likely to be employed in the present circumstances of the Corporation over a reasonable period of time, taking into account the nature of the assets, the costs of disposition and any taxes payable by the Corporation in connection with those sales.

(c) As of the date of this certificate, the realizable value of the Corporation's assets is not less than $2.6 billion, the aggregate of its liabilities is not more than $1.4 billion, and the stated capital of all classes of shares issued by the Corporation is $14.9 million.

6. Based on the foregoing advice, enquiries, calculations and determinations, and applying the approaches and determinations described in paragraph 5 above, I have concluded that as of the date of this certificate:

(a) there are no reasonable grounds for believing that the Corporation is, or after payment of the proposed extraordinary cash dividend would be, unable to pay its liabilities as they become due; and

(b) there are no reasonable grounds for believing that the realizable value of the Corporation's assets, after giving effect to the payment of the proposed extraordinary cash dividend, would be less than the aggregate of the Corporation's liabilities and the stated capital of all classes.

DATED this 12th day of December, 2012.

Sharon Driscoll

Sharon Driscoll
Chief Financial Officer

TAB 26

MINUTES of the telephone meeting of the Board of Directors of **SEARS CANADA INC.** (the "Corporation") held on December 12, 2012 at 2:00 p.m., Eastern time.

PRESENT

W. C. Crowley (Ch.)
E. J. Bird
W. R. Harker
R. R. Khanna
J. McBurney
C. McDonald
D. E. Rosati
D. Ross

MANAGEMENT (in person)

S. Driscoll
Senior Vice-President and Chief Financial Officer
K. Leshnjani
Senior Vice-President and General Counsel
G. Guyatt
Vice-President, Corporate Controller
T. Dalglish
Divisional Vice-President and Treasurer
F. Perugini
Associate General Counsel and Corporate Secretary

The Chairman of the Board, Mr. W. C. Crowley, acted as Chairman of the meeting and the Secretary of the Corporation, Mr. F. Perugini, acted as Secretary of the meeting.

ROLL CALL

1. The Chairman called the meeting to order and took a roll call.

DISCUSSION REGARDING EXTRAORDINARY DIVIDEND

2. Sharon Driscoll, Senior Vice-President and Chief Financial Officer gave a presentation to the Board regarding the Corporation's cash position and the possibility of the declaration of an extraordinary cash dividend. The Board discussed the liquidity under the existing asset backed loan facility, the financial impact of the dividend and other considerations. Management also presented a draft press release relating to the dividend.

Following discussion the Board passed the following resolution:

WHEREAS the Board of Directors has considered the interests of shareholders ("Shareholders") and other stakeholders of the Corporation, including creditors and debenture holders in determining the appropriate use of cash on hand;

WHEREAS the Corporation has sufficient cash on hand;

WHEREAS the Board of Directors has determined that it would be in the best interests of the Corporation to declare an extraordinary cash dividend in the amount of approximately $102 million to be distributed to Shareholders on a pro-rata basis; and

WHEREAS the Board of Directors has received a certificate from management of the Corporation confirming that the declaration and payment of the extraordinary cash dividend is in compliance with section 42 of the *Canada Business Corporations Act*.

ON MOTION, duly made and seconded, it was unanimously resolved:

THAT an extraordinary cash dividend in the amount of CAD $1.00 per share on all Common Shares of the Company, or approximately CAD $102 million, be paid pro-rata, in Canadian currency, on the 31st day of December, 2012, to the Shareholders of record as at the close of business on the 24th day of December, 2012.

THAT the Corporation be authorized to finalize and issue the draft press release relating to the declaration and payment of an extraordinary cash dividend, which was circulated to the Board in advance of the meeting.

THAT any Director or Officer of the Corporation be authorized and directed for and on behalf of the Corporation to do all things necessary or desirable to give effect to this resolution.

There being no further business, the meeting was then terminated.

Chairman of the Meeting

Secretary of the Meeting

Date

TAB 27

Real Estate Update

June 13, 2013

Private & Confidential

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EXECUTIVE SUMMARY

June 12, 2013

RETURN OF YORKDALE AND SQUARE ONE LEASES TO LANDLORD

and

OPTION ON SCARBOROUGH TOWN CENTRE LEASE

Background / Overview. Sears Canada Inc. ("Sears" or the "Corporation") was approached by its landlords, Oxford Properties Group and Alberta Investment Management Corporation ("Oxford"), offering to buy out the remaining terms of the Yorkdale Shopping Centre and Square One Shopping Centre leases, and offering to purchase an option on the Scarborough Town Centre lease. Following Management's presentation to the Sears Board on April 29, 2013, the Sears Board authorized Sears to finalize negotiations with Oxford and to return for final approval from the Board with respect to the transaction. Sears has finalized the negotiations with Oxford, the details of which are set out below.

Purchase Price.	Yorkdale	$140,270,000
	Square One	$ 50,730,000
		$191,000,000
	Scarborough	$ 1,000,000

Completion Date. The transaction is scheduled to close on June 24, 2013

Vacate Stores. March 31, 2014 for Yorkdale and Square One
TBD for Scarborough, if option exercised

Conditon of Stores. Stores are to be delivered to Oxford in an "as is" condition

Transaction. The transaction will be completed by means of a three-step process, described below, which will provide the landlords with the right to terminate Sears' Yorkdale and Square One store leases, in consideration of certain payments to Sears. Because Sears will receive these payments up front, Oxford is expected to exercise those termination rights in the near future and perhaps within 30 days after closing. The applicable landlord will be given an option to make analogous amendments to Sears' Scarborough lease which, if exercised, would result in the same "three-step" process.

Rationale for Three-Step Process. If the three leases were simply surrendered as is, the Yorkdale and Scarborough landlords would be responsible for land transfer tax on the full amount of the payments made to Sears on those locations. Separating the process into the above three steps is designed to make such tax payable only on the first steps, and not the second ones, thus substantially reducing the overall tax burden. The obligation to pay land transfer tax is Oxford's and Oxford has given Sears an indemnity in this respect.

Three-Step Process. For the Yorkdale and Square One leases, the three steps are as follows:

- The first step is to amend each lease to reduce the remaining terms thereof, inclusive of optional renewal periods, to less than 50 years. (The remaining term of the Yorkdale lease is currently more than 50 years and that of the Square One lease less than 50 years, but the Landlord wants to treat the two similarly.)

- The second step is to amend the leases to give the Landlords the right to terminate them at any time up until January 31, 2014. (It is anticipated that such termination right will in fact be exercised before that.)

- The third step is the exercise of that right by the Landlord. If and when it is exercised, Sears and the landlords will be bound by licence agreements that permit Sears to remain in possession of the stores and carry on business until March 31, 2014, at which time the premises have to be vacated by Sears.

In the case of Scarborough, the landlord has an option to require that amendments be made to the Scarborough lease analogous to those for Yorkdale and Square One.

Payments to Sears. In consideration of the amendments to the Yorkdale and Square One leases referred to above, Oxford will pay Sears $191,000,000, plus HST, allocated among the lease amendments. For the Scarborough lease, Sears will receive an up-front payment of $1,000,000 for the granting of the option. If it is exercised, there will be separate payments for the first and second amendments determined as per a schedule to the option agreement, but the two payments will in any event total $53,000,000.

Timing for Yorkdale and Square One. The timing is as follows:

- The transaction is subject to environmental and Board approval conditions in Oxford's favour until 4 p.m. Eastern time on June 13, 2013.
- The transaction is also subject to a Board approval condition in Sears' favour until 11:59 p.m. Eastern on June 14, 2013.
- The closing funds (i.e. $192,000,000 plus HST) are to be delivered by Oxford to Sears' external lawyers, Stikeman Elliott, in escrow by June 20, 2013.
- All documents come out of escrow and become effective on June 24, 2013. The closing funds (i.e. $192,000,000 plus HST) are then released to Sears.
- Thereafter, it is left to the landlords as to if and when they exercise their second amendment rights to terminate the Yorkdale and Square One leases. If they are to do so, they must exercise by January 31, 2014. Having paid the full consideration for such rights, it is anticipated that they will exercise them.
- Upon receiving notice of exercise of the landlord's second amendment rights, Sears stays in possession of the stores until March 31, 2014 under a licence agreement. Although an operating covenant continues to apply during such period, Sears is permitted to engage in certain wind-down activities from February 1, 2014. Sears must be out of the premises (including removal of inventories, furnishings, trade fixtures and repair of any damage caused by the installation or removal thereof) by March 31, 2014. A $250,000 deposit per store held by the Landlords secures this obligation.

Timing for Scarborough. The timing is as follows:

- The applicable Landlord's option is open for exercise until June 20, 2018 after which date, if not exercised, it expires.
- If and when it is exercised, the parties are required to deliver the analogous amending documents and the purchase price of $53,000,000 plus HST, to Stikeman Elliott in escrow within 15 business days from the exercise of the option.
- Steps analogous to those applicable to Yorkdale and Square One are then taken and the landlord may not name an expiration date for the lease that (i) occurs in November or December of any year or (ii) is later than July 12, 2018. The licence agreement then runs for another 6 months if the expiration date occurs in January through March in any year and for another 12 months if the expiration date occurs in April through October in any year.

Draft: Not For Release

Contact for Media:
Vincent Power
Sears Canada, Corporate Communications
416-941-4422
vpower@sears.ca

Sears Canada Announces Transactions on Two Stores with Landlord for $191 million

TORONTO – June 14, 2013 – Sears Canada Inc. (TSX: SCC) announced today that it will enter into a series of transactions related to two stores within shopping centres co-owned by Oxford Properties Group ("Oxford") and Alberta Investment Management Corporation ("AIMCo") (collectively, the "Co-Owners"). The transactions give the Co-Owners the right to require Sears to vacate the stores by March 31, 2014 and provide for a total consideration of $191 million to be paid to Sears on closing of the transactions which is expected to be on June 24, 2013. The agreement is definitive and only subject to customary closing conditions.

The two Sears store locations are at Yorkdale Shopping Centre in Toronto and at Square One Shopping Centre in Mississauga.

In addition to the agreement on the two stores, Sears has also agreed to sell an option relating to a third store located at Scarborough Town Centre to the Co-Owners for financial consideration of $1 million, also to be paid by June 24, 2013. The Co-Owners have five years to exercise the option on this property at a fixed total cost of $53 million.

Sears Canada will be offering all associates working in these stores continued employment with Sears in locations within the Greater Toronto area.

"The possible release of select assets is an initiative we have previously proposed as a way to create total value for the Company," said Calvin McDonald, President and Chief Executive Officer, Sears Canada Inc. "When transactions such as this become available, we must evaluate the trading value of a store compared to the value of the proposal, and make the appropriate decision in assessing the best long-term benefit for the Company. In this case, we were presented with an opportunity that gives us a significant financial benefit without changing our plans to improve the business and make Sears more relevant to Canadians.

"While opportunities like this are presented to us occasionally," continued Mr. McDonald, "our primary focus of creating long-term value for the Company is best approached by implementing our three-year transformation. Over the past year we have undertaken numerous actions to get the basics right, and have worked to transform Sears Canada into a retailer that can run effectively, efficiently and sustainably. Our efforts are beginning to show financial and operational results, and recent results are demonstrating that our trading strategy is starting to work despite a challenging retail environment.

"I am pleased that we are offering all associates in these stores roles within the Company", added Mr. McDonald. "We appreciate the commitment and dedication that our associates in the two stores have demonstrated, and look forward to finding new homes for them within the Sears family."

Sears has operated in Yorkdale Shopping Centre and Scarborough Town Centre since 1991 and at Square One Shopping Centre since 1973.

About Sears Canada

Sears Canada is a multi-channel retailer with a network that includes 181 corporate stores, 248 Hometown stores, over 1,400 catalogue and online merchandise pick-up locations, 101 Sears Travel offices and a nationwide home maintenance, repair, and installation network. The Company also publishes Canada's most extensive general merchandise catalogue and offers shopping online at www.sears.ca.

-30-

RESOLUTION

OF THE BOARD OF DIRECTORS (the "Board")

OF SEARS CANADA INC. (the "Corporation")

WHEREAS the Corporation is a tenant and Oxford Properties Group ("Oxford") is the landlord pursuant to leases in the following locations:

- Yorkdale Shopping Centre, Toronto, Ontario
- Square One Shopping Centre, Mississauga, Ontario
- Scarborough Town Centre, Toronto, Ontario

WHEREAS Oxford has approached the Corporation and has offered to buy out the remaining terms of the Yorkdale Shopping Centre and Square One Shopping Centre leases, and to purchase an option on the Scarborough Town Centre lease;

WHEREAS the Board, at its meeting on April, 29, 2013, authorized the Corporation to negotiate the terms of an agreement with Oxford for the termination of the Yorkdale Shopping Centre and Square One Shopping Centre leases for $191 million dollars, and the granting of an option for $1 million dollars to purchase the Scarborough Town Centre lease for $53 million;

WHEREAS the Corporation is required to obtain Board approval for any asset acquisition or disposition of greater than ten million dollars ($10,000,000.00);

WHEREAS Management has provided the Board with a presentation regarding the negotiated terms of an agreement with Oxford; and

WHEREAS the Board considers it in the best interest of the Corporation to approve the negotiated terms of the agreement with Oxford to terminate the Yorkdale Shopping Centre and Square One Shopping Centre leases for $191 million dollars, and the granting of the $1 million dollar option on the Scarborough Town Centre lease, in accordance with the terms as presented by Management.

BE IT RESOLVED:

THAT the Corporation be authorized to proceed to terminate the Yorkdale Shopping Centre and Square One Shopping Centre leases for $191 million dollars, and to grant the option for $1 million dollars to purchase the Scarborough Town Centre lease for $53 million, in accordance with the negotiated terms as presented by Management; and

THAT the Corporation be authorized to execute and deliver all such documents and to take all such steps and do all such other acts as may be necessary or desirable to give effect to this resolution.

Appendix

Board Meeting Presentation - April 29, 2013
(for information only)

Real Estate Update

April 29th, 2013

1207

Disposition – 3 FL stores to Oxford

Situation:
Oxford has made an offer to purchase the Yorkdale and Square One leases for $191MM and required a $1MM option to purchase Scarborough Town Centre for $53MM within the next 5 years.

Purchase Price & 2013 EBITDA Multiple Estimates:
$191MM consideration for Yorkdale & Square One represent 21.2x four-wall EBITDA for 2013 fiscal estimates* and 10.6x for Scarborough compared to the Sears trading EBITDA multiple of 6.8x. This represents a value that is over 14x the Sears trading EBITDA multiple for Yorkdale & Square One. Net RE proceeds after taxes on capital gain are approx. $170 MM for the 2 stores including the option. Cash proceeds after severance and inventory release are estimated at approx. $168MM.

Leased Properties with Redevelopment Potential	Mall Quality	Current Rent/sqft	Years Left	Purchase Price ($MM)	Four-Wall EBITDA 2013F ($MM)	Purchase Price to Four-Wall EBITDA Multiple	Tax on Capital Gain ($MM)	Net Proceeds from RE ($MM)	Severance ($MM)	Inventory Release	Cash Proceeds
001111-YORKDALE	A+	7.5	81		$ 4		(17)		$ (2)	$ 1.4	
001081-MISSISSAUGA	A	2.0	26	$ ~~191~~	$ 5		(5)		$ (2)	$ 1.3	
Yorkdale & Mississauga Total				**$ 191**	**$ 9**	**21.2**	**$ (22)**	**$ 169**	**$ (5)**	**$ 2.7**	**$ 167**
Scarborough option				$ 1			$ (0.13)	$ 0.87			$ 0.87
001308-SCARBOROUGH 2	B	6.0	58	$ 53	$ 5	10.6	(7)	$ ~~46~~	(2)	1.3	$ ~~46~~

**Please note that for 2013 estimates, sales is kept flat to 2012 with improvements in operating costs and margins*

Ranking of the stores from Matrix Deck – Trading Vs. RE Value:
The 3 stores are ranked amongst the top 10 stores with higher RE value Vs. Trading value; Yorkdale and Mississauga, in specific, rank 2nd and 3rd for exit option on the Matrix deck.

RE VALUE VS TRADING VALUE (Higher estimate of RE value $MM)					6.8		
#	Store ID (Vlookup Reference)	Store name	Net RE proceeds (high est)	4-wall EBITDA (2013F)	EV contribution (4-wall EBITDA @ 6.8x)	RE Value over Trading Value	Exit?
1	001110-DTN-TORONTO	TEC	213	17	118	95	x
2	001111-YORKDALE	Yorkdale	101	4	25	76	x
3	001081-MISSISSAUGA	Mississauga	60	5	32	28	x
4	001329-SHERWAY GARDENS	Sherway Gardens	48	4	27	21	x
5	001429-SOUTHGATE EDMONTON	Southgate Edmonton	49	5	33	16	x
6	001084-PLACE VERTU	Place Vertu	20	2	10	10	x
7	001112-POLO PARK	Polo Park	45	6	38	7	x
8	001308-SCARBOROUGH 2	Scarborough 2	35	5	31	4	x
9	001017-WINDSOR	Windsor	31	5	31	0	x
10	001039-CHATHAM	Chatham	3	0	3	0	

Accounting Implications:

- A subsequent event note disclosure will be required in the annual financial statement and MD&A filings
- The gain on sale net of closing costs will be included in Net Income and excluded from EBITDA, assuming 191MM valuation supportable and not tied to any other agreement
- Leasehold improvements amortization will be accelerated from time of sale to time of closing (10 months)
- Scarborough Option: defer and amortize premium over 5 years, current assumption is that mark-to-market not required due to nature of the underlying
- Option disclosure would be required for the strike price, however, can be silent on the location

Store Details & 2012 Performance:

Total 2012 sales and four-wall EBITDA for the three stores is approx. $86MM and $8MM, respectively. Stores are ranked in top 15 out of 118 total Full-line stores in sales.

LOCATION	SQ. FEET (GLA)	SQ. FEET (Selling)	2012 Actuals Sales	Sales Ranking	3 Yr CAGR	Sales/ GLA sqft	Sales/Selling sqft	Four-wall EBITDA	Base Rent/sq.ft	Lease Term Start	Fina Expiry
001081-MISSISSAUGA	175,232	107,322	$ 28,195,040	13	-3.8%	$ 161	$ 263	$ 3,012,030	$ 2.0	11/1/1973	10/31/2038
001111-YORKDALE	184,600	130,721	$ 27,266,417	14	-4.1%	$ 148	$ 209	$ 1,691,186	$ 7.5	11/16/1988	11/15/2093
Mississauga & Yorkdale	**359,832**	**238,043**	**$ 55,461,457**					**$ 4,703,216**			
001308-SCARBOROUGH 2	239,645	152,011	$ 31,007,982	9	-4.6%	$ 129	$ 204	$ 3,012,103	$ 6.0	7/20/2000	7/19/2070
Total	**599,477**	**390,054**	**$ 86,469,440**			**$ 144**	**$ 222**	**$ 7,715,319**			

Please note that the Mississauga Square One lease expires in 25 years (2038) at which time we would receive no consideration for surrendering the store

Effect on Balance of the Business:

- No negative impact other than fixed cost and overhead burdening to the rest of the channel is assumed on Sales in the rest of the GTA stores due to this transaction **(See next page "Disposition of Stores & Impact")**
- From a strategic standpoint the infusion of cash gives Sears Canada flexibility in its operations to generate greater returns to its shareholders
- Manage customer, suppliers, and associates perception regarding Sears as an ongoing concern
- Lost sales and EBITDA impact to the rest of the channel based on 2012 Actuals is approx. 86MM and 8MM, respectively. Sales retention by other stores in the network may not be significant and is taken into consideration **(See Appendix A for Sears network of stores in the GTA)**

Disposition of Stores & Impact on the rest GTA & Full-line Channel (Based on Matrix Evaluation of the Channel):

- The chart shows disposition of stores in the GTA if we were to exit two, three, and five stores
- The fully burdened EBITDA impact from the first two stores on the rest of the GTA is a drop from ($11MM) to ($12MM) and to the Full-line Channel from $26MM to $20MM. This is due to the allocation of fixed cost and overhead burdening to the rest of the channel

GTA & FL Channel Impact Summary (2012 Actuals Without Performance Improvements)

GTA FULL-LINE STORES	MERCHANDISE NET SALES	% of Total Sales	2012 Four-wall EBITDA	Fixed Cost & OH	FC & OH Burdening to rest of GTA & FL Channel	Fully Burdened EBITDA
GTA Total	401,265	18.1%	33,272	44,398		(11,126)
Total Full-Line	2,213,481	100%	258,858	232,814		26,044
001081-MISSISSAUGA	28,195		3,012	3,067		(55)
001111-YORKDALE	27,266		1,691	3,011		(1,320)
Less two stores GTA	**345,804**	16.0%	**28,569**	**45,372**	**974**	**(12,100)**
Less two stores FL Channel	**2,158,019**	100%	**254,155**	**232,814**	**6,078**	**19,965**
001308-SCARBOROUGH 2	31,008		3,012	3,361		(349)
Less three stores GTA	**314,796**	14.8%	**25,557**	**45,869**	**1,471**	**(12,597)**
Less three stores FL Channel	**2,127,011**	100%	**251,143**	**232,814**	**9,439**	**16,604**
001329-SHERWAY GARDENS	24,018		2,411	2,666		(255)
001110-DTN-TORONTO	54,570		5,190	6,027		(837)
Less 5 Stores GTA	**236,207**	11.5%	**17,956**	**46,872**	**2,474**	**(13,600)**
Less 5 stores FL Channel	**2,048,423**	100%	**243,542**	**232,814**	**18,132**	**7,911**

Considerations:

- $191MM consideration represents a store value/EBITDA multiple of 21.2x for Yorkdale & Square One. This value is 14x higher than the organization's trading EBITDA multiple maximizing shareholder returns with minimal disruption to the organization
- Improved working capital through inventory management

Recommendation:

- For these reasons, Real Estate recommends that the Board of Directors approve the proposal to surrender and early terminate its leases at:
  - Yorkdale (Toronto)
  - Square One (Mississauga)
  - Option on Scarborough Town Centre (Scarborough)

Appendix A

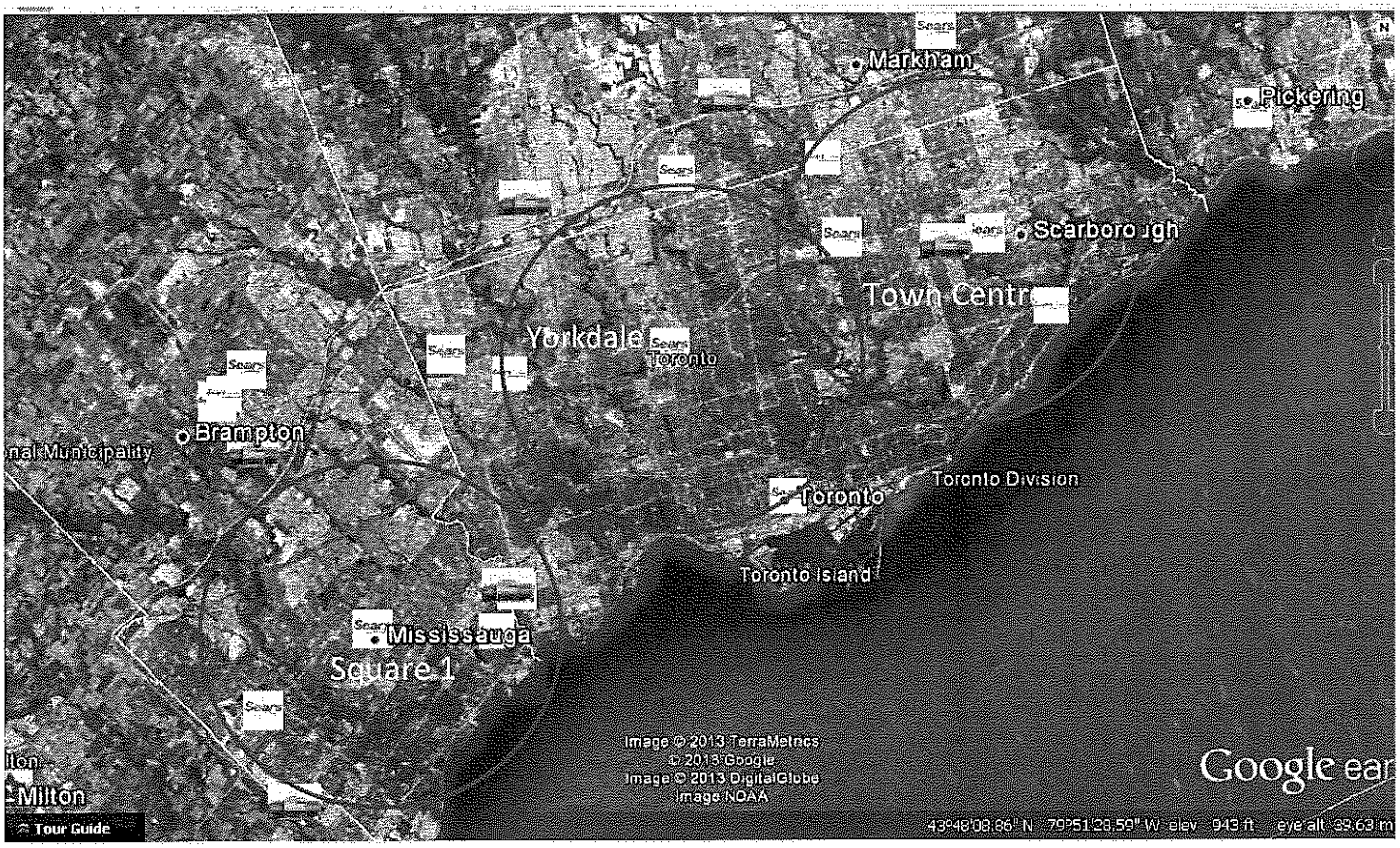
Sears
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Image © 2013 DigitalGlobe
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TAB 28

MINUTES of the telephone meeting of the Board of Directors of **SEARS CANADA INC.** (the "Corporation") held on Thursday, June 13, 2013 at 5:00 p.m., Eastern time.

PRESENT

W. C. Crowley (Ch.)
E. J. Bird (in person)
W. R. Harker
R. R. Khanna
J. McBurney
C. McDonald
D. E. Rosati
D. Ross

MANAGEMENT (in person)

K. Leshnjani
EVP, FSHS, HR and General Counsel;
D. Campbell
EVP and Chief Operating Officer
F. Perugini
Associate General Counsel and Corporate Secretary
S. Champion
Vice President, Real Estate

The Chairman of the Board, Mr. W. C. Crowley, acted as Chairman of the meeting and the Secretary of the Corporation, Mr. F. Perugini, acted as Secretary of the meeting.

ROLL CALL

1. The Chairman called the meeting to order and took a roll call.

REAL ESTATE UPDATE – THREE STORE TRANSACTION

2. Mr. Franco Perugini, Associate General Counsel and Corporate Secretary, provided a presentation to the Board of the negotiated terms of an agreement with Oxford Properties Group ("Oxford") regarding the termination of the Yorkdale Shopping Centre lease and the Square One Shopping Centre lease for $191 million, and the granting of an option for $1 million to purchase the Scarborough Town Centre lease for $53 million.

Following discussion, the Board approved of the negotiated terms of the agreement with Oxford as presented by Management.

The Board passed the following resolution:

WHEREAS the Corporation is a tenant and Oxford is the landlord pursuant to leases in the following locations:

- Yorkdale Shopping Centre, Toronto, Ontario
- Square One Shopping Centre, Mississauga, Ontario
- Scarborough Town Centre, Toronto; Ontario

WHEREAS Oxford has approached the Corporation and has offered to buy out the remaining terms of the Yorkdale Shopping Centre and Square One Shopping Centre leases, and to purchase an option on the Scarborough Town Centre lease;

WHEREAS the Board, at its meeting on April, 29, 2013, authorized the Corporation to negotiate the terms of an agreement with Oxford for the termination of the Yorkdale Shopping Centre and Square One Shopping Centre leases for $191 million dollars, and the granting of an option for $1 million dollars to purchase the Scarborough Town Centre lease for $53 million;

WHEREAS the Corporation is required to obtain Board approval for any asset acquisition or disposition of greater than ten million dollars ($10,000,000.00);

WHEREAS Management has provided the Board with a presentation regarding the negotiated terms of an agreement with Oxford; and

WHEREAS the Board considers it in the best interest of the Corporation to approve the negotiated terms of the agreement with Oxford to terminate the Yorkdale Shopping Centre and Square One Shopping Centre leases for $191 million dollars, and the granting of the $1 million dollar option on the Scarborough Town Centre lease, in accordance with the terms as presented by Management.

BE IT RESOLVED:

THAT the Corporation be authorized to proceed to terminate the Yorkdale Shopping Centre and Square One Shopping Centre leases for $191 million dollars, and to grant the option for $1 million dollars to purchase the Scarborough Town Centre lease for $53 million, in accordance with the negotiated terms as presented by Management; and

THAT the Corporation be authorized to execute and deliver all such documents and to take all such steps and do all such other acts as may be necessary or desirable to give effect to this resolution.

There being no further business, the meeting was then terminated.

Chairman of the Meeting

Nov 18, 2013
Date

Secretary of the Meeting

TAB 29

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Sears*

Strategic Session

September 4-5, 2013

PRIVATE AND CONFIDENTIAL
NOT FOR DISTRIBUTION

2014 Strategic Session - Agenda

SEPTEMBER 4TH, 2013

TRADING AND TRANSFORMATION UPDATE
4:00 pm – 5:00 pm

- Recap of strategic plan and where we are – Calvin (30 min)
- Where are we heading for 2014 – Calvin (30 min)

STORE TOUR
5:00 pm – 6:00 pm

- Nevada & Aldo Product
- LOOK! Report

Board Dinner

SEPTEMBER 5TH, 2013

FINANCIAL PLAN
8:00 am – 8:30 am

- 2014 Financial Plan – E.J. Bird (30 min)

FAST START TO 2014
8:30 am – 9:30 am

- Key Initiatives – E.J. Bird (30 min)
- Plan for a profitable Q1 – E.J. Bird (30 min)

10 for '14
9:30 am – 11:30 am

- Overview of 10 key initiatives – Calvin (20 min)
- Simple, efficient operations – Doug (30 min)
- Right product, in the right place, at the right time –E.J. Bird (20 min)
- Get our style right; Win with the needs-driven customer – Calvin (30 min)
- Drive full potential of Direct – Salim (20 min)

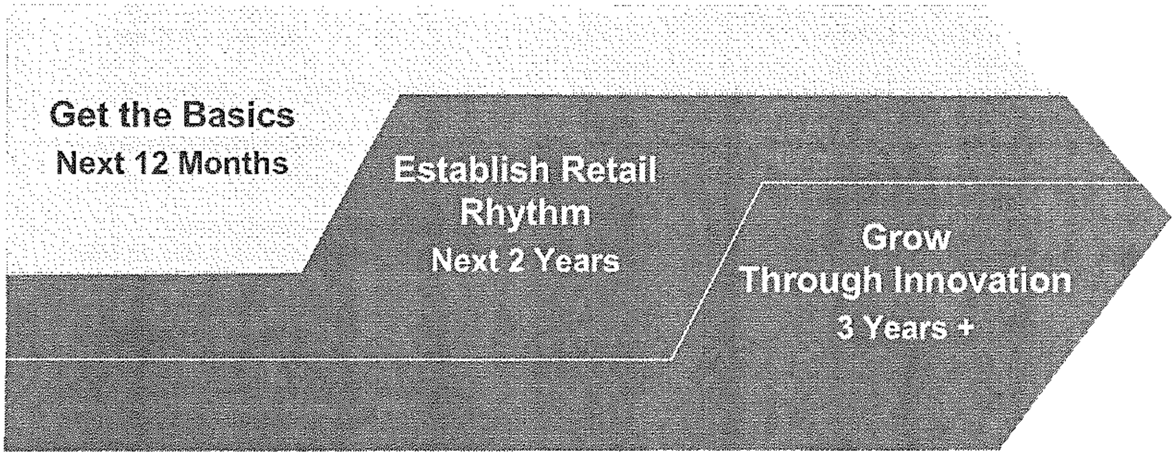
DIRECT FULFILLMENT STRATEGY
11:30 am – 12:30 pm

- Strategy Overview – Gary (1 hour)

WRAP-UP
12:30 pm

Context – Our Transformation

Our transformation is based on three main phases



2012	2013	2014
1. Tackle the obvious 2. Develop a plan to establish the rhythm 3. 10 for '12 - 80% of the effort on fixing the basics	1. Implement the plan for establishing the rhythm 2. Plant the seeds for innovation 3. 10 for '13 - 50% fixing the basics, 40% establishing our rhythm and 10% innovating	1. Continue to build our rhythm 2. Test the model through innovation 3. 10 for '14 – 30% fixing the basics, 50% establishing the rhythm and 20% innovating

Context – How are We Creating Value

As we trade and innovate, we continue to focus on 3 strategic levers to maximize our total Value...

Merchandising Value

- Core Retail Business – Trading
- 5 Pillars of Growth

Cost/Efficiency Value

- Right-sizing
- Outsourcing

Hidden Value

- Review non-strategic assets
- Maximize real-estate potential

Creating Maximum Value

- 1[illegible]9

Context – Our Pillars of Growth & 2014 Commitments

We have made deliberate progress towards our pillars of growth and creating value through trading…

CREATE MERCHANDISING VALUE	COMMMITMENTS	STATUS		
		Diagnose /Plan	Implement	Improve
PILLARS OF GROWTH				
1 Build the Core Category + Service + Brand	5+ PL brands with sales over $250M	✓	✓	
	Market leader in Hero categories / top two in Power categories	✓	✓	✓
	Avg. improvement in inventory turns from 3.75 to 4.5 w/ 30% fewer SKUs	✓	✓	
	Home Services becomes a $100M differentiator	Sold business		
2 Become Customer-Driven, Marketing-Led	Customer Net Promoter Score (NPS) of +30	✓	✓	✓
	Loyal 20! Increase loyals, loyals' trips, and loyals' spend… all by 20%	✓	✓	
3 Get Value Right Price x Mix x Experience	20% of items at Every Day Value Pricing (EDVP) with pricing guidelines in place for all products*	Target reset to 15%,varies by business		
	Establish assortment hierarchy (good, better, best) for all categories	✓	✓	✓
	Improve customer experience to match our value proposition	✓		
4 Operate the Best Formats	100% of Full-line/Home stores refreshed with "model" for all formats	✓	✓	
	Own the rural market (new rural stores, dealers, direct)	✓		
	Direct sales to $1B, EBITDA of 10%	✓		
5 Organize the Right Talent & Create a Winning Attitude	Top 100 Employer in Canada (Globe & Mail)	✓	✓	✓
	Employee Net Promoter Score (NPS) from -48 to +30	✓	✓	
ENABLE THE TRANSFORMATION THROUGH COST/EFFICIENCY VALUE	Efficient inventory management: $175M reduction	✓	✓	
	Re-vamp Merchandise, Planning, Allocation and Replenishment (MPAR) capabilities and other critical systems	✓	✓	
	Business dashboards driving accountability and results	✓	✓	✓
	Efficient logistics network with timely breakeven home delivery	✓	✓	

External Factors – 1H challenging in Retail; trend likely to continue in 2H

- Canadian economic growth has been slow but stable
  - 1.7% growth rate this year
  - Housing Starts remain stable, national home sales rose 3.3% from May to June
  - Inflation slightly higher in July to 1.3% vs. LY, (up from 1.2% in June).
  - Household debt rose 6.1% in Q2 vs. LY, 6.5% for consumers 65 and older

- Retail sales weakening
  - Retail sales up 1.8% for 1H vs. LY but down 0.6% bps in June (down 1.8% bps for apparel)
  - Large retailers have had a tougher year: sales down 1.5% for 1H and down 3.5% for June (A&A down 1.7% for 1H, H&H down 1.2% for 1H)
  - On-line sales remain strong - projected to grow to $33B and 5.3% of total retail sales by 2016

- Retailers have been active
  - Target has opened 68 stores as of Q2 with plans to open 124 by year end
  - There has been significant consolidation in the industry (Hudson's Bay & Saks, The Brick & Leon's, Loblaw & Shoppers Drug Mart) that will intensify impact on Sears
  - Nordstrom and Simons continue to look for space for expansion

Source: Statistics Canada, TD Economics forecasts June 2013,lit search

1H Financial Drivers

1H EBITDA is +$8.3MM vs. LY, primarily due to improvements in A&A volume, rate and cost savings

Volume

- A&A +2.2%: JAL +6.6%, CW +3.9%, WA +3.3% (WA +8.1% in retail)
- MA -1.0%: market down 3.5%
- H&H -9.5%: HF -9.3%, ELE -28.5%
- Internet +15% vs. LY
- Home Services -66.0% or -$58M vs. LY due to sale of HIPS business (EBITDA impact only $1MM YTD)

Rate

- A&A +160bps: JAL +370bps, CS +240bps, WA +140bps
- MA +100bps
- H&H +40bps: HDS +300bps, ELE +180bps, HF -120bps
- Outlet Reserve Impact of -$2.8M

Cost

- Reduced Payroll ($24M)
- Managed Advertising costs ($14M)
- Lower Merchant Commission costs ($4M)
- Cost Impact of the 4 closed stores ($13M)

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Qtr 2 and 1H: Financial Summary

	QTR 2					JUL YTD				
	2013 AC	2013 PL	2012 AC	B / (W) vs PL	B / (W) vs LY	2013 AC	2013 PL	2012 AC	B / (W) vs PL	B / (W) vs LY
Merch Net Sales	*853.9*	*916.3*	*896.4*	*(62.4)*	*(42.4)*	*1,628.0*	*1,741.5*	*1,705.3*	*(113.6)*	*(77.4)*
Other Revenue	*106.2*	*123.8*	*165.5*	*(17.6)*	*(59.3)*	*199.3*	*202.7*	*284.6*	*(3.5)*	*(85.3)*
Revenue	960.1	1,040.1	1,061.9	(80.0)	(101.8)	1,827.2	1,944.3	1,989.9	(117.0)	(162.7)
SSS Sales Growth				*-6.8%*	*-2.5%*				*-6.5%*	*-2.6%*
Rev growth				*-7.7%*	*-9.6%*				*-6.0%*	*-8.2%*
Merch Margin	328.1	366.6	343.2	(38.4)	(15.1)	633.1	698.1	651.9	(64.9)	(18.8)
GM %	*38.4%*	*40.0%*	*38.3%*	*(158)bps*	*14 bps*	*38.9%*	*40.1%*	*38.2%*	*(119)bps*	*66 bps*
Gross Margin	358.9	406.9	399.3	(48.0)	(40.4)	688.2	752.5	746.9	(64.3)	(58.7)
GM %	*37.4%*	*39.1%*	*37.6%*	*(174)bps*	*(23)bps*	*37.7%*	*38.7%*	*37.5%*	*(104)bps*	*13 bps*
Total Expenses	338.5	354.2	374.4	15.6	35.9	677.7	709.2	744.7	31.5	67.0
% of Rev	*35.3%*	*34.1%*	*35.3%*	*(121)bps*	*0 bps*	*37.1%*	*36.5%*	*37.4%*	*(61)bps*	*34 bps*
EBITDA	20.3	52.7	24.8	(32.4)	(4.5)	10.5	43.2	2.2	(32.8)	8.3
% of Rev	*2.1%*	*5.1%*	*2.3%*	*(295)bps*	*(22)bps*	*0.6%*	*2.2%*	*0.1%*	*(165)bps*	*47 bps*
Net Income (Loss)	152.8	12.3	(9.8)	140.6	162.7	121.6	(21.3)	83.2	142.9	38.4
% of Rev	*15.9%*	*1.2%*	*-0.9%*	*1,474 bps*	*1,684 bps*	*6.7%*	*-1.1%*	*4.2%*	*775 bps*	*247 bps*
				Inc / (Dec) vs PL	**Inc / (Dec) vs LY**				**Inc / (Dec) vs PL**	**Inc / (Dec) vs LY**
Cash	319.1	302.5	336.5	$ 16.7	$ (17.4)	319.1	302.5	336.5	$ 16.7	$ (17.4)
Inventory	915.3	825.6	847.3	$ 89.7	$ 68.0	915.3	825.6	847.3	$ 89.7	$ 68.0

* Note: the decrease in Other Revenue is related to HIPS

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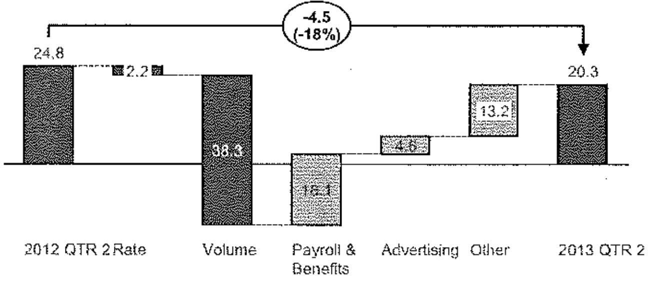
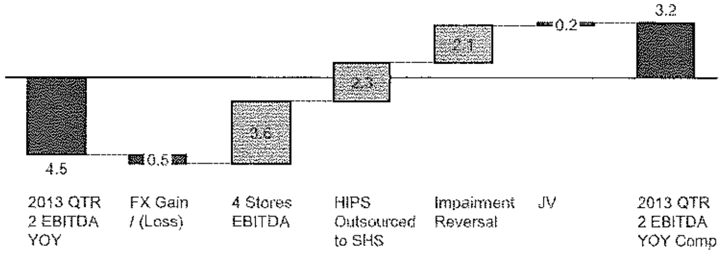
Qtr 2 and 1H Results vs. 2012

On a comp basis, after adjustments 1H EBITDA is +$19.1MM vs. LY

Qtr 2 EBITDA ($MM)

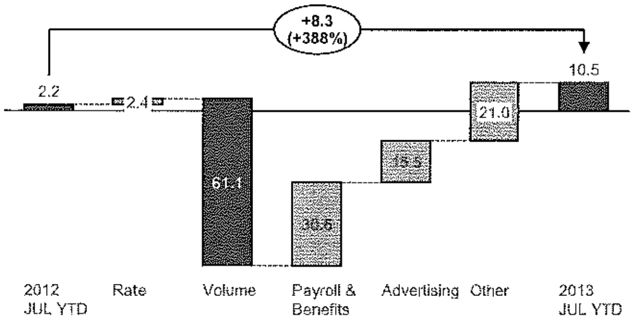


Qtr 2 Comp EBITDA YOY ($MM)

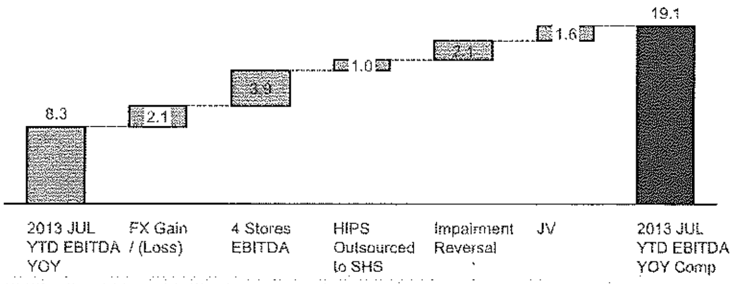


Qtr 2 +$3.2MM vs. LY

Jul YTD EBITDA ($MM)



Jul YTD Comp EBITDA YOY ($MM)



1H +$19.1MM vs. LY

Source: Essbase

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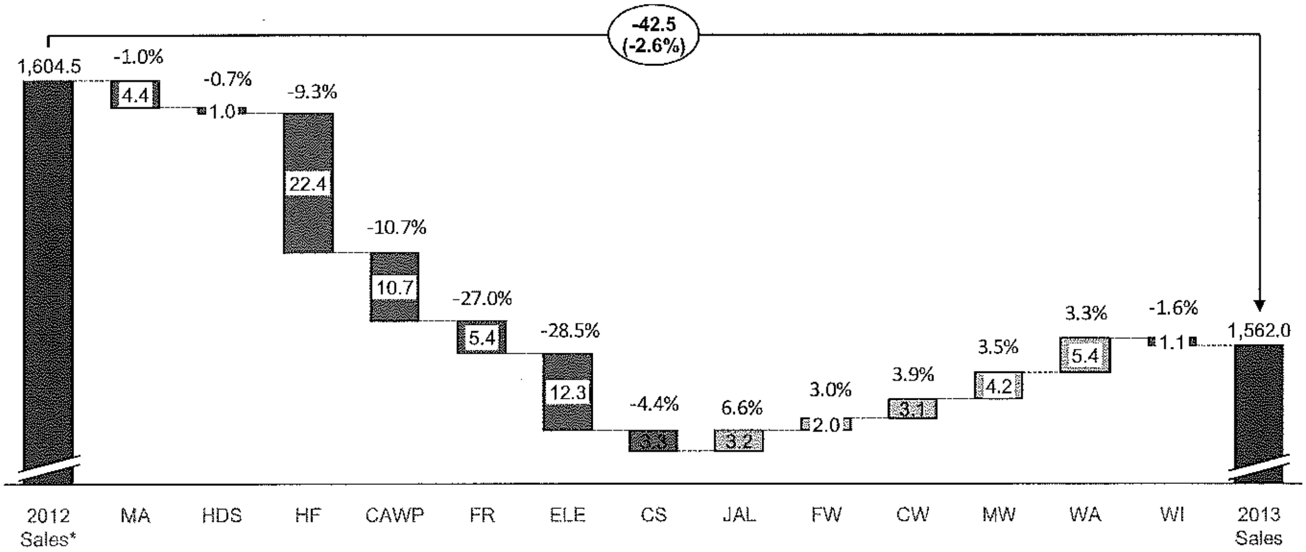
1H 2012 vs. 2013 Sales By Category

A&A showed healthy growth; HF, CAWP and Electronics accounted for 75% of total sales decline

1H 2012 vs. 2013 Sales ($MM)



Excludes 4 closed stores
Source: Essbase, Merch Margin Reports

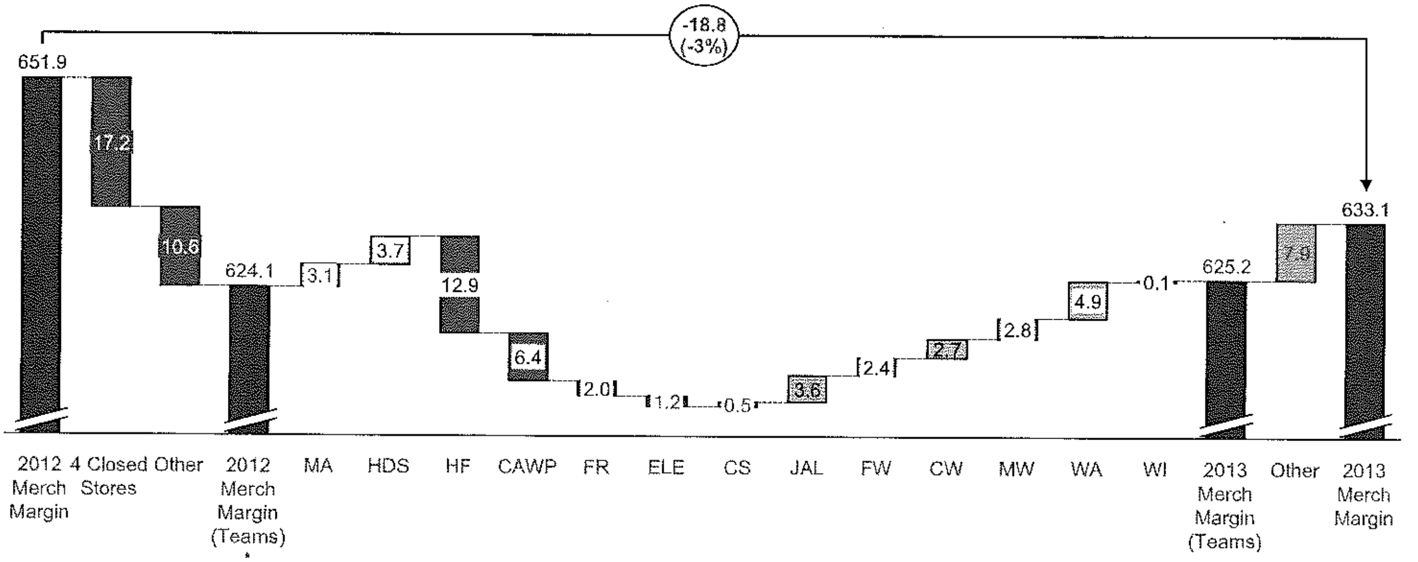
Private and Confidential

1205

1H 2012 vs. 2013 1H Merch Margin By Category

Merch Margin rate has improved since last year, particularly in A&A; Gains were offset by volume and rate declines in H&H

1H 2012 vs. 2013 Merch Margin ($MM)

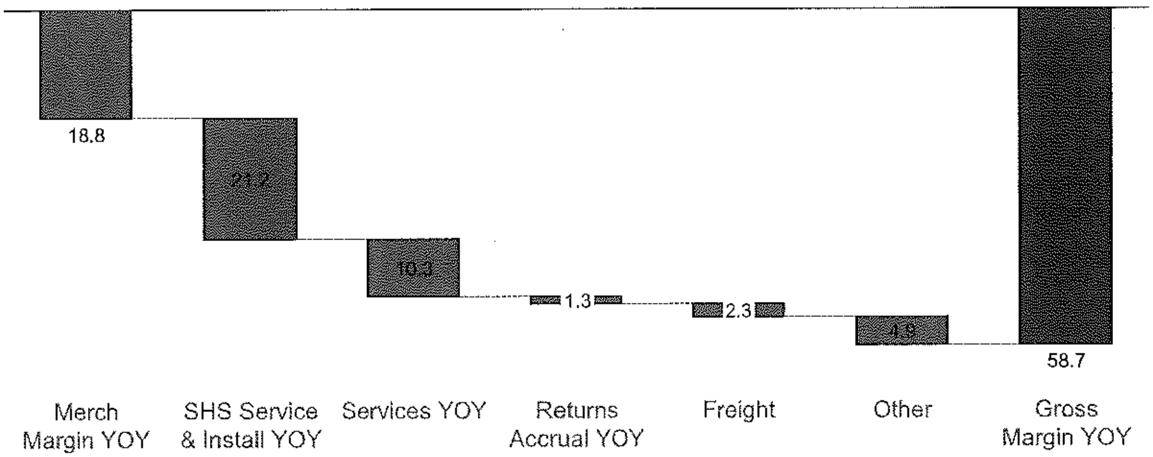


MM% YOY Bps.	+102	+300	-120	-370	-260	+180	+240	+370	+210	+170	+70	+140	+90	+110

*Excludes the 4 closed stores, Corbeil, Home Services, and other corporate adjustments

1H Merch Margin vs. Gross Margin

Gross Margin was challenged in 1H primarily due to changes in the Home Services business



1H 2013 Merch Margin vs. Gross Margin ($MM)

Source: Essbase, Merch Margin Reports

1H Big Wins

We have had some big wins this year…

Merchandising Value

- **Partnership with Penningtons**
- **Improved comp performance in A&A**
  - Women's Apparel +8.1% in Retail vs. LY
  - Carters & Osh Kosh Infants +14.0% YOY
  - A&A's Merch Margin rate +160bps vs. LY
- **Internet sales +15.0% vs. LY**
- **Changing perception of brand**
  - New Flyer perceived as more fashionable
  - Increased presence on TV
  - Significant improvement in brand scores and customer shopping scores
- **Market share gains for 3 consecutive months (April, May and June) in A&A**
- **Winning events**
  - Easter (A&A +1.4%), Mother's Day (A&A +24.3%), Father's Day (MW +16.9%)
  - Sears Days…A&A* sales +8.7% on a comp basis (first 4 days for Total Sears was +10.4% vs. LY, A&A* was +23.2% vs. LY)
- **First steps in repositioning Home**
  - 2 new Home store refreshes
  - Launch of Home Style Report
- **Network improvements:**
  - Grande Prairie and Nanaimo Refresh stores

Cost/Efficiency Value

- **Partnership with Aldo and Buffalo**
- **SCI Direct Management**
- **IBM and Wipro outsourcing agreement**
- **Canada Post delivery partnership**

Hidden Value

- **Sale of 2 stores plus option for 3rd**
- **Burnaby development project**
- **Sale of HIPS**

*A&A Sears Days figures exclude Cosmetics as there were non comp Gala events in 2012

Transformation Progress: 2013 Commitments for the 10 for 13' Financial Drivers

Financial Driver	2013 Commitment
1. Add to our Heroes... (Foot Wear, Dress Shop, Suit Shop, Kitchen Shop)	• Foot Wear (+10% in sales) • Dress Shop (+5% in sales) • Suit Shop (+5% in sales) • Kitchen Shop (+5% in sales)
2. Revamp our Private Brands.... Jessica, Tradition, Nevada, Whole Home... from product to profitability	• Jessica, Tradition, Nevada & Whole Home +$50 MM in incremental sales • Merch margin +300 bps
3. More of Canada's Best	• Launch 50 items
4. Execute Our P's of Marketing....plan, process and productivity	• $8 MM shift in flyer marketing to alternative media and $5MM overall reduction in the marketing budget
5. Fix Rate... promo efficiency / COGS...	• + 200 bps in merch margin
6. Get back to Import	• +$20 MM in EBITDA
7. Unleash the Hometown Dealer and Sears Home store network	• Dealer (+10% in sales) • Home (+5% in sales)
8. Let's all Be "Direct"	• On-line (+10% in sales) • Catalogue (flat sales)
9. Convert Shoppers to Buyers...drive in-store conversion	• +$25 MM in sales
10. It's Your Ship... drive store results	• Full-line stores (+2.5% in sales)

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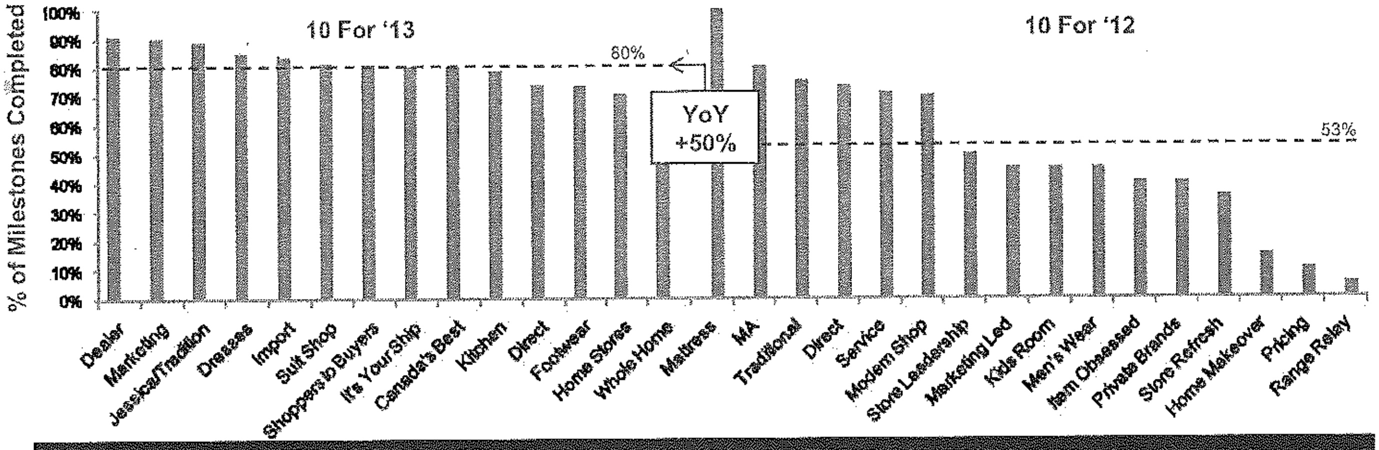
Transformation Progress: 10 For '13 Financials

10 for '13 Initiatives	Sub-Initiative	EBITDA Target FY (YOY changes)	EBITDA FY (YOY changes)	Comments
1. Add to our Heroes	**Total**	**$10.1M**	**7.1MM**	--
	Footwear	$6.0M	$5.3MM	
	Dress Shop	$0.63M	($0.95MM)	Shop in Shop concept completed in reset stores with all updated fixtures
	Suit Shop	$2.0M	$0.98M	Rolled out new "Fit" signage language and architecture
	Kitchen Shop	$1.5M	$1.73MM	--
2. Revamp our Private Brands	**Total**	**$11.3M**	**$8.4MM**	Aligned buying and product structure by commodity within Jessica and Tradition
	Jessica	$3.7M	$1.7MM	Volume up vs. LY however down vs. plan
	Tradition	$1.7M	$1.7MM	--
	Nevada	($0.14MM)	($0.08MM)	
	Whole Home	$6.1M	$4.9MM	
3. More of Canada's Best	**Total**	--	--	37 Canada's Best items currently approved (up from 35 last month)
4. Execute Our P's of Marketing	**Total**	**$12.9M**	**$11.6MM**	1.7MM customer emails captured on annual goal of 2MM
5. Fix Rate...promo / COGS	Total	$82.3M	$33.4MM	Significant proportion of EBITDA projection gap attributable to volume decreases
6. Get Back to Import	**Total**	**$20.0M**	**$11.3MM**	DI receipts trending up vs. Q1; team is focused on increasing sell-through
7. Unleash Dealer and Home Store Network	Total	**$26.8M**	**($7.1MM)**	--
	Dealer	$5.4MM	($0.9MM)	
	Home Store	$21.4M	($6.2MM)	Opened two new concept stores; Network profitability improvement initiatives underway
8. Let's all be Direct	**Total**	**$13.9M**	**$8.3MM**	On-boarded over 10,000 new retail items to sears.ca
	On-Line	$12.9M		--
	Catalogue	$1.0M		--
9. Convert Shoppers to Buyers	**Total**	**$1.6M**	**N.A.**	Successfully on-boarded all targeted A&A items into new forecasting tool
10. It's Your Ship	**Total**	**$118.2M**	**$80.4M**	43 of 118 Stores had positive sales growth in 1H Plan discrepancy primarily driven by volume decline; focus on improving store profitability
	Total (YOY)	**$297.1M**	**$153.5M**	
	Adj double counts	$136.6M	$78.6M	
	10 For '13 Net	**$160.5M**	**$74.9M**	
	Other Initiatives	$27.3M	$18.6M	
	EBITDA	**$259.0M**	**$164.7M**	

Transformation Progress: Execution Effectiveness 2013 vs. 2012 YTD

- *Significant changes in execution approach have improved execution performance, demonstrated by an average milestone completion rate of 80% in 2013 vs.. 53% in 2012, a YoY improvement of 50%*

10 For '13 vs. 10 For '12 Milestone Completion



Observations

- **Execution:** The 10 For '13 show strong, consistent execution across all initiatives while the 10 for '12 displayed significant variance in execution effectiveness. Average execution in 2013 is at 80% (indicated by red lines).
- **Mechanism:** Detailed initiative tracking with a good balance of operational (leading indicators) and financial (trailing indicators) KPIs, tangible milestones with specific due dates, combined with granular cross-functional progress reviews in place
- **Mid Year Reviews:** Closely monitoring performance and conducting Mid Year reviews to course correct initiatives losing traction

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What's Ahead: Targets for 2H

2H EBITDA is +$85.0MM vs. LY through focus on fixing HF, pushing direct import and reducing costs further

Volume (-$25MM)

- Continued A&A growth (Footwear +15.6% vs. LY, Children's Wear +10.2% vs. LY, Menswear +10.7% vs. LY)
- Grow Home Décor +6.0% vs. LY
- Stabilize MA and reverse HF trend…return of Simmons Beautyrest and better execution on furniture

Rate (+$56MM)

- Manage and push Direct Import
- Better forward looking view on receipts
- Target Gross Margin rate to be +246 bps to LY
- Set-up merchandise earlier; setup to maximize margin

Cost (+$54MM)

- Focus on managing cost and rate to offset volume risk…continue to target unnecessary spending
  - Reduce Payroll & Benefits by $25.0M vs. LY
  - Reduce Outsourcing by $4.1M vs. LY
  - Reduce Advertising spend by $1.1M vs. LY
  - Reduce Business Travel spend by $1.4M vs. LY

Note: Payroll reductions due to restructure , logistics and overall better management

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2H and Full Year: Financial Summary

	2 H (Aug to Jan)					Full Year				
	2013 FCST	2013 PL	2012 AC	B / (W) vs PL	B / (W) vs LY	2013 FCST	2013 PL	2012 AC	B / (W) vs PL	B / (W) vs LY
Merch Net Sales	*2,098.0*	*2,167.7*	*2,115.1*	*(69.8)*	*(17.1)*	*3,725.9*	*3,909.3*	*3,820.4*	*(183.4)*	*(94.5)*
Other Revenue	*189.2*	*220.2*	*241.5*	*(31.1)*	*(52.4)*	*388.4*	*423.0*	*526.1*	*(34.5)*	*(137.7)*
Revenue	2,287.1	2,388.0	2,356.6	(100.8)	(69.5)	4,114.3	4,332.2	4,346.5	(217.9)	(232.2)
SSS Sales Growth				*-3.2%*	*2.9%*				*-4.7%*	*0.7%*
Rev growth				*-4.2%*	*-2.9%*				*-5.0%*	*-5.3%*
Merch Margin	834.3	903.1	807.6	(68.8)	26.7	1,467.4	1,601.1	1,459.5	(133.7)	7.9
GM %	*39.8%*	*41.7%*	*38.2%*	*(189)bps*	*158 bps*	*39.4%*	*41.0%*	*38.2%*	*(157)bps*	*118 bps*
Gross Margin	881.5	974.3	850.4	(92.8)	31.1	1,569.7	1,726.7	1,597.3	(157.0)	(27.6)
GM %	*38.5%*	*40.8%*	*36.1%*	*(226)bps*	*246 bps*	*38.2%*	*39.9%*	*36.7%*	*(171)bps*	*140 bps*
Total Expenses	727.3	758.5	781.3	31.2	54.0	1,405.0	1,467.7	1,526.0	62.7	121.0
% of Rev	*31.8%*	*31.8%*	*33.2%*	*(4)bps*	*135 bps*	*34.1%*	*33.9%*	*35.1%*	*(27)bps*	*96 bps*
EBITDA	154.2	215.8	69.1	(61.6)	85.0	164.7	259.1	71.3	(94.4)	93.4
% of Rev	*6.7%*	*9.0%*	*2.9%*	*(230)bps*	*381 bps*	*4.0%*	*6.0%*	*1.6%*	*(198)bps*	*236 bps*
Net Income (Loss)	68.1	106.8	18.0	(38.7)	50.1	189.6	85.5	101.2	104.2	88.5
% of Rev	*3.0%*	*4.5%*	*0.8%*	*(150)bps*	*221 bps*	*4.6%*	*2.0%*	*2.3%*	*264 bps*	*228 bps*

				Inc / (Dec) vs PL	Inc / (Dec) vs LY				Inc / (Dec) vs PL	Inc / (Dec) vs LY
Cash	492.3	439.5	238.5	$ 52.8	$ 253.8	492.3	439.5	238.5	$ 52.8	$ 253.8
Inventory	780.0	780.4	851.4	$ (0.4)	$ (71.4)	780.0	780.4	851.4	$ (0.4)	$ (71.4)

*Note: the decrease in Other Revenue is related to HIPS

2H Financial Drivers

Significant improvements in volume and rate for 2H will move EBITDA gains from $8.3MM to $85.0MM

	1H	2H	Initiatives
Volume (YOY)	($61MM) Rev -8.2% SSS -2.6%	($25MM) Rev -2.9% SSS +2.9%	• HF & Mattress fixes • Launch of new brands • Checkerboard optimization
Rate (YOY)	$2MM +13bps YOY	$56MM +246 bps YOY	• Full impact of DI to be realized • Better active inventory • Realize full impact of rate and assortment initiatives
Cost (YOY)	$67MM -9.0%	$54MM -7.0%	• Logistics efficiencies • Payroll/Outsourcing savings
Total YOY	$8.3MM	$85.0MM	

Source: Essbase

2H Big Initiatives

Qtr 3

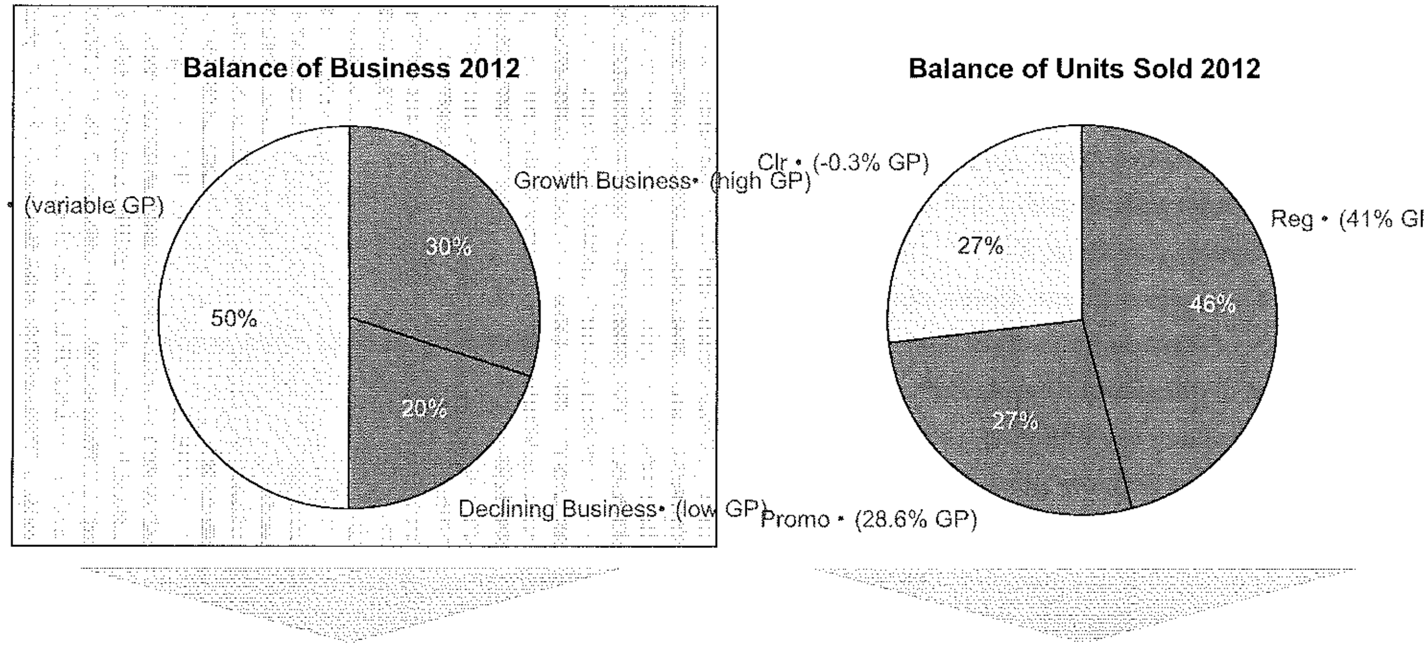
- **Back to...School, Work, Routine...**launched at the beginning of Aug and runs for 5 weeks
- **Fall LOOK! Report...**launches Sept. week 1 and runs for 2 weeks vs. 1 last year
- **Sears Days...**18 Days vs. 17 days LY
- **Canadian Black Friday...**Oct week 1 (this is H&H focused)
- **Go All Outerwear Event...** Oct weeks 1 & 2
- **Cozy Event...**Oct week 3
- **Plus Shop pilots (5 test stores and online)...** Sept. 20
- Launch of **Nevada by Buffalo**, and **Jessica/Attitude/Nevada footwear by ALDO...** Sept. week 1
- Launch of **JKL (Just Keep Livin')...**Sep week 2
- **Direct Holiday toy initiative**...starting Oct
- **Canada Post delivery pilot**...mid Sept

Qtr 4

- **Holiday LOOK! Report...**Nov week 1 runs for 2 weeks
- **Black Friday / Cyber Monday...**plan-to-sell will include aggressive Daily Offers from Thu to Mon
- **Holidays / Boxing Week...**ahead on Planning for Daily Deals program
- **Holiday Wish Book Flyer...**Dec weeks 1 to 3

What's ahead: Transformation Year 3

Our focus for 2014 is to continue to strengthen our business mix



Fix to drive sustainable sales growth

Fix to maximize sales and get higher rate

Source: MDW

Balance of Business: Target Financial Performance

Our goal is to achieve an overall 8% EBITDA margin with 6.5% EBITDA margin from our trading businesses. This translates into an average hurdle rate of $234 per square foot in FLS

2013 Sears Target Financial Performance - FLS

	FLS EBITDA	$175 MM
Target	Sales / Sqft	$234
	MM / Sqft	$100
	VPC / Sqft	$76

1st Floor Target		2012 Performance
Sales / Sqft	236	210
VPC / Sqft	89	67

2nd Floor Target, excluding White Goods		2012 Performance
Sales / Sqft	179	163
VPC / Sqft	53	42

White Goods Target		2012 Performance
Sales / Sqft	671	671
VPC / Sqft	149	126

Note:

1.MM = Merchandise Margin

2.VPC = Variable Profit Contribution, which includes Gross Margin plus miscellaneous income less variable expenses (direct buying, in warranty, payroll & benefits, merchant commissions, delivery, NLS services, returns & allowances, sales reversals, Sears club redemption, and card services), White Goods VPC rate is adjusted based on 30% Merch Margin rate

3.Current Performance is adjusted based on 118 comp stores

***Balance of Business**: Pennington's Deal is about Replacing Low Performing Shops with Growth Shops*

	Average change for pilot stores					
	Description	Space (sq. ft.)		Sales Impact ($ 000)	VPC Impact ($ 000)	VPC $/Sq. ft. ($)
		From	To			
Move	**Women's Intimates to Second Floor** • Assume 20% sales loss	5,496	4,443	(84)	(79)	94
New	**Plus Shop** • Sales/sq. ft. based on historical performance of overall WA	0	1,736	521	208	120
	WA Active • Sales/sq. ft. based on historical performance of Women's Outerwear/Active/Swimwear	0	721	102	96	133
Expand	**White Goods**	6,343	7,141	71	37	161
	Mattress	3,704	4,310	160	30	110
	Children's Fashion	8,261	9,201	52	14	57
	Other	61,571	63,088	116	46	88
Exit	**Electronics**	2,064	0	(707)	(114)	55
	Fitness & Recreation	1,782	261	(185)	(42)	31
Downsize	**Hardware**	2,406	1,571	(37)	(8)	27
	Children's Furniture & Toys • Assume minimal impact through increased density	4,054	3,561	(11)	(0.6)	28
	Net Impact			(2)	187	

Note: Analysis is based on 2013 planned VPC rate; Plus Shop VPC/Sqft is based on historical performance of overall WA; WA Active VPC/Sqft is based on historical performance of overall Women's Outerwear/Active/Swimwear; average of Newmarket, Moncton and Saskatoon

Source: MDW, Essbase

Balance of Business: Growth vs. Exit businesses

Further rebalancing will require a more significant shift from First floor to Second floor

Top Performers – 100K stores

Initiative	Division	Floor	Avg. Space (sqft)	Avg. VPC / Sqft.	
				2012 Actuals	Target
Maintain	WHITE GOODS	Second	5,501	137	162
Grow	MEN'S SHOES	First	905	127	96
Grow	JEWELLERY	First	1,530	125	96
Maintain	FLOORCARE (VACUUMS), SEWING	Second	1,121	125	62
Grow	DRESSES	First	1,205	107	96
Maintain	MATTRESSES	Second	3,394	101	62
Grow	WOMEN'S FOOTWEAR	First	2,417	99	96
Grow	HANDBAGS & ACCESSORIES	First	1,654	98	96
Grow	OUTERWEAR, ACTIVE/SWIMWEAR	First	2,113	98	96
Maintain	INNERWEAR	First	3,137	89	96
	LUGGAGE	First	1,035	86	96
	COSMETICS & PERSONAL CARE	First	4,694	85	96
	AIR & WATER	Second	594	81	62
	MEN'S DRESSWEAR	First	6,335	78	96
	LINGERIE	First	1,395	71	96
	WOMEN'S HOSIERY AND SOCKS	First	1,212	62	96
	TRADITION	First	6,457	59	96
	MEN'S CASUAL WEAR	First	7,719	57	96

Bottom Performers – 100K stores

Initiative	Division	Floor	Avg. Space (sqft)	Avg. VPC / Sqft.	
				2012 Actuals	Target
	BEDROOM & BATH	Second	7,183	50	62
	HOUSEWARES	Second	5,460	46	62
	FURNITURE	Second	6,412	46	62
	JESSICA	First	3,227	46	96
	CHILDREN'S FASHION	Second	9,073	42	62
Exit	WINDOW COVERINGS (TEXTILES)	Second	991	38	62
Fix	LAWN & GARDEN	Second	1,575	38	62
Fix	MODERATE BRANDS	First	1,394	32	96
Exit	ELECTRONICS	Second	2,178	31	62
Fix	CHILDREN'S FURNITURE & TOYS	Second	3,693	29	62
Fix	NEVADA / DENIM BRANDS	First	1,675	24	96
Exit	FITNESS & RECREATION	Second	1,791	22	62
Exit	PATIO	Second	1,414	14	62
Exit	HARDWARE	Second	2,649	13	62
Fix	ATTITUDE	First	660	10	96
Fix	GRILLS	Second	471	9	62
Exit	SEASONAL (HOLIDAY)	Second	629	(13)	62

Grow: Potential to increase assortment

Maintain: At or near optimal assortment

Fix: Potential for growth / performance improvement

Exit: Underperforming, limited potential improvement

Big bet: Move Menswear to the Second floor

Note: Analysis based on 2012 actuals
Source: MDW, Essbase

__Balance of Business__: Separate the Men's and Women's Shopping Experience on Different Floors

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Full-line stores with Menswear on the Second Floor perform comparably to all other full-line stores

Sears FLS with Men's Wear on the Second Floor

Store				Men's Wear				
No.	Store Name	Cluster	Mall Access	Net Sales ($)	Space (sqft)	Sales / sqft	Balance of Sales as % of total A&A	VPC / sqft
1	001110-DTN-TORONTO	E	Main & Lower	10,777,981	43,829	246	28%	99
2	001329-SHERWAY GARDENS	E	Main	3,162,470	21,014	150	20%	60
3	001305-POINTE CLAIRE RELOCATION	D	Main & Second	4,466,796	18,857	237	26%	95
4	001308-SCARBOROUGH 2	E	Main & Second	4,466,239	24,032	186	23%	75
5	001616-HALIFAX 2	C	Main & Second	3,259,816	14,541	224	23%	90
6	001429-SOUTHGATE EDMONTON	E	Main	3,368,858	19,307	174	18%	70
7	001425-SOUTHCENTRE CALGARY	E	Main & Second	4,172,326	24,809	168	22%	68
8	001325-MARKVILLE	C	Main & Second	1,852,631	11,488	161	20%	65
	SUBTOTAL			**35,527,118**	**177,877**	**200**	**23%**	**80**
	FLS AVERAGE			**2,297,022**	**12,119**	**190**	**22%**	**76**
	100K STORE AVERAGE			**2,865,279**	**14,054**	**204**	**23%**	**82**

Note: Analysis based on 2013 planned VPC rate
Source: MDW, Essbase

***Balance of Business**: Bramalea pilot*

Larger space change with MW move yields higher VPC impact. VPC/sq ft increases from $61 to $70

	Description	Space (sq. ft.)		Sales Impact ($ 000)	VPC Impact ($ 000)	VPC / Sqft
		From	To			
Move	**Men's Wear to Second Floor:** • Assume sales maintained (mall entrance on Second Floor)	15,758	16,842	0	0	74
	Children's Fashion to First Floor: • Sales increase 10% due to premium location (next to 2 major entrances) and WA cross-shop opportunity	12,667	9,855	161	56	44
New	**Plus Shop** • Based on historical performance of overall WA	0	3,271	526	210	64
	WA Active • Sales/sq. ft. based on historical performance of Women's Outerwear/Active/Swimwear	0	1,000	319	122	122
Expand	**Footwear, Jewellery, Dresses, Women's Outerwear**	7,712	14,078	1,390	534	117
	Other A&A (expand to optimal size)	12,976	14,775	61	34	80
	MA, Mattress	8,650	14,312	2,177	475	126
	Other H&H (expand to optimal size)	8,661	11,907	54	13	98
	• Assume new space at 70% sales productivity of existing					
Exit	**Electronics**	1,500	0	(631)	(102)	(46)
	Fitness & Recreation	2,200	0	(391)	(89)	(44)
	Seasonal	2,200	0	(355)	(87)	(16)
	Hardware	2,500	0	(320)	(60)	(24)
Downsize	**Children's Fashion**	12,667	9,855	0	0	44
	Tradition	7,564	6,418	0	0	53
	• Same assortment in smaller space – no top line impact					
	Net Impact			**2,991**	**1,107**	**9**

Note: Prior space is based on actual 2012 information before the Bramalea store space reset.; Analysis based on 2013 planned VPC rate

Source: MDW, Essbase

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Balance of Business: Full-Line Store Concepts

	Small Format	**"100K" Model**	**Large Format**
	• < 65K sq. ft. (25 stores)	• 65K-90K sq. ft. (37 stores) • 90K-110K sq. ft. (35 stores) • 110K-120K sq. ft. (7 stores)	• 120K-150K sq. ft. (8 stores) • > 150K sq. ft. (6 stores)
Challenge	• Full assortment is not available for most shops	• Growth businesses on first floor, exit businesses on the second	• More space than required for productive assortment
Opportunity	**Move to a non full-line model:** • Streamline the category offering – full assortment in high performing divisions; exit under-performers	**Reshuffle space between First and Second Floor:** • Optimal size for all Hero/Power shops • Trial assortment expansion for top performers	**Other uses of space:** • Trial "big bets" with our top performing Hero/Power shops • Add specialty shops - new products/services • Other traffic draw uses of space

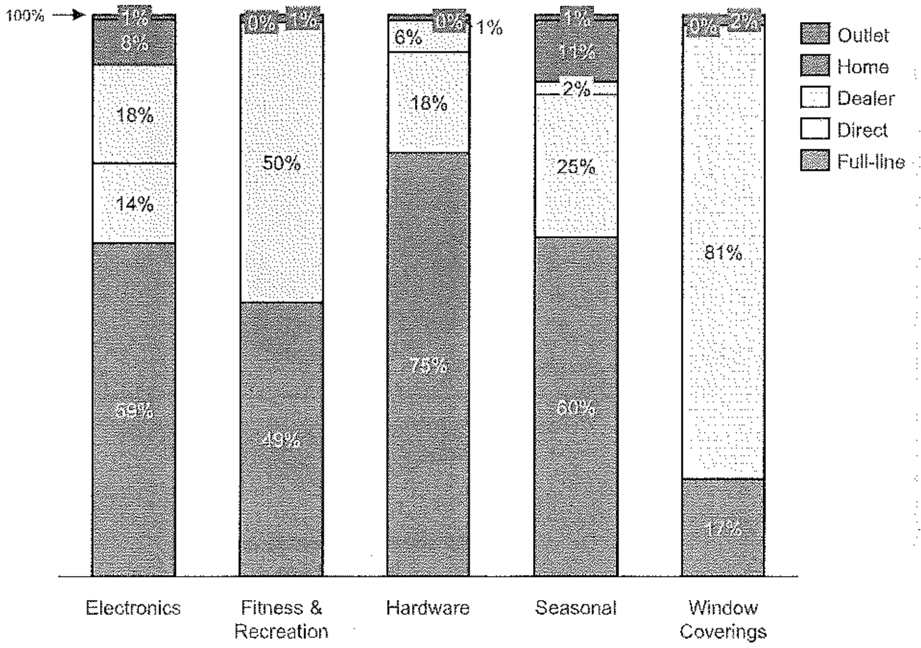
Source: MDW, Essbase

1302

Balance of Business: Category exits

Options are being assessed to protect other channels while freeing up FL floor space

Balance of Sales by Channel
(12 Months Ended July 2013)



Note: Seasonal includes Holiday and Patio lines
Source: MDW, Essbase

Exit/downsize Strategy

Electronics
- Consider full exit? Maintain in large stores plus Dealer and Direct with reduced vendor set?

Fitness & Recreation, Window coverings
- Maintain presence in Direct

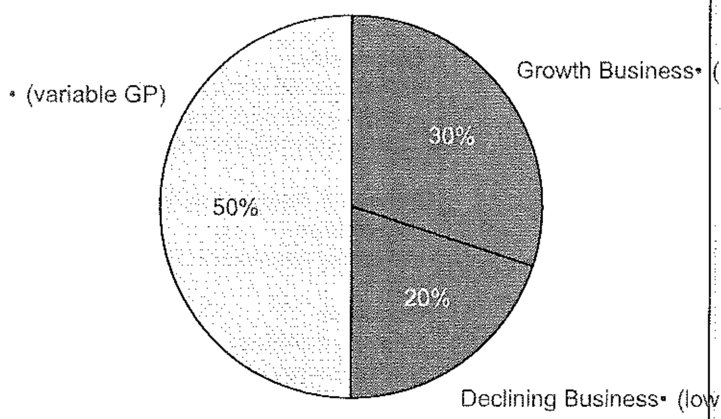
Hardware
- Exit all channels
- Integrate top sellers (GDOs, Wet/Dry Vacs) into Outdoor Power and Home Environment

Seasonal
- Move grills into White Goods division and create the Outdoor Cooking shop
- Full exit of Patio and Holiday? (outpost only for Christmas, Back to School)

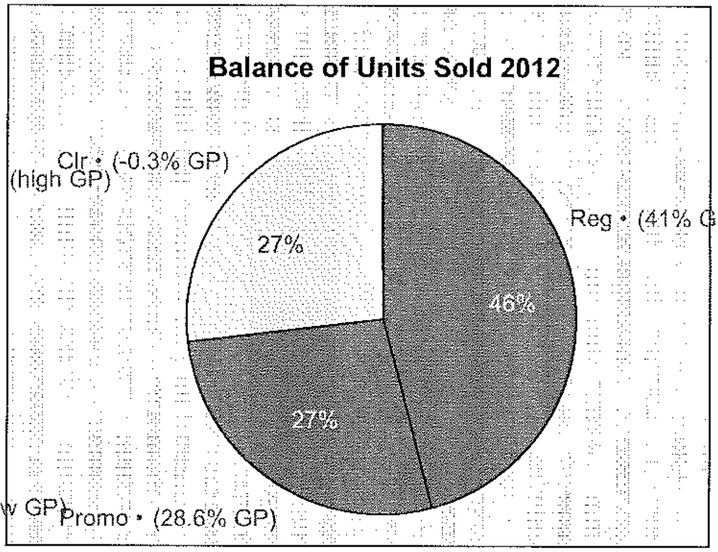
What's ahead: Transformation Year 3

Our focus for 2014 is to continue to strengthen our business mix

Balance of Business 2012



Balance of Units Sold 2012



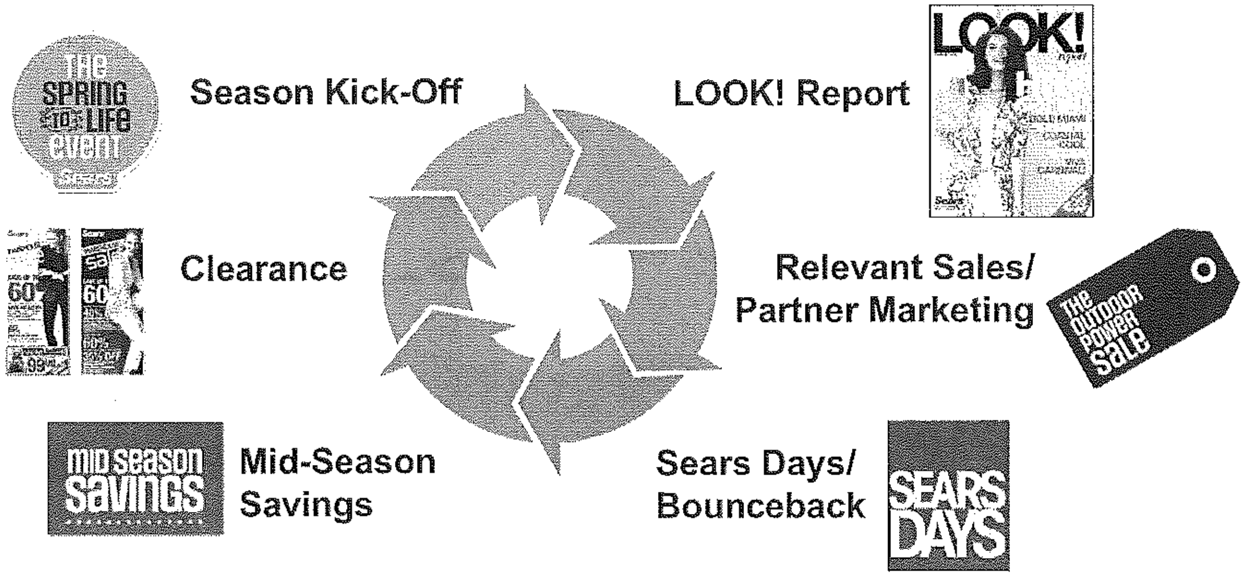
Fix to drive sustainable sales growth

Fix to maximize sales and get higher rate

Source: MDW

Balance of Sales: The Sears Cycle

There is a rhythm to maximizing performance of seasonal product. Getting it right will improve our Clearance BOS and rate



Season Kick-Off

LOOK! Report

Clearance

Relevant Sales/ Partner Marketing

Mid-Season Savings

Sears Days/ Bounceback

- **Increased Store Traffic**
- **Increased Basket**
- **Become the 'Go-To' Retailer**

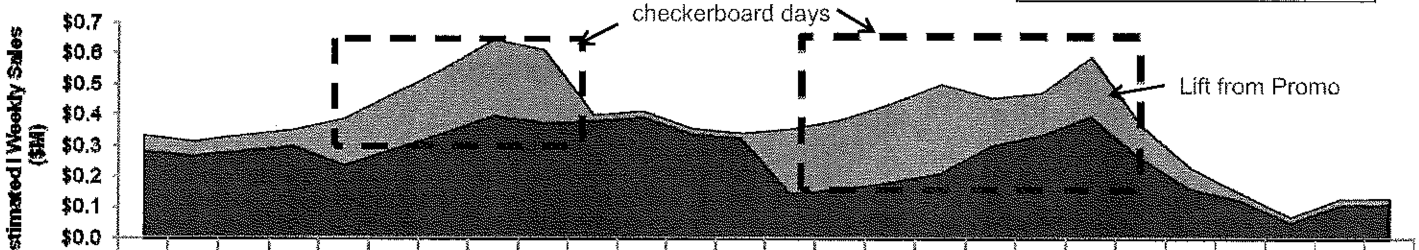
Balance Of Sales: Checkerboard Optimization

Optimizing our Checkerboard means deploying our days when they will have the most impact

- **Not all days are of equal value**
  - Seasonal and weekday/weekend variance in traffic and customer responsiveness to promos
  - Customer purchase patterns differ by brand/style and commodity
- **Sales history shows when promos had the most impact with Sears customers**
  - 3 years of reg and promo sales performance, by day, by class
  - Core Items only

+4.5% sales increase ($750K) expected from revised calendar vs. original plan

Example: Tanjay – Fall 2013



Best times to use checkerboard days

Lift from Promo

		27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52
		Aug				Sep					Oct				Nov				Dec					Jan			
PLAN	Wkdy	Reg	Reg	Reg	Reg	Reg	Reg	Reg	*Promo*	*Promo*	Reg	Reg	Reg	Reg	Reg	Reg	*Promo*	Reg	Reg	Promo	Promo	Promo	Promo	Reg	Reg	Reg	Reg
	Wknd	Reg	Reg	Reg	Reg	Reg	Promo	*Promo*	*Promo*	*Promo*	Promo	Promo	Promo	Promo	Promo	*Promo*	*Promo*	*Promo*	*Promo*	Promo	Promo	Promo	Reg	Reg	Reg	Reg	Reg
REVISED	Wkdy	Reg	Reg	Reg	Reg	Reg	Reg	Reg	Promo	Promo	Reg	SOAR	Reg	Promo	Promo	Promo	Promo	Promo	Promo	Promo	Promo	Promo	Reg	Reg	Reg	Reg	Reg
	Wknd	Reg	Reg	Reg	Reg	Reg	Promo	Promo	Promo	Promo	SOAR	Reg	Promo	SOAR	Promo	Promo	Promo	Promo	Promo	Promo	Promo	SOAR	Reg	Reg	Reg	Reg	Reg

Balance of Sales: *Checkerboard Optimization Impact*

Brand and commodity level analytics have influenced Fall and are shaping 2014 promotional cadence

- **Focus on "non-checkerboard" traffic draw events to fill in dark periods (Jan/Feb, July/Aug, Oct)**
    - Formalized mid-season clearance
    - Value programs
    - Price point offers and opportunity buys
    - Introduced red meter report to ensure drum beat in traffic draw and conversion

- **Impact this Fall is expected in some categories by moving from comping LY promotions toward optimized checkerboard day deployment**
    - Impact by brand / shop ranged from 2-10% uplift across WA, Outerwear, MW and FW

- **2014 Planning incorporates the findings:**
    - Optimize timing of corporate events (Sears Days, Scratch and Save, etc)
    - Rebalancing marketing dollars / flyer page count by month
    - Balance between commodity and brand promotions

Summary

- **Positive first half**
  - Encouraging momentum in A&A in volume vs. LY
  - MA holding share in a down market
  - H&H struggled with volume declines
    - Action plan already in place to course correct
    - Evaluating roles and strategies for certain H&H categories
  - Rate gains in most businesses
  - Tight expense management
- **Stronger back half expected**
  - Full run-rate impact of DI, rate management and expense management
  - Furniture and Mattress course correction in place
  - Optimized checkerboard management in A&A
  - New imaging in stores (LOOK!, Nevada)
- **Well ahead on 2014 planning**
  - Initiatives to get Q1 to positive already underway
  - Pilots being established for big steps in FL
  - 10 for 14 action plan development initiated

2014 Strategic Session - Agenda

SEPTEMBER 4TH, 2013

TRADING AND TRANSFORMATION UPDATE
4:00 pm – 5:00 pm

- Recap of strategic plan and where we are – Calvin (30 min)
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SEPTEMBER 5TH, 2013

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8:00 am – 8:30 am

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- Drive full potential of Direct – Salim (30 min)

DIRECT FULFILLMENT STRATEGY
11:30 am – 12:30 pm

- Strategy Overview – Gary (1hour)

WRAP-UP
12:30 pm

EBITDA Target for 2014 Plan is $300MM, less $4.8MM for 2 stores resulting in target of $295.2MM …

$ 000's	2014 PL	2013 PL	2012 Comp	2011	2010	2 closing stores	2014 PL excl 2 stores
Merch Net Sales	3,972.6	3,909.3	3,700.6	4,059.4	4,345.4	55.5	3,917.1
Other Revenue	397.6	415.1	511.9	593.0	572.8	-	397.6
Total Revenue	4,370.1	4,324.3	4,212.5	4,652.4	4,918.2	55.5	4,314.7
Merch Margin	1,643.3	1,601.1	1,425.2	1,600.8	1,777.4	21.9	1,621.4
MM %	41.4%	41.0%	38.5%	39.4%	40.9%	39.5%	41.4%
Other Income	506.9	533.1	533.0	569.2	563.8	2.7	504.2
Total Expenses	1,655.4	1,665.4	1,671.2	1,816.0	1,845.7	18.0	1,637.4
EBITDA	300.0	259.1	71.7	148.7	306.5	4.8	295.2

Sales by Channel	2014 PL	2013 PL	2012 Comp	2011	2010
Full Line	2,364.4	2,306.8	2,185.2	2,453.5	2,670.4
Home	455.1	487.8	457.6	459.9	501.5
Dealer	274.7	281.4	268.4	269.4	273.5
Outlet	93.5	85.4	85.2	89.3	88.9
Direct	609.4	599.8	573.4	664.7	686.5
Corbeil	152.9	131.4	116.4	114.4	118.4
Other	22.6	16.6	14.6	8.2	6.1
Total	**3,972.6**	**3,909.3**	**3,700.6**	**4,059.4**	**4,345.4**

Volume initiatives	
Plus program	TBD
Nevada	10.7
Furniture upgrade	35.0
Happy chic	TBD
Internet	30.0

Rate Initiatives	
COGS	22.0
Imports	8.5
F/X	TBD

Cost Initiatives	
Indirect procurement	18.0
Logistics	8.0
Shamrock	15.0
Payroll efficiency	2.5
Waste Reduction	26.9

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15.1

2014 Fast Start – Key Initiatives

We expect a fast start in 2014 by driving $7.2 MM more sales and reducing cost by $7.4MM…

$ 000's	2014 PL	2013 AC	2012 Comp	2011	2010
Merch Net Sales	781.2	774.0	790.1	873.9	946.0
Other Revenue	91.9	91.9	115.4	115.5	114.3
Total Revenue	873.1	865.9	905.6	989.4	1,060.2
Merch Margin	309.2	305.0	300.8	343.3	391.2
MM %	39.6%	39.4%	38.1%	39.3%	41.4%
Other Income	119.7	120.0	132.7	121.0	130.7
Total Expenses	379.2	386.6	406.9	437.8	438.0
EBITDA	3.0	(9.8)	(23.0)	(22.3)	38.3

Sales by Channel	2014 PL	2013 AC	2012 Comp	2011	2010
Full Line	449.9	439.0	449.5	510.0	568.9
Home	95.7	102.6	110.3	110.1	123.0
Dealer	57.1	58.5	59.6	60.8	59.2
Outlet	23.6	21.5	21.3	21.3	21.7
Direct	122.6	120.7	123.5	146.9	147.1
Corbeil	31.4	27.0	22.5	23.6	24.4
Other	6.2	4.8	3.4	1.3	1.5
Total	**786.6**	**774.0**	**790.1**	**873.9**	**946.0**

Q1 Initiatives		
2013 EBITDA		**(9.8)**
MM growth (Volume)		2.8
COGS/DI (MM%)		1.4
SHS		3.9
Logistics		1.0
Payroll efficiency		1.0
Shamrock		2.3
Waste Reduction		2.2
Bonus/AIP	(1.5)	
FX	0.8	
Insurance	(1.5)	
Other	0.3	
Non-Comp		(1.9)
Final EBITDA		**3.0**

Plan for a Profitable Q1

A number of initiatives are already in place that will enable us to drive volume for a fast start in 2014

Initiative	Description
New Men's Brand Launch (Logan Hill)	- New private label men's brand (Logan Hill) will replace Retreat and Boulevard Club brands - New brand with the "updated" style profile combined with our men's tailored offering will provide a comprehensive attack against Mark's and Moore's
Re-launch of Jessica in Women's Intimates	- Starting in spring 2014 feature revamped product assortment that is more aligned to the revised Jessica customer profile
Expansion of Carter's and OshKosh in Kids	- Expanding into 115 stores (+36 stores), buying greater inventory depth to support launch anniversary, Sears Days, catalog and sears.ca. Expanding the assortment into new areas such as layette, accessories, outerwear, and Kids' Footwear
Outdoor Cooking	- Dedicated 12 month outdoor cooking space in SFL store
Aldo and Buffalo Partnerships	- Direct import sourcing and partnerships will have an incremental impact in the 1H of 2014 since most of the 2013 initiatives will not be realized until the 2H of 2013
Home Environment	- To become the retailer of choice in home environment products for Canadian families by providing complete home environment solutions through product assortment and education
Marketing Calendar	- Plan to win without using checkerboard days in February (e.g. Valentines Day; Value event with fixed price point through opportunity buys and door crashers) - Maximize promotional checkerboard days in April when customer is most responsive

13.3

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10 FOR '14

Sears

1 **Simple, Efficient Operations - Take Out Complexity and Cost:** Savings from Logistics ($13.0MM) , PRS ($2.5MM) and other ($10MM)

2 **Right Product, in the Right Place, at the Right Time:** 200 bps rate improvement ($7MM) from reducing clearance , 50 to 100 bps decrease in Direct omits

3 **Flawless Execution in Stores:** Double scorecard performance

4 **Establish Pricing and COGS Discipline:** 25 bps from price improvement; 75 bps from cost improvement

5 **Get our Style Right – Strengthen our Updated Offering:** +$10MM Sales, +$3MM EBITDA

6 **Win the Needs–Driven Customer:** Continue to build Hero shops - Home Environment, Outdoor cooking, Dresses Suit shop, Footwear (+$20MM sales); Build commodity shops (+5% sales); +500 bps customer consideration in Hero Shop categories

7 **Drive the full potential of Direct :** Fully utilize retail assortment for online; Refined catalog Plan to sell (+4% Sales)

8 **Rebalance our Business Mix for Growth:** Expand growth businesses (TBD); Partner for traffic draw brands - Penningtons (+$10MM sales), Jonathon Adler (TBD)

9 **Grow our Home & Dealer Network:** Home (+$20MM EBITDA), Dealer (TBD)

10 **Build our Financial Services Strength:** +$3MM EBITDA

15.5

Sears

10 for "14 – Initiative #1

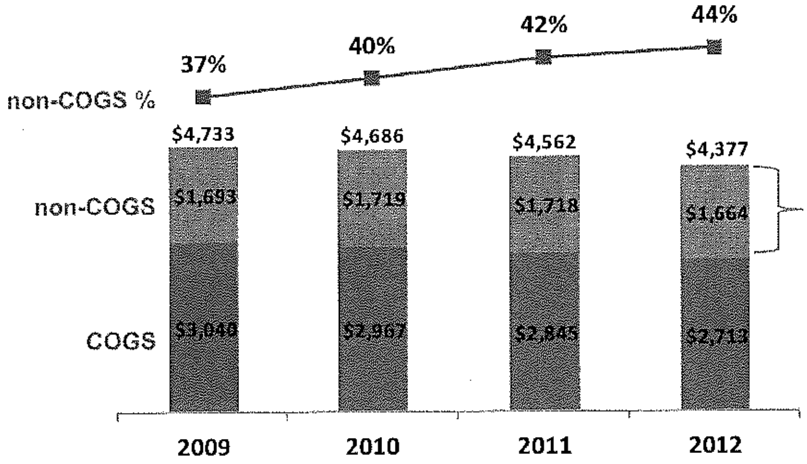
Simple, Efficient Operations: Take out Complexity and Cost

Private and Confidential

Operations

- **Retail cost base continues to increase as a percent of Net Sales**
  - Up 11 percentage points (104% to 115%) from 2009 to 2012
- **While over 60% of the 2012 cost base is COGS, we have renewed efforts in driving waste out the $1.7B of non-COGS expense***
  - As a % of Net Sales, non-COGS expenses are up 7 percentage points between 2009 and 2012
- **Plan is to tackle big buckets of expense, while striking a balance between immediate opportunities and operational transformation**

Total COGS & Expenses (2009-2012) w/ Percentage of Net Sales



Targeted Areas:

Logistics
Payroll
Procurement
PRS
Store Operations

*Includes other Merch Margin Expense, Controllable and General Expense, and service costs related to PRS and Installation

Operations (continued)

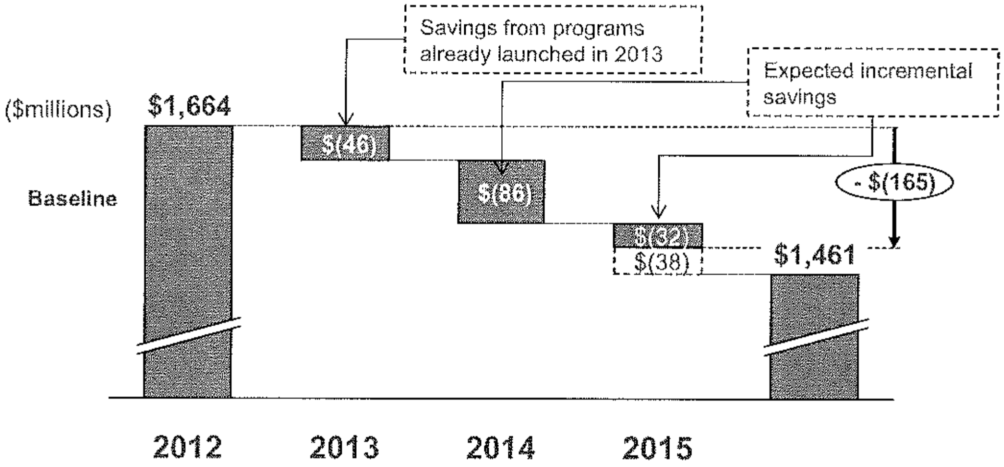
- **Over next three years, drive $160M - $200M in annual cost savings out of the business**
- **Projects already launched this year will deliver $46M cost savings in FY2013**
- **Line of site to $165M in annualized cost savings by end of FY2015**
    - Additional $20M-40M in early stage initiatives

Plan of Attack:

1)Change fixed to variable costs

2)Improve service level performance

3)Reduce cost by simplifying processes



Operations (continued)

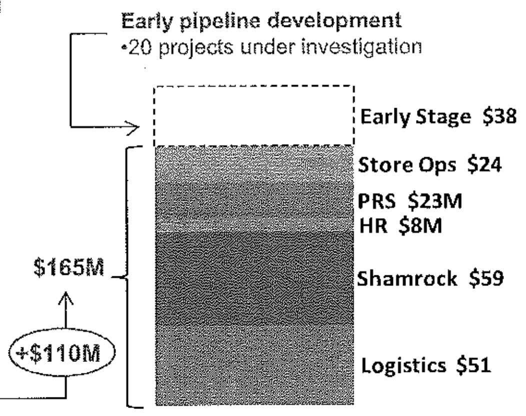
- **Focus on cost savings already taken hold**
  - Initiatives already launched in 2013 to bring $46M in costs savings this year
- **Realizing the $165M requires flawless execution of initiatives on the go…**

… as well as relentless pressure to push new ideas through the development pipeline

- **Resource investment required to ensure timely delivery of projects**
- **Continue to pump new savings ideas into pipeline to maximize overall potential**

Areas	2013 Achievements	Savings in 2013	Annualized
Logistics	• DC headcount reductions • KIS allowances reduction • Vendor Compliance	$19M	$25M
Store Operations	• Leadership structure • Selling/Service models	$15M	$16M
HR	• 2013 RSC re-org • Finance Reorg • Spans & Layers reduction	$6M	$7M
PRS	• Labour and contractors • Fleet management	$6M	$7M
		$46M	**$55M**

Overall Cost Savings Pipeline



Logistics & Supply Chain

Logistics & Supply Chain

($MM)	2009	2010	2011	2012	2013 PLAN
Merchandise Net Sales	4,549	4,345	4,059	3,820	3,909
Logistics & Distribution	116.7	128.6	110.9	102.2	99.4
% to Sales	2.57%	2.96%	2.73%	2.67%	2.54%
Transportation					
Between Stores & DCs	105.2	118.0	107.3	102.4	97.1
% to Sales	2.31%	2.72%	2.64%	2.68%	2.48%
Home Delivery - Expense	50.6	52.6	49.1	50.8	50.5
Total Logistics Managed Spend	**272.5**	**299.3**	**267.3**	**255.4**	**247.0**
% to Sales	5.99%	6.89%	6.58%	6.68%	6.32%

Key Issues:

1. **Significant excess capacity; both labour & fixed assets.**
2. **Lack of metrics and supply chain visibility.**
    - Culture did not focus on accountability & results
3. **Supply Chain executive talent gap.**
4. **Inadequate use of industry best practices partially as a result of poor systems**
    - Fail to realize benefits from collaborating with service providers and vendors

1520

Logistics & Supply Chain (continued)

Optimize our Logistics network and processes

		FY'13	FY'14	FY'15
Distribution	Improve both direct and indirect labour productivity. Outsourcing operations. Modest process changes.	$6M	$12M	$16M
Transportation	Corridor loads to stores. Other reductions in demand. Some rate improvements.	$3M	$9M	$13M
Home Delivery	Reduce free deliveries and "Keep It Sold" allowances given to customers. Various expense initiatives.	$5M	$6M	$7M
Merchandise Waste	Reduce merchandise write offs through improving vendor recoveries and disposal proceeds.	$3M	$8M	$10M
Other Vendor Related	Savings from prepaid to collect and improved supplier compliance program.	$3M	$5M	$5M
		$20M	**$40M**	**$51M**

Note: Amounts per a year represent the cumulative savings

PRS

($millions)

	2009	2010	2011	2012
Service Orders	1,006,824	857,829	747,586	674,259
Change %	*-5.1%*	*-14.8%*	*-12.9%*	*-9.8%*
Revenue				
Parts Sales	35.2	32.0	30.9	30.4
Cash Calls	21.2	18.2	18.0	16.5
IW Claim Revenue	4.1	4.5	4.3	4.5
Other Revenue	3.7	2.4	1.7	2.0
Total Revenue	64.2	57.1	54.9	53.4
COGS	36.8	34.1	33.2	32.8
Income before Expenses	27.3	23.0	21.7	20.6
Expenses				
Techn & Contractor Payroll	44.2	41.3	38.8	36.7
	0.0	0.0	0.0	0.0
Call Centre	7.5	6.6	14.6	19.8
Other Support Payroll	20.4	20.6	19.5	15.2
Total CC & Supportl	27.9	27.2	34.2	35.0
Other Controllable Exp	17.7	18.5	18.6	15.9
General Exp	5.5	5.4	5.0	4.4
Corporate OH	9.1	12.9	12.7	15.2
PRS EBITDA	(92.9)	(96.5)	(103.7)	(97.5)
PA EBITDA	73.6	69.8	70.1	70.3
Total EBITDA	(19.3)	(26.7)	(33.6)	(27.2)

Key Issues:

1. **In-warranty vendor revenue does not cover internal cost to service**
   - Vendor payments to cover IW service costs have not changed in several years
2. **Payroll has not reduced in-line with the 33% service order volume decline since 2009**
   - Technician and contractor workforce can be optimized further
   - Support payroll will benefit from project Shamrock as well as further structural changes
3. **Controllable expenses have not declined in-line with service order reduction**
   - Freight, vehicle operating costs and parts expenses

PRS (continued)

Reduce fixed costs in PRS

		FY'13	FY'14	FY'15
Volume Reduction	Labour, Parts, Call Centre	$5M	$5M	$5M
Source Revenue	Vendor In-Warranty Servicing	$0M	$4M	$4M
Operational Efficiencies	Parts Supply Chain, Field Labour / Expense Store Repairs	$2M	$9M	$11M
Other	Other initiatives in development			$3M
		$7M	$18M	$23M

Note: These cost savings do not include impact of Shamrock; Amounts per a year represent the cumulative savings

Shamrock

Business Tower	Savings Opportunity (3rd party Assessment*)
Indirect Procurement	$115 to $120M
CRM	$20 to $25M
Finance & Accounting, Payroll	$6.8 to $10.8M
Application Maintenance & Development	$22.3 to $27.0M

Key Issues:

1. **Indirect Procurement**
    - Lacked in house category expertise
    - Highly manual and unmeasured processes
    - Very low compliance or capability to transform
2. **Call Centre**
    - Low CSAT due to antiquated systems and processes
    - Significant investment required meet customers' needs
    - No capability to drive increased revenue
3. **Finance & Accounting, Payroll**
    - Antiquated systems and manual processes
    - Lack of controls, tracking, not meeting SLAs
    - Many pre-retirement SMEs
4. **Application Maintenance & Development**
    - Antiquated systems and processes
    - Majority of SMEs are pre-retirement with undocumented business processes
    - Need to rapidly build capability for IT Transformation

*5 yr. term, excl Severance & Transition costs

Shamrock (continued)

Leverage external expertise for non-core capabilities and simplify our processes

		FY'13	FY'14	FY'15
Indirect Procurement	All Indirect Procurement Transition to IBM started May, 2013, complete Sept, 2013. Building project pipeline.	**$3M**	**$23M**	**$47M**
Finance and Accounting	Payroll, GA, Inv Acct., FP&A, Financial Systems, AP/AR. Transition to start late Aug. Complete Mar '14.	**$(1)M**	**$0M**	**$1M**
Call Centres	All Call Centres. Transition to start late Aug. Complete mid '14. CPIs will be measured, and improved; binding penalties if not achieved; Penalties if revenue targets not hit.	**$(3)M**	**$1M**	**$4M**
AD/AM	Functions within Application Maintenance & Development. Transition to start late Aug. Complete Jan '14. All CPI's will be measured and binding fees charged if vendor does not achieve.	**$(2)M**	**$4M**	**$7M**
		$(3)M	**$28M**	**$59M**

Note: Amounts per a year represent the cumulative savings

Store Operations

($millions)

Corporate Stores (Full Line & Home)	*2009*	*2010*	*2011*	*2012*
Revenue	**3,559.5**	**3,418.5**	**3,152.0**	**2,974.8**
Sales	3,313.3	3,171.9	2,913.5	2,748.5
Merch Mergin	**1,393.9**	**1,297.5**	**1,154.6**	**1,046.2**
Shrinkage	25.0	18.0	21.4	20.6
Freight	46.7	48.4	46.3	41.6
Sales Adjustments	12.2	9.8	6.0	10.7
Gross Margin	**1,310.0**	**1,221.3**	**1,080.9**	**973.3**
Other Income	125.0	127.9	121.8	121.1
Total Income	**1,435.0**	**1,349.2**	**1,202.6**	**1,094.4**
Payroll & Benefits	415.6	412.9	400.0	403.7
% to Revenue	*11.7%*	*12.1%*	*12.7%*	*13.6%*
Occupancy Costs	208.2	202.6	200.0	199.5
Advertising/Display	154.1	142.8	130.7	100.4
Logistics Costs	55.8	68.4	55.6	54.5
Delivery Expense	43.2	45.0	41.2	42.3
Transaction Expense	24.9	23.2	21.8	20.0
Other Operating Costs	22.5	24.0	21.6	20.8
Discretionary Expense	12.8	18.0	12.6	11.5
- Outsourcing, Unclassified, Postage, Local Adv				
Total Costs	**937.1**	**937.0**	**883.4**	**852.8**
Overhead	136.8	186.2	222.8	223.4
EBITDA	**361.1**	**226.0**	**96.4**	**18.3**

Key Issues:

1.Inventory Shrinkage

- Increased organized crime activity
- Inventory flow execution

2.Payroll

- Inconsistent payroll and operating standards; measurement and score carding implemented in 2013
- Inefficient business models: payroll standards developed to optimize payroll investment

3.Store Discretionary Spend

- Visibility to key drivers
- Spend variance by store

Store Operations (continued)

Reduce waste across the value chain

		FY'13	FY'14	FY'15
Structure	Reduction in Store leadership structure	$8M	$8M	$8M
Payroll Productivity	Optimize store payroll	$7M	$10M	$10M
In Store Process	Streamline in store processes	$1M	$3M	$3M
Inventory Shrinkage	Strategic deployment of security devices on high loss lines and improve supply chain integrity impacting inventory counts	$-.-	$2M	$2M
Reduce Discretionary Expense	Identify ,eliminate unproductive spend	$1M	$1M	$1M
		$17M	**$24M**	**$24M**

Note: Amounts per a year represent the cumulative savings

Sears

10 for "14 – Initiative #2

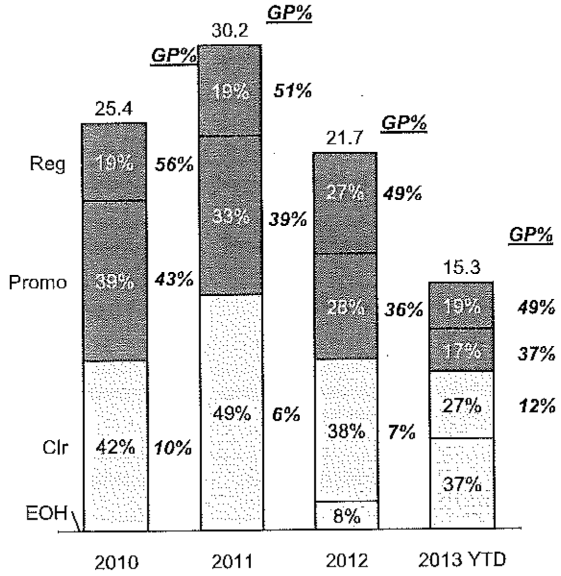
Right Product in the Right Place at the Right Time

Private and Confidential

Context – Issues and Objective

The biggest risk to rate is our clearance sales; the objective is to reduce the dependency on clearance sales and increase rate

A&A Balance of Units Sold*



Issues

- Buys are made with limited consideration to demand and store capacity
- We buy too broad and shallow leading to broken assortment
- Standard space, capacity, density is lacking for store clusters
- We have not optimized the use of our checkerboard days and have not thought of innovative mechanisms to draw traffic
- We have inconsistent execution in stores

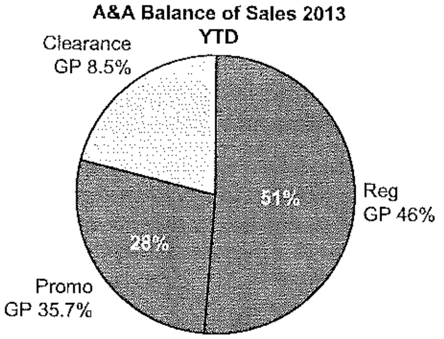
Objective

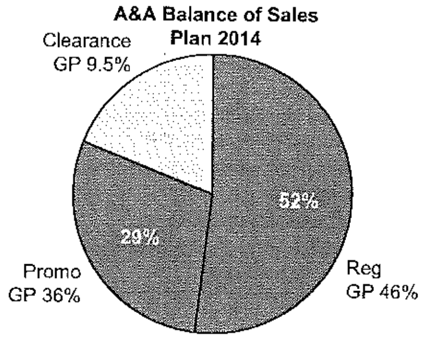
- Buy only what we need by implementing a buy process that starts with our store capacity /clusters and demand
- Simplify the allocation process by standardizing our store clusters so that brand allocation and flow are based on demand
- Refine our promotional and markdown cadence by utilizing mid-season markdowns and shifting checkerboard days
- Simplify and standardize merchandising standards
- Define planning and allocation process and determine where feasible to leverage retail inventory to reduce Direct omits

Note:*Analysis based on year purchased vs. year sold (e.g.. 30.2M units with 2011 season codes purchased for 2011 and sold in any year); Seasonal = F, S, H, and U (2013 S and U only)
Source: MDW (as of Aug 19)

2014 Target – Shift in Balance of Sales

By changing our balance of sales, we are targeting 100 bps. ($2.5MM) improvement to our clearance rate and 200 bps in BOS shift ($7MM)


A&A Balance of Sales 2013 YTD


A&A Balance of Sales Plan 2014

Initiatives		
Buying	Consolidate Jessica/Jessica weekend and Tradition TCC to avoid duplication	Complete
	Take a commodity view to avoid duplication	In-progress
	Implement a planning and buying process tied to capacity	Not started
Allocation	Implement E3 for automatic inventory allocation	Complete
	Define brand allocation and optimal inventory flow by cluster	Not started
	Right size department capacity and reset clusters	In-progress
Promotional/ Mark-down Cadence	Optimize promotional and markdown calendar	In-progress
Merchandising	Refine merchandising standards to reflect best practices and address execution challenges	In-progress
Direct Omits	Define planning and allocation process; rationalize assortment	In-progress
	Determine where feasible to leverage retail inventory	In-progress

Sears

10 for "14 – Initiative #5 and #6

Get Our Style Right and Win the Needs - Driven Customer

Private and Confidential

Executive Summary

① **Our style profile needs to more closely reflect the market opportunity**

- We currently over index relative to the market in the 'Traditional' Style profile; while the market and our target customer base are weighted toward Updated
- For 2014 we are launching a series of focused investments in the Updated style profile
  - In WA: Grow Liz Claiborne and Point Zero; Re-launch Nevada under Buffalo; Launch Pure Energy in Activewear; Roll-up Jessica/Jessica Weekend; Launch Penningtons Plus Size Shop
  - In FW: Grow Naturalizer; Re-launch private brands under Aldo partnership
  - In MW: Launch Just Keep Living (JKL); Logan Hill; and re-launch Nevada under Buffalo
  - In Bed and Bath: Launch Alfred Sung

② **In parallel, we are focusing on the 'needs driven' shopping occasions; re-defining our shopping experience to win share from key competitors**

- Across categories, more than half all shopping occasions (some categories as high as 80%+) are triggered by a specific customer need; and there is an opportunity for Sears to establish itself as a destination for these occasions
- There are segments of the population who tend to shop most by need (i.e. the pragmatist) and with whom we believe our presence, depth and breadth of assortment will allow us to win consideration
- Preliminary insights from our research into the pragmatist customer indicate that we currently under perform relative to key competitors on elements of the in-store experience that the pragmatist customer values ((e.g. navigability of stores; presentation; in stock; checkout process)
- Our efforts going forward will be to deepen our understanding of our competitive gaps and driving changes to our in store model to drive consideration with our target customers

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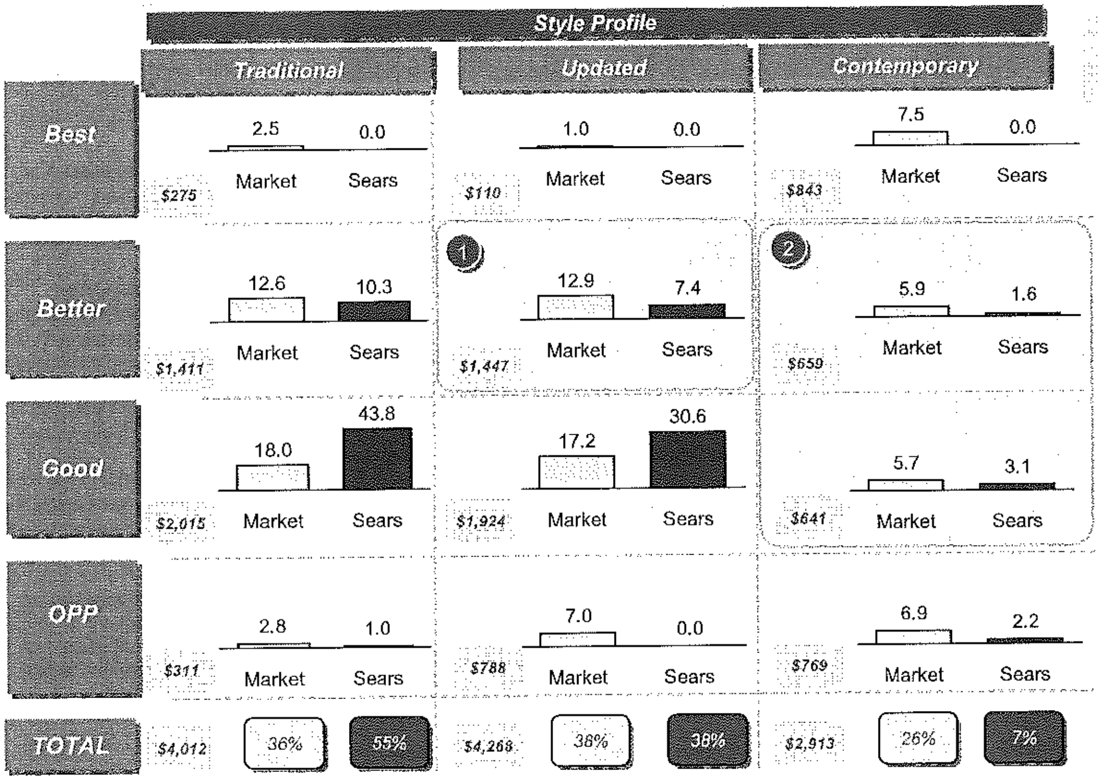
Women's Apparel - Sears and Market Sales Distribution

Sears under indexes against the market in the Updated Better segment



2012 market size: $11.2B
2012 SFL WA sales: $288.6MM

① Invest to grow in updated better

② Selectively invest in contemporary – focused on supporting the contemporary needs of our 'updated' customer

Note: % of market sales vs. % of sears $ sales; small box = F2012 market size in $MM; Sears BOS excludes ~4% of total WA sales attributed to bad data (un-matched items/negative sales figures)
Source: NPD, MDW Full-Line 2012 Sales

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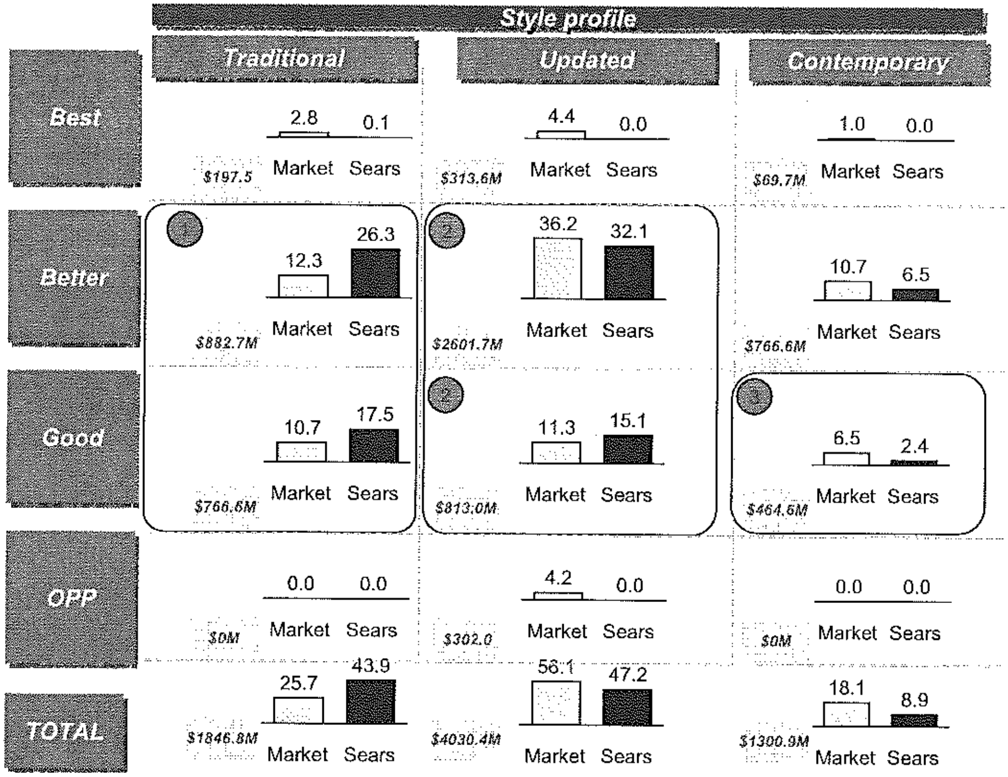
Menswear – Sears and Market Sales Distribution

Within menswear, our balance of sales is generally aligned with the market opportunity across price points and style profiles



2012 market size: $7,178B
2012 SFL WA sales: $279.2MM

① Strong position in Traditional – where we should focus on maximizing yield

② Large market opportunity in updated style profile, with a set of competitors against whom we believe we can win with a strong commodity focus

③ While we under-index in contemporary, the market composition is largely specialty retail; so our efforts should be tailored toward supporting "contemporary cut, in an updated palate"

Note: % of market sales vs. % of sears sales; small box = F2012 market size; full-line only; all season codes
Source: Q4 2012 NPD Data (Scaled up); Jan YTD MDW Sales data

Action Plan

Our objective is to grow our Updated business through national brands and strengthened private brands while maintaining our leadership in Traditional

	Style profile		
	Traditional	Updated	Contemporary
Best		**Grow** Carter's and OshKosh (FW)	
Better	**Maintain our leadership position** - Naturalizer (FW)	**Grow** in this segment leveraging National Brands to align with market opportunity - Point Zero (WA) - Grow Liz Claiborne (WA) - Launch Just Keep Living (MW)	**Selectively invest** (National Brands) to support updated customers' contemporary needs
Good	**Maintain our leadership position** - Continue driving Alia, Tanjay and Carroll Reed (WA) - Consolidate our offering in Tradition/TCC (WA) - Continue to grow Arnold Palmer (MW)	**Grow by strengthening our private brands** -Re-launch Nevada under Buffalo partnership (WA/MW) -Rollup Jessica/Jessica Weekend -Launch Logan Hill (replace Boulevard Club and Retreat) - Launch Pure Energy Activewear - Re-launch Jessica and Nevada under Aldo partnership (FW) - Launch Pennington's Plus Size Shop	**Selectively invest** (Private Brands) to support updated customers contemporary needs - Re-launch Attitude under Aldo partnership (FW)

Total Growth of $10MM

We are focused on winning share with the pragmatist customer

Attitudinal segments in Retail Market		% of Market	% of shopping occasions driven by need
Price Conscious	☐ Highly price conscious / promotionally driven ☐ Willing to go out of way to seek out lowest price ☐ Responds to flyers; actively researches price before shopping	14%	52%
Fashion First	☐ Fashion oriented shopper ☐ Loves to shop / browse items ☐ 'On trend' and willing to pay more for latest styles	14%	48%
Pragmatist	☐ Pragmatist - Convenience driven shopper ☐ Function first - Quality matters over fashion ☐ Prefers self service and fast (efficient) shopping experience	20%	55%
Service Seeker	☐ Service / assistance seeker ☐ Values in store support and knowledgeable staff ☐ Pays a premium for quality	18%	69%
Experience Driven	☐ Heavy component of H&H in addition to A&A spending ☐ Fashion focused (brands / styles) ☐ Convenience and superior quality of experience across channels (online and in store)	36%	50%

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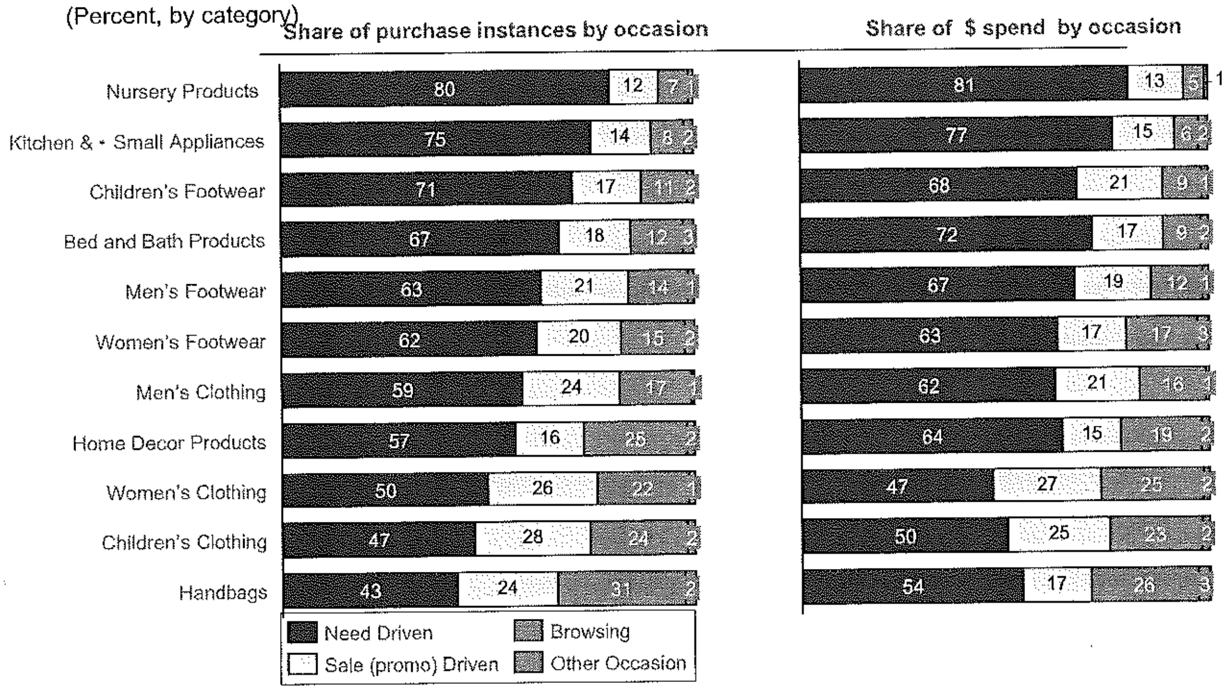
Needs Driven Occasions Across Categories

Need driven shopping occasions are more than half of total purchase occasions and dollars; some categories much more likely to be need driven purchases

Distribution of purchase instances and spend by shopping occasion
(Percent, by category)



*Excludes big ticket as all purchases are needs driven (to replace item, to renovate, or due to a moving) – detailed cluster analysis to follow based on attitudinal statements

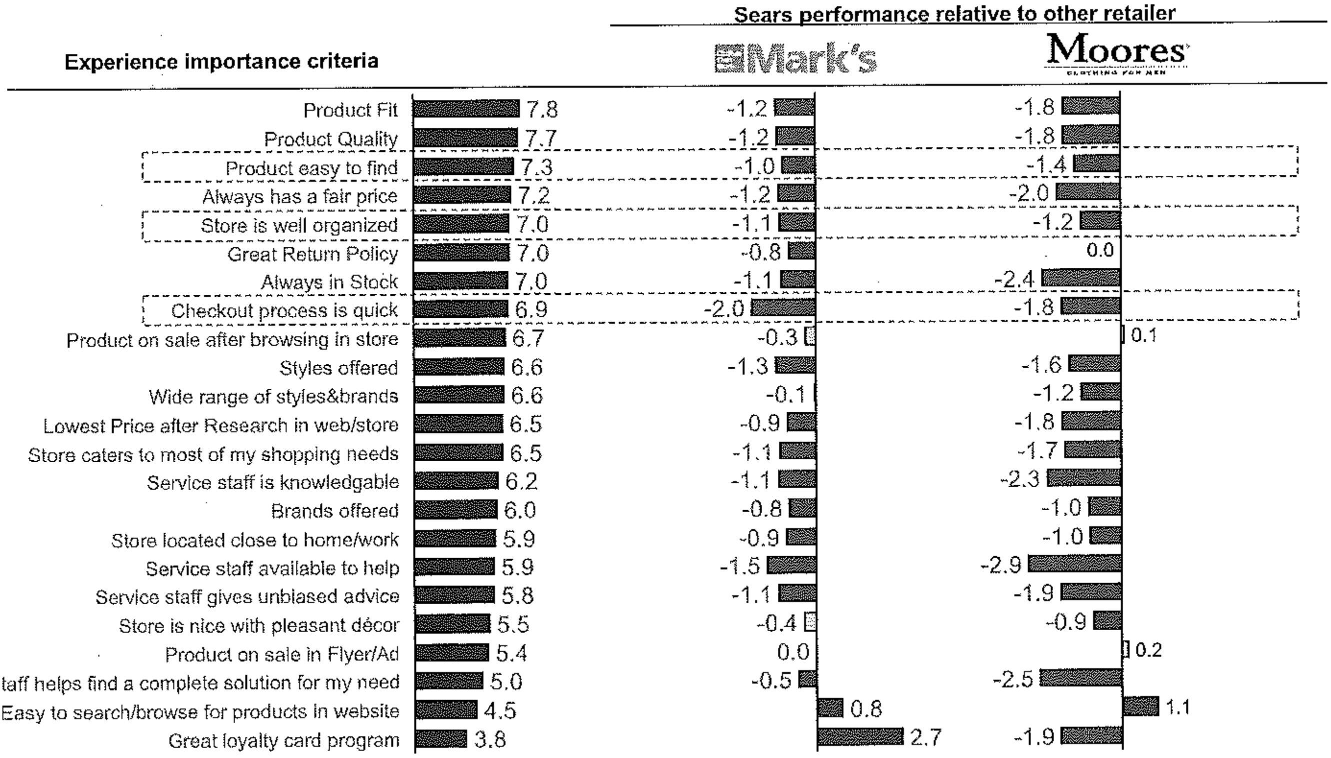
Needs Driven Occasion vs. Browsing

The key purchase criteria (KPC) for needs driven occasions are focused on navigation to find what they are looking for

	KPC for Needs Driven Occasion	KPC for Browsing	KPC for Sale driven
	Focused on Finding What They are Looking For	*Focused on an Engaging Customer Experience*	*Focused on Price*
Men's Clothing	Needed [Commodity] always has item in stock	Product on sale after browsing in store	Product on sale in Flyer/Ad
	Service staff is knowledgeable	Store is nice with pleasant décor	Product on sale after browsing in store
	Service staff gives unbiased advice	Great loyalty card program	Great loyalty card program
	Service staff helps find a complete solution for my need	Easy to search/browse for products on website	Lowest Price after Research on web/in store
	Service staff available to help	Styles offered	Easy to search/browse for products on website
Women's Clothing	Service staff gives unbiased advice	Great Return Policy	Product on sale in Flyer/Ad
	Service staff is knowledgeable	Lowest Price after Research on web/store	Great loyalty card program
	Needed [Commodity] always has item in stock	Styles offered	Product on sale after browsing in store
	Service staff helps find a complete solution for my need	Product on sale after browsing in store	Lowest Price after Research on web/in store
	Service staff available to help	Products are easy to find	Easy to search/browse for products on website

Needs Driven Customer – Men's Clothing – Sears vs. Competition

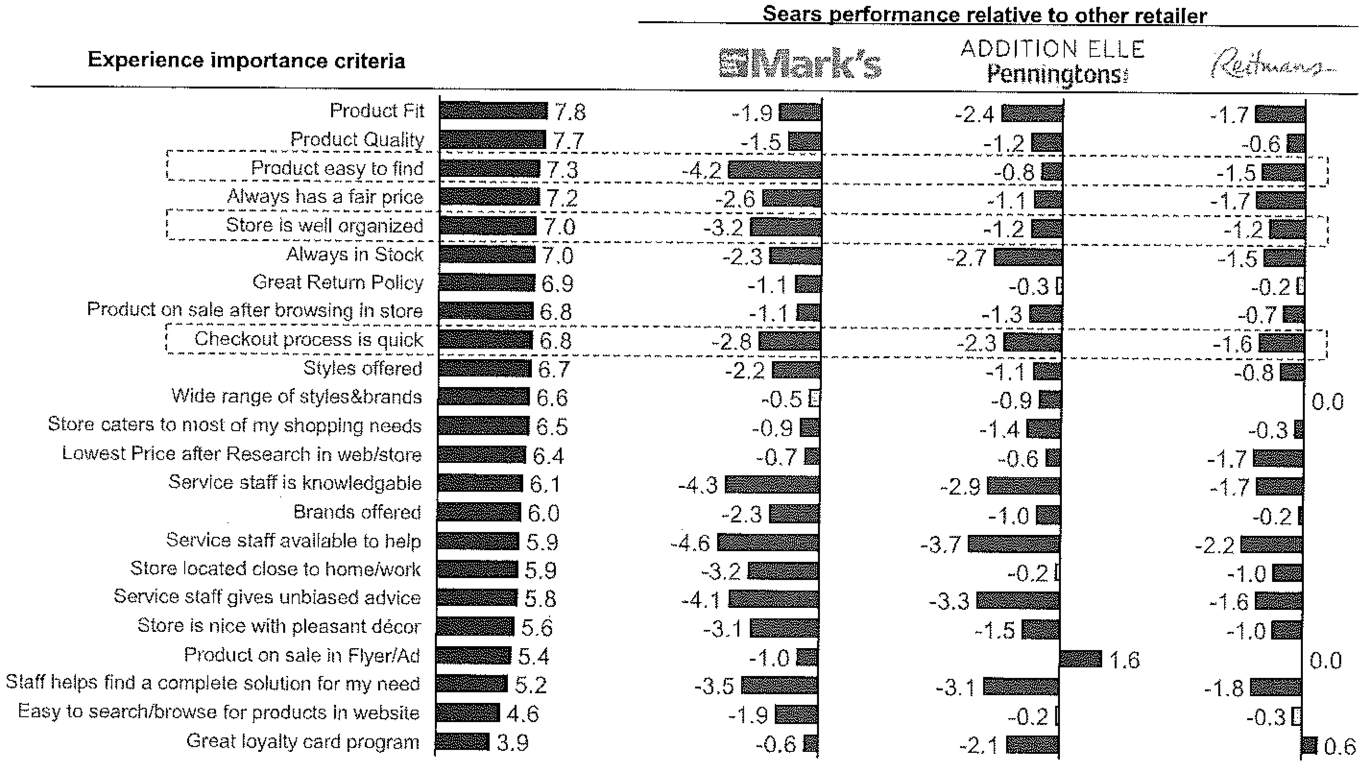
In Menswear, retailers that are winning with the needs driven customer outperform Sears on shop-ability and availability of product



Experience importance criteria		Mark's	Moores
Product Fit	7.8	-1.2	-1.8
Product Quality	7.7	-1.2	-1.8
Product easy to find	7.3	-1.0	-1.4
Always has a fair price	7.2	-1.2	-2.0
Store is well organized	7.0	-1.1	-1.2
Great Return Policy	7.0	-0.8	0.0
Always in Stock	7.0	-1.1	-2.4
Checkout process is quick	6.9	-2.0	-1.8
Product on sale after browsing in store	6.7	-0.3	0.1
Styles offered	6.6	-1.3	-1.6
Wide range of styles&brands	6.6	-0.1	-1.2
Lowest Price after Research in web/store	6.5	-0.9	-1.8
Store caters to most of my shopping needs	6.5	-1.1	-1.7
Service staff is knowledgable	6.2	-1.1	-2.3
Brands offered	6.0	-0.8	-1.0
Store located close to home/work	5.9	-0.9	-1.0
Service staff available to help	5.9	-1.5	-2.9
Service staff gives unbiased advice	5.8	-1.1	-1.9
Store is nice with pleasant décor	5.5	-0.4	-0.9
Product on sale in Flyer/Ad	5.4	0.0	0.2
Staff helps find a complete solution for my need	5.0	-0.5	-2.5
Easy to search/browse for products in website	4.5	0.8	1.1
Great loyalty card program	3.8	2.7	-1.9

Needs Driven Customer – Women's Clothing – Sears vs. Competition

Sears performance gaps are larger in many areas for Women's clothing, however shop-ability and in-stock remain consistent themes



Experience importance criteria		Sears performance relative to other retailer: Mark's	ADDITION ELLE Penningtons	Reitmans
Product Fit	7.8	-1.9	-2.4	-1.7
Product Quality	7.7	-1.5	-1.2	-0.6
Product easy to find	7.3	-4.2	-0.8	-1.5
Always has a fair price	7.2	-2.6	-1.1	-1.7
Store is well organized	7.0	-3.2	-1.2	-1.2
Always in Stock	7.0	-2.3	-2.7	-1.5
Great Return Policy	6.9	-1.1	-0.3	-0.2
Product on sale after browsing in store	6.8	-1.1	-1.3	-0.7
Checkout process is quick	6.8	-2.8	-2.3	-1.6
Styles offered	6.7	-2.2	-1.1	-0.8
Wide range of styles&brands	6.6	-0.5	-0.9	0.0
Store caters to most of my shopping needs	6.5	-0.9	-1.4	-0.3
Lowest Price after Research in web/store	6.4	-0.7	-0.6	-1.7
Service staff is knowledgable	6.1	-4.3	-2.9	-1.7
Brands offered	6.0	-2.3	-1.0	-0.2
Service staff available to help	5.9	-4.6	-3.7	-2.2
Store located close to home/work	5.9	-3.2	-0.2	-1.0
Service staff gives unbiased advice	5.8	-4.1	-3.3	-1.6
Store is nice with pleasant décor	5.6	-3.1	-1.5	-1.0
Product on sale in Flyer/Ad	5.4	-1.0	1.6	0.0
Staff helps find a complete solution for my need	5.2	-3.5	-3.1	-1.8
Easy to search/browse for products in website	4.6	-1.9	-0.2	-0.3
Great loyalty card program	3.9	-0.6	-2.1	0.6

Action Plan

The objective is to build commodity shops and capabilities that can enable growth across the business

- Continue to build and grow commodity Hero shops
  - Maintain investment in Dresses, Suit Shop, Footwear
  - Develop Home Environment and Outdoor Cooking shops
- Add seasonal commodity shops and events
  - Cozy shop – Sweaters and sleepwear
  - Shorts and sandals
- Improved "shop-ability" for the needs-driven customer in key commodities
  - Revised floor layout and merchandising standards (product positioning and presentation, signage, fill guidelines)
  - Focus on experience elements driving customer decisions
- Build commodity planning, marketing and merchandising capabilities
  - Pre-season planning capability by commodity
  - In-season commodity performance reporting
  - Marketing and checkerboard management by commodity

Sears

10 for "14 – Initiative #7

Drive Full Potential of Direct

Private and Confidential

Executive Summary

① **Catalogue continues to decline but productivity is improving; online plays a much larger role in driving growth**

- Once sales are reattributed to the source of the sale, internet sales growth increases to 20% YOY (vs. 2% reported) and 36% APR YTD (vs. 15% reported)
- While catalogue sales have continued to decline (-17.5% APR YTD), advertising spend has reduced at a greater rate (-19.7% APR YTD) increasing productivity

② **Growth in Direct going forward will be driven by online, which requires us to accelerate progress on the basics while partnering for key innovation - getting our retail assortment online and addressing significant gaps in our customer experience**

- We have seen a direct linkage to growth through on boarding and have recently implemented a new process to drive sales in 2H 2013 and 2014 (~$9MM)
- There is a big opportunity to drive conversion by reaching out to customers in a more targeted way, making it easy for customers to find what she's looking for, buy and deliver on a great post purchase experience (~$11MM)

③ **While Catalogue top line continues to decline, we believe there is an opportunity to further drive the productivity of the business through deeper customer insights and action**

- We have demonstrated an ability to drive productivity through targeted reductions in underperforming ad spend and shifts in mix of big books / small books
- Preliminary customer analytics show that we have a large ($200MM) customer base that rotates each year and we have a strong 'loyalist' customer base (23% of customers account for 57% or revenue) that we could better target for loyalty / retention
- We believe that deeper segmentation will help us better target retention actions to preserve top line and maximize profitability of the business

Context – Understanding Internet vs. Catalogue Profitability

Once revenue is attributed to the source of the sale, YOY sales for internet are +20% (vs. +2%) and the BOS for catalogue is 64% (vs. 49%)

	2012 ACT JAN YTD						2013 ACT APR YTD					
	Internet		Catalogue		Direct		Internet		Catalogue		Direct	
Net Sales	209.3	20.0%	371.9	-24.1%	581.2	-12.6%	47.5	36.6%	73.2	-17.5%	120.7	(0.0)
Gross Profit	64.7	30.9%	171.0	46.0%	235.7	40.6%	15.4	32.5%	35.6	48.6%	51.0	42.7%
Merch Margin	80.2	38.3%	187.5	50.4%	267.7	46.1%	18.2	38.4%	37.9	51.7%	56.1	46.5%
Gross Margin	66.6	31.8%	160.3	43.1%	226.9	39.0%	15.1	31.7%	32.4	44.2%	47.4	39.3%
Misc Income	12.6	6.0%	22.4	6.0%	35.0	6.0%	3.0	6.4%	4.7	6.4%	7.7	6.4%
Variable Expenses	(24.5)	-11.7%	(56.1)	-15.1%	(80.6)	-13.9%	(5.9)	-12.5%	(12.1)	-16.5%	(18.0)	-14.9%
Delivery Expense	(1.8)	-0.9%	(3.8)	-1.0%	(5.6)	-1.0%	(0.5)	-1.0%	(0.9)	-1.2%	(1.3)	-1.1%
Logistics Handling (Portion of NLS)	(10.8)	-5.2%	(25.0)	-6.7%	(35.8)	-6.2%	(2.7)	-5.6%	(5.4)	-7.3%	(8.0)	-6.7%
Merchant Commissions	(7.0)	-3.4%	(12.5)	-3.4%	(19.6)	-3.4%	(1.5)	-3.2%	(2.3)	-3.2%	(3.9)	-3.2%
Contact Centre Charge	(3.3)	-1.6%	(12.0)	-3.2%	(15.2)	-2.6%	(0.9)	-1.9%	(2.9)	-4.0%	(3.8)	-3.2%
Transaction Expense	(1.6)	-0.8%	(2.8)	-0.8%	(4.4)	-0.8%	(0.4)	-0.8%	(0.6)	-0.8%	(0.9)	-0.8%
Advertising Expenses	(10.5)	-5.0%	(70.6)	-19.0%	(81.1)	-13.9%	(1.9)	-3.9%	(14.4)	-19.7%	(16.3)	-13.5%
Catalogue	-	0.0%	(65.3)	-17.6%	(65.3)	-11.2%	-	0.0%	(13.6)	-18.5%	(13.6)	-11.2%
Digital/Brand Marketing	(10.5)	-5.0%	(5.1)	-1.4%	(15.6)	-2.7%	(1.8)	-3.9%	(0.8)	-1.1%	(2.7)	-2.2%
Local Advertising	(0.0)	0.0%	(0.1)	0.0%	(0.1)	0.0%	(0.0)	0.0%	(0.0)	0.0%	(0.0)	0.0%
Display	(0.0)	0.0%	(0.0)	0.0%	(0.0)	0.0%	(0.0)	0.0%	(0.0)	0.0%	(0.0)	0.0%
Variable Profit Contribution	44.2	21.1%	56.1	15.1%	100.2	17.2%	10.3	21.7%	10.6	14.4%	20.9	17.3%
Fixed Expenses	(4.0)	-1.9%	(8.8)	-2.4%	(12.8)	-2.2%	(0.9)	-1.9%	(2.2)	-3.0%	(3.1)	-2.6%
Field Payroll	(1.2)	-0.6%	(2.2)	-0.6%	(3.4)	-0.6%	(0.3)	-0.7%	(0.5)	-0.7%	(0.9)	-0.7%
Outsourcing	(0.2)	-0.1%	(0.3)	-0.1%	(0.5)	-0.1%	0.1	0.3%	(0.2)	-0.2%	(0.0)	0.0%
Occupancy	(0.7)	-0.3%	(1.2)	-0.3%	(1.9)	-0.3%	(0.2)	-0.4%	(0.3)	-0.4%	(0.5)	-0.4%
Logistics Occupancy (Portion of NLS)	(1.1)	-0.5%	(3.7)	-1.0%	(4.8)	-0.8%	(0.3)	-0.7%	(0.9)	-1.3%	(1.3)	-1.0%
Other (Supplies/Postage/etc)	(0.8)	-0.4%	(1.5)	-0.4%	(2.3)	-0.4%	(0.2)	-0.4%	(0.3)	-0.4%	(0.5)	-0.4%
Profit Contribution before Overhead	40.1	19.2%	47.3	12.7%	87.4	15.0%	9.4	19.7%	8.4	11.4%	17.7	14.7%
Overhead (OH)	(23.6)	-11.3%	(43.3)	-11.6%	(66.9)	-11.5%	(6.2)	-13.0%	(9.3)	-12.7%	(15.5)	-12.8%
EBITDA	16.5	7.9%	3.9	1.1%	20.5	3.5%	3.2	6.7%	(0.9)	-1.3%	2.3	1.9%
Books			28	-36.4%					10	-9.1%		
Pages			5498	-30.2%					2236	-4.3%		
Circulation (MMs)			46	-33.3%					16	-14.2%		
Impressions (MMs)			12,324	-31.3%					5,127	-17.9%		
Sales Per 1000 Impressions			30.18	10.4%					14.28	0.5%		
Variable Expenses	56%		71%		67%		52%		70%		65%	
Fixed Expenses (including OH)	44%		29%		33%		48%		30%		35%	
Old Version of Sales (Transactional View)												
Net Sales	299.3	2%	281.9	-24%	581.2	-13%	65.7	15%	54.9	-17%	120.7	-2%
Gross Profit	107.2	35.8%	128.5	45.6%	235.7	40.6%	24.5	37.3%	26.5	48.2%	51.0	42.2%
Merch Margin	131.2	43.8%	136.5	48.4%	267.7	46.1%	28.9	44.0%	27.2	49.5%	56.1	46.5%
Catalogue Advertising	6.9	2.3%	59.0	20.9%	65.9	11.3%	1.4	2.2%	12.1	22.1%	13.6	11.2%
Digital Marketing	14.3	4.8%	1.3	0.4%	15.6	2.7%	2.3	3.6%	0.3	0.6%	2.7	2.2%
Expenses	49.7	16.6%	58.2	20.6%	107.9	18.6%	12.2	18.5%	12.1	22.1%	24.3	20.1%
OH	34.4	11.5%	23.5	8.3%	57.8	9.9%	6.9	10.5%	6.4	11.6%	13.3	11.0%
EBITDA	25.9	8.6%	(5.4)	-1.9%	20.5	3.5%	6.1	9.2%	(3.8)	-6.9%	2.3	1.9%

Source: Essbase, CDW

- Once sales are reattributed to the source of the sale, internet sales growth increases to 20% YOY (vs. 2% reported) and 36% APR YTD (vs. 15% reported)
- Catalogue also has a much larger BOS than Internet - YOY at 64% and 60.7% in APR YTD compared to 49% and 46% reported
- While catalogue sales have declined -17.5%, catalogue adverting expenses has declined at -19.7% increasing productivity

Driving Internet Sales and Profitability – On-boarding Retail Product Online

While we made some progress on-boarding in 2013, there is still a big opportunity in 2014

Category	% of retail sales on-boarded		
	January 2013 (actual)	July 2013 (actual)	Proposed 2014 Target
Major Appliances	97%	98%	100%
Home Furnishings	61%	68%	85%
Home Decor	79%	80%	85%
CAWP	74%	85%	90%
FR	86%	86%	90%
Electronics	85%	87%	85%
H&H	**84%**	**87%**	**93%**
H&H UPDSIDE			**$3.5MM**
Childrens Wear	44%	47%	60%
Womens Apparel	33%	39%	60%
Footwear	32%	50%	60%
Mens Wear	32%	53%	65%
JAL	48%	37%	60%
Womens Intimates	62%	77%	80%
Cosmetics	63%	46%	70%
A&A	**47%**	**50%**	**64%**
A&A UPDSIDE			**$5.4MM**

- New on-boarding process including consolidating more on-boarding activities with Direct Buying Coordinators
- New item/buyer level reporting helps prioritize which items to onboard (e.g., key brands, best sellers, etc)
- Share assortment learnings with retail to assist with assortment rationalization
- New inventory guidelines in place to maximize sales and reduce omits

Driving Internet Sales and Profitability – Enhance the Customer Experience & Drive Conversion

A number of projects are underway to leverage best practices to enhance the customer experience and site functionality

Key Drivers	Key Issues	Key Initiatives to Address Issues
Reach out to her in a targeted way	• **Generic emails** – we largely send the same email to our ~1.5M email addresses	• **Targeted emails** – partner with 3rd party to include targeted product/offers based on what they buy/browse and our offers
Make it easier for her to find what she is looking for	• **Online merchandising** – navigation/filtering, default sort-by logic, etc (i.e., have not been able to make changes/new releases to site as we had to wait for new agreement with IBM)	• **More frequent releases to our site/code** – leverage new partner (IBM) to update code and improve site
Ensure there are no reasons for her not to buy	• **Uncompetitive shipping fees** – relatively high shipping fees (especially on smaller items) and we charge customers to pick up from our own stores where inventory is already there • **Out of stocks** – over $100MM of recorded omits (~10%) of orders but out of stocks even higher as items fall off site as inventory is sold • **Long delivery times** – 38% of deliveries are more than 1 week	• **New shipping fee construct** – test new construct (item level shipping fees, everyday free shipping with min spend and free pick up from our own stores) • **New inventory guidelines** – based on historical item level analysis • **Canada Post delivery** – test new CPC delivery solution with 1-3 days delivery and 6000 locations • **Integrate retail inventory online** – show customers retail inventory, allow them to buy online and fulfill from stores
Deliver on a great post purchase experience	• **Incomplete shipping** – currently ship complete only 1.8 out of 2.3 items/order (78%) • **Status updates** – generic automated change notifications to customers and no tracking # provided when customers ship to home	• **New Director, D2C Supply Chain** position to improve shipping completion rate • **New capabilities from our call centre partner-** voice analytics to identify trends and next best action to help associates identify the best offer to make as an add on • **Provide customer with shipment tracking numbers** (next 2 months) for orders shipped directly to home via UPS or Canada Post

Driving Catalogue Profitability - Productivity of Books

VPC of our core books is high; we need to further analyze clearance books to understand productivity levers

	Pages		Circ		Impress		NS$ E/A				AD$		VPC$		VPC%
Media	**2013 EA**	**%Chg**	**2013 EA**	**%Chg**	**2013 EA**	**%Chg**	**2013 EA**	**2013 PL**	**%Chg PL Vs LY**	**%Chg LY**	**2013 EA**	**%Chg**	**2013 EA**	**%Chg**	**2013 EA**
Total Big Books	2,618	-11.7	10,400	-3.4	6,874,800	-15.2	212,700	243,400	7.2	-6.3	28,722	-13.9	43,981	-7.6	21%
Total Sale Books	1,636	-3.1	21,700	-13.9	3,064,800	-14.2	110,708	124,900	5.5	-6.5	25,800	-9.2	10,987	-3.7	10%
Total Core	**4,254**	**-8.6**	**32,100**	**-10.8**	**9,939,600**	**-14.9**	**323,408**	**368,300**	**6.6**	**-6.4**	**54,522**	**-11.7**	**54,968**	**-6.9**	**17%**
Total Specialogues	**844**	**46.5**	**6,230**	**27.7**	**580,400**	**43.2**	**35,215**	**23,950**	**-10.2**	**32.1**	**4,644**	**55.7**	**5,209**	**57.8**	**15%**
Total Overstocks	**168**	**-37.3**	**2,000**	**-57.0**	**110,800**	**-54.4**	**6,115**	**11,600**	**15.3**	**-39.2**	**1,814**	**-14.3**	**-669**	**-60.0**	**-11%**
Total	**5,266**	**-4.2**	**40,330**	**-11.4**	**10,630,800**	**-13.7**	**364,738**	**403,850**	**5.7**	**-4.6**	**60,980**	**-8.8**	**59,508**	**-3.9**	**16%**

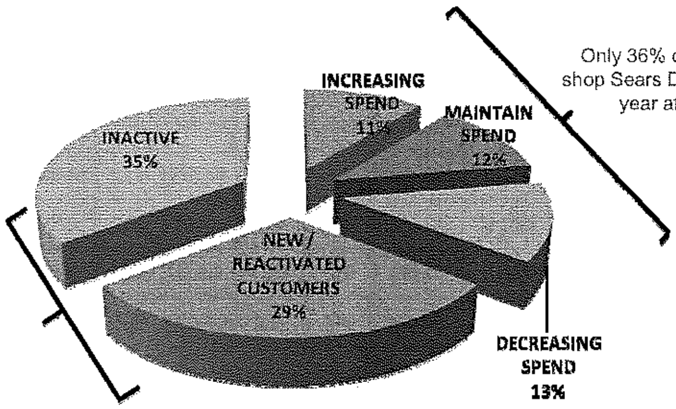
- The catalogue business continues to drive significant variable profit contribution (VPC)
- Clearance books have been reduced this year as VPC is negative; an analysis to improve profitability/productivity needs to be complete so that we can better leverage online to clear inventory
- The biggest opportunity is to serve our best customers (see next slide); Through better segmentation we can reach out to the best customers in a targeted way

Source: Essbase, CDW, Direct Team analysis

DRAFT

Driving Catalogue Profitability – Customer Analysis & Insights

By better segmenting and targeting our customers, we can ensure we better service them



Only 36% of customers shop Sears Direct channels year after year

% of customers that come in and out (~$200MM in sales for 2012)

QUINT_OVERALL	ORDERS	DEMAND	NET_SALES	% of Orders	% of Net Sales
5	3,145,830	$ 494,428,084	$ 315,060,49	51%	55%
4	1,270,670	$ 169,666,178	$ 110,276,731	20%	19%
3	784,325	$ 144,553,861	$ 107,532,428	13%	19%
2	534,114	$ 51,851,297	$ 31,677,040	9%	6%
1	485,122	$ 49,063,685	$ 8,174,039	8%	1%
Total	6,220,061	$ 909,563,103	$ 572,720,736		

480K Direct customers account for 51% of orders and 55% of net sales.

- Better segmentation of catalogue customers is required to identify loyal, occasional and big ticket (BT) customers
- Steps need to be taken to combat the natural levels of inactivity within the Direct customer base and ensure we recognize and reward our top customers
- A market review is also required to ensure our books are penetrating the best markets

Source: Customer Analytics

2014 Strategic Session - Agenda

SEPTEMBER 4TH, 2013

TRADING AND TRANSFORMATION UPDATE
4:00 pm – 5:00 pm

- Recap of strategic plan and where we are – Calvin (30 min)
- Where are we heading for 2014 – Calvin (30 min)

STORE TOUR
5:00 pm – 6:00 pm

- Nevada & Aldo Product
- LOOK! Report

Board Dinner

SEPTEMBER 5TH, 2013

FINANCIAL PLAN
8:00 am – 8:30 am

- 2014 Financial Plan – E.J. Bird (30 min)

FAST START TO 2014
8:30 am – 9:30 am

- Key Initiatives – E.J. Bird (30 min)
- Plan for a profitable Q1 – E.J. Bird (30 min)

10 for '14
9:30 am – 11:30 am

- Overview of 10 key initiatives – Calvin (20 min)
- Simple, efficient operations – Doug (20 min)
- Right product, in the right place, at the right time –E.J. Bird (20 min)
- Get our style right; Win with the needs-driven customer – Calvin (30 min)
- Drive full potential of Direct – Salim (30 min)

DIRECT FULFILLMENT STRATEGY
11:30 am – 12:30 pm

- Strategy Overview – Gary (1 hour)

WRAP-UP
12:30 pm

Sears

Sears Canada

Direct Fulfillment Transformation – Strategy Overview V2

August 2013

Private and Confidential

Direct Sales Trend – 2010 - 2012

	Catalogue					Internet				
	2010	2011		2012		2010	2011		2012	
	$s	$s	% Chg	$s	% Chg	$s	$s	% Chg	$s	% Chg
Big Ticket	104.6	88.8	(15.1%)	63.5	(28.5%)	112.7	123.1	9.2%	126.0	2.4%
Small Ticket	316.7	282.3	(10.9%)	218.4	(22.6%)	152.4	170.4	11.8%	173.0	1.5%
Total	421.3	371.1	(11.9%)	281.9	(24.0%)	265.1	293.5	10.7%	299.0	1.9%

	TOTAL DIRECT				
	2010	2011		2012	
	$s	$s	% Chg	$s	% Chg
Big Ticket	217.3	211.9	(2.5%)	189.5	(10.6%)
Small Ticket	469.1	452.7	(3.5%)	391.4	(13.5%)
Total	686.4	664.6	(3.2%)	580.9	(12.6%)

	% Chg Q1/12 - Q1/13		Total Direct		
			Q1/12	Q1/13	
	Catalogue	Internet	$s	$s	% Chg
Big Ticket	(24.3%)	17.4%	38.9	39.5	1.5%
Small Ticket	(15.7%)	8.4%	86.9	81.6	(6.1%)
Total	(17.6%)	12.1%	125.8	121.1	(3.7%)

Executive Summary

- Sears Direct fulfillment approach was developed many years ago to support shipments to agents on behalf of customers who had few/no other options. This customer experience is now seriously substandard compared to that offered by fast growing eComm competitors.
  - Sears delivery times are longer, delivery is less convenient, product packaging is poor and product condition upon arrival is frequently not acceptable.
- Investments will be required to improve the customer experience to generate sales growth.
  - Modest investments to existing buildings and operations are possible and would generate improvements but still leave Sears well behind competitors
  - To catch competitors, significant investment and transformation is required.
- Critical issues driving the need for significant transformation:
  - Product is too frequently damaged in the fulfillment process. Need new material handling equipment and process design.
  - Current facilities are designed to pick 'n ship once per day by agent geographic wave. State of the art eComm facilities are designed to pick 'n ship hourly by customer in the order time sequence. Difference impacts both speed and efficiency of D2C fulfillment.
  - Based on Canadian population dispersion, current buildings (particularly Regina) are not properly located to support rapid delivery critical to eCommerce success
  - D2C delivery is rapidly becoming the norm in Canada and Sears delivery to agent approach is a competitive disadvantage to our Direct business. We require a more competitive approach to D2C delivery.

Executive Summary (continued)

- Improvements which could be implemented in existing operations in Regina & Belleville:
  - Packaging:
    - Orders flowing to agent (in totes) move either with no over packaging (sometimes extra tape) or else product is put in plastic Sears bag. Ideally, should be upgraded.
    - Orders flowing via courier (loose) may be shipped with no over packaging, in an UPS envelope or in plastic Sears bag. Must be upgraded given customer has chosen premium delivery experience.
    - Improvements would be far easier and less costly to implement in a new redesigned operation.
    - Packaging improvements should reduce returns.
  - Returns
    - Today, returns are picked first and therefore customers frequently receive "new" product which has been roughly treated. Need to set much higher standard for return to stock and either invest more in repackaging or flow more to outlet.

  - It is possible to deliver to agents more than twice per week. However, the cost of doing so would be prohibitive. Therefore, it is seen as preferable to offer customers a more convenient and cost effective D2C option.

Initiatives

- Direct Fulfillment Strategic Transformation Road Map
  - ➢ Pilot Canada Post (CPC) as primary D2C delivery provider – Fall 2013
    - Fall 2013 pilot involving Maritimes & Ottawa being developed
    - If results are ambiguous, may pilot in Western Canada in spring 2014
    - If results are positive, roll out nationally in early 2014.
  - ➢ Open 3PL Direct Fulfillment Centre in Calgary – Spring 2014
    - Close and sell or redevelop Regina Broad Street
    - Delivers upgraded product handling & packaging to 35% of customers
    - Allows refinement of new 3PL D2C fulfillment operations
    - Relocation supports faster D2C delivery in Western Canada
    - *Need decision NOW to be able execute for Spring 2014*
  - ➢ Open 3PL Direct Fulfillment Centre in GTA – Summer 2015
    - Close and sell or redevelop Belleville
    - Delivers upgraded product handling & packaging to rest of Canada
    - Fall 2013 Network Study will recommend where other functions should be relocated (i.e. retail store replenishment, parts and retail returns).
    - Other corporate functions to be relocated (Call Center, some IT)

- High level overviews and justifications for each follow. A detailed supporting business case for closing Regina has been prepared.

High Level Overview of Each Project

- Canada Post Delivery Pilot
- Regina to Calgary 3PL
- Belleville to Toronto 3PL

Canada Post vs. Sears Pick Up at Agent & UPS

- Most notable differences between Canada Post and Sears pick up at agent are:
    - Delivery time reduction would vary but be at least 50% (e.g.. from 6 to 3 days or from 4 to 2 days)
    - Delivery would be to door (when at home) versus required pick up at agent
    - If not at home, pick up would be at one of 6,380 CPC outlets which will be far more convenient than picking up at one of 1,351 Sears locations
    - Increased number of outlets also improves customer convenience for returns

- Better pricing from CPC will allow us to charge less for D2C delivery than we currently charge through UPS

- Enabling full CPC solution adds incremental benefits
    - Track 'n Trace of shipments for customers (avail. with UPS but not Sears agents)
    - Customer able to choose any CPC outlet for pick up
    - Sears can enable return policy online via CPC
    - CPC willing to allow Sears retail kiosks in their outlets

Canada Post Outlets vs. Sears & UPS

	Canada Post			Sears			Incr. CPC Outlets vs.	
Province	**Corp.**	**Dealer**	**Total**	**Agent**	**Dealer**	**Total**	**Sears**	**UPS (1)**
Newfoundland	343	60	403	69	13	82	321	400
Nova Scotia	234	78	312	35	16	51	261	300
New Brunswick	161	44	205	42	19	61	144	199
PEI	37	13	50	8	3	11	39	50
Quebec	986	479	1,465	281	32	313	1,152	1,429
Ontario	759	853	1,612	298	61	359	1,253	1,444
Manitoba	266	133	399	69	14	83	316	387
Saskatchewan	427	150	577	102	18	120	457	571
Alberta	344	304	648	101	41	142	506	600
British Columbia	300	337	637	75	45	120	517	579
Yukon	11	7	18	1	1	2	16	18
Northwest Terr.	6	23	29	6	1	7	22	29
Nunuavit	4	21	25	-	-	-	25	25
TOTAL	3,878	2,502	6,380	1,087	264	1,351	5,029	6,031

(1) Actual number of UPS locations not shown

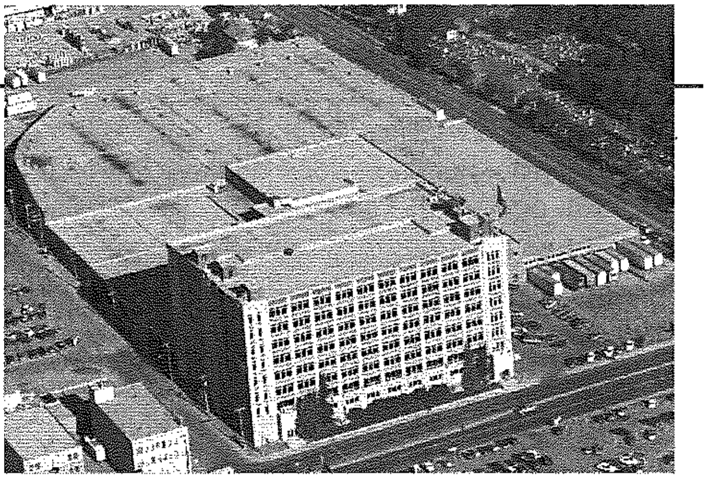
Canada Post Pilot

- Scenarios to be tested:
  1. Canada Post to door (flat fee) & agent delivery option as current
     - Will test different flat fees in different markets
  2. Canada Post to door (flat fee) only
- Scenarios 1 & 2 must be tested in markets serviced by Belleville
  - Scenario 1 will be tested across Newfoundland, Nova Scotia & New Brunswick
  - Scenario 2 will be tested in PEI and an urban market (tentatively Ottawa)
- CPC value added services to be enabled in pilot - Track 'n trace & returns policy. Customer will NOT be able to select delivery to specific CPC outlet in fall 2013.
- Duration – September to February 28, 2014

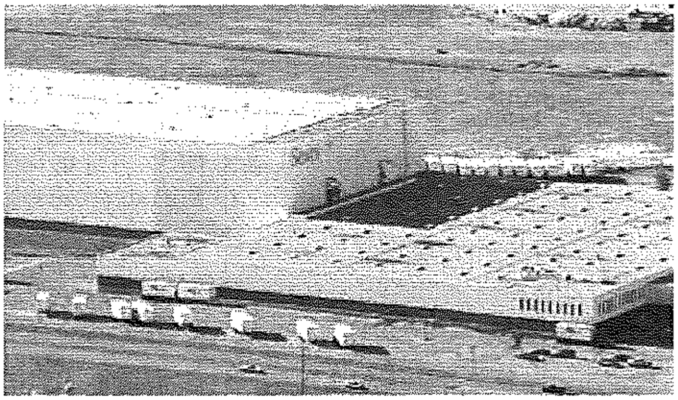
3PL vs. Sears Fulfillment

- Financial business case benefits based on exiting oversized Sears buildings and moving to 3PL operations which are much more productive.
- Productivity increase due to new/better building configuration and equipment plus leveraging of 3PL's state of the art warehouse management system (WMS) and many years of experience
- Sears could replicate the building configuration and equipment but would need to also invest in new WMS and then learn over time how to optimize
- Productivity difference becomes more pronounced with the higher the growth scenario
- Much faster speed to value using 3PL
- Sears interests would be protected by taking on the lease for the new building and purchasing all the equipment.
- Could consider different 3PL or taking operation back in-house in the future without needing to incur significant additional transformation expense.
- This aligns with the common strategy for retailers to outsource eCommerce while building scale and experience and then bring back in-house.

Regina Broad Street



Regina Parkway



Close Regina, Relocate to 3PL in Calgary

- Other options considered and principle reason against.
  - Upgrade current building
    - Impossible to do in cost effective manner
  - Relocate in Regina (either 3PL or Sears)
    - Estimated annual increase in D2C delivery fees using CPC of $7M (any other courier would likely be comparable)
    - Significant available transportation savings would be foregone
  - Sears operate new building in Calgary
    - Significantly more Sears capital investment required (new WMS).
    - Far slower speed to value (> 24 months).

Recommendation:

- **Outsource Now**
  - Structure arrangement in order to have possibility to bring function back in-house in the future.

Close Regina, Relocate to 3PL in Calgary

Sears – Regina Broad Street
- Owned. Constructed 1916 – 1972
- 870,000 Sq Ft, 8 floors & 2 mezzanines
- Designed to pick 'n ship orders to agents (D2C added on)
- Inventory moves up/down all levels (both inefficient & can damage product)
- Current volumes are significantly lower than what the DC can handle

Calgary (3PL)
- To be rented by Sears
- 225,000 Sq Ft, 1 floor with 2 mezzanines
- Designed to pick 'n ship orders D2C (agents to be added on as necessary)
- Sophisticated pick 'n pass operation
- Sufficient capacity to handle 60% more volume than current state

Key Variables in Business Case:

- Maintenance capital and expense projection for aging Regina operation is material.
- Sears is not paying competitive wages in Regina. Go forward labour cost projection and associated risk is important consideration.

Key Benefits NOT Specifically Estimated:

- Value from sale or redevelopment of Regina building is being assessed.
- Benefits from improved product handling reducing returns and increasing sales should be significant.

Regina to Calgary 3PL Pro-Forma (Current Volumes)

		2014 FCST - CURRENT VOLUMES			10 YEAR FCST - CURRENT VOLUMES		
		Regina - Broad St SEARS	Calgary - New SCI	Net Impact B / (W)	Regina - Broad St SEARS	Calgary - New SCI	Net Impact B / (W)
One Time Costs & Benefits	-	-	-		-	-	
Termination		0	(4,000)	(4,000)	0	(4,000)	(4,000)
Moving Costs		0	(2,000)	(2,000)	0	(2,000)	(2,000)
Capital - Outfit New Building		0	(10,900)	(10,900)	0	(10,900)	(10,900)
Proceeds from Sale - Broad Street	(1)	0	TBD	0	0	TBD	0
IT Resources	(2)	0	(1,000)	(1,000)	0	(1,000)	(1,000)
Net One Time Cash Investment		**0**	**(17,900)**	**(17,900)**	**0**	**(17,900)**	**(17,900)**
Annual Operating Costs	-						
Payroll & Operating		(9,150)	(10,800)	(1,650)	(104,100)	(110,700)	(6,600)
Rent / Occupancy		(1,700)	(2,000)	(300)	(18,750)	(20,000)	(1,250)
Maintenance / Capital		(950)	0	950	(11,200)	0	11,200
Transportation Costs	(3)	(4,850)	(4,100)	750	(53,150)	(44,950)	8,200
Net Annual Cash Out Flow		**(16,650)**	**(16,900)**	**(250)**	**(187,200)**	**(175,650)**	**11,550**
Total Costs (including 1 Time Costs)		**(16,650)**	**(34,800)**	**(18,150)**	**(187,200)**	**(193,550)**	**(6,350)**
Other Important Considerations	-						
Capital - Upgrade Broad St	(4)	TBD	0	0	TBD	0	0
Increase GP $ from Higher Sales	(5)	0	TBD	0	0	TBD	0
Reduce Returns Handling	(6)	0	TBD	0	0	TBD	0
Total - Net Cash Flow		**(16,650)**	**(34,800)**	**(18,150)**	**(187,200)**	**(193,550)**	**(6,350)**

(1) Market valuation of the land is estimated at ~$9M. Redevelopment costs have not been assessed but may significantly impact the proceeds. NBV of Building/Assets @ $27.8M.

(2) IT Resources have been scoped. Refer to Slide 14 for details.

(3) Net impact from the shift of Inbound/Outbound to a Calgary location.

(4) Capital required to upgrade Broad Street to equalize service/productivity to 3PL would be significant.

(5) 2013 ST sales = $400M x 33% (Western Canada) = $132M (net). E.g. 5% increase in sales @ 40% GP = $2.6M per year.

(6) Returns at 39% rate in units currently. 3PL handling should reduce costs. See Slide 8 for scenarios.

Regina to Calgary 3PL - Break-Even Scenarios

	10 YEAR FCST - CURRENT VOLUMES					
	Cash Out Flow			DCF @ 12%		
	Regina - Broad St SEARS	Calgary - New SCI	Net Impact B / (W)	Regina - Broad St SEARS	Calgary - New SCI	Net Impact B / (W)
Operating Costs	(187,200)	(175,650)	11,550	(102,992)	(98,471)	4,521
Termination	0	(4,000)	(4,000)		(3,571)	(3,571)
Moving Costs	0	(2,000)	(2,000)		(1,690)	(1,690)
Capital - Outfit New Building	0	(10,900)	(10,900)		(9,732)	(9,732)
IT Resources	0	(1,000)	(1,000)		(893)	(893)
Cash Out-Flows	**(187,200)**	**(193,550)**	(6,350)	**(102,992)**	**(114,358)**	(11,366)

Break-Even Scenarios

- *Scenario 1 – Proceeds from Sale*
  - ~$12.7M proceeds required in 2014 to break-even in 10 yr period (DCF@ 12% = $11.4M)
- *Scenario 2 – Assume return reduction increases sales and reduces OPEX*
  - 137,500 units less returns yields $20.1M of cash over 10 Yrs (DCF@ 12% = $11.4M)
    - 8.1% reduction in returns (from 39% to 35.5%)
    - Based on $30.41 average retail translates into 3.2% increase in net sales on $132M of Western Canada ST Direct sales (0.9% nationally)
- *Scenario 3 – Assume returns are reduced without any improvement in net sales*
  - Returns decline from 39% to 21% produces the $2M annually required to break-even (DCF @ 12%)

Pro-Forma P&L – Volume Growth (7)

		2014 FCST - VOLUME GROWTH			10 YEAR FCST - VOLUME GROWTH		
		Regina - Broad St SEARS	Calgary - New SCI	Net Impact B / (W)	Regina - Broad St SEARS	Calgary - New SCI	Net Impact B / (W)
One Time Costs & Benefits	-	-	-		-	-	
Termination		0	(4,000)	(4,000)	0	(4,000)	(4,000)
Moving Costs		0	(2,000)	(2,000)	0	(2,000)	(2,000)
Capital - Outfit New Building		0	(10,900)	(10,900)	0	(10,900)	(10,900)
Proceeds from Sale - Broad Street	(1)	0	TBD	0	0	TBD	0
IT Resources	(2)	0	(1,000)	(1,000)	0	(1,000)	(1,000)
Net One Time Cash Investment		**0**	**(17,900)**	**(17,900)**	**0**	**(17,900)**	**(17,900)**
Annual Operating Costs	-						
Total Operating Expense		(9,150)	(10,800)	(1,650)	(140,350)	(143,850)	(3,500)
Rent / Occupancy		(1,700)	(2,000)	(300)	(18,750)	(20,000)	(1,250)
Maintenance / Capital		(950)	0	950	(12,800)	0	12,800
Change in Transportation Costs (B) / W	(3)	(4,850)	(4,100)	750	(72,846)	(61,581)	11,265
Net Annual Cash Out Flow		**(16,650)**	**(16,900)**	**(250)**	**(244,746)**	**(225,431)**	**19,315**
Total Costs (including 1 Time Costs)		**(16,650)**	**(34,800)**	**(18,150)**	**(244,746)**	**(243,331)**	**1,415**
Other Important Considerations	-						
Capital - Upgrade Broad St	(4)	TBD	0	0	TBD	0	0
Increase GP $ from Higher Sales	(5)	0	TBD	0	0	TBD	0
Reduce Returns Handling	(6)	0	TBD	0	0	TBD	0
Total - Net Cash Flow		**(16,650)**	**(34,800)**	**(18,150)**	**(244,746)**	**(243,331)**	**1,415**

(1) – (6) Notes are same as on slide 4.
(7) Growth forecast used – 0%, 15%, 15%, 10%, 10% and 0% thereafter

Scenario Analysis

		10 YEAR FCST - VOLUME GROWTH					
		Cash Out Flow			DCF @ 12%		
		Regina - Broad St SEARS	Calgary - New SCI	Net Impact B / (W)	Regina - Broad St SEARS	Calgary - New SCI	Net Impact B / (W)
Operating Costs		245,805	223,410	22,395	131,647	121,718	9,929
Termination		0	4,000	(4,000)		3,571	(3,571)
Moving Costs		0	2,000	(2,000)		1,690	(1,690)
Capital - Outfit New Building		0	10,900	(10,900)		9,732	(9,732)
IT Resources		0	1,000	(1,000)		893	(893)
Cash Out-Flows		**245,805**	**241,310**	4,495	**131,647**	**137,604**	(5,957)

Break-Even Scenarios

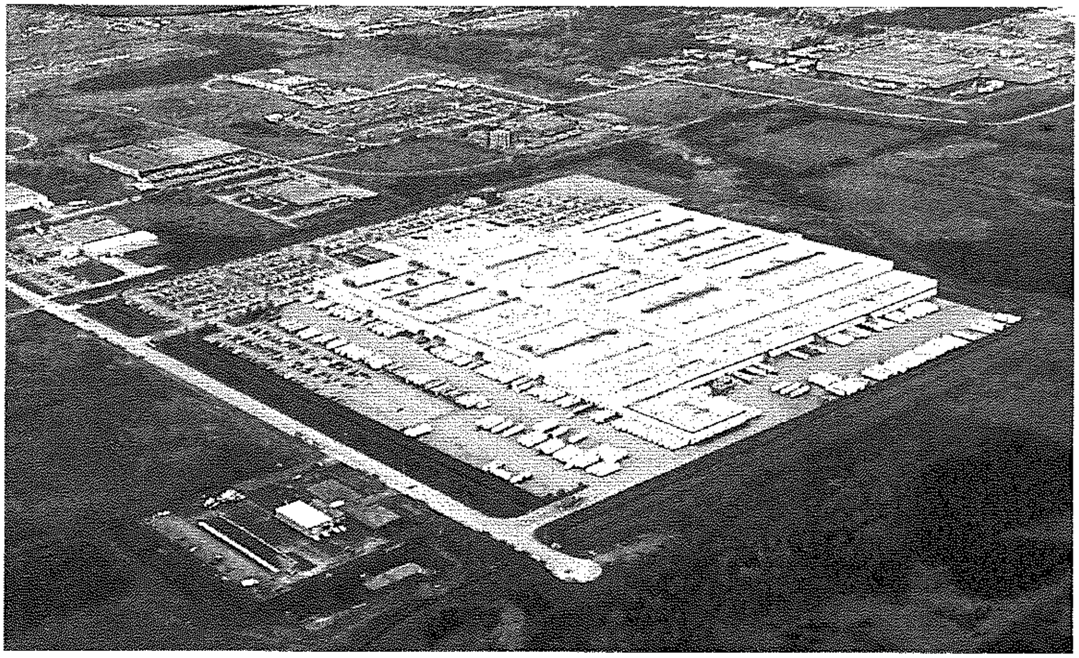
- *Scenario 1 – Proceeds from Sale*
  - ~$6.6M of Proceeds required in 2014 to break-even in 10 year period (DCF @ 12% = $5.9M)
- *Scenario 2 – Assume return reduction increases sales and reduces OPEX*
  - 28,000 units less in returns generates $10.5M of cash over 10 Years (DCF @ 12% = $5.9M)
    - 1.65% reduction in returns (from 39% to 38%)
    - Based on average retail of $30.41 translates into 0.6% increase in net sales on $132M of Western Canada ST Direct sales (0.2% nationally)
- *Scenario 3 – Assume returns are reduced without any improvement in net sales*
  - Returns decline from 39% to 29% produces $1.05M break-even in 10 Yr (DCF @ 12% = $5.9M)

Regina – Returns Reduction Scenarios

Improvement in Returns	Return Rate	Annual Units	SCI Cost
Current	39%	1.69	3.45
Scenario 1	35%	1.53	3.06
Scenario 2	30%	1.30	2.60
Industry - High	25%	0.98	1.96
Industry - Low	20%	0.67	1.33
Sears D2C - Today	15%	0.38	0.75
Annual - Potential Savings Using 25%			1.49

Sears

Belleville NLC



Close Belleville, Relocate to 3PL in GTA

- Other options considered and principle reason against.
  - Upgrade current building
    - Possible but expensive and complicated and does not unlock value in real estate
  - Relocate in Belleville (3PL Mgmt & Sears Associates)
    - Benefit is to reduce/eliminate termination
    - Far slower to execute as new facility would have to be constructed
  - Sears operate new building in GTA
    - Significantly more Sears capital investment required (new WMS).
    - Far slower speed to value (> 24 months).

Recommendation:

- Validate success of Western Canada 3PL operation and then move to outsource Eastern Canada fulfillment ASAP.

Close Belleville, Relocate to 3PL in GTA

Distribution Centre Comparison

Belleville	**GTA (3PL Location)**
• 1,517,077 sq ft with approximately 500,000 sq. ft. of mezzanines	• 400,000 Sq Ft, 1 floor with 2 mezzanines
• Designed to pick 'n ship orders to agents (D2C added on)	• Designed to pick and ship orders D2C (agents added on)
• Inventory moves up/down several levels (both inefficient & can damage product)	• Sophisticated pick 'n pass operation
• Current volumes are significantly lower than what the DC can handle	• Sufficient capacity to handle 60% more volume than current state

Key Variables in Business Case:

- 3PL OPEX projections are very rough. With more time to consider other layout and equipment configurations, cost projections could be reduced.

Key Benefits NOT Specifically Estimated:

- Benefits from improved product handling reducing returns and increasing sales should be significant.

Pro-Forma P&L – Current Volumes - Belleville

		2014 FCST - CURRENT VOLUMES			10 YEAR FCST - CURRENT VOLUMES		
		Belleville SEARS	**GTA - New SCI**	**Net Impact B / (W)**	**Belleville SEARS**	**GTA - New SCI**	**Net Impact B / (W)**
One Time (Costs) / Benefits	-	-	-		-	-	
Termination		0	(7,000)	(7,000)	0	(7,000)	(7,000)
Moving Costs		0	(3,000)	(3,000)	0	(3,000)	(3,000)
Capital - Outfit New Building		0	(15,400)	(15,400)	0	(15,400)	(15,400)
Proceeds from Sale	(1)	0	75,000	75,000	0	75,000	75,000
IT Resources	(2)	0	(500)	(500)	0	(500)	(500)
Net One Time Cash Impact		**0**	**49,100**	**49,100**	**0**	**49,100**	**49,100**
Annual Operating Costs	-						
Payroll & Operating		(18,450)	(20,125)	(1,675)	(194,725)	(208,825)	(14,100)
Rent / Occupancy		(5,475)	(4,150)	1,325	(60,075)	(43,300)	16,775
Maintenance / Capital		(1,950)	0	1,950	(21,825)	0	21,825
Transportation Costs	(3)	TBD	TBD	0	TBD	TBD	0
Net Annual Cash Out Flow		**(25,875)**	**(24,275)**	**1,600**	**(276,625)**	**(252,125)**	**24,500**
Total (Costs)/Benefits		**(25,875)**	**24,825**	**50,700**	**(276,625)**	**(203,025)**	**73,600**
Other Important Considerations	-						
Capital - Upgrade	(4)	TBD	0	0	TBD	0	0
Increase GP $ from Higher Sales	(5)	0	TBD	0	0	TBD	0
Reduce Returns Handling	(6)	0	TBD	0	0	TBD	0
Total - Net Cash Flow		**(25,875)**	**24,825**	**50,700**	**(276,625)**	**(203,025)**	**73,600**

Note: Belleville Financials represent Direct and Returns functions only or ~87.5% of the total labour.

(1)Sears Real Estate has provided the market valuation of the land/building to be $75M - $95M. NBV of Building/Assets @ $68.9M.

(2) IT Resources have been scoped for Regina at $1M. The Belleville business case assumes being able to leverage previous work.

(3) Net impact from the shift of Inbound/Outbound for transportation to be determine. Net benefit is anticipated.

(4)Capital requirements to improve Belleville would be significant.

(5) 2013 ST sales = $400M x 67% (Eastern Canada) = $268M (net). E.g. 5% increase in sales @ 40% GP = $5.4M per year.

(6) Returns at 28%. 3PL handling should reduce costs.

Pro-Forma P&L – Volume Growth Belleville (7)

		2014 FCST - VOLUME GROWTH			10 YEAR FCST - VOLUME GROWTH		
		Belleville SEARS	**GTA - New SCI**	**Net Impact B / (W)**	**Belleville SEARS**	**GTA - New SCI**	**Net Impact B / (W)**
One Time (Costs) / Benefits	-	-	-		-	-	
Termination		0	(7,000)	(7,000)	0	(7,000)	(7,000)
Moving Costs		0	(3,000)	(3,000)	0	(3,000)	(3,000)
Capital - Outfit New Building		0	(15,400)	(15,400)	0	(15,400)	(15,400)
Proceeds from Sale	(1)	0	75,000	75,000	0	75,000	75,000
IT Resources	(2)	0	(500)	(500)	0	(500)	(500)
Net One Time Cash Impact		**0**	**49,100**	**49,100**	**0**	**49,100**	**49,100**
Annual Operating Costs	-						
Payroll & Operating		(18,450)	(20,125)	(1,675)	(286,975)	(268,750)	18,225
Rent / Occupancy		(5,475)	(4,150)	1,325	(60,050)	(43,300)	16,750
Maintenance / Capital		(1,950)	0	1,950	(25,075)	0	25,075
Transportation Costs	(3)	TBD	TBD	0	TBD	TBD	0
Net Annual Cash Out Flow		**(25,875)**	**(24,275)**	**1,600**	**(372,100)**	**(312,050)**	**60,050**
Total (Costs)/Benefits		**(25,875)**	**24,825**	**50,700**	**(372,100)**	**(262,950)**	**109,150**
Other Important Considerations	-						
Capital - Upgrade	(4)	TBD	0	0	TBD	0	0
Increase GP $ from Higher Sales	(5)	0	TBD	0	0	TBD	0
Reduce Returns Handling	(6)	0	TBD	0	0	TBD	0
Total - Net Cash Flow		**(25,875)**	**24,825**	**50,700**	**(372,100)**	**(262,950)**	**109,150**

(1) – (6) Notes are same as on slide 4.

(7) Growth forecast used – 0%, 15%, 15%, 10%, 10% and 0% thereafter

Sears Canada

Direct Fulfillment - Upgrade via 3PL & Relocation Regina to Calgary V2

August 2013

Private and Confidential

Executive Summary

- Current Regina Broad Street operation is significantly over spaced, has relatively low productivity and a set up which results in poor product handling.
- Annual cash out flows are neutral in Yr 1 for 3rd party logistics (3PL) in Calgary vs. Regina. 3PL has much higher productivity but offset by management fees & direct labour arbitrage.
  - Significant annual transportation savings will result from relocation to Calgary.
- Total operating cash out flows are $12M lower over 10 years for 3PL in Calgary based on steady state volumes. 3PL advantage grows to $22M under an aggressive growth scenario. Two significant projected cost increases negatively impact Broad Street:
  - Maintenance capital for this aging operation is forecast to grow over time (slide 25).
  - Sears wages are well below market. A marginal catch up is projected (slide 15).
- Calgary location would enable next day delivery in Alberta and two day delivery throughout remainder of Western Canada via courier.

Benefits not specifically estimated but break even requirements are shown on slide 5.

- Proceeds from sale of building are estimated in the range of $3 - $9M. Land is valued at $9M but may need to be discounted to absorb costs to demolish building.
- Sales will be positively impacted by improved packaging directly or via reduced returns.
- Annual OPEX will be reduced due to lower returns resulting from improved merchandise handling and packaging.

Executive Summary

- Other options considered and principle reason against.
  - Upgrade current building
    - Impossible to do in cost effective manner
  - Relocate in Regina (either 3PL or Sears)
    - Est. annual increase in D2C delivery fees using Canada Post of $7M (any other courier would likely be comparable)
    - Significant available transportation savings would be foregone
  - Sears operate new building in Calgary
    - Significantly more Sears capital investment required (new warehouse management system would be required).
    - Far slower speed to value (> 24 months) and operational risk during lengthy transition.

Recommendation:

- ***Outsource Now***
  - Structure arrangement in order to have possibility to bring function back in-house in the future.

Regina to Calgary 3PL Pro-Forma (Current Volumes)

		2014 FCST - CURRENT VOLUMES			10 YEAR FCST - CURRENT VOLUMES		
		Regina - Broad St SEARS	Calgary - New SCI	Net Impact B / (W)	Regina - Broad St SEARS	Calgary - New SCI	Net Impact B / (W)
One Time Costs & Benefits	-	-	-		-	-	
Termination		0	(4,000)	(4,000)	0	(4,000)	(4,000)
Moving Costs		0	(2,000)	(2,000)	0	(2,000)	(2,000)
Capital - Outfit New Building		0	(10,900)	(10,900)	0	(10,900)	(10,900)
Proceeds from Sale - Broad Street	(1)	0	TBD	0	0	TBD	0
IT Resources	(2)	0	(1,000)	(1,000)	0	(1,000)	(1,000)
Net One Time Cash Investment		**0**	**(17,900)**	**(17,900)**	**0**	**(17,900)**	**(17,900)**
Annual Operating Costs	-						
Payroll & Operating		(9,150)	(10,800)	(1,650)	(104,100)	(110,700)	(6,600)
Rent / Occupancy		(1,700)	(2,000)	(300)	(18,750)	(20,000)	(1,250)
Maintenance / Capital		(950)	0	950	(11,200)	0	11,200
Transportation Costs	(3)	(4,850)	(4,100)	750	(53,150)	(44,950)	8,200
Net Annual Cash Out Flow		**(16,650)**	**(16,900)**	**(250)**	**(187,200)**	**(175,650)**	**11,550**
Total Costs (including 1 Time Costs)		**(16,650)**	**(34,800)**	**(18,150)**	**(187,200)**	**(193,550)**	**(6,350)**
Other Important Considerations	-						
Capital - Upgrade Broad St	(4)	TBD	0	0	TBD	0	0
Increase GP $ from Higher Sales	(5)	0	TBD	0	0	TBD	0
Reduce Returns Handling	(6)	0	TBD	0	0	TBD	0
Total - Net Cash Flow		**(16,650)**	**(34,800)**	**(18,150)**	**(187,200)**	**(193,550)**	**(6,350)**

(1) Market valuation of the land is estimated at ~$9M. Redevelopment costs have not been assessed but may significantly impact the proceeds. NBV of Building/Assets @ $27.8M.

(2) IT Resources have been scoped. Refer to Slide 14 for details.

(3) Net impact from the shift of Inbound/Outbound to a Calgary location.

(4) Capital required to upgrade Broad Street to equalize service/productivity to 3PL would be significant.

(5) 2013 ST sales = $400M x 33% (Western Canada) = $132M (net). E.g. 5% increase in sales @ 40% GP = $2.6M per year.

(6) Returns at 39% rate in units currently. 3PL handling should reduce costs. See Slide 8 for scenarios.

Regina to Calgary 3PL - Break-Even Scenarios

	10 YEAR FCST - CURRENT VOLUMES					
	Cash Out Flow			DCF @ 12%		
	Regina - Broad St SEARS	Calgary - New SCI	Net Impact B / (W)	Regina - Broad St SEARS	Calgary - New SCI	Net Impact B / (W)
Operating Costs	(187,200)	(175,650)	11,550	(102,992)	(98,471)	4,521
Termination	0	(4,000)	(4,000)		(3,571)	(3,571)
Moving Costs	0	(2,000)	(2,000)		(1,690)	(1,690)
Capital - Outfit New Building	0	(10,900)	(10,900)		(9,732)	(9,732)
IT Resources	0	(1,000)	(1,000)		(893)	(893)
Cash Out-Flows	**(187,200)**	**(193,550)**	(6,350)	**(102,992)**	**(114,358)**	(11,366)

Break-Even Scenarios

➢ *Scenario 1 – Proceeds from Sale*

- ~$12.7M proceeds required in 2014 to break-even in 10 yr period (DCF@ 12% = $11.4M)

➢ *Scenario 2 – Assume return reduction increases sales and reduces OPEX*

- 137,500 units less returns yields $20.1M of cash over 10 Yrs (DCF@ 12% = $11.4M)
  - 8.1% reduction in returns (from 39% to 35.5%)
  - Based on $30.41 average retail translates into 3.2% increase in net sales on $132M of Western Canada ST Direct sales (0.9% nationally)

➢ *Scenario 3 – Assume returns are reduced without any improvement in net sales*

- Returns decline from 39% to 21% produces the $2M annually required to break-even (DCF @ 12%)

Pro-Forma P&L – Volume Growth (7)

	2014 FCST - VOLUME GROWTH			10 YEAR FCST - VOLUME GROWTH		
	Regina - Broad St SEARS	Calgary - New SCI	Net Impact B / (W)	Regina - Broad St SEARS	Calgary - New SCI	Net Impact B / (W)
One Time Costs & Benefits -	-	-		-	-	
Termination	0	(4,000)	(4,000)	0	(4,000)	(4,000)
Moving Costs	0	(2,000)	(2,000)	0	(2,000)	(2,000)
Capital - Outfit New Building	0	(10,900)	(10,900)	0	(10,900)	(10,900)
Proceeds from Sale - Broad Street (1)	0	TBD	0	0	TBD	0
IT Resources (2)	0	(1,000)	(1,000)	0	(1,000)	(1,000)
Net One Time Cash Investment	**0**	**(17,900)**	**(17,900)**	**0**	**(17,900)**	**(17,900)**
Annual Operating Costs -						
Total Operating Expense	(9,150)	(10,800)	(1,650)	(140,350)	(143,850)	(3,500)
Rent / Occupancy	(1,700)	(2,000)	(300)	(18,750)	(20,000)	(1,250)
Maintenance / Capital	(950)	0	950	(12,800)	0	12,800
Change in Transportation Costs (B) / W (3)	(4,850)	(4,100)	750	(72,846)	(61,581)	11,265
Net Annual Cash Out Flow	**(16,650)**	**(16,900)**	**(250)**	**(244,746)**	**(225,431)**	**19,315**
Total Costs (including 1 Time Costs)	**(16,650)**	**(34,800)**	**(18,150)**	**(244,746)**	**(243,331)**	**1,415**
Other Important Considerations -						
Capital - Upgrade Broad St (4)	TBD	0	0	TBD	0	0
Increase GP $ from Higher Sales (5)	0	TBD	0	0	TBD	0
Reduce Returns Handling (6)	0	TBD	0	0	TBD	0
Total - Net Cash Flow	**(16,650)**	**(34,800)**	**(18,150)**	**(244,746)**	**(243,331)**	**1,415**

(1) – (6) Notes are same as on slide 4.

(7) Growth forecast used – 0%, 15%, 15%, 10%, 10% and 0% thereafter

Scenario Analysis

		10 YEAR FCST - VOLUME GROWTH					
		Cash Out Flow			DCF @ 12%		
		Regina - Broad St SEARS	Calgary - New SCI	Net Impact B / (W)	Regina - Broad St SEARS	Calgary - New SCI	Net Impact B / (W)
Operating Costs		245,805	223,410	22,395	131,647	121,718	9,929
Termination		0	4,000	(4,000)		3,571	(3,571)
Moving Costs		0	2,000	(2,000)		1,690	(1,690)
Capital - Outfit New Building		0	10,900	(10,900)		9,732	(9,732)
IT Resources		0	1,000	(1,000)		893	(893)
Cash Out-Flows		**245,805**	**241,310**	4,495	**131,647**	**137,604**	(5,957)

Break-Even Scenarios

- *Scenario 1 – Proceeds from Sale*
  - ~$6.6M of Proceeds required in 2014 to break-even in 10 year period (DCF @ 12% = $5.9M)
- *Scenario 2 – Assume return reduction increases sales and reduces OPEX*
  - 28,000 units less in returns generates $10.5M of cash over 10 Years (DCF @ 12% = $5.9M)
    - 1.65% reduction in returns (from 39% to 38%)
    - Based on average retail of $30.41 translates into 0.6% increase in net sales on $132M of Western Canada ST Direct sales (0.2% nationally)
- *Scenario 3 – Assume returns are reduced without any improvement in net sales*
  - Returns decline from 39% to 29% produces $1.05M break-even in 10 Yr (DCF @ 12% = $5.9M)

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Pro-Forma P&L – Returns Reduction Scenarios

Improvement in Returns	Return Rate	Annual Units	SCI Cost
Current	39%	1.69	3.45
Scenario 1	35%	1.53	3.06
Scenario 2	30%	1.30	2.60
Industry - High	25%	0.98	1.96
Industry - Low	20%	0.67	1.33
Sears D2C - Today	15%	0.38	0.75
Annual - Potential Savings Using 25%			1.49

Project Details

Distribution Centre Comparison

Broad Street	**Calgary (3PL Location)**
• 870,000 Sq Ft, 8 floors & 2 mezzanines • designed to pick and ship orders to agents (D2C added on) • Inventory moves up/down all levels (both inefficient & can damage product) •Current volumes are significantly lower than what the DC can handle	• 225,000 Sq Ft, 1 floor with 2 mezzanines • designed to pick and ship orders D2C (agents added on) • Sophisticated pick 'n pass operation • Sufficient capacity to handle 60% more volume than current state

Vendor Profile

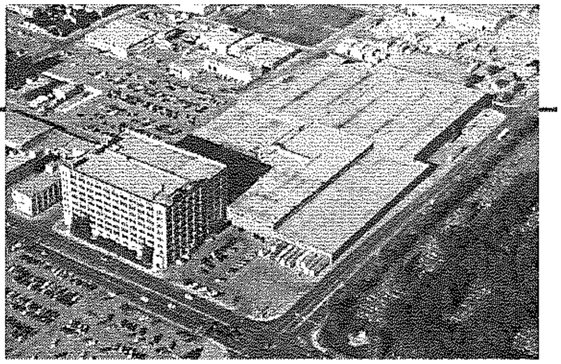
- SCI Logistics is a leader in supply chain solutions, managing 18 facilities nationwide with over 2.3M sq feet of space
- Significant experience in the 3PL business and a proven track record (Walmart.ca, Dollar Tree, Toys 'R Us, Amazon.ca for 10 years)
- Affiliated with Canada Post which may provide synergies with other projects

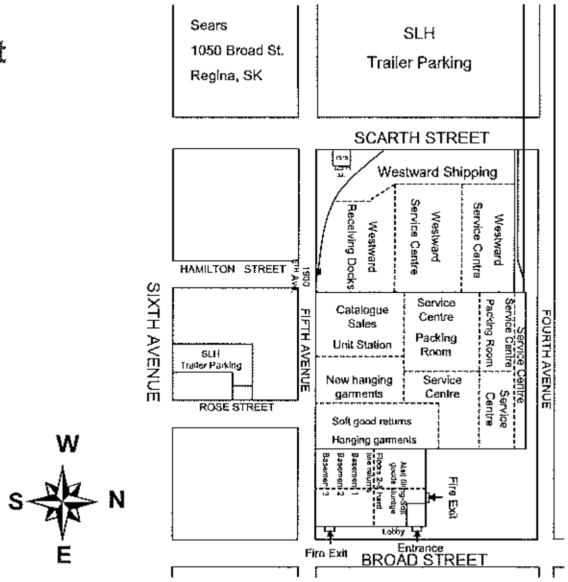
Regina Broad St.

Site 870,275 sq. ft.

Constructed 1916 – 1972

- **Direct Order Fulfillment**
- **Retail Fashions – Westward Level 3 - 70,000 sq ft**
- **CTAC Contact Centre**
- **Regional LP & HR, CFM, MSM, 704 Technician**
- **Associate Pickup**
- **43 Dock Positions**
- **6 miles of conveyors**
- **6 elevators – 2 passenger / 4 freight**
- **28 pcs of mobile equipment**
- **BSI 9001, 18001 & 14001 Certified**





Broad Street Disposal

Proceeds from sale have yet to be fully quantified

- Real Estate group is well aware of the initiative and looking at potential alternatives
- Decision to hold onto Broad Street is an option in order to maximize value

Items To Consider

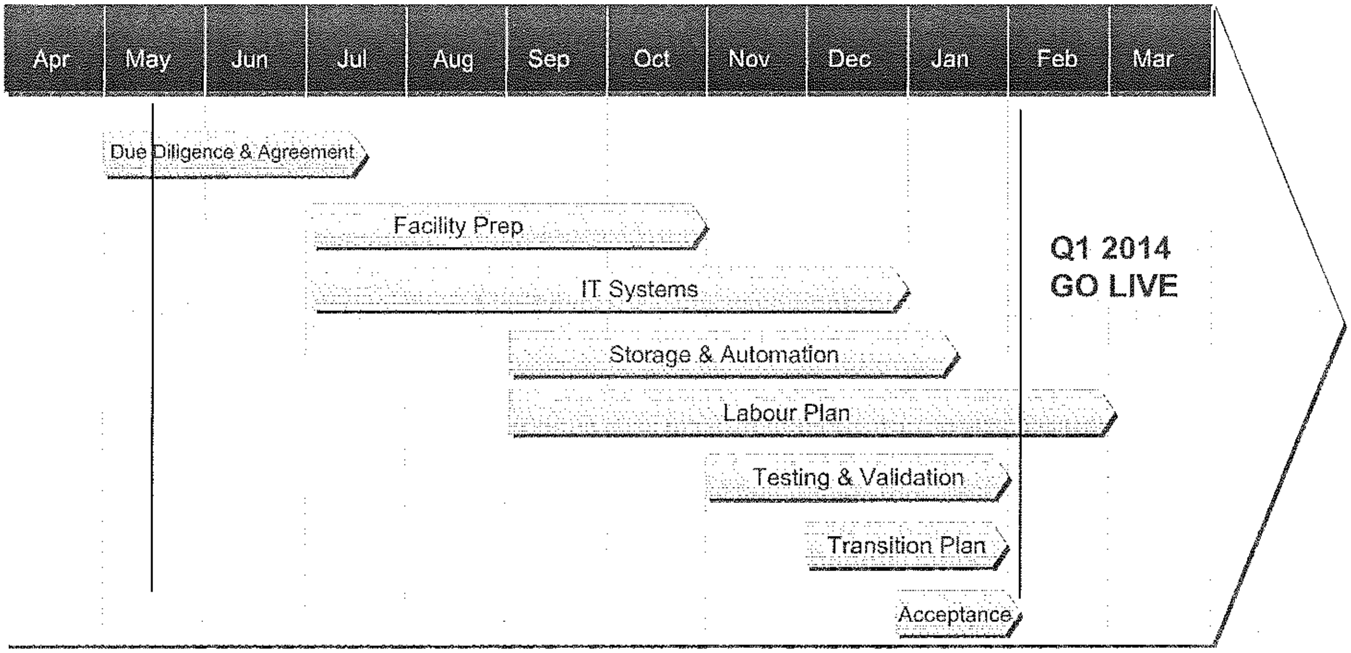
Additional costs are required to maintain the building.

COSTS OF MAINTAINING BROAD STREET	2014	Annual Thereafter
OPEX		
FWC - assumed at 40%	300,000	305,000
Maintenance - building related	200,000	205,000
Communications - satellite rental income	(50,000)	(50,000)
Rent - Parking rental income	(50,000)	(50,000)
Taxes	500,000	510,000
TOTAL OPEX - Keep Lights On	**900,000**	**920,000**
CAPEX		
External (Roofing, Brickwork, Paving etc....)	350,000	50,000
Internal (HVAC. Boiler, Plumbing, etc..)	50,000	75,000
TOTAL CAPEX - Keep Lights On	**400,000**	**125,000**
TOTAL COSTS TO MAINTAIN BROAD STREET	**1,300,000**	**1,045,000**

Note: Total cost relates to "keep lights on" and excludes ~$500k in FWC, ~$200k in Building Maintenance and ~$650k in Operational Maintenance/Capital

1003

Project Schedule: Go Live 2014



Appendix

1. Financial Plan
2. Logistics

Bridge Between Internal Merch Margin and External Gross Margin

(000's)		2013 AC QTR 2	%	2012 AC QTR 2	%	2013 Plan QTR 2	%
Gross Profit (pg. 2)	***	227,663	26.7%	260,850	29.1%	278,598	30.4%
Allowances	103	(15,511)	-1.8%	(14,024)	-1.7%	(15,159)	-1.7%
Retail Merchandise Losses	112	(13,584)	-1.6%	(4,839)	-0.5%	(10,086)	-1.1%
Source Revenues	110	132,745	15.5%	112,140	12.5%	119,238	13.0%
Merchandise Losses	112	469	0.1%	(5,506)	-0.6%	(2,358)	-0.3%
Other Merchandise Costs	119	(2,162)	-0.3%	(2,578)	-0.3%	(2,274)	-0.2%
Freight Inbound(FOB)	106	(1,479)	-0.2%	(2,006)	-0.2%	(1,389)	-0.2%
Merchandising Margin	***	**326,140**	**38.4%**	**343,236**	**38.3%**	**366,578**	**40.0%**
Returns		1,741	0.2%	1,238	0.1%	730	0.1%
Sears Club		(18,429)	-2.0%	(18,333)	-2.1%	(15,774)	-1.7%
Unshipped Sales		5,335	0.6%	5,287	0.6%	7,104	0.8%
Loyalty Points		(887)	-0.1%	1,920	0.2%	(397)	0.0%
Misc Sales Adjustments		(2,076)	-0.2%	(409)	0.0%		0.0%
Sales Adjustments		(12,037)	-1.4%	(10,297)	-1.2%	(8,337)	-0.9%
Freight - Intra/Outbound	106	(16,507)	-2.0%	(16,655)	-1.9%	(17,312)	-1.9%
Direct - Outbound Freight	121	(7,825)	-0.9%	(8,225)	-0.9%	(7,624)	-0.8%
Associate Discount	104	(3,663)	-0.4%	(3,450)	-0.4%	(3,743)	-0.4%
Inventory Shrinkage	109	(2,196)	-0.3%	(4,162)	-0.5%	(3,256)	-0.4%
Gross Margin (Internal)	***	**285,913**	**34.3%**	**300,426**	**34.2%**	**326,306**	**36.0%**
SHS Furnish & Instal Revenue		(1,683)	-0.2%	50,763	4.8%	632	0.1%
SHS Parts Revenue		7,067	0.7%	6,864	0.6%	6,548	0.6%
SHS Oil Revenue		124	0.0%	167	0.0%	146	0.0%
Jobber/Salvage Revenue		985	0.1%	970	0.1%	799	0.1%
Other Merchandise Revenue		145	0.0%	(20)	0.0%	130	0.0%
Net Merchandise Revenue		6,638	0.7%	58,743	5.5%	8,254	0.8%
Delivery, Handling, and Labour		45,170	4.7%	46,702	4.4%	50,306	4.8%
Protection Agreement Revenue		19,847	2.1%	19,580	1.8%	20,335	2.0%
Other Service Revenue		8,770	0.9%	8,119	0.8%	6,178	0.6%
Service Revenue		73,786	7.7%	74,400	7.0%	76,819	7.4%
Commission Revenue		26,419	2.8%	26,899	2.5%	29,744	2.9%
Licensee Fee Revenue		6,620	0.7%	5,991	0.6%	4,822	0.5%
Rental Revenue		1,116	0.1%	1,307	0.1%	858	0.1%
Miscellaneous Revenue		13,480	1.4%	14,255	1.3%	14,829	1.4%
Total Revenue		128,059	13.3%	181,596	17.1%	135,327	13.0%
Cost of PRS Parts Sold		3,201	0.3%	2,929	0.3%	2,795	0.3%
In-Warranty Costs		8,280	0.9%	6,981	0.7%	7,579	0.7%
Cost Formula Adjustments		(260)	0.0%	(164)	0.0%		0.0%
SHS Furnish & Instal Revenue		181	0.0%	35,371	3.3%	109	0.0%
SHS Oil - COGS		168	0.0%	181	0.0%	165	0.0%
Returned/Damaged Inventory Repair		1,008	0.1%	1,171	0.1%	1,041	0.1%
Product Testing Expenses		176	0.0%	74	0.0%	208	0.0%
Other		627	0.1%	(1,395)	-0.1%	336	0.0%
Cost of Goods Sold		13,381	1.4%	45,228	4.3%	12,232	1.2%
Delivery, Handling, and Labour		40,658	4.3%	38,408	3.6%	42,764	4.1%
Protection Agreement Costs		7,398	0.8%	7,159	0.7%	5,840	0.6%
Other Service Costs		2,776	0.3%	2,632	0.2%	1,837	0.2%
Cost of Services		51,032	5.3%	48,199	4.5%	50,440	4.8%
Other COGS		(56)	0.0%	(514)	0.0%	(284)	0.0%
Total Cost of Goods and Services Sold		64,356	6.7%	92,913	8.7%	62,388	6.0%
		63,703	**6.6%**	**88,683**	**8.4%**	**72,938**	**7.0%**
Freight		1,838	0.2%	1,956	0.2%	1,522	0.2%
Adjustments to Source Revenue		(534)	-0.1%	(1,545)	-0.2%	732	0.1%
Adjustments to Merch Losses		(679)	-0.1%	48	0.0%	(387)	0.0%
Adjustments to Shrink		86	0.0%	143	0.0%	168	0.0%
Other Merchandise Costs		2,162	0.3%	2,578	0.3%	2,274	0.3%
Direct - Outbound Freight		7,825	0.9%	8,225	0.9%	7,624	0.8%
Other		(1,455)	-0.2%	(1,231)	-0.1%	(4,363)	-0.5%
Gross Margin (External)		**358,860**	**37.4%**	**399,285**	**37.6%**	**406,895**	**39.1%**

(000's)		2013 Qtr 2 YTD	%	2012 Qtr 2 YTD	%	2013 Plan Qtr 2 YTD	%
Gross Profit (pg. 2)	***	466,596	28.7%	511,083	30.0%	539,058	31.0%
Allowances	103	(29,389)	-1.8%	(28,265)	-1.7%	(28,710)	-1.6%
Retail Merchandise Losses	112	(31,460)	-1.9%	(19,603)	-1.1%	(22,512)	-1.3%
Source Revenues	110	235,407	14.5%	204,460	12.0%	222,752	12.8%
Merchandise Losses	112	(764)	0.0%	(7,342)	-0.4%	(4,614)	-0.3%
Other Merchandise Costs	119	(4,298)	-0.3%	(4,539)	-0.3%	(4,780)	-0.3%
Freight Inbound(FOB)	106	(2,374)	-0.2%	(3,893)	-0.2%	(2,635)	-0.2%
Merchandising Margin	***	**633,118**	**38.9%**	**651,880**	**38.2%**	**698,061**	**40.1%**
Returns		2,731	0.2%	1,481	0.1%	(75)	0.0%
Sears Club		(32,565)	-2.1%	(35,131)	-2.3%	(33,351)	-2.0%
Unshipped Sales		2,506	0.2%	665	0.0%	(1,283)	-0.1%
Loyalty Points		(19)	0.0%	4,963	0.3%	1,697	0.1%
Misc Sales Adjustments		(2,461)	-0.2%	(449)	0.0%		0.0%
Sales Adjustments		(29,807)	-1.9%	(31,518)	-1.9%	(33,032)	-2.0%
Freight - Intra/Outbound	106	(29,847)	-1.9%	(31,311)	-1.9%	(32,212)	-1.9%
Direct - Outbound Freight	121	(15,511)	-1.0%	(16,315)	-1.0%	(15,087)	-0.9%
Associate Discount	104	(6,804)	-0.4%	(5,832)	-0.4%	(7,051)	-0.4%
Inventory Shrinkage	109	(8,334)	-0.5%	(7,899)	-0.5%	(7,426)	-0.4%
Gross Margin (Internal)	***	**542,654**	**34.6%**	**559,008**	**34.0%**	**603,253**	**35.9%**
SHS Furnish & Instal Revenue		5,458	0.3%	75,203	3.8%	8,092	0.4%
SHS Parts Revenue		12,245	0.7%	12,198	0.6%	11,949	0.6%
SHS Oil Revenue		291	0.0%	406	0.0%	305	0.0%
Jobber/Salvage Revenue		1,553	0.1%	1,987	0.1%	1,532	0.1%
Other Merchandise Revenue		284	0.0%	(54)	0.0%	346	0.0%
Net Merchandise Revenue		19,831	1.1%	89,741	4.5%	22,224	1.1%
Delivery, Handling, and Labour		89,556	4.9%	92,228	4.6%	99,310	5.1%
Protection Agreement Revenue		39,592	2.2%	38,534	1.9%	40,035	2.1%
Other Service Revenue		13,958	0.8%	24,099	1.2%	12,901	0.7%
Service Revenue		143,106	7.8%	154,862	7.8%	152,246	7.9%
Commission Revenue		52,117	2.9%	52,644	2.6%	56,945	2.9%
Licensee Fee Revenue		13,613	0.7%	13,328	0.7%	11,201	0.6%
Rental Revenue		2,432	0.1%	2,758	0.1%	1,717	0.1%
Miscellaneous Revenue		26,565	1.5%	29,317	1.5%	20,412	1.1%
Total Revenue		257,665	14.1%	342,650	17.2%	264,744	13.7%
Cost of PRS Parts Sold		5,403	0.3%	5,220	0.3%	5,102	0.3%
In-Warranty Costs		15,355	0.8%	13,771	0.7%	15,323	0.8%
Cost Formula Adjustments		(72)	0.0%	(99)	0.0%		0.0%
SHS Furnish & Instal Revenue		5,740	0.3%	54,294	2.7%	5,034	0.3%
SHS Oil - COGS		348	0.0%	457	0.0%	353	0.0%
Returned/Damaged Inventory Repair		2,260	0.1%	2,363	0.1%	2,064	0.1%
Product Testing Expenses		304	0.0%	258	0.0%	446	0.0%
Other		2,346	0.1%	(566)	0.0%	710	0.0%
Cost of Goods Sold		31,773	1.7%	75,396	3.8%	29,033	1.5%
Delivery, Handling, and Labour		82,014	4.5%	77,786	3.9%	86,727	4.5%
Protection Agreement Costs		14,686	0.8%	14,906	0.7%	12,373	0.6%
Other Service Costs		3,067	0.2%	8,512	0.4%	4,045	0.2%
Cost of Services		99,767	5.5%	101,204	5.1%	103,145	5.3%
Other COGS		181	0.0%	(752)	0.0%	(9)	0.0%
Total Cost of Goods and Services Sold		131,722	7.2%	175,837	8.8%	132,169	6.8%
		125,943	**6.9%**	**166,813**	**8.4%**	**132,575**	**6.8%**
Freight		3,160	0.2%	3,563	0.2%	2,990	0.2%
Adjustments to Source Revenue		(31)	0.0%	(3,375)	-0.2%	407	0.0%
Adjustments to Merch Losses		(3,139)	-0.2%	(754)	0.0%	(871)	-0.1%
Adjustments to Shrink		216	0.0%	337	0.0%	395	0.0%
Other Merchandise Costs		4,298	0.3%	4,539	0.3%	4,780	0.3%
Direct - Outbound Freight		15,511	1.0%	16,315	1.0%	15,087	0.9%
Other		(359)	0.0%	488	0.0%	(6,181)	-0.4%
Gross Margin (External)		**688,203**	**37.7%**	**746,893**	**37.5%**	**752,455**	**38.8%**

Notes:

Other COGS includes rental equipment - parts, COGS - rental, installation payments - rental, all other income - misc expenses, contractor labour - rental equipment, an

Rates do not down add as the dollars are divided by different bases:

MM as a % of Sales
GM Internal as a % of Sales and Sales Adjustments
GM External as a % of Total Revenue (External)

2013 Qtr 2 Comp Results – internal P&L

		QTR 2								Non Comp ADJ YoY B/(w)				Act Variances B/(w)
		ACT		B07		PLAN		LY		4 Stores	HIPS	JVs	Other	vs Comp LY
			MM %		MM %		MM %		MM %	$	$	$	$	$
Sales	H&H	258.4		269.3		301.8		297.9		(5.3)				(34.2)
	MA	223.9		225.0		228.0		220.8		(2.6)				5.7
	A&A	334.3		340.2		346.4		343.4		(16.2)				7.1
	TOTAL MERCH	**816.6**		**834.4**		**876.2**		**862.1**		(24.1)				(21.5)
	OTHER	37.4		39.8		40.1		34.3		(0.0)				3.1
	TOTAL	**853.9**		**874.2**		**916.3**		**896.4**		(24.1)				(18.4)
MM	H&H	101.3	*39.2%*	108.9	*40.5%*	125.6	*41.6%*	118.6	*39.8%*	(2.0)				(15.2)
	MA	66.3	*29.6%*	67.4	*30.0%*	70.2	*30.8%*	65.0	*29.4%*	(0.7)				2.0
	A&A	150.7	*45.1%*	157.2	*46.2%*	160.9	*46.4%*	148.7	*43.3%*	(6.6)				8.8
	TOTAL MERCH	**318.3**	***39.0%***	**333.6**	***40.0%***	**356.7**	***40.7%***	**332.3**	***38.5%***	(9.0)				(4.4)
	OTHER	9.8	*26.3%*	8.5	*21.4%*	9.9	*24.7%*	10.9	*31.9%*	0.2	(0.4)			(0.9)
	TOTAL	**328.1**	***38.4%***	**342.1**	***39.1%***	**366.6**	***40.0%***	**343.2**	***38.3%***	(9.4)	(0.4)	**0.0**	**0.0**	(5.3)
OTHER ADJUSTMENTS	TOTAL	(42.2)		(42.5)		(40.3)		(42.8)		**1.0**	(0.2)	**0.0**	**0.0**	(0.2)
OTHER INCOME	TOTAL	**119.9**		**119.2**		**129.5**		**139.7**		(0.7)	(15.7)	(0.7)	**0.0**	(2.8)
INCOME BEFORE EXPENSES	TOTAL	**405.8**		**418.8**		**455.8**		**440.1**		(3.1)	(16.3)	(0.7)	**0.0**	(8.3)
TOTAL EXPENSES		385.5		391.4		403.1		415.3		5.5	13.9	0.4	(1.6)	11.6
Payroll & Benefits		*184.5*		*186.1*		*197.2*		*202.6*		3.5	8.5			6.2
Outsourcing		*26.6*		*26.7*		*28.4*		*27.1*		0.0	0.5			(0.1)
Merch Commissions		*11.1*		*11.5*		*12.4*		*11.4*		(0.0)	0.3			0.1
Delivery		*13.1*		*12.9*		*14.0*		*13.7*		0.2	0.0			0.4
Vehicle Operating Costs		*6.2*		*6.2*		*6.3*		*6.2*		0.0	0.0			(0.1)
Display		*2.4*		*2.2*		*1.9*		*2.6*		0.1	0.0			0.0
Equipment Rental		*5.7*		*6.0*		*6.5*		*6.8*		0.0	0.0			1.1
Fuel, Water, Current		*10.3*		*10.5*		*10.4*		*10.5*		0.4	0.1			(0.4)
Maintenance		*16.1*		*15.4*		*15.5*		*17.8*		0.4	0.0	0.0		1.3
Supplies		*3.4*		*3.4*		*3.6*		*4.2*		0.1	0.1			0.6
Postage		*1.8*		*1.9*		*1.9*		*2.0*		0.0	0.0			0.1
Communications		*3.5*		*3.5*		*3.5*		*3.9*		0.0	0.1			0.2
Unclassified		*7.5*		*8.0*		*7.5*		*8.0*		(2.1)	0.6	0.9	(2.1)	3.2
Transaction		*9.2*		*10.6*		*7.5*		*10.6*		0.2	0.4		0.5	0.4
Rent		*26.9*		*26.9*		*27.5*		*27.1*		1.1	0.2	(0.5)		(0.6)
Insurance		*5.0*		*5.4*		*5.8*		*6.0*		0.1	0.1			0.8
Taxes		*13.8*		*14.9*		*14.6*		*14.3*		0.6	0.1			(0.2)
Advertising		*40.1*		*41.1*		*41.5*		*43.6*		0.7	2.5			0.3
Other		*(1.9)*		*(1.9)*		*(2.9)*		*(2.9)*		0.3	0.2			(1.6)
EBITDA		**20.3**		**27.4**		**52.7**		**24.9**		**(3.6)**	**(2.4)**	**(0.2)**	**(1.6)**	**3.2**

Other includes Corbell, Home Services, and other corporate adjustments

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2013 YTD Comp Results – internal P&L

		JUL YTD						Non Comp ADJ YoY B/(w)				Act Variances B/(w)
		ACT		PLAN		LY		4 Stores	HIPS	JVs	Other	vs Comp LY
			MM %		MM %		MM %	$	$	$	$	$
Sales	H&H	495.1		564.6		556.2		(9.3)				(51.7)
	MA	430.9		456.0		440.4		(5.1)				(4.4)
	A&A	635.9		651.1		650.8		(28.5)				13.6
	TOTAL MERCH	**1,562.0**		**1,671.7**		**1,647.3**		**(42.9)**				**(42.5)**
	OTHER	66.0		69.8		58.0		(0.0)				8.0
	TOTAL	**1,628.0**		**1,741.5**		**1,705.3**		**(42.9)**				**(34.5)**
MM	H&H	200.1	*40.4%*	235.3	*41.7%*	222.6	*40.0%*	(3.7)				(18.8)
	MA	129.0	*29.9%*	136.6	*30.4%*	127.4	*28.9%*	(1.5)				3.1
	A&A	295.5	*46.5%*	305.4	*46.9%*	291.7	*44.8%*	(12.5)				16.2
	TOTAL MERCH	**624.6**	***40.0%***	**679.2**	***40.6%***	**641.7**	***39.0%***	**(17.7)**				**0.5**
	OTHER	8.5	*12.9%*	18.3	*26.2%*	10.1	*17.5%*	0.4	(0.6)			(1.5)
	TOTAL	**633.1**	***38.9%***	**698.1**	***40.1%***	**651.9**	***38.2%***	**(17.2)**	**(0.6)**			**(0.9)**
OTHER ADJUSTMENTS	**TOTAL**	(90.4)		(94.8)		(92.9)		**1.5**	(0.3)			**1.3**
OTHER INCOME	**TOTAL**	**239.9**		**248.6**		**273.1**		(1.5)	(23.7)	(2.8)		(5.1)
INCOME BEFORE EXPENSES	**TOTAL**	**782.6**		**851.9**		**832.1**		(17.2)	(24.6)	(2.8)		(4.8)
TOTAL EXPENSES		772.1		808.7		830.0		13.4	23.5	1.3	(4.3)	**24.1**
Payroll & Benefits		*371.0*		*387.2*		*401.4*		6.8	13.2	0.0	0.0	10.4
Outsourcing		*52.1*		*58.8*		*53.2*		0.0	0.7	0.0	0.0	0.5
Merch Commissions		*21.5*		*23.8*		*22.1*		(0.1)	0.4	0.0	0.0	0.2
Delivery		*25.0*		*26.8*		*26.1*		0.4	0.0	0.0	0.0	0.7
Vehicle Operating Costs		*13.2*		*13.4*		*13.2*		0.0	0.0	0.0	0.0	(0.0)
Display		*5.4*		*4.8*		*6.0*		0.3	0.0	0.0	0.0	0.3
Equipment Rental		*11.9*		*12.8*		*13.2*		0.0	0.0	0.0	0.0	1.3
Fuel, Water, Current		*21.9*		*21.4*		*21.8*		1.0	0.2	0.0	0.0	(1.3)
Maintenance		*31.7*		*31.2*		*34.0*		0.7	0.1	0.3	0.0	1.2
Supplies		*6.4*		*7.4*		*8.0*		0.1	0.1	0.0	0.0	1.4
Postage		*3.6*		*3.9*		*4.0*		0.0	0.1	0.0	0.0	0.3
Communications		*7.1*		*7.3*		*7.9*		0.1	0.3	0.0	0.0	0.5
Unclassified		*16.6*		*15.7*		*17.6*		(2.0)	0.9	0.9	(2.1)	3.3
Transaction		*16.4*		*14.7*		*15.8*		0.3	0.5	0.0	(2.1)	0.8
Rent		*53.5*		*55.0*		*55.9*		2.3	0.5	0.1	0.0	(0.4)
Insurance		*9.3*		*11.5*		*12.5*		0.1	0.2	0.0	0.0	3.0
Taxes		*27.4*		*29.1*		*28.5*		1.1	0.2	0.0	0.0	(0.2)
Advertising		*82.7*		*89.6*		*96.0*		1.5	5.8	0.0	0.0	5.9
Other		*(4.4)*		*(5.6)*		*(7.2)*		0.6	0.5	0	0.0	(3.9)
EBITDA		**10.5**		**43.2**		**2.1**		**(3.8)**	**(1.2)**	**(1.6)**	**(4.3)**	**19.1**

Other includes Corbeil, Home Services, and other corporate adjustments

Competitive Landscape

RONA The Canadian How-To People.	- SSS -1.0%
HUDSON'S BAY CO.	- Q1 2013 SSS +7.6% - Q1 2013 EBITDA +$4.9M (includes L&T)
CANADIAN TIRE	- SSS +2.0% - EBITDA +$24.5M (includes Marks, Forzani)
Mark's Work Wearhouse	- SSS +6.4%
THE FORZANI GROUP LTD.	- SSS: +7.2%
Leon's	- SSS 0.0%
Sears	- SSS -2.5% - EBITDA -$4.5M

Appendix

1. Financial Plan
2. Logistics

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Other Project Considerations

Reasonableness of Proposed 13% 3PL Management Fee

- IBM Procurement Team did a quick assessment and concluded:

  "A benchmark of recent 3PL Engagement shows the "winning" Management Fee was 12% in every instance. Achieving a 10 – 12% Management Fee is competitive and in line with our view of the 3PL market."

- Current P&L includes fee of 13%. Verbally, several indications received that suggests will go as low as 12% on signing. Positive impact on pro-forma of $100K per year or $1M over 10 years

Sears IT Enablement:

- Estimated cost of $1.0M (which includes 25% contingency) to build various interfaces to support business
- Plan to go live in January 2014 with sending customer orders to SCI once per day. Approximately, 3 months later we would send SCI customer orders 10 - 12 times a day.

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Wage Rate Impact

- Current starting wages in Broad St for Material Handlers is minimum wage of $10 which is ~36% lower than starting rates within the market area

Competitor	**Current Start Rate**	**Sears Start Rate**	**% Variance**
Sysco	$ 14.10	$ 10.00	-41%
Loblaws	$ 14.94	$ 10.00	-49%
Adecco	$ 13.00	$ 10.00	-30%
Fedex	$ 12.23	$ 10.00	-22%
Average Competitor	**$ 13.57**	**$ 10.00**	**-36%**

- Payroll will need to be increased to remain remotely competitive with the market place.
- Assuming a 3% annual increase reduces the "wage gap" to 23% and increases Payroll costs by ~$7M over a 10 year period.

10 Year – Market Comparison View	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
Sears	$ 10.00	$ 10.30	$ 10.61	$ 10.93	$ 11.26	$ 11.59	$ 11.94	$ 12.30	$ 12.67	$ 13.05	$ 13.44
% increase - to balance to market		3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Avg Competitor	$ 13.57	$ 13.84	$ 14.12	$ 14.40	$ 14.69	$ 14.98	$ 15.28	$ 15.58	$ 15.90	$ 16.21	$ 16.54
% increase (cost of living)		2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Variance in Starting Wage Rates	**36%**	**34%**	**33%**	**32%**	**30%**	**29%**	**28%**	**27%**	**25%**	**24%**	**23%**

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Volumes & Fees (Fixed & Variable): 10 year View

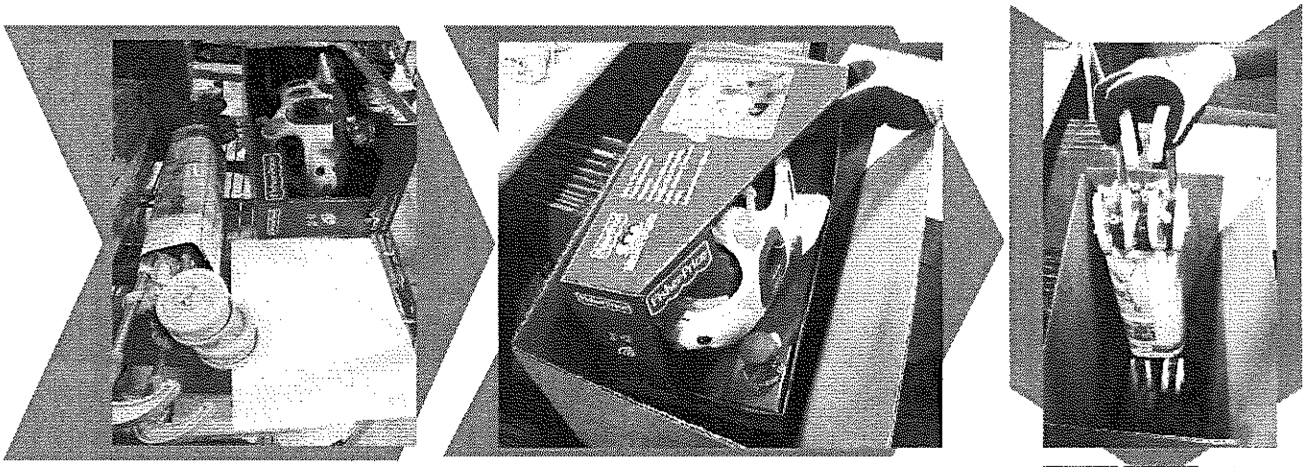
SCI Fees ($000)	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Fixed Fees	$ 2,188	$ 2,231	$ 2,280	$ 2,328	$ 2,496	$ 2,545	$ 2,596	$ 2,648	$ 2,701	$ 2,755
Variable Fees										
Inbound	$ 583	$ 634	$ 729	$ 802	$ 881	$ 881	$ 881	$ 881	$ 881	$ 881
Outbound	$ 4,059	$ 4,415	$ 5,076	$ 5,582	$ 6,139	$ 6,139	$ 6,139	$ 6,139	$ 6,139	$ 6,139
Returns	$ 3,390	$ 3,688	$ 4,240	$ 4,663	$ 5,128	$ 5,128	$ 5,128	$ 5,128	$ 5,128	$ 5,128
Total SCI Fees	$ 10,219	$ 10,969	$ 12,325	$ 13,374	$ 14,644	$ 14,694	$ 14,745	$ 14,797	$ 14,850	$ 14,904

Volumes	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Inbound (Units)	4,356,382	5,009,839	5,761,315	6,337,447	6,971,191	6,971,191	6,971,191	6,971,191	6,971,191	6,971,191
Outbound (Units)	4,356,382	5,009,839	5,761,315	6,337,447	6,971,191	6,971,191	6,971,191	6,971,191	6,971,191	6,971,191
Returns (Units)	1,692,934	1,946,874	2,238,905	2,462,795	2,709,075	2,709,075	2,709,075	2,709,075	2,709,075	2,709,075
Orders	1,742,553	2,003,936	2,304,526	2,534,979	2,788,477	2,788,477	2,788,477	2,788,477	2,788,477	2,788,477

Total Price ($ per unit)	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Inbound	$ 0.17	$ 0.16	$ 0.16	$ 0.15	$ 0.15	$ 0.15	$ 0.15	$ 0.15	$ 0.15	$ 0.16
Outbound	$ 1.19	$ 1.11	$ 1.08	$ 1.07	$ 1.06	$ 1.07	$ 1.07	$ 1.07	$ 1.08	$ 1.08
Total SCI Fulfillment	$ 1.36	$ 1.27	$ 1.24	$ 1.22	$ 1.21	$ 1.22	$ 1.22	$ 1.23	$ 1.23	$ 1.24
Returns (per returned unit)	$ 2.55	$ 2.38	$ 2.32	$ 2.29	$ 2.28	$ 2.29	$ 2.30	$ 2.31	$ 2.31	$ 2.32

- Based on Year 1-5 volume assumptions
- Years 6-10 assumed flat to Year 5

The Packaging Experience



- Where possible, orders would be grouped to cube out the carton
- Outbound shipments are over-packed to minimize potential damages

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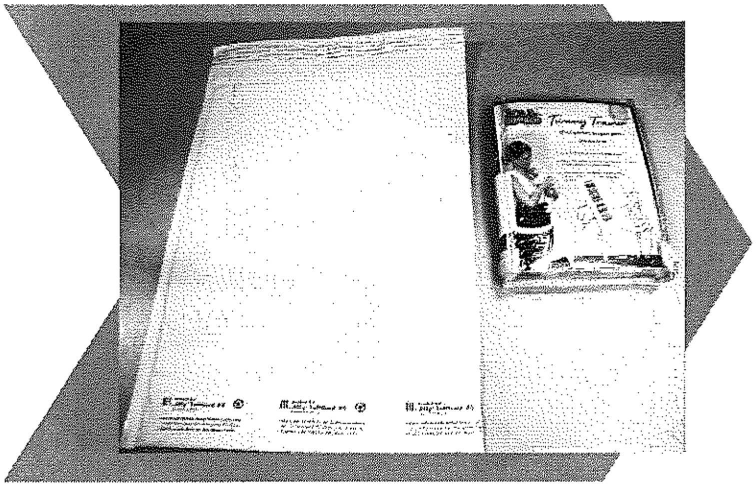
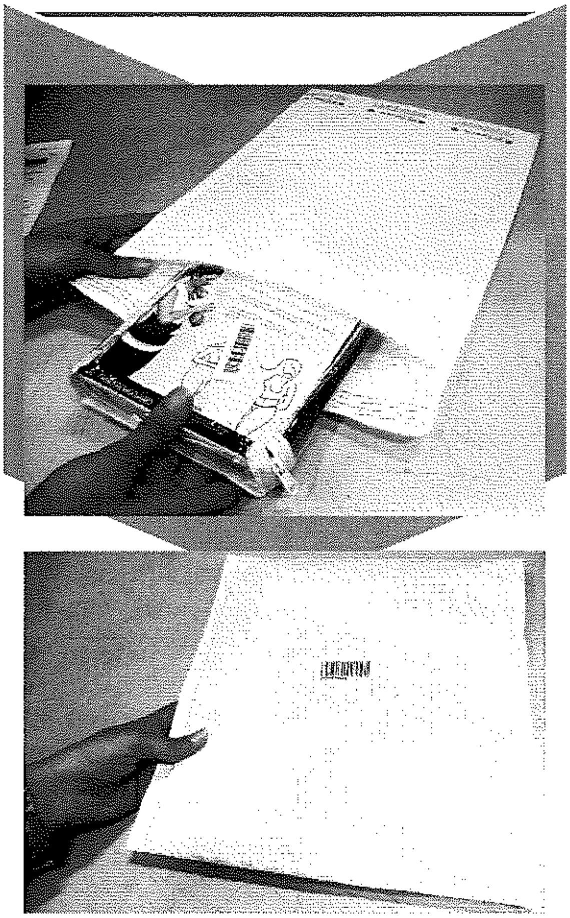
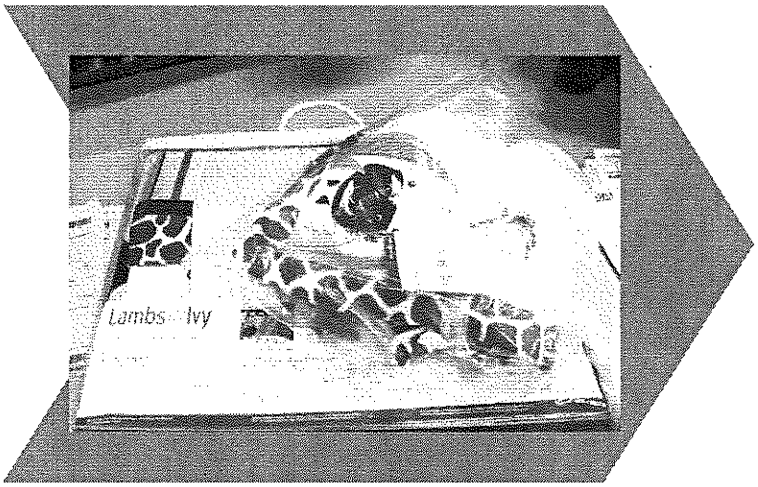
The Small Item Experience (if applicable)

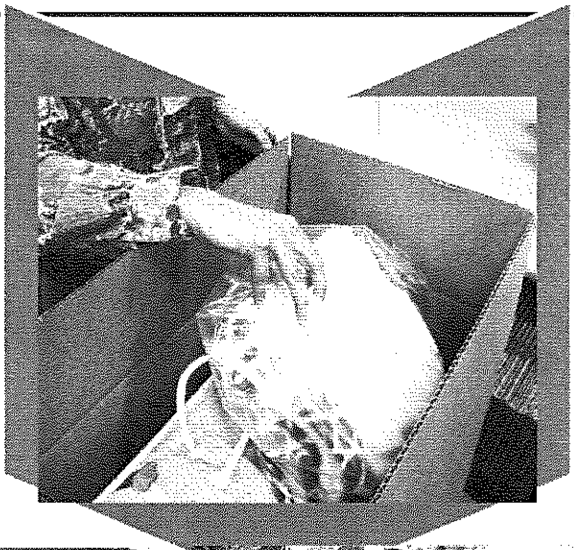




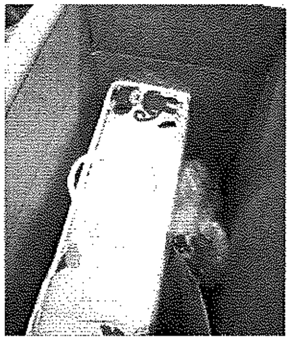
- Apparel and small items may be packaged in bubble padded envelopes, packets or mailers (if applicable)
- The customer would receive their orders sealed and addressed to them directly.

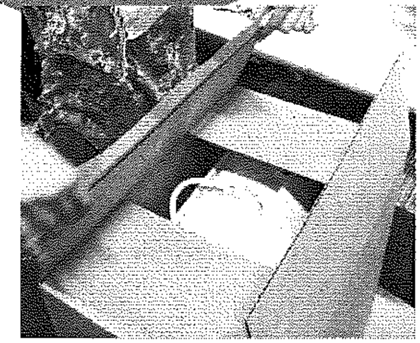
The Multi-Item Experience



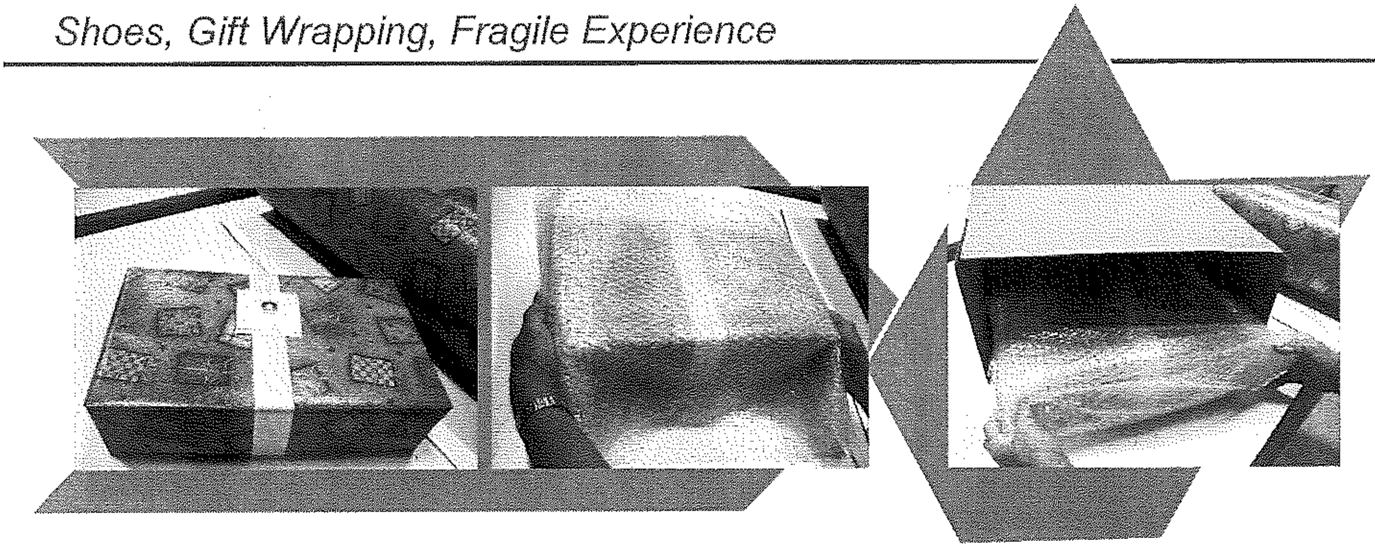


- Multi-items would be packaged together and shipped to the customer in cartons
- *Optional void fill (i.e. air pillows as directly by Sears)



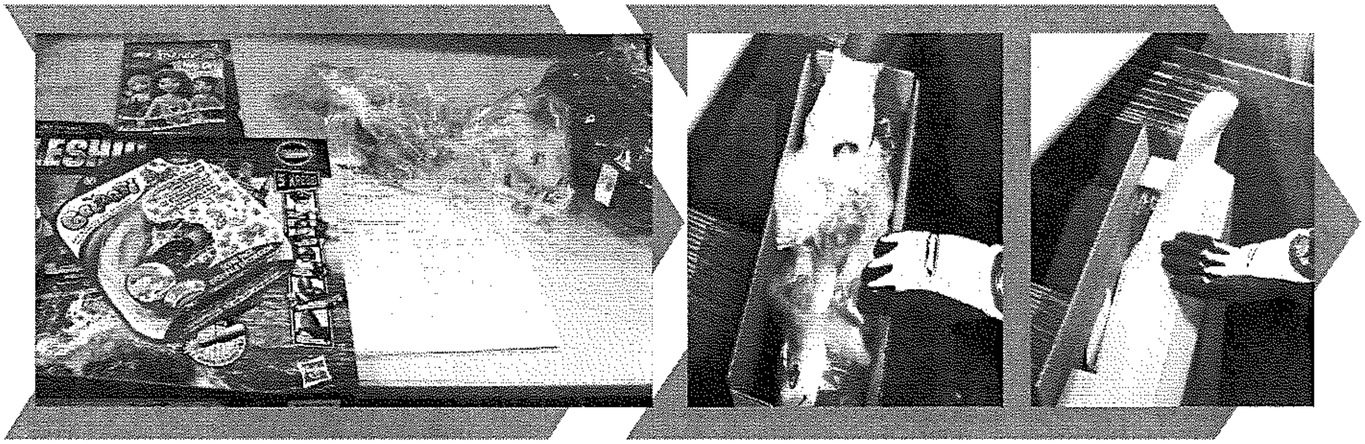


Shoes, Gift Wrapping, Fragile Experience



- Shoes or non-visual sensitive product would be over-packed into carton.
- Visually or fragile sensitive product would be over-pack with bubble wrap, air pillows and over pack carton

The Toy's Experience



- Toys and other goods would be sized and packed into an outer carton to keep the product looking fresh (unless noted by Sears)
- * Void fill would be optional

Transportation Costs – 10 Year Impact

- Shifting operations to Calgary results in a savings of $750k in Yr 1 and a 10 Yr savings of ~$8.2M
- Transportations costs improve due to reductions in Outbound/Inbound volumes and the ability to use less expensive modes of transportation (e.g.: rail shipments from Belleville to Calgary)

TRANSPORTATION COSTS ($000s)

CURRENT VOLUMES	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Total
Current Costs - Broad St.	$4,850	$4,950	$5,050	$5,150	$5,250	$5,350	$5,450	$5,600	$5,700	$5,800	$53,150
Future Costs - Calgary	$4,100	$4,200	$4,250	$4,350	$4,450	$4,550	$4,650	$4,700	$4,800	$4,900	$44,950
Savings/(Costs)	$750	$750	$800	$800	$800	$800	$800	$900	$900	$900	$8,200

Volume % increase	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Forecasted Increases		15%	15%	10%	10%	0%	0%	0%	0%	0%

VOLUME GROWTH	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Total
Current Costs - Broad St.	$4,850	$5,577	$6,413	$7,055	$7,760	$7,915	$8,074	$8,235	$8,400	$8,568	**$72,846**
Future Costs - Calgary	$4,100	$4,714	$5,422	$5,964	$6,560	$6,691	$6,825	$6,962	$7,101	$7,243	**$61,581**
Savings/(Costs)	**$750**	**$862**	**$992**	**$1,091**	**$1,200**	**$1,224**	**$1,248**	**$1,273**	**$1,299**	**$1,325**	**$11,265**

Regina vs. Calgary – Transportation Expense

CURRENT STATE														
OUTBOUND	**DESTINATION**													
Origin	**MTL**	**BEL**		**VAU**	**WPG**	**REG**	**SAK**	**CAL**	**EDM**	**VAN**			**Total - Belleville Road**	**Total - Belleville Rail**
Regina	Rail 53	***Road 53***	***Rail 53***	Rail 53	Pup	53 / Pup	Pup	Pup	Road 53	Pup	Road 53	Rail		
$	**$46**	**$625**		**$37**	**$79**		**$46**	**$170**	**$214**	**$339**			**$1,556**	
INBOUND	**ORIGIN**													
Destination	**MTL**	**BEL**		**VAU**	**WPG**	**REG**	**SAK**	**CAL**	**EDM**	**VAN**			**Total - Belleville Road**	**Total - Belleville Rail**
Regina	Rail 53	***Road 53***	***Rail 53***	Rail 53	Pup	53 / Pup	Pup	53 / Pup	Pup	Pup	Road 53	Rail		
$	**$319**	**$970**		**$586**	**$51**		**$46**	**$255**	**$34**	**$313**	**$0**	**$635**	**$3,209**	
CURRENT TOTAL	**$364**	**$1,595**		**$645**	**$131**		**$91**	**$425**	**$248**	**$652**	**$0**	**$661**	**$4,765**	

Regina vs. Calgary – Transportation Expense

FUTURE STATE

OUTBOUND	**DESTINATION**												**Total - Belleville Road**	**Total - Belleville Rail**
Origin	**MTL**	**BEL**		**VAU**	**WPG**	**REG**	**SAK**	**CAL**	**EDM**	**VAN**				
Calgary	**Rail 53**	***Road 53***	***Rail 53***	**Rail 53**	**Pup**	**53 / Pup**	**Pup**	**Pup**	**Road 53**	**Pup**				
$	**$46**	**$655**	**$427**	**$33**	**$158**	**$104**	**$134**		**$94**	**$155**			**$1,379**	**$1,151**

INBOUND	**ORIGIN**												**Total - Belleville Road**	**Total - Belleville Rail**
Destination	**MTL**	**BEL**		**VAU**	**WPG**	**REG**	**SAK**	**CAL**	**EDM**	**VAN**				
Calgary	Rail 53	*Road 53*	*Rail 53*	Rail 53	Pup	Pup	Pup	Pup	Pup	Pup	Road 53	Rail		
$	**$430**	**$1,210**	**$743**	**$692**	**$220**	**$31**	**$109**		**$22**	**$285**	**$344**		**$3,342**	**$2,876**
FUTURE TOTAL	**$476**	**$1,864**	**$1,169**	**$725**	**$379**	**$135**	**$243**	**$0**	**$116**	**$439**	**$344**	**$0**	**$4,721**	**$4,026**

TOTAL FINANCIAL IMPACT

	MTL	**BEL**		**VAU**	**WPG**	**REG**	**SAK**	**CAL**	**EDM**	**VAN**			**Total - Belleville Road**	**Total - Belleville Rail**
Variance	**Rail 53**	***Road 53***	***Rail 53***	**Rail 53**	**Pup**	**Pup**	**Pup**	**Pup**	**Pup**	**Pup**	**Road 53**	**Rail**		
Outbound B / (W)	($0)	($29)	$199	$4	($79)	($104)	($89)	$170	$120	$185	$0	$0	$177	$405
Inbound B / (W)	($111)	($240)	$227	($106)	($169)	($31)	($63)	$255	$12	$28	($344)	$635	($134)	$333
TOTAL B / (W)	**($112)**	**($269)**	**$425**	**($102)**	**($248)**	**($135)**	**($152)**	**$425**	**$132**	**$213**	**($344)**	**$635**	**$43**	**$738**

Maintenance & Capital Requirements

- Broad St. is almost a 100 year old building and with current volumes requires ~$100k - $150k in machine/building maintenance and an additional $600k - $700k in Capital expenditures
- The higher External capital required in 2014 & 2023 relates to Roofing repairs which are not expected on an annual basis.
- Total costs assume both a cost inflation along with a larger increase in CAPEX vs. OPEX as the building and machinery age and replacements will be required instead of repairs.

Maintenance / Capital Requirements	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	10 YR TOTAL
Machine/Building Maintenance	$100	$100	$150	$150	$150	$150	$150	$150	$150	$150	$1,400
External (Roofing, Brickwork, Paving etc....)	$450	$100	$150	$150	$150	$200	$200	$250	$250	$650	$2,550
Internal (HVAC. Boiler, Plumbing, etc..)	$400	$500	$500	$550	$650	$700	$800	$900	$1,050	$1,200	$7,250
Total Expense	**$950**	**$700**	**$800**	**$850**	**$950**	**$1,050**	**$1,150**	**$1,300**	**$1,450**	**$2,000**	**$11,200**

FTI Consulting Canada Inc.,
in its capacity as Court-appointed monitor

Plaintiff

and

ESL Investments Inc. *et al.*

Defendants

Court File No.: CV-18-00611219-00CL

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

Proceeding commenced at TORONTO

JOINT RESPONDING MOTION RECORD OF THE MONITOR AND THE LITIGATION INVESTIGATOR
(PRE-PLEADING PRODUCTIONS)
(RETURNABLE MARCH 20, 2019)

VOLUME 2

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