

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
(COMMERCIAL LIST)**

B E T W E E N:

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

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
(COMMERCIAL LIST)**

B E T W E E N:

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 3**

February 21, 2019

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Representatives of the Litigation Investigator  
and Lawyers for the Litigation Trustee

**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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**TAB 30**



**Board Presentation – Next steps**  
**September 23, 2013**

## *Agenda*

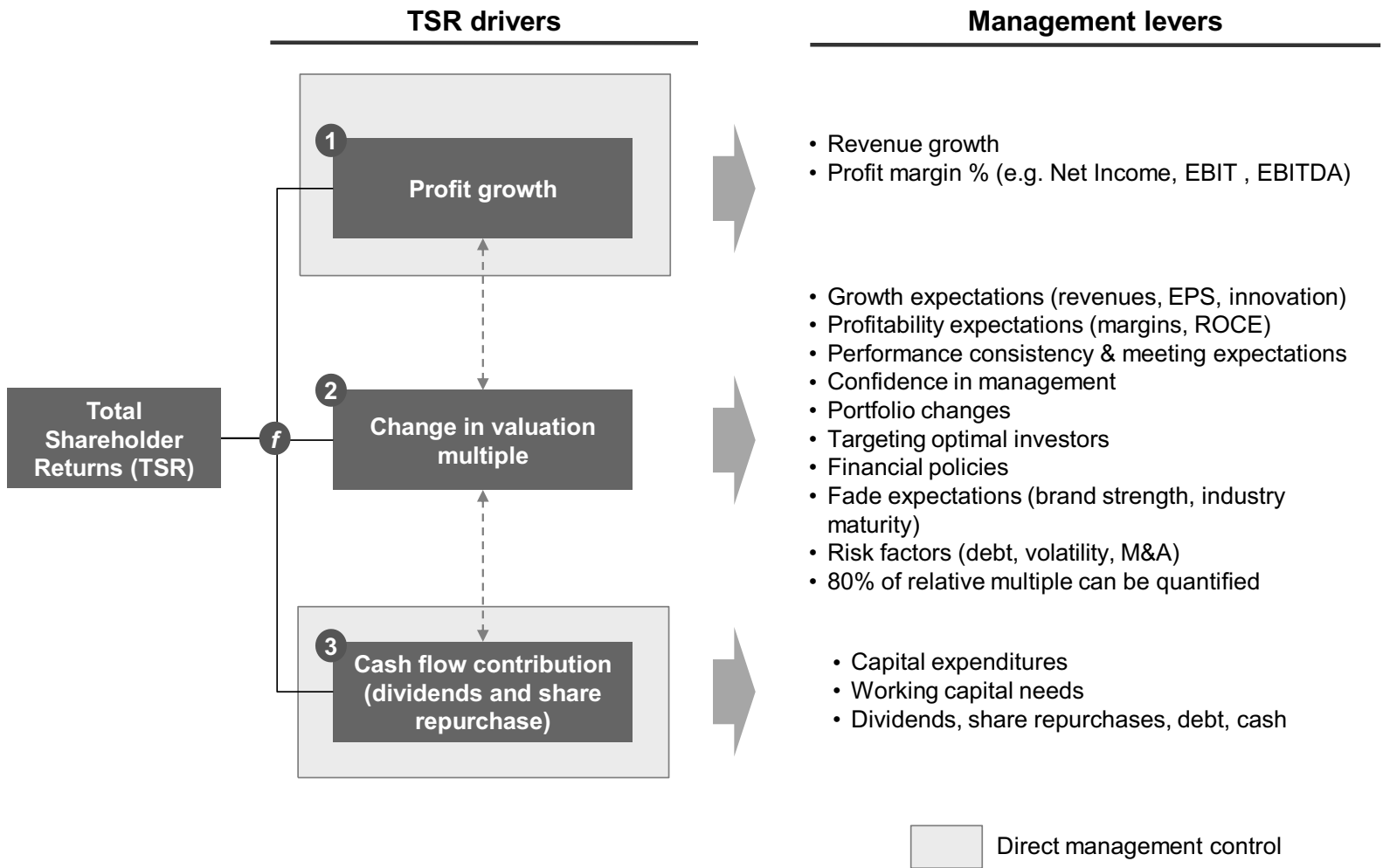
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Management approach

Thoughts on trading and near term changes

CEO agenda: now till November board meeting

**Approach: manage for total value creation**  
 Framework for total shareholder returns

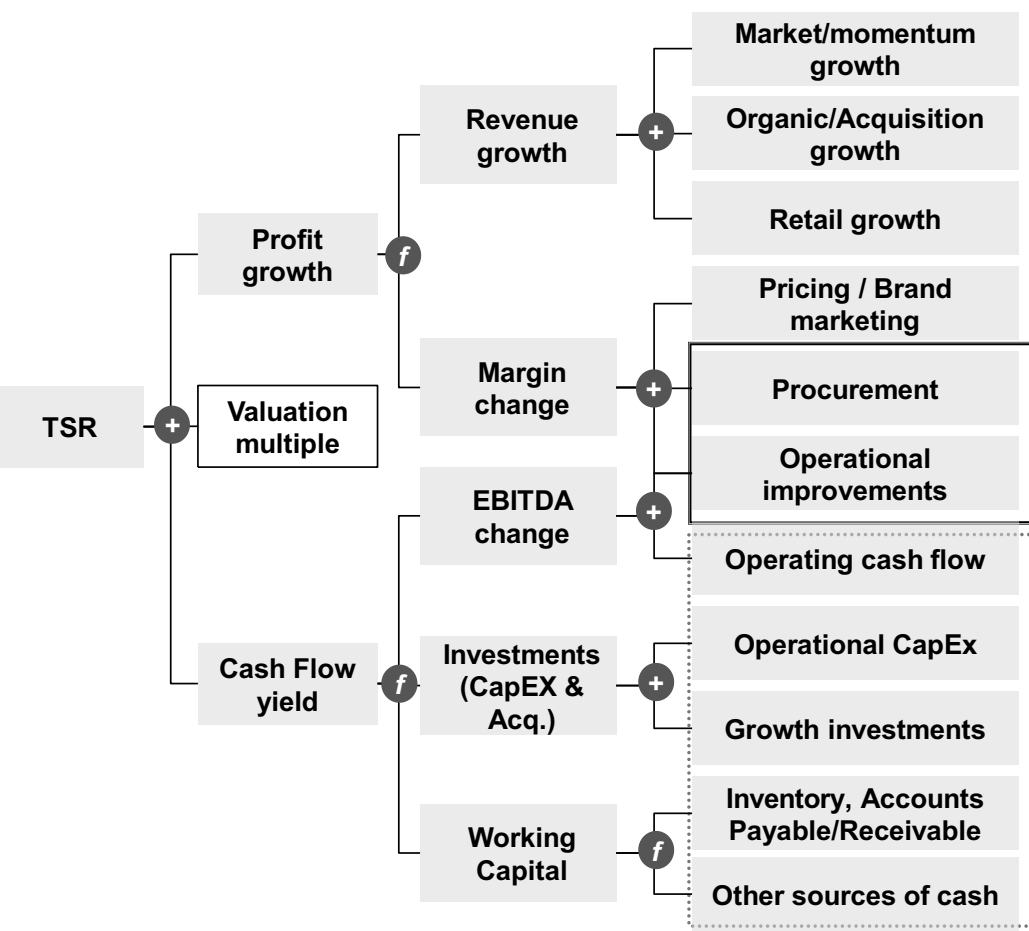




*We will assess all value creation items and deploy against those with greatest opportunity*

**Example operating levers driving Profit growth and FCF**

**Key management questions**



- What size of opportunity is there in each of those buckets?
- What are the right programs to deploy (how do we get it)?
- What is the right priority and sequence?

Horizon  
 Return on assets

*Early thoughts on trading: based on results, some changes...*

---

**Issues:**

Basics not fixed

Too many priorities: not enough focus

Greenfield, other differentiators not yielding “home run” results

**Implications near term**

**Reduce or stop:**

- Refresh/reset/greenfield
- “10 for” as enterprise focus
- Marketing “differentiator”
- “Small” investments

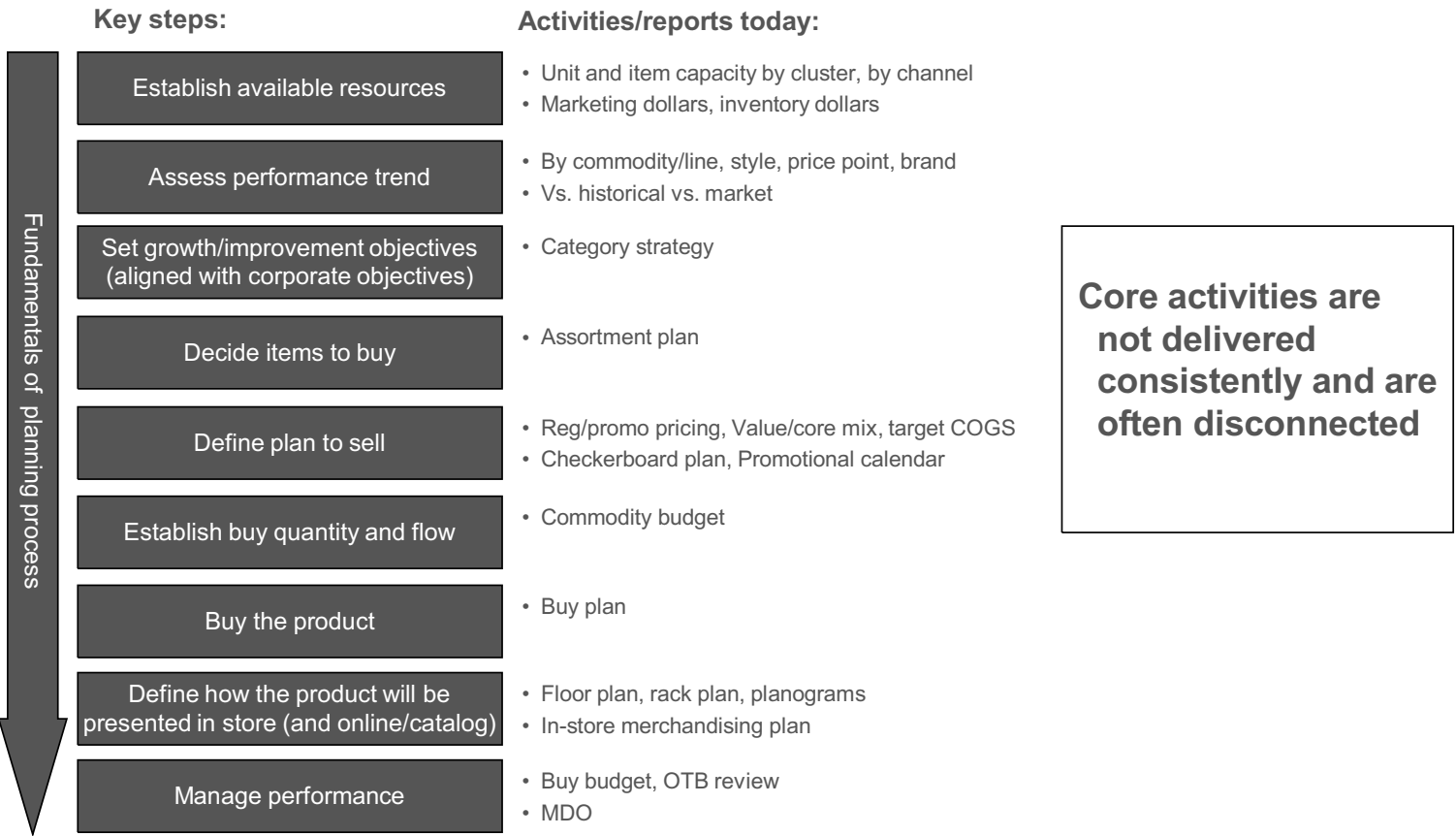
**Focus:**

- Retail 101
- Promotional marketing
- Investments in infrastructure

**Fulsome review of category strategies and changes in approach required between now and Nov board meeting**

***Retail 101: No innovation will yield meaningful results until our foundation is fixed***

**This is not “operations,” it is the core of being a good retailer**



***Immediate next steps: update November board meeting***

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Consolidate all transformational activities – CEO will lead

Build Retail 101 framework: assess our performance and what we gain by fixing

Adjust transformational plan where required: sequencing and prioritization of activities will likely change

Begin managing for total value: build framework to measure and improve return on all assets

Assess trading and marketing strategy

Set 2014 priorities, programs, and financial expectations

Notes Summary:

No speaker notes are contained in this presentation.

**TAB 31**

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 Monday, September 23, 2013 at 1:00 p.m., Eastern time.

**P R E S E N T**

W. C. Crowley (Ch.)  
 E. J. Bird  
 W. R. Harker (by telephone)  
 R. R. Khanna  
 J. McBurney (by telephone)  
 D. E. Rosati  
 D. Ross

**MANAGEMENT** (in person)

K. Leshnjani  
*EVP, FSHS, HR 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.

**CORPORATE RE-ORGANIZATION**

2. Mr. Franco Perugini, Associate General Counsel and Corporate Secretary, presented on the proposed structure of the Senior Leadership Team, including the resignation and appointment of the President and Chief Executive Officer and Director. The Board approved of the proposed structure of the Senior Leadership Team, which included the acceptance of Mr. Calvin's McDonald's resignation and appointment of Mr. Doug Campbell as President and Chief Executive Officer and Director of the Corporation effective September 24, 2013.

**WHEREAS**, Mr. Calvin McDonald has tendered his resignation as the President and Chief Executive Officer of the Corporation and as a Director of the Corporation;

**WHEREAS** the Corporation has identified Mr. Doug Campbell as a potential successor as President and Chief Executive Officer and Director of the Corporation; and

**WHEREAS** the Board of Directors of the Corporation is satisfied that it would be appropriate to appoint Mr. Doug Campbell as President and Chief Executive Officer and Director of the Corporation.

**BE IT RESOLVED:**

**THAT** effective September 24, 2013, the resignation of Mr. McDonald as the President and Chief Executive Officer of the Corporation and as a Director of the Corporation, be accepted;

**THAT** effective September 24, 2013, Mr. Doug Campbell be appointed as President and Chief Executive Officer of the Corporation and as a Director of the Corporation; and

**THAT** the Human Resources and Compensation Committee be authorized to approve the employment agreement for Mr. Campbell.

PROJECT MATRIX UPDATE

3. Mr. Doug Campbell, EVP and Chief Operating Officer, provided a presentation on the status of Project Matrix including previous and current phases. Current business performance yields a 2012 baseline EBITDA of \$33 million, post adjustments. This includes a 2012 reported EBITA of \$71 million with an adjustment of \$38 million including removal of joint ventures and the proposed sale of four stores: Toronto Eaton Centre, Sherway, Richmond and Markville.

At current trends, the projection for 2016 EBITDA will be -\$105 million. Sales continue to decline across the business at 2.6%, in line with adjusted July year-to-date trends, including an estimated 50% decline in 'Chase/Financial services' revenue with no cost benefits being realized.


The Corporation is working toward approximately \$200 million in cost savings by implementing additional programs including COGS, Total Loss and organizational restructure. In addition, approximately 75% of potential cost savings reside in about twenty (20) initiatives. With approximately \$200 million in cost savings and +0.3pct growth will achieve 5% EBITDA (\$196 million). Sales growth required to reach 8% EBITDA is 3.3%.

The next steps for Project Matrix include:

- (i) Finalize prioritization of projects into phases over next 18-24 months
- (ii) Integrate financial plan and targets with phased cost-out initiatives
- (iii) Reprioritize resources to support programs

As a follow-up, the Board asked that they be provided with information for the eight (8) properties next up in the Matrix (beyond the current four Cadillac Fairview properties under discussion).

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

  
Chairman of the Meeting

  
Secretary of the Meeting

Nov 18, 2013  
Date



**TAB 32**

From: Franco Perugini  
To: www@crkcapital.com; Jim McBurney; deborah@shantiliving.ca; Bill Harker; Raja Khanna; EJ Bird; Don Ross; Doug Campbell  
Cc: Klaudio Leshnjani  
Subject: Follow up - 8 Further Stores - Matrix  
Date: 09/25/2013 08:23 AM  
Attachments: 8Stores.xls

As requested at the Board meeting on Monday, attached is information for the 8 properties next up in Matrix (beyond the current 4 Cadillac Fairview properties under discussion).

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Franco Perugini  
Associate General Counsel and  
Corporate Secretary  
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M5B 2C3  
Tel: 416 941-4419  
Fax: 416 941-2321

**TAB 33**

REVS. Trading Rank	Store ID	Province	LL	Retail GIA	Mail Quality	Current Rent/sq.ft.	Est. Anchor Rent/sq.ft.	Years left to Final Expiry	Comments	Target
1	001110-DTN-TORONTO 001329-SHERWAY GARDENS 001325-MARKVILLE 001883-RICHMOND 001017-WINDSOR	ont ont ont bc ont	Cadillac Fairview Cadillac Fairview Cadillac Fairview Owned (Ivanhoe op. agrmt) Owned (Ivanhoe op. agrmt)	457,000 238,796 138,682 143,358 305,428	A+ A+ B A B	\$ 1.4 \$ 0.8 \$ 7.5 \$ 5.5 \$ -	\$ - \$ - \$ - \$ - \$ -	64 59 27 73 8	Ivanhoe would be interested in taking back Ivanhoe would be interested in taking back (large redevelopment play)	Yes
2	001819-VANCOUVER - BURNABY	bc	Owned (Ivanhoe op. agrmt)	256,278	A	\$ -	\$ 12	-	Ivanhoe would be interested in taking back (large redevelopment play)	Yes
3	001429-SOUTHGATE EDMONTON	alta	Ivanhoe	283,655	A+	\$ 5.2	\$ 25	63	Ivanhoe would be interested in taking back	No
4	001013-KITCHENER	ont	Owned (Cadillac op. agrmt)	175,577	B	\$ 0.4	\$ 12	-	Cadillac Fairview would be interested in taking back	No
5	001084-PLACE VERTU	que	Owned (Kingslet op. agrmt)	197,051	C	\$ -	\$ 8	-	Possibly interested - just purchased mall	No
6	001112-POLO PARK	man	Cadillac Fairview	216,382	A+	\$ 0.0	\$ 25	210	Cadillac Fairview would be interested in taking back	Yes
7	001097-TORONTO-PROMENADE	ont	Cadillac Fairview	190,628	B	\$ 5.0	\$ 16	74	Cadillac Fairview would be interested in taking back	No
8	001836-BRENTWOOD MALL	bc	Shape Properties	180,692	B	\$ 4.9	\$ 18	62	Shape is looking to redevelop entire mall and would likely take back	TBD
9	001039-CHATHAM	ont	City of Chatham	91,787	C	\$ 4.3	\$ 7	58		
10	001822-VANCOUVER - CHILLIWACK	bc	Owned	97,014	B	\$ -	\$ 12	-		
11	001320-WOODBINE	ont	Fishman Group	135,307	C	\$ 7.8	\$ 8	22		
12	001416-EDMONTON - WEST EDMONTON	alta	owned	139,062	A+	\$ 6.0	\$ 25	74		
13	001060-TROIS RIVIERES 2	que	owned	146,000	B	\$ -	\$ 12	-		
14	001424-WINNIPEG - GARDEN CITY	man	Owned	92,306	C	\$ -	\$ 8	-		
15	001828-GUILDFORD	bc	Ivanhoe	141,345	B	\$ 5.0	\$ 16	58		
16	001012-FLEUR DE LYS	que	Owned	210,000	B	\$ -	\$ 8	-		
17	001088-TORONTO-NEWMARKET	ont	SEARS CANADA INC. 222 JARVIS ST, 9TH FLOOR TORONTO, ONTARIO M5B 2B8	144,923	A	\$ -	\$ 12	-		

18	001238-CAMBRIDGE	ont	DEVCAM PROPERTIES LTD C/O MORGUARD INVESTMENTS LIMITED 55 CITY CENTRE DRIVE, SUITE 800 MISSISSAUGA, ONTARIO L5B 1M3	137,436	B	\$	6.0 \$	14	39
19	001411-CALGARY - NORTH HILL	alta	SEARS CANADA INC. 222 JARVIS ST., 9TH FLOOR TORONTO, ONTARIO M5B 2B8	241,872	C	\$	- \$	8	-
20	001315-VICTORIAVILLE	que	MONTEZVICTORIAVILLE REAL TY INC. C/O COGIR MANAGEMENT CORPORATION ADMINISTRATION OFFICE 1111, BOULJUTRAS EST VICTORIAVILLE, QUEBEC G6S 1C1	69,124	C	\$	6.5 \$	12	43
21	001627-NEW MINAS	nova	CROMBIE PROPERTIES 115 KING STREET STELLARTON, NOVA SCOTIA B0K 1S0	30,976	C	\$	6.5 \$	10	17
22	001317-COBOURG	ont	Northumberland Shopping Centre Inc. c/o Bayfield Realty Advisors Inc. 904-2300 Yonge St. Toronto, Ont. M4P 1E4	31,454	C	\$	5.0 \$	8	62
23	001417-REGINA - CORNWALL	sask	PRIMARIS MANAGEMENT INC. ONE FINANCIAL PLACE 1 ADELAIDE STREET EAST SUITE 900 P.O. BOX 194 TORONTO ONT M5C 2V9	124,861	B	\$	9.3 \$	16	45
24	001626-NEW GLASGOW	nova	CROMBIE PROPERTIES 115 KING STREET STELLARTON, NOVA SCOTIA B0K 1S0	37,604	C	\$	3.3 \$	10	29
25	001436-ST. VITAL CENTRE	man	OPB REALTY (ST.VITAL) INC. 1 ADELAIDE STREET EAST SUITE 1100, TORONTO, ON, M5C 2X6	137,263	A	\$	4.9 \$	16	62

26	001379-WELLAND	ont	DORAL HOLDINGS LIMITED THE SEAWAY MALL - SUITE GG1800 NIAGARA STREET WELLAND, ONTARIO L3C 5Z4	46,192	C	\$	6.5 \$	25	-
27	001423-EDMONTON - BONNIE DOON	alta	MORGUARD INVESTMENTS LIMITED 55 CITY CENTRE DRIVE, SUITE 800 MISSISSAUGA, ONTARIO L5B 1M3	112,978	C	\$	5.5 \$	10	42
28	001080-ST EUSTACHE	que	BEAUMARD SHOPPING CENTRES LTD. LES CENTRES D'ACHATS BEAUMARD LTEE 430, BOUL. ARTHUR-SAUVE BUREAU 6010 SAINT-EUSTACHE, QUEBEC J74 6V7	102,903	C	\$	5.5 \$	8	34
29	001321-OAKVILLE	ont	OAKVILLE PLACE HOLDINGS INC. C/O PRIMARIS MANAGEMENT INC. 1 ADELAIDE STREET EAST SUITE 900, P.O. BOX 194 TORONTO, ONT. M5C 2V9 SRF2 TRURO MALL INC. C/O STRATHHALLEN CAPITAL CORP	120,256	B	\$	8.5 \$	18	69
30	001618-TRURO	nova	2 BLOOR STREET WEST SUITE 1001 TORONTO, ONT. M4W 3E2 20 VIC MANAGEMENT INC. IN TRUST FOR HOOPP REALTY INC. 1464-515 MARLBOROUGH WAY N.E CALGARY, AB T2A 7E7 SEARS CANADA INC. 222 JARVIS ST, 9TH FLOOR TORONTO, ONTARIO M5B 2B8	31,046	C	\$	5.4 \$	8	37
31	001426-CALGARY - MARLBOROUGH	alta		137,144	C	\$	4.8 \$	8	25
32	001655-CHARLOTTETOWN, PEI	pei		108,400	C	\$	- \$	8	-

33	001047-BROCKVILLE	ont	1000 ISLANDS MALL PROPERTY CORPORATION C/O STRATHALLEN PROPERTY MANAGEMENT INC. 2 BLOOR STREET WEST, SUITE 1001 TORONTO ONT M4W 3E2	88,898	C	\$	2.8 \$	10	38
34	001330-WESTMOUNT	ont	PENRETAIL III LP ITF WESTMOUNT SHOPPING CENTRE	131,703	C	\$	5.5 \$	8	57
35	001646-BATHURST	nb	COMINAR REIT 84 CHAIN LAKE DRIVE, SUITE 102	31,113	C	\$	5.5 \$	8	77
36	001311-ST GEORGE DE BEAUCE	que	HALIFAX N.S. B35 1A2 9130-1093 QUEBEC INC. 2700 LAURIER BLVD. 1000 STE-FOY, QUEBEC G1V 2L8 (IVANHOE CAMBRIDGE)	54,095	C	\$	5.3 \$	8	40
37	001835-ABBOTSFORD	bc	585562 B.C. LIMITED C/O MORGUARD INVESTMENTS LIMITED 55 CITY CENTRE DRIVE, SUITE 800 MISSISSAUGA, ONTARIO L5B 1M3	136,157	B	\$	6.1 \$	14	62
38	001036-CORNWALL	ont	PARTNERS REIT - CORNWALL SQUARE C/O TRIOVEST REALTY ADVISORS INC. 40 UNIVERSITY AVENUE SUITE 1200 TORONTO, ONT. M5J 1T1	116,718	C	\$	2.8 \$	8	17
39	001431-MOOSE JAW	sask	TNC MALL PROPERTY HOLDINGS INC. 700 APPLEWOOD CRESCENT SUITE 300 VAUGHAN ONT. L4K 5X3	60,370	C	\$	2.3 \$	8	68
40	001318-ALMA	que	CANADA LAC-ST-JEAN TRUST C/O KIMWOOD LAC-ST-JEAN- CARREFOUR ALMA 705 DU PONT NORD AVENUE ALMA, QUEBEC G8B 6T5	52,780	C	\$	5.0 \$	8	84
41	001018-PLACE LAURIER	que	OMERS REALTY & IVANHOE CAMBRIDGE C/O PLACE LAURIER HOLDINGS INC. 2700 BOUL. LAURIER, BUREAU 1000 EDIFICE CHAMPLAIN, SAINTE- FOY, QUEBEC	153,972	A+	\$	6.0 \$	#REF!	26
42	001310-STRATFORD RETAIL STORE	ont	TANURB DEVELOPMENTS INC. 10 KING ST. EAST, SUITE 800 TORONTO ONT. M5C 1C3	82,543	B	\$	4.9 \$	8	37
43	001085-LEVIS	que	SEARS CANADA INC. 222 JARVIS ST., 9TH FLOOR TORONTO, ONTARIO M5B 2B8	125,258	B	\$	- \$	8	-

44	001322-FAIRVIEW	ont	CADILLAC FAIRVIEW / IVANHOE CAMBRIDGE COB FAIRMALL LEASEHOLDS INC. C/O THE CADILLAC FAIRVIEW CORPORATION 20 QUEEN STREET WEST TORONTO, ONTARIO M5H 3R4	158,659	A	\$	9.0 \$	22	75
45	001384-TIMMINS	ont	MONTEZ RETAIL FUND INC.(70%)AND RIOCAN PROPERTY SERVICES TRUST- TIMMINS SQUARE (30%) RIOCAN YONGE EGLINTON CENTRE 2300 YONGE STREET, SUITE 500 BOX 2386 TORONTO,ONT M4P 1E4	109,450	B	\$	4.1 \$	8	33
46	001823-NANAIMO	bc	SHAPE PROPERTIES CORP 2020 ONE BENTALL CENTRE 505 BURRARD STREET BOX 206	130,978	B	\$	4.0 \$	18	28
47	001391-SOREL	que	VANCOUVER, BC V7X 1M6 MONTEZ (SOREL) INC. C/O COGIR MANAGEMENT CORPORATION G.P. 7250 TASCHEREAU BOULEVARD SUITE 200	65,457	C	\$	4.5 \$	8	107
48	001031-BARRIE	ont	BROSSARD QC J4W 1M9 SEARS CANADA INC., 222 JARVIS ST, 9TH FLOOR TORONTO, ONTARIO M5B 2B8	116,515	B	\$	- \$	14	-
49	001323-ERIN MILLS	ont	OPB (EMTC) INC. C/O 20 VIC MANAGEMENT INC. 5100 ERIN MILLS PARKWAY MISSISSAUGA ONT L5M 4Z5 (ONTARIO PENSION BOARD)	139,559	B	\$	7.5 \$	14	77
50	001647-CORNERBROOK	nfd	MONTEZ (CORNER BROOK) INC. C/O WESTCLIFF MANAGEMENT LTD 600 DE MAISONNEUVE BLVD.WEST SUITE 2600	30,305	C	\$	6.5 \$	8	18
51	001827-KELOWNA	bc	MONTREAL QUE H3A 3J2 ORCHARD PARK SHOPPING CENTRE HOLDINGS INC. C/O PRIMARIS MANAGEMENT INC. 1 ADELAIDE STREET EAST SUITE 900 TORONTO, ONTARIO M5C 2V9	92,068	B	\$	1.3 \$	18	19



52	001383-DRUMMONDVILLE	que	WESTCLIFF/SEARS C/O WESTCLIFF MANAGEMENT LTD. 600 DE MAISONNEUVE BLVD. W. SUITE 2600 MONTREAL, QUEBEC H3A 3J2	66,176	C	\$	4.5 \$	8	77
53	001428-MEDICINE HAT	alta	SLEEPING BAY BUILDING CORP. AND SEARS CANADA INC. C/O T&T PROPERTIES SUITE #103,14505 BANNISTER ROAD S.E. CALGARY, ALTA T2X 3J3 IVANHOE CAMBRIDGE II INCQUINTE MALL 95 WELLINGTON STREET WEST STE. 300 TORONTO, ONTARIO M5J 2R2	88,278	B	\$	2.1 \$	12	27
54	001027-BELLEVILLE	ont	MORGUARD CORPORATION AND BRAMALEA CITY CENTRE EQUITIES INC. 2 ADDRESSES: 1.C/O MORGUARD INVESTMENTS LIMITED UNIT #127, BRAMALEA CITY CENTRE 25 PEEL CENTRE DRIVE, BRAMPTON L6T 3R5 2. C/O MORGUARD INVESTMENTS LIMITED 55 CITY CENTRE DRIVE, SUITE 800, MISSI	91,372	B	\$	- \$	12	29
55	001049-BRAMALEA	ont	ECL GENERAL PARTNER II LIMITED, FOR ECL REAL ESTATE II LIMITED PARTNERSHIP 115 KING STREET STELLARTON, NOVA SCOTIA BOX 150 (CROMBIE)	161,359	A	\$	7.2 \$	16	81
56	001624-DARTMOUTH	nova	PFS RETAIL TWO INC. C/O TRIOVEST REALTY ADVISORS INC. 40 UNIVERSITY AVENUE SUITE 1200 TORONTO ONT M5J 1T1 O.P.B. REALTY (PICKERING CENTRE) INC. C/O 20 VIC MANAGEMENT INC., ONE QUEEN STREET EAST, SUITE 300, BOX #88 TORONTO, ONTARIO M5C 2W5	90,793	C	\$	4.3 \$	8	20
57	001435-LLOYDMINSTER	alta		41,619	C	\$	3.9 \$	10	13
58	001034-PICKERING	ont		167,254	B	\$	6.0 \$	14	26

59	001434-PRINCE ALBERT	sask	1540709-ONTARIO LTD. C/O TRIOVEST REALTY ADVISORS INC. 40 UNIVERSITY AVENUE SUITE 1200	60,740	C	\$	7.1 \$	8	30
60	001839-KAMLOOPS - ABERDEEN MALL	bc	TORONTO ONT M5J 1T1 ABERDEEN KAMLOOPS MALL LIMITED 1 ADELAIDE STREET EAST SUITE 900	109,738	B	\$	4.6 \$	12	64
61	001102-HAMILTON RELOCATION	ont	TORONTO ONT M5C 2V9 EASTGATE SQUARE HOLDINGS INC.	89,023	C	\$	6.5 \$	10	36
62	001082-SAULT STE. MARIE	ont	C/O TRIOVEST REALTY ADVISORS INC. 40 UNIVERSITY AVE SUITE 1200	126,783	B	\$	1.3 \$	8	11
63	001816-VANCOUVER - CAPILANO	bc	TORONTO, ONT M5J 1T1 ALGOMA CENTRAL REALTY PROPERTIES INC. STATION TOWER 421 BAY STREET, SUITE 608 SAULT STE MARIE ONT P6A 1X3	127,010	B	\$	2.5 \$	8	28
64	001678-SAINT JOHN	nb	bc mc REALTY CORPORATION C/O BENTALL LP CAPILANO MALL 935 MARINE DRIVE SUITE 305 NORTH VANCOUVER, BC V7P 1S3	131,174	B	\$	5.0 \$	14	72
65	001812-COQUITLAM, BRITISH COLUM	bc	MCALLISTER PLACE HOLDINGS INC 1 ADELAIDE STREET EAST, SUITE 900 TORONTO, ONT M5C 2V9 NOTICES: (ATTENTION: VICE PRESIDENT AND SECRETARY, WITH A COPY TO THE PROPERTY MANAGER)	149,471	B	\$	4.9 \$	16	67
66	001622-FREDERICTON	nb	MORGUARD INVESTMENTS LIMITED 55 CITY CENTRE DRIVE, SUITE 800 MISSISSAUGA, ONTARIO L5B 1M3 REGENT MALL HOLDINGS INC 1 ADELAIDE STREET EAST, SUITE 900 TORONTO ONT M5C 2V9 FOR NOTICES: (ATTENTION: VICE PRESIDENT AND SECRETARY, WITH A COPY TO PROPERTY MANAGER)	118,680	B	\$	3.5 \$	14	73



75	001821-PRINCE GEORGE	bc	PINE CENTRE HOLDINGS INC. C/O TRIOVEST REALTY ADVISORS INC. 40 UNIVERSITY AVENUE SUITE 1200 TORONTO ONT M5J 1T1	128,513	B	\$	2.8 \$	12	24
76	001422-LETHBRIDGE	alta	PRIMARIS MANAGEMENT INC. 130 ADELAIDE STREET WEST SUITE 900 TORONTO, ONTARIO M5C 2V9	106,100	B	\$	3.0 \$	10	51
77	001425-SOUTHCENTRE CALGARY	alta	OXFORD PROPERTIES RETAIL HOLDINGS INC. MALL ADMINISTRATION OFFICE SOUTHCENTRE MALL UNIT 142, 100 ANDERSON ROAD SE CALGARY ALBERTA T2J 3V1 OMERS C/O KINGSWAY GARDEN HOLDINGS INC. SUITE 320 109th STREET EDMONTON, ALBERTA T5G 3A6	238,909	A	\$	4.0 \$	22	58
78	001410-EDMONTON - KINGSWAY	alta	THE BENTALL GROUP LTD. 3100 THREE BENTALL CENTRE, P.O. BOX 49001 VANCOUVER, BRITISH COLUMBIA V7X 1B1 CHEQUE ISSUED TO: Bentall Retail Services Pacific Inc. c/o Willowbrook Shopping Centre 150 - 19705 Fraser Highway Langley, B.C. V3A 7E9	243,458	A	\$	2.0 \$	18	22
79	001811-LANGLEY, BRITISH COLUMB	bc	KILDONAN PLACE LTD./SEARS C/O IVANHOE CAMBRIDGE 95 WELLINGTON STREET WEST SUITE 300 M5J 2R2 Phone # (416) 369-1200 Fax # (416) 369-1327	115,806	A	\$	5.3 \$	16	80
80	001432-WINNIPEG - KILDONAN	man	LES GALERIES DE LA CAPITALE HOLDINGS INC. C/O TRIOVEST REALTY ADVISORS INC. 40 UNIVERSITY AVE. SUITE 1200 TORONTO, ONT. M5J 1T1	125,346	B	\$	2.7 \$	8	58
81	001331-LA CAPITAL QUEBEC	que		187,670	A	\$	6.0 \$	18	28

82	001045-NORTH BAY	ont	MIL ITF HOOPP REALTY INC. C/O MORGUARD INVESTMENTS LIMITED NORTHGATE SHOPPING CENTRE MALL ADMINISTRATION OFFICE 1500 FISHER STREET, SUITE 200 NORTH BAY, ONT P1B 2H3	120,000	B	\$	5.5 \$	10	38
83	001241-ROSEMERE	que	PLACE ROSEMERE INC. C/O MORGUARD INVESTMENTS LIMITED 55 CITY CENTRE DRIVE, SUITE 800 MISSISSAUGA, ONTARIO L5B 1M3	138,162	B	\$	5.5 \$	16	35
84	001057-JOIJETTE	que	BEAUMARD SHOPPING CENTRES 430 BOULEVARD ARTHUR- SAUVE SUITE 6010 SAINT EUSTACHE, P.Q. J1R 6V6	100,836	B	\$	5.5 \$	8	31
85	001328-BURLINGTON	ont	IVANHOE CAMBRIDGE II INC. AND CANAPEN (HALTON) LIMITED 95 WELLINGTON STREET TORONTO, ONTARIO M5J 2R2	139,590	B	\$	7.9 \$	12	27
86	001037-ST. JEAN	que	WESTCLIFF/SEANS WESTCLIFF INVESTMENT LTD. 1420 SHERBROOKE ST. WEST MONTREAL, QUEBEC H3G 1K5	90,889	B	\$	0.0 \$	8	38
87	001312-REPERTIGNY	que	IVANHOE CAMBRIDGE 413 RUE ST. JACQUES MONTREAL, QUEBEC H2Y 3Z4	127,835	B	\$	6.7 \$	16	30
88	001016-OSHAWA	ont	IVANHOE CAMBRIDGE/OWNERS COB OSHAWA CENTRE HOLDINGS INC. C/O IVANHOE CAMBRIDGE 95 WELLINGTON STREET WEST. SUITE 300 TORONTO, ONTARIO M5J 2R2	144,392	B	\$	- \$	12	11
89	001033-BRANTFORD	ont	IVANHOE CAMBRIDGE/OWNERS COB REGIONAL SHOPPING CENTRES 95 WELLINGTON STREET WEST STE. 300 TORONTO, ONTARIO	96,130	B	\$	0.9 \$	10	12

90	001095-LONDON	ont	ONTREA INC. 20 QUEEN STREET WEST SUITE 500 TORONTO, ONTARIO M5H 3R4 ATT: GALE TOKIO OPB REALTY (HALIFAX CENTRE)INC. 1 ADELAIDE STREET EAST SUITE 1100, TORONTO, ON, M5C 2X6 HILLSIDE CENTRE HOLDINGS INC C/O TRIOVEST REALTY ADVISORS INC. 40 UNIVERSITY AVENUE, SUITE 1200 TORONTO, ONT. M5J 1T1 1.FEINSTEIN, SHAFFER ET AL C/O BARRY FEINSTEIN 1384 AVE. GREENE, SUITE 300 WESTMOUNT QUE H3Z 2B1 2. CIBC MELLON TRUST COMPANY C/O AUGUST LENNOX 320 BAY ST. BOX 1 TORONTO ONT M5H 4A6 3. 3056376 CANADA INC. C/O BARRY FEINSTEIN 1384 AVE. GREENE, SUITE 300	129,175	B	\$	5.0 \$	14	73
91	001616-HALIFAX 2	nova	ONTREA INC. 20 QUEEN STREET WEST SUITE 500 TORONTO, ONTARIO M5H 3R4 ATT: GALE TOKIO OPB REALTY (HALIFAX CENTRE)INC. 1 ADELAIDE STREET EAST SUITE 1100, TORONTO, ON, M5C 2X6 HILLSIDE CENTRE HOLDINGS INC C/O TRIOVEST REALTY ADVISORS INC. 40 UNIVERSITY AVENUE, SUITE 1200 TORONTO, ONT. M5J 1T1 1.FEINSTEIN, SHAFFER ET AL C/O BARRY FEINSTEIN 1384 AVE. GREENE, SUITE 300 WESTMOUNT QUE H3Z 2B1 2. CIBC MELLON TRUST COMPANY C/O AUGUST LENNOX 320 BAY ST. BOX 1 TORONTO ONT M5H 4A6 3. 3056376 CANADA INC. C/O BARRY FEINSTEIN 1384 AVE. GREENE, SUITE 300	159,741	A	\$	4.9 \$	16	63
92	001818-VICTORIA	bc	ONTREA INC. 20 QUEEN STREET WEST SUITE 500 TORONTO, ONTARIO M5H 3R4 ATT: GALE TOKIO OPB REALTY (HALIFAX CENTRE)INC. 1 ADELAIDE STREET EAST SUITE 1100, TORONTO, ON, M5C 2X6 HILLSIDE CENTRE HOLDINGS INC C/O TRIOVEST REALTY ADVISORS INC. 40 UNIVERSITY AVENUE, SUITE 1200 TORONTO, ONT. M5J 1T1 1.FEINSTEIN, SHAFFER ET AL C/O BARRY FEINSTEIN 1384 AVE. GREENE, SUITE 300 WESTMOUNT QUE H3Z 2B1 2. CIBC MELLON TRUST COMPANY C/O AUGUST LENNOX 320 BAY ST. BOX 1 TORONTO ONT M5H 4A6 3. 3056376 CANADA INC. C/O BARRY FEINSTEIN 1384 AVE. GREENE, SUITE 300	148,183	B	\$	- \$	14	60
93	001623-MONCTON	nb	ONTREA INC. 20 QUEEN STREET WEST SUITE 500 TORONTO, ONTARIO M5H 3R4 ATT: GALE TOKIO OPB REALTY (HALIFAX CENTRE)INC. 1 ADELAIDE STREET EAST SUITE 1100, TORONTO, ON, M5C 2X6 HILLSIDE CENTRE HOLDINGS INC C/O TRIOVEST REALTY ADVISORS INC. 40 UNIVERSITY AVENUE, SUITE 1200 TORONTO, ONT. M5J 1T1 1.FEINSTEIN, SHAFFER ET AL C/O BARRY FEINSTEIN 1384 AVE. GREENE, SUITE 300 WESTMOUNT QUE H3Z 2B1 2. CIBC MELLON TRUST COMPANY C/O AUGUST LENNOX 320 BAY ST. BOX 1 TORONTO ONT M5H 4A6 3. 3056376 CANADA INC. C/O BARRY FEINSTEIN 1384 AVE. GREENE, SUITE 300	107,029	B	\$	4.7 \$	18	13
94	001041-GRANBY	que	WESTCLIFF DEVELOPMENT LTD. 600 BOUL. DE MAISONNEUVE OUEST MONTREAL, QUEBEC H3A 3J2 713949 C/O MORGUARD INVESTMENTS LIMITED 55 CITY CENTRE DRIVE, SUITE 800 MISSISSAUGA, ONTARIO L5B 1M3 BARRY FEINSTEIN IN TRUST 200 - 1384 GREENE AVE WESTMOUNT QUE H3Z 2B1	116,496	B	\$	3.0 \$	12	27
95	001015-OTTAWA-ST. LAURENT	ont	WESTCLIFF DEVELOPMENT LTD. 600 BOUL. DE MAISONNEUVE OUEST MONTREAL, QUEBEC H3A 3J2 713949 C/O MORGUARD INVESTMENTS LIMITED 55 CITY CENTRE DRIVE, SUITE 800 MISSISSAUGA, ONTARIO L5B 1M3 BARRY FEINSTEIN IN TRUST 200 - 1384 GREENE AVE WESTMOUNT QUE H3Z 2B1	172,755	A	\$	1.9 \$	22	81
96	001029-CHICOUTIMI	que	WESTCLIFF DEVELOPMENT LTD. 600 BOUL. DE MAISONNEUVE OUEST MONTREAL, QUEBEC H3A 3J2 713949 C/O MORGUARD INVESTMENTS LIMITED 55 CITY CENTRE DRIVE, SUITE 800 MISSISSAUGA, ONTARIO L5B 1M3 BARRY FEINSTEIN IN TRUST 200 - 1384 GREENE AVE WESTMOUNT QUE H3Z 2B1	110,840	C	\$	3.6 \$	10	17
97	001032-SHERBROOKE	que	CARREFOUR DE L'ESTRIE HOLDINGS INC C/O TRIOVEST REALTY ADVISORS INC. 40 UNIVERSITY AVENUE, SUITE 1200 TORONTO ONT M5J 1T1	115,558	B	\$	0.8 \$	8	71

98	001093-HAMILTON-LIMERIDGE	ont	ONTREA INC. RE: LIMERIDGE MALL 20 QUEEN ST WEST SUITE 500 TORONTO ONT M5H 3R4	149,097	A	\$	4.6 \$	16	19
99	001086-BROSSARD	que	IVANHOE CAMBRIDGE CENTRE GDP CAPITAL 1001, SQUARE VICTORIA, BUREAU C-500 MONTREAL, P.O. H2Z 2B5 O.P.B. C/O 20 VIC MANAGEMENT INC. PEN CENTRE ADMINISTRATION HWY 406 & GLENDALE AVENUE ST. CATHARINES, ONTARIO L2T 2K9	153,600	B	\$	1.5 \$	12	16
100	001014-ST. CATHARINES	ont	WESTFIELD GRANDE PRAIRIE LTD. (ARTIS RET) C/O AX PROPERTY MANAGEMENT LTD UNIT 101, 13245 - 140 AVE EDMONTON AB T6V 0E4 CADILLAC CORPORATION 20 QUEEN ST. WEST SUITE 300 TORONTO, ONTARIO M5H 3R4	184,029	B	\$	1.9 \$	10	4
101	001430-GRANDE PRAIRIE	alta	WESTFIELD GRANDE PRAIRIE LTD. (ARTIS RET) C/O AX PROPERTY MANAGEMENT LTD UNIT 101, 13245 - 140 AVE EDMONTON AB T6V 0E4 CADILLAC CORPORATION 20 QUEEN ST. WEST SUITE 300 TORONTO, ONTARIO M5H 3R4	92,682	B	\$	3.9 \$	12	53
102	001319-ST BRUNO	que	CADILLAC FAIRVIEW CORPORATION 20 QUEEN ST. WEST SUITE 300 TORONTO, ONTARIO M5H 3R4	140,086	A	\$	5.5 \$	18	65
103	001096-LASALLE	que	WESTCLIFF/SEARS WESTCLIFF MANAGEMENT LTD 2020 UNIVERSITY STREET, SUITE 1700 MONTREAL, QUEBEC H3A 2A5 STONE ROAD MALL HOLDINGS INC. C/O PRIMARIS MANAGEMENT INC. 1 ADELAIDE STREET EAST SUITE 900, P.O. BOX 194 TORONTO, ONT. M5C 2V9	133,003	B	\$	4.5 \$	10	54
104	001022-GUELPH	ont	WESTCLIFF/SEARS WESTCLIFF INVESTMENT LTD. 1420 SHERBROOKE ST. WEST MONTREAL, QUEBEC H3G 1K5	120,824	B	\$	4.8 \$	14	31
105	001035-ST JEROME	que	WESTCLIFF/SEARS WESTCLIFF INVESTMENT LTD. 1420 SHERBROOKE ST. WEST MONTREAL, QUEBEC H3G 1K5	122,487	B	\$	0.0 \$	12	35
106	001418-THUNDER BAY	ont	INTERCITY CENTRE HOLDINGS INC. TRIOVEST REALTY ADVISORS INC. 40 UNIVERSITY AVE. SUITE 1200 TORONTO, ONTARIO M5J 1T1	137,348	B	\$	6.5 \$	10	33

107	001087-ANIQU	que	CADILLAC/IVANHOE CAMBRIDGE CADILLAC FAIRVIEW CORPORATION LTD 20 QUEEN STREET WEST 3rd FLOOR TORONTO, ONTARIO M5H 3R4	147,434	A	\$	1.4 \$	22	49
108	001019-OTTAWA-HULL	que	SEARS CANADA INC., IVANHOE CAMBRIDGE 95 WELLINGTON STREET WEST TORONTO, ONTARIO M5J 2R2	128,040	B	\$	4.6 \$	10	45
109	001011-OTTAWA-CARLINGWOOD	ont	OPB REALTY (CARLINGWOOD) INC. c/o 20 VIC MANAGEMENT INC. CARLINGWOOD MALL SUITE 201, 2121 CARLING AVENUE OTTAWA, ON K2A 1H2	232,619	B	\$	- \$	8	58
110	001414-SASKATOON	sask	PRIMARIS MANAGEMENT INC. 1 ADELAIDE STREET EAST SUITE 900, P. O. BOX 194 TORONTO ONT M5C 2V9 (SUB-LESSOR)	166,572	B	\$	3.3 \$	8	7
111	001639-ST. JOHN'S AVALON, NFLD	nfld	CROMBIE PROPERTIES 115 KING ST. STELLARTON, NOVA SCOTIA BOK.150 (FAX#902 752 5136)	145,841	B	\$	5.5 \$	20	38
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	001308-SCARBOROUGH 2	ont	Oxford	239,645	B	\$	6.0 \$	18	58



**TAB 34**



**Real Estate Update**  
October 24<sup>th</sup>, 2013

## Disposition – 5 Full Line stores to Cadillac Fairview

### Situation:

Cadillac Fairview has made an offer to acquire leases for 5 full-line stores (Eaton Centre, Sherway Gardens, Richmond BC, London Masonville, & Markville) for \$400MM which has been approved by the Cadillac Fairview board. The offer indicates that Sears would vacate Toronto Eaton Centre, Sherway Gardens, & London Masonville by February 28, 2014 and Markville, & Richmond BC by February 28, 2015.

### Property Information:

- All stores are from urban markets and A quality malls
- With the exception of Richmond BC, all stores are from the Ontario region with 3 from Toronto/GTA area

No.	LOCATION	PROV.	Mall Quality	SQ. FEET (GLA)	SQ. FEET (Selling)	Sales/ GLA sqft	Sales/Selling sqft	Selling to GLA Ratio	Base Rent/sq.ft.	Occupancy /sq.ft.	Current Expiry	Final Expiry
1	TORONTO EATON CENTRE	ON	A+	457,000	258,173	\$ 154	\$ 211	56%	\$ 1.38	\$ 5.75	2/9/2017	10/29/2077
2	001329-SHERWAY GARDENS	ON	A+	238,796	155,286	\$ 101	\$ 155	65%	\$ 0.82	\$ 8.17	2/24/2041	2/24/2071
3	001095-LONDON	ON	A	129,175	91,489	\$ 160	\$ 227	71%	\$ 5.04	\$ 8.80	8/20/2015	8/20/2085
4	001883-RICHMOND	BC	A	143,338	89,695	\$ 144	\$ 229	63%	\$ 5.50	\$ 7.39	10/31/2015	10/30/2085
5	001325-MARKVILLE	ON	A	138,682	98,722	\$ 138	\$ 194	71%	\$ 7.50	\$ 9.90	10/31/2015	10/31/2039
<b>Total</b>				<b>1,106,991</b>	<b>693,365</b>	<b>\$ 126</b>	<b>\$ 200</b>	<b>63%</b>				

*Please note Toronto Eaton Centre GLA is retail portion only*

### 2012 Financial Performance:

- Approximately \$140MM in sales and \$15MM in four-wall EBITDA from the 5 stores

No.	LOCATION	2012 Sales Actuals (\$MM)	3 Yr CAGR	PBOH (\$MM)	PBOH % of Sales	2012 Four-wall EBITDA (\$MM)	Four-wall % of Sales	2012 Fully Burdened EBITDA (\$MM)	Fully Burdened EBITDA % of Sales
1	TORONTO EATON CENTRE	\$ 54.6	-2.9%	\$ 5.1	9.4%	\$ 6.1	11.2%	\$ (0.8)	-1.5%
2	001329-SHERWAY GARDENS	\$ 24.0	-6.7%	\$ 2.3	9.5%	\$ 2.5	10.4%	\$ (0.6)	-2.4%
3	001095-LONDON	\$ 20.7	-6.3%	\$ 3.0	14.4%	\$ 3.2	15.6%	\$ 0.5	2.3%
4	001883-RICHMOND	\$ 20.6	-7.9%	\$ 2.2	10.9%	\$ 2.4	11.6%	\$ (0.2)	-1.1%
5	001325-MARKVILLE	\$ 19.1	-7.8%	\$ 1.0	5.5%	\$ 1.2	6.2%	\$ (1.3)	-6.6%
<b>Total</b>		<b>\$ 139.0</b>		<b>\$ 13.7</b>		<b>\$ 15.4</b>		<b>\$ (2.4)</b>	

**Purchase Price & 2013 EBITDA Multiple Estimates:**

- \$400MM consideration for 5 stores represents 26.1x four-wall EBITDA for 2013 fiscal estimates. This represents a value that is over 20x the Sears trading EBITDA multiple
- Net Real Estate proceeds after taxes and closing costs on capital gain are approx. \$354 MM
- Cash proceeds after severance and inventory release are estimated at approx. \$368MM
- Additionally, costs of \$4.5MM expected for leasehold improvements to reconfigure office space in TEC

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
001110-DTN-TORONTO	A+	1.4	64	\$ 240	6.0	39.7	(27.5)	\$ 212.5	\$ (2.1)	\$ 6.7	\$ 217.1
001329-SHERWAY GARDENS	A+	0.8	59	\$ 39	2.5	15.3	(4.20)	\$ 34.8	\$ (1.0)	\$ 4.0	\$ 37.9
001883-RICHMOND	A	5.5	73	\$ 42	2.4	17.7	(5.20)	\$ 36.8	\$ (0.8)	\$ 3.1	\$ 39.1
001095-LONDON	A	5.0	73	\$ 25	3.3	7.7	(2.70)	\$ 22.3	\$ (0.8)	\$ 2.9	\$ 24.5
001325-MARKVILLE	B	7.5	27	\$ 54	1.1	48.4	(6.50)	\$ 47.5	\$ (0.8)	\$ 2.7	\$ 49.4
<b>Total</b>				<b>\$ 400</b>	<b>\$ 15.3</b>	<b>26.1</b>	<b>\$ (46.1)</b>	<b>\$ 353.9</b>	<b>\$ (5)</b>	<b>\$ 19.5</b>	<b>\$ 368</b>

Please note that for 2013 estimates, sales is kept flat to 2012 based on TTM through Sept 2012 total sales

**Ranking of the stores from Matrix Deck – Trading Vs. Real Estate Value:**

- Toronto Eaton Centre & Markville are the top two stores with respect to Real Estate value over Trading value in the Full Line portfolio. London is ranked 17<sup>th</sup>

RE Vs. Trading Rank	Store ID	NEW RE Value (Low Estimate)	NEW Net RE proceeds <sup>1</sup> (Low Est)	Four-wall EBITDA	EV contribution (4 wall EBITDA @ 6.0x)	EV contribution (4 wall EBITDA @ 6.0x) [AH]	NEW RE Value over EV
1	001110-DTN-TORONTO	240	240	6	36	48	204
2	001325-MARKVILLE	54	54	1	7	11	47
3	001819-VANCOUVER - BURNABY	63	57	2	15	19	42
4	001308-SCARBOROUGH 2	53	49	3	20	27	29
5	001883-RICHMOND	42	42	2	14	19	28
6	001329-SHERWAY GARDENS	39	39	3	15	20	24
7	001429-SOUTHGATE EDMONTON	52	48	4	26	33	22
8	001084-PLACE VERTU	21	20	0	3	6	17
9	001112-POLO PARK	47	44	5	31	36	13
10	001013-KITCHENER	34	32	3	20	25	11
11	001836-BRENTWOOD MALL	17	17	1	6	10	11
12	001017-WINDSOR	33	31	4	21	27	10
13	001088-TORONTO-NEWMARKET	36	33	4	24	30	9
14	001411-CALGARY - NORTH HILL	35	32	4	23	28	9
15	001097-TORONTO-PROMENADE	11	12	1	4	9	8
16	001060-TROIS RIVIERES 2	26	26	3	20	24	6
17	001095-LONDON	25	25	3	20	24	5

(AH) after project Horizon cost improvements

**Effect on Balance of the Business:**

- From a strategic standpoint the sale unlocks value for Sears Canada shareholders by monetizing real estate assets worth more than their trading value
- Potential negative perception of Sears vis-à-vis customer, suppliers, and associates
- Lost sales and four-wall EBITDA impact to the rest of the channel approx. 140MM and 15MM, respectively

**Backfill Opportunity**

**1. Sears will lose Trailing Twelve Month (TTM) Sales by Category**

- A&A comprises of approx. \$90 or 64% of the balance of sales at these stores vs. 56% for full line stores overall

MERCHANDISE NET SALES (\$MM)

	TTM SEP YTD HF		TTM SEP YTD MA		TTM SEP YTD H&H Others		TTM SEP YTD A&A		TTM SEP YTD TOTAL
001110-DTN-TORONTO	3.5	6%	5.7	11%	6.2	11%	39.1	72%	54.6
001329-SHERWAY GARDENS	1.1	4%	3.4	14%	3.4	14%	16.2	67%	24.1
001095-LONDON	1.5	8%	3.0	15%	4.4	22%	11.0	55%	20.0
001883-RICHMOND	0.8	4%	4.0	20%	3.0	14%	12.9	62%	20.7
001325-MARKVILLE	1.2	6%	5.7	29%	3.2	16%	9.5	49%	19.6
<b>Total</b>	<b>8.1</b>		<b>21.8</b>		<b>20.2</b>		<b>88.8</b>		<b>138.9</b>

**2. Sears will retain some of the sales in markets where there are other nearby Sears corporate stores and by promoting the Direct channel to customers at closing stores. Additionally, Sears may look to open other smaller format stores in the markets to mitigate sales loss**

Sears Full Line Store	Number of Other Full Line Stores within 10 km	Closest Full Line Store	Distance to Closest Full Line Store	Number of Home Stores within 10 km	Closest Home Store	Distance to Closest Home Store
Sherway Gardens	0	Woodbine Centre	14.0	1	Sherway Home	0.8
Masonville London	1	Westmount London	7.9	1	London, ON Home	7.9
Toronto Eaton Centre	0	Fairview mall	16.0	0	Sherway Home	14.9
Markville Centre	1	Scarborough Town Ctr	9.9	1	Scarborough, ON Home	9.6
Richmond	0	Burnaby Kingsway	12.3	1	Richmond, BC Home	4.9

- London Home & Westmount FL are both within 10km of Masonville FL store and should provide opportunities for sales retention in MA, H&H, and A&A
- Richmond & Sherway have Home stores within 5 km of their FL store and should provide opportunities for sales retention in MA & Mattresses
- There is no FL or Home store within 10km of Eaton Centre. An urban concept store comprising of hero categories could be explored
- For Markville, Sears would potentially explore a Dealer format approx. 10k sq.ft. for MA, Mattresses, and Power Tools sales retention

**3. Sensitivity Analysis**

- Below sensitivity analysis shows sales retention opportunity by category ranging between 20% and 70%
- If Sears were to retain 50% in H&H through its network of Home stores in these markets and 20% in A&A through direct and other Full Line stores in the network, it would provide approx. \$43MM in sales retention opportunity. That accounts to 30% of the total sales pickup.

	MA	HF	Other H&H	A&A	Total
20%	\$ 4.4	\$ 1.6	\$ 4.0	\$ 17.8	\$ 27.8
30%	\$ 6.5	\$ 2.4	\$ 6.1	\$ 26.6	\$ 41.7
40%	\$ 8.7	\$ 3.2	\$ 8.1	\$ 35.5	\$ 55.5
50%	\$ 10.9	\$ 4.0	\$ 10.1	\$ 44.4	\$ 69.4
60%	\$ 13.1	\$ 4.8	\$ 12.1	\$ 53.3	\$ 83.3
70%	\$ 15.3	\$ 5.6	\$ 14.1	\$ 62.2	\$ 97.2

**Accounting/Disclosure Implications:**

- Disclosure will be required in the quarterly annual financial statement and MD&A filings. Filing of the agreement as material contract may be required. Filing of material change is also being evaluated
- The gain on sale net of closing costs will be included in Net Income and excluded from EBITDA
- Leasehold improvements amortization will be accelerated from time of sale to time of closing the stores

**Considerations:**

- \$400MM consideration represents a store value/EBITDA multiple of 26.1x. This value is 20x higher than a reasonable market EBITDA multiple maximizing shareholder returns
- Through network of other existing corporate stores in the market, there is opportunity for sales retention. Furthermore, there are potential Dealer store opportunities for HHMA sales retention in the market
- Cost to move office premises in TEC (lower level and main floors) to the 4<sup>th</sup> floor approx. \$4.5MM

**Recommendation:**

- Management recommends proceeding with surrendering of the 5 leases for proceeds of \$400MM

Draft: Not For Release

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**Sears Canada Announces Transactions on Five Stores for \$400 million**

*Toronto Eaton Centre, Sherway Gardens, Markville, London-Masonville, Richmond B.C.*

TORONTO – October XX, 2013 – Sears Canada Inc. (TSX: SCC) announced today that it will terminate its leases in respect of, and return to commercial real estate developer and landlord The Cadillac Fairview Corporation Limited (Cadillac Fairview), five stores within shopping centres the developer owns and/or manages, for a total consideration of \$400 million. The agreement is definitive and only subject to customary closing conditions. The transaction is expected to close on or around November X, 2013.

Four of the five stores are located in Ontario: Toronto Eaton Centre, Sherway Gardens, Markville Shopping Centre and London-Masonville Place. The fifth store is located at Richmond Centre in British Columbia. The transaction requires Sears to vacate the Toronto Eaton Centre, Sherway Gardens and London-Masonville stores by February 28, 2014 and Markville and Richmond by February 28, 2015.

The Company will retain four full floors of the Toronto Eaton Centre and will also continue to conduct its head office operations from that location.

There are currently 965 associates located in these five store locations. The associates whose employment could be potentially affected by this transaction will have the opportunity to apply for positions for which they are qualified in other Sears locations which could become available between now and their last date of employment.

"Unlocking the value of assets is one of the three levers we have said we will use as a way to create total value for the Company," said Doug Campbell, President and Chief Executive Officer, Sears Canada Inc. "When proposals such as this one are presented to us, we must weigh the value of the transaction against the value we will obtain from continuing to operate those stores in their current locations. 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. Our primary focus of creating long-term

value for the Company is best approached by focusing on the basics of the business and continuing to become more relevant with Canadian consumers coast to coast.

“The Company will operate 111 full-line department stores after Sears vacates these five stores,” continued Mr. Campbell, “which continues to be a substantial retail presence across Canada, especially in suburban and mid-size markets where Sears plays a major role in the marketplace. We will continue to focus also on the two other levers we use to create total value: the retail value lever, where our focus is on growing same-store sales profitably by implementing the right customer value proposition, and the cost/efficiency value lever, where our focus is to keep the expenses and structure of the organization in line with the needs and size of the business we are operating.”

Mr. Campbell 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 London-Masonville since 1985, in Richmond Centre since 1989, in Markville since 1991, and in Sherway Gardens and the Toronto Eaton Centre since 2000.

Sears Canada is a multi-channel retailer with a network that includes 181 corporate stores, 246 hometown dealer stores, over 1,400 catalogue 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](http://www.sears.ca).

This release contains information which is forward-looking and is subject to important risks and uncertainties. Forward-looking information concerns, among other things, the Company’s future financial performance, business strategy, plans, expectations, goals and objectives. Often, but not always, forward-looking information can be identified by the use of words such as “plans”, “expects” or “does not expect”, “is expected”, “scheduled”, “estimates”, “intends”, “anticipates” or “does not anticipate” or “believes”, or variations of such words and phrases, or statements that certain actions, events or results “may”, “could”, “would”, “might” or “will” be taken, occur or be achieved. Although the Company believes that the estimates reflected in such forward-looking information are reasonable, such forward-looking information involves known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking information and undue reliance should not be placed on such information. Factors which could cause actual results to differ materially from current expectations include, but are not limited to: the ability of the Company to successfully implement its strategic initiatives; productivity improvement and cost



reduction initiatives and whether such initiatives will yield the expected benefits; the results achieved pursuant to the Company's long-term credit card marketing and servicing alliance with JPMorgan Chase Bank, N.A. (Toronto Branch); general economic conditions; competitive conditions in the businesses in which the Company participates; changes in consumer spending; seasonal weather patterns;; weaker business performance in the subsequent quarter; customer preference toward product offerings; ability to retain senior management and key personnel; ability of the Company to successfully manage its inventory levels; disruptions to the Company's computer systems; economic, social, and political instability in jurisdictions where suppliers are located; the Company's reliance on third parties in outsourcing arrangements; structural integrity and fire safety of foreign factories; increased shipping costs, potential transportation delays and interruptions; damage to the reputations of the brands the Company sells; changes in the Company's relationship with its suppliers; the outcome of product liability claims; any significant security compromise or breach of the Company's customer, associate or Company information; the credit worthiness and financial stability of tenants, partners and co-arrangers, with respect to the Company's real estate joint arrangement interests; possible changes in the Company's ownership by Sears Holdings Corporation ("Sears Holdings") and other significant shareholders; interest rate fluctuations and other changes in funding costs and investment income; fluctuations in foreign currency exchange rates; the possibility of negative investment returns in the Company's pension plan or an unexpected increase to the defined benefit obligation; the impairment of goodwill and other assets; new accounting pronouncements, or changes to existing pronouncements, that impact the methods the Company uses to report our financial condition and results from operations; uncertainties associated with critical accounting assumptions and estimates; the outcome of pending legal proceedings; compliance costs associated with environmental laws and regulations; the possible future termination of certain intellectual property rights associated with the "Sears" name and brand names if Sears Holdings reduces its interest in the Company to less than 25%; and changes in laws, rules and regulations applicable to the Company. Information about these factors, other material factors that could cause actual results to differ materially from expectations and about material factors or assumptions applied in preparing forward-looking information, may be found in this release and in the Company's 2012 Annual Report under Section 11 "Risks and Uncertainties" and elsewhere in the Company's filings with securities regulators. The forward-looking information in this release is, unless otherwise indicated, stated as of the date hereof and are presented for the purpose of assisting investors and others in understanding our financial position and results of operations as well as our objectives and strategic priorities, and may not be appropriate for other purposes. The Company does not undertake any obligation to update publicly or to revise any forward-looking information, whether as a result of new information, future events or otherwise, except as required by law.

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## RESOLUTION

### OF THE BOARD OF DIRECTORS (the "Board") OF SEARS CANADA INC. (the "Corporation")

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**WHEREAS** the Corporation is a tenant pursuant to leases in the following locations:

- Toronto Eaton Centre, Toronto, Ontario
- Sherway Gardens, Toronto, Ontario
- Markville Shopping Centre, Markham, Ontario
- Maisonville Place, London, Ontario
- Richmond Centre, Richmond, B.C.

(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, except for the office space at the Toronto Eaton Centre (collectively, the "Lease Terminations");

**WHEREAS** the Corporation has negotiated the terms of an agreement with CF for the Lease Terminations, in consideration of CF paying to the Corporation the sum of four hundred million dollars (\$400,000,000);

**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; and

**WHEREAS** the Board considers it in the best interest of the Corporation to approve the Lease Terminations, in accordance with the terms as presented by Management.

#### **BE IT RESOLVED:**

**THAT** the Lease Terminations be approved and that the Corporation be authorized to surrender its interest in the Locations to CF in consideration of CF paying to the Corporation the sum of four hundred million dollars (\$400,000,000); 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 Lease Terminations and the surrender of the Locations, as may be necessary or desirable to give effect to this resolution.

**APPENDIX**

Master Agreement to Surrender and Terminate Leases

**MASTER AGREEMENT FOR**  
**FULL SURRENDER AND FULL TERMINATION OF LEASES**  
**at**  
**MARKVILLE PLACE (MARKHAM)**  
**MASONVILLE SHOPPING CENTRE (LONDON)**  
**RICHMOND CENTRE (RICHMOND)**  
**SHERWAY GARDENS (TORONTO)**

**and**

**AMENDMENT, PARTIAL SURRENDER AND PARTIAL TERMINATION OF LEASE**  
**at**  
**TORONTO EATON CENTRE (TORONTO)**

**ONTREA INC., CF/REALTY HOLDINGS INC.,**  
**T.E.C. LEASEHOLDS LIMITED, ONTREA/TEC ACQUISITION LIMITED and**  
**CF/TEC ACQUISITION LIMITED**

- and -

**SEARS CANADA INC.**

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**■, 2013**

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Schedule A-3 Form of Agreement Re: Amendment, Full Surrender and Full Termination, of Lease - Richmond Sears Lease

Schedule B Form of HST/GST Undertaking and Indemnity

THIS MASTER AGREEMENT made as of the ■ day of October, 2013.

BETWEEN:

**ONTREA INC.,  
CF/REALTY HOLDINGS INC.,  
T.E.C. LEASEHOLDS LIMITED,  
ONTREA/TEC ACQUISITION LIMITED and  
CF/TEC ACQUISITION LIMITED**

- and -

**SEARS CANADA INC.**

**WHEREAS** the Tenant and the Shopping Centre Parties have agreed that the TEC Sears Lease shall be amended, partially surrendered and partially terminated and that the other Subject Leases shall be fully surrendered and fully 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.

**"Amended and Restated TEC Lease"** means the agreement amending and restating the continuing lease of the Office Premises to be executed on Closing by the TEC Landlord and the Tenant, which lease shall be in the form agreed to in writing by the Tenant and the Shopping Centre Parties on or prior to the Execution Date.

**"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.

"**Business Day**" means any day other than a Saturday, a Sunday or a statutory holiday in either of the Provinces of British Columbia or Ontario.

"**CFCL**" means The Cadillac Fairview Corporation Limited.

"**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 ■. [**Note: To be the 10th Business Day following the Execution Date.**]

"**Closing Documents**" means the agreements, instruments and other documents to be delivered to the Shopping Centre Parties 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.

"**Full Surrender Agreement**" means, in respect of each Subject Lease other than the TEC Sears Lease and the Richmond Sears Lease, an Agreement Re: Amendment, and Full Surrender and Full 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-1 hereto with the applicable insertions, as noted in such form.

"**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, in respect of each Subject Lease, the period commencing on the Execution Date and ending upon the applicable Surrender Date.

"**Landlords**" means, collectively, the Markville Landlord, the Masonville Landlord, the Richmond Landlord, the Sherway Landlord and the TEC Landlord, and "**Landlord**" means any one of the Landlords.

"**Lease Surrender Agreement**" means, in respect of the TEC Sears Lease, the TEC Amendment and Partial Surrender Agreement, in respect of the Richmond Sears Lease,



the Richmond Full Surrender Agreement, and in respect of each other Subject Lease, the Full Surrender Agreement applicable thereto.

**"LTT Indemnity"** means the indemnity given by the TEC Parties in favour of the Tenant in respect of Claims for land transfer tax, if any, in respect of the Amended and Restated TEC Lease, which indemnity shall be in the form agreed to in writing by the Tenant and the Shopping Centre Parties on or prior to the Execution Date.

**"Markville Landlord"** means Ontrea Inc.

**"Markville Party"** means the Markville Landlord.

**"Markville Sears Lease"** means the lease dated August 9, 1993 between the Markville 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).

**"Masonville Landlord"** means Ontrea Inc.

**"Masonville Owner"** means, collectively, CF/Realty Holdings Inc. and Ontrea Inc.

**"Masonville Parties"** means, collectively, the Masonville Landlord and the Masonville Owner.

**"Masonville Sears Lease"** means the lease dated August 21, 1985 between the Masonville 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).

**"Non-Defaulting Party"** has the meaning set out in Section 3.3.

**"Office Premises"** has the meaning set out in the form of the Amended and Restated TEC Lease.

**"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.

**"Richmond CF Party"** means Ontrea Inc.

**"Richmond Full Surrender Agreement"** means, in respect of the Richmond Sears Lease, the Agreement Re: Amendment, and Full Surrender and Full Termination, of Lease – Richmond Sears Lease to be entered into on Closing between the Tenant, the Richmond Landlord and the Richmond Owner, in the form attached as Schedule A-3 hereto with the applicable insertions, as noted in such form.

"**Richmond IC Parties**" means, collectively, Ivanhoe Cambridge II Inc. and 7904185 Canada Inc.

"**Richmond Landlord**" means, collectively, the Richmond CF Party and 7904185 Canada Inc.

"**Richmond Owner**" means, collectively, the Richmond CF Party and Ivanhoe Cambridge II Inc.

"**Richmond Sears Lease**" means the lease dated as of November 1, 1990 between the Richmond 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).

"**Richmond Subject Store**" means the Subject Store leased pursuant to the Richmond Sears Lease.

"**Sherway Landlord**" means Ontrea Inc.

"**Sherway Party**" means the Sherway Landlord.

"**Sherway Sears Lease**" means the lease dated as of May 11, 1970 between the Sherway 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).

"**Shopping Centre Parties**" means, collectively, the Markville Party, the Masonville Parties, the Richmond CF Party, the Sherway Party and the TEC 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 Markville Sears Lease, the Masonville Sears Lease, the Richmond Sears Lease, the Sherway Sears Lease and the TEC 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; provided that, in respect of the TEC Sears Lease, the Subject Store excludes the Office Premises, and "**Subject Store**" means any one of the Subject Stores.

"**Surrender**" means, in respect of the TEC Sears Lease, the amendment, partial surrender and partial termination thereof in accordance with the terms of the TEC Amendment and Partial Surrender Agreement and, in respect of each other Subject Lease, the full

surrender and full termination thereof in accordance with the terms of the applicable Lease Surrender Agreement.

**"Surrender Date"** means: (i) in respect of each of the Masonville Sears Lease, the Sherway Sears Lease and the TEC Sears Lease, February 28, 2014; and (ii) in respect of each of the Markville Sears Lease and the Richmond Sears Lease, February 28, 2015.

**"Surrender Payments"** has the meaning set out in Section 2.2, and **"Surrender Payment"** means any one of the Surrender Payments.

**"TEC Amendment and Partial Surrender Agreement"** means, in respect of the TEC Sears Lease, the Agreement Re: Amendment, Partial Surrender and Partial Termination of Lease to be entered into on Closing between the Tenant and the TEC Parties, in the form attached as Schedule A-2 hereto with the applicable insertions, as noted in such form.

**"TEC Landlord"** means T.E.C. Leaseholds Limited.

**"TEC Owner"** means, collectively, Ontrea/TEC Acquisition Limited, CF/TEC Acquisition Limited and Ontrea Inc.

**"TEC Parties"** means, collectively, the TEC Landlord and the TEC Owner.

**"TEC Sears Lease"** means the lease dated as of February 10, 1977 between the TEC 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).

**"TEC Subject Store"** means the Subject Store leased pursuant to the TEC Sears Lease, excluding the Office Premises.

**"TEC Subleases"** means, collectively, the TEC Three Below Sublease and the TEC Three Below Sub-Subleases.

**"TEC Three Below Premises"** means those parts of the TEC Subject Store subleased pursuant to the TEC Three Below Sublease.

**"TEC Three Below Sublease"** means the sublease dated as of February 10, 1989 between the Tenant, as sublandlord, and the TEC Landlord, as subtenant, (or their respective predecessors in interest), as amended or supplemented prior to the Execution Date.

**"TEC Three Below Sub-Sublease"** means each sub-sublease, license agreement, concession agreement or other occupation agreement entered into by the TEC Landlord (or its predecessor in interest or any affiliate of the TEC Landlord) and each Person other than the Tenant and/or its affiliates (or their respective predecessors in interest) in respect of the leasing, licensing or occupation by such other Person of a part of the Three Below

Premise, as each such sub-sublease, license agreement, concession agreement or other occupation agreement may be amended or supplemented from time to time.

"**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 Shopping Centre Parties.

## **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 Surrenders 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 Surrenders 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-1    Form of Agreement Re: Amendment, and Full Surrender and Full Termination, of Lease
- Schedule A-2    Form of Agreement Re: Amendment, Partial Surrender and Partial Termination of Lease
- Schedule A-3    Form of Agreement Re: Amendment, and Full Surrender and Full Termination, of Lease – Richmond Sears Lease
- Schedule B       Form of HST/GST Undertaking and Indemnity

**ARTICLE 2**  
**AGREEMENT TO SURRENDER**

**2.1**            **Agreement to Surrender**

On and subject to the terms and conditions of this Agreement, the Tenant and the Shopping Centre Parties hereby agree that, with effect as of the applicable Surrender Date, the TEC Sears Lease shall be amended, partially surrendered and partially terminated and the other Subject Leases shall be fully surrendered and fully terminated.

**2.2 Payment of Surrender Payments**

In consideration for the Surrenders 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 full surrender and full termination of the Markville Sears Lease, the Markville Landlord shall pay to the Tenant, or as the Tenant directs in writing (provided that such written direction shall be delivered to the Markville Landlord not later than the fifth Business Day prior to the Closing Date), the amount of \$54,000,000;
- (b) in respect of the full surrender and full termination of the Masonville Sears Lease, the Masonville Landlord shall pay to the Tenant, or as the Tenant directs in writing (provided that such written direction shall be delivered to the Masonville Landlord not later than the fifth Business Day prior to the Closing Date), the amount of \$25,000,000;
- (c) in respect of the full surrender and full termination of the Richmond Sears Lease, the Richmond CF Party, on behalf of the Richmond Landlord, shall pay to the Tenant, or as the Tenant directs in writing (provided that such written direction shall be delivered to the Richmond CF Party not later than the fifth Business Day prior to the Closing Date), the amount of \$42,000,000;
- (d) in respect of the full surrender and full termination of the Sherway Sears Lease, the Sherway Landlord shall pay to the Tenant, or as the Tenant directs in writing (provided that such written direction shall be delivered to the Sherway Landlord not later than the fifth Business Day prior to the Closing Date), the amount of \$39,000,000; and
- (e) in respect of the amendment, partial surrender and partial termination of the TEC Sears Lease, the TEC Landlord shall pay to the Tenant, or as the Tenant directs in writing (provided that such written direction shall be delivered to the TEC Landlord not later than the fifth Business Day prior to the Closing Date), the amount of \$240,000,000.

The aggregate amount of the Surrender Payments is \$400,000,000. 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 Shopping Centre Parties 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

Except as specifically provided pursuant to each Lease Surrender Agreement, there shall be no adjustments to the Surrender Payments on Closing or on the Surrenders.

## 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 Amended and Restated TEC Lease

On Closing, the Tenant and the TEC Landlord shall each execute and deliver the Amended and Restated TEC Lease.

## 2.7 Confidentiality

Until Closing, the Tenant and the Shopping Centre Parties 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 Shopping Centre Parties or the Tenant from disclosing the provisions of this Agreement to their employees, directors, shareholders, professional advisors, lenders, banks and, in the case of the Shopping Centre Parties only, the Richmond IC Parties (and the professional advisors of the Richmond IC Parties), in each case on a "need-to-know" basis (provided that such Persons are informed that such information is confidential), 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. Neither the Tenant nor the Shopping Centre Parties 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 Shopping Centre Parties, 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 and/or Canadian securities laws applicable to the Tenant, and agrees that such disclosure shall be subject to the prior written approval of the Shopping Centre Parties, 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, unless otherwise required by Applicable Laws. If such required disclosure includes a requirement that this Agreement be filed and/or disclosed, the Tenant shall only file and/or disclose a redacted copy of this Agreement in the form agreed to in writing by the Tenant and the Shopping Centre Parties. The provisions of this Section 2.7 shall survive the termination of this Agreement and the Closing.

## **2.8 Joint and Several Obligations**

The Masonville Parties covenant and agree with the Tenant that all obligations and liabilities of the Masonville Landlord to the Tenant under this Agreement and the Closing Documents constitute joint and several obligations of all of the Persons comprising the Masonville Parties. The TEC Parties covenant and agree with the Tenant that all obligations of the TEC Landlord to the Tenant under this Agreement and the Closing Documents constitute joint and several obligations of all of the Persons comprising the TEC 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 applicable Shopping Centre Party 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;
- (b) on the Closing Date, all of the representations and warranties of the Shopping 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; and
- (c) on the Closing Date, the Richmond IC Parties shall have executed and delivered the Richmond Full Surrender Agreement.

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 Shopping Centre Parties 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;
- (b) on the Closing Date, all of the representations and warranties of the Tenant set out in Section 5.1 (except the representations and warranties in Sections 5.1(j) and 5.1(k), 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; and
- (c) on the Closing Date, the Richmond IC Parties shall have executed and delivered the Richmond Full Surrender Agreement.

The conditions set forth in this Section 3.2 are solely for the benefit of the Shopping Centre Parties and may be waived in whole or in part by the Shopping Centre Parties 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 Shopping Centre Party shall, on the applicable 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 applicable 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 applicable Interim Period or on or after the applicable 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 the TEC Sears Lease, the TEC Amendment and Partial Surrender Agreement, in respect of the Richmond Sears Lease, the Richmond Full Surrender Agreement and, in respect of each other Subject Lease, a Full Surrender Agreement;
- (b) the Amended and Restated TEC Lease;
- (c) in respect of the TEC Sears Lease, a partial surrender of the notice of such Subject Lease (if any) and 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 Shopping Centre Parties on the Closing;
- (d) a corporate certificate from a senior officer of the Tenant, without personal liability, in respect of the representations and warranties of the 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 Shopping Centre Parties, each acting reasonably, by the Closing Date; and

- (e) 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 Shopping Centre Party 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; provided that if the form of a document has been appended to this Agreement as a Schedule, such document shall be in such form with only the revisions expressly permitted therein.

#### **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 the TEC Sears Lease, the TEC Amendment and Partial Surrender Agreement and, in respect of each other Subject Lease, a Full Surrender Agreement;
- (b) the Amended and Restated TEC Lease;
- (c) the LTT Indemnity;
- (d) from each Person comprising a Shopping Centre Party, 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;
- (e) in respect of the Markville Sears Lease, an HST/GST Undertaking and Indemnity from the Markville Landlord; in respect of the Masonville Sears Lease, an HST/GST Undertaking and Indemnity from the Masonville Landlord; in respect of the Richmond Sears Lease, an HST/GST Undertaking and Indemnity from CFCL; in respect of the Sherway Sears Lease, an HST/GST Undertaking and Indemnity from the Sherway Landlord and, in respect of the TEC Sears Lease, an HST/GST Undertaking from the TEC Landlord; and
- (f) 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; provided that if the form of a document has been appended to this Agreement as a Schedule, such document shall be in such form with only the revisions expressly permitted therein.

**ARTICLE 5**  
**REPRESENTATIONS, WARRANTIES AND COVENANTS**

**5.1 Tenant Representations**

The Tenant represents and warrants to and in favour of the Shopping Centre Parties that as of the Execution Date and (except in the case of the representations and warranties in Sections 5.1(j) and 5.1(k)) 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, other than pursuant to the TEC Subleases, 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) in the case of each Subject Store, no Person (other than: (i) in the case of the TEC Subject Store, the Persons entitled to use, possess and/or occupy parts of the TEC Three Below Premises pursuant to the TEC Subleases; and (ii) the Tenant and its subtenants (except, in the case of the TEC Subject Store, the subtenants referred to in clause (i)), licensees and concessionaires whose rights and occupancies will be terminated by the Tenant, at its sole expense and risk, by the applicable 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 employees of the Tenant employed at or in connection with the Subject Stores, 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) each of Ontrea Inc., CFCL and the TEC Landlord are 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
- (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.

### **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 representations and warranties in Sections 5.1(j) and 5.1(k)) 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 comply in all material respects with Applicable Laws relating to termination, severance, and common law reasonable notice entitlements and obligations applicable to all employees of the Tenant employed at or in connection with any of the Subject Stores (as determined by the Tenant, acting reasonably and in good faith). The Tenant shall be responsible for, and shall indemnify and save harmless the Shopping Centre Parties and, in the case of the Richmond Subject Store, the Richmond IC Parties from and against any and all Claims that the Shopping Centre Parties and/or the Richmond IC 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 Shopping Centre Parties 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  
155 Wellington Street West  
Toronto, Ontario, M5V 3J7

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.lesnjani@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(c); 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]**

**ONTREA INC.**

by \_\_\_\_\_  
Name:

\_\_\_\_\_  
Name:

I/We have authority to bind the Corporation

**CF/REALTY HOLDINGS INC.**

by \_\_\_\_\_  
Name:

\_\_\_\_\_  
Name:

I/We have authority to bind the Corporation

**T.E.C. LEASEHOLDS LIMITED**

by \_\_\_\_\_  
Name:

\_\_\_\_\_  
Name:

I/We have authority to bind the Corporation

**ONTREA/TEC ACQUISITION  
LIMITED**

by \_\_\_\_\_  
Name:

\_\_\_\_\_  
Name:

I/We have authority to bind the Corporation

**CF/TEC ACQUISITION LIMITED**

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-1**

**FORM OF AGREEMENT RE: AMENDMENT, AND FULL SURRENDER AND FULL  
TERMINATION, OF LEASE**

**THIS AGREEMENT** is dated the **X** day of **X**, 20**X**.

**B E T W E E N:**

**[INSERT NAME OF APPLICABLE  
LANDLORD]**  
(the "**Landlord**")

- and -

**SEARS CANADA INC.**  
(the "**Tenant**")

- and -

**[INSERT NAMES OF APPLICABLE  
OWNERS]**  
(the "**Owners**")

**WHEREAS** by a lease dated the **X** day of **X**, 20**X**, and made between the ■ **[insert name of Landlord]** 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 28th day of February, [2014/2015] **[Note: Insert as applicable]** (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 **[Note: Insert only for Sherway: ", including, without limitation, all rights and/or entitlements of the Tenant pursuant to the Sherway Consent Letter Agreement, other than in respect of the Nordstrom Consent Payment Obligations,"]** 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, including all Claims for amounts payable at any time in the past, present or future, and all Claims 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, including all Claims for amounts payable at any time in the past, present or future, and all Claims 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) Subject to Section 5(e), 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, including all Claims for amounts payable at any time in the past, present or future, and all Claims 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.

- (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, including all Claims for amounts payable at any time in the past, present or future, and all Claims 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.
- (e) The Tenant shall be responsible for all realty taxes payable pursuant to the Lease in respect of the period prior to the Surrender Date. The Landlord shall be responsible for all such realty taxes in respect of the period after the Surrender Date. On or prior to the Surrender Date, the Tenant shall pay to the Landlord: (i) all amounts, if any, owing and not yet paid under the Lease in respect of the 2013 **[and/or 2014]** calendar year[s] for realty taxes; and (ii) an amount equal to the realty taxes accrued and not yet paid pursuant to the Lease for the period between January 1, **[2014/2015]** and the Surrender Date. Upon receipt of the final tax bill(s) for the Premises (or, if applicable, the property of which the Premises form a part) for the periods referred to in this Section 5(e), the Landlord shall deliver to the Tenant a statement setting out the calculation of the taxes payable by the Tenant pursuant to the Lease based on such final tax bill(s). If: (A) the amount the Tenant has paid is less than the amounts due, the Tenant shall pay to the Landlord the amount of the underpayment; or (B) the amount paid by the Tenant is greater than the amounts due, the Landlord shall pay to the Tenant the amount



of the overpayment, in each case of (A) and (B) no later than 20 Business Days following the delivery of such statement. In this Agreement, "**Realty Tax Adjustments**" means the payments described in this Section 5(e).

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; provided that such obligation shall not include the obligation, and the Tenant shall not be required, to repair or restore any "shadowing" or discolouration as a result of the long-term installation of such items. The work described in this Section 5 shall be performed by the Tenant not later than the 30<sup>th</sup> 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 120<sup>th</sup> 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; (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); and (iii) all obligations by such Person to make the Realty Tax Adjustments, if any; **[Note: Insert the following only for Sherway: "and also includes, in respect of the Landlord, the Nordstrom Consent Payment Obligations"]**
- (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;
- (c) **"Master Agreement"** means the agreement entitled "Master Agreement for Surrender of Leases" and dated as of ■ between the Landlord, the Owners and the Tenant **[Note: add reference to all parties]**; and
- (d) **[Note: Insert the following only for Sherway: "(d) "Nordstrom Consent Payment Obligations" means the obligation of the Landlord to pay \$1,530,000 to the Tenant in the event a Nordstrom store is constructed, which payment shall be made in accordance with the provisions of the Sherway Consent Letter Agreement, and excludes every other obligation or liability arising from, or relating to, the Sherway Consent Letter Agreement;"]**
- (e) **"Realty Tax Adjustments"** has the meaning set out in Section 5(e).
- (f) **[Note: Insert the following only for Sherway: "(f) "Sherway Consent Letter Agreement" means the letter agreement dated January 10, 2010 between the Landlord and the Tenant, as amended pursuant to a letter agreement dated March 7, 2011 between the Landlord and the Tenant, and as further amended, supplemented or otherwise modified."]**

**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]**

**SCHEDULE A-2**

**FORM OF AGREEMENT RE: AMENDMENT, PARTIAL SURRENDER AND  
PARTIAL TERMINATION OF LEASE**

**THIS AGREEMENT** is dated the **X** day of **X**, 20**X**.

**B E T W E E N:**

**T.E.C. LEASEHOLDS LIMITED**  
(the "**Landlord**")

- and -

**SEARS CANADA INC.**  
(the "**Tenant**")

- and -

**ONTREA INC.,  
ONTREA/TEC ACQUISITION LIMITED, and  
CF/TEC ACQUISITION LIMITED**  
(the "**Owners**")

**WHEREAS** by a lease dated the 10th day of February, 1977, and made between the Landlord and the Tenant (or their respective predecessors in title) (such lease, as amended or supplemented prior to the date hereof, and together with all other lease documents, agreements and understandings between the Landlord and the Tenant (or their respective predecessors in title) in respect of the Shopping Centre entered into prior to the date hereof, whether written or oral, the "**Existing Lease**"), subject to and upon the terms, covenants and conditions contained in the Existing Lease, the Landlord leased and demised to the Tenant certain premises (the "**Existing Premises**") located in the Toronto Eaton Centre (the "**Shopping Centre**"), in the City of Toronto, in the Province of Ontario. The initial term of the Existing Lease commenced on February 11, 1977 and continued for thirty (30) years, at which time it was renewed for a period of ten (10) years. Such initial renewal term (the "**Current Term**") is continuing and shall expire on February 9, 2017, subject to the existing rights of renewal set out in the Existing Lease (the "**Renewal Rights**");

**AND WHEREAS** the Landlord, the Tenant and the Owners have agreed that the Current Term of the Existing Lease as it applies to all of the Surrendered Premises (but not the Office Premises) will automatically terminate and expire at 11:59 p.m. on the 28th day of February, 2014 (the "**Effective Time**"), and the Tenant will have no right to renew the Current Term in respect of the Surrendered Premises, and the Tenant shall surrender to the Landlord at the Effective Time all of the Surrendered Premises (but not the Office Premises);

**AND WHEREAS** from and including the Effective Time, the Tenant shall continue to lease the Office Premises pursuant to the Existing Lease, as amended pursuant to this Agreement, and subject to such other amendments to the Existing Lease which the Landlord and the Tenant have agreed are necessary or desirable as a result of the substantial reduction of the area of the Existing Premises and to reflect that the use of the continuing premises will be solely for office premises and not for mixed office and retail premises, such changes to take effect at the Effective Time;

**AND WHEREAS** the Landlord and the Tenant have agreed that for the purposes of clarity and convenience it is preferable to incorporate the amendments to the Existing Lease set out in this Agreement and to make such other amendments in and by way of an amendment and restatement of the Existing Lease and, accordingly, have agreed to enter into an amended and restated lease (the "**Amended and Restated Lease**") on the Execution Date, but subject to Section 14;

**AND WHEREAS** the Landlord and the Tenant have entered into the Amended and Restated Lease on the Execution Date;

**AND WHEREAS** the Amended and Restated Lease will not now, nor at the Effective Time, constitute a surrender and re-grant of the demise and lease of the Office Premises but rather, effective as of the Effective Time, constitutes an amendment and restatement of the terms and conditions applicable to the continuing demise and lease of the Office Premises, which demise and lease was made pursuant to Existing Lease.

**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 Existing Lease is hereby amended by deleting all Renewal Rights in favour of the Tenant as they apply to the Surrendered Premises only, and reducing the Current Term as it applies to the Surrendered Premises so that the Existing Lease as it applies to the Surrendered Premises (but not the Office Premises) will automatically terminate and expire at the Effective Time, and the Tenant hereby agrees that it shall surrender and deliver up vacant possession of the Surrendered Premises (but not the Office Premises), free and clear of all encumbrances and rights of third parties (other than the TEC Subleases and the rights of the Persons entitled to use, possess and/or occupy parts of the TEC Three Below Premises pursuant thereto), to the Landlord at the Effective Time 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 Existing

Lease. At the Effective Time, the Amended and Restated Lease, together with this Agreement, shall constitute the entire agreement between the Landlord and the Tenant with respect to the continuing demise and lease of the Office Premises from and including the Effective Time and supersedes all other lease documents, agreements and understandings between the Landlord and the Tenant, whether written or oral (including the Existing Lease), in respect of the continuing demise and lease of the Office Premises. Without limiting the generality of the foregoing, it is agreed that all options (including, without limitation, all options to extend or renew the Existing Lease as it applies to the Surrendered Premises), rights and/or entitlements under the Existing Lease or related thereto (whether personal or realty) and all rights of the Tenant or any of its affiliates in respect of the Surrendered Premises and the Shopping Centre, to the extent not provided for pursuant to the Amended and Restated Lease, shall terminate at the Effective Time.

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 Existing Lease as it applies to all or any portion of the Surrendered Premises (but not the Office Premises), the Surrendered Premises, or the Shopping Centre (excluding the Office Premises), including all Claims for amounts payable at any time in the past, present or future, and all Claims 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 Existing Lease as it applies to all or any portion of the Surrendered Premises (but not the Office Premises), the Surrendered Premises, or the Shopping Centre (excluding the Office Premises), including all Claims for amounts payable at any time in the past, present or future, and all Claims 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) Subject to Section 5(e), upon the partial termination of the Existing Lease and surrender of the Surrendered Premises, there shall be no adjustment in respect of rent or other amounts payable under the Existing Lease as it applies to all or any portion of the Surrendered Premises.
  - (b) At the Effective Time, 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 Existing Lease as it applies to all or any portion of the Surrendered Premises (but not the Office Premises), the Surrendered Premises, or the Shopping Centre (excluding the Office Premises), including all Claims for amounts payable at any time in the past, present or future, and all Claims 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 Effective Time, or otherwise exist as of the Effective Time, whether known, unknown, discoverable, latent, anticipated, asserted, contingent or actual, or liquidated or unliquidated.

- (c) At the Effective Time, 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 Existing Lease as it applies to all or any portion of the Surrendered Premises (but not the Office Premises), the Surrendered Premises, or the Shopping Centre (excluding the Office Premises), including all Claims for amounts payable at any time in the past, present or future, and all Claims 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 Effective Time, or otherwise exist as of the Effective Time, 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 Effective Time.
- (e) The Tenant shall be responsible for all realty taxes payable pursuant to the Existing Lease in respect of the period prior to the Surrender Date. The Landlord shall be responsible for all such realty taxes in respect of the period after the Surrender Date, but in respect of the Surrendered Premises only (and not in respect of the Office Premises). On or prior to the Surrender Date, the Tenant shall pay to the Landlord: (i) all amounts, if any, owing and not yet paid under the Existing Lease in respect of the 2013 **[and/or 2014]** calendar year[s] for realty taxes; and (ii) an amount equal to the realty taxes accrued and not yet paid pursuant to the Existing Lease for the period between January 1, **[2014/2015]** and the Surrender Date. Upon receipt of the final tax bill(s) for the Existing Premises (or, if applicable, the property of which the Existing Premises form a part) for the periods referred to in this Section 5(e), the Landlord shall deliver to the Tenant a



statement setting out the calculation of the taxes payable by the Tenant pursuant to the Existing Lease based on such final tax bill(s). If: (A) the amount the Tenant has paid is less than the amounts due, the Tenant shall pay to the Landlord the amount of the underpayment; or (B) the amount paid by the Tenant is greater than the amounts due, the Landlord shall pay to the Tenant the amount of the overpayment, in each case of (A) and (B) no later than 20 Business Days following the delivery of such statement. In this Agreement, "**Realty Tax Adjustments**" means the payments described in this Section 5(e).

6. Notwithstanding any provisions of the Master Agreement, the Existing Lease or this Agreement, but subject to the Tenant complying with the provisions of Section 7 hereof, the Landlord shall, at the Effective Time, accept the Surrendered 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 Existing 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 Surrendered 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 Surrendered Premises in accordance with Applicable Laws and in accordance with the requirements of the insurers of the Surrendered Premises and the Shopping Centre, respectively, and in a safe and reasonable manner; provided that in the case of destruction of the Surrendered 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 Surrendered 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 Existing 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 Surrendered Premises and other parts of the Shopping Centre, and the Tenant shall promptly repair at its expense any damage caused to the Surrendered 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; provided that such obligation shall not include the obligation, and the Tenant shall not be required, to repair or restore any "shadowing" or discolouration as a result of the long-term installation of such items. The work described in this Section 5 shall be performed by the Tenant not later than the 30<sup>th</sup> day after the Effective Time, and the Landlord agrees that it shall permit the Tenant and its contractors access to the Surrendered 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 Surrendered Premises up to and including the Effective Time in accordance with the terms of the Existing Lease. Notwithstanding the foregoing, for the

period commencing on the 120<sup>th</sup> day prior to the Effective Time and ending at the Effective Time the Tenant shall be permitted to conduct a liquidation sale at the Surrendered 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 Existing Premises for the purposes of such liquidation sale and that was not a part of the Tenant's inventory at the Existing 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 partially terminate the Existing Lease and surrender the Surrendered Premises in the manner aforesaid, and that, as of the date of this Agreement the Tenant has not (and as of the Effective Time, the Tenant shall not have) executed any other instruments, deeds or other documents pursuant to which the Existing 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 (other than pursuant to the TEC Subleases).
10. The Landlord and the Owners jointly and severally covenant and agree that they have the right, full power and authority to accept the partial termination of the Existing Lease and surrender of the Surrendered Premises in the manner aforesaid.
11. The Tenant shall, at its expense, promptly execute such further documentation with respect to the Surrendered Premises and the Existing 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 Existing 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 Existing Lease. In the event of any conflict or inconsistency between the provisions of this Agreement and the provisions of the Existing Lease then, notwithstanding anything contained in the Existing 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 Surrendered Premises (subject to the TEC Subleases) to the Landlord on or before the Effective Time 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 (subject to the TEC Subleases), 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

Surrendered 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. During the Interim Period the rights and obligations of the Landlord and Tenant in respect of the Office Premises shall be governed by the Existing Lease, as amended by this Agreement. For the period from and including the Effective Time until the expiry of the Term all of such rights and obligations shall be governed by the Amended and Restated Lease. The provisions of the Amended and Restated Lease shall come into full force and effect at the Effective Time (automatically and without the requirement of any further documentation and notwithstanding any intervening event or circumstances, whether seen or unforeseen). Notwithstanding the foregoing sentence, the foregoing provisions of this Section 14 shall be in full force and effect as of the Execution Date.
15. 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.
16. 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; (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); (iii) all obligations and liabilities of such Person the Amended and Restated Lease; and (iv) all obligations by such Person to make the Realty Tax Adjustments, if any;
  - (b) "**Interim Period Obligations**" means all obligations and liabilities of the Landlord and the Tenant under or in respect of the Existing Lease, the Existing 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;
  - (c) "**Office Premises**" has the meaning set out in the Amended and Restated Lease;
  - (d) "**Surrendered Premises**" means all of the Existing Premises, except the Office Premises;

(e) "Master Agreement" means the agreement entitled "Master Agreement for Surrender of Leases" and dated as of ■ between the Landlord, the Owners and the Tenant [Note: add reference to all parties]; and

(f) "Realty Tax Adjustments" has the meaning set out in Section 5(e).

IN WITNESS WHEREOF the parties hereto have duly executed this Agreement as of the day and year first above written.

**T.E.C. LEASEHOLDS LIMITED**

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.

**ONTREA INC.**

by \_\_\_\_\_  
Name:  
Title:

\_\_\_\_\_  
Name:  
Title:

I/We have authority to bind the corporation.

**ONTREA/TEC ACQUISITION  
LIMITED**

by

\_\_\_\_\_  
Name:

Title:

\_\_\_\_\_  
Name:

Title:

I/We have authority to bind the corporation.

**CF/TEC ACQUISITION LIMITED**

by

\_\_\_\_\_  
Name:

Title:

\_\_\_\_\_  
Name:

Title:

I/We have authority to bind the corporation.

**SCHEDULE A-3**

**FORM OF AGREEMENT  
RE: AMENDMENT,  
FULL SURRENDER AND FULL TERMINATION,  
OF LEASE - RICHMOND SEARS LEASE**

**THIS AGREEMENT** is dated the **X** day of **X**, 20**X**.

**B E T W E E N:**

**7904185 CANADA INC. and ONTREA INC.**  
(the "**Landlord**")

- and -

**SEARS CANADA INC.**  
(the "**Tenant**")

- and -

**IVANHOE CAMBRIDGE II INC. and  
ONTREA INC.**  
(the "**Owners**")

**WHEREAS** by a lease dated the **X** day of **X**, 20**X**, and made between the ■ **[insert name of Landlord]** 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;

**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 28th day of February, 2015 (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, the Richmond Master 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, including all Claims for amounts payable at any time in the past, present or future, and all Claims 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 the Realty Tax Adjustments, 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, including all Claims for amounts payable at any time in the past, present or future, and all Claims 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) Subject to Section 5(e), 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 the Realty Tax Adjustments, 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, including all Claims for amounts payable at any time in the past, present or future, and all Claims 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.

- (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, including all Claims for amounts payable at any time in the past, present or future, and all Claims 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.
- (e) The Tenant shall be responsible for all realty taxes payable pursuant to the Lease in respect of the period prior to the Surrender Date. The Landlord shall be responsible for all such realty taxes in respect of the period after the Surrender Date. On or prior to the Surrender Date, the Tenant shall pay to the Landlord: (i) all amounts, if any, owing and not yet paid under the Lease in respect of the 2013 and/or 2014 calendar years for realty taxes; and (ii) an amount equal to the realty taxes accrued and not yet paid pursuant to the Lease for the period between January 1, 2015 and the Surrender Date. Upon receipt of the final tax bill(s) for the Premises (or, if applicable, the property of which the Premises form a part) for the periods referred to in this Section 5(e), the Landlord shall deliver to the Tenant a statement setting out the calculation of the taxes payable by the Tenant pursuant to the Lease based on such final tax bill(s). If: (A) the amount the Tenant has paid is less than the amounts due, the Tenant shall pay to the Landlord the amount of the underpayment; or (B) the amount paid by the Tenant is greater than the amounts due, the Landlord shall pay to the Tenant the amount of the overpayment, in each case of (A) and (B) no later than 20 business days following the delivery of such statement. In this Agreement, "**Realty Tax Adjustments**" means the payments described in this Section 5(e).



6. Notwithstanding any provisions of the Master Agreement, the Richmond 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; provided that such obligation shall not include the obligation, and the Tenant shall not be required, to repair or restore any "shadowing" or discolouration as a result of the long-term installation of such items. The work described in this Section 5 shall be performed by the Tenant not later than the 30<sup>th</sup> 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 120<sup>th</sup> 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) "**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;
- (b) "**CF Party**" means Ontrea Inc.;
- (c) "**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;
- (d) "**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; (ii) all representations and warranties made by such Person in the Master Agreement and/or the Richmond Master Agreement (as applicable) and all other obligations and liabilities of such Person under any provisions of the Master Agreement and/or the Richmond Master Agreement (as applicable) which are expressly stated in the Master Agreement and/or the Richmond Master Agreement (as applicable) to survive the Closing (as such term is defined in the Master Agreement); and (iii) all obligations by such Person to make the Realty Tax Adjustments, if any;
- (e) "**Execution Date**" means ■; [Note: Insert date that Master Agreement is executed.]
- (f) "**IC Parties**" means Ivanhoe Cambridge II Inc. and 7904185 Canada Inc.;
- (g) "**Interim Period**" means the period commencing on the Execution Date and ending on the Surrender Date;
- (h) "**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
- (i) "**Master Agreement**" means the agreement entitled "Master Agreement for Surrender of Leases" and dated as of ■ between the CF Party and the Tenant [Note: add reference to all parties];
- (j) "**Realty Tax Adjustments**" has the meaning set out in Section 5(e);

(k) **"Richmond Master Agreement"** means the agreement entitled "Agreement Re: Surrender and Termination of Sears Lease at Richmond Centre" and dated as of ■ between the Landlord, the Owners and the Tenant; and

(l) **"Surrender Date"** has the meaning set out in Section 2.

**IN WITNESS WHEREOF** the parties hereto have duly executed this Agreement as of the day and year first above written.

**7904185 CANADA INC.**

by \_\_\_\_\_  
Name:  
Title:

\_\_\_\_\_  
Name:  
Title:

I/We have authority to bind the corporation.

**ONTREA INC.**

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.

**IVANHOE CAMBRIDGE II INC.**

by \_\_\_\_\_

Name:

Title:

\_\_\_\_\_  
Name:

Title:

I/We have authority to bind the corporation.

**ONTREA INC.**

by \_\_\_\_\_

Name:

Title:

\_\_\_\_\_  
Name:

Title:

I/We have authority to bind the corporation.

SCHEDULE B

FORM OF HST/GST UNDERTAKING AND INDEMNITY

TO: SEARS CANADA INC. (the "Tenant")

RE: Agreement Re: Amendment and [Full/Partial] 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 Richmond only, add "it collects and remits HST/GST as "operator" for Ontrea Inc. (50%) and Ivanhoe Cambridge II Inc. (50%) 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 Richmond only, add "other than Ontrea Inc. and Ivanhoe Cambridge II 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 Richmond only, add ", on behalf of Ontrea Inc. and Ivanhoe Cambridge II 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 ■, ■.

**[INSERT THE NAME OF THE  
DECLARANT]**

by \_\_\_\_\_

Name:

Title:

\_\_\_\_\_  
Name:

Title:

I/We have authority to bind the Corporation



**TAB 35**

**MINUTES** of the telephone meeting of the Board of Directors of **SEARS CANADA INC.** (the "Corporation") held on Monday, October 28, 2013 at 5:00 p.m., Eastern time.

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## **P R E S E N T**

W. C. Crowley (Ch.)  
E. J. Bird (in person)  
W. R. Harker  
R. R. Khanna  
J. McBurney  
D. Campbell (in person)  
D. E. Rosati  
D. Ross

## **MANAGEMENT** (in person)

K. Leshnjani  
*EVP, CAO and General Counsel*  
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 – FIVE 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 Cadillac Fairview Corporation ("CF") for the lease terminations as set out in the resolution below in consideration of CF paying to the Corporation the sum of four hundred million dollars (\$400,000,000).

Following discussion, the Board approved of the negotiated terms of the agreement with CF as presented by Management.

The Board passed the following resolution:

**WHEREAS** the Corporation is a tenant pursuant to leases in the following locations:

- Toronto Eaton Centre, Toronto, Ontario
- Sherway Gardens, Toronto, Ontario
- Markville Shopping Centre, Markham, Ontario
- Maisonville Place, London, Ontario
- Richmond Centre, Richmond, B.C.

(the locations are collectively referred to as the "Locations" and the leases are collectively referred to as the "Leases");

**WHEREAS** 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, except for the office space at the Toronto Eaton Centre (collectively, the "Lease Terminations");

**WHEREAS** the Corporation has negotiated the terms of an agreement with CF for the Lease Terminations, in consideration of CF paying to the Corporation the sum of four hundred million dollars (\$400,000,000);

**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; and

**WHEREAS** the Board considers it in the best interest of the Corporation to approve the Lease Terminations, in accordance with the terms as presented by Management.

**BE IT RESOLVED:**

**THAT** the Lease Terminations be approved and that the Corporation be authorized to surrender its interest in the Locations to CF in consideration of CF paying to the Corporation the sum of four hundred million dollars (\$400,000,000); 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 Lease Terminations 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

\_\_\_\_\_  
Secretary of the Meeting

\_\_\_\_\_  
Date

**TAB 36**

## Westcliff and Sears 50/50 Joint Venture, Quebec

**Situation:** Sears owns a 50% non-managing interest in eight properties including four regional shopping centers located in Quebec Canada. The JV partnership was founded with Westcliff in 1974 and was expanded over fourteen years to include the following centers: Carrefour De Nord, Carrefour Richelieu, Carrefour Angrignon, and Drummondville. Today, Sears receives approximately \$20.5MM annual net operating income (NOI) from the JV partnership. Additionally, Sears operates four full line stores in these centers.

**Opportunity:** Sears marketed the sale of its 50% JV interest. Following an extensive marketing process led by CBRE, Sears received an offer from Montez Income Properties Corporation, an investment manager representing a group of pension funds, to purchase Sears 50% JV interest for \$315,384,615. There were no other serious candidates for this co-owner, non manager position. The Montez offer represents a 6.5% cap rate on an NOI of \$20.5MM. The offer is subject to satisfaction of due diligence including: condition of properties and verification of income. The offer has been negotiated as the floor purchase price, however if additional income is found from due diligence, the 6.5% cap rate would apply to the \$20.5MM income plus any incremental. The target closing date is January 8<sup>th</sup>, 2014. There will be a true up of JV working capital on the closing of the transaction.

**Sears Full Line Stores:** The Full Line stores will continue to operate in these centers. The leases have been revised to account for Sears Canada being an anchor tenant and not a co-owner (i.e. not an owner with control rights over the entire shopping center, but being reduced to control rights at the Sears end of the shopping center).

Full Line Stores	SQ. FEET (GLA)	SQ. FEET (Selling)	Occupancy /sq.ft.	Final Expiry	2012 Sales Actuals	3 Yr CAGR	2012 Four-wall EBITDA	2012 Fully Burdened EBITDA
001035-ST JEROME	122,487	88,489	\$ 4.28	Jan 7th, 2114	\$ 25,466,933	-3.6%	\$ 4,615,185	\$ 1,298,865
001096-LASALLE	133,003	85,068	\$ 9.20	Aug 12th, 2116	\$ 22,793,960	-4.9%	\$ 3,660,776	\$ 813,999
001037-ST. JEAN	90,889	54,489	\$ 4.26	Jan 7th, 2114	\$ 15,083,206	-5.2%	\$ 2,668,355	\$ 1,021,595
001383-DRUMMONDVILLE	66,176	44,677	\$ 7.36	Aug 22nd, 2089	\$ 8,751,941	-4.5%	\$ 992,506	\$ 181,699

### Tax Implications:

Net Cash Flows	Land	Building	Total
Proceeds	66,364,050	248,635,950	315,000,000
Less: income tax payable	(7,571,977)	(38,360,955)	(45,932,932)
transaction cost	(316,019)	(1,183,981)	(1,500,000)
Net Cash	58,476,054	209,091,014	267,567,068

On the closing of the transaction, 50% of the amount of the outstanding mortgages of the JV (50% = approx. \$16,250,000) will be deducted from the proceeds.

**Market Conditions and Observations:** The current Canadian real estate market is very active with many large pension funds under pressure to find commercial real estate investment opportunities. High demand for large assets and historically low interest rates continue to fuel sales activity. The Pension funds and REITS favor purchasing 100% interests in commercial real estate investments. There are fewer buyers in the Market for 50% interests, especially non-managing interests, as fees are an important driver of revenue and return on investment.

**Conclusion:** The purchase price of approximately \$315MM represents a fair market value for these Sears non-core real estate assets. There are likely few buyers for these properties as they are unique in that they are located only in Quebec, are a 50% interest ownership, and are a non-managing interest.

**Recommendation:** Management recommends proceeding with the sale of the JV assets.

**TAB 37**

**From:** [Bill Crowley](#)  
**To:** [Raja Khanna](#)  
**Cc:** [Doug Campbell](#); [Donald Ross](#); [Curtis Sebro](#); [deborah@shantiliving.ca](#); [Ephraim Bird \(E.J.\)](#); [Franco Perugini](#); [Jim McBurney](#); [Leshnjani Klaudio](#); [Stephen Champion](#); [Bill Harker](#)  
**Subject:** Re: Sale of 50% Joint Venture Interest - Materials  
**Date:** 11/08/2013 06:07 PM

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sorry, just got this.

so we are unanimous.

On Nov 8, 2013, at 6:05 PM, Raja Khanna <[raja.khanna@blueantmedia.ca](mailto:raja.khanna@blueantmedia.ca)> wrote:

I agree and approve as well.

Sent from my mobile:  
+1-416-902-7420

Office:  
+1-416-440-7224

On Nov 8, 2013, at 5:04 PM, "Doug Campbell"  
<[Doug.Campbell@sears.ca](mailto:Doug.Campbell@sears.ca)> wrote:

I agree and approve

**Doug Campbell**  
**President & CEO**  
**Sears Canada Inc.**  
290 Yonge Street, Suite 700 | Toronto, ON | M5B 2C3  
T: 416.941.2851 | C: 416.708.8067 | E: [doug.campbell@sears.ca](mailto:doug.campbell@sears.ca)  
<mime-attachment.gif>  
MAKE EVERY DAY A GREAT DAY  
**Executive Assistant: Amie Anderson**  
T: 416.941.4401 | C: 416.578.1126 | E: [amie.anderson@sears.ca](mailto:amie.anderson@sears.ca)

From: "Ross, Donald C" <[dross@cov.com](mailto:dross@cov.com)>  
To: [Bill Crowley](#) <[wcc@ASHECAP.COM](mailto:wcc@ASHECAP.COM)>, [Franco Perugini](#) <[Franco.Perugini@sears.ca](mailto:Franco.Perugini@sears.ca)>  
Cc: "[deborah@shantiliving.ca](mailto:deborah@shantiliving.ca)" <[deborah@shantiliving.ca](mailto:deborah@shantiliving.ca)>, [Doug Campbell](#) <[Doug.Campbell@sears.ca](mailto:Doug.Campbell@sears.ca)>, "[Ephraim Bird \(E.J.\)](#)" <[ej.bird@sears.ca](mailto:ej.bird@sears.ca)>, [Jim McBurney](#) <[jas.mcburney@gmail.com](mailto:jas.mcburney@gmail.com)>, [Leshnjani Klaudio](#) <[Klaudio.Leshnjani@sears.ca](mailto:Klaudio.Leshnjani@sears.ca)>, [Raja Khanna](#) <[raja.khanna@blueantmedia.ca](mailto:raja.khanna@blueantmedia.ca)>, [Stephen Champion](#) <[schampi@sears.ca](mailto:schampi@sears.ca)>, [Bill Harker](#) <[wrh@HARKERGROUPLLC.COM](mailto:wrh@HARKERGROUPLLC.COM)>, [Curtis Sebro](#) <[csebro@sears.ca](mailto:csebro@sears.ca)>  
Date: 11/08/2013 05:00 PM  
Subject: RE: Sale of 50% Joint Venture Interest - Materials

---



I approve of the transaction and the revised press release, noting that the deal is subject to conditions and that there can be no assurance that closing will occur. I also agree that we should not talk about use of proceeds in the press release until we have discussed the subject.

Don

**From:** Bill Crowley [<mailto:wcc@ASHECAP.COM>]  
**Sent:** Friday, November 08, 2013 4:10 PM  
**To:** Franco Perugini  
**Cc:** [deborah@shantiliving.ca](mailto:deborah@shantiliving.ca); Doug Campbell; Ross, Donald C; Ephraim Bird (E.J.); Jim McBurney; Leshnjani Klaudio; Raja Khanna; Stephen Champion; Bill Harker; Curtis Sebro  
**Subject:** Re: Sale of 50% Joint Venture Interest - Materials

I am OK with the deal and approve.

I suggest we say less in the release. Remove the following:

The proceeds from this sale and other recently announced transactions will increase the Company's cash position and allow us to strategically drive growth in these areas of primary focus. The Company will consider the needs of the business and shareholders in determining effective uses of its cash on hand

I do not want to imply that we plan to spend or need to spend this money to drive growth.

I think we should be silent and then address after our board meeting in our earnings release.

On Nov 8, 2013, at 4:02 PM, Franco Perugini  
<[Franco.Perugini@sears.ca](mailto:Franco.Perugini@sears.ca)> wrote:

Attached are the materials regarding the sale of Sears 50% real estate joint venture interest in Quebec. The sale agreement, included in the materials has been settled.

One of the final issues involves the nominee corporate structure that holds one of the strip malls. The purchaser, Montez is comfortable enough with the structure to proceed with the sale agreement, but wants a further week to confirm that the structure is acceptable to them. This has been added as a due diligence condition to be satisfied by the end of next week.

Please review the materials and advise if you have any questions. Please indicate your approval by return email, or if any director would prefer to have a meeting, one can be arranged for this evening.

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

From: Bill Crowley <[wcc@ASHECAP.COM](mailto:wcc@ASHECAP.COM)>  
To: Franco Perugini <[Franco.Perugini@sears.ca](mailto:Franco.Perugini@sears.ca)>  
Cc: Jim McBurney <[jas.mcburney@gmail.com](mailto:jas.mcburney@gmail.com)>, "deborah@shantiliving.ca" <[deborah@shantiliving.ca](mailto:deborah@shantiliving.ca)>, Donald Ross <[dross@cov.com](mailto:dross@cov.com)>, Bill Harker <[wrh@HARKERGROUPLLC.COM](mailto:wrh@HARKERGROUPLLC.COM)>, Raja Khanna <[raja.khanna@blueantmedia.ca](mailto:raja.khanna@blueantmedia.ca)>, "Ephraim Bird (E.J.)" <[ej.bird@sears.ca](mailto:ej.bird@sears.ca)>, Doug Campbell <[Doug.Campbell@sears.ca](mailto:Doug.Campbell@sears.ca)>, Leshnjani Klaudio <[Klaudio.Leshnjani@sears.ca](mailto:Klaudio.Leshnjani@sears.ca)>, Stephen Champion <[schampi@sears.ca](mailto:schampi@sears.ca)>, Curtis Sebro <[csebro@sears.ca](mailto:csebro@sears.ca)>  
Date: 11/08/2013 09:11 AM  
Subject: Re: Notice of Telephone Board Meeting - November 12, 2013 4:30 p.m. Eastern time

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Directors,

This is the transaction that we have discussed several times this year. I know Franco is having difficulty getting the Board all together. There is a good chance that the deal is ready to approve and sign this weekend. I am going to ask Franco to provide a summary of the deal today to the directors and determine if there are any questions. I would ask him to include the draft document (and a summary of the key terms, provided that does not take long). Please call or email Franco with any questions.

If we have docs ready to execute by end of business today, and assuming that we are comfortable with the deal, I would ask you to be available for a quick call this evening (note any times that do not work) or to approve by Unanimous Written Consent.

This is a big deal and I want to be able to announce as soon after the documents are ready as reasonable, certainly by Monday open of the markets.

We will have to discuss use of proceeds at our up coming board

**1375**

meeting.

Thanks for your cooperation

Bill

On Nov 8, 2013, at 8:11 AM, Franco Perugini  
<[Franco.Perugini@sears.ca](mailto:Franco.Perugini@sears.ca)> wrote:

**TO: THE BOARD OF DIRECTORS OF SEARS CANADA INC.**

**RE: NOTICE OF TELEPHONE BOARD MEETING**

A telephone meeting of the Board of Directors of Sears Canada Inc. will be held on November 12, 2013, at 4:30 p.m. Eastern time, for an update and possible approval of the sale of Sears 50% real estate joint venture interest in Quebec.

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**

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

**William C. Crowley**  
**Àshe Capital Management, LLC**  
[wcc@ashecap.com](mailto:wcc@ashecap.com)  
**646-450-4402**

<MEETING MATERIALS.pdf>

**William C. Crowley**  
Àshe Capital Management, LLC  
*wcc@ashecap.com*  
**646-450-4402**

<ATT00001.gif>

**William C. Crowley**  
Àshe Capital Management, LLC  
*wcc@ashecap.com*  
**646-450-4402**

**TAB 38**

**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 18, 2013 at 4:00 p.m., Eastern time, and Tuesday, November 19,  
2013 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.)

William R. Harker

Doug Campbell

R. Raja Khanna

James McBurney

Ron Weissman

Deborah Rosati

Don Ross

**MANAGEMENT**

E.J. Bird

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 18, 2013 at 4:00 p.m., Eastern time, and Tuesday, November 19, 2013 at 8:00 a.m., Eastern time

**Monday, November 18, 2013**

<b>TAB</b>	<b>TIME</b>	<b>AGENDA</b>	<b>PRESENTER</b>
1	4:00	Call to Order/Roll Call	W. C. Crowley
2	4:05	<p><b>Reports</b> by the Chairmen of the following Committees on meetings held on November 14 and 18, 2013:</p> <ul style="list-style-type: none"> <li>• Investment</li> <li>• Nominating and Corporate Governance</li> <li>• Human Resources and Compensation</li> <li>• Audit</li> </ul>	<p>W. R. Harker R. Khanna W. R. Harker D. Rosati</p>
3	4:10	Consent Agenda	F. Perugini
4*	---	<p><b>Resolution</b> approving the Minutes of the meetings of the Board of Directors of the Corporation held on April 24-25, 2013, April 29, 2013, May 21, 2013, June 13, 2013, July 16, 2013, September 23, 2013, October 11, 2013 and October 28, 2013, and acknowledgement of Resolutions in Lieu of meetings as follows:</p> <ul style="list-style-type: none"> <li>• May 2, 2013 – Don Ross re Lead Director and Audit Committee</li> <li>• May 13, 2013 – E.J. Bird, EVP &amp; CFO</li> <li>• May 13, 2013 – Peter Kalen</li> <li>• June 3, 2013 - 2013 First Quarter MD&amp;A</li> <li>• September 4, 2013 - 2013 Second Quarter MD&amp;A</li> <li>• November 18, 2013 – Ron Weissman, new Director</li> </ul>	
5*	---	<p>Review of the following Charters and <b>Resolution</b> approving the Amended and Restated Audit Committee Charter:</p> <ul style="list-style-type: none"> <li>• Audit</li> <li>• Human Resources and Compensation</li> <li>• Investment</li> <li>• Nominating and Corporate Governance</li> </ul>	F. Perugini
6*	---	<p><b>Resolution</b> approving the date of the 2014 Annual Meeting of Shareholders and report on the Board and Committee meeting dates for 2014</p>	
7*	---	<p><b>Resolution</b> appointing Mr. William R. Harker as Vice Chairman of the Board of Directors of the Corporation</p>	
8	4:15	<p>Other business [for information only]</p> <ul style="list-style-type: none"> <li>• Analyst Reports</li> <li>• SCI Top twenty Registered Shareholders list and CDS participant list</li> <li>• Trading Volume</li> </ul>	
9	4:15	Management Priorities/Asset Valuation	<p>E.J. Bird D. Campbell</p>

Tuesday, November 19, 2013

10	8:00	Merchandising Value <ul style="list-style-type: none"> <li>• Category performance review</li> <li>• Retail 101</li> <li>• Simplified Value Proposition</li> </ul>	D. Campbell
11	10:00	Peter J. Solomon Company Presentation	P. Solomon
12	11:00	Operating Efficiency: Horizon Update	D. Campbell
13	11:30	2014 Plan <ul style="list-style-type: none"> <li>• Financial plan</li> <li>• Operating plans</li> </ul>	E.J. Bird D. Campbell
14	1:15	Wrap-Up	D. Campbell
15	1:20	<i>In-camera</i> Session <ul style="list-style-type: none"> <li>• Members only</li> <li>• Independent Members only</li> </ul>	

\* Consent Agenda items



1. Call to Order/Roll Call
-

2. **Reports** by the Chairmen of the following Committees on meetings held on November 14 and 18, 2013, respectively:

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- Investment
- Nominating and Corporate Governance
- Human Resources and Compensation
- Audit

3. Consent Agenda

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**1384**  
**SEARS CANADA INC**  
**BOARD OF DIRECTORS' MEETING**  
**NOVEMBER 18 & 19, 2013**

**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](mailto: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)
4	Approval of Minutes and RILs	<p><b>Resolution</b> approving the Minutes of the meetings of the Board of Directors of the Corporation held on April 24-25, 2013, April 29, 2013, May 21, 2013, June 13, 2013, July 16, 2013, September 23, 2013, October 11, 2013 and October 28, 2013, and acknowledgement of Resolutions in Lieu of meetings as follows:</p> <ul style="list-style-type: none"> <li>• May 2, 2013 – Don Ross re Lead Director and Audit Committee</li> <li>• May 13, 2013 – E.J. Bird, EVP &amp; CFO</li> <li>• May 13, 2013 – Peter Kalen</li> <li>• June 3, 2013 - 2013 First Quarter MD&amp;A</li> <li>• September 4, 2013 - 2013 Second Quarter MD&amp;A</li> <li>• November 18, 2013 – Ron Weissman, new Director</li> </ul>	
5	Approval of amended Charter	<p>Review of the following Charters and <b>Resolution</b> approving the Amended and Restated Audit Committee Charter:</p> <ul style="list-style-type: none"> <li>• Audit</li> <li>• Human Resources and Compensation</li> <li>• Investment</li> <li>• Nominating and Corporate Governance</li> </ul>	
6	Approval of the date of the 2014 AGM and other Meeting dates	<p><b>Resolution</b> approving the date of the 2014 Annual Meeting of Shareholders and report on the Board and Committee Meeting dates for 2014.</p>	

**1385**

7	Approval of the appointment of the Vice Chairman	<b><u>Resolution</u></b> appointing Mr. William R. Harker as Vice Chairman of the Board of Directors of the Corporation	
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4. **Resolution** approving the Minutes of the meetings of the Board of Directors of the Corporation held on April 24-25, 2013, April 29, 2013, May 21, 2013, June 13, 2013, July 16, 2013, September 23, 2013, October 11, 2013 and October 28, 2013, and acknowledgement of Resolutions in Lieu of meetings
- 

**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 24-25, 2013, April 29, 2013, May 21, 2013, June 13, 2013, July 16, 2013, September 23, 2013, October 11, 2013 and October 28, 2013, be approved.

The Board acknowledged the signing of Resolutions in Lieu of meeting as follows:

- May 2, 2013 – Don Ross re Lead Director and Audit Committee
- May 13, 2013 – E.J. Bird, EVP & CFO
- May 13, 2013 – Peter Kalen
- June 3, 2013 - 2013 First Quarter MD&A
- September 4, 2013 - 2013 Second Quarter MD&A
- November 18, 2013 – Ron Weissman, new Director

**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 Wednesday, April 24, 2013 at 5:00 p.m., Eastern time and continued on Thursday, April 25, 2013 at 9:00 a.m., Eastern time

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**PRESENT**

W. C. Crowley (Ch.)  
E. J. Bird (via telephone)  
D. Ross  
W. R. Harker  
R. R. Khanna  
J. McBurney  
C. McDonald  
D. E. Rosati

**MANAGEMENT**

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.

**TRADING & TRANSFORMATION UPDATE**

2. Mr. Calvin McDonald, President and Chief Executive Officer, provided an update on the Corporation's Trading and Transformation. Mr. McDonald reviewed the March accomplishments, including improved performance in Apparel and Accessories, increase in internet sales, positive changes in brand perception and winning events. Mr. McDonald reported that Big Ticket sales declined in March. The Corporation's EBITDA for March increased \$3.3 million as compared to last year due to management of costs. The Corporation's profitability has improved year-to-date as compared to last year.

Mr. McDonald discussed the ongoing focus for the first quarter including volume, rate and cost. For the remaining quarters of 2013, the Corporation will be event focused. Mr. McDonald also discussed a number of initiatives that are already in place for 2014. The 10 for '13 transformation progress to date was also presented.

**NORMAL COURSE ISSUER BID DISCUSSION**

3. An update on the Normal Course Issuer Bid ("NCIB") was provided to the Board of Directors and it was decided to defer the NCIB discussion until May, 2013.

**MINUTES**

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

**THAT** the Minutes of the meeting held on Thursday, March 14, 2013, be approved.

**APPOINTMENT OF CHAIR OF THE BOARD OF DIRECTORS**

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.

**DISCUSSION AND APPOINTMENT OF CHAIR OF THE AUDIT COMMITTEE**

6. **WHEREAS** E.J. Bird tendered his resignation as the Chair of the Audit Committee of the Corporation, effective March 12, 2013;

**WHEREAS** members of the Nominating and Corporate Governance Committee of the Corporation (“NCGC”) had discussions regarding the potential appointment of Deborah Rosati as the Chair of the Audit Committee of the Corporation; and

**WHEREAS** on the recommendation of the NCGC, the Board of Directors of the Corporation is satisfied that it would be appropriate to appoint Deborah Rosati as the Chair of the Audit Committee of the Corporation.

**ON MOTION**, duly made and seconded, Deborah Rosati having abstained from voting, it was unanimously resolved:

**THAT** Deborah Rosati be appointed as Chair of the Audit Committee of the Corporation and to hold such office until her successor is duly appointed.

**APPOINTMENT OF COMMITTEE MEMBERS**

7. **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; and
- (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.

**HUMAN RESOURCES  
and  
COMPENSATION**

W. R. Harker **(Ch.)**  
W.C. Crowley  
D. Ross  
D. E. Rosati

(F. Perugini - Secretary)

**AUDIT**

D. E. Rosati **(Ch.)**  
J. McBurney  
R. R. Khanna

(F. Perugini - Secretary)

**NOMINATING and  
CORPORATE  
GOVERNANCE**

R. R. Khanna **(Ch.)**  
J. McBurney  
D. E. Rosati  
D. Ross

(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  
W. C. Crowley

(F. Perugini - Secretary)

Following up on discussions had by members of the NCGC, the Board discussed whether Don Ross could be considered an independent director, allowing for his appointment as Lead Director and as a member of the Audit Committee. The Board agreed that upon confirmation by external legal counsel that Don Ross may be considered independent, that a resolution in lieu of meeting be circulated to the Board for approval to confirm that he be considered an independent director and to approve his appointment as the Lead Director and as a member of the Audit Committee.

**DIRECTOR COMPENSATION**

8. Mr. Raja Khanna, Chair of the Nominating and Corporate Governance Committee ("NCGC"), provided an update and review on the Directors compensation policy. The last formal review of compensation was completed by the NCGC in 2010. In order to provide Directors with a competitive total remuneration package and attract and retain talented Directors, the NCGC recommended the following:

- Increase Lead Director retainer from \$25,000 to \$35,000
- Increase annual retainer for each Director from \$60,000 to \$100,000
- Increase retainers for Committee Chair for Human Resources and Compensation Committee ("HRCC"), NCGC and Investment Committee from \$5,000 to \$10,000

Although the annual compensation for the Chairman is below market median, the Chairman declined to discuss an adjustment to the Chairman's compensation.

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

**THAT** the annual retainer paid to each Director be fixed at \$100,000, payable in equal quarterly installments;

**THAT** the annual retainer paid to the Committee Chair for the HRCC, NCGC and Investment Committee shall be \$10,000 each, payable in equal quarterly installments;

**THAT** the annual retainer for the Lead Director be fixed at \$35,000, payable in equal quarterly installments; and

**THAT** the balance of the director fee and compensation schedule remain unchanged.

**HOME AND DEALER STORES**

9. Mr. McDonald provided a Home Channel update, which included home store financials and a discussion on the opportunity to fill a void in the competitive landscape. Mr. McDonald also presented the three-prong approach to capturing full potential in home stores, which included operational, merchandising and online improvements.

A presentation on the Hometown Dealer Strategy was provided, including a financial overview, potential of the Dealer Channel, operational fixes and real estate opportunities.

**WINNING AND COMMODITIES... 'SHOPS OF BRANDS VS BRANDED SHOPS'**

10. Mr. McDonald discussed the trading strategy and what the Corporation is doing differently to win in the market. Two different approaches to drive growth were discussed, including 'Shops of brands' rather than 'Branded shops' and aligning style. There are three style profiles: traditional, updated and contemporary. The direction from the Board was to test the 'Shops of brands' approach in a few stores, or in a region, or with a few commodities.

**REBUILDING OUR BRAND**

11. Mr. Jerome Peeters, Senior Vice-President, Marketing, provided a presentation on the marketing strategy and an update on initiatives, including the TV campaign, LOOK! report, and flyer changes. Mr. Peeters indicated that spending in D2C campaigns is increasing to drive personalized communications with key demographics.

**GETTING OUR RHYTHM**

12. Mr. McDonald presented on the retail rhythm of the Corporation, including a master calendar overview, retail industry best practices, where the Corporation is today, established retail rhythm for 2014 and fast start ideas for 2014.

**SLH UPDATE**

13. Mr. McDonald provided a presentation on SLH, including an overview and the rationale for a possible sale. The process to date and offer assessment was also discussed. The next steps are to continue negotiations and to present any negotiated transaction to the Board of Directors for approval.

**REAL ESTATE UPDATE**

14. Mr. Stephen Champion, Vice-President, Real Estate, provided an update on real estate, which included development opportunities, potential full line dispositions and a listing for sale of a joint venture interest.

**OTHER BUSINESS**

15. The following material was provided to the Board for reference only:
- SCI Top twenty registered shareholders list and CDS participant list
  - Trading Volume

**IN-CAMERA SESSION**

16. 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

**MINUTES** of the telephone meeting of the Board of Directors of **SEARS CANADA INC.** (the "Corporation") held on Monday, April 29, 2013 at 5:00 p.m., Eastern time.

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**P R E S E N T**

W. C. Crowley (Ch.) (in person)  
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  
*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.

**REAL ESTATE UPDATE**

2. Mr. Calvin McDonald, President and Chief Executive Officer, gave a presentation to the Board with respect to negotiations with Oxford Properties Group's ("Oxford") regarding the sale of the Yorkdale Shopping Centre, Square One Shopping Centre and Scarborough Town Centre leases for potentially \$192 million dollars including a \$1 million dollar option on the Scarborough Town Centre lease. Mr. McDonald's presentation included ranking of the stores, accounting implications, store details/2012 performance, effect on the balance of the business and other considerations.

Following discussion, the Board agreed that the Corporation be authorized to proceed with negotiating a transaction to surrender Yorkdale and Square One leases to Oxford, including the one million dollar option on the Scarborough lease, as presented, and that Management present the transaction to the Board for approval, once negotiations are finalized.

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

\_\_\_\_\_  
Chairman of the Meeting

\_\_\_\_\_  
Secretary of the Meeting

\_\_\_\_\_  
Date

**MINUTES** of the telephone meeting of the Board of Directors of **SEARS CANADA INC.** (the "Corporation") held on Tuesday, May 21, 2013 at 2:30 p.m., Eastern time.

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**P R E S E N T**

W. C. Crowley (Ch.)  
 E. J. Bird (in person)  
 W. R. Harker  
 R. R. Khanna  
 J. McBurney  
 C. McDonald (in person)  
 D. E. Rosati (in person)  
 D. Ross

**MANAGEMENT** (in person)

K. Leshjani  
*Senior Vice-President and General Counsel*  
 D. Campbell  
*Executive Vice-President and Chief Operating Officer*  
 F. Perugini  
*Associate General Counsel and Corporate Secretary*  
 S. Champion  
*Vice-President, Real Estate*  
 T. Dalglish  
*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.

**ROLL CALL**

1. The Chairman called the meeting to order and took a roll call.

**NORMAL COURSE ISSUER BID**

2. Mr. Todd Dalglish, Treasurer, updated the Board on the renewal of the Normal Course Issuer Bid ("NCIB") which included the draft press release. The Board requested that prior to making any purchases under the NCIB, the Board would need to further discuss funding and availability of cash.

The Board passed the following resolution:

**WHEREAS** the normal course issuer bid ("NCIB") issued by the Corporation on May 25, 2011, whereby the Corporation was authorized to buy back up to a maximum of 5% of the issued and outstanding common shares of the Corporation, expired on May 24, 2012;

**WHEREAS** Management has provided an overview relating to the commencing of an NCIB and recommends the issuance of an NCIB;

**WHEREAS**, pursuant to the by-laws and rules of the TSX relating to normal course issuer bids, the Corporation is permitted to acquire up to 5% of the Corporation's issued and outstanding common shares over a 12-month period under a normal course issuer bid;

**WHEREAS** in connection with this resolution, a questionnaire has been provided to the directors to ascertain the intention of directors regarding the sale of any shares of the Corporation under their control or the control of their associates;

**WHEREAS** the Board is prepared to approve the renewal of the NCIB as recommended by Management.

**BE IT RESOLVED:**

a) **THAT** the Corporation is hereby authorized to purchase up to a maximum number of 5,093,883 shares of the Corporation 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** the purchases under the NCIB shall commence following further discussion by the Board of Directors of the Corporation regarding funding and availability of cash;

c) **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");

d) **THAT** prior to each purchase of Shares pursuant to this resolution, the 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;

e) **THAT** upon the acquisition of Shares by the Corporation as authorized by this resolution, such Shares shall be cancelled;

f) **THAT** the Chairman of the Board or the Chairman of the Audit Committee, or the Chairman of the Investment Committee (individually, a "Chair") 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 a Chair 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;

g) **THAT** any director or officer be and is hereby authorized and directed to file or cause to be filed with the TSX and applicable securities regulatory authorities in Canada, a notice of intent to make an issuer bid, with such additions, deletions and amendments as such person in his or her discretion deems necessary or desirable, and all such other documents and supporting material, and to execute and deliver under the corporate seal or otherwise all such documents and instruments as in such person's opinion may be necessary or desirable to give effect to this resolution; and

h) **THAT** any director or officer be and is hereby authorized and directed to execute and deliver for and in the name of and on behalf of the Corporation, under its corporate seal or otherwise, all such certificates, instruments, agreements, documents and notices and to do all such other acts and things in such person's opinion may be necessary or desirable to give effect to this resolution.

**BURNABY JOINT VENTURE**

3. Mr. Stephen Champion, Vice-President, Real Estate, presented a draft Letter of Intent ("LOI") to the Board regarding the creation of a joint venture between the Corporation and Onni Development Capital Corp. with respect to the redevelopment of 4750 Kingsway, Burnaby, British Columbia as a mixed use residential, office and retail shopping centre development (the "Joint Venture").

Following discussion, the Board agreed That the Corporation be authorized to proceed with negotiating definitive agreements to create the Joint Venture and finalize any other documents required based on the draft LOI as presented at the meeting and once negotiations are finalized, that Management bring the transaction to the Board for final approval.

**IN-CAMERA SESSION**

4. 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.

During the *in-camera* session, the following minor amendments were requested to the press release as presented at the meeting:

- Announcement of Don Ross as Lead Director
- Announcement of Deborah Rosati as Chair of the Audit Committee

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

\_\_\_\_\_  
Chairman of the Meeting

\_\_\_\_\_  
Secretary of the Meeting

\_\_\_\_\_  
Date

**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.

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**P R E S E N T**

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

\_\_\_\_\_  
Secretary of the Meeting

\_\_\_\_\_  
Date



**MINUTES** of the telephone meeting of the Board of Directors of **SEARS CANADA INC.** (the "Corporation") held on Tuesday, July 16, 2013 at 5:00 p.m., Eastern time.

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**P R E S E N T**

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, FSMS, HR and General Counsel*  
 D. Campbell  
*EVP and Chief Operating Officer*  
 F. Perugini  
*Associate General Counsel and Corporate Secretary*  
 G. MacDonald  
*SVP, Supply Chain and Logistics*  
 S. Champion  
*VP, Real Estate*

**GUEST**

J. Dow  
*Stikeman, Elliott*

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.

**BURNABY JOINT VENTURE UPDATE**

2. The Board, at its meeting on May 21, 2013, was presented with a draft Letter of Intent to create a limited partnership or other mutually acceptable form of joint venture (the "Joint Venture") between the Corporation and Onni (Kingsway) Inc. ("Onni") with respect to the redevelopment of certain lands commonly known as 4750 Kingsway, Burnaby, British Columbia, as a mixed use residential, office and retail shopping centre development. On May 21, 2013, the Board authorized Management to proceed with negotiating definitive agreements to create the Joint Venture and finalize any other documents required and to return for final approval from the Board with respect to the transaction.

Mr. John Dow of Stikeman Elliott, external counsel for the Corporation, presented an executive summary setting out details of the negotiated definitive agreements with Onni. The Board discussed the terms of the arrangements with Onni and considered matters such as the capital gains tax of payable and the encumbering of the property. The Board agreed that a sub-group of the Board, including the Lead Director and Bill Harker review with Management the proposed arrangements with Onni and the implications for the Corporation, and report their findings to the Board.

**DIRECT FULFILLMENT TRANSFORMATION STRATEGY**

3. Mr. Gary MacDonald, Senior Vice-President, Supply Chain and Logistics, provided a presentation on the transformation strategy on Direct Fulfillment. Various scenarios and high level descriptions were provided. The following are Management's recommendations:

- i) Pilot Canada Post as primary delivery provider in Fall 2013.

- ii) Open 3PL Direct Fulfillment Centre in Calgary in Spring 2014, which would include closing and selling/redeveloping Regina Broad Street.
- iii) Open 3PL Direct Fulfillment Centre in GTA in Summer 2015, which would include closing and selling/redeveloping Belleville.

The Board approved the recommendations and the capital expenditure of approximately \$11 million, with Management to determine whether a different structure, could reduce the capital expenditure. The strategy is to be presented at the next Board meeting.

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

\_\_\_\_\_  
Chairman of the Meeting

\_\_\_\_\_  
Secretary of the Meeting

\_\_\_\_\_  
Date

**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 Monday, September 23, 2013 at 1:00 p.m., Eastern time.

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**P R E S E N T**

W. C. Crowley (Ch.)  
 E. J. Bird  
 W. R. Harker (by telephone)  
 R. R. Khanna  
 J. McBurney (by telephone)  
 D. E. Rosati  
 D. Ross

**MANAGEMENT** (in person)

K. Leshnjani  
*EVP, FSHS, HR 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.

**CORPORATE RE-ORGANIZATION**

2. Mr. Franco Perugini, Associate General Counsel and Corporate Secretary, presented on the proposed structure of the Senior Leadership Team, including the resignation and appointment of the President and Chief Executive Officer and Director. The Board approved of the proposed structure of the Senior Leadership Team, which included the acceptance of Mr. Calvin's McDonald's resignation and appointment of Mr. Doug Campbell as President and Chief Executive Officer and Director of the Corporation effective September 24, 2013.

**WHEREAS**, Mr. Calvin McDonald has tendered his resignation as the President and Chief Executive Officer of the Corporation and as a Director of the Corporation;

**WHEREAS** the Corporation has identified Mr. Doug Campbell as a potential successor as President and Chief Executive Officer and Director of the Corporation; and

**WHEREAS** the Board of Directors of the Corporation is satisfied that it would be appropriate to appoint Mr. Doug Campbell as President and Chief Executive Officer and Director of the Corporation.

**BE IT RESOLVED:**

**THAT** effective September 24, 2013, the resignation of Mr. McDonald as the President and Chief Executive Officer of the Corporation and as a Director of the Corporation, be accepted;

**THAT** effective September 24, 2013, Mr. Doug Campbell be appointed as President and Chief Executive Officer of the Corporation and as a Director of the Corporation; and

**THAT** the Human Resources and Compensation Committee be authorized to approve the employment agreement for Mr. Campbell.

**PROJECT MATRIX UPDATE**

3. Mr. Doug Campbell, EVP and Chief Operating Officer, provided a presentation on the status of Project Matrix including previous and current phases. Current business performance yields a 2012 baseline EBITDA of \$33 million, post adjustments. This includes a 2012 reported EBITA of \$71 million with an adjustment of \$38 million including removal of joint ventures and the proposed sale of four stores: Toronto Eaton Centre, Sherway, Richmond and Markville.

At current trends, the projection for 2016 EBITDA will be -\$105 million. Sales continue to decline across the business at 2.6%, in line with adjusted July year-to-date trends, including an estimated 50% decline in 'Chase/Financial services' revenue with no cost benefits being realized.

The Corporation is working toward approximately \$200 million in cost savings by implementing additional programs including COGS, Total Loss and organizational restructure. In addition, approximately 75% of potential cost savings reside in about twenty (20) initiatives. With approximately \$200 million in cost savings and +0.3pct growth will achieve 5% EBITDA (\$196 million). Sales growth required to reach 8% EBITDA is 3.3%.

The next steps for Project Matrix include:

- (i) Finalize prioritization of projects into phases over next 18-24 months
- (ii) Integrate financial plan and targets with phased cost-out initiatives
- (iii) Reprioritize resources to support programs

As a follow-up, the Board asked that they be provided with information for the eight (8) properties next up in the Matrix (beyond the current four Cadillac Fairview properties under discussion).

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

\_\_\_\_\_  
Chairman of the Meeting

\_\_\_\_\_  
Secretary of the Meeting

\_\_\_\_\_  
Date

**MINUTES** of the telephone meeting of the Board of Directors of **SEARS CANADA INC.** (the "Corporation") held on Friday, October 11, 2013 at 3:30 p.m., Eastern time.

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**P R E S E N T**

D. Ross (Ch.) (in person)  
E. J. Bird  
D. Campbell (in person)  
R. R. Khanna  
J. McBurney  
D. E. Rosati

**MANAGEMENT** (in person)

K. Leshnjani  
*Chief Administrative Officer and General Counsel*  
F. Perugini  
*Associate General Counsel and Corporate Secretary*  
S. Champion  
*VP, Real Estate*  
C. Sebro  
*DVP, Corporate Tax*

Mr. Don Ross acted as Chairman of the meeting and Mr. F. Perugini acted as Secretary of the meeting.

**ROLL CALL**

1. The Chairman called the meeting to order and took a roll call.

**BURNABY JOINT VENTURE**

2. Following the Board meetings held on May 21, 2013 and July 16, 2013, Management provided an update to the Board on the potential Burnaby joint venture.

Mr. Stephen Champion, Vice-President, Real Estate, provided the Board with an overview of the Sears Metrotown Development Project which included the comparison between three leaders in the development community and the analysis conducted. Management recommended partnering with Concord Kingway Project Limited Partnership ("Concord") as it was determined to be the best overall choice for the Corporation.

Mr. Franco Perugini, Vice-President, Associate General Counsel and Corporate Secretary, presented the terms of the negotiated definitive agreements to create a co-ownership joint venture with Concord with respect to the redevelopment of certain lands commonly known as 4750 Kingsway, Burnaby, British Columbia, as a mixed use residential, office and retail shopping centre development.

Mr. Curtis Sebo, Divisional Vice-President, Corporate Tax, outlined the proforma with the tax effect of the arrangements.

Following discussion, the Board approved of the negotiated terms of the definitive agreements with Concord as presented by Management.

The Board passed the following resolution:

**WHEREAS** at the Board meeting of July 16, 2013, Management gave a further presentation regarding the creation of a joint venture with respect to the redevelopment of 4750 Kingsway, Burnaby, British Columbia as a mixed use residential, office and retail shopping centre development;

**WHEREAS** the Board requested Management to meet with the Lead Director and Bill Harker to review proposed arrangements and the implications for the Corporation and report their findings to the Board;

**WHEREAS** Management approached real estate developers for revised proposals and received three for consideration, which Management reviewed and provided to the Lead Director;

**WHEREAS** Management recommends proceeding with the proposal provided by Concord;

**WHEREAS** Bill Crowley and Bill Harker have disclosed a business relationship with a related party of Concord and have recused themselves from considering this matter;

**WHEREAS** the Board considers it in the best interest of the Corporation to approve the negotiated terms of the definitive agreements to create the joint venture in accordance with the terms as presented by Management.

**BE IT RESOLVED:**

**THAT** the Corporation be authorized to execute the definitive agreements to create the joint venture with Concord and to finalize any other documents required based on the negotiated terms of the definitive agreements, all as presented at the meeting; 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

\_\_\_\_\_  
Secretary of the Meeting

\_\_\_\_\_  
Date

**MINUTES** of the telephone meeting of the Board of Directors of **SEARS CANADA INC.** (the "Corporation") held on Monday, October 28, 2013 at 5:00 p.m., Eastern time.

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**P R E S E N T**

W. C. Crowley (Ch.)  
E. J. Bird (in person)  
W. R. Harker  
R. R. Khanna  
J. McBurney  
D. Campbell (in person)  
D. E. Rosati  
D. Ross

**MANAGEMENT** (in person)

K. Leshnjani  
*EVP, CAO and General Counsel*  
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 – FIVE 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 Cadillac Fairview Corporation ("CF") for the lease terminations as set out in the resolution below in consideration of CF paying to the Corporation the sum of four hundred million dollars (\$400,000,000).

Following discussion, the Board approved of the negotiated terms of the agreement with CF as presented by Management.

The Board passed the following resolution:

**WHEREAS** the Corporation is a tenant pursuant to leases in the following locations:

- Toronto Eaton Centre, Toronto, Ontario
- Sherway Gardens, Toronto, Ontario
- Markville Shopping Centre, Markham, Ontario
- Maisonville Place, London, Ontario
- Richmond Centre, Richmond, B.C.

(the locations are collectively referred to as the "Locations" and the leases are collectively referred to as the "Leases");

**WHEREAS** 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, except for the office space at the Toronto Eaton Centre (collectively, the "Lease Terminations");

**WHEREAS** the Corporation has negotiated the terms of an agreement with CF for the Lease Terminations, in consideration of CF paying to the Corporation the sum of four hundred million dollars (\$400,000,000);

**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; and

**WHEREAS** the Board considers it in the best interest of the Corporation to approve the Lease Terminations, in accordance with the terms as presented by Management.

**BE IT RESOLVED:**

**THAT** the Lease Terminations be approved and that the Corporation be authorized to surrender its interest in the Locations to CF in consideration of CF paying to the Corporation the sum of four hundred million dollars (\$400,000,000); 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 Lease Terminations 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

\_\_\_\_\_  
Secretary of the Meeting

\_\_\_\_\_  
Date



**RESOLUTION IN LIEU OF MEETING**

**OF THE BOARD OF DIRECTORS (the "Board")**

**OF SEARS CANADA INC. (the "Corporation")**

---

**WHEREAS** members of the Nominating and Corporate Governance Committee of the Corporation discussed whether Don Ross, a non-independent director of the Corporation, could be considered an independent director of the Corporation, allowing for his appointment as Lead Director and as a member of the Audit Committee;

**WHEREAS** the Board at its meeting on April 25, 2013 discussed whether Don Ross could be considered an independent director, allowing for his appointment as Lead Director and as a member of the Audit Committee;

**WHEREAS** the Board agreed at its meeting on April 25, 2013 that upon confirmation by external legal counsel that Don Ross may be considered independent, that a resolution in lieu of meeting be circulated to the Board for approval to confirm that he be considered an independent director and to approve his appointment as the Lead Director and as a member of the Audit Committee;

**WHEREAS** the Board having received confirmation that external legal counsel's opinion is that Don Ross can be considered an independent director.

**BE IT RESOLVED:**

**THAT** effective May 1, 2013, Don Ross be considered an independent director and that he be appointed as the Lead Director and as a member of the Audit Committee of the Corporation; and

**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, except Don Ross, as of the 2<sup>nd</sup> day of May, 2013.

\_\_\_\_\_  
W. C. Crowley

\_\_\_\_\_  
D. E. Rosati

\_\_\_\_\_  
W. R. Harker

\_\_\_\_\_  
R. R. Khanna

\_\_\_\_\_  
J. McBurney

\_\_\_\_\_  
C. McDonald

\_\_\_\_\_  
E. J. Bird

**1406**  
**RESOLUTION IN LIEU OF MEETING**  
**OF THE BOARD OF DIRECTORS (the "Board")**  
**OF SEARS CANADA INC. (the "Corporation")**

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**WHEREAS** effective March 12, 2013, E.J. Bird has been acting in the capacity as Interim CFO of the Corporation;

**WHEREAS** the Human Resources and Compensation Committee of the Corporation ("HRCC") recommends Mr. Bird's appointment as Executive Vice-President and CFO of the Corporation, effective June 1, 2013, be approved by the Board; and

**WHEREAS** on the recommendation of the HRCC, the Board is satisfied that it would be appropriate to appoint E.J. Bird as Executive Vice-President and CFO of the Corporation.

**BE IT RESOLVED:**

**THAT** effective June 1, 2013, E.J. Bird be appointed as Executive Vice-President and CFO of the Corporation;

**THAT** the Human Resources and Compensation Committee be authorized to consider and approve any employment-related agreement between the Corporation and Mr. Bird; and

**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, except E.J. Bird, as of the 13<sup>th</sup> day of May, 2013.

\_\_\_\_\_  
W. C. Crowley

\_\_\_\_\_  
D. E. Rosati

\_\_\_\_\_  
W. R. Harker

\_\_\_\_\_  
R. R. Khanna

\_\_\_\_\_  
J. McBurney

\_\_\_\_\_  
C. McDonald

\_\_\_\_\_  
D. Ross

**1407**  
**RESOLUTION IN LIEU OF MEETING**  
**OF THE BOARD OF DIRECTORS (the “Board”)**  
**OF SEARS CANADA INC. (the “Corporation”)**

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**WHEREAS** Management, after due consideration, has decided to terminate the employment of Peter Kalen, Executive Vice-President, Sears Financial & Home Services; and

**WHEREAS** the Board is prepared to acknowledge Management’s decision to terminate the employment of Peter Kalen and to remove him as an Officer of the Corporation.

**BE IT RESOLVED:**

**THAT** the decision of Management to terminate the employment of Peter Kalen, Executive Vice-President, Sears Financial & Home Services, is hereby acknowledged and that Peter Kalen be removed as an Officer of the Corporation, effective May 15, 2013; and

**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 13<sup>th</sup> day of May, 2013.

\_\_\_\_\_  
E. J. Bird

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W. C. Crowley

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W. R. Harker

\_\_\_\_\_  
R. R. Khanna

\_\_\_\_\_  
J. McBurney

\_\_\_\_\_  
C. R. McDonald

\_\_\_\_\_  
D. E. Rosati

\_\_\_\_\_  
D. Ross

**RESOLUTION IN 408 OF MEETING**  
**OF THE BOARD OF DIRECTORS (the "Board")**  
**OF SEARS CANADA INC. (the "Corporation")**

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**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 May 4, 2013, 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 in Canada and the United States on or before June 4, 2013 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, such approval to be conclusively evidenced by the filing of the First Quarter MD&A and First Quarter Financial Statements and Notes;

(b) **THAT** the First Quarter MD&A and the First 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 June, 2013.

\_\_\_\_\_  
E. J. Bird

\_\_\_\_\_  
W. C. Crowley

\_\_\_\_\_  
W. R. Harker

\_\_\_\_\_  
R. R. Khanna

\_\_\_\_\_  
J. McBurney

\_\_\_\_\_  
C. McDonald

\_\_\_\_\_  
D. E. Rosati

\_\_\_\_\_  
D. C. Ross

**RESOLUTION IN 1409 OF MEETING**  
**OF THE BOARD OF DIRECTORS (the "Board")**  
**OF SEARS CANADA INC. (the "Corporation")**

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**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-week period ended August 3, 2013, 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 September 5, 2013 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 September, 2013.

\_\_\_\_\_  
E. J. Bird

\_\_\_\_\_  
W. C. Crowley

\_\_\_\_\_  
W. R. Harker

\_\_\_\_\_  
R. R. Khanna

\_\_\_\_\_  
J. McBurney

\_\_\_\_\_  
C. McDonald

\_\_\_\_\_  
D. E. Rosati

\_\_\_\_\_  
D. C. Ross

**RESOLUTION IN LIEU OF MEETING  
OF THE BOARD OF DIRECTORS (the "Board")  
OF SEARS CANADA INC. (the "Corporation")**

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**WHEREAS** the Board, having discussed the addition of a new Director, had the opportunity to meet with Ron Weissman as a potential Director of the Corporation;

**WHEREAS** members of the Nominating and Corporate Governance Committee ("NCGC") have met with Mr. Weissman, and the NCGC members, having reviewed the credentials of Mr. Weissman, recommend that Mr. Weissman be appointed as a Director of the Corporation and as a member of the Audit Committee.

**BE IT RESOLVED:**

**THAT** Mr. Ron Weissman be appointed as a Director of the Corporation and as a member of the Audit Committee, effective November 18, 2013; and

**THAT** Mr. Weissman hold such office until the earliest of the next following Annual Meeting of Shareholders of the Corporation or the election or appointment of Mr. Weissman's successor.

The foregoing Resolution is hereby signed by the Board of Directors of the Corporation as of the     day of November, 2013.

\_\_\_\_\_  
W. C. Crowley

\_\_\_\_\_  
D. Campbell

\_\_\_\_\_  
W. R. Harker

\_\_\_\_\_  
R. R. Khanna

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J. McBurney

\_\_\_\_\_  
D. E. Rosati

\_\_\_\_\_  
D. Ross

5. Review of the following Charters and **Resolution** approving the Amended and Restated Audit 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 Charter of the Audit Committee be approved by the Board of Directors of the Corporation, in the form as presented, subject to any changes recommended by the Board; and

**THAT** the Secretary be authorized to make such other changes to the respective draft Amended and Restated Charter 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           , 2013)~~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;

**“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 National 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;

**“Independent Director”** means a Director who meets the requirements of independence as defined in National 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.<sup>1</sup>
- (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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<sup>1</sup> 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 [and Annual Report on Form 40-F](#);

- (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.
  - (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 [and Public Company Accountability Oversight 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: [\(i\) management, only with respect to audit and audit-related services up to a maximum of \\$150,000; or \(ii\) 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. With respect to \(i\) above, once ratified by the Committee, the limit of \\$150,000 will be re-established.](#)
  - (vi) Oversee the services rendered by the External Auditor.
  - (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.
  - (viii) Assess compliance by the External Auditor and management with the External Audit Services Policy.
  - (ix) Recommend to the Board for its approval the fees and disbursements for services rendered by the External Auditor.

- (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.
- 

(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.

**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.
- (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.

[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: [\(i\) management, only with respect to audit and audit-related services, up to a maximum of \\$150,000; or \(ii\) the Chair and, in his or her absence, by any ~~independent~~ Member ~~of the Committee~~ in accordance with Section ~~5 B\(1\)\(v\)~~~~B\(1\)\(iv\)~~ of the Charter. \[Notwithstanding the foregoing, in no event may the External Auditor provide services on a contingent fee basis.\]\(#\)](#)

#### *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 [and Annual Report on Form 40-F](#)
- Review of the Management Proxy Circular
- Review of the Annual Reports of the Corporation
- Quarterly Reviews

- Accounting consultations and support related to [International Financial Reporting Standards \(IFRS\) and](#) 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
- [An opinion on the internal control over financial reporting of the Corporation](#)
- ~~Audit of controls in information technology implementations and audit of systems conversions~~

### **Non-Audit Related Services**

[All non-audit related services provided by the External Auditor must be pre-approved by the Committee.](#) 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's independence as the Corporation's External Auditor. Fees for the non-audit related services, [including but not limited to those](#) 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 [for monitoring to monitor](#) and [reporting](#) to the Committee, ~~regarding~~ the non-audit related services rendered by the External Auditor and the costs thereof.

- Tax compliance and [planning 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.~~

- [Performance of management functions for the Corporation](#)
- ~~Accounting, Finance and Legal~~
- Preparation of [accounting records and 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 [used for financial statement purposes](#)
- [Expert services, in certain circumstances](#)
- [Corporate finance services, in certain circumstances](#)



- Internal audit services, in certain circumstances
  - Information Technology systems services, in certain circumstances
    - ~~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 services, in certain circumstances
    - Any other services which the Canadian Public Accountability Board or the Public Company Accounting Oversight Board determines to be impermissible.
      - ~~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~~[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)

---

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;

**“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;
- (c) the development of the CEO’s goals and objectives and the evaluation of the CEO’s performance against these goals; and
- (d) the succession plan for, and the compensation of, the Senior Leadership Team.

## 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.

**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.
- (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.
- (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.

**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.
- (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.

- (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.

**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.

**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.

**2. Senior Leadership Team**

Review the annual performance assessments and succession plans for the Officers and the direct reports to the CEO.

**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)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;

**"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;

**"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)

---

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;

**“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.

**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.**

(approved January 20, 2003)

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.

6. **Resolution** approving the date of the 2014 Annual Meeting of Shareholders and report on the Board and Committee Meeting dates for 2014

The proposed date of the Annual Meeting of Shareholders is April 24, 2014 and that the proposed meeting dates and times (Eastern time) for the Board of Directors and Committees in 2014 are as follows:

<b>February 25, 2014 (tel)</b>	<b>Audit Committee</b> <b>Investment Committee</b>	(1:00 p.m. to 3:00 p.m.) (3:00 p.m. to 4:00 p.m.)
<b>March 13, 2014 (tel)</b>	<b>Audit Committee</b> <b>NCGC</b> <b>HRCC</b> <b>Board</b>	(9:00 a.m. to 11:00 a.m.) (11:00 a.m. to Noon) (Noon to 1:30 p.m.) (1:30 p.m. to 3:00 p.m.)
<b>April 23, 2014 (in person)</b> <b>April 24, 2014 (in person)</b>	<b>Board Meeting/Dinner</b> <b>Annual Shareholders Meeting</b> <b>Board - following Annual Shareholders Meeting</b>	(5:00 p.m. to 8:30 p.m.) (8:00 a.m. to 10:00 a.m.)
<b>May 20, 2014 (tel)</b>	<b>Audit Committee</b> <b>Investment Committee</b>	(1:00 p.m. to 3:00 p.m.) (3:00 p.m. to 4:00 p.m.)
<b>August 19, 2014 (tel)</b>	<b>Audit Committee</b> <b>Investment Committee</b>	(1:00 p.m. to 3:00 p.m.) (3:00 p.m. to 4:00 p.m.)
<b>September 23, 2014 (in person)</b>	<b>Board Strategic Session</b> <b>Board Dinner</b>	(3:00 p.m. to 6:00 p.m.) (6:30 p.m. to 8:30 p.m.)
<b>September 24, 2014 (in person)</b>	<b>Board Strategic Session</b>	(8:00 a.m. to 2:00 p.m.)
<b>November 13, 2014 (tel)</b>	<b>Investment Committee</b> <b>NCGC</b> <b>HRCC</b>	(8:00 a.m. to 9:30 a.m.) (9:30 a.m. to 10:30 a.m.) (10:30 a.m. to Noon)
<b>November 17, 2014 (in person/NYC)</b>	<b>Audit Committee</b> <b>Board</b> <b>Board Dinner</b>	(2:00 p.m. to 4:00 p.m.) (4:00 p.m. to 6:00 p.m.) (6:30 p.m. to 8:30 p.m.)
<b>November 18, 2014 (in person/NYC)</b>	<b>Board</b>	(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 Thursday, April 24, 2014, be approved.

7. **Resolution** appointing Mr. William R. Harker as Vice Chairman of the Board of Directors of the Corporation
- 

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

**THAT** Mr. William R. Harker be appointed as Vice Chairman of the Board of Directors of the Corporation and to hold such office until his successor is duly appointed.

8. Other business [for information only]

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



November 4, 2013

Stock Rating:

**Sector Outperformer**

Sector Weighting:

**Market Weight**12-18 mo. Price Target \$21.00  
SCC-TSX (11/1/13) \$14.41

Key Indices: S&amp;P/TSX 60

3-5-Yr. EPS Gr. Rate (E)	NM
52-week Range	\$8.84-\$14.65
Shares Outstanding	102.0M
Float	22.0M Shrs
Avg. Daily Trading Vol.	71,000
Market Capitalization	\$1,469.8M
Dividend/Div Yield	Nil / Nil
Fiscal Year Ends	January
Book Value	\$11.76 per Shr
2013 ROE (E)	NM
Net Cash	\$263.90M
Preferred	Nil
Common Equity	\$1,199.1M
Convertible Available	No

EBITDA (\$mlns.)	Prev	Current
2012		\$44.4A
2013		\$46.1E
2014		\$55.6E

EV/EBITDA	
2012	25.2x
2013	24.3x
2014	20.2x

**Company Description**

Sears Canada Inc. is a multi-channel retailer with a network of department and specialty stores and large dealer network. The company has over \$4 billion in consolidated sales.

[www.sears.ca](http://www.sears.ca)

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Merchandising

**Sears Canada Inc.****Merchants Of Real Estate**

- Sears Canada is still one of Canada's largest merchants, but along with selling goods to generate returns, the company seems to be selling off its immense and valuable portfolio of below-market leases, owned locations and joint ventures.
- Operating results, despite some recent merchandising improvements, are not likely to improve any time soon. A renewed commitment to serious cost-cutting should prevent EBITDA from dropping below zero. As sites are vended, keeping the operation above water is the challenge.
- There is over \$18 per share of real estate yet to be monetized and the company's recent property sales have put about \$7.00 per share of cash on the balance sheet. Other businesses are worth over \$1.00. Total liabilities are about \$4.00 per share, which nets to about \$22 of value.
- Putting a 5% discount on the total value yields a \$21 price target. Because there are no material creditors, there is no risk of bankruptcy. Our recommendation is Sector Outperformer, as of November 4.

**Stock Price Performance**

Source: Reuters

All figures in Canadian dollars, unless otherwise stated.

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**See "Price Target Calculation" and "Key Risks to Price Target" sections at the end of this report, where applicable.**



**Sears Canada Inc.**

SCC-TSX 11/4/13 \$14.41  
 12- To 18- Month Price Target: \$21.00  
 Merchandising  
 Sector Weighting: Market Weight

**Sector Outperformer**

Perry Caicco (416-594-7279) Perry.Caicco@cibc.ca  
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All figures in Canadian millions, except per share data.

P/E Ratio	LY	TY	NY
Sears Canada Inc.	NA	NA	NA
US Department Stores	19.6x	19.9x	15.5x
CDN Department Stores (HBC+SCC)	29.3x	19.6x	16.8x
US Discount Stores	16.5x	14.3x	13.2x

**Company Profile**  
 SCC is a multi-channel retailer with a network of department and specialty stores and large dealer network. The company is the largest department store operator in Canada with consolidated sales of over \$4 bln.

EV/EBITDA	LY	TY	NY
Sears Canada Inc.	26.9x	26.0x	21.5x
US Department Stores	7.8x	7.7x	7.1x
CDN Department Stores (HBC+SCC)	24.0x	21.8x	14.8x
US Discount Stores	7.9x	8.0x	7.5x

**Investment Thesis**  
 Sears Canada remains one of Canada's largest merchants - instead of selling goods to generate returns it has turned to selling some of its immense real estate portfolio.

Key Financial Metrics	F2012A	F2013E	F2014E
ROE	-6.5%	-5.8%	-3.1%
ROA	-2.7%	-2.8%	-1.6%
After-Tax ROIC	-6.0%	-4.9%	-2.6%
Debt/Capital	4.6%	3.4%	3.5%
BV/Share	\$11.43	\$15.59	\$15.01
FCF	(177.4)	(35.4)	21.9

The operating results, despite some recent merchandising improvements, are not likely to improve any time soon. Renewed commitment to serious cost-cutting should prevent EBITDA from dropping below zero.  
 There is likely around \$18 per share of real estate value yet to be monetized, and the company's recent property sales have put about \$7.00 per share of cash on the balance sheet.

Income Statement	F2012A	F2013E	F2014E
SSS Growth	-5.7%	-2.3%	-1.8%
Total Sales Growth	-6.9%	-6.0%	-4.0%

Market Information	
Shares Outstanding	102.0
Float	21.9
Market Capitalization	\$1,384.1
Net Debt	(\$263.9)
Enterprise Value	\$1,120.2

Sales	4,300.7	4,040.7	3,881.1
Gross Profit	1,551.5	1,453.6	1,384.7
% of sales	36.08%	35.97%	35.68%
yly Change	-0.45%	-0.10%	-0.30%

Management	
Doug Campbell	President and CEO
E.J. Bird	EVP and CFO
Neil Curran	SVP, Retail Stores
Danita Stevenson	SVP, Apparel
Tim Flemming	SVP, Strategic Initiatives

Operating, Admin and SG&A Expenses	1,507.1	1,407.5	1,329.1
% of sales	35.04%	34.83%	34.25%
yly Change	-0.09%	-0.21%	-0.59%

Store Network	F2012A	F2013E	F2014E
Full-line Department Stores	118	118	115
Total Corporate Stores (excl. Corbeil)	181	181	178
Total Square Footage (incl. Corbeil)	18.3	18.3	17.5
Square Footage Growth	-6.6%	0.0%	-4.2%

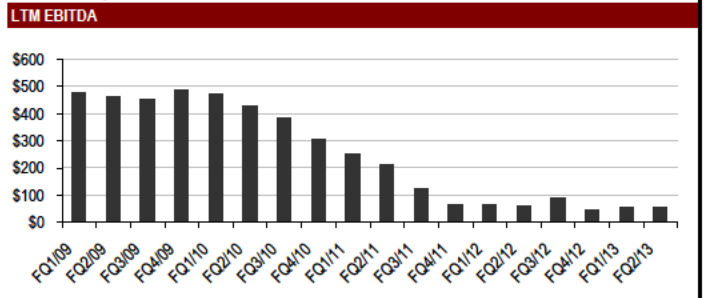
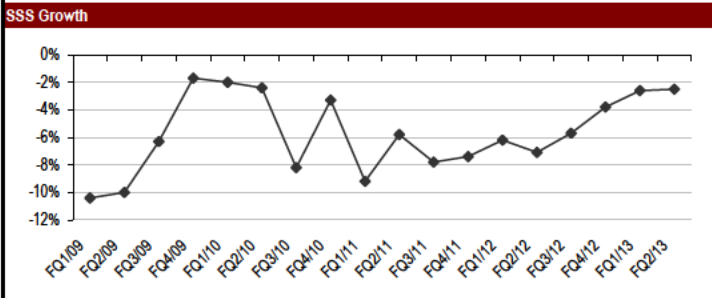
EBITDA	44.4	46.1	55.6
% of sales	1.03%	1.14%	1.43%
yly Change	-0.35%	0.11%	0.29%

2014e NAV	Sq ft	Vale/sq ft	Total Value	Per Share
Owned Real Estate (Store)	2.3	\$150.0	\$347.6	\$3.41
Leased Real Estate (Store)	11.3	\$60.5	\$683.1	\$6.70
Distribution Centres	6.3	\$64.3	\$404.0	\$3.97
Mall JV's			\$352.3	\$3.46
<b>Total Real Estate</b>			<b>\$1,787.0</b>	<b>\$17.54</b>
Other (Home, Dealers, Online)			\$96.0	\$0.94
Balance Sheet			(\$385.4)	(\$3.78)
Net Cash (2014E)			\$757.8	\$7.44
<b>Total Break-Up Value</b>			<b>\$2,544.8</b>	<b>\$22.14</b>

D&A	127.3	119.3	112.8
Other	(196.8)	(184.2)	0.0
Interest Expense	9.2	9.2	9.2
Unusual Items	(9.5)	0.0	0.0

EBT	114.2	101.8	(66.4)
% of sales	2.66%	2.52%	-1.71%

Income Taxes	13.0	3.8	(18.6)
Adjusted Net Earnings	(73.2)	(79.3)	(47.8)
Adjusted Diluted EPS	\$ (0.72)	\$ (0.78)	\$ (0.47)



Source: Company reports, Bloomberg and CIBC World Markets Inc.





## Executive Summary

### Owner With A Plan

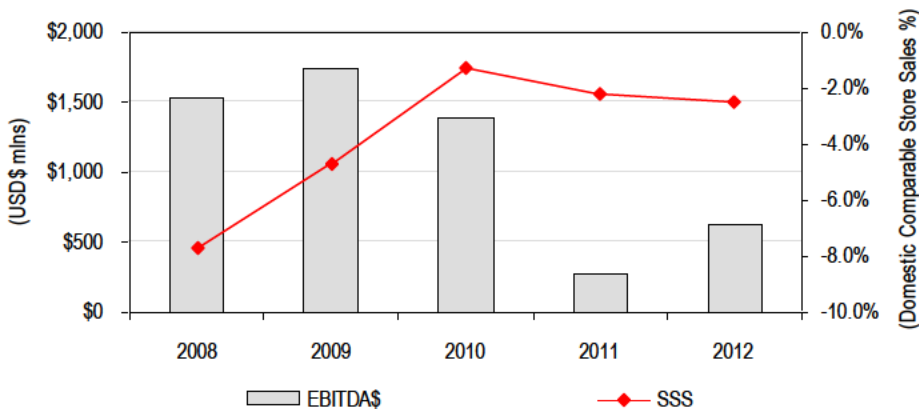
Sears Canada (SCC-SO), the country's seventh largest merchant and second largest department store, has been in general decline for years. Some of this has been self-generated and some has been due to the increasingly competitive nature of the Canadian general merchandise market. The company's \$4.0 billion in sales is down by 12% over the past five years and, with planned store divestitures and ongoing problems with same-store sales (SSS), will likely decline again this year.

Theoretically, this debt-free company could just keep on declining, occasionally selling off a property or two to generate cash. But when we consider the future of Sears Canada and the opportunity for investors, the biggest factor is the nature of the ownership and the ownership's attitude toward real estate.

Sears Holdings (SHLD-NASDAQ), which currently holds 51% of Sears Canada, has itself been inconsistent – and in general decline – since the company was created by two key acquisitions (Kmart and Sears) in 2005.

Edward Lampert, who controls 55% of Sears Holdings, also directly owns 28% of Sears Canada. His combined effective ownership of about 50% gives him immense influence over the day-to-day activities of Sears Canada. Despite any formal structures that might be in place, it is to Mr. Lampert that the Canadian CEO effectively reports. Mr. Lampert successfully surfaced value at Sears Holdings by focusing on divestitures and real estate values. This occurred despite the fact that the operating performance of Sears Holdings has not been stellar (see below).

**Exhibit 1. Sears Holdings Performance – Last Five Years**

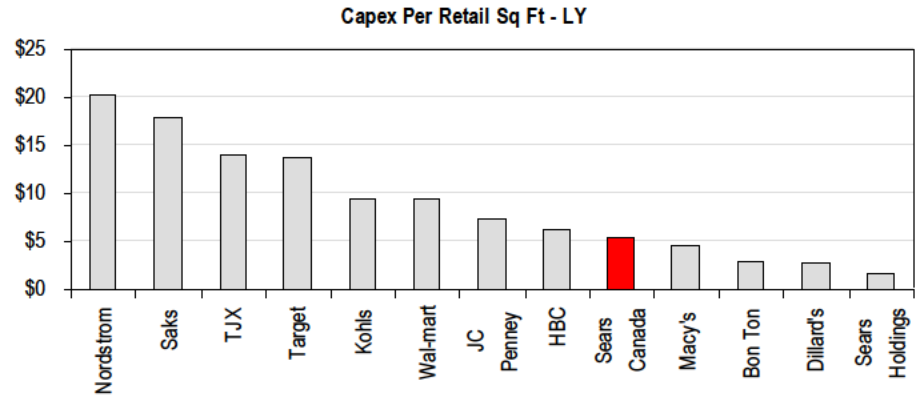


Source: Company reports and CIBC World Markets Inc.

The future of Sears Holdings probably lies in the future monetization of its own real estate. Published estimates have the SHLD real estate value (excluding Canada) at between US\$7.0 and US\$8.0 billion – substantially more than the market value of the company. SHLD's issue is not asset value, it is merchandising and operations. The fundamental weakness of the retail offering causes SHLD to occasionally repatriate cash from SCC, which forces SCC to monetize properties. Either way, SHLD seems to prevent SCC from investing material amounts of capital, preferring to harvest from existing assets rather than to invest in new assets.

Sears Holdings probably views Sears Canada, operationally, as little more than a source of occasional cash. As such, SCC has little capital to spend. In fact, it is probably the lack of commitment by SHLD to SCC's capital-spending needs that caused SCC's most recent (and arguably most effective) CEO to leave.

### Exhibit 2. Capex Per Sq. Ft. (US\$)



Source: Company reports and CIBC World Markets Inc.

Ironically, the just-departed CEO had, in two short years, exhibited substantial creativity and direction. However, he was stymied by a deteriorating asset base, the forced sale of profitable stores and an ownership group that may not have been wholly supportive of the crying need to inject capital into the business. The newly-appointed CEO has little or no merchandising experience and could be characterized more as a cost-cutter. It is probable that rather than trying to revive or grow the Sears brand, this latest management will be slashing costs and harvesting the assets.

## It's All About The Real Estate

Although the recently-departed Sears Canada CEO had been a refreshing leader with numerous ideas and initiatives, it was never clear that his parent company really cared about the day-to-day operations of Sears Canada. If there had been a commitment from the parent company to improve operational performance, SCC would likely not be starved for capital and would not be forced to regularly sell off its top-producing stores for cash.

The table below details the recent store dispositions, including the notable sale of the Eaton Centre and Sherway Gardens stores.

### Exhibit 3. Recent Lease Dispositions

Location	Sold To	Year
Chinook Centre	Landlord/Nordstrom	2012
Rideau Centre	Landlord/Nordstrom	2012
Pacific Centre	Landlord/Nordstrom	2012
Yorkdale	Landlord/Nordstrom	2013
Square One	Landlord/NA	2013
Scarborough Town Centre	Landlord/NA (Option)	2013
Toronto Eaton Centre (4 Floors)	Landlord/NA	2013
Sherway Gardens	Landlord/NA	2013
Markville Shopping Centre	Landlord/NA	2013
London-Masconville	Landlord/NA	2013
Richmond Centre	Landlord/NA	2013

Source: Company reports and CIBC World Markets Inc.

It is clear that Mr. Lampert sees significant value in Sears Canada – but specifically in the real estate. To that end, an important event was the 2012 dividenting out of half of Sears Holdings stake in Sears Canada to SHLD shareholders. That is the event that gave Mr. Lampert a personal direct stake of 28% in SCC, on top of his SHLD stake.

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#### Exhibit 4. SCC Share Distribution

SCC Share Distribution	% Ownership
Sears Holdings – Before	95.50%
Distributed	44.50%
<b>Sears Holdings – After</b>	<b>51.00%</b>

SCC Top Holders	% Ownership
Sears Holdings	51.00%
ESL Investments	17.40%
Edward Lampert	10.24%
<b>Top Holders</b>	<b>78.64%</b>

Source: Company reports and CIBC World Markets Inc.

## Mr. Lampert Is Correct

In our view, SCC has a very valuable real estate portfolio. That portfolio, which includes joint ventures (JVs), owned properties and below-market leases on numerous excellent locations – in all 20 million square feet of prime real estate – is worth, by our math, about \$1.8 billion. The real estate could possibly be monetized in a number of ways, some more complex than others.

Long term, the real estate is likely to end up in the hands of numerous domestic and multinational retailers, and Sears as a retailing entity is likely to be dissolved or reduced to handful of specialty stores and an online business. The tricky part is to keep the existing operations relevant so that SCC does not become a cash drain while the real estate strategy unfolds. Recently, that has proven difficult and so properties have been occasionally sold to landlords to keep cash coming in. That these dispensed properties contained profitable stores shows the fine balance that must be struck between maintaining an ongoing business and tapping the valuable real estate when necessary. It also shows just how desirable these properties are – in many ways much more valuable sold than as operated by SCC.

Despite the strong efforts of SCC's previous management team, the best the company can do without a major capital infusion is to tread water in the Canadian marketplace. More likely, without the ability to spend on store renovations, marketing and labour, even the best merchandising plans cannot arrest the gradual operational decline of the company. No doubt further planned cost-cuts will slow the bleeding, but severing limbs (selling stores) along the way to provide cash is not a recipe for marketplace success.

Our view is that for shareholders, all of the upside is in the disposition of the real estate. Simply monetizing the real estate value of SCC may not exactly be the strategy of Sears Holdings and is probably not the explicit strategy of Sears Canada. However, it is probable that monetizing SCC real estate is probably the vast majority of the strategy of the controlling owner Mr. Lampert.

For investors, the good news is that not all the real estate needs to be sold or disposed in order for substantial share price appreciation to be realized. By our analysis, about 40% of the value of SCC's leased real estate resides in about 10% of the stores, including the Eaton Centre, Avalon, Fairview and Southgate. As these are divested, substantial cash returns will be realized and those could end up in the hands of shareholders in a variety of ways.

## Possibilities For Value Creation

It is possible that SCC will simply operate its way into irrelevance, gradually selling off stores to stem the cash drain. That strategy would likely result in Sears occasionally cutting a special dividend cheque to all shareholders, not the worst way to create shareholder value. But that is dangerous to the operations, particularly as the primary, and most profitably flagship stores are vended.

Instead, we believe that over the next 24-36 months, Sears Canada will either:

1. Partner with a real estate and/or private equity company to sell off most of the remaining properties and leases.
2. Sell the whole company to a private equity firm, which, with a real estate partner, will dispose of the remaining properties.
3. Announce the sale of Sears Canada to a group of multinational merchants [Macy's (M-NYSE), Kohl's (KSS-NYSE), Target (TGT-NYSE), Walmart (WMT-NYSE), etc.], which will divide the sites among themselves.
4. Continue to sell off both flagship and regional stores, either directly to new-entrant multinational department store companies, or back to landlords, realizing a substantial amount of the embedded real estate value.

We peg the value of SCC's real estate at about \$16/share to \$20/share. It is not impossible that investors in SCC could see the upper end of that value depending on which route the company takes.

## The Business

### What Is Sears Canada?

Sears Canada consists of 118 full-line Sears department stores, 48 Sears Home stores, a plethora of specialty stores (Outlet, Travel, Corbeil, Appliance, etc.), a large dealer network, thousands of catalogue merchandise pick-up locations and a handful of legacy mall JVs. The company also has a significant and growing online business. We believe that the online business, built on the structure of the catalogue operations, is generating about \$300 million per year in revenues.

- **The full-line stores** average 129K square feet and make up the majority of the company's sales. They are located across Canada in most major urban centres, almost exclusively in malls.
- **Sears Home stores** average 44K square feet and are generally located in plazas and shopping strips.
- **Specialty stores:** The biggest most important piece is Corbeil, which was founded in Quebec in 1949 and recently expanded into Ontario.

The core of the business, however, is the real estate connected to the full-line stores. This includes 14 stores that are owned outright and over 100 leases that are being carried at rates well below market value. In the last two years, the company has managed to sell off five leases for total combined proceeds of \$361 million (\$414 million for six properties if you include the Scarborough Town Centre option).

### A Brief History

Sears Canada was originally formed as a JV between the Robert Simpson Company (Simpson's) and Sears, Roebuck and Co. After the Hudson's Bay Company (HBC-SO) acquired Simpsons in 1979, it was forced to sell the Simpsons-Sears chain due to competition issues. Simpsons-Sears was later renamed Sears Canada (1984).

Sears Canada purchased The T. Eaton Company Ltd. in 1999 and with it acquired some of the best owned and leased department store locations in the country (including Eaton Centre and Yorkdale Mall). After re-launching a few of the Eaton's stores with limited success, the locations were eventually re-bannered to Sears.

### The Fight For Control

In early 2006, the parent company, Sears Holdings (which at the time, had recently been acquired by billionaire and current CEO Edward Lampert) attempted to acquire the remaining shares of SCC at \$16/share. Bill Ackman, who through his firm Pershing Square owned about a 17% stake in the company, outright rejected the offer. Over the next several months, in an effort to alter the public perception of SCC's value, the parent argued that increased competition and struggling operations were only part of the longer-term issues facing the retailer. Mr. Ackman fought back and the saga hit a stalemate. Four years later, Mr. Lampert was able to acquire Mr. Ackman's position for \$30/share.

Late last year, in an effort to personally realize a greater portion of the benefits from the sale of leases, Mr. Lampert orchestrated SHLD paying out 44.50% of its SCC interest as a dividend. This meant Mr. Lampert now directly controlled about 28% of the Canadian business.

# The Canadian Department Store Industry

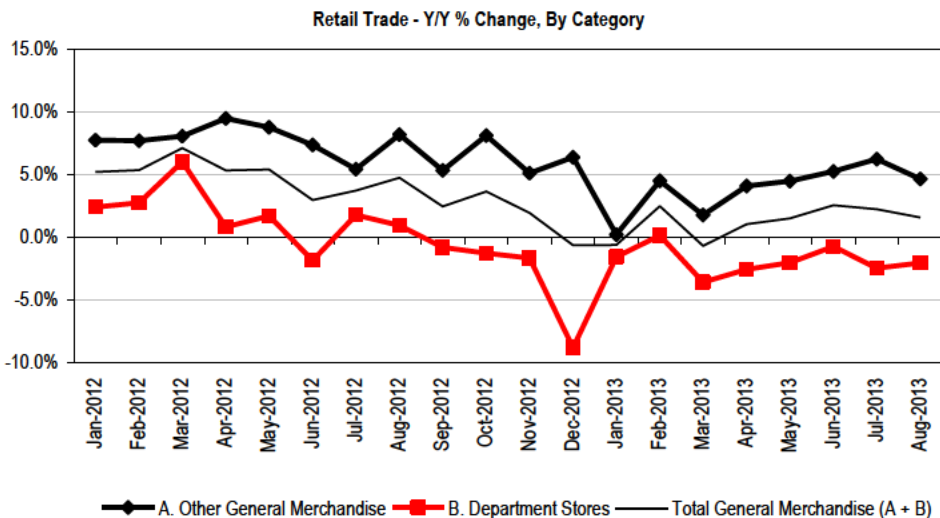
## The Canadian Consumer: Don't Expect Much Here

The Canadian consumer has proven over time to be remarkably resilient. Although Canadian consumer spending undergoes periods of more or less momentum, there are only rare instances where Canadian consumer behaviour has legitimately impacted a specific store's actual sales. Certainly, many companies have blamed a "weak" Canadian consumer for occasional sales woes, but most of those callouts have been proven false, as category competitors have done just fine in the same time period.

The only areas where consumer spending trends have been a legitimate issue have been in bigger-ticket goods such as DIY building material products and home furnishings. In other categories, consumers have made subtle alterations in spending habits during lean times, trading down to private label, or buying more on promotion, or waiting until the last minute to shop for an event. But it is more likely that those are long-term secular trends, driven as much by the merchants as by the economy.

The chart below shows the malaise in bigger ticket categories, the robust sales at general merchants (no doubt driven by Walmart), and the slower sales growth at major department stores (no doubt depressed by Sears).

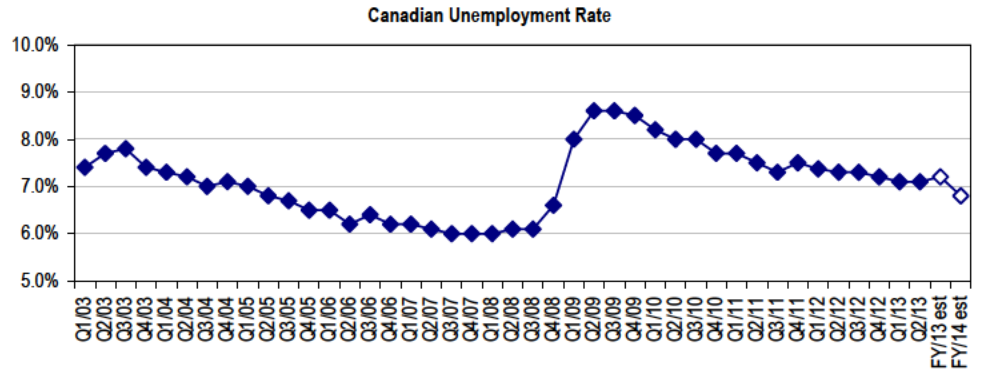
**Exhibit 5. Retail Trade, Y/Y % Change**



Source: Company reports and CIBC World Markets Inc.

Canadian unemployment rates remain persistent at over 7%, since hiring has generally held back by industries struggling with weak foreign demand, particularly from the U.S. The U.S. economy seems to be improving, and although that bodes well for Canada, we would not look for the type of sudden changes that typically characterize the U.S. market, here at home.

**Exhibit 6. Canadian Unemployment Rate**

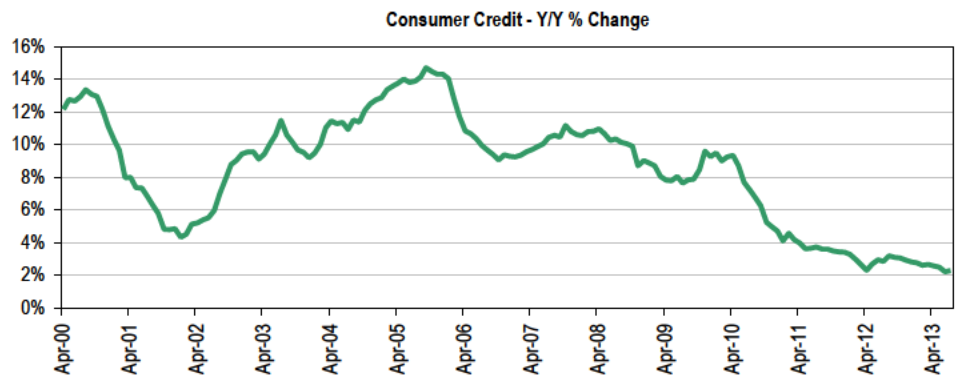


Source: Statistics Canada, CIBC Economics.

In fact, it would be a mistake to assume that there could be a meaningful improvement in the Canadian economy and thus increased consumer spending. It would be even more of a mistake to use consumer spending improvements as a basis for purchasing shares in a Canadian retailer. A slowdown in emerging markets and risks of a sharp contraction in U.S. government spending could dent Canadian hiring plans through 2013 and 2014. If anything, the continuing soft labour market, including an ongoing shift to lower-paying and part-time jobs, will cause Canadian consumers to keep their pace of spending slow in coming quarters.

With government spending constrained and homebuilding slowing, 2013 and 2014 domestic demand growth will remain weak. On top of that, there is some evidence that Canadian consumers are taking steps to contain their borrowing. This is shown by a slowdown in non-mortgage credit growth. Interest payments on debt accounted for 7.4% of disposable income in Q2, down slightly from 7.6% last year. Consumer credit is now growing at about 2.2%, slower than the U.S., with the main driver being a softening in credit card activity and declining card balances. Bottom line: the consumer is paying down debt and spending less – focusing on needs, not wants.

**Exhibit 7. Consumer Credit Y/Y % Change**



Source: Statistics Canada.

As mentioned off the top, for most Canadian retailers, the Canadian consumer's particular spending habits or intentions are not that important to results. One could argue that major department stores, being at the higher-price range of merchandise and specializing in non-essential fashions, might be more prone to changes in consumer spending than other classes of merchandise.

## Size And Scope Of The Department Store Space

The major department store space in Canada would not be characterized as overly developed or sophisticated. Department stores of all classes would be a different story, however, and sales from department stores of all classes will total about \$30.5 billion in sales in 2013. However, about \$20 billion of that is from Walmart (including food), another \$4.0 billion is from Sears Canada, \$2.4 billion is from the Bay and \$1.8 billion is from Target. The remainder is from an assortment of smaller department store chains such as Holt Renfrew, Ogilvy and Simons.

The situation is changing and the department store industry in Canada is back in growth, as Target took control this year of the first 124 Zellers stores. Although we continue to expect Target to generate under \$2.0 billion in sales in 2013, that number could grow to \$4.6 billion when fully operational for the full year 2014.

### Exhibit 8. Department Store Sales – Canada, 2010-2014E (\$ mins.)

	2010	2011	2012	2013E	2014E
Walmart	15,505	16,608	18,067	20,117	20,802
Sears	4,939	4,619	4,301	4,041	3,881
The Bay	2,036	2,165	2,312	2,388	2,533
Zellers	3,624	3,289	2,033	135	-
Target	-	-	-	1,856	4,660
Other	1,715	1,805	1,900	2,000	2,060
<b>Total Department Stores</b>	<b>27,818</b>	<b>28,485</b>	<b>28,612</b>	<b>30,536</b>	<b>33,935</b>

Source: Company reports and CIBC World Markets Inc.

Because the two major department stores in Canada – HBC and Sears – are relatively small (totaling \$6.6 billion in sales) and have been in long-term decline (until recently for The Bay), the dividing line between major and discount department stores may not be as defined as it is in the U.S. Over the years, in an effort to arrest long-term decline, both Sears and The Bay engaged in pricing and merchandise programs that were decidedly “discount” in their orientation. As well, the dominance of Walmart (and the absence of any credible alternatives) has probably allowed the discount department store space to punch above its weight class with consumers looking for higher-priced merchandise. Walmart, for instance, attracts a far more mid-upscale clientele in Canada than in the U.S., simply due to the long-term weakness of major department stores and the absence of Target.

## The Head-to-Head Battle

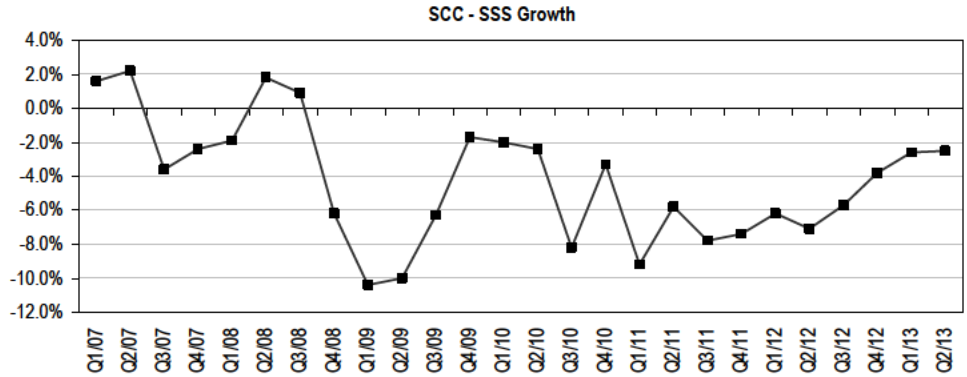
The Bay is theoretically Sears Canada’s most important competitor and is certainly the most geographically competitive. The vast majority (over 90%) of Sears stores have one of The Bay’s full-line department stores either in the same complex or nearby. Sears has a much larger overall business than The Bay and higher sales productivity on a per-square-foot basis due to its higher mix of big-ticket furniture and appliances. Specific to apparel, cosmetics and home fashions (The Bay’s primary categories), the two chains are about the same size.

When it comes to The Bay, there is good and bad news for Sears. The good news is that The Bay continues to move to a higher end product offering, leaving more room for Sears to maneuver in the mid- to low-tier segments; and after its acquisition of Saks (SKS-NYSE), The Bay is juggling a lot of different balls, which could present a bit of an opportunity for Sears in certain geographies. The bad news is that The Bay has been making massive improvements to its product



offering, driving more people into its stores and pulling additional sales away from Sears; and management is beginning to invest more substantially into its store network. It is probable that the rejuvenation of Hudson's Bay has contributed to the recent weak sales performance at Sears Canada.

**Exhibit 9. Sears Canada SSS, 2007-Present**

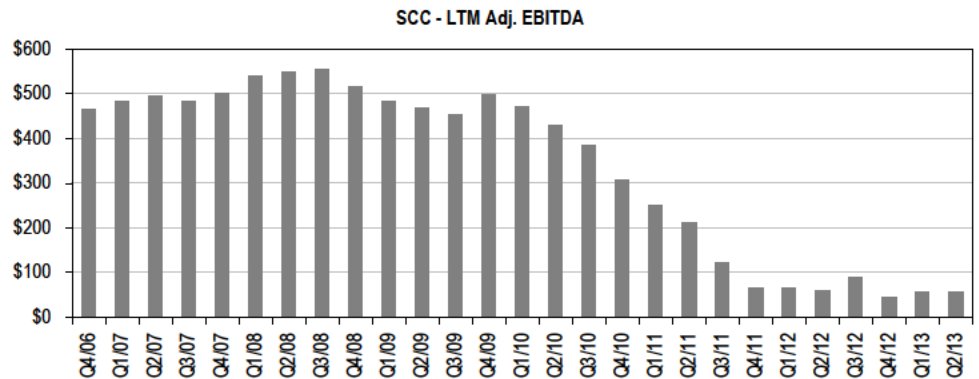


Source: Company reports and CIBC World Markets Inc.

Although improvements at The Bay have had a hand in Sears' sales problem, these declines can also be chalked up to Sears Canada's long-term weakness as a merchant and its lack of investment in stores. Recently, the Sears has made improvements to some merchandise and some stores and, although results are apparently heartening, the overall business continues to slide. For Sears, having a co-located major department store selling similar classes and brands of merchandise, and generally doing a better job, is a tremendous disadvantage. As long as SCC continues to stagnate with minimal capital, reduced advertising, and pedestrian stores, market share will likely continue to leak to HBC and other similar merchants.

The chart below shows just how much Sears' operating profit has declined.

**Exhibit 10. Sears Canada LTM Adj. EBITDA, 2007-Present**



Source: Company reports and CIBC World Markets Inc.

## The Target Canada Situation

According to strict department store definitions, Target is a discount department store, selling vastly different (i.e., lower quality) merchandise than Sears at much lower price points. Sears' brand overlap with Target is about 5%, however, the price point overlap would be substantially greater.

Target is opening 124 stores by the end 2013, with 91 having already been opened and the final 33 set to open in November. By the end of 2014, Target could be operating as many as 150 stores, generating annual sales of about \$4.6 billion. About \$1.5 billion of those sales will be in apparel.

**Exhibit 11. Canadian Apparel Market – 2010 To 2014E (\$ mlns.)**

	2010	2011	2012	2013E	2014E
Walmart	2,549	2,558	2,711	2,847	2,932
Sears	1,692	1,608	1,474	1,503	1,503
The Bay	1,527	1,624	1,734	1,791	1,899
Zellers	1,207	1,170	836	51	-
Target	-	-	-	660	1,500
Winners	1,127	1,116	1,205	1,277	1,341
Mark's	872	980	1,017	1,055	1,076
Reitmans	1,059	1,022	998	967	968
Gap Canada	958	918	920	910	877
Joe Fresh	600	650	663	683	703
All Other	15,625	15,950	16,037	16,402	16,050
<b>Total Canadian Apparel Market</b>	<b>27,215</b>	<b>27,595</b>	<b>27,595</b>	<b>28,147</b>	<b>28,850</b>

Source: Trendex, company reports and CBC World Markets Inc.

The apparel market in Canada is not likely to grow simply because Target has arrived. No doubt Target's new sales will be taken from existing players and, in this context, we would judge Sears Canada as among the most vulnerable.

## Long-term Issues For Canadian Department Stores

Several factors have altered the retail landscape and specifically challenged the department store industry over the past 10 years:

- The Rise And Fall Of The Canadian Dollar:** With anywhere from 20%-30% of imported merchandise being transacted in U.S. dollars, the Canadian department store industry experienced a short-term gross profit boon from 2003-2008 as the Canadian dollar rapidly increased in value. Despite elevated profitability, most of these chains neglected their stores and forgot to invest in infrastructure and technology. Then the recession hit.
- The Recession:** Consumer spending ground to a halt in 2008, the Canadian dollar fell in value and department stores were left with falling margin rates and over-inventoried stores. The high inventory levels caused even more massive discounting and margins were hit hard. All focus turned to cost-cutting (curious considering how little had been invested in the previous five years) and product rationalization.

- The Internet Consumer And Demise Of The Catalogue Business:** While growing rapidly for years, online merchandising took off during the recession, as consumers became extremely frugal. Today, of course, most consumers price check online for any purchase of material value. But five years ago, with the department stores so far behind the times when it came to e-commerce and technology investment, and some still focused on catalogue sales, consumers began to do a bigger share of their apparel shopping elsewhere. During this time, some department stores chose to outsource their e-commerce businesses, some did it internally and some chose to wait and see how things settled out. U.S. department stores, seeing an opportunity, began offering free shipping with pre-calculated duties at checkout to Canadian consumers. This further weakened the Canadian department store industry. Today, we would estimate that close to \$400 million worth of department store goods (including about \$200 million of "luxury" brands) are purchased by Canadians from the U.S. either through cross-border shopping or through online venues.
- The Continual Entry Of U.S. Retailers Into Canada:** The key element of differentiation for Canadian department stores for a long time was their ability to source U.S. and international brands that could not be found elsewhere in Canada. Over time, the entry of U.S. branded apparel retailers, particularly into mall-based specialty stores, has all but eliminated this advantage. The entry of Target and growth of Walmart has all but eliminated the value proposition of private labels at department stores. With the expansion of Simons, the renovation of The Bay, the imminent arrivals of Nordstrom (JWN-NYSE) and Saks, the crowding of the major department store space will only accelerate.

The influx of U.S. competitors does not automatically spell doom for Canadian department stores. Sears' arch-enemy The Bay has shown signs of success by refreshing its assortment, investing in its stores, and building out bigger and better e-commerce capabilities. As well, HBC has inked exclusive arrangements with new and innovative brands [Topshop, Michael Kors (KORS-NYSE), etc.]. This has led to a recent turnaround with SSS beginning to grow nicely and EBITDA margins moving in the right direction.

Sears Canada, however, has not been as nimble in reacting. Instead of focusing on the consumer and how it can repair its offering, the company has instead focused on continual cost-cutting and extrapolating value from its real estate position. Only recently, under the just-departed CEO, did we see the company sign deals with stronger brands (Buffalo and Aldo) and introduce interesting concepts in to its stores [Maternity, Baby [OshKosh (CRI-NYSE)]].

For far too long, Sears has failed to invest the requisite dollars into its store network and attract the proper buying talent to refresh its offering. The continued entry of direct competitors (Target, Walmart), indirect competitors [Nordstrom's Off The Rack; Saks Off 5<sup>th</sup>, fast fashion retailers [H&M (HM.B-ST), Zara (ITX-MC), Joe Fresh (L-SP)], Winners (TJX-NYSE) continuing to grow], the potential for additional entries (Macy's, Kohl's, etc.), and the lack of long-term planning these past 10 years has left the company in a tough spot. We see few routes to a merchandising renaissance at Sears Canada.

## Sears Canada: Operational Efforts

### New Management – Temporary Energy

In 2009, Sears Canada hired Calvin McDonald, an energetic and highly regarded member of Loblaw's senior management team. At Loblaw, he was in charge of the conventional stores; at Sears, he was placed in charge of turning around a large department store chain with a wide range of store types and categories.

Mr. McDonald attacked numerous issues and made improvements in many areas. In fact, until his sudden departure at the end of September, it appeared as if the plan was beginning to bear fruit in certain departments. The company has seen growth in the SSS of apparel for three quarters in a row, with a pace that appears to be accelerating (Q4/12 +0.5%; Q1/13 +4.5%; Q2/13 +3.6%). The strength in apparel has been driven by several new and interesting initiatives at the store level aimed at increasing traffic.

- The company signed exclusive arrangements with Aldo, Buffalo, OshKosh and Penningtons (RET.A-SP).
- In the case of Aldo and Buffalo, the company is introducing co-branded and co-designed clothing in Sears stores (i.e., Nevada by Buffalo).
- OshKosh and Penningtons will be offered as branded products in small store-within-a-store concepts.
- Categories that haven't been performing well, or do better online have been pared back or discontinued entirely. The space is being repurposed for merchandise that sells well and generates traffic.
  - Fitness, for example, typically took up a lot of floor space but didn't do much sales outside of a few months of the year. Overall, 40% of total fitness volume was done direct (website or catalogue). This category has since been removed from the store and re-focused in the direct channels.
  - The company is focused on "hero" shops, businesses it believes can grow to a number 1 share position in the market. These can be either based on a brand (Mastercraft); or a specific product line (Footwear).
  - The company is trying to get younger, but will do so in a way that does not negatively impact its core customers. Clearly Sears Canada relies heavily on consumers in the 50+ age group, but is trying to appeal more to women aged 35-45.

Despite these initiatives and a focus on cutting costs (YTD expenses down 7%), sales overall remain weak, which has made it difficult to improve profitability (negative leverage remains a problem). Plus, the departure of Mr. McDonald and the subsequent promotion of the COO to CEO signal that SHLD (and more likely Mr. Lampert) has, for better or worse, taken over operations of the company. That the new CEO has little retail experience and is more of a classic consultant (BCG and before that U.S. military) also gives us a probable company direction. It is now even more likely that the company will sell off assets and reduce costs even further.

## No Danger Of Bankruptcy

Despite a weakened top line and a negative cash flow each quarter, the company's balance sheet remains in pristine condition. With the recent selling of three additional leases back to landlords, the company is sitting on a big pile of cash – net cash currently stands at \$263.9 million (will be over ~\$700 million after recent lease sales). Like in the past, when lease sales inevitably led to big dividend payments (benefitting the parent), we expect the company to make a similar large special dividend announcement later this year.

For the time being, with plenty of properties to monetize, more costs likely to be removed, and no sizable creditor, it appears that SCC has no immediate material bankruptcy risk.

## The Shedding Of Properties

One primary indication of the direction of Sears Canada is its continual shedding of properties. A retailing operation with a strong future would not be dealing off prime sites such as Eaton Centre, Yorkdale and Pacific Centre.

### Exhibit 12. Recent Lease Sales

Location	Sold To	Year
Chinook Centre	Landlord/Nordstrom	2012
Rideau Centre	Landlord/Nordstrom	2012
Pacific Centre	Landlord/Nordstrom	2012
Yorkdale	Landlord/Nordstrom	2013
Square One	Landlord/NA	2013
Scarborough Town Centre	Landlord/NA (Option)	2013
Toronto Eaton Centre (4 Floors)	Landlord/NA	2013
Sherway Gardens	Landlord/NA	2013
Markville Shopping Centre	Landlord/NA	2013
London-Masonville	Landlord/NA	2013
Richmond Centre	Landlord/NA	2013

Source: Company reports and CIBC World Markets Inc.

Each time a property is sold for cash, the sales base is reduced and the profitability is hit. It is quite possible that at least three of the stores listed above were among the most profitable in the chain.

It is also worth noting that the company does not just sell properties to keep cash from draining. It occasionally cuts a large dividend to parent Sears Holdings, and everyone benefits.

### Exhibit 13. Excess Cash Goes To SHLD (\$ mins.)

	F2008	F2009	F2010	F2011	F2012	F2013E	F2014E	F2015E
FCF	68.8	430.4	11.3	0.7	(177.4)	(35.4)	21.9	18.3
<b>Dividends</b>	-	-	(753.4)	-	(101.9)	-	-	-
Change in Debt	(7.5)	(10.3)	(204.2)	(12.1)	(106.5)	(4.6)	-	-
Share Buybacks	-	-	(43.0)	(42.0)	(9.7)	(4.0)	(8.0)	(8.0)

Source: Company reports and CIBC World Markets Inc.

## Forecasting The Operating Business

Over the next few years, as the company continues to sell off chunks of the business, the operating units will likely experience continued diminishing returns. This is because as each piece is sold, fixed operating cost leverage is lost and employee confidence is rattled. This makes any kind of significant operating turnaround increasingly difficult. The best that can be hoped for is status quo, with performance not getting significantly worse, essentially buying time until the real estate can be capitalized on in a larger-scale transaction. With that in mind, our forecasts are for the operating business as it is currently constructed, and do not consider the sale of additional stores as the timing and impact of these are incredibly difficult to predict.

### F2013, F2014 And F2015

Under the helm of the recently departed CEO, the core retail business had begun to display underlying improvements. Apparel SSS have been positive for three consecutive quarters and some of the core retail strategies seemed to be working. And while SSS remain negative overall, the improving trend along with some significant cost-cutting helped contribute to EBITDA flat lining. This is especially impressive considering the recent lease sales involved some of the company's highest traffic and most profitable locations. Looking out over the coming two years, a continued focus on cutting costs and momentum gained over the last year on the sales front should help deliver improving results.

#### Sales

- The culling of underperforming categories and floor space in favour of potential growth categories should help improve overall sales. As well, a focus on key areas of strength will help reposition the stores and generate sustainable traffic. The major opportunity lies in apparel, where management recognizes its positioning and plans to leverage off its leading position in sub-categories like baby and dresses to grow.
- **For F2013**, we are estimating SSS will finish the year at -2.3%, which includes apparel SSS growth of +3.0%. **For F2014**, we project SSS finishing the year at about -1.8%, with apparel SSS remaining positive, at +2.0%. **For F2015**, we forecast SSS of -1.0%.
- The recent sale of leases could have about a \$250 million negative impact on sales. Three of the leases are expected to be vacated by February 2014 with the other two vacated by February 2015. **Overall, our total sales forecast is \$4,040.7 million in F2013, \$3,881.1 million in F2014 and \$3,802.2 million in F2015.**

#### Gross Margins

- While gross margins have come off precipitously over time, this trend has been slowing as leaner inventory positions and more effective buying practices have reduced the need for massive discounting. Still, some investment in margin will likely be needed in the coming quarters to help drive top-line growth as the company invests in new business opportunities. We expect margins will continue to fall, albeit at a slowing pace.

- **For F2013**, we are anticipating an elevated level of discounting to continue in the back-half of the year as competition remains fierce during the ever important holiday selling period. Our forecast is for GM% to come in at 35.97% for the year, down 10 bps from F2012. **For F2014**, we expect GM% to be down by about 30 bps for the year. **For F2015**, we forecast GM% to be down only 15 bps. The fall in gross margin rate is inevitable and due to the falling top line.

### Opex And SG&A

- We expect operating expenses and SG&A will continue to track downward as the focus has turned to cutting costs. The new CEO has been instrumental in helping the company reduce overhead and with his hiring we would anticipate additional large cost-cutting initiatives to be put in place. He has already called for an additional \$100 million in cuts, which we have included in our numbers spread out evenly over F2014 and F2015.
- As more leases or assets are sold, we would expect significant cuts across the business to help mitigate the lost leverage – this is not included in our estimates.
- **In F2013**, we are projecting opex will be down about \$100 million on a dollar basis, but only 21 bps as a % of sales, as the stores returned to landlords will likely have an inordinate impact on fixed cost leverage. **For F2014**, we forecast SG&A coming in around \$1,329.1 million, which represents 34.25% of sales, down 59 bps from 34.83% in F2013. **For F2015**, we forecast total SG&A of \$1,278.8 million, or 33.63% of sales, down 62 bps from F2014.

### EBITDA

- If management is able to maintain gross margins around the 36% mark, while holding sales stable, and continue to cut costs, EBITDA should climb back above 2%. Long term, it is not inconceivable that EBITDA margins could be above 5%. However, the 9%+ levels seen back in 2008 and 2009 are likely ancient history.
- **For Q4/F13**, we expect EBITDA to come in at \$40.3 million, driving full-year **F2013 adjusted EBITDA of \$46.1 million**, or 1.14% of sales. **For F2014, we forecast EBITDA of \$55.6 million**, or 1.43%, an improvement of 29 bps. **For F2015, we forecast EBITDA of \$72.0 million**, or 1.89%, an improvement of 46 bps.

#### Exhibit 14. Forecasting The Operating Business (\$ mlns., except per share)

	F2011	F2012	F2013E	F2014E	F2015E
Sales	4,619.3	4,300.7	4,040.7	3,881.1	3,802.2
Y/Y Growth %	-6%	-7%	-6%	-4%	-2%
Gross Profit	1,687.0	1,551.5	1,453.6	1,384.7	1,350.8
% Of Sales	36.52%	36.08%	35.97%	35.68%	35.53%
Y/Y Change	-2.78%	-0.45%	-0.10%	-0.30%	-0.15%
Opex And SG&A	1,623.0	1,507.1	1,407.5	1,329.1	1,278.8
% Of Sales	35.14%	35.04%	34.83%	34.25%	33.63%
Y/Y Change	2.05%	-0.09%	-0.21%	-0.59%	-0.62%
<b>EBITDA</b>	<b>64.0</b>	<b>44.4</b>	<b>46.1</b>	<b>55.6</b>	<b>72.0</b>
% Of Sales	1.39%	1.03%	1.14%	1.43%	1.89%
Y/Y Change	-4.82%	-0.35%	0.11%	0.29%	0.46%
EPS – Adj.	(\$0.48)	(\$0.72)	(\$0.78)	(\$0.47)	(\$0.27)
FCF	0.7	(177.4)	(35.4)	21.9	18.3

Source: Company reports and CIBC World Markets Inc.



## Hidden Value: The Real Estate

Since its inception, Sears Canada has developed or acquired a significant base of real estate. While some of this is owned (about 14 department stores and six DCs), the majority is controlled through long-term leases. A large portion of these leases contain automatic renewal provisions and/or are currently being leased at well below market rates. Some of these leases are for greater than 50 years. Because of Sears' diminishing results and declining traffic, it is probable that most landlords believe that these locations would be better served with new tenants.

### Valuing The Leases

As we touched on previously, the company has already sold some of its most highly sought after locations back to the landlords for big cash hauls. However, there remains a considerable number of leases that if put back to the landlord could command a significant return. Because we do not know for sure which locations are owned and which are leased, for the purposes of this analysis, we have removed 14 properties from the company's department store location list (using very educated guesses - we will expand later). This has left us with approximately 97 leased locations to evaluate from a real estate value perspective.

**Exhibit 15. Sears Canada Leases – Top 10 Properties (\$ mlns., except per sq. ft.)**

Sears Leases - The Top 10			
Mall/Location	Square Ft (000)	Value/Sq ft.	Total Value
1 Eaton Centre (Floors 5-8)	405.6	\$135.32	\$ 54.9
2 Southgate Centre	263.0	\$250.00	\$ 39.5
3 Avalon Mall	128.9	\$150.00	\$ 22.6
4 Fairview Mall	149.6	\$148.44	\$ 22.2
5 West Edmonton Mall	149.0	\$125.00	\$ 18.6
6 Polo Park	263.2	\$116.66	\$ 30.7
7 Southcentre Retail	156.1	\$110.00	\$ 17.2
8 Le Carrefour Laval	150.9	\$109.07	\$ 16.5
9 Promenade	173.6	\$107.51	\$ 18.7
10 Galeries D'Anjou	146.6	\$87.82	\$ 12.9
<b>Total</b>	<b>1,986.4</b>	<b>\$127.66</b>	<b>\$ 253.6</b>

Eaton Centre Analysis			
	Square ft	Value/ sq ft	Total Value
Floors 1-4	410.5	\$800.00	\$ 275.9
Floors 5-8	405.6	\$135.32	\$ 54.9
<b>Total</b>	<b>816.1</b>	<b>\$405.30</b>	<b>\$ 330.8</b>

SCC recently sold back the leases to floors 1-4...Floors 5-8 are currently being used as SCC's head office.

Source: Company reports and CIBC World Markets Inc.

As the company sells down leases, it begins to limit the possibility of an overall portfolio sale. This is because it has been selling some, if not nearly all, of its most sought after locations. Any large U.S. or international retailer coming to Canada would want some inclusion of the very best leases if it is going to pay to also assume some of the very worst. With this in mind, we have divided the leases into four groups:

- **The Top 10:** These are leases that would go for well above market rates and would be highly sought after by pretty much any retailer.
- **The Upper Tier:** Those that can likely be returned to landlords for a significant profit, but might need to go out in a small group to attract a prospective retail buyer first.
- **The Middle Tier:** Leases that are worth something more in the hands of another retailer but aren't going to attract one-off bids from landlords - these will only be allotted value in a larger scale transaction.
- **The Lower Tier:** These leases are going to be tough to move in any circumstance and carry very little value.





**Exhibit 16. The Remaining Leases – Excluding The Top 10 Stores**

The Rest...			
Remaining Leases – 87 Locations; Split By:	Square Feet (000)	Value/Sq. Ft.	Total Value (\$mlns.)
Upper Tier – 23 @ ~137K	3,151.0	\$77.62	\$244.6
Middle Tier – 25 @ ~115K	2,875.0	\$47.94	\$137.8
Lower Tier – 39 @ ~99K	3,271.7	\$14.33	\$46.9
<b>Total</b>	<b>9,297.7</b>	<b>\$46.17</b>	<b>\$429.3</b>

Source: Company reports and CIBC World Markets Inc.

When evaluating these groups, we looked at each location individually and then put them all together to get an aggregate. Our starting point for each valuation was the value paid in recent lease sale transactions, which have ranged anywhere from \$190/sq. ft. to over \$500/sq. ft. Our valuation of these leases was then based on three main factors:

1. **Location Scarcity:** Is the store in a specific mall or area that has unparalleled access to certain socio-economic demographics with little room for additional retail real estate?
2. **Sales Per Sq. Ft.:** Is the location part of a complex with very high or low sales productivity? How does it compare to the productivity of previous leased property sales?
3. **Other Catalysts:** Is there another factor that could cause that lease to be worth significantly more in the future than it is today (Target moving in; mall being renovated; up and coming neighbourhood, etc.).

**We view the top 10 leases being worth about \$253.6 million (\$2.48/share) and the other leases being worth over \$429.2 million (\$4.21/share).**

## Valuing The Owned Real Estate

We were able to pull some information on which properties are owned from a Colliers report that was prepared several years ago during the SHLD takeover battle. And while this data is fairly stale, we do know which stores are still active and so were able to gain some granularity on eight of the 14 owned locations. We then put a blanket value on the remaining six. Our valuation overall uses \$150/sq. ft. as the base, which implies rent of \$10/sq. ft. and a cap rate of 6.7% – fairly conservative versus what we have seen recently in the Canadian retail real estate market [Choice Properties REIT (CHP.UN-SP) and Canadian Tire (CTC.A-SO)]. This valuation is also below that which we use for HBC (~\$175-\$200/sq. ft.).

**We view the value of the owned department stores as being worth around \$347.6 million.**

We also put a value on the distribution centres, using a value of \$64/sq. ft. Sears distribution centres are different from most, in that two of them were set up as single-pick facilities for the catalogue operation. It is possible that these would be desirable as e-commerce distribution centres.

**We view the value of the owned DCs as being worth around \$400 million.**

Finally, we also put a value on the company's 11 mall JVs, which are no longer reported separately from the operating business. We are using the most recent information on EBITDA generation (2012) as the basis for our valuation.

**Exhibit 17. RE JV Deals**

RE JV Property List	Interest	Partner
Carrefour Angrignon	50%	Westcliff Group
Place Angrignon	50%	Westcliff Group
Promenades de Drummondville	50%	Westcliff Group
Carrefour Richelieu	50%	Westcliff Group
Carrefour de Nord	50%	Westcliff Group
Place Pierre Caisse	50%	Westcliff Group
Mega-Centre Drummondville	50%	Westcliff Group
Drummondville Stripmall	50%	Westcliff Group
Kildonan Place	20%	Ivanhoe Cambridge
Galleries de Hull	15%	Ivanhoe Cambridge
Les Rivieres	15%	Ivanhoe Cambridge

Source: Company reports and CIBC World Markets Inc.

**Applying a 6.5% cap rate, we view the value of the mall JVs to be worth about \$352.3 million or \$3.46 per share.**

Combining the value of the leases, the owned department stores, distribution centres and mall JVs, we derive a total value of roughly \$1.8 billion, or \$18/share.

**Exhibit 18. Putting It All Together**

Real Estate Valuation				
	Square Feet (000)	Value/Sq Ft	Total Value (\$mlns.)	Per Share
Total Value Of Department Store Leases	11,284.1	\$60.52	\$682.9	\$6.70
Owned Properties – 14 Department Stores	2,317.5	\$150.00	\$347.6	\$3.41
Distribution Centres – 6 DCs	6,284.7	\$64.29	\$404.0	\$3.97
	EBITDA (\$mlns.)	Cap Rate	Total Value (\$mlns.)	Per Share
Mall JVs	22.9	6.5%	\$352.3	\$3.46
<b>Total Value Of Real Estate (Incl. Leases)</b>			<b>\$1,787.0</b>	<b>\$17.54</b>

Source: Company reports and CIBC World Markets Inc.

**Other Businesses**

In valuing the real estate, we have chosen not to include anything outside of the department store business. This is because there is scant information on the Sears Home and Corbeil real estate and we do not believe these would be transacted with the traditional department stores. Much of the value of the department stores lies in their below market rental rates, which we assume is not the case for the ancillary businesses that would not have benefitted from "anchor store" historical discounting.

## Future Possibilities

It is clear that there is much more value in the real estate than in the operations. Even if the operations can once again produce \$150 million of EBITDA, the most any common valuation of Sears as an operating company could compute is about \$16/share. Improving the operations further could yield a valuation in the \$16-\$19 range. However, this type of improvement would likely take years to achieve and require significant upfront investment.

**Exhibit 19. 2014 Valuation – Scenario Analysis (\$ mlns., except per share)**

	2014 Scenario Analysis					
EBITDA	50.0	100.0	150.0	200.0	250.0	300.0
Multiple	6.0x	6.0x	6.0x	6.0x	6.0x	6.0x
Enterprise Value	300.0	600.0	900.0	1,200.0	1,500.0	1,800.0
Net Debt (Cash)	(757.8)	(757.8)	(757.8)	(757.8)	(757.8)	(757.8)
Equity Value	1,057.8	1,357.8	1,657.8	1,957.8	2,257.8	2,557.8
Shares	101.9	101.9	101.9	101.9	101.9	101.9
<b>Per Share</b>	<b>\$10.38</b>	<b>\$13.33</b>	<b>\$16.27</b>	<b>\$19.27</b>	<b>\$22.16</b>	<b>\$25.10</b>

Source: Company reports and CIBC World Markets Inc.

However, Mr. Lampert does not have a 28% ownership stake in SCC simply for a \$2 or \$3 upside five to 10 years down the line. Indeed, when we look at the possibilities to maximize value, there are only three plausible options (and one stands out).

### 1. Keep On Going

Given the ownership, the management change, the forecasted results and current competitive environment, it is highly likely that Sears Canada will not continue in its current operational form for more than two or three more years. Even if it does manage to slash enough costs or catch "lightning in a bottle" on the sales front, the upside on the share price simply from operations (as seen in the table above) is very limited.

### 2. Sell The Entire Business

We are unsure that there is one buyer for the entire business. Macy's has given no indication of any interest in Canada; there are too many stores for Nordstrom; the store formats are wrong for Kohl's; the locations are unsuitable for Target. In other words, we do not see a strategic player as a likely buyer of all the assets.

It is not impossible that SHLD sells the Canadian operation to a private equity firm that might partner with an asset disposition business and a real estate company to break the assets into relevant pieces and sell to various buyers. However, since the real estate value is in the \$18 range, (and maybe much higher depending on future market dynamics and "highest and best use" analyses), the upside for current SCC shareholders if SCC were sold to private equity is probably no more than \$15 or \$16 – a price at which a risk/reward calculation might still work for a buyer.

### 3. Sell Real Estate While Minimizing The Cash Drain

Given the vast portfolio of real estate and a lack of strategic buyer for the entire network, the natural solution is to sell pieces over time while minimizing the cash drain. The company has already begun down this path with its recent lease sales, but in each of those transactions, it was taking advantage of an eager buyer (Nordstrom) or elevated real estate prices. The issue going forward, as we have alluded to previously, is that there are only so many additional "high value" leases that would command premium valuations in the market. Furthermore, these leases are likely for stores that produce above their weight, and losing them would have an outsized negative impact on the company's fixed cost leverage.

To help minimize the cash drain, the company will likely have to package inferior leases as part of the negotiation process for acquiring one of its best locations (a smaller scale of what Zellers accomplished) or figure out a way to generate additional cash flow (selling other parts of the business). Either way, the long-term cash generating ability of the business will be negatively impacted.

### The Likely Outcome

In our view, SCC will continue to sell off several properties per year for at least the next three years and then package up the rest for one or more buyers. In any scenario, the divestitures will generate substantial cash, which will likely be distributed to shareholders in the form of dividends. These dividends, plus the value of the remaining business (as stores are divested), should drive the share price up over time.

## Valuation And Price Target

In deriving our 12- to 18-month price target, we take a look at Sears Canada as a going concern, as well as from a real estate angle. This helps us derive what we believe to be a fair valuation basis for investors going forward.

### As An Operating Business

Sears Canada's performance has been deteriorating for years and the stores compete in a market that is facing increased competition and a consumer that remains extremely cautious. Conditions are tough.

When looking at comparables, the natural selection is HBC, the only other national Canadian department store. HBC is currently undergoing its own unique business transformation with a focus on improving sales that has resulted in Canadian SSS increasing by over 3% the past 11 quarters. The Bay has higher EBITDA margins (~8% vs. ~1%), a better management team and generally improving fundamentals throughout the business. It trades at an 8.3x multiple (this includes some noise – Saks acquisition, real estate angle) and we value the retail business using a 6x EBITDA multiple.

U.S. department store competitors are trading in a range of 5.2x to 10.0x. SCC's most comparable department stores [Sears, Bon-Ton (BONT-NASDAQ), JC Penney (JCP-NYSE)] trade around 5.8x (JCP and SHLD multiples currently unavailable). Discount players like Walmart and Target trade at 7.7x and 7.0x next year's EBITDA, respectively.

We believe as an operating business, SCC should be valued at no greater than 6x EBITDA – below that of HBC and U.S. discount merchants, but in line with its most comparable U.S. department stores. Applying this multiple to our F2014 EBITDA estimate derives a value of \$10.71.

**Exhibit 20. SCC Fundamental Valuation (\$ mlns., except per share)**

	F2012A	F2013E	F2014E
EBITDA	44.4	46.1	55.6
Multiple	6.0x	6.0x	6.0x
Enterprise Value	266.4	276.5	333.4
Net Debt (Cash)	(280.5)	(746.7)	(757.8)
Equity Value	546.9	1,023.2	1,091.2
Shares	102.1	101.9	101.9
<b>Per Share</b>	<b>\$5.36</b>	<b>\$10.05</b>	<b>\$10.71</b>

Source: Company reports and CIBC World Markets Inc.

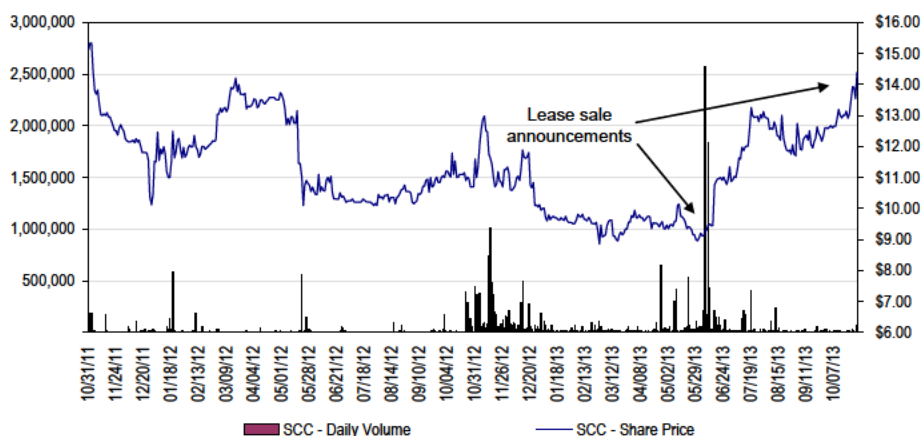
### As A Real Estate Play

As we have already touched on in great detail, we believe the entirety of the company’s real estate is worth around \$18/share. However, because monetizing the bulk of these assets will require outright lease sales (and thus the stores will no longer exist), any sales will have a negative impact on the long-term valuation of the operating business. Thus, when valuing the entire company in the next section, we give no value to the department store operations.

### As An Investment

Sears Canada has been trading up since it announced the sale of three leases back in June for a combined cash haul of over \$244 million. The current share price is likely above the true fundamental of SCC as an operating business and reflects the inherent real estate value and expectations around a special dividend.

**Exhibit 21. SCC Share Performance**



Source: Company reports and CIBC World Markets Inc.

As we have laid out in this report, from a real estate perspective, the value of the assets could be worth considerably more than where the shares are currently trading. When deriving a value for the business that fully encapsulates the real estate, it is important to also note which parts of the business could carry additional value.

The online business for instance is the fourth or fifth largest in Canada and would likely attract considerable interest if it was ever put up for sale. Corbeil, which has a stable following in Quebec and some nice new stores in Ontario, would be attractive to outside bidders. As well, in any real estate monetization, the stores will have to go through a process of liquidation (which will likely include some consideration for severance). This is also considered in our company valuation through our use of a 5% discount.

#### Exhibit 22. 2014E NAV

Real Estate	Sq. Ft. (mns.)	Value Per Sq. Ft.	Total Value (\$mns.)	Per Share
<b>Department Stores</b>				
Owned	2.3	\$150.00	\$347.6	\$3.41
Leased	11.3	\$60.52	\$682.9	\$6.70
<b>Distribution Centres</b>				
	6.3	\$64.29	\$404.0	\$3.97
	EBITDA (\$mns.)	Cap Rate		
Mall JVs	22.9	6.5%	\$352.3	\$3.46
<b>Total Real Estate Value</b>			<b>\$1,787.0</b>	<b>\$17.54</b>
	EBITDA (\$mns.)	Multiple		
Other (Home, Dealers, Online)	12.0	8.0x	\$96.0	\$0.94
Balance Sheet			(\$385.4)	(\$3.78)
Net Cash (2014E)			\$757.8	\$7.44
<b>Total Break-up Value</b>			<b>\$2,544.8</b>	<b>\$22.14</b>
<b>Discounted @ 5%</b>				<b>\$21.03</b>

Source: Company reports and CIBC World Markets Inc.

This valuation excludes the potential development opportunity in Burnaby, which Sears has sold a 50% interest in to Concord for \$140 million (\$15 million cash up front; remainder paid out over time). This would value the entire project currently at \$280 million or \$2.80 per share. We have excluded this from our formal valuation because this is a complex, multi-year project and it is too early to tell whether it will be completed or require more capital.

## Considering The Balance Sheet

For any investor looking at SCC as a possible break-up or liquidation opportunity, it is important to consider the balance sheet. Unlike an outright sale of the company, a liquidation could be a long drawn out process with multiple pieces being sold off in separate transactions over time. Because of this, we must consider what liabilities will need to be funded over time with the cash proceeds and what the company will be able to realize for its inventory. Below we have laid out each important piece along with our funding/sale realization rate expectations. This excludes debt which we have considered separately.

**Exhibit 23. Balance Sheet Items (\$ mlns., except per share)**

Balance Sheet Item	Q2/13 – Reported	Realization Rate	Net Realization	Per Share
A/R	77.2	100%	77.2	\$0.76
Inventory	915.3	50%	457.7	\$4.49
A/P	(505.7)	100%	(505.7)	(\$4.96)
Pension Liability	(414.5)	100%	(414.5)	(\$4.07)
<b>Total B/S Considerations (Excl. Net Debt)</b>			<b>(385.4)</b>	<b>(\$3.78)</b>

Source: Company reports and CIBC World Markets Inc.

## Recommendation

When looking at all the different possible routes Sears Canada could take to realize value for shareholders, it becomes pretty clear that the sum-of-the-parts is worth more than the current share price. Considering the balance sheet, real estate assets and core operating business, we derive a value of \$21/share (\$22 less 5% discount). And while we don't know exactly how the company will be able to finally realize on all of this value, recent actions indicate it is just a matter of time. As of November 4, we are initiating coverage of Sears Canada with a Sector Outperformer rating and a 12- to 18-month price target of \$21.

## Key Risks To Price Target

- The core retail business deteriorating at a faster pace than expected.
- The company's real estate portfolio containing different characteristics than anticipated (shorter leases, a lack of renewal provisions, higher rents, etc.).
- The company continues its operational decline and few material buyers of the real estate assets emerge.

**Our EBITDA (\$mln) estimates are shown below:**

---

	1 Qtr.	2 Qtr.	3 Qtr.	4 Qtr.	Yearly
2012 Current	(\$22.7A)	\$25.4A	(\$1.9A)	\$43.6A	\$44.4A
2013 Current	(\$9.8A)	\$24.7A	(\$9.2E)	\$40.3E	\$46.1E
2014 Current	-	-	-	-	\$55.6E

---



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Canadian Tire Corporation, Ltd. (2g, 7, 13) (CTC.A-TSX, \$96.95, Sector Outperformer)  
 Choice Properties REIT (2a, 2c, 2e, 2g) (CHP.UN-TSX, \$10.11, Sector Performer)  
 Hudson's Bay Co. (2a, 2c, 2e, 2g) (HBC-TSX, \$19.85, Sector Outperformer)  
 Loblaw Companies Limited (2a, 2c, 2e, 2g) (L-TSX, \$47.74, Sector Performer)  
 Reitmans (Canada) Ltd. (2g, 13) (RET.A-TSX, \$6.71, Sector Performer)

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Bon-Ton Stores (BONT-NASDAQ, US\$11.19, Not Rated)  
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 Dillards (DDS-NYSE, US\$83.42, Not Rated)  
 Gap (GPS-NYSE, US\$36.76, Not Rated)  
 H & M Hennes & Mauritz AB (HM.B-ST, [SEK]278.90, Not Rated)  
 Inditex (ITX-MC, €118.80, Not Rated)  
 JC Penney (JCP-NYSE, US\$8.44, Not Rated)  
 Kohl's Corp. (KSS-NYSE, US\$58.55, Not Rated)  
 Macy's Inc. (M-NYSE, US\$46.69, Not Rated)  
 Michael Kors Holdings Ltd. (KORS-NYSE, US\$74.26, Not Rated)  
 Nordstrom (JWN-NYSE, US\$60.36, Not Rated)  
 Saks Inc. (SKS-NYSE, US\$16.00, Not Rated)  
 Sears Holding Corp (SHLD-NASDAQ, US\$59.47, Not Rated)  
 Target Corp. (TGT-NYSE, US\$65.00, Not Rated)  
 TJX Companies, Inc. (TJX-NYSE, US\$60.76, Not Rated)  
 Wal-Mart (WMT-NYSE, US\$77.50, Not Rated)

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## CIBC World Markets Inc. Price Chart

**No price chart is available because CIBC World Markets Inc.  
has covered this company,  
Sears Canada Inc. (SCC), for less than one year.**

No rating history data found for Sears Canada Inc.

## CIBC World Markets Inc. Stock Rating System

Abbreviation	Rating	Description
<b>Stock Ratings</b>		
SO	Sector Outperformer	Stock is expected to outperform the sector during the next 12-18 months.
SP	Sector Performer	Stock is expected to perform in line with the sector during the next 12-18 months.
SU	Sector Underperformer	Stock is expected to underperform the sector during the next 12-18 months.
NR	Not Rated	CIBC World Markets does not maintain an investment recommendation on the stock.
R	Restricted	CIBC World Markets is restricted*** from rating the stock.
<b>Sector Weightings**</b>		
O	Overweight	Sector is expected to outperform the broader market averages.
M	Market Weight	Sector is expected to equal the performance of the broader market averages.
U	Underweight	Sector is expected to underperform the broader market averages.
NA	None	Sector rating is not applicable.

\*\*Broader market averages refer to the S&P 500 in the U.S. and the S&P/TSX Composite in Canada.

"Speculative" indicates that an investment in this security involves a high amount of risk due to volatility and/or liquidity issues.

\*\*\*Restricted due to a potential conflict of interest.

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(as of 04 Nov 2013)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	138	39.2%	Sector Outperformer (Buy)	131	94.9%
Sector Performer (Hold/Neutral)	176	50.0%	Sector Performer (Hold/Neutral)	162	92.0%
Sector Underperformer (Sell)	31	8.8%	Sector Underperformer (Sell)	27	87.1%
Restricted	6	1.7%	Restricted	6	100.0%

### Ratings Distribution: Merchandising Coverage Universe

(as of 04 Nov 2013)	Count	Percent	Inv. Banking Relationships	Count	Percent
Sector Outperformer (Buy)	5	35.7%	Sector Outperformer (Buy)	4	80.0%
Sector Performer (Hold/Neutral)	9	64.3%	Sector Performer (Hold/Neutral)	9	100.0%
Sector Underperformer (Sell)	0	0.0%	Sector Underperformer (Sell)	0	0.0%
Restricted	0	0.0%	Restricted	0	0.0%

Merchandising Sector includes the following tickers: CTC.A, DOL, EMP.A, HBC, L, MRU, NWC, PJC.A, RET.A, RON, SC, SCC, THI, WN.

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## Canadian Retail - Sears Canada Monetizes More Leases

Sentiment Indicator : neutral

Posted by Tal Woolley on Tuesday, October 29 2013, 9:48 AM ET

**Sears Canada has sold leases for five stores for \$400 million.** The sale includes locations at: Toronto Eaton Centre (Toronto, ON), Sherway Gardens (Toronto, ON), Markville Shopping Centre (Markham, ON), Masonville Place (London, ON), and Richmond Centre (Richmond, BC). Four of the locations are owned by The Cadillac Fairview Corporation Limited and the Richmond Centre is co-owned by Ivanhoé Cambridge and Cadillac Fairview. Sears will retain the top four floors of the Toronto Eaton Centre for its head office operations. The sale of these locations is consistent with a recent interview given by Sears Canada CEO to the Globe and Mail where he acknowledged that he would be willing to consider offers for any of the company's locations. The sale transaction requires Sears Canada to vacate the Toronto Eaton Centre, Sherway Gardens and London-Masonville stores by February 28, 2014 and the Markville and Richmond locations by February 28, 2015.

**In aggregate, we estimate an approximate sale price \$270/sf for the three recent lease sale transactions.** We estimate Sears Canada has sold leases covering approximately 3 million sf of space for \$814 million (in three separate announcements dating back to April 2012), including the square footage and optional purchase price for the Scarborough Town Centre store. Among the department store retailers, we expect Nordstrom and Simons to have the greatest interest in these locations should the landlords involved decide they want to preserve the space for department stores. It is possible that in certain locations, you could see these transactions form part of a larger redevelopment of the mall.

Tal Woolley | [tal.woolley@rbccm.com](mailto:tal.woolley@rbccm.com)

[Click here](#) for disclosures for Tal Woolley



**Sears Canada Inc. (SCC C\$12.27, TSX)**

Rating Hold–Speculative

Target C\$11.00

**2Q results slightly below our expectations, although apparel and accessories sales are trending well** — Keith Howlett (416) 607-3020, keith.howlett@vmd.desjardins.com

**Impact: Neutral**

Earlier this morning, Sears Canada reported 2Q13 results for the 13-week period ending August 3. The company reported an operating loss per share of C\$0.11 after adjusting for a C\$185.7m pre-tax gain related to 'lease-takeback' transactions announced in June. The results were slightly below our estimate of an operating loss per share of C\$0.08. Same store sales for the quarter decreased 2.5% relative to our expectation of a 3.0% decline. While the rate of decline in same store sales was less than forecast, Sears Canada's consolidated revenue of C\$960.1m for the quarter was ~C\$20m below our estimate. We attribute the variance primarily to store closures and (to a lesser extent) non-merchandise sales.

We note that Sears Canada's apparel and accessories sales increased year-over-year for a third consecutive quarter on a same store basis. On a consolidated basis, 2Q sales of accessories and apparel declined by 2.0% yoy to C\$324.4m. We consider the results to be good, particularly in light of the increased level of competition expected from Target Corporation (TGT, NYSE, not rated), which recently launched its Canadian operations. In Target's 2Q13 earnings release (issued this morning), CEO Gregg Steinhafel stated, in reference to Canada, that "we continue to learn, adjust and refine operations in our existing stores as we prepare to open another 56 stores by year-end". Target reported 2Q sales of US\$275m and a gross margin rate of 31.6% for its Canadian operations.

Separately, it was also reported in a news article yesterday that Sears Canada will be laying off 245 employees from head office–type positions beginning in November. The layoffs relate primarily to information technology and finance functions. The company continues to work toward lowering expenses, having reduced total expenses by 10.3% in 2Q relative to the comparable period last year.

We continue to be of the view that while Sears Canada owns a base of solid assets, a turn in operating results is not yet in evidence. We have a Hold–Speculative rating and C\$11 target on the shares of Sears Canada.

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Distribution of ratings					
Rating category	Desjardins rating	Desjardins coverage universe (# of stocks)	% distribution	Desjardins Investment Banking (# of stocks)	% distribution
Buy	Top Pick/Buy	94	64	32	76
Hold	Hold	49	33	10	24
Sell	Sell	4	3	0	0
<b>Total</b>		<b>147</b>		<b>42</b>	<b>100</b>

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Top Pick	Buy	Hold	Sell	Not Rated
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**RISK QUALIFIERS**

Average Risk	Above-average Risk	Speculative
Risk represented by the stock is in line with its peer group* in terms of volatility, liquidity and earnings predictability	Risk represented by the stock is greater than that of its peer group* in terms of volatility, liquidity and earnings predictability	High degree of risk represented by the stock, marked by an exceptionally low level of predictability

\* Peer group refers to all of the companies that an analyst has under coverage and does not necessarily correspond to what would typically be considered an industry group. Where an analyst's coverage universe is such that 'relative' performance against a 'peer group' is not meaningful, the analyst will benchmark the rating against the most appropriate market index

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**Sears Canada Inc. (SCC C\$12.41, TSX)**

Rating Hold–Speculative

Target C\$11.00

**Departure of CEO reduces probability of an operating turnaround** — Keith Howlett (416) 607-3020, keith.howlett@vmd.desjardins.com

**Impact: Negative**

Sears Canada has announced that CEO Calvin McDonald has resigned to pursue an opportunity with a leading “international company” (name not yet announced). McDonald joined Sears Canada from Loblaw in June 2011 and was in the midst of implementing a three-year (2012–14) turnaround plan. A key component of the plan was the revival of the company’s merchandising expertise. Our view was that McDonald was a talented, energetic retail executive and might have been able to accomplish a turnaround against what we perceive as long odds.

The parting appears to be on amicable terms, and the company indicates that it is the result of a personal career decision by McDonald.

Our speculation is that McDonald may have held differing views from those of the controlling shareholder, Sears Holdings, on the appropriate level of capital spending for store renovations, on the sale of under-market leases back to landlords (Yorkdale, Mississauga Square One and others) and with respect to the outsourcing of head office positions to other countries.

Douglas Campbell, previously COO, is taking over as CEO of Sears Canada, effective today. Campbell joined Sears Canada in March 2011. He was previously with Boston Consulting Group and the US Navy. He holds an MBA from Wharton.

Many of Sears Canada’s department store locations would presently be more productively deployed if operated by other retailers. We expect additional selective sales of leases back to landlords. At this time, there does not, however, appear to be a ‘bulk buyer’ (such as, for example, Macy’s) for 60–90 Sears department store leases (similar to Target’s purchase of the bulk of Zellers’ leases).

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<b>Rating category</b>	<b>Desjardins rating</b>	<b>Desjardins coverage universe (# of stocks)</b>	<b>% distribution</b>	<b>Desjardins Investment Banking (# of stocks)</b>	<b>% distribution</b>
Buy	Top Pick/Buy	87	63	33	72
Hold	Hold	46	34	13	28
Sell	Sell	4	3	0	0
<b>Total</b>		<b>137</b>	<b>100</b>	<b>46</b>	<b>100</b>

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## Sears Canada Inc. (SCC C\$14.35, TSX)

**After the cherry-pickers finish, who will take over the bulk of Sears' assets? Maintaining Hold rating but increasing target to C\$14.50 (from C\$11.00)**

Keith Howlett • (416) 607-3020 • keith.howlett@vmd.desjardins.com  
 Kane Rao, Associate • (416) 607-3080 • kane.rao@vmd.desjardins.com

### The Desjardins Takeaway

Sears Canada has agreed to sell five more undermarket leases back to landlords for C\$400m. This will bring to 12 the store locations sold. We would expect a special dividend of C\$4–5 before year-end. Purposefully downsizing an already-shrinking business is challenging, as follow-on cost reductions must be swift. To move toward a complete exit, Sears Canada needs to find one buyer for 60–80 leases, in our view. Our rating is Hold–Speculative with a target of C\$14.50 (from C\$11.00).

### Highlights

Sears Canada has agreed to sell five more leases back to landlords for C\$400m in cash, with closing on November 12, 2013. Stores to be closed include Eaton Centre and Sherway Gardens in Toronto.

**Sears Canada has sold 2.85m sq ft of leased space for C\$820m.** Assuming the option granted on Scarborough Town Centre is exercised, Sears Canada will have sold 2.85m sq ft of leased space back to its landlords for C\$820m (~C\$288 per sq ft) since March 2012. This is a reflection of the strong demand for good retail space in Canada, both from department stores (eg Nordstrom, Simons) and specialty retailers, primarily new entrants from the US. Sears Canada has 110 department store locations left.

**Will a major retailer step forward, and soon, for the bulk of the locations?** The need to find a bulk buyer for 60–80 locations is intensifying, in our view, as the business is likely to begin an irreversible, albeit slow-motion, death spiral. Macy's is the only possible suitor for that many locations, in our view, but management of Macy's has been dismissive of the idea of entering Canada at this time.

**We would expect a special dividend of C\$4–5 before year-end.** We would expect a special dividend of C\$4–5 per share given the company's cash balance will exceed C\$600m by mid-November 2013. Our expectation is that Sears Canada is likely to receive C\$53m from the exercise of the option on Scarborough Town Centre during 2014. As long as consumers do not perceive that Sears Canada is going out of business and desert it, Sears may be able to manage its demise slowly over time, selling prime and non-core assets, and waiting for the elusive purchaser of 60–80 store locations to appear.

### Valuation

We maintain our operating loss estimate of C\$0.23 in FY13 and have increased our FY14 operating loss forecast to C\$0.35 (from C\$0.24). We have increased our target price to C\$14.50 (from C\$11.00), which represents forecast book value at year-end before any special dividends.

### Recommendation

In our view, Sears Canada is in slow-motion liquidation, harvesting cash until it identifies a viable, profitable and final exit strategy from retailing in Canada. This could go on for many years, as loyal consumers typically desert ship calmly over an extended time period. Our rating is Hold–Speculative.

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### Sears Canada Inc.

Rating	Hold–Speculative	
Target	C\$14.50	
Symbol	SCC	
Exchange	TSX	
Sector	Consumer Discretionary	
Closing price	C\$14.35	
Potential return	1.0%	
52-week range	C\$8.84–14.65	
Shares O/S	101.9m	
Market cap	C\$1,461.9m	
TSX weighting	NA	
Year-end	Jan-31	
Revenue	2013E	C\$4,010m
	2014E	C\$3,665m
EBITDA	2013E	C\$92m
	2014E	C\$75m
EPS	2013E	-C\$0.23
	2014E	-C\$0.35
P/E	2013E	NA
	2014E	NA
Book value/sh	C\$11.77	
LTM ROE	-3.3%	
Debt/total capital	4.4%	
Dividend	C\$0.00	
Dividend yield	NA	
Quarterly data		
EPS	2Q13A	-C\$0.11 <sup>1</sup>
	2Q12A	-C\$0.10 <sup>1</sup>
	Consensus	NM

<sup>1</sup> Diluted operating  
 Source: Desjardins Capital Markets



**The best business Sears Canada may have ever had—lease sales**

Sears Canada has now sold 2.85m sq ft of leased space back to its landlords for C\$820m. Being a poor retailer with a great lease is highly profitable, in this instance.

**Sears Canada has raised C\$820m (pre-tax) from lease sales in 2012 and 2013**

Number of leases sold	12
Total square footage (000 sq ft)	2,850
Proceeds (pre-tax) (C\$m)	820
Cash per sq ft (pre-tax) (C\$)	287.72

Note: Assumes exercise of the option on Scarborough Town Centre  
 Source: Desjardins Capital Markets, company reports

**Sears Canada will pay a special dividend of C\$4–5 before year-end, in our view.** Sears Canada has paid out C\$8 per share in special dividends in the last five years. Given the company's large cash balance as of mid-November 2013 when the latest lease-sale transaction closes, as well as the safety net of the expected receipt of proceeds from the exercise of the option on Scarborough Town Centre in 2014, we forecast a special dividend of C\$4–5 before year-end.

**Estimate of Sears Canada cash on hand as of November 12, 2013 (closing of lease sales)**

Cash on hand at end of 2Q FY13 (C\$m)	319.1
Estimated receipt of proceeds of lease sales, net of fees and taxes	
Announced October 29, 2013 (five stores) (C\$m)	339.5
Estimated cash flow in 3Q FY13 (C\$m)	15.0
Estimated cash on hand as of November 12, 2013 closing (C\$m)	658.6
Estimated cash per share as of November 12, 2013 closing (C\$)	6.46
Potential future cash inflow if option exercised (Scarborough Town Centre lease) (C\$m) net of fees and taxes	45.0
Potential additional cash per share (C\$)	0.44

<sup>1</sup> Assumes tax rate of 25% on one-half of capital gain and transaction fees of 3%  
 Source: Desjardins Capital Markets, company reports

**Sears Canada has another 110 full-line department store locations: Who wants to bid?** Sears Canada has many more good locations in its portfolio of 110 full-line department stores, but neither Nordstrom nor Simons is seeking even 10 locations.

**Remaining full-line department store network, owned and leased**

Full-line stores	110
Full-line square footage (m sq ft)	12.75
Average store size (sq ft)	115,909

Note: Assumes option on Scarborough Town Centre is exercised; two stores are operating until February 28, 2015, and no date has been determined to close Scarborough Town Centre  
 Source: Desjardins Capital Markets, company reports

**Sears Canada has a long-fuse project for a C\$1b redevelopment of a location in Vancouver.** Sears Canada is partnering with Concord Pacific, one of Canada's foremost developers (eg City Place in Toronto) to redevelop its store site in Burnaby.



**Redevelopment project in Burnaby presents another source of cash in the future**
**Project details**

Location	Metropolis at Metrotown, Burnaby, BC
Size	~9 acres
Development cost	>C\$1b as of 2013
Application	Submitted application to City of Burnaby on June 7, 2013
Type of project	Mixed-use project, consisting of seven residential and office high-rises along ground-level retail; also construction of new Sears store

**Arrangement with developer**

Developer	Concord Pacific
Type of arrangement	Co-ownership joint arrangement
Sale of interest	50%
Retained interest	50%
Proceeds from developer	C\$140m, subject to adjustments (C\$15m to be paid in cash on closing, with the rest secured by interest-free long-term note)
Conditions to be met prior to closing	The project is subject to many different uncertainties, including City of Burnaby approval, zoning regulations, site investigations, strategic considerations etc

Source: Desjardins Capital Markets, company reports

**Sears Canada has a number of assets that will, or could, live on under other owners.** Sears Canada has a number of discrete businesses with high market share or distinctive attributes that could be sold to new owners.

**Component businesses of Sears Canada that might be saleable**

1. Major appliances and furniture
2. Online retailing and physical fulfillment
3. Warranty and repair business
4. Trucking business (SLH)

Source: Desjardins Capital Markets

**Sears Canada has a variety of store formats that may interest different buyers.** While full-line department stores are the core asset, Sears Canada has an array of store formats. For example, the Sears Home stores might be attractive to Leon's or hhgregg.

**Sears has a variety of store formats in its network, which would attract different buyers**

Full-line department stores	110 <sup>1</sup>
Outlet stores	11
Sears Home stores	48
Specialty type: appliances and mattresses stores	4
<b>Corporate stores</b>	<b>173</b>
Sears Hometown Dealer stores	246
Corbeil	34
Catalogue and online merchandise pick-up locations	1,479

Note: Assumes exercise of the option on Scarborough Town Centre

<sup>1</sup> As of end of lease transactions

Source: Desjardins Capital Markets, company reports

**North American department and discount stores relative valuations (October 29, 2013)**

Company (US\$)	Ticker	Share price (\$)	P/E (x)			Price chg (%)			EV/EBITDA (x)		EBITDA margin <sup>1</sup> (%)	ROE (%)	Mkt cap (\$m)
			LTM	CFY	NFY	1w	3m	12m	TTM	CFY			
Sears Holdings Corp	SHLD	62.09	NM	NM	NM	10.6	40.0	0.0	NM	NM	-1.38	-8.0	6,611
<b>Sears Canada Inc (C\$)</b>	<b>SCC</b>	<b>14.35</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>10.0</b>	<b>11.1</b>	<b>46.5</b>	<b>17.2</b>	<b>13.0</b>	<b>1.34</b>	<b>-3.3</b>	<b>1,462</b>
JC Penney Co Inc	JCP	7.38	NM	NM	NM	12.7	-54.6	-71.0	NM	NM	-8.51	-50.2	2,248
Bon-Ton Stores Inc/The	BONT	11.57	NM	NM	NM	5.9	-37.5	-3.6	6.5	6.3	5.95	14.6	237
Saks Inc	SKS	16.02	NM	44.9	33.4	0.1	0.0	56.4	11.1	11.4	7.69	6.0	2,406
Hudson's Bay Co	HBC	19.09	NM	19.4	15.9	0.5	6.6	NM	NM	9.0	NM	NM	2,291
<b>Loblaw Cos Ltd (C\$)</b>	<b>L</b>	<b>47.65</b>	<b>17.3</b>	<b>18.5</b>	<b>16.8</b>	<b>-0.5</b>	<b>-4.0</b>	<b>37.6</b>	<b>8.6</b>	<b>8.4</b>	<b>6.56</b>	<b>12.4</b>	<b>13,440</b>
Nordstrom Inc	JWN	60.46	16.0	16.4	14.7	2.4	-1.3	8.4	7.5	7.7	14.67	39.3	11,783
Wal-Mart Stores Inc	WMT	77.06	15.0	14.8	13.5	1.0	-1.1	2.6	8.3	8.1	7.75	24.1	249,988
Target Corp	TGT	64.32	17.9	14.6	12.8	-1.2	-9.9	0.6	7.7	7.9	9.50	14.7	40,594
<b>Canadian Tire Corp Ltd (C\$)</b>	<b>CTC.A</b>	<b>98.50</b>	<b>15.0</b>	<b>14.4</b>	<b>13.5</b>	<b>2.3</b>	<b>15.6</b>	<b>37.6</b>	<b>8.4</b>	<b>8.0</b>	<b>10.16</b>	<b>11.2</b>	<b>8,019</b>
Macy's Inc	M	46.13	12.5	12.2	10.7	3.4	-4.2	19.9	6.1	6.1	13.38	24.9	17,356
Dillard's Inc	DDS	83.19	14.5	11.3	10.4	4.0	0.5	16.5	5.5	5.4	12.37	15.7	3,853
<b>Average</b>			<b>15.5</b>	<b>18.5</b>	<b>15.8</b>	<b>3.9</b>	<b>-3.0</b>	<b>12.6</b>	<b>8.7</b>	<b>8.3</b>	<b>6.62</b>	<b>8.5</b>	<b>27,714</b>

<sup>1</sup> Trailing 12 months

Source: Desjardins Capital Markets, Bloomberg

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Buy	Top Pick/Buy	91	62	33	72
Hold	Hold	51	35	13	27
Sell	Sell	4	3	0	0
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Stocks that are expected to perform in line with their respective peer group\* over a 12-month period

**Sell**

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**Not Rated**

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**Speculative**

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**Sears Canada Inc. (SCC C\$16.00, TSX)**

Rating Hold–Speculative

Target C\$14.50

**Sears Canada agrees to sell 50% ownership interests in eight shopping centres for C\$315m** — Keith Howlett (416) 607-3020, keith.howlett@vmd.desjardins.com

**Impact: Positive**

Sears Canada has agreed to sell its 50% joint venture interests (joint venture partner is Westcliff) in eight shopping centres in Québec to Montez Income Properties Corporation for C\$315m. Our preliminary estimate of after-tax proceeds is ~C\$280m. The transaction is scheduled to close on January 8, 2014. The sale price somewhat exceeds the fair value of the assets as determined under IFRS and as stated on the balance sheet (but we are unable to determine by exactly how much).

Sears Canada has three joint venture interests in shopping centres remaining (two ownership interests of 15% and one of 20%), both in partnership with Ivanhoe Cambridge. Sears Canada also has two joint venture interests of 50% in land holdings in Québec, both in partnership with Westcliff.

In 1H FY13, Sears Canada generated a loss from retailing operations before tax of C\$56.9m, and a profit before tax from joint venture real estate investments of C\$5.8m. Our preliminary estimate is that the sale of the eight joint venture interests will increase the FY14 operating loss by ~C\$0.08.

We continue to expect Sears Canada to pay a special dividend prior to the end of 2013 from the proceeds of selling under-market department store leases back to landlords. Given the expected proceeds from the sale of joint venture interests in shopping centres announced today, the amount of the special dividend may be as high as C\$6 (prior estimate C\$4–5). We expect Sears Canada to hold substantial cash resources on its balance sheet in order to maintain the confidence of customers, suppliers and employees as to the company's ongoing commitment to retail operations.

In our view, Sears Canada remains a speculative investment as the company continues what we characterize as a two-prong agenda of selling assets and disbursing cash to shareholders while simultaneously attempting to return its struggling and shrinking retail business to profitability. The probability of a return to profitability appears relatively low, in our view, given recent management turnover, under-investment in the business over the last eight years and intensifying competition.

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Distribution of ratings					
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Buy	Top Pick/Buy	76	59	32	70
Hold	Hold	50	38	14	30
Sell	Sell	4	3	0	0
<b>Total</b>		<b>130</b>	<b>100</b>	<b>46</b>	<b>100</b>

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Average Risk	Above-average Risk	Speculative
Risk represented by the stock is in line with its peer group* in terms of volatility, liquidity and earnings predictability	Risk represented by the stock is greater than that of its peer group* in terms of volatility, liquidity and earnings predictability	High degree of risk represented by the stock, marked by an exceptionally low level of predictability

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## Sears Canada Inc. (SCC C\$16.70, TSX)

**Sears Canada raises cash with sale of investments for C\$315m; maintaining Hold rating but increasing target to C\$15.00 (from C\$14.50)**

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 Kane Rao, Associate • (416) 607-3080 • kane.rao@vmd.desjardins.com

### The Desjardins Takeaway

Sears Canada has agreed to sell its interests in eight shopping centres for C\$315m, with closing expected on January 8, 2014. This pending additional inflow of cash gives Sears Canada the flexibility, in our view, to pay out a special dividend of ~C\$6 per share from proceeds of recent lease sales. We speculate that Sears Canada may shift its focus to its hardlines business, if Macy's can be enticed into Canada. Our rating on Sears Canada is Hold-Speculative with a target price of C\$15.00 (up from C\$14.50).

### Highlights

Sears Canada has agreed to sell its interests in eight shopping centres for C\$315m, with closing scheduled for January 8, 2014. The offset will be the elimination of substantially all of its operating profits within the real estate segment in FY14 and beyond.

**Sale price for interests in eight shopping centres is modestly above fair value under IFRS.** Sears Canada has agreed to sell its 50% interests in eight shopping centres for C\$315m. Sears will continue to hold interests in three other shopping centres (two interests of 15%, one of 20%), as well as 50% interests in each of two joint ventures with land holdings in Québec. As a first-order approximation (on limited information available), we estimate the market value of retained interests at ~C\$50m.

**If Macy's can be enticed into Canada, Sears Canada could narrow its focus to hardlines and online.** For Sears Canada to exit the full-line department store business, a major anchor tenant would be needed to take over the majority of Sears' space in major shopping malls across Canada. In our view, the only tenant with the ability, financial strength and consumer appeal to absorb that much space is Macy's. In June 2013, Macy's clearly expressed no immediate interest in Canada. Since that time, Hudson's Bay acquired Saks, reducing market entry options to one—Sears Canada's department store space. Landlords have now taken back 11 key (and one secondary) leases from Sears Canada, increasing pressure on Macy's to make a near-term, final decision on Canada. The luxury of waiting a year or two is off the table, as the prime locations Macy's would want are up for repositioning. While Canada may not be of interest to Macy's, it will need to make a final decision now, in our view.

### Valuation

We are maintaining our FY13 operating EPS estimate but are increasing our FY14 operating loss forecast to C\$0.42 (from a loss of C\$0.35) to reflect the sale of the eight shopping centre interests. Our target price is C\$15.00 (up from C\$14.50), based on projected year-end book value, before special dividends.

### Recommendation

Sears Canada remains a speculative situation as the company sells assets and downsizes its infrastructure to match its shrinking business. While owned real estate and under-market leases well support the share price, timing of realization is not predictable. Our rating remains Hold-Speculative.

### Sears Canada Inc.

Rating	Hold-Speculative	
Target	C\$15.00	
Symbol	SCC	
Exchange	TSX	
Sector	Consumer Discretionary	
Closing price	C\$16.70	
Potential return	-10.2%	
52-week range	C\$8.84-17.15	
Shares O/S	101.9m	
Market cap	C\$1,701.4m	
TSX weighting	NA	
Year-end	Jan-31	
Revenue	2013E	C\$4,010m
	2014E	C\$3,625m
EBITDA	2013E	C\$92m
	2014E	C\$57m
EPS	2013E	-C\$0.23
	2014E	-C\$0.42
P/E	2013E	NM
	2014E	NM
Book value/sh	C\$11.77	
LTM ROE	-3.3%	
Debt/total capital	4.4%	
Dividend	C\$0.00	
Dividend yield	NA	
Quarterly data		
EPS	2Q13A	-C\$0.11 <sup>1</sup>
	2Q12A	-C\$0.10 <sup>1</sup>
	Consensus	NM

<sup>1</sup> Diluted operating  
 Source: Desjardins Capital Markets



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***Macy's is one of the last major US retailers without a physical presence in Canada***

While Macy's has likely studied entry into Canada more times than any other US retailer, it has never made the decision to do so. With the successful acquisition and rebranding of May stores, Macy's became a national retailer in the US. Regardless of the narrowing of its US growth options (in terms of store count), Macy's stated in June 2013 at its investor day that it was not interested in Canada.

Since Macy's statement on Canada in June, Hudson's Bay has acquired Saks. Our view is that this transaction eliminated one of Macy's options, that of entering Canada by acquiring Hudson's Bay. The remaining alternative is to enter Canada by acquiring the best of Sears Canada's full-line department store space. The pressure to take action on that alternative is escalating, as landlords have begun a process of buying Sears Canada out of its leases of space at Canada's top malls, enabling landlords to find a more profitable use for the space. These are the precise spaces of most interest to Macy's, should it wish to enter Canada.

From the landlord's perspective, there is no other identifiable tenant who could absorb 60–80 department store locations at top malls and drive improved traffic. Nordstrom, Saks and Simons may all need a handful of locations, but even cumulatively it is unlikely they will take more than 20 locations over 5–6 years.

In the last 20 years, first movers to Canada have generally done well—Walmart, Home Depot, Costco, Best Buy. Some of the 'second US entrants' in a segment have struggled—Sam's Clubs, Lowe's, Target (but it is still early days). Macy's would represent the first mid-to-high US department store chain in Canada. We would expect it has high name recognition given its annual Christmas parade in New York City, and its exposure through US feature films and other media.

**Macy's has 844 locations in the US with revenue of US\$27.7b**

<b>Macy's Inc.</b>	<b>Market cap: US\$17,374.8m</b>
<b>Company overview</b>	
Number of stores <sup>2</sup>	844
Full-line stores	747
Home furniture/clearance stores	97
Presence in US <sup>2</sup>	45 states <sup>4</sup>
<b>Merchandise mix (%)<sup>3</sup></b>	
Female accessories, shoes and cosmetics	38
Female apparel	23
Men's and children's	23
Home/miscellaneous	16
<b>Financial highlights</b>	
FY12 net sales <sup>3</sup> (US\$m)	27,686
Adjusted EBITDA <sup>3</sup> (US\$m)	3,715
EBITDA margin (%)	13.4
Gross sq ft <sup>2</sup> (000)	150,748
Sales per gross square feet <sup>1</sup> (US\$)	183.66
Sales per average store <sup>1</sup> (US\$m)	32.80
Comparable sales (three-year average) (%)	4.5
Return on invested capital (three-year average) (%)	19.4
<b>Balance sheet data<sup>2</sup></b>	
Debt (US\$m)	6,914
Equity (US\$m)	5,855
Debt/total capital (%)	54.1
Total assets (US\$m)	20,431

<sup>1</sup> Estimated; <sup>2</sup> As of August 3, 2013; end of 2Q13; <sup>3</sup> As of February 2, 2013; end of FY12; <sup>4</sup> Also includes District of Columbia, Guam and Puerto Rico

Source: Desjardins Capital Markets, company reports

Two other US department store retailers would be less attractive to Canadian landlords: Kohl's and J.C. Penney. While Kohl's is a very good retailer, its real estate strategy is based on paying lower rents than those incurred at regional shopping centres. J.C. Penney is fully absorbed by its current struggles in the US market, and has neither the resources nor the will to expand outside the US.

**Sears Canada generates profits from its joint venture with JP Morgan Chase and from mall rents.** While Sears Canada is forecast to post an operating loss (before proceeds from asset sales) in FY13 and FY14, it does generate profits from its financial services partnership with JP Morgan Chase and from rents at shopping centres owned jointly with others (including the eight just sold).

The joint venture real estate interests generated adjusted EBIT to Sears Canada of ~C\$13.3m in FY13.

Sears Canada ceased disclosing its revenue and profit from the JP Morgan Chase partnership after 2009. In 2009, EBT to Sears Canada from the partnership was C\$68.8m. We expect this has declined substantially as Sears Canada's retail sales have declined. As a first-order approximation, we estimate EBT at C\$50–55m in FY13. This is based on assuming financial services revenue proportionate to the level of retail sales, and relatively fixed costs for Sears Canada's promotional activities related to the partnership.

<b>Revenue and profit before tax related to JP Morgan Chase arrangement</b>	
<b>Last disclosure from FY09</b>	
Revenue (C\$m)	74.8
EBT (C\$m)	68.8
Our extrapolation for FY13, given forecast merchandise sales in FY13	
Revenue (C\$m)	58.5
EBT (C\$m)	53.5
<small>Note: Income from JPMorgan Chase &amp; Co, N.A. (Toronto branch) ("JPMorgan Chase"), which is based on a percentage of sales charged on the Sears Card or Sears MasterCard and a percentage of the sales of financial products, is included in revenue when the sale occurs.            Source: Desjardins Capital Markets, company reports</small>	

**Sears could narrow its focus to its >C\$2.0b hardlines plus online business.** If Sears Canada exited the majority of its full-line department stores, it could narrow its focus to its off-mall appliance and furniture business, and its online business. This could be supplemented by the residual department stores operating in secondary malls and in smaller communities, as well as through the opening of more Sears Hometown and Sears Home stores.

Sears Canada's hardlines business is the one most critical to the JP Morgan Chase relationship, as big-ticket sales drive credit-card usage. The hardlines business is also connected to Sears Canada's large maintenance, repair and installation services business.

<b>Sears Canada could retreat to its hardlines and online businesses, leaving fashion retailing in urban markets to Macy's</b>		
	Revenue (C\$m)	% of total revenue
<b>Sears Canada's hardlines businesses, and related revenue, in FY12<sup>1</sup></b>		
Major appliances <sup>2</sup>	876.3	20.4
Home and hardlines <sup>3</sup>	1,125.4	26.2
Services and other	321.9	7.5
Commission revenue	113.7	2.6
<b>Sub-total</b>	<b>2,437.3</b>	<b>56.7</b>
<small><sup>1</sup> For fiscal year ended February 2, 2013; <sup>2</sup> Includes refrigeration, laundry, ranges, floorcare and sewing; <sup>3</sup> Includes home furnishings and mattresses, home décor, lawn and garden, hardware, electronics and leisure, and seasonal products            Source: Desjardins Capital Markets, company reports</small>		

Sears Canada is a major apparel and accessories retailer in Canada, a status Sears Holdings has never achieved in the US market. The Canadian apparel and accessories business could be continued as an online-only business, with some presence in the residual department store locations not taken by Macy's.

**Sears Canada could continue to sell apparel online while ceding top fashion mall locations to Macy's**

	Revenue (C\$m)	% of total revenue
<b>Sears Canada softlines business in FY12<sup>1</sup></b>		
Apparel and accessories	1,474.2	34.3
Other merchandise revenue	362.5	8.4
Licensee revenue	26.7	0.6
<b>Sub-total</b>	<b>1,863.4</b>	<b>43.3</b>

<sup>1</sup> For fiscal year ended February 2, 2013

Source: Desjardins Capital Markets, company reports

**Objective—a hardlines/online margin between that of Leon's and Sears Hometown in US.** If Sears Canada were to narrow its business to (primarily) hardlines and online retailing, the objective would be to earn an EBITDA margin at least as high (~4.5% in 2012) as Sears Hometown (SHO, NASD, not rated) in the US, with a long-term goal of getting closer to Leon's double-digit EBITDA margin in Canada.

Sears Hometown in the US has ~1,118 stores across a number of small-store formats. Revenue is driven by appliance and hardlines sales. In Canada, Sears' off-mall stores include 246 Sears Hometown dealer stores, 82 Sears Home and Corbeil stores, and hundreds of online/catalogue order and pick-up locations.

**Sears Hometown off-mall stores in the US primarily sell appliances and lawn and garden products**
**Sears Hometown and outlet stores in the US<sup>1</sup>**

<b>Hometown stores (and related formats)</b>	
Number of stores	1,118
Sales (US\$m)	1,889.3
Sales per store (US\$m)	1.69
<b>Product mix (%)</b>	
Appliances	61
Lawn and garden	18
Tools and paint	12
Other	9
<b>Outlet stores</b>	
Number of stores	127
Sales (US\$m)	564.3
Sales per store (US\$m)	4.44
<b>Product mix (%)</b>	
Appliances	80
Lawn and garden	3
Tools and paint	3
Other	14

<sup>1</sup> For fiscal year ended February 2, 2013

Source: Desjardins Capital Markets, company reports

**North American department and discount stores relative valuations (November 11, 2013)**

Company (US\$)	Ticker	Share price (\$)	P/E (x)			Price chg (%)			EV/EBITDA (x)		EBITDA margin <sup>1</sup> (%)	ROE (%)	Mkt cap (\$m)
			LTM	CFY	NFY	1w	3m	12m	TTM	CFY			
Sears Holdings Corp	SHLD	59.98	NM	NM	NM	-1.4	45.0	-4.1	NM	NM	-1.38	-8.0	6,386
<b>Sears Canada Inc (C\$)</b>	<b>SCC</b>	<b>16.70</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>15.2</b>	<b>33.1</b>	<b>46.0</b>	<b>20.6</b>	<b>15.6</b>	<b>1.34</b>	<b>-3.3</b>	<b>1,701</b>
JC Penney Co Inc	JCP	8.56	NM	NM	NM	2.4	-33.5	-58.5	NM	NM	-8.51	-50.2	2,607
Bon-Ton Stores Inc/The	BONT	11.87	NM	NM	NM	2.1	-24.4	6.6	6.5	6.3	5.95	14.6	243
Saks Inc	SKS	15.99	NM	43.2	30.8	NA	-0.4	59.1	11.1	11.1	7.69	6.0	2,401
Hudson's Bay Co	HBC	20.20	NM	20.5	16.8	1.5	20.0	NM	NM	12.7	NM	NM	3,678
<b>Loblaw Cos Ltd (C\$)</b>	<b>L</b>	<b>47.33</b>	<b>17.2</b>	<b>17.9</b>	<b>16.5</b>	<b>-1.0</b>	<b>0.3</b>	<b>39.5</b>	<b>8.6</b>	<b>8.4</b>	<b>6.56</b>	<b>12.4</b>	<b>13,351</b>
Nordstrom Inc	JWN	61.84	16.4	16.8	15.1	2.3	5.2	12.9	7.7	7.9	14.67	39.3	12,052
Wal-Mart Stores Inc	WMT	79.01	15.4	15.2	13.9	2.2	2.7	9.3	8.4	8.3	7.75	24.1	256,314
<b>Canadian Tire Corp Ltd (C\$)</b>	<b>CTC.A</b>	<b>99.22</b>	<b>14.7</b>	<b>14.4</b>	<b>13.5</b>	<b>2.3</b>	<b>10.8</b>	<b>42.1</b>	<b>8.9</b>	<b>8.6</b>	<b>10.26</b>	<b>11.4</b>	<b>8,076</b>
Target Corp	TGT	65.69	18.2	14.1	13.1	0.7	-7.1	5.9	7.9	8.0	9.50	14.7	41,459
Macy's Inc	M	47.07	12.8	12.5	11.0	1.2	-3.0	20.9	6.2	6.2	13.38	24.9	17,710
Dillard's Inc	DDS	83.43	14.6	11.4	10.5	1.8	4.1	5.9	5.5	5.4	12.37	15.7	3,864
<b>Average</b>			<b>15.6</b>	<b>18.4</b>	<b>15.7</b>	<b>2.4</b>	<b>4.1</b>	<b>15.5</b>	<b>9.1</b>	<b>8.9</b>	<b>6.63</b>	<b>8.5</b>	<b>28,449</b>

<sup>1</sup> Trailing 12 months

Source: Desjardins Capital Markets, Bloomberg

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<b>Rating category</b>	<b>Desjardins rating</b>	<b>Desjardins coverage universe (# of stocks)</b>	<b>% distribution</b>	<b>Desjardins Investment Banking (# of stocks)</b>	<b>% distribution</b>
Buy	Top Pick/Buy	76	59	32	70
Hold	Hold	50	38	14	30
Sell	Sell	4	3	0	0
<b>Total</b>		<b>130</b>	<b>100</b>	<b>46</b>	<b>100</b>

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ISSUE(S)

1 - COMMON SHARES

SELECTION CRITERIA

CERTIFICATED HOLDINGS  
THE FIRST 20 RECORDS ARE SELECTED

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SEARS CANADA INC



DATE: 2013/11/07  
PAGE: 1

CST TRUST COMPANY  
TOP 20 HOLDER REPORT AS OF 2013/11/07

C/S/I: 1109 02 1 CORP: SEARS CANADA INC / COMMON SHARES

ACCOUNT	REGISTRATION	HOLDINGS	CLASS
14790	CEDE & CO, 55 WATER ST NEW YORK, NY 10041	48,034,453	11
22978391	SHLD ACQUISITION CORP, 900-1959 UPPER WATER ST HALIFAX, NS B3J 3N2	39,609,153	10
2844963	SEARS CANADA HOLDINGS CORP, 3711 KENNETT PIKE GREENVILLE, DE 19807	12,353,238	44
14780	CDS & CO, 25 THE ESPLANADE BOX 1038 STATION A TORONTO, ON M5E 1W5	928,895	11
26634147	LOUIS J D'AMBROSIO, 100 OVERLOOK LANE SAINT DAVIDS, PA 19087	9,366	1
26623934	KMART HOLDING CORPORATION AS DISBURSING AGENT FOR CLASS 5 CLAIMHOLDERS, MICHIGAN CAMPUS 3000 W 14 MILE ROAD PO BOX 8073 ROYAL OAK, MI 48068-8073	6,813	10
2074546	STANLEY MACDONALD, 650 PARLIAMENT ST APT 2218 TORONTO, ON M4X 1R3	3,854	1



C/S/I: 1109 02 1 CORP: SEARS CANADA INC / COMMON SHARES

ACCOUNT	REGISTRATION	HOLDINGS	CLASS
389953	DOROTHY W FRAGISKOS, 1231 SOUTHWOOD DR OTTAWA, ON K2C 3C2	3,359	2
22141671	RUTH BURZESE, 30 NORDEN CRES SAULT STE. MARIE, ON P6B 5T2	2,908	2
26628022	VINCENT W JONES, 2730 MONUMENT COURT CONCORD, CA 94520-3144	2,708	1
1172601	EVELYN MURRAY, 1707 SOUTH LAKESIDE DR WILLIAMS LAKE, BC V2G 3A9	2,662	1
22130345	VERNON PETERS, 24 ROSEPAC AVE BRAMPTON, ON L6Z 2S5	2,660	1
11485440	JENNY CHIN, 257 POPLAR PLAINS RD TORONTO, ON M4V 2N9	2,610	1
380165	VALENTIN PETSCHAR, 98 SUMMERHILL AVE TORONTO, ON M4T 1B2	2,413	1

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ACCOUNT	REGISTRATION	HOLDINGS	CLASS
14485990	LINDA PRESTYKO, 224 GAYLE ST PO BOX 883 BELLE RIVER, ON N0R 1A0	2,175	1
384856	STEWART COLLIER, 215 FERNWOOD CRES HAMILTON, ON L8T 3L5	2,164	1
14343514	BETTY M WILSON, 15806 MCBETH RD SURREY, BC V4A 5X3	2,106	1
22131192	BABU MISTRY, 6885 HISTORIC TRAIL MISSISSAUGA, ON L5W 1C1	2,062	1
383432	HILDA ZAHARICHUK, 1402-13910 STONY PLAIN RD NW EDMONTON, AB T5N 3R2	2,042	1
26634431	WILLIAM HARKER, 15 FRED STREET OLD TAPPAN, NJ 07675	2,021	1





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CORP : 1109 SYS: 2 ISSUE: 1  
 SEARS CANADA INC / COMMON SHARES

20053764	HOLDINGS: 11,200	22355741	HOLDINGS: 744	20053888	HOLDINGS: 70,886
BERKSHIRE SECURITIES INC,	BLACKMONT CAPITAL INC,	20053772	HOLDINGS: 16,787	CIBC WORLD MARKETS INC,	
BENJAMIN MANION	900 181 BAY ST	CANACCORD CAPITAL CORP,	2200 609 GRANVILLE ST	BCE PL	
1375 KERNS RD	PO BOX 779	PACIFIC CENTRE	P.O.BOX 10337	22 FRONT ST W	
BURLINGTON, ON	TORONTO, ON	VANCOUVER, BC	V7Y 1H2	7TH FLOOR	
L7R 4X8	PART ID: BSI01			TORONTO, ON	PART ID: WGD10
				M5B 2M8	
20053769	HOLDINGS: 2,000	21704556	HOLDINGS: 38	20053782	HOLDINGS: 386,272
CALDWELL SECURITIES LTD,	CIBC MELLON GLOBAL SECURITIES	SERVICE GSS,	320 BAY ST - P. O. BOX 1	CITIBANK CANADA,	
150 KING ST W		TORONTO, ON	M5H 2A6	123 FRONT ST W	
SUITE 1710				SUITE 1800 ATTN SECURITIES DEPT	
P.O. BOX 47				TORONTO, ON	
TORONTO, ON	PART ID: CAL01			M5J 2M3	PART ID: CIT16
M5H 1J9					
20053792	HOLDINGS: 3,060,367	20053949	HOLDINGS: 52	5577574	HOLDINGS: 5,607
CIBC MELLON GLOBAL SECURITIES		TIMBER HILL CANADA COMPANY,	SUITE 2004A	CREDITIAL SECURITIES INC,	
SERVICE GSS,		360 ST JACQUES	MONTRÉAL, QC	ATTN INTERBROKER TRANSFER DEPT	
320 BAY ST		H2Y 1P5		22 FRONT ST W 5TH FLR	
P.O. BOX 1				TORONTO, ON	
TORONTO, ON	PART ID: COM11			M5J 2W5	PART ID: CRE01
M5H 4A6					
20053886	HOLDINGS: 89,620	26622480	HOLDINGS: 5,751	20053811	HOLDINGS: 64
THE NORTHERN TRUST COMPANY,		CREDIT SUISSE USA LLC,	C/O BROADRIDGE FINANCIAL SOLUTIONS	DUNDEE SECURITIES CORPORATION,	
2099 GAITHER RD		51 MERCEDES WAY	EDGEWOOD, NY	1 ADELAIDE ST E	
SUITE 501		11717		SUITE 2700	
ROCKVILLE, MA				TORONTO, ON	
20850	PART ID: NTC01			M5C 2V9	PART ID: DEA01
25023996	HOLDINGS: 1,950				
CREDIT SUISSE SECURITIES					
-CANADA- INC,					
1 FIRST CANADIAN PLACE					
SUITE 2900 P O BOX 301					
TORONTO, ON	PART ID: CSS01				
M5X 1C9					

DATE: 2013/11/07  
2CST TRUST COMPANY  
PARTICIPANT LIST OF CDS & CO AS AT 2013/11/07CORP : 1109      SYS: 2      ISSUE: 1  
SEARS CANADA INC / COMMON SHARES

20469157	HOLDINGS:	14,699	24985051	HOLDINGS:	111,264	20053847	HOLDINGS:	66
FINAT CANADA INC,			STATE STREET FINANCIAL CENTRE,			JONES GABLE & COMPANY LTD,		
1501 MCGILL COLLEGE AVENUE			30 ADELAIDE STREET EAST			110 YONGE ST		
SUITE 1930			TORONTO, ON			SUITE 600		
MONTREAL, QC			M5C 3G6			TORONTO, ON		
H3A 3M8	PART ID: FIM01			PART ID: SST03		M5C 1T6	PART ID: JGC01	
23038949	HOLDINGS:	2,498,167	20053835	HOLDINGS:	5,383	20053842	HOLDINGS:	1,161
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			VANCOUVER, BC		
10004	PART ID: GSC03			PART ID: GMP01		V6C 3A6	PART ID: HAY01	
25563491	HOLDINGS:	23,047	23174381	HOLDINGS:	356	20053850	HOLDINGS:	5,558
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	
11245-0001	PART ID: MBC40		L5B 3C3	PART ID: EDJ01				
20053866	HOLDINGS:	3	20053861	HOLDINGS:	182,358	20053879	HOLDINGS:	450
MACDOUGALL MACDOUGALL & MACTIER			MERRILL LYNCH CDA INC,			NBCN CLEARING INC,		
INC,			181 BAY ST			1010 RUE DE LA GAUCHETIERE O		
PLACE DU CANADA			4TH FLR			SUITE 1410 REORG DEPT		
1010 DE LA GAUCHETIERE W			TORONTO, ON			MONTREAL, QC	PART ID: NBC01	
SUITE 2000			M5J 2V8	PART ID: MLC01		H3B 5J2		
MONTREAL, QC								
H3B 4J1	PART ID: MMM01							
20053890	HOLDINGS:	664	20053901	HOLDINGS:	1,103	20053897	HOLDINGS:	66
ODLUM BROWN LIMITED,			PACIFIC INTERNATIONAL SECURITIES I			PETERS & CO LIMITED,		
250 HOWE ST			666 BURRARD STREET,			3900 BANKERS HALL W		
SUITE 1100			666 BURRARD ST SUITE 1900			888 3RD ST SW		
VANCOUVER, BC			VANCOUVER, BC			CALGARY, AB		
V6C 3N1	PART ID: OBL01		V6C 3N1	PART ID: PIS01		T2P 5C5	PART ID: PEC01	

CST TRUST COMPANY  
 PARTICIPANT LIST OF CDS & CO AS AT 2013/11/07

CORP :1109 SYS:2 ISSUE:1  
 SEARS CANADA INC / COMMON SHARES

CORP	ISSUE	SYS	SHARES	HOLDINGS	ADDRESS	PART ID	DATE
23321995	QTRADE SECURITIES INC,	1920-505 BURRARD ST	5,208	20053871	RAYMOND JAMES LIMITED, 925 GEORGIA ST SUITE 2200 VANCOUVER, BC	MSL01	2013/11/07
23321995	QTRADE SECURITIES INC,	ONE BENTALL CENTRE BOX 85 VANCOUVER, BC	5,208	20053871	RAYMOND JAMES LIMITED, 925 GEORGIA ST SUITE 2200 VANCOUVER, BC	QTR01	2013/11/07
20053914	RESEARCH CAPITAL CORPORATION, ERNST & YOUNG TOWER	222 BAY ST SUITE 1500 TORONTO DOMINION CENTRE P.O.BOX 265 TORONTO, ON	8,414	20053905	ROYAL BANK OF CANADA, 200 BAY STREET 25TH FLOOR ROYAL BANK PLAZA NORTH TOWER ATTN PROXY DEPT. TORONTO ON, M5J 2J5	RCC01	2013/11/07
20053925	SCOTIA CAPITAL INC,	PO BOX 4085 STATION A TORONTO, ON	38,507	20053831	TD WATERHOUSE CANADA INC, 77 BLOOR STREET WEST 3RD FLOOR TORONTO, ON	SC001	2013/11/07
23719151	TIMBER HILL CANADA COMPANY, 8 GREENWICH OFFICE PARK GREENWICH, CT	06831	7,294	20053934	STATE STREET TRUST, 1776 HERITAGE DR JAB4W QUINCY, MA	THC02	2013/11/07
20053962	WOLVERTON SECURITIES LTD, 777 DUNSMUIR ST 17TH FLOOR P.O.BOX 10115 PACIFIC CENTRE VANCOUVER, BC	06831	11	20053934	STATE STREET TRUST, 1776 HERITAGE DR JAB4W QUINCY, MA	WSL01	2013/11/07
20053818	RBC DOMINION SECURITIES INC, PO BOX 50 TORONTO, ON	M5J 2W7	16,000	20053921	ROYAL TRUST CORPORATION, 200 BAY ST 25TH FL ROYAL BANK PLAZA NORTH ATTN PROXY DEPT TORONTO, ON	DOM01	2013/11/07
20053758	THE BANK OF NOVA SCOTIA, 40 KING ST W 23RD FLOOR SCOTIA PLAZA TORONTO, ON	M4H 1H1	13,373	20053955	VALEURS MOBILIERES DESJARDINS INC, 1060 UNIVERSITY ST OFFICE 101 MONTREAL, QC	BNS02	2013/11/07
20053955	VALEURS MOBILIERES DESJARDINS INC, 1060 UNIVERSITY ST OFFICE 101 MONTREAL, QC	H3B 5L7	5,862	20053955	VALEURS MOBILIERES DESJARDINS INC, 1060 UNIVERSITY ST OFFICE 101 MONTREAL, QC	VMD01	2013/11/07

DATE: 2013/11/07  
4

CST TRUST COMPANY  
PARTICIPANT LIST OF CDS & CO AS AT 2013/11/07

CORP : 1109    SYS: 2    ISSUE: 1  
SEARS CANADA INC / COMMON SHARES

	BALANCE	ACCOUNTS
CANADA	4,376,055.00000000	37
U.S.A	3,375,318.00000000	6
TOTALS	7,751,373.00000000	43



**1509**



[Home](#) > [Quotes & Charts](#) > Price History

## Sears Canada Inc. (SCC)

Exchange: Toronto Stock Exchange

**\$ 16.85** ↑

Change: 0.51 (3.12%)

Nov 13, 2013, 2:26 PM EST

Volume: 38,422

Day Low	Day High	<u>52 Week Low</u>	<u>52 Week High</u>
<b>16.54</b>	<b>17.12</b>	<b>8.84</b>	<b>17.15</b>

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### Price History for Sears Canada Inc.

Enter date to view previous 30 days of price history (mm/dd/yyyy):

Date	Open	High	Low	Close	Volume	Chg	% Chg
11/13/2013	16.63	17.12	16.54	16.85	38,522	0.51	3.12%
11/12/2013	16.85	17.04	16.25	16.34	55,908	-0.36	-2.16%
11/11/2013	16.30	17.15	16.30	16.70	50,771	0.70	4.37%
11/08/2013	15.90	16.12	15.74	16.00	27,162	0.15	0.95%
11/07/2013	15.81	16.58	15.81	15.85	26,630	0.05	0.32%
11/06/2013	15.48	15.98	15.24	15.80	279,280	0.55	3.61%
11/05/2013	14.55	15.25	14.51	15.25	17,620	0.75	5.17%
11/04/2013	14.21	14.52	14.21	14.50	7,383	0.09	0.62%
11/01/2013	14.36	14.49	14.12	14.41	9,157	-0.09	-0.62%
10/31/2013	14.21	14.50	14.05	14.50	136,233	0.19	1.33%
10/30/2013	14.33	14.44	14.25	14.31	30,322	-0.04	-0.28%
10/29/2013	13.76	14.65	13.76	14.35	352,331	0.81	5.98%
10/28/2013	13.83	13.85	13.42	13.54	7,423	-0.36	-2.59%
10/25/2013	13.89	13.93	13.31	13.90	11,428	-0.03	-0.22%
10/24/2013	13.38	13.99	13.12	13.93	26,634	0.48	3.57%

# 1510

10/23/2013	13.01	13.45	13.01	13.45	7,376	0.40	3.07%
10/22/2013	13.00	13.13	12.99	13.05	14,117	0.14	1.08%
10/21/2013	13.14	13.14	12.91	12.91	13,553	-0.23	-1.75%
10/18/2013	13.00	13.14	13.00	13.14	6,905	0.14	1.08%
10/17/2013	13.00	13.03	12.95	13.00	7,337	-0.01	-0.08%
10/16/2013	12.94	13.01	12.92	13.01	3,231	0.09	0.70%
10/15/2013	13.00	13.00	12.76	12.92	9,188	-0.08	-0.62%



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Results are limited to 1 month of history.

## History Snapshot for Sears Canada Inc.

Enter Date (mm/dd/yyyy):

### Tuesday, November 12, 2013

Closing Price:	16.34
Open:	16.85
High:	17.04
Low:	16.25
Volume:	55,908
Split Adjusted Price:	No splits
Adjustment Factor:	No splits

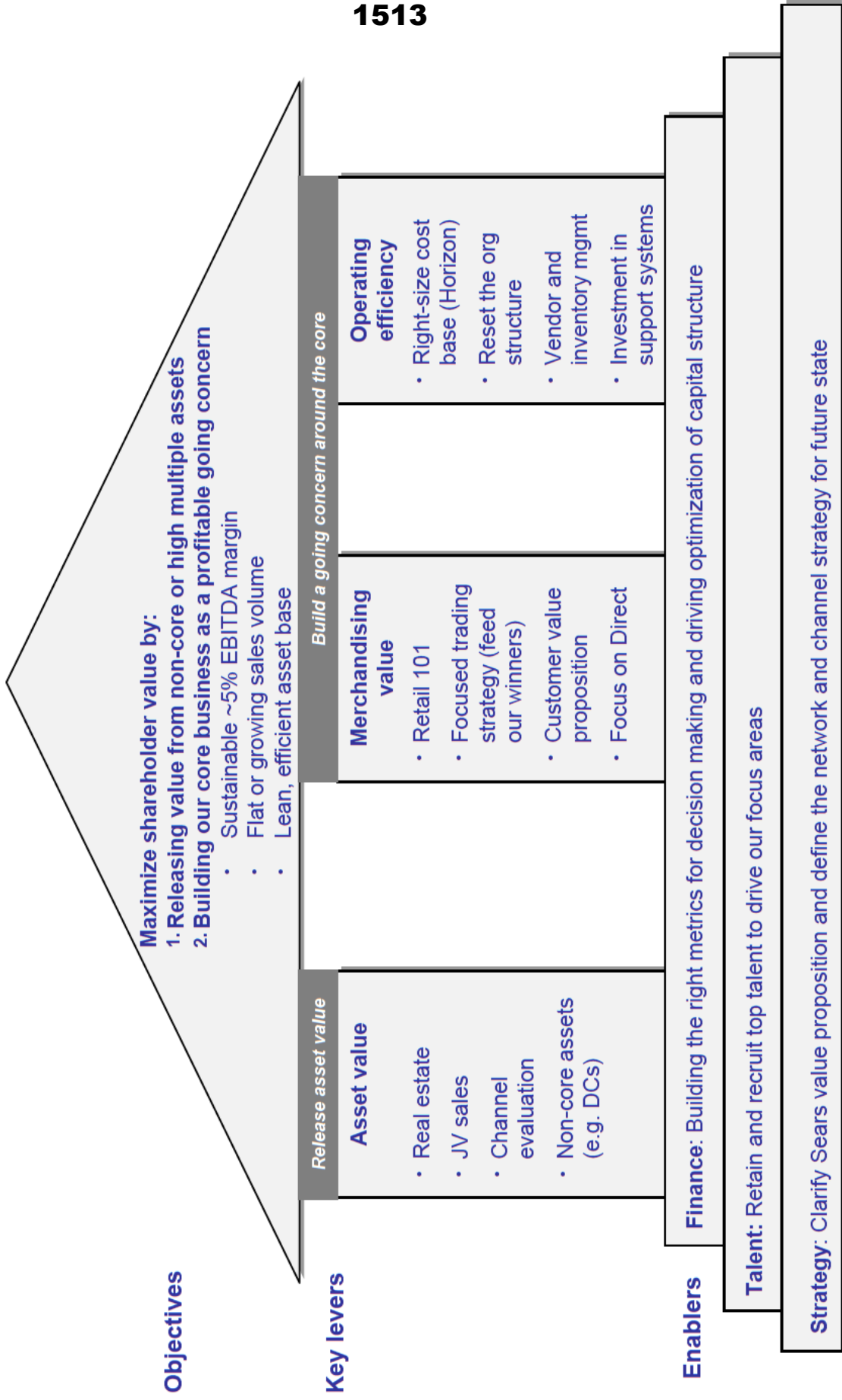
9. Management Priorities/Asset Valuation

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**Board Meeting  
November 18-19, 2013**

# Our framework for creating shareholder value



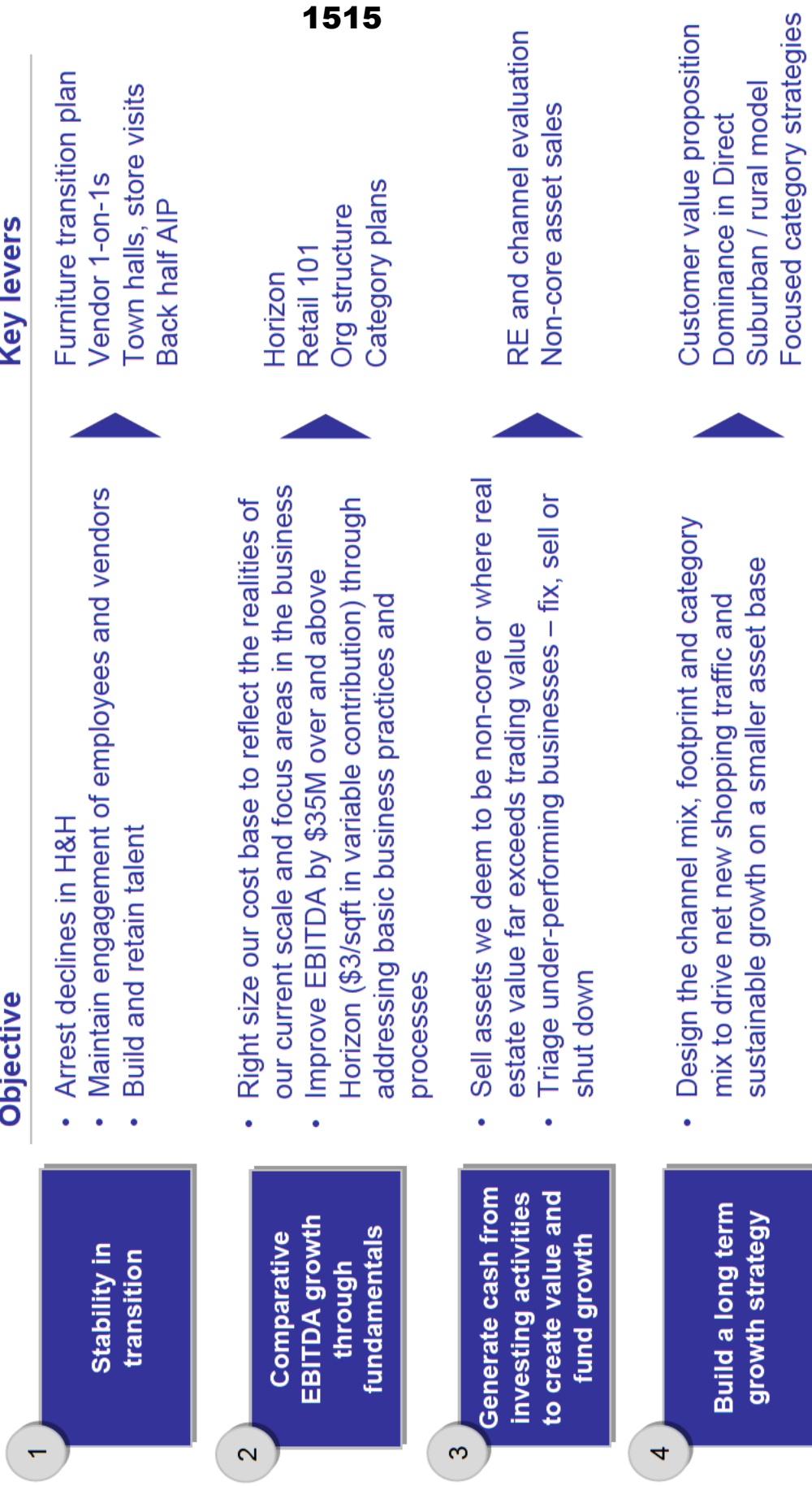
1513

# Agenda

- Management Priorities
- Asset Valuation
- Merchandising Value
  - ▶ Category performance review – Where are performance gaps?
  - ▶ Retail 101 – Root cause of gaps and approach to fix
  - ▶ Simplified Value Proposition – Focusing the organizational efforts
- Operating Efficiency: Progress against \$200M target
- 2014 Plan
  - ▶ Financial plan
  - ▶ Operating plans

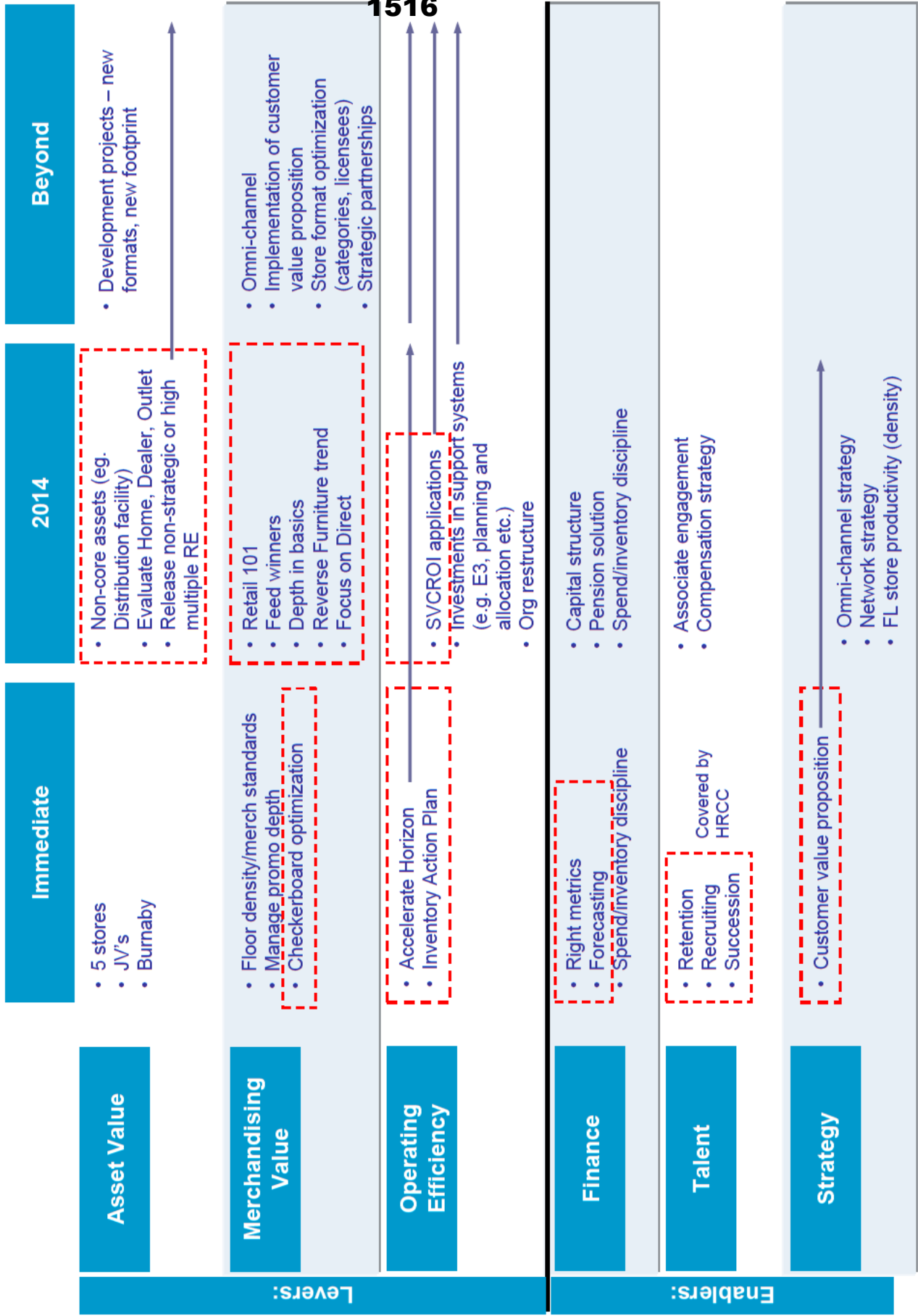
1514

# Four immediate management priorities



# Roadmap Stage 1: Get our costs right, stabilize, design the future

Topics for discussion





# Agenda

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- Management Priorities
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## 2013 Trading Value to Shareholder by Channel

2013 (\$MM's)	Revenue	4 Wall EBITDA (store)	Channel Fixed Costs	Channel APBOH	Fixed Costs/OH	EBITDA	EBITDA %	Inventory	Return on Inv (APBOH / Inv)	Return on Inv (EBITDA / Inv)
Full-Line	2,376.2	341.7	(138.4)	203.2	(133.9)	69.4	2.9%	531.3	38.3%	13.1%
Sears Home Dealer	449.8	25.2	(12.1)	13.1	(37.9)	(24.8)	-5.5%	47.4	27.6%	-52.4%
Outlet	267.0	42.1	(11.9)	30.1	(25.0)	5.1	1.9%	44.0	68.5%	11.7%
Retail Stores	110.2	4.2	(3.1)	1.1	(5.6)	(4.5)	-4.0%	34.2	3.3%	-13.0%
Corbell	3,203.2	413.1	(165.5)	247.6	(202.4)	45.2	1.4%	656.9	37.7%	6.9%
Direct	130.8			4.4	(0.8)	3.7	2.8%	28.7	15.5%	12.8%
SLH	624.7			90.0	(65.8)	24.1	3.9%	66.2	135.8%	36.4%
PRS	194.5			18.6	(3.3)	15.3	7.9%	0.0		
SHS	133.7			(4.2)	(31.2)	(35.4)	-26.5%	12.2		
Other*	176.1			7.8	(10.2)	(2.3)	-1.3%	0.0		
	(387.4)			43.3	12.2	55.5	-14.3%	15.1		
<b>TOTAL SEARS</b>	<b>4,075.6</b>			<b>407.5</b>	<b>(301.5)</b>	<b>106.0</b>	<b>2.6%</b>	<b>779.2</b>	<b>52.3%</b>	<b>13.6%</b>

Note:

Forecast 2013 financials is based on 2013 B03

\*\*Full Line has 118 stores ; \*Other includes: Joint Ventures, Travel, B2B, Logistics, and Corp Adjustments

Private and Confidential

## 2016 Trading Value to Shareholder by Channel

2016 (\$MM's)	Revenue	4 Wall EBITDA (store)	Channel Fixed Costs	Channel APBOH	Fixed Costs/OH	EBITDA	EBITDA %	Inventory	Return on Inv (APBOH / Inv)	Return on Inv (EBITDA/ Inv)
Full-Line	2,207.7	300.0	(101.3)	198.7	(98.0)	100.8	4.6%	443.2	44.8%	22.7%
Sears Home Dealer Outlet	427.2 264.6 99.8	12.7 36.1 (0.1)	(11.2) (11.5) (3.1)	1.4 24.6 (3.2)	(35.2) (24.1) (5.6)	(33.8) 0.5 (8.7)	-7.9% 0.2% -8.8%	39.5 36.7 28.5	3.7% 66.9% -11.1%	-85.4% 1.3% -30.6%
Retail Stores	2,999.3	348.7	(127.1)	221.6	(162.9)	58.7	2.0%	548.0	40.4%	10.7%
Corbeil	150.9			6.7	(0.8)	5.9	3.9%	24.0	27.9%	24.8%
Direct	689.2			109.9	(62.2)	47.7	6.9%	55.3	198.9%	86.3%
SLH	200.9			21.7	(3.3)	18.4	9.1%	0.0		151%
PRS	105.7			30.6	(30.3)	0.3	0.3%	10.2		
SHS	0.0			0.0	0.0	0.0	0.0%	0.0		
Other*	(363.3)			16.2	40.0	56.2	-15.5%	12.6		
<b>TOTAL SEARS</b>	<b>3,782.7</b>			<b>406.7</b>	<b>(219.5)</b>	<b>187.3</b>	<b>5.0%</b>	<b>650.0</b>	<b>62.6%</b>	<b>28.8%</b>

Note:

\*Full Line has 111 stores

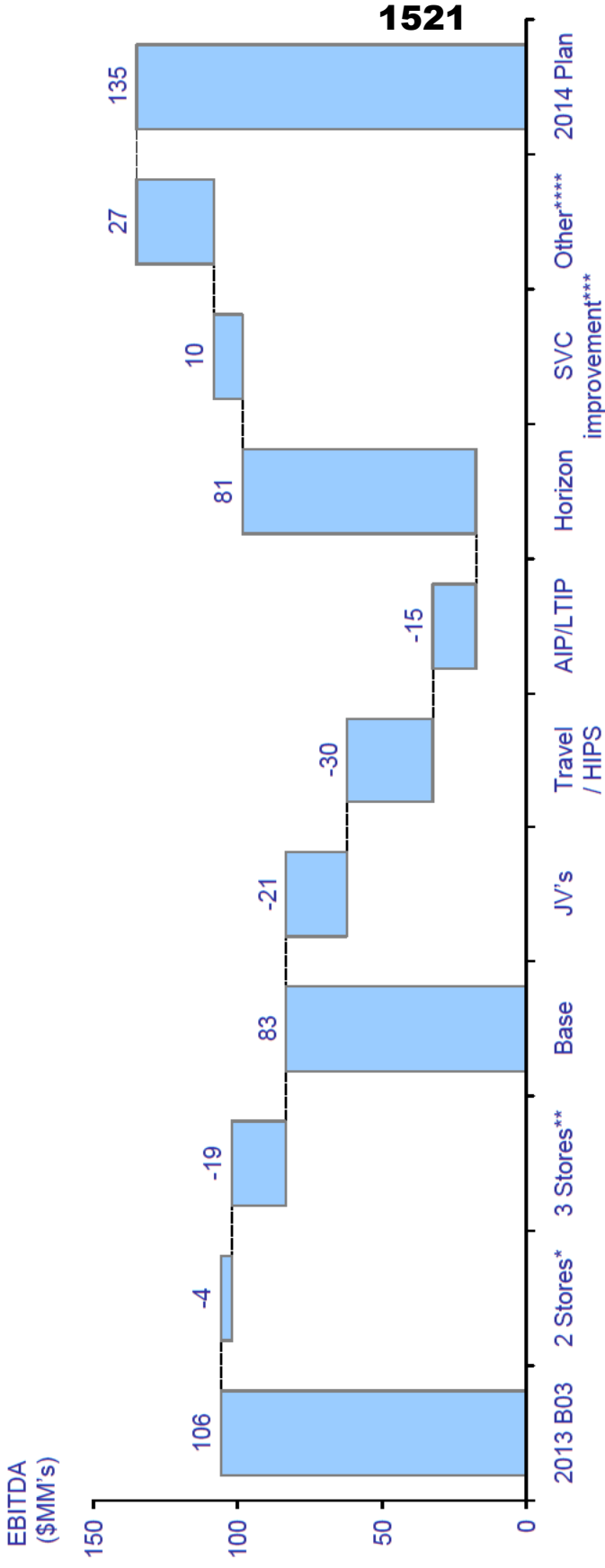
\*\*Other includes: Joint Ventures, Travel, B2B, Logistics, and Corp Adjustments

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## Key Assumptions 2013 to 2015/2016

	2013	2014	2015/2016
<b>Sales</b>	2013 B03	2014 PLAN	4% growth for Direct, flat for all other channels
<b>4 Wall EBITDA</b>	Reported EBITDA adjusted for: 1) 20% of Logistics 2) Directly attributable advertising costs 3) Unshipped Sales Adjustments 4) Pension Liability 5) Net cost of PA's 6) Directly attributable OH costs		
<b>Horizon</b>	\$61MM	\$81MM	\$58MM
<b># of Full Line Stores</b>	116	113	111
<b>Other</b>		<ul style="list-style-type: none"> <li>Potential loss of Travel and SHS partnership</li> </ul>	<ul style="list-style-type: none"> <li>Chase deal adjust to be 50% of current starting Dec 2015</li> <li>Sell Newmarket and Regina Home Stores</li> <li>SVC improvement in FL</li> </ul>

# 2014 Plan is +\$52M from an adjusted 2013 Base



Revenue	\$4,076	\$55	\$102	\$3,919	\$38												\$3,920	
EBITDA	\$106	\$4	\$19	\$83	\$21													\$135
EBITDA %	2.6%	7.5%	18.4%	2.1%	54.7%													3.4%

**Notes:**

\*2 Stores: Yorkdale, Mississauga

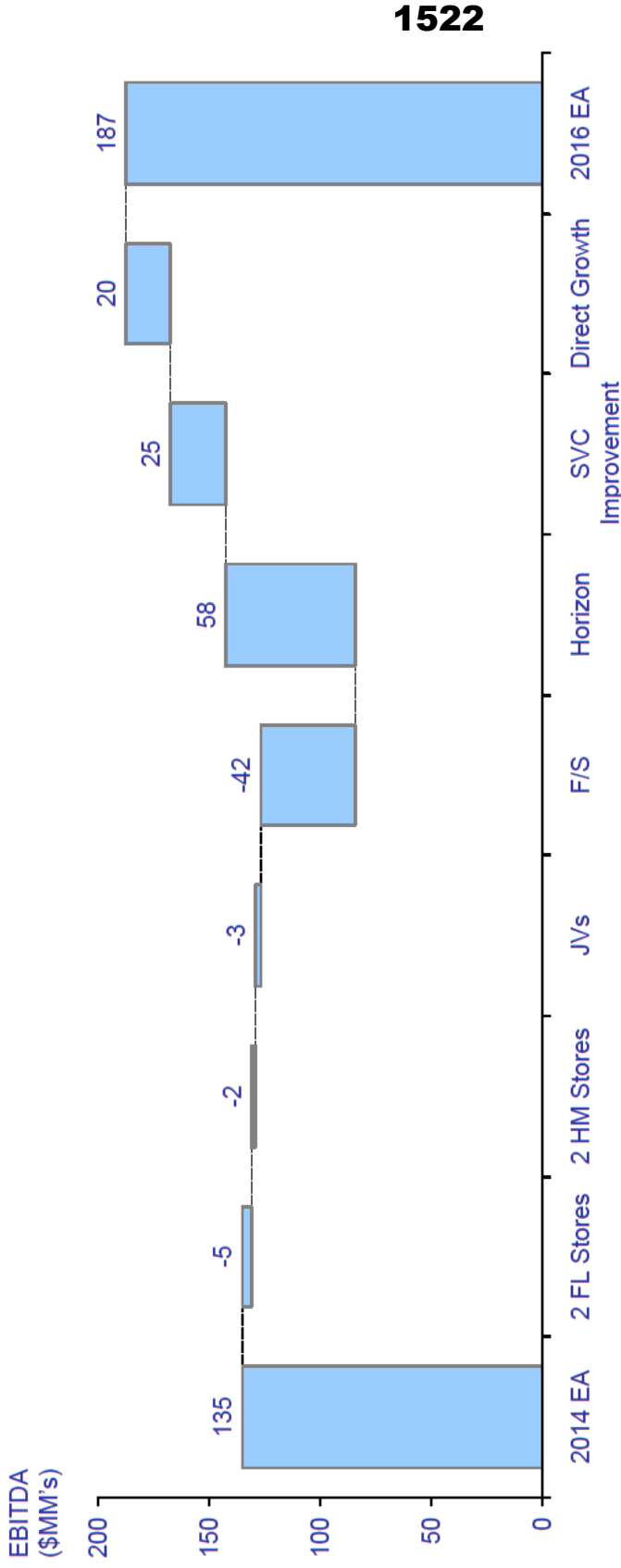
\*\*3 Stores: TEC, Sherway, London

\*\*\* SVC = Sears Variable Contribution (Merch margin less all other trading related expenses)

\*\*\*\*Majority of improvement from comp sales growth and Merch Margin rate increases

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# 2014 to 2016 EBITDA



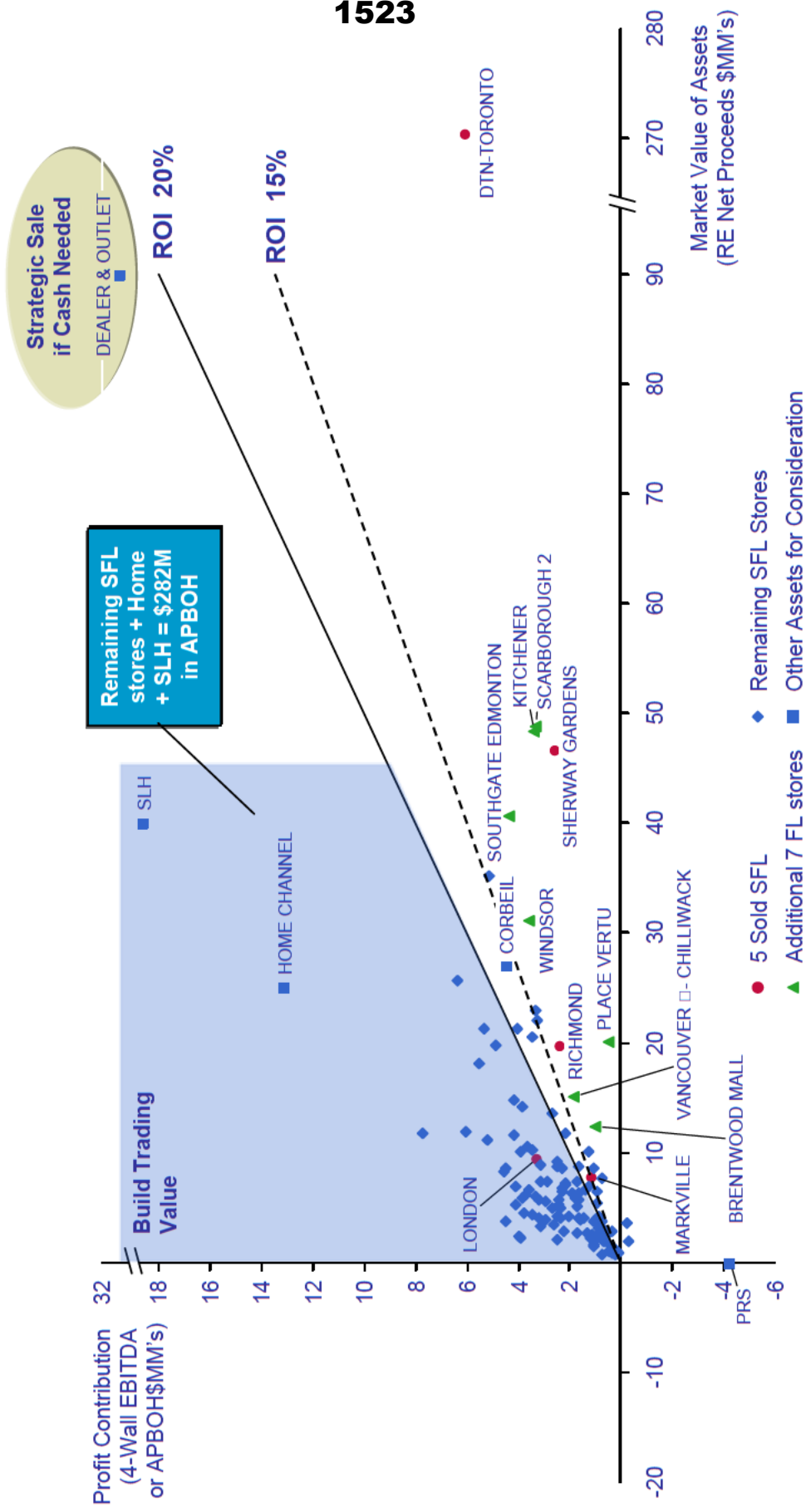
1522

Revenue	\$3,920	\$3,783
EBITDA	\$135	\$187
EBITDA %	3.4%	5.0%
# of FL stores	113	111

Notes:

- 2 FL Stores are Richmond and Markville sold in 2013 closed at the beginning of 2015, 2 Home stores are Newmarket and Regina
- Financial Services loss estimated as 1/2 of 2014 F/S revenue
- Replacement of Travel and other businesses by 2016
- Direct Growth is 4% increase in YoY in 2015 and 2016

# There is a substantial core business remaining even after divestures



1523

# Other asset sales are being explored in Q4

1524

	2013	2014	2015	2016
<b>Done / Executing</b>	<ul style="list-style-type: none"> <li>Sold Yorkdale, Mississauga, TEC, London, Richmond and Markville</li> <li>Westcliff JVs</li> </ul>	<ul style="list-style-type: none"> <li>N/A</li> </ul>		
<b>Non-Core Assets</b>	Being explored		<ul style="list-style-type: none"> <li>Sell Montreal, Belleville and Regina DCs</li> <li>Sell 2 corporate-owned Home Stores (Regina, Newmarket)</li> <li>Sell Ivanhoe JVs</li> </ul>	
<b>Other Assets for Consideration</b>	Being explored		<ul style="list-style-type: none"> <li>Sell Corbeil and Home Channel</li> <li>Sell Dealer and Outlet</li> <li>Sell additional 7 Full-Line stores, including Scarborough, which do not justify holding RE value after Horizon</li> <li>Sell SLH</li> <li>Sell Burnaby, Newmarket, and Calgary North Hill re-development opportunities</li> </ul>	

**On go-forward sales, will weigh strategic and operational contribution of assets versus proceeds from divesture**



10. Merchandising Value
- Category performance review
  - Retail 101
  - Simplified Value Proposition
-

# Agenda

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- Management Priorities
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## Merchandising value overview

- Category profitability and productivity reviews show we have too much space and too much inventory
  - A&A categories have strong overall contribution rate but low floor space and inventory productivity
  - MA has strong floor space and inventory productivity but all other H&H businesses are well below floor space productivity targets and inventory productivity targets
- Our performance and productivity has been hurt by lack of discipline in some fundamental retail practices
  - Planning and buying to our store capacity
  - Allocating and flowing inventory
  - Effective use of checkerboard days
- We can achieve 2016 performance improvement target of \$35M\* in EBITDA (\$3/sqft of variable contribution) through addressing the fundamentals
  - Reducing our options and overall units purchased and improving our allocation and flow can generate \$55M in A&A; this will also reduce inventory levels by 15-20%
  - Actions have already been taken to arrest the declines in H&H (Furniture and Mattresses) and get to at least flat performance
  - We have a clear line of sight to what needs to get fixed and how to fix it
- Once the fundamentals have been addressed, there is additional potential from reallocating floor space to expand our winners and exit or down-size under-performing businesses
- At the same time, we will strengthen and clarify our customer value proposition to generate new traffic and conversion with our target customers

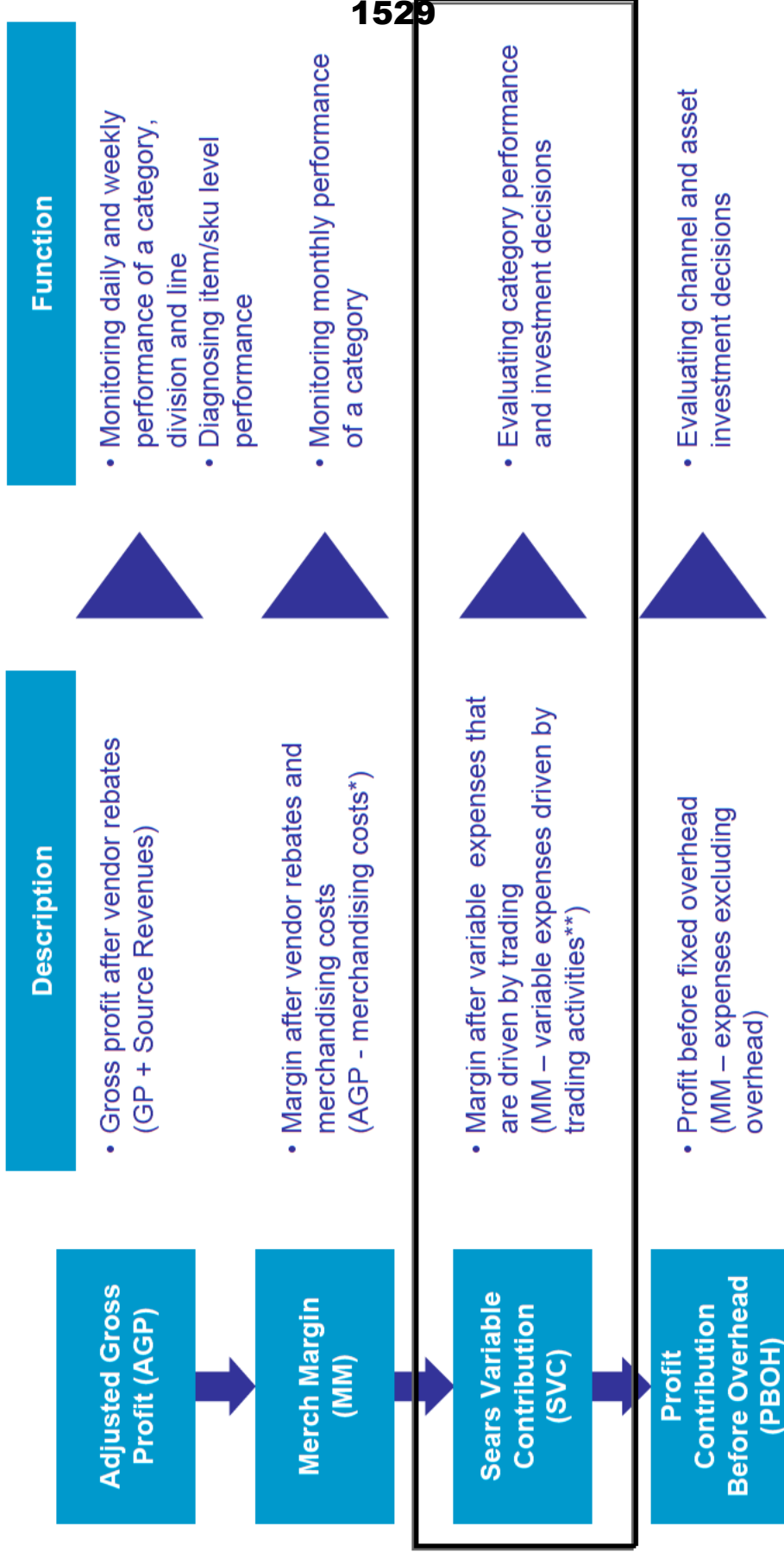
1527

# Agenda

- Management Priorities
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# Sears Variable Contribution (SVC) will be used going forward to evaluate trading decisions



Note:

\* Other merch losses / costs (defective merchandise, samples, royalty payments) + inbound from vendor freight

\*\* MM - Payroll - Associate Discount + Net Delivery Income (H&H only) + Net Card Share Income (1% \* Share \* Sales) - Transaction Exp - National Advertising

Costs outside our trading expenses will still be tracked and are important to achieving our EBITDA targets

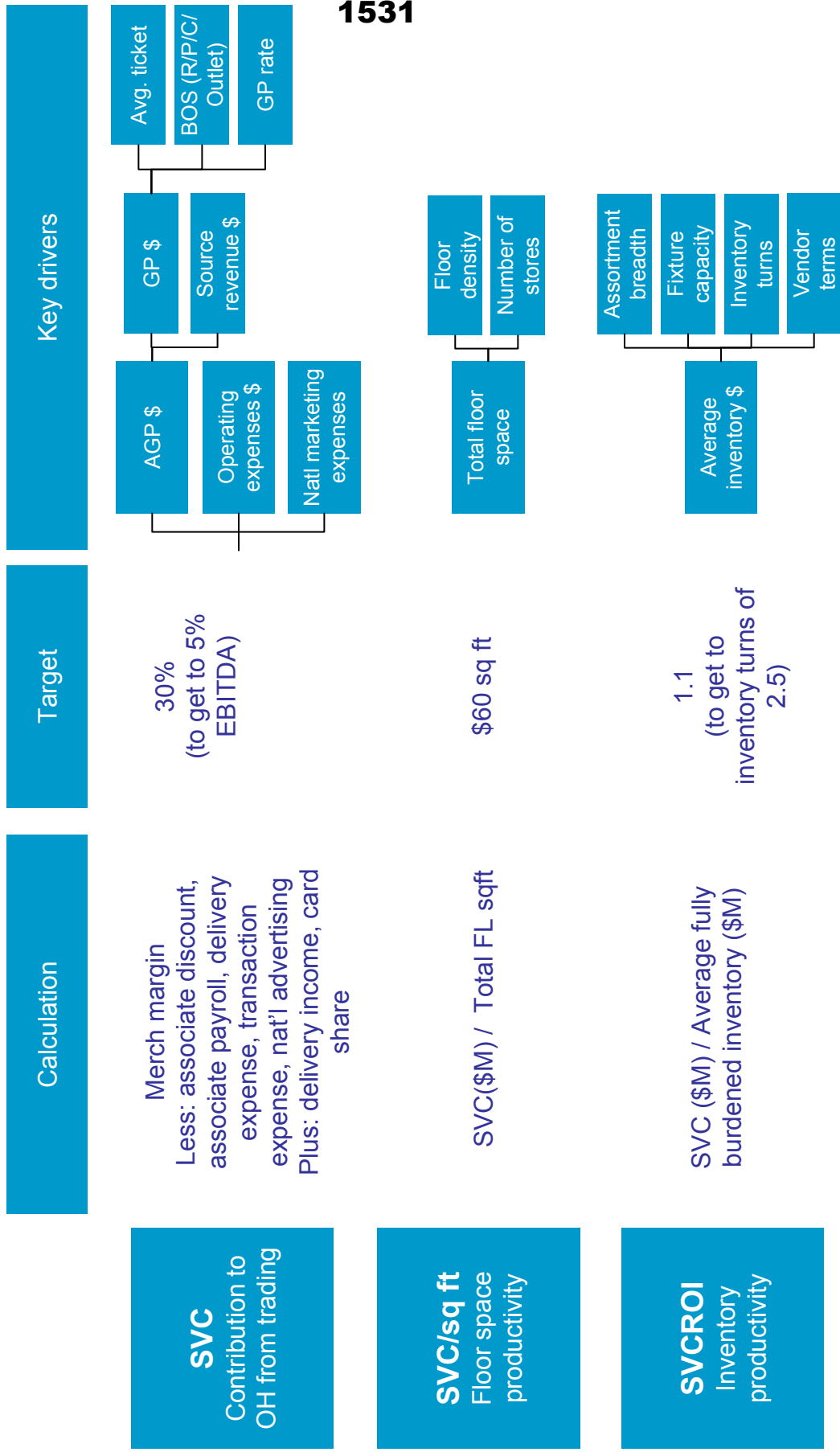
BACKUP

	Metric	2012	2013 B04	2014
MM and trading expenses	SVC / SQ FT	\$43	\$46	\$50
Other variable expenses (not trading expenses)	Other Variable Costs as % of Sales	11.9%	11.5%	9.3%
Fixed expenses	Fixed Costs as % of Sales	10.3%	10.3%	10.2%
Overhead	Overhead % of Sales	10.2%	9.8%	9.6%
EBITDA	EBITDA return on total assets	1.7%	3.0%	4.4%

**1530**

Note: SVC/ sq. ft for SFL only; 2014 sq. ft. adjusted for 5 closed stores; other variable costs as % of sales exclude miscellaneous income except for delivery income and card share; all metrics as a % of sales exclude joint ventures and Cantrex  
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# We will measure space productivity through SVC/sq ft and inventory productivity through SVCROI



1531

*A&A: Inventory productivity is low in all but Luggage, driven primarily by low turns; WA and CW also have low space productivity*

2013 B04 A&A Full line only	WA	MW	CS	CW	WI	FW	JA	LUG	All A&A
Sales	\$296 M	\$288	\$167 M	\$158	\$127 M	\$117 M	\$98 M	\$23 M	\$1,275
COGS*	66%	65%	61%	73%	60%	68%	59%	58%	65%
MM*	47%	45%	39%	44%	49%	43%	53%	51%	46%
Trading expenses*	17%	15%	25%	17%	16%	17%	15%	17%	18%
National marketing expenses*	3%	3%	5%	3%	2%	3%	3%	3%	3%
SVC %	30% (\$88 M)	30% (\$85 M)	14% (\$23 M)	27% (\$42 M)	33% (\$41 M)	27% (\$31 M)	39% (\$38 M)	34% (\$8 M)	28% (\$356 M)
Floor space	1.9 M	1.5 M	0.5 M	1.3 M	0.6 M	0.4 M	0.4 M	0.1 M	6.8 M
Sales/ sq ft	\$158	\$186	\$317	\$118	\$197	\$315	\$265	\$200	\$188
SVC / sq ft	\$47	\$55	\$43	\$31	\$64	\$84	\$103	\$68	\$52
Average inventory*	31%	35%	42%	37%	34%	45%	46%	23%	36%
Inventory turnover	2.1	1.9	1.5	2.0	1.8	1.5	1.3	2.6	1.8
SVC ROI	0.9	0.9	0.3	0.7	1.0	0.6	0.8	1.5	0.8



*Example deep dive – WA: Outerwear/swim is performing well; Nevada, Moderate shop and Attitude are under-performing on all 3 metrics*

1533

2013 B04 A&A Full line only	WA	Tradition	Outerwear / swim	Jessica	Dresses	Nevada	Moderate shop	Attitude
Sales	\$296 M	\$114 M	\$85 M	\$48 M	\$19 M	\$14 M	\$12 M	\$4 M
COGS*	66%	64%	66%	69%	60%	74%	73%	72%
MM*	47%	48%	47%	54%	49%	35%	30%	34%
Trading expenses*	17%	20%	16%	14%	16%	20%	18%	18%
National marketing expenses*	3%	3.0%	3.3%	3.5%	1.8%	3.6%	3.3%	1.1%
SVC %	30% (\$88 M)	28% (\$32M)	30% (\$26 M)	41% (\$20 M)	33% (\$6 M)	15% (\$2 M)	12% (\$1.5 M)	17% (\$0.7 M)
Floor space	1.9 M	0.7 M	0.2 M	0.4 M	0.1 M	0.2 M	0.16 M	0.07 M
Sales/ sq ft	\$158	\$163	\$368	\$127	\$139	\$73	\$73	\$63
SVC / sq ft	\$47	\$45	\$111	\$51	\$45	\$11	\$9	\$11
Average inventory*	31%	28%	17%	39%	39%	63%	73%	84%
Inventory turnover	2.1	2.3	3.9	1.8	1.6	1.2	1.0	0.9
SVC ROI	0.9	1.0	1.8	1.0	0.8	0.2	0.2	0.2

# MA has high floor space and inventory productivity. Remaining H&H businesses have low space and inventory productivity

1534

2013 B04 H&H Full line and Home	MA	HF	HDS	FR	CAWP	EL	All H&H
Sales	\$634 M	\$312 M	\$220 M	\$25 M	\$97 M	\$49 M	\$1.34 B
COGS	78%	63%	74%	80%	85%	102%	75%
MM	28%	40%	45%	23%	23%	17%	32%
Trading expenses	16%	20%	18%	16%	17%	21%	17%
National marketing expenses	3%	6%	3%	2%	4%	3%	3.7%
SVC	12% (\$74 M)	20% (\$63M)	28% (\$61 M )	7% (\$1.6 M)	5% (\$5.2 M)	-4% (-\$2.1 M)	15% (\$202 M)
Floor space	1.0 M	2.2 M	1.8 M	0.2 M	0.5 M	0.3 M	6.0 M
Sales/ sq ft	\$619	\$143	\$123	\$128	\$192	\$155	\$223
SVC / sq ft	\$72	\$29	\$34	\$8	\$10	-\$7	\$34
Average inventory	10%	16%	48%	37%	38%	57%	22%
Inventory turnover	7.9	3.9	1.6	2.2	2.2	1.8	3.4
SVC ROI	1.2	1.3	0.6	0.2	0.1	-0.1	0.7

# Relative to external benchmarks, our working capital turnover is middle of the pack; Inventory days growing, A/P days reducing\*

## External Benchmarks

\$ billions (Currency - as reported)

Source: Bloomberg, most recent 4 Quarters

	Revenue		Gross Operating Margin		Inv. Turns		Inv. Days		A/P Days		Working Capital Turnover		Days Financed	
			Margin		Turns		Days	Days	Days	Working Capital	Working Capital	Financed	Financed	
Wal-Mart	476.1	24.9%	5.9%	8.5	43	37	12.4	43.1	6					
Reitmans (Canada)	1.0	62.8%	3.1%	3.4	110	79	0.0	31.3	31					
Macy'S Inc	28.0	40.3%	9.6%	3.2	116	88	1.7	18.5	27					
Target Corp	73.9	31.0%	7.1%	6.3	59	49	1.4	18.1	10					
Lowe'S Cos Inc	52.4	34.3%	7.0%	3.8	95	57	3.6	14.7	38					
Home Depot Inc	78.7	34.6%	10.4%	4.6	80	46	6.3	12.7	34					
Leon'S Furniture Ltd	1.0	41.6%	8.8%	3.4	106	69	0.1	11.6	37					
J.C. Penney Co Inc	12.2	31.3%	-7.8%	2.8	132	77	0.5	9.7	55					
Sears Canada Inc	4.2	36.1%	-1.9%	3.0	124	71	0.5	9.3	53					
Sears Holdings Corp	38.7	26.4%	-2.4%	6.6	106	40	5.7	9.3	66					
Dillard's Inc-Cl A	6.8	37.1%	8.0%	3.0	124	61	0.8	9.2	63					
Hudson'S Bay Co	4.1	39.0%	3.0%	2.6	145	85	0.5	9.0	60					
Kohls Corp	19.4	36.3%	9.8%	3.3	111	43	2.6	8.7	68					
Rona Inc	4.7	27.4%	1.7%	3.6	103	65	0.7	5.8	39					
Nordstrom Inc	12.5	38.8%	11.1%	5.4	69	66	2.5	5.2	3					
Canadian Tire Corp	11.5	30.6%	7.0%	5.3	68	67	4.8	2.4	1					

Working Capital Turnover = Revenue / Working Capital

Working Capital (modified) = Inventories + Accounts & Notes receivable - Accounts payable

Inventory Turns = Trailing 4 Quarters (TF) COGS / TF average Inventory

Average Accounts Payable = Sum of beginning and ending Accounts payable / 2

- Sears Canada working capital turnover is middle of the pack at 9.3X\*

- Decline from previous 11X

- Inventory days growing to 123 days from 113 previous

- Accounts Payable days shortening to 71 Days from previous 113

- Sears financed Inventory days +10 Days (53 Days TF, 42 previous)

1535

# Emerging insights – we have too much inventory and too much space

## Key themes from SVC analysis to date



- Primary challenges in A&A business are inventory turns (well below target of 2.5x)
  - Driven by 'long tail' of items
  - Low turns result in inventory overhang – which drives negative rate impact
- Second challenge is floor space productivity in selected divisions – overall sales per sq. ft not high enough
  - Potential opportunity to address floor density / assortment mix

More detail provided

1536



- Primary challenge is SVC rate for core (scale) businesses (MA, HF, HDS)
  - Major factors include: pricing strategies and increased promotional depth in 2013, shift to domestic vendors in furniture,
- Secondary issue is handful of small scale, very low return businesses (CAWP, ELE, FR) where resources needed to fix rate and turn issues may not be available given other priorities (recommend exit)

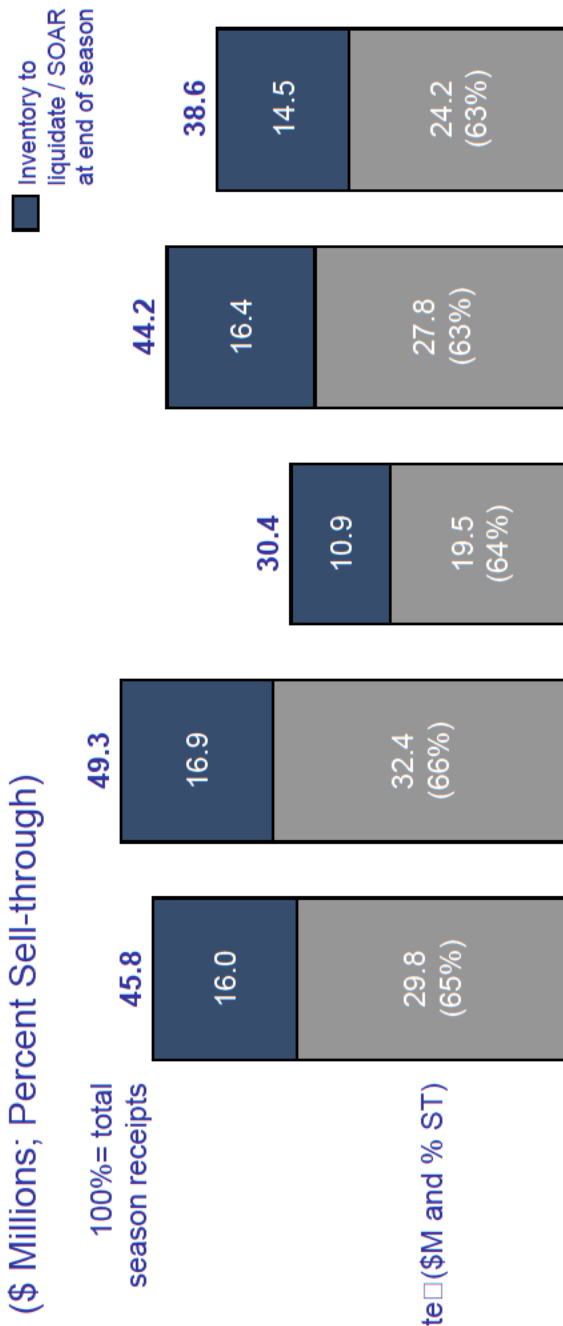
# We buy more than we can sell prior to liquidation periods in A&A

## WA example

### WA – Seasonal Inventory and Cumulative Sell Through at End of season

Inventory position at end of season (Jun Wk 5; Dec Wk 5)

(\$ Millions; Percent Sell-through)



### For discussion

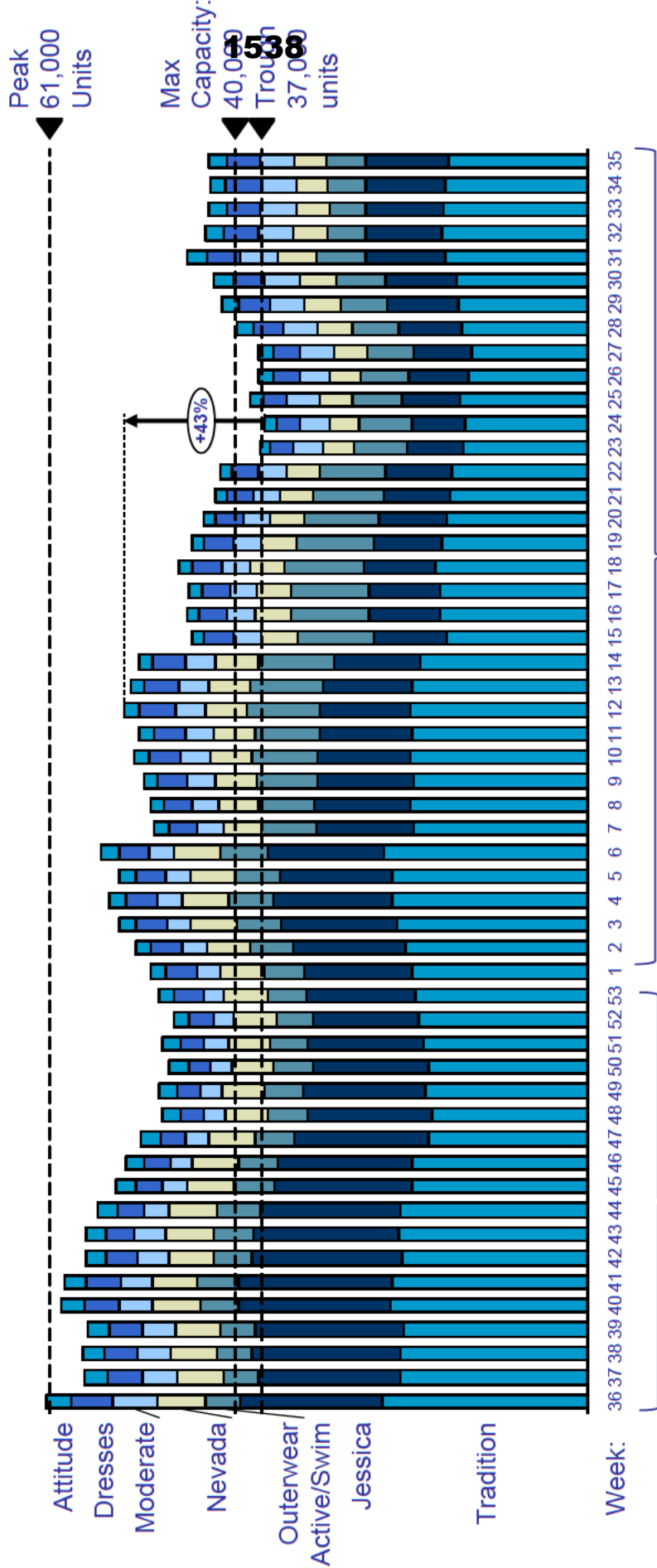
- ❑ We are challenged to achieve > 65% sell through by end of season, despite '90/10' target
- ❑ Historically, changes in receipts / inventory have not changed depth / shape of buy; and low sell through has persisted
- ❑ Across divisions, there are significant opportunities to reduce options and add depth to key items (<20% of items currently drive 80% of sales; with a very long 'tail' of items in each season

**1537**

*We carry more inventory than we can put on the floor - in-store WA inventory exceeds maximum floor capacity most of the year; with spikes in excess of 40%+ over capacity*

**1 Buy to our capacity**

**Inventory flow example – Women’s Apparel (Total) - Limeridge Store**  
 (Total Units in Store by week by shop vs. Maximum floor capacity)

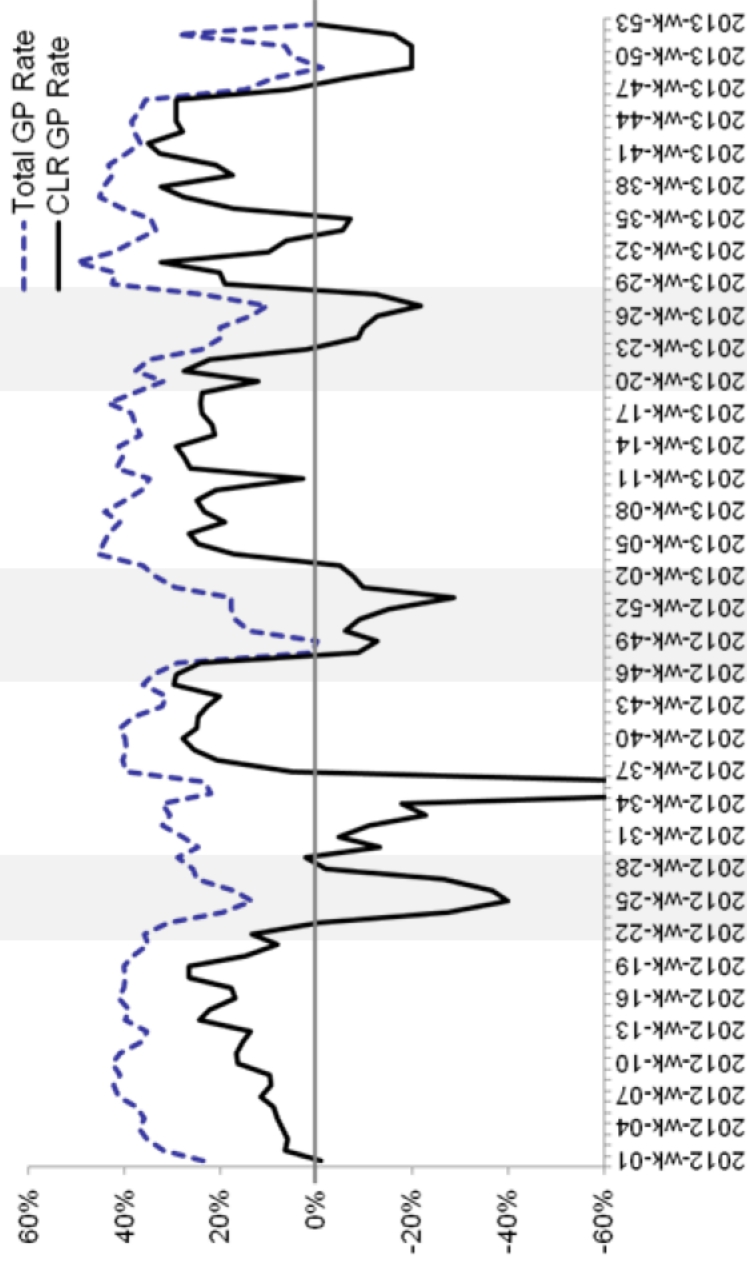


Excess inventory position has led to longer, deeper SOAR periods where low/negative GP sales have 'crowded out' other sales

**1 Buy to our capacity**

**Women's Apparel – Weekly total GP rate (%) vs. Clearance GP rate**

2012 and 2013 by wk  
(GP Percent)



% of units sold on clearance

57%

73%

67%

**For discussion**

- Significant inventory overhang at end of season resulting in need for aggressive liquidation (SOAR)
- Size of clearance pool during SOAR effectively 'crowding out' reg / promo sales (~70% of unit sales on deep clearance during SOAR)

1539

# Buying too much pulls our rate down through SOAR Clearance sales and Outlet sales

Outerwear	Avg. Ticket (\$)	Units Sold	GP %	Jessica	Avg. Ticket (\$)	Units Sold	GP %	Tradition	Avg. Ticket (\$)	Units Sold	GP %
Reg	\$51	24%	52%	Reg	\$23	26%	46%	Reg	\$24	24%	52%
Promo	\$57	26%	36%	Promo	\$21	13%	32%	Promo	\$25	31%	38%
Clearance	\$46	8%	25%	Clearance	\$14	14%	7%	Clearance	\$18	10%	21%
SOAR Clearance	\$42	16%	7%	SOAR Clearance	\$10	23%	-38%	SOAR Clearance	\$14	16%	-7%
Direct	\$61	18%	51%	Direct	\$24	14%	48%	Direct	\$22	12%	47%
Outlet*	\$18	8%	-72%	Outlet*	\$6	11%	-50%	Outlet*	\$7	7%	-25%
TOTAL*	\$50	100%	38%	TOTAL*	\$17	100%	27%	TOTAL*	\$21	100%	36%

1540

Nevada	Avg. Ticket (\$)	Units Sold	GP %	Attitude	Avg. Ticket (\$)	Units Sold	GP %	Modern	Avg. Ticket (\$)	Units Sold	GP %
Reg	\$29	23%	46%	Reg	\$28	25%	48%	Reg	\$49	10%	52%
Promo	\$34	17%	31%	Promo	\$30	16%	31%	Promo	\$36	19%	33%
Clearance	\$18	13%	8%	Clearance	\$22	18%	7%	Clearance	\$29	13%	8%
SOAR Clearance	\$13	22%	-30%	SOAR Clearance	\$15	26%	-29%	SOAR Clearance	\$19	20%	-39%
Direct	\$22	11%	40%	Direct	\$23	5%	29%	Direct	\$44	18%	46%
Outlet*	\$7	14%	-38%	Outlet*	\$8	10%	-8%	Outlet*	\$10	20%	-94%
TOTAL*	\$21	100%	25%	TOTAL*	\$21	100%	21%	TOTAL*	\$29	100%	24%

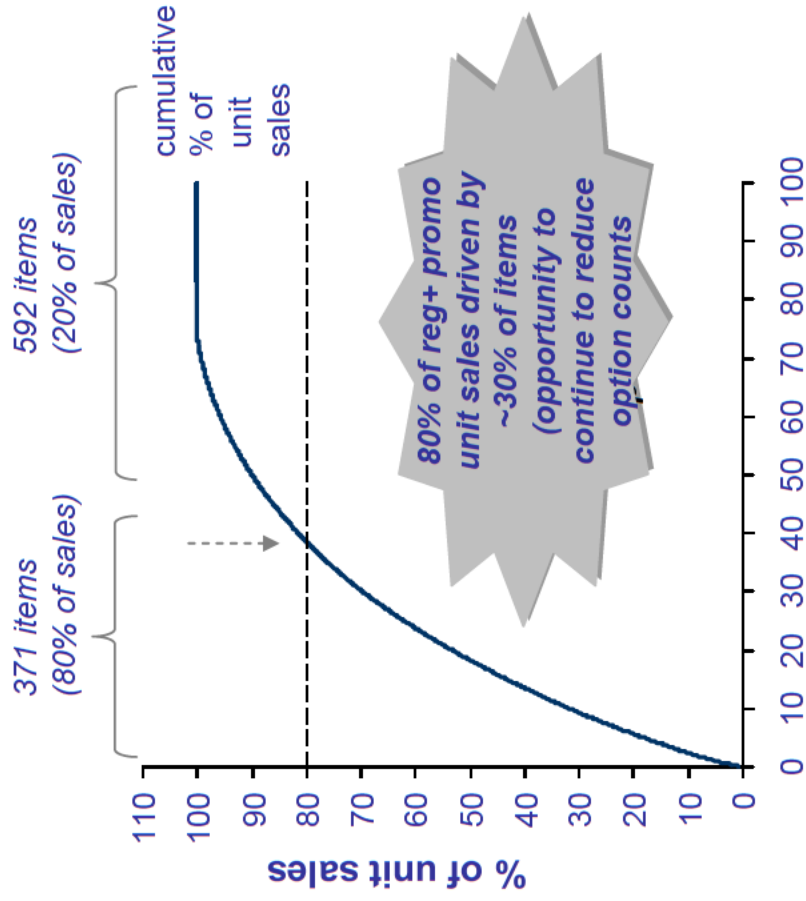


# Sales performance suggests we don't need all of the items we carry

## JESSICA Example

Jessica – Spring 2013 – Reg+Promo Sales (units)

by item

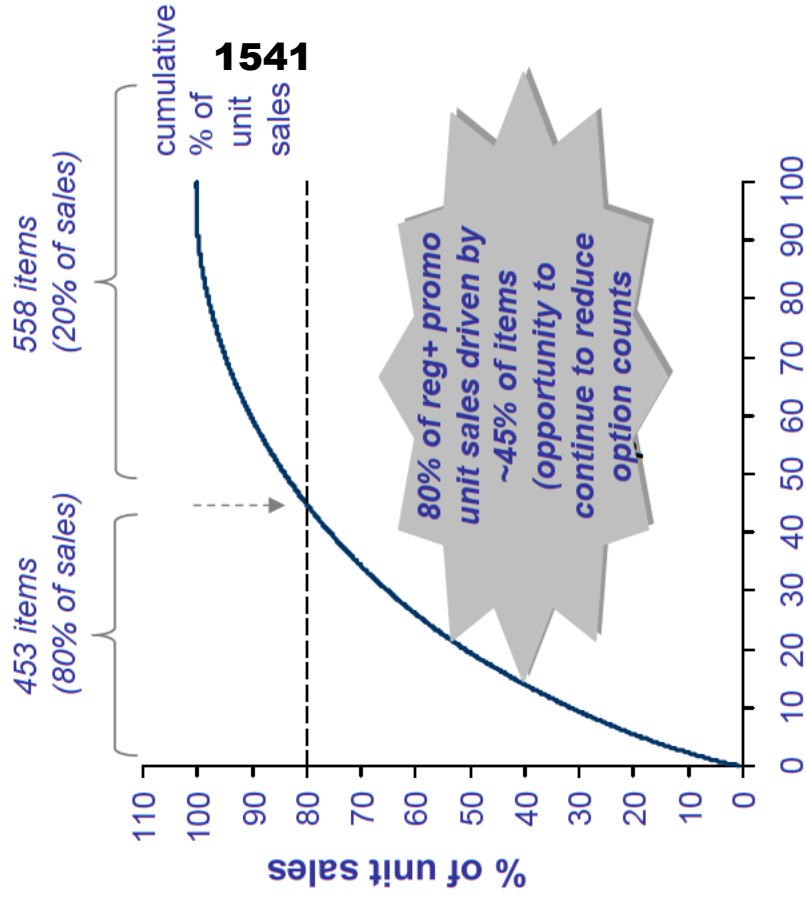


(total 963 items in Spring 2013)

## Trad example

Trad – Spring 2013 – Reg+Promo Sales (units)

by item



(total 1,011 items in Spring 2013)

# Agenda

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- Management Priorities
- Asset Valuation
- Merchandising Value
  - ▶ Category performance review – Where are performance gaps?
    - ▶ Retail 101 – Root cause of gaps and approach to fix
    - ▶ Simplified Value Proposition – Focusing the organizational efforts
- Operating Efficiency: Progress against \$200M target
- 2014 Plan
  - ▶ Financial plan
  - ▶ Operating plans

1542

# Poor fundamentals are causing our excess inventory and lowering our GP rate

Issues	Impact	Metrics
<b>1. Our planning process and execution checks and balances don't enforce buying to our floor capacity</b>	<ul style="list-style-type: none"><li>• All options cannot be displayed on the floor – stores must prioritize and leave active product in the back</li><li>• Very limited capacity on the floor for Clearance so it gets moved to the back room</li><li>• Over-stocked back rooms make operations difficult</li></ul>	<ul style="list-style-type: none"><li>• 47% of 2012 units in WA were sold on clearance with 47% at negative GP</li></ul>
<b>2. Allocate product poorly across the stores and manage inventory ineffectively</b>	<ul style="list-style-type: none"><li>• Some stores have excess inventory while others have shortages of the same product</li><li>• Significant peaks in store inventory, due to overlapping arrivals for events/new setups</li><li>• Empty space in seasonal pads in shoulder seasons</li></ul>	<ul style="list-style-type: none"><li>• \$130MM of inactive inventory as of Oct 2013</li><li>• Event readiness - only ~80% in stock for past 4 key corporate events (Cozy, Little black dress, Back to school, Fall Look)</li></ul>
<b>3. Lack planning accuracy</b>	<ul style="list-style-type: none"><li>• Inaccurate rate forecasts for events make it difficult to proactively manage rate</li></ul>	<ul style="list-style-type: none"><li>• GP rate forecast can be off by ~500 bps. week over week</li></ul>
<b>4. Do not have effective communication between Head Office and stores</b>	<ul style="list-style-type: none"><li>• Stores cannot confirm that sufficient product is available to appropriately support program</li><li>• Stores do not have sufficient time to set-up appropriately</li></ul>	<ul style="list-style-type: none"><li>• Updated RIM inventory adjustments</li></ul>
<b>5. Invest our promotional resources (checkerboard days) at sub-optimal times (missed sales opportunities)</b>	<ul style="list-style-type: none"><li>• Missing opportunities to maximize sales impact of promo (checkerboard) days by investing at the wrong time (i.e. investing too late in contemporary brands; too early in Trad brands)</li><li>• Missing out on high rate reg sales by promoting when we should not be</li></ul>	<ul style="list-style-type: none"><li>• Fall 2013 checkerboard analysis showed 20-40% of checkerboard days in Jessica, Tradition, and Arnold Palmer were being under-utilized relative to lift / traffic patterns</li></ul>

# Deep dive into WA validates that we can improve SVC from \$88M to ~\$105M

## WA example

Theme	Initiative	Outcome	Estimated impact	\$	Rationale
Fix the Basics	Right product, right place, right time 1 Buy to our capacity / rack plan 2 Flow product into stores on a more timely basis	Reduction in inventory investment	10-15% reduction in inventory investment to support comp sales	\$15-20M million	Extrapolated based on Div. level analysis of store clustering
		Reduction in clearance and Outlet units, increase in Reg units sold	25% reduction in clearance unit sales during SOAR, 50% reduction in shipouts to Outlet (eliminate neg. GP% sales)	\$7 million	Estimated based on historical clearance performance vs. 'normal' clearance levels
		Event readiness Improved in-stock / readiness for key events	5% increase in reg/promo unit sales (Balance of sale shift)	\$3 million	Est. based on actual event readiness data from 2013
		Better responsiveness Faster re-stocking and ability to respond to customer requests due to reduced backroom clutter	1-2% increase in promo unit sales from better floor setup and replenishment	\$1.4 - 2.8 million	Estimate based on store visits and in-stock analysis
	3 Optimize our checkerboard calendar	Increase in promo unit sales during events		\$2-3 million	2014 Target based on checkerboard optimization analysis

Improves SVC/sqft from \$47 to \$55  
Improves SVC/ROI from 0.9 to 1.3

# Extrapolating results across A&A suggests we can increase SVC from \$356M to ~\$390M

## Total A&A

Theme	Initiative	Outcome	Estimated impact	\$	Rationale
Fix the Basics	1 Buy to our capacity / rack plan 2 Flow product into stores on a more timely basis	Reduction in inventory investment	10-15% reduction in inventory investment to support comp sales	\$55-80 million	Extrapolated based on Div. level analysis of store clustering
		Reduction in clearance and Outlet units, increase in Reg units sold	25% reduction in clearance unit sales during SOAR, 50% reduction in shipouts to Outlet (eliminate neg. GP% sales)	\$14 million	Estimated based on historical clearance performance vs. 'normal' clearance levels
			5% increase in reg/promo unit sales (Balance of sale shift)	\$3-4 million	
	Event readiness Improved in-stock / readiness for key events	5% increase in promo unit sales through increased in-stock for promo events	\$8M million	Est. based on actual event readiness data from 2013	
	Better responsiveness Faster re-stocking and ability to respond to customer requests due to reduced backroom clutter	1-2% increase in promo unit sales from better floor setup and replenishment	\$2-3million	Estimate based on store visits and in-stock analysis	
	3 Optimize our checkerboard calendar	Increase in promo unit sales during events	\$7-9 million	2014 Target based on checkerboard optimization analysis	
				~\$34M GP improvement in A&A alone	

**Improves SVC/sqft from \$52 to \$57**  
**Improves SVC/ROI from 0.8 to 1.0**

# If option counts are reduced effectively, SOAR Clearance and Outlet shipouts should be reduced

## 1 Buy to our capacity

WA 2012 SFL sales	Avg. Ticket (\$)	Balance of Units Sold	GP %
Reg	\$29	23%	51%
Promo	\$31	24%	37%
Clearance	\$22	12%	17%
SOAR Clearance	\$16	18%	-14%
Direct*	\$32	13%	49%
Outlet*	\$8	10%	-59%
<b>TOTAL</b>	<b>\$24</b>	<b>100%</b>	<b>34%**</b>

### Potential impacts of buying less:

- Reduction in SOAR Clearance and shipouts to Outlet
  - 25% reduction in SOAR Clearance and 50% reduction in Outlet shipouts =
    - 5% in sales\$ (~\$22M)
    - +4% in GP\$ (~\$7M)**
- Increase in Reg and promo sales
  - Reset/refresh stores saw an increase in reg/promo balance of sales from removal of Clearance inventory on the floor
  - Assume 5% increase =
    - +1% in sales\$ (~\$7M)**
    - +2% in GP\$ (~\$3M)**

**1546**

*A Space and merchandising standards Steering Committee has been established to drive the changes necessary to effectively reduce inventory*

## **1 Buy to our capacity**

1. Refine and finalize merchandising standards
  - Max and min capacity by fixture type
  - Fixture density by shop
2. Define capacity per store and create capacity clusters
  - Option and unit capacity by category, by shop, by brand
  - Update rack plans / planograms
3. Change the planning process
  - Line reviews now require assortment plans to be built to store clusters
  - Establishing buy plan approval process to enforce option count and depth
4. Establish monitoring process for buy levels
  - Approval process for all deviations from agreed rack plans / planograms – changes only allowed twice per year

**1547**

# Initial results of store re-clustering indicate an opportunity to reduce option count by ~20% in WA and drop inventory investment by ~20%

## 1 Buy to our capacity

### Store clustering / standards - Description

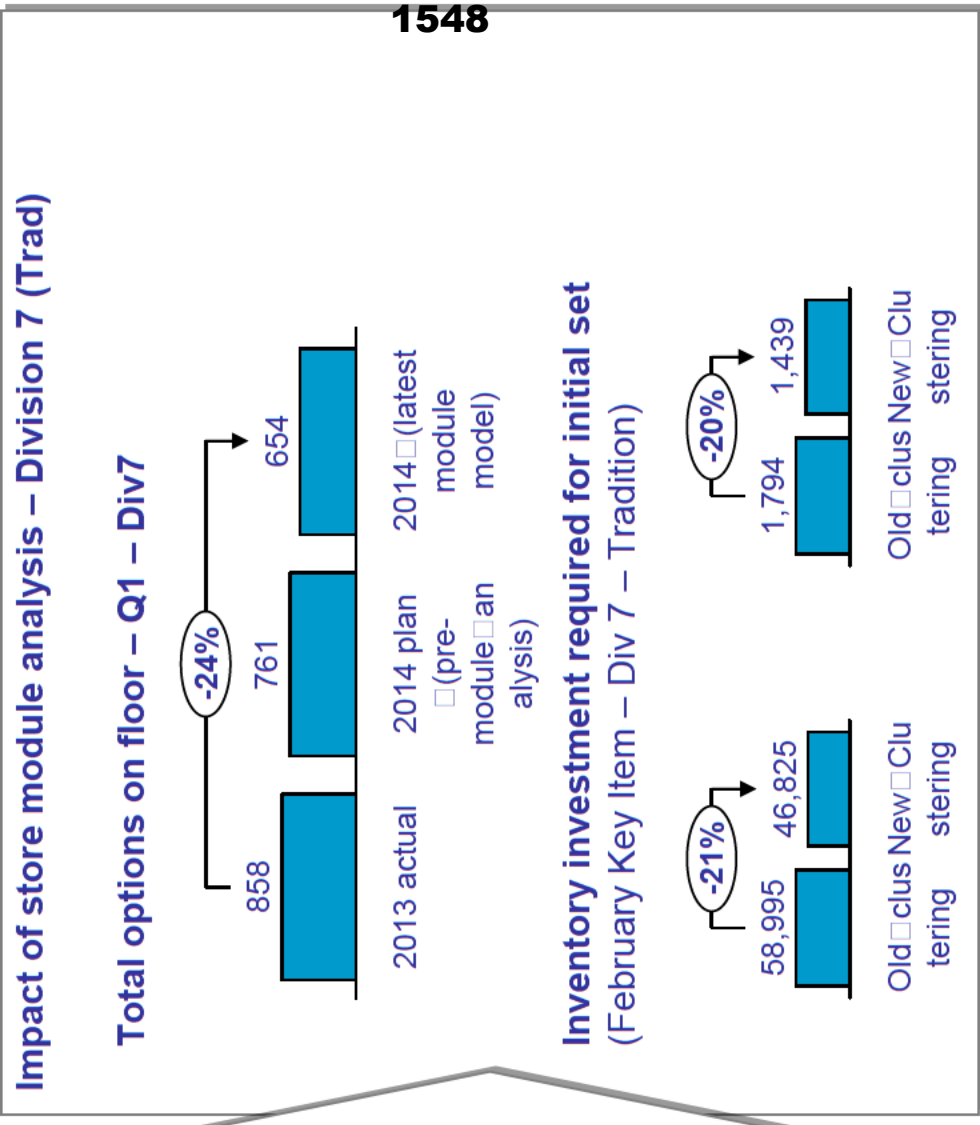
- Objectives**
  - Change how we plan and buy at a granular level –in order to avoid over assortment, and excess clearance
  - Standardize our assortment by store type, and ensure consistent execution

### Approach

- Bottom up build of rack level capacity / space configuration on a line by line, store by store basis
- Defining space and rack standards by store, by shop
- Building assortment limits (units, options) based on new store clusters / standards

### Path forward

- Applying to 2014 buy; using as input to 2015 buy;
- Accelerating rollout across categories





*A SKU rationalization database has also been developed and is being installed in the watch shop*

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*A SKU Rationalization Database (SKU RD):*

- *A statistical, financial model that uses historical forecast + demand performance*
- *Output is an optimal inventory level recommendation*

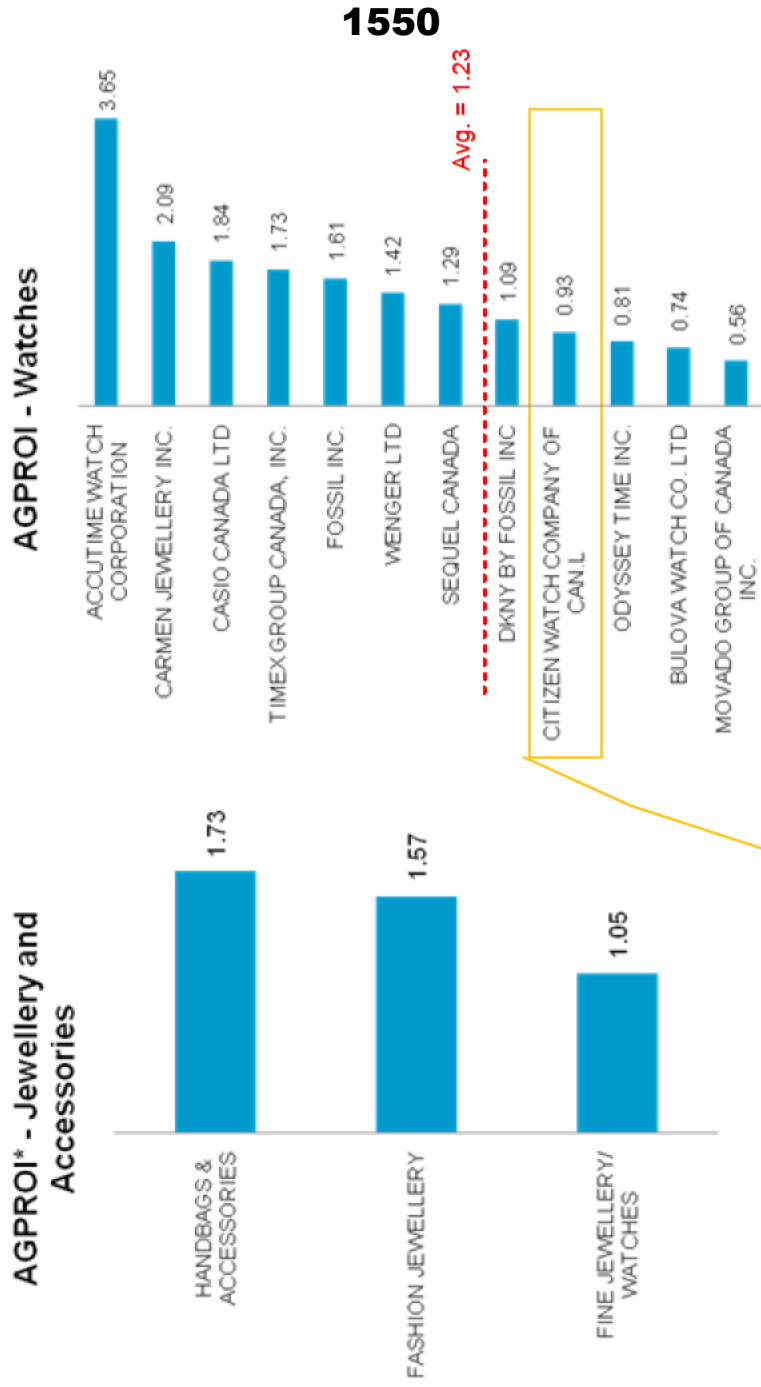
**Execution:** SKU RD recommendations are provided to buyers:

1. Buyers evaluate recommendations subjectively to ensure key items are not exited or removed from assortment in error;
2. Buyers work closely with planners to ensure reductions are performed logically, taking into consideration regional allocation variability;
3. Actions can be taken within the confines of E3 by reducing min-presentations to reduce future demand/orders.

**1549**

# Jewellery and accessories example: low inventory productivity, driven by over assortment in sub categories such as watches

2013 B03 A&A	JA
Sales	\$98 M
COGS*	59%
MM*	53%
Trading expenses*	15%
National marketing expenses*	3%
<b>SVC %</b>	<b>39% (\$38 M)</b>
Floor space	0.4 M
Sales/ sq ft	\$265
<b>SVC / sq ft</b>	<b>\$103</b>
Average inventory*	46%
Inventory turnover	1.3
<b>SVC ROI</b>	<b>0.8</b>

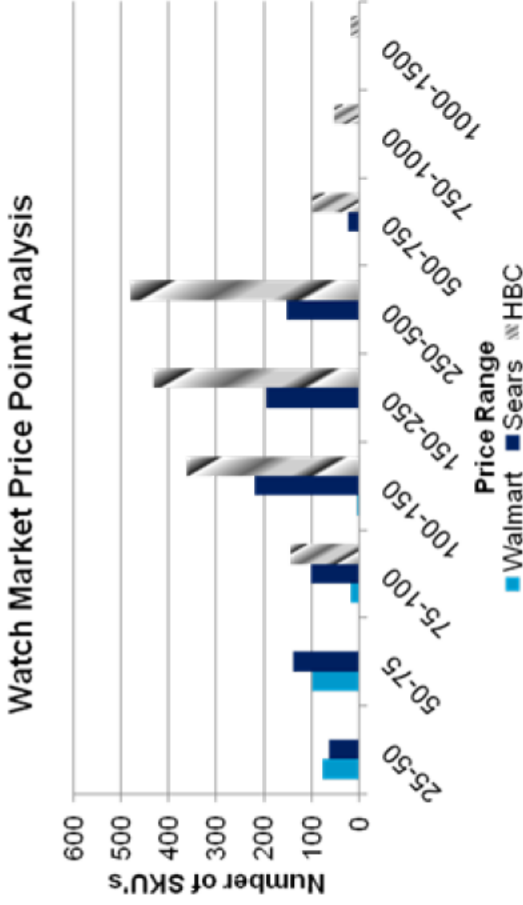


Citizen Watch Company selected for a deep dive as it ranks fourth largest by sales and has low AGPROI performance

\*AGPROI data is based on rolling twelve months August, 2012 to July, 2013

# Actions to reduce assortment and remove unproductive inventory are being identified and initiated

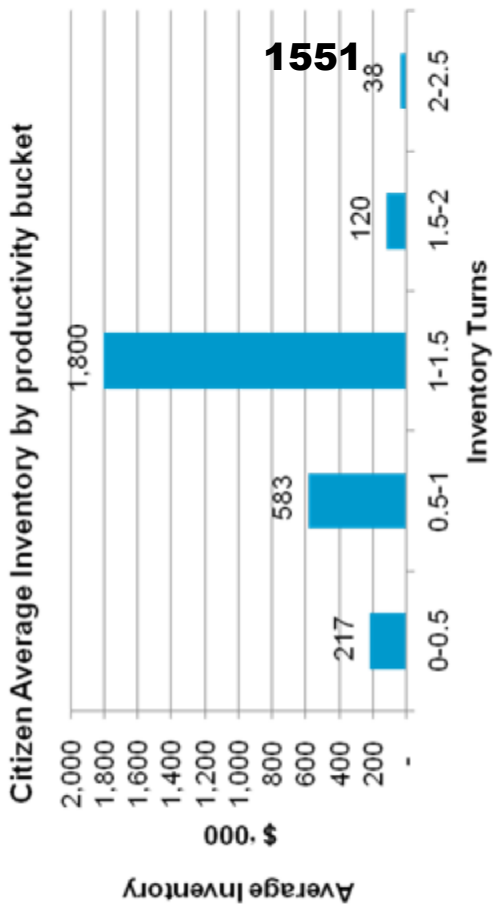
The assortment in this area was generally too broad...



## Refocus the assortment

## Watches example

Citizen is a vendor that represents 8% of sales but has many items that turn slowly



## Focus on higher productivity skus

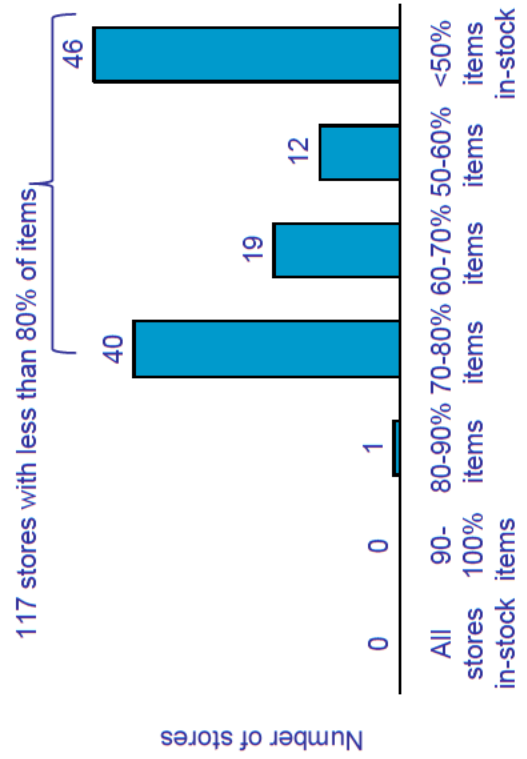
Observation	Recommendations	Citizen Working Capital reduction
Skus with low turns (<1) or poor margin	Exit Skus	(0.5MM)
Inventory turns greater than 1 but less than average	Optimize inventory level	(0.6MM)
AGPROI greater than Average	Re-Invest in inventory	0.4MM

**Net Working Capital Reduction: (0.7MM) = 20% reduction**

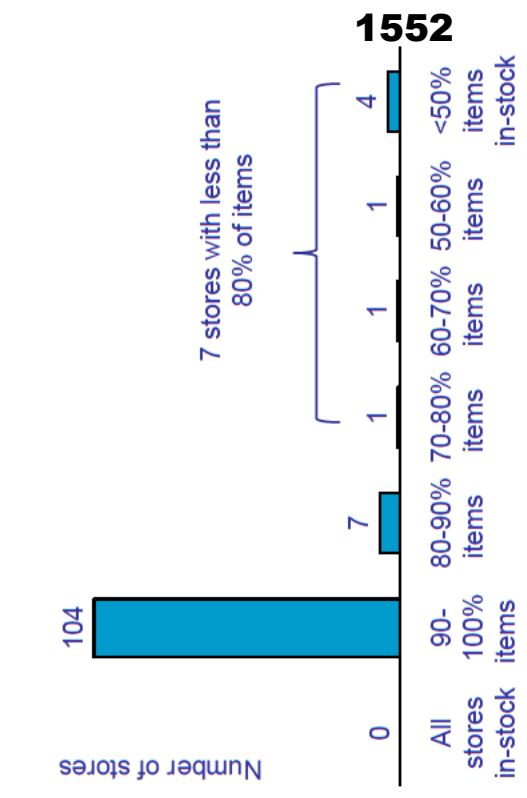
# We were only 82% in stock for WA inventory in the last 4 key events (excluding Sears Days)

## 2 Fix allocation and flow

Back to School / Work Event – August 2013

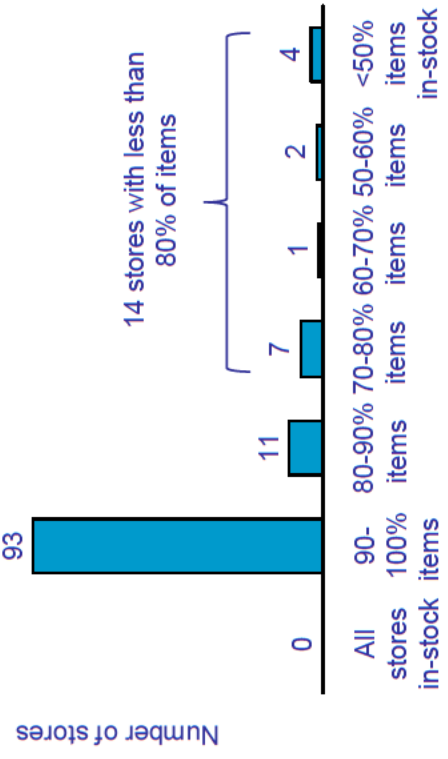


Fall Look Report – September 2013

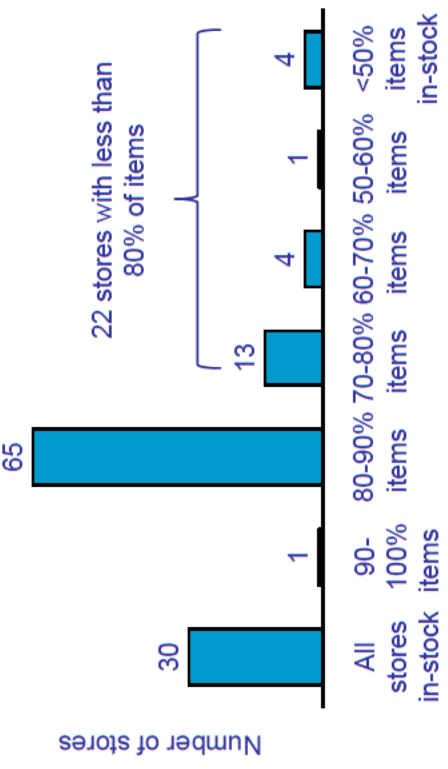


1552

Get Cozy Event – October 2013



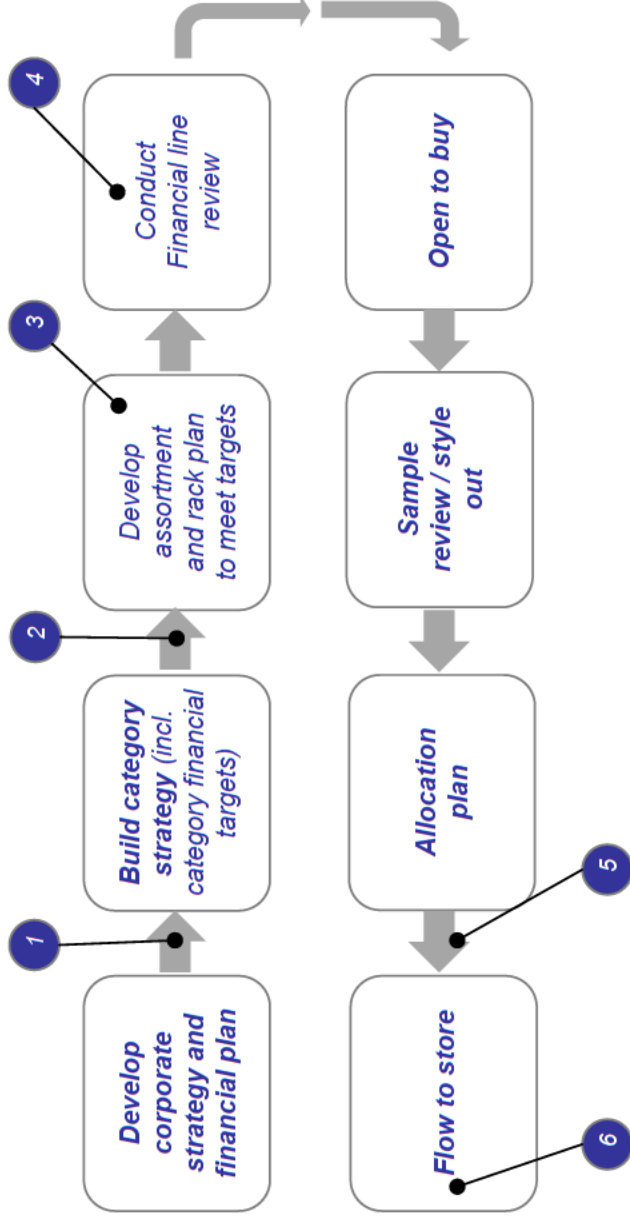
Little Black Dress Event – October 2013



# Our issues with excess clearance and inventory start far upstream in our merchandise planning process

## 2 Fix allocation and flow

### Key root causes of excess inventory / clearance in merchandise planning process (Simplified)



### Key issues

- 1 Aggressive top-down targets translated into category level buying (buy to aggressive plan vs. most likely volume)
- 2 Limited guidance (buying guardrails) provided to buyers in advance of assortment planning
- 3 Assortment plans are not linked to actual rack counts / capacity
- 4 Line review sign-off not linked to financial controls
- 5 Allocation plan not based on actual store / floor capacity / not linked to store clustering
- 6 Goods 'pushed' to store on arrival in country; and often all flow for 1<sup>st</sup> of month (vs. weekly flows)

1553



# Some trends have emerged that are better informing our promotion decisions and showing a 2-6% potential improvement in sales across A&A

## 3 Optimize our checkerboard

### Insights:

- Traditional customers tend to shop later in the season and are significantly more responsive to big event promotions (e.g. Sears Days) than Updated and Contemporary customers
- Contemporary customers tend to shop earliest in the season. Attitude is the only brand that the model recommends promoting in August for Fall season
- Men tend to shop later in the season than women
- Customers are less responsive to promotions in February and August – focus on offers / reasons to buy that do not use checkerboard days (e.g. value price point, item offers, etc)
- October is a low value month for Jessica and Tradition. Focus on promoting commodities (dresses, outerwear and seasonal footwear)
- Except for Attitude brand, customers do not respond to promotions in February and August

1555

Category	2013EA sales	Expected lift from checkerboard optimization (\$)	Expected lift from checkerboard optimization (%)
WA	\$ 158,709,010	\$ 5,695,347	5%
MW	\$ 143,413,015	\$ 2,462,726	4%
FW	\$ 69,691,578	\$ 3,026,470	6%
JA	\$ 60,769,656	\$ 1,468,082	3%
CW	\$ 56,571,065	\$ 785,129	2%

# Results from the first 3 weeks of monitoring changes validate the modelled improvement potential

## 3 Optimize our checkerboard

### October Insights:

- Tradition implemented most of recommended changes, moving promo days from October to November.
- Promo units were significantly impacted (-60K,-43%) however ~80% of those units were recovered as Reg sales (+46K,+40%) with a net positive mix impact in GP\$'s of +900K, +64%. Topline sales were only slightly impacted (-137K,-2%)
- Expected sales gains of +670K from moving the checkerboard days are still to be realized in Nov/Dec

Division	Sales			REGULAR			PROMO			CLEARANCE			Units			REGULAR			PROMO			CLEARANCE			GP TY VAR						
	\$	\$ Var	% Var	\$	\$ Var	% Var	\$	\$ Var	% Var	\$	\$ Var	% Var	\$	\$ Var	% Var	TY	VAR	%	\$	\$ Var	% Var	\$	\$ Var	% Var	\$	\$ Var	% Var	\$	\$ Var	% Var	
<b>Expected Negative Impact</b>																															
0007-TRAD	7,960	(137)	-2%	1,531	54%	(1,662)	-44%	(6)	0%	315	-4%	46	40%	(60)	-43%	3	4%	46	40%	(60)	-43%	3	4%	3,478	7%	900	64%	(666)	-45%	(15)	-4%
<b>Expected Positive Impact</b>																															
0033-MENS	9,106	1,061	13%	(830)	-17%	1,495	74%	397	39%	266	4%	(35)	-25%	38	60%	7	13%	266	4%	38	60%	7	13%	3,781	22%	(298)	-13%	661	96%	320	320%
0017-OUTTERWEAR	8,490	1,902	29%	627	21%	1,540	51%	(264)	-51%	78	14%	0	1%	14	49%	(5)	-50%	78	14%	14	49%	(5)	-50%	3,759	33%	271	18%	788	66%	(135)	-76%
0054-WOMEN FW	9,255	1,453	19%	(665)	-25%	1,333	32%	785	75%	215	8%	(19)	-27%	22	24%	13	39%	215	8%	22	24%	13	39%	3,589	12%	(395)	-29%	452	27%	319	150%
0067MENS FW	2,770	507	22%	(39)	-4%	64	6%	482	292%	54	25%	(0)	-1%	0	1%	11	282%	54	25%	0	1%	11	282%	1,057	6%	(38)	-8%	(3)	-1%	97	299%

### Example of Specific Wins:

- WA- weekend 37: Jessica and Tradition moved from "all on sale" last year to Reg this year with a - \$236K loss (8% less than forecasted). Those checkerboard days will be used in week 41, which is expected to deliver +\$522K based on historical performance. In addition, a SOAR to mitigate risk in Tradition, delivering incremental +\$126K in clearance sales at +32% GP rate.
- MW - Arnold Palmer –weekend 37: Went on sale (was at Reg last year), taking days from Week 32. Net realized gain (upside of week 37 vs loss in week 32) was \$10K (+11% uplift) (32).



# Four key initiatives will be pursued in 2014 to fix the basics; impact should be seen in 2H 2014

Initiative	Major activities
1) Strategy & Planning	<ul style="list-style-type: none"> <li>Refine Category Strategy and Line Review Process</li> </ul>
2) Assortment Planning	<ul style="list-style-type: none"> <li>Define store clusters and capacity</li> <li>Ensure the 2014 buy is to capacity                             <ul style="list-style-type: none"> <li>-2014 Fall – all brands, Domestic and DI; then 2014 Spring – domestic; then formalized process for 2015</li> </ul> </li> <li>Formalize category strategy and line review process and content</li> <li>Refresh master calendar</li> </ul>
3) Fix allocation and inventory flow	<ul style="list-style-type: none"> <li>Map the process from PO to store floor</li> <li>Establish stage gating to ensure adherence to dates and process</li> <li>Address key drivers of variability and long lead times</li> </ul>
4) Fully implement checkerboard optimization	<ul style="list-style-type: none"> <li>Full year model completed for all categories with checkerboard constraints</li> <li>Corporate events (e.g. Sears Days) have been adjusted to optimal timing</li> <li>Post-mortem tracking established to monitor impact and allow for refinement</li> </ul>

Metric	Target impact		
	2014 1H	2014 2H	2015
Average Inventory	Down 5-10%	Down 10%	Down 15%
Option count		Down 10-15%	Down 20%
Event readiness	90+% in stock	95+% in stock	95+% in stock
Promo sales from checkerboard optimization	Up 2-5%	Up 2-5%	
Clearance and Outlet unit sales		Down 10-15%	Down 25%
Clearance rate		Up 100 bps	Up 200 bps

# Agenda

- Management Priorities
- Asset Valuation
- Merchandising Value
  - ▶ Category performance review – Where are performance gaps?
  - ▶ Retail 101 – Root cause of gaps and approach to fix
    - ▶ Simplified Value Proposition – Focusing the organizational efforts
- Operating Efficiency: Progress against \$200M target
- 2014 Plan
  - ▶ Financial plan
  - ▶ Operating plans

1558

## *There are numerous inconsistencies in the way we go to market that we will work to resolve starting in 2014*

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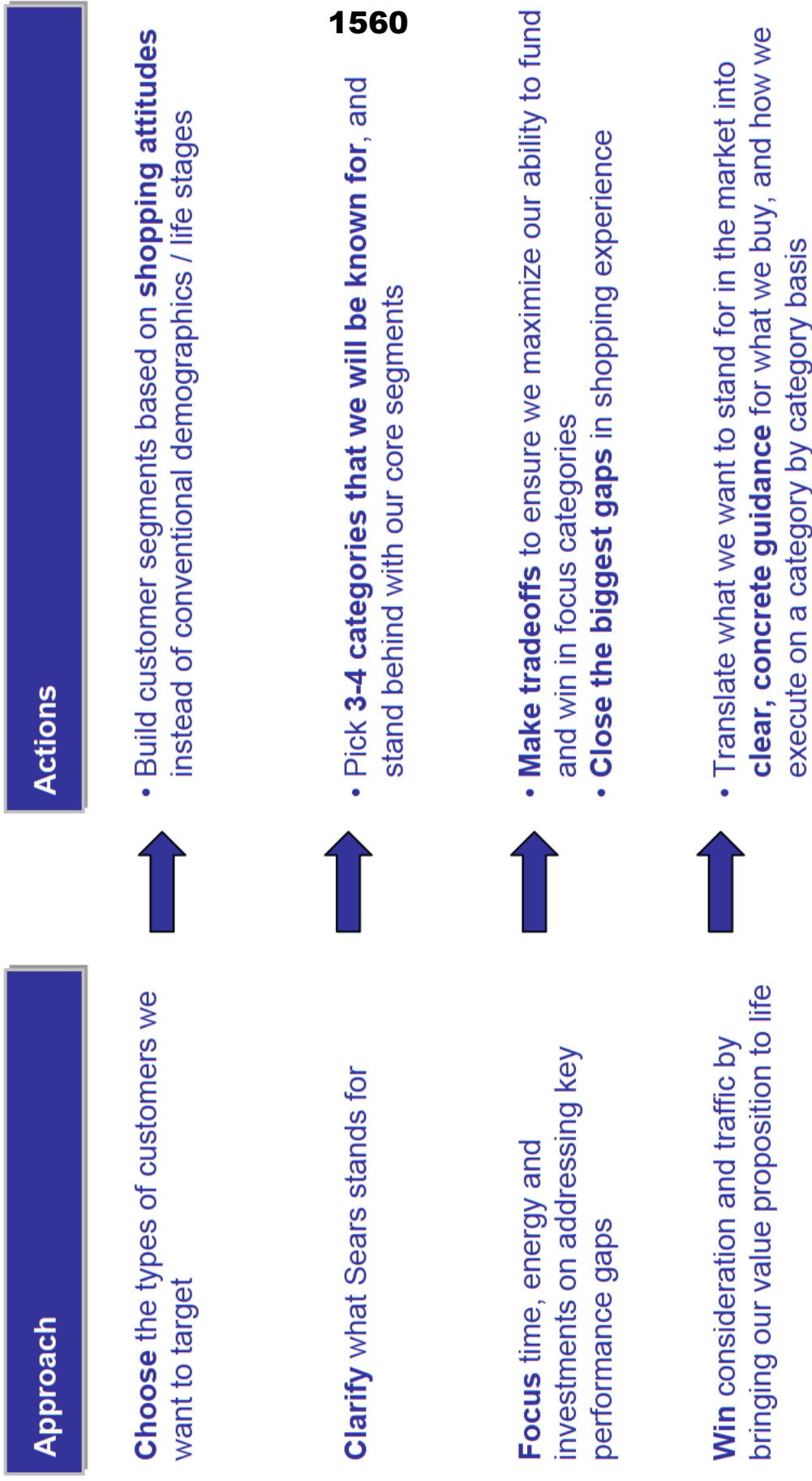
- Broad range of price bands within categories and across the house
- Marketing investment spread thin across categories reducing overall impact
- In A&A we have ‘flip-flopped’ on style profile in past 2 years – targeting ‘Traditional’ customers; then jumping too far, to target ‘Contemporary’ - creating brand confusion
- We do not effectively leverage and protect our position as industry authority in Major Appliances to support other H&H business
- Too many ‘hero’ shops that have not achieved ‘hero’ status --- due to under-investment (spread too thin) and low share of voice in the market
- Inconsistent customer experience across the house - reduces overall credibility and creates confusion on how we play in the marketplace
  - Changed to ‘no-hassle return policy’ then retracted policy for clearance items
  - Post sale delivery, and service in MA is not meeting customer expectations of timeliness and quality

**1559**



**Need to clarify and simplify what it is  
we stand for!**

# We are re-building our value proposition so that we can clearly and consistently stand for something in the minds of Canadian consumers



# We researched the shopping attitudes of 18,750 Canadian households to profile five main consumer clusters for categories we compete in

## Segmentation based on responses around the following attitudinal themes ...

- Function vs. Fashion
- Brand vs. quality
- Degree of price sensitivity
- Promotional drivers
- Convenience drivers
- Service preferences (availability of staff, expertise)
- Boutique vs. one-stop shop
- Store organization
- Brick & mortar vs. online
- Trendy vs. classic styling

## helped form 5 main consumer clusters

- #1 Price savvy**
  - Best possible value for their money
- #2 Fashion browser**
  - Loves to browse
  - Affordable Fashion
  - Promotional pricing
- #3 Specialty seeker**
  - Brands
  - High Quality
  - Boutique experience
- #4 Pure price**
  - Lowest price for items (O.P.P)
  - Function over fashion
- #5 Pragmatist**
  - Ease of navigation
  - Convenience of experience
  - Quality, fit, function over fashion
  - Fair pricing

1561

*Our research will help drive answers within two main areas*

## Category Tactics

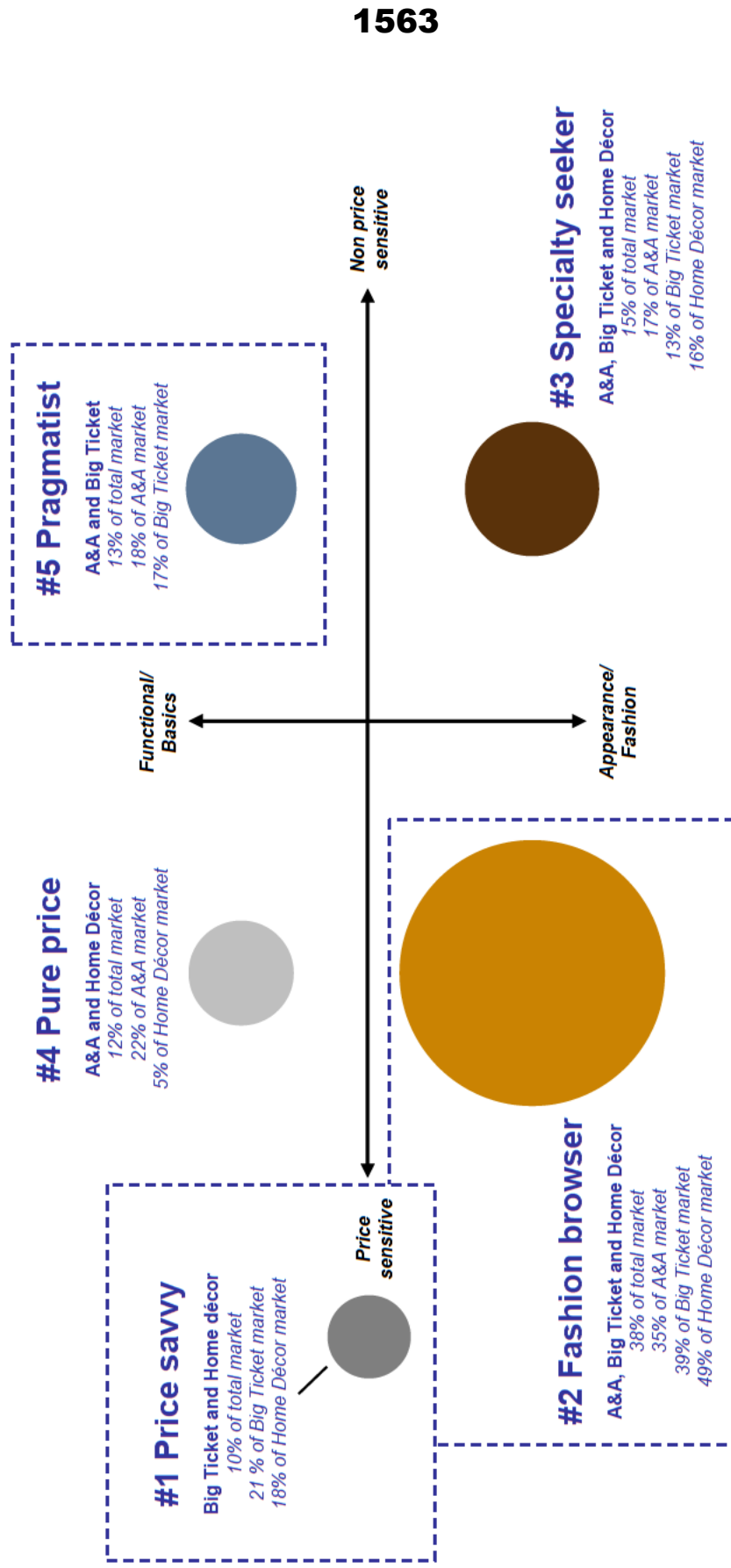
- Which customer attitudinal segments should we target?
- Who are the key competitors we need to win share from?
- What are the main performance gaps Sears needs to close?
- What is it worth?

## Sears Brand

- What are the 2 or 3 things we want Sears to stand for in the minds of Canadian consumers?
- Where can we credibly compete?

**1562**

Of the five major sets of shopping attitudes in the Canadian market, we believe Sears can compete in 3 of them (60% of the retail market)



Note: Size of the circle represents preliminary market size of cluster relative to cluster #1 Price savvy; market sizes are directional; total market of the 5 clusters does not include the 9% of the total market not classified into the 5 main clusters due to lack of clarity on shopping preferences (e.g. no strong opinion) and 2% of the market which is Nursery (Category I). Further triangulation of the market sizes is required based on Sears' internal information. *Private and Confidential*

# Sears has strong share with the Price savvy shopper and the Pragmatist; also over-indexes with the Fashion browser

Attitudinal Cluster	What they value	Where they like to shop	Preliminary Market Sizes <sup>1</sup>				Sears' overall share
			A&A	Big Ticket	Home Décor	Total per cluster	
<b>#1 Price savvy</b>	<ul style="list-style-type: none"> <li>Best possible value for their money</li> </ul>	<ul style="list-style-type: none"> <li>Future Shop , Home Depot</li> <li>Canadian Tire, Walmart</li> </ul>	--	21% (\$1.8B)	18% (\$1.6B)	10% (\$3.4B)	15%
<b>#2 Fashion browser</b>	<ul style="list-style-type: none"> <li>Loves to browse</li> <li>Affordable Fashion</li> <li>Promotional pricing</li> </ul>	<ul style="list-style-type: none"> <li>Leon's, Brick</li> <li>Home Sense, IKEA</li> <li>Winners, Reitmans, H&amp;M</li> </ul>	35% (\$6.0B)	39% (\$3.4B)	49% (\$4.2B)	38% (\$13.6B)	8%
<b>#3 Specialty seeker</b>	<ul style="list-style-type: none"> <li>Brands</li> <li>High Quality</li> <li>Boutique experience</li> </ul>	<ul style="list-style-type: none"> <li>Specialty</li> <li>Hudson's Bay</li> <li>Harry Rosen</li> </ul>	17% (\$3.0B)	13% (\$1.1B)	16% (\$1.4B)	15% (\$5.5B)	6%
<b>#4 Pure price</b>	<ul style="list-style-type: none"> <li>Lowest price for items (O.P.P)</li> <li>Function over fashion</li> </ul>	<ul style="list-style-type: none"> <li>WalMart</li> <li>Costco</li> </ul>	22% (\$3.9B)	--	5% (\$0.4B)	12% (\$4.3B)	6%
<b>#5 Pragmatist</b>	<ul style="list-style-type: none"> <li>Ease of navigation</li> <li>Convenience of experience</li> <li>Quality, fit, function over fashion</li> <li>Fair pricing</li> </ul>	<ul style="list-style-type: none"> <li>Specialty, Brault &amp; Martineau</li> <li>Marks</li> <li>Moore's</li> <li>Addition Elle/Pennington's</li> </ul>	18% (\$3.0B)	17% (\$1.5B)	--	13% (\$4.5B)	11%
<b>Total market (5 clusters)</b>			<b>\$15.9B</b>	<b>\$7.8B</b>	<b>\$7.5B</b>	<b>\$31.3B</b>	<b>9%</b>

1564

<sup>1</sup> Market sizes are directional; total market of the 5 clusters does not include the 9% of the total market not classified into the 5 main clusters due to lack of clarity on shopping preferences (e.g. no strong opinion) and 2% of the market which is Nursery (Category I). Further triangulation of the market sizes is required based on Sears' internal information. *Private and Confidential*



# *From the research we gained valuable insights on how Sears performs by cluster within our key categories and what we need to do to win*

1

## **Major Appliances**

- Given our industry leadership, Sears should be the destination for the Price Savvy, but we struggle with conversion due to poor price perception
- Once we have Pragmatists in the door, they buy – but only 42% of pragmatists consider Sears; we need to address performance gaps such as knowledgeable staff and quality concerns to increase consideration

2

## **Women's Apparel**

- For categories we focus on, we win – Sears has high consideration in dresses and swim for both target clusters; outerwear with the pragmatist; we should continue to drive our winning commodities and extend the strategy where possible
- Reitmans and Addition Elle have better conversion than Sears – we need to better leverage our traffic

3

## **Children's Wear**

- Apparel – Overall our consideration in apparel is not as high as it needs to be; we are particularly low in toddlers 2-6x - Children's Place has higher consideration and conversion with the fashion browser
- Nursery – We have high traffic and are in consumers' consideration sets, but are not converting; we perform well on knowledgeable staff relative to key competitors, but have price perception issues

4

## **Footwear**

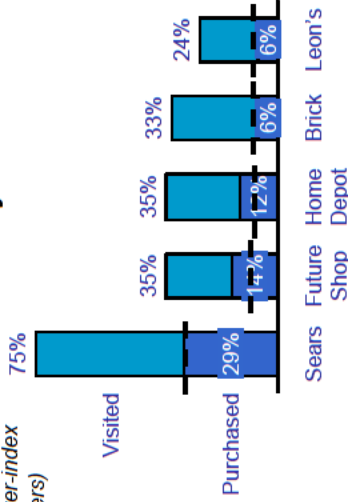
- We have missed opportunity in men's non-athletic footwear experiencing high traffic, but low conversion relative to women's and our competitors
- We attract the Pragmatist for women's non-athletic footwear, but are not converting because of perceptions of product quality, knowledgeable staff and availability to help

# We will proactively target 3 consumer segments in Major Appliances

## % Visited

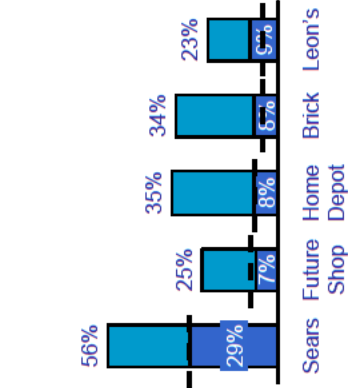
(retailers that over-index with these clusters)

## Price Savvy



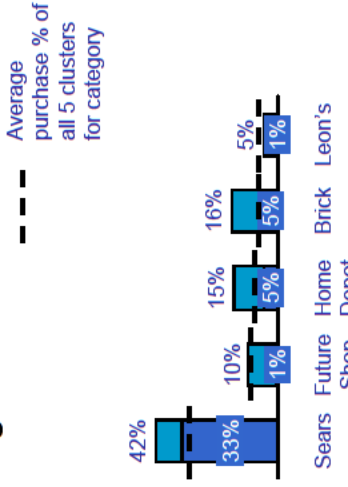
Conversion %: 39% 40% 34% 18% 25%

## Fashion Browser



Conversion %: 52% 28% 23% 24% 39%

## Pragmatist

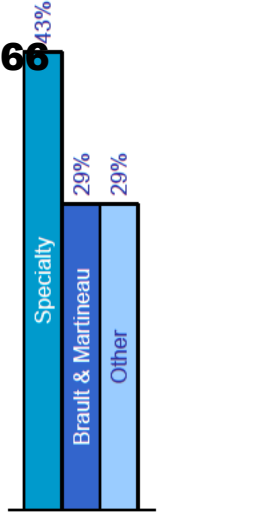
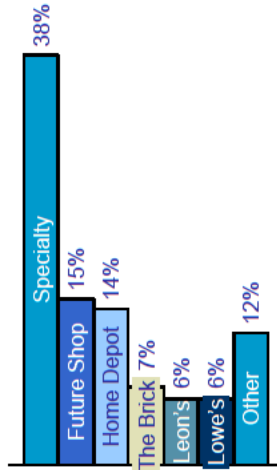
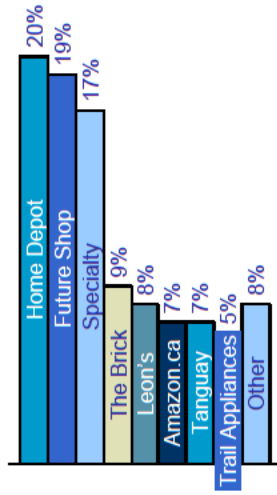


Conversion %: 79% 10% 33% 31% 20%

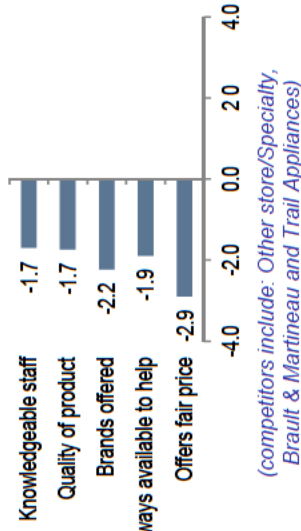
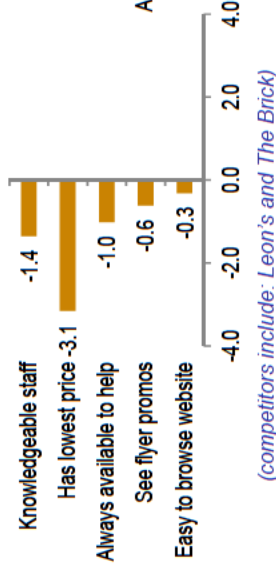
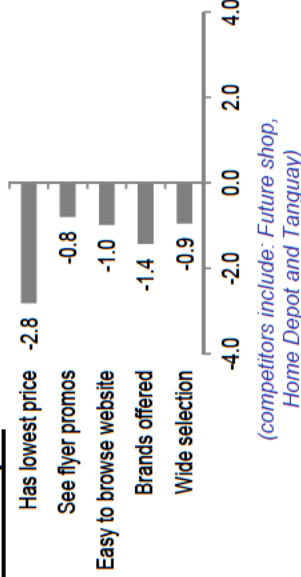
Average purchase % of all 5 clusters for category

## Competitor Purchase Incidence %

(visited Sears but purchased elsewhere)



## Performance Gaps\*

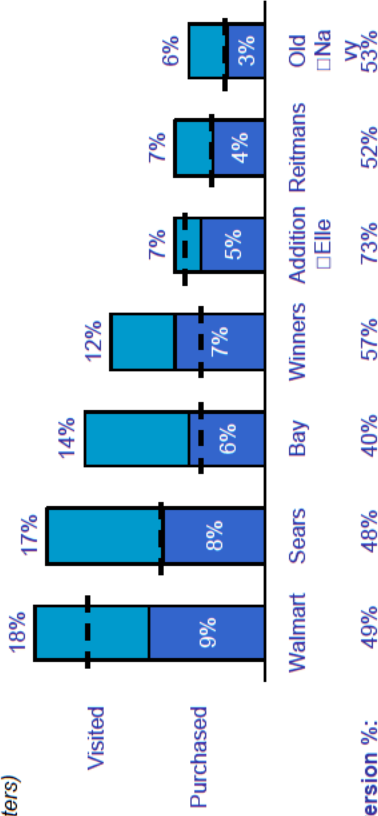


Note: \*Indicates Sears performance gaps on most important attributes for each cluster, retailers illustrated over-index with the specific cluster  
Private and Confidential

# We will proactively target 2 consumer segments in Women's Apparel

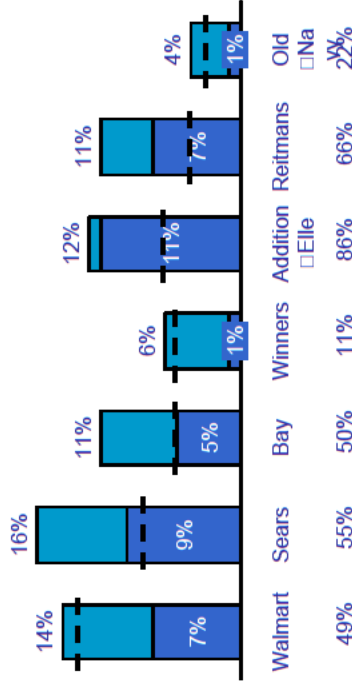
**% Visited**  
(retailers that over-index with these clusters)

## Fashion Browser



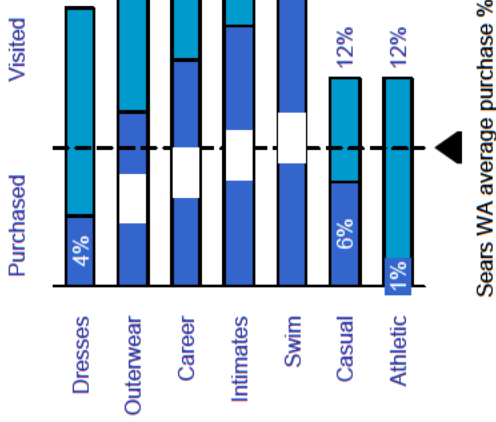
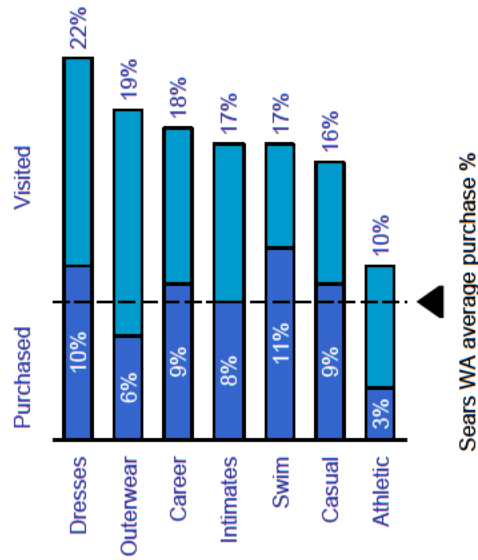
## Pragmatist

Average purchase % of all 5 clusters for category



1567

## % Visited (Sears)

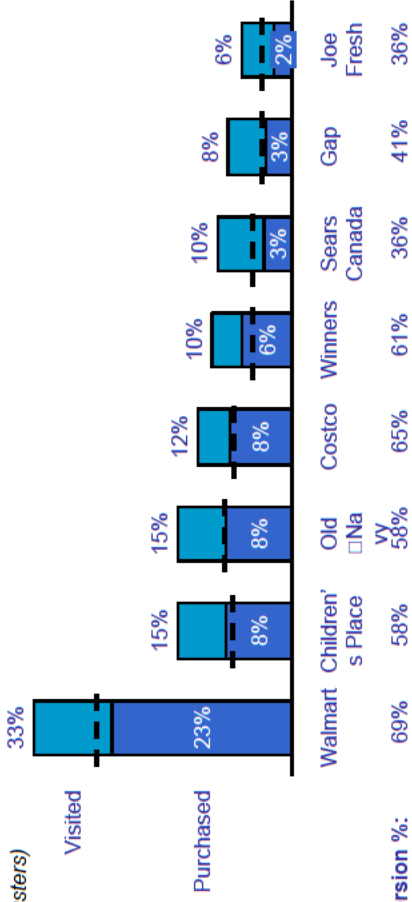


# We will proactively target 2 consumer segments in Children's Apparel

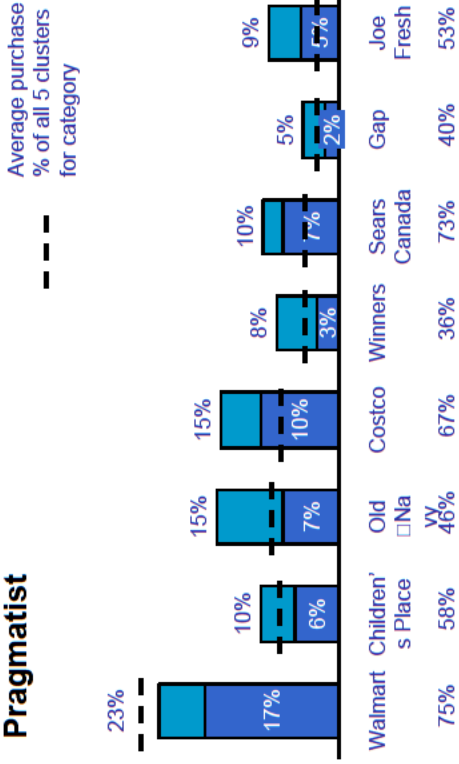
## % Visited

(retailers that over-index with these clusters)

## Fashion Browser



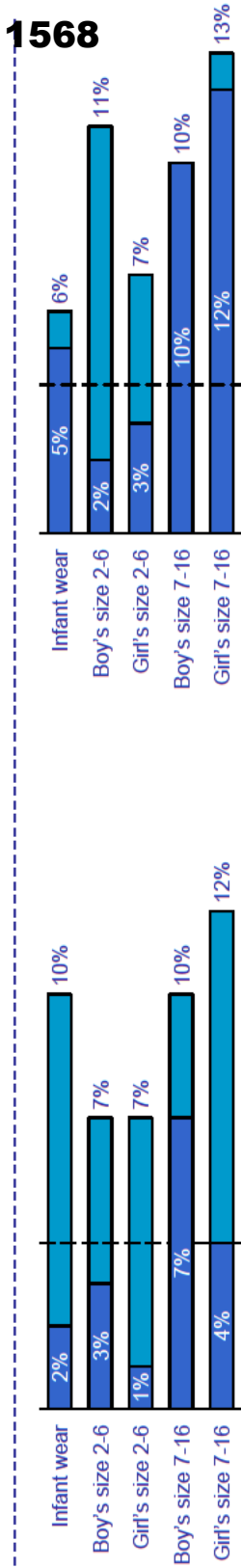
## Pragmatist



Conversion %:

Walmart 75%  
Children's Place 58%  
Old Navy 46%  
Costco 67%  
Winners 36%  
Sears Canada 73%  
Gap 40%  
Joe Fresh 53%

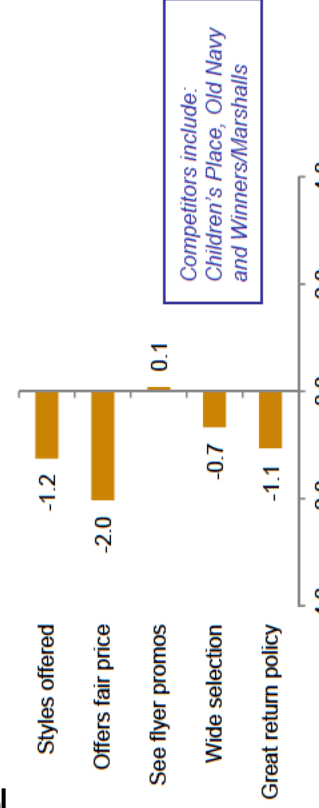
## % Visited (Sears)



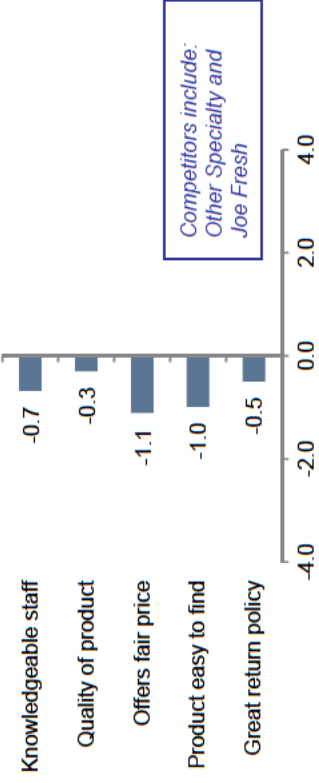
Sears CW avg. purchase %

Sears CW avg. purchase %

## Performance Gaps\*



Competitors include:  
Children's Place, Old Navy  
and Winners/Marshalls



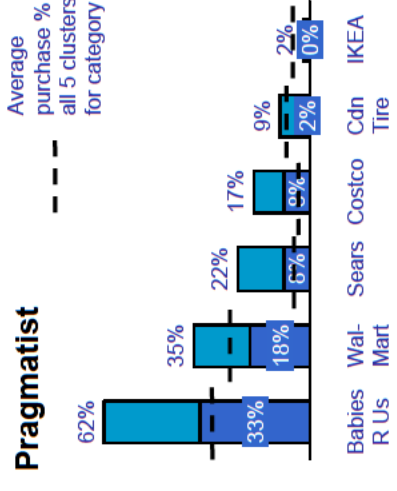
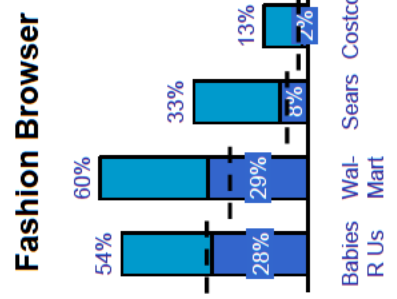
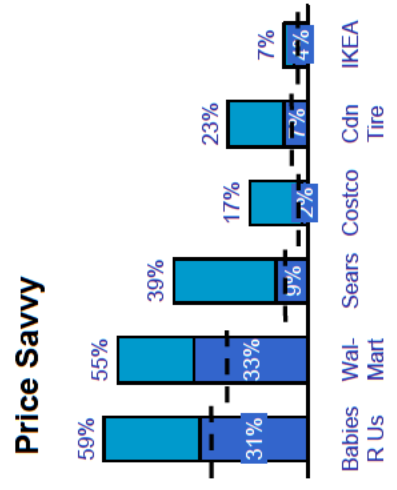
Competitors include:  
Other Specialty and  
Joe Fresh

Note: \*Indicates Sears performance gaps on most important attributes for each cluster, retailers illustrated over-index with the specific cluster

Private and Confidential

# We will proactively target 3 consumer segments in Children's Nursery

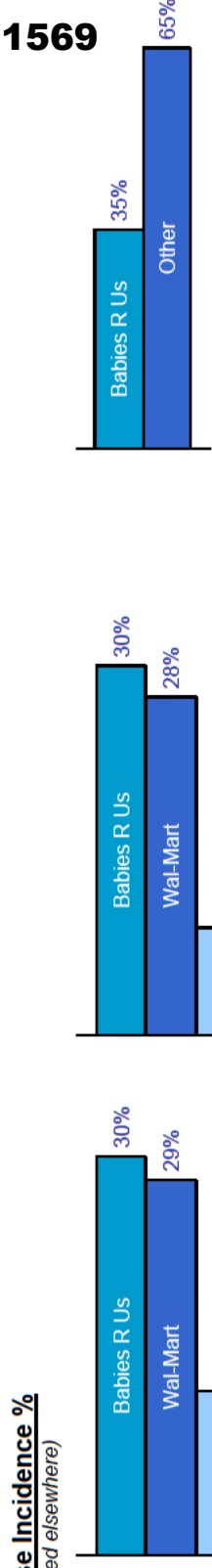
**% Visited**  
(retailers that over-index with these clusters)



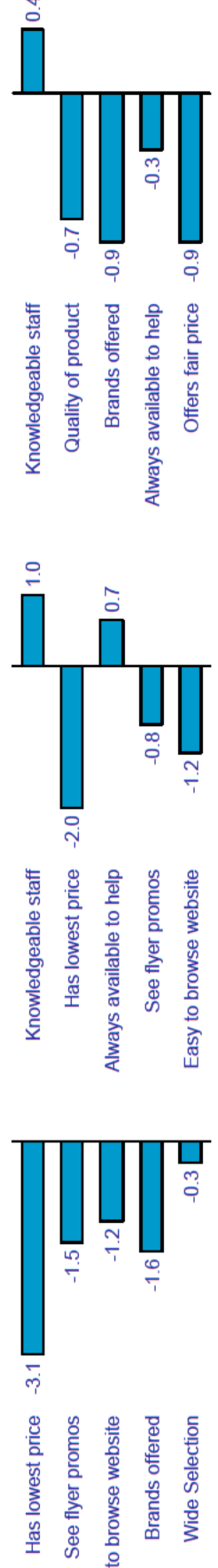
Conversion %:

Babies R Us	53%	51%	36%	47%	22%	0%
Wal-Mart	53%	51%	36%	47%	22%	0%
Sears	36%	47%	22%	0%		
Costco	47%	22%	0%			
Ikea	22%	0%				
Cdn Tire	0%					

**Competitor Purchase Incidence %**  
(visited Sears but purchased elsewhere)



**Performance Gaps\***  
(competitors include Babies R Us, Walmart, Costco)

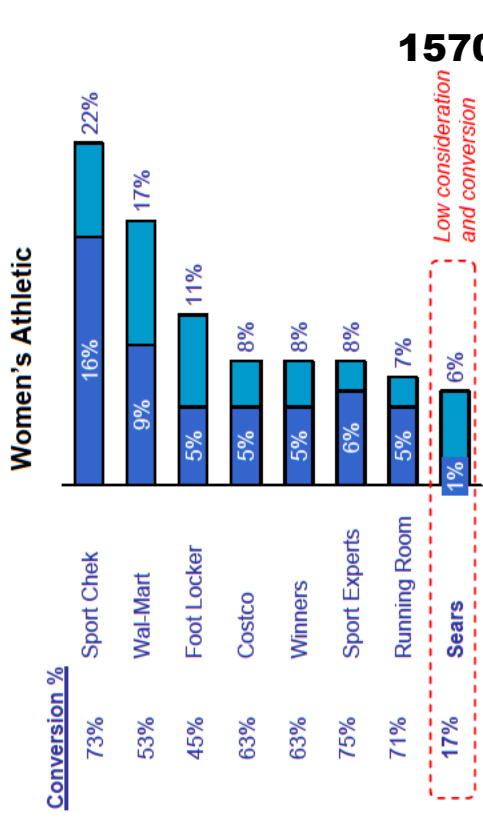
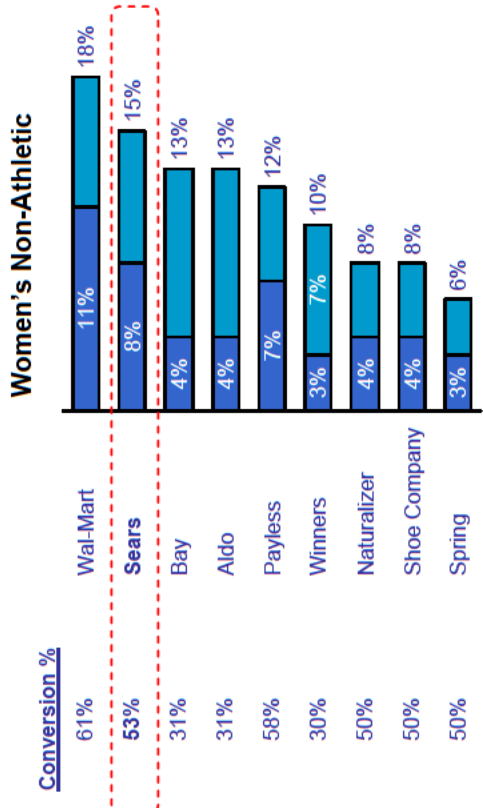


**Note:** \*Indicates Sears performance gaps on most important attributes for each cluster (based on big ticket), retailers illustrated over-index with the specific cluster  
*Private and Confidential*

# We will proactively target 2 consumer segments in Footwear

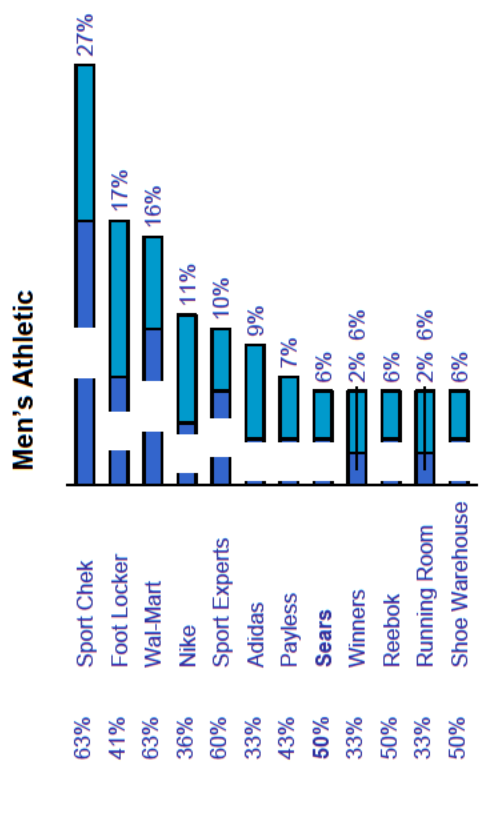
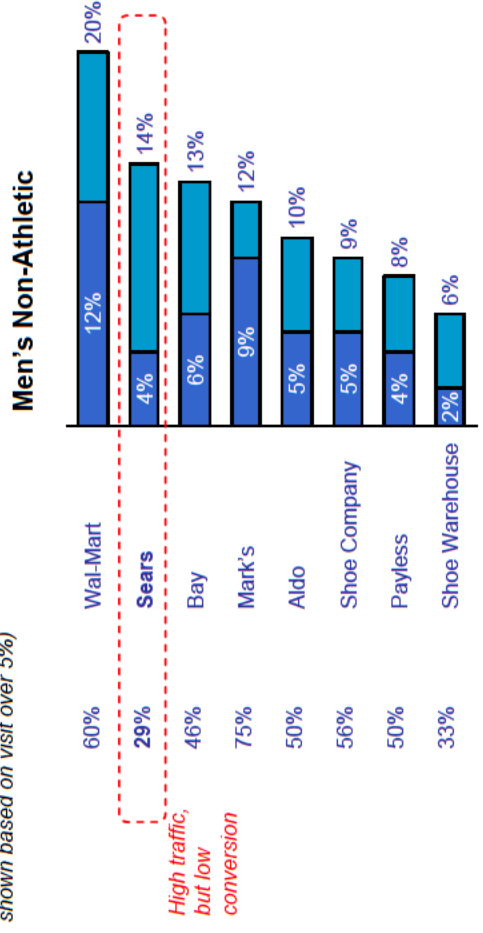
## % Visited Women's Footwear

(avg. consideration/conversion; retailers shown based on visit over 5%)



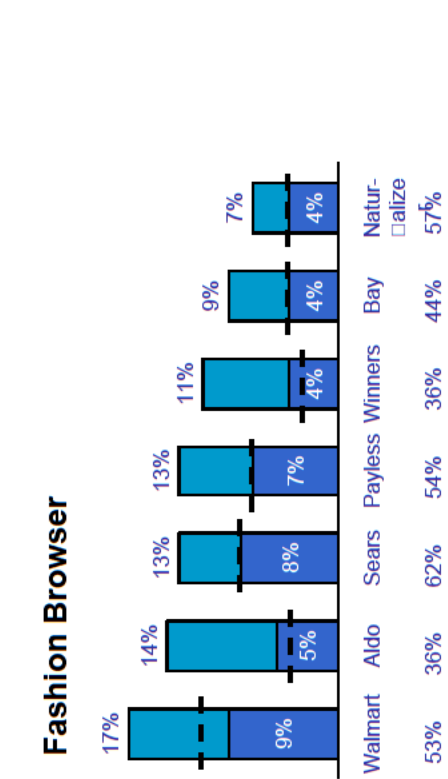
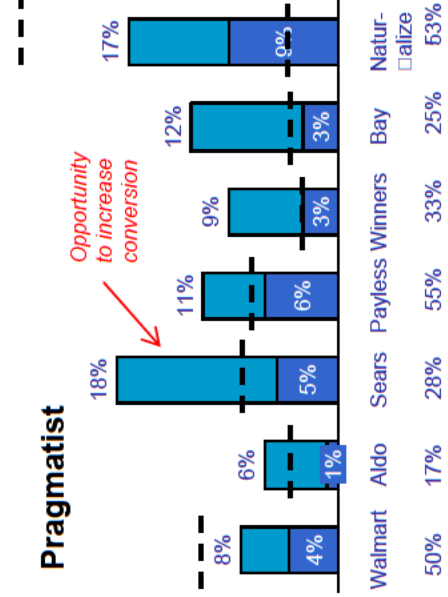
## % Visited Men's Footwear

(avg. consideration/conversion; retailers shown based on visit over 5%)



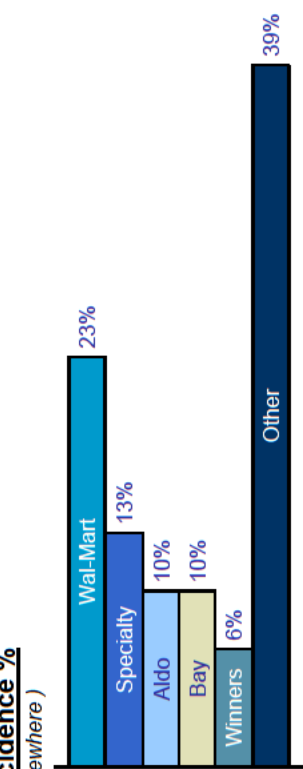
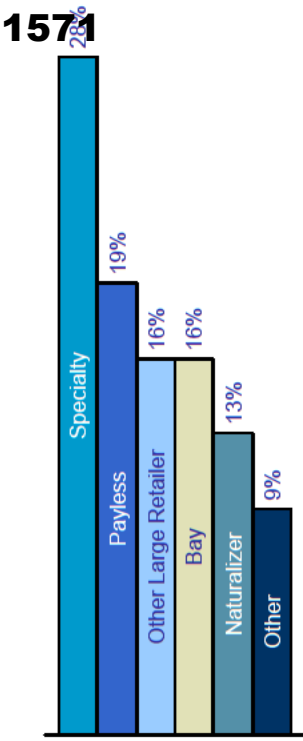
# We will proactively target 2 segments in Women's non-athletic footwear

Average purchase % of all 5 clusters for category

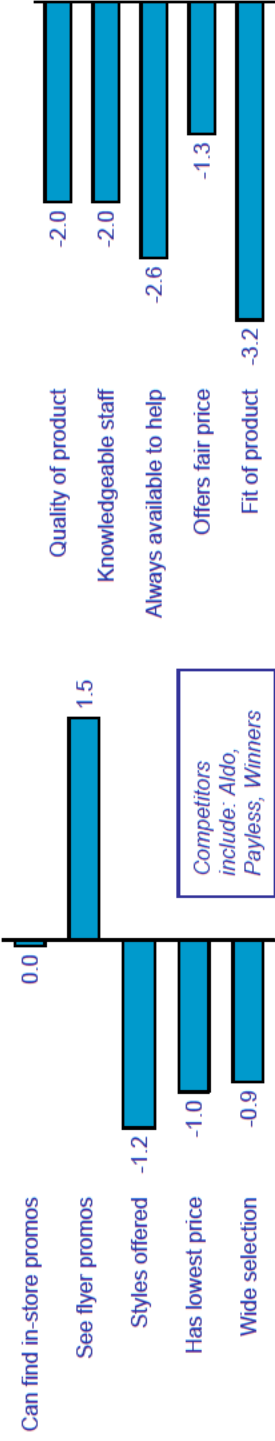


Conversion %: 53% (Walmart), 36% (Aldo), 62% (Sears), 54% (Payless), 36% (Winners), 44% (Bay), 57% (Naturalizer)

## Competitor Purchase Incidence % (visited Sears but purchased elsewhere)



## Performance Gaps\*



Note: \*Indicates Sears performance gaps on most important attributes for each cluster, retailers illustrated over-index with the specific cluster  
Private and Confidential

# *In 2014 we will bring the value proposition to life in our 4 priority categories*

1

## **Major Appliances**

- Increase conversion and improve price perception to become the destination for the Price Savvy consumer
  - Ensure strong transparent communication of price match guarantee and policies
  - Retain anchor value items across price points
  - Introduce discretionary budget to ensure we can 'close the deal'
  - Build Industry leading online research / selection tools
- Increase consideration with Pragmatists
  - Increase level of product selection guidance in store (signage and/or improved sales staff training)
  - Promotional focus on National brands to reaffirm our position as the market authority

2

## **Women's Apparel**

- Increase conversion to better leverage traffic and continue to drive winning commodities (e.g. dresses, swim, outerwear) and extend strategy to other commodities where we have relevance (e.g. career, intimates)
  - Focus on consistency of fit/style in our private brands with a focus on good price point
  - Buy with greater depth to support fashion basics; always in-stock
  - Shift assortment balance to Updated style; use LOOK as a tool to elevate perceptions of Sears' fashionability
  - Maintain promo-pricing construct while ensuring fair pricing at all times
  - Provide tools (signage / apps) to aid in item selection (e.g. sizing / fit apps)

3

## **Children's Wear**

- Increase consideration in children's apparel; focus on toddlers 2-6x
  - Ensure clear pricing identity for brands (e.g., no \$200 jackets) and depth/breadth in anchor value items
  - Continued focus on national brands (Carter's / Osh Kosh) to drive consideration and credibility
  - Always in-stock in basics
  - Better leverage nursery traffic and increase conversion - continued focus on establishing pricing perception

4

## **Footwear**

- Increase conversion in Men's non-athletic footwear to align with women's – always in stock; improve navigation/signage to aid in product selection; consistent organizing principal by commodity; fast checkout
- Increase conversion of the Pragmatist by increasing perceptions of product quality – ensure consistency in service model across all doors (knowledgeable staff and availability to help)



# Sears brand - Value proposition emerging principles

## Value proposition Principles

### What does this mean?

- 1) Authority in basics**
  - Always in stock; seasonally relevant items on the floor on time
  - Carry all functional commodities in key categories
  - Continue to be the destination for leading national brands (e.g. Levis , Haggar, Jockey, Wonderbra)
  - Industry authority in big ticket items (MA / Sleep) – broadest, deepest assortment of MA across price points
- 2) Great value for all of their needs**
  - Better quality per dollar spent on the aspects our customers value;
  - Made to last and priced appropriately (market back, not cost plus)
  - Timely, hassle free post-sale service (delivery, installation, warranty, product guarantees (e.g. sleepvantage))
- 3) Fashion and innovation at a price**
  - Fashion and innovation relevant – we reflect the market, not lead
  - Seasonally relevant floor sets; fashion and innovation items prominently featured; freshness/newness delivered while maintaining the right balance of basics, fashion basics and statement items
  - Maintain strength in core 'Traditional' customer while continuing to grow Updated
  - Displays organized by collections / themes to provide guidance / inspiration to shoppers
  - Private brands form the core of our fashion statement
  - Emphasis on "Good/Better" price point across the network
- 4) Easy to shop**
  - Store navigation and signage that makes it easy for customers to find the commodity they are looking for; and helps them choose the item that is right for them
  - Edited and focused assortment
  - Consistent quality and sizing for private brands across categories and seasons
  - Hassle free return policy
  - Market leading online experience (for sales and for FL research)
  - Category specific service model in stores (degree of self to full serve)

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11. Peter J. Solomon Company Presentation

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12. Operating Efficiency: Horizon Update

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# Agenda

- Management Priorities
- Asset Valuation
- Merchandising Value
  - ▶ Category performance review – Where are performance gaps?
  - ▶ Retail 101 – Root cause of gaps and approach to fix
  - ▶ Simplified Value Proposition – Focusing the organizational efforts
- Operating Efficiency: Progress against \$200M target
- 2014 Plan
  - ▶ Financial plan
  - ▶ Operating plans

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*Comprehensive effort to drive cost out of business will allow us to hit 70% of \$200M savings target in FY2014*

**Savings Profile FY2013 to FY2016**

<b>Bucket</b>	<b>EST FY13</b>	<b>FY14</b>	<b>FY15/FY16</b>	<b>Total Savings</b>
<b>Logistics</b>	\$17.4M	\$10.7M	\$16.0M	\$44.1M
<b>Indirect Procurement</b>	\$0.1M	\$15.2M	\$16.0M	\$31.3M
<b>Store Operations</b>	\$17.6M	\$4.9M	\$3.0M	\$25.5M
<b>COGS/Price Management</b>	\$4.9M	\$10.0M	\$10.0M	\$24.9M
<b>PRS</b>	-	\$18.8M	\$3.0M	\$21.8M
<b>HR</b>	\$9.8M	\$13.7M	\$1.0M	\$24.5M
<b>Total Waste</b>	\$2.7M	\$2.3M	\$3.0M	\$8.0M
<b>Marketing</b>	\$8.0M	\$3.5M	\$3.0M	\$14.5M
<b>Other</b>	-	\$2.0M	\$3.4M	\$5.4M
	<b>\$60.5M</b>	<b>\$81.1M</b>	<b>\$58.4M</b>	<b>\$200.0M</b>

# 90-Day Program Update: we are aggressively pursuing the top opportunities – worth \$106M in annual savings

- **Addressing top pre-execution projects:**
  - **8 projects worth \$52M in annualized savings**
  - PRS strategic and tactical plan developed.
    - National brand in-warranty servicing moved back to vendors
    - Announcing HC reductions Nov. 26<sup>th</sup>
  - RSC Restructuring plan in place, ready for implementation
    - Field restructuring underway for January implementation
- **Driving completion of top projects currently in execution stage:**
  - **7 projects worth \$54M in annualized cost savings**
  - App Development/App Maintenance (Shamrock) to be completed this month
  - COGS work underway within Merchant and Planning teams
    - Launched Partnership Agreement standardization
    - Four merchandise category strategies developed and entering execution
  - Aggressively pursuing SIP wins to secure full-year savings in FY2014
    - Full category charters and roadmaps for FY2014 to be finalized Nov. 15<sup>th</sup>, FY2013 charters done

- **Program Management framework developed and ready for implementation**
  - Track progress of projects in execution stage through roundtable Transformation Progress Review (TPR) sessions
  - Monitor savings of launched projects through Panel review sessions, framework to be connected to P&L
  - Steer the development of new ideas through Cost Leadership Committee

## Top Pre-execution projects:

PRS – Revamp	\$22M
RSC Restructuring	\$14M
Marketing	\$6M
Logistics Labour Productivity	\$2M
Transportation	\$2M
Prepaid to Collect	\$1M
Damage Reduction	\$1M
Returns/Allowances behaviour	\$1M
<b>Total</b>	<b>\$52M</b>

**1578**

## Top projects being executed

COGS/Price Management	\$25M
Marketing - SIP	\$9M
Transportation - SIP	\$6M
AD/AM (Shamrock)	\$5M
IT - SIP	\$4M
CRM (Shamrock)	\$3M
Maintenance/PRS - SIP	\$2M
<b>Total</b>	<b>\$54M</b>

# *PRS Example: PRS repairs in-warranty and out-of-warranty big ticket items and sells parts & accessories to the public*

<i>Protection Agreements</i>	Repairs on items covered by a Sears sold protection plan
<i>Cash Calls</i>	Repairs for a fee on items not covered by a protection plan or the manufacturer's warranty
<i>In-Warranty Repairs – National Brand</i>	Repairs on brand name items within the manufacturer's warranty period
<i>In-Warranty Repairs – Private Label</i>	Repairs on Kenmore, Craftsman and other private label items within the warranty period
<i>Store Repairs</i>	Repairs on floor stock and items returned by the customer to be re-sold in Outlet
<i>Parts &amp; Accessory Sales</i>	Sales of parts and accessories to the customers and contractors

*The forecast in the transition year of 2014 is \$19 MM improvement vs. 2013 and overall break-even in 2015\*\**

<b>Key initiatives</b>	<b>Rationale</b>	<b>Timing</b>
<b>Shift brand name in-warranty service to national brand vendors</b>	<ul style="list-style-type: none"> <li>- Vendor reimbursement for service does not cover our costs</li> </ul>	Nov 4 <sup>th</sup> (complete)
<b>Shift Kenmore in-warranty service to vendors</b>	<ul style="list-style-type: none"> <li>- Increase in COGS will be less than our current cost to service</li> </ul>	Q1 2014 (Vendor discussions underway)
<b>Right-size technician and support structure</b>	<ul style="list-style-type: none"> <li>- Sever 760 associates (severance cost of \$8MM); Move smaller markets to 100% contractor, centralize key functions, and retain technicians in smaller markets where demand warrants</li> </ul>	Announcement Nov. 26 <sup>th</sup> , 2013 (effective Q2 2014)
<b>Revamp parts supply chain</b>	<ul style="list-style-type: none"> <li>- Consolidate from 1 central warehouse and 16 regional warehouses to 3 parts fulfillment centers, improving fill rates, cycle-time, and inventory controls</li> </ul>	Announcement Nov. 26 <sup>th</sup> , 2013 (effective Q2 2014)

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13. 2014 Plan
- Financial plan
  - Operating plans
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# Agenda

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- Management Priorities
- Asset Valuation
- Merchandising Value
  - ▶ Category performance review – Where are performance gaps?
  - ▶ Retail 101 – Root cause of gaps and approach to fix
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## Full Year: Financial Summary

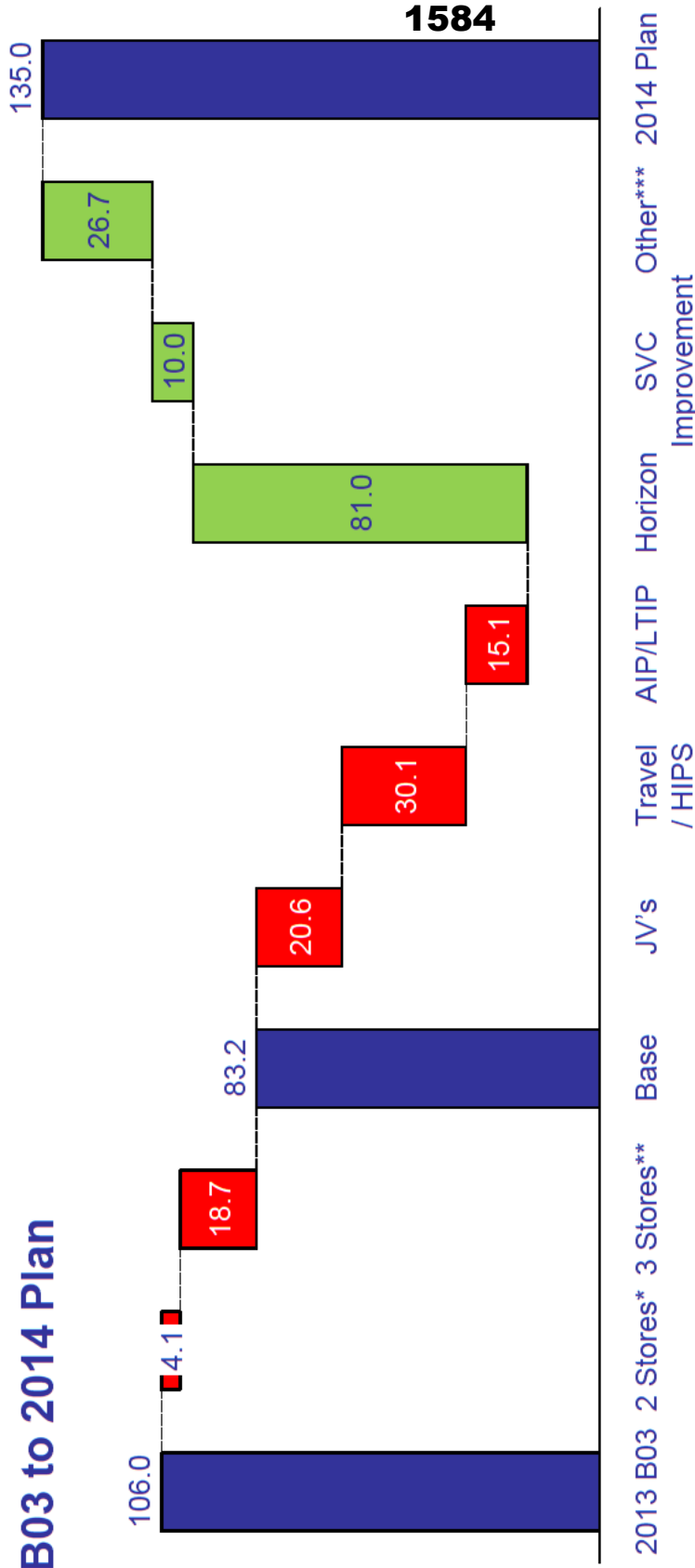
2014 EBITDA Plan is \$135M\*, which is +\$29M vs 2013. The gross margin decline of 70 bps is mainly due to risk adjustments to Travel/HIPS, while expenses are \$114M lower vs 2013

	Full Year			B / (W) vs '12
	2014 PL	2013 B03	2012 AC	
<i>Merch Net Sales</i>	3,640.6	3,704.7	3,820.4	(179.9)
<i>Other Revenue</i>	279.4	370.9	526.1	(246.8)
<b>Revenue</b>	3,919.9	4,075.6	4,346.5	(426.6)
<i>SSS Sales Growth</i>				0.9%
<i>Rev growth</i>				-3.8%
<b>Merch Margin</b>	1,423.7	1,424.1	1,459.5	(35.8)
<i>GM %</i>	39.1%	38.4%	38.2%	67 bps
<b>Gross Margin</b>	1,427.6	1,512.6	1,597.3	(169.7)
<i>GM %</i>	36.4%	37.1%	36.7%	(70)bps
<b>Total Expenses</b>	1,292.6	1,406.6	1,526.0	233.4
<i>% of Rev</i>	33.0%	34.5%	35.1%	154 bps
<b>EBITDA</b>	135.0	106.0	71.3	63.7
<i>% of Rev</i>	3.4%	2.6%	1.6%	84 bps
<b>Net Income (Loss)</b>	8.4	440.6	101.2	(92.8)
<i>% of Rev</i>	0.2%	10.8%	2.3%	(1,060)bps
				(211)bps

**1583**

# 2014 Plan is +\$52M from an adjusted 2013 Base

## 2013 B03 to 2014 Plan



Revenue	\$4,076	\$55	\$102	\$3,919	\$38
EBITDA	\$106	\$4	\$19	\$83	\$21
EBITDA %	2.6%	7.5%	18.4%	2.1%	54.7%

SSS FL

SSS Home

	\$3,920
	\$135
	3.4%
	2.5%
	0.0%

**Notes:**

\*2 Stores: Yorkdale, Mississauga

\*\*3 Stores: TEC, Sherway, London

\*\*\* Majority of improvement from comp sales growth and merch margin rate increases

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# 2014 Plan is +\$112M vs 2013 comp EBITDA, driven by savings from Horizon

## Full Year: Comp P&L

	Full Year				
	2014 PL	2013 B03	2012 AC	B / (W) vs '13	B / (W) vs '12
<b>EBITDA</b>	<b>135.0</b>	<b>106.0</b>	<b>71.3</b>	<b>29.0</b>	<b>63.7</b>
JV	3.2	25.4	24.3	(22.2)	(21.0)
HIPs	0.0	7.6	5.1	(7.6)	(5.1)
Travel	0.0	19.0	19.0	(19.0)	(19.0)
Cantrex	(0.0)	0.2	2.1	(0.2)	(2.1)
Vancouver/Chinook/Ottawa/Deerfoot	0.0	0.0	(1.4)	0.0	1.4
Yorkdale/Mississauga	0.0	4.1	4.8	(4.1)	(4.8)
TEC/Sherway/London	0.0	18.7	10.5	(18.7)	(10.5)
AIP/LTIP	(15.7)	(0.7)	(0.3)	(15.1)	(15.4)
FX	(0.0)	(3.6)	(0.6)	3.6	0.6
Impairment	0.0	0.0	(1.9)	0.0	1.9
<b>Comp EBITDA</b>	<b>147.5</b>	<b>35.3</b>	<b>9.9</b>	<b>112.2</b>	<b>137.6</b>

Notes:  
Channel Adjustments are based on Profit Contribution before OH  
2013 FX impact is based on Oct YTD

# 2014 Plan has +1.9% comp sales growth and 95bps of margin improvement

## Full Year: Category Sales and Merch Margin

\$Million's	SALES		MERCH MARGIN \$		MERCH MARGIN %	
	2014 PL	vs '13 Comp	2014 PL	vs '13 Abs	2014 PL	vs '13 Comp
		vs '12 Comp (CAGR)				
MAJOR APPLIANCES	891.8	0.9%	241.8	(9.1)	27.1%	(60)bps
HOME DECOR & SEASONAL	358.7	5.5%	176.3	4.9	49.1%	62 bps
HOME FURNISHINGS	454.2	0.1%	203.9	10.2	44.9%	287 bps
CRAFTSMAN, AIR, WATER & PAINT	160.6	-0.7%	37.9	(0.6)	23.6%	9 bps
FITNESS & RECREATION	49.2	0.5%	14.4	(0.3)	29.2%	(38)bps
ELECTRONICS	49.2	-30.7%	7.0	(4.8)	14.1%	(184)bps
HOME & HARDLINES	1,072.0	-0.3%	439.4	9.3	41.0%	198 bps
H&H / MA	1,963.8	0.2%	681.2	0.2	34.7%	78 bps
COSMETICS & PERSONAL CARE	159.9	3.7%	62.1	(3.9)	38.8%	5 bps
JEWELLERY, ACCESSORIES & LUGGAGE	130.3	6.2%	69.9	(1.6)	53.6%	76 bps
FOOTWEAR	171.1	2.8%	80.5	0.9	47.1%	114 bps
CHILDREN'S WEAR	247.8	4.1%	103.5	0.7	41.8%	39 bps
MENSWEAR	306.8	3.7%	142.7	(0.8)	46.5%	165 bps
WOMEN'S APPAREL	366.4	5.1%	181.6	3.0	49.6%	74 bps
WOMEN'S INTIMATES	143.0	3.9%	72.5	1.1	50.7%	140 bps
APPAREL & ACCESSORIES	1,525.4	4.2%	712.8	(0.6)	46.7%	92 bps
TOTAL MERCHANDISE DIVISIONS	3,489.2	1.9%	1,394.0	(0.4)	40.0%	95 bps
						<b>1586</b>

Notes:  
2013 comp adjusts for the impact of the 5 closing full line stores  
2013 is based on the B03  
Sales and Merch Margin are for category teams only and excludes Corbeil, Home Services, Fairto that Comp and related adjustments

# Revenue growth for 2014 driven by Direct (+3.4%) and Full Line (+2.5%)

## Full Year: Channel Revenue and EBITDA

\$Million's	REVENUE			EBITDA	
	2014 PL	vs '13 Abs	vs '13 Comp*	2014 PL	vs '13 Abs
Full-Line	2,140.0	-4.3%	2.5%	73.1	10.5
Sears Home	427.0	0.3%	0.3%	(30.7)	(4.9)
Dealer	261.6	0.3%	0.3%	1.3	(3.5)
Outlet	93.7	-8.5%	-8.5%	(8.3)	(3.6)
Retail Stores	2,922.4	-3.4%	1.6%	35.4	(1.5)
Corbeil	152.5	16.7%	16.7%	7.2	3.5
Direct	638.1	3.4%	3.4%	27.6	4.4
Other	207.0	-31.3%	-19.6%	64.9	22.6
Sears Canada	3,919.9	-3.8%	1.0%	135.0	29.0

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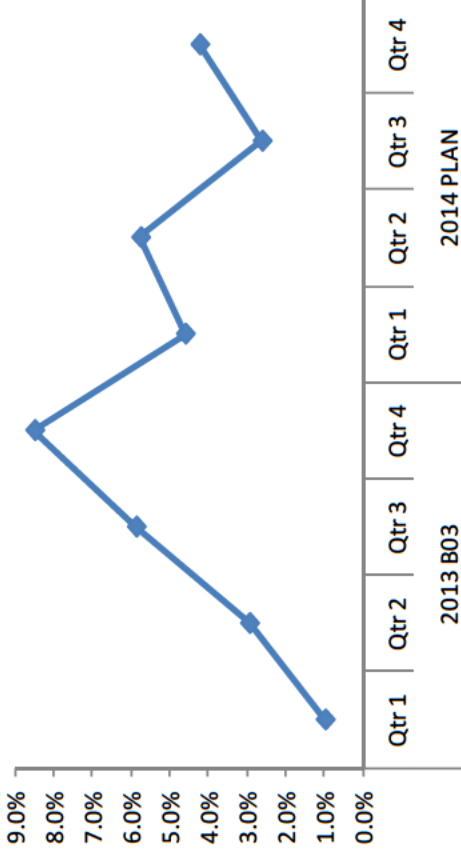
Notes:

\*Comp adjusts for the 5 closing Full Line stores and Joint Ventures; there are no comp adjustments for Home, Dealer, Outlet, or Corbeil 2013 based on the B03

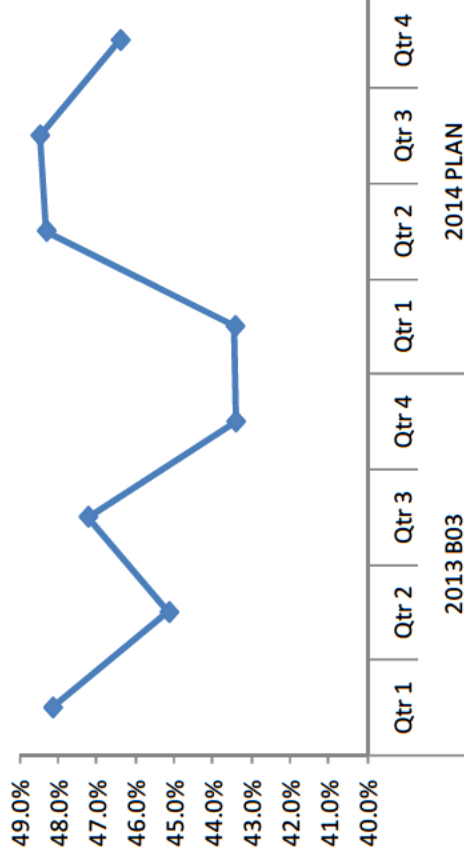
Other Includes PRS, Home Services, Travel, and other corporate savings (eg: HQ Restructuring, etc) Savings to be allocated to channels once plan is finalized

# A&A: Sales and Merch Margin %

## A&A SALES



## A&A MERCH MARGIN



## Continue to shift our style profile

- Focus investments in the Updated style profile

## Execute on our value proposition

- Be always in stock in the basics across A&A
- Women's Apparel; Footwear; Children's

Edited assortment, improved planograms/rack plans

Improved navigation / signage

Clearly defined and supported service model (full service vs. hybrid)

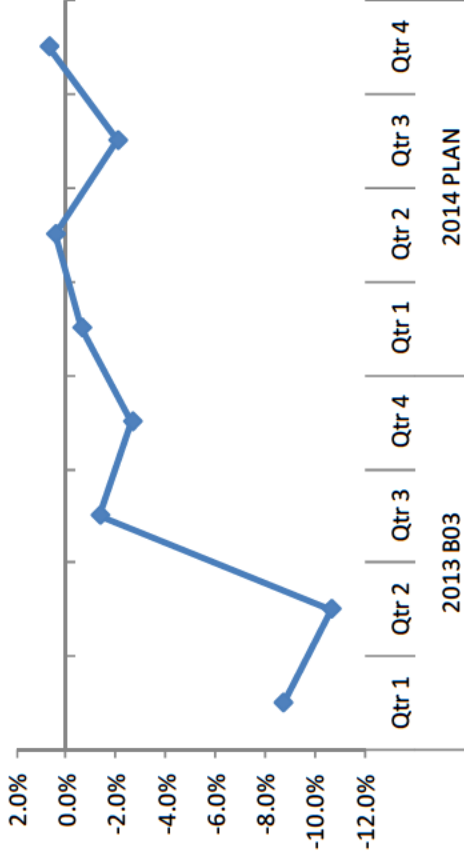
- Continue to execute on key partnerships (Penningtons, Aldo, Buffalo) and assess performance through spring
- New brand launches – Logan Hill (from Retreat), Pure NRG, Jessica Intimates

**1588**

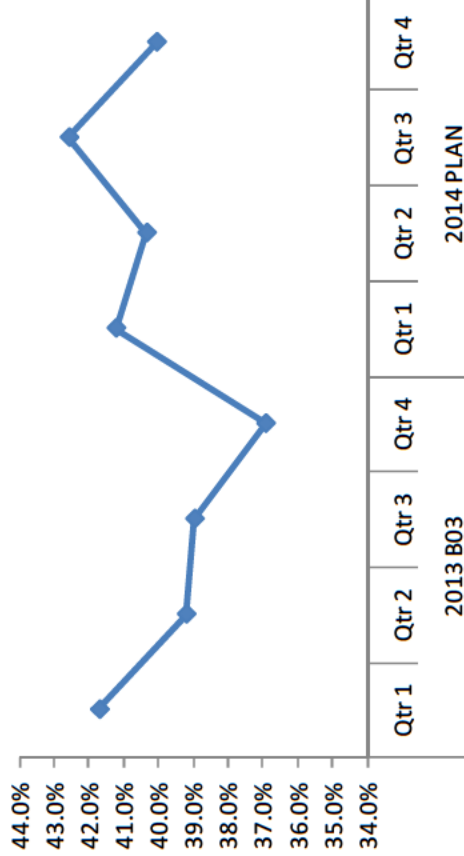


# H&H: Sales and Merch Margin %

## H&H SALES



## H&H MERCH MARGIN



### HF

- Expand and improve whole Home
- Implement Monthly market disruptors to increase traffic to Home, Full line, Dealer and Direct
- Reintroduce Price Protection Plus with 10% price match guarantee
- Develop weekly online only promotions to increase direct sales like the Wacky Wednesday offers from September
- Re-price category to 40% off value proposition

### HDS

- New Brand introductions in Dinnerware, Glassware, Flatware and Tabletop textiles, commencing with our Private Brand Whole Home
- Continue to seek & source new brands (Liz Claiborne, Ralph Lauren, Chaps, Nautica)
- Growth of Canada's Best Pillow by 55% (\$255K) & Duvet by 41% (\$318K)

### CAWP

- Drive Top Line Sales Performance through Craftsman Events
- Add seasonally relevant assortment to grow basket (garden hoses, snow shovels, etc)

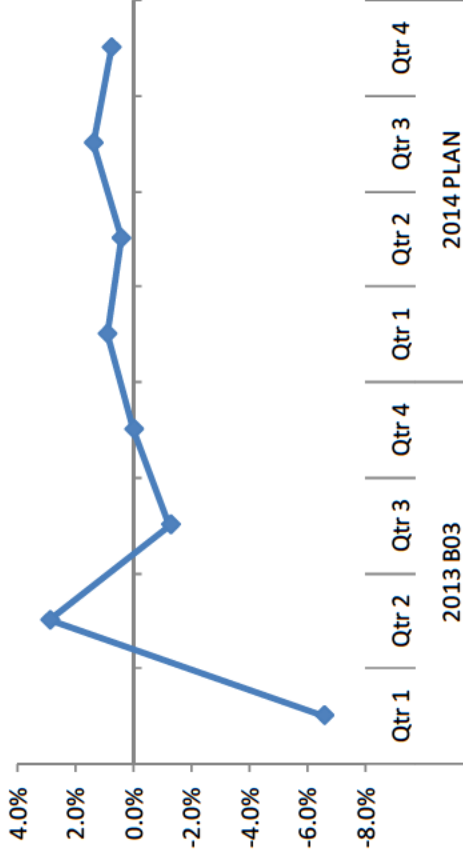
### ELE

- Increase our use of V2C listings to play in categories previously exited. Create a full electronics department online

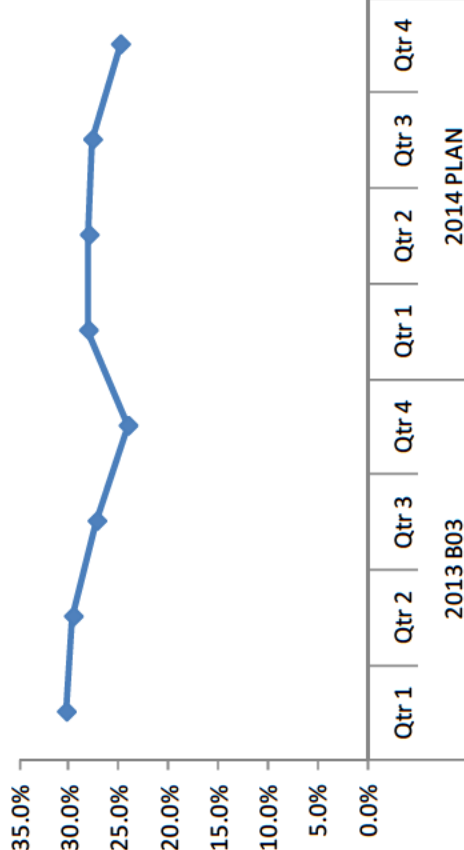
1589

# MA: Sales and Merch Margin %

## MA SALES



## MA MERCH MARGIN



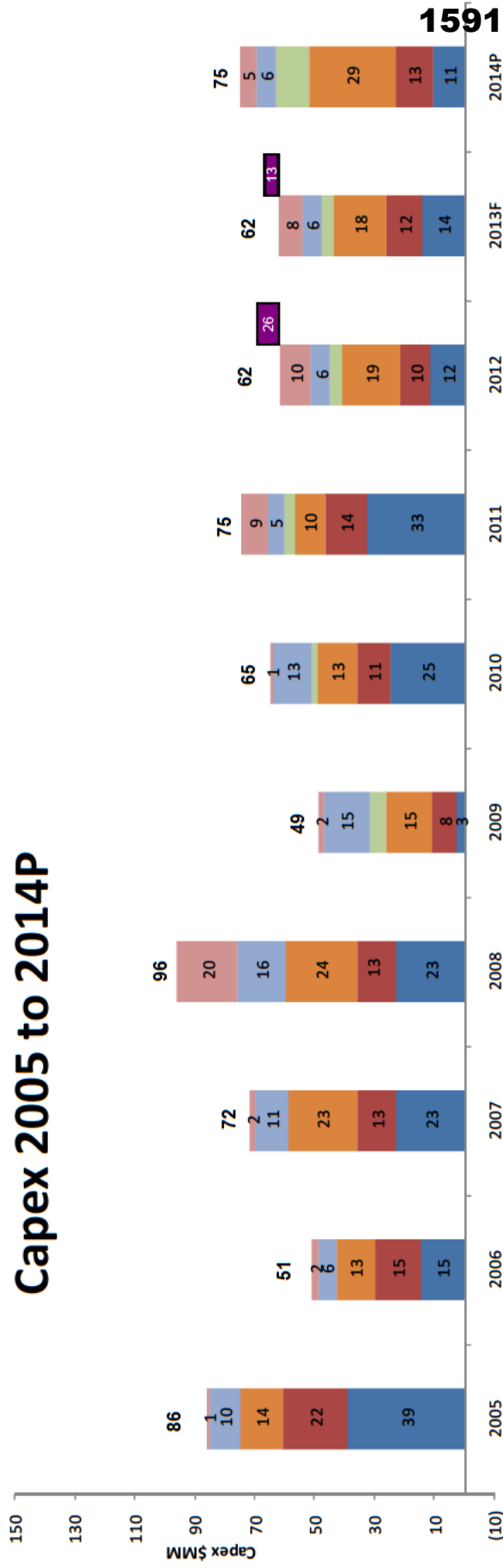
### Key Initiatives:

- Optimize POS Markdowns
- Partner with PRS to transfer Kenmore/National Branded in warranty servicing
- Priority List maintenance
- Expand assortment to provide stronger presence of mass premium appliances & outdoor kitchen
- Expand select floors to 10-12k box
- Move Electrolux & Whirlpool to QR

**1590**

# CAPEX

## Capex 2005 to 2014P



■ Store Roll-outs & Merchandising ■ Store Operations, Maintenance & Building Services ■ IT ■ Ecommerce ■ Logistics & SLH ■ Other

	05-'10 Avg	2005	2006	2007	2008	2009	2010	2011	2012	2013F	2014P
Store Roll-outs & Merchandising	21	39	15	23	23	3	25	33	12	14	11
Store Operations, Maintenance & Building Services	14	22	15	13	13	8	11	14	10	12	13
IT (includes Ecommerce from '05-'09)	17	14	13	23	24	15	13	10	19	18	29
Ecommerce						6	2	4	4	4	11
Logistics & SLH	12	10	6	11	16	15	13	5	6	6	6
Other (2008 includes TEC HQ)	5	1	2	2	20	2	1	9	10	8	5
Business as usual Capex *	\$ 69	\$ 86	\$ 51	\$ 72	\$ 96	\$ 49	\$ 65	\$ 75	\$ 62	\$ 62	\$ 75
Transformation Capex - Full Line	-	-	-	-	-	-	-	-	26	13	-
<b>Total *</b>	\$ 69	\$ 86	\$ 51	\$ 72	\$ 96	\$ 49	\$ 65	\$ 75	\$ 88	\$ 75	\$ 75
Capex / Revenue % (Excl. Transformational Capex)	1.2	1.4	0.9	1.1	1.7	0.9	1.3	1.6	1.3	1.5	1.9
Capex / Revenue % (Total)	1.2	1.4	0.9	1.1	1.7	0.9	1.3	1.6	1.9	1.8	1.9

\* Excludes Board Approved Projects.

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# Balance Sheet and Cash Flow

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Sears Canada Inc  
Balance Sheet

Sears Canada Inc  
Cash Flow

	2012	2013	2014		2012	2013	2014
<b>in \$MMs</b>				<b>in \$MMs</b>			
<b>Current Assets</b>				<b>Cash Flow from Operations</b>			
Cash	\$238.6	\$1,150.0	\$1,251.0	Net Income (After One-Time)	\$101.2	\$508.2	\$24.8
Accounts Receivable	\$77.7	\$68.2	\$62.8	Depreciation & Amortization	\$126.5	\$115.6	\$106.0
Income Taxes Recoverable	\$5.5	\$0.5	\$0.3	(Gain) Loss on Lease Termination	(\$164.3)	(\$569.7)	\$0.0
Inventory	\$851.4	\$780.0	\$705.9	Other	\$23.1	\$8.6	\$3.8
Prepaid	\$28.6	\$23.8	\$23.1	Impairment losses	\$0.0	\$0.0	\$0.4
Derivatives	\$0.0	\$0.0	\$0.0	Changes in non-cash working capital balances	(\$141.9)	\$28.8	\$49.2
<b>Total Current Assets</b>	<b>\$1,201.7</b>	<b>\$2,022.5</b>	<b>\$2,043.1</b>	<b>Total Cash Flow from Operations</b>	<b>(\$55.3)</b>	<b>\$91.4</b>	<b>\$184.2</b>
<b>Long-Term Assets</b>				<b>Cash Flow from Investing</b>			
Net PP&E	\$1,118.5	\$814.4	\$783.4	Capital Expenditures	(\$97.5)	(\$75.0)	(\$75.0)
Investment Property	\$21.7	\$21.5	\$21.5	Proceeds from sale of Joint Ventures	\$32.4	\$315.0	\$0.0
Retirement Benefit Asset	\$0.0	\$0.4	\$1.7	Proceeds from sale of Cantrex	\$3.5	\$0.0	\$0.0
Intangible Assets	\$27.2	\$24.8	\$20.7	Proceeds from lease terminations	\$170.0	\$590.5	\$0.0
Goodwill	\$8.7	\$2.6	\$2.6	<b>Total Cash Flow from Investing</b>	<b>\$108.4</b>	<b>\$830.5</b>	<b>(\$75.0)</b>
Future Long-Term Income Tax Assets	\$83.8	\$62.3	\$79.9	<b>Cash Flow from Financing</b>			
Other Long-Term Assets	\$43.1	\$54.6	\$42.6	Dividends Paid	(\$101.9)	\$0.0	\$0.0
<b>Total Long-Term Assets</b>	<b>\$1,303.0</b>	<b>\$980.6</b>	<b>\$952.5</b>	Share Repurchase	(\$9.6)	\$0.0	\$0.0
<b>Total Assets</b>	<b>\$2,504.6</b>	<b>\$3,003.1</b>	<b>\$2,995.6</b>	Debt / LT Obligation Payments	(\$103.3)	(\$10.6)	(\$8.0)
<b>Current Liabilities</b>				<b>Total Cash Flow from Financing</b>	<b>(\$214.8)</b>	<b>(\$10.6)</b>	<b>(\$8.0)</b>
Accounts Payable	\$307.0	\$310.0	\$317.6	<b>Total Cash Flow</b>	<b>(\$161.9)</b>	<b>\$911.3</b>	<b>\$101.2</b>
Accrued Liabilities	\$176.4	\$161.5	\$179.4	Beginning Cash	\$400.4	\$238.6	\$1,150.0
Deferred Revenue	\$197.8	\$180.4	\$180.4	Ending Cash	\$238.6	\$1,150.0	\$1,251.0
Provisions - Short Term	\$66.7	\$62.0	\$51.2				
Derivative Liabilities	(\$0.0)	\$0.0	\$0.0				
Dividend Payable	\$0.0	\$0.0	\$0.0				
Income Taxes Payable (Includes Other Taxes)	\$34.0	\$102.6	\$76.6				
<b>Total Current Liabilities</b>	<b>\$782.0</b>	<b>\$816.6</b>	<b>\$805.2</b>				
<b>Total Debt</b>	<b>\$59.4</b>	<b>\$32.7</b>	<b>\$24.8</b>				
<b>Long-Term Liabilities</b>							
Long-Term Deferred Revenue	\$90.7	\$88.7	\$92.5				
Retirement Benefit Liability	\$415.6	\$410.7	\$406.1				
Accrued Benefit Liability	\$0.0	\$0.0	\$0.0				
Other Long-Term Liabilities	\$74.2	\$63.0	\$53.0				
Future Income Tax Liabilities	\$6.0	\$5.0	\$4.6				
<b>Total Long-Term Liabilities</b>	<b>\$586.7</b>	<b>\$567.4</b>	<b>\$556.1</b>				
<b>Total Liabilities</b>	<b>\$1,428.0</b>	<b>\$1,416.7</b>	<b>\$1,386.1</b>				
<b>Equity</b>							
Capital Stock	\$14.9	\$14.9	\$14.9				
Retained Earnings	\$1,208.3	\$1,716.3	\$1,740.9				
Accum Other Comprehensive Income	(\$146.6)	(\$144.8)	(\$146.2)				
<b>Total Equity</b>	<b>\$1,076.6</b>	<b>\$1,586.5</b>	<b>\$1,609.6</b>				
<b>Total Liabilities &amp; Equity</b>	<b>\$2,504.6</b>	<b>\$3,003.2</b>	<b>\$2,995.7</b>				

# Agenda

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- Management Priorities
- Asset Valuation
- Merchandising Value
  - ▶ Category performance review – Where are performance gaps?
  - ▶ Retail 101 – Root cause of gaps and approach to fix
  - ▶ Simplified Value Proposition – Focusing the organizational efforts
- Operating Efficiency: Progress against \$200M target
- 2014 Plan
  - ▶ Financial plan
  - ▶ Operating plans

1593



**Board Meeting – Operating Plan  
November 18-19, 2013**

# *Operating Plan - Table of Contents*

---

1. Guiding Principles

2. Apparel and accessories

3. MA, Home and Hard lines

4. Functional Plans

**1595**

# 2014 Priorities to support goal of comparative EBITDA growth through fundamentals

Retail 101 - Fix the Basics	Focus our trading investments	Horizon - Eliminate Waste	Define and focus around our customer value proposition	Define the future network and optimize assets
<ul style="list-style-type: none"> <li>Define and formalize merchandise planning and buying process</li> <li>Fix allocation and flow issues</li> <li>Continue to drive operational excellence in stores</li> <li>Invest in IT infrastructure:               <ul style="list-style-type: none"> <li>Price/Deal Management</li> <li>Merchandise Financial Planning</li> <li>Foundational Data</li> <li>Order Management</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Invest to build consideration and conversion in MA, WA, CW, FW</li> <li>Fix Furniture</li> <li>Focus on fixing the basics with the same or less marketing and inventory for other core categories</li> <li>Cut marketing and inventory in non-strategic underperformers</li> <li>Build our Direct channel</li> </ul>	<ul style="list-style-type: none"> <li>Logistics efficiency &amp; implementation of best practices</li> <li>Holistic PRS assessment and optimization</li> <li>Store operations optimization</li> <li>Evaluate outsourcing opportunities</li> <li>Optimize our HQ team to support the structure</li> </ul>	<ul style="list-style-type: none"> <li>Identify our target customer segments and define our value proposition – what we will stand for               <ul style="list-style-type: none"> <li>For priority categories</li> <li>For Sears</li> </ul> </li> <li>Build our offering in priority categories – How we bring value proposition to life               <ul style="list-style-type: none"> <li>Assortment and pricing</li> <li>Customer purchase experience (online, catalog, in store)</li> <li>Marketing</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Execute a backfill strategy for exited markets</li> <li>Define the future footprint: Full-line, Home, Dealer, Outlet, Catalog, Online</li> <li>Define the Future store formats               <ul style="list-style-type: none"> <li>Urban/Suburban/Rural?</li> <li>by size?</li> <li>by market opportunity?</li> </ul> </li> <li>Release value from our Non-Core Assets</li> <li>Maximize Return on Working Capital</li> </ul>
<p><b>Continue to innovate where it makes sense (look for medium-term wins)</b></p> <ul style="list-style-type: none"> <li>Select strategic partnerships (Aldo, Pennington's)</li> <li>Explore backfill of MA in closed markets</li> <li>Space productivity tests</li> </ul>				



# Focus our Trading Strategy

1597

Principle	Description
<b>1 Focus on fixing the basics</b>	<ul style="list-style-type: none"><li>- Build a consistent planning and buying process</li><li>- Buy to our capacity</li><li>- Allocation/flow – right product, right place, right time</li></ul>
<b>2 Invest to grow in the handful of core categories that anchor our customer value proposition</b>	<ul style="list-style-type: none"><li>- Focus on a few key categories that drive perception of Sears' brand and draw our target customers</li><li>- Deliberately focus our investments to address traffic issues (Women's apparel, Children's, Furniture) and conversion (Major appliances, Footwear)</li><li>- Make the tough tradeoffs to free up the resources (People, Capex, opex, inventory) to ensure the success of these anchor categories</li></ul>
<b>3 No "big bets" in other categories</b>	<ul style="list-style-type: none"><li>- Don't take attention/resources from core categories</li><li>- Provide a realistic view of remaining resources available to support non-core categories, and set expectations accordingly</li></ul>
<b>4 Maintain a small core of innovation initiatives that can live within our current resource constraints</b>	<ul style="list-style-type: none"><li>- Where we have made real progress and/or material commitments – allow initiatives to run</li><li>- Stop projects that are too big / too early stage / too risky where we can free up resources to drive core growth</li></ul>

# Focus categories should be fully funded and drive growth; with underperforming / low potential categories tapped to free up resources

## Potential approach for category / division targets and resource allocation

	Priority 1 (Core)	Priority 2	Priority 3
<b>Description</b>	Cornerstone of Sears' identity; where we must win with our target segments	Strong, viable businesses that build a customer basket and deliver returns	Businesses that are underperforming / require too much time and attention to fix
<b>Approach</b>	Fund aggressively	Maintain performance with slightly lower investment	Reduce investment to support (1) and (2)
<b>Revenue growth</b>	Up	Flat to up (through basics)	Down
<b>Merch Margin</b>	+200-300bps	+0-100bps	Flat
<b>Marketing \$</b>	Overweight	Flat or down –new investments must be self-funded	Underweight – only spend where there is suitable payback
<b>Inventory \$</b>	Flat	Down 5-10	Down 20-30
<b>Capital spending (IT / Capex)</b>	Overweight	Maintenance funding only	None (vendor only)
<b>HR</b>	Ensure Top talent is driving the work (at all levels)	Core team only	Lowest priority
<b>Categories:</b>	WA, MA, CW, FW	MW, WI, JAL, CS, Mattress, Furniture	CAWP, ELE, Fitness, Seasonal; Grills;

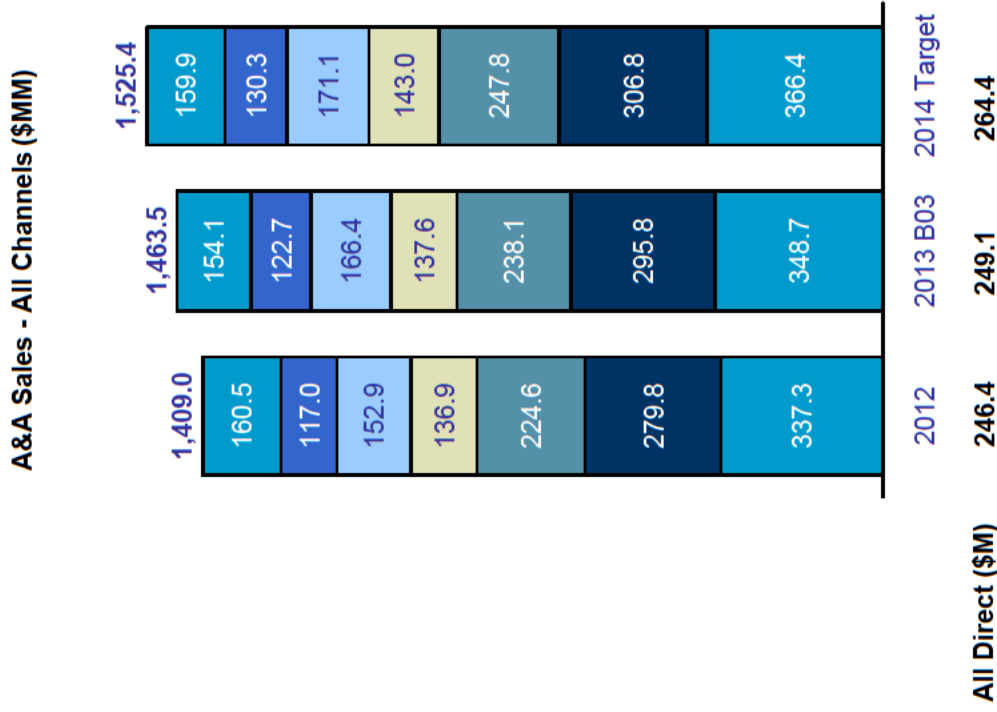
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  - Cosmetics & Personal Care
3. MA, Home and Hard lines
4. Functional Plans

# Apparel & Accessories - Overall top line growth outlook for A&A is 4.2% in 2014 with a 92bpts increase in merch margin rate



	Sales Growth		Merch Margin Rate				Merch Margin \$ (\$MM)				
	12-13	13-14	12	13	14	12	13	14	12	13	14
<b>Total A&amp;A</b>	3.9%	4.2%	44.2%	45.8%	46.7%	623.3	669.7	712.8			
CS	-4.0%	3.7%	38.8%	38.8%	38.8%	62.3	59.8	62.1			
JAL	4.8%	6.2%	50.5%	52.9%	53.6%	59.1	64.9	69.9			
FW	8.8%	2.8%	44.4%	45.8%	47.1%	67.8	76.2	80.5			
WI	0.5%	3.9%	47.9%	49.2%	50.7%	65.5	67.7	72.5			
CW	6.0%	4.1%	41.2%	41.4%	41.8%	92.4	98.5	103.9			
MW	5.7%	3.7%	43.2%	44.8%	46.5%	121.0	132.5	142.7			
WA	3.4%	5.1%	46.0%	48.8%	49.6%	155.1	170.1	181.6			
<b>All Direct</b>	<b>1.1%</b>	<b>6.1%</b>	<b>46.4%</b>	<b>46.2%</b>	<b>48.8%</b>	<b>114.4</b>	<b>115.0</b>	<b>129.0</b>			

# Apparel & Accessories - In 2014 A&A will focus on 3 key categories and ensure we are delivering on the foundations of our value proposition

Priority	Description
<b>1</b> Fix the basics	<ul style="list-style-type: none"><li>- Standardize store modules and clusters</li><li>- Rebuild planning and buying process to start with capacity</li><li>- Adjust 2014 buy where possible to fit within store capacities</li></ul>
<b>2</b> Continue to shift our style profile	<ul style="list-style-type: none"><li>- Focus investments in the Updated style profile</li></ul>
<b>3</b> Execute on our value proposition	<p><b>1601</b></p> <ul style="list-style-type: none"><li>- Be always in stock in the basics across A&amp;A</li><li>- Design and pilot in-store experience to win with our target customer in 3 key categories: <b>Women's Apparel; Footwear; Children's Wear</b><ul style="list-style-type: none"><li>- Edited assortment, improved planograms/rack plans</li><li>- Improved navigation / signage</li><li>- Clearly defined and supported service model (full service vs.. hybrid)</li></ul></li><li>- Build merchandise elements of value proposition into 2015 planning and buying process<ul style="list-style-type: none"><li>- i.e. Consistent sizing and quality, depth in basics and at key price points</li></ul></li></ul>
<b>4</b> Maintain innovation initiatives that can live within our current resource constraints	<ul style="list-style-type: none"><li>- Continue to execute on key partnerships (Penningtons, Aldo, Buffalo) and assess performance through spring</li><li>- Continue new brand launches – Logan Hill (from Retreat), Pure NRG, Jessica Intimates</li></ul>

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4. Functional Plans



# Women's Apparel – 2014 Initiatives

**Overall Objectives**

**Grow in updated better, drive productivity improvement in traditional; selectively invest in contemporary**

**Overall Financial Target s**

	2012	2013 B03	2014 Plan
<b>FL Sales (Comp \$M)</b>	261.0	276.6	288.2
MM%	46.0%	47.1%	49.6%
<b>Direct Sales (\$M)</b>	64.3	57.5	64.5
MM%	46.7%	50.9%	55.8%
<b>*Total Sales (\$M)</b>	325.3	334.1	352.7
MM%	46.1%	47.8%	50.7%

**2014 Sales impact**

## Key initiatives

### How we will achieve this

1. Fix the basics

  - Formalize and standardize clusters and buy to our capacity
    - Continue to 'edit' assortment – reduce option counts and strengthen price ladders
  - Optimize allocation and flow to reduce store inventory peaks
  - Identify 'basics' by commodity and ensure sufficient depth to be always in stock
2. Continue to grow Updated style profile

  - Deliver full potential of brands in 'updated/better' (e.g. Point Zero, Nevada )
    - Leverage captive brands in Updated good / better (i.e. Liz and Pure NRG)
    - Continue to execute on Penningtons/ plus strategy
3. Grow in key commodities

  - Knit and Woven Tops, Active
  - Maintain Dresses, Sweaters
4. Deliver on our value proposition in-store

  - Redesign in-store navigation, rack plan and product guidance to improve shopping experience

**1604**

**+\$6.4 M**

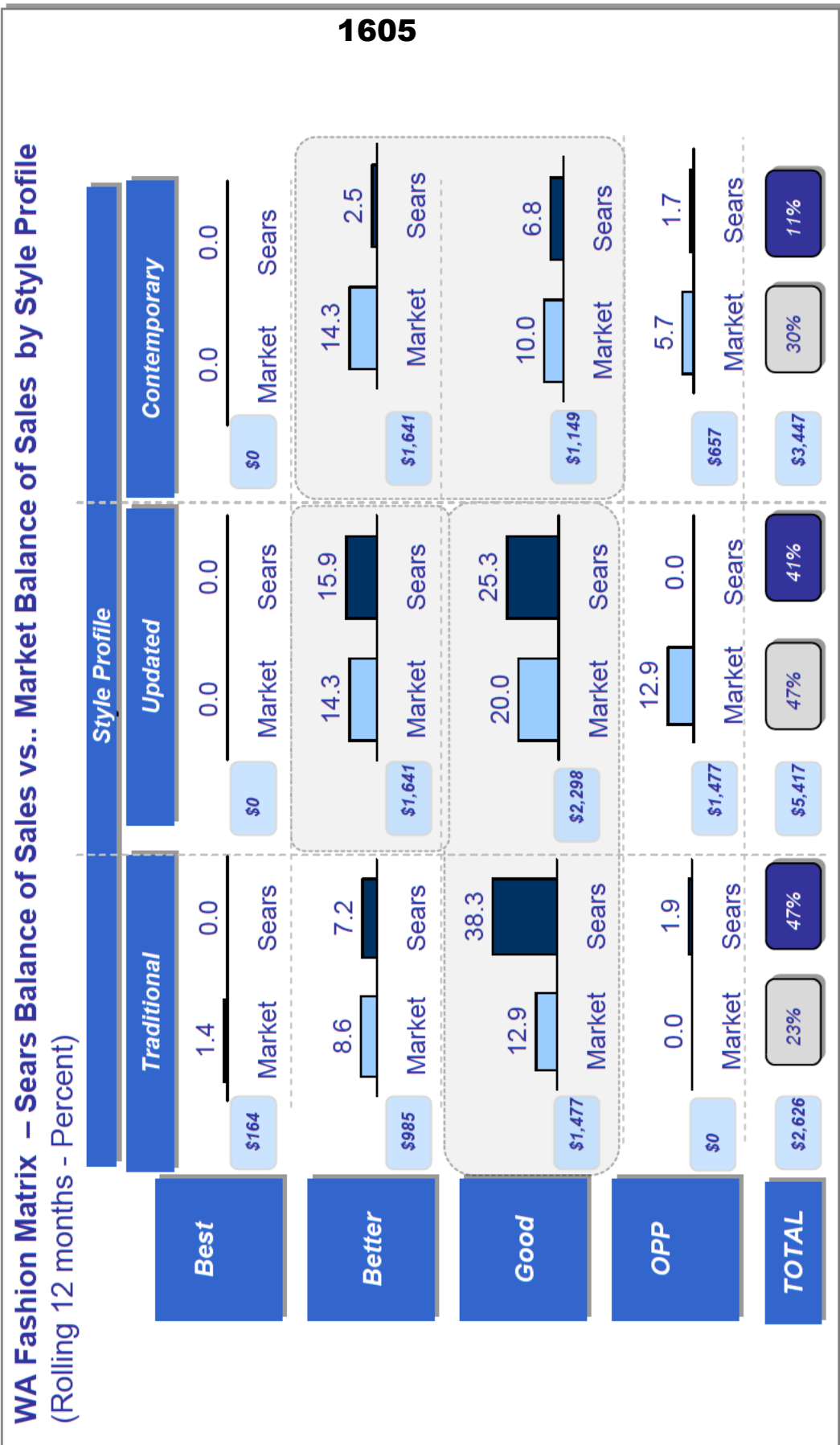
**+\$5.6M**

**+\$2.7M**

**+\$2.0M**



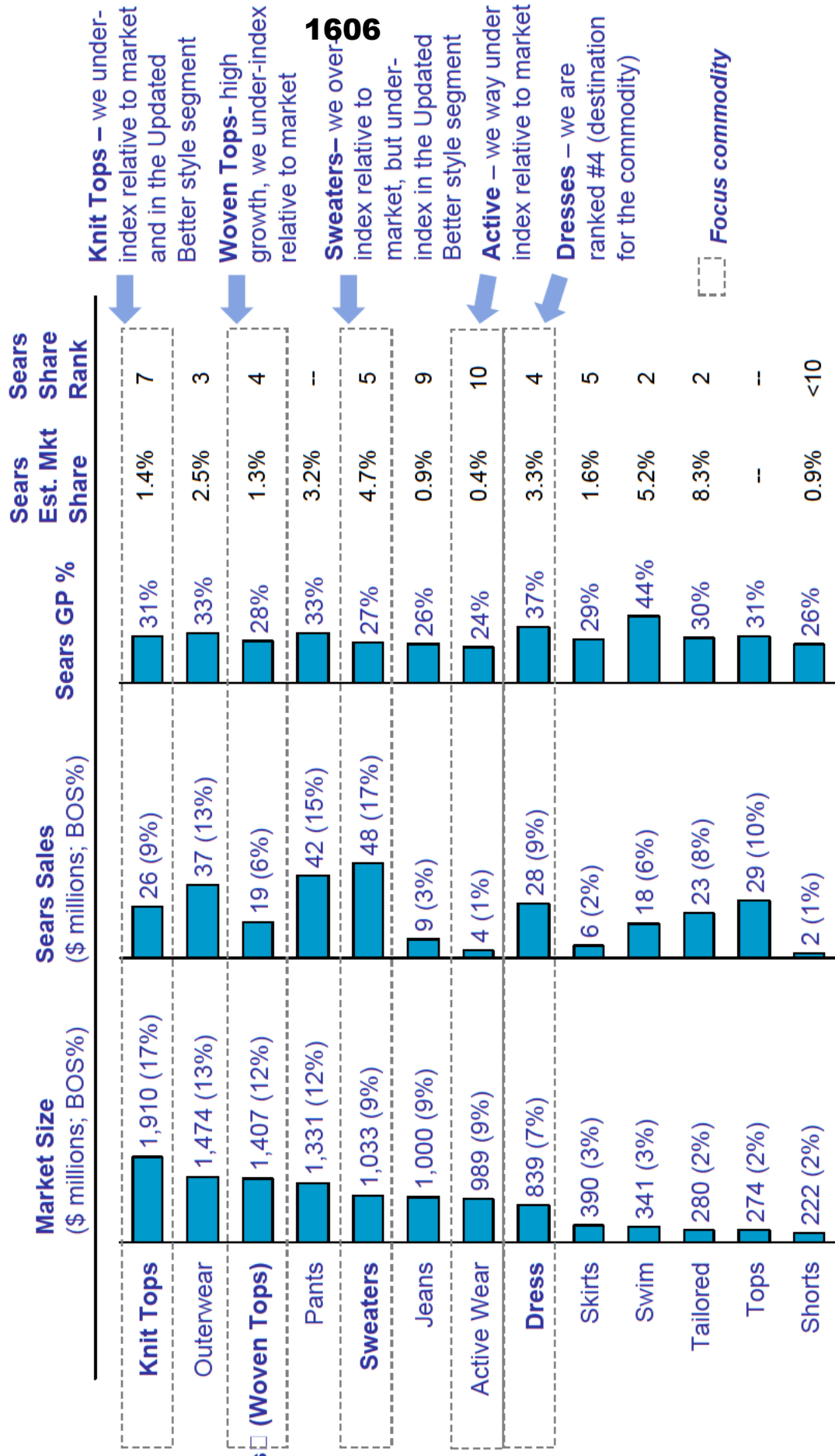
Women's Apparel - We still have an opportunity to shift our assortment balance toward the Updated style profile, aiming for 50% balance of sale in 'Updated'



Note: % of market sales vs. % of sears \$ sales; small box = R12M Jun 2013 market size in \$MM; Sears BOS excludes ~0.4% of total WA sales attributed to bad data (un-matched items)  
 Source: NPD, Sears MDW Full-Line rolling 12 months June 2013 Sales  
 Private and Confidential

*Women's Apparel - We are focused on commodities where we have strong share, and a credible opportunity to win with key customers*

WA Market Size vs. Sears FLS Sales, Rolling 12 Months June 2013



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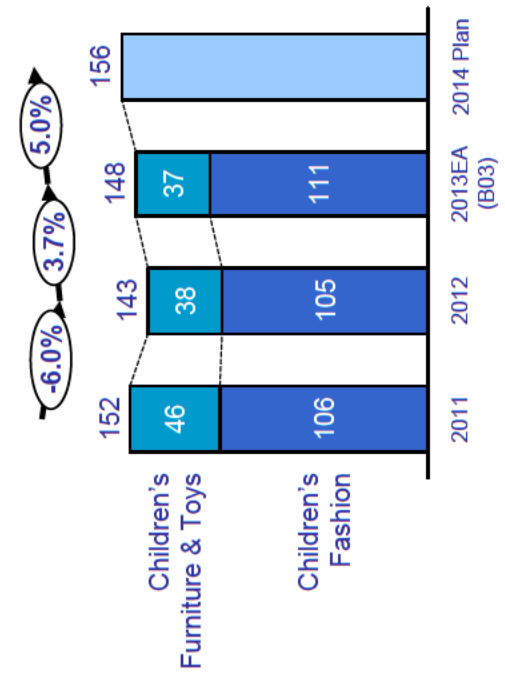
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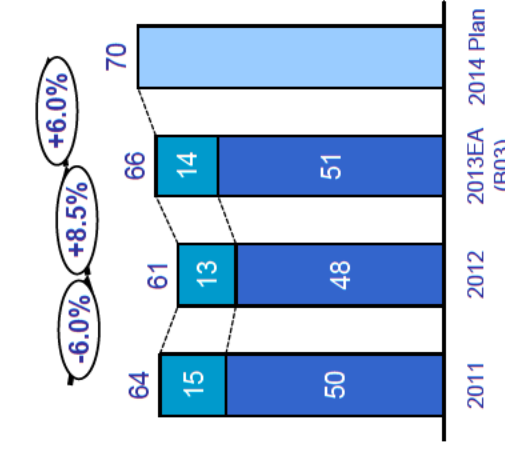
# Children's Wear - FLS top line growth outlook is 5.0% in 2014 with a 0.4% increase in merch margin rate

2013 B03 (FLS)	Sales (\$000s)	Balance (%)	Merch Margin (\$000s)	Rate (%)	Balance (%)	SVC (\$000s)	Rate (%)	Balance (%)
<b>TOTAL CHILDREN'S WEAR</b>	<b>148,184</b>	<b>100</b>	<b>65,717</b>	<b>44.3</b>	<b>100</b>	<b>39,483</b>	<b>26.6</b>	<b>100</b>
Children's Fashion	37,456	25	14,227	38.0	22	6,959	18.6	18
Children's Furniture & Toys	110,728	75	51,490	46.5	78	32,524	29.4	82

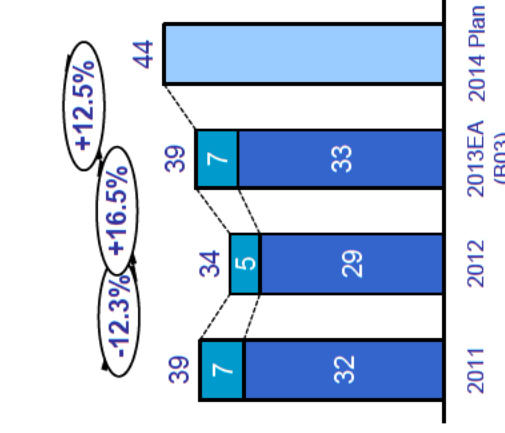
Sales (\$MM)



Merch Margin (\$MM)



SVC (\$MM)



Source: MDW/ Esbase  
 Note: Sears financial information presented above reflects comp-stores to 2014 (excludes 5 closing Sears full line stores: Yorkdale, Square One, Sherway, TEC, and London); SVC (\$) for 2013 B03 and 2014 Plan is estimated based on SVC to Net Sales ratio calculated for 2013 B04  
 Private and Confidential

# Children's Wear – 2014 Initiatives

1609

**Overall Objectives**

Leverage our national brand strength, build strength in dresses/dresswear, outerwear and swim

**Overall Financial Target s**

	2012	2013 B03	2014 Plan
<b>FL Sales (Comp \$M)</b>	142.9	148.2	155.7
MM%	42.4%	44.3%	44.8%
<b>Direct Sales (\$M)</b>	77.0	84.1	87.5
MM%	39.7%	36.6%	39.2%
<b>*Total Sales (\$M)</b>	219.9	232.3	243.2
MM%	41.4%	41.5%	42.8%

**2014 Sales impact**

## Key initiatives

## How we will achieve this

1. Fix the basics

  - Evaluate current density / sales performance and assess opportunities to re-allocate space
  - Define our basics by commodity and ensure depth to be always in stock

+ \$2.4M
2. Address our current assortment positioning

  - Rebalance receipts and floor space between Private Brand and National Brand
    - Continue to grow Carters / Osh Kosh
    - Grow our private label business in the 'good' price point

+ \$3.3M
3. Focus on key commodities

  - Grow dresses / dresswear: +4% (650k)
  - Grow outerwear and swim: +4% (600k)
  - Create extended aisle for juvenile products

+ \$3.3M
4. Communicate our value proposition on the floor

  - Marketing plan and in-store experience to win share from speciality (The Children's Place and Old Navy)
  - Ensure assortment on the floor is aligned with key components of value proposition (quality level / price points, mix of basics, always in-stock)

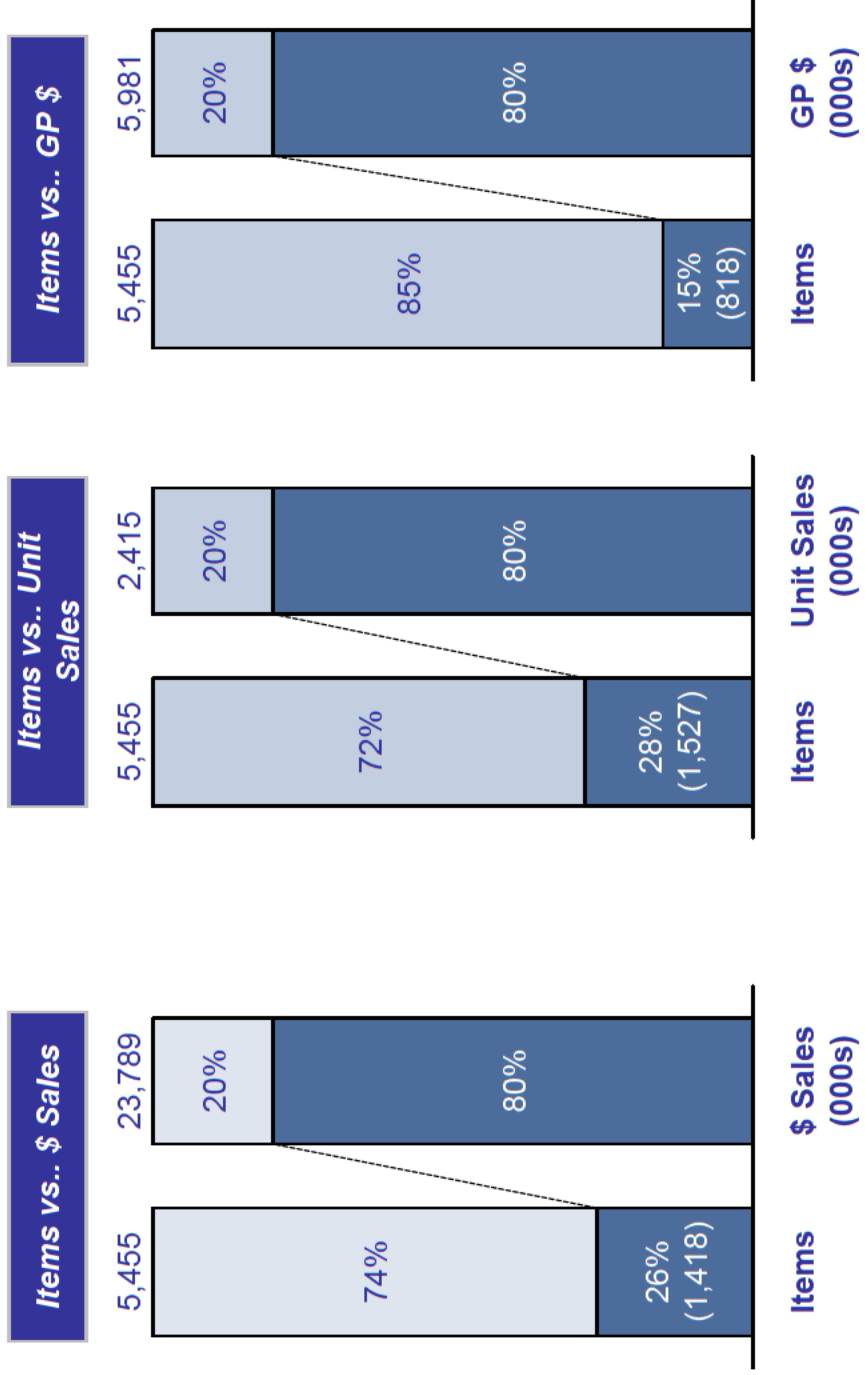
+ \$2M

Note: \*Total includes full-line and direct channels only, excludes sales from other channels (i.e. outlet)

*Children's Wear – In Children's Fashion we have an opportunity to tackle under-performing items: 15% of items in Infant line drive 80% of GP dollars*

**Children's Wear – Infant / Toddler (Div 31) – Item Productivity Analysis**

(\$ Millions; percent sell-through)



**For discussion**

- ❑ Current Infant fashion area uses high density racks (16 arms per rack; 400 units per rack)
- ❑ Significant variation in item level performance – potentially masked by product density on floor
- ❑ Opportunity to significantly reduce investments in under-performers to free up space / working capital

1610

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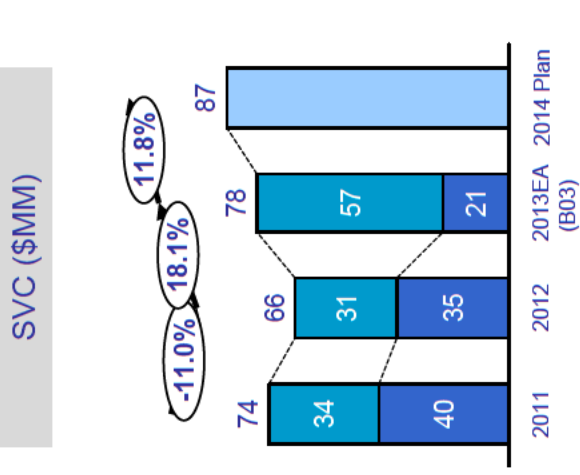
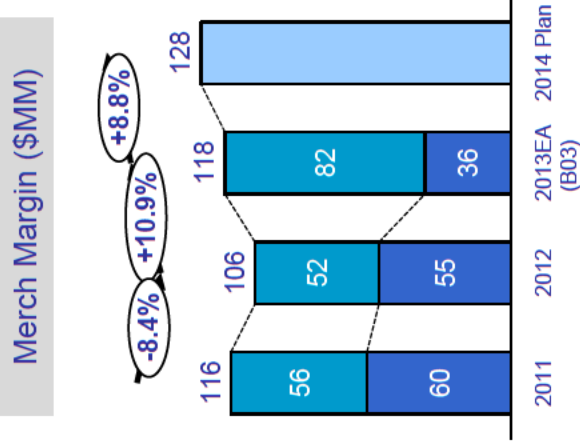
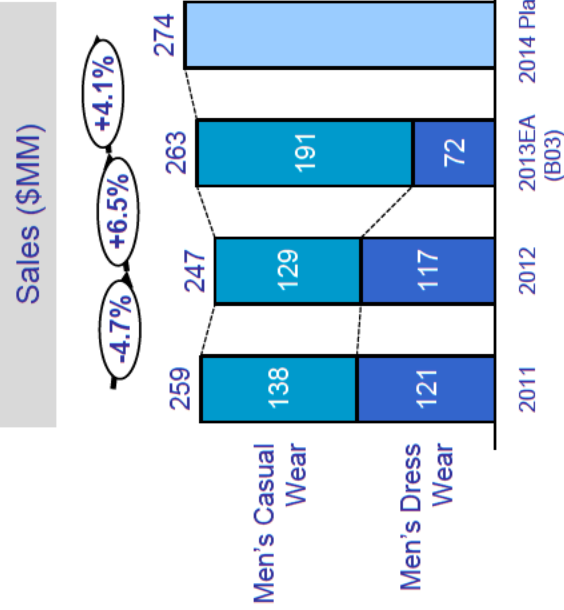
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# Menswear - FLS top line growth outlook is 4.1% in 2014 with a 2.0% increase in merch margin rate

2013 B03 (FLS)	Sales (\$000s)	Balance (%)	Merch Margin	Rate (%)	Balance (%)	SVC (\$000s)	Rate (%)	Balance (%)
<b>TOTAL MEN'S WEAR</b>	262,874	100	117,689	44.8	100	78,047	29.7	100
<b>MEN'S CASUAL WEAR</b>	191,227	73	81,771	42.8	69	57,417	30.0	74
<b>MEN'S DRESS WEAR</b>	71,646	27	35,919	50.1	31	20,629	28.8	26

## 1612



Source: MDW/ Essbase  
 Note: Sears financial information presented above reflects comp-stores to 2014 (excludes 5 closing Sears full line stores: Yorkdale, Square One, Sherway, TEC, and London); SVC (\$) for 2013 B03 and 2014 Plan is estimated based on SVC to Net Sales ratio calculated for 2013 B04  
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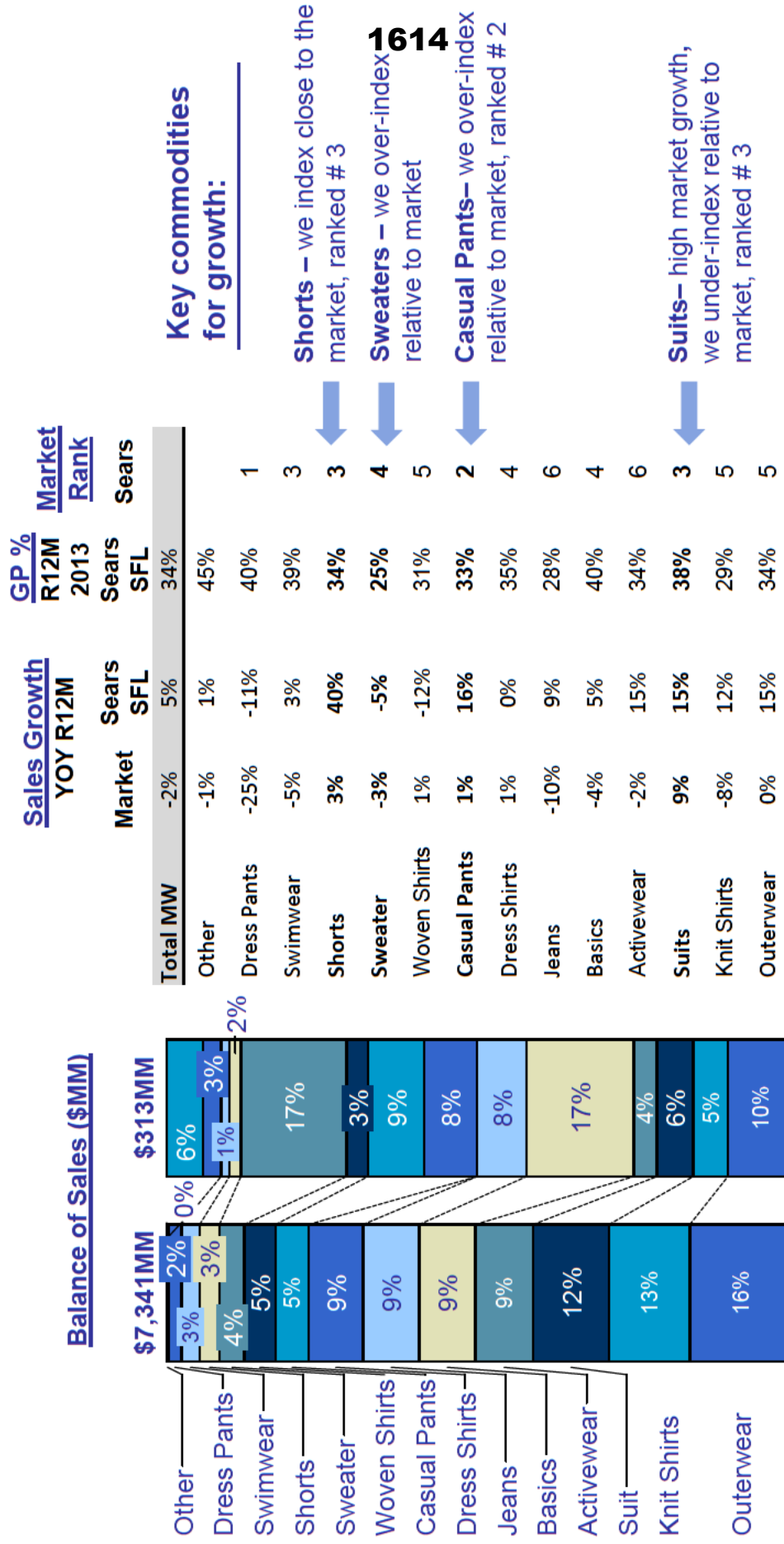
# Menswear – 2014 Initiatives

1613

Overall Objectives	Grow in updated better, drive productivity improvement in traditional, selectively invest in contemporary	Overall Financial Target s	<table border="1"> <thead> <tr> <th></th> <th>2012</th> <th>2013 B03</th> <th>2014 Plan</th> </tr> </thead> <tbody> <tr> <td>FL Sales (Comp \$M)</td> <td>246.8</td> <td>262.9</td> <td>273.6</td> </tr> <tr> <td>MM%</td> <td>43.0%</td> <td>44.8%</td> <td>46.8%</td> </tr> <tr> <td>Direct Sales (\$M)</td> <td>25.7</td> <td>24.3</td> <td>25.9</td> </tr> <tr> <td>MM%</td> <td>48.5%</td> <td>47.7%</td> <td>49.7%</td> </tr> <tr> <td>*Total Sales (\$M)</td> <td>272.5</td> <td>287.2</td> <td>299.5</td> </tr> <tr> <td>MM %</td> <td>43.5%</td> <td>45.0%</td> <td>47.0%</td> </tr> </tbody> </table>		2012	2013 B03	2014 Plan	FL Sales (Comp \$M)	246.8	262.9	273.6	MM%	43.0%	44.8%	46.8%	Direct Sales (\$M)	25.7	24.3	25.9	MM%	48.5%	47.7%	49.7%	*Total Sales (\$M)	272.5	287.2	299.5	MM %	43.5%	45.0%	47.0%	2014 Sales impact
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2. Continue to focus on the Updated customer	<ul style="list-style-type: none"> <li>Drive 2013 new brand launches (Nevada, JKL)</li> <li>Complete Logan Hill transition (Retreat)</li> </ul>	<ul style="list-style-type: none"> <li>Reduce /exit select traditional brands to invest in growth for new updated /better brands</li> <li>Identify additional secondary / tertiary national brands to decline in order to free capacity for growth in key commodities</li> <li>Sustained marketing support for JKL</li> </ul>		+\$3.8M																												
3. Continue to focus on seasonally relevant commodities	<ul style="list-style-type: none"> <li>Drive growth in casual pants and dress shirts</li> <li>Grow seasonal commodities                             <ul style="list-style-type: none"> <li>Shorts - \$1M (10%)</li> <li>Sweaters - \$2 (10%)</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Focus on execution of key seasonal events (i.e. cozy event)</li> <li>Self fund growth through assortment editing / improved turns to free up receipts</li> </ul>		+\$3.8M																												

Note: \*Total includes full-line and direct channels only, excludes sales from other channels (i.e. outlet)

# Menswear – Menswear growing 5% relative to market decline of 2% YOY; opportunity to focus on commodities experiencing market growth



Source: NPD Rolling 12 months ending June 2012 and 2013; rolling 12 Months June 2012 and 2013 MDW Sales data; Essbase

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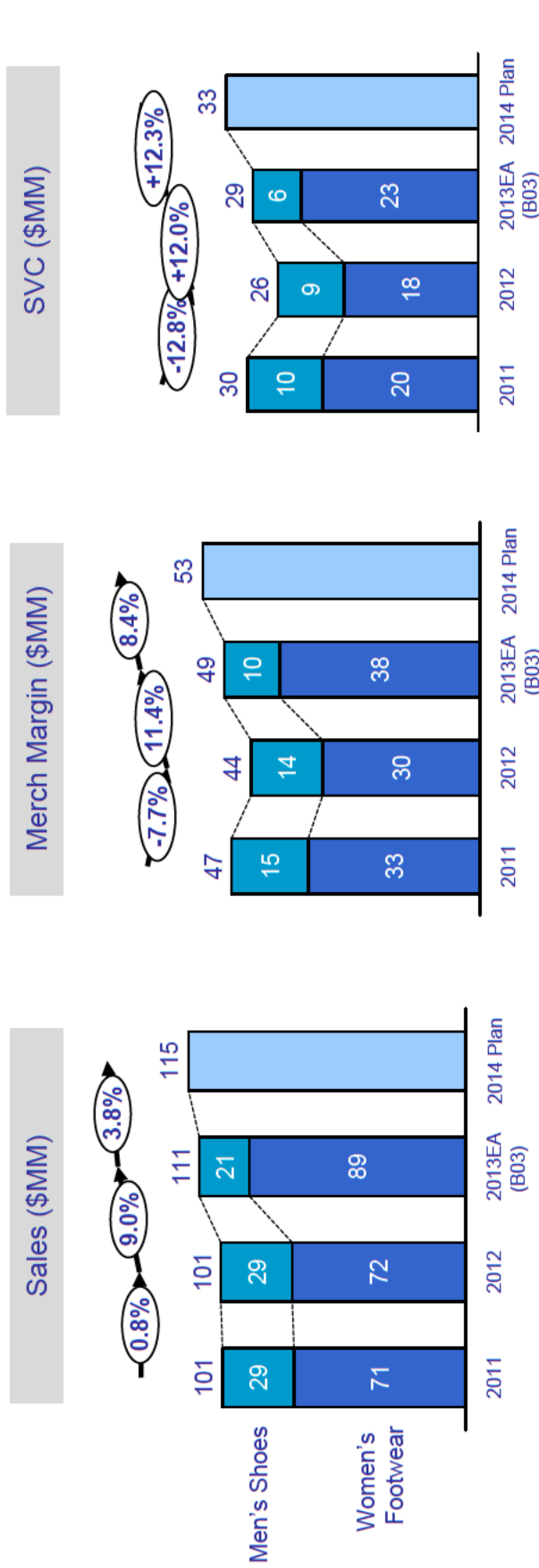
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# Footwear - FLS top line growth outlook is 3.8% in 2014 with a 2.0% increase in merch margin rate

2013 B03 (FLS)	Sales (\$000s)	Balance (%)	Merch Margin (\$000s)	Rate (%)	Balance (%)	SVC (\$000s)	Rate (%)	Balance (%)
<b>TOTAL FOOTWEAR</b>	<b>110,601</b>	<b>100</b>	<b>48,615</b>	<b>44.0</b>	<b>100</b>	<b>29,488</b>	<b>26.7</b>	<b>100</b>
Men's Shoes	21,367	19	10,476	49.0	22	6,260	29.3	21
Women's Footwear	89,233	81	38,139	42.7	78	23,228	26.0	79

## 1616



Source: MDW/ Essbase  
 Note: Sears financial information presented above reflects comp-stores to 2014 (excludes 5 closing Sears full line stores: Yorkdale, Square One, Sherway, TEC, and London); SVC (\$) for 2013 B03 and 2014 Plan is estimated based on SVC to Net Sales ratio calculated for 2013 B04  
 Private and Confidential

# Footwear – 2014 Initiatives

1617

## Overall Objectives

Sears will be the destination for family footwear for casual, dress, athletic and kids needs everyday, in an easy to shop environment with helpful and knowledgeable sales associates.

## Financial Target

	2012	2013 B03	2014 Plan
<b>FL Sales (Comp \$M)</b>	101.5	110.6	114.8
MM%	43.0%	44.0%	45.9%
<b>Direct Sales (\$M)</b>	44.9	48.6	49.1
MM%	49.9%	51.1%	50.6%
<b>*Total Sales (\$M)</b>	146.4	159.2	163.9
MM%	45.1%	46.1%	47.3%

2014 Sales impact

## Key initiatives

### How we will achieve this

- 1. Fix the basics – buying process and assortment simplification to reduce receipts, improve flow and productivity of inventory
  - Correct store capacity planning and flow of receipts (on floor and stock room)
  - Assortment refinements including:
    - Elimination of non-performing National Brands
    - Allocate against space capacities including back room
    - Receipt flow optimization
    - In stock of key skus
  - Execution of in-season markdowns
  - DI blend of purchases for the Updated consumer for PL will be 100% due to APS partnership and conversion of all domestic sources to DI
  - Continued expansion of the fashion boot commodity
- 2. Improve customer in-store experience for our target customers (Fashion Browser and Pragmatist)
  - Revisit the new merchandising standards:
    - Test and evaluate in-store merchandising (full services, open sell or hybrid), department layout, table presentation, signage in an easy to shop environment
    - Find right product merchandising balance – private/national or by customer segment/style profile
  - Product knowledge for sales associates (i.e. present options to customers)
  - Promotional and clearance set ups
  - Seasonal set ups – and exits profitability of the season
- 3. Growth in sales and gross profit in key categories
  - Addition and Expansion of :
    - Continue Aldo APS partnership for updated product
    - Expanded assortment of Kids athletic: +20% \$0.42MM
    - Accelerating walking category for Mens and Ladies athletic
    - Focus Private Label assortment of Kids to key items
    - Osh Kosh, Carters and Skechers: \$0.5MM each
  - Continuation of Retail to Web on-boarding initiative
  - Expansion of on-line exclusive brands and products
  - Limit investment in OPP businesses
- 4. Growth in direct channel through the expansion of National Brands and Private Brands
  - Limit investment in OPP businesses

+\$1.4M

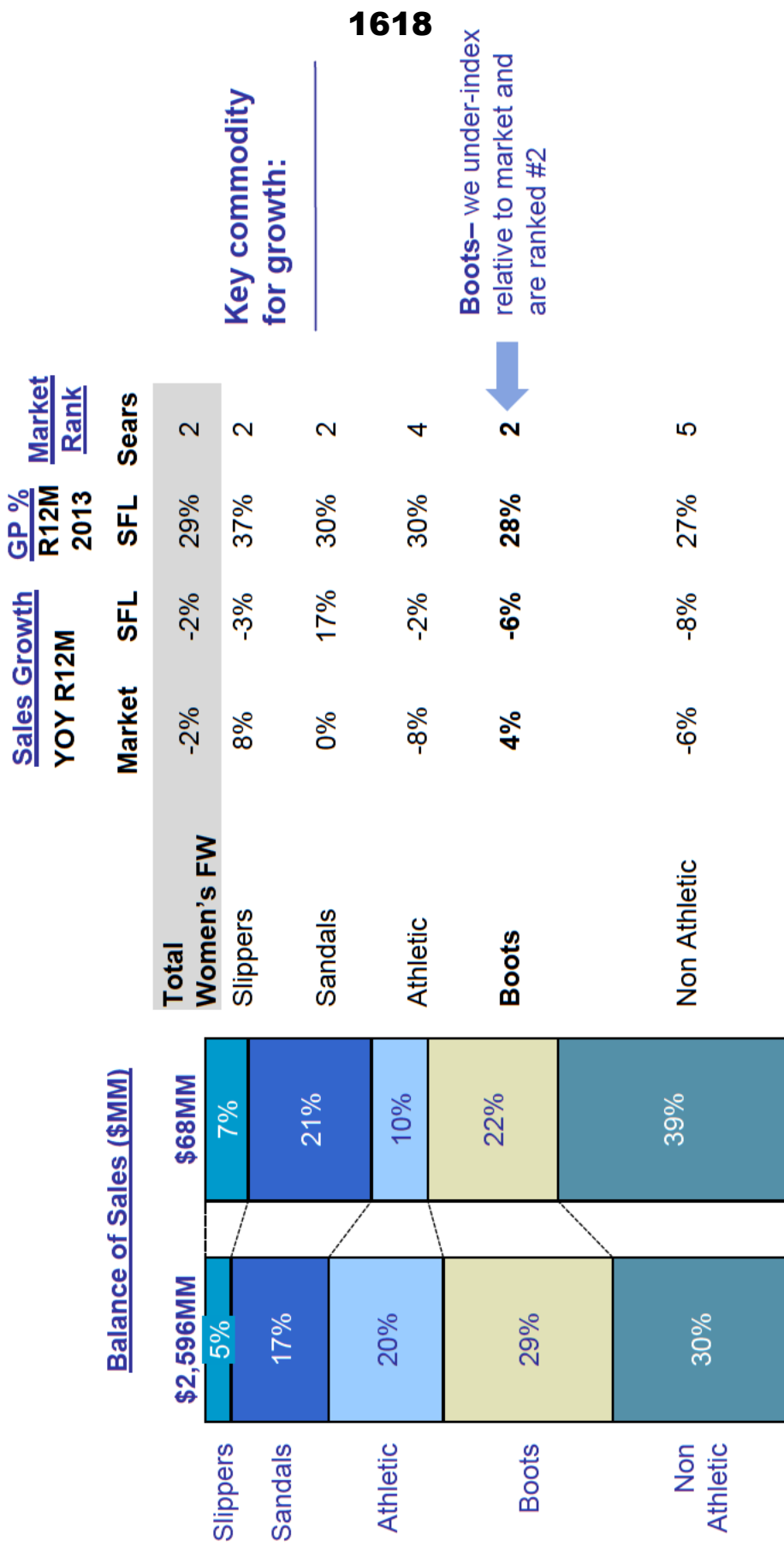
+\$1.8M

+\$829k

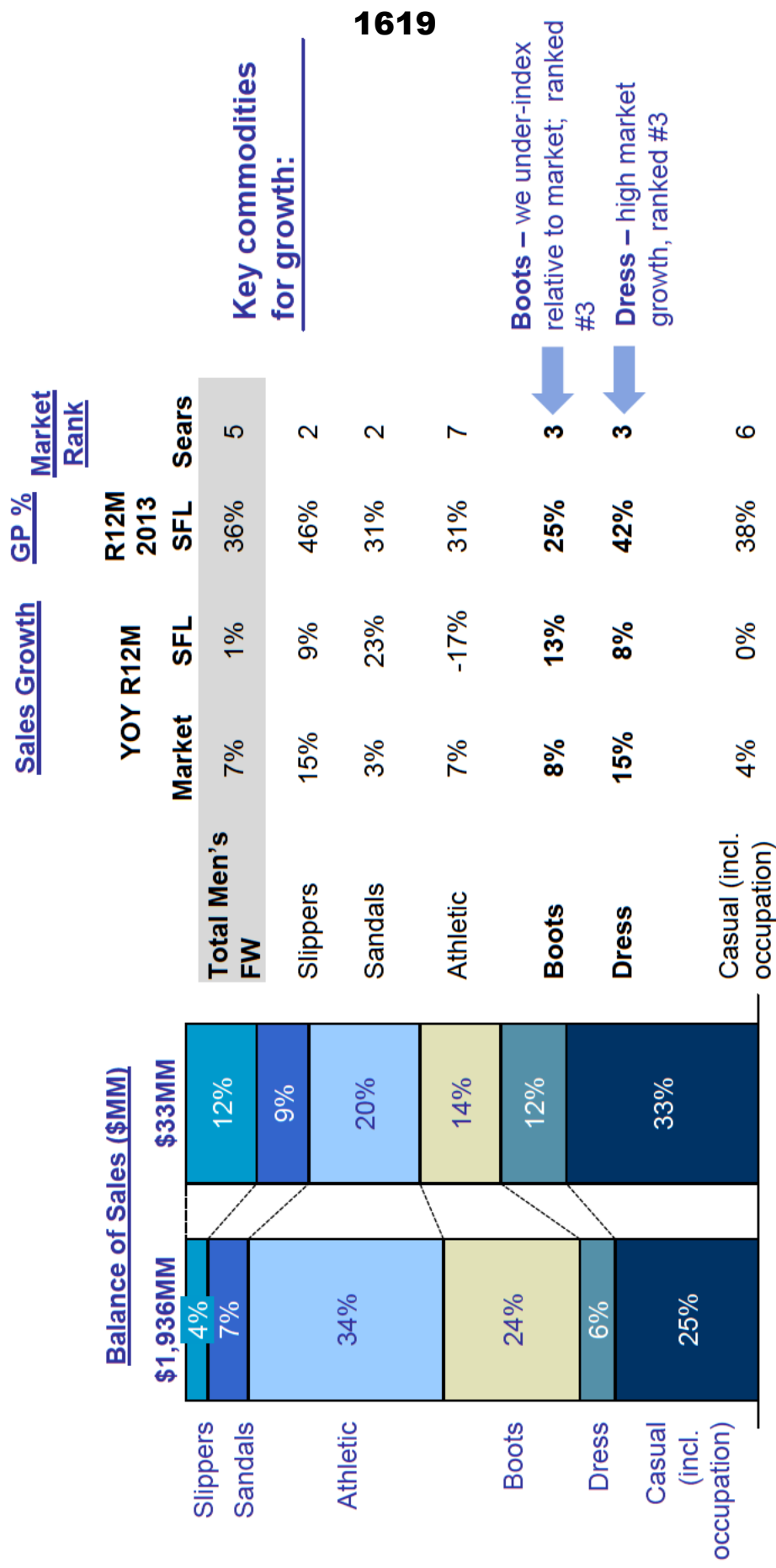
+\$645k

Note: \*Total includes full-line and direct channels only, excludes sales from other channels (i.e. outlet) Private and Confidential

*Women's Footwear – Sales have declined -2% in line with the market; market growth in slippers and boots, both of which have Sears ranked #2*



# Men's Shoes – Sales growing at a slower pace relative to market; commodity market growth in dress and slippers



1619

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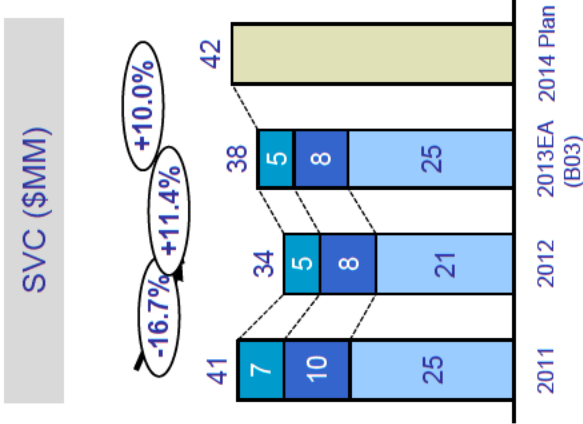
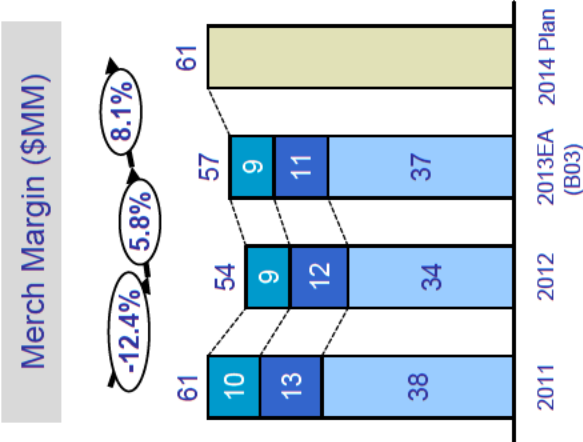
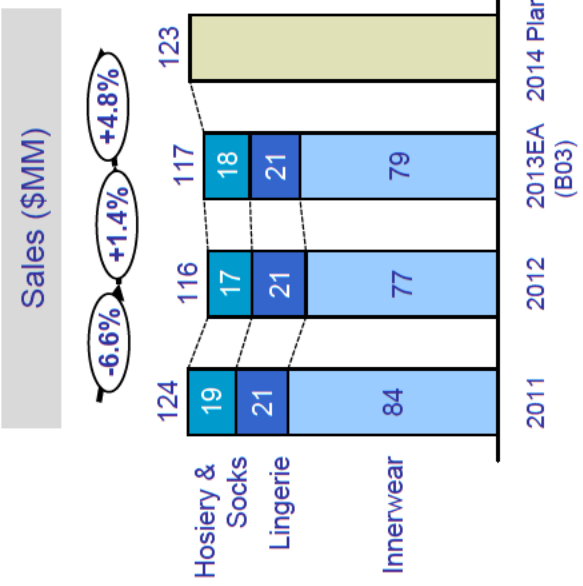
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  - Cosmetics & Personal Care
3. MA, Home and Hard lines
4. Functional Plans



# Women's Intimates - FLS top line growth outlook is 4.8% in 2014 with a 1.6% increase in merch margin rate

2013 B03 (FLS)	Sales (\$000s)	Balance (%)	Merch Margin	Rate (%)	Balance (%)	SVC (\$000s)	Rate (%)	Balance (%)
<b>TOTAL WOMEN'S INTIMATES</b>	117,390	100	56,826	48.4	100	38,129	32.5	100
Hosiery & Socks	17,851	15	8,746	49.0	15	5,323	29.8	14
Lingerie	20,569	18	10,892	53.0	19	8,073	39.2	21
Innerwear	78,971	67	37,188	47.1	65	24,733	31.3	65

1621



Source: MDW/ Essbase  
 Note: Sears financial information presented above reflects comp-stores to 2014 (excludes 5 closing Sears full line stores: Yorkdale, Square One, Sherway, TEC, and London); SVC (\$) for 2013 B03 and 2014 Plan is estimated based on SVC to Net Sales ratio calculated for 2013 B04  
 Private and Confidential

# Women's Intimates – 2014 Initiatives

## Overall Objectives

Women's Intimates will focus on basics in stock; Launch and accelerate the growth of Jessica intimates in key commodities; Continue to mitigate runoff of Boxed bra business and loss of space in hosiery

## Financial Target

	2012	2013 B03	2014 Plan
<b>FL Sales (Comp \$M)</b>	115.8	117.4	123
MM%	46.4%	48.4%	50.0%
<b>Direct Sales (\$M)</b>	19.3	18.2	18.5
MM%	59.7%	57.4%	59.4%
<b>*Total Sales (\$M)</b>	135.1	135.6	141.5
MM%	48.3%	49.6%	51.2%

**2014 Sales Impact**

## Key initiatives

- Fix the basics
  - Refresh / rebrand existing \$4M Jessica hanging bra / panty business and grow (Jessica panties, Jessica bras)
  - Focus on driving incremental growth in intimates business through Jessica vs.. National Brands (plan to hold other national brands relatively flat)
- Leverage successful launch of Jessica Intimates to mirror the customer segments in the Sleepwear business
  - Shift existing assortment from Traditional to Updated style profile
  - Grow Jessica sleepwear share of business (overall sleep +4.4%, Jessica +\$2.3M / 25%)
- Monitor and mitigate volume in Boxed and Hosiery
  - Boxed bras due to market decline
  - Hosiery due to store format changes (loss of space = loss in sales, ~\$-2.0M impact in 2014)

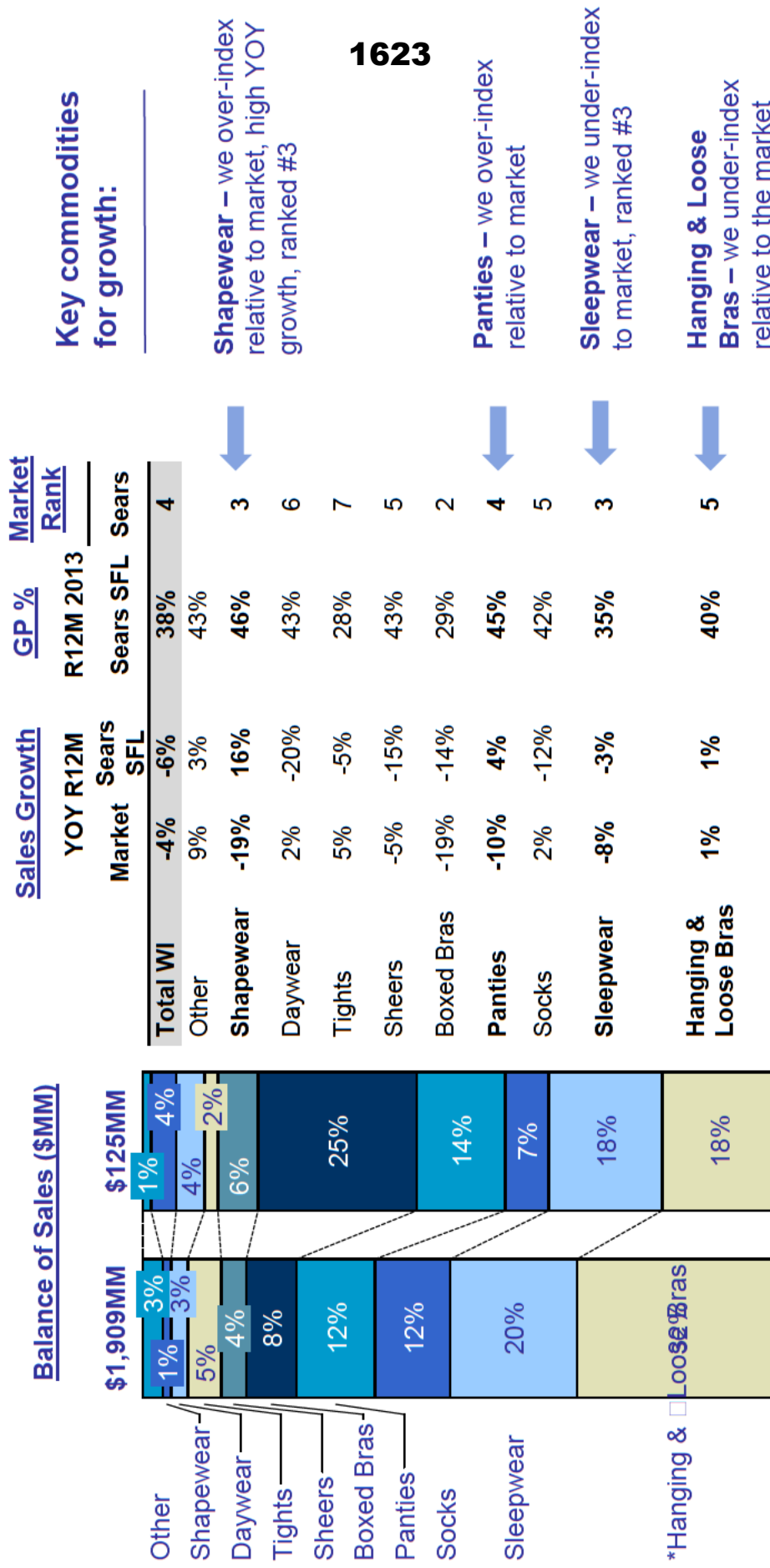
## How we will achieve this

- Reset store clusters and planograms
- 97% in stock for top selling skus (A, B, C skus) in boxed bras, hanging bras, panties, socks and hosiery – both Private Brands and National Brands
- E3 lifts for promotional events with marketing exposure
- Incremental marketing dollars required to support the launch of Jessica Intimates:
  - Launch with JI in LOOK!, flyer, magazine/outdoor and in store trails
- Exit select National Brands to create space for Jessica, adding \$550k in capex for panty tables
  - Exit Tommy, CK, Attitude, Danskin (and downtrend Triumph (\$4.2M)
  - Migrate customers to Jessica
- For sleepwear, exit Tommy, Neuberger, Aria, Calvin Klein (\$2.8m)
  - DI sleepwear = 90%, panty commodity and test seamless; Investigate direct opportunities in Intimates
- Planning -5.3% to \$17.9M sales for socks / hosiery business due to reduced floor space - incremental tables secured to mitigate impact of lost space.
  - Optimize Boxed bra business with new PA's for National Brands and COGS work

**1622**

Note: \*Total includes full-line and direct channels only, excludes sales from other channels (i.e. outlet) Private and Confidential

**Women's Intimates – Sales declined 6% relative to market decline of 4% YOY; going forward we plan to focus on generating growth across 4 key commodities**



R12M Jun 2013 Market      R12M Jun 2013 SFL

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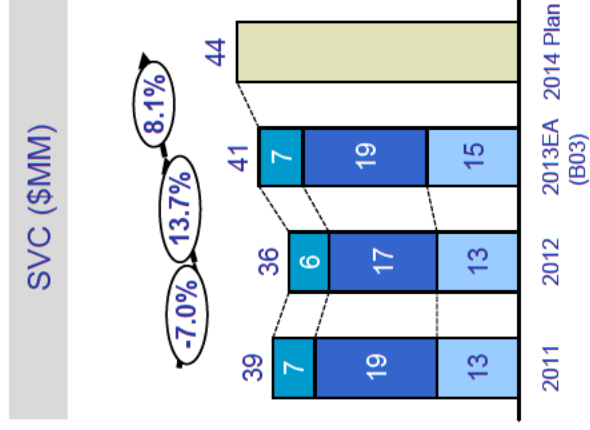
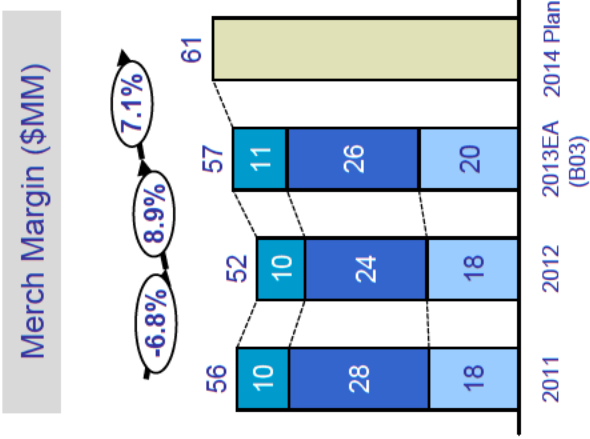
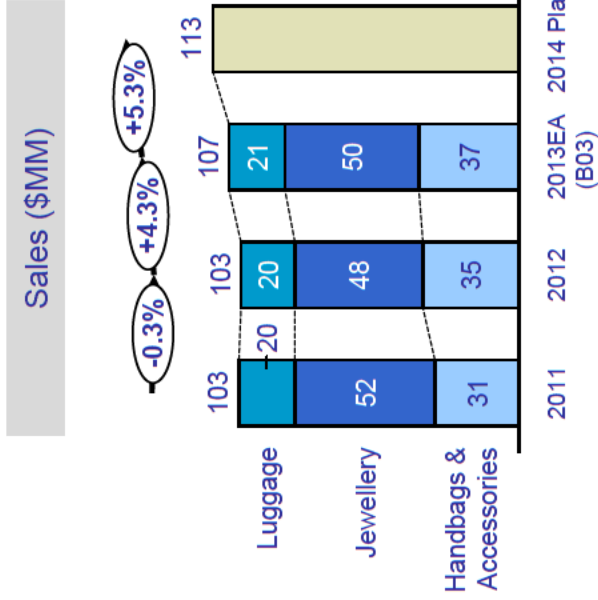
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4. Functional Plans

# Jewellery, Accessories & Luggage (JAL) - FLS top line growth outlook is 5.3% in 2014 with a 0.9% increase in merch margin rate

2013 B03 (FLS)		Sales (\$000s)	Balance (%)	Merch Margin (\$000s)	Rate (%)	Balance (%)	SVC (\$000s)	Rate (%)	Balance (%)
<b>TOTAL JAL</b>		107,371	100	57,099	53.2	100	41,082	38.3	100
Luggage		20,720	19	10,550	50.9	18	7,046	34.0	17
Jewellery		49,707	46	26,500	53.3	46	19,439	39.1	47
Handbags & Accessories		36,945	34	20,049	54.3	35	14,597	39.5	36

## 1625



# Jewellery, Accessories & Handbags, Luggage (JAL) – 2014 Initiatives

1626

## Overall Objectives

Focus on Fashion in Accessories and Handbags and Jewellery to support overall Apparel direction and seasonal commodity focus

## Financial Target

	2012	2013 B03	2014 Plan
FL Sales (Comp \$M)	103	107.4	113
MM%	50.9%	53.2%	54.1%
Direct Sales (\$M)	12.9	14.2	16.1
MM%	51.2%	50.5%	55.1%
*Total Sales (\$M)	115.9	121.6	129.1
MM%	50.9%	52.9%	54.3%

2014 Sales impact

## Key initiatives

### How we will achieve this

- Focus on the basics to grow fashion jewellery, handbags and fashion accessories

  - Add CMAT tables to 30 doors and reduce inventory levels to the “right items” on CMAT tables
    - Build more basic colour stories with AR programs; ensure PCn’s and clearance cycles are taken in season; Store Operations support for replenishment of tables
  - Identify basic items (gold hoops, core handbags, black gloves, etc) and replenishment strategies
  - Crisp set up and exit of seasonal commodities – beach and cold weather
  - Optimize holiday gift giving
- Optimize inventory and sales productivity of showcases between fine jewellery, precious stones, sterling silver and watches

  - Take space from higher price/lower productivity items
    - Take space from Diamonds and 18k gold to allow for growth in other jewellery (Sterling, 10K gold, CZ, Gems)
      - Reallocate Fossil business (\$1.4M) to other brands in watches, handbags and SLG’s (Relic, Guess, Hilfiger; add Nine West, Kenneth Cole)
      - Consider open sell concept in Timex and Jessica fashion watches
      - Strong table program for gift giving and holidays
- Drive direct import opportunity in accessories, including handbags, gloves, and seasonal accessories.

  - Shift from ~10% DI in Div 88 to 20%+ (Handbags grow DI from 0 to 25%).
- Continue luggage growth trend and market leadership

  - Consistent comp flyer marketing of luggage with strong in stock program including BTS set up for backpacks/lunch bags

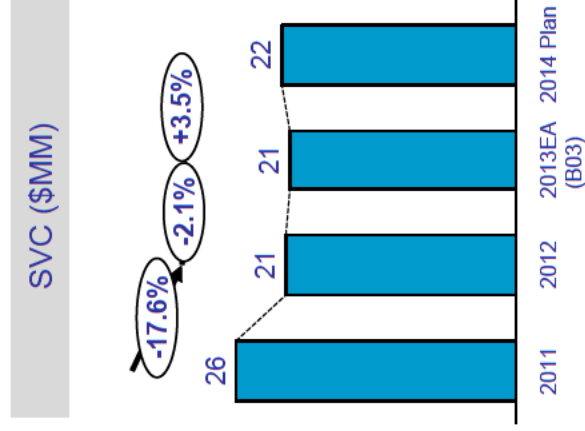
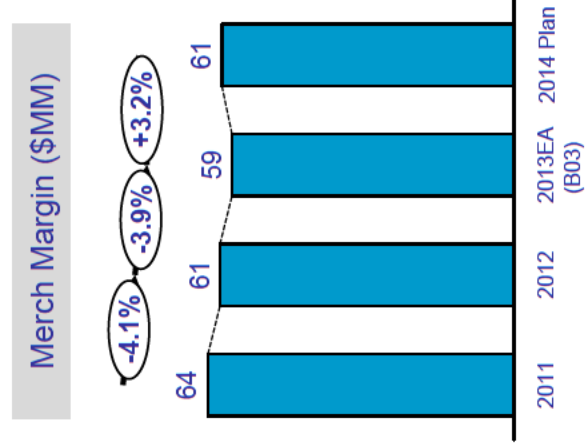
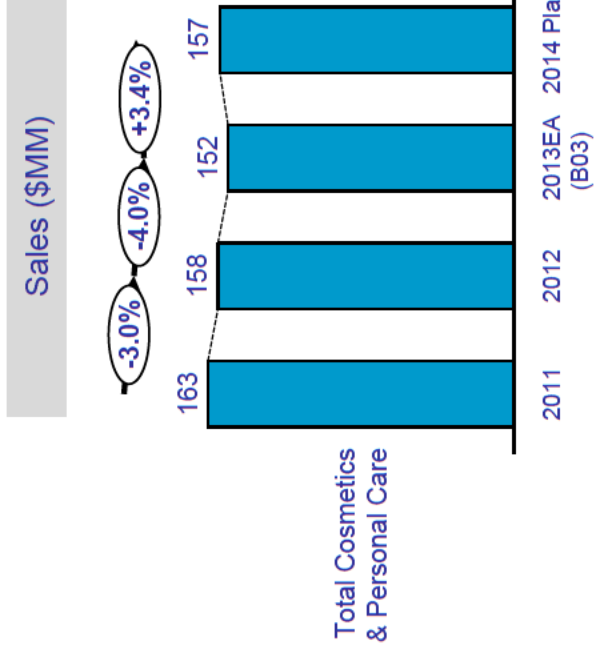
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  - **Cosmetics & Personal Care**
3. MA, Home and Hard lines
4. Functional Plans

# Cosmetics & Personal Care - FLS top line growth outlook is 3.4% in 2014 with a slight decrease in merch margin rate of 0.1%

2013 B03 (FLS)	Sales (\$000s)	Balance (%)	Merch Margin (\$000s)	Rate (%)	Balance (%)	SVC (\$000s)	Rate (%)	Balance (%)
<b>TOTAL COSMETICS &amp; PERSONAL CARE</b>	151,914	100	59,050	38.9	100	20,770	13.7	100





# Cosmetics & Personal Care – 2014 Initiatives

1629

**Overall Objectives**

*Cosmetics and Fragrances will focus on the top 3 cosmetic brands, new fragrance launches complement the A&A shopping experience for our customers*

**Financial Target**

	2012	2013 B03	2014 Plan
FL Sales (Comp \$M)	158.2	151.9	157
MM%	38.9%	38.9%	38.8%
Direct Sales (\$M)	2.3	2.2	2.8
MM%	35.0%	41.9%	40.1%
*Total Sales (\$M)	160.5	154.1	159.8
MM%	38.8%	38.9%	38.8%

**2014 Sales impact**

**Key initiatives**

**How we will achieve this**

- Beauty Advisor – increased productivity

  - Retention / reduced turnover
  - Increased SPLH
- Grow the Big 3 (Lauder, Lancôme, Clinique)

  - Leverage product launches and marketing programs
  - Achieve GWP targets
  - Optimize the Clinique & Estee Q4 2013 capital spend
  - 97% in stock of key skus
- Grow tier 2 brands (Arden, Shiseido, Clarins etc)

  - Achieve min \$40K/ brand/store
- Acquisition of new brands in Fragrances

  - Secure new brands (and/or get back exited brands – i.e. Chanel, Givenchy) – Top to top meetings
  - Exploit new fragrance launches
- Direct – grow volume through improved marketing, on-boarding ,site presentation, and leveraging the **direct customer**

  - Focus primarily on new launches and GWP's by brand
  - Leverage email campaigns

Note: \*Total includes full-line and direct channels only, excludes sales from other channels (i.e. outlet) Private and Confidential

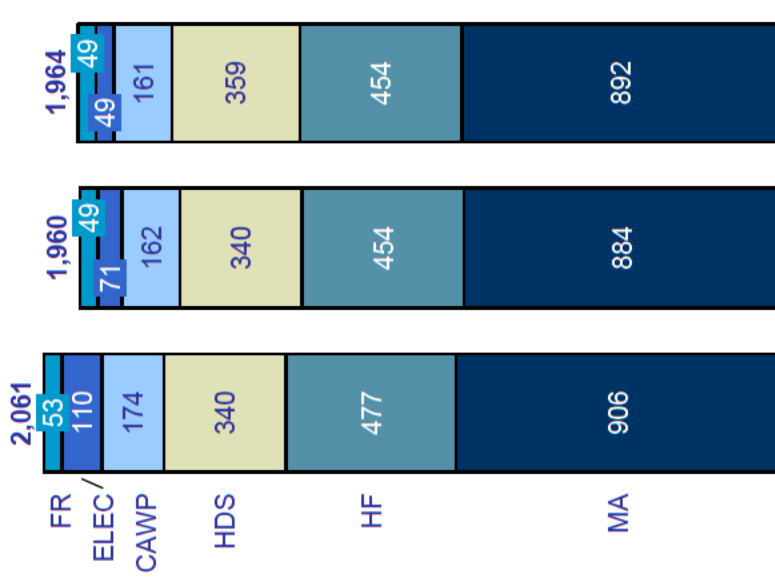
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  - Home Décor
  - CAWPE
4. Functional Plans

# Home & Hardlines - Overall top line growth outlook for H&H is flat in 2014 with a 78bpts increase in merch margin rate

H&H Sales - All Channels, Comp (\$MM)



	Sales Growth			Merch Margin Rate			Merch Margin \$ (\$MM)		
	12-13	13-14	14	12	13	14	12	13	14
<b>Total H&amp;H</b>	-4.9%	0.2%		36.1%	34.8%	35.6%	725	665	681
FR	-7.1%	0.5%		30.2%	29.6%	29.2%	16	14	14
ELEC	-35.6%	-30.7%		21.1%	16.0%	14.1%	23	11	7
CAWP	-7.3%	-0.7%		27.1%	23.5%	23.6%	47	38	38
HDS	0.0%	5.5%		46.6%	48.5%	49.1%	158	165	176
HF	-5.0%	0.1%		46.4%	42.0%	44.9%	222	191	204
MA	-2.4%	0.9%		28.5%	27.7%	27.1%	258	245	242

**1631**

# Home & Hardlines - In 2014, H&H will focus on 3 key priorities aimed to protect our core and strengthen our foundations

Priority	Description
<b>1 Fewer and Bigger Bets</b>	<ul style="list-style-type: none"><li>- <b>Major Appliances:</b> Stabilize (and improve) rate. Grow top line through full line expansion to mass premium segment.</li><li>- <b>Furniture:</b> Stop topline erosion while recovering rate. Build traffic towards the home channel.</li><li>- <b>HDS:</b> Build business by growing Bed &amp; Bath</li></ul>
<b>2 Fix the Basics</b>	<ul style="list-style-type: none"><li>- Product, vendor and space rationalization</li><li>- COGS adjustments</li><li>- In-store signage and planograms improvements</li><li>- Advertising allocation right sized/timed to seasonality. Reduced overall marketing spend to fund big bets.</li><li>- Always in stock for basics</li><li>- Replenishment improvements for seasonal</li></ul>
<b>3 Improve Commissioned Associates Sales Productivity</b>	<ul style="list-style-type: none"><li>- Associate engagement</li><li>- Leverage vendors and workforce development to revamp training programs to include salesmanship and Kenmore/ Whole Home product knowledge</li></ul>

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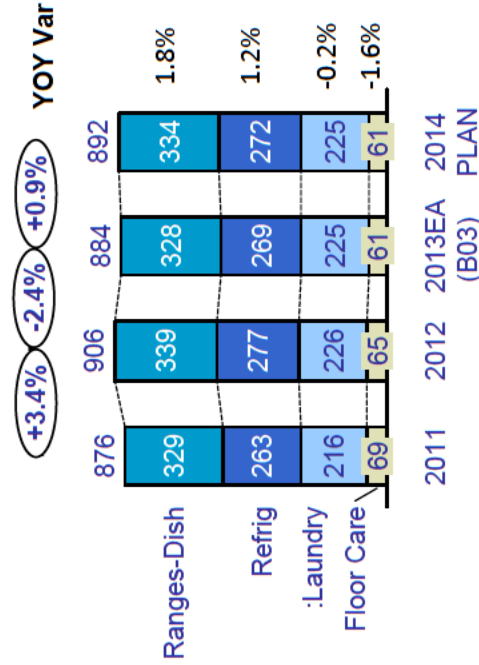
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# Major Appliances - Market is soft in white goods, parallel to Sears sales; floor care growing

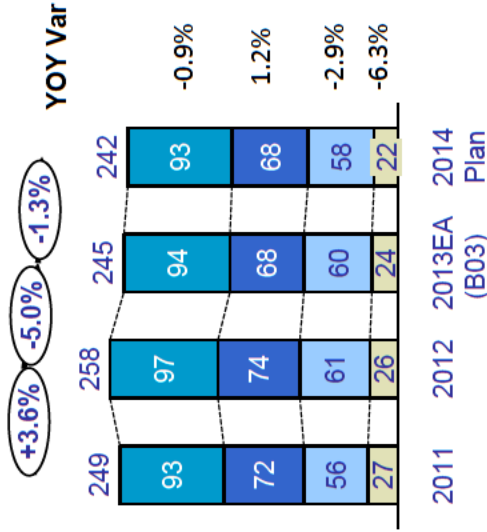
2013 B03	Market Size (\$000s)	Market Trend (%)	Market Balance (%)	Sales (\$000s)	Balance (%)	Merch Margin (\$000s)	Rate (%)	Balance (%)	SVC (\$000s)	Rate (%)	Balance (%)
<b>MAJOR APPS</b>	4,552,366	-3.1	100	884,179	100	245,054	27.7	100	134,954	15.3	100
Ranges/Dish/Ovens	1,406,834	-4.2	31	328,426	37	93,833	28.6	38	51,689	15.7	38
Refrigeration	1,255,002	-2.9	28	268,933	30	67,626	25.1	28	38,250	14.2	28
Laundry	1,261,555	-4.8	28	225,355	37	59,834	27.7	24	32,821	14.6	24
Floor Care	658,501	5.8	13	61,466	7	23,760	38.7	10	12,195	19.8	9

**1634**

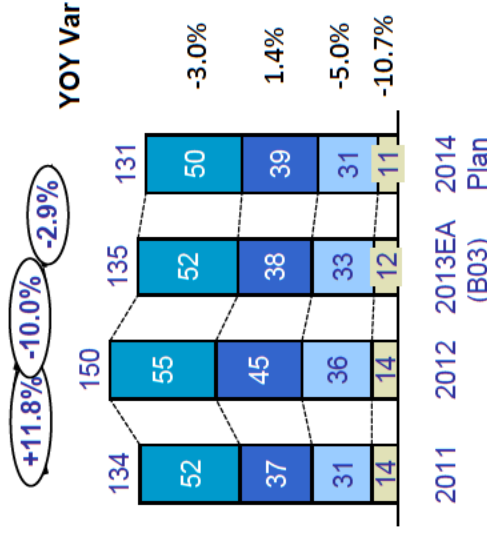
Sales (\$MM)



Merch Margin (\$MM)



SVC (\$MM)



# Major Appliances – 2014 Initiatives

<b>Overall Objectives</b>	<b>Financial Target</b>	Maintain Major Appliance market dominance. Create unrivalled shopping experience and grow to 30% Merchandise Margin.	<table border="1"> <thead> <tr> <th></th> <th>2012</th> <th>2013 B04</th> <th>2014</th> </tr> </thead> <tbody> <tr> <td>Sales</td> <td>938.6</td> <td>898.4</td> <td>912.0</td> </tr> <tr> <td>GP\$</td> <td>236.0</td> <td>195.1</td> <td>201.2</td> </tr> <tr> <td>GP%</td> <td>25.2%</td> <td>21.7%</td> <td>22.1%</td> </tr> <tr> <td>MM \$</td> <td>267.7</td> <td>248.1</td> <td>263.0</td> </tr> <tr> <td>MM%</td> <td>28.5</td> <td>27.62</td> <td>28.8</td> </tr> </tbody> </table>		2012	2013 B04	2014	Sales	938.6	898.4	912.0	GP\$	236.0	195.1	201.2	GP%	25.2%	21.7%	22.1%	MM \$	267.7	248.1	263.0	MM%	28.5	27.62	28.8
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## Key initiatives

## How we will achieve this

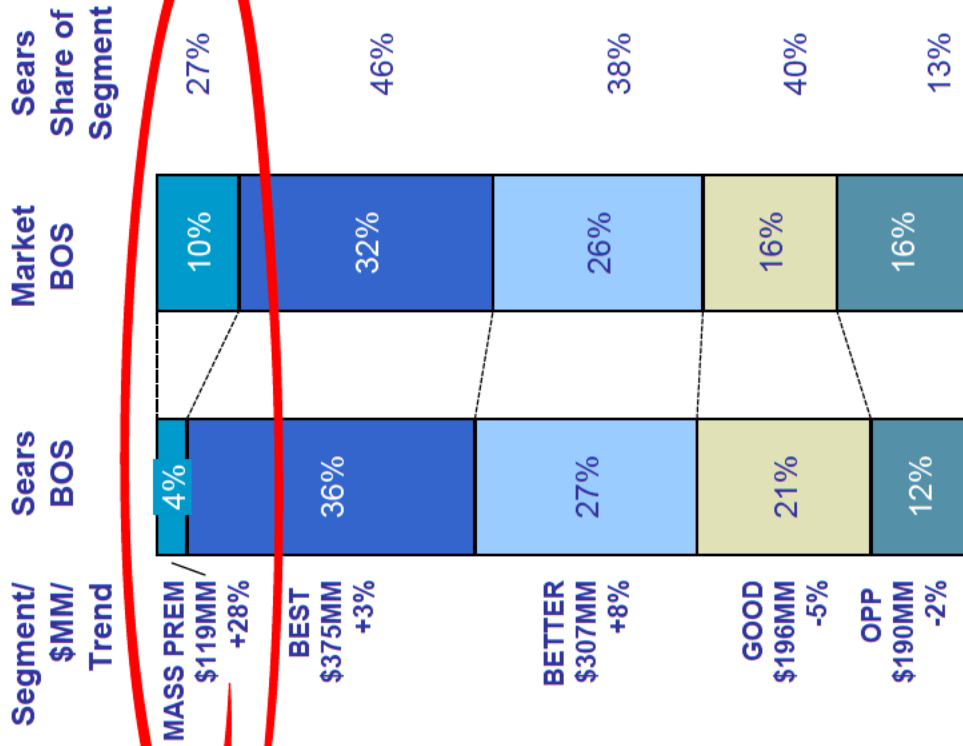
1. MA Fix Rate - Get to 30%  
Merch. Margin
  - Sales Force Effectiveness
    - Training/ On-boarding
  - Partner with PRS to transfer Kenmore/National Branded in warranty servicing
  - POS Markdown Optimization
  - Ensure "**Mores of Kenmore**" and appropriate costing deltas to branded equivalent
  - Flawless Execution – Priority List maintenance
2. Product Assortment
  - Market customization through realignment of assortments by channel
  - Expand assortment to provide stronger presence of mass premium appliances & outdoor kitchen
  - Reintroduce **Viking Brand** to marketplace
  - National Branded strategy by vendor – pick the partners that can help us win
  - Review Kenmore Sourcing strategies
3. Intercept competitor footprint
  - Expand select floors to **10-12k box**
  - Open free standing stores I
    - Greenfield – Appliance Showroom concept
    - Partnership with Home Hardware where several non-competing strengths exist.
4. Supply Chain Efficiency
  - Electrolux & Whirlpool to QR
  - Sears/Corbeil to consolidate inventory system to provide effective management of inventory and cost enhancements to Corbeil.
5. Marketing
  - Adjust pricing strategy
  - Value Proposition
    - Conversion opportunity with price savvy shopper.

## Incremental by Initiative

Sales \$	MM\$
9.0M	2.9M
	2.5M
	2.3M
7.0M	2.4M
	900k
	<b>1635</b>
6.0M	2.0M
12.0M	3.0M
5.0M	1.5M
	<u>Stretch</u>
	8.0M
	2.3M
	13.5M
	4.7M
	Cash flow improvements
	\$18.5M
	16.0M
	5.0M

# Major Appliances: Mass premium market opportunity estimate is \$29MM, 7%+ sales and \$9.5M margin

## Kitchen - Reporting NPD retailers Only



### Size of Opportunity

	Sales	Merch M \$	MM Rate
<b>Total</b>	<b>\$29,264,305</b>	<b>\$9,524,804</b>	<b>33%</b>
Refrigeration	\$10,103,463	\$2,626,900	26%
Cooking	\$17,267,680	\$6,216,365	36%
Dishwashing	\$1,893,162	\$681,538	36%

**1636**

### Assumptions:

- Fair Share in MP segments (Includes only NPD reporting retailers)
- Cooking /Dish MM rate to hold YOY (Note 2013 EA 36% vs.. 2012 28%)
- Refrigeration MM rate 26% +400 bpts (Note 2013EA 22%, 2012 27%)
- Mass Premium Merch margin rate to be same as shop avg .  
(Conservative assumption)



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**1637**

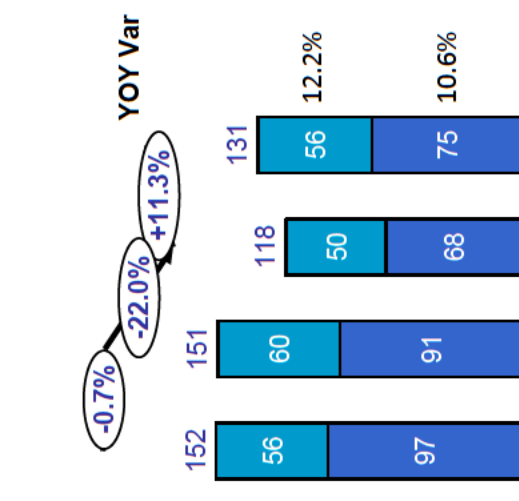
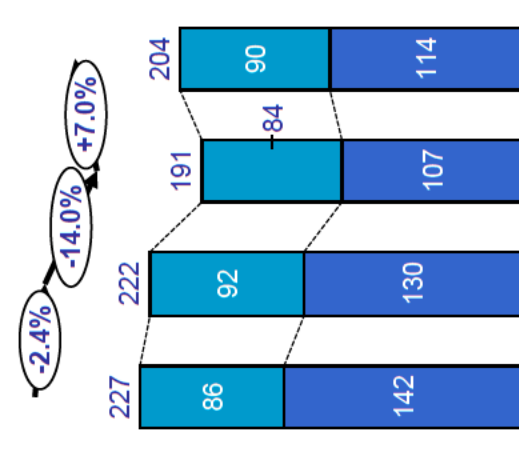
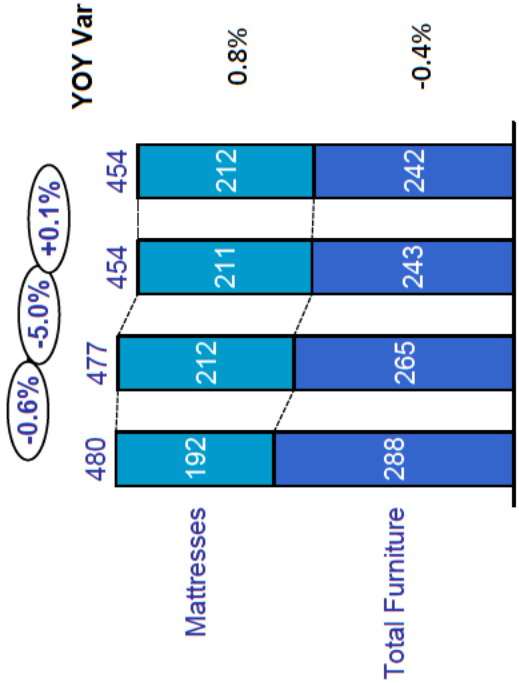
# Home Furnishings - Market slightly down across most commodities, Sears over-indexes in mattress sales; furniture over-indexes contribution in \$MM/SVC

2013 B03	Market Size (\$000s)	Market Trend	Market Balance (%)	Sales (\$000s)	Balance (%)	Merch Margin (\$000s)	Rate (%)	Balance (%)	SVC (\$000s)	Rate (%)	Balance (%)
HF	7,569,000	-2.1	100	453,585	100	190,612	42.0	100	118,025	26.0	100
Mattresses	1,380,000	-4.0	18	210,738	46	83,778	39.8	44	50,057	23.8	42
Furniture	6,188,000	-2.0	82	242,847	54	106,833	44.0	56	67,968	28.0	58
Living	3,704,000	-3.1	49	143,316	32	61,378	42.8	32	38,443	26.8	33
Bedroom	1,194,000	-1.1	16	43,618	10	20,044	46.0	11	13,063	29.9	11
Dining	678,000	2.4	9	23,150	5	9,687	41.8	5	5,982	25.8	5
RTA & Other	613,000	-1.0	8	32,764	7	15,724	48.0	8	10,479	32.0	9
											<b>1638</b>

Sales (\$MM)

Merch Margin (\$MM)

SVC (\$MM)



# Furniture – 2014 Initiatives

## Overall Objectives

To be the destination for furniture consumers between the age of 35 to 54 by offering fashion forward designs within the Casual and Contemporary styling targeted around the better and best price point.

## Financial Target

	2012	2013 B04	2014
<b>Full Line Sales</b>	<b>37</b>	<b>30</b>	<b>31</b>
MM%	47%	41.2%	42%
<b>Home Sales</b>	<b>143</b>	<b>133</b>	<b>128</b>
MM%	46.9%	40.9%	41%
<b>Direct Sales</b>	<b>59</b>	<b>58</b>	<b>59</b>
MM%	57%	50%	51%
<b>Dealer Sales</b>	<b>7</b>	<b>6</b>	<b>4</b>
MM%	46.9%	40.8%	41%

## Key initiatives

### How we will achieve this

- Expand and improve whole Home
  - Introduce new vendors to produce motion
  - Introduce whole Home Lux
    - Dining, Bedroom and Living room
- Implement Monthly market disruptors to increase traffic to Home, Full line, Dealer and Direct.
  - Introduce weekly price leader programs by business to drive traffic Home and Full Line
  - Develop weekly online only promotions to increase direct sales
- Develop and execute Marketing Plan to increase traffic and conversion for Home stores.
  - Focus on local marketing advertising campaigns for example local ROP, Radio and Billboards to drive awareness to home stores.
  - In-store signing to help navigation within the store to digest items and featured promotional offering.
- Develop Assortment differentiation by channel
  - Home stores to be position in the better and best categories catering to the Casual and contemporary customer with whole Home as the anchored for Home stores.
  - Full Line and Dealer to be position in the good and better categories catering to the classic and casual customer anchored by whole Home and Imports.
- Sales force engagement
  - Host furniture Roadshow in each major market to educate associates on the new and current assortment
  - Introduce new e-learning tool by vendor
- Develop Home Store website that highlights the new furniture assortment.
  - Launch new Sears Home Store website that focus on Furniture, Mattress and Major Appliances.

	2012	2013 B04	2014
<b>Incremental by Initiative Sales \$</b>	<b>3.00M</b>	<b>5.00M</b>	<b>1.23M</b>
<b>MM\$</b>	<b>3.00M</b>	<b>3.00M</b>	<b>1.23M</b>
			<b>1639</b>

# Mattresses – 2014 Initiatives

**Overall Objectives**

Become the market leader with the largest selection of mattresses which include national brands, specialty and private label beds; Demonstrate to customers that we are the authority in sleep for Canada

**Financial Target**

	2012	2013 B04	2014
FL Sales	95	90	89
MM%	44%	41%	43%
Home Sales	57	56	58
MM%	45%	42%	45%
Direct Sales	22	22	22
MM%	56%	52%	54%
Dealer Sales	25	25	27
MM%	45%	43%	44%

## Key initiatives

### How we will achieve this

- Top-Of-Mind marketing**

  - Leverage in-market learning to launch “always on” marketing plan with an optimized balance of flyer, traditional mass media and online tactics
- Implement Monthly market disruptors**

  - Introduce weekly price leader programs by business to drive traffic Home and Full Line
  - Develop weekly online only promotions to increase direct sales like the Wacky Wednesday offers from September.
- Beat Sleep Country**

  - Reintroduce Price Protection Plus with 10% price match guarantee
  - Free Mattress removal and deliver team to bag old mattress
  - Free delivery with no qualifiers and or conditions
- Sales force engagement**

  - Introduce new e-learning tool by vendor
  - Host furniture Roadshow in each major market to educate associates on the new and current assortment
- Fix whole Home**

  - Reintroduce Simmons as one of the Key vendors to manufacture whole Home.
  - Test variable commission rate for whole Home based on a percentage of gross profit.
- New Value Proposition**

  - Re-price category to 40% off value proposition
- Win Full Line**

  - Expand mattress department from an average 28 bed assortment to a 40 bed assortment

**Incremental by Initiative**

Sales \$	MM\$
3.00M	1.29M
5.00M	2.15M
7.00M	3.01M
3.00M	1.29M
8.00M	3.44M

\*Note : Financial Target at channel level not restated for comp 2014 stores/ based on B04

# Operating Plan - Table of Contents

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1. Guiding Principles
2. Apparel and accessories
3. MA, Home and Hard lines
  - Major Appliances
  - Home Furnishings
  - Home Décor
  - CAWPE
4. Functional Plans

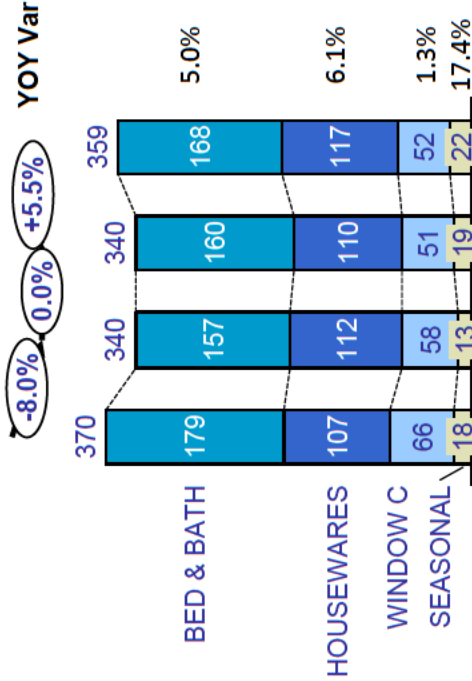
**1641**

Home Décor - Stabilizing top-line and significantly improving bottom-line following a 3 year trend of sustained declines

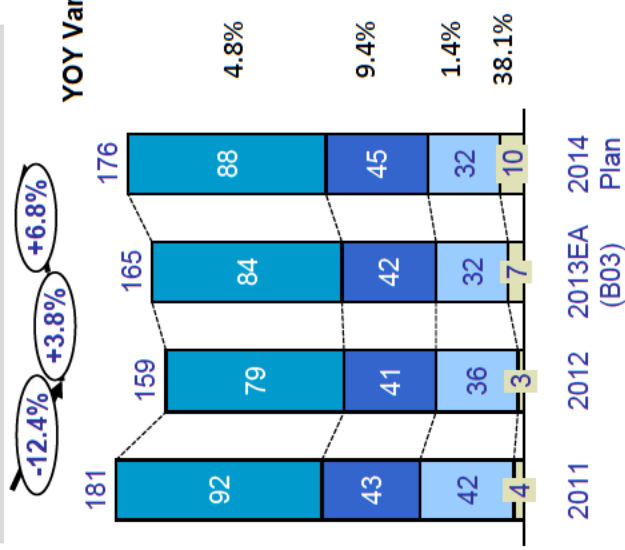
## Bed and Bath represents 51% of our SVC vs. Housewares 25%

2013 B03	Market Size (\$000s)	Balance (%)	Sales (\$000s)	Balance (%)	Merch Margin (\$000s)	Rate (%)	Balance (%)	SVC (\$000s)	Rate (%)	Balance (%)
<b>HDS</b>	<b>7,928,000</b>	<b>100</b>	<b>340,052</b>	<b>100</b>	<b>165,029</b>	<b>48.5</b>	<b>100</b>	<b>109,264</b>	<b>32.1</b>	<b>100</b>
<b>Bed &amp; Bath</b>	<b>4,237,000</b>	<b>53</b>	<b>159,714</b>	<b>47</b>	<b>84,157</b>	<b>52.7</b>	<b>51</b>	<b>55,958</b>	<b>35.0</b>	<b>51</b>
<b>Housewares</b>	<b>3,245,000</b>	<b>41</b>	<b>110,223</b>	<b>32</b>	<b>41,523</b>	<b>37.7</b>	<b>25</b>	<b>27,033</b>	<b>24.5</b>	<b>25</b>
<b>Window</b>	<b>446,000</b>	<b>6</b>	<b>51,004</b>	<b>15</b>	<b>31,868</b>	<b>62.5</b>	<b>19</b>	<b>22,068</b>	<b>43.3</b>	<b>20</b>
<b>Seasonal</b>	<b>NA</b>	<b>NA</b>	<b>19,110</b>	<b>6</b>	<b>7,480</b>	<b>39.1</b>	<b>5</b>	<b>4,204</b>	<b>22.0</b>	<b>4</b>

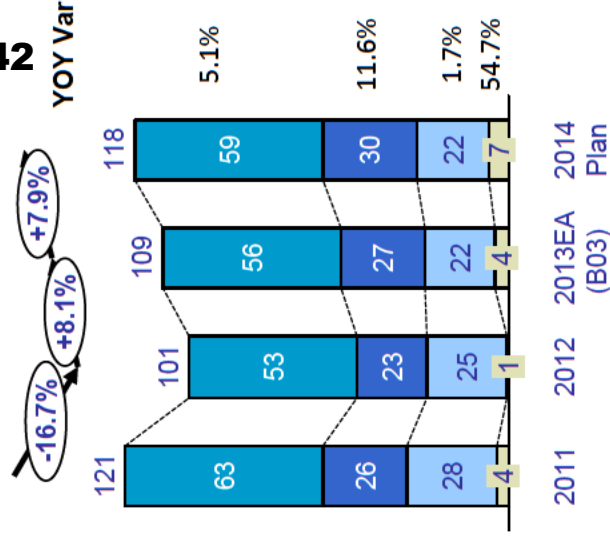
Sales (\$MM)



Merch Margin (\$MM)



SVC (\$MM)



# Home Décor – 2014 Initiatives

## Overall Objectives

Inside the HDS Category, prioritize the growth potential of our Bed and Bath business. Hold our market share in Housewares. Stabilize our most profitable direct Window business, and provide a viable retail alternative.

## Financial Target

	2012	2013 B04	PAG 2014
<b>Retail Sales (Comp \$M)</b>	<b>226,254</b>	<b>222,966</b>	<b>232,276</b>
MM%	46.6%	48.6%	49.6%
<b>Direct Sales (\$M)</b>	<b>129,734</b>	<b>132,235</b>	<b>134,171</b>
MM%	46.6%	48.6%	49.6%
<b>Total Sales w/Outlet (\$M)</b>	<b>362,108</b>	<b>361,503</b>	<b>372,523</b>
MM%	46.6%	48.6%	49.6%

**1643**  
 Note: See incremental dollars per initiative in category pages

## Key initiatives

## How we will achieve this

- Fix the basics
  - Ensure there are processes, checks & balances in place to address the following:
    - Planograms/Capacity documentation for all shops and businesses
    - Allocation/Planning work that is in sync to the above
    - The above points are referenced and adhered to with all stakeholders present at our monthly transition meetings
    - Assortment Planning – continue to create & provide assortment planning decks' for all shops/businesses at the Annual Line Review
- Change the customers Point of View on Soft Home at Sears as they shop our stores, catalogues and internet assortments
  - Grow Brand alternatives within B&B that focus on palette, pricing, and styling inclusive of a BOS shift between Private, Captive and National
    - Install Caldwell, Style at Home and Alfred Sung
    - Continue to seek & source new brands (Liz Claiborne, Ralph Lauren, Chaps, Nautica)
    - Explode our Bed Basics business
- Grow Direct
  - Continue to Focus on our Direct business by
    - Replicating the 96 and 97 medias
    - Effective and easy to shop website hierarchies
    - Brand and line extensions on-line
    - Manage a 25% increase in the offer content on-line
- Protect our share in Housewares:
  - Switch our priority business 'Lead' to Food Prep; grow our Tabletop business
    - Install new growth engines in Housewares
      - Add new set make-ups of existing Power Brands (Lagostina, Heritage, T-Fal)
      - install new Food Prep brands (All-Clad)
      - expand meaningful Kitchen Tools offers
      - Expand Kitchen Table to all stores
      - New Brand introductions in Dinnerware, Glassware, Flatware and Tabletop textiles, commencing with our Private Brand Whole Home
- Stabilize the Window Business
  - 'Comp' the Window allocated Resource YOY in Direct
    - Install Fall 2013 retail solution in all stores

\*Note : Financial Target at channel level not restated for comp 2014 stores' based on Private and Confidential

# Bed & Bath – 2014 Initiatives

## Overall Objectives

Launch new exclusive Captive & National brands, grow Bed & Bath CORE programs and expand Direct assortments

## Financial Target

	2012	2013 B04	PAG 2014
FL Sales (Comp \$M)	\$103.3	\$98.7	\$106.6
MM%	50.3%	52.1%	52.1%
Direct Sales (\$M)	\$59.7	\$64.7	\$66.8
MM%	50.3%	52.1%	52.1%
Total Sales w/Outlet (\$M)	\$163.0	\$163.4	\$173.4
MM%	50.3%	52.1%	52.1%

## Key initiatives

### How we will achieve this

- Grow Bed Basics in all channels by 6.6% (\$2.8M)
  - Pillows +6% (\$1.1M)
  - Mat Pads +10.8% (\$1.3M)
  - Duvets + 5% (\$400K)
- Grow brand alternatives within B&B that compliment our private brand assortment. Enhance customer expectations by offering a differentiated assortment
  - Planned Direct Import BOS for brands
    - Private 100% (minus basics)
    - Captive 0%
    - National 0%
  - "Proof of Concept" Captive Brands domestic in 2014
- Grow Direct by 3% (\$1.5M)
  - Bath 3% (\$170K)
  - Blankets 2% (\$50K)
  - Sheets 2.5% (\$250K)
  - Basics 3% (\$350K)
  - Fashion Bedding 2.5% (\$700K)
- Grow Bath Coordinates / Accessories by \$1.0M
  - Liners, Hooks
  - Bath Coordinates

- New Basics Brand/Program: Style at Home intro March '14
- Growth of Canada's Best Pillow by 55% (\$255K) & Duvet by 41% (\$318K)
- Engineer Promotions for key events – Serta (Sears Days/White Sale) Out-post pillows; Install Sleep Solution Collateral
- Direct – expand assortment by 5%, test new products/price-points
- Install Caldwell March '14, Style at Home March '14, and Alfred Sung May '14 in key businesses
- Actively seek new brands (Liz Claiborne, Ralph Lauren, Chaps, Nautica)
- Ensure Captive Brand overall profitability equals private brand offer
- Reinstall the 97'4 Fall media, continue with 96' Spring media
- New Brand exposure by shop
- Website hierarchy – improve customer navigation and shopping experience
- Expanded assortments with internet line extensions
- New accessory packaging
- Expand accessory assortment with a GBB offering that includes Style Factory, Whole Home and WH Luxe
- Expand coordinate programs with new brands (Alfred Sung, Style at Home, Caldwell)

## Incremental by Initiative

Sales \$	MM\$
4.0M	2.10M
2.0M	1.00M
	<b>1644</b>

\*Note : Financial Target at channel level not restated for comp 2014. stores/ based on B04, Private and Confidential



# Housewares and Window Coverings – 2014 Initiatives

<p><b>Overall Objectives</b></p>	<p><i>Continue to develop Sears Canada Inc. as a complete shop for all your Kitchen needs through a focused core assortment that offers our customers innovative solution based products.</i></p>	<p><b>Financial Target</b></p>	<table border="0"> <tr> <td><b>2012</b></td> <td><b>2013 B04</b></td> <td><b>PAG 2014</b></td> </tr> <tr> <td><b>FL Sales (Comp \$M)</b></td> <td><b>\$111.6</b></td> <td><b>\$108.8</b></td> </tr> <tr> <td>MM%</td> <td>44.9%</td> <td>46.1%</td> </tr> <tr> <td><b>Direct Sales (\$M)</b></td> <td><b>\$67.7</b></td> <td><b>\$64.8</b></td> </tr> <tr> <td>MM%</td> <td>44.9%</td> <td>46.1%</td> </tr> <tr> <td><b>Total Sales w/Outlet (\$M)</b></td> <td><b>\$180.7</b></td> <td><b>\$175.1</b></td> </tr> <tr> <td>MM%</td> <td>44.9%</td> <td>46.1%</td> </tr> </table>	<b>2012</b>	<b>2013 B04</b>	<b>PAG 2014</b>	<b>FL Sales (Comp \$M)</b>	<b>\$111.6</b>	<b>\$108.8</b>	MM%	44.9%	46.1%	<b>Direct Sales (\$M)</b>	<b>\$67.7</b>	<b>\$64.8</b>	MM%	44.9%	46.1%	<b>Total Sales w/Outlet (\$M)</b>	<b>\$180.7</b>	<b>\$175.1</b>	MM%	44.9%	46.1%
<b>2012</b>	<b>2013 B04</b>	<b>PAG 2014</b>																						
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MM%	44.9%	46.1%																						

## Key initiatives

### How we will achieve this

- Grow Direct: 5% (\$1M)
  - Continued Line Extensions
  - Exclusive items to Online and Catalogue.
- Launch New Table Top Shop
    - Greater BOS in Kitchen Shop
    - Higher GP and
  - Grow Kitchen 2% (\$2M)
    - Focus on growth area's.
      - Food Prep continues to make gains yoy and represents the largest market in the Kitchen Business
      - Small Apps – Espresso Juicing.
    - First to market – Build strategic alliances with key vendors to launch new products
- Re-Launch Window Coverings in SFL
    - New product introductions – that will address all customers style needs. Cobi Style , Style at Home

### Incremental by Initiative

<b>Sales\$</b>	<b>MM \$</b>
3.2M	1.5M
3.0M	1.4M
2.0M	900k

\*Note : Financial Target at channel level not restated for comp 2014 stores/ based on B04 Private and Confidential

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*CAWPE - Electronics represents a disproportionately small amount in SVC contribution; Outdoor Power is the largest driver contributing 58% of SVC*

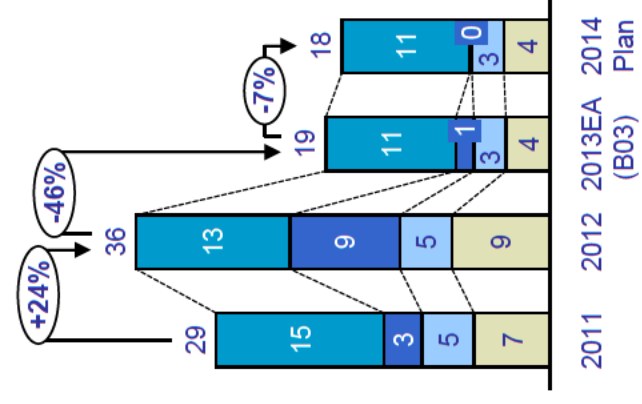
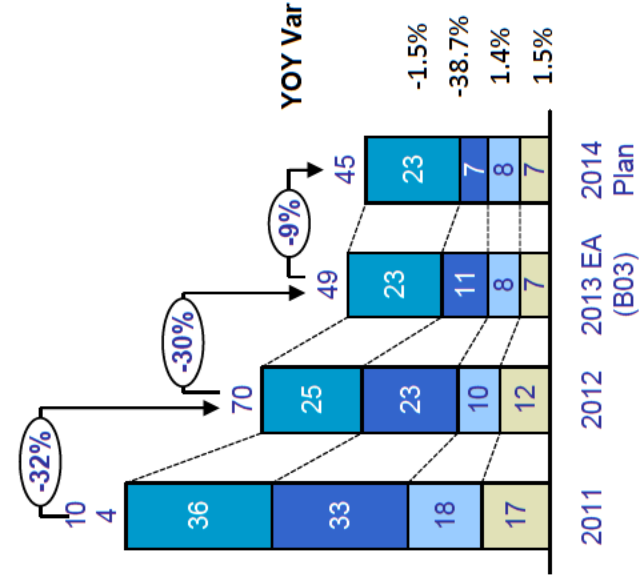
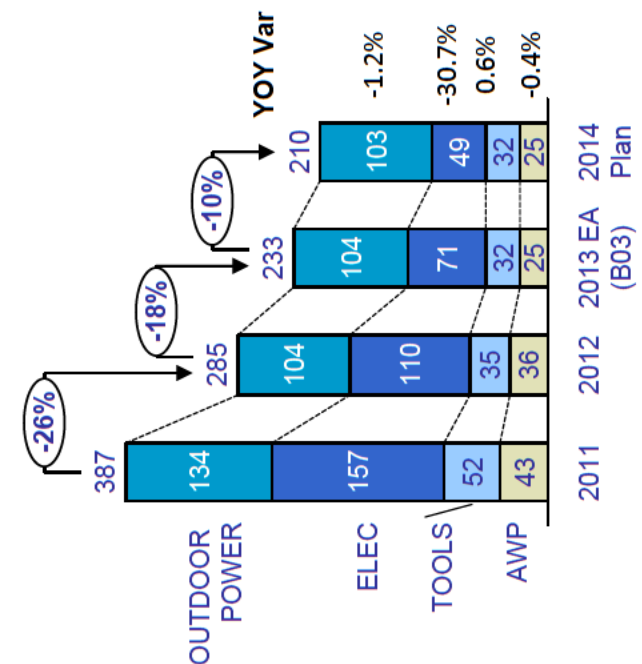
2013 B03	Market Size (\$000s)	Market Trend (%)	Market Balance (%)	Sales (\$000s)	Balance (%)	Merch Margin (\$000s)	Rate (%)	Balance (%)	SVC (\$000s)	Rate (%)	Balance (%)
<b>CAWPE</b>	<b>3,200,000</b>	<b>-2.1</b>	<b>100</b>	<b>232,764</b>	<b>100</b>	<b>49,365</b>	<b>21.2</b>	<b>100</b>	<b>19,427</b>	<b>8.3</b>	<b>100</b>
Outdoor Power	800,000	-7.0	25	104,198	45	23,001	22.1	47	11,323	10.9	58
Electronics	400,000	3.2	13	71,017	31	11,353	16.0	23	1,477	2.1	8
Hardware	2,000,000	1.1	63	32,142	14	7,644	23.8	15	2,775	8.6	14
Air & Water	NA	NA	NA	25,407	11	7,368	29.0	15	3,852	15.2	20

**1647**

**Sales (\$MM)**

**Merch Margin (\$MM)**

**SVC (\$MM)**



# Outdoor Power – 2014 Initiatives

Overall Objectives	Leverage Craftsman events to generate interest and draw, build the basket through seasonally relevant offers	Financial Target	2012 Retail Sales MM% Direct Sales MM%	2013 B04 90.1 21.2% 14.6 23.2%	2014 90.3 21.7% 14.1 24.1%
<b>Key initiatives</b>	<b>How we will achieve this</b>				
1. Build Marketing & Channel strategy to support launch of innovation (QPT)	<ul style="list-style-type: none"> <li>Align our approach with vendor support, marketing (internal &amp; external) and operations. Creating different ways to speak to new &amp; existing customers about the technology advancements</li> </ul>				
2. Drive Top Line Sales Performance through Craftsman Events	<ul style="list-style-type: none"> <li>Plan events during high index periods throughout the year. Craftsman events will drive traffic to both Outdoor Power &amp; Hardware departments</li> </ul>				
3. Build the right product assortment to satisfy our customer demand	<ul style="list-style-type: none"> <li>Build assortment from the ground up, Spring/Summer has limited liabilities from 2013. Plan for Canada's Best Items and build in price point draws that drive traffic. Add in Sheds and Deck boxes, with minimal investment in inventory</li> </ul>				
4. Be seasonally relevant with basket building items	<ul style="list-style-type: none"> <li>Have seasonally relevant items on the floor during each season, i.e. opportunity buys such as garden hoses, snow shovels, etc. These are impulse driven items that can be procured at exceptional pricing</li> </ul>				
<b>Incremental by Initiative</b> <b>Sales \$</b> <b>MM \$</b> 10.0M      1.8M 3.0M <b>1648</b> 2.0M      500k 1.0M      350k					

\*Note : Financial Target at channel level not restated for comp 2014 stores/ based on B04

# Air & Water – 2014 Initiatives

## Overall Objectives

Be the retailer of choice offering a complete home solution to customers for Home Environment products

## Financial Target

	2012	2013 B04	2014
Retail Sales	28.5	20.5	20.9
MM%	33.6%	28.2%	28.7%
Direct Sales	8.3	4.8	4.8
MM%	38.8%	31.2%	33.6%

## Key initiatives

### How we will achieve this

- 1. Create a best in class merchandising experience for our customers
  - Source fixtures (vendor funded) that display the product and it's benefits. Define product segmentations on the floor and a clear up sell story
- 2. Drive top line sales performance
  - Flyer representation during core season. Improved distribution across Full Line and Dealer with our core listing base
- 3. Develop our Direct Channel
  - Expand our aisle through V2C and online exclusive product offerings. Improve search and recommendation functions
- 4. Showcase our value and innovative offerings
  - Launch 2 Canada's Best Items in Portable A/C's and Air Purifiers
- 5. Rate Improvement
  - Source products to offset prior years increases in cost. Increase Import orders on core sellers to reduce our reliance on Domestic supply. Limit movement of inventory
- 6. In stock position
  - Ensure stores are well stocked across the country at the beginning of the season. Majority of their seasonal sales should be in store prior to any heat waves

Incremental by Initiative	Sales \$	MM\$
	1.5M	500k
	2.00M	700k
	200k	70k
	2.70M	800k
	0	200k
	1.00 M	300k

\*Note : Financial Target at channel level not restated for comp 2014 stores/ based on B04  
Private and Confidential

# Hardware – 2014 Initiatives

Overall Objectives	Leverage Craftsman events to generate interest and draw, utilize core listing base to improve distribution points & sku effectiveness	Financial Target			
		Retail Sales MM%	2012	2013 B04	2014
		Direct Sales MM%	30.7	26.9	27.4
			27.8%	22.6%	23.0%
			6.4	5.7	5.7
			32.6%	26.9%	29.0%

Key initiatives	How we will achieve this	Incremental by Initiative	
		Sales \$	MM \$
1. Drive Top Line Sales Performance through Craftsman Events	<ul style="list-style-type: none"> <li>Plan events during high index periods throughout the year. Craftsman events will drive traffic to both Outdoor Power &amp; Hardware departments</li> </ul>	7.0M	1.4M
2. Drive growth in Dealer through core assortment distribution and promotions	<ul style="list-style-type: none"> <li>Planogrammed core listing base across Dealer channel. Pick up promotions in Dealer flyer on core listing base</li> </ul>	1.0M	250k
3. Bring excitement and focus back to Hardware through the launch of Canada's Best items, in minimum 3 categories	<ul style="list-style-type: none"> <li>GDO, Wet/Dry Vac, Drill to be pitched for 2014 Canada's Best program</li> </ul>	1.06M	212k
4. Update assortment with latest technology platforms	<ul style="list-style-type: none"> <li>Utilize Tool Book as our primary catalog media to introduce updated assortment . Flyer to display individual item and price deals</li> </ul>	640k	160k
6. Rate Improvements	<ul style="list-style-type: none"> <li>Refresh our assortment with new, profitable inventory that satisfies our customer needs. Realize opportunities in D/I where possible (Ladders).                             <ul style="list-style-type: none"> <li>Vendor growth scale for 2014 for Top 7 vendors</li> <li>Reduce exposure to labour costs through Open Floor Selling pilot</li> </ul> </li> </ul>	0	675k
		0	250k

\*Note : Financial Target at channel level not restated for comp 2014 stores/ based on B04

# Electronics – 2014 Initiatives

Overall Objectives	Grow Direct channel balance of sale to defend against reduced retail footprint and distribution	Financial Target	<table border="1"> <thead> <tr> <th></th> <th>2012</th> <th>2013 B04</th> <th>2014</th> </tr> </thead> <tbody> <tr> <td>Retail Sales MM%</td> <td>100.4</td> <td>61.9</td> <td>39.0</td> </tr> <tr> <td>MM%</td> <td>19.6%</td> <td>13.4%</td> <td>12.9%</td> </tr> <tr> <td>Direct Sales MM%</td> <td>15.4</td> <td>12.2</td> <td>12.7</td> </tr> <tr> <td>MM%</td> <td>30.7%</td> <td>27.7%</td> <td>18.8%</td> </tr> </tbody> </table>		2012	2013 B04	2014	Retail Sales MM%	100.4	61.9	39.0	MM%	19.6%	13.4%	12.9%	Direct Sales MM%	15.4	12.2	12.7	MM%	30.7%	27.7%	18.8%
	2012	2013 B04	2014																				
Retail Sales MM%	100.4	61.9	39.0																				
MM%	19.6%	13.4%	12.9%																				
Direct Sales MM%	15.4	12.2	12.7																				
MM%	30.7%	27.7%	18.8%																				
<p><b>Key initiatives</b>      <b>How we will achieve this</b></p>																							
1. Improve our Direct shopping experience	•	Product availability, search functions, recommendations, product offerings (leverage V2C), customer loyalty programs, connect brick and mortar stores to online experience	<p><b>Incremental by Initiative</b></p> <p><b>Sales \$</b> 2.7M</p> <p><b>MM \$</b> 575k</p>																				
2. Build an Electronics department that contributes positive EBITDA	•	Set MM\$ targets with vendor base and hold them accountable for their results. Sku and vendor rationalization to simplify our shop and consolidate our volume. Review footprint where required	<p>0</p> <p>650k</p> <p><b>1651</b></p>																				
3. Expand our Aisle	•	Increase our use of V2C listings to play in categories previously exited. Create a full electronics department online	<p>2.5M</p> <p>450k</p>																				
4. Increase draw through price point plays in flyer	•	Expand listing base to include 3 <sup>rd</sup> tier vendors (Haier) that don't restrict promotions to market pricing. Moved overall pricing strategy to High/Low improving our in ad performance	<p>2.0M</p> <p>360k</p>																				
5. Increased exposure in Dealer flyer	•	Secure weekly allocations within the Dealer flyer, offer high/low pricing to create draw and excitement in this channel	<p>1.0M</p> <p>180k</p>																				
6. Black Friday & Boxing Week	•	Show growth through increased distribution with take with inventory, on hot buys, in store where ELE has been removed	<p>500k</p> <p>50k</p>																				

\*Note : Financial Target at channel level not restated for comp 2014 stores/ based on B04

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2. Apparel and accessories
3. MA, Home and Hard Lines
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  - Direct
  - Dealer Channel
  - Home Stores
  - Logistics
  - Marketing
  - Store Operations
  - IT
  - Financial Services



## 2013 Performance

Source of Sale	Internet		2013 ACT SEP YTD Catalogue		Direct	
	\$	YoY	\$	YoY	\$	YoY
Demand	194.2	22.8%	317.3	-15.1%	511.5	-3.8%
Omits	17.7	27.7%	35.2	-23.5%	52.9	-11.6%
Gross Sales	171.2	22.8%	274.6	-14.4%	445.9	-3.1%
Returns	34.7		86.6			
<b>Net Sales</b>	<b>136.5</b>	<b>25.1%</b>	<b>188.1</b>	<b>-12.6%</b>	<b>324.5</b>	<b>0.1%</b>
BOS Breakdown	42.1%		57.9%			
<b>Gross Profit</b>	<b>41.9</b>	<b>16.2%</b>	<b>89.1</b>	<b>-13.3%</b>	<b>131.0</b>	
<b>GP Rate</b>	<b>30.7%</b>		<b>47.4%</b>		<b>40.4%</b>	
<b>Merch Margin</b>	<b>49.5</b>	<b>20.2%</b>	<b>99.7</b>	<b>-9.5%</b>	<b>149.2</b>	<b>1.4%</b>
<b>Merch Margin Rate</b>	<b>36.2%</b>		<b>53.0%</b>		<b>46.0%</b>	
<b>Gross Margin</b>	<b>40.4</b>		<b>85.4</b>		<b>125.8</b>	
	29.6%		45.4%		38.8%	
Shipping/Financial Services/Misc. Income	8.7	17.7%	12.0	-17.8%	20.8	-5.8%
<b>Variable Expenses</b>	<b>(16.7)</b>	<b>22.4%</b>	<b>(30.7)</b>	<b>-10.2%</b>	<b>(47.5)</b>	<b>-0.9%</b>
Advertising Expenses	(5.5)	-6.7%	(45.4)	-4.0%	(51.0)	-4.3%
Catalogue	-		(43.0)	-2.7%	(43.0)	-2.7%
Digital/Brand Marketing	(5.5)	-7.1%	(2.4)	-22.8%	(7.9)	-12.5%
<b>Variable Profit Contribution</b>	<b>26.9</b>	<b>24.2%</b>	<b>21.2</b>	<b>-20.8%</b>	<b>48.1</b>	<b>-0.7%</b>
Other Expenses	(4.7)	89.0%	(4.9)	-18.0%	(9.5)	13.4%
<b>Profit Contribution before Overhead</b>	<b>22.3</b>	<b>15.9%</b>	<b>16.4</b>	<b>-21.6%</b>	<b>38.6</b>	<b>-3.6%</b>
Overhead (OH)	(17.9)	19.3%	(24.6)	-16.6%	(42.4)	-4.5%
<b>EBITDA</b>	<b>4.4</b>	<b>3.9%</b>	<b>(8.2)</b>	<b>-4.4%</b>	<b>(3.8)</b>	<b>-12.4%</b>

## 2013 Objectives

### Status

**Continue to increase productivity in catalogue while driving growth in on-line**

- Once sales are reattributed to the source of the sale, internet sales growth increases to 25% (Sept. YTD) vs. 13% reported
- Although Catalogue has been declining, the decline has slowed in the back half of the year (-13% Sept. YTD vs. -18% Apr YTD) due to fewer impression cuts.

**Incremental on-line activity as part of overall weekly sell plans**

- Events: Save the tax (including when stores are closed), Boxing Week in July, Home Sale, Sale on Already Reduced (esp. when inventory is distressed)
- Weekends: Email coupons, \$20/\$100 & \$50/\$200 site wide
- Daily: One Day Sales – Opportunity Buys, Distressed Inventory Items with depth

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**A&A on-boarding**

- A 36% increase in retail assortment online (from 47% to 64%) drove a 27% online sales increase YTD in A&A

**Distressed inventory management**

- Created new reporting to better manage/sell distressed inventory online including re-merchandising (i.e. by size) and incorporating into events (i.e. Select Your Size in Aug, Price Point events, Additional Savings / Blowout/ SOAR)

Overall Objectives	Overall Financial Target s	2012		2013 B03		2014 Plan		YoY
		On-line Sales (\$MM)	VPC %	209	265	314	265	
Continue to drive productivity in catalogue and grow online		VPC %	21.1%	18.4%	22.3%			+19%
		VPC \$	44	49	70			43%
Key initiatives	How we will achieve this	Catalogue Sales (\$MM)	372	325	292			-10%
		VPC %	15.1%	17.0%	14.1%			-24%
		VPC \$	56	55	41			
1. Fix the basics	<ul style="list-style-type: none"> <li>Continue to drive on-boarding of retail assortment online, prioritizing top selling brand, commodities and items; including LOOK and Canada's Best</li> <li>Continue to improve user experience online, through improvements to processes (e.g. QA of LOOK items</li> <li>Carefully manage investments in free shipping to be competitive and maintain profitability (i.e. free pick-up from stores)</li> </ul>							\$5M
2. Infrastructure	<ul style="list-style-type: none"> <li>Enhance Sears.ca website, including mobile site, by transitioning from WCS6 to WCS7 front-end platform and enabling out-of-the-box functionality (i.e. search, personalization, targeted couponing)</li> <li>Switch to Canada Post (vs.. UPS) to at least deliver D2C and invest to enable CPC locations for pick-up (will also help to optimize agent network) – dependent on ability to negotiate lower rate</li> <li>Provide online customers with visibility into retail inventory and opportunity to pick-up product same/next day (will help lower inventory levels, reduce omits and reduce shipping costs and commissions); expect completion by end of 2014</li> <li>Invest in ability to order for customer out of stocks in retail</li> </ul>							N/A
3. Growth Opportunities	<ul style="list-style-type: none"> <li>Continue to develop weekly sales plans / online events to ensure ~20% growth online</li> <li>Enhance the customer experience and drive conversion through better customer segmentation and targeting. Key activities include: identify key customer segments (cross-shoppers between retail and direct) and determine what percentage of retail purchases are already online, develop incentive or plan to stimulate customers to move these purchases online and continue to shop online                             <ul style="list-style-type: none"> <li>Migrate catalogue customers to online</li> <li>Protect and migrate retail customers to online</li> </ul> </li> <li>Hire/partner to access great new product &amp; price (i.e. consignment, distressed) across key categories... ideally don't hold inventory but negotiate buy, sell and then ship only what we sell</li> </ul>							\$11M (net of \$32M decline in catalogue)
4. Strategy	<ul style="list-style-type: none"> <li>How do we become Canada's best Omni-channel retailer?                             <ul style="list-style-type: none"> <li>Defining key lines of business we should continue to focus on (eg. MA, FW) and new lines we should add (eg, automotive)</li> <li>Becoming number 1 omni-channel player in Canada (eg. understanding customer behaviour across all channels and being more targeted in communications/offers)</li> <li>Optimizing/rationalizing our distribution network across stores, dealers, agents and Canada Post/UPS</li> </ul> </li> </ul>							

# Direct - 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)	October 2013 (actual)	Proposed 2014 Target
Major Appliances	97%	97%	100%
Home Furnishings	61%	67%	85%
Home Decor	79%	81%	85%
CAWP	74%	90%	94%
FR	86%	90%	94%
Electronics	85%	90%	95%
<b>H&amp;H</b>	<b>84%</b>	<b>87%</b>	<b>93%</b>
<b>H&amp;H UPSIDE</b>			<b>\$1.9MM</b>
Childrens Wear	44%	64%	65%
Womens Apparel	33%	57%	60%
Footwear	32%	70%	75%
Mens Wear	32%	66%	70%
JAL	48%	45%	55%
Womens Intimates	62%	75%	80%
Cosmetics	63%	62%	65%
<b>A&amp;A</b>	<b>47%</b>	<b>64%</b>	<b>68%</b>
<b>A&amp;A UPSIDE</b>			<b>\$3.1MM</b>

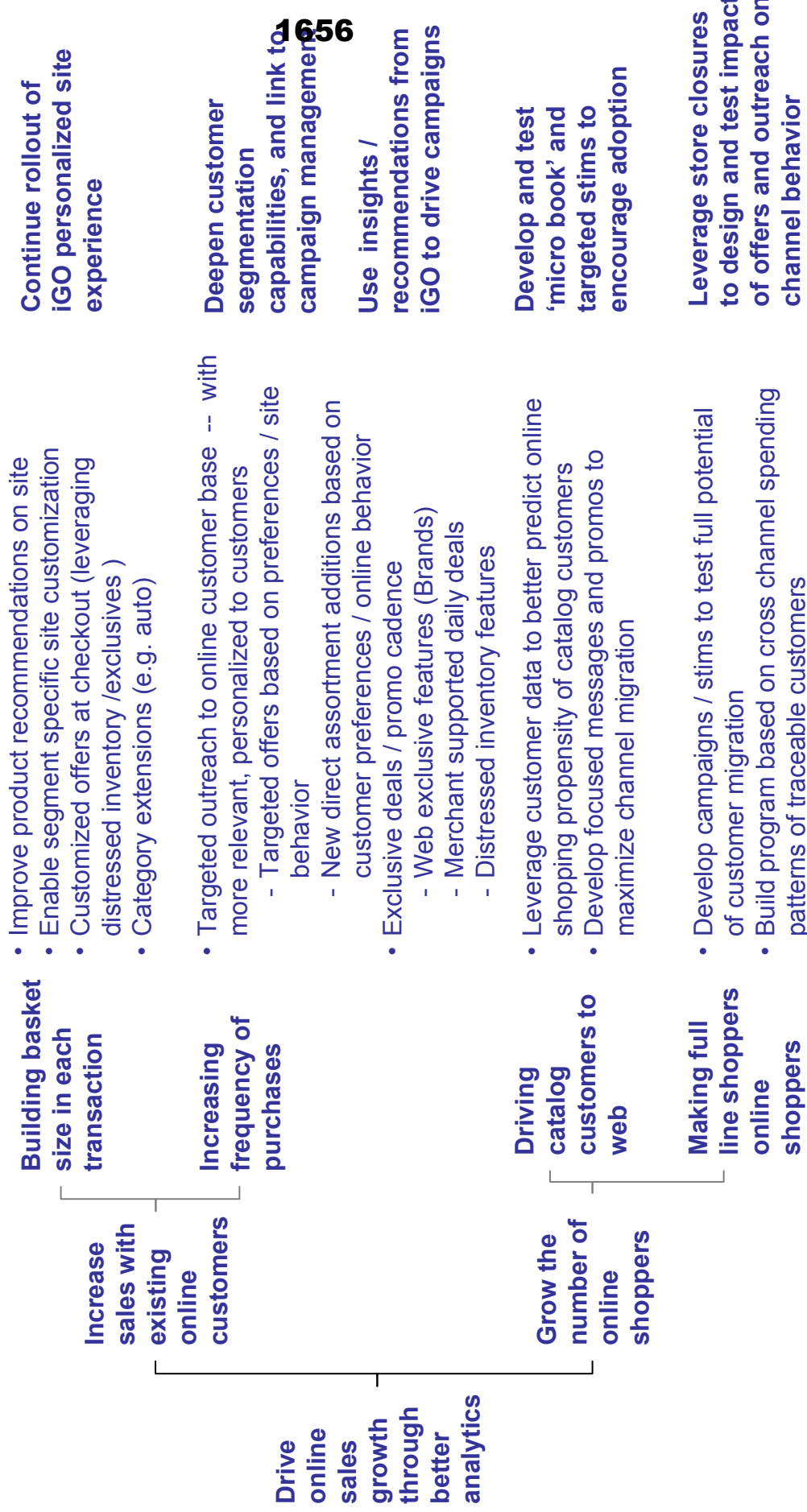
- On boarding costs ~\$2.7M, creating sales of \$28M and VPC of ~\$8.4M (A&A example)
- Average cost to onboard is about \$90 per item and we only onboard items that generate at least \$500 in VPC
- Working on leveraging vendor art and copy to reduce costs and passing costs to vendors through PA's
- 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

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# Direct – We will leverage customer analytics to better segment and drive online sales growth with our customer base

## Levers

## 2014 initiatives



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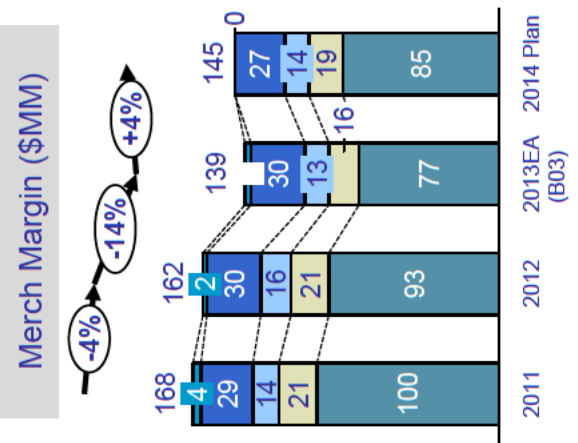
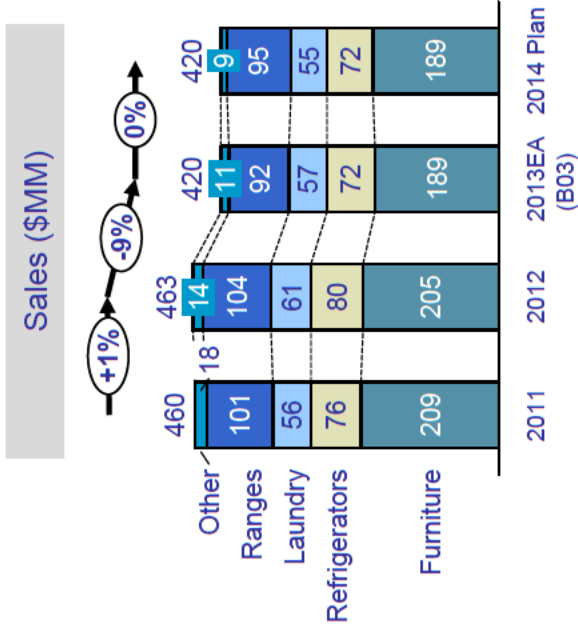
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# Home Stores – Overall top line outlook is flat in 2014 with a 1% increase in merch margin rate

2013 B03	Sales (\$000s)	Balance (%)	Merch Margin (\$000s)	MM Rate (%)	Balance (%)
<b>TOTAL HOME STORE</b>	<b>420,329</b>	<b>100</b>	<b>139,390</b>	<b>33</b>	<b>100</b>
Ranges	92,426	22	29,706	32	21
Laundry	56,792	14	13,250	23	10
Refrigerators	71,723	17	16,230	23	12
<b>Total Major Appliances</b>	<b>220,941</b>	<b>53</b>	<b>59,185</b>	<b>27</b>	<b>42</b>
Furniture	188,690	45	77,000	41	55



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# Home Stores – 2014 Initiatives

**Overall Objectives**

Stabilize sales/traffic declines in Home Store channel; demonstrate ability to raise consideration and conversion around Furniture

**Overall Financial Target s**

Net Sales (\$MM)	2012	2013 B03	2014
MM%	463.4	420.3	420.0
	35%	33%	34%

## Key initiatives

1. Drive traffic increase
  - Marketing investments aligned with new Furniture assortment strategy
  - Launch new Home micro-site to drive consideration and traffic
2. Enhance in store conversion rates through building capabilities (assisted and unassisted)
3. Fix the basics to drive rate improvement
  - Align plan to sell with rate expectations
  - Refine scorecard and associated performance management approach

## How we will achieve this

- Develop marketing strategy including points of differentiation/reasons to shop at Home Stores, that is aligned with overall assortment strategy (differentiation); focused on winning consideration with Fashion Browser
- Develop event calendar to align to corporate, support with new creative
- Build online destination that features key home store assortment, and brings 'room concepts' to life; with goal of driving customer traffic to home stores to try / purchase product
- Scope work benchmarking key competitors
- Roll out traffic counters to all remaining Home stores (20) in order to adequately measure traffic and conversion
- Develop/deliver furniture PK, and BT salesmanship training to store associates and leadership (maintain current approach for MA and MAT PK)
- Confirm vendor support; mix of roadshow, in-store training, and e-learning
- Develop/refine in-store collateral to help guide customer in product / item selection , and support the event calendar
- Ensure plan to sell (IMUs, promo depth and cadence) are aligned with new assortment strategy in furniture)
- Re-design scorecard and KPI's to reflect P&L items stores own to drive behavior
- Include conversion once traffic counters are rolled out to stores
- Increase and formalize interactions with DMs to maintain focus/drive performance
- Develop BT lead sheets to align with new training
- Develop new VPS roles and responsibilities that align with presentation focus and event execution; conduct talent reviews

## 2014 Target

- +4% traffic vs.. 2013
  - Launch Microsite in Q2 2014
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- +50 bps. in-store conversion

- Channel score 70/100
- Minimum individual score 55/100

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## 2013 Performance

		2013 Performance			2014 PLAN	
		2012 ACT	2013 B07	2013 B04	2013 B04	B05
<b>Logistics &amp; Supply Chain</b>						
(000's)						
Merchandise Net Sales		\$3,820	\$3,772	\$3,705	\$3,778	
	B / (W) to LY	-	-1.27%	-1.78%	1.98%	
Logistics & Distribution		\$102.2	\$96.7	\$94.0	\$91.5	
	% to Sales	2.67%	2.56%	2.54%	2.42%	
Transportation / Managed Freight		\$102.4	\$98.1	\$99.2	\$91.9	
	% to Sales	2.68%	2.60%	2.68%	2.43%	
Home Delivery - Expense		51	49	49	48	
	% to Sales	1.33%	1.29%	1.32%	1.26%	
Total Logistics Managed Spend		\$255.4	\$243.6	\$242.0	\$231.1	
	% to Sales	6.68%	6.46%	6.53%	6.12%	
<b>Estimated Savings (000' s)</b>						
Logistics Spend		2012 ACT	2013 B07 vs. 2012	2013 B04 vs. 2012	2014 PLAN vs. 2013 B07	
Indirect / Other			\$11.7	\$13.4	\$12.5	
Total Savings			\$3.4	\$4.3	\$0.0	
			\$15.1	\$17.7	\$12.5	

## Commentary

**Total Logistics Managed spend is expected to be \$13.4M less than 2012. Even with a sales decline, the ratio to sales has improved by 2.3%**

- Variable facility costs for 2013 YTD are lower than 2012 by 14.8% generating savings of ~\$4.5M
- Decrease in overall sales and disbursements along with carrier negotiations and price reductions is expected to result in \$3.2M of savings
- Customer paid delivery trips has improved to 91.2% of chargeable trips compared to 88.4% in 2012 resulting in an overall Delivery Gap SEP YTD reduction of \$795k or 17.3%

# Logistics – 2014 Initiatives

**Overall Objectives**

1. Reduce Complexity & drive productivity
2. Improve flows & use of assets

**Overall Financial Target s**

2012 ACT	2013 B07 vs. 2012	2013 B04 vs. 2012	2014 PLAN vs. 2013 B07
Estimated Savings (000's)	11.7	13.4	12.5
Logistics Managed Spend	3.4	4.3	0.0
Indirect / Other	\$15.1	\$17.7	\$12.5
<b>Total Savings</b>			

## Key initiatives

## How we will achieve this

## Size of the Opportunity

- |   |  |  |
|---|--|--|
| <ol style="list-style-type: none"> <li>1. Optimize Logistics Structure to drive performance</li> <li>2. Reduce direct labour</li> <li>3. Improve Labour Productivity</li> <li>4. Inventory &amp; Optimization</li> <li>5. Transportation Optimization</li> <li>6. Home Delivery Optimization</li> </ol> | <ul style="list-style-type: none"> <li>• Indirect labour re-structure including buildings, RSC &amp; Home Delivery</li> <li>• Reduce direct headcount in all buildings</li> <li>• Introduce Productivity standards</li> <li>• Optimize product flows by developing visibility &amp; planning processes &amp; tools, appointment scheduling</li> <li>• Eliminate GOH and increase pre-packs</li> <li>• Big Ticket inventory reduction; eliminate Montreal third party storage</li> <li>• Newfoundland flows using Oceanex</li> <li>• Corridor loading at stores</li> <li>• Lane optimization – peddles, chaining, shuttles</li> <li>• SLH load rationalization</li> <li>• Move offsite Montreal HD site into Sears building</li> <li>• Reduce # stops offset by driver incentive</li> </ul> | <p><b>1664</b></p> <p>+\$1M</p> <p>+\$2M</p> <p>+\$2M</p> <p>\$1M</p> <p>\$6M<br/><small>(inclusive of rate increases)</small></p> <p>\$1M</p> |
|---|--|--|

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# Marketing – 2013 Results

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## 2013 Priorities

- Reduce overall marketing budget by \$5MM vs.. 2012 
- Shift Flyer spend to alternative media 
- Increase Flyer sales vs.. LY 
- Implement the N-19 Flyer Planning Process by Q2 
- Capture 2MM email addresses by end of year 
- Create and implement a strategy to Win-the-Weekends 
- Key Perception metrics:
  - Increase Event Appeal by 20%
  - Increase Recall from Marketing by 10%
  - Increase Recall from Flyer by 20%
  - Increase Motivated to Shop from Flyer by 20%
  - Increase consideration between 10% to 20% for Hero Shops 

# Marketing – 2014 Initiatives

Overall Objectives	1. Effective Event planning 2. Drive commodity awareness to targeted segments 3. Grow D2C	Overall Financial Target s	2012	2013 B05	2014
			Total Spend <sup>1</sup>	\$144.8	\$130.7

<sup>1</sup> - excludes Catalogue spend, includes In-Store display

## Key objectives

### How we will achieve this

### KPI<sup>2</sup>

#### 1. Effective Event Planning

- Floor-back process implemented
- Multi-channel integration
- Integrated checker-board and red meter validation
- Utilization of stims to pulse the business (i.e. Partner Marketing, bounce-backs)

- Primary:**
- Net Sales
- Secondary:**
- Event Appeal and Recall
  - Flyer Recall
  - Flyer Page Productivity
  - Flyer Motivated to Shop

#### 2. Drive commodity revenue among key target groups

- Define the media and messaging to grow consideration with the Fashion Browser shopper (WA, CW, FW)
- Define the tactics and messaging to grow consideration with the Price Savvy shopper (MA)
- Support the merchants in defining and piloting in-store experience (floor layout, signage and navigation, service model) to win with the Fashion Browser shopper and Pragmatist shopper (WA, FW, CW)
- Drive traffic to Home Stores by striking the optimal media and marketing mix
- Leverage Sears-owned and external media to attract and speak to fashionability, breadth and depth of categories

- Primary:**
- Net Sales
- Secondary:**
- Consideration in priority categories
  - Satisfaction
  - Likelihood to Recommend
  - Likelihood to Shop
  - Brand Perception Metrics
  - Marketing Recall
  - Home Store Traffic

#### 3. Grow D2C

- D2C centre of excellence
- Loyalty program and cross-channel approach integrated into D2C program
- Leverage D2C to proactively drive traffic and incremental sales (e.g. via strategic Partner Marketing)
- Implementation of program automation

- Primary:**
- ROI by tactic
- Secondary:**
- Redemption rate
  - Attraction of targeted customer profile (i.e. New Moms)

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# Store Operations – 2013 Results

## 2013 Performance

Total Payroll incl. Paid Abs & Benefits				
By Region	SEP YTD Act	b(w) to Plan	b(w) to LY	
West Region	63,783	2,069	3,182	
Central Region	68,193	3,999	8,061	
East Region	56,810	3,459	3,585	
Quebec Region	51,156	1,001	3,932	
<b>Total Corp Stores</b>	<b>239,942</b>	<b>10,527</b>	<b>18,759</b>	
Dealer	703	50	(162)	
Outlet	8,868	(419)	(423)	
<b>Total Retail</b>	<b>249,513</b>	<b>10,159</b>	<b>18,174</b>	

Total Corp Stores: Controllable Expense (excl Payroll)				
SEP YTD Act	Act	b(w) to Plan	b(w) to LY	
Delivery Exp	26,105	2,840	2,457	
Transaction Exp	11,964	1,107	1,043	
Unclassified	5,751	933	(615)	
Other	2,693	626	540	
Supplies	3,860	353	423	
Outsourcing	410	332	347	
Maintenance	18,004	41	890	
Vehicle Op Costs	878	(183)	(195)	
Merch Comm	2,615	(722)	(316)	
FWC	22,174	(786)	(55)	
Display	6,546	(906)	207	
<b>Total Costs</b>	<b>101,000</b>	<b>3,636</b>	<b>4,727</b>	

Operating KPI's				
KPI	Q1	Q2	Q3	
Scorecard - Full Line	38.1	41.4	45.2	
Customer Loyalty	71.0	73.0	75.0	
Associate Engagement	64.0	57.0	57.0	
Operational Excellence (L1 Accredited)	0.0%	19.0%	30.0%	
# of Stores with Sales Increases	34	54	73	

## Commentary

### Payroll – \$10.1 MM better than plan and \$18.2 MM vs.. last year

- Implementation of cost out initiatives including new store structure, catalogue desk hours, and centralized switchboard
- Launch of new customer experience models & reset of support payroll standards

### Expenses – \$3.6 MM better than plan and \$4.7 MM vs.. last year

- Elimination of planned events including July road show & Home conference
- Reduction in discretionary spend including supplies, outsourcing, and motivational

### Scorecard – Improvement from 33.8 in March to 45.2 in September

- Focus on core operating fundamentals
- Introduction of TPM process & Root Cause / Action Planning methodology

### Associate Engagement – AES reduction from 64 to 57

- November 2012 pulse survey improvement of 7% was not sustained
- Standards developed for associate communication & national recognition program created to drive consistency across stores

### Customer Loyalty – Improvement from 67 last year to 73 in August

- Gold Badge stores increased from 15 stores last year to 67 in August

### Operational Excellence – 30% of Level 1 functions accredited

- Re-launch of program in February to all senior leaders with expanded content
- Accreditation progress slower than anticipated with self assessments focused on accuracy, integrity, and consistency of execution

# Store Operations – 2014 Initiatives

**Overall Objectives**

**Associate Engagement  
Customer Service  
Flawless Execution**

**Overall Financial Target s**

	2012	2013 EA	2014
<b>Total Retail</b>			
Sales	\$3,074.2	\$2,933.6	\$2,967.3
MM%	37.87%	38.86%	40.34%
EBITDA	\$9.4	\$38.9	\$102.9
Sales/Sq.Ft	\$210.61	\$210.69	\$221.75

## Key initiatives

## How we will achieve this

## 2014 Target

### 1. Double Scorecard Performance

- Educate leaders to sustain consistent execution of programs
  - Design and implement root cause analysis program
  - Automate Total Performance Management feedback mechanism
  - Streamline/ Simplify communication process and standards by end user
  - Adjust submission and direction timelines to reduce error and change rate to Maps & Wire communication and execution to standard
  - Structure field team visit & communication cadence to create a 'district rhythm' that supports consistent execution of store programs

**Scorecard:  
70 points**

### 2. Cost Reduction

- Align store structure to 2015 projected volumes
- Define and roll-out centralized CSD strategy
- Structured oversight of discretionary spend
- Eliminate unproductive programs

**Cost Out:  
\$10.0 MM**

### 3. Build the Bench

- Launch Future Leader program to prepare future GM's for full-line and GM's in Home stores
- Improve knowledge gap - develop and implement quarterly centre of excellence training for store leadership
- Develop leader expertise by aligning store leadership functionality

**Scorecard:  
70 points**

### 4. Customer service model

- Optimize store payroll to support rebalancing of Full Line model based on customer expectations
  - Shift resource to hero categories, replenishment and floor maintenance

**CLI:  
78 points**

### 5. Credit

- Design and implement Store credit program
- Utilize underperforming store visit process
- CSD Leader added to store structure
- Performance based scheduling

**Conversion Rate: 3.0%**

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# IT – 2013 Results

	2012	2013EA	2014P
<b>Total IT OpEx</b>	<b>75.8</b>	<b>83.9</b>	<b>84.3</b>
Payroll (incl benefits)	23.8	23.5	18.1
Projects – External contractors	4.5	8.7	6.7
Hardware – Support and maintenance	9.2	9.2	9.9
Software – Support and maintenance	15.2	14.6	15.5
Outsourcing (Managed Svc)	11.7	17.7	21.4
Outsourcing (Contracting)	3.5	1.3	2.4
Telecommunications (WAN and others)	6.3	6.6	7.9
Other	2.3	2.3	2.4

## 2013 key initiatives and status:

Project	Total Cost	Status
AGP Stock Ledger	0.7M	UAT Testing
MPAR (E3 Implementation) New Replenishment	2.4M	Complete
Promo Planning	0.7M	Complete
E3 Phase 2 New Replenishment	1.8M	Design
Direct Import	0.5M	Development
SPOC Upgrade	5.5M	Analysis
Retail Auto Attendant	1.4M	Complete
Heritage	3.7M	Analysis
Windows 7	3.6M	Build
Regina	1.0M	Design

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# IT – 2014 Initiatives

## Overall Objectives

*Rejuvenate skills, capabilities, services and the foundational technology infrastructure, enabling the organization and building speed to capability for Sears business units*

**1673**

Key Initiatives	Implications	Investment
1. Merchandise Financial Planning	<ul style="list-style-type: none"> <li>• Create high level and low level merchandise financial plans across all lines of business</li> <li>• Introduce use of consistent templates and work flow across the organization to standardize, streamline and simplify the planning process</li> </ul>	<b>\$5.5M</b>
2. Financial Planning	<ul style="list-style-type: none"> <li>• Integrate strategic planning and financial planning and forecasting</li> <li>• Provide end to end visibility to Sears retail processes</li> </ul>	<b>\$1.4M</b>
3. Order Management	<ul style="list-style-type: none"> <li>• Enable seamless connections to customers, vendors, Sears logistics and Sears financial accounting functions</li> <li>• Allow visibility to existing orders, available inventory during ordering and pricing information</li> </ul>	<b>\$6.3M</b>
4. Foundational Data	<ul style="list-style-type: none"> <li>• Establish single source of information about the basics of retail operations (i.e. product costs, prices, promotions, orders, etc.)</li> <li>• Provide foundational product data hierarchy to support other planned investments in technology as part of Sears roadmap</li> </ul>	<b>\$4.0M</b>
5. Deal/Price Management	<ul style="list-style-type: none"> <li>• Enable Sears to plan, analyze and execute regional pricing and promotional pricing across the country</li> <li>• Improve management of product pricing lifecycle</li> </ul>	<b>\$6.6M</b>
6. Direct	<ul style="list-style-type: none"> <li>• Enable same-day delivery, in-store pick-up, and automatic replenishment for the direct business (Home Micro Site, Replenishment for Direct, In-Store Pick-up)</li> </ul>	<b>\$5.4M</b>
7. Supply Chain Initiatives	<ul style="list-style-type: none"> <li>• TMS Appointment Scheduling, Store Order Rounding to Case Pack, RF Gun Replacements at DC's, Fashion Import Automation, Factory Pack and Repack Management, Logistics Visibility and Metrics, DOS Big Ticket/Catalogue SKU Classification and Suggested Put-Away, DOS Catalogue QR Receipt by Purchase Order.</li> </ul>	<b>\$6.5M</b>

# Operating Plan - Table of Contents

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1. Guiding Principles
  2. Apparel and accessories
  3. MA, Home and Hard Lines
  4. Functional Plans
    - Direct
    - Dealer Channel
    - Home Stores
    - Logistics
    - Marketing
    - Store Operations
    - IT
- Financial Services

## 2013 Priorities

### OBJECTIVE:

- Achieve EBITDA of \$102.3MM (including gift cards, sears connect, etc.)
- National rollout of \$30 acquisition bonus vs.. \$10 POS discount (April 30) 2013

### STATUS:

- \$105 MM
- March 5,
- \$10 MM reduction
- 715,000 accounts
- 45%
- Declining
- Ongoing (2.25% YTD)

# Financial Services – 2014 Initiatives

1676

	2012	2013	2014
(\$MM)			
EBITDA*	\$94.1	\$96.1	\$97.4

**Overall Financial Target s**

1. Grow New Accounts
2. Increase MasterCard Penetration
3. Grow Alt Revenue (Ext / Fees / etc.)
4. Maintain Card Share / Reduce Points

**Overall Objectives**

\* - excludes Gift Card Operations, Sears Connect

## Size of the Opportunity

### How we will achieve this

### Key objectives

- Re-launch structured credit program across store operations
- Strengthen integration with Store Operations and RSC support
- Store audits, reporting, performance calls highlighting action plans, etc.
- Enhance focus on participation rate, scheduling optimization, right-sell
- Build and implement contests and incentives, including credit conference, spiffs calendars, etc.

Financial Plan: +85k new accounts (+15%)

### 1. Grow New Accounts

### 2. Increase MasterCard Penetration

- Manage “Right-Sell” to 60% target at the store-level
  - Integrate into credit program (see above)
  - Integrate into audits, reporting, performance management
  - Leverage new right-sell reporting tools
- Achieve 70% MasterCard representation in New Account acquisitions
- Test \$5 / \$0 spiff implementation in Pacific Region
- Test DM with conversion offers (Q4 2013)
- Test up-sell contingent offers at POS
- Promote 2.5% FX transaction fee waiver on MasterCard

\$200K



# Financial Services – 2014 Initiatives

<b>Overall Objectives</b>	<b>Overall Financial Target s</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
	1. Grow New Accounts 2. Increase MasterCard Penetration 3. Grow Alt Revenue (Ext./ Fees / etc.) 4. Maintain Card Share / Reduce Points	(\$MM) EBITDA*	\$94.1	\$96.1

\* - excludes Gift Card Operations

## Key objectives

### How we will achieve this

### Size of the Opportunity

- Increase admin fee revenue (pricing changes, reducing waivers, etc.)
- Negotiate one-off wins from JP Morgan Chase (postage, marketing, etc.)
- Grow external spend by optimizing / growing spend stim campaigns
- Integrate marketing efforts with D2C team (spend, response rates, etc.)
- Monetize statement inserts / onserts

## 3. Grow Other Revenue

\$1.5 MM

- Improve integration of FS into marketing calendar and events
  - Execute quarterly points and card contingent events (Pile on the Points, Family and Friends, etc.)
  - Work with merchandising teams to build card stims into corporate marketing calendar and category calendar
- Build and implement contests and incentives, including credit conference, spiffs calendars, etc.
- Work with store operations to bring new focus to unit card share at associate-level (previously had only transparency into commission-based sales associates)
- Continue to evaluate and rationalize bonus point spend (eliminate any non-effective spend, focus on and expand positive ROI offers)

## 4. Focus on Card Share / Bonus Points Usage

\$1.0 MM

14.           Wrap-Up

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15. *In-camera* Session

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- Members only
- Independent Members only

**TAB 39**

OFFICER'S CERTIFICATE

SOLVENCY TESTS UNDER SECTION 42 OF THE CBCA

TO: THE BOARD OF DIRECTORS OF SEARS CANADA INC.

I, E.J. Bird, 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 \$510 million, to be paid on December 6, 2013, to holders of common shares of the Corporation of record on at the close of business on December 2, 2013.
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 February 5, 2013;
  - (b) an internally prepared cash flow statement which sets out a projected analysis of the Corporation's cash flow for the fiscal years 2013 and 2014;
  - (c) a *pro forma* balance sheet of the Corporation for all months within 2014, 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:

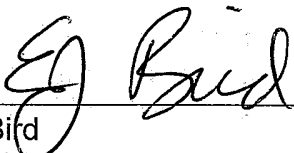
***As to the conclusion in paragraph 6(a) below:***

- (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 \$2.9 billion, the aggregate of its liabilities is not more than \$1.6 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 18th day of November, 2013.

  
\_\_\_\_\_  
E.J. Bird  
Chief Financial Officer

**TAB 40**

**MINUTES** of the meeting of the Board of Directors ("Board") of **SEARS CANADA INC.** (the "Corporation") held at Watchtelli, Lipton, Rosen & Katz LLP, 51 West 52nd Street, New York, New York on Monday, November 18, 2013 at 4:00 p.m., Eastern time and continuing on Tuesday, November 19, 2013 at 8:00 a.m., Eastern time.

**PRESENT**

W. C. Crowley (Ch.)  
 W. R. Harker  
 D. Campbell  
 R. R. Khanna  
 J. McBurney  
 R. Weissman  
 D. E. Rosati  
 D. Ross

**MANAGEMENT**

E. J. Bird  
 K. Leshnjani  
 F. Perugini

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 6, 7, 8 were approved in accordance with the Consent Agenda.

**DISCUSSION REGARDING EXTRAORDINARY DIVIDEND**

2. The Board extensively discussed the Corporation's cash position and the possibility of the declaration of an extraordinary cash dividend. 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 \$509 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 \$5.00 per share on all Common Shares of the Company, or approximately CAD \$509 million, be paid pro-rata, in Canadian currency, on the 6<sup>th</sup> day of December, 2013, to the Shareholders of record as at the close of business on the 2<sup>nd</sup> day of December, 2013;

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 at the meeting; and

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.

#### 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 14, 2013, 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 2014 Workplan, the Amended and Restated Charter of the Investment Committee and the Statements of Investment Policies and Procedures

#### NOMINATING AND CORPORATE GOVERNANCE COMMITTEE REPORT

4. The Chair of the Nominating and Corporate Governance Committee, Mr. Raja Khanna, presented his report on the meeting of the Committee held on November 14, 2013, which covered a number of matters including:

- (a) Board and Committee Composition
- (b) Recommendation to the Board of Directors of the Corporation that Mr. Bill Harker be appointed as Vice Chairman with an annual retainer of \$200,000
- (c) Review of the 2014 Workplan and Charter

On the recommendation of the Nominating and Corporate Governance Committee, the Board agreed, in order to maintain the foreign private issuer status, to add two additional Canadian directors at the Corporation's next annual shareholders meeting.

#### HUMAN RESOURCES AND COMPENSATION COMMITTEE REPORT

5. The Chair of the Human Resources and Compensation Committee, Mr. W. R. Harker, presented his report on the meeting of the Committee held on November 14, 2013, which covered the following items:

- (a) Review and Approval of Annual Incentive Program
  - 2013 Status Update
  - 2014 Design Review
- (b) Review of Long Term Incentive Plan
  - Prior Performance Period Status Update
  - 2014-2016 Design Review
- (c) Review of:
  - ELT and SVP Succession Plan Update
  - SLT Compensation and Statistics Update
  - Executive Compensation Disclosure Update for 2013

- Head Office Staff Reductions
  - Review and Approval of:
  - Chief Operating Officer Appointment
  - Committee Charter
  - 2014 Committee Workplan
- (d)

#### AUDIT COMMITTEE REPORT

5. The Chair of the Audit Committee, D. Rosati, presented her report on the meeting of the Committee held on November 18, 2013, which covered a number of matters including:

- (a) Review of unaudited comparative interim consolidated financial statements as well as related draft press release for the third quarter results
- (b) Report by the External Auditors in respect of the third quarter Internal Audit Update
- (c) Review of 2014 Workplan and review and the Charter of the Audit Committee
- (d) Secretary's Report – Ethics Hotline – Litigation Summaries
- (e) Update on Bill 198
- (f) Update on the Risk Oversight Committee
- (g)

#### MINUTES AND RESOLUTIONS IN LIEU OF MEETINGS

6. 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 24-25, 2013, April 29, 2013, May 21, 2013, June 13, 2013, July 16, 2013, September 23, 2013, October 11, 2013 and October 28, 2013, be approved.

The Board acknowledged the signing of Resolutions in Lieu of meeting as follows:

- May 2, 2013 – Don Ross re Lead Director and Audit Committee
- May 13, 2013 – E.J. Bird, EVP & CFO
- May 13, 2013 – Peter Kalen
- June 3, 2013 – 2013 First Quarter MD&A
- September 4, 2013 – 2013 Second Quarter MD&A
- November 18, 2013 – Ron Weissman, new Director

#### AMENDED AND RESTATED CHARTERS

7. The Secretary presented the proposed Amended and Restated Charters of the Human Resources and Compensation Committee, the Investment Committee and the Nominating and Corporate Governance Committee. There were no recommended changes to the proposed Amended and Restated Charters.

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

THAT the proposed Amended and Restated Charters of the Human Resources and Compensation Committee, the Investment Committee and the Nominating and Corporate Governance Committee, in the form as presented, be approved subject to any 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 may be considered appropriate, provided that all material changes shall be brought to the attention of the Board.

2013 BOARD AND COMMITTEE MEETING DATES

8. The Chairman reported that the date of the Annual Meeting of Shareholders will be Thursday, April 24, 2014 and that the meeting dates and times (Eastern time) for the Board of Directors and Committees in 2014 are as follows:

February 25, 2014 (tel)	Audit Committee Investment Committee	(1:00 p.m. to 3:00 p.m.) (3:00 p.m. to 4:00 p.m.)
March 13, 2014 (tel)	Audit Committee (rescheduled – see below) NCGC HRCC Board	(9:00 a.m. to 11:00 a.m.) (11:00 a.m. to Noon) (Noon to 1:30 p.m.) (1:30 p.m. to 3:00 p.m.)
April 23, 2014 (in person) April 24, 2014 (in person)	Board Meeting / Dinner Annual Shareholders Meeting Board – following Annual Shareholders Meeting	(5:00 p.m. to 8:30 p.m.) (8:00 a.m. to 10:00 a.m.)
May 20, 2014 (tel)	Audit Committee Investment Committee	(1:00 p.m. to 3:00 p.m.) (3:00 p.m. to 4:00 p.m.)
August 19, 2014 (tel)	Audit Committee Investment Committee	(1:00 p.m. to 3:00 p.m.) (3:00 p.m. to 4:00 p.m.)
September 23, 2014 (in person)	Board Strategic Session	(3:00 p.m. to 6:00 p.m.)
September 24, 2014 (in person)	Board Dinner Board Strategic Session	(6:30 p.m. to 8:30 p.m.) (8:00 a.m. to 2:00 p.m.)
November 13, 2014 (tel)	Investment Committee NCGC HRCC	(8:00 a.m. to 9:30 a.m.) (9:30 a.m. to 10:30 a.m.) (10:30 a.m. to Noon)
November 17, 2014 (in person/ NYC)	Audit Committee	(2:00 p.m. to 4:00 p.m.)
November 18, 2014 (in person/ NYC)	Board Board Dinner Board	(4:00 p.m. to 6:00 p.m.) (6:30 p.m. to 8:30 p.m.) (8:00 a.m. to 2:00 p.m.)

Following the meeting, the NCGC telephone meeting set for March 13, 2013 was rescheduled to March 6, 2013 from 1 p.m. to 2 p.m. and the Audit Committee telephone meeting scheduled for March 13, 2013 will be held from 10 a.m. to noon.

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 Thursday, April 24, 2014, be approved.

APPOINTMENT OF WILLIAM R. HARKER AS VICE CHAIRMAN

9. The Board discussed the possible appointment of William R. Harker as Vice Chairman of the Board of Directors of the Corporation.

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

**THAT** Mr. William R. Harker be appointed as Vice Chairman of the Board of Directors of the Corporation with an annual retainer of \$200,000 and to hold such office until his successor is duly appointed.

#### **OTHER BUSINESS**

10. The following items were provided as a reference:
- > Analyst Reports
  - > SCI Top twenty Registered Shareholders list and CDS participant list
  - > Trading Volume

#### **MANAGEMENT PRIORITIES/ASSET VALUATION**

11. Mr. D. Campbell, President and Chief Executive Officer of the Corporation, and Mr. E.J. Bird, EVP and Chief Financial Officer of the Corporation, provided a presentation on management priorities, including stability in transition, comparative EBITDA growth through fundamentals, generate cash from investing activities to create value and fund growth and build a long term growth strategy. A presentation on asset valuation was also provided.

#### **MERCHANDISING VALUE**

12. Mr. Campbell reported on the merchandising value which included the following topics:
- Category performance review
  - Retail 101 – Root cause of gaps and approach to fix
  - Simplified Value Proposition – Focusing the organizational efforts

#### **PETER J. SOLOMON COMPANY PRESENTATION**

13. Mr. Peter J. Solomon gave a presentation to the Board which included the following topics:
- Overview of Peter J. Solomon Company
  - Overview of Sears Canada Inc. assets and the Canadian market
  - Potential Partners (full line and homes stores and direct)

#### **OPERATING EFFICIENCY: HORIZON UPDATE**

14. Mr. Campbell provided an update on the Operating Efficiency: Progress against \$200 million target. A comprehensive effort to drive cost out of business will allow the Corporation to reach 70% of \$200 million savings target in fiscal year 2014.

#### **2014 PLAN**

15. Mr. Bird gave a presentation on the 2014 financial plan. Mr. Bird noted that 2014 EBITDA is \$135 million, an increase of \$29 million compared to 2013. The gross margin decline of 70 bps is mainly due to risk adjustments to Travel/HPS, while expenses are \$114 million lower than 2013. Financial plan for 2014 is \$112 million higher than 2013, driven by savings from Horizon, and an increase of 1.9% sales growth and 95bps of margin improvement.

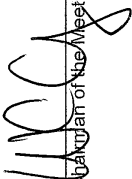
Mr. Campbell outlined the operating plan including guiding principles, apparel and accessories, major appliances, home and hardlines and functional plans. Ms. Danita Stevenson, Senior Vice President, Apparel, provided further detail with respect to the apparel and accessories operating plan.

IN-CAMERA SESSION

16. 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

March 13, 2014  
Date

**TAB 41**

**Disposition – 5 Full Line stores & Sears Trois Rivieres JV Interest to Ivanhoe Cambridge****Situation:**

Ivanhoe Cambridge (IC) is a Landlord to Sears in 16 locations, and has made an offer to acquire 5 Full-line stores leases (Guilford Surrey BC, Repentigny Quebec, Southgate Edmonton, Burlington Ontario, and Oshawa Ontario) for \$193MM. Additionally, IC has offered to purchase Sears 15% JV interest in Trois Rivieres for \$32MM. The total offer represents consideration of \$225MM. The offer contemplates a February 2014 closing date; however, the properties would be surrendered on February 28<sup>th</sup>, 2015 with the exception of Oshawa, which would be surrendered on February 28<sup>th</sup>, 2016. The transaction had been approved by the IC Board and IC is currently seeking approval from its JV partners at Burlington and Southgate.

**Full Line Store Property Information:**

- Three stores are from Ontario, one from Quebec, and one from British Columbia

	Full-line Stores	PROV.	Mall Quality	Mkt Type	SQ. FEET (GLA)	SQ. FEET (Selling)	Sales/ GLA sqft	Sales/Selling sqft	Selling to GLA Ratio	Base Rent/sq.ft.	Occupancy /sq.ft.	Open Date	Current Expiry	Final Expiry
1	001429-SOUTHGATE EDMONTON	AB	A+	Urban	283,655	168,475	\$ 118	\$ 199	59%	\$ 5.18	\$ 8.90	8/1/2000	7/31/2020	7/31/2075
2	001016-OSHAWA	ON	B	Urban	144,392	84,261	\$ 176	\$ 302	58%	\$ 3.48	\$ 10.56	9/18/1968	9/17/2023	9/17/2023
3	001328-BURLINGTON	ON	B	Urban	139,590	99,814	\$ 160	\$ 224	72%	\$ 7.88	\$ 10.42	7/17/1991	9/30/2020	9/30/2039
4	001828-GUILDFORD	BC	B	Urban	141,345	103,520	\$ 119	\$ 162	73%	\$ 5.00	\$ 8.52	5/1/2000	4/30/2020	4/30/2070
5	001312-REPENTIGNY	PQ	B	Non-Urban	127,835	91,031	\$ 142	\$ 199	71%	\$ 6.72	\$ 9.41	9/12/1990	10/13/2019	10/13/2042
	<b>Total</b>				<b>836,817</b>	<b>547,101</b>	<b>\$ 139</b>	<b>\$ 212</b>	<b>65%</b>					

**JV Property Information:**

- Trois Rivieres is a “B” mall in Quebec with a total size of 556,624 square feet
- Sears & Ivanhoe JV partnership commenced on February 15<sup>th</sup>, 1971, Sears holds 15% interest
- Yearly rental income from Sears 15% JV interest is approx. \$1.65MM
- Sears owns a Full-line store in the mall which it will continue to operate. Total size of the store is 146,000 square feet and does approx. \$20MM in annual sales

**Last Twelve Months (LTM) Financial Performance:**

- Approximately \$117MM in sales and \$16MM in four-wall EBITDA from the 5 stores

	Full-line Stores	LTM Sales Actuals	3 Yr CAGR	LTM PBOH	PBOH % of Sales	LTM Four-wall EBITDA	Four-wall % of Sales	LTM Fully Burdened EBITDA	Fully Burdened % of Sales
1	001429-SOUTHGATE EDMONTON	\$ 33,797,770	-3.8%	\$ 4,285,617	12.7%	\$ 4,210,291	12.5%	\$ 409,237	1.2%
2	001016-OSHAWA	\$ 25,571,576	-7.8%	\$ 4,105,237	16.1%	\$ 3,702,711	14.5%	\$ 822,570	3.2%
3	001328-BURLINGTON	\$ 22,571,765	-6.1%	\$ 2,997,768	13.3%	\$ 2,803,891	12.4%	\$ 274,881	1.2%
4	001828-GUILDFORD	\$ 16,983,656	-10.5%	\$ 1,193,705	7.0%	\$ 1,348,637	7.9%	\$ (549,982)	-3.2%
5	001312-REPENTIGNY	\$ 18,277,397	-6.3%	\$ 3,936,942	21.5%	\$ 3,562,038	19.5%	\$ 1,512,078	8.3%
	<b>Total</b>	<b>\$ 117,202,163</b>		<b>\$ 16,519,269</b>	<b>14.1%</b>	<b>\$ 15,627,569</b>	<b>13.3%</b>	<b>\$ 2,468,785</b>	<b>2.1%</b>

**Purchase Price & LTM EBITDA Multiple Estimates:**

- \$225MM consideration for 5 stores & JV ownership represents 13x four-wall EBITDA for LTM. This represents a value that is over 7x higher than a reasonable market EBITDA multiple (Oxford & Cadillac transactions represented 41.5x and 26.1x four-wall EBITDA, respectively)
- Net Real Estate proceeds after closing costs and taxes on capital gain are approx. \$200
- Cash proceeds after severance and inventory release are estimated at approx. \$211

Leased Properties with Redevelopment Potential	Mall Quality	Current Rent/sqft	Years Left	Purchase Price (\$MM)	LTM Four-Wall EBITDA (\$MM)	Purchase Price to Four-Wall EBITDA Multiple	Tax on Capital Gain (\$MM)	Net Proceeds from RE (\$MM)	Severance (\$MM)	Inventory Release	Cash Proceeds
001429-SOUTHGATE EDMONTON	A+	\$ 5.2	63	\$ 75	4.2	17.8	(8.2)	\$ 66.8	\$ (1.1)	\$ 3.8	\$ 69.5
001016-OSHAWA	B	\$ 3.5	11	\$ 25	3.7	6.8	(2.7)	\$ 22.3	\$ (1.0)	\$ 3.2	\$ 24.4
001328-BURLINGTON	B	\$ 7.9	27	\$ 45	2.8	16.0	(4.9)	\$ 40.1	\$ (0.9)	\$ 3.1	\$ 42.4
001828-GUILDFORD	B	\$ 5.0	58	\$ 25	1.3	18.5	(2.7)	\$ 22.3	\$ (0.7)	\$ 2.6	\$ 24.2
001312-REPENTIGNY	B	\$ 6.7	30	\$ 23	3.6	6.5	(2.5)	\$ 20.5	\$ (0.6)	\$ 2.9	\$ 22.7
<b>Sub-Total</b>				<b>\$ 193</b>	<b>\$ 15.6</b>	<b>12.3</b>	<b>\$ (21.1)</b>	<b>\$ 171.9</b>	<b>\$ (4.3)</b>	<b>\$ 15.6</b>	<b>\$ 183</b>
Trios Riviere JV (15% Sears)	B	-	-	\$ 32	\$1.65	19.4	(4.3)	\$ 27.7	-	-	\$ 27.7
<b>Total</b>				<b>\$ 225</b>	<b>\$17.3</b>	<b>13.0</b>	<b>(\$25.3)</b>	<b>\$199.7</b>	<b>(\$4.3)</b>	<b>\$15.6</b>	<b>\$210.9</b>

### Ranking of the stores from the Matrix Deck – Trading vs. Real Estate Value:

- Southgate & Burlington are the top two stores with respect to Real Estate value over Trading value in the Full Line portfolio. Oshawa is ranked 22<sup>nd</sup>

RE Vs. Trading Rank	FL Store	Net RE Proceeds (low est \$MM)	Four-wall EBITDA	EV Contribution (four-wall EBITDA @ 6x)	RE over EV
1	001429-SOUTHGATE EDMONTON	\$ 69.5	\$ 4.2	\$ 25.3	\$ 44.2
2	001328-BURLINGTON	\$ 42.4	\$ 2.8	\$ 16.8	\$ 25.5
3	001819-VANCOUVER - BURNABY	\$ 37.7	\$ 3.0	\$ 17.8	\$ 19.9
4	001084-PLACE VERTU	\$ 20.1	\$ 0.6	\$ 3.8	\$ 16.3
5	001828-GUILDFORD	\$ 24.2	\$ 1.3	\$ 8.1	\$ 16.1
6	001112-POLO PARK	\$ 37.4	\$ 4.8	\$ 28.7	\$ 8.7
7	001017-WINDSOR	\$ 31.2	\$ 3.8	\$ 22.7	\$ 8.5
8	001836-BRENTWOOD MALL	\$ 12.4	\$ 1.1	\$ 6.6	\$ 5.8
9	001097-TORONTO-PROMENADE	\$ 11.2	\$ 1.1	\$ 6.4	\$ 4.9
10	001039-CHATHAM	\$ 3.6	\$ (0.2)	\$ (1.2)	\$ 4.8
16	001312-REPENTIGNY	\$ 22.7	\$ 3.6	\$ 21.4	\$ 1.4
22	001016-OSHAWA	\$ 24.4	\$ 3.7	\$ 22.2	\$ 2.2

### Effect on balance of business:

- From a strategic standpoint the sale unlocks value for Sears Canada Shareholders by monetizing real estate assets worth more than their trading value
- Potential negative perception of Sears vis-à-vis customer, suppliers, and associates
- Lost sales and four-wall EBITDA impact to the rest of the channel approx. \$117MM and \$16MM respectively

### Backfill Opportunity:

1. Sears will loose Last Twelve Month (LTM) Sales by Category

- A&A comprises of approx. \$69MM or 59% of the balance of sales at these stores vs. 56% for Full Line stores overall

### MERCHANDISE NET SALES (\$MM)

FL Stores	LTM Nov YTD	BOS	LTM Nov YTD	BOS	LTM Nov YTD	BOS	LTM Nov YTD	BOS	LTM Nov YTD
	HF	HF	MA	MA	H&H Others	H&H others	A&A	A&A	TOTAL
001429-SOUTHGATE EDMONTON	3.0	9%	6.0	18%	5.2	15%	19.5	58%	33.8
001016-OSHAWA	1.1	4%	4.3	17%	5.1	20%	15.1	59%	25.6
001328-BURLINGTON	0.8	4%	3.6	16%	4.0	18%	14.1	62%	22.6
001828-GUILDFORD	0.8	5%	4.4	26%	3.0	18%	8.7	51%	17.0
001312-REPENTIGNY	0.6	3%	2.4	13%	3.8	21%	11.5	63%	18.3
<b>Total</b>	<b>6.4</b>	<b>5%</b>	<b>20.8</b>	<b>18%</b>	<b>21.1</b>	<b>18%</b>	<b>68.9</b>	<b>59%</b>	<b>117.2</b>

2. Sears will retain some of the sales in markets where there are other nearby Sears corporate stores and by promoting the Direct channel to customers at closing stores. Additionally, Sears may look to open other smaller format stores in the markets to mitigate sales loss

Sears Full Line Store	Number of Other Full Line Stores within 10 km	Closest Full Line Store	Distance to Closest Full Line Store	Number of Home Stores within 10 km	Closest Home Store	Distance to Closest Home Store
Oshawa	0	Pickering Town Centre	17.9	1	Whitby, ON Home	3.1
Repentigny	0	D'Anjou	18.0	1	Lachenaie, QC Home	5.9
Burlington Mapleview	0	Eastgate Hamilton	11.6	1	Burlington, ON Home	0.7
Southgate Edmonton	3	Bonnie Doon Edmonton	4.5	1	Edmonton South Home	5.5
Guildford	0	Coquitlam	10.2	0	Langley, BC Home	12.8



## 3. Sensitivity Analysis

- Below sensitivity analysis shows sales retention opportunity by category ranging between 20% and 70%
- If Sears were to retain 50% in H&H through its network of Home stores in these markets and 20% in A&A through mostly Direct and other Full Line stores in the network, it would provide approx. \$38MM in sales retention opportunity. That accounts to 32% of the total sales retention

	MA	HF	Other H&H	A&A	Total
20%	\$ 4.2	\$ 1.3	\$ 4.2	\$ 13.8	\$ 23.4
30%	\$ 6.2	\$ 1.9	\$ 6.3	\$ 20.7	\$ 35.1
40%	\$ 8.3	\$ 2.6	\$ 8.4	\$ 27.6	\$ 46.9
50%	\$ 10.4	\$ 3.2	\$ 10.5	\$ 34.5	\$ 58.6
60%	\$ 12.5	\$ 3.8	\$ 12.7	\$ 41.3	\$ 70.3
70%	\$ 14.5	\$ 4.5	\$ 14.8	\$ 48.2	\$ 82.0

**Accounting/Disclosure Implications:**

- Disclosure will be required in the annual financial statement and MD&A filings. Filing of the agreement as material contract may be required. Filing of material change is also being evaluated
- The gain on sale net of closing costs will be included in Net Income and excluded from EBITDA
- Leasehold improvements amortization will be accelerated from time of sale to time of closing the stores

**Considerations:**

- \$225MM consideration represents a store value/EBITDA multiple of 13x. This value is 7x higher than a reasonable market EBITDA multiple maximizing shareholder returns
- Through Direct & network of other existing corporate stores in the market, there is opportunity for sales retention. Furthermore, there are potential Dealer store opportunities for HHMA sales retention in the market

**Recommendation:**

- Management recommends proceeding with surrendering of the 5 FL store leases & Sears 15% ownership interest in Trois Rivières JV for proceeds of \$225MM

**TAB 42**



**TAB 43**

**1697**

**From:** [Raja Khanna](#)  
**To:** [Franco Perugini](#)  
**Subject:** Call this week  
**Date:** 12/15/2013 10:48 AM

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Franco the independents would like to have a call this week with Stephen and Klaudio and Doug if possible. We want more context on the negotiations and why Oshawa and Repentigny ended up having to be included in this deal. I am free any day at 8:30am or 5pm. Not sure of the others. Can you help with this?  
Raja

Sent from my mobile:  
+1-416-902-7420

Office:  
+1-416-440-7224

**TAB 44**

# 1699

**From:** [EJ Bird](#)  
**To:** [wcc@ASHECAP.COM](mailto:wcc@ASHECAP.COM); [wrh@ASHECAP.COM](mailto:wrh@ASHECAP.COM); [deborah@shantiliving.ca](mailto:deborah@shantiliving.ca); Raja Khanna; Jim McBurney; [hronweissman@gmail.com](mailto:hronweissman@gmail.com); [dross@cov.com](mailto:dross@cov.com)  
**Cc:** [Doug Campbell](#); [Klaudio Leshnjani](#); [Franco Perugini](#)  
**Subject:** Dividend Scenarios  
**Date:** 03/13/2014 12:56 PM  
**Attachments:** [IS BS CFS 2014 Plan Consolidated v21 \(1.5 and 2.5 Div\).xlsx](#)

---

Please find attached spreadsheets with forecast financial statements over the next three years under 2 dividend scenarios -- \$1.50 and \$2.50. Both scenarios also consider a potential \$30mm payment in Q2 2014 for our outstanding post-retirement benefit buyout offer.

We may discuss these in the board meeting later today.



**1700**

**TAB 45**



**MINUTES** of a telephone meeting of the Board of Directors of **SEARS CANADA INC.** (the "Corporation") held on March 13, 2014 at 1:30 p.m., Eastern time

**PRESENT**

W. C. Crowley (Ch.)  
 W. R. Harker  
 D. Campbell  
 R. R. Khanna  
 J. McBurney  
 H.R. Weissman  
 D. E. Rosati  
 D. Ross

**MANAGEMENT**

E. J. Bird  
 K. I. Leshnjani  
 M. Stewart  
 F. Perugini

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 6 through 14 were approved in accordance with the Consent Agenda.

**HUMAN RESOURCES AND COMPENSATION COMMITTEE REPORT**

2. The Chair of the Human Resources and Compensation Committee ("HRCC"), Mr. W.R. Harker, presented his report on the meeting held on March 13, 2014. The Committee dealt with and approved, as required, the following matters:
  - Executive compensation set out in the 2013 Management Proxy Circular
  - 2014 Annual Incentive Program Design
  - Special Incentive Program – 2013 Expense Update and Approval
  - Long-Term Incentive Plan - Status Reports by Performance Period
  - 2014-2016 Long-Term Incentive Plan Design
  - ELT & SVP Succession Plan Update
  - Compensation and Statistics Update

**AUDIT COMMITTEE REPORT**

3. The Chair of the Audit Committee, Ms. Deborah Rosati, presented her report on the Committee's meeting held on March 13, 2014. The Committee dealt with and approved, as required, the following matters:
  - Audited consolidated financial statements
  - Draft management's discussion and analysis
  - Draft annual information form
  - Form 40-F and related sec filings
  - Certifications of annual filings signed by the Chief Financial Officer and the Chief Executive Officer
  - Certificate of Compliance issued by management
  - Report by Deloitte LLP, External Auditors
  - Internal Audit update
  - Audit Committee financial expert
  - Discussion and Approval for use of the End-User Exception

- Report by the Secretary
- Risk Oversight Committee Update
- SOX/Bill 198 Update
- Recommendation to appoint External Auditors

#### INVESTMENT COMMITTEE REPORT

4. The Chair of the Investment Committee, Mr. W.R. Harker, presented his report on the meeting held on February 25, 2014. The Committee dealt with and approved, as required, the following matters:

- Towers Watson Performance Review
  - Defined Benefit Report
  - Defined Contribution Report
- Management's Report
  - Sears Registered Retirement Fund
  - Sears Canada Inc. Supplementary Retirement Plan
  - Sears Canada Inc. Health & Welfare Plan Trust Fund

#### NOMINATING AND CORPORATE GOVERNANCE COMMITTEE REPORT

5. The Chair of the Nominating and Corporate Governance Committee, Mr. R. Khanna, presented his report on the meeting of the Committee held on March 6, 2014, which covered a number of matters including:

- Corporate Governance statements set out in the 2014 Management Proxy Circular
- Director candidates for nomination
- Committee Structure

Mr. Khanna acknowledged that Don Ross would not be standing for re-election at the upcoming annual meeting of shareholders and thanked him for his contributions to the Board.

#### MINUTES

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

**THAT** the Minutes of the meeting of the Board of Directors held on November 18, 2013 be approved.

The Board acknowledged the signing of the Resolutions in Lieu of meeting as follows:

- December 3, 2013 approving the 2013 Third Quarter MD&A
- February 14, 2014 approving the record date

#### MANAGEMENT REPORT

7. Mr. E.J. Bird, the Executive Vice-President and Chief Financial Officer, provided the Board with a Report and Review of the draft Management's Discussion and Analysis and the audited Consolidated Financial Statements to be set forth in the 2013 Annual Report, Annual Report on Form 40-F and related SEC filings, and related Canadian Certifications for the financial year ended February 1, 2014.

Mr. Bird stated that the Audit Committee, at its meeting held on March 13, 2014, recommended that, subject to certain changes, the Board of Directors approve the draft Management's Discussion and Analysis (the "MD&A") and the audited consolidated financial statements and the notes thereto of the Corporation for the financial year ended February 1, 2014, all as presented and discussed. In accordance with the requirements of the Audit Committee, a black-lined version of the draft MD&A showing all the amendments made thereto since the Audit Committee's review will be provided to the Audit Committee.

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

- (a) THAT the MD&A and the audited Consolidated Financial Statements for the financial year ended February 1, 2014, which are to be set out in the 2013 Annual Report to Shareholders, be approved;
- (b) THAT any two officers of the Corporation be authorized and directed to do all things necessary or desirable to finalize the MD&A and audited Consolidated Financial Statements;
- (c) THAT W. C. Crowley and Deborah Rosati 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 MD&A and the audited Consolidated 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;
- (e) THAT the filing of the MD&A and the audited Consolidated Financial Statements in the French language be subject to the receipt of a certificate from Deloitte LLP that the French language versions of the MD&A and the audited Consolidated Financial Statements are in all material respects true and accurate translations of the English language versions thereof; and
- (f) THAT the said 2013 Annual Report be mailed to Shareholders of record as at March 13, 2014 and be presented for consideration at the Annual and Special Meeting of Shareholders scheduled to be held on April 24, 2014, or at any adjournment or postponement thereof.

**ANNUAL INFORMATION FORM**

8. Mr. Bird reported that the draft Annual Information Form of the Corporation for 2014 (the "AIF") has been prepared by Management in consultation with the Corporation's external advisors. The draft AIF has been recommended for approval by the Audit Committee.

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

- (a) THAT the AIF, in the form as presented at the meeting, be approved;
- (b) THAT the Corporation be authorized to make such minor additions, deletions and amendments to the AIF as may be considered necessary or desirable;
- (c) THAT subject to paragraph (d), the Secretary of the Corporation be authorized and directed to file or cause to be filed the AIF 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
- (d) THAT the filing of the AIF in the French language be subject to the receipt of an opinion from Quebec counsel that the French language version of the AIF is in all material respects a true and accurate translation of the English language version thereof.

**ANNUAL REPORT ON FORM 40-F**

9. The Secretary reported that the Corporation, as a registrant under the U.S. Securities Exchange Act of 1934, is required to file with the United States Securities and Exchange Commission (the "SEC") an Annual Report on Form 40-F of the Corporation (the "Form 40-F"). The Form 40-F incorporates by reference the Corporation's AIF, MD&A and audited annual financial statements, in addition to certain other disclosure items, such as, its audit committee members, the Code of Ethics, Principal Accountant Fees and Services and the Pre-Approval Policies and Procedures with respect to the Corporation's auditor. The Form 40-F has been prepared by Management in consultation with the Corporation's external advisors. The draft Form 40-F has been recommended for approval by the Audit Committee.

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

**THAT** the Form 40-F, in the form as presented at the meeting, be approved;

**THAT** the Corporation be authorized to make such minor additions, deletions and amendments to the Form 40-F as may be considered necessary or desirable; and

**THAT** the Secretary of the Corporation be authorized and directed to file or cause to be filed the Form 40-F with the SEC and to do all such other acts and things as may be necessary or desirable to give full effect to this resolution.

**AUDITORS' FEES**

10. Mr. Bird reported that the fees paid or accrued by the Corporation in connection with the services rendered by Deloitte LLP in fiscal 2013 were \$2,859,155, inclusive of:

External Auditor Service Fees	Fiscal 2013
Audit Fees <sup>1</sup>	\$2,445,243
Audit-Related Fees <sup>2</sup>	\$57,780
Tax Fees <sup>3</sup>	\$24,000
All Other Fees <sup>4</sup>	\$332,132
<b>Total</b>	<b>\$2,859,155</b>

<sup>1</sup> Includes fees for professional services provided in conjunction with the audit of the Corporation's financial statements, review of the Corporation's quarterly financial statements and attestation services normally provided in connection with statutory and regulatory filings and engagements.

<sup>2</sup> Includes fees for assurance and related professional services primarily related to the audit of associate benefit plans, services provided to ensure compliance with new regulatory requirements and standards.

<sup>3</sup> Includes fees for professional services provided related to tax compliance, tax planning, and other tax advice.

<sup>4</sup> All other fees, if any, consist of permissible work performed by Deloitte LLP which is not included in the categories above.

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

**THAT** the remuneration of the External Auditors of the Corporation, Deloitte LLP, in the amount of \$2,859,155, representing the fees paid or accrued by the Corporation for services rendered by Deloitte LLP in fiscal 2013, be approved.

**APPOINTMENT OF AUDITORS**

11. The Chair of the Audit Committee reported that the Committee had the opportunity to evaluate and discuss with Management of the Corporation the performance of the External Auditors, Deloitte LLP, and the desirability of their appointment at the next Annual and Special Meeting of Shareholders.

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

THAT the Board recommend to the Shareholders of the Corporation that Deloitte LLP be appointed as External Auditors of the Corporation, for the ensuing year or until a successor is appointed, at the next Annual and Special Meeting of Shareholders scheduled to be held on April 24, 2014, or at any adjournment thereof.

**NOMINEES FOR ELECTION AS DIRECTORS**

12. The Board of Directors has received the recommendation of the Nominating and Corporate Governance Committee regarding the proposed nominees for election as Directors to the Board at the Annual and Special Meeting of Shareholders scheduled to be held on April 24, 2014, or at any adjournment or postponement thereof. The Board of Directors, when elected, will consist of ten Directors, four of whom will be independent.

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

THAT the nomination of the following individuals for election as Directors at the Annual and Special Meeting of Shareholders of the Corporation scheduled to be held on April 24, 2014, or at any adjournment or postponement thereof, be approved:

- |                         |                  |
|-------------------------|------------------|
| H.R. Weissman           | R. Raja Khanna   |
| William C. Crowley      | James McBurney   |
| William R. Harker       | Doug Cambell     |
| Tim Flemming            | Deborah Rosati   |
| S. Jeffrey Stollenwerck | Danita Stevenson |

THAT the committees of the Board be composed as follows:

<b>HUMAN RESOURCES and COMPENSATION</b>	<b>AUDIT</b>	<b>NOMINATING and CORPORATE GOVERNANCE</b>
W.R. Harker (Ch.)	D. E. Rosati (Ch.)	R. R. Khanna (Ch.)
W. C. Crowley	R. R. Khanna	J. McBurney
D. E. Rosati	J. McBurney	D. E. Rosati
	H.R. Weissman	
(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                |
| W. C. Crowley             |
| (F. Perugini - Secretary) |

Chair of the Board: W. C. Crowley  
Vice-Chair of the Board: W. R. Harker  
Lead Director: R. Raja Khanna

**NOTICE OF MEETING AND MANAGEMENT PROXY CIRCULAR**

13. The Secretary reported that the draft 2014 Management Proxy Circular of the Corporation (the "MPC") has been prepared by Management in consultation with the Corporation's external advisers. Relevant sections of the MPC have been provided to the Nominating and Corporate Governance Committee and the Human Resources and Compensation Committee which have respectively approved of same.

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

- (a) **THAT** the Notice of Annual and Special Meeting of Shareholders (the "Notice") and the accompanying MPC, the Notice-and-Access ("N&A") Notification to Shareholders ("N&A Notification") and Proxy Form (the "Proxy"), all in the form as presented at the meeting, be approved;
- (b) **THAT** the Corporation be authorized and directed to do all things necessary or desirable to finalize the Notice, MPC, N&A Notification and Proxy;
- (c) **THAT** subject to paragraph (d), the Secretary of the Corporation be authorized and directed to file or cause to be filed the Notice, MPC, N&A Notification and Proxy 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;
- (d) **THAT** the filing of the Notice, MPC, N&A Notification and Proxy in the French language be subject to the receipt of an opinion from Quebec counsel that the French language versions of the Notice, MPC and Proxy are in all material respects true and accurate translations of the English language versions thereof; and
- (e) **THAT** the Notice, MPC and Proxy be mailed to Shareholders that have not consented under N&A and the N&A Notification and Proxy be mailed to those Shareholders having consented to N&A, of record as at March 13, 2014 and be presented for consideration at the Annual and Special Meeting of Shareholders scheduled to be held on April 24, 2014, or at any adjournment or postponement thereof.

**AUDIT COMMITTEE FINANCIAL EXPERT**

14. The Secretary reported that the Audit Committee, at its meeting on March 13, 2014 had the opportunity to discuss the independence and expertise of the members of the Audit Committee

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

- THAT** each of the members of the Audit Committee is independent pursuant to the standards set forth in Rule 10A-3(b) under the U.S. Securities Exchange Act of 1934, as amended, based on an evaluation of the relationships between the Corporation and each of the members of the Audit Committee;
- THAT** each of the members of the Audit Committee is independent pursuant to the independence tests under Section 303A.02 of the NYSE Listed Company Manual ("Section 303A.02") based on evaluations conducted in accordance with Section 303A.02; and

THAT each of Deborah Rosati, Raja Khanna, James McBurney and Ron Weissman is designated as an "audit committee financial expert" (as defined in Form 40-F) based on the Board of Directors' evaluation of their knowledge of accounting, qualifications and experience.

#### AUDIT COMMITTEE CHARTER

15. The Secretary presented the proposed Amended and Restated Charter of the Audit Committee. There were no recommended changes to the proposed Amended and Restated Charter.

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

THAT the proposed Amended and Restated Charter of the Audit Committee, in the form as presented, be approved subject to any 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 may be considered appropriate, provided that all material changes shall be brought to the attention of the Board.

#### BY-LAW NO. 1 AMENDMENTS

16. Management recommends to the Board that By-Law No. 1 of the Corporation be amended (the "By-Law Amendment"). The purpose of the By-Law Amendment is to update the manner in which notices are to be delivered pursuant to the By-Law or the Canada Business Corporations Act.

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

THAT the amendment made to By-Law No. 1 of the Corporation, be approved.

#### AMENDMENTS TO THE ARTICLES OF AMALGAMATION

17. The Articles of Amalgamation of the Corporation (the "Articles"), provide for the Board of Directors to consist of a minimum of seven and a maximum of twenty directors, with the number of directors within such limits to be determined by the Board. In order to give the Board greater flexibility in appointing additional directors when necessary, without obtaining Shareholder approval, it is recommended that the Articles be amended (the "Article Amendment").

Management recommends to the Board that the Article Amendment be approved.

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

THAT the Articles be amended by inserting the following language in Schedule B to the Articles:

"The directors may appoint one or more additional directors to hold office for a term expiring no later than the close of the Corporation's next annual meeting of shareholders."

THAT the Article Amendment be presented to the Shareholders at the Annual and Special Meeting of Shareholders on April 24, 2014 (the "Meeting"), where Shareholders will be asked to consider, if deemed appropriate, to pass a special resolution authorizing the Article Amendment;

THAT the complete text of the Special Resolution to be submitted to Shareholders at the Meeting, subject to such amendments, variations or additions as may be approved at the Meeting, be as set forth below:

"BE IT RESOLVED AS A SPECIAL RESOLUTION THAT:

1. The Articles of Amalgamation of the Corporation be amended to allow the directors to appoint one or more additional directors, without obtaining Shareholder approval, to hold office for a term expiring no later than the close of the Corporation's next annual meeting of Shareholders;
2. Any director or officer of the Corporation, be and is hereby authorized to cause all such documents, instruments and other writings to be executed and cause all such acts and things to be done as the director or officer considers necessary or desirable to give effect to the foregoing resolution; and
3. The Board is hereby empowered and authorized to revoke the foregoing resolution in whole or in part without further approval of the Shareholders at any time prior to it being acted upon, if the directors deem such revocation to be in the best interests of the Corporation."

**2014 PRIORITIES**

18. Mr. Douglas Campbell, President and Chief Executive Officer, provided a presentation on 2014 priorities for the Corporation which included a discussion of the following:

**2014 Framework for Creating Shareholder Value**

*Objectives*

- Releasing value from non-core or high multiple assets
- Building our core business as a profitable going concern

*Key levers*

- Asset value, merchandising value and operating efficiency

*Enablers*

- Finance – Building the right metrics for decision making and driving optimization of capital structure
- Talent – Retain and recruit top talent to drive our focus areas
- Strategy – Clarify the Corporation's value proposition and define the network and channel strategy for future state

**2014 Plan Focus**

- Reduce inventory by \$137 million
- Remove \$130 million from operating expenses
- Increase same store sales by 2% and hold margin flat to 2013

**2015 and beyond**

- Network optimization
- Supply chain management
- Operationalize customer value proposition

**Capital Priorities for 2014**

- Keep the lights on (\$21.6 million)
- Infrastructure and merchandising systems (\$31.7 million)
- Build eCommerce (\$4.5 million)
- Growth opportunities (17.2 million)



**OTHER BUSINESS**

- 19. The following items were provided as a reference:
  - > Analyst Reports
  - > SCI Top twenty Registered Shareholders list and CDS participant list
  - > Trading Volume

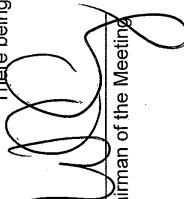
**DIVIDEND DISCUSSION**

20. The Board discussed the material that Mr. Bird circulated in advance of the meeting, with respect to forecast financial statements over the next three years under two dividend scenarios, \$1.50 per share and \$2.50 per share. Both scenarios also consider a potential \$30 million payment in the second quarter of 2014 for the outstanding postretirement benefit buyout offer.

**IN CAMERA SESSION**

- 21. An *in-camera* session was not held.

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

  
 \_\_\_\_\_  
 Chairman of the Meeting

  
 \_\_\_\_\_  
 Secretary of the Meeting

April 23, 2014  
 \_\_\_\_\_  
 Date

FTI Consulting Canada Inc.,  
in its capacity as Court-appointed monitor

ESL Investments Inc. *et al.*

and

Plaintiff

Defendants

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

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
COMMERCIAL LIST**

Proceeding commenced at TORONTO

**BRIEF OF DOCUMENTS  
(REDACTED FOR PRIVILEGE)**

**1710**

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Royal Bank Plaza, South Tower  
200 Bay Street, Suite 3800, P.O. Box 84  
Toronto, Ontario M5J 2Z4

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Lawyers to FTI Consulting Canada Inc.,  
as Court-Appointed Monitor

FTI Consulting Canada Inc.,  
in its capacity as Court-appointed monitor

ESL Investments Inc. *et al.*

and

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

Plaintiff

Defendants

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
COMMERCIAL LIST**

Proceeding commenced at TORONTO

**AFFIDAVIT OF GEOFF MENS  
(SWORN FEBRUARY 21, 2019)**

**1711**

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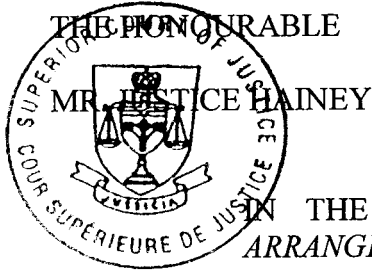
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Lawyers to FTI Consulting Canada Inc.,  
as Court-Appointed Monitor

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
(COMMERCIAL LIST)**



FRIDAY, THE 2<sup>nd</sup>

DAY OF MARCH, 2018

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

AND IN THE MATTER OF A PLAN OF COMPROMISE OR  
ARRANGEMENT OF SEARS CANADA INC., 9370-2751  
QUÉBEC INC., 191020 CANADA INC., THE CUT INC.,  
SEARS CONTACT SERVICES INC., INITIUM LOGISTICS  
SERVICES INC., INITIUM COMMERCE LABS INC., INITIUM  
TRADING AND SOURCING CORP., SEARS FLOOR  
COVERING CENTRES INC., 173470 CANADA INC., 2497089  
ONTARIO INC., 6988741 CANADA INC., 10011711 CANADA  
INC., 1592580 ONTARIO LIMITED, 955041 ALBERTA LTD.,  
4201531 CANADA INC., 168886 CANADA INC., AND 3339611  
CANADA INC.

(each, an “**Applicant**”, and collectively, the “**Applicants**”)

**LITIGATION INVESTIGATOR ORDER**

**THIS MOTION**, made by Representative Counsel to the court-appointed Representatives of employees and retirees with respect to pension and post-retirement benefits of the Applicants (“**Retiree Representative Counsel**”) pursuant to the *Companies’ Creditors Arrangement Act*, RSC 1985, c C-36, (the “**CCAA**”) for an order appointing a Litigation Investigator to identify and report on certain rights and claims of the Applicants and SearsConnect (collectively, the “**Sears Canada Entities**”) and/or any creditors of the Sears Canada Entities, was heard this day at 330 University Avenue, Toronto, Ontario.

**ON READING** the Affidavit of William Turner sworn on February 12, 2018 including the exhibits thereto, the Affidavit of William Turner sworn on August 11, 2017, including the exhibits thereto, the Affidavit of William Turner sworn on February 14, 2018 including the exhibits thereto, the Affidavit of Jules Monteyne sworn on February 14, 2018 including the exhibits thereto, the Affidavit of Leanne M. Williams sworn on February 14, 2018 including the exhibits annexed thereto, the Monitor’s Fourteenth Report to the Court dated March 1, 2018, and on hearing the submissions of Retiree Representative Counsel, Representative Counsel for the employees of the Sears Canada Entities (“**Employee Representative Counsel**”), counsel for the Applicants, counsel for the Monitor, and such other counsel for various creditors and stakeholders as were present, no one else appearing although duly served as appears from the Affidavit of Service of Veronica de Leoz, sworn February 12, 2018:

1. **THIS COURT ORDERS** that the time for service of the Notice of Motion and the Motion Record herein is hereby abridged and validated so that this Motion is properly returnable today and hereby dispenses with further service thereof.
2. **THIS COURT ORDERS** that Lax O’Sullivan Lisus Gottlieb LLP is hereby appointed as Litigation Investigator (the “**Litigation Investigator**”) in these CCAA proceedings for the benefit of the estates of the Sears Canada Entities and its creditors. The Litigation Investigator shall be an officer of this Court, and is appointed for the purpose of investigating, considering, and reporting to the Creditors’ Committee (defined below), regarding any rights or claims, whether legal, equitable, statutory or otherwise, that the Sears Canada Entities and/or any creditors of any of the Sears Canada Entities may have as against any parties, including but not limited to current and former directors, officers, shareholders and advisors of any of the Sears Canada Entities (the “**Mandate**”). For greater certainty, the Litigation Investigator may

investigate any and all claims regardless of whether such claims have been included by creditors' proofs of claims filed pursuant to the Claims Procedure Order and E&R Claims Procedure Order (defined below), however, the Litigation Investigator shall have no role in determining, advising on, opposing, supporting, or articulating any claim of any creditor or stakeholder in the Claims Process, as defined in the Order of this Court dated December 8, 2017 as amended by Order dated February 22, 2018 or as further amended by Order of the Court (as amended, the "**Claims Procedure Order**") or any Claim as defined in the Employee and Retiree Claims Procedure Order dated February 22, 2018 (the "**E&R Claims Procedure Order**") and shall have no role in the distribution or allocation of estate funds.

**Litigation Investigator Reporting**

3. **THIS COURT ORDERS** that the Litigation Investigator's Mandate shall include reporting to the Creditors' Committee with such details as the Litigation Investigator considers advisable (all such reporting being collectively defined herein as the "**Report**"), taking into account any concerns of privilege and confidentiality. All Reports by the Litigation Investigator and all communications among the Creditors' Committee members and the Litigation Investigator shall be subject to common interest privilege. A Report by the Litigation Investigator will include recommendations regarding a proposed litigation plan that includes, but is not limited to:

- (a) those potential rights or claims of the Sears Canada Entities or any creditors of the Sears Canada Entities that should be pursued (if any); and
- (b) describing how and by whom such rights or claims (if any) can best be pursued or continued, including, but not limited to:

- (i) the coordination of the prosecution of such rights or claims with similar or related facts, rights or other claims that may be asserted by different parties;
- (ii) if necessary or desirable, a proposed governance structure for the Creditors' Committee created pursuant to this Order (or as same may be amended, expanded or reconstituted in future, in accordance with the terms of this Order) for the purpose of providing input to the Litigation Investigator in the prosecution of such rights, claims or causes of action; and
- (iii) consideration as to the various options available for funding the prosecution of such rights, claims or causes of action.

A confidential briefing ("**Investigator Briefing**") regarding all Reports prepared by the Litigation Investigator shall be given to the Monitor; provided that such Investigator Briefing shall be kept confidential by the Monitor and shall remain subject to privilege.

4. **THIS COURT ORDERS** that following delivery of a Report to the Creditors' Committee in accordance with its Mandate, the Litigation Investigator shall not take any further steps without a further Order of the Court. For greater certainty, nothing herein shall prevent the Litigation Investigator from seeking an Order of the Court authorizing it to pursue any claims identified pursuant to the Mandate.

*The Committee*

5. **THIS COURT ORDERS** that the Litigation Investigator shall fulfil his Mandate in consultation with a creditors' committee (the "**Creditors' Committee**") comprised of no more than seven (7) members at any one time appointed by, or on behalf of the following creditor groups of the Sears Canada Entities: (i) Retiree Representative Counsel; (ii) Employee Representative Counsel; (iii) landlords; (iv) Hometown Dealers Class Action plaintiff counsel; (v) Morneau Shepell Ltd. in its capacity as Administrator for the Sears Canada Inc. Registered Retirement Plan; (vi) the Ontario Superintendent of Financial Services as Administrator of the Pension Benefits Guarantee Fund; and (vii) such other unsecured creditors of the Sears Canada Entities not represented in (i) through (vi) above as the majority of the Creditors' Committee may agree be included, in consultation with the Monitor, or as may be directed by the Court. The Creditors' Committee and the Litigation Investigator shall cooperate with the Monitor, and the Monitor shall cooperate with the Litigation Investigator and the Creditors' Committee in connection with the Mandate. The Creditors' Committee shall consult with and provide input to the Litigation Investigator with respect to the Mandate.

6. **THIS COURT ORDERS** that each member of the Creditors' Committee (including any alternates or replacements from the same stakeholder group as may be appointed by an existing member) may be a creditor itself or counsel/advisor representing that stakeholder interest, but in either case each member shall execute a Confidentiality Agreement in a form acceptable to the Litigation Investigator, the Sears Canada Entities and the Monitor prior to being entitled to participate in any discussions or meetings of the Creditors' Committee, receive any information from the Monitor, the Litigation Investigator or any other member of the Creditors' Committee, or to receive the Report. The Litigation Investigator will meet with the Creditors' Committee at



least monthly, or such other times as may be agreed by the Litigation Investigator and the Creditors' Committee. Meetings will only be conducted in person, to ensure the confidentiality of all discussions.

7. **THIS COURT ORDERS** that the Monitor shall provide to the Litigation Investigator (and, upon execution of appropriate Confidentiality Agreements, for delivery by the Litigation Investigator to the Creditors' Committee) a confidential briefing regarding the "Transactions of Interest" as identified in the Monitor's 11<sup>th</sup> Report to the Court (the "**Monitor Briefing**"). The Monitor's delivery of the Monitor Briefing pursuant to the terms of this Order shall be subject to common interest privilege and strict confidentiality, and the Monitor is protected for so doing pursuant to section 142 of the *Courts of Justice Act* (Ontario). In the event of any concerns being raised regarding the delivery by the Monitor of any particular aspect of the Monitor Briefing that cannot be resolved without breaching the underlying basis for the concern, such concerns shall be resolved following a review by an independent party appointed by the Monitor and the Litigation Investigator (or, absent agreement on the identity of such party, by the Court).

8. **THIS COURT ORDERS** that, for greater certainty, any right, claim or cause of action identified by the Litigation Investigator as capable of being advanced and that is advanced with approval of the Court, whether by the Litigation Investigator or otherwise, may be removed from the claims process established under the Claims Procedure Order or the E&R Claims Procedure Order.

9. **THIS COURT ORDERS** that the Claims Procedure Order is hereby amended as follows:

- (i) subparagraph (vii) in the definition of “Excluded Claim” is hereby amended to read as follows: “Claim that may be asserted by any of the Sears Canada Entities or that are advanced by the Litigation Investigator or any creditors, in each case, as may be permitted or directed by further Order of the Court, against the Sears Canada Entities or any Directors and/or Officers, which for greater certainty shall include any Claim that may be identified, reviewed or investigated as part of the Litigation Investigator’s Mandate (as defined in an Order of the Court dated March 2, 2018)”.

10. **THIS COURT ORDERS** that the E&R Claims Procedure Order is hereby amended as follows:

- (i) the definition of “Excluded Claim” is hereby amended to add a new subparagraph (vi) that shall read as follows: “Claim that is advanced by the Litigation Investigator or any creditors, in each case, as may be permitted or directed by further Order of the Court, against the Sears Canada Entities or any Directors and/or Officers, which for greater certainty shall include any Claim that may be identified, reviewed or investigated as part of the Litigation Investigator’s Mandate (as defined in an Order of the Court dated March 2, 2018)”.

**Litigation Investigator Costs**

11. **THIS COURT ORDERS** that the Litigation Investigator shall be paid from the funds of the Applicants its reasonable fees and disbursements, including the fees of any counsel retained by the Litigation Investigator in respect of the Mandate, the amount of which is not to exceed a budget approved by the Creditors’ Committee in consultation with the Monitor prior to the Litigation Investigator commencing work in respect of fulfilling its Mandate in accordance with

this Order. The Litigation Investigator and any counsel it retains shall be paid forthwith upon rendering fully-redacted versions of their accounts to the Applicants and the Monitor. Un-redacted versions of accounts rendered by the Litigation Investigator shall be made available to the Creditors' Committee and, upon request of the Court and subject to a sealing order to protect privilege and confidentiality, to the Court. In the event of any disagreement with respect to a proposed budget, any requested increased to such budget, or any accounts rendered by the Litigation Investigator, such disagreement may be remitted to this Court for determination.

12. **THIS COURT ORDERS** that the Litigation Investigator shall be entitled to the benefit of the Administrative Charge, as defined in the Initial Order issued by the Court dated June 22, 2017 as amended, for the Litigation Investigator's costs, as security for its professional fees, taxes, and disbursements reasonably incurred.

13. **THIS COURT ORDERS** that the Litigation Investigator is hereby authorized to take all appropriate steps and do all appropriate acts necessary or desirable to carry out its Mandate in accordance with the terms of this Order.

14. **THIS COURT ORDERS** that the Litigation Investigator shall be at liberty, and is hereby authorized, at any time, to apply to this Court for advice and directions in respect of its Mandate or any variation or expansion of the powers and duties of the Litigation Investigator, which shall be brought on at least seven (7) business days' notice to the Service List in these CCAA proceedings, unless time for service is otherwise abridged.

15. **THIS COURT ORDERS** that the Litigation Investigator shall have no personal liability as a result of the performance of its duties in carrying out the provisions of this Order, save and except for liability arising out of gross negligence or wilful misconduct. The Creditors'

Committee members shall have no liability as a result of their participation on the Creditors' Committee or in providing input to the Litigation Investigator, save and except for liability arising out of gross negligence or wilful misconduct.

16. **THIS COURT ORDERS** that no action or proceeding may be commenced against the Litigation Investigator or any Creditors' Committee member in respect of the performance of its or their duties under this Order without leave of this Court on seven (7) business days' notice to the Litigation Investigator and the Creditors' Committee.

17. **THIS COURT ORDERS** that notwithstanding:

- (a) the pendency of these proceedings;
- (b) any applications for a bankruptcy order now or hereafter issued pursuant to the *Bankruptcy and Insolvency Act* (Canada) (the "BIA") in respect of any of the Applicants and any bankruptcy order issued pursuant to such applications; or
- (c) any assignment in bankruptcy made in respect of any of the Applicants;

the provisions of this Order shall be binding on any Investigator in bankruptcy or receiver that may be appointed in respect of any of the Applicants and any payments of fees and disbursements made to the Litigation Investigator in accordance with this Order shall not be void or voidable by creditors of any of the Applicants, nor shall any such payments constitute nor be deemed to be a fraudulent preference, assignment, fraudulent conveyance, transfer at undervalue, or any reviewable transaction under the BIA or any other applicable federal or provincial legislation, nor constitute oppressive or unfairly prejudicial conduct pursuant to any applicable federal or provincial legislation.

18. **THIS COURT HEREBY REQUESTS** the aid and recognition of any court, tribunal, regulatory or administrative bodies having jurisdiction in Canada or in the United States of America, to give effect to this Order and to assist the Litigation Investigator in carrying out the terms of this Order. All courts, tribunals, regulatory and administrative bodies are hereby respectfully requested to make such orders and to provide such assistance to the Litigation Investigator as may be necessary or desirable to give effect to this Order, or to assist the Litigation Investigator in carrying out the terms of this Order.

  
~~CHANEY, J.~~

**Maggie Sawka**  
Registrar, Superior Court of Justice

ENTERED AT / INSCRIT À TORONTO  
ON / BOOK NO:  
LE / DANS LE REGISTRE NO:

MAR 02 2018

PER / PAR:



AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF SEARS CANADA INC., 9370-2751 QUÉBEC INC., 191020 CANADA INC., THE CUT INC., SEARS CONTACT SERVICES INC., INITIUM LOGISTICS SERVICES INC., INITIUM COMMERCE LABS INC., INITIUM TRADING AND SOURCING CORP., SEARS FLOOR COVERING CENTRES INC., 173470 CANADA INC., 2497089 ONTARIO INC., 6988741 CANADA INC., 10011711 CANADA INC., 1592580 ONTARIO LIMITED, 955041, ALBERTA LTD., 4201531 CANADA INC., 168886 CANADA INC., AND 3339611 CANADA INC.

(each, an "Applicant", and collectively, the "Applicants")

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
(COMMERCIAL LIST)**

Proceeding commenced at Toronto

**LITIGATION INVESTIGATOR ORDER**

**1722**

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Representative Counsel for the Non-Unionized Retirees  
and Non-Unionized Active and Former Employees of the  
Sears Canada Entities

ONTARIO  
SUPERIOR COURT OF JUSTICE  
(COMMERCIAL LIST)

THE HONOURABLE

)

THURSDAY, THE 26TH

)

MR. JUSTICE HAINEY

)

DAY OF APRIL, 2018

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

AND IN THE MATTER OF A PLAN OF COMPROMISE OR  
ARRANGEMENT OF SEARS CANADA INC., 9370-2751  
QUÉBEC INC., 191020 CANADA INC., THE CUT INC.,  
SEARS CONTACT SERVICES INC., INITIUM LOGISTICS  
SERVICES INC., INITIUM COMMERCE LABS INC., INITIUM  
TRADING AND SOURCING CORP., SEARS FLOOR  
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ONTARIO INC., 6988741 CANADA INC., 10011711 CANADA  
INC., 1592580 ONTARIO LIMITED, 955041 ALBERTA LTD.,  
4201531 CANADA INC., 168886 CANADA INC., AND 3339611  
CANADA INC.

(each, an "Applicant", and collectively, the "Applicants")

AMENDED LITIGATION INVESTIGATOR ORDER

THIS MOTION, made by Representative Counsel to the court-appointed  
Representatives of employees and retirees with respect to pension and post-retirement benefits of  
the Applicants ("Retiree Representative Counsel") pursuant to the *Companies' Creditors  
Arrangement Act*, RSC 1985, c C-36, (the "CCAA") for an order appointing a Litigation  
Investigator to identify and report on certain rights and claims of the Applicants and  
SearsConnect (collectively, the "Sears Canada Entities") and/or any creditors of the Sears  
Canada Entities, was heard this day at 330 University Avenue, Toronto, Ontario.



**ON READING** the Affidavit of William Turner sworn on February 12, 2018 including the exhibits thereto, the Affidavit of William Turner sworn on August 11, 2017, including the exhibits thereto, the Affidavit of William Turner sworn on February 14, 2018 including the exhibits thereto, the Affidavit of Jules Monteyne sworn on February 14, 2018 including the exhibits thereto, the Affidavit of Leanne M. Williams sworn on February 14, 2018 including the exhibits annexed thereto, the Monitor's Fourteenth Report to the Court dated March 1, 2018, and on hearing the submissions of Retiree Representative Counsel, Representative Counsel for the employees of the Sears Canada Entities ("**Employee Representative Counsel**"), counsel for the Applicants, counsel for the Monitor, and such other counsel for various creditors and stakeholders as were present, no one else appearing although duly served as appears from the Affidavit of Service of Veronica de Leoz, sworn February 12, 2018:

1. **THIS COURT ORDERS** that the time for service of the Notice of Motion and the Motion Record herein is hereby abridged and validated so that this Motion is properly returnable today and hereby dispenses with further service thereof.
  
2. **THIS COURT ORDERS** that Lax O'Sullivan Lisus Gottlieb LLP is hereby appointed as Litigation Investigator (the "**Litigation Investigator**") in these CCAA proceedings for the benefit of the estates of the Sears Canada Entities and its creditors. The Litigation Investigator shall be an officer of this Court, and is appointed for the purpose of investigating, considering, and reporting to the Creditors' Committee (defined below), regarding any rights or claims, whether legal, equitable, statutory or otherwise, that the Sears Canada Entities and/or any creditors of any of the Sears Canada Entities may have as against any parties, including but not limited to current and former directors, officers, shareholders and advisors of any of the Sears Canada Entities (the "**Mandate**"). For greater certainty, the Litigation Investigator may



investigate any and all claims regardless of whether such claims have been included by creditors' proofs of claims filed pursuant to the Claims Procedure Order and E&R Claims Procedure Order (defined below), however, the Litigation Investigator shall have no role in determining, advising on, opposing, supporting, or articulating any claim of any creditor or stakeholder in the Claims Process, as defined in the Order of this Court dated December 8, 2017 as amended by Order dated February 22, 2018 or as further amended by Order of the Court (as amended, the "**Claims Procedure Order**") or any Claim as defined in the Employee and Retiree Claims Procedure Order dated February 22, 2018 (the "**E&R Claims Procedure Order**") and shall have no role in the distribution or allocation of estate funds.

**Litigation Investigator Reporting**

3. **THIS COURT ORDERS** that the Litigation Investigator's Mandate shall include reporting to the Creditors' Committee with such details as the Litigation Investigator considers advisable (all such reporting being collectively defined herein as the "**Report**"), taking into account any concerns of privilege and confidentiality. All Reports by the Litigation Investigator and all communications among the Creditors' Committee members and the Litigation Investigator shall be subject to common interest privilege. A Report by the Litigation Investigator will include recommendations regarding a proposed litigation plan that includes, but is not limited to:

- (a) those potential rights or claims of the Sears Canada Entities or any creditors of the Sears Canada Entities that should be pursued (if any); and
- (b) describing how and by whom such rights or claims (if any) can best be pursued or continued, including, but not limited to:

- (i) the coordination of the prosecution of such rights or claims with similar or related facts, rights or other claims that may be asserted by different parties;
- (ii) if necessary or desirable, a proposed governance structure for the Creditors' Committee created pursuant to this Order (or as same may be amended, expanded or reconstituted in future, in accordance with the terms of this Order) for the purpose of providing input to the Litigation Investigator in the prosecution of such rights, claims or causes of action; and
- (iii) consideration as to the various options available for funding the prosecution of such rights, claims or causes of action.

A confidential briefing ("**Investigator Briefing**") regarding all Reports prepared by the Litigation Investigator shall be given to the Monitor; provided that such Investigator Briefing shall be kept confidential by the Monitor and shall remain subject to privilege.

4. **THIS COURT ORDERS** that following delivery of a Report to the Creditors' Committee in accordance with its Mandate, the Litigation Investigator shall not take any further steps without a further Order of the Court. For greater certainty, nothing herein shall prevent the Litigation Investigator from seeking an Order of the Court authorizing it to pursue any claims identified pursuant to the Mandate.

*The Committee*

5. **THIS COURT ORDERS** that the Litigation Investigator shall fulfil his Mandate in consultation with a creditors' committee (the "**Creditors' Committee**") comprised of no more than eight (8) members (inclusive of two members on behalf of landlords) at any one time appointed by, or on behalf of the following creditor groups of the Sears Canada Entities: (i) Retiree Representative Counsel; (ii) Employee Representative Counsel; (iii) landlords; (iv) Hometown Dealers Class Action plaintiff counsel; (v) Morneau Shepell Ltd. in its capacity as Administrator for the Sears Canada Inc. Registered Retirement Plan; (vi) the Ontario Superintendent of Financial Services as Administrator of the Pension Benefits Guarantee Fund; and (vii) such other unsecured creditors of the Sears Canada Entities not represented in (i) through (vi) above as the majority of the Creditors' Committee may agree be included, in consultation with the Monitor, or as may be directed by the Court. The Creditors' Committee and the Litigation Investigator shall cooperate with the Monitor, and the Monitor shall cooperate with the Litigation Investigator and the Creditors' Committee in connection with the Mandate. The Creditors' Committee shall consult with and provide input to the Litigation Investigator with respect to the Mandate.

6. **THIS COURT ORDERS** that each member of the Creditors' Committee (including any alternates or replacements from the same stakeholder group as may be appointed by an existing member) may be a creditor itself or counsel/advisor representing that stakeholder interest, but in either case each member shall execute a Confidentiality Agreement in a form acceptable to the Litigation Investigator, the Sears Canada Entities and the Monitor prior to being entitled to participate in any discussions or meetings of the Creditors' Committee, receive any information from the Monitor, the Litigation Investigator or any other member of the Creditors' Committee,

or to receive the Report. The Litigation Investigator will meet with the Creditors' Committee at least monthly, or such other times as may be agreed by the Litigation Investigator and the Creditors' Committee. Meetings will only be conducted in person, to ensure the confidentiality of all discussions.

7. **THIS COURT ORDERS** that the Monitor shall provide to the Litigation Investigator (and, upon execution of appropriate Confidentiality Agreements, for delivery by the Litigation Investigator to the Creditors' Committee) a confidential briefing regarding the "Transactions of Interest" as identified in the Monitor's 11<sup>th</sup> Report to the Court (the "**Monitor Briefing**"). To the extent that the Litigation Investigator requests documents or information from the Sears Canada Entities and such requests are consistent with the Mandate (the "**Additional Company Information**"), then, subject to satisfactory resolution of issues of privilege and confidentiality (including any terms regarding sharing of information with the Creditors' Committee), the Sears Canada Entities shall cooperate with the Monitor to provide the Additional Company Information to the Litigation Investigator. The Monitor's delivery of the Monitor Briefing pursuant to the terms of this Order shall be subject to common interest privilege and strict confidentiality, and the Monitor is protected for so doing pursuant to section 142 of the *Courts of Justice Act* (Ontario). The Sears Canada Entities' delivery of the Additional Company Information pursuant to the terms of this Order shall be subject to strict confidentiality, and the Sears Canada Entities and their directors and officers are protected for so doing pursuant to section 142 of the *Courts of Justice Act* (Ontario). In the event of any concerns being raised regarding the delivery by the Monitor of any particular aspect of the Monitor Briefing that cannot be resolved without breaching the underlying basis for the concern, such concerns shall be resolved following a review by an independent party appointed by the Monitor and the

Litigation Investigator (or, absent agreement on the identity of such party, by the Court). Notwithstanding the foregoing, any document provided by the Sears Canada Entities as part of the Additional Company Information may be submitted by a party in receipt of such document to the court under seal for the purposes of resolving any dispute over whether such document should be produced in litigation.

8. **THIS COURT ORDERS** that the Monitor or the Sears Canada Entities, as the case may be, shall maintain copies and a record of all documents: (i) received by the Monitor from the Sears Canada Entities and provided to the Litigation Investigator in accordance with this Order; or (ii) provided by the Sears Canada Entities to the Litigation Investigator in accordance with this Order.

9. **THIS COURT ORDERS** that prior to any production of documents by the Monitor or the Sears Canada Entities to the Litigation Investigator to facilitate the fulfillment of the Mandate, the Monitor or Sears Canada Entities, as the case may be, shall take reasonable steps to review such documents to identify any:

- (a) documents that contain any communication that is between a lawyer and the ESL parties and/or Sears Holdings Corporation;
- (b) documents containing any communication by or to the ESL parties and/or Sears Holdings Corporation and/or any current or former directors or officers of the Sears Canada Entities (a "**Current or Former D&O**") created on or after November 26, 2013 and related to the 1291079 Ontario Ltd and Sears Canada Inc. et. al. class action of November 6, 2015 (Ontario Superior Court of Justice) File No. 4114/15); and

- (c) documents containing communications between a law firm and a Current or Former D&O for which privilege could reasonably be asserted, or documents that reflect legal advice or litigation work product prepared for the benefit of a Current or Former D&O, whether alone or as part of a joint retainer.

Hereafter, items a), b), and c) shall be referred to collectively as the “**Potentially Shared Privileged Documents**”). No waiver of any privilege shall have occurred by the inadvertent delivery of documents to the Litigation Investigator should a Potentially Shared Privileged Document not be identified or if any other document subject to privilege (including solicitor-client privilege, litigation privilege, and common interest privilege) is produced or disclosed to the Litigation Investigator.

10. **THIS COURT ORDERS** that in the event that the Monitor and/or Sears Canada Entities intend to produce any Potentially Shared Privileged Documents to the Litigation Investigator in facilitation of the fulfillment of the Mandate, the Monitor or the Sears Canada Entities, as the case may be, shall provide a list of such documents on reasonable notice, which shall be no less than seven days, to the ESL parties, Sears Holdings Corporation and/or the Current or Former D&Os to the extent that such parties may be able to assert privilege over the documents, so that any issue regarding privilege may be resolved by the parties or determined by this Court.

11. **THIS COURT ORDERS** that the Litigation Investigator shall create and maintain a detailed list (including creation date, sender, recipient and subject) of those document(s) received from the Sears Canada Entities (either directly or through the Monitor) that it provides to the Creditors’ Committee or their counsel or agents.

12. **THIS COURT ORDERS** that, for greater certainty, any right, claim or cause of action identified by the Litigation Investigator as capable of being advanced and that is advanced with approval of the Court, whether by the Litigation Investigator or otherwise, may be removed from the claims process established under the Claims Procedure Order or the E&R Claims Procedure Order.

13. **THIS COURT ORDERS** that the Claims Procedure Order is hereby amended as follows:

- (i) subparagraph (vii) in the definition of “Excluded Claim” is hereby amended to read as follows: “Claim that may be asserted by any of the Sears Canada Entities or that are advanced by the Litigation Investigator or any creditors, in each case, as may be permitted or directed by further Order of the Court, against the Sears Canada Entities or any Directors and/or Officers, which for greater certainty shall include any Claim that may be identified, reviewed or investigated as part of the Litigation Investigator’s Mandate (as defined in an Order of the Court dated March 2, 2018)”.

14. **THIS COURT ORDERS** that the E&R Claims Procedure Order is hereby amended as follows:

- (i) the definition of “Excluded Claim” is hereby amended to add a new subparagraph (vi) that shall read as follows: “Claim that is advanced by the Litigation Investigator or any creditors, in each case, as may be permitted or directed by further Order of the Court, against the Sears Canada Entities or any Directors and/or Officers, which for greater certainty shall include any Claim that may be identified, reviewed or

investigated as part of the Litigation Investigator's Mandate (as defined in an Order of the Court dated March 2, 2018)".

**Litigation Investigator Costs**

15. **THIS COURT ORDERS** that the Litigation Investigator shall be paid from the funds of the Applicants its reasonable fees and disbursements, including the fees of any counsel retained by the Litigation Investigator in respect of the Mandate, the amount of which is not to exceed a budget approved by the Creditors' Committee in consultation with the Monitor prior to the Litigation Investigator commencing work in respect of fulfilling its Mandate in accordance with this Order. The Litigation Investigator and any counsel it retains shall be paid forthwith upon rendering fully-redacted versions of their accounts to the Applicants and the Monitor. Un-redacted versions of accounts rendered by the Litigation Investigator shall be made available to the Creditors' Committee and, upon request of the Court and subject to a sealing order to protect privilege and confidentiality, to the Court. In the event of any disagreement with respect to a proposed budget, any requested increased to such budget, or any accounts rendered by the Litigation Investigator, such disagreement may be remitted to this Court for determination.

16. **THIS COURT ORDERS** that the Litigation Investigator shall be entitled to the benefit of the Administrative Charge, as defined in the Initial Order issued by the Court dated June 22, 2017 as amended, for the Litigation Investigator's costs, as security for its professional fees, taxes, and disbursements reasonably incurred.

17. **THIS COURT ORDERS** that the Litigation Investigator is hereby authorized to take all appropriate steps and do all appropriate acts necessary or desirable to carry out its Mandate in accordance with the terms of this Order.



18. **THIS COURT ORDERS** that the Litigation Investigator shall be at liberty, and is hereby authorized, at any time, to apply to this Court for advice and directions in respect of its Mandate or any variation or expansion of the powers and duties of the Litigation Investigator, which shall be brought on at least seven (7) business days' notice to the Service List in these CCAA proceedings, unless time for service is otherwise abridged.

19. **THIS COURT ORDERS** that the Litigation Investigator shall have no personal liability as a result of the performance of its duties in carrying out the provisions of this Order, save and except for liability arising out of gross negligence or wilful misconduct. The Creditors' Committee members shall have no liability as a result of their participation on the Creditors' Committee or in providing input to the Litigation Investigator, save and except for liability arising out of gross negligence or wilful misconduct.

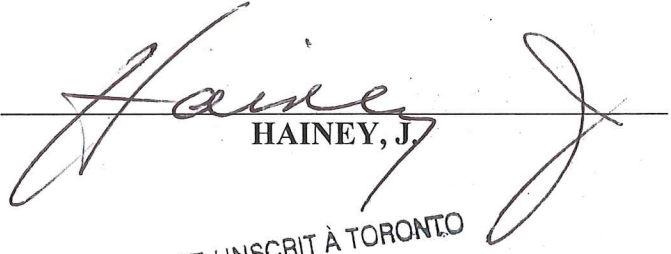
20. **THIS COURT ORDERS** that no action or proceeding may be commenced against the Litigation Investigator or any Creditors' Committee member in respect of the performance of its or their duties under this Order without leave of this Court on seven (7) business days' notice to the Litigation Investigator and the Creditors' Committee.

21. **THIS COURT ORDERS** that notwithstanding:

- (a) the pendency of these proceedings;
- (b) any applications for a bankruptcy order now or hereafter issued pursuant to the *Bankruptcy and Insolvency Act* (Canada) (the "BIA") in respect of any of the Applicants and any bankruptcy order issued pursuant to such applications; or
- (c) any assignment in bankruptcy made in respect of any of the Applicants;

the provisions of this Order shall be binding on any Investigator in bankruptcy or receiver that may be appointed in respect of any of the Applicants and any payments of fees and disbursements made to the Litigation Investigator in accordance with this Order shall not be void or voidable by creditors of any of the Applicants, nor shall any such payments constitute nor be deemed to be a fraudulent preference, assignment, fraudulent conveyance, transfer at undervalue, or any reviewable transaction under the BIA or any other applicable federal or provincial legislation, nor constitute oppressive or unfairly prejudicial conduct pursuant to any applicable federal or provincial legislation.

22. **THIS COURT HEREBY REQUESTS** the aid and recognition of any court, tribunal, regulatory or administrative bodies having jurisdiction in Canada or in the United States of America, to give effect to this Order and to assist the Litigation Investigator in carrying out the terms of this Order. All courts, tribunals, regulatory and administrative bodies are hereby respectfully requested to make such orders and to provide such assistance to the Litigation Investigator as may be necessary or desirable to give effect to this Order, or to assist the Litigation Investigator in carrying out the terms of this Order.

  
HAINEY, J.

ENTERED AT / INSCRIT À TORONTO  
ON / BOOK NO:  
LE / DANS LE REGISTRE NO:

APR 26 2018

PER / PAR: 

AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF SEARS CANADA INC., 9370-2751 QUÉBEC INC., 191020 CANADA INC., THE CUT INC., SEARS CONTACT SERVICES INC., INITIUM LOGISTICS SERVICES INC., INITIUM COMMERCE LABS INC., INITIUM TRADING AND SOURCING CORP., SEARS FLOOR COVERING CENTRES INC., 173470 CANADA INC., 2497089 ONTARIO INC., 6988741 CANADA INC., 10011711 CANADA INC., 1592580 ONTARIO LIMITED, 955041, ALBERTA LTD., 4201531 CANADA INC., 168886 CANADA INC., AND 3339611 CANADA INC.

(each, an "Applicant", and collectively, the "Applicants")

**ONTARIO**  
**SUPERIOR COURT OF JUSTICE**  
**(COMMERCIAL LIST)**

Proceeding commenced at Toronto

**AMENDED LITIGATION INVESTIGATOR ORDER**

**1735**

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and Non-Unionized Active and Former Employees of the  
Sears Canada Entities

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
COMMERCIAL LIST**

THE HONOURABLE )  
 )  
MR. JUSTICE HAINEY ) MONDAY, THE 3RD  
 )  
 ) DAY OF DECEMBER, 2018

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



AND IN THE MATTER OF A PLAN OF COMPROMISE OR  
ARRANGEMENT OF SEARS CANADA INC., 9370-2751  
QUEBEC INC., 191020 CANADA INC., THE CUT INC.,  
SEARS CONTACT SERVICES INC., INITIUM LOGISTICS  
SERVICES INC., INITIUM COMMERCE LABS INC., INITIUM  
TRADING AND SOURCING CORP., SEARS FLOOR  
COVERING CENTRES INC., 173470 CANADA INC., 2497089  
ONTARIO INC., 6988741 CANADA INC., 10011711 CANADA  
INC., 1592580 ONTARIO LIMITED, 955041 ALBERTA LTD.,  
4201531 CANADA INC., 168886 CANADA INC., AND 3339611  
CANADA INC.

(each, an “Applicant”, and collectively, the “Applicants”)

**ORDER  
(APPOINTMENT OF LITIGATION TRUSTEE,  
LIFTING OF STAY, AND OTHER RELIEF)**

THIS MOTION, made by the Litigation Investigator, for an Order pursuant to section 11 of the *Companies’ Creditors Arrangement Act*, RSC 1985, c C-36,, as amended (the “*CCAA*”) and Rule 6.01 of the *Rules of Civil Procedure*, RRO 1990, Reg. 194, as amended (the “*Rules*”) for an order, among other things, appointing a Litigation Trustee to pursue certain claims on behalf of the Applicants and/or any creditors of the Applicants and providing for the process by which a

common issues trial will be heard, was heard this day at 330 University Avenue, 8th Floor, Toronto, Ontario.

ON READING the Monitor's 27th Report to the Court dated November 5, 2018 and the Litigation Investigator's First Report to the Court dated November 5, 2018 (the "**First Report**"), and on reading and hearing the submissions of counsel for the Applicants, counsel for the Monitor, counsel for the Litigation Investigator, and such other counsel for various creditors and stakeholders as were present, no one else appearing although duly served as appears from the Affidavit of Service.

**SERVICE**

1. THIS COURT ORDERS that this motion is properly returnable today and hereby dispenses with further service thereof.

**TERMINATION OF LITIGATION INVESTIGATOR APPOINTMENT**

2. THIS COURT ORDERS that the appointment of the Litigation Investigator pursuant to the Amended Litigation Investigator Order dated April 26, 2018 (the "**Amended Litigation Investigator Order**"), is hereby terminated, effective immediately.

**CONTINUATION AND EXTENSION OF LITIGATION CREDITORS' COMMITTEE**

3. THIS COURT ORDERS that the Creditors' Committee established pursuant to the Amended Litigation Investigator Order dated April 26, 2018 shall continue as currently constituted thereunder to consult with and provide input to the Litigation Trustee Parties in respect of the claims brought by the Litigation Trustee in accordance with this Order.

4. THIS COURT ORDERS that the Litigation Trustee Parties shall meet with the Creditors' Committee on a monthly basis unless otherwise agreed for a particular month by said parties, and which meetings shall be subject to confidentiality and that privilege shall be maintained.

**APPOINTMENT OF LITIGATION TRUSTEE**

5. THIS COURT ORDERS that the Honourable J. Douglas Cunningham, Q.C. is hereby appointed as an officer of this Court to be the Litigation Trustee over and in respect of the Applicants' claims identified in the First Report of the Litigation Investigator (the "**Litigation Assets**" or the "**Claims**") on the terms described herein.

**LITIGATION TRUSTEE'S POWERS**


6. THIS COURT ORDERS that the Litigation Trustee is hereby empowered, authorized and directed to do all things and carry out all actions necessary to prosecute the Claims, including:

- (a) to engage, give instructions and pay counsel as well as consultants, appraisers, agents, advisors, experts, auditors, accountants, managers and such other persons from time to time on whatever basis the Litigation Trustee may agree, in consultation with the Monitor, to assist with the exercise of his powers and duties. Notwithstanding such authority, the Litigation Trustee shall be under no obligation to consult with its counsel, consultants, appraiser, agents, advisors, experts, auditors, accountants, managers and its good faith determination not to do so shall not result in the imposition of liability on the Litigation Trustee, unless such determination is based on gross negligence or willful misconduct;

- (b) to execute, assign, issue and endorse documents of whatever nature in the name of and on behalf of Sears Canada for any purpose in connection with the Claims or otherwise pursuant to this Order; and
- (c) to pursue the Claims, defend any counter claim, third party claim or other claim brought against Sears Canada, and subject to further Order of the Court, and in consultation with the Monitor, to settle or compromise, abandon, dismiss or otherwise dispose of such proceeding. The authority hereby conferred shall extend to any appeals or applications for judicial review in respect of any order or judgment pronounced in such proceeding.

7. THIS COURT ORDERS that, notwithstanding the generality of paragraph 15(d) above, the Litigation Trustee is hereby authorized and empowered to commence claims, in his own name or on behalf of the Applicants, against ESL Investments Inc. (and certain affiliates), Edward Lampert, William C. Crowley, William R. Harker, Donald Campbell Ross, Ephraim J. Bird, Deborah E. Rosati, R. Raja Khanna, James McBurney and Douglas Campbell.

8. THIS COURT ORDERS that the stay of proceedings provided for in paragraph 25 of the Initial Order dated June 22, 2017 (the “**Initial Order**”), is hereby lifted as against William C. Crowley, William R. Harker, Donald Campbell Ross, Ephraim J. Bird, Deborah E. Rosati, R. Raja Khanna, James McBurney and Douglas Campbell for the purposes of permitting the claims referred to in the First Report, including those of the Litigation Trustee, to be commenced and pursued against those persons.

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**INDEMNITY**

9. THIS COURT ORDERS that the Litigation Trustee shall incur no liability or obligation as a result of his appointment or in carrying out of any of the provisions of this Order, save and except for any gross negligence or any willful misconduct. Sears Canada shall indemnify and hold harmless the Litigation Trustee and his designated agents, representatives and professionals with respect to any liability or obligations as a result of his appointment or the fulfillment of his duties in carrying out the provisions of this Order, save and except for any gross negligence or willful misconduct. For clarity, in no event shall the Litigation Trustee be personally liable for any costs awarded against Sears Canada in the action. Any such costs awarded shall be a claim solely against Sears Canada estate. No action, application or other proceeding shall be commenced against the Litigation Trustee as a result of, or relating in any way to his appointment, the fulfillment of his duties or the carrying out of any Order of this Court except with leave of this Court being obtained. Notice of any such motion seeking leave of this Court shall be served upon Sears Canada, the Monitor and the Litigation Trustee at least seven (7) days prior to the return date of any such motion for leave.

10. THIS COURT ORDERS that the indemnity pursuant to paragraphs 4-8 above shall survive any termination, replacement or discharge of the Litigation Trustee. Upon any termination, replacement or discharge of the Litigation Trustee, on not less than 10 business days' notice, all claims against the Litigation Trustee, his designated agents, representatives and professionals for which leave of the Court has not already been sought and obtained shall be, and are hereby forever discharged, other than claims for which a party seeks leave prior to the discharge date to bring a claim against the Litigation Trustee and (i) such leave has been obtained; or (ii) the request for leave remains outstanding.

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**LITIGATION TRUSTEE'S ACCOUNTS**

11. THIS COURT ORDERS that the Litigation Trustee and counsel to the Litigation Trustee (collectively, the "**Litigation Trustee Parties**") shall be paid their reasonable fees and disbursements, in each case at their standard rates and charges, by Sears Canada as part of the costs of these proceedings. Sears Canada is authorized and directed to pay the accounts of the Litigation Trustee Parties on a bi-weekly basis (or such other interval as may be mutually agreed upon) and, in addition, Sears Canada is hereby authorized to pay to the Litigation Trustee Parties retainers not exceeding \$50,000.00 each, to be held by them as security for payment of their respective fees and disbursements outstanding from time to time.

12. THIS COURT ORDERS that the Litigation Trustee Parties shall pass their accounts from time to time, and for this purpose the accounts of the Litigation Trustee Parties are hereby referred to a judge of the Commercial List of the Ontario Superior Court of Justice.

13. THIS COURT ORDERS that the Litigation Trustee Parties shall be entitled to the benefit of and are hereby granted a charge in the maximum amount of \$500,000.00 (the "**Litigation Trustee's Charge**") on the "**Property**" of Sears Canada as defined by paragraph 4 of the Initial Order, ranking *pari passu* with the Administration Charge (as defined in the Initial Order), in priority to all other security interests, trusts (statutory or otherwise), liens, charges and encumbrances, claims of secured creditors, statutory or otherwise (collectively, "**Encumbrances**") in favour of any person, including all charges granted by the Initial Order (other than the Administration Charge) and all other Orders of this Court granted in these proceedings.

14. THIS COURT ORDERS that the filing, registration or perfection of the Litigation Trustee's Charge shall not be required, and that the Litigation Trustee's Charge shall be valid and enforceable for all purposes, notwithstanding any such failure to file, register, record or perfect.

15. THIS COURT ORDERS that the granting of the Litigation Trustee's Charge shall not be rendered invalid or unenforceable and the rights and remedies of the chargees entitled to the benefit of the Litigation Trustee's Charge shall not otherwise be limited or impaired in any way by (a) the pendency of these proceedings and the declaration of insolvency herein; (b) any application(s) for bankruptcy order(s) issued pursuant to *Bankruptcy and Insolvency Act* (Canada) (the "BIA"), or any bankruptcy order made pursuant to such applications; (c) the filing of any assignments for the general benefit of creditors made pursuant to the BIA; or (d) the provisions of any federal or provincial statutes, and notwithstanding any provision to the contrary in any agreement.

16. THIS COURT ORDERS that the payments made by Sears Canada pursuant to this Order and the granting of the Litigation Trustee's Charge, do not and will not constitute preferences, fraudulent conveyances, transfers at undervalue, oppressive conduct, or other challengeable or voidable transactions under any applicable law.

#### **LIMITATION ON ENVIRONMENTAL LIABILITIES**

17. THIS COURT ORDERS that nothing herein contained shall require the Litigation Trustee to occupy or to take control, care, charge, possession or management (separately and/or collectively, "**Possession**") of any of the Property that might be environmentally contaminated, might be a pollutant or a contaminant, or might cause or contribute to a spill, discharge, release or deposit of a substance contrary to any federal, provincial or other law respecting the protection, conservation, enhancement, remediation or rehabilitation of the environment or relating to the

disposal of waste or other contamination including, without limitation, the *Canadian Environmental Protection Act*, the *Ontario Environmental Protection Act*, the *Ontario Water Resources Act*, or the *Ontario Occupational Health and Safety Act* and regulations thereunder (the “**Environmental Legislation**”), provided however that nothing herein shall exempt the Litigation Trustee from any duty to report or make disclosure imposed by applicable Environmental Legislation. The Litigation Trustee shall not, as a result of this Order or anything done in pursuance of the Litigation Trustee’s duties and powers under this Order, be deemed to be in Possession of any of the Property within the meaning of any Environmental Legislation, unless it is actually in possession.

#### **PROCEDURE**

18. THIS COURT ORDERS that a case management judge for the claims brought by the Monitor, the Litigation Trustee, the Pension Administrator, and the Class Action plaintiffs as referred to in the First Report will be appointed as soon as possible.

19. THIS COURT ORDERS that the procedure to be followed for the claims brought by the Monitor, the Litigation Trustee, the Pension Administrator, and the Class Action plaintiffs as referred to in the First Report shall be determined by the case management judge.

#### **GENERAL**

20. THIS COURT ORDERS that, without limiting any other provisions of this Order, the Litigation Trustee may from time to time apply to this Court for advice and directions in the discharge of his powers and duties hereunder.

21. THIS COURT ORDERS that the Monitor and the Litigation Trustee may report to the Court on their activities from time to time as any of them may see fit or as this Court may direct.

22. THIS COURT HEREBY REQUESTS the aid and recognition of any court, tribunal, regulatory or administrative body having jurisdiction in Canada or in the United States to give effect to this Order and to assist the Litigation Trustee and its agents in carrying out the terms of this Order. All courts, tribunals, regulatory and administrative bodies are hereby respectfully requested to make such orders and to provide such assistance to the Litigation Trustee, as an officer of this Court, as may be necessary or desirable to give effect to this Order or to assist the Litigation Trustee and its agents in carrying out the terms of this Order.

23. THIS COURT ORDERS that the Litigation Trustee be at liberty and is hereby authorized and empowered to apply to any court, tribunal, regulatory or administrative body, wherever located, for the recognition of this Order and for assistance in carrying out the terms of this Order, and that the Litigation Trustee is authorized and empowered to act as a representative in respect of the within proceedings for the purpose of having these proceedings recognized in a jurisdiction outside Canada.

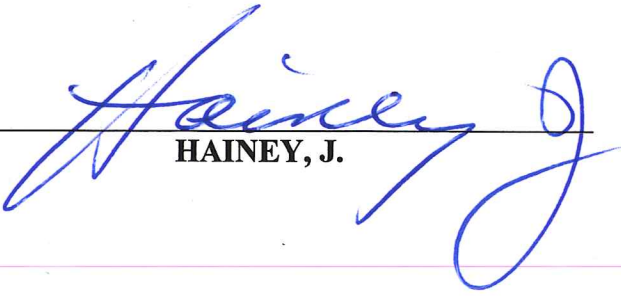
24. THIS COURT ORDERS that any interested party may apply to this Court to vary or amend this Order on not less than seven (7) days' notice to the Litigation Trustee and the Monitor and to any other party likely to be affected by the order sought or upon such other notice, if any, as this Court may order.

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DEC 04 2018

PER / PAR:

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HAINEY, J.

IN THE MATTER OF THE COMPANIES' CREDITORS ARRANGEMENT ACT, R.S.C. 1985 c. C-36, AS AMENDED  
AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF SEARS CANADA INC., 9370-2751 QUEBEC INC., 191020 CANADA  
INC., THE CUT INC., SEARS CONTACT SERVICES INC., INITIUM LOGISTICS SERVICES INC., INITIUM COMMERCE LABS INC., INITIUM  
TRADING AND SOURCING CORP., SEARS FLOOR COVERING CENTRES INC., 173470 CANADA INC., 2497089 ONTARIO INC., 6988741 CANADA  
INC., 10011711 CANADA INC., 1592580 ONTARIO LIMITED, 955041, ALBERTA LTD., 4201531 CANADA INC., 168886 CANADA INC., AND 3339611  
CANADA INC.

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

**ONTARIO**  
**SUPERIOR COURT OF JUSTICE**  
**COMMERCIAL LIST**

PROCEEDING COMMENCED AT TORONTO

**ORDER**

**(APPOINTMENT OF LITIGATION TRUSTEE,  
LIFTING OF STAY, AND OTHER RELIEF)**

**1745**

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Litigation Investigator

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

**SEARS CANADA INC.,  
AND RELATED APPLICANTS**

**FOURTEENTH REPORT OF FTI CONSULTING CANADA INC., AS MONITOR**

**March 1, 2018**

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**ONTARIO  
SUPERIOR COURT OF JUSTICE  
(COMMERCIAL LIST)**

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

AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF  
SEARS CANADA INC., 9370-2751 QUÉBEC INC., 191020 CANADA INC., THE CUT INC.,  
SEARS CONTACT SERVICES INC., INITIUM LOGISTICS SERVICES INC., INITIUM  
COMMERCE LABS INC., INITIUM TRADING AND SOURCING CORP., SEARS FLOOR  
COVERING CENTRES INC., 173470 CANADA INC., 2497089 ONTARIO INC., 6988741  
CANADA INC., 10011711 CANADA INC., 1592580 ONTARIO LIMITED, 955041  
ALBERTA LTD., 4201531 CANADA INC., 168886 CANADA INC. AND  
3339611 CANADA INC.

APPLICANTS

**FOURTEENTH REPORT TO THE COURT  
SUBMITTED BY FTI CONSULTING CANADA INC.,  
IN ITS CAPACITY AS MONITOR**

**A. INTRODUCTION**

1. On June 22, 2017, Sears Canada Inc. (“**Sears Canada**”) and a number of its operating subsidiaries (collectively, with Sears Canada, the “**Applicants**”) sought and obtained an initial order (as amended and restated on July 13, 2017, the “**Initial Order**”), under the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “**CCAA**”). The relief granted pursuant to the Initial Order was also extended to Sears Connect, a partnership forming part of the operations of the Applicants (and together with the Applicants, the “**Sears Canada Entities**”). The proceedings commenced under the CCAA by the Applicants are referred to herein as the “**CCAA Proceedings**”.



2. The Initial Order, among other things:
  - (a) appointed FTI Consulting Canada Inc. as monitor of the Sears Canada Entities (the “**Monitor**”) in the CCAA Proceedings;
  - (b) granted an initial stay of proceedings against the Sears Canada Entities until July 22, 2017; and
  - (c) scheduled a comeback motion for July 13, 2017 (the “**Comeback Motion**”).
3. Following the Comeback Motion, the Court extended the stay of proceedings to October 4, 2017. In addition, the following orders, among others, were issued:
  - (a) an order setting out the terms of the appointment of Ursel Phillips Fellows Hopkinson LLP as representative counsel for the non-unionized active and former employees of the Sears Canada Entities (“**Employee Representative Counsel**”);
  - (b) an order setting out the terms of the appointment of Koskie Minsky LLP as representative counsel to the non-unionized retirees and non-unionized active and former employees of the Sears Canada Entities with respect to pension and post-employment benefit matters (“**Pension Representative Counsel**”); and
  - (c) an order approving a sale and investor solicitation process (the “**SISP**”) to solicit interest in potential transactions involving the business, property and assets and/or leases of the Applicants.
4. Since the date of the Comeback Motion, the stay period has been extended a number of times, most recently to April 27, 2018.
5. On December 8, 2017, the Court issued an Order (the “**Claims Procedure Order**”) approving a claims process for the identification, determination and adjudication of claims of creditors against the Sears Canada Entities and their current and former officers and directors. The Claims Procedure Order also directed the Monitor to assess in detail, with reasonably sufficient particulars and analysis, the validity and

quantum of all intercompany claims, and to serve on the Service List and file with the Court a report detailing the work performed (the “**Intercompany Claims Report**”) by the General Creditor Claims Bar Date.

6. On February 22, 2018, the Court issued an Employee and Retiree Claims Procedure Order (the “**E&R Claims Procedure Order**”) approving a process for the identification, determination and adjudication of claims of employees and retirees of the Sears Canada Entities.
7. The liquidation of assets at Sears Canada’s retail locations is now complete and all of Sears Canada’s retail locations are now closed.
8. In connection with the CCAA Proceedings, the Monitor has provided thirteen reports and five supplemental reports (collectively, the “**Prior Reports**”), and prior to its appointment as Monitor, FTI also provided to this Court a pre-filing report of the proposed Monitor dated June 22, 2017 (the “**Pre-Filing Report**”). The Pre-Filing Report, the Prior Reports and other Court-filed documents and notices in these CCAA Proceedings are available on the Monitor’s website at [cfcanada.fticonsulting.com/searscanada/](http://cfcanada.fticonsulting.com/searscanada/) (the “**Monitor's Website**”).

## **B. PURPOSE**

9. The purpose of this Fourteenth Report is to provide the Court with information and the Monitor’s recommendations on the proposed order to be sought in connection with the Litigation Trustee Motion (as defined below) that was the subject of the Monitor’s Twelfth Report dated February 13, 2018 and on the Monitor’s motion to extend the date for delivery of the Monitor’s Intercompany Claims Report pursuant to the Claims Procedure Order, and to provide an update on other developments in the CCAA Proceedings.

## **C. LITIGATION TRUSTEE MOTION**

10. On February 13, 2018, FTI Consulting Canada Inc., as Court-appointed Monitor, filed its Twelfth Report to the Court in these CCAA Proceedings (the “**Twelfth Report**”) in

connection with a motion by Pension Representative Counsel for the appointment of a Litigation Trustee (the “**Litigation Trustee Motion**”).

11. Capitalized terms used in this section of the Fourteenth Report and not otherwise defined have the meanings given to them in the Twelfth Report.

Background

12. As described in the Twelfth Report, earlier in these proceedings, various stakeholders began to have discussions about possible recoveries from various potential claims against parties connected with the Applicants. Those stakeholders were: Employee Representative Counsel, counsel to the Superintendent of Financial Institutions (the “**Superintendent**”), counsel to Morneau Shepell, as administrator of the Sears Canada Pension Plan (the “**Plan Administrator**”), Pension Representative Counsel, various landlord counsel, and counsel to the Sears Hometown Dealers (collectively, the “**Participating Stakeholders**”).
13. The need to coordinate various streams of potentially overlapping litigation was initially identified by certain Participating Stakeholders earlier in these proceedings. There was initial support from Participating Stakeholders for a ‘litigation inspector’ or a ‘litigation trustee’.
14. The Litigation Trustee Motion, originally returnable on February 15, 2018, was brought forward by Pension Representative Counsel for the purpose of appointing a Litigation Trustee.
15. As of February 15, 2018, the Participating Stakeholders were not in agreement on the identity of the Litigation Trustee or the proposed mandate of the Litigation Trustee.
16. The Monitor recommended that, prior to advancing the Litigation Trustee Motion, further efforts should be made among stakeholders to arrive at a consensus on:
  - (a) the selected litigation inspector/trustee;

- (b) the scope of the litigation inspector/trustee’s mandate, and in particular the types of claims to be investigated, reported upon and potentially pursued, including the terms of any appointment order;
- (c) the composition of the consultative committee that would work with the litigation inspector/trustee and the exact process by which the committee would grant approvals and make recommendations; and
- (d) appropriate funding mechanisms for the litigation inspector/trustee and its counsel

(the “**Preliminary Outstanding Matters**”).

17. The Court did not hear the Litigation Trustee Motion and directed the Participating Stakeholders and the Monitor to work toward consensus on the Preliminary Outstanding Matters.

Status Update

18. Following the Court’s direction, the Monitor worked with the Participating Stakeholders to attempt to resolve the Preliminary Outstanding Matters. The Monitor can report that significant progress has been made:
- (a) Parties acceptable to the Participating Stakeholders have been identified to undertake the role of “Litigation Investigator”; and
  - (b) A form of order has been substantially negotiated and agreed among the Participating Stakeholders setting out the scope of the proposed mandate of the Litigation Investigator and other relevant terms including a funding mechanism for the Litigation Investigator.

A copy of the proposed form of order is attached hereto as **Appendix “A”**.

19. The Material terms of the proposed form of order are as follows:

- (a) Litigation Investigator: Lax O’Sullivan Lissus Gottlieb LLP (represented by Jonathan Lissus and Matthew Gottlieb) are proposed to be appointed to the role of Litigation Investigator.
- (b) Mandate: The Litigation Investigator is proposed to be an officer of the Court appointed for the purpose of investigation, consideration of, and reporting to the Creditors’ Committee (defined below), regarding any rights or claims, whether legal, equitable, statutory or otherwise, that the Sears Canada Entities and/or any creditors of any of the Sears Canada Entities may have as against any parties, including but not limited to current and former directors, officers, shareholders and advisors of any of the Sears Canada Entities. The mandate does not include determining, advising on, opposing or articulating any claim filed in the claims process established under the Claims Procedure Order or the E&R Claims Procedure Order. The Litigation Investigator will have no role in the distribution or allocation of estate funds.
- (c) Reporting: The Litigation Investigator will report to the Creditors’ Committee. The report will include, among other things, recommendations regarding a proposed litigation plan.
- (d) Creditors’ Committee: A committee of creditors will be established to consult with the Litigation Investigator (the “**Creditors’ Committee**”). The Creditors’ Committee will be comprised of members appointed by, or on behalf of various creditor groups.
- (e) Monitor Briefing: The Monitor shall provide to the Litigation Investigator (and, upon execution of appropriate confidentiality agreements, the Creditors’ Committee) a confidential briefing regarding the “Transactions of Interest” as identified in the Monitor’s Eleventh Report to the Court. The Monitor may not be in a position to share all information in its possession regarding the Transactions of Interest due to privilege or confidentiality concerns. The proposed form of order includes a mechanism to deal with any such confidentiality or privilege concerns that may arise. The Monitor notes that the

information received by the Monitor and the research and analysis undertaken by the Monitor in connection with the Transactions of Interest were in some cases received and undertaken for very specific purposes in fulfilling the Monitor's statutory mandate, and information was shared by the Sears Canada Entities and others with the Monitor for those specific purposes and on specific understandings regarding the uses of such information.

- (f) Claims Procedure Issues: Rights, claims or causes of action identified by the Litigation Investigator as capable of being advanced and that are advanced with approval of the Court, whether by the Litigation Investigator or otherwise, are removed from the claims process established under the Claims Procedure Order or the E&R Claims Procedure Order and, if so removed, would not be subject to the bar dates and procedures contained therein.
- (g) Costs: The Litigation Investigator shall be paid from the funds of the Applicants its reasonable fees and disbursements, the amount of which is not to exceed a budget approved by the Creditors' Committee in consultation with the Monitor. The Litigation Investigator shall be entitled to the benefit of the Administrative Charge, as defined in the Initial Order for the Litigation Investigator's costs, as security for its professional fees, taxes, and disbursements reasonably incurred.

- 20. A copy of the proposed form of order was shared with counsel to the Applicants, counsel to the directors, counsel to Sears Holdings Corporation and counsel to Edward Lampert and ESL Investments Inc.

Monitor's Comments and Recommendation

- 21. The Monitor is pleased to report that consensus has been achieved among the Participating Stakeholders on the Litigation Investigator's appointment and the matters described in the draft form of Order.
- 22. The Monitor is supportive of the form of order appointing a Litigation Investigator that has been circulated and the Monitor believes this form of order is the product of

constructive negotiation and compromise among the Participating Stakeholders as directed by the Court.

23. Certain other parties, including the directors of Sears Canada, ESL Investments Inc. and its affiliates and Sears Holdings Corporation have raised issues regarding the proposed form of Order appointing the Litigation Investigator. These issues include: (i) the Litigation Investigator's role as a 'court officer'; and (ii) the Litigation Investigator's role with respect to claims beyond any claims of the Sears Canada Entities or any claims that are derivative of the estates of the Sears Canada Entities. The Monitor has not had the opportunity to fully discuss these issues with the aforementioned parties, the Applicants, or the Participating Stakeholders, and accordingly takes no position at this time. However, these issues may be the subject of submissions at the March 2<sup>nd</sup> hearing if they cannot be resolved in advance of that hearing.

**D. EXTENSION OF PERIOD TO FILE INTERCOMPANY CLAIMS REPORT**

24. The Claims Procedure Order provided that the Monitor would prepare a report to be served on the Service List and filed with the Court for its consideration, that would detail the Monitor's review of all Intercompany Claims (as defined in the Claims Procedure Order) and assess the validity and quantum of such Claims (the "**Intercompany Claims Report**"), with any Intercompany Claim identified thereby to be deemed to have been properly submitted via a proof of claim.
25. The Claims Procedure Order required that the Intercompany Claims Report be served on or before March 2, 2018, unless otherwise ordered by this Court on application by the Monitor.
26. Although progress has been made by the Monitor with the support of the Applicants towards completion of this task, the Monitor requires additional time to complete its review of all Intercompany Claims, analyze and assess the validity and quantum of all intercompany claims, and document its findings in the Intercompany Claims Report.

27. The Monitor requires a substantial amount of assistance from the Applicants and their employees in order to complete the Intercompany Claims Report. There have been significant demands on the Applicants' limited remaining employees, including in connection with negotiating and preparing for the employee and retiree claims process ordered in the E&R Claims Procedure Order, which the Monitor was also heavily involved in. As a result, additional time is required for completion of the Intercompany Claims Report.
28. The Monitor is proposing to extend the deadline for completion of the Intercompany Claims Report by one month to April 2, 2018 (the "**Proposed Intercompany Claims Report Extension**"). This date is subsequent to the General Creditor Claims Bar Date of March 2, 2018; however, the Monitor will require time to review and adjudicate proofs of claim received by the General Creditor Claims Bar Date and the Proposed Intercompany Claims Report Extension aligns with this timeline. The claims bar date for other potential unsecured claimants, such as Litigation Claims (as such term is defined in the Endorsement (as defined below)) and certain landlord claims, are also on or subsequent to the Proposed Intercompany Claims Report Extension.
29. In conclusion, the Monitor believes that there is no prejudice to stakeholders should the Court agree to the Proposed Intercompany Claims Report Extension, and grant the Intercompany Claims Report Extension Order.

## **E. UPDATES ON THE CCAA PROCEEDINGS**

### *Claims Process*

30. As of the date of this Report, the Monitor has received proofs of claim in amounts totalling not less than \$162 million.
31. The Monitor is continuing to receive proofs of claim at this time. The Claims Procedure Order set a General Creditor Claims Bar Date of March 2, 2018. The Claims Procedure Order establishes later bar dates for certain claims, such as certain claims by landlords. Pursuant to the endorsement (the "**Endorsement**") of Justice Haaney made on February 22, 2018, the claims bar date for certain Litigation Claims



(as such term is defined in the Endorsement) has been extended to April 2, 2018. A copy of the Endorsement is attached as **Appendix “B”** to this Fourteenth Report.

32. In accordance with the E&R Claims Procedure Order, the Monitor is currently taking steps required to cause the Notice to Claimants to be published in The Globe and Mail (National Edition) and in the electronic edition of La Presse and to deliver Proof of Claim Packages to Claimants to the extent required by the E&R Claims Procedure Order. The Monitor has also caused the Notice to Claimants and blank copies of the Claims Packages (excluding any blank Termination Claim Statement or Retiree Benefit Claim Statement) to be posted on the Monitor’s website.

*Disclaimer of Contracts / Craftsman License*

33. The Applicants, with the assistance of the Monitor, continue to review their remaining contractual arrangements to determine if, in the circumstances, disclaimers of such contractual arrangements would be appropriate.
34. As of the date of this Fourteenth Report, all retail store leases have been disclaimed by the Applicants and the Applicants no longer occupy any such retail store locations.
35. In the Eleventh Report, dated January 15, 2018, the Monitor described its review of various Transactions of Interest, including the surrender by Sears Canada of its exclusive right to use the Craftsman trademark in Canada in connection with the sale by Sears Holdings Corporation of the Craftsman business to Stanley Black & Decker Inc. in March 2017.
36. In connection with the surrender of its exclusive license, Sears Canada received a non-exclusive royalty free license to use the Craftsman trademark in Canada (the “**Replacement License**”).
37. Stanley Black & Decker Inc. has proposed the consensual termination of the Replacement License in view of the termination of Sears Canada’s operations.

38. Sears Canada, in consultation with the Monitor, has determined that it no longer has a need to use the Craftsman trademark and, subject to agreeing upon acceptable terms, neither Sears Canada nor the Monitor have any opposition to the consensual termination of the Replacement License. The Monitor does not believe that termination of the Replacement License would affect any claim that the Monitor may have in connection with the Transactions of Interest and the results of the sale and investment solicitation process indicate that no opportunities to monetize the Replacement License are available. Sears Canada, with the assistance of the Monitor, intends to negotiate the requested consensual termination with Stanley Black & Decker Inc.

*Tax Losses*

39. The Monitor was recently contacted by a party potentially interested in completing a transaction that would, among other things, utilize some of Sears Canada's remaining tax losses. That transaction, if successfully completed, could potentially result in proceeds in the range of \$3 million to \$4.5 million.
40. The Applicants, the Monitor, and counsel reviewed the terms of the proposed transaction including:
- (a) the level of risk and uncertainty as to closing involved;
  - (b) the near certainty that such a proposed sale would result in Canada Revenue Agency audits of net operating losses and other tax accounts, and likely result in delays in distributions and completion of the winding-up of the estate; and
  - (c) the time and costs required to implement a transaction of this type.
41. The Applicants, in consultation with the Monitor, determined that they do not support the pursuit of the proposed transaction in the circumstances. The Board of Directors and the Monitor agree with this decision and the Monitor intends to advise the proposed counterparty accordingly.

*Second Liquidation Process*

42. On October 13, 2017, the Court issued, among other orders, an order approving an agreement and a process (the “**Second Liquidation Process**”) for the liquidation of inventory and furniture, fixtures and equipment at all remaining Sears Canada locations.
43. The Second Liquidation Process is now complete at all locations.
44. Sears Canada, the Monitor and the agent under the Second Liquidation Process are now undertaking a final reconciliation process to determine any additional amounts payable by or to the agent or Sears Canada under the Second Liquidation Process.
45. The Monitor understands that upon completion of the Second Liquidation Process and the disclaimer of Sears Canada’s remaining retail leases, as described above, certain landlords raised concerns that furniture, fixtures and equipment remained on the leased premises and should have been removed by Sears Canada or the agent in the Second Liquidation Process. Sears Canada’s counsel advised that to the extent any furniture, fixtures and equipment remained on the premises, Sears Canada believed this was done only in circumstances where the applicable lease did not require Sears Canada to remove such furniture, fixtures and equipment.
46. The obligation, if any, of Sears Canada to remove such furniture, fixtures and equipment, or to reimburse landlords for the cost of such removal, pursuant to the applicable leases and the sale guidelines approved by the Court in connection with the Second Liquidation Process remains an unresolved issue. In the Monitor’s view, this matter can be resolved in connection with the Claims Process.

*Real Estate Sale Process*

47. As part of the SISP, Sears Canada, with the assistance of BMO Nesbitt Burns Inc., as financial advisor, (“**BMO**”) sought offers for the purchase of Sears Canada’s remaining owned real property.

48. Expressions of interest were received for Sears Canada's owned real property by the August 31<sup>st</sup> bid deadline under the SISP.
49. Subsequent to the bid deadline, two transactions for real estate owned by Sears Canada were approved by the Court and completed. These transactions were for the sale of the Winnipeg Garden City location and the Upper Canada Home Store location.
50. While expressions of interest were received for certain of Sears Canada's remaining real estate assets, Sears Canada determined, in consultation with BMO and the Monitor, that the best opportunities to monetize the remaining real estate assets would be available only after additional due diligence materials, including environmental studies, were completed and were made available to potential purchasers.
51. Sears Canada continues to own the following real estate assets:
  - (a) Upper Canada Mall full-line store (Newmarket, ON)
  - (b) Distribution center (Belleville, ON)
  - (c) Fleur de Lys full-line store (Quebec City, QC)
  - (d) Windsor full-line store (Windsor, ON)
  - (e) Peterborough full-line store (Peterborough, ON)
  - (f) Barrie full-line store (Barrie, ON)
  - (g) Trois-Rivières full-line store (Trois-Rivières, QC)
  - (h) Place Vertu liquidation store (Montréal, QC)
  - (i) Lévis full-line store (Lévis, QC);
  - (j) Charlottetown store (Charlottetown, PEI)

- (k) Chicoutimi residual land (Chicoutimi, QC); and
- (l) Edmonton residual land (Edmonton, AB)

(collectively, the “**Remaining Real Estate Assets**”).

- 52. As of February 7, 2018, the additional required due diligence information had been obtained and Sears Canada, in consultation with BMO and the Monitor, determined that the sale process for the Remaining Real Estate Assets should continue.
- 53. On February 7, 2018, BMO delivered an updated sale process letter (the “**Updated Sale Process Letter**”) to those parties who previously expressed an interest in the Remaining Real Estate Assets under the SISP. BMO also delivered the Updated Sale Process Letter to potentially interested parties identified by the real estate advisor to the Superintendent. The Updated Sale Process Letter solicits bids for all of the Remaining Real Estate Assets other than the assets located in Charlottetown, Edmonton and Chicoutimi. The Updated Sale Process Letter provides a bid deadline of March 7, 2018 at 5:00 p.m. (Eastern).
- 54. A separate sale process has been commenced for the assets located at Charlottetown, Edmonton and Chicoutimi. The assets at these locations will be marketed under an Exclusive Sales Listing Agreement with CBRE Limited pursuant to which CBRE Limited would act as sale advisor. This alternative structure was selected for the Charlottetown, Edmonton and Chicoutimi assets as Sears Canada determined, in consultation with BMO, the Monitor, Pension Representative Counsel, Employee Representative Counsel, the Superintendent and the Plan Administrator, and their respective financial and/or real estate advisors, that these assets could be sold separately and likely in a more expedited manner without affecting bids for the other Remaining Real Estate Assets. CBRE Limited was selected as the appropriate agent following a competitive bid process.
- 55. As noted above, Employee Representative Counsel, Pension Representative Counsel, the Superintendent, the Plan Administrator and their respective advisors have been consulted extensively in the development of the updated process to market

the Remaining Real Estate Assets. These parties were identified as appropriate consultation parties by Sears Canada and the Monitor as they represent a large and coordinated portion of the unsecured creditor class and would not have conflicting interests as they would have no interest in acquiring any of the Remaining Real Estate Assets for their own benefit. All of these consultation parties have entered into non-disclosure agreements with Sears Canada.

#### *Residual Asset Sales*

56. The Applicants have now completed sales of a substantial portion of the residual assets located at their premises, including transactions approved pursuant to the Omnibus Approval and Vesting Order granted on December 8, 2017. However, in many cases purchasers must still collect their purchased assets from Sears Canada's locations.

#### *Employee Matters*

57. Following the completion of the Second Liquidation Process, the remaining number of employees of Sears Canada was significantly reduced. As of the date of this Fourteenth Report, the Applicants have 82 remaining employees. The Monitor expects that the number of employees will continue to decrease in the near future.
58. Payments have been made under the amended Key Employee Retention Plan ("KERP") approved by the Court on October 18, 2017 to the extent applicable and where performance and other approved thresholds were achieved.
59. In addition to payments under the amended KERP, on or about January 19, 2018, Sears Canada identified five additional employees whose services were necessary for the completion of data retention, archiving, server migration and certain human resources and other aspects of the wind down of the Sears Canada business. Sears Canada offered those employees retention and incentive payments in an aggregate amount of \$80,000. The Monitor reviewed the proposed payments and the contributions and circumstances of the proposed recipients of those payments. The Monitor supported the payment of these incentive and retention amounts. The

Monitor notes that the Applicants did not seek to include these individuals in the key employee retention program previously approved by the Court and did not seek to have the obligations to these employees secured by the Court-ordered charge established in connection with the KERP.

*Pension Wind-Up*

60. The Monitor has previously reported that on November 10, 2017, the Superintendent issued a Notice of Intended Decision advising that it intended to make an order for the wind up of the Sears Canada Pension Plan, effective October 1, 2017 unless a request for hearing with the Financial Services Tribunal (the “FST”) was submitted within 30 days of the Notice of Intended Decision.
  61. On December 7, 2017, counsel to 1291079 Ontario Limited (“129”), a creditor of Sears Canada Inc., delivered a letter to the Service List identifying a concern that the proposed wind-up of the Sears Canada Pension Plan may have the effect of altering priorities among creditors. The Monitor understands 129 delivered a Request for Hearing Form to the FST requesting a hearing to challenge the intended decision to wind up the Sears Canada Pension Plan. On or about February 6, 2018, 129 delivered its pre-hearing conference brief in the FST proceeding. A copy of the brief, without attachments, is attached as **Appendix “C”**.
  62. Both Sears Canada and the Monitor have applied for party status in connection with the proposed hearing on the Notice of Intended Decision.
  63. A pre-hearing conference has been scheduled by the FST for March 21, 2018 in connection with 129’s request for hearing.
- F. RECEIPTS AND DISBURSEMENTS FOR THE SIX WEEK PERIOD ENDING FEBRUARY 17, 2018**
64. The Sears Canada Group’s actual net cash inflow on a consolidated basis for the six-week period ended February 17, 2018 was approximately \$29.1 million, compared to a forecast net cash outflow of \$60.3 million resulting in a positive variance of approximately \$89.4 million as indicated in the table below:

VARIANCE REPORT	Actual	Forecast	Variance
(CAD in Millions)	<b>For the 6 Week Period Ending February 17, 2018</b>		
<b>Receipts</b>	<b>67.7</b>	<b>5.4</b>	<b>62.3</b>
<b>Operating Disbursements</b>			
Payroll and Employee Related Costs	(14.5)	(15.9)	1.4
Merchandise Vendors	7.2	-	7.2
Non-Merchandise Vendors	(6.2)	(13.9)	7.7
Rent and Property Taxes	(2.6)	(4.7)	2.1
Sales Taxes	(17.9)	(17.9)	-
IT Costs	(7.5)	(8.1)	0.6
Recovery of Expenses from Agent	9.7	3.8	5.9
<b>Total Operating Disbursements</b>	<b>(31.8)</b>	<b>(56.7)</b>	<b>24.9</b>
<b>Net Operating Cash Inflows / (Outflows)</b>	<b>35.9</b>	<b>(51.3)</b>	<b>87.2</b>
Professional Fees	(6.8)	(9.0)	2.2
<b>Net Cash Inflows / (Outflows)</b>	<b>29.1</b>	<b>(60.3)</b>	<b>89.4</b>
<b>Cash</b>			
Beginning Balance	84.2	84.2	-
Net Cash Inflows / (Outflows)	29.1	(60.3)	89.4
<b>Ending Balance</b>	<b>113.3</b>	<b>23.9</b>	<b>89.4</b>

65. Explanations for the key variances are as follows:

- (a) the positive variance of \$62.3 million in receipts consists of: (i) a positive timing difference of \$45.3 million primarily due to earlier-than-forecast receipt of the undisputed portion of the remaining guaranteed amount from the third-party liquidator agent and certain working capital adjustments relating to asset sales pending final reconciliation; and (ii) a positive permanent difference of \$17.0 million primarily due to the final reconciliation of liquidation sales receipts, miscellaneous asset sales, and FF&E sales not contemplated in the forecast;
- (b) the positive variance in Payroll and Employee Related Costs of \$1.4 million consists primarily of a timing difference that is expected to reverse in a future period;



- (c) the positive variance in Merchandise Vendor disbursements of \$7.2 million consists of a permanent difference due to refunds received from vendor deposits and partial recovery of cash collateral held by the lenders relating to LCs which was not contemplated in the forecast;
  - (d) the positive variance in Non-Merchandise Vendor disbursements of \$7.7 million consists of a timing difference of \$5.4 million that is expected to reverse in a future period, and a permanent difference of \$2.3 million primarily due to lower-than-forecast vendor payments and refunds received from vendor deposits;
  - (e) the positive variance in Rent and Property Taxes of \$2.1 million consists of a timing difference of \$1.8 million that is expected to reverse in a future period and a permanent difference of \$0.3 million due to lower-than-forecast rent and property tax payments;
  - (f) the positive variance in IT Costs of \$0.6 million is primarily a timing difference that is expected to reverse in a future period;
  - (g) the positive variance in Recovery of Expenses from Agent of approximately \$5.9 million consists of a permanent difference primarily due to higher-than-forecast reimbursements from the Agent after the final reconciliation of expenses in respect of the Second Liquidation Process; and
  - (h) the positive variance in Professional Fees of \$2.2 million is primarily a timing variance that is expected to reverse in a future period.
66. The Sears Canada Group's cumulative receipts and disbursements since the commencement of CCAA proceedings until the week ended February 17, 2018 are reflected in the table below:

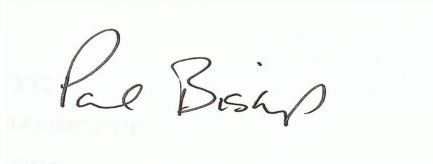
<b>CUMULATIVE RECEIPTS AND DISBURSEMENTS</b>	
(CAD in Millions)	
<b>For the 35 Week Period Ending February 17, 2018</b>	
<b>Receipts</b>	<b>1,207.4</b>
<b>Operating Disbursements</b>	
Payroll and Employee Related Costs	(255.1)
Merchandise Vendors	(295.4)
Non-Merchandise Vendors	(170.3)
Rent and Property Taxes	(82.1)
Sales Taxes	(68.3)
Pension	(14.7)
IT Costs	(24.4)
Recovery of Expenses from Agent	83.6
Capital Expenditures	(0.8)
<b>Total Operating Disbursements</b>	<b>(827.5)</b>
<b>Net Operating Cash Inflows / (Outflows)</b>	<b>379.9</b>
Professional Fees	(55.2)
Repayments of Existing Credit Facilities	(283.3)
DIP Fees and Interest Paid	(19.7)
<b>Net Cash Inflows / (Outflows)</b>	<b>21.7</b>
<b>Cash</b>	
Beginning Balance	126.5
Net Cash Inflows / (Outflows)	21.7
DIP Draws / (Repayments)	(32.0)
Others incl. FX Valuation	(2.9)
<b>Ending Balance</b>	<b>113.3</b>

67. The Initial Order allowed the Sears Canada Group to continue to utilize their existing Cash Management System as described in the First Wong Affidavit and the pre-filing report of the Monitor. After the commencement of the CCAA Proceedings, the Sears Canada Group has continued to utilize its Cash Management System in a manner consistent with past practice.

The Monitor respectfully submits to the Court this, its Fourteenth Report.

Dated this 1st day of March, 2018.

FTI Consulting Canada Inc.  
in its capacity as Monitor of  
the Sears Canada Entities

A handwritten signature in black ink that reads "Paul Bishop". The signature is written in a cursive style and is centered within a light green rectangular background.

Paul Bishop  
Senior Managing Director

A handwritten signature in blue ink that reads "Greg Watson". The signature is written in a cursive style and is centered on the page.

Greg Watson  
Senior Managing Director

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
COMMERCIAL LIST**

Proceeding commenced at TORONTO

**FOURTEENTH REPORT TO THE COURT  
SUBMITTED BY FTI CONSULTING CANADA INC.,  
IN ITS CAPACITY AS MONITOR**

**1768**

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in its capacity as Court-appointed monitor

and

ESL Investments Inc. *et al.*

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

Plaintiff

Defendants

**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 3**

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