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October 28, 2020

TO: Affected Unsecured Creditors of Sears Canada Inc., The Cut Inc., Sears Contact Services Inc., Initium Logistics Services Inc., 9845488 Canada Inc. (formerly "Initium Commerce Lab 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., 3339611 Canada Inc. and SearsConnect (collectively, the "**Sears Parties**"), 191020 Canada Inc. (formerly known as SLH Transport Inc.) and 168886 Canada Inc. (together, the "**SLH Parties**") and 9370-2571 Québec Inc. ("**Former Corbeil**", and collectively with the Sears Parties and SLH Parties, the "**Sears Canada Entities**").

Dear Sirs/Mesdames:

Proposed Joint Plan of Compromise and Arrangement of the Sears Canada Entities

Please find enclosed the joint amended and restated plan of compromise and arrangement (as may be further amended, restated, supplemented or amended and restated from time to time, the "**Plan**") under the *Companies' Creditors Arrangement Act* (Canada) (the "**CCAA**") of the Sears Canada Entities, as presented for filing with the Ontario Superior Court of Justice (Commercial List) (the "**Court**") on October 27, 2020 by FTI Consulting Canada Inc., in its capacity as the Court-appointed Monitor in the CCAA proceedings of the Sears Canada Entities (the "**Monitor**"). Capitalized terms used in this letter that are not otherwise defined in this letter are as defined in the Plan.

The Plan amends and restates the Joint Plan of Compromise and Arrangement of the Sears Canada Entities dated February 15, 2019, which was previously filed with the Court and delivered to creditors (the "**Original Plan**"). The modifications that have been made to the Original Plan are summarized below.

Overview

As you may know, on June 22, 2017, Sears Canada Inc. and certain of its affiliates (as defined above, the "**Sears Canada Entities**") obtained creditor protection under the CCAA. The Sears Canada Entities have closed all of their stores, discontinued their operations and liquidated all of their assets in an effort to maximize recoveries for their creditors.

In addition, the Monitor and the Honourable J. Douglas Cunningham, Q.C., as Court-appointed litigation trustee (the "**Litigation Trustee**"), were authorized by the Court to pursue litigation against certain third parties on behalf of Sears Canada Inc. and its creditors, in connection with the payment of certain dividends made by Sears Canada Inc. to its shareholders in 2013 (the "**Dividend Litigation**").

On March 17, 2020, August 25, 2020 and September 18, 2020, the Court approved the settlement agreements entered into in connection with the Dividend Litigation, such that the Dividend Litigation has now been finally settled and concluded.

In order to distribute the net proceeds from the liquidation of the assets of the Sears Canada Entities and the settlements of the Dividend Litigation, the Monitor has developed the Plan, which is now proposed on behalf of the Sears Canada Entities. The Plan must be approved by a majority in number of Affected Unsecured Creditors in each of two Unsecured Creditor Classes, representing at least two-thirds in value of the Voting Claims of such Affected Unsecured Creditors, in each case who actually vote by proxy at the applicable Meeting. Effectiveness of the Plan is also subject to the approval of the Court pursuant to the CCAA.

If the Plan is approved by the required majorities of creditors and sanctioned by the Court, the Plan will:

- (a) effect a compromise and settlement of all Affected Claims, in exchange for the distributions to Affected Unsecured Creditors with Proven Affected Unsecured Claims;
- (b) facilitate the payment of distributions in respect of Proven Affected Unsecured Claims, Proven Priority Claims and Proven Secured Claims;
- (c) implement the resolution of a number of significant claims against the Sears Canada Entities, including (i) claims relating to the wind-up deficit in the Sears Canada Pension Plan, and (ii) certain class action claims; and
- (d) allow those Affected Unsecured Creditors of Sears Canada Inc. who have not opted out of participation in the Dividend Litigation (such litigation being referred to in the Plan as the “**TUV Claim**” and the “**LT Claims**”, with such Creditors being “**Sears Opt-In Creditors**”) to receive the benefit of the net proceeds from the settlements of the TUV Claim and LT Claims;

all in the expectation that all persons with an economic interest in the Sears Canada Entities will derive a greater benefit from the implementation of the Plan than would result from any alternative, including and in particular, a bankruptcy.

Summary of Amendments to Plan¹

The Plan includes the following amendments to the Original Plan:

¹ This summary is provided for general information purposes only. The Plan is the governing document.

- (a) Litigation Cost Recovery Amount: As a result of the settlements of the Dividend Litigation, the Plan no longer requires a mechanism to provide for ongoing funding of this litigation. The Plan now provides that Sears Canada shall be reimbursed from the proceeds of the settlement of the TUV Claim and the LT Claims for the costs of this litigation funded by Sears Canada Inc. This reimbursed amount will be available for distribution to creditors of Sears Canada Inc. with Proven Affected Unsecured Claims, regardless of whether such creditors are Sears Opt-In Creditors. The recoveries received by Sears Canada Inc. from the settlement of the Dividend Litigation (net of the Litigation Cost Recovery Amount) will be distributed in accordance with the Plan to the Sears Opt-In Creditors holding Proven Affected Unsecured Claims.
- (b) D&O Claims, Director Indemnities and Claims for Contribution from the ESL Parties: The Plan no longer requires a mechanism for distributions to be made on account of indemnity claims asserted by any Director, Officer or ESL Party in connection with the Dividend Litigation. Those indemnity claims have been released as part of the settlement of the Dividend Litigation.
- (c) Releases: The Plan now provides for releases in favour of the Settling Defendants, being Edward Lampert, ESL Investments, Inc., and the former Directors and Officers of Sears Canada and affiliates of ESL Investments, Inc. who were defendants in the Dividend Litigation. Sears Canada is required to seek approval of these releases as a term of the settlements of the Dividend Litigation that was previously approved by the Court. The former Directors and Officers who are not Settling Defendants also receive releases under the Plan.
- (d) Warranty Reimbursement Pool: As a result of additional asset sale proceeds and cash inflows, the cash attributable to the Warranty Reimbursement Pool has increased from \$8,000,000 to \$9,000,000.
- (e) Revised Dates: The Plan Implementation Date must have occurred by December 31, 2020 or such later date as agreed by the Pension Parties and the Monitor.

Classes of Affected Unsecured Creditors and Voting

The Plan is a single joint Plan that will be subject to approval at the Meetings by the vote of each of two Unsecured Creditor Classes, being:

- (f) the Sears Creditor Class, being Affected Unsecured Creditors of any of the Sears Parties; and
- (g) the SLH Creditor Class, being Affected Unsecured Creditors of any of the SLH Parties.

Since Former Corbeil has sufficient funds to pay all of its Affected Unsecured Creditors in full, such creditors will have no shortfall on their claims and so will not be entitled to vote.

Affected Unsecured Creditors in each class will be entitled to vote the amount of their Affected Unsecured Claim as finally determined in accordance with the applicable Claims Procedure Order and the Plan. To the extent that an Affected Unsecured Claim, or any part thereof, remains unresolved, the Affected Unsecured Creditor will also be able to vote its Unresolved Voting Claim and such vote shall be tabulated separately from the votes of Affected Unsecured Creditors with Proven Claims.

Estimated Recoveries

While the value of distributions to Affected Unsecured Creditors cannot be calculated with certainty at this time, the current estimated range of recoveries for Affected Unsecured Creditors of the SLH Parties is approximately 20 to 24 cents on the dollar. For Affected Unsecured Creditors of the Sears Parties who are Sears Opt-In Creditors, this figure is estimated at approximately 8 to 10 cents on the dollar. For Affected Unsecured Creditors who are not Sears Opt-In Creditors, these recoveries will be lower as they will not include any recoveries from the settlements of the Dividend Litigation.

Distributions on account of Proven Claims of Affected Unsecured Creditors in the SLH Creditor Class and Sears Creditor Class will be based on the pro rata share of the net funds available in the SLH Parties and Sears Parties' respective estates. As indicated above, Affected Unsecured Creditors of Former Corbeil will be paid in full.

Sears Opt-In Creditors will additionally be entitled to their pro rata share of the net proceeds from the settlements of the Dividend Litigation.

Pension Claims

The Sears Canada Entities, the Monitor and the Pension Parties reached a settlement pursuant to which the Pension Claims will be allowed as Proven Affected Unsecured Claims for the purposes of distributions at the value of \$624,480,000 against the Sears Parties and \$26,020,000 against the SLH Parties, subject to certain adjustments. As part of the settlement, the Pension Parties agreed to discontinue the Deemed Trust Motions upon implementation of the Plan.

In conjunction with the settlement, the Monitor reached a support agreement with the Pension Plan Administrator whereby the Pension Plan Administrator or its designated proxy will vote in favour of the Plan, provided that the conditions of the settlement are met.

Releases

The Plan provides for customary releases in favour of the Sears Released Parties and the Third Party Released Parties.

As discussed above, the Plan also provides for releases in favour of Edward Lampert, ESL Investments, Inc., and the former Directors and Officers of Sears Canada and affiliates of ESL Investments, Inc. who were defendants in the Dividend Litigation.

Consideration of and Vote on the Plan

The information provided in this letter is intended to give a high level overview of the Plan. You should note, however, that the governing document is the Plan. Accompanying this letter are the following important documents:

- The Plan;
- The Notice of Meetings and Sanction Hearing;
- The Second Supplement to the Monitor's Report on the Plan;
- A form of Creditor Proxy and instructions for its completion; and
- The Virtual Meeting Protocol.

You should read each of these documents carefully and in their entirety. You may wish to consult legal, financial, tax or other professional advisors regarding the Plan and should not construe the contents of this letter as investment, legal or tax advice.

Due to public meeting restrictions declared under the Reopening Ontario (A Flexible Response to COVID-19) Act, 2020, and the regulations made thereunder, as a result of the COVID-19 pandemic, the Meetings will be held on a virtual meeting platform on November 16, 2020. Details of the Meetings and the Sanction Hearing are contained in the Notice of Meetings and Sanction Hearing. The process by which the Meetings will be held on the virtual meeting platform is described in the Virtual Meeting Protocol.

To vote on the Plan, all Eligible Voting Creditors must submit a properly completed proxy so that it is received by no later than **5:00 p.m. (Toronto time) on November 12, 2020** (the "Proxy Deadline") appointing Mr. Paul Bishop of FTI Consulting Canada Inc., as Monitor (or any party designated by Mr. Bishop), as proxy holder to attend and vote at the applicable Meeting. **If you previously submitted a proxy prior to the applicable deadline for the Meetings that were adjourned on March 25, 2019, appointing Mr. Paul Bishop as your proxy and you do not wish to revoke such proxy, you do not need to re-submit a proxy.**

Any Eligible Voting Creditor (or its respective authorized representative if such Eligible Voting Creditor is not an individual) who would like to attend the applicable Meeting must register on the virtual meeting platform in accordance with the Virtual Meeting Protocol.

The Monitor recommends that Affected Unsecured Creditors vote FOR approval of the Plan.



Pursuant to the Meetings Order, Employee Representative Counsel and Pension Representative Counsel have been appointed as proxy holder for the Employees (“**ERC Employees**”) and Retirees (“**PRC Retirees**”) that they respectively represent.

Accordingly, **ERC Employees and PRC Employees do not need to complete a proxy**. Employee Representative Counsel and Pension Representative Counsel will be voting their proxies **FOR** approval of the Plan.

The Pension Plan Administrator, being the largest unsecured creditor in the estate, has also confirmed that, subject to satisfaction of the conditions contained in the Plan, it will vote **FOR** approval of the Plan.

Further Information

If you have any questions regarding the Plan, the vote, or matters with respect to the Meetings or Sanction Hearing, please contact the Monitor by email at searscanada@fticonsulting.com.

Yours sincerely,

FTI Consulting Canada Inc., in its capacity as Court-appointed Monitor of the Sears Canada Entities