

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

APPLICANTS

**MOTION RECORD OF THE APPLICANTS
(Motion for Stay Extension
returnable October 4, 2017)**

September 29, 2017

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TO: SERVICE LIST

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TAB 1

**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

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Applicants

**NOTICE OF MOTION
(Motion for Stay Extension)**

The Applicants will make a motion before a judge of the Ontario Superior Court of Justice (Commercial List) on October 4, 2017 at 10:00 a.m., or as soon after that time as the motion can be heard, at 330 University Avenue, Toronto, Ontario.

PROPOSED METHOD OF HEARING: The motion is to be heard orally.

THE MOTION IS FOR:

1. An Order substantially in the form attached to the Motion Record, *inter alia*:
 - (a) if necessary, abridging the time for service of this Notice of Motion and the Motion Record and dispensing with service on any person other than those served; and
 - (b) extending the Stay Period (as defined in paragraph 14 of the Initial Order, defined below) until and including November 7, 2017.

2. Such further and other relief as this Court may deem just.

THE GROUNDS FOR THE MOTION ARE:

1. The Applicants and Sears Connect LP were granted protection from their creditors under the *Companies' Creditors Arrangement Act*, R.S.C. 1985 c. C-36, as amended (the "CCAA") pursuant to the Initial Order of the Ontario Superior Court of Justice (Commercial List) dated June 22, 2017, as amended and restated (the "**Initial Order**");
2. FTI Consulting Canada Inc. was appointed to act as the Monitor (the "**Monitor**") in the CCAA proceeding;
3. The Initial Order granted a stay of proceedings until July 22, 2017, or such later date as this Court may order (the "**Stay Period**");
4. On July 13, 2017, the Court extended the Stay Period to October 4, 2017;
5. On July 13, 2017, the Court approved a process (the "**SISP**") by which BMO Nesbitt Burns Inc. (the "**Sale Advisor**") on behalf of the Applicants, and under the supervision of both the Special Committee of the Board of Directors of Sears Canada Inc. ("**Sears Canada**") and the Monitor, would solicit bids and proposals for a broad range of transaction alternatives with respect to the business, assets and/or leases of the Applicants;
6. Following the approval of the SISP, the Sale Advisor solicited indications of interest and potential bids and proposals from a wide array of prospective parties;
7. After the passing of the Binding Bid Deadline (as defined in the SISP) on August 31, 2017, the Sale Advisor, on behalf of the Applicants and in consultation with the Monitor and the DIP Lenders, engaged in negotiations with a number of bidders that submitted bids or proposals, with a view to selecting one or more non-overlapping Successful Bid(s) (as defined in the SISP) upon approval of the Board of Directors of Sears Canada;
8. The Applicants are moving for Court approval for certain Successful Bids. The Sale Advisor is continuing to pursue other bids and proposals with the goal of realizing value for the

business or additional assets, including liquidation bids and bids with respect to certain owned property;

9. In order to complete the proposed transactions, finalize additional transactions and to maximize value for the Applicants' stakeholders, the Applicants require an extension of the current Stay Period;

10. The Applicants have been acting in and continue to act in good faith and with due diligence in these CCAA proceedings;

11. It is just and convenient and in the interests of the Applicants and their respective stakeholders that the Stay Period be extended;

12. It is projected that the Applicants have sufficient liquidity to continue operations through the requested Stay Period;

13. The provisions of the CCAA, including section 11.02, and the inherent and equitable jurisdiction of this Honourable Court;

14. Rules 1.04, 1.05, 2.03, 3.02, 16 and 37 of the Ontario *Rules of Civil Procedure*, R.R.O. 1990, Reg. 194, as amended and section 106 of the Ontario *Courts of Justice Act*, R.S.O. 1990, c. C.43 as amended; and

15. Such further and other grounds as counsel may advise and this Court may permit.

THE FOLLOWING DOCUMENTARY EVIDENCE will be used at the hearing of this motion:

1. The Affidavit of Mark Caiger sworn September 28, 2017 and the exhibits attached thereto;

2. The Second Report of the Monitor dated August 16, 2017;

3. The Third Report of the Monitor (to be filed);

4. Additional Affidavits in support of sale approval motions (sworn by Billy Wong); and
5. Such further and other evidence as counsel may advise and this Court may permit.

September 29, 2017

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TO: SERVICE LIST

IN THE MATTER OF the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended

Court File No: CV-17-11846-00CL

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

Applicants

Ontario
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST
Proceeding commenced at Toronto

NOTICE OF MOTION
(Motion for Stay Extension)

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TAB 2

Ontario
**SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

IN THE MATTER OF THE *COMPANIES' CREDITORS
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APPLICANTS

**AFFIDAVIT OF MARK CAIGER
(Sworn September 28, 2017)**

(General Sale Process Affidavit)

I, Mark Caiger, of the City of Toronto, in the Province of Ontario, MAKE OATH

AND SAY:

1. I am a Managing Director of Mergers and Acquisitions at BMO Nesbitt Burns Inc. operating as BMO Capital Markets ("**BMO CM**" or the "**Sale Advisor**") and have been with BMO CM for the past 17 years. I have a broad range of mergers and acquisitions and restructuring experience, including the recapitalization/restructuring of Postmedia, MEG Energy, Connacher Oil & Gas, Yellow Media, AbitibiBowater, Bell Canada International, Ivaco Inc., and

Lightstream Resources. I am a Chartered Professional Accountant, a CFA Charterholder, and a member of the Board of Directors of the Insolvency Institute of Canada. I have been directly involved in planning, managing and implementing (together with the rest of the Sale Advisor team) the Applicants' court-approved sale process (the "SISP"). As such, I have personal knowledge of the matters deposed to in this affidavit. Where I have relied on other sources for information, I have specifically referred to such sources and believe them to be true. In preparing this Affidavit, I have consulted with members of my team, members of the senior management team of Sears Canada Inc. ("Sears Canada" or the "Company"), legal, financial and other advisors of the Applicants, and representatives of FTI Consulting Canada Inc. ("FTI" or the "Monitor").

2. I swear this Affidavit in support of various motions to be brought by the Applicants seeking Approval and Vesting Orders in respect of transactions arising from the SISP. Additional affidavits will be filed describing the various individual transactions. The Sale Advisor continues to pursue bids and proposals for other assets of the Applicants in order to generate additional value for the Applicants' stakeholders.

Background

3. The Applicants were granted protection from their creditors under the CCAA pursuant to an initial order of the Ontario Superior Court of Justice (Commercial List) dated June 22, 2017, as amended and restated on July 13, 2017 (the "Initial Order"). FTI was appointed in the Initial Order to act as the Monitor in the CCAA proceedings. Further details regarding the background to these proceedings are set out in the Affidavit of Billy Wong sworn June 22, 2017 (the "Initial Order Affidavit"), the Affidavit of Billy Wong sworn July 5, 2017 and the

Affidavit of Billy Wong, sworn July 12, 2017 (the “**Third Wong Affidavit**”). Except where so stated, capitalized terms not otherwise defined herein have the meaning ascribed to them in these affidavits.

The SISP

4. On July 13, 2017, the Court issued an order (the “**SISP Approval Order**”) approving the SISP whereby BMO CM on behalf of Sears Canada and under the supervision of both the Special Committee of the Board of Directors of Sears Canada (the “**Special Committee**”) and the Monitor would seek bids and proposals for a broad range of transaction alternatives with respect to the Business, Property, Assets and/or Leases of the Applicants (each as defined in the SISP). A copy of the SISP Approval Order is attached to this Affidavit as Exhibit “A”.

5. The SISP was designed to be flexible in order to maximize the realization of the value of the Applicants’ assets for the benefit of their stakeholders. The Applicants and the Sale Advisor, in conjunction with the Monitor, contemplated that the process may result in multiple transactions in a variety of forms, including potentially selling the Sears Canada business as a going concern, selling other ancillary businesses owned by Sears Canada, selling owned real estate and other assets, assigning leases to third parties and surrendering leases to landlords. It also provided for the possibility that certain Leases and/or Assets may be withdrawn from the SISP in certain circumstances.

6. The design of the SISP was informed in part by discussions with Sears Canada’s management regarding previous expressions of interest received from third parties in respect of

all or part of the Applicants' business and assets. In addition, the Sale Advisor spent a significant amount of time familiarizing itself with the real property, leases and other assets of the Company.

7. The following sections of this Affidavit describe the extensive efforts that the Applicants and the members of the Sale Advisor's team have undertaken to implement the court-approved SISP as part of these CCAA proceedings under the supervision of the Monitor and the Special Committee, in order to maximize value for the benefit of all stakeholders.

Implementation of the SISP

8. Following the approval of the SISP on July 13, 2017, the Sale Advisor began soliciting indications of interest to acquire some or all of the Business, Property, Assets and/or Leases of the Applicants from a wide array of prospective parties. The Sale Advisor contacted or was contacted by approximately 145 unique parties and provided interested parties with a form of non-disclosure agreement ("NDA") in accordance with paragraph 6(a)(i) of the SISP. These parties included other major North American retailers, landlords, institutional real estate investors, direct competitors and strategic parties identified as being potentially interested in specific business lines or assets (such as SLH and Corbeil), financial sponsors and brokers. These parties were identified, in part, based on the Sale Advisor's experience in the market as well as prior expressions of interest received by Sears Canada. During the time leading up to the Applicants' CCAA filing, Sears Canada received certain unsolicited offers with respect to various business lines and assets. These expressions of interest were ultimately subsumed by the Court-approved SISP.

9. Sears Canada entered into NDAs with 92 different parties. In accordance with paragraph 6(a)(v) of the SISP, each interested party that executed an NDA received access to due diligence materials in a data room (the “**Diligence Data Room**”) based on its expressed interest in select assets. Of those parties who signed an NDA and were granted access to the Diligence Data Room, 74 entered the Diligence Data Room in order to conduct due diligence. A breakdown of these numbers is as follows:

	# Potentially Interested Parties Contacted	# Signed NDA	# Accessed Diligence Data Room
Going-concern	7	6	3
Corbeil	21	18	18
SLH	25	17	17
Owned Real Estate	40	24	21
Leases	31	16	12
Prime Loan Book	13	6	6
Other	25	21	13
TOTAL UNIQUE¹	145	92	74

10. In accordance with paragraph 6(a)(ii) of the SISP and in an effort to harmonize the form of bids that would ultimately be submitted by interested parties, several standard form draft agreements were prepared by counsel for the Applicants (in a form acceptable to the Monitor and after consultation with the DIP Lenders) (the “**Transaction Agreements**”). The Transaction Agreements included an asset purchase agreement for a full line retail going-concern bid, an asset purchase agreement for other standalone business lines (e.g. Corbeil, SLH, and Sears Canada’s home service businesses), an agreement of purchase and sale for owned

¹ Certain parties were interested in opportunities in multiple asset categories. The “Total Unique” figures refer to the number of unique parties who were contacted, signed NDAs, and accessed the data room without double-counting individual parties who participated in multiple asset categories.

stores/properties, a lease surrender agreement, a lease transfer agreement, and a lease amending agreement. The Transaction Agreements were finalized and made available to bidders from August 3rd and 4th, 2017 onwards.

11. On July 18, 2017, a “Landlord Process Letter” was sent to Sears Canada’s designated contact for 51 unique parties that were, based on information available to Sears Canada, either Sears Canada’s landlord (or its property manager), or an owner (or its property manager) of a property adjacent to a property owned by Sears Canada. The Landlord Process Letter advised these parties of the upcoming August 31st deadline (the “**Binding Bid Deadline**”) set out in the SISP for interested parties to submit a binding proposal for any of the following:

- (a) the purchase of one or more of the Assets of the Applicants (a “**Binding Bid**”);
- (b) the surrender of one or more of the Leases of the Applicants (a “**Binding Lease Surrender Proposal**”); or
- (c) a modification of one or more of the existing Leases of the Company, conditioned on the acquirer of the Company’s Business which operates in such premises continuing to do so on the basis of such modified lease terms (a “**Binding Lease Modification Proposal**” and, together with Binding Lease Surrender Proposals, “**Binding Lease Proposals**”).

A copy of the Landlord Process Letter, which was reviewed and approved by the Monitor and the DIP Lenders, is attached as Exhibit “B”.

12. On or about July 18, 2017, the Sale Advisor sent out a separate “Process Letter” to other interested parties that had fully executed an NDA with Sears Canada. Following this date, additional Process Letters were sent to interested parties, in most cases once an NDA was fully executed. A total of 81 process letters were sent to unique, potentially interested parties advising them of the August 31st deadline for submitting Binding Bids. Of the potentially interested parties who received a process letter, 5 had expressed interest in a potential going-concern transaction, 18 had expressed interest in Corbeil, 17 had expressed interest in SLH, 28 had expressed interest in the owned real estate, 18 were third parties (i.e. non-landlords) who had expressed interest in the Applicants’ leases, and 20 had expressed interest in other business lines or assets.² A copy of the Process Letter, which was reviewed and approved by the Monitor and the DIP Lenders, is attached as Exhibit “C”. An addendum to the Process Letter with respect to the SLH business was also made available in the SLH folder in the Diligence Data Room. A copy of the SLH addendum is attached as Exhibit “D”.

13. The Sale Advisor devoted an extensive amount of time during the solicitation period discussing the various opportunities with potential purchasers, including conducting numerous follow-up calls with interested parties to address questions related to diligence and the sale process.

14. At the inception of the SISP, the Sears Canada management team developed a potential operating plan for the Sears Canada full-line business on a going concern basis. This plan was to form the basis for the Management Bid (as discussed below). Certain materials reflecting the operating plan were prepared and provided to credible parties who were interested

² In certain circumstances, a Process Letter was sent to parties that expressed an interest in the opportunity to submit a bid but did not sign an NDA.

in a potential going-concern bid. These parties were offered the opportunity to have an in-person discussion with the Sale Advisor and/or certain members of Sears Canada management to review the materials and discuss the business opportunity.

15. As Corbeil and SLH are distinct business units with their own management teams, Sears Canada and the Sale Advisor created unique management presentations for these business units. In-person management presentations were made to parties interested in these business units who executed NDAs and requested such presentations.

Communications with ESL and Fairholme

16. As set out in the Initial Order Affidavit, I understand that ESL Partners, L.P., Edward S. Lampert and certain affiliated entities (collectively, “**ESL**”) form the largest shareholder of Sears Canada, both directly through ownership in Sears Canada, and indirectly through shareholdings in Sears Holdings Corporation (“**Sears Holdings**”), a U.S. public company. ESL and Sears Holdings collectively own 57% of Sears Canada’s outstanding common shares. Additionally, Fairholme Capital Management LLC (“**Fairholme**”) held 20% of Sears Canada’s outstanding common shares as of the date of the SISP Approval Order.

17. On July 10, 2017, ESL announced that ESL and Fairholme had retained Canadian legal counsel and were considering a potential negotiated transaction with Sears Canada (including, without limitation, financing transactions, purchase and sale transactions, or restructuring transactions). On July 28, 2017, ESL announced that ESL and Fairholme had terminated their joint engagement of Canadian legal counsel, but that ESL continued to evaluate Sears Canada and consider potential transactions.

18. Following the approval of the SISP, ESL's legal and financial advisors signed NDAs and sent an information request to the Sale Advisor. The Sale Advisor responded to these requests for due diligence information and also granted ESL access to the Diligence Data Room.

19. On July 13, 2017, I spoke with both ESL and Fairholme to discuss the SISP and provide information regarding how they could participate. The call was attended by the Monitor. I also spoke with counsel for ESL and Fairholme before the joint retainer was terminated. Further, I sent separate follow up emails on August 3, 2017 to both ESL and Fairholme setting out how they could participate in the SISP (including by way of putting forward a transaction proposal or by participating as a potential sponsor of a going concern proposal for the Sears Canada business being developed by others), advising them of the August 31st Binding Bid Deadline, and inviting them to contact me if they were interested in a potential transaction and needed any further information.

20. Based on a subsequent conversation with ESL in mid-August, further information was provided in response to ESL's expressed interest in evaluating opportunities to provide financing. Ultimately, neither ESL nor Fairholme submitted any bids in the process. To the best of my knowledge, ESL is not providing financing in the context of a potential going concern bid.

ROFRs

21. I am informed by Ryan Nielsen, a partner at Osler, Hoskin & Harcourt LLP, and believe that some of Sears Canada's lease agreements and operating agreements (the "**Property Agreements**") contain language that provide a right of first refusal, option to purchase or similar right ("**ROFR**") to the counterparty to the Property Agreement. Protections were accorded to the

potential beneficiaries of such ROFRs in the SISP Approval Order and in the SISP itself, including requirements that certain communications be made (i) to prospective bidders interested in bidding on Property Agreements that may be subject to a ROFR and (ii) to potential ROFR beneficiaries in the event that the Applicants take the position that the ROFR is not in force or is not triggered by a Binding Bid received as part of the SISP.

22. Paragraph 6(e) of the SISP requires that the Sale Advisor advise prospective bidders that the beneficiaries of any agreements containing a ROFR reserve all rights and remedies with respect to such agreements. In accordance with paragraph 6(e) of the SISP, a copy of the SISP was placed in the Diligence Data Room for all assets that are subject to a ROFR.

23. Pursuant to paragraph 6(a) of the SISP Approval Order, on August 4, 2017, I am informed by Tracy Sandler, a partner at Osler, Hoskin & Harcourt LLP, and believe that the Applicants responded to the requests of all holders of Property Agreements (as defined in the SISP Approval Order) who requested such a response and advised them that the Applicants did not intend to take the position that the ROFRs are no longer in force in respect of the properties described in those letters.

24. Paragraph 6(b) of the SISP Order required that, should a Binding Bid (as defined in the SISP) be received for an asset that is the subject of a ROFR under a Property Agreement from a bidder (a “**ROFR Bidder**”) and the Applicants take the position that the ROFR will not be triggered by such Binding Bid, the Applicants must provide written notice of this fact with sufficient particulars to the relevant holder of such a Property Agreement as follows:

- (a) if such holder is not a bidder in the SISP for such Asset, by September 8, 2017; or

- (b) if such holder is a bidder in the SISP for such Asset, then once the Applicants have elected to proceed with the transaction with the ROFR Bidder, and in any event, no later than September 25, 2017.

25. I am informed by Ms. Sandler and believe that the Applicants have not provided any notices to such holders in the SISP pursuant to this provision.

Communications Protocol

26. Pursuant to the terms of the SISP, members of Sears Canada's management team that were involved in connection with the submission of any bid or proposal were not to be provided with Confidential Information or Bid Information (both as defined in the SISP), including information about any Binding Bids or Binding Lease Proposals that third parties made (other than lease modification proposals that were intended to be opportunities available to going concern bidders as prospective counterparties to the modified leases) or information about whether any particular party made a Binding Bid or Binding Lease Proposal.

27. To the best of my knowledge, at all times the communication protocol set out in the SISP was adhered to, no Confidential Information or Bid Information (other than proposed lease terms in lease modification proposals) was provided to any member of management at the time they were involved in connection with the submission of any bid or proposal, and interested parties only communicated with management of Sears Canada when one of the Sale Advisor, the Monitor or Osler was present. After the August 31st bid submission deadline, I understand that certain members of management who had assisted with providing information to facilitate a potential bid were given Confidential Information or Bid Information on an as-needed basis, on

the condition that this information would not be shared with any members of management who submitted a bid. All communications relating to potential bids were required to be addressed to the Sale Advisor, and members of Sears Canada's management and outside advisory teams were instructed to direct any and all inquiries from prospective bidders to the Sale Advisor.

28. In addition, the Monitor, the Sale Advisor and the Applicants developed and implemented a detailed management protocol to preserve the integrity and fairness of the SISP for all participants in view of a potential bid by Management.

Consultation with DIP Lenders, PBGF, Employee and Pension Representative Counsel

29. Paragraph 18 of the SISP requires that the Sale Advisor provide regular updates to the DIP Lenders and their advisors with respect to matters related to the SISP. Additionally, confidential Bid Information would be shared with Restricted Process Observers (as defined in the SISP), including specific personnel of the financial and legal advisors to the DIP Lenders. In accordance with these requirements, the Sale Advisor attended update calls with the DIP Lenders and provided the Restricted Process Observers with access to a data room containing Bid Information (the "**Bid Results Data Room**") following the receipt of the bids on August 31, 2017.

30. I understand that on July 5, 2017, the Applicants served a motion returnable July 13, 2017 seeking, among other things, an order authorizing the suspension of (i) special payments with respect to the defined benefit portion of the Sears Pension Plan; (ii) payments with respect to the Supplemental Plan; and (iii) payments with respect to other post-retirement benefits under the PRB Plan. The Pension Benefits Guarantee Fund (the "**PBGF**"), Pension

Representative Counsel, and Employee Representative Counsel raised certain objections to this motion, which were ultimately resolved with the assistance of the Monitor and in consultation with the DIP Lenders. The resolution of these objections was reflected in a term sheet attached to the Supplement to the First Report of the Monitor dated July 12, 2017 as Appendix “A” (the “**Term Sheet**”).

31. Pursuant to the Term Sheet, the PBGF’s legal counsel and financial advisor, as well as specified individual representatives of the PBGF (collectively the “**Permitted PBGF Recipients**”), were to be provided with the same updates with respect to the SISP as those updates provided to representatives of the DIP Lenders who have been designated as Restricted Process Observers. As such, the Sale Advisor attended update calls with the Permitted PBGF Recipients and provided the Permitted PBGF Recipients with access to the Bid Results Data Room following the receipt of the bids on August 31, 2017.

32. Additionally, in accordance with the Term Sheet and their respective NDAs, Pension and Employee Representative Counsel attended update calls with the Sale Advisor with respect to the implementation of the SISP. Further information on the results of the SISP was provided to Pension and Employee Representative Counsel through their Financial Advisor.

Oversight by the Monitor and Special Committee

33. The Sale Advisor was in frequent contact with the Monitor and the Special Committee throughout the sale process, including regularly reporting on the progress of the SISP to members of the Special Committee.

34. The Monitor was closely involved in the SISP implementation. Among other things:

- (a) the Monitor reviewed and approved the Landlord Process Letter and the Process Letter, was granted full access to the data room, approved the form of NDA sent to the interested parties, commented on and approved the template Transaction Agreements used in the SISP, attended SISP update calls with the DIP Lenders, the representatives of the PBGF, and Representative Counsel and attended management presentations;
- (b) the Monitor was also actively involved and consulted in the development of the detailed management protocol referred to above;
- (c) during the period leading up to the Binding Bid Deadline, I understand that the Monitor and its counsel responded to inquiries on the status and progress of the SISP from various stakeholder groups including landlords; and
- (d) in accordance with the SISP, I understand the Monitor maintained and updated a list of Restricted Process Observers.

Results of the SISP

35. On August 31, 2017, the Sale Advisor received 69 bids and proposals, including bids for the acquisition of the full-line business as a going-concern, for the Corbeil and SLH business lines, for the home services business, for the prime loan book, for various trademarks and licenses, and for various owned and leased properties. Bids and proposal documentation

were uploaded to the Bid Results Data Room maintained by the Sale Advisor. The Monitor and its counsel, the Restricted Process Observers and the Permitted PBGF Recipients were granted access to the Bid Results Data Room.

36. The Sale Advisor and counsel for the Applicants immediately commenced a comprehensive review of the bids and proposals that had been submitted to identify different potential combinations of bids and proposals that would maximize value for all of the Applicants' stakeholders. The Monitor also reviewed the bids and proposals received. In accordance with paragraph 11 of the SISP, the Sale Advisor met with both the Special Committee and the Monitor on several occasions in early September to assess the bids that had been received and to determine, among other things, which bids and proposals should be pursued. The Sale Advisor also met with the DIP Lenders and representatives of the PBGF.

37. The Sale Advisor, on behalf of the Applicants and in consultation with the Monitor and the DIP Lenders, engaged in negotiations with a number of bidders that submitted bids or proposals, with a view to selecting one or more non-overlapping Successful Bid(s) (as defined in the SISP) upon approval of the Board of Directors of Sears Canada.

38. The Applicants and their advisors, in consultation with the Monitor and the DIP Lenders, also took steps to settle definitive agreements with bidders. The Monitor and the DIP Lenders were consulted by the Applicants on revisions to the transaction documents provided by bidders. During the negotiation process, revised agreements were posted to the Bid Results Data Room as they were prepared or received from counterparties.

Potential Going Concern Bids

39. As noted above, the SISP contemplated a potential bid from certain members of Sears Canada's management with respect to the Applicants' business. On August 31, 2017, the Sale Advisor and the Monitor received a potential going concern bid (the "**Initial Management Bid**") put forward by Brandon Stranzl, Sears Canada's executive chairman (the "**Stranzl Group**"). The Initial Management Bid was a going concern bid for Sears Canada's full-line business that could, if successfully implemented, preserve several thousand jobs and result in the assumption of significant liabilities. It did not include the Corbeil or SLH business lines. The Initial Management Bid had numerous conditions, including financing and due diligence conditions, and was therefore not SISP compliant.

40. After consultation with the Sale Advisor and the Monitor, the Special Committee determined that it would continue to pursue the Initial Management Bid, recognizing the potential benefits of a going-concern bid and that the SISP provides flexibility to accept a bid that was initially non-compliant with the consent of the Monitor and the DIP Lenders. At the same time, the Sale Advisor continued to pursue other non-overlapping transactions for different business lines as well as real estate transactions that would potentially overlap with a going-concern bid.

41. Throughout the month of September, the Stranzl Group participated in several calls as well as email exchanges with the Sale Advisor and the Monitor in relation to, among other things:

- (a) the potential need to remove certain assets from the going concern bid in order to maximize recovery for the Applicants' stakeholders;

- (b) the due diligence requests of the Stranzl Group in order to remove any conditions (including financing conditions) in the Initial Management Bid; and
- (c) the timeframe in which the Initial Management Bid would have to be revised in view of timing and liquidity constraints affecting the Company.

42. On September 25, 2017, the Sale Advisor and the Monitor received an amended management bid from the Stranzl Group (the “**Amended Management Bid**”) which addressed certain but not all of the issues presented by the Initial Management Bid. On September 26, 2017, the Stranzl Group provided financing terms sheets in support of the Amended Management Bid. The financing term sheets are subject to the fulfillment of certain conditions.

43. In light of the receipt of the Amended Management Bid, the Applicants’ advisors continue to engage in discussions with, and provide information to, the Stranzl Group. The goal of these discussions is to enhance the value and reduce the conditionality of the proposed transaction.

Conclusion

44. As set out above, the Applicants will be serving a number of motions seeking approval of certain proposed transactions. In recommending that Sears Canada consummate other transactions at this time, the Sale Advisor has, where applicable, weighed the Applicants’ need to realize cash value from assets in the near term against the potential impact of removing these assets from the Amended Management Bid.

45. In addition to ongoing discussions regarding the Amended Management Bid, the Sale Advisor is continuing to pursue other bids and proposals with the goal of realizing value for the Applicants' estate, including liquidation bids and bids with respect to certain owned property. In order to maximize value for the Applicants' stakeholders, the Applicants will require an extension of the current stay period.

SWORN BEFORE ME at the City of Toronto, on the 28th day of September, 2017.



Commissioner for taking Affidavits

Karen Sachar



Mark Caiger

**THIS IS EXHIBIT "A" TO THE AFFIDAVIT
OF MARK CAIGER SWORN BEFORE ME
ON THIS 28th DAY OF SEPTEMBER, 2017.**



A commissioner for taking Affidavits

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

THE HONOURABLE MR.) THURSDAY, THE 13th
)
JUSTICE HAINEY) DAY OF JULY, 2017
)

IN THE MATTER OF THE *COMPANIES' CREDITORS*
ARRANGEMENT ACT, R.S.C. 1985, c. C-36, AS AMENDED

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

(each, an “Applicant”, and collectively, the “Applicants”)

SISP APPROVAL ORDER

THIS MOTION, made by the Applicants, pursuant to the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. c-36, as amended (the “CCAA”) for an order, *inter alia*, approving the Sale Process (as defined below) and certain related relief, was heard this day at 330 University Avenue, Toronto, Ontario.

ON READING the Notice of Motion of the Applicants, the Affidavit of Billy Wong sworn July 5, 2017 including the exhibits thereto (the “Second Wong Affidavit”), the First Report of FTI Consulting Canada Inc., in its capacity as Monitor (the “Monitor”) filed, and on hearing the submissions of respective counsel for the Applicants, counsel to the Monitor, counsel to the Board of Directors and the Special Committee of the Board of Directors of Sears Canada Inc., counsel to Wells Fargo Capital Finance Corporation Canada as administrative agent under the DIP ABL

Credit Agreement, counsel to GACP Finance Co., LLC as administrative agent under the DIP Term Credit Agreement, and such other counsel as were present, no one else appearing although duly served as appears from the Affidavits of Service of Sonja Pavic sworn July 6, 2017 filed:

SERVICE AND DEFINITIONS

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 any capitalized term used and not defined herein, shall have the meaning ascribed thereto in the Initial Order in these proceedings dated June 22, 2017, as amended (the “**Initial Order**”) or the Sale Process, as applicable.

APPROVAL OF THE SALE PROCESS

3. THIS COURT ORDERS that the Sale Process attached hereto as Schedule “A” (the “**Sale Process**”) is hereby approved. The Applicants, the Monitor and the Financial Advisor are hereby authorized and directed to take any and all actions as may be necessary or desirable to implement and carry out the Sale Process, subject to the milestones contained in the Definitive Documents (as defined in the Initial Order), in order to select one or more Successful Bids which shall be consummated no later than October 25, 2017 or such other later date as agreed to by the Applicants, the Monitor and the DIP Lenders or as otherwise ordered by the Court.
4. THIS COURT ORDERS that the Applicants shall, unless otherwise ordered by the Court or agreed to by the Monitor and the DIP Lenders, by no later than September 27, 2017 seek bids for the liquidation of inventory and FF&E not otherwise included in a Successful Bid(s) (as defined in the Sale Process), if any, with such liquidation(s) to commence no later than November 1, 2017.
5. THIS COURT ORDERS that nothing in this Order or the approval of the Sale Process shall affect the rights and remedies of any party to an agreement with any of the Applicants affecting lands or premises in which Sears Canada has an interest, including without limitation any lease, any operating agreement, any agreement containing an option or right of first refusal (or other similar right) (such right, a “**ROFR**”) (“**Property Agreements**”) and all rights and remedies of the Applicants and counterparties to any Property Agreements are reserved and shall remain

and protections in favour of counterparties that are reserved and unaffected herein, (whether statutory, contractual or at common-law), if any, including

unaffected by this Order or the approval of the Sale Process. For greater certainty, the rights and remedies, ~~if any, in favour of counterparties that are preserved herein include the~~ right to receive full disclosure of information and documentation from the Applicants, the Financial Advisor and the Monitor relating to the Sale Process, including but not limited to the allocation of the purchase price for the property(ies) subject to the ROFR(s) in that particular counterparty's favour, and the allocation for all property that is subject to any *en bloc* offer to which it may form a part, or be related to by way of condition or otherwise.

6. THIS COURT ORDERS that:

- (a) by no later than August 4, 2017, on the request of a holder of a Property Agreement, the Applicants shall advise such holder whether the Applicants intend to take the position that the ROFRs subject to such request are no longer in force; and
- (b) if the Applicants have received a Binding Bid in the Sale Process for an Asset that is the subject of a ROFR under a Property Agreement from a bidder (a "ROFR Bidder") and the Applicants take the position that the ROFR will not be triggered by such Binding Bid, then the Applicants will provide written notice to the relevant holder of the applicable Property Agreement as follows:

(i) if such holder is not a bidder in the Sale Process for such Asset, by September 8, 2017; and

(ii) if such holder is a bidder in the Sale Process for such Asset, then once the Applicants have elected to proceed with the transaction with the ROFR Bidder, and in any event, no later than September 25, 2017.

7. THIS COURT ORDERS that each of the Applicants and their respective affiliates, partners, employees, and agents and the Monitor and the Financial Advisor and their respective affiliates, partners, directors, employees, and agents shall have no liability with respect to any and all losses, claims, damages or liability of any nature or kind to any person in connection or as a result of performing their duties under the Sale Process, except to the extent of such losses, claims, damages or liabilities resulting from gross negligence or willful misconduct of the Applicants, the Monitor or the Financial Advisor, as applicable, as determined by this Court.

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The Applicants shall serve materials in connection with such Asset sale to any party other than ~~the~~ such holder by September 26, 2017.

8. THIS COURT ORDERS that, in connection with the Sale Process and pursuant to clause 7(3)(c) of the *Canada Personal Information Protection and Electronic Documents Act*, the Applicants, the Financial Advisor and the Monitor are authorized and permitted to disclose personal information of identifiable individuals to prospective investors, financiers, purchasers or bidders and to their advisors, but only to the extent desirable or required to negotiate and attempt to complete one or more investment, finance or sale transaction (each, a “**Transaction**”). Each prospective investor, financier, purchaser, or bidder to whom such information is disclosed shall maintain and protect the privacy of such information and shall limit the use of such information to its evaluation of the Transaction, and if it does not complete a Transaction, shall: (i) return all such information to the Applicants or the Monitor; or (ii) destroy all such information that is not electronically stored and, in the case of such information that is electronically stored, destroy all such information to the extent it is reasonably practical to do so. The purchaser in any Transaction shall be entitled to continue to use the personal information provided to it, and related to the property purchased, in a manner which is in all material respects identical to the prior use of such information by the Applicants, and shall return all other personal information to the Applicants or the Monitor, or ensure that all other personal information is destroyed.

9. THIS COURT ORDERS that at any time during the Sale Process, the Monitor, the Applicants or the DIP Lenders may apply to the Court for directions with respect to the Sale Process.

GENERAL

10. THIS COURT ORDERS that this Order shall have full force and effect in all provinces and territories in Canada.

11. 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 Applicants, the Monitor and their respective agents in carrying out the terms of this Order. All courts, tribunals, regulatory and administrative bodies are hereby respectfully requested to make such orders and to provide such assistance to the Applicants and to the Monitor, as an officer of this Court, as may be necessary or desirable to give effect to this Order, to grant representative status to the Monitor in any foreign proceeding, or to

assist the Applicants and the Monitor and their respective agents in carrying out the terms of this Order.

Hainey J.

The form of
This order
has been
approved
by the
Hainey J.

SCHEDULE "A"
SALE PROCESS

(See attached)

Schedule "A" Sale Process

On June 22, 2017, Sears Canada Inc. and certain of its subsidiaries (collectively, "Sears Canada") sought and obtained protection under the *Companies' Creditors Arrangement Act* (the "CCAA") pursuant to an initial order (the "Initial Order") granted by the Ontario Superior Court of Justice (Commercial List) (the "Court"). The Initial Order contemplates Sears Canada pursuing all avenues of refinancing, restructuring, selling and reorganizing their Business and Property (each as therein defined) subject to prior approval of the Court.

Sale and Investment Solicitation Process

1. This sale and investment solicitation process (the "Sale Process") sets out the manner in which (i) bids and proposals for a broad range of transaction alternatives including investment proposals involving the Business, Property, assets (the "Assets") and/or leases (the "Leases") of Sears Canada, whether *en bloc* or any portion(s) thereof, will be solicited from interested parties, (ii) any Binding Bids, Binding Lease Modification Proposals and Binding Lease Surrender Proposals (each as defined below) received will be considered and negotiated with interested parties, (iii) any Binding Bids, Binding Lease Modification Proposals and Binding Lease Surrender Proposals as subsequently negotiated, may be selected as Successful Bid(s) (as defined below), and (iv) the Court's approval of such Successful Bid(s) will be sought, with an anticipated completion date of all transactions by no later than October 25, 2017.
2. The Sale Process shall be conducted by BMO Nesbitt Burns Inc. ("BMO Capital Markets", the "Sale Advisor") on behalf of Sears Canada and under the supervision, review and approval of both the Special Committee of the Board of Directors of Sears Canada Inc. (the "Special Committee") and FTI Consulting Canada Inc. in its capacity as court-appointed monitor of Sears Canada (the "Monitor"). References to Sears Canada throughout this Sale Process shall mean the Special Committee in circumstances where the integrity of this Sale Process so requires (as determined by the Special Committee or any of the advisors, the Sale Advisor or the Monitor).
3. Parties who wish to have their bids or proposals considered with respect to the Business, Assets and/or Leases, whether as a whole or any portions thereof, shall participate in this Sale Process in accordance with the procedures set out herein.
4. The sale of the Business, Assets and/or Leases will be on an "as is, where is" basis and without surviving representations or warranties of any kind, nature, or description by Sears Canada, the Sale Advisor, the Monitor or any of their respective agents or estates, except to the extent set forth in a definitive transaction agreement executed by Sears Canada in accordance with this Sale Process.
5. For the purpose of this Sale Process, the term "Landlord" shall include landlords under real property leases and occupancy agreements for any of the Applicants' leased premises.

Solicitation Process

6. The Sale Process will be conducted as follows:
- a. The Sale Advisor and Sears Canada with the assistance of its advisors and in consultation with and under the supervision of the Monitor will:
 - (i) prepare a form of non-disclosure agreement acceptable to the Monitor ("NDA") to be executed by interested parties;
 - (ii) prepare forms of transaction documents to be used by interested parties in submitting bids and proposals to Sears Canada, the form and substance of such transaction documents to be acceptable to the Monitor after consultation with the DIP ABL Lenders and DIP Term Lenders (as defined in the Initial Order, and together the "DIP Lenders") (the "Transaction Documents");
 - (iii) solicit interest from parties to enter into NDAs, and begin analyzing the transaction alternatives;
 - (iv) require that all potential bidders that wish to participate in the Sale Process must sign an NDA in form acceptable to Sears Canada and the Monitor prior to participation in the Sale Process, provided however that a Landlord need not sign an NDA to submit a Binding Lease Modification Proposal or a Binding Lease Surrender Proposal; and
 - (v) provide potential bidders who have executed an NDA with access to an electronic data room of due diligence information.
 - b. Landlords may submit to the Sale Advisor Binding Lease Modification Proposals (as defined below) in connection with existing Leases or occupancy agreements to which they are a party ~~provided that all such proposals must~~ be received in binding form on or before 5:00 p.m. Eastern Daylight Time on August 15, 2017 (the "Binding Lease Modification Proposal Deadline"), with a contemporaneous copy delivered to the Monitor; *it is recommended that any*
 - c. Parties interested in pursuing a transaction must submit binding offers based on the relevant forms of Transaction Documents including the items set out in paragraph 8 below (a "Binding Bid") by 5:00 p.m. Eastern Daylight Time on August 31, 2017 (the "Binding Bid Deadline") to the attention of the Sale Advisor as set out below, with a contemporaneous copy delivered to the Monitor. Landlords may submit to the Sale Advisor proposals to have Sears Canada surrender existing leases to which they are a party (a "Binding Lease Surrender Proposal") provided that all such proposals must be received in binding form on or before the Binding Bid Deadline, with a contemporaneous copy delivered to the Monitor; and *but in no event later than August 31, 2017.*
 - d. Subject to the terms set forth herein, following the Binding Bid Deadline and the Binding Lease Modification Proposal Deadline, Sears Canada and its advisors, in consultation with the Monitor and the DIP Lenders, may seek to negotiate final terms with one or more parties, and may select one or more Successful Bid(s) subject to the approval of the Court, all in accordance with the timeline set out in the process letter, which shall be in a form acceptable to the Monitor and the DIP Lenders, to be delivered by the Sale Advisor to interested parties.
 - e. The Sale Advisor shall advise prospective bidders that if a Binding Bid will be submitted for one or more Assets or Leases that are subject to an ~~operating agreement with an adjacent land owner~~ which may or may not contain restrictions, ~~or~~ a right of first refusal, option to *in the nature of*

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purchase or similar right, the beneficiary of such agreement(s) reserves all rights and remedies in respect of such agreement(s).

The Sale Advisor may, in consultation with Sears Canada and the Monitor, and subject to the terms of the Definitive Documents (as defined in the Initial Order), engage local market leasing agents or real estate brokers to solicit Binding Bids for discrete Assets or assignments of Leases.

The contents of this paragraph 6(e) shall be placed in the data room for any Asset that is subject to a ROFR.

Submission of Binding Offers

8. In order for a bid to be considered a Binding Bid, it shall comply with the following:
 - (i) it shall contain:
 - a. duly executed Transaction Documents;
 - b. the identity and contact information of the bidder and the identities of each person or entity that will be sponsoring or participating in such bid, including direct and indirect owners;
 - c. a blackline showing changes to the relevant Transaction Documents provided to the interested party by Sears Canada; and
 - d. evidence of authorization and approval to submit and consummate the bid from the bidder's board of directors (or comparable governing body);
 - (ii) it includes a letter stating that the bid is irrevocable for a period of at least 20 business days after the Binding Bid Deadline;
 - (iii) it provides written evidence of a firm, irrevocable financial commitment for all required funding or financing in connection with the bid;
 - (iv) if applicable, a separate Transaction Document that includes a separate allocation of value to each individual Asset or Lease subject to the bid that is the subject of a valid and enforceable right of first refusal, option to purchase or similar right;
 - (v) it is accompanied by a cash deposit (the "Deposit") of 10% of the total cash purchase price contemplated by such bid, which shall be paid to the Monitor by wire transfer (to a bank account specified by the Monitor) and held in trust in accordance with this Sale Process;
 - (vi) it does not include any request for or entitlement to any break fee, expense reimbursement or similar type of payment;
 - (vii) it is not conditional upon:
 - a. the outcome of unperformed due diligence by the bidder, and/or
 - b. obtaining financing; and
 - (viii) it is received by the Binding Bid Deadline.

9. A Binding Lease Modification Proposal and a Binding Lease Surrender Proposal shall comply with the following:
 - (i) it shall contain:
 - a. duly executed relevant Transaction Documents;
 - b. the identity and contact information of the Landlord contact person;
 - c. a blackline showing changes to the relevant Transaction Documents provided to the interested party by Sears Canada; and

- d. evidence of authorization and approval to submit and consummate the proposal from the Landlord's board of directors (or comparable governing body) or confirmation that such authorization and approval is not required for the Binding Lease Modification Proposal or Binding Lease Surrender Proposal, as applicable, to be binding on such Landlord;
 - (ii) it includes a letter stating that the proposal is irrevocable for a period of at least 20 business days after the Binding Bid Deadline;
 - (iii) in the event that third party financing is required to close the transaction, it provides written evidence of a firm, irrevocable financial commitment for all required funding or financing;
 - (iv) it is not conditional upon:
 - a. the outcome of unperformed due diligence by the Landlord, and/or
 - b. obtaining financing;
 - (v) it is received by the Binding Lease Modification Proposal Deadline or the Binding Bid Deadline, as applicable; and
 - (vi) to the extent that a Landlord intends to submit a proposal contemplating a material modification of an existing Lease to which it is party (a "**Binding Lease Modification Proposal**"), such Binding Lease Modification Proposal must, in addition to the foregoing requirements, contain such Landlord's consent that the Sale Advisor and Sears Canada may share such Binding Lease Modification Proposal with other bidders in the Sale Process who have signed NDAs, subject to any restrictions that may be contained in such Binding Lease Modification Proposal.
10. Sears Canada, with the consent of the Monitor, the Sale Advisor and the DIP Lenders, may waive compliance with any one or more of the requirements specified in sections 8 and 9 and deem, with the consent of the bidding party, a non-compliant bid, lease surrender proposal or lease modification proposal to be a Binding Bid, a Binding Lease Surrender Proposal or a Binding Lease Modification Proposal, respectively, with the exception of a bid or a lease surrender proposal that is received after the Binding Bid Deadline or a lease modification proposal that is received after the Binding Lease Modification Proposal Deadline.

Evaluation of Competing Bids and Proposals and Court Approval

11. Following the Binding Bid Deadline and the Binding Lease Modification Proposal Deadline, as applicable, Sears Canada shall consult with the Monitor, the Sale Advisor and the DIP Lenders and decide whether to (i) continue negotiations with a selected number of bidders that have submitted Binding Bids, Binding Lease Modification Proposals and/or Binding Lease Surrender Proposals, with a view to selecting one or more non-overlapping Bindings Bids, Binding Lease Modification Proposals and/or Binding Lease Surrender Proposals (collectively, the "**Successful Bid(s)**") upon approval of the Board of Directors of Sears Canada, and (ii) take such steps as are necessary to finalize and consummate the Successful Bid(s). Sears Canada shall have no obligation to conclude a sale arising out of this Sale Process and reserves the right and

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unfettered discretion to reject any bid or proposal (including any Binding Bid, Binding Lease Modification Proposal and Binding Lease Surrender Proposal), but shall not do so without the approval of the Monitor after consultation with the DIP Lenders. If Sears Canada does select any Successful Bid(s), it shall be under no obligation to accept the highest bid.

12. Following selection of a Successful Bid(s), Sears Canada and its advisors in consultation with the Monitor shall seek to settle any necessary definitive agreement(s) with respect to the Successful Bid(s) in form and substance acceptable to the DIP Lenders and the Board of Directors of Sears Canada. Once all necessary definitive agreement(s) with respect to a Successful Bid have been finalized, Sears Canada will apply to the Court as soon as reasonably practicable for an order in form and substance acceptable to the Monitor and the DIP Lenders (an "Approval and Vesting Order") approving such Successful Bid and authorizing Sears Canada to (i) enter into any and all necessary agreements with respect to the Successful Bid, (ii) undertake such other actions as may be necessary to give effect to such Successful Bid, and (iii) implement the transaction(s) contemplated in such Successful Bid.

13. Each Landlord shall be advised by no later than two business days after the selection of a Successful Bid(s) relating to such Landlord's Lease(s), and in any event no later than October 15, 2017, which of its Lease(s) are included in such Successful Bid(s). *6,*

Deposits

14. All Deposits shall be retained by the Monitor and invested in an interest bearing trust account. If one or more Successful Bids are selected and an Approval and Vesting Order is granted in connection therewith, the Deposit paid in connection with such Successful Bid(s) (plus applicable interest) will be non-refundable and shall, upon closing of the transaction contemplated by such Successful Bid(s), be applied to the purchase price to be paid in connection with such Successful Bid(s) or be dealt with as otherwise set out in the definitive agreement(s) entered into in connection with such Successful Bid(s). Any Deposit (plus applicable interest) delivered with a Binding Bid that is not selected as a Successful Bid, will be returned to the applicable bidder within ten (10) business days of the date of expiration of such Binding Bid or an earlier date as may be determined by Sears Canada, in consultation with the Monitor and the Sale Advisor. *2/11*

Consents and Information

15. Any amendments to this Sale Process, including the relevant dates and deadlines set forth herein, may be made with the written consent of the Special Committee, the Monitor and the DIP Lenders, or by further order of the Court.

16. Notwithstanding anything else contained herein, Sears Canada, in its reasonable business judgment and in consultation with the Sale Advisor, the Monitor and the DIP Lenders may, from time to time, withdraw any Leases or Assets from this Sale Process in accordance with the CCAA, and Sears Canada's rights under the Initial Order.

17. If any DIP Lender intends to participate as a bidder in this Sale Process, such party must provide written notice of such intention (the "Participation Notice") to the Sale Advisor, with a copy to the Monitor, on or before July 17, 2017 (the "Participation Notice Deadline"). Any DIP Lender who delivers a Participation Notice shall not be entitled to any Bid Information or Confidential

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and cannot be a Restricted Process Observer (as defined below)

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Information (each as defined below), or to participate in the review or drafting of Transaction Documents or the review, consideration, negotiation or selection of Successful Bid(s). The failure of such parties to deliver a Participation Notice by the Participation Deadline shall render such parties unable to participate as a bidder in this Sale Process.

- 18. Subject to the confidentiality terms hereof, the Sale Advisor shall provide regular updates to the DIP Lenders and their advisors with respect to matters related to the Sale Process. Any information that is provided by the Sale Advisor, Sears Canada, the Monitor or their advisors to any of the DIP Lenders or their advisors, in respect of the Sale Process, including regarding any participants therein, any bids received or terms thereof or otherwise ("**Confidential Information**"), will be provided on a strictly confidential basis only and such parties shall not be permitted to share such Confidential Information with anyone other than any other DIP Lenders or the DIP Lenders' advisors, without the consent of Sears Canada and the Sale Advisor in consultation with the Monitor.

In addition, the following highly-sensitive information will solely be provided on a strictly confidential basis only to the Restricted Process Observers (as defined below), notwithstanding the terms of any bids or proposals received: the identity of the bidders; the particular Assets, Leases and/or Business that are the subject of a particular Binding Bid, Binding Lease Modification Proposal or Binding Lease Surrender Proposal; the proposed purchase price for the Business, Assets and/or Leases identified in a Binding Bid, Binding Lease Modification Proposal or Binding Lease Surrender Proposal; and the number of bidders that are considering or have submitted Binding Bids, Binding Lease Modification Proposals and/or Binding Lease Proposals for a particular Asset, Lease or Business, and copies of all bids or proposals received in the Sale Process (collectively, the "**Bid Information**"). The Monitor will maintain a list of personnel and/or categories of personnel who have a need to know the Bid Information, including personnel and/or categories of personnel of the financial and legal advisors to the DIP Lenders (the "**Restricted Process Observers**"). No Bid Information will be provided to any individual who is not a Restricted Process Observer and, notwithstanding the terms of the DIP Facilities (as defined in the Initial Order), Restricted Process Observers shall only be permitted to share such Bid Information with other Restricted Process Observers unless the prior written consent of the Monitor in consultation with the Sale Advisor is obtained.

- 19. Subject to the terms hereof, the Special Committee or its designate may participate in the negotiations under the Sale Process and shall give instructions to Sears Canada's advisors in respect of or relating to this Sale Process. Certain members of management of Sears Canada have advised the Special Committee and Sears Canada's advisors that they intend to submit a bid or proposal. Management of Sears Canada involved in any capacity in connection with the submission of any bid or proposal will not be provided with Confidential Information or Bid Information, including information about Binding Bids, Binding Lease Modification Proposals or Binding Lease Surrender Proposals that third parties have made or information about whether any particular party has made a Binding Bid, Binding Lease Modification Proposal or Binding Lease Surrender Proposal, shall not participate in the review or drafting of Transaction Documents or the review, consideration, negotiation or selection of Successful Bid(s), and may be subject to further restrictions as may be determined from time to time by the Special Committee in consultation with Sears Canada's advisors and the Monitor.

July 12, 2017

20. **Under no circumstances should the management of Sears Canada communicate with any interested party without one of the Sale Advisor, the Monitor or Osler, Hoskin & Harcourt LLP ("Osler"), legal advisor to Sears Canada, present.**
21. All communications relating to a potential bid must be addressed to the Sale Advisor. Interested parties must adhere to the following communication protocol:
 - (i) members of Sears Canada's management team will only be available to prospective bidders at times scheduled and on terms determined by BMO Capital Markets as it determines necessary to advance the Sale Process, provided that such meetings or other communications with management must be supervised by any one of the Sale Advisor, the Monitor or Osler; and
 - (ii) members of Sears Canada's management and outside advisory teams have been instructed to direct any and all inquiries from prospective bidders to BMO Capital Markets.
22. Nothing in this Sale Process shall be construed to (i) permit or require any amendments to the terms of any Lease without the consent of the applicable Landlord, or (ii) obligate any Landlord to negotiate with a party regarding any such amendments.

Failure to adhere to this communication protocol may result in disqualification of the interested party from the Sale Process and/or the rejection of any bid made by such interested party.

**THIS IS EXHIBIT "B" TO THE AFFIDAVIT
OF MARK CAIGER SWORN BEFORE ME
ON THIS 28th DAY OF SEPTEMBER, 2017.**



A commissioner for taking Affidavits

July 18, 2017

Private and Confidential

To the Interested Party:

As you are aware, by Order made on June 22, 2017 (as amended and restated, the “**Initial Order**”), Sears Canada and certain of its subsidiaries (the “**Company**”) obtained protection pursuant to the *Companies’ Creditors Arrangement Act* (the “**CCAA Proceedings**”). BMO Nesbitt Burns Inc. (“**BMO Capital Markets**”) was appointed by the Court as financial advisor (the “**Financial Advisor**”). On July 13, 2017, a Sale and Investment Solicitation Process (a “**SISP**”) was approved by the Court. The SISP will be conducted by BMO Capital Markets on behalf of the Company under the supervision of FTI Consulting Inc., the court-appointed monitor (the “**Monitor**”). In your capacity as a landlord or a property owner adjacent to a property owned by the Company (or a representative of such a party) for one or more properties for which the Company is a tenant or owner, we are writing to advise you how you may participate in the SISP should you choose to do so. Your participation is voluntary.

Each of the capitalized terms in this document that are not otherwise defined herein, have the meaning ascribed to them in the SISP Approval Order made July 13, 2017 and the Sale Process attached thereto (copies of the SISP Approval Order and the Sale Process are available on the Monitor’s website: <http://cfcanada.fticonsulting.com/Searscanada/default.htm>).

As contemplated by the Initial Order, the purpose of the proposed SISP is to seek out proposals for the acquisition of or investment in the Company’s Business, Property, Assets and/or Leases, and to implement one or a combination of such proposals. You should anticipate that there will be a broad range of transactions that may emerge from this process, including potentially selling the Sears Canada business as a going concern, selling other ancillary businesses owned by Sears Canada, sales of owned real estate, and assignments of leases to third parties. The SISP contemplates that parties making these proposals will submit binding bids by 5:00 p.m. Eastern Daylight time on Thursday August 31, 2017 (the “**Binding Bid Deadline**”). There is no intermediate non-binding bid stage contemplated by this process.

As outlined in the SISP, the process enables you, as a landlord or adjacent land owner to an Asset owned by the Company, to participate in this process on a voluntary basis should you choose to do so.

If you do choose to participate, you are hereby invited to submit a binding proposal together with a proposed markup of transaction documents with respect to any of the following (each a “**Transaction**”):

- i. the purchase of one or more of the Assets of the Company (a “**Binding Bid**”);
- ii. the surrender of one or more of the Leases of the Company for which you are a landlord (a “**Binding Lease Surrender Proposal**”); or
- iii. a modification of one of the existing Leases of the Company for which you are a landlord, conditioned on the acquirer of the Company’s Business which operates in such premises continuing to do so on the basis of such modified lease terms (a “**Binding Lease Modification Proposal**”).

Pursuant to the terms of the SISP, should you wish to make a Binding Bid you shall, on or prior to the Binding Bid Deadline, be required to enter into a Non-Disclosure Agreement.

Binding Bid Deadline

Binding Bids, Binding Lease Surrender Proposals and Binding Lease Modification Proposals must be received no later than the Binding Bid Deadline (5:00 p.m. Eastern Daylight Time on Thursday, August 31, 2017), but please note that proposals in respect of certain transaction structures are recommended to be submitted prior to the Binding Bid Deadline as discussed below.

Binding Bids, Binding Lease Surrender Proposals and Binding Lease Modification Proposals must be submitted in writing on your letterhead, addressed to the Company, accompanied by a copy of the proposed Transaction Documents (as discussed below) and delivered by email to:

Mark Caiger
Managing Director
BMO Capital Markets
W: (416) 359-5865
Email: mark.caiger@bmo.com

Greg Watson
Senior Managing Director
FTI Consulting as Court-Appointed Monitor
W: (416) 647-8077
Email: greg.watson@fticonsulting.com

BMO Capital Markets will be available to consult with you or your representatives to clarify or provide guidance with respect to the contents of your Bind Bid, Binding Lease Surrender Proposal or Binding Lease Modification Proposal to such date.

Contents of the Binding Bid, Binding Lease Surrender Proposal and/or Binding Lease Modification Proposal

Your Binding Bid, Binding Lease Surrender Proposal or Binding Lease Modification Proposal should be submitted in conformity with the following instructions:

1. **Purchaser/Investor:** The name of the purchaser (the “**Purchaser**”) or landlord (the “**Landlord**”), as applicable and if the Purchaser is not a public company, the name(s) of the ultimate beneficial owners of the Purchaser and applicable contact information.
2. **Form of Binding Bid, Binding Lease Surrender Proposal or Binding Lease Modification Proposal:** A specific description of the form and nature of the Transaction you propose and sufficient detail to ascertain any Assets or Leases to be included or

excluded and any liabilities to be assumed or not assumed, including in respect of the matters discussed below.

Binding Bids for Assets

If your Binding Bid contemplates you acquiring one or more Assets of the Company, specify for EACH Asset you propose to acquire:

- a description of the Asset you propose to acquire;
- if you are proposing to acquire an Asset that is a real estate asset with which the Company currently conducts a Business and your proposal contemplates as a condition precedent to, or as part of a scenario in your proposal that the Company or an acquirer of the Business continues to conduct such Business (a “**Sale and Leaseback Transaction**”) then you should provide a detailed and comprehensive description of the proposed terms of the lease back you propose to be entered into by the acquirer of the applicable Business, including leased area, financial terms, expiry date, extension options (with applicable financial terms) and all other material terms;

BE ADVISED that if you propose a Sale and Leaseback Transaction with respect to a particular Asset:

- BMO Capital Markets may share the terms of the proposed lease (but not the proposed Asset Purchase Price (as hereinafter defined)) with parties who have made or are contemplating Binding Bids for the applicable Business that is the contemplated tenant for the Asset;
 - BMO Capital Markets will be in contact with potential acquirers of the applicable Business that is the contemplated tenant for the Asset so, to the extent helpful in making your bid, you may contact Mark Caiger (416) 359-5865 (mark.caiger@bmo.com) who may be able to obtain feedback from such parties as to leased area and term (but not, at this stage, financial terms) which may be attractive to such parties. **It is recommended that you engage in these discussions with BMO Capital Markets well in advance of August 15, 2017 and submit your Binding Bid that is a Sale and Leaseback transaction by 5:00 p.m. Eastern Daylight Time on Tuesday, August 15, 2017 to permit parties making Binding Bids for the applicable business to contemplate accepting your Sale and Leaseback Transaction proposal as part of their Binding Bid. If you delay in engaging in discussions of this nature until after the Binding Bid Deadline, there may not be sufficient time to consider your Sale and Leaseback Transaction proposal;**
 - you should consider also making a Binding Bid for the Asset on the assumption that no lease is entered into by the acquirer of the applicable Business;
- the amount (in Canadian dollars) you propose to pay for the Asset (the “**Asset Purchase Price**”);

- a detailed and specific description of the nature of any adjustments to the Asset Purchase Price or any amounts that may result in the net proceeds remitted pursuant to the Transaction differing from the Asset Purchase Price;
- the form of consideration (cash or a combination of cash and securities) and to the extent part of the consideration is in the form of securities, a detailed description of such securities including all relevant terms and conditions which should be considered in evaluating your Binding Bid.

Binding Lease Surrender Proposals

Specify for EACH Binding Lease Surrender Proposal:

- a description of the Lease you propose to have surrendered;
- the proposed date of lease surrender;
- the amount (in Canadian dollars) you propose to pay to the Company in connection with the surrender of the Lease (the “**Lease Surrender Consideration**”);
- a detailed and specific description of the nature of any adjustments to the Lease Surrender Consideration or any amounts that may result in the net proceeds remitted pursuant to the Transaction differing from the Lease Surrender Consideration;
- the form of consideration (cash or a combination of cash and securities) and to the extent part of the consideration is in the form of securities, a detailed description of such securities including all relevant terms and conditions which should be considered in evaluating your Binding Lease Surrender Proposal;
- **BE ADVISED** that if you propose to a Binding Lease Surrender Proposal:
 - **It is recommended that you submit your Binding Lease Surrender Proposal by 5:00 p.m. Eastern Daylight Time on Tuesday August, 15, 2017 to permit parties making Binding Bids for the applicable Business to contemplate a Binding Bid that excludes the Lease subject to your Lease Surrender Proposal. If you do not submit your Binding Lease Surrender Proposal until the Binding Bid Deadline, there may not be sufficient time to consider your Binding Lease Surrender Proposal;**
 - If you do submit a Binding Lease Surrender Proposal that appears to be financially attractive by August 15, 2017, BMO Capital Markets will advise parties who have made or are contemplating Binding Bids for the applicable Business that is the tenant pursuant to the Lease to consider making a Binding Bid both including and excluding the Lease subject to the Binding Lease Surrender Proposal. BMO Capital Markets will not share the proposed Lease Surrender Consideration with such party;

Binding Lease Modification Proposals

Specify for EACH Binding Lease Modification Proposal:

- a description of the Lease you propose to modify;
- the amount (in Canadian dollars) you propose to pay to the Company in connection with the Binding Lease Modification Proposal (the “**Lease Modification Consideration**”);
- a detailed and specific description of the nature of any adjustments to the Lease Modification Consideration or any amounts that may result in the net proceeds remitted pursuant to the Transaction differing from the Lease Modification Consideration;
- the form of consideration (cash or a combination of cash and securities) and to the extent part of the consideration is in the form of securities, a detailed description of such securities including all relevant terms and conditions which should be considered in evaluating your Binding Lease Modification Proposal;
- a detailed and comprehensive description of the proposed modified terms of the lease amendment to be entered into by the acquirer of the applicable Business including leased area, financial terms, expiry date, extension options (with applicable financial terms) and all other material terms;

BE ADVISED that if you propose a Binding Lease Modification Proposal:

- Subject to the terms of your proposal, BMO Capital Markets may share the terms of the proposed lease modification (but not the proposed Lease Modification Consideration) with parties who have made or are contemplating Binding Bids for the applicable Business that is the contemplated tenant under the applicable Lease;
- BMO Capital Markets will be in contact with potential acquirers of the applicable Business that is the contemplated tenant under the applicable Lease so, to the extent helpful in making your binding proposal, you may contact Mark Caiger (416) 359-5865 (mark.caiger@bmo.com) who may be able to obtain feedback from such parties as to leased area and term (but not, at this stage, financial terms) which may be attractive to such parties. **It is recommended that you engage in these discussions with BMO Capital Markets well in advance of August 15, 2017 and submit your Binding Lease Modification Proposal by 5:00 p.m. Eastern Daylight Time on Tuesday, August 15, 2017 to permit parties making Binding Bids for the applicable business to contemplate accepting your Binding Lease Modification Proposal as part of their Binding Bid. If you delay in engaging in discussions of this nature until after the Binding Bid Deadline, there may not be sufficient time to consider your Binding Lease Modification Proposal;**

In each case:

- Specify any other relevant feature of the Transaction structure contemplated by your Binding Bid, Binding Lease Surrender Proposal or Binding Lease

Modification Proposal that is not identified above.

- BE ADVISED that if a Binding Bid is being submitted for one or more Assets or Leases that are subject to an agreement which may or may not contain restrictions in the nature of a right of first refusal, option to purchase or similar right, the beneficiary of such agreement(s) and the Company reserve all rights and remedies in respect of such agreement(s).
3. **Financing:** Your Binding Bid, Binding Lease Surrender Proposal or Binding Lease Modification Proposal should include written evidence of a firm, irrevocable financial commitment for all required funding or financing, if applicable, and should not be conditional on obtaining financing. If you will be relying on internally generated funds, provide evidence of the sufficiency of such funds to complete the Transaction. If you intend to access external financing, provide contact information for each source of financing and provide authorization for the Monitor to have discussions with such contacts.
 4. **Transaction Documents:** Your Binding Bid, Binding Lease Surrender Proposal or Binding Lease Modification Proposal must contain duly executed Transaction Documents and a blackline to the template Transaction Documents (the template asset purchase agreement for Binding Bids for Assets and the template lease surrender/modification agreement for Binding Lease Surrender Proposals and Binding Lease Modification Proposals).

NOTE: If your Binding Bid includes an Asset or Lease that is subject to a right of first refusal, option to purchase or similar right, you must include a separate Transaction Document for each such Asset or Lease and, for greater certainty, such Transaction Document must include a separate allocation of value to such Asset or Lease.

5. **Internal Approvals:** Your Binding Bid, Binding Lease Surrender Proposal or Binding Lease Modification Proposal should include evidence of authorization and approval to submit and consummate the bid from your Board of Directors (or comparable governing body) or confirmation that such authorization and approval is not required to be binding on the bidder.
6. **Expiry:** Your Binding Bid, Binding Lease Surrender Proposal or Binding Lease Modification Proposal should include a letter confirming that the Binding Bid, Binding Lease Surrender Proposal or Binding Lease Modification Proposal is an irrevocable offer to enter into the Transaction on the terms of the Binding Bid, Binding Lease Surrender Proposal or Binding Lease Modification Proposal and is open for acceptance by the Company for a period of 20 business days after the Binding Bid Deadline.
7. **Conditions and Approvals:** Your Binding Bid, Binding Lease Surrender Proposal or Binding Lease Modification Proposal should include a detailed description of any necessary government and regulatory approvals or consents to closing the Transaction and the expected timing and process for obtaining such approvals or consents. In evaluating Binding Bids, Binding Lease Surrender Proposals and Binding Lease

Modification Proposals, the Company will give great weight to certainty and the relative ability of prospective Purchasers or Investors to close the Transaction in an expeditious manner. Your Binding Bid, Binding Lease Surrender Proposal or Binding Lease Modification Proposal should not include any request for or entitlement to any break fee, expense reimbursement or similar type of payment.

8. **Closing Timeline:** The proposed closing date for the Transaction (which shall be no later than October 25, 2017) assuming the Transaction is approved by the Court no later than October 4, 2017.
9. **Due Diligence:** Your Binding Bid, Binding Lease Surrender Proposal or Binding Lease Modification Proposal should not be conditional upon the outcome of unperformed due diligence.
10. **Deposit:** Your Binding Bid, Binding Lease Surrender Proposal or Binding Lease Modification Proposal should be accompanied by a cash deposit of 10% of the total cash purchase price contemplated by such bid, which shall be paid to the Monitor, FTI Consulting Canada Inc., by wire transfer to the account listed below and held in trust in accordance with the Court-approved Sale Process.

FTI Consulting Canada Inc., in its capacity as Monitor
79 Wellington St., Suite 2010, P.O. Box 104
Toronto, Ontario, M5K 1G8

Beneficiary Bank: The Bank of Nova Scotia
44 King Street West
Toronto, Ontario, M5H 1H1
Account No: 47696 06087 18
Transit No: 47696
Bank No: 002
Swift Code: NOSCCATT
Reference: Sears Canada SISP

11. **Contacts Details:** Your Binding Bid, Binding Lease Surrender Proposal or Binding Lease Modification Proposal should include contact information for the persons with whom we can discuss your Binding Bid, Binding Lease Surrender Proposal or Binding Lease Modification Proposal, including any financial, legal or other advisors.
12. **Other:** Your Binding Bid, Binding Lease Surrender Proposal or Binding Lease Modification Proposal should also indicate any other facts, circumstances or important matters which you believe are relevant to the evaluation of your Binding Bid, Binding Lease Surrender Proposal or Binding Lease Modification Proposal.

Questions Regarding the Process

All inquiries or communications, including any requests for additional information, should be directed to:

Mark Caiger
Managing Director
BMO Capital Markets
W: (416) 359-5865
Email: mark.caiger@bmo.com

Any request for additional information will be considered on a case-by-case basis.

Qualifications Regarding the Process

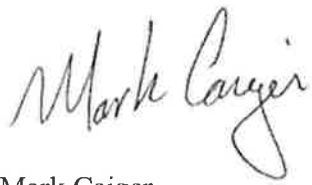
Subject to the terms of the SISP Approval Order, the Company and BMO Capital Markets expressly reserve the right at any time, with or without providing notice or reasons, to (i) amend or terminate the Sale Process; (ii) decline to permit any interested party to participate or continue in the Sale Process; (iii) terminate discussions with any or all interested parties; (iv) reject any or all Binding Bids, Binding Lease Surrender Proposals or Binding Lease Modification Proposals; or (v) negotiate with any party with respect to the Transaction or any other transaction involving the Company without liability to the Company or BMO Capital Markets.

Following the selection of a Binding Bid, Binding Lease Surrender Proposal or Binding Lease Modification Proposal and finalization of all necessary Transaction Documents, the Company will apply to the Court as soon as reasonably practicable for an order (an “**Approval and Vesting Order**”) approving and authorizing such bid. The Approval and Vesting Order is a necessary condition precedent to the finalization of any Transaction.

In submitting a Binding Bid, Binding Lease Surrender Proposal or Binding Lease Modification Proposal, an interested party acknowledges that it is relying solely on its own investigation and evaluation of the Company and its Business. The Company and BMO Capital Markets expressly disclaim any and all liability for representations, warranties or statements contained in this letter or in any other written material furnished or information orally transmitted to a potential purchaser, except only those particular representations and warranties (if any) made by the Company in the Transaction Documents if, as and when such Transaction Documents are ultimately executed by the Company, and subject to such limitations and restrictions as may be contained therein. Until Transaction Documents are executed by the Company, the Company will not have any obligations whatsoever to any potential purchaser. BMO Capital Markets will have no obligations whatsoever to any potential purchaser.


In addition, the Company and BMO Capital Markets reserve the right in their sole discretion to amend any information which has been made available to interested parties either by way of addition, deletion, or amendment. It is understood that you will bear your own costs and expenses including the costs and expenses of all your financial advisors, brokers, finders, agents, lawyers, accountants and other advisors. No finder’s fees, commissions, expenses or other compensation will be paid by the Company or BMO Capital Markets to your intermediaries.

Yours truly,

A handwritten signature in cursive script that reads "Mark Caiger". The signature is written in black ink and is positioned above the printed name and title.

Mark Caiger
Managing Director
BMO Capital Markets

**THIS IS EXHIBIT "C" TO THE AFFIDAVIT
OF MARK CAIGER SWORN BEFORE ME
ON THIS 28th DAY OF SEPTEMBER, 2017.**



A commissioner for taking Affidavits

July 18, 2017

Private and Confidential

[Full Company Name]
[Address]
[City], [Province]
[Postal Code] Canada

Attention: [Name], [Title]

Dear [●]:

On behalf of Sears Canada Inc. (together with certain of its subsidiaries, the “**Company**”), BMO Nesbitt Burns Inc. (“**BMO Capital Markets**”) thanks you for your continued interest in a potential transaction involving the Company and would like to invite you to submit a binding offer together with a proposed markup of transaction documents (a “**Binding Bid**”) with respect to any of the following (each a “**Transaction**”):

- i. the purchase of all or any of the Businesses of the Company on a going concern basis;
- ii. the purchase of one or more of the Assets of the Company;
- iii. the assignment of one or more of the Leases of the Company; or
- iv. any such other transaction that may be of interest to you in respect of the Company.

Each of the capitalized terms in this document that are not otherwise defined herein, have the meaning ascribed to them in the SISP Approval Order made July 13, 2017 and the Sale Process attached thereto (copies of the SISP Approval Order and the Sale Process are available on the Monitor’s website: <http://cfcanada.fticonsulting.com/Searscanada/default.htm>).

You are reminded that the contents of this letter as well as any additional information you may receive, and have already received, during this process are covered by the terms of the Non-Disclosure Agreement which you have entered into with the Company (the “**NDA**”). Nothing in this letter amends or otherwise changes any term in the NDA.

Binding Bid Deadline

Binding Bids must be received no later than 5:00 pm Eastern Daylight Time on Thursday, August 31, 2017 (the “**Binding Bid Deadline**”), but please note that Binding Bids in respect of certain transaction structures are recommended to be submitted prior to the Binding Bid Deadline as discussed below. Binding Bids must be submitted in writing on your letterhead, addressed to the Company, accompanied by a copy of the proposed Transaction Documents (as discussed below) and delivered by email to:

Constance de Grosbois

Director

BMO Capital Markets

W: (416) 359-4504

Email: constance.degrosbois@bmo.com

Greg Watson

Senior Managing Director

FTI Consulting as Court-Appointed Monitor

W: (416) 647-8077

Email: greg.watson@fticonsulting.com

BMO Capital Markets will be available to consult with you or your representatives to clarify or provide guidance with respect to the contents of your Binding Bid prior to such date.

Contents of the Binding Bid

Your Binding Bid should be submitted in conformity with the following instructions and set out the following:

1. **Purchaser/Investor:** The name of the purchaser (the “**Purchaser**”) or investor (the “**Investor**”), and if the Purchaser or Investor is not a public company, the name(s) of the ultimate beneficial owners of the Purchaser or Investor and applicable contact information.
2. **Form of Binding Bid:** A specific description of the form and nature of the Transaction you propose and sufficient detail to ascertain any portion of the Business, Assets or Leases to be included or excluded and any liabilities to be assumed or not assumed, including in respect of the matters discussed below.

Binding Bids for Businesses

If your Binding Bid contemplates you acquiring all or any of the Businesses of the Company, specify for EACH Business you propose to acquire:

- a description of the Business you propose to acquire;
- a description of the Assets of the Company you propose to acquire in connection with the Business;
- a description of the liabilities and Leases of the Company you propose to assume in connection with an acquisition of the Business;
- an indication of your intentions regarding the operations, employees and management of the Business, as well as a discussion of the strategic and operational fit with your existing operations, if any;
- the amount (in Canadian dollars) you propose to pay stated as an enterprise value

for the Business (the “**Business Purchase Price**”);

- a detailed and specific description of the nature of any adjustments to the Business Purchase Price or any amounts that may result in the net proceeds remitted pursuant to the Transaction differing from the Business Purchase Price;
- the form of consideration (cash or a combination of cash and securities) and to the extent part of the consideration is in the form of securities, a detailed description of such securities including all relevant terms and conditions which should be considered in evaluating your Binding Bid.

Binding Bids for Assets

If your Binding Bid contemplates you acquiring one or more Assets of the Company, specify for EACH Asset you propose to acquire:

- a description of the Asset you propose to acquire;
- to the extent you are proposing to acquire an Asset that is a real estate asset, the nature of the business you intend to conduct on the premises in sufficient detail to permit us to evaluate compliance with any potential restrictive covenants in existing agreements with respect to such Asset which may or may not apply;
- if you are proposing to acquire an Asset that is a real estate asset with which the Company currently conducts a Business, and your proposal contemplates as a condition precedent to, or as part of a scenario in your proposal that the Company or an acquirer of the Business continues to conduct such Business (a “**Sale and Leaseback Transaction**”), then you should provide a detailed and comprehensive description of the proposed terms of the lease back you propose be entered into by the acquirer of the applicable Business including leased area, financial terms, expiry date, extension options (with applicable financial terms) and all other material terms;

BE ADVISED that if you propose a Sale and Leaseback Transaction with respect to a particular Asset:

- BMO Capital Markets may share the terms of the proposed lease (but not the proposed Asset Purchase Price (as hereinafter defined)) with parties who have made or are contemplating Binding Bids for the applicable Business that is the contemplated tenant for the Asset;
- BMO Capital Markets will be in contact with potential acquirers of the applicable Business that is the contemplated tenant for the Asset so, to the extent helpful in making your bid, you may contact Mark Caiger (416) 359-5865 (mark.caiger@bmo.com) who may be able to obtain feedback from such parties as to leased area and term (but not, at this stage, financial terms) which may be attractive to such parties. **It is recommended that you engage in these discussions with BMO Capital Markets well in advance of August 15, 2017 and submit your Binding Bid that is a Sale and Leaseback Transaction by 5:00 p.m. Eastern Daylight Time on Tuesday, August 15, 2017 to permit parties making Binding Bids for the applicable Business to**

contemplate accepting your Sale and Leaseback transaction proposal as part of their Binding Bid. If you delay in engaging in discussions of this nature until after the Binding Bid Deadline, there may not be sufficient time for the Applicants and the Sale Advisor to consider your Sale and Leaseback Transaction proposal;

- you should consider also making a Binding Bid for the Asset on the assumption that no lease is entered into by the acquirer of the applicable Business;
- the amount (in Canadian dollars) you propose to pay for the Asset (the “**Asset Purchase Price**”);
- a detailed and specific description of the nature of any adjustments to the Asset Purchase Price or any amounts that may result in the net proceeds remitted pursuant to the Transaction differing from the Asset Purchase Price;
- the form of consideration (cash or a combination of cash and securities) and to the extent part of the consideration is in the form of securities, a detailed description of such securities including all relevant terms and conditions which should be considered in evaluating your Binding Bid.

Binding Bids for Lease Assignments

If your Binding Bid contemplates you accepting the assignment of one or more Leases of the Company, specify for EACH Lease for which you propose to be an assignee:

- a description of the Lease you propose to acquire;
- a description of the nature of the business you intend to conduct on the premises in sufficient detail to permit us to evaluate compliance with any potential restrictive covenants in existing agreements with respect to such Lease which may or may not apply;
- a description of the legal entity to be the assignee including a detailed and specific description of the financial resources of such entity;
- the amount (in Canadian dollars) you propose to pay to the Company in connection with the assignment of the Lease (the “**Lease Assignment Consideration**”);
- a detailed and specific description of the nature of any adjustments to the Lease Assignment Consideration or any amounts that may result in the net proceeds remitted pursuant to the Transaction differing from the Lease Assignment Consideration;
- the form of consideration (cash or a combination of cash and securities) and to the extent part of the consideration is in the form of securities, a detailed description of such securities including all relevant terms and conditions which should be considered in evaluating your Binding Bid.

In each case:

- Specify any key assumptions relating to employees of the Company, including hiring plans, benefits consideration, scope and terms of contemplated employment agreements and all other material assumptions related to employees.
 - Specify any other contracts or arrangements that would be a part of your Binding Bid.
 - Specify any other relevant feature of the Transaction structure contemplated by your Binding Bid that is not identified above.
 - To the extent that your Binding Bid is not in respect of all of the Businesses include a description of the transition services that you will require from the Company following closing of the Transaction, including all material categories thereof and, for each category, the period of time for which it will be needed.
 - BE ADVISED that if a Binding Bid is being submitted for one or more Assets or Leases that are subject to an agreement which may or may not contain restrictions in the nature of a right of first refusal, option to purchase or similar right, the beneficiary of such agreement(s) and the Company reserve all rights and remedies in respect of such agreement(s).
3. **Financing:** Your Binding Bid should include written evidence of a firm, irrevocable financial commitment for all required funding or financing, if applicable, and should not be conditional on obtaining financing. If you will be relying on internally generated funds, provide evidence of the sufficiency of such funds to complete the transaction. If you intend to access external financing, provide contact information for each source of financing and provide authorization for the Monitor to have discussions with such contacts.
4. **Transaction Documents:** Your Binding Bid must contain duly executed Transaction Documents and a blackline to the template Transaction Documents (the template asset purchase agreement for Binding Bids for Businesses and Assets and the template lease assignment agreement for Binding Bids for lease assignments).

NOTE: If your Binding Bid, whether it is a bid for one or more Businesses, Assets or assignment of Leases, includes an Asset or Lease that is subject to a right of first refusal, option to purchase or similar right, you must include a separate Transaction Document for each such Asset or Lease and, for greater certainty, such Transaction Document must include a separate allocation of value to such Asset or Lease.

5. **Internal Approvals:** Your Binding Bid should include evidence of authorization and approval to submit and consummate the bid from your Board of Directors (or comparable governing body).
6. **Expiry:** Your Binding Bid should include a letter confirming that the Binding Bid is an

irrevocable offer to enter into the Transaction on the terms of the Binding Bid and is open for acceptance by the Company for a period of 20 business days after the Binding Bid Deadline.

7. **Conditions and Approvals:** Your Binding Bid should include a detailed description of any necessary government and regulatory approvals or consents to closing the Transaction and the expected timing and process for obtaining such approvals or consents. In evaluating Binding Bids, the Company will give great weight to certainty and the relative ability of prospective Purchasers or Investors to close the Transaction in an expeditious manner. Your Binding Bid should not include any request for or entitlement to any break fee, expense reimbursement or similar type of payment.
8. **Closing Timeline:** The proposed closing date for the Transaction (which shall be no later than October 25, 2017) assuming the Transaction is approved by the Court no later than October 4, 2017.
9. **Due Diligence:** Your Binding Bid should not be conditional upon the outcome of unperformed due diligence.
10. **Deposit:** Your Binding Bid should be accompanied by a cash deposit of 10% of the total cash purchase price contemplated by such bid, which shall be paid to the Monitor, FTI Consulting Canada Inc., by wire transfer to the account listed below and held in trust in accordance with the Court-approved Sale Process.

FTI Consulting Canada Inc., in its capacity as Monitor
79 Wellington St., Suite 2010, P.O. Box 104
Toronto, Ontario, M5K 1G8

Beneficiary Bank: The Bank of Nova Scotia
44 King Street West
Toronto, Ontario, M5H 1H1

Account No: 47696 06087 18
Transit No: 47696
Bank No: 002
Swift Code: NOSCCATT
Reference: Sears Canada SISP

11. **Contacts Details:** Your Binding Bid should include contact information for the persons with whom we can discuss your Binding Bid, including any financial, legal or other advisors.
12. **Other:** Your Binding Bid should also indicate any other facts, circumstances or important matters which you believe are relevant to the evaluation of your Binding Bid.

Questions Regarding the Process

All inquiries or communications, including any requests for additional information, should be directed to:

Constance de Grosbois
Director
BMO Capital Markets
W: (416) 359-4504
Email: constance.degrosbois@bmo.com

Any request for additional information will be considered on a case-by-case basis.

Qualifications Regarding the Process

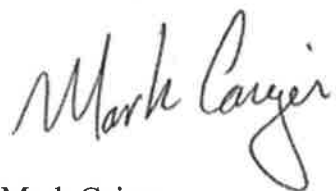
Subject to the terms of the SISP Approval Order, the Company and BMO Capital Markets expressly reserve the right at any time, with or without providing notice or reasons, to (i) amend or terminate the Sale Process; (ii) decline to permit any interested party to participate or continue in the Sale Process; (iii) terminate discussions with any or all interested parties; (iv) reject any or all Binding Bids; or (v) negotiate with any party with respect to the Transaction or any other transaction involving the Company without liability to the Company or BMO Capital Markets.

Following the selection of a Binding Bid and finalization of all necessary Transaction Documents, the Company will apply to the Court as soon as reasonably practicable for an order (an “**Approval and Vesting Order**”) approving and authorizing such bid. The Approval and Vesting Order is a necessary condition precedent to the finalization of any Transaction.

In submitting a Binding Bid, an interested party acknowledges that it is relying solely on its own investigation and evaluation of the Company and its Business. The Company and BMO Capital Markets expressly disclaim any and all liability for representations, warranties or statements contained in this letter or in any other written material furnished or information orally transmitted to a potential purchaser, except only those particular representations and warranties (if any) made by the Company in the Transaction Documents if, as and when such Transaction Documents are ultimately executed by the Company, and subject to such limitations and restrictions as may be contained therein. Until Transaction Documents are executed by the Company, the Company will not have any obligations whatsoever to any potential purchaser. BMO Capital Markets will have no obligations whatsoever to any potential purchaser.

In addition, the Company and BMO Capital Markets reserve the right in their sole discretion to amend any information which has been made available to interested parties either by way of addition, deletion, or amendment. It is understood that you will bear your own costs and expenses including the costs and expenses of all your financial advisors, brokers, finders, agents, lawyers, accountants and other advisors. No finder’s fees, commissions, expenses or other compensation will be paid by the Company or BMO Capital Markets to your intermediaries.

Yours truly,

A handwritten signature in cursive script that reads "Mark Caiger". The signature is written in black ink and is positioned above the printed name and title.

Mark Caiger
Managing Director
BMO Capital Markets

**THIS IS EXHIBIT "D" TO THE AFFIDAVIT
OF MARK CAIGER SWORN BEFORE ME
ON THIS 28th DAY OF SEPTEMBER, 2017.**



A commissioner for taking Affidavits

PROJECT VERTEX

August 23, 2017

Private and Confidential

As you may know, a number of parties are considering a potential proposal to acquire the business and/or certain assets of Sears Canada Inc. (the "Sears Business"). The results of this process, which will be known after a full review of all bids received on the August 31, 2017 Binding Bid Deadline, may impact the services required from SLH Transport Inc. ("SLH") by the Sears Business (the "Sears Transport Services"). After a full review of all bids received on the Binding Bid Deadline, there will be clarity on (i) which of these parties may be successful in purchasing the Sears Business; (ii) the scope of the services that this party or parties may require from SLH, if any; and (iii) the terms and conditions under which this party or parties would be prepared to contract for the services to be provided.

When making your Binding Bid for the SLH business you should assume that:

- For the period from transaction closing until December 31, 2017, subject to the Sears Business' option to extend the Sears Transport Services for an additional 120 days after December 31, 2017, SLH may be required to continue to provide Sears Transport Services under the terms and conditions currently in place between SLH and the Sears Business; and
- Following the Binding Bid Deadline, a prospective purchaser of SLH may be invited to negotiate a contract for future transportation and logistics services with a prospective purchaser of the Sears Business who wishes to continue to receive Sears Transport Services. Neither party will be under any obligation to enter into such a contract. Prospective purchasers of SLH should indicate whether their Binding Bid is conditional on the successful negotiation of such a contract, and if so, based on which terms and conditions.

Please contact Constance de Grosbois (constance.degrosbois@bmo.com) with any questions.

Best regards,

Mark Caiger
Managing Director
BMO Capital Markets

IN THE MATTER OF the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended

Court File No: CV-17-11846-00CL

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

Applicants

Ontario
**SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**
Proceeding commenced at Toronto

AFFIDAVIT OF MARK CAIGER
(General Sales Process Affidavit)

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Lawyers for the Applicants

TAB 3

Court File No. CV-17-11846-00CL

**SEARS CANADA INC.,
AND RELATED APPLICANTS**

SECOND REPORT OF FTI CONSULTING CANADA INC., AS MONITOR

August 16, 2017

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

APPLICANTS

**SECOND 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 "**Sears Canada Group**" or 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 LP, a partnership forming part of the operations of the Sears Canada Group. The proceedings commenced under the CCAA by the Sears Canada Group 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 Group (the “**Monitor**”) in the CCAA Proceedings;
 - (b) granted an initial stay of proceedings against the Sears Canada Group until July 22, 2017;
 - (c) authorized the Sears Canada Group to enter into the DIP Facilities; and
 - (d) 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 were issued:
- (a) the amended and restated Initial Order;
 - (b) an order setting out the terms of the appointment of Ussel Phillips Fellows Hopkinson LLP as representative counsel for the non-unionized active and former employees of the Sears Canada Group (“**Employee Representative Counsel**”);
 - (c) 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 Group with respect to pension and post-employment benefit matters (“**Pension and Retiree Representative Counsel**”);
 - (d) an order authorizing the eventual suspension of special payments under the Sears Canada Pension Plan, certain payments in connection with supplemental pension plans and certain payments under post-retirement benefit plans; and
 - (e) an order approving a sale and investor solicitation process (the “**SISP**”) to solicit interest in potential transactions, including investment proposals, involving the business, property, assets and/or leases of the Applicants (the “**SISP Approval Order**”).
4. On July 18, 2017, the Court issued a Liquidation Sale Approval Order, which approved
- (i) a process for the liquidation of inventory and furniture, fixtures and equipment at 59

locations scheduled for closure (the “**Liquidation Process**”); and (ii) in connection with that Liquidation Process, an Amended and Restated Agency Agreement and a Consulting Agreement between Sears Canada and the agent and consultant described therein.

5. The purpose of this second report of the Monitor (the “**Second Report**”) is to provide the Court with updated information and, where appropriate, the Monitor’s comments and recommendations, regarding the following:
- (a) the activities of the Sears Canada Group and the Monitor since July 12, 2017, the date of the Monitor’s First Report;
 - (b) the Liquidation Process;
 - (c) constructive trust claims raised since the commencement of the CCAA Proceedings;
 - (d) pension matters;
 - (e) class action matters;
 - (f) construction lien matters;
 - (g) the receipts and disbursements of the Sears Canada Group for the five-week period ended August 5, 2017;
 - (h) the Employee Representative Counsel’s motion to establish a proposed Employee Hardship Fund (as such term is defined below); and
 - (i) the Sears Canada Group’s motion requesting the approval and vesting order (the “**AVO**”) contemplated in the asset purchase agreement dated April 12, 2017 (the “**Original APA**”), as amended by an amending agreement dated July 28, 2017 (the “**Amendment**”, and together with the Original APA, the “**APA**”) between Sears Canada and WCRE Investments Ltd. (“**WCRE**”)¹, a company related to

¹ The Monitor has been advised that WCRE’s interest in the APA has been assigned to 2311 McPhillips Street Properties Limited Partnership pursuant to an Assignment of Purchase Agreement dated August 14, 2017.

Hungerford Properties Inc., pursuant to which WCRE, will acquire real property owned by Sears Canada and located at the Garden City Shopping Centre in Winnipeg, Manitoba (the “**Garden City Property**”). The proposed AVO would also approve a distribution of proceeds of the sale to the lenders under the DIP Term Loan Agreement (the “**DIP Term Lenders**”).

B. TERMS OF REFERENCE

6. In preparing this Second Report, the Monitor has relied upon audited and unaudited financial information of the Sears Canada Group, the Sears Canada Group’s books and records, certain financial information and forecasts prepared by the Sears Canada Group, and discussions with various parties, including senior management (“**Management**”) of, and advisors to, Sears Canada (collectively, the “**Information**”).
7. Except as otherwise described in this Second Report:
 - (a) the Monitor has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would comply with Generally Accepted Assurance Standards pursuant to the *Chartered Professional Accountants of Canada Handbook*; and
 - (b) the Monitor has not examined or reviewed the financial forecasts or projections referred to in this Second Report in a manner that would comply with the procedures described in the *Chartered Professional Accountants of Canada Handbook*.
8. Future-oriented financial information reported in or relied on in preparing this Second Report is based on Management’s assumptions regarding future events. Actual results will vary from these forecasts and such variations may be material.
9. The Monitor has prepared this Second Report in connection with the hearing on August 18, 2017.

References herein to WCRE include, to the extent required, 2311 McPhillips Street Properties Limited Partnership and its nominee and general partner 2311 McPhillips Street Properties GP Ltd.

10. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian Dollars.
11. Capitalized terms not otherwise defined herein have the meanings ascribed to them in the affidavits of Mr. Billy Wong, the Chief Financial Officer of Sears Canada, sworn on June 22, 2017 (the “**First Wong Affidavit**”), July 5, 2017 (the “**Second Wong Affidavit**”), and July 12, 2017 (the “**Third Wong Affidavit**”), the affidavit of Mr. Stephen Champion, Executive Vice-President, Real Estate and Strategic Opportunities of Sears Canada, affirmed on August 11, 2017 (the “**Champion Affidavit**”) and the APA.

C. THE ACTIVITIES OF THE SEARS CANADA GROUP AND THE MONITOR

12. The activities of the Sears Canada Group and the Monitor since the date of the First Report are summarized below.

SISP Process

13. Following the issuance of the SISP Approval Order, the Sears Canada Group together with its legal counsel and the Sale Advisor have taken steps to implement the SISP. The Monitor and the Special Committee (as defined in the SISP Approval Order) have supervised the implementation of the SISP by the Sears Canada Group and its advisors.
14. In particular, the Monitor has:
 - (a) assisted in the preparation of documentation and information to be made available to participants in the SISP;
 - (b) ensured that appropriate protections were put in place to preserve the integrity and fairness of the SISP, including with respect to senior management’s involvement in the SISP; and
 - (c) participated in various meetings and discussions with SISP participants.
15. Pursuant to the SISP Approval Order, the deadline for potential bidders to submit bids under the SISP is August 31, 2017.

Suppliers

16. Since the date of the First Report, Sears Canada has continued, with the assistance of the Monitor, to liaise with its merchandise and service suppliers to agree on supply terms, including continued shipment of goods from overseas. Where appropriate, Sears Canada and the Monitor continue their efforts to reach agreements with suppliers.
17. In the Monitor's view, the Sears Canada Group has been working diligently and in good faith to address supplier issues as they arise.

Licensees, Concession Operators and Consignees

18. Since the date of the Initial Order, a number of licensees, consignees and concession operators have contacted Sears Canada and the Monitor with respect to amounts they claim are owed by Sears Canada.
19. In certain cases, parties have alleged trust or constructive trust claims. The claims of these parties are discussed in greater detail below.
20. In other cases, parties have approached Sears Canada to discuss the consensual wind-up or the transition of their relationships with Sears Canada. Discussions amongst Sears Canada, the Monitor and these parties continue.
21. In circumstances where Sears Canada collected sales taxes on sales made at concessions, Sears Canada has agreed to remit to its counterparty the funds collected by Sears Canada, so long as the counterparty confirms that the funds will be remitted to the applicable tax authority.

Landlords

22. Pursuant to the SISP Approval Order, the Applicants were directed to, on the request of a holder ("**Holder**") of a Property Agreement (as defined in such Order), advise the Holder by August 4, 2017 if the Applicants intended to take the position that the Holder's right of first refusal (or similar right) was no longer in force.

23. The Applicants received a number of requests from Holders and responded to these requests within the required timeline.
24. The Applicants also received communications from certain landlords relating to the calculation and payment of real property taxes during the post-filing period and, with the assistance of the Monitor and counsel, are considering these requests.
25. Since the date of the First Report, the Applicants, in consultation with the Monitor and the Sale Advisor, have considered the renewal of certain of the Applicants' leases and have taken steps in respect of such renewals that are, in the Monitor's view, consistent with the objectives of the CCAA Proceedings, the SISP and the Applicants' obligations in the circumstances.

Construction Lien Claimants

26. Since the commencement of the CCAA Proceedings, the Applicants, with the assistance of the Monitor, have worked to address various issues in respect of the payment of pre-filing amounts to parties who supplied services in connection with construction work at various Sears 2.0 stores. These dealings are discussed in further detail below.

DIP Lenders

27. The Sears Canada Group, with the assistance of the Monitor, is providing the DIP Lenders with the information and reporting required pursuant to the terms of the agreements governing the DIP Financing (collectively, the "**DIP Credit Agreements**").
28. Since the date of the Comeback Motion, the Applicants have drawn approximately \$160 million of advances under the DIP Credit Agreements. In addition, approximately US\$11.7 million of letters of credit have been issued under the DIP Revolving Credit Agreement.²

² The Sears Canada Group has requested the issuance of further letters of credit under the DIP Revolving Credit Agreement in an aggregate amount of approximately US\$6.3 million.

29. In accordance with the terms of the DIP Credit Agreements, the Sears Canada Group has consulted with, and where required, sought the consent of, the DIP Lenders in respect of various matters arising in the CCAA Proceedings.

Employee Matters

30. The Applicants, with the assistance of the Monitor, have worked with Employee Representative Counsel, Pension and Retiree Representative Counsel, counsel to the Financial Services Commission of Ontario (FSCO), and their respective advisors, to provide these parties with the information that they are entitled to receive pursuant to the terms of a term sheet which was attached as Appendix "A" to the Supplement to the First Report of the Monitor.
31. In addition, the Applicants, with the assistance of the Monitor, have explored with Employee Representative Counsel alternatives that would alleviate the burden of the CCAA proceedings on certain of the Applicants' terminated head office employees and store associates. These discussions culminated in the creation of the Employee Hardship Fund, which is discussed in detail below.
32. The Monitor understands that, since the commencement of the CCAA Proceedings, a number of management employees have resigned or indicated their intention to resign.
33. On August 15, 2017, the Executive Chairman stepped away from the day-to-day operations of Sears Canada. Becky Penrice, the Executive Vice-President of Sears Canada will lead Sears Canada's executive team in the interim. A copy of the notice informing employees of these management changes is attached to this report as Appendix "A".

KERP

34. In accordance with the Initial Order, the Sears Canada Group has implemented the Court-approved KERP. The first payment under the KERP was to be made 45 days following the date of the Initial Order. As such, Sears Canada paid the first instalment of the KERP to the KERP participants on August 8, 2017, other than those instalments that are to be used to fund the Employee Hardship Fund if approved by the Court.

Disclaimers of Contracts

35. The Applicants, with the assistance of the Monitor, are continuing to review their contractual arrangements and identify those that, in the Applicants' view, should be disclaimed. The Applicants have sought and obtained the consent of the Monitor and the DIP Lenders to disclaim seven agreements as of the date of this Report and the Monitor expects that the Applicants will continue to issue disclaimer notices as warranted by the circumstances and subject to approval of the Monitor.

Other Activities of the Monitor

36. The Monitor has also undertaken the following activities:
- (a) monitored the Sears Canada Group's receipts and disbursements including the receipts and disbursements of S.L.H. Transport Inc. and Corbeil Électrique Inc.;
 - (b) maintained the current Service List for these CCAA Proceedings and posted regular updates of the Service List to the Monitor's Website;
 - (c) with the assistance of the Applicants where appropriate, responded to stakeholders who have contacted the Monitor via the Monitor's hotline or email address;
 - (d) worked with Management to review and monitor the Sears Canada Group's ongoing merchandise and purchasing requirements, and related commitments;
 - (e) monitored the status of the Sears Canada Group's process to liquidate inventory, fixtures and equipment at stores identified for closure;
 - (f) supervised and assisted in activities related to the SISF, and worked with the Special Committee and advisors to ensure that the SISF is conducted in a manner consistent with standards expected of similar processes under the CCAA;
 - (g) worked with Representative Counsel and their advisors to respond to questions and provide information to their respective constituents;

- (h) worked with the Sears Canada Group and the DIP Lenders on matters relating to the DIP Financing; and
- (i) worked with the Sears Canada Group to ensure appropriate accounting for pre-filing and post-filing obligations.

D. UPDATE ON THE LIQUIDATION PROCESS

- 37. The Monitor has reviewed the progress of the Liquidation Process on an ongoing basis from the commencement of that process.
- 38. The Monitor has not identified any matters in connection with the Liquidation Process that result in any material concerns.
- 39. Pursuant to the agreements governing the Liquidation Process, the Liquidation Process is scheduled to be completed by October 12, 2017. The Monitor is in regular communication with the Sears Canada Group employees with carriage of the Liquidation Process and is unaware of any issues or other matters that would indicate the process will not be completed on schedule.
- 40. Sears Canada has received notice from the agent in the Liquidation Process that inventory sales will be completed at 15 of the liquidating Home Stores owned by Sears Canada by the first week of September.
- 41. Sears Canada has notified the Monitor of its intention to disclaim the agreements governing dealer arrangements at seven Hometown Dealer Stores that were included in the Liquidation Process. The Monitor has been advised that the target dates for completion of the liquidation sale at these seven Hometown Dealer Stores will occur before the end of August.
- 42. The Liquidation Process at the remaining closing locations continues at this time.

E. CONSTRUCTIVE TRUST CLAIMS

43. Following the issuance of the Initial Order, a number of suppliers to the Sears Canada Group approached the Applicants and the Monitor to express their belief that, in each of their individual circumstances, trust or constructive trust claims arose.
44. The Sears Canada Group reviewed these parties' claims in consultation with the Monitor. While the individual contractual arrangements varied, the Applicants determined in each case that either (i) no trust relationship had arisen; or (ii) no funds had ever been segregated and therefore a constructive trust claim did not arise in the context of the CCAA. The Monitor agreed with these conclusions.
45. One potential claimant has discussed with the Applicants and Monitor the possibility of bringing a motion to address its claims. The Applicants, with the support of the Monitor, proposed that such claims, which in essence relate to creditor priorities, be deferred, if brought at all, until after the conclusion of the SISP. To date, no motion has been scheduled.

F. PENSION MATTERS

46. On August 3, 2017, Pension and Retiree Representative Counsel contacted the Applicants and the Monitor to advise of its intention to bring a motion for a wind-up of the Sears Canada Registered Retirement Plan as of September 30, 2017.³ The Applicants and the Monitor have advised Pension and Retiree Representative Counsel that in their view any motions that were not urgent or the postponement of which would not give rise to further prejudice should be deferred until after the conclusion of the SISP, in order to conserve the resources of the Applicants and the Court.
47. Pension and Retiree Representative Counsel remains of the view that it is necessary to serve the motion to preserve or protect certain statutory remedies but otherwise has been receptive to the Applicants' and Monitor's view. Accordingly, the motion record has

³ This date was subsequently changed to October 1, 2017.

been served but only for the purpose of establishing service and being spoken to at the hearing of August 18, 2017.

G. CLASS ACTION MATTERS

48. Prior to the commencement of these CCAA Proceedings, certain of the Applicants were defendants in a proposed class proceeding commenced in London, Ontario, known as *Kenny v. Sears et al* (Court file No 208/15) and for which a certification motion was scheduled to take place on October 10, 2017.
49. After the commencement of the CCAA Proceedings, counsel for the proposed representative plaintiff served a Motion Record and suggested to the Applicants and the Monitor that the stay of proceedings be lifted to allow for certification, in the event that such a step might be of assistance in a future claims process. Consistent with the approach taken with other non-urgent litigation matters, the Monitor and the Applicants proposed that any motions to lift the stay be delayed until the conclusion of the SISF, in order to allow the Applicants and the Court to focus on asset realization matters. Counsel for the proposed representative plaintiff has advised the certification motion judge of this concern, and counsel for the Applicants and the Monitor have agreed to make themselves available for any case conference requested by the certification motion judge to obtain additional information on these matters.

H. CONSTRUCTION LIEN MATTERS

50. At the time of the Initial Order, the Applicants were conducting renovations at a number of their store locations. Subsequent to the Initial Order, various lien claimants have sought to preserve and perfect their potential rights under applicable construction lien legislation. Approximately 28 construction liens have been filed relating to work performed at 14 store locations and one call centre located in New Brunswick.
51. Several construction lien claimants approached the Applicants and the Monitor on an individual basis seeking to lift the stay to allow for perfection of their liens. The Applicants, with the support of the Monitor, have, on a case by case basis, followed an approach of agreeing to lift the stay for the purpose of issuing (or serving) a claim for

purposes of perfection, in return for confirmation that in so doing the Applicants and the Monitor would not be taken to be agreeing to any further steps moving forward in the proceedings.

52. In addition, a group of lien claimants, being APM Construction Services Inc, 152610 Canada Inc. o/a Laurin Company, Traugott Building Contractors Inc., Décor Craft Inc. o/a Nelnor Construction, and ROSSCLAIR Contractors Inc., all represented by Koskie Minsky LLP, have asserted an intention to bring a motion to lift the stay to commence an action against the officers and directors of Sears Canada alleging, among other things, negligent misrepresentation and oppression.
53. The Monitor has advised these lien claimants of its view that such motions should be delayed until the conclusion of the SISIP in order to conserve the resources of the Applicants and the Court for asset realization matters.
54. Notwithstanding this view, the lien claimants have requested a 9:30 or other scheduling attendance for the purpose of addressing their request, and the issue of the scheduling of the motion will be addressed at the Court hearing on August 18, 2017.

I. RECEIPTS AND DISBURSEMENTS FOR THE FIVE-WEEK PERIOD ENDING AUGUST 5, 2017

55. The Sears Canada Group's actual net cash outflow for the five-week period ended August 5, 2017 was approximately \$269.5 million, compared to a forecast net cash outflow of \$321.8 million, resulting in a positive variance of approximately \$52.3 million as indicated in the table below:

VARIANCE REPORT	Actual	Forecast	Variance
(CAD in Millions)	For the 5 Week Period Ending August 5, 2017		
Operating Receipts	215.6	214.0	1.6
Operating Disbursements			
Payroll and Employee Related Costs	(55.9)	(56.9)	1.0
Merchandise Vendors	(75.5)	(85.7)	10.2
Non-Merchandise Vendors	(30.5)	(53.1)	22.6
Rent and Property Taxes	(17.6)	(20.8)	3.2
Sales Taxes	(5.9)	(10.9)	5.0
Pension	(3.7)	(3.7)	-
IT Costs	(7.2)	(12.8)	5.6
Recovery of Expenses from Agent	3.0	5.0	(2.0)
Capital Expenditures	-	(3.4)	3.4
Total Operating Disbursements	(193.3)	(242.3)	49.0
Net Operating Cash Inflows / (Outflows)	22.3	(28.3)	50.6
Professional Fees	(13.2)	(16.6)	3.4
Repayments of Existing Credit Facilities	(273.8)	(271.7)	(2.1)
DIP Fees and Interest Paid	(4.8)	(5.2)	0.4
Net Cash Inflows / (Outflows)	(269.5)	(321.8)	52.3
Cash			
Beginning Balance	160.7	160.7	-
Net Cash Inflows / (Outflows)	(269.5)	(321.8)	52.3
DIP Draws / (Repayments)	160.0	219.6	(59.6)
Others incl. FX Valuation	(2.8)	-	(2.8)
Ending Balance	48.4	58.5	(10.1)

56. Explanations for the key variances are as follows:

- (a) the positive variance in Operating Receipts of approximately \$1.6 million is a timing difference which is expected to reverse in future forecast periods;
- (b) the positive variance in Payroll and Employee Related Costs of approximately \$1.0 million is a timing difference related primarily to the timing of remittances in respect of source deductions for KERP payments which will reverse in future forecast periods;

- (c) the positive variance in Merchandise Vendor disbursements of \$10.2 million is a timing difference resulting from lower purchases than forecast due to on-going discussions with vendors regarding order quantities in light of the Sears Canada Group's restructuring proceedings combined with lower-than-forecast disbursements in respect of critical vendors. The positive variance in Merchandise Vendor disbursements is expected to reverse in future forecast periods;
- (d) the positive variance in Non-Merchandise Vendor disbursements of approximately \$22.6 million consists of a positive permanent variance of approximately \$8 million as a result of lower-than-forecast disbursements in respect of critical vendors and cost savings achieved in advertising and logistics, combined with a timing difference of approximately \$15 million which is expected to reverse in future forecast periods once Sears Canada Group has finalized its post-Filing order quantities and service levels with vendors;
- (e) the positive variance in Rent and Property Taxes of approximately \$3.2 million is due to differences in the timing of actual property tax payments compared to the CCAA Cash Flow Forecast which assumed equal monthly installments;
- (f) the positive variance in Sales Tax disbursements of approximately \$5.0 million is a permanent difference resulting from the receipt of sales tax refunds which were not included in the CCAA Cash Flow Forecast due to uncertainty regarding timing;
- (g) the positive variance in IT Cost disbursements of approximately \$5.6 million consists primarily of certain IT vendor payments to be paid in the future forecast periods;
- (h) the negative variance in Recovery of Expenses from Agent of approximately \$2.0 million is a timing difference resulting from delays in the reimbursement of certain expenses associated with the Court-approved liquidation sales process which are expected to reverse in future forecast periods;

- (i) the positive variance in Capital Expenditure disbursements of approximately \$3.4 million is a timing difference as a result of a delay by the vendors in submitting invoices;
 - (j) the positive variance in Professional Fees of approximately \$3.4 million is a timing variance that is expected to reverse in future forecast periods;
 - (k) the variance in DIP Draws / (Repayments) is the result of the positive cash flow variances noted above; and
 - (l) the negative variance in “Others incl. FX Valuation” of approximately \$2.8 million captures the impact on US Dollar denominated cash balances held by the Sears Canada Group from a strengthening Canadian Dollar since date of the CCAA Cash Flow Forecast.
57. 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. The Sears Canada Group has continued to utilize its Cash Management System in a manner consistent with past practice.

J. EMPLOYEE HARDSHIP FUND

58. Since the commencement of the CCAA Proceedings, approximately 3,100 employees of the Sears Canada Group entities have had their employment terminated, either immediately or with working notice. Employees who have been terminated will not receive post-retirement benefits and will not receive termination or severance pay at this time.
59. Employee Representative Counsel has worked with the Sears Canada Group and the Monitor to establish, and now seeks court approval for, a proposed hardship fund (the “**Employee Hardship Fund**”) to be made available to former employees of the Sears Canada Group who apply and whose application is accepted by the Monitor or by a committee established by the Monitor, the Sears Canada Group and Employee Representative Counsel. To be accepted, an applicant must show, among other things,

that he or she faces urgent or immediate hardship in dealing with his or her financial obligations and that funds are not otherwise available from alternative sources to satisfy the obligations for which the Employee Hardship Fund was established.

60. The proposed Employee Hardship Fund includes the following terms:

- (a) prescribed eligibility criteria, which will be made available on the Monitor's Website at <http://cfcanada.fticonsulting.com/searscanada> and on the website established by Employee Representative Counsel: <http://www.upfhlaw.ca/areas-of-practice/sears-canada-employees-and-former-employees>;
- (b) the Monitor will complete the initial assessments of hardship applications submitted and eligibility of applicants. Any disagreements regarding eligibility to participate in the Employee Hardship Fund will be referred to a committee including one appointee of the Sears Canada Group, one appointee of the Monitor and one appointee of Employee Representative Counsel;
- (c) funding for the Employee Hardship Fund will not exceed \$500,000, subject to potential increases in certain circumstances. The first tranche will be in the amount of \$300,000. Additional amounts up to \$200,000 may also be received. This funding will be provided by the Sears Canada Group from otherwise earned but foregone executive payment entitlements under the KERP to the extent that those payments are secured by the KERP Priority Charge. The proposed funding mechanism is intended to maintain the status quo for all creditors other than those KERP participants who have agreed to forego a portion of their KERP entitlements;
- (d) the maximum payment available to any one recipient is eight weeks' regular wages up to a maximum of \$1,200 per week for eight weeks plus potential discretionary increases of up to \$2,500. In determining the amount to be paid to any recipient, the amounts otherwise payable by the Sears Canada Group to such recipient that have been stayed in the CCAA Proceedings will be considered.

Payments will only exceed such stayed amounts in exceptional circumstances;
and

(e) any payments made from the Employee Hardship Fund will be deducted from any distributions on any allowed claims of the recipient in the CCAA Proceedings.

61. In connection with the proposed Employee Hardship Fund, Employee Representative Counsel has agreed not to oppose the KERP as approved in the Initial Order, to withdraw with prejudice the responding motion record returnable July 13, 2017, including the notice of motion contained therein to the extent that it deals with the KERP, and not to oppose the stay of termination and severance payments to former employees of the Sears Canada Group.

62. If any amounts remain in the Employee Hardship Fund at the completion of the CCAA Proceedings, those amounts will be returned to the Sears Canada Group entities.

Monitor's Recommendation

63. The Monitor is of the view that in the circumstances of this case, including the number of employees terminated and the unique financial circumstances in which these employees find themselves, the Employee Hardship Fund requested by Employee Representative Counsel is appropriate in the circumstances. The Monitor accordingly supports the approval of the Employee Hardship Fund.

64. The Monitor notes that no creditor is prejudiced as a result of the establishment of the proposed Employee Hardship Fund without such creditor's consent.

K. WINNIPEG GARDEN CITY: REQUEST FOR APPROVAL AND VESTING ORDER

65. Once a Sears Full Line department store, the property owned by Sears Canada located at the Winnipeg Garden City Shopping Centre, 2311 McPhillips Street, Winnipeg, Manitoba (as defined above, the Garden City Property) has more recently been informally operated as an Outlet store selling excess discounted inventory. Prior to the CCAA filing, the Garden City store was operating at a net loss of over \$1 million per year.

66. Given its current financial situation, Sears Canada cannot afford to maintain or improve the Garden City Property, and the significant annual losses associated with the Garden City store are a financial strain on the Sears Canada Group.
67. Since early 2016, prior to the commencement of the CCAA Proceedings, Sears Canada undertook efforts to sell the Garden City Property.
68. As part of that process, Sears Canada entered into the Original APA, pursuant to which WCRE agreed to purchase the Garden City Property for \$5 million (the “**Purchase Price**”).
69. Pursuant to the terms of the SISP Approval Order and section 16 of the Sale Process approved therein, Sears Canada, in its business judgment and in consultation with the Sale Advisor, the Monitor and the DIP Lenders, is permitted to withdraw any Leases or Assets from the Sale Process. With the support of the Sale Advisor, the Monitor and the DIP Lenders, Sears Canada has decided to withdraw the Garden City Property from the Sale Process in order to complete the Garden City Transaction (as defined below).

The Garden City Property

70. The Garden City store was listed as a store that the Applicants intend to close in the First Wong Affidavit.
71. The Garden City Property is comprised of land and a building that requires significant redevelopment. Sears Canada has advised the Monitor of its view that the Garden City Property is too large to accommodate a single retail tenant in the market in which the property is situated. The Garden City Property will accordingly need to be repurposed to accommodate multiple smaller tenants. Sears Canada also believes that additional improvements would need to be made to make the building a commercially viable space. The Monitor believes that Sears Canada’s assessment of the Garden City Property is reasonable.
72. The Monitor understands that an operating agreement between Sears Canada and a predecessor in interest to a subsidiary of RioCan Real Estate Investment Trust

(“**RioCan**”), who owns the adjacent Garden City Shopping Centre proper, was in place but appears to have expired.

The Sale Process

73. The Monitor understands that for several months prior to the CCAA filing, Sears Canada undertook a solicitation process pursuant to which it identified and contacted potentially interested buyers. The parties contacted by Sears Canada included large retailers, property developers and managers, and RioCan, which owns the remainder of the Garden City Shopping Centre.
74. Sears Canada received three proposals with respect to the Garden City Property:
- (a) in November 2016, Sears Canada received a letter of interest from a party that was interested in leasing (but not purchasing) certain properties from Sears Canada, including the Garden City Property. The proposal, as it related to the Garden City Property, required Sears Canada to provide tenant allowances for redevelopment and capital expenditures. The Monitor understands that, given its financial circumstances, Sears Canada was unwilling to commit to paying the capital expenditures. Sears Canada accordingly did not pursue further discussions with this party;
 - (b) on April 4, 2017, Sears Canada received a letter of interest from WCRE, which offered to purchase the Garden City Property for \$5 million on an “as is, where is basis”. WCRE’s offer did not contain any leaseback requirement or any requirement that the Sears Canada Group incur any capital expenditures with respect to the Garden City Property; and
 - (c) on or around June 20, 2017, Sears Canada received a non-binding proposal relating to a number of properties, which specified a purchase price of \$6.75 million for the Garden City Property. The proposed transaction was conditional on Sears Canada leasing back the property from the new owner. The proposed leaseback transaction did not address the improvement costs needed to allow the

Garden City Property to be leased. Without a leaseback arrangement, the proposed purchase price would decrease to \$4.5 million.

75. Sears Canada determined that WCRE's proposal represented the best offer available with respect to the Garden City Property. Accordingly, on April 12, 2017, prior to the commencement of the CCAA Proceedings, Sears Canada entered into the Original APA.

The APA

76. Under the Original APA, WCRE agreed to purchase the Garden City Property on an "as is, where is" basis for the Purchase Price of \$5 million, subject to usual adjustments (the "**Garden City Transaction**").
77. The Original APA was amended by the Amendment dated July 28, 2017 to reflect the requirements of the Initial Order and the CCAA. As amended, the APA requires that the AVO be issued and entered by this Court on or before August 25, 2017 as a condition precedent to the closing of the Garden City Transaction.
78. The APA also contains the following terms:
- (a) an Initial Deposit of \$20,000 was provided to WCRE's counsel in trust within two business days of the execution of the Original APA. In accordance with the Amendment, the Initial Deposit has been transferred to the Monitor and is now held in trust by the Monitor;
 - (b) an Additional Deposit of \$380,000, which was paid to the Monitor in trust by WCRE within two business days of satisfaction or waiver of WCRE's conditions precedent;
 - (c) the requirement that the Garden City Transaction be completed on an "as is, where is" basis;
 - (d) the requirement that WCRE's conditions precedent be waived or satisfied by July 26, 2017. As set out in the Amendment, WCRE has waived its conditions precedent set out in section 6.1 of the Original APA; and

- (e) closing of the Garden City Transaction is to occur five business days after issuance of the AVO, provided that Sears Canada will have the right (subject to the Monitor's approval) to extend the Completion Date of the transaction until no later than October 16, 2017 in order to allow the ongoing liquidation process at the premises to be completed.

79. A copy of the APA is attached as Exhibit "B" to the Champion Affidavit.

Subsequent Communication from RioCan

- 80. On the morning of August 15, 2017, counsel to RioCan contacted the Monitor and its counsel to advise that RioCan intended to make an unspecified "higher" offer for the Garden City Property by August 31, 2017. The Monitor discussed this communication, as well as previous communications between counsel to RioCan and Sears Canada, with Sears Canada, the Sale Advisor and counsel to Sears Canada. The Monitor also made independent enquiries concerning RioCan's activities in the context of the SISP.
- 81. The Monitor was informed by Sears Canada and its advisors that RioCan has been aware of Sears Canada's intention to sell the Garden City Property to WCRE for several weeks. The Monitor understands that RioCan was invited to submit an offer for the purchase of the Garden City Property on more than one prior occasion and that RioCan declined to do so.
- 82. Neither the Monitor, the Sale Advisor nor Sears Canada has received an offer from RioCan to purchase the Garden City Property.
- 83. Counsel to RioCan advised the Monitor that RioCan believed it had until August 31, 2017 to make an offer to purchase the Garden City Property. While this may have been the case, the Monitor notes that, pursuant to paragraph 16 of the SISP, Sears Canada is permitted to, in its business judgment and in consultation with the Sale Advisor, the Monitor and the DIP Lenders, withdraw assets from the SISP at any time. Sears Canada consulted with the Sale Advisor, the Monitor and the DIP Lenders before exercising that right in respect of the Garden City Property.

84. Following the communication from RioCan's counsel, the Monitor asked Sears Canada and the Sale Advisor whether they still believed that the Garden City Transaction was appropriate. Each party answered in the affirmative. The Monitor has no reason to believe that Sears Canada failed to exercise reasonable business judgment in deciding to withdraw the Garden City Property from the SISP and in negotiating the Original APA and the Amendment. The Monitor also has no reason to question the good faith of WCRE in entering into the APA.
85. In the circumstances, and for the reasons described above and below, the Monitor believes that it is appropriate for the Garden City Property to be sold to WCRE on the terms set out in the APA, outside the SISP.

Monitor's Comments on the Sale Process and APA

86. Section 36(1) of the CCAA states:

36(1) Restriction on disposition of business assets - A debtor company in respect of which an order has been made under this Act may not sell or otherwise dispose of assets outside the ordinary course of business unless authorized to do so by a court. Despite any requirement for shareholder approval, including one under federal or provincial law, the court may authorize the sale or disposition even if shareholder approval was not obtained.

87. Section 36(3) of the CCAA states:

(3) Factors to be considered - In deciding whether to grant the authorization, the court is to consider, among other things,

(a) whether the process leading to the proposed sale or disposition was reasonable in the circumstances;

(b) whether the monitor approved the process leading to the proposed sale or disposition;

(c) whether the monitor filed with the court a report stating that in their opinion the sale or disposition would be more beneficial to the creditors than a sale or disposition under a bankruptcy;

(d) the extent to which the creditors were consulted;

(e) the effects of the proposed sale or disposition on the creditors and other interested parties; and

(f) whether the consideration to be received for the assets is reasonable and fair, taking into account their market value.

Reasonableness of the Process Leading to the Garden City Transaction

88. The Sears Canada Group has been pursuing the sale of the Garden City Property since 2016 – prior to the commencement of the CCAA Proceedings and prior to the Court’s approval of the SISP.
89. During this time, Sears Canada canvassed the market for potential buyers in an attempt to sell the Garden City Property. Parties contacted by Sears Canada included national retailers, real estate developers and managers, and RioCan, the owner of the Garden City Shopping Centre.
90. Sears Canada received and reviewed a number of proposals related to the Garden City Property. In its business judgment, the offer put forward by WCRE was determined to be the best proposal compared to any other proposal. The proposal was accepted and the Original APA was executed on April 12, 2017.
91. Following the commencement of these CCAA Proceedings on June 22, 2017, the APA was amended to make the sale subject to Court approval in accordance with the terms of the CCAA and the Initial Order.
92. As the process to sell the Garden City Property was undertaken prior to the commencement of the CCAA Proceedings, the Monitor was not involved in this sale process.
93. However, based upon the information the Monitor has received from Sears Canada, the Monitor believes that the process was reasonable in the circumstances, resulted in the opportunity to purchase the Garden City Property being made available to potentially interested buyers, and appears to have achieved a fair and reasonable result.

Comparison to Sale in Bankruptcy

94. The Monitor has considered whether the Garden City Transaction would be more beneficial to the creditors and stakeholders of the Sears Canada Group than a sale or disposition of the Garden City Property under a bankruptcy.
95. Given the proposals received and the liquidation alternatives available, the options available for sale or disposition of the Garden City Property are the same regardless of whether such sale or disposition is carried out as proposed by the Sears Canada Group in these CCAA Proceedings or in a bankruptcy.
96. It is the Monitor's view that the process to obtain the AVO, which is a condition of the APA, and close the Garden City Transaction would be the same in both the CCAA Proceedings or a bankruptcy. The costs associated therewith would be essentially the same whether the sale was completed in the CCAA Proceedings or a bankruptcy.
97. However, a sale in bankruptcy would delay the approval and closing of the Garden City Transaction as it would be necessary to first assign Sears Canada into bankruptcy or obtain a Bankruptcy Order, convene a meeting of creditors, appoint inspectors and obtain their approval of the Garden City Transaction prior to seeking the AVO. Given the ongoing CCAA Proceedings and SISP for the rest of the Sears Canada Group's business and assets, a bankruptcy would not be feasible at this time without jeopardizing the SISP and the Sears Canada Group's ongoing operations.
98. Any delay in completing the Garden City Transaction would be detrimental to the Sears Canada Group and its stakeholders generally. Accordingly, it is the Monitor's view that a sale or disposition of the Garden City Property in these CCAA Proceedings would be more beneficial than a transaction in a bankruptcy process.

Consultations with Creditors

99. The Sears Canada Group has consulted with the DIP Lenders with respect to the Garden City Transaction. During that consultation process, the DIP Lenders were provided with a copy of the APA.

100. The Monitor has been advised that the DIP Lenders have reviewed the APA, including the Amendment, and have provided their support for the Garden City Transaction.
101. Other than beneficiaries of the Administration Charge, the KERP Priority Charge and the Directors' Priority Charge (each as defined in the Initial Order), the DIP Term Lenders are the only parties with an interest in the proceeds of the Garden City Transaction at this time and, as noted below, they will receive a distribution of those proceeds in accordance with the terms of the DIP Term Loan Agreement.
102. No other creditors were consulted in connection with the transaction.
103. The Monitor is of the view that the degree of creditor consultation was appropriate in the circumstances. The Monitor does not consider that any material change in the outcome of the efforts to sell the Garden City Property would have resulted from additional consultation.

Effect of the Garden City Transaction on Creditors and Other Interested Parties

104. As noted above, the only creditors with an economic interest in the proceeds of the Garden City Transaction are the DIP Term Lenders and the proceeds of the transaction are to be distributed in accordance with the priorities established in the DIP Term Loan Agreement.

Fairness of the Consideration

105. The Monitor is of the view that the APA represents the best proposal for the Garden City Property. As described above, while Sears Canada received one higher offer of \$6.75 million, that offer was conditional on Sears Canada leasing back the property. This higher offer would have also required Sears Canada to undertake significant expenditures to improve and redevelop the Garden City Property, which the Sears Canada Group cannot afford given its current financial circumstances.
106. The APA represents the highest offer to purchase the Garden City Property on an "as is, where is" basis.

107. The Monitor understands that Sears Canada received an appraisal for the Garden City Property from a leading valuation firm dated December 31, 2016. A second appraisal dated May 31, 2017 was prepared at the request of the DIP Term Lenders. Copies of these appraisals are attached to this Second Report as Confidential Appendices “B” and “C”.
108. The Sears Canada Group has been unable to identify a potential purchaser who is willing to purchase the Garden City Property on the assumptions contained in the appraisals.

Distribution

109. Pursuant to the AVO, the net proceeds of the Garden City Transactions shall be paid forthwith to the DIP Term Lenders in partial repayment of the obligations owing under the DIP Term Loan Agreement.
110. Pursuant to the DIP Term Loan Agreement, the net proceeds of a sale of Term Priority Collateral (as defined in the DIP Term Loan Agreement to include the Garden City Property) shall be applied promptly, and in any event no later than three business days after receipt thereof, to repay the obligations under the DIP Term Loan Agreement. The DIP Term Lenders were granted the DIP Term Lenders’ Charge (as defined in the Initial Order) to secure the obligations under the DIP Term Loan Agreement.
111. The DIP Term Lenders’ Charge ranks, with respect to the Garden City Property, subordinate only to the Administration Charge, the KERP Priority Charge and the Directors’ Priority Charge (each as defined in the Initial Order) and in priority to all other security interests attaching to the Garden City Property that the Monitor is aware of.

Sealing Order

112. As indicated in the Champion Affidavit, the Applicants are seeking an order sealing Confidential Appendices “B” and “C” to this Second Report. Confidential Appendices “B” and “C” contain commercially sensitive appraisal information relating to the Garden City Property. If the Garden City Transaction does not close, the public disclosure of this appraisal information would be detrimental to any subsequent attempts to market the Garden City Property.

Monitor's Recommendation

113. The Garden City Transaction is the best transaction resulting from the marketing of the Garden City Property. The Monitor is of the view that the Purchase Price is fair and reasonable in the circumstances.
114. Accordingly, and based on the foregoing, the Monitor is of the view that the approval of the Garden City Transaction is in the best interests of creditors and the Sears Canada Group's stakeholders generally. The Monitor supports the Applicants' request for approval of the Garden City Transaction and the granting of the AVO.
115. As the net proceeds of the Garden City Transaction are required to be paid to the DIP Term Lenders pursuant to the DIP Term Loan Agreement and based upon the ranking of the DIP Term Lenders' Charge described above, the Monitor also supports the Applicants' request to make the proposed distribution of proceeds to the DIP Term Lenders.
116. The Monitor is not aware of any party that would be prejudiced by the proposed sealing order. The Monitor also understands the concerns of Sears Canada regarding the public disclosure of the appraisal information for the reasons set out above.
117. The Monitor believes the requested sealing order is reasonable in the circumstances.

The Monitor respectfully submits to the Court this, its Second Report.

Dated this 16th day of August, 2017.

FTI Consulting Canada Inc.
In its capacity as Monitor of
Sears Canada Inc. and the other corporations in the Sears Canada Group



Paul Bishop
Senior Managing Director



Greg Watson
Senior Managing Director

APPENDIX "A"
NOTICE TO EMPLOYEES

August 16, 2017

To Sears Canada Associates at RSC and Initium:

As you are aware, Brandon Stranzl, our Executive Chairman, has been focusing his efforts on developing plans for the business to continue as a going concern. The intention is to formulate these plans into a bid that can be submitted as part of the Sale and Investment Solicitation Process, or "SISP". The SISP, part of the CCAA process, seeks out proposals for the acquisition of, or investment in, the Sears Canada Group's business or assets. The goal of any such proposal is to facilitate a path for Sears Canada to emerge from CCAA and so that all of us can continue with the company's reinvention plans. The deadline for SISP submissions is August 31, 2017 meaning Brandon needs to spend significant time during this period developing the bid proposal.

In light of the approaching bid deadline and the focus required to assemble all necessary components of a bid, the Board thought it was best for Brandon to focus exclusively on putting the bid together and step away from the day-to-day operations of Sears Canada.

Becky Penrice, Executive Vice-President and Chief Operating Officer, will now lead the executive team of the Company and any of Brandon's direct-reports will report to her. Any matters which formerly required Brandon's input should now be put forward to Becky and the management team instead. To the extent that Brandon requires any support from the Company regarding the bid, that support will be coordinated through Greg Watson or Paul Bishop of FTI Consulting Canada Inc., the Court-appointed Monitor.

If you have any questions, please reach out to Becky or to your executive leadership team member. Otherwise, thank you for your continued outstanding efforts on behalf of Sears Canada as we move through the restructuring process.

Graham Savage,
Chair, Special Committee of the Board of Directors,
Sears Canada Inc.

CONFIDENTIAL APPENDIX "B"
APPRAISAL DATED DECEMBER 31, 2016

CONFIDENTIAL APPENDIX "C"
APPRAISAL DATED MAY 31, 2017

IN THE MATTER OF THE COMPANIES' CREDITORS ARRANGEMENT ACT, R.S.C. 1985, c. C-36, AS AMENDED

AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF SEARS CANADA INC., *et al.*

Court File No: CV-17-11846-00CL

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

Proceeding commenced at TORONTO

**SECOND REPORT TO THE COURT
SUBMITTED BY FTI CONSULTING CANADA INC.,
IN ITS CAPACITY AS MONITOR**

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

Applicants

Ontario

**SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

Proceeding commenced at Toronto

MOTION RECORD OF THE APPLICANTS

(Motion for Stay Extension
returnable October 4, 2017)

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