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

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

B E T W E E N:

SEARS CANADA INC., 9370-2751 QUÉBEC INC., 191020 CANADA INC., THE CUT INC., SEARS CONTACT SERVICES INC., INITIUM LOGISTICS SERVICES INC., INITIUM COMMERCE LABS INC., INITIUM TRADING AND SOURCING CORP., SEARS FLOOR COVERING CENTRES INC., 173470 CANADA INC., 2497089 ONTARIO INC., 6988741 CANADA INC., 10011711 CANADA INC., 1592580 ONTARIO LIMITED, 955041 ALBERTA LTD., 4201531 CANADA INC., 168886 CANADA INC. and 3339611 CANADA INC.

Applicants

RESPONDING RECORD OF THE ESL PARTIES

November 27, 2018

POLLEY FAITH LLP
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80 Richmond Street West
Suite 1300
Toronto, ON M5H 2A4

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Lawyers for the Respondents, Edward S. Lampert, ESL Investments Inc., ESL Partners L.P., RBS Partners, L.P., SPE I Partners, LP, ESL Institutional Partners, L.P., SPE Master I, LP, CRK Partners, LLC, ESL Investors, LLC and RBS Investments Management, LLC (the "**ESL Parties**")

TO: **THE SERVICE LIST**

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

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

B E T W E E N:

SEARS CANADA INC., 9370-2751 QUÉBEC INC., 191020 CANADA INC., THE CUT INC., SEARS CONTACT SERVICES INC., INITIUM LOGISTICS SERVICES INC., INITIUM COMMERCE LABS INC., INITIUM TRADING AND SOURCING CORP., SEARS FLOOR COVERING CENTRES INC., 173470 CANADA INC., 2497089 ONTARIO INC., 6988741 CANADA INC., 10011711 CANADA INC., 1592580 ONTARIO LIMITED, 955041 ALBERTA LTD., 4201531 CANADA INC., 168886 CANADA INC. and 3339611 CANADA INC.

Applicants

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TAB 1

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

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

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

AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF SEARS CANADA INC., 9370-2751 QUÉBEC INC., 191020 CANADA INC., THE CUT INC., SEARS CONTACT SERVICES INC., INITIUM LOGISTICS SERVICES INC., INITIUM COMMERCE LABS INC., INITIUM TRADING AND SOURCING CORP., SEARS FLOOR COVERING CENTRES INC., 173470 CANADA INC., 2497089 ONTARIO INC., 6988741 CANADA INC., 10011711 CANADA INC., 1592580 ONTARIO LIMITED, 955041 ALBERTA LTD., 4201531 CANADA INC., 168886 CANADA INC., AND 3339611 CANADA INC.

The Applicants

AFFIDAVIT OF JONATHAN WYPYCH
(Sworn March 1, 2018)

I, Jonathan Wypych, of the City of Toronto, in the Province of Ontario, MAKE OATH AND SAY:

1. I am an associate at the law firm McMillan LLP ("**McMillan**"), legal counsel to the respondents Mr. Edward Lampert, ESL Investments Inc., ESL Partners, L.P., RBS Partners, L.P., SPE I Partners, LP, ESL Institutional Partners, LP, SPE Master I, LP, CRK Partners, LLC and ESL Investors, LLC. in this proceeding (the "**Respondent Equity Holders**"). As such, I have personal knowledge of the matters to which I herein depose, unless stated to be based on information and belief, in which case I state the source of my belief and believe it to be true.

The ESL Respondents' Ownership Interests in Sears Canada, Inc.

2. On November 13, 2012, the Respondent Equity Holders received equity interests in Sears Canada, Inc. ("**Sears Canada**") pursuant to a spin-off transaction by Sears Holdings Corporation ("**Sears Holdings**") in which Sears Holdings distributed some of

its shares in Sears Canada to Sears Holdings shareholders (the "**2012 Spin-Off Transaction**").

3. Immediately after the 2012 Spin-Off Transaction, the Respondent Equity Holders held a minority position of approximately 27.6 percent of the outstanding Sears Canada shares, while Sears Holdings retained majority ownership with approximately 51 percent of outstanding Sears Canada shares.

4. Attached hereto as Exhibits "A" and "B" respectively are true copies of the Form 8-K filed by Sears Holdings on November 14, 2012 with the United States Securities and Exchange Commission ("**SEC**") disclosing the terms of the 2012 Spin-Off Transaction and Schedule 13D filed by the Respondent Equity Holders with the SEC on November 21, 2012 disclosing the Respondent Equity Holders' aggregate holdings in Sears Canada after the 2012 Spin-Off Transaction.

The 2012 and 2013 Sears Canada Dividends

5. The net earnings, cash reserves, and equity value for Sears Canada for 2011-2013 are set forth in the table below:

Financial Year	**Net Earnings (loss)**[1]	**Dividend Declared**	**Equity Value at end of period**	**Cash and Cash Equivalents at end of period**
2011	(50.3)	0	1,092.0	400.2
2012	101.2	101.9	1,076.4	238.5
2013	446.5	509.4	1,073.8	513.8

[1] All figures are CAD$ million.

6. Attached hereto as Exhibit "C" to this affidavit is a true copy of the 2013 Annual Report of Sears Canada, Inc., which includes the financial statements for Sears Canada for fiscal years 2011, 2012 and 2013.

7. Mr. Lampert did not serve on the board of Sears Canada when the board of directors of Sears Canada authorized the dividend paid by Sears Canada as of December 20, 2012 (the "**2012 Dividend**") or the dividend paid by Sears Canada as of December 9, 2013 (the "**2013 Dividend**").

8. Attached hereto as Exhibits "D","E", "F" and "G" are true copies of the 2012, 2014, 2015 and 2016 annual reports of Sears Canada.

The ESL Respondents Purchase Additional Shares in Sears Canada After the 2012 and 2013 Dividends

9. Pursuant to a rights offering completed on October 26, 2014 (the "**2014 Rights Offering**"), the ESL Respondents paid approximately USD $168.5 million to Sears Holdings in exchange for additional equity interests in Sears Canada. As a result of the 2014 Rights Offering, the ESL Respondents increased their aggregate equity holdings to 46.7% of the outstanding shares of Sears Canada.

10. Attached hereto as Exhibit "H" to this affidavit is a true copy of the October 26, 2014 Schedule 13D SEC filing by the ESL Respondents disclosing (i) the aggregate consideration paid by the ESL Respondents' for Sears Canada shares in connection with the 2014 Rights Offering and (ii) the percentage of outstanding Sears Canada shares held by the ESL Respondents.

11. The market value of the ESL Respondents' equity holdings in Sears Canada shortly after the 2014 Rights Offering was approximately USD $270,000,000.

12. Attached hereto as Exhibit "I" to this affidavit is a true copy of the February 17, 2015 Form 13F SEC filing by the ESL Respondents disclosing the market value of the

ESL Respondents' equity interests in Sears Canada in the first reporting period after the 2014 Rights Offering.

AFFIRMED BEFORE ME at the City of Toronto, Province of Ontario, this 1st day of March, 2018. A Commissioner for taking Affidavits *(or as may be)*	Jonathan Wypych

Shannon Beverley Ste. Marie, a Commissioner, etc.,
Province of Ontario, while a Student-at-Law.
Expires March 23, 2019.

TAB A

This is Exhibit "A" referred to in the

Affidavit of

JONATHAN WYPYCH

Sworn before me,

this 1ST day of March, 2018

A Commissioner for taking Affidavits

Shannon Beverley Ste. Marie, a Commissioner, etc.,
Province of Ontario, while a Student-at-Law.
Expires March 23, 2019.

8-K 1 d439446d8k.htm FORM 8-K

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): November 14, 2012

SEARS HOLDINGS CORPORATION
(Exact name of registrant as specified in charter)

Delaware	**000-51217**	**20-1920798**
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(IRS Employer Identification No.)

3333 Beverly Road Hoffman Estates, Illinois	**60179**
(Address of principal executive offices)	(Zip code)

Registrant's telephone number, including area code: (847) 286-2500

(Former name or former address, if changed since last report): Not Applicable

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

¨ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

¨ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

¨ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

¨ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 8.01 Other Events.

On November 14, 2012, Sears Holdings Corporation issued a press release regarding its previously announced spin-off of a portion of its interest in Sears Canada Inc. The press release is attached hereto as Exhibit 99.1.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits

99.1 Press release dated November 14, 2012.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SEARS HOLDINGS CORPORATION

By: /s/ Robert A. Riecker
Robert A. Riecker
Vice President, Controller and Chief Accounting Officer

Date: November 14, 2012

Exhibit Index

99.1 Press Release dated November 14, 2012.

EX-99.1 2 d439446dex991.htm PRESS RELEASE DATED NOVEMBER 14, 2012

Exhibit 99.1

NEWS MEDIA CONTACT:
Sears Holdings Public Relations
(847) 286-8371

FOR IMMEDIATE RELEASE:
Nov. 14, 2012

SEARS HOLDINGS CORPORATION COMPLETES PARTIAL SPIN-OFF OF ITS INTEREST IN SEARS CANADA INC.

HOFFMAN ESTATES, Ill. – Sears Holdings Corporation (NASDAQ: SHLD) ("Sears Holdings") today announced that it completed its previously announced spin-off of a portion of its interest in Sears Canada Inc. (TSX: SCC) ("Sears Canada"). Sears Holdings distributed approximately 44.5% of the total issued and outstanding common shares of Sears Canada on a pro rata basis to holders of Sears Holdings common stock. Following the partial spin-off, Sears Holdings has an approximately 51% ownership interest in Sears Canada.

The partial spin-off was effective at 11:59 p.m. EST on November 13, 2012. At that time Sears Holdings' stockholders received 0.4283 Sears Canada common shares for every share of Sears Holdings common stock held as of the close of business on November 1, 2012, the record date for the spin-off. The distribution is taxable to Sears Holdings' stockholders for Canadian and U.S. federal income tax purposes.

Sears Holdings will continue to be listed on the NASDAQ Global Select Market under the symbol "SHLD," and Sears Canada will continue to be listed on the Toronto Stock Exchange under the symbol "SCC".

This press release shall not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of these securities in any state or country in which such offer, solicitation or sale would be unlawful.

About Sears Holdings Corporation

Sears Holdings Corporation is a leading integrated retailer with over 2,600 full-line and specialty retail stores in the United States and Canada and the home of SHOP YOUR WAY, a social shopping experience where members have the ability to earn points and receive benefits across a wide variety of physical and digital formats through ShopYourWay.com. Sears Holdings is the leading home appliance retailer as well as a leader in tools, lawn and garden, fitness equipment and automotive repair and maintenance. Key proprietary brands include Kenmore, Craftsman and DieHard, with a broad apparel offering, including such well-known labels as Lands' End, the Kardashian Kollection, Jaclyn Smith and Joe Boxer, as well as Sofia by Sofia Vergara and The Country Living Home Collection. We are the nation's largest provider of home services, with more than 15 million service and installation calls made annually and have a long-established commitment to those who serve in the military through initiatives like the Heroes at Home program. We have been named the 2011 Mobile Retailer of the Year, Recipient of the 2012 ENERGY STAR® "Corporate Commitment Award" for Product Retailing and Energy

Management and one of the Top 20 Best Places to Work for Recent Grads. Sears Holdings Corporation operates through its subsidiaries, including Sears, Roebuck and Co. and Kmart Corporation. For more information, visit Sears Holdings' website at www.searsholdings.com. Twitter: @searsholdings | |Facebook: http://www.facebook.com/SHCCareers

TAB B

This is Exhibit "B" referred to in the

Affidavit of

JONATHAN WYPYCH

Sworn before me,

this 1ST day of March, 2018

A Commissioner for taking Affidavits

Shannon Beverley Ste. Marie, a Commissioner, etc.,
Province of Ontario, while a Student-at-Law.
Expires March 23, 2019.

SC 13D/A 1 d443313dsc13da.htm SC 13D/A

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 13D

Under the Securities Exchange Act of 1934
(Amendment No. 1)

Sears Canada Inc.
(Name of Issuer)

Common Shares, no par value
(Title of Class of Securities)

81234D109
(CUSIP Number)

William H. Hinman, Jr.
Simpson Thacher & Bartlett LLP
2550 Hanover Street
Palo Alto, CA 94304
(650) 251-5000
(Name, Address and Telephone Number of Person Authorized to Receive Notices and Communications)

November 19, 2012
(Date of Event which Requires Filing of this Statement)

If the filing person has previously filed a statement on Schedule 13G to report the acquisition that is the subject of this Schedule 13D, and is filing this schedule because of §§240.13d-1(e), 240.13d-1(f) or 240.13d-1(g), check the following box. ¨

Note: Schedules filed in paper format shall include a signed original and five copies of the schedule, including all exhibits. See §240.13d-7 for other parties to whom copies are to be sent.

* The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter disclosures provided in a prior cover page.

The information required on the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

CUSIP No. 81234D109

1	NAMES OF REPORTING PERSONS ESL Partners, L.P.		
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (See Instructions) (a) x (b) ¨		
3	SEC USE ONLY		
4	SOURCE OF FUNDS (See Instructions) WC		
5	CHECK IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) OR 2(e) ¨		
6	CITIZENSHIP OR PLACE OF ORGANIZATION Delaware		
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH		**7**	SOLE VOTING POWER 15,821,206
		8	SHARED VOTING POWER 0
		9	SOLE DISPOSITIVE POWER 15,821,206
		10	SHARED DISPOSITIVE POWER 10,433,088
11	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON 26,254,294		
12	CHECK IF THE AGGREGATE AMOUNT IN ROW 11 EXCLUDES CERTAIN SHARES (See Instructions) ¨		
13	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW 11 25.8% (1)		
14	TYPE OF REPORTING PERSON (See Instructions) PN		

(1) Based upon 101,877,622 Shares outstanding as of October 19, 2012, as disclosed in the Issuer's Registration Statement on Form 20-F that was filed by the Issuer with the Securities and Exchange Commission on October 23, 2012 (the "Registration Statement").

CUSIP No. 81234D109

1	NAMES OF REPORTING PERSONS ESL Investors, L.L.C.	
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (See Instructions) (a) ¨ (b) ¨	
3	SEC USE ONLY	
4	SOURCE OF FUNDS (See Instructions) N/A	
5	CHECK IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) OR 2(e) ¨	
6	CITIZENSHIP OR PLACE OF ORGANIZATION Delaware	
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	**7**	SOLE VOTING POWER 0
	8	SHARED VOTING POWER 0
	9	SOLE DISPOSITIVE POWER 0
	10	SHARED DISPOSITIVE POWER 0
11	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON 0	
12	CHECK IF THE AGGREGATE AMOUNT IN ROW 11 EXCLUDES CERTAIN SHARES (See Instructions) ¨	
13	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW 11 0.0% (1)	
14	TYPE OF REPORTING PERSON (See Instructions) OO	

(1) Based upon 101,877,622 Shares outstanding as of October 19, 2012, as disclosed in the Registration Statement.

CUSIP No. 81234D109

1	NAMES OF REPORTING PERSONS SPE I Partners, LP		
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (See Instructions) (a) x (b) ¨		
3	SEC USE ONLY		
4	SOURCE OF FUNDS (See Instructions) N/A		
5	CHECK IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) OR 2(e) ¨		
6	CITIZENSHIP OR PLACE OF ORGANIZATION Delaware		
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH		7	SOLE VOTING POWER 830,852
		8	SHARED VOTING POWER 0
		9	SOLE DISPOSITIVE POWER 830,852
		10	SHARED DISPOSITIVE POWER 0
11	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON 830,852		
12	CHECK IF THE AGGREGATE AMOUNT IN ROW 11 EXCLUDES CERTAIN SHARES (See Instructions) ¨		
13	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW 11 0.8% (1)		
14	TYPE OF REPORTING PERSON (See Instructions) PN		

(1) Based upon 101,877,622 Shares outstanding as of October 19, 2012, as disclosed in the Registration Statement.

CUSIP No. 81234D109

1	NAMES OF REPORTING PERSONS SPE Master I, LP		
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (See Instructions) (a) x (b) ¨		
3	SEC USE ONLY		
4	SOURCE OF FUNDS (See Instructions) N/A		
5	CHECK IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) OR 2(e) ¨		
6	CITIZENSHIP OR PLACE OF ORGANIZATION Delaware		
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH		7	SOLE VOTING POWER 1,068,522
		8	SHARED VOTING POWER 0
		9	SOLE DISPOSITIVE POWER 1,068,522
		10	SHARED DISPOSITIVE POWER 0
11	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON 1,068,522		
12	CHECK IF THE AGGREGATE AMOUNT IN ROW 11 EXCLUDES CERTAIN SHARES (See Instructions) ¨		
13	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW 11 1.0% (1)		
14	TYPE OF REPORTING PERSON (See Instructions) PN		

(1) Based upon 101,877,622 Shares outstanding as of October 19, 2012, as disclosed in the Registration Statement.

CUSIP No. 81234D109

1	NAMES OF REPORTING PERSONS RBS Partners, L.P.		
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (See Instructions) (a) x (b) ¨		
3	SEC USE ONLY		
4	SOURCE OF FUNDS (See Instructions) N/A		
5	CHECK IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) OR 2(e) ¨		
6	CITIZENSHIP OR PLACE OF ORGANIZATION Delaware		
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH		7	SOLE VOTING POWER 17,720,580
		8	SHARED VOTING POWER 0
		9	SOLE DISPOSITIVE POWER 17,720,580
		10	SHARED DISPOSITIVE POWER 10,433,088
11	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON 28,153,668		
12	CHECK IF THE AGGREGATE AMOUNT IN ROW 11 EXCLUDES CERTAIN SHARES (See Instructions) ¨		
13	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW 11 27.6% (1)		
14	TYPE OF REPORTING PERSON (See Instructions) PN		

(1) Based upon 101,877,622 Shares outstanding as of October 19, 2012, as disclosed in the Registration Statement.

CUSIP No. 81234D109

1	NAME OF REPORTING PERSON ESL Institutional Partners, L.P.		
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (a) x (b) ¨		
3	SEC USE ONLY		
4	SOURCE OF FUNDS N/A		
5	CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) OR 2(e) ¨		
6	CITIZENSHIP OR PLACE OF ORGANIZATION Delaware		
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH		**7**	SOLE VOTING POWER 4,381
		8	SHARED VOTING POWER 0
		9	SOLE DISPOSITIVE POWER 4,381
		10	SHARED DISPOSITIVE POWER 0
11	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON 4,381		
12	CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES ¨		
13	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11) 0.0%(1)		
14	TYPE OF REPORTING PERSON (See Instructions) PN		

(1) Based upon 101,877,622 Shares outstanding as of October 19, 2012, as disclosed in the Registration Statement.

CUSIP No. 81234D109

1	NAMES OF REPORTING PERSONS RBS Investment Management, L.L.C.		
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (See Instructions) (a) x (b) ¨		
3	SEC USE ONLY		
4	SOURCE OF FUNDS (See Instructions) N/A		
5	CHECK IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) OR 2(e) ¨		
6	CITIZENSHIP OR PLACE OF ORGANIZATION Delaware		
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH		7	SOLE VOTING POWER 4,381
		8	SHARED VOTING POWER 0
		9	SOLE DISPOSITIVE POWER 4,381
		10	SHARED DISPOSITIVE POWER 0
11	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON 4,381		
12	CHECK IF THE AGGREGATE AMOUNT IN ROW 11 EXCLUDES CERTAIN SHARES (See Instructions) ¨		
13	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW 11 0.0% (1)		
14	TYPE OF REPORTING PERSON (See Instructions) OO		

(1) Based upon 101,877,622 Shares outstanding as of October 19, 2012, as disclosed in the Registration Statement.

CUSIP No. 81234D109

1	NAMES OF REPORTING PERSONS CRK Partners, L.L.C.		
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (See Instructions) (a) x (b) ¨		
3	SEC USE ONLY		
4	SOURCE OF FUNDS (See Instructions) N/A		
5	CHECK IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) OR 2(e) ¨		
6	CITIZENSHIP OR PLACE OF ORGANIZATION Delaware		
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH		7	SOLE VOTING POWER 319
		8	SHARED VOTING POWER 0
		9	SOLE DISPOSITIVE POWER 319
		10	SHARED DISPOSITIVE POWER 0
11	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON 319		
12	CHECK IF THE AGGREGATE AMOUNT IN ROW 11 EXCLUDES CERTAIN SHARES (See Instructions) ¨		
13	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW 11 0.0% (1)		
14	TYPE OF REPORTING PERSON (See Instructions) OO		

(1) Based upon 101,877,622 Shares outstanding as of October 19, 2012, as disclosed in the Registration Statement.

CUSIP No. 81234D109

1	NAMES OF REPORTING PERSONS ESL Investments, Inc.		
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (See Instructions) (a) x (b) ¨		
3	SEC USE ONLY		
4	SOURCE OF FUNDS (See Instructions) N/A		
5	CHECK IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) OR 2(e) ¨		
6	CITIZENSHIP OR PLACE OF ORGANIZATION Delaware		
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH		**7**	SOLE VOTING POWER 17,725,280
		8	SHARED VOTING POWER 0
		9	SOLE DISPOSITIVE POWER 17,725,280
		10	SHARED DISPOSITIVE POWER 10,433,088
11	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON 28,158,368		
12	CHECK IF THE AGGREGATE AMOUNT IN ROW 11 EXCLUDES CERTAIN SHARES (See Instructions) ¨		
13	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW 11 27.6% (1)		
14	TYPE OF REPORTING PERSON (See Instructions) CO		

(1) Based upon 101,877,622 Shares outstanding as of October 19, 2012, as disclosed in the Registration Statement.

CUSIP No. 81234D109

1	NAMES OF REPORTING PERSONS Edward S. Lampert		
2	CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (See Instructions) (a) x (b) ¨		
3	SEC USE ONLY		
4	SOURCE OF FUNDS (See Instructions) PF		
5	CHECK IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEM 2(d) OR 2(e) ¨		
6	CITIZENSHIP OR PLACE OF ORGANIZATION United States		
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH		7	SOLE VOTING POWER 28,158,368
		8	SHARED VOTING POWER 0
		9	SOLE DISPOSITIVE POWER 17,725,280
		10	SHARED DISPOSITIVE POWER 10,433,088
11	AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON 28,158,368		
12	CHECK IF THE AGGREGATE AMOUNT IN ROW 11 EXCLUDES CERTAIN SHARES (See Instructions) ¨		
13	PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW 11 27.6% (1)		
14	TYPE OF REPORTING PERSON (See Instructions) IN		

(1) Based upon 101,877,622 Shares outstanding as of October 19, 2012, as disclosed in the Registration Statement.

This Amendment No. 1 to Schedule 13D (this "Amendment") relates to common shares, no par value (the "Shares"), of Sears Canada Inc., a corporation organized under the laws of Canada (the "Issuer"). This Amendment amends the Schedule 13D, as previously filed with the Securities and Exchange Commission by ESL Partners, L.P., a Delaware limited partnership ("Partners"), ESL Investors, L.L.C., a Delaware limited liability company ("Investors"), SPE I Partners, LP, a Delaware limited partnership ("SPE I"), SPE Master I, LP, a Delaware limited partnership ("SPE Master I"), RBS Partners, L.P., a Delaware limited partnership ("RBS"), ESL Institutional Partners, L.P., a Delaware limited partnership ("Institutional"), RBS Investment Management, L.L.C., a Delaware limited liability company ("RBSIM"), CRK Partners, L.L.C, a Delaware limited liability company ("CRK"), ESL Investments, Inc., a Delaware corporation ("ESL"), and Edward S. Lampert, a United States citizen, by furnishing the information set forth below. Partners, Investors, SPE I, SPE Master I, RBS, Institutional, RBSIM, CRK, ESL and Mr. Lampert are collectively defined as the "Reporting Persons." Except as otherwise specified in this Amendment, all previous Items are unchanged. Capitalized terms used herein which are not defined herein have the meanings given to them in the Schedule 13D, as previously filed with the Securities and Exchange Commission.

The Reporting Persons are filing this Amendment to report the private sale by Investors of 680,533 Shares to Partners and 380,848 Shares to Mr. Lampert. Following this transaction, the aggregate number of Shares beneficially owned by the Reporting Persons did not change, but Investors no longer beneficially owns any Shares. Consequently, this will serve as an exit filing for Investors.

Item 3. Source and Amount of Funds or Other Consideration.

Item 3 of the Schedule 13D is hereby amended and supplemented as follows:

On November 19, 2012, in a private sale, Investors sold 680,533 Shares to Partners for $10.9868 per Share for an aggregate purchase price of approximately $7,476,880 and 380,848 Shares to Mr. Lampert for the same price per Share for an aggregate purchase price of approximately $4,184,301. Partners used working capital to purchase the Shares and Mr. Lampert used personal funds.

Item 4. Purpose of the Transaction.

Item 4 of the Schedule 13D is hereby amended and restated in its entirety as follows:

On November 19, 2012, Investors sold 680,533 Shares to Partners and 380,848 Shares to Mr. Lampert in a private sale. Following this transaction, the aggregate number of Shares beneficially owned by the Reporting Persons did not change, but Investors no longer beneficially owns any Shares. Partners and Mr. Lampert purchased the Shares and Investors sold the Shares in this transaction as part of their ordinary course investment activities.

The Reporting Persons plan to review their investment in the Issuer on a continuing basis. Depending upon each factor discussed below and each other factor (which may be unknown at this time) that is or may become relevant, the Reporting Persons plan to consider, among other things: (a) the acquisition by the Reporting Persons of additional securities of the Issuer, or the disposition of securities of the Issuer; (b) an extraordinary corporate transaction, such as a merger, reorganization or liquidation, involving the Issuer or any of its subsidiaries; (c) a sale or transfer of a material amount of assets of the Issuer or any of its subsidiaries; (d) changes in the present board of directors or management of the Issuer; (e) a material change in the present capitalization or dividend policy of the Issuer; (f) any other material change in the Issuer's business or corporate structure; (g) changes in the Issuer's certificate of incorporation or bylaws or other actions which may impede the acquisition of control of the Issuer by any person; (h) causing any class of the Issuer's securities to be delisted from a national securities exchange or to cease to be authorized to be quoted in an inter-dealer quotation system of a registered national securities association; (i) a class of equity securities of the Issuer becoming eligible for termination of registration pursuant to Section 12(g)(4) of the Act; or (j) any action similar to those enumerated above.

Any open market or privately negotiated purchases or sales, acquisition recommendations or proposals or other transactions may be made at any time without prior notice. Any alternative may depend upon a variety of factors, including, without limitation, current and anticipated future trading prices of the securities, the financial condition, results of operations and prospects of the Issuer and general industry conditions, the availability, form and terms of financing, other investment and business opportunities, general stock market and economic conditions, tax considerations and other factors. Although the foregoing reflects plans and proposals presently contemplated by each Reporting Person with respect to the Issuer, the foregoing is subject to change at any time and dependent upon contingencies and assumed and speculative conditions, and there can be no assurance that any of the actions set forth above will be taken.

Except as described herein or to the extent that the foregoing may be deemed to be a plan or proposal, none of the Reporting Persons currently has any plans or proposals that relate to or would result in any of the actions specified in clause (a) through (j) of Item 4 of Schedule 13D. Depending upon the foregoing factors and to the extent deemed advisable in light of their general investment policies, or other factors, the Reporting Persons may, at any time and from time to time, formulate other purposes, plans or proposals regarding the Issuer or the Shares, or any other actions that could involve one or more of the types of transactions or have one or more of the results described in paragraphs (a) through (j) of Item 4 of Schedule 13D. The foregoing is subject to change at any time, and there can be no assurance that any of the Reporting Persons will take any of the actions set forth above.

Item 5. Interest in Securities of the Issuer

Item 5 of the Schedule 13D is hereby amended and restated in its entirety as follows:

(a)-(b) Each Reporting Person declares that neither the filing of this statement nor anything herein shall be construed as an admission that such person is, for the purposes of Section 13(d) or 13(g) of the Securities Exchange Act of 1934, as amended (the "Act"), or any other purpose, the beneficial owner of any securities covered by this statement.

Each Reporting Person other than Investors may be deemed to be a member of a group with respect to the Issuer or securities of the Issuer for the purposes of Section 13(d) or 13(g) of the Act. Each Reporting Person declares that neither the filing of this statement nor anything herein shall be construed as an admission that such person is, for the purposes of Section 13(d) or 13(g) of the Act or any other purpose, (i) acting (or has agreed or is agreeing to act) with any other person as a partnership, limited partnership, syndicate, or other group for the purpose of acquiring, holding, or disposing of securities of the Issuer or otherwise with respect to the Issuer or any securities of the Issuer or (ii) a member of any syndicate or group with respect to the Issuer or any securities of the Issuer.

As of November 21, 2012, the Reporting Persons may be deemed to beneficially own the Shares as set forth in the table below. 51,962,392 Shares held by Sears Holdings are excluded from the table below. As of November 1, 2012, Partners, Investors, SPE I, SPE Master I, RBS, ESL and Mr. Lampert beneficially owned 55.3%, 2.3%, 1.8%, 2.3%, 61.8%, 61.8% and 61.8%, respectively, of the total outstanding common stock of Sears Holdings. Institutional, RBSIM and CRK and each owned less than 0.1% of the total outstanding common stock of Sears Holdings as of November 1, 2012. The Reporting Persons disclaim beneficial ownership of the Shares held by Sears Holdings.

FILING PERSON	NUMBER OF SHARES BENEFICIALLY OWNED	PERCENTAGE OF OUTSTANDING SHARES	SOLE VOTING POWER	SHARED VOTING POWER	SOLE DISPOSITIVE POWER	SHARED DISPOSITIVE POWER
ESL Partners, L.P.	26,254,294	25.8%	15,821,206	0	15,821,206	10,433,088(6)
ESL Investors, L.L.C.	0	0.0%	0	0	0	0
SPE I Partners, LP	830,852	0.8%	830,852	0	830,852	0
SPE Master I, LP	1,068,522	1.0%	1,068,522	0	1,068,522	0
RBS Partners, L.P.	28,153,668	27.6%	17,720,580(1)	0	17,720,580(1)	10,433,088(6)
ESL Institutional Partners, L.P.	4,381	0.0%	4,381	0	4,381	0
RBS Investment Management, L.L.C.	4,381	0.0%	4,381(2)	0	4,381(2)	0
CRK Partners, L.L.C.	319	0.0%	319	0	319	0
ESL Investments, Inc.	28,158,368	27.6%	17,725,280(3)	0	17,725,280(3)	10,433,088(6)
Edward S. Lampert	28,158,368	27.6%	28,158,368(4)	0	17,725,280(5)	10,433,088(6)

(1) This number consists of 15,821,206 Shares held by Partners, 830,852 Shares held by SPE I and 1,068,522 Shares held by SPE Master I. RBS is the general partner of, and may be deemed to indirectly beneficially own securities held by Partners, SPE I and SPE Master I.

(2) This number consists of 4,381 Shares held by Institutional. RBSIM is the general partner of, and may be deemed to indirectly beneficially own securities held by, Institutional.

(3) This number consists of 15,821,206 Shares held by Partners, 830,852 Shares held by SPE I, 1,068,522 Shares held by SPE Master I, 4,381 Shares held by Institutional and 319 Shares held by CRK. ESL is the general partner of RBS and is the sole member of CRK, and may be deemed to indirectly beneficially own securities that may be deemed to be indirectly beneficially owned by RBS and CRK. ESL is the manager of, and may be deemed to indirectly beneficially own securities that may be deemed to be indirectly beneficially owned by, RBSIM.

(4) This number consists of 15,821,206 Shares held by Partners, 830,852 Shares held by SPE I, 1,068,522 Shares held by SPE Master I, 4,381 Shares held by Institutional, 319 Shares held by CRK and 10,433,088 Shares held by Mr. Lampert. Mr. Lampert is the Chairman, Chief Executive Officer and Director of, and may be deemed to indirectly beneficially own securities that may be deemed to be indirectly beneficially owned by, ESL.

(5) This number consists of 15,821,206 Shares held by Partners, 830,852 Shares held by SPE I, 1,068,522 Shares held by SPE Master I, 4,381 Shares held by Institutional, and 319 Shares held by CRK. Mr. Lampert is the Chairman, Chief Executive Officer and Director of, and may be deemed to indirectly beneficially own securities that may be deemed to be indirectly beneficially owned by, ESL.

(6) This number consists of 10,433,088 Shares held by Mr. Lampert. Partners has entered into a Lock-Up Agreement (the "Lock-Up Agreement") with Mr. Lampert that restricts the purchase and sale of securities held by Mr. Lampert. Pursuant to the Lock-Up Agreement, Partners may be deemed to have shared dispositive power over, and to indirectly beneficially own, securities held by Mr. Lampert. RBS, ESL and Mr. Lampert may also be deemed to have shared dispositive power over such securities.

(c) Other than the transactions described in Item 3 hereof, since the filing of the Schedule 13D on November 13, 2012 , there were no transactions in the Shares, or securities convertible into, exercisable for or exchangeable for the Shares, by the Reporting Persons.

(d) Not applicable.

(e) On November 19, 2012, Investors ceased to beneficially own any Shares.

SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

November 21, 2012

ESL PARTNERS, L.P.

By: RBS Partners, L.P., as its general partner

By: ESL Investments, Inc., as its general partner

By: /s/ Edward S. Lampert
Name: Edward S. Lampert
Title: Chief Executive Officer

ESL INVESTORS, L.L.C.

By: RBS Partners, L.P., as its manager

By: ESL Investments, Inc., as its general partner

By: /s/ Edward S. Lampert
Name: Edward S. Lampert
Title: Chief Executive Officer

SPE I PARTNERS, LP

By: RBS Partners, L.P., as its general partner

By: ESL Investments, Inc., as its general partner

By: /s/ Edward S. Lampert
Name: Edward S. Lampert
Title: Chief Executive Officer

SPE MASTER I, LP

By: RBS Partners, L.P., as its general partner

By: ESL Investments, Inc., as its general partner

By: /s/ Edward S. Lampert
Name: Edward S. Lampert
Title: Chief Executive Officer

RBS PARTNERS, L.P.

By: ESL Investments, Inc., as its general partner

By: /s/ Edward S. Lampert
Name: Edward S. Lampert
Title: Chief Executive Officer

ESL INSTITUTIONAL PARTNERS, L.P.

By: RBS Investment Management, L.L.C., as its general partner

By: ESL Investments, Inc., as its manager

By: /s/ Edward S. Lampert
Name: Edward S. Lampert
Title: Chief Executive Officer

RBS INVESTMENT MANAGEMENT, L.L.C.

By: ESL Investments, Inc., as its manager

By: /s/ Edward S. Lampert
Name: Edward S. Lampert
Title: Chief Executive Officer

CRK PARTNERS, L.L.C.

By: ESL Investments, Inc., as its sole member

By: /s/ Edward S. Lampert
Name: Edward S. Lampert
Title: Chief Executive Officer

ESL INVESTMENTS, INC.

By: /s/ Edward S. Lampert
Name: Edward S. Lampert
Title: Chief Executive Officer

EDWARD S. LAMPERT

/s/ Edward S. Lampert
Edward S. Lampert

TAB C

This is Exhibit "C" referred to in the

Affidavit of

JONATHAN WYPYCH

Sworn before me,

this 1ST day of March, 2018

A Commissioner for taking Affidavits

Shannon Beverley Ste. Marie, a Commissioner, etc.,
Province of Ontario, while a Student-at-Law.
Expires March 23, 2019.

Sears

2013 Sears Canada Annual Report

a Solid Foundation for a Stronger Future

Over the past year, the Company has gone through a significant period of change: a rebuilding, a reinforcement of core values that helped to establish Sears initially, and the establishment of new priorities that will carry us forward through the next year and beyond. The strategy? To create maximum value through the implementation of three core levers: merchandising value, efficiency value and network value. With a focus on the needs of Canadians, we will continue to serve customers as a major national retailer coast-to-coast, in stores and through our Direct channel, now and in the future.

Table of Contents

Certain information in the accompanying "Letter to Our Shareholders" is forward-looking and is subject to important risks and uncertainties, which are described in the "Cautionary statement regarding forward-looking information" on page 12 of this Annual Report.

Financial Highlights

Unless otherwise noted, 2013 results reflect a 52-week period while 2012 results reflect a 53-week period.

(in CAD millions, except per share amounts)		**Fiscal 2013**		Fiscal 2012[1]
Total revenue	**$**	**3,991.8**	$	4,346.5
Same store sales (%)[2]		**(2.7)%**		(5.6)%
Adjusted EBITDA[2]		**35.7**		73.5
Net earnings		**446.5**		101.2

		As at February 1, 2014		As at February 2, 2013[1]
Cash and cash equivalents	**$**	**513.8**	$	238.5
Working capital		**567.0**		410.7
Inventories		**774.6**		851.4
Total assets		**2,392.3**		2,504.7
Total long-term obligations, including principal payments on long-term obligations due within one year		**35.9**		59.4
Shareholders' equity		**1,073.8**		1,076.4

		As at February 1, 2014		As at February 2, 2013[1]
Per share of capital stock				
Basic net earnings	**$**	**4.38**	$	0.99
Diluted net earnings	**$**	**4.38**	$	0.99
Shareholders' equity	**$**	**10.54**	$	10.57

1 *Adjusted to reflect the changes resulting from the retrospective application of the change in accounting policy related to the adoption of accounting standard "IFRS 11, Joint Arrangements".*

2 *Same store sales and Adjusted EBITDA are operating performance and non-International Financial Reporting Standards ("IFRS") measures, respectively. See Section 1e "Use of Non-IFRS Measures, Measures of Operating Performance and Reconciliation of Net Earnings to Adjusted EBITDA".*

- Revenue was $3,991.8 million for the 52-week period ended February 1, 2014 ("Fiscal 2013") compared to $4,346.5 million for the 53-week period ended February 2, 2013 ("Fiscal 2012"), a decrease of $354.7 million. The decrease was primarily attributable to sales declines in home furnishings, fitness, home décor, Craftsman®, Air, Water & Paint ("CAWP") and electronics categories, partially offset by higher revenue from footwear, children's wear and men's wear. Other merchandise revenue decreased by $134.8 million, primarily due to the licensing arrangement with SHS Services Management Inc. A further decrease of $70.9 million was attributable to the closure of four Full-Line stores during Fiscal 2012. Revenue was also negatively impacted by approximately $48.2 million due to the loss of the 53rd week compared to Fiscal 2012.

- Same store sales decreased 2.7% compared to Fiscal 2012. Same store sales is a measure of operating performance used by management, the retail industry and investors to compare store operations, excluding the impact of store openings and closures. See Section 1e "Use of Non-IFRS Measures, Measures of Operating Performance and Reconciliation of Net Earnings to Adjusted EBITDA."

- Gross margin rate was 36.2% for Fiscal 2013 compared to 36.7% in Fiscal 2012. The decrease in gross margin rate in Fiscal 2013 compared to Fiscal 2012 was due primarily to reduced margin in home furnishings, fitness, CAWP, electronics, and Major Appliances.

- Fiscal 2013 Adjusted EBITDA was $35.7 million compared to $73.5 million for Fiscal 2012. Adjusted EBITDA is a non-IFRS measure. See Section 1e "Use of Non-IFRS Measures, Measures of Operating Performance and

Reconciliation of Net Earnings to Adjusted EBITDA" regarding the use of non-IFRS measures and an explanation of components of Adjusted EBITDA for respective periods.

- Basic net earnings per common share was $4.38 in Fiscal 2013 compared to a basic net earnings per common share of $0.99 for Fiscal 2012.

- Total cash and cash equivalents was $513.8 million as at February 1, 2014 compared to $238.5 million as at February 2, 2013. The increase of $275.3 million was primarily due to proceeds from lease terminations and lease amendments of $590.5 million and proceeds from the sale of interests in certain joint arrangements of $315.4 million in Fiscal 2013, partially offset by a $509.4 million dividend payment in Fiscal 2013, purchases of $70.8 million in property, plant and equipment and intangible assets, and settlement of long-term obligations of $30.1 million primarily associated with the divested interest in certain joint arrangements.

A Solid Foundation for a Stronger Future

Letter to Our Shareholders

A message from Douglas Campbell, President and Chief Executive Officer

Sears Canada is focused on re-establishing business fundamentals, creating a solid foundation on which we can grow and establish a strong future. While there were visible improvements to Sears over the past few years, the foundation to support and sustain many of these improvements was not sufficient. Consequently, we did not see the long-term results on which we were counting. To ensure that initiatives in the future can have long-term success, we are improving our planning process, investing in systems and standardizing store execution principles.

The pace at which the enterprise has been moving since late 2013 and early 2014 to improve our results has been accelerating significantly. The management team is reviewing all areas of the organization and implementing continuing improvement initiatives.

Going forward, we will create maximum value through the use of three levers: merchandising, operating efficiency and network optimization. All three levers were used in 2013 and will continue to be employed in 2014.

Merchandising

The Merchandising lever incorporates those elements which relate to our relationship with the Canadian consumer and the goods and services we offer them. Our focus is on this lever because it is the key to long term organic growth in revenue and gross margin.

While there are several initiatives underway that relate to the work we are doing within this lever, the key ones center on:

- Sears Value Proposition
- Product Development
- Retail Fundamentals
- Direct Business

Sears Value Proposition

Sears history began over 60 years ago serving suburban and rural working Canadian families with a value proposition based on quality merchandise for a reasonable price. Today, Canadians of all walks of life, income levels and communities come to Sears because the elements of our value proposition still resonate.

Providing products to our customers that represent great value is paramount to our success. Value is a word that is thrown around a lot in the retail industry and often undefined. For Sears, it is a balance of price, quality and service. Those three elements presented in the right balance through the products we offer and the services we provide differentiate Sears in the marketplace. Many retailers are moving their proposition further and further upscale becoming more "exclusive" in the customers they serve. For Sears, we are focusing our value proposition on being an "inclusive" retailer serving all Canadians who share our view of value as that right balance of price, quality and service.

Product Development

We are increasing the products we offer under "Canada's Best", a seal of approval that is assigned to carefully selected fashion and home products that meet the highest standards in quality, style and innovation, and which we offer at unexpectedly reasonable prices. Our Alpinetek women's downfilled winter parka at $179.97, the Jessica women's washable suit at $79.97 and the 75,000 BTU Kenmore gas grill at $499.97 are great examples of this program.

We continue to develop our private brands to resonate with the lifestyle of Canadians. Our Pure NRG Athletics women's activewear brand introduced in January of 2014 is an example of capitalizing on the growth of yoga, activewear and casual sportswear. The success of this line after just a few weeks is encouraging. We also introduced a private brand of casual men's sportswear in our Spring 2014 LOOK! *report.* The relaxed Logan Hill line of mix and match separates features cargo pants, chinos, shorts, sweaters, wovens, and knits from $12.97.

Programs like these resonate well with customers and helped us gain a positive same-store sales increase in our Apparel and Accessories business of 4.2 percent in 2013 vs. 2012.

National Brands with exclusivity also provide value to Sears customers. We introduced Carter's and Osh Kosh children's apparel during the year, and Penningtons plus-sized apparel for women. We also launched Just Keep Livin' (JKL), the men's apparel line inspired by actor Matthew McConaughey's laid-back style. A portion of the proceeds of JKL support our long-time community partner, Boys and Girls Clubs of Canada. Brands like these help improve our apparel offering and complement the work we are doing with private brands.

We rebranded our Sears-O-Pedic mattress sets to Whole Home to broaden the scope of this home décor private brand. In addition, we continued to dominantly market Kenmore, Canada's number one brand of major appliances.

As we move forward in 2014, we will continue to introduce products in either private brands or exclusives to bring differentiation and innovation to our customers.

Retail Fundamentals

By the end of 2013, we had refreshed or reset 58 of our full-line stores, with emphasis on merchandise presentation and standards. While we are pleased with how these stores look, we need to improve how we are executing on the fundamentals of the business.

It is futile to provide great shopping environments and not have what a customer wants when they want it. A great merchandise presentation isn't going to help sales without core sizes and colours being available to the customer. Going forward, we plan to invest in replenishment systems and training that are going to keep us in stock while improving inventory turns.

We also need to improve the balance of inventory we devote to frequently sought-after essentials. As we develop our retail fundamentals, we are focusing on stock levels in core merchandise as a priority, before moving on to other items which sometimes come with more risk.

Related to this is the tailoring of our assortments. In many categories, we are over assorted. For example, a selection of 20-plus toasters only confuses customers rather than help them. Our approach is to reduce the breadth of our assortment and use those dollars to buy adequate depth of the best items.

Effective management of inventory principles is another important retail fundamental. Reducing aged inventory allows us to buy current season goods in substantial enough quantities to stay in stock. We were successful in reducing our year-end inventory in 2013 by $76.8 million versus the end of 2012. Taking advantage of the winter that lingered, our direction to stores was to clear out the remaining fall-winter inventory from store stockrooms and move everything to the floor priced to sell during January and February of 2014. Our intention going forward is to have inventory arrive in store and move directly to the selling floor where customers can see it. We need to flow the merchandise better on a consistent basis; this work represents a sizable amount of our effort in 2014 and we believe the payback will be significantly increased customer satisfaction and improved inventory turns.

Direct Business
As Canadians continue to embrace e-commerce, we are proactively managing a shift from catalogue to internet. In 2013, we experienced growth in internet that exceeded the catalogue decline. Our internet business and infrastructure to support it will be a focus of investment in 2014.

Operating Efficiency

Operating efficiency centers on prudent expense management and identifying inefficiencies within the business. In the immediate term, this is a priority for Sears because the initiatives we are undertaking are giving us time and capacity to establish the retail fundamentals that support our improved merchandising.

Three key components of the Operating Efficiency lever where we undertook substantial initiatives during 2013 are:

- Expense Management
- Outsourcing
- Right-Sizing

Expense Management
When we remove the transformation expenses which are primarily related to severance, we reduced total operating expenses in 2013 by $98 million versus 2012. The reductions we implemented are the result of a stringent review of our business practices, and the identification of where we can be more cost efficient without affecting profitable revenue generation or customer service.

Outsourcing
Outsourcing is a practice we consider for non-core activities requiring significant investment when we can find a partner who can provide our customers with the level of service they would expect from Sears. For example, during 2013 we announced outsourcing for some of our customer call centre activities, some information technology, some finance, accounting and payroll, and some indirect procurement. To maintain these operations as part of Sears would have taken significant investments in technology and resources. Doing so would take away from the investment we want to make to support our core business, such as stores, marketing, replenishment system upgrades and other important information technology enhancements.

Right-Sizing
We also took the opportunity in 2013 to right-size the organization, including the restructure of certain businesses such as Repair Services and Parts and the de-layering of the management structure. We will continue to optimize the structure of the Company to more closely align to the size and needs of the current business.

Network Optimization

The Network Optimization lever is focused on maximizing the return the Company receives through its assets such as real estate and non-core businesses. In considering its real estate, the Company will evaluate opportunities that may become available to monetize assets when the market value of those assets exceeds the retailing value. Concurrently, the Company seeks creative ways to optimize and unlock the value of non-core assets in the network such as specialized businesses or non-retail related services.

Three key initiatives during 2013 which we announced were:

- Store leases
- Joint Arrangement
- Burnaby Development

Store Leases
In 2013, in response to substantial offers from landlords, we terminated leases early on seven stores, with an option on an eighth, for total consideration of $591 million. While the stores involved were profitable, the value of the transaction far exceeded the EBITDA we could have realized in those stores even over a period of many years. While we have no plans to vacate additional stores, we continue to review our portfolio and may consider proposals that will substantially create value without affecting our presence as a major national retailer, or our focus on suburban, mid-market and rural locations.

Joint Arrangement
We sold a 50% joint arrangement interest for $315 million in eight properties that we owned. The properties involved are comprised of four regional shopping centres, two strip centres and two open-format retail centres. While some of these properties contain a Sears location, any Sears store currently situated on these properties will remain in operation and we expect no impact on customers or associates in these stores as a result of this transaction.

Burnaby Development
In association with Concord Pacific Group of Companies, we are pursuing the development of the Sears site located at one of Canada's most important shopping centres, Metropolis at Metrotown in Burnaby, British Columbia. Sears submitted an application to the City of Burnaby regarding nine acres of the Company's property on and adjacent to its store at that location. The vision of the redevelopment is a major urban-infill project consisting of seven residential and office high-rises along with ground-level retail. While it is still too early to tell if conditions will allow the project to proceed, it is important to note that the Company has the potential to use assets to earn potential income and continue to operate a store with access to a great number of new condo residents and workers who will occupy the buildings planned for this space.

A Solid Foundation for a Stronger Future

Establishing a solid foundation for a stronger future requires the commitment of everybody in the organization. I want to thank our associates, coast to coast, for their support and hard work as we plan for the future of Sears Canada. I am excited by the energy of our team and their desire to make the Company better. Together, we are taking steps today that will allow us to continue serving customers as a major national retailer in stores and through our Direct channel now and in the years ahead.

Sincerely,

DC Campbell

Douglas Campbell,
President and Chief Executive Officer

Letter from the Chief Financial Officer

The year 2013 was one that had significant challenges while, at the same time, one that had significant opportunities. When I assumed the responsibilities of the Chief Financial Officer in March 2013, I did so because I recognized both aspects and was excited to work with the rest of the management team to deal with those challenges while also capitalizing on what I believed were significant opportunities.

The financial results for the year were disappointing. Adjusted EBITDA declined to $35.7 million in 2013 from $73.5 million in 2012. That translates to an EBITDA margin of only 0.9% of our total revenue. This measurement, which has decreased from 5.9% only three years ago, is an area of focus for us. Over the last several years, we have been faced with continuing sales declines while our cost structure had not changed to keep pace. In the latter half of 2013, we began to take actions to correct the cost structure to more appropriately match our revenue base and continue to operate the business effectively. We will continue to carefully scrutinize costs as we learn to work smarter and more efficiently.

The Company had the opportunity to capitalize on real estate valuations in Canada to realize cash proceeds of $906.4 million from the early termination of seven leases and the sale of certain interests in joint arrangements. The cash was received in 2013 and related pre-tax gains totaling $643.5 million were recognized in Net Earnings in our Consolidated Statements of Net Earnings and Comprehensive Income.

It was also a year of opportunity with respect to working capital management. We generated $73.3 million in cash from better use of working capital during 2013. This improvement was driven by lower inventory of $76.8 million. We will continue to focus on the returns that our inventory generates for us, with better efficiency anticipated by analyzing, at the SKU level, items that do not meet a threshold level of adjusted gross profit return on average inventory (AGPROI). Consequently, the elimination of these items should result in less inventory that has to be sold at clearance prices.

We also had an opportunity to return capital to shareholders in 2013. We believe that if we cannot re-invest capital in our business with an adequate expected return, then we should return capital to our shareholders. We have allocated adequate capital investment to support the business and, therefore, were able to return capital to our shareholders. In 2013, we declared a $5.00/share dividend and returned $509.4 million to our shareholders.

Our financial position as we ended 2013 was strong. We had $513.8 million of cash with no significant debt. In addition, we were undrawn on our credit facility at year-end. Based on our borrowing base and net of outstanding letters of credit of $24.0 million, we had availability under our senior secured revolving credit facility of approximately $374.0 bringing our total liquidity to $887.8 million.

I would like to acknowledge and recognize the efforts of associates throughout the Sears Canada organization over the past year. We have accomplished much, but much is still left to do in 2014 to meet the challenges we face and capitalize on the opportunities that exist.

EJ Bird

E.J. Bird
Executive Vice-President and Chief Financial Officer

Five Year Summary

	IFRS Fiscal 2013[1]	IFRS Fiscal 2012[1,2]	IFRS Fiscal 2011[1]	IFRS Fiscal 2010[1]	CGAAP Fiscal 2010[3]	CGAAP Fiscal 2009[4]
Results for the year (in CAD millions)						
Total revenue	$ **3,991.8**	$ 4,346.5	$ 4,619.3	$ 4,938.5	$ 4,957.8	$ 5,200.6
Depreciation and amortization	**111.4**	126.5	114.9	123.6	104.6	117.4
Earnings (Loss) before income taxes	**490.0**	114.2	(56.9)	187.1	219.8	347.6
Income tax (expense) recovery	**(43.5)**	(13.0)	6.6	(62.1)	(70.0)	(112.9)
Net earnings (loss)	**446.5**	101.2	(50.3)	125.0	149.8	234.7
Dividends declared	**509.4**	101.9	—	753.4	753.4	—
Capital expenditures[5]	**70.8**	101.6	84.3	60.0	62.4	65.7
Year end position (in CAD millions)						
Accounts receivable, net	$ **83.3**	$ 77.7	$ 116.2	$ 144.0	$ 143.2	$ 131.1
Inventories	**774.6**	851.4	823.9	953.2	953.2	852.3
Property, plant and equipment	**785.5**	1,118.5	872.0	900.7	577.4	620.2
Total assets	**2,392.3**	2,504.7	2,730.7	2,907.5	2,509.8	3,404.8
Working capital	**567.0**	410.7	471.0	536.9	610.6	1,114.7
Total long-term obligations, including principal payments on long-term obligations due within one year	**35.9**	59.4	122.7	129.1	136.1	350.7
Shareholders' equity	**1,073.8**	1,076.4	1,092.0	1,260.4	1,000.5	1,657.5
Per share of capital stock						
Basic net earnings (loss)	$ **4.38**	$ 0.99	$ (0.48)	$ 1.16	$ 1.40	$ 2.18
Dividends declared	**5.00**	1.00	—	7.00	7.00	—
Shareholders' equity	**10.54**	10.57	10.63	11.96	9.32	15.40
Financial ratios						
Return on average shareholders equity (%)[6]	**41.5**	9.3	(4.3)	7.7	11.3	14.9
Current ratio	**1.7**	1.5	1.5	1.5	1.6	1.8
Return on total revenues (%)	**11.2**	2.3	(1.1)	2.5	3.0	4.5
Debt/equity ratio (%)	**3.3**	5.5	11.2	10.2	13.6	21.2
Pre-tax margin (%)	**12.3**	2.6	(1.2)	3.8	4.4	6.7
Breakdown of the Company's locations						
Full-line Department stores	**118**	118	122	122	122	122
Sears Home stores	**48**	48	48	48	48	48
Outlet stores	**11**	11	11	11	11	12
Specialty type: Appliances and Mattresses	**4**	4	4	4	4	4
Hometown Dealer stores	**234**	261	285	268	268	186
Sears Home Services Showrooms	**8**	9	13	13	13	13
Corbeil	**34**	33	30	30	30	30
Logistics centres	**6**	6	6	6	6	6
Sears Floor Covering Centres	—	—	17	20	20	22
Cantrex	—	—	799	768	768	793
Travel offices	**97**	101	108	108	108	108
Catalogue merchandise pick-up locations	**1,446**	1,512	1,734	1,822	1,822	1,853

1 The 2013 fiscal year ("Fiscal 2013"), 2012 fiscal year ("Fiscal 2012"), 2011 fiscal year("Fiscal 2011") and 2010 fiscal year ("Fiscal 2010") refers to the 52-week period ended February 1, 2014, the 53-week period ended February 2, 2013, the 52-week period ended January 28, 2012, and the 52-week period ended January 29, 2011, respectively, reported under International Financial Reporting Standards ("IFRS").

2 Adjusted to reflect the changes resulting from the retrospective application of the change in accounting policy related to the adoption of accounting standard "IFRS 11, Joint Arrangements".

3 The 2010 fiscal year ("Fiscal 2010") represents the 52-week period ended January 29, 2011, reported under Canadian Generally Accepted Accounting Principles ("CGAAP").

4 The 2009 fiscal year ("Fiscal 2009") represents the 52-week period ended January 30, 2010, reported under CGAAP.

5 Capital expenditures represents purchases for which payment has been made by the end of the fiscal year.

6 The return on average shareholders' equity (%) for IFRS Fiscal 2010 was calculated taking net earnings for Fiscal 2010, divided by the average of shareholders' equity for the period ended January 29, 2011 ($1,260.4 million) and the opening Consolidated Statement of Financial Position as at January 31, 2010 ($2,004.4 million) reported under IFRS.

Quarterly Performance

The Company's operations are seasonal in nature. Accordingly, merchandise and service revenue, as well as performance payments received from JPMorgan Chase Bank, N.A. (Toronto Branch), referred to as commission revenue, will vary by quarter based upon consumer spending behaviour. Historically, the Company's revenue and earnings are higher in the fourth quarter than in any of the other three quarters due to the holiday season. The Company is able to adjust certain variable costs in response to seasonal revenue patterns; however, costs such as occupancy are fixed, causing the Company to report a disproportionate level of earnings in the fourth quarter. Other factors that affect the Company's sales and financial performance include actions by its competitors, timing of its promotional events, and changes in population and other demographics. Accordingly, the Company's results for any one fiscal quarter are not necessarily indicative of the results to be expected for any other quarter, or the full year, and comparable store sales for any particular period may increase or decrease.

The table below outlines select financial data for the eight most recently completed quarters. The quarterly results are unaudited and have been prepared under IFRS.

	Fourth Quarter		Third Quarter		Second Quarter		First Quarter	
(in CAD millions, except per share amounts)	**2013**	2012[1]	2013	2012[1]	2013	2012[1]	2013	2012[1]
Total revenue	**$1,182.3**	$ 1.307.2	$ 982.3	$ 1.049.4	$ 960.1	$ 1.061.9	$ 867.1	$ 928.0
Net earnings (loss)	**$ 373.7**	$ 39.9	$ (48.8)	$ (21.9)	$ 152.8	$ (9.8)	$ (31.2)	$ 93.1
Basic net earnings (loss) per share	**$ 3.67**	$ 0.39	$ (0.48)	$ (0.22)	$ 1.50	$ (0.10)	$ (0.31)	$ 0.91
Diluted net earnings (loss) per share	**$ 3.67**	$ 0.39	$ (0.48)	$ (0.22)	$ 1.50	$ (0.10)	$ (0.31)	$ 0.91

1 Adjusted to reflect the changes resulting from the retrospective application of the change in accounting policy related to the adoption of accounting standard "IFRS 11, Joint Arrangements".

Common Share Market Information

The table below provides prices for the Company's common shares traded on the Toronto Stock Exchange (symbol: SCC).

	Fourth Quarter		Third Quarter		Second Quarter		First Quarter	
	2013[1]	2012[1]	2013	2012	2013	2012	2013	2012
High	**$ 19.20**	$ 12.98	$ 14.50	$ 11.79	$ 13.25	$ 13.73	$ 9.94	$ 14.24
Low	**$ 12.07**	$ 9.50	$ 11.70	$ 10.10	$ 8.96	$ 9.76	$ 8.85	$ 11.60
Close	**$ 13.00**	$ 9.50	$ 14.41	$ 10.69	$ 12.92	$ 10.16	$ 9.46	$ 13.50
Average daily trading volume	**86,585**	122.655	25.813	23.487	146.327	16.694	34.326	7.784

1 During Q4 2013 and Q4 2012, the Company distributed an extraordinary cash dividend to holders of common shares, of $5.00 per share and $1.00 per share, respectively.

Management's Discussion and Analysis

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Management's Discussion and Analysis

"Sears", "Sears Canada", "we", "us", "our" or "the Company" refers to Sears Canada Inc. and its subsidiaries, together with its investments in real estate joint arrangements.

Management's Discussion and Analysis ("MD&A") contains commentary from the Company's management regarding strategy, operating results and financial position. Management is responsible for its accuracy, integrity and objectivity, and develops, maintains and supports the necessary systems and controls to provide reasonable assurance as to the accuracy of the comments contained herein.

This MD&A should be read in conjunction with the Consolidated Financial Statements and Notes to the Consolidated Financial Statements for the 52-week period ended February 1, 2014 ("Fiscal 2013" or "2013"). The 2012 fiscal year refers to the 53-week period ended February 2, 2013 ("Fiscal 2012" or "2012"). The fourth quarter unaudited results for Fiscal 2013 and Fiscal 2012 reflect the 13-week period ended February 1, 2014 ("Q4 2013") and the 14-week period ended February 2, 2013 ("Q4 2012"), respectively. The 2011 fiscal year refers to the 52-week period ended January 28, 2012 ("Fiscal 2011" or "2011"). The 2014 fiscal year refers to the 52-week period ending January 31, 2015 ("Fiscal 2014" or "2014"). The 2015 fiscal year refers to the 52-week period ending January 30, 2016 ("Fiscal 2015" or "2015").

This MD&A is current as of March 13, 2014 unless otherwise stated.

Additional information relating to the Company, including the Company's Annual Information Form ("AIF") dated March 13, 2014 and the Management Proxy Circular dated March 13, 2014, can be obtained by contacting the Company at 416-941-4428. The 2013 Annual Report, together with the AIF and Management Proxy Circular, have been filed electronically with securities regulators in Canada through the System for Electronic Document Analysis and Retrieval ("SEDAR") and can be accessed on the SEDAR website at www.sedar.com and on the U.S. Securities Exchange Commission ("SEC") website at www.sec.gov.

Unless otherwise indicated, all amounts are expressed in Canadian dollars.

Cautionary Statement Regarding Forward-Looking Information

Certain information in the Annual Report and in this MD&A is forward-looking and is subject to important risks and uncertainties. Forward-looking information concerns, among other things, the Company's future financial performance, business strategy, plans, expectations, goals and objectives, and includes statements concerning possible or assumed future results set out under Section 1 "Company Performance", Section 3 "Consolidated Financial Position, Liquidity and Capital Resources", Section 4 "Financial Instruments", Section 7 "Shareholders' Equity", Section 9 "Accounting Policies and Estimates" and Section 11 "Risks and Uncertainties". Often, but not always, forward-looking information can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "scheduled", "estimates", "intends", "anticipates" or "does not anticipate" or "believes", or variations of such words and phrases, or statements that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. Although the Company believes that the estimates reflected in such forward-looking information are reasonable, such forward-looking information involves known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking information, and undue reliance should not be placed on such information.

Factors which could cause actual results to differ materially from current expectations include, but are not limited to: the ability of the Company to successfully implement its strategic initiatives; productivity improvement and cost reduction initiatives and whether such initiatives will yield the expected benefits; the results achieved pursuant to the Company's long-term credit card marketing and servicing alliance with JPMorgan Chase Bank, N.A. (Toronto Branch), ("JPMorgan Chase"); general economic conditions; competitive conditions in the businesses in which the Company participates; changes in consumer spending; seasonal weather patterns; weaker business performance in the subsequent quarter; customer preference toward product offerings; ability to retain senior management and key personnel; ability of the Company to successfully manage its inventory levels; disruptions to the Company's computer systems; economic, social, and political instability in jurisdictions where suppliers are located; the Company's reliance on third parties in outsourcing arrangements; structural integrity and fire safety of foreign factories; increased shipping costs, potential transportation delays and interruptions; damage to the reputations of the brands the Company sells; changes in the Company's relationship with its suppliers; the outcome of product liability claims; any significant security compromise or breach of the Company's customer, associate or Company information; the credit worthiness and financial stability of tenants, partners and co-arrangers, with respect to the Company's real estate joint arrangements; the credit worthiness and financial stability of the Company's licensees and business partners; possible changes in the Company's ownership by Sears Holdings Corporation ("Sears Holdings") and other significant shareholders; possible limits on our access to capital markets and other financing sources; interest rate fluctuations and other changes in funding costs and investment income; fluctuations in foreign currency exchange rates; the possibility of negative investment returns in the Company's pension plan or an increase to the defined benefit obligation; the impairment of goodwill and other assets; new accounting pronouncements, or changes to existing pronouncements, that impact the methods we use to report our financial position and results from operations; uncertainties associated with critical accounting assumptions and estimates; the outcome of pending legal proceedings; compliance costs associated with environmental laws and regulations; maintaining adequate insurance coverage; the possible future termination of certain intellectual property rights associated with the "Sears" name and brand names if Sears Holdings reduces its interest in the Company to less than 25%; and changes in laws, rules and regulations applicable to the Company. Information about these factors, other material factors that could cause actual results to differ materially from expectations and about material factors or assumptions applied in preparing forward-looking information, may be found in this MD&A and in the Company's 2013 Annual Report under Section 11 "Risks and Uncertainties" and elsewhere in the Company's filings with securities regulators. The forward-looking information in the Annual Report and in this MD&A are, unless otherwise indicated, stated as of the date hereof and are presented for the purpose of assisting investors and others in understanding our financial position and results of operations as well as our objectives and strategic priorities, and may not be appropriate for other purposes. The Company does not undertake any obligation to update publicly or to revise any forward-looking information, whether as a result of new information, future events or otherwise, except as required by law.

1. Company Performance

a. Business Segments

Sears classifies its operations in two reportable business segments: merchandising and real estate joint arrangements.

Merchandising Operations

The Company's merchandising segment includes the sale of goods and services through the Company's Retail channels, which includes its Full-Line, Sears Home, Hometown Dealer, Outlet, Appliances and Mattresses, Corbeil Electrique Inc. ("Corbeil") stores and its Direct (catalogue/internet) channel. It also includes service revenue related primarily to product repair. Commission revenue includes travel, home improvement services, insurance and performance payments received from JPMorgan Chase under the Company's long-term credit card marketing and servicing alliance with JPMorgan Chase. The Company has a multi-year licensing arrangement with TravelBrands Inc. ("TravelBrands"), (formerly known as Thomas Cook Canada Inc.), under which TravelBrands manages the day-to-day operations of all Sears Travel offices and provides commissions to the Company. The Company also entered into a multi-year licensing arrangement with SHS Services Management Inc. ("SHS"), under which SHS oversaw the day-to-day operations of all Sears Home Installed Products and Services business ("HIPS"). Licensee fee revenues are comprised of payments received from licensees, including TravelBrands and SHS, that operate within the Company's stores.

Retail Channel

Full-Line Department stores – Sears Full-Line Department stores are located primarily in suburban enclosed shopping centres. The major merchandise categories include the following:

Apparel & Accessories - women's, men's and children's apparel, nursery products, cosmetics, jewellery, footwear and accessories.

Home & Hardlines - home furnishings and mattresses, home décor, lawn and garden, hardware, electronics and leisure, and seasonal products.

Major Appliances - refrigeration, laundry, ranges, floorcare and sewing.

Although merchandise varies by store, the merchandise sales mix between the three major categories are approximately 60% Apparel & Accessories, 20% Home & Hardlines and 20% Major Appliances.

Full-Line Department stores include a Sears catalogue merchandise pick-up location. Sears Travel offices and licensed businesses, such as optical centres and portrait studios, are also located in many of the Company's Full-Line Department stores.

Sears Home stores – Sears Home stores are typically located in power centres and present an extensive selection of furniture, mattresses and box-springs, and major appliances, as well as a limited selection of electronics. The majority of these stores range in size from 35,000 to 60,000 square feet.

Hometown Dealer stores – Sears Hometown Dealer locations are primarily independently operated and offer major appliances, furniture, mattresses and box-springs, electronics, outdoor power equipment as well as a catalogue merchandise pick-up location. Most Hometown Dealer stores are located in markets that lack the population to support a Full-Line department store.

Outlet stores – Sears Outlet stores offer clearance merchandise, particularly from the Company's Full-Line Department stores and Direct channel, as well as surplus big-ticket items from all channels.

Appliances and Mattresses stores – The Sears Appliances and Mattresses stores are part of the Company's strategy to bring its product categories to a growing number of customers who shop in conveniently located power centres. These stores are smaller in size (approximately 10,000 to 15,000 square feet) and feature a wide selection of major appliances, and mattresses and box-springs, and include Sears private labels and a variety of national brands.

Corbeil – Corbeil is a chain of major appliance specialty stores located throughout Québec, the Greater Toronto Area and Eastern Ontario. There are 34 stores in the chain, 16 of which are franchised. The chain also includes one liquidation centre and one distribution centre in Montreal. Stores average approximately 6,500 square feet in size.

Sears Travel – Sears Travel service operates within 97 Sears locations across Canada, an online travel service at www.searstravel.ca and 1-866-FLY-SEARS, which connects customers to the nearest geographical branch. From January 30, 2011, TravelBrands commenced management of the day-to-day operations of all Sears Travel offices and the Sears Travel website.

Sears Home Services

In 2012, Sears combined HIPS, and Repair Services and Parts, under the brand name Sears Home Services. In March 2013, the HIPS business was licensed to SHS, an independent third party, which continued to operate under the Sears Home Services brand. In December 2013, SHS entered receivership and all offers of services provided by SHS ceased. In January 2014, pursuant to an order of the Ontario Superior Court of Justice (Commercial List), PricewaterhouseCoopers Inc. was appointed receiver, without security, of all of the assets, undertakings and property of SHS. Sears Home Services no longer offers HIPS services. Repair Services and Parts, carpet and upholstery cleaning services, and installation and assembly of products purchased at Sears stores continue to be offered by Sears under the Sears Home Services brand. Refer to Note 14 "Financial instruments" of the Notes to the Consolidated Financial Statements for Fiscal 2013 for additional information.

Direct Channel

The Company's Direct channel is comprised of its catalogue business, which is Canada's largest general merchandise catalogue business, and Sears.ca, one of Canada's leading online shopping destinations with over 89 million visits in Fiscal 2013. With two distribution centres exclusively dedicated to servicing the Direct channel and 1,446 catalogue merchandise pick-up locations nationwide, Sears can deliver orders in most areas of the country. Orders can be placed by telephone at 1-800-26-SEARS, by mail, by fax, online at Sears.ca or in person through Sears stores and catalogue agents. At the end of Fiscal 2013, 1,279 of the total 1,446 catalogue merchandise pick-up locations were independently operated under local ownership, with the remaining 167 units located within Sears locations.

Catalogue – In Fiscal 2013, 16 different catalogues were distributed throughout Canada. In addition, during Fiscal 2013, Sears distributed 11 Specialogues designed to offer more seasonally relevant merchandise to specific customers.

Sears.ca – The Company's website, Sears.ca, enables the Company to provide new merchandise offers directly to web customers and highlights the Company's extensive general merchandise selection. In Fiscal 2013, the Company continued to invest in its online capabilities to improve the user experience, and engage new customers and demographics. Sears is committed to maintaining its reputation as a trusted Canadian retailer by focusing on customer privacy, security, and satisfaction when shopping on Sears.ca.

Logistics

National Logistics Centre ("NLC") – Sears operates six logistics centres strategically located across the country. The logistics centres are comprised of seven owned and three leased warehouse facilities which serve all channels of the business. The total floor area of these logistics centres was 6.5 million square feet at the end of Fiscal 2013, of which 5.6 million square feet is devoted to warehouse and logistics operations. The remainder of the space is utilized for other Sears operations, including call centre services. The Regina, Saskatchewan, logistics centre will be closed in Fiscal 2014 and will be replaced by a new logistics centre located in Calgary, Alberta. See Note 29 "Assets classified as held for sale" of the Notes to the Consolidated Financial Statements for Fiscal 2013 for additional information.

S.L.H. Transport Inc. ("SLH") – The Company's wholly-owned subsidiary, SLH, transports merchandise to stores, catalogue merchandise pick-up locations, and directly to customers. SLH is responsible for providing logistics services for the Company's merchandising operations by operating a fleet of tractors and trailers to provide carrier services for Sears and contract carrier services to commercial customers who are unrelated to Sears. The arrangements with third parties increase SLH's fleet utilization and improve the efficiency of its operations. SLH has developed a nationwide distribution network to provide better and more consistent service to its customers.

As at the end of Fiscal 2013, Fiscal 2012, and Fiscal 2011, the Company's locations were distributed across the country as follows:

	Atlantic	Québec	Ontario	Prairies	Pacific	As at February 1, 2014 Total	As at February 2, 2013 Total	As at January 28, 2012 Total
Full-Line Department	12	27	45	20	14	**118**	118	122
Sears Home stores	2	12	19	10	5	**48**	48	48
Outlet stores	1	1	6	1	2	**11**	11	11
Specialty type: Appliances and Mattresses stores	—	—	3	1	—	**4**	4	4
Corporate stores	15	40	73	32	21	**181**	181	185
Hometown Dealer stores	47	26	51	65	45	**234**	261	285
Sears Home Services Showrooms	—	2	3	1	2	**8**	9	13
Corbeil Franchise stores	—	14	2	—	—	**16**	17	19
Corbeil Corporate stores	—	12	6	—	—	**18**	16	11
Corbeil	—	26	8	—	—	**34**	33	30
NLCs	—	1	2	2	1	**6**	6	6
Sears Floor Covering Centres	—	—	—	—	—	—	—	17
Cantrex	—	—	—	—	—	—	—	799
Travel offices	7	21	38	17	14	**97**	101	108
Catalogue merchandise pick-up locations	206	333	406	362	139	**1,446**	1,512	1,734

In Fiscal 2013, the Company closed 28 Hometown Dealer stores, four Travel offices, and 66 Catalogue merchandise pick-up locations. The Company also opened a Hometown Dealer store. Five Full-Line stores will be closed during the first quarter of 2014 and an additional two Full-Line stores will be closed during the first quarter of 2015. Refer to Note 28 "Gain on lease terminations and lease amendments" of the Notes to the Consolidated Financial Statements for Fiscal 2013 for additional information.

In Fiscal 2012, the Company closed four Full-Line stores as a result of the lease terminations and lease amendments that occurred during the year. The Company also closed 222 Catalogue merchandise pick-up locations, 24 Hometown Dealer stores and 17 Floor Covering Centres. During the second quarter of 2012, Cantrex Group Inc. ("Cantrex") was sold. Refer to Note 30 "Sale of Cantrex Group Inc." of the Notes to the Consolidated Financial Statements for Fiscal 2013 for additional information.

In Fiscal 2011, the Company opened 20 Hometown Dealer stores and 3 Catalogue merchandise pick-up locations. The Company also closed three Hometown Dealer stores, three Floor Covering Centres and 91 Catalogue merchandise pick-up locations.

As of the end of Fiscal 2013, the number of selling units leased and owned by the Company was as follows:

	Leased	Owned	Total
Full-Line Department[1]	104	14	118
Sears Home stores	46	2	48
Outlet stores	11	—	11
Specialty type: Appliances and Mattresses stores	4	—	4
Hometown Dealer stores[2]	13	—	13
Corbeil[2]	30	—	30
Total[3]	**208**	**16**	**224**

1 Full-Line Department stores include Sears stores that are part of the joint arrangements with Ivanhoé Cambridge Properties.

2 Only Hometown Dealer and Corbeil stores that are not independently owned and operated are included.

3 Sears Home Services Showrooms, Travel offices and Catalogue merchandise pick-up locations are located in other Sears stores or local businesses, and therefore not included.

As at the end of Fiscal 2013, Fiscal 2012, and Fiscal 2011, the gross square footage for corporate store locations and NLCs was as follows:

(square feet, millions)	**As at February 1, 2014**	As at February 2, 2013	As at January 28, 2012
Full-Line Department stores	**15.2**	15.2	16.5
Sears Home stores	**2.1**	2.1	2.1
Outlet stores	**0.8**	0.8	0.8
Appliances and Mattresses stores	**0.1**	0.1	0.1
Corbeil	**0.1**	0.1	0.1
NLCs	**6.5**	6.5	6.5
Total	**24.8**	24.8	26.1

Gross square footage for corporate store locations as at February 1, 2014 remained the same as compared to February 2, 2013. As of March 1, 2014, the gross square footage for Full-Line Department stores decreased to 14.5 million square feet due to three Full-Line store closures as a result of lease terminations and lease amendments during Fiscal 2013 as described in Note 28 "Gain on lease terminations and lease amendments" of the Notes to the Consolidated Financial Statements for Fiscal 2013.

Gross square footage for corporate store locations as at February 2, 2013 decreased compared to January 28, 2012 due to four Full-Line store closures as a result of lease terminations and lease amendments during Fiscal 2012.

Real Estate Joint Arrangements

Sears has joint arrangement interests in three shopping centres across Canada and records these interests in the Company's financial statements. Joint arrangement interests in the shopping centres range from 15% to 20%, and are co-owned with Ivanhoé Cambridge Properties ("Ivanhoé"). Sears is not involved in the day-to-day management of the shopping centres, but the major decisions regarding these joint arrangements requires the unanimous consent of Ivanhoé and the Company.

The primary objective of the Company's real estate joint arrangements is to maximize the returns on its investment in shopping centre real estate. Sears reviews the performance of these joint arrangements on a regular basis. Shopping centres are considered non-core assets.

The Company's shopping centre joint arrangements are in partnership with Ivanhoé. The jointly controlled entities and the Company's ownership interest in each as at February 1, 2014 are listed below:

Entity Name	**Properties**	**Joint Arrangement Partner**	**Ownership Interest**
Kildonan Place	Kildonan Place	Ivanhoe Cambridge	20%
Regionaux (Les Rivières Shopping Centre)	Les Rivières Shopping Centre	Ivanhoé Cambridge	15%
Regionaux (Les Galeries de Hull)	Les Galeries de Hull	Ivanhoé Cambridge	15%

During the fourth quarter of 2013, the Company sold its interest in the properties co-owned with The Westcliff Group of Companies ("Westcliff") for total proceeds of $315.4 million, recognizing a pre-tax gain of $66.3 million on the sale. During the fourth quarter of 2012, the Company sold its share of assets in Medicine Hat for net proceeds of $38.3 million, recognizing a pre-tax gain of $8.6 million on the sale.

b. Core Capabilities

The Company's key resources and capabilities include its associates, brand equity, specialized services, national presence and logistics. The Company's ability to raise funds and working capital to support its operations is also a key capability and is discussed further in Section 3 "Consolidated Financial Position, Liquidity and Capital Resources" of this MD&A.

Associates

- Sears associates are a critical asset to the Company. Sears works to inspire its associates to be committed to building lifelong customer relationships built on trust;

Brand equity

- The Company works closely with its suppliers in product development, design and quality standards. Many lines of merchandise are manufactured with features exclusive to Sears and are sold under the Company's private label brands, such as Jessica®, Nevada®, Attitude®, Whole Home®, Kenmore® and Craftsman®. The Company believes that its private label and national brands have significant recognition and value with customers;

Specialized services

- Apart from retail merchandise, the Company also offers a wide range of specialized services to attract a broad customer base. These services include product repair, parts provision, portrait studios, optical services, travel, floral delivery, wireless and long distance plans, insurance and deferred financing;

National Presence

- The Company's expansive physical and online presence puts it in proximity to customers all across Canada. Sears operates 118 Full-Line Department stores, 331 specialty stores (including 48 Sears Home stores, 11 Outlet stores, 4 Appliances and Mattresses stores, 234 Hometown Dealer stores primarily operated under independent local ownership and 34 Corbeil stores), 97 Sears Travel offices and over 1,400 merchandise pick-up locations for orders placed through the catalogue or online at www.sears.ca; and

Logistics

- The ability to move merchandise efficiently to stores, merchandise pick-up locations, or directly to customers, is one of the Company's key capabilities. The Company's wholly-owned subsidiary, SLH, is responsible for providing transportation services for the Company's merchandising operations and has arrangements with third parties to increase SLH's revenue and fleet utilization, and improve its operating effectiveness. The Company conducts operations in six NLCs located in Vancouver, Calgary, Regina, Vaughan, Belleville and Montreal.

c. Strategic Initiatives

During Fiscal 2013, Sears Canada undertook a number of strategic initiatives to continue improving the performance of the Company. These initiatives are designed to allow the Company to continue serving customers as a national retailer in stores and through its Direct channel.

The overarching goal of the Company is to maximize total value by using three value levers as follows:

1. **Merchandising Value:** Establishing a focus on the Sears value proposition that provides customers with a balance of quality, price, and service. The Company's buying and marketing strategies are designed to deliver the value proposition consistently across all products, stores and formats.

2. **Operating Efficiency Value:** Managing expenses prudently and identifying inefficiencies within the business. The Company has undertaken right-sizing and outsourcing initiatives and will modify business models when appropriate to ensure the size of the Company is aligned to the current volume of business.

3. **Network Optimization Value:** Maximizing return on assets such as real estate and non-core businesses. The Company will evaluate opportunities to monetize non-core assets when the market value of those assets exceeds the retailing value, while seeking ways to optimize and unlock the value of the network.

During Fiscal 2013, the Company undertook the following key initiatives to maximize total value and improve the performance of its operations.

Merchandising Value

- Building on the launch of two refreshed Sears Home stores in Ancaster and Whitby, Ontario in July 2013, Sears opened a redesigned Sears Home store in Burlington, Ontario in November 2013. The new store format offers Canada's largest selection of customizable furniture and new brand offerings that help customers give their homes a unique and personal touch. Major appliances are offered via appliance specialist Corbeil, and are presented as a Corbeil 'store-within-a-store' in each location. It also features a number of self-contained boutique rooms that bring the product to life and allows customers to see an entire collection or look displayed together;

- Introduced the Carter's® family of baby and children's wear brands to Sears. The well-loved Carter's® and OshKosh B'gosh® labels feature thoughtful design details and quality craftsmanship, and make a great addition to "The Baby's Room," the nursery and infant accessories department at Sears. The launch was celebrated at the Toronto Eaton Centre on Ontario's Family Day, February 18, 2013, with an event in The Baby's Room, where families could enjoy kid-friendly refreshments and entertainment while they shopped for all things kids and baby;

- Created additional "hero" categories with footwear, dresses, suits and home décor to drive consumers' consideration of Sears when purchasing these products. In the first quarter of Fiscal 2013, Sears launched a footwear digest; introduced Canada's Best Dress shirt in the Men's Suit Shop; and launched a new Whole Home® Serveware line;

- Introduced private label Nevada® apparel in Fall 2013, designed by the Buffalo Group, and introduced a relationship with international supermodel and actress Bar Refaeli, to be the face of Nevada®;

- Following Sears successful Black Friday promotion that coincided with Canadian Thanksgiving in October, the first of its kind in Canada, the Company celebrated its annual November Black Friday sale in stores and online at www.sears.ca. This promotion helped kick off the final month of the Holiday shopping season. It ran from Thursday, November 28 to Monday, December 2. Sears offered hundreds of items at specially marked prices backed by a price match guarantee; and

- Introduced Penningtons plus-size apparel to Catalogue, online and in five retail stores. Four two-page ads featured styles for the upcoming season and provided Catalogue customers with access to this popular and fashionable brand.

Operating Efficiency Value

- Announced the future opening of a new state-of-the-art distribution centre located in Calgary, Alberta to handle small ticket customer orders placed through the Company's Direct channel destined for homes in Western Canada, as part of the Company's initiative to improve customer service. The new facility is expected to allow for faster processing and fulfillment of orders, and cut down on shipping times for most orders. To accommodate this new facility, Sears announced that it would close an NLC located in Regina, Saskatchewan;

- Modified our store structure to improve efficiency and increase the effectiveness of the chain of communication between management and the store associate teams within the stores, primarily by eliminating a mid-tier level of leads within the Company's Full-Line stores. This move is expected to help reduce inefficiencies and result in better store execution and consistency of merchandise presentation and standards;

- Entered into an agreement with third party vendor IBM Canada Limited ("IBM") to outsource certain work currently being performed at three internal Sears Customer Contact Centres. The move to IBM is expected to enable Sears to realize capability upgrades which are expected to result in better processes, controls and tracking, and an overall improvement in the customer experience. The transfer of responsibility, which is designed to be seamless to customers, will take place over a nine month period ending in September 2014;

- Entered into agreements with third party suppliers to outsource certain work currently performed by internal Sears resources in four areas: the Application Development and Application Management function in the Information Technology ("IT") group, Indirect Procurement, Finance and Accounting, and Payroll. The third party suppliers, IBM for IT and Indirect Procurement, and Wipro Limited ("Wipro") for Finance and Accounting and Payroll, will provide an overall improvement in efficiency, allowing Sears to focus more on its core retailing business;

- Implemented a number of significant changes to the Repair Services and Parts businesses designed to improve efficiency, profitability and overall customer experience. In Repair Services, the Company will shift to using Sears-authorized contracted technicians in mid-markets, while major markets will continue to be primarily serviced by a streamlined team of Sears technicians. In the Parts division, 16 existing stand-alone Parts processing locations and a central processing centre in Belleville, Ontario will be consolidated into three major fulfillment centres located in Calgary, Toronto and Montreal. Where a Parts processing location is closed outside of these three cities, a Parts counter will open in a nearby Sears location; and

- Announced that in connection with these initiatives, Sears has reduced staffing levels in its head office and logistics team, to align the Company's support structure with the size and volume of the organization as well as take advantage of improved internal processes that have been recently implemented to improve efficiency.

Network Optimization Value

- Entered into a binding agreement with Concord Pacific Group of Companies ("Concord") to pursue the development of the Sears site located at the Metropolis at Metrotown in Burnaby, British Columbia (the "Project"). On June 7, 2013, Sears confirmed that it had submitted an application to the City of Burnaby regarding a proposed comprehensive mixed-use project including a new Sears store located on nine acres of the Company's property and adjacent to its store at that location. The arrangement contemplates the sale of a 50% interest in the site for a value of approximately $140.0 million, subject to adjustments, and the retention of Concord on customary terms to manage most facets of the development. The estimated cost, funded by Concord, to fully develop and build the Project as contemplated is currently in excess of $1.0 billion;

- Announced and closed a transaction with Montez Income Properties Corporation to sell the Company's 50% joint arrangement interest in eight properties Sears co-owned with Westcliff. The agreement covered four regional shopping centres, two strip centres and two open-format retail centres. Total gross proceeds on the transaction was $315.4 million. The Sears stores that are currently situated on the impacted properties will remain in operation; there will be no impact on customers or associates in these stores as a result of this transaction; and

- Closed transactions to amend or terminate the leases of the Company's stores at Sherway Gardens (Toronto), Markville Shopping Centre (Markham), Masonville Place (London), Richmond Centre (British Columbia), Yorkdale Shopping Centre (Toronto), and Square One Shopping Centre (Mississauga), and terminated the lease on the retail floors at the Toronto Eaton Centre ("TEC"). These transactions provided the Company total consideration of $591.0 million. The Company will continue to use the office floors of the TEC as its headquarters under terms consistent with the existing lease. Sears vacated the TEC, Sherway Gardens and Masonville Place stores by February 28, 2014, and expects to vacate the Yorkdale Shopping Centre and Square One Shopping Centre by March 31, 2014, and the Markville Shopping Centre and Richmond Centre by February 28, 2015.

"Live Green" Initiatives

The Company conducts its operations with a commitment to achieving success on economic, social and environmental levels. The Company continues to build upon the following three-point plan on environmental sustainability:

1. Enable customers to "Live Green", reduce their energy bills and create a healthy home;

2. Reduce the environmental impact of Sears Canada's operations; and

3. Nurture a culture of sustainability among the Company's associates, customers and the communities in which the Company operates.

Sears continued to focus on these three priorities by implementing the following initiatives during Q4 2013:

- Received the Fundraiser of the Year Award from WWF Canada through its Living Planet @ Work program. The award is in recognition of Sears Canada's participation and fundraising efforts in the 2013 WWF Canada CN Tower Climb in which 75 Sears associates participated and over $21,000 was raised. This is the second consecutive year that Sears has received the Fundraiser of the Year Award from WWF Canada;

- Named the 2013 ENERGY STAR® Retailer of the Year by Natural Resources Canada. This is the sixth consecutive year that Sears received this prestigious award from the Government of Canada for empowering customers to reduce their energy use, and the seventh time overall since the program was launched in 2003; and

- Have been collecting waste styrofoam at our NLC in Calgary from various Sears locations, diverting this waste from landfill. The styrofoam was deposited into a WC3000 densifier machine, which produced approximately 30 tons of compacted foam for 2013. The compacted foam was then shipped to a third party to be made into picture frames.

Corporate Social Responsibility

The following is a summary of the results of the Company and its associates' corporate social responsibility efforts during Fiscal 2013:

- Completed fund-raising campaigns for the Canadian Red Cross Alberta Floods and Lac-Mégantic Train Derailment disaster relief efforts. Sears, along with our customers and associates, facilitated the donation of $100,000 to the Canadian Red Cross Alberta Flood effort and over $10,000 in Québec for the Lac-Mégantic campaign. In addition, Sears also provided special discount programs to assist residents in flood zones in Alberta with needed purchases;

- Raised over $390,000 by sponsoring the 26th Annual Sears Boys & Girls Club Golf Tournament in Stouffville, Ontario, in August, and the annual Opération Enfant Soleil ("OES") Golf Tournament held at Elm Ridge Golf Club near Montréal. The tournaments support children and youth development and children's pediatrics in Québec, respectively;

- The Sears Great Canadian Run completed its third year with community-based relays from Ottawa to Montebello and from Toronto to Blue Mountain/Collingwood, donating almost $600,000 to regional and national children's oncology programs and research supported by the Sears Canada Charitable Foundation;

- Sponsored the sixth annual Sears National Kids Cancer Ride (the "Ride"), in cooperation with Coast to Coast Against Cancer Foundation. This 7,000 km cycling journey rolled across Canada from September 5-21, 2013, raising funds and awareness for the fight against childhood cancer. This year, Sears, its customers and its associates raised or donated over $550,000 in funds and logistical support and services for the Ride;

- Supported over 300 local store charity partners through the sale of our Holiday charity plush, Nate$^{TM/MC}$ the bear. Sears charity plush has been helping children since 1998, raising over $1.4 million since 2005. Two dollars from the sale of each bear supported the healthy development of Canadian youth through after-school and children's health initiatives as well as the Canadian Association of Military Family Resource Centres; and

- The Sears Tree of Wishes in Sears Full-Line and select Home, Outlet and Hometown Dealer stores helped to bring joy to less fortunate children who may have otherwise not received a gift this Holiday season. For the 2013 Holiday season, the Tree of Wishes program helped to bring smiles to about 8,000 children, with Sears customers and associates donating gifts valued at over $237,000.

d. Outlook

As Canadians' needs in a shopping experience evolve, Sears Canada is focused on keeping pace with emerging trends and innovative delivery of products and services, and is reinvigorating its business to better serve and grow with its customers. For the upcoming year, Sears will refocus attention on retail fundamentals. This will include enhancements to systems and processes in order to improve our ability to have the right merchandise in the right locations at the right time in the right quantity at the right price. Some of the priorities for Fiscal 2014 include the following:

- Leveraging the Company's merchandising capability to effectively establish and communicate the Sears' value proposition, which is its balance of quality, price and service to Canadians coast to coast across all products, locations and formats. Marketing will be centered on customers who are seeking quality products at reasonable prices, as Sears responds to the needs of this segment of the population most effectively;

- Improving the Company's efficiency by ensuring that costs and expenses are managed carefully to support the needs of the business and are competitive with other major retailers operating in the Canadian marketplace; and

- Creating additional value for the Company by looking for opportunities to monetize non-core assets, such as real estate.

Although management believes that Sears will achieve its long-term goal of sustainable and profitable growth, there can be no assurance that the Company will successfully implement these strategic initiatives or whether such initiatives will yield the expected results. For a discussion of the risks and uncertainties inherent in the Company's business, refer to Section 11 "Risks and Uncertainties".

e. Use of Non-IFRS Measures, Measures of Operating Performance and Reconciliation of Net Earnings to Adjusted EBITDA

The Company's consolidated financial statements are prepared in accordance with IFRS. Management uses IFRS, non-IFRS and operating performance measures as key performance indicators to better assess the Company's underlying performance and provides this additional information in this MD&A.

Same store sales is a measure of operating performance used by management, the retail industry and investors to compare retail operations, excluding the impact of store openings and closures. The same store sales metric excludes the Direct channel. Same store sales represents merchandise sales generated through operations in the Company's Full-Line, Sears Home, Hometown Dealer and Corbeil stores that were continuously open during both of the periods being compared. More specifically, the same store sales metric compares the same calendar weeks for each period and represents the 13 and 52-week periods ended February 1, 2014 and the 14 and 53-week periods ended February 2, 2013. The calculation of same store sales is a performance metric and may be impacted by store space expansion and contraction.

A reconciliation of the Company's total revenue to same store sales is outlined in the following table:

	Fourth Quarter		Fiscal	
(in CAD millions)	**2013** [1]	2012	**2013** [1]	2012
Total revenue	**$ 1,169.2**	$ 1,298.0	**$ 3,945.8**	$ 4,300.7
Non-comparable store sales	**335.4**	364.5	**1,003.5**	1,169.6
Same store sales	**833.8**	933.5	**2,942.3**	3,131.1
Percentage change in same store sales	**(6.4)%**	(3.8)%	**(2.7)%**	(5.6)%
Percentage change in same store sales by category				
Apparel & Accessories	**1.1 %**	0.4 %	**4.2 %**	(5.9)%
Home & Hardlines	**(15.5)%**	(12.8)%	**(10.8)%**	(11.2)%
Major Appliances	**(9.0)%**	(0.4)%	**(4.2)%**	0.5 %

1 Same store sales were adjusted to exclude the impact of the extra week in Fiscal 2012 and Q4 2012.

Adjusted EBITDA is a non-IFRS measure and excludes finance costs, interest income, income tax expense or recovery, depreciation and amortization and income or expenses of a non-recurring, unusual or one-time nature. Adjusted EBITDA is a measure used by management, the retail industry and investors as an indicator of the Company's operating performance, ability to incur and service debt, and as a valuation metric. The Company uses Adjusted EBITDA to evaluate the operating performance of its business as well as an executive compensation metric. While Adjusted EBITDA is a non-IFRS measure, management believes that it is an important indicator of operating performance because it excludes the effect of financing and investing activities by eliminating the effects of interest and depreciation and removes the impact of certain non-recurring items that are not indicative of our ongoing operating performance. Therefore, management believes Adjusted EBITDA gives investors greater transparency in assessing the Company's results of operations.

These measures do not have any standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other reporting issuers. Adjusted EBITDA should not be considered in isolation or as an alternative to measures prepared in accordance with IFRS.

A reconciliation of the Company's net earnings to Adjusted EBITDA is outlined in the following table:

	Fourth Quarter		Fiscal	
(in CAD millions, except per share amounts)	**2013**	2012[12]	**2013**	2012[12]
Net earnings	**$ 373.7**	$ 39.9	**$ 446.5**	$ 101.2
Transformation expense[1]	**51.2**	12.6	**72.9**	12.6
Gain on lease terminations and lease amendments[2]	**(391.5)**	—	**(577.2)**	(167.1)
Gain on sale of interest in joint arrangements[3]	**(66.3)**	(8.6)	**(66.3)**	(8.6)
Gain on settlement and amendment of retirement benefits[4]	**(42.5)**	(21.1)	**(42.5)**	(21.1)
Lease exit costs[5]	**5.4**	2.0	**5.6**	8.0
Accelerated tenant inducement and average rent amortization[6]	**2.3**	—	**(2.2)**	(4.0)
Goodwill impairment[7]	**—**	—	**6.1**	—
Regina impairment[8]	**—**	—	**16.5**	—
Other asset impairment[9]	**11.2**	2.2	**11.2**	2.2
SHS warranty costs[10]	**2.0**	—	**2.0**	—
Depreciation and amortization expense	**23.6**	30.5	**111.4**	126.5
Finance costs	**2.7**	2.9	**10.8**	15.1
Interest income	**(1.0)**	(0.9)	**(2.6)**	(4.3)
Income tax expense	**47.2**	8.0	**43.5**	13.0
Adjusted EBITDA[11]	**$ 18.0**	$ 67.5	**$ 35.7**	$ 73.5
Basic net earnings per share	**$ 3.67**	$ 0.39	**$ 4.38**	$ 0.99

1 *Transformation expense during 2013 and 2012 relates primarily to severance costs incurred during the year.*

2 *Gain on lease terminations and lease amendments represents the pre-tax gain on the early vacating of properties described in Note 28 of the Company's consolidated financial statements for the 52 and 53-week periods ended February 1, 2014 and February 2, 2013.*

3 *Gain on sale of interest in joint arrangements represents the gain associated with selling the Company's interest in the properties co-owned with the Westcliff Group of Companies, described in Note 11 of the Company's consolidated financial statements for the 52 and 53-week periods ended February 1, 2014 and February 2, 2013.*

4 *Gain on settlement and amendment of retirement benefits primarily represents the settlement and freezing of retirement benefits of eligible members covered under the non-pension retirement plan described in Note 20 of the Company's consolidated financial statements for the 52 and 53-week periods ended February 1, 2014 and February 2, 2013.*

5 *Lease exit costs represent costs incurred to exit properties referred to in footnote 2 above.*

6 *Accelerated tenant inducement and average rent amortization represents the accelerated amortization of lease inducements and average rent assets relating to the properties in footnote 2 above.*

7 *Goodwill impairment represents the charge related to the writeoff of goodwill allocated to the HIPS cash generating unit described in Note 10 of the Company's consolidated financial statements for the 52 and 53-week periods ended February 1, 2014 and February 2, 2013.*

8 *Regina impairment represents the charge related to writing down the carrying value of the property, plant and equipment and investment property of one of the Regina logistics centres ("RLC"), to the fair value less costs to sell described in Note 29 of the Company's consolidated financial statements for the 52 and 53-week periods ended February 1, 2014 and February 2, 2013.*

9 *Other asset impairment represents the charge related to writing down the carrying value of the property, plant and equipment of certain cash generating units described in Note 9 of the Company's consolidated financial statements for the 52 and 53-week periods ended February 1, 2014 and February 2, 2013.*

10 *SHS warranty costs represents the estimated costs to the Company related to potential claims for work that had been performed by SHS, prior to SHS announcing it was in receivership described in Note 14 of the Company's consolidated financial statements for the 52 and 53-week periods ended February 1, 2014 and February 2, 2013.*

11 *Adjusted EBITDA is a measure used by management, the retail industry and investors as an indicator of the Company's performance, ability to incur and service debt, and as a valuation metric. Adjusted EBITDA is a non-IFRS measure.*

12 *Adjusted to reflect the changes resulting from the retrospective application of the change in accounting policy related to the adoption of accounting standard "IFRS 11, Joint Arrangements".*

f. Consolidated Financial Results

(in CAD millions)		Fiscal 2013	% Chg 2013 vs 2012	2012
Revenue	$	**3,991.8**	(8.2)% $	4,346.5
Cost of goods and services sold		**2,548.1**	(7.3)%	2,749.2
Selling, administrative and other expenses		**1,631.5**	(2.3)%	1,669.1
Operating loss		**(187.8)**	(161.6)%	(71.8)
Gain on lease terminations and lease amendments		**577.2**	245.4 %	167.1
Gain on sale of interest in joint arrangement		**66.3**	670.9 %	8.6
Gain on settlement and amendment of retirement benefits		**42.5**	101.4 %	21.1
Finance costs		**10.8**	(28.5)%	15.1
Interest income		**2.6**	(39.5)%	4.3
Earnings before income taxes		**490.0**	329.1 %	114.2
Income tax expense		**(43.5)**	(234.6)%	(13.0)
Net earnings	$	**446.5**	341.2 % $	101.2

2013 compared with 2012 – Total revenue in Fiscal 2013 decreased 8.2% to $3,991.8 million compared to $4,346.5 million during the same period in Fiscal 2012. Same store sales decreased by 2.7% in Fiscal 2013 compared to Fiscal 2012. Revenue for Fiscal 2013 relating to Home & Hardlines decreased by $127.0 million compared to the same period in Fiscal 2012, due to sales volume declines in almost all product categories. Same store sales in Home & Hardlines decreased by 10.8%. Revenue for Fiscal 2013 relating to Major Appliances decreased $53.0 million, compared to Fiscal 2012, due to sales volume decreases in all products within Major Appliances. Same store sales in Major Appliances decreased by 4.2%. Revenue relating to Apparel & Accessories decreased by $11.4 million compared to Fiscal 2012, primarily due to sales volume decreases in cosmetics, jewellery and women's intimates, partially offset by increases in luggage, footwear, children's wear and men's wear. Same store sales in Apparel & Accessories increased by 4.2%. Other merchandise revenue for Fiscal 2013 decreased by $134.8 million compared to Fiscal 2012, primarily due to the licensing arrangement with SHS. Included in the total revenue decrease for Fiscal 2013 described above, was the impact of the closure of four Full-Line stores during the second half of Fiscal 2012, which negatively impacted revenue for Fiscal 2013 by $70.9 million, compared to Fiscal 2012. Also included in the total revenue decrease for Fiscal 2013 described above was the loss of the 53rd week compared to Fiscal 2012, which negatively impacted revenue for Fiscal 2013 by approximately $48.2 million.

Total revenue recognized from points redemption under the loyalty program for Fiscal 2013 was $39.7 million (Fiscal 2012 : $35.1 million) and total revenue deferred related to points issuances was $41.7 million (Fiscal 2012 : $33.3 million). Total revenue recognized for unredeemed points in Fiscal 2013 (by exclusion from deferral in the loyalty point redemption rate) increased to $7.6 million (Fiscal 2012 : $5.5 million) due to an increase in points issuance during Fiscal 2013. The increase in total revenue deferred related to increased points issuance was primarily due to the introduction of a points-based bonus that replaced a coupon-based bonus for new customers during Fiscal 2013.

Cost of goods and services sold was $2,548.1 million in Fiscal 2013 compared to $2,749.2 million in Fiscal 2012, a 7.3% decrease year-over-year. This decrease was attributable to both the licensing arrangement with SHS and lower sales volumes, which included the impact of the closure of four Full-Line stores during the second half of Fiscal 2012.

The Company's gross margin rate was 36.2% for Fiscal 2013 compared to 36.7% in Fiscal 2012. The decrease in the gross margin rate in Fiscal 2013 compared to Fiscal 2012 was due primarily to reduced margin in home furnishings, fitness, CAWP, electronics, and Major Appliances.

Selling, administrative and other expenses, including depreciation and amortization expense, decreased by $37.6 million or 2.3% to $1,631.5 million in Fiscal 2013 compared to Fiscal 2012. The decrease in expense was primarily driven by reduced spending in advertising and payroll. Advertising expense decreased primarily due to reductions in flyer and catalogue circulation, and page counts. Payroll expense decreased primarily due to the reduction in associates compared to Fiscal 2012, as a result of previous transformation actions during Q4 2012 and throughout Fiscal 2013. Transformation expenses are included in selling, administrative and other expenses and increased by $60.3 million to $72.9 million in Fiscal 2013, compared to Fiscal 2012. Foreign exchange loss also increased expenses by $7.0 million in Fiscal 2013 compared to Fiscal 2012.

Depreciation and amortization expense in Fiscal 2013 decreased by $15.1 million to $111.4 million compared to Fiscal 2012, primarily due to the disposal of assets relating to the closure of four Full-Line stores, the sale of the Medicine Hat Mall joint arrangement in Fiscal 2012 and certain property, plant and equipment being fully depreciated in Fiscal 2013.

During Fiscal 2013, the Company incurred transformation expenses totaling $72.9 million. Transformation expenses of $18.7 million were primarily due to the impact of the agreements with IBM and Wipro to outsource some of the work currently performed by internal Sears resources in portions of IT, Finance and Accounting, and Payroll. Transformation expenses for Fiscal 2013 also included $12.3 million of severance costs from the lease terminations of the five stores announced on October 29, 2013, $3.1 million of severance costs due to the closure of the RLC, and $1.3 million related to the outsourcing of Indirect Procurement. As a result of further announcements in Q4 2013, transformation expenses also included severance costs of $23.2 million related to Customer Contact Centres, head office, logistics team, and the Repair Services and Parts businesses. Pension curtailment costs of $4.8 million related to the various announcements were also included in transformation expenses. It is anticipated that the changes from the Fiscal 2013 announcements will result in approximately $60.0 million to $70.0 million in savings in Fiscal 2014 and approximately $80.0 million to $90.0 million of annualized savings commencing in Fiscal 2015 (See "Cautionary Statement Regarding Forward-Looking Information").

On June 14, 2013, the Company announced its intention to enter into a series of transactions related to its leases on two properties: Yorkdale Shopping Centre (Toronto) and Square One Shopping Centre (Mississauga). The landlords approached the Company with a proposal to enter into a series of lease amendments for a total consideration of $191.0 million, being the amount the landlords were willing to pay for the right to require the Company to vacate the two locations.

On June 24, 2013, the Company received proceeds of $191.0 million upon closing of the transaction which gave the landlords the right to require the Company to vacate the two locations by March 31, 2014. The landlords exercised such right on July 25, 2013. The transaction resulted in a pre-tax gain of $185.7 million, net of legal costs and the de-recognition of leasehold improvements of $5.3 million.

The Company also granted the owners of the Scarborough Town Centre (Toronto) property an option to enter into certain lease amendments in exchange for $1.0 million, which was paid on June 24, 2013. The option may be exercised at any time up to and including June 20, 2018, and would require the Company to complete certain lease amendments in exchange for $53.0 million. Such lease amendments would allow the owners to require the Company to close its store. As of February 1, 2014, the option had not been exercised and was included in "Accounts payable and accrued liabilities" in the Consolidated Statements of Financial Position for Fiscal 2013.

On October 29, 2013, the Company announced that it would terminate its leases in respect of four stores and partially terminate its lease in a fifth location, for a total consideration of $400.0 million. Four of the five stores are owned by Cadillac Fairview and are located in Ontario: Toronto Eaton Centre, Sherway Gardens, Markville Shopping Centre and London-Masonville Place. The fifth store is located at Richmond Shopping Centre in British Columbia and is co-owned by Ivanhoé Cambridge II Inc. and Cadillac Fairview. The transaction requires Sears to vacate Sherway Gardens, London-Masonville Place and the retail floors of the Toronto Eaton Centre ("TEC"), by February 28, 2014, and Markville and Richmond Shopping Centres by February 28, 2015. On November 12, 2013, the Company received proceeds of $400.0 million for these transactions, resulting in a pre-tax gain of $391.5 million, net of legal costs and the de-recognition of leasehold improvements and furniture and fixtures of $9.5 million.

During Q4 2013, the Company sold its interest in the properties co-owned with Westcliff for total proceeds of $315.4 million, recognizing a pre-tax gain of $66.3 million on the sale. In connection with this transaction, the Company determined that because it had surrendered substantially all of its rights and obligations and had transferred substantially all of the risks and rewards of ownership related to the eight properties, immediate gain recognition was appropriate.

In December 2013, the Company amended the early retirement provision of its pension plan to eliminate a benefit for associates who voluntarily resign prior to age of retirement, with effect January 1, 2015, recognizing a gain of $13.0 million. Also, the Company amended its pension plan for improvements that increase portability of associates' benefit, with effect March 1, 2014, and implemented fixed indexing at 0.5% per annum for eligible retirees, with effect January 1, 2014, recognizing an expense of $14.0 million. Lastly, in December 2013, the Company amended the non-pension retirement benefit plan to freeze future benefits as at January 1, 2015, recognizing a gain of $43.5 million ($43.8 million net of $0.3 million of expenses). The Company recognized a gain on settlement and amendment of retirement benefits of $42.5 million during Q4 2013 as a result of these transactions.

Finance costs in Fiscal 2013 decreased by 28.5% to $10.8 million compared to $15.1 million during Fiscal 2012. Fiscal 2012 included interest expense on uncertain tax positions of $3.9 million.

Interest income decreased by 39.5% to $2.6 million in Fiscal 2013 compared to $4.3 million in Fiscal 2012 primarily due to interest income of $1.6 million earned on deposits made to tax authorities in Fiscal 2012. Refer to Note 22 "Income taxes" of the Notes to the Consolidated Financial Statements for Fiscal 2013 for additional information.

Income tax expense was $43.5 million for Fiscal 2013 compared to an income tax expense of $13.0 million in Fiscal 2012. The year-over-year change was primarily attributable to higher taxable earnings as a result of the gains recognized on the termination of the eight joint arrangements co-owned by Westcliff and seven lease terminations during Fiscal 2013.

g. Fourth Quarter Results

	Fourth Quarter		
(in CAD millions)	**2013**	% Chg 2013 vs 2012	2012
Revenue	$ **1,182.3**	(9.6)%	$ 1,307.2
Cost of goods and services sold	**792.2**	(6.7)%	848.7
Selling, administrative and other expenses	**467.8**	6.7 %	438.3
Operating (loss) earnings	**(77.7)**	(484.7)%	20.2
Gain on lease terminations and lease amendments	**391.5**	100.0 %	—
Gain on sale of interest in joint arrangement	**66.3**	670.9 %	8.6
Gain on settlement and amendment of retirement benefits	**42.5**	101.4 %	21.1
Finance costs	**2.7**	(6.9)%	2.9
Interest income	**1.0**	11.1 %	0.9
Earnings before income taxes	**420.9**	778.7 %	47.9
Income tax expense	**(47.2)**	(490.0)%	(8.0)
Net earnings	$ **373.7**	836.6 %	$ 39.9

Q4 2013 compared with Q4 2012 – Total revenue in Q4 2013 decreased by 9.6% to $1,182.3 million compared to $1,307.2 million in Q4 2012, with same store sales decline of 6.4% in Q4 2013. The revenue relating to Home & Hardlines decreased by $53.1 million compared to the same period in Fiscal 2012, primarily due to sales volume declines in home furnishings, home décor, CAWP and electronics, partially offset by increases in seasonal. Same store sales in Home & Hardlines decreased by 15.5%. The revenue relating to Major Appliances decreased by $32.0 million in Q4 2013 compared to the same period in Fiscal 2012, due to sales volume decreases in all products within Major Appliances. Same store sales in Major Appliances decreased by 9.0%. The revenue relating to Apparel & Accessories decreased by $3.6 million in Q4 2013 compared to the same period in Fiscal 2012, primarily due to sales volume decreases in cosmetics, women's intimates and women's apparel, partially offset by increases in footwear, children's wear and men's wear. Same store sales in Apparel & Accessories increased by 1.1%. Other merchandise revenue decreased by $27.8 million in Q4 2013 compared to the same period in 2012, due to the licensing arrangement with SHS. Included in the total revenue decrease for Q4 2013 described above, was the impact of the timing change from a 53-week period ended February 2, 2013 to a 52-week period ending February 1, 2014, which negatively impacted revenue for Q4 2013 by $29.1 million, compared to Q4 2012. Also included in the total revenue decrease for Q4 2013 described above, was the loss of the 14th week compared to Q4 2012, which negatively impacted revenue for Q4 2013 by approximately $48.2 million. Revenue for Q4 2013 was also negatively impacted by unusual weather, which caused extended power failures and unsafe road conditions.

Total revenue recognized from points redemption under the loyalty program in Q4 2013 was $13.7 million (Q4 2012: $9.3 million) and total revenue deferred related to points issuances in Q4 2013 was $14.1 million (Q4 2012: $12.8 million). Total revenue recognized in Q4 2013 for unredeemed points (by exclusion from deferral in the loyalty point redemption rate) increased to $3.0 million (Q4 2012: $2.0 million) due to an increase in points issuance during Fiscal 2013. The increase in total revenue deferred related to increased points issuance was primarily due to the introduction of a points-based bonus that replaced a coupon-based bonus for new customers during Fiscal 2013.

Cost of goods and services sold was $792.2 million in Q4 2013 compared to $848.7 million in Q4 2012, a 6.7% decrease. This decrease was attributable to the licensing arrangement with SHS and lower sales volumes, which included the impact of the 14th week in Q4 2012.

The Company's gross margin rate was 33.0% in Q4 2013 compared to 35.1% in Q4 2012. The decrease in the gross margin rate was due primarily to reduced margins in home furnishings, fitness, home décor, electronics, footwear and children's wear resulting from increased clearance activity.

Selling, administrative and other expenses, including depreciation and amortization expense increased by $29.5 million or 6.7% to $467.8 million in Q4 2013 compared to Q4 2012. The increase in expense was primarily driven by the inclusion of transformation expenses of $51.2 million, impairment loss of $11.2 million on a number of retail stores, as described in Note 9 "Property, plant and equipment and investment property" of the Notes to the Consolidated Financial Statements for Fiscal 2013, and foreign exchange losses of $4.0 million. Excluding these non-recurring items, selling, administrative and other expenses in Q4 2013 declined $21.2 million or 5.0% compared to Q4 2012. The decrease in expenses excluding non-recurring items is attributable to lower spending on payroll in Q4 2013 compared to Q4 2012, primarily due to the reduction in associates, as a result of previous transformation actions.

Depreciation and amortization expense in Q4 2013 decreased by $6.9 million, as compared to Q4 2012, primarily due to the disposal of assets relating to the lease terminations and lease amendments of two Full-Line stores in the second quarter of 2013, and the sale of the Medicine Hat Mall joint arrangement in Q4 2012.

During Q4 2013, the Company incurred transformation expenses totaling $51.2 million, primarily related to Customer Contact Centres, head office, logistics team, and the Repair Services and Parts businesses. Pension curtailment costs of $4.8 million were also included in transformation expenses.

On October 29, 2013, the Company announced that it would terminate its leases in respect of four stores and partially terminate its lease in a fifth location, for a total consideration of $400.0 million. Four of the five stores are owned by Cadillac Fairview and are located in Ontario: Toronto Eaton Centre, Sherway Gardens, Markville Shopping Centre and London-Masonville Place. The fifth store is located at Richmond Shopping Centre in British Columbia and is co-owned by Ivanhoé Cambridge II Inc. and Cadillac Fairview. The transaction requires Sears to vacate Sherway Gardens, London-Masonville Place and the retail floors of the Toronto Eaton Centre ("TEC"), by February 28, 2014, and Markville and Richmond Shopping Centres by February 28, 2015. On November 12, 2013, the Company received proceeds of $400.0 million for these transactions, resulting in a pre-tax gain of $391.5 million, net of legal costs and the de-recognition of leasehold improvements and furniture and fixtures of $9.5 million.

During Q4 2013, the Company sold its interest in the properties co-owned with Westcliff for total proceeds of $315.4 million, recognizing a pre-tax gain of $66.3 million on the sale. In connection with this transaction, the Company determined that because it had surrendered substantially all of our rights and obligations and had transferred substantially all of the risks and rewards of ownership related to the eight properties, immediate gain recognition was appropriate.

In December 2013, the Company amended the early retirement provision of its pension plan to eliminate a benefit for associates who voluntarily resign prior to age of retirement, with effect January 1, 2015, recognizing a gain of $13.0 million. Also, the Company amended its pension plan for improvements that increase portability of associates' benefit, with effect March 1, 2014, and implemented fixed indexing at 0.5% per annum for eligible retirees, with effect January 1, 2014, recognizing an additional cost of $14.0 million. Lastly, in December 2013, the Company amended the non-pension retirement benefit plan to freeze future benefits as at January 1, 2015, recognizing a gain of $43.5 million ($43.8 million net of $0.3 million of expenses). The Company recognized a gain on settlement and amendment of retirement benefits of $42.5 million during Q4 2013 as a result of these transactions.

Finance costs in Q4 2013 of $2.7 million were comparable to finance costs in Q4 2012.

Interest income in Q4 2013 of $1.0 million was comparable to interest income in Q4 2012.

Income tax expense increased to $47.2 million in Q4 2013 compared to $8.0 million in Q4 2012 due to higher taxable earnings as a result of the gain recognized on the termination of the eight joint arrangements co-owned by Westcliff and the five lease terminations during Q4 2013.

2. Segment Performance

Results of Merchandising Operations

(in CAD millions)	Fourth Quarter 2013	% Chg 2013 vs 2012	2012	Fiscal 2013	% Chg 2013 vs 2012	2012
Total Revenue	**$ 1,169.2**	(9.9)%	$ 1,298.0	**$ 3,945.8**	(8.3)%	$ 4,300.7
Cost of goods and services sold, operating, administrative and selling expenses	**1,157.5**	(6.3)%	1,235.0	**3,934.7**	(7.5)%	4,252.2
Adjusted EBITDA	**$ 11.7**	(81.4)%	$ 63.0	**$ 11.1**	(77.1)%	$ 48.5

Comparative Analysis - Revenue for the Company's merchandise operations decreased by 9.9% in Q4 2013 and 8.3% in Fiscal 2013, as compared to the same periods in Fiscal 2012. Adjusted EBITDA decreased by 81.4% in Q4 2013 and 77.1% in Fiscal 2013, as compared to the same periods in Fiscal 2012. Refer to Section 1f "Consolidated Financial Results" and 1g "Fourth Quarter Results" for additional information.

Results from Real Estate Joint Arrangements

(in CAD millions)	Fourth Quarter 2013	% Chg 2013 vs 2012	2012[1]	Fiscal 2013	% Chg 2013 vs 2012	2012[1]
Total Revenue	**$ 13.1**	42.4%	$ 9.2	**$ 46.0**	0.4 %	$ 45.8
Cost of goods and services sold, operating, administrative and selling expenses	**6.8**	44.7%	4.7	**21.4**	2.9 %	20.8
Adjusted EBITDA	**$ 6.3**	40.0%	$ 4.5	**$ 24.6**	(1.6)%	$ 25.0

1 *Adjusted to reflect the changes resulting from the retrospective application of the change in accounting policy related to the adoption of accounting standard "IFRS 11, Joint Arrangements".*

Comparative Analysis - Revenue for the Company's real estate joint arrangements for Q4 2013 and Fiscal 2013 increased by 42.4% and 0.4%, respectively, as compared to the same periods in Fiscal 2012. Adjusted EBITDA for Q4 2013 increased by 40.0%, as compared to Q4 2012. Q4 2013 revenue and adjusted EBITDA were positively impacted by transaction adjustments associated with the sale of certain Westcliff joint arrangements, and higher occupancy within the various shopping malls. Adjusted EBITDA for Fiscal 2013 decreased by 1.6%, as compared to Fiscal 2012. The results for Fiscal 2013 were impacted by the sale of the Medicine Hat real estate joint arrangement during Q4 2012.

3. Consolidated Financial Position, Liquidity and Capital Resources

Current assets as at February 1, 2014 were $215.1 million higher than as at February 2, 2013 due primarily to the improvement of $275.3 million in cash and cash equivalents and a reclassification of $13.3 million in assets classified as held for sale related to the RLC, partially offset by a decrease of $76.8 million in inventory.

Current liabilities as at February 1, 2014 were $58.8 million higher than as at February 2, 2013 due primarily to an increase of $43.1 million in provisions due to severances from transformation initiatives which are expected to be paid during Fiscal 2014, and $52.2 million in income taxes payable due to higher taxable earnings resulting from the gains on the lease terminations and amendments as well as the sale of the Company's interest in certain joint arrangements, partially offset by a decrease of $45.0 million in accounts payable and accrued liabilities, primarily due to lower inventory receipts and the timing of vendor payments.

Inventories were $774.6 million as at February 1, 2014 compared to $851.4 million as at February 2, 2013. The $76.8 million decrease in the inventory balance is primarily due to a reduction in inventory reserve balances due to improved inventory quality, and improved management of inventory receipts compared to Fiscal 2012.

Total cash and cash equivalents was $513.8 million as at February 1, 2014 compared to $238.5 million as at February 2, 2013. The increase of $275.3 million was primarily due to $590.5 million in proceeds from lease terminations and lease amendments received during Fiscal 2013, and $315.4 million received for the sale of the Company's interest in certain joint arrangements, partially offset by a $509.4 million dividend payment during Q4 2013, the purchase of $70.8 million in property, plant and equipment and intangible assets during Fiscal 2013, and settlement of long-term obligations of $30.1 million associated with the divested joint arrangements during Q4 2013.

Total assets and liabilities as at the end of Fiscal 2013 and Fiscal 2012 are as follows:

(in CAD millions)		**As at February 1, 2014**		As at February 2, 2013
Total assets	$	**2,392.3**	$	2,504.7
Total liabilities	$	**1,318.5**	$	1,428.3

Total assets as at February 1, 2014 decreased by $112.4 million to $2,392.3 million compared to $2,504.7 million as at February 2, 2013, due primarily to lower property, plant and equipment as a result of the sale of the Company's interests in certain joint arrangements which occurred during Q4 2013, and lower inventory, partially offset by increases in cash and cash equivalents.

Total liabilities as at February 1, 2014 decreased by $109.8 million to $1,318.5 million compared to $1,428.3 million as at February 2, 2013, due primarily to lower retirement benefit liability as a result of amending the non-pension retirement benefit plan to freeze future benefits, lower accounts payable and accrued liabilities, and long-term obligations, partially offset by increases in provisions and income taxes payable.

Cash flow used for operating activities - Cash flow used for operating activities decreased by $28.9 million during Fiscal 2013 to $25.8 million compared to cash flow used for operating activities of $54.7 million during Fiscal 2012. The Company's primary source of operating cash flow is the sale of goods and services to customers, while the primary use of cash in operating activities is the purchase of merchandise inventories. The increase in cash from operating activities is attributable to favourable changes in inventories, provisions, and income and other taxes payable and recoverable, partially offset by unfavourable changes in accounts receivable, accounts payable and accrued liabilities, and deferred revenue.

Cash flow generated from investing activities - Cash flow generated from investing activities increased by $719.6 million during Fiscal 2013 to $837.0 million compared to cash flow generated from investing activities of $117.4 million during Fiscal 2012 primarily due to proceeds received from lease terminations and lease amendments of $590.5 million and proceeds received from the sale of the Company's interests in certain joint arrangements of $315.4 million. Cash flow generated from these transactions was partially offset by $70.8 million of capital expenditures incurred during the year, as compared with $101.6 million for Fiscal 2012. Fiscal 2012 included proceeds received from lease terminations and lease amendments of $175.0 million and proceeds received from the sale of the Company's interest in a joint arrangement of $38.3 million.

Cash flow used for financing activities - Cash flow used for financing activities increased by $313.0 million to $537.5 million during Fiscal 2013 compared to $224.5 million during Fiscal 2012. The increase in cash flow used is primarily due to an extraordinary dividend payment of $509.4 million which occurred during Q4 2013. Fiscal 2012 included an extraordinary dividend payment of $101.9 million, and repayments on the credit facility of $93.1 million.

Contractual Obligations

Contractual obligations, including payments due over the next five fiscal years and thereafter, are shown in the following table:

(in CAD millions)	Carrying Amount	Total	Contractual Cash Flow Maturities Within 1 year	1 year to 3 years	3 years to 5 years	Beyond 5 years
Accounts payable and accrued liabilities	$ 438.7	$ 438.7	$ 438.7	$ —	$ —	$ —
Finance lease obligations including payments due within one year[1]	33.0	43.0	7.2	11.3	10.0	14.5
Real estate joint arrangement obligations including payments due within one year[2]	2.9	3.0	3.0	—	—	—
Operating lease obligations[3]	n/a	481.7	94.8	151.4	109.9	125.6
Royalties[3]	n/a	3.5	0.8	1.5	1.2	—
Purchase agreements[3,5]	n/a	16.9	7.9	9.0	—	—
Retirement benefit plans obligations[4]	286.0	88.0	2.4	58.7	26.9	—
	$ 760.6	**$ 1,074.8**	**$ 554.8**	**$ 231.9**	**$ 148.0**	**$ 140.1**

1 *Cash flow maturities related to finance lease obligations, including payments due within one year, include annual interest on finance lease obligations at a weighted average rate of 7.5%. The Company had no borrowings on the Credit Facility at February 1, 2014.*

2 *Cash flow maturities related to real estate joint arrangement obligations, including payments due within one year, include annual interest on mortgage obligations at a weighted average rate of 2.8%.*

3 *Purchase agreements, operating lease obligations, and royalties are not reported in the Consolidated Statements of Financial Position.*

4 *Payments beyond 2013 are subject to a funding valuation to be completed as at December 31, 2013. Until then, the Company is obligated to fund in accordance with the most recent valuation completed as at December 31, 2010. The Company prefunded 2014 contributions of $15 million in December 2013.*

5 *Certain vendors require minimum purchase commitment levels over the term of the contract.*

Retirement Benefit Plans

In Fiscal 2013, the Company's retirement benefit plan obligations decreased by $129.7 million to $286.0 million compared to Fiscal 2012 primarily due to plan amendments to retirement benefit plans, as described below, and also as a result of higher asset returns on pension plan assets.

In December 2013, the Company amended the early retirement provision of its pension plan to eliminate a benefit for associates who voluntarily resign prior to age of retirement, with effect January 1, 2015. Also, the Company amended its pension plan for improvements that increase portability of associates' benefits, with effect March 1, 2014, and implemented fixed indexing at 0.5% per annum for eligible retirees, with effect January 1, 2014. Lastly, in December 2013, the Company amended the non-pension retirement benefit plan to freeze future benefits as at January 1, 2015.

In Q4 2013, the Company recorded a pre-tax gain of $42.5 million ($42.8 million net of $0.3 million of expenses) as shown on the Consolidated Statements of Net Earnings and Comprehensive Income related to amendments described above to the retirement benefit plans.

In the first quarter of 2014, the Company will make another voluntary offer to settle health and dental benefits covered under the non-pension retirement plan. The Company expects to settle any acceptances from the offer in the second quarter of 2014. Also in the first quarter of 2014, the Company will offer lump sum settlements to those terminated associates who previously elected to defer the payment of their defined benefit pension until retirement. The Company expects to settle accepted offers through the third quarter of 2014. The amount of these settlement offers is currently not determinable.

The Company measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at January 31. The most recent actuarial valuation of the pension plan for funding purposes is dated December 31, 2010. The next actuarial valuation assessment is required as of December 31, 2013, and due to be completed by Q3 2014. An actuarial valuation of the health and welfare trust is performed at least every three years, with the last valuation completed as of September 1, 2011.

During Fiscal 2011, the Company changed the target asset allocation to 55-75% fixed income and 25-45% equity for the registered and non-registered pension plans. For the assets in the health and welfare trust, included in Other Benefit Plans, the Company changed the asset allocation to 100% fixed income. As at the end of Fiscal 2013 and 2012, the assets were in line with the target allocation range, with the transitioning of assets from alternative investments near completion. The asset allocation may be changed from time to time in terms of weighting between fixed income, equity and other asset classes as well as within the asset classes themselves.

The plan's target allocation is determined by taking into consideration the amounts and timing of projected liabilities, the Company's funding policies and expected returns on various asset classes. To develop the expected long-term rate of return on assets assumption, the Company considered the historical returns and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio.

Capital Resources

The Company's capital expenditures, working capital needs, debt repayment and other financing needs are funded primarily through cash generated from operations and exiting cash on hand. In selecting appropriate funding choices, the Company's objective is to manage its capital structure in such a way as to diversify its funding sources, while minimizing its funding costs and risks. Sears expects to be able to satisfy all of its financing requirements through cash on hand, cash generated by operations and, if necessary, availability under the Company's credit facility as described below. The Company's cost of funding is affected by general economic conditions, including the overall interest rate environment, as well as the Company's financial performance, credit ratings and fluctuations of its credit spread over applicable reference rates.

The Company's debt consists of a secured credit facility and finance lease obligations and the Company's share of its real estate joint arrangement obligations. In September 2010, the Company entered into an $800.0 million senior secured revolving credit facility (the "Credit Facility") with a syndicate of lenders with a maturity date of September 10, 2015. The Credit Facility is secured with a first lien on inventory and credit card receivables. Availability under the Credit Facility is determined pursuant to a borrowing base formula. Availability as determined by the Company's borrowing base under the Credit Facility was $374.0 million as at February 1, 2014 (February 2, 2013: $501.5 million, January 28, 2012: $415.1 million). The current availability may be reduced by reserves currently estimated by the Company to be approximately $197.0 million, which may be applied by the lenders at their discretion pursuant to the Credit Facility agreement. As a result of judicial developments relating to the priorities of pension liability relative to certain secured obligations, the Company has executed an amendment to its Credit Facility agreement which would provide additional security to the lenders by pledging certain real estate assets as collateral, thereby partially reducing the potential reserve amount the lenders could apply by up to $150.0 million. As at February 1, 2014, three properties in Ontario have been registered under the amendment to the Credit Facility agreement. The additional reserve amount may increase or decrease in the future based on changes in estimated net pension deficits in the event of a wind-up, and based on the amount of real estate assets pledged as additional collateral.

The proceeds of $590.5 million received by the Company during Fiscal 2013 for the lease terminations and lease amendments was used towards the distribution of an extraordinary cash dividend of $509.4 million during Q4 2013. The remaining proceeds in addition to the $315.4 million of proceeds received by the Company in Q4 2013 for the sale of their interest in certain joint arrangements, will be used towards capital expenditures and other general corporate purposes. The Company regularly monitors its sources and uses of cash and its level of cash on hand, and considers the most effective use of cash on hand including stock purchases and dividends.

As at February 1, 2014, the Company had no borrowings on the Credit Facility and had unamortized transaction costs incurred to establish the Credit Facility of $4.4 million included in "Other long-term assets" in the Consolidated Statements of Financial Position (February 2, 2013: no borrowings and net of unamortized transaction costs of $6.2 million included in "Other long-term assets", January 28, 2012: borrowings of $93.1 million, net of unamortized transaction costs of $8.0 million, included in "Long-term obligations"). In addition, the Company had $24.0 million (February 2, 2013: $19.7 million, January 28, 2012: $6.3 million) of standby letters of credit outstanding against the Credit Facility. These letters of credit cover various payments primarily relating to utility commitments and defined benefit plan deficit funding (see Note 20 "Retirement benefit plans" of the Notes to the Consolidated Financial Statements for Fiscal 2013 for additional information). Interest on drawings under the Credit Facility is determined based on bankers' acceptance rates for one to three month terms or the prime rate plus a spread. Interest amounts on the Credit Facility are due monthly and are added to principal amounts outstanding.

As at February 1, 2014, the Company had outstanding merchandise letters of credit of U.S. $9.0 million (February 2, 2013: U.S. $7.9 million, January 28, 2012: U.S. $5.5 million) used to support the Company's offshore merchandise purchasing program with restricted cash and cash equivalents pledged as collateral.

4. Financial Instruments

The Company is exposed to credit, liquidity and market risk as a result of holding financial instruments. Market risk consists of foreign exchange and interest rate risk. See Note 14 "Financial instruments" of the Notes to the Consolidated Financial Statements for Fiscal 2013 for additional information.

Credit risk

Credit risk refers to the possibility that the Company can suffer financial losses due to the failure of the Company's counterparties to meet their payment obligations. Exposure to credit risk exists for derivative instruments, cash and cash equivalents, accounts receivable and other long-term assets.

Cash and cash equivalents, accounts receivable, derivative instruments and investments included in other long-term assets totaling $605.8 million as at February 1, 2014 (February 2, 2013: $317.7 million, January 28, 2012: $519.3 million) expose the Company to credit risk should the borrower default on maturity of the investment. The Company manages this exposure through policies that require borrowers to have a minimum credit rating of A, and limiting investments with individual borrowers at maximum levels based on credit rating.

The Company is exposed to minimal credit risk from customers as a result of ongoing credit evaluations and review of accounts receivable collectability. As at February 1, 2014, one party represented 11.3% of the Company's accounts receivable (February 2, 2013: no party represented greater than 10.0% of the Company's accounts receivable, January 28, 2012: one party represented 26.5% of the Company's accounts receivable).

Liquidity risk

Liquidity risk is the risk that the Company may not have cash available to satisfy financial liabilities as they come due. The Company actively maintains access to adequate funding sources to ensure it has sufficient available funds to meet current and foreseeable financial requirements at a reasonable cost.

Market risk

Market risk exists as a result of the potential for losses caused by changes in market factors such as foreign currency exchange rates, interest rates and commodity prices.

From time to time, the Company enters into foreign exchange contracts to reduce the foreign exchange risk with respect to U.S. dollar denominated assets and liabilities and purchases of goods or services. As at February 1, 2014, there were forward contracts outstanding with a notional value of US $90.0 million (February 2, 2013: nil, January 28, 2012: nil) and a fair value of $7.2 million, based on current market rates, included in "Derivative financial assets" (February 2, 2013: nil, January 28, 2012: nil) in the Consolidated Statements of Financial Position. These derivative contracts have settlement dates extending to July 2014. The intrinsic value portion of these derivatives has been designated as a cash flow hedge for hedge accounting treatment under IAS 39, *Financial Instruments: Recognition and Measurement*. These contracts are intended to reduce the foreign exchange risk with respect to anticipated purchases of U.S. dollar denominated goods purchased for resale ("hedged item"). As at February 1, 2014, the designated portion of these hedges was considered effective.

While the notional principal of these outstanding financial instruments is not recorded in the Consolidated Statements of Financial Position, the fair value of the contracts is included in "Derivative financial assets" or "Derivative financial liabilities", depending on the fair value, and classified as current or long-term, depending on the maturities of the outstanding contracts. Changes in the fair value of the designated portion of contracts are included in OCI for cash flow hedges, to the extent the designated portion of the hedges continues to be effective, with any ineffective portion included in "Cost of goods and services sold" in the Consolidated Statements of Net Earnings and Comprehensive Income. Amounts previously included in Other Comprehensive Income "OCI" are reclassified to "Cost of goods and services sold" in the same period in which the hedged item impacted Net Earnings.

During Fiscal 2013, the Company recorded a loss of $7.6 million (2012: loss of $0.6 million), in "Selling, administrative and other expenses", relating to the translation or settlement of U.S. dollar denominated monetary items consisting of cash and cash equivalents, accounts receivable and accounts payable.

The year end exchange rate was 0.8978 U.S. dollar to Canadian dollar. A 10% appreciation or depreciation of the U.S. and or the Canadian dollar exchange rate was determined to have an after-tax impact on net earnings of $0.6 million for U.S. dollar denominated balances included in cash and cash equivalents, accounts receivable and accounts payable at the end of Fiscal 2013.

Interest rate risk

From time to time, the Company enters into interest rate swap contracts with approved financial institutions to manage exposure to interest rate risks. As at February 1, 2014, the Company had no interest rate swap contracts in place (February 2, 2013: nil, January 28, 2012: nil).

Interest rate risk reflects the sensitivity of the Company's financial condition to movements in interest rates. Financial assets and liabilities which do not bear interest or bear interest at fixed rates are classified as non-interest rate sensitive.

Cash and cash equivalents and borrowings under the Credit Facility, when applicable, are subject to interest rate risk. The total subject to interest rate risk as at February 1, 2014 was a net asset of $515.1 million (February 2, 2013: net asset of $239.8 million, January 28, 2012: net asset of $300.4 million). An increase or decrease in interest rates of 25 basis points would cause an after-tax impact on net earnings of $0.9 million for net assets subject to interest rate risk included in cash and cash equivalents and other long-term assets at the end of Fiscal 2013.

5. Funding Costs

The funding costs for the Company in Fiscal 2013 and Fiscal 2012 are outlined in the table below:

	Fourth Quarter		Fiscal	
(in CAD millions)	**2013**	2012[4]	**2013**	2012[4]
Interest costs				
Total long-term obligations at end of period[1]	**$ 35.9**	$ 59.4	**$ 35.9**	$ 59.4
Average long-term obligations for period[2]	**44.5**	62.4	**52.1**	78.7
Long-term funding costs[3]	**1.0**	1.1	**4.1**	4.6
Average rate of long-term funding	**9.0%**	7.1%	**7.9%**	7.8%

1 *Includes current portion of long-term obligations.*

2 *The average long-term debt obligations is calculated as an average of the opening and ending balance for the period.*

3 *Excludes standby fee on the unused portion of the Credit Facility, amortization of debt issuance costs, interest accrued related to uncertain tax positions and sales tax assessments.*

4 *Adjusted to reflect the changes resulting from the retrospective application of the change in accounting policy related to the adoption of accounting standard "IFRS 11, Joint Arrangements".*

See Section 3 "Consolidated Financial Position, Liquidity and Capital Resources" of this MD&A for a description of the Company's funding sources.

6. Related Party Transactions

As at March 13, 2014, ESL Investments, Inc., and investment affiliates including Edward S. Lampert, (collectively "ESL"), is the beneficial holder of 28,158,368 or 27.6%, of the common shares of the Company. Sears Holdings is the beneficial holder of 51,962,391 common shares, representing approximately 51 % of the Company's total outstanding common shares.

In the ordinary course of business, the Company and Sears Holdings periodically share selected services, associates, and tangible and intangible assets. Transactions between the Company and Sears Holdings are recorded either at fair market value or the exchange amount, which was established and agreed to by the related parties. See Note 31 "Related party transactions" of the Notes to the Consolidated Financial Statements for Fiscal 2013 for a detailed description of these related party transactions.

Intangible Properties

The Company has a license from Sears, Roebuck & Co. ("Sears Roebuck") to use the name "Sears" as part of its corporate name. The Company also has licenses from Sears Roebuck to use other brand names, including Kenmore®, Craftsman®, and DieHard®. The Company has established procedures to register and otherwise vigorously protect its intellectual property, including the protection of the Sears Roebuck trademarks used by the Company in Canada.

Cross Border Vendor Agreement

The Company is party to a cross border vendor agreement with Sears Roebuck establishing collaboration and allowing the Company and Sears Roebuck to use each others' websites to sell merchandise in the United States and Canada. Merchandise sold pursuant to the agreement will obligate the Company or Sears Roebuck, as applicable, to pay fees to the other party equal to (i) for some transactions, a percentage of merchandise selling prices, and (ii) for other transactions, a percentage of the revenue booked by the applicable seller. This agreement can be terminated by either party on 60 days' written notice and will also terminate upon a transaction that results in the Company no longer being an affiliate of Sears Holdings.

Software Agreement

The Company and Sears Roebuck are party to an information technology agreement for the sharing of information technology and software development, ownership and costs, which agreement (i) either party may terminate on 90 days' written notice, or (ii) will terminate if Sears Holdings ceases to control 50% of the voting power of Sears Canada.

Import Services

Pursuant to an agreement between Sears Roebuck and the Company dated January 1, 1995, Sears Canada utilizes the international merchandise purchasing services of Sears Holdings. Sears Holdings may provide assistance to the Company with respect to monitoring and facilitating the production, inspection and delivery of imported merchandise and the payment to vendors. Sears Canada pays Sears Holdings a stipulated percentage of the value of the imported merchandise. In Fiscal 2013, Sears Canada paid $4.8 million to Sears Holdings in connection with this agreement compared to $5.1 million in Fiscal 2012.

Review and Approval

Material related party transactions are currently reviewed by the Audit Committee of the Company's Board of Directors (the "Audit Committee"). The Audit Committee is responsible for pre-approving all related party transactions that have a value greater than $1.0 million.

7. Shareholders' Equity

The only outstanding shares of the Company are common shares. The number of outstanding common shares at the end of Fiscal 2013 and Fiscal 2012 Consolidated Statement of Financial Position are as follows:

	As at February 1, 2014	As at February 2, 2013
Outstanding common shares	**101,877,662**	101,877,662

In Fiscal 2013, no common shares were issued (2012: no common shares were issued) with respect to the exercise of options pursuant to the Employees Stock Plan. Refer to Section 8 "Stock-Based Compensation" for information.

On November 19, 2013, the Company announced that it would distribute $509.4 million to holders of common shares as an extraordinary cash dividend. Payment in the amount of $5.00 per common share was made on December 6, 2013.

On May 22, 2013, the Toronto Stock Exchange ("TSX") accepted the Company's Notice of Intention to make a Normal Course Issuer Bid ("2013 NCIB"). The 2013 NCIB permits the Company to purchase for cancellation up to 5% of its issued and outstanding common shares, representing 5,093,883 of the issued and outstanding common shares as at May 10, 2013. Under the 2013 NCIB, purchases were allowed to commence on May 24, 2013 and must terminate by May 23, 2014 or on such earlier date as the Company may complete its purchases pursuant to the 2013 NCIB. The total purchase of common shares by the Company pursuant to the 2013 NCIB will not exceed, in the aggregate, 5% of all outstanding common shares, and is subject to the limits under the TSX rules, including a daily limit of 25% of the average daily trading volume (which cannot exceed 19,689 common shares a day), and a limit of one block purchase per week. As of March 13, 2014, the Company has not made any purchases of common shares under the 2013 NCIB.

From time to time, when the Company did not possess material undisclosed information about itself or its securities, it entered into a pre-defined plan with a designated broker to allow for the repurchase of common shares at times when the Company ordinarily would not have been active in the market due to its own internal trading blackout periods, insider trading rules, or otherwise. Any such plans entered into with the Company's designated broker were adopted in accordance with the requirements of applicable Canadian securities laws.

As at March 13, 2014, there were 101,877,662 common shares outstanding.

Shareholders may obtain, without charge, a copy of the Notice of 2013 NCIB that the Company filed with the TSX by contacting the Company at 416-941-4428 or invest@sears.ca.

8. Stock-Based Compensation

Stock Option and Share Purchase Plans for Employees and Directors

The Company has three stock-based compensation plans: the Employees Stock Plan, the Stock Option Plan for Directors and the Directors' Share Purchase Plan.

The Employees Stock Plan, which expired on April 19, 2008, provided for the granting of options and Special Incentive Shares and Options, which vested over three years and expired ten years from the grant date. The Employee Stock Plan permitted the issuance of tandem awards. Following the last grant in 2004, the Company discontinued the granting of options and Special Incentive Shares and Options under the Employees Stock Plan. Notwithstanding the expiry of the Employees Stock Plan, all outstanding stock options could be exercised or allowed to expire in accordance with the terms of their grants. The last grant of stock options expired on February 1, 2014 and as a result, there are zero options outstanding under the Employees Stock Plan (February 2, 2013: 5,440 options outstanding). The Stock Option Plan for Directors provides for the granting of stock options to Directors who are not employees of the Company or Sears Holdings. Options granted under the Stock Option Plan for Directors generally vest over three years and are exercisable within ten years from the grant date. No stock options have been granted under the Stock Option Plan for Directors since the last grant in 2003.

The Directors' Share Purchase Plan provides for the granting of common shares to Directors, to be purchased by the Company on the TSX, as part of their annual remuneration for services rendered on the Board. Following the last grant in 2005, the Company has discontinued the granting of shares under the Directors' Share Purchase Plan.

9. Accounting Policies and Estimates

a. Critical Accounting Estimates

In the application of the Company's accounting policies, management is required to make judgments, estimates and assumptions with regards to the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

The following are the critical judgments that management has made in the process of applying the Company's accounting policies, key assumptions concerning the future and other key sources of estimation uncertainty that have the potential to materially impact the carrying amounts of assets and liabilities within the next fiscal year.

9.1 Legal liabilities

Assessing the financial outcome of uncertain legal positions requires judgment to be made regarding the relative merits of each claim and the extent to which a claim is likely to be successful. The assessments are based on reviews conducted by internal and external counsel, when appropriate.

Changes in estimates or assumptions could cause changes to "Provisions" on the Consolidated Statements of Financial Position and a charge or credit to "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings and Comprehensive Income. See Note 16 "Provisions" of the Notes to the Consolidated Financial Statements for Fiscal 2013 for additional information.

9.2 Inventory

9.2.1 Obsolescence, valuation and inventory stock losses

Inventory is written-down to reflect future losses on the disposition of obsolete merchandise. Future losses are estimated based on historical trends that vary depending on the type of inventory.

An adjustment is made each period to value inventory at the lower of cost and net realizable value. This adjustment is estimated based on historical trends that vary depending on the type of inventory.

Inventory is adjusted to reflect estimated inventory stock losses incurred in the year based on recent historical inventory count data.

9.2.2 Vendor rebates

Inventory is adjusted to reflect vendor rebates received or receivable based on vendor agreements. This adjustment is estimated based on historical data and current vendor agreements.

9.2.3 Freight

Inbound freight incurred to bring inventory to its present location is estimated each reporting period and is included in the cost of inventory. This estimate is based on historical freight costs incurred.

Changes in estimates may result in changes to "Inventories" on the Consolidated Statements of Financial Position and a charge or credit to "Cost of goods and services sold" in the Consolidated Statements of Net Earnings and Comprehensive Income. See Note 7 "Inventories" of the Notes to the Consolidated Financial Statements for Fiscal 2013 for additional information.

9.3 Impairment of property, plant and equipment and intangible assets

The Company's property, plant and equipment and intangible assets have been allocated to CGUs, which are generally Full-Line stores. Determining whether the CGU is impaired requires an estimation of the recoverable amount of the CGU, which is the higher of the fair value less costs to sell and its value in use. To determine the recoverable amount of the CGU, management is required to estimate its fair value by evaluating the expected future cash flow using an appropriate growth rate, the estimated costs to sell and a suitable discount rate to calculate the value in use.

Changes in estimates may result in changes to "Property, plant and equipment" and "Intangible assets" on the Consolidated Statements of Financial Position and a charge or credit to "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings and Comprehensive Income. See Note 9 "Property, plant and equipment and investment property" and Note 10 "Goodwill and intangible assets" of the Notes to the Consolidated Financial Statements for Fiscal 2013 for additional information.

9.4 Impairment of goodwill

Determining whether goodwill is impaired requires the Company to determine the recoverable amount of the CGU to which the goodwill is allocated. To determine the recoverable amount of the CGU, management is required to estimate its fair value by evaluating expected future cash flow using an appropriate growth rate, the estimated costs to sell and a suitable discount rate to calculate the value in use.

Changes in estimates may result in changes to "Goodwill" on the Consolidated Statements of Financial Position and a charge to "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings and Comprehensive Income. See Note 10 "Goodwill and intangible assets" of the Notes to the Consolidated Financial Statements for Fiscal 2013 for additional information.

9.5 Retirement benefit liability

The retirement benefit liability is estimated based on certain actuarial assumptions, including the discount rate, inflation rate, salary growth and mortality rates. New regulations and market driven changes may impact the assumptions made.

Changes in estimates may result in changes to the "Retirement benefit liability" on the Consolidated Statements of Financial Position and a charge or credit to "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings and Comprehensive Income. See Note 20 "Retirement benefit plans" of the Notes to the Consolidated Financial Statements for Fiscal 2013 for additional information.

9.6 Loyalty program deferred revenue

The fair value of Sears Club points granted is deferred at the time of the related initial sale transaction and is recognized upon redemption of the points for merchandise. The redemption value of the points is estimated based on historical behaviour and trends in redemption rates and redemption values.

Changes in estimates may result in changes to "Deferred revenue" (current) on the Consolidated Statements of Financial Position and an increase or decrease to "Revenue" and/or "Cost of goods and services sold" in the Consolidated Statements of Net Earnings and Comprehensive Income. See Note 13 "Deferred revenue" of the Notes to the Consolidated Financial Statements for Fiscal 2013 for additional information.

9.7 Derivative assets and liabilities

All derivatives are measured at fair value. U.S. dollar option contracts are traded over-the-counter and give holders the right to buy, or sell, a specified amount of U.S. currency at an agreed upon price and date in the future. Fair values of the U.S. dollar option contracts are derived using a Black-Scholes valuation model. The Company is required to estimate various inputs which are used in this model that are a combination of quoted prices and observable market inputs. The fair values of derivatives include an adjustment for credit risk when appropriate.

Changes in estimates may result in changes to "Derivative financial assets" and "Derivative financial liabilities" on the Consolidated Statements of Financial Position and a charge or credit to "Cost of goods and services sold", "Selling, administrative and other expenses" or "Other comprehensive income" in the Consolidated Statements of Net Earnings and Comprehensive Income. See Note 14 "Financial instruments" of the Notes to the Consolidated Financial Statements for Fiscal 2013 for additional information.

9.8 Provisions

Provisions are estimated based on historical data, cost estimates provided by specialists and future projections.

Changes in estimates or assumptions could cause changes to "Provisions" on the Consolidated Statements of Financial Position and a charge or credit to "Cost of goods and services sold" or "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings and Comprehensive Income. See Note 16 "Provisions" of the Notes to the Consolidated Financial Statements for Fiscal 2013 for additional information.

9.9 Leasing arrangements

The Company has applied judgment in the classification of its leasing arrangements, which is determined at the inception of the lease and is based on the substance of the transaction, rather than its legal form. The Company's leases were evaluated based on certain significant assumptions including the discount rate, economic life of a building, lease term and existence of a bargain renewal option.

Changes in estimates or assumptions could cause changes to "Property, plant and equipment", "Principal payments on long-term obligations due within one year" and "Long-term obligations" on the Consolidated Statements of Financial Position and a charge or credit to "Selling, administrative and other expenses" and "Finance costs" in the Consolidated Statements of Net Earnings and Comprehensive Income. See Note 19 "Leasing arrangements" of the Notes to the Consolidated Financial Statements for Fiscal 2013 for additional information.

9.10 Taxes

In the ordinary course of business, the Company is subject to ongoing audits by tax authorities. While the Company believes that its tax filing positions are appropriate and supportable, certain matters are periodically challenged by tax authorities. The Company applies judgment and routinely evaluates and provides for potentially unfavourable outcomes with respect to any tax audits. If the result of a tax audit materially differs from the existing provisions, the Company's effective tax rate and its net earnings will be affected positively or negatively.

Changes in estimates or assumptions could cause changes to "Income taxes recoverable", "Deferred tax assets", "Income and other taxes payable" and "Deferred tax liabilities" on the Consolidated Statements of Financial Position and a charge or credit to "Income tax expense (recovery)" in the Consolidated Statements of Net Earnings and Comprehensive Income. See Note 22 "Income taxes" of the Notes to the Consolidated Financial Statements for Fiscal 2013 for additional information.

9.11 Gift Card

The gift card liability is based on the total amount of gift cards outstanding which have not yet been redeemed by customers. The Company also recognizes income when the likelihood of redeeming the gift card is remote ("gift card breakage"). Gift card breakage is estimated based on historical redemption patterns, and changes in estimates of the redemption patterns may result in changes to "Deferred Revenue" (current) on the Consolidated Statements of Financial Position and an increase or decrease to "Revenue" on the Consolidated Statements of Net Earnings and Comprehensive Income.

9.12 Classification of joint arrangements

The Company has classified its 15-20% interest in real estate joint arrangements related to three shopping centres as joint operations. In doing so, the Company determined that the decisions regarding relevant activities require unanimous consent of the parties sharing control. In the event of a dispute between parties sharing control of the joint arrangements, settlement occurs through unbiased arbitration, legal action, or a sale of the party's interest to the other party. The Company examined the legal structure, contractual arrangements and other relevant facts and circumstances for each joint arrangement and determined that it had rights to the assets and obligations to the liabilities of each joint arrangement. Therefore, the Company has determined that its real estate joint arrangements are joint operations and have been recognized in accordance with the Company's interest in the assets and liabilities of these arrangements. See Note 11 "Joint arrangements" of the Notes to the Consolidated Financial Statements for Fiscal 2013 for additional information.

b. Changes in Accounting Policy

IFRS 11, Joint Arrangements ("IFRS 11")

The Company adopted IFRS 11 in the first quarter of 2013. On May 12, 2011 the International Accounting Standards Board ("IASB") issued IFRS 11 and required that a party in a joint arrangement assess its rights and obligations to determine the type of joint arrangement and account for those rights and obligations accordingly. The Company has real estate joint arrangements related to three shopping centres, for which decisions regarding relevant activities require unanimous consent of the parties sharing control. In the event of a dispute between the parties sharing control of the joint arrangements, settlement occurs through unbiased arbitration, legal action, or a sale of the party's interest in the joint arrangement to the other party. The Company examined the legal structure, contractual arrangements and other relevant facts and circumstances of each joint arrangement, and the Company determined that it had rights to the assets and obligations to the liabilities of each joint arrangement. Therefore, the Company has determined that its real estate joint arrangements are joint operations and have been recognized in accordance with the Company's interest in the assets and liabilities of these arrangements.

IFRS 11 is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The amendments are required to be applied retrospectively in accordance with IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

As the Company implemented IFRS 11 in the first quarter of 2013, the Company has retrospectively adjusted the assets and liabilities as at February 2, 2013 and January 28, 2012 and income, expenses and cash flow for the Fiscal 2012.

A summary of the impact arising from the application of the change in accounting policy is as follows:

Consolidated Statements of Financial Position

(Increase (decrease) in CAD millions)	As at February 2, 2013	As at January 28, 2012
Cash and cash equivalents	$ 1.5	$ 2.8
Accounts receivable, net	1.5	1.4
Prepaid expenses	(1.5)	—
Net change to current assets	1.5	4.2
Property, plant and equipment	278.5	324.1
Investment in joint arrangements	(263.4)	(301.4)
Other long-term assets	9.0	9.8
Net change to total assets	25.6	36.7
Accounts payable and accrued liabilities	1.7	4.0
Deferred revenue	0.3	—
Other taxes payable	0.1	0.1
Current portion of long-term obligations	4.0	4.1
Net change to current liabilities	6.1	8.2
Long-term obligations	19.3	27.2
Deferred tax liabilities	0.2	0.3
Other long-term liabilities	—	1.0
Net change to total liabilities	25.6	36.7

Consolidated Statements of Net Earnings

(Increase (decrease) in CAD millions)	53-Week Period Ended February 2, 2013
Revenue	$ 45.8
Selling, administrative and other expenses	34.7
Finance costs	1.8
Interest income	0.2
Share of income from joint arrangements	(9.5)

Consolidated Statements of Cash Flows

(Increase (decrease) in cash flow arising from items noted below in CAD millions)	53-Week Period Ended February 2, 2013
Depreciation and amortization	$ 13.2
Impairment loss	2.2
Share of income from joint arrangements	9.5
Finance costs	1.8
Interest income	(0.2)
Interest paid	(1.8)
Changes in non-cash working capital	0.7
Changes in long-term assets and liabilities	(1.2)
Additions of property, plant & equipment and intangible assets	(4.1)
Repayment on long-term obligations	(4.0)
Dividends received from joint arrangements	(18.4)

c. Issued Standards Not Yet Adopted

The Company monitors the standard setting process for new standards and interpretations issued by the IASB that the Company may be required to adopt in the future. Since the impact of a proposed standard may change during the review period, the Company does not comment publicly until the standard has been finalized and the effects have been determined.

On December 16, 2011, the IASB issued amendments to two previously released standards. They are as follows:

IAS 32, Financial Instruments: Presentation ("IAS 32")

The IASB amended IAS 32 to address inconsistencies in current practice in the application of offsetting criteria. The amendments provide clarification with respect to the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. These amendments are effective for annual periods beginning on or after January 1, 2014. The Company is currently assessing the impact of these amendments on the Company's consolidated financial statements and related note disclosures.

IFRS 9, Financial Instruments ("IFRS 9")

This standard will ultimately replace IAS 39, *Financial Instruments: Recognition and Measurement* in phases. The first phase of IFRS 9 was issued on November 12, 2009 and addresses the classification and measurement of financial assets. The second phase of IFRS 9 was issued on October 28, 2010 incorporating new requirements on accounting for financial liabilities. On December 16, 2011, the IASB amended the mandatory effective date of IFRS 9 to fiscal years beginning on or after January 1, 2015. The amendment also provides relief from the requirement to recast comparative financial statements for the effect of applying IFRS 9. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. On November 19, 2013, the IASB withdrew the mandatory effective date of IFRS 9. The Company will evaluate the overall impact on the Company's consolidated financial statements when the final standard, including all phases, is issued.

On May 20, 2013, the IASB issued the following interpretation:

IFRIC 21, Levies ("IFRIC 21")

This interpretation provides guidance on when to recognize a liability for a levy imposed by a government, both for levies that are accounted for in accordance with *IAS 37, Provisions, Contingent Liabilities and Contingent Assets* and those where the timing and amount of the levy is certain. This interpretation is applicable for annual periods on or after January 1, 2014. The Company is currently assessing the impact of these amendments on the Company's consolidated financial statements and related note disclosures.

10. Disclosure Controls and Procedures

Disclosure Controls and Procedures

Management of the Company is responsible for establishing and maintaining a system of disclosure controls and procedures ("DC&P") that are designed to provide reasonable assurance that information required to be disclosed by the Company in its public disclosure documents, including its Annual and Interim MD&A, Annual and Interim Financial Statements, and Annual Information Form is recorded, processed, summarized and reported within required time periods and includes controls and procedures designed to ensure that the information required to be disclosed by the Company in its public disclosure documents is accumulated and communicated to the Company's management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), to allow timely decisions regarding required DC&P.

Management of the Company, including the CEO and CFO, has caused to be evaluated under their supervision, the Company's DC&P, and has concluded that the Company's DC&P was effective for the year ended February 1, 2014.

Internal Control over Financial Reporting

Management of the Company is also responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

Management of the Company, including the CEO and CFO, has caused to be evaluated the internal control over financial reporting and has concluded, based on that evaluation, that the Company's internal control over financial reporting was effective as at the fiscal year-end, being February 1, 2014. Additionally, Management of the Company evaluated whether there were changes in the internal control over financial reporting during Fiscal 2013 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting and has determined that no material changes occurred during this period.

Internal control systems, regardless of superiority in design, have inherent limitations. Therefore, even those systems that have been determined to have been designed effectively can only provide reasonable assurance with respect to financial reporting and financial statement preparation.

11. Risks and Uncertainties

Risks Relating to Our Business

If the Company is unable to compete effectively in the highly competitive retail industry, the Company's business and results of operations could be materially adversely affected.

The Canadian retail market remains highly competitive as key players and new entrants compete for market share. International retailers continue to expand into Canada while existing competitors enhance their product offerings and become direct competitors. The Company's competitors include traditional full-line department stores, discount department stores, wholesale clubs, 'big-box' retailers, internet retailers and specialty stores offering alternative retail formats. Failure to develop and implement appropriate competitive strategies and the performance of the Company's competitors could have a material adverse effect on the Company's business, results of operations, and financial condition.

In order to stay competitive and relevant to our customers, the Company's strategic plan for 2014 is centered on three strategic levers: merchandising value, cost and efficiency value, and the value of our network and assets. The achievement of strategic goals may be adversely affected by a wide range of factors, many of which are beyond the Company's control. The inability to execute and integrate strategic plans could have a negative impact on the Company's current operations, market reputation, customer satisfaction and financial position. The Company's ability to implement and achieve its long-term strategic objectives is dependent on the achievement of these strategic plans and initiatives. There can be no assurance that such plans and initiatives will yield the expected results, either of which could cause the Company to fall short in achieving financial objectives and long-range goals.

Additional risk may arise when foreign retailers carrying on business in Canada in competition with the Company engage in marketing activities which are not in full compliance with Canadian legal requirements regarding advertising and labeling rules and product quality standards. Such retailers may gain an unfair advantage and their activities may negatively affect the Company's business and results of operations.

The majority of the performance payments earned pursuant to the credit card marketing and servicing alliance with JPMorgan Chase are related to customers' purchases using the Sears Card and Sears MasterCard. The credit card industry is highly competitive as credit card issuers continue to expand their product offerings to distinguish their cards. As competition increases, there is a risk that a reduction in the percentage of purchases charged to the Sears Card and Sears MasterCard may negatively impact the Company's results of operations and financial condition.

Due to the seasonality of the Company's business, the Company's results of operations would be adversely affected if the Company's business performed poorly in the fourth quarter or as a result of unseasonable weather patterns.

The Company's operations are seasonal in nature with respect to results of operations and in products and services offered. Merchandise and service revenues, as well as performance payments received from JPMorgan Chase, vary by quarter based upon consumer spending behavior. Historically, the Company's revenues and earnings have been higher in the fourth quarter due to the holiday season and we have reported a disproportionate level of earnings in that quarter. As a result, the fourth quarter results of operations significantly impacts the Company's annual results of operations. The Company's fourth quarter results of operations may fluctuate significantly based on many factors, including holiday spending patterns and weather conditions. In addition, the Company offers many seasonal goods and services. The Company establishes budgeted inventory levels and promotional activity in accordance with its strategic initiatives and expected consumer demand. Businesses that generate revenue from the sale of seasonal merchandise and services are subject to the risk of changes in consumer spending behavior as a result of unseasonable weather patterns.

If the Company fails to offer merchandise and services that the Company's customers want, the Company's sales may be limited, which would reduce the Company's revenues and profits and adversely impact the Company's results of operations.

To be successful, the Company must identify, obtain supplies, and offer to customers attractive, relevant and high-quality merchandise and services on a continuous basis. Customers' preferences may change over time. If we misjudge either the demand for products and services the Company sells or the Company's customers' purchasing habits and tastes, the Company may be faced with excess inventories of some products and missed opportunities for products and services the Company chose not to offer. This could have a negative effect on the Company's revenues and profits and adversely impact our results of operations.

The Company's failure to retain our senior management team and to continue to attract qualified new personnel could adversely affect the Company's business and results of operations.

The Company's success is dependent on its ability to attract, motivate and retain senior leaders and other key personnel. The loss of one or more of the members of the Company's senior management may disrupt the Company's business and adversely affect its results of operations. Furthermore, the Company may not be successful in attracting, assimilating and retaining new personnel to grow its business profitably. The inability to attract and retain key personnel could have an adverse effect on the Company's business.

If the Company does not successfully manage its inventory levels, the Company's results of operations will be adversely affected.

The Company must maintain sufficient in-stock inventory levels to operate the business successfully while minimizing out-of-stock levels. A significant portion of inventory is sourced from vendors requiring advance notice periods in order to supply the quantities that we require. These lead times may adversely impact the Company's ability to respond to changing consumer preferences, resulting in inventory levels that are insufficient to meet demand or in merchandise that may have to be sold at lower prices. Inappropriate inventory levels or a failure to accurately anticipate the future demand for a particular product or the time it will take to obtain new inventory may negatively impact the Company's results of operations.

If the Company is unable to secure an agreement with a financial institution for the management of the credit and financial services operations under substantially the same terms and conditions as currently in existence, the Company's results of operations may be negatively impacted.

The credit and financial services operations of the Company are currently managed by JPMorgan Chase. The Company entered into a long-term marketing and servicing alliance with JPMorgan Chase in 2006 with a term of 10 years. The term of this alliance is set to expire in 2015. As the Company is currently in the process of considering available options with respect to the future management of the credit and financial services operations, there is a risk that the Company may not be able to secure substantially the same terms and conditions as it currently has with JPMorgan Chase, which may in turn affect the Company's results of operations and financial condition.

The Company relies extensively on computer systems to process transactions, summarize results and manage its business. Disruptions in these systems could harm the Company's ability to run its business.

Given the number of individual transactions that the Company processes each year, it is critical that the Company maintains uninterrupted operation of its computer and communications hardware and software systems. These systems are subject to obsolescence, damage or interruption from power outages, computer and telecommunications failures, computer viruses, security breaches, catastrophic events such as fires, natural disasters and adverse weather occurrences and usage errors by the Company's employees. If the systems are damaged or cease to function properly, the Company may have to make a significant investment to fix or replace them, may suffer interruptions in operations in the interim and the Company's reputation with its customers may be harmed.

The Company's ability to maintain sufficient inventory levels in its stores is critical to the Company's success and largely depends upon the efficient and uninterrupted operation of its computer and communications hardware and software systems. Any material interruption in the Company's computer operations may have a material adverse effect on the Company's business and results of operations.

The Company relies on foreign sources for significant amounts of its merchandise, and the Company's business may therefore be negatively affected by the risks associated with international trade.

The Company is dependent upon a significant amount of products that originate from non-Canadian markets. In particular, the Company sources a significant amount of products from China. The Company is subject to the risks that are associated with the sourcing and delivery of this merchandise, including: potential economic, social, and political instability in jurisdictions where suppliers are located; structural integrity and fire safety of foreign factories; increased shipping costs, potential transportation delays and interruptions; adverse foreign currency fluctuations; changes in international laws, rules and regulations pertaining to the importation of products and quotas; and the imposition and collection of taxes and duties. Any increase in cost to the Company of merchandise purchased from foreign vendors or restriction on the merchandise made available to the Company by such vendors could have an adverse effect on the Company's business and results of operations.

Damage to the reputations of the brands the Company sells could reduce the Company's revenues and profits and adversely impact the Company's results of operations.

As a diverse and multi-channel retailer, the Company promotes many brands as part of the Company's normal course of business. These brands include the Sears brand, Sears private label brands for product lines such as Jessica, and non-proprietary brands exclusive to the Company. Damage to the reputation of these brands or the reputation of the suppliers of these brands could negatively impact consumer opinions of the Company or its related products and reduce its revenues and profits and adversely impact its results of operations. In those circumstances, it may be difficult and costly for the Company to regain customer confidence.

If the Company's relationships with its significant suppliers were to be impaired, it could have a negative impact on the Company's competitive position and adversely impact its results of operations and financial condition.

Although the Company's business is not substantially dependent on any one supplier, the Company's relationship with certain suppliers is of significance to its merchandising strategy, including attracting customers to its locations, cross-segment sales and image. The loss of a significant supplier relationship could result in lower revenues and decreased customer interest in the Company's stores, which, in turn, would adversely affect the Company's results of operations and financial condition. In addition, the Company may not be able to develop relationships with new suppliers, and products from alternative sources, if any, may be of a lesser quality and more expensive than those the Company currently purchases.

We rely on third parties to provide us with services in connection with the administration of certain business functions.

The Company has entered into agreements with third-party service providers (both domestic and international) to provide processing and administration functions over a broad range of areas. These areas include finance and accounting, information technology, payroll and procurement functions. Services provided by third parties as a part of outsourcing initiatives could be interrupted as a result of many factors, such as social or political unrest, natural disasters, extreme or unseasonable weather, acts of war or terrorism, systems breakdowns or power outages or other significant events outside of the Company's control, contract disputes, or failure by third parties to provide these services on a timely basis within service level expectations and performance standards, which could result in a disruption of the Company's business, and adversely affect the Company's results of operations. In addition, to the extent the Company is unable to maintain its outsourcing arrangements, it could potentially incur substantial costs, including costs associated with hiring new employees, in order to return these services in-house.

The Company relies on its relationship with a number of licensees to manage and operate the day-to-day operations of certain components of the Company's business.

The Company has entered into licensing arrangements with various third parties. The financial instability of licensees and their inability to fulfill the terms and obligations under their respective agreements with the Company could potentially have a negative effect on the Company's revenues with respect to these arrangements and could cause the Company to incur substantial costs, including moving the services in-house or finding an alternative third party to perform the services.

The lack of willingness of the Company's vendors to provide acceptable payment terms could negatively impact the Company's liquidity and/or reduce the availability of products or services that the Company seeks to procure.

The Company depends on its vendors to provide it with financing for the Company's purchases of inventory and services.

The Company's vendors could seek to limit the availability of vendor credit to the Company or other terms under which they sell to the Company, or both, which could negatively impact the Company's liquidity. In addition, the inability of the Company's vendors to access liquidity, or the insolvency of the Company's vendors, could lead to their failure to deliver inventory or other services to the Company. Certain of the Company's vendors may finance their operations and/or reduce the risk associated with collecting accounts receivable from the Company by selling or "factoring" the receivables or by purchasing credit insurance or other forms of protection from loss associated with the Company's credit risks. The ability of the Company's vendors to do so is subject to the Company's perceived credit quality. The Company's vendors could be limited in their ability to factor receivables or obtain credit protection in the future because of the Company's perceived financial position and credit worthiness, which could reduce the availability of products or services the Company seeks to procure.

The Company may be subject to product liability claims if people or properties are harmed by the products the Company sells or the services it offers.

The Company sells products produced by third party manufacturers. Some of these products may expose the Company to product liability claims relating to personal injury, death or property damage caused by such products and may require the Company to take actions, such as product recalls. In addition, the Company also provides various services which could give rise to such claims. Although the Company maintains liability insurance to mitigate these potential claims, the Company cannot be certain that its coverage will be adequate for liabilities actually incurred or that insurance will continue to be available on economically reasonable terms or at all.

Product liability claims can be expensive to defend and can divert the attention of management and other personnel for significant periods, regardless of the ultimate outcome. Claims of this nature, as well as product recalls, could also have a negative impact on customer confidence in the products and services the Company offers and on the Company's reputation, and adversely affect the Company's business and its results of operations.

If the Company does not maintain the security of its customers, associates or Company information, the Company could damage its reputation, incur substantial additional costs and become subject to litigation.

Any significant security compromise or breach of customer, associate or Company data, either held or maintained by the Company or its third party providers, could significantly damage the Company's reputation and brands and result in additional costs, lost sales, fines and/or lawsuits. The regulatory environment in Canada related to information security and privacy is very rigorous. There is no guarantee that the procedures that we have implemented to protect against unauthorized access to secured data are adequate to safeguard against all data security breaches. A data security breach could negatively impact the Company's business and its results of operations.

The performance of the Company's real estate joint arrangements may be affected by events outside of the Company's control.

The primary objective of the Company's real estate joint arrangements is to maximize the returns on its investments in shopping centre real estate. The Company reviews the performance of these joint arrangements on a regular basis. Shopping centre investments are non-core assets that the Company sells when it believes it is financially advantageous to do so. Similarly, the Company may also develop excess land within these real estate holdings and shopping centre joint arrangements when it is advantageous to do so. The return on such transactions is contingent on the state of the economic environment and other factors. In addition, the credit worthiness and financial stability of tenants and partners could negatively impact the Company's results of operations.

The Company is subject to a number of long-term real estate leases which could restrict the Company's ability to respond to changes in demographics or the retail environment and adversely impact the Company's results of operations.

As of February 1, 2014, the Company operated a total of 118 Full-line department stores, 331 specialty stores (including 48 Sears Home stores, 11 Outlet stores, four Appliances and Mattresses stores, 234 Hometown Dealer stores operated under independent local ownership and 34 Corbeil stores), 1,446 catalogue merchandise pick-up locations and 97 Sears Travel offices. Company owned stores consist of 14 Full-line department stores and two Sears Home stores, with the majority of the remainder held under long-term leases. While the Company is able to change its merchandise mix and relocate stores in order to maintain competitiveness, the Company is restricted from vacating a current site without breaching its contractual obligations and incurring lease-related expenses for the remaining portion of the lease-term. The long-term nature of the leases may limit the Company's ability to respond in a timely manner to changes in the demographic or retail environment at any location, which could adversely affect the Company's results of operations. In addition, when leases for the stores in the Company's ongoing operations expire, the Company may be unable to negotiate renewals, either on commercially acceptable terms, or at all, which could cause us to close stores. Accordingly, the Company is subject to the risks associated with leasing real estate, which could have an adverse effect on the Company's results of operations.

The Company may be subject to legal proceedings if the Company violates the operating covenants in its real estate leases that could adversely affect the Company's business and results of operations.

As of February 1, 2014, the Company had operating covenants with landlords for approximately 100 Sears brand corporate stores. An operating covenant generally requires the Company, during normal operating hours, to operate a store continuously as per the identified format in the lease agreement. As of February 1, 2014, the remaining term of the various Sears operating covenants ranged from less than one year to 25 years, with an average remaining term of approximately seven years. Failure to observe operating covenants may result in legal proceedings against the Company and adversely affect the Company's business and results of operations.

The Company is subject to laws and regulations that impact its business and a failure to comply with such laws and regulations could lead to lawsuits or regulatory actions against the Company that could adversely affect the Company's business and results of operations.

Laws and regulations are in place to protect the interests and well-being of the Company's customers and communities, business partners, suppliers, employees, shareholders and creditors. Changes to statutes, laws, regulations or regulatory policies, including changes in the interpretation, implementation or enforcement of statutes, laws, regulations and regulatory policies, could adversely affect the Company's business and results of operations. In addition, the Company may incur significant costs in the course of complying with any changes to applicable statutes, laws, regulations and regulatory policies.

The Company's failure to comply with applicable statutes, laws, regulations or regulatory policies could result in a judicial or regulatory judgment or sanctions and financial penalties that could adversely impact the Company's reputation, business and results of operations. Although the Company believes that it has taken reasonable measures designed to ensure compliance with governing statutes, laws, regulations and regulatory policies in the jurisdictions in which it conducts business, there is no assurance that the Company will always be in compliance or deemed to be in compliance.

In addition, changing laws, regulations and standards relating to corporate governance and public disclosure, including those related to foreign private issuers and the Sarbanes-Oxley Act of 2002, and related regulations implemented by the United States SEC are creating uncertainty for foreign private issuers, increasing legal and financial compliance costs, and making some activities more time consuming. The Company is currently evaluating and monitoring developments with respect to new and proposed rules, such as the new conflict minerals disclosure requirements, and cannot predict or estimate the amount of additional costs it may incur or the timing of such costs. We intend to invest resources to comply with evolving laws, regulations and standards, and this investment may result in increased general and administrative expenses. If our efforts to comply with new laws, regulations and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to practice, regulatory authorities may initiate legal proceedings against us and our business may be harmed. The costs of compliance or our failure to comply with these laws, rules and regulations could adversely affect our reputation, business, results of operations, financial condition and the price of our common shares.

The Company is required to comply with federal and provincial environmental laws and regulations, the cost of which may adversely affect the Company's results of operations and financial condition.

The Company is exposed to environmental risk as an owner, lessor and lessee of property. Under federal and provincial laws, the owner, lessor or lessee could be liable for the costs of removal and remediation of certain hazardous substances on its properties or disposed of at other locations. The failure to remove or remediate such substances, if any, could lead to claims against the Company.

The Company is currently remediating various locations across Canada where it has operated auto centres, gas bars and a logistics facility. The extent of the remediation and the costs thereof have not yet been determined. The Company continues to monitor the costs of remediation and appropriately provide for these costs in its reserves. If we commit to renovating a leased or owned building that contains or may contain asbestos, or if asbestos is inadvertently disturbed, we will be legally obligated to comply with asbestos removal standards. The extent of this liability has not yet been determined because the costs to remove asbestos depend upon factors including, among others, the location and extent of any renovations undertaken. Inadvertent disturbance of asbestos cannot be foreseen. The costs incurred by the Company could be significant and may negatively impact the Company's results of operations and financial condition.

The Company is exposed to a variety of legal proceedings, including class action lawsuits, and tax audits which, if adversely decided, could materially adversely affect the Company.

The Company is currently involved in various legal proceedings incidental to the normal course of business. Although the Company is of the view that the final disposition of any such litigation is not expected to have a material adverse effect on its liquidity, consolidated financial position or results of operations, the outcome of such litigation cannot be predicted with certainty.

In the ordinary course of business, the Company is subject to ongoing audits by tax authorities. While we believe that the Company's tax filing positions are appropriate and supportable, periodically, certain matters are reviewed and from time to time are challenged by the tax authorities. As the Company routinely evaluates and provides for potentially unfavorable outcomes with respect to any tax audits, it believes that the final disposition of tax audits will not have a material adverse effect on its liquidity, consolidated financial position or results of operations. If the result of a tax audit materially differs from the existing provisions, the Company's effective tax rate and net earnings could be affected positively or negatively in the period in which the tax audits are completed.

The Company's results of operations may be adversely impacted if insurance coverage is deemed insufficient or if the Company or the insurance industry is affected by unexpected material events.

The Company maintains directors and officers insurance, liability insurance, business interruption and property insurance and this insurance coverage reflects deductibles, self-insured retentions, limits of liability and similar provisions. Although the Company has taken measures to ensure that it has the appropriate coverage, including maintaining an annual reserve for liability claims, there is no guarantee that the Company's insurance coverage will be sufficient, or that insurance proceeds will be paid to us in a timely manner. In addition, there are types of losses we may incur but against which we cannot be insured or which we believe are not economically reasonable to insure, such as losses due to acts of war and certain natural disasters. If we incur these losses and they are material, our business, operating results and financial condition may be adversely affected. Also, certain material events may result in sizable losses for the insurance industry and materially adversely impact the availability of adequate insurance coverage or result in significant premium increases. Accordingly, we may elect to self-insure, accept higher deductibles or reduce the amount of coverage in response to such market changes.

Events outside the Company's control such as social or political unrest, natural disasters, extreme or unseasonable weather, acts of war or terrorism, systems breakdowns or power outages could have a material adverse effect on the Company's business and results of operations.

The Company's business is sensitive to customers' spending patterns, which may be affected by domestic and international social or political unrest, natural disasters, extreme or unseasonable weather, acts of war or terrorism, or other significant events outside of the Company's control, any of which could lead to a decrease in spending by consumers. In addition, such events as well as systems breakdowns and power outages could cause store closures, disrupt supply chain or other operations, delay shipments of merchandise to consumers, reduce revenue and result in expenses to repair or replace facilities. Disruptions during a peak season such as the month of December, which may account for up to 40% of a year's earnings, could have a particularly adverse effect on the Company's business and results of operations.

The Company's business could suffer if it is unsuccessful in making, integrating, and maintaining acquisitions and investments.

From time to time we pursue strategic acquisitions of, joint arrangements with, or investments in, other companies or businesses, although the Company has no present commitments with respect to any material acquisitions or investments. Any such acquisition, joint arrangement or investment that the Company makes may require the Company to spend its cash, or incur debt, contingent liabilities, or amortization expenses related to intangible assets, any of which could reduce the Company's profitability and harm its business. Acquisitions, joint arrangements and investments also increase the complexity of the Company's business and place strain on its management, personnel, operations, supply chain, financial resources, and internal financial controls and reporting functions. The Company may not be able to manage acquisitions, joint arrangements or investments effectively, which could damage the Company's reputation, limit its growth and adversely affect its business and results of operations.

Financial Risks

The Company's business has been and will continue to be affected by Canadian and worldwide economic conditions; a persistence or worsening of current economic conditions could lead to reduced revenues and gross margins, and negatively impact the Company's liquidity.

The Company plans its operations giving regard to economic and financial variables that are beyond its control. Changes to these variables may adversely impact the Company's performance. Should the current economic conditions persist or worsen, heightened competition, a further decline in consumer confidence, lower disposable income, higher unemployment and personal debt levels may result, which could lead to reduced demand for the Company's products and services. Any of these events could cause the Company to increase inventory markdowns and promotional expenses, thereby reducing the Company's gross margins and results of operations. The Company's results of operations have been negatively impacted as a result of the current economic conditions and it is difficult to accurately assess the potential impact on the Company's business. If the Canadian or global economies continue to worsen, however, the Company could experience a decline in same store sales, erosion of gross profit and profitability.

Increasing fuel and energy costs may have a significant negative impact on the Company's operations. The Company requires significant quantities of fuel for the vehicles used to distribute and deliver inventory and the Company is exposed to the risk associated with variations in the market price for petroleum products. The Company could experience a disruption in energy supplies, including its supply of gasoline, as a result of factors that are beyond the Company's control, which could have an adverse effect on the Company's business. Certain of the Company's vendors also are experiencing increases in the cost of various raw materials, such as cotton, oil- related materials, steel and rubber, which could result in increases in the prices that the Company pays for merchandise, particularly apparel, appliances and tires and adversely affect the Company's results of operations.

Liquidity Risk

The Company could face liquidity risk due to various factors, including but not limited to, the unpredictability of the current economic climate, failure to secure appropriate funding vehicles and cash flow issues relating to the operation and management of the business. Failure to fulfill financial obligations due and owing from the Company as a result of this liquidity risk could have undesirable consequences on the Company.

Fluctuations in U.S. and Canadian dollar exchange rates may adversely impact the Company's results of operations.

The Company's foreign exchange risk is currently limited to currency fluctuations between the Canadian and U.S. dollar. The Company is vulnerable to increases in the value of the U.S. dollar relative to the Canadian dollar because the majority of its revenues are denominated in Canadian dollars and a substantial amount of the merchandise the Company purchases is priced in U.S. dollars. The costs of these goods in Canadian dollars rise when the U.S. dollar increases in value relative to the Canadian dollar and, as a result, the Company may be forced to increase its prices or reduce its gross margins. We may use foreign currency forward and option contracts to hedge the exchange rate risk on a portion of the Company's expected requirement for U.S. dollars. There can be no assurance that the Company's hedging efforts will achieve their intended results or that the Company's estimate of its requirement for U.S. dollars will be accurate, with the result that currency fluctuations may have an adverse impact on the Company's results of operations.

In addition, any significant appreciation of the Canadian dollar relative to the U.S. dollar presents an additional challenge to the Company as its customers are motivated to cross-border shop, which may have an adverse impact on the Company's results of operations.

The Company is exposed to counterparty credit risk which could adversely affect its results of operations.

Credit risk refers to the possibility that the Company can suffer financial losses due to the failure of counterparties to meet their payment obligations to the Company. Exposure to credit risk exists for derivative instruments, cash and cash equivalents, short- term investments, accounts receivable and investments included in other long-term assets. Cash and cash equivalents, accounts receivable, derivative financial assets, and other long-term assets of $605.8 million as at February 1, 2014 (February 2, 2013: $317.7 million) expose the Company to credit risk should the borrower default on maturity of the investment.

Although the Company seeks to manage this exposure through policies that require borrowers to have a minimum credit rating of A, and limiting investments with individual borrowers at maximum levels based on credit rating, there can be no assurance that the Company will be able to successfully manage its credit risk.

The Company invests its surplus cash in investment grade, short-term money market instruments, the return on which depends upon interest rates and the credit worthiness of the issuer. The Company attempts to mitigate credit risk resulting from the possibility that an issuer may default on repayment by requiring that issuers have a minimum credit rating and limiting exposures to individual borrowers.

Expenses associated with the Company's retirement benefit plans may fluctuate significantly depending on changes in actuarial assumptions, future market performance of plan assets, and other events outside of the Company's control and adversely affect the Company's results of operations.

The Company currently maintains a defined benefit registered pension plan, a non-registered supplemental savings arrangement and a defined benefit non-pension retirement plan, which provides life insurance, medical and dental benefits to eligible retired associates through a health and welfare trust. The defined benefit plan continues to accrue benefits related to future compensation increases although no further service credit is earned. In addition, the Company no longer provides medical, dental and life insurance benefits at retirement for associates who had not achieved the eligibility criteria for these non- pension retirement benefits as at December 31, 2008.

There is no assurance that the Company's retirement benefit plans will be able to earn the assumed rate of return. New regulations and market driven changes may result in changes in the discount rates and other variables which would result in the Company being required to make contributions in the future that differ significantly from the estimates.

Management is required to use assumptions to account for the plans in conformity with IFRS. However, actual future experience will differ from these assumptions giving rise to actuarial gains or losses. In any year, actual experience differing from the assumptions may be material. Plan assets consist primarily of cash, alternative investments, marketable equity and fixed income securities. The value of the marketable equity and fixed income investments will fluctuate due to changes in market prices. Plan obligations and annual pension expense are determined by independent actuaries and through the use of a number of assumptions.

Although the Company believes that the assumptions used in the actuarial valuation process are reasonable, there remains a degree of risk and uncertainty which may cause results to differ materially from expectations. Significant assumptions in measuring the benefit obligations and pension plan costs include the discount rate and the rate of compensation increase. See Note 20.4 "Pension assumptions" of the Notes to the Consolidated Financial Statements for more information on the weighted-average actuarial assumptions for the plans.

The Company is exposed to interest rate risk which could adversely affect its results of operations.

Interest rate risk reflects the sensitivity of the Company's financial condition to movements in interest rates. Financial assets and liabilities which do not bear interest or bear interest at fixed rates are classified as non-interest rate sensitive. Cash and cash equivalents and borrowings under the Company's $800.0 million Credit Facility are subject to interest rate risk. The total outstanding balance subject to interest rate risk as at February 1, 2014 was a net asset of $515.1 million (February 2, 2013: $239.8 million). An increase or decrease in interest rates of 25 basis points would cause an after-tax impact on net earnings of $0.9 million.

Certain factors, including changes in market conditions and our credit ratings, may limit our access to capital markets and other financing sources, which could materially increase our borrowing costs.

In addition to credit terms from vendors, our liquidity needs are funded by our operating cash flows and, to the extent necessary, borrowings under our credit agreements and access to capital markets. The availability of financing depends on numerous factors, including economic and market conditions, our operating performance, our credit ratings, and lenders' assessments of our prospects and the prospects of the retail industry in general. Changes in these factors may affect our cost of financing, liquidity and our ability to access financing sources. Rating agencies revise their ratings for the companies that they follow from time to time and our ratings may be revised or withdrawn in their entirety at any time.

While the Credit Facility currently provides for up to $800.0 million of lender commitments, availability under the Credit Facility is determined pursuant to a borrowing base formula based on eligible assets consisting of inventory and credit card receivables and may be reduced by reserves, as estimated by the Company, which may be applied by the lenders at their discretion pursuant to the Credit Facility agreement. If the value of eligible assets are not sufficient to support borrowings of up to the full amount of the commitments under the facility, the Company will not have full access to the facility, but rather could have access to a lesser amount as determined by the borrowing base and reserve estimates.

The lenders under our Credit Facility may not be able to meet their commitments if they experience shortages of capital and liquidity and there can be no assurance that our ability to otherwise access the credit markets will not be adversely affected by changes in the financial markets and the global economy.

The Company faces risks associated with impairment of goodwill and other assets.

The Company's goodwill, intangible assets and long-lived assets, primarily consisting of stores and joint arrangements, are subject to periodic testing for impairment. A significant amount of judgment is involved in the periodic testing. Failure to achieve sufficient levels of cash flow within each of the Company's cash generating units or specific operating units could result in impairment charges for goodwill and intangible assets or fixed asset impairment for long-lived assets, which could have a material adverse effect on the Company's reported results of operations.

Risks Relating to the Company's Relationship with Sears Holdings

The Company may lose rights to some intellectual property if Sears Holdings' equity ownership in the Company falls below specified thresholds.

The Company relies on its right to use the "Sears" name, including as part of the Company's corporate and commercial name, which the Company considers a significant and valuable aspect of its business. The Company's right to use the "Sears" name and certain other brand names was granted pursuant to a license agreement with Sears Holdings.

The Company's license to use the "Sears" name and certain brand names may be terminated if Sears Holdings' indirect ownership interest in the Company is reduced to less than 25%. In addition, the Company's license to use the "Sears" name may also terminate upon the occurrence of certain bankruptcy events. Losing the Company's right to use these intellectual properties could significantly diminish the Company's competitiveness and could materially harm its business. If the license agreement is terminated, the Company would attempt to renegotiate the license agreement although the terms of any renegotiated license agreement would likely be less favorable to the Company.

Some of the Company's directors and executive officers may have conflicts of interest because of their ownership of Sears Holdings common stock.

Some of our directors and executive officers may own Sears Holdings common stock. Ownership of Sears Holdings common stock by our directors and/or officers could create, or appear to create, conflicts of interest with respect to matters involving both the Company and Sears Holdings.

Risks Relating to Our Common Shares

As long as Sears Holdings controls the Company, a shareholder's ability to influence matters requiring shareholder approval will be limited.

As of the date hereof, Sears Holdings controls approximately 51% of the Company's voting power and ESL controls approximately 28% of the Company's voting power. Pursuant to a filing made with the SEC on December 3, 2013, ESL controls approximately 48% of Sears Holdings. So long as Sears Holdings controls a majority of the Company's outstanding common shares, Sears Holdings will have the ability to control the election of the board of directors and the outcome of certain shareholder votes.

Accordingly, Sears Holdings will continue to have the ability to exercise control over certain actions to be taken or approved by the Company's directors and shareholders, including with respect to certain mergers or business combinations or dispositions of all or substantially all of the Company's assets. Sears Holdings' voting control may discourage transactions involving a change of control of the Company, including transactions in which a shareholder might otherwise receive a premium for his/her shares over the then-current market price. Subject to certain limits, Sears Holdings is also not prohibited from selling a controlling interest in the Company to a third party and may do so without shareholder approval and, subject to applicable laws, without providing for a purchase of a shareholder's common shares.

Sears Holdings' interests may be different than a shareholder's interests and Sears Holdings may have investments in other companies that may compete with the Company, and may have interests from time to time that diverge from the interests of shareholders, particularly with regard to new investment opportunities.

In addition, conflicts of interest may arise between Sears Holdings and the Company, including corporate opportunities, potential acquisitions or transactions, as well as other matters. The Company may be adversely affected by any conflicts of interest between Sears Holdings and the Company.

Furthermore, Sears Holdings does not owe the Company or the Company's shareholders any fiduciary duties under Canadian law.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The preparation and presentation of the Company's consolidated financial statements and the overall accuracy and integrity of the Company's financial reporting are the responsibility of management. The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB), and include certain amounts that are based on management's best estimates and judgments. Financial information contained elsewhere in this Annual Report is consistent with the information set out in the consolidated financial statements.

In fulfilling its responsibilities, management has developed and maintains an extensive system of disclosure controls and procedures and internal control over financial reporting processes that are designed to provide reasonable assurance that assets are safeguarded, transactions are properly recorded and reported within the required time periods, and financial records are reliable for the preparation of the financial statements. The Company's internal auditors, who are employees of the Company, also review and evaluate internal controls on behalf of management.

The Board of Directors monitors management's fulfillment of its responsibilities for financial reporting and internal controls principally through the Audit Committee. The Audit Committee, which is comprised solely of independent directors, meets regularly with management, the internal audit department and the Company's external auditors to review and discuss audit activity and results, internal accounting controls and financial reporting matters. The external auditors and the internal audit department have unrestricted access to the Audit Committee, management and the Company's records. The Audit Committee is also responsible for recommending to the Board of Directors the proposed nomination of the external auditors for appointment by the shareholders. Based upon the review and recommendation of the Audit Committee. the consolidated financial statements and Management's Discussion and Analysis have been approved by the Board of Directors.

The Company's external auditors, Deloitte LLP, have audited the consolidated financial statements in accordance with International Financial Reporting Standards as issued by the IASB.

DC Campbell

EJ Bird

Douglas Campbell
President and Chief Executive Officer

E.J. Bird
Chief Financial Officer

Toronto, Ontario
March 13, 2014

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards. The control framework used by the Company's management to assess the effectiveness of the Company's internal control over financial reporting is the *Internal Control - Integrated Framework* 1992 (COSO framework) published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Internal control systems, regardless of superiority in design, have inherent limitations. Therefore, even those systems that have been determined to have been designed effectively can only provide reasonable assurance with respect to financial reporting and financial statement preparation.

Management of the Company, including its chief executive officer and chief financial officer, has evaluated the Company's internal control over financial reporting and has concluded that it was effective as at February 1, 2014.

Deloitte LLP, the independent registered public accounting firm that audited the Company's consolidated financial statements for the fiscal year ended February 1, 2014, has issued its opinion on the Company's internal control over financial reporting as stated in their report included herein.

Douglas Campbell
President and Chief Executive Officer

E.J. Bird
Chief Financial Officer

Toronto, Ontario
March 13, 2014

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of
Sears Canada Inc.

We have audited the accompanying consolidated financial statements of Sears Canada Inc. and subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at February 1, 2014, February 2, 2013 and January 28, 2012, and the consolidated statements of net earnings and comprehensive income, consolidated statements of changes in shareholders' equity, and consolidated statements of cash flows for the 52 and 53-week periods ended February 1, 2014 and February 2, 2013, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Sears Canada Inc. as at February 1, 2014, February 2, 2013 and January 28, 2012, and their financial performance and their cash flows for the 52 and 53-week periods ended February 1, 2014 and February 2, 2013 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Other Matter

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of February 1, 2014, based on the criteria established in *Internal Control - Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 13, 2014 expressed an unqualified opinion on the Company's internal control over financial reporting.

Deloitte LLP

Chartered Professional Accountants, Chartered Accountants
Licensed Public Accountants
March 13, 2014
Toronto, Canada

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of
Sears Canada Inc.

We have audited the internal control over financial reporting of Sears Canada Inc. and subsidiaries (the "Company") as of February 1, 2014, based on the criteria established in *Internal Control-Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of February 1, 2014, based on the criteria established in *Internal Control - Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the 52 week-period ended February 1, 2014 of the Company and our report dated March 13, 2014 expressed an unqualified opinion on those financial statements.

Deloitte LLP

Chartered Professional Accountants, Chartered Accountants
Licensed Public Accountants
March 13, 2014
Toronto, Canada

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Exhibit 99.3

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in CAD millions)	Notes		As at February 1, 2014		As at February 2, 2013 (Note 2.25)		As at January 28, 2012 (Note 2.25)
ASSETS							
Current assets							
Cash and cash equivalents	5	$	**513.8**	$	238.5	$	400.2
Accounts receivable, net	6,14,16		**83.3**		77.7		117.6
Income taxes recoverable	22		**0.8**		5.5		4.1
Inventories	7		**774.6**		851.4		823.9
Prepaid expenses	8		**23.8**		28.6		27.9
Derivative financial assets	14		**7.2**		—		—
Assets classified as held for sale	29		**13.3**		—		—
Total current assets			**1,416.8**		1,201.7		1,373.7
Non-current assets							
Property, plant and equipment	9,19		**785.5**		1,118.5		1,196.1
Investment property	9		**19.3**		21.7		21.7
Intangible assets	10.2		**28.2**		27.2		23.6
Goodwill	10.1		**2.6**		8.7		8.7
Deferred tax assets	22		**88.7**		83.8		84.6
Other long-term assets	12,14,16,22		**51.2**		43.1		59.0
Total assets		$	**2,392.3**	$	2,504.7	$	2,767.4
LIABILITIES							
Current liabilities							
Accounts payable and accrued liabilities	14,15	$	**438.7**	$	483.7	$	580.8
Deferred revenue	13		**187.7**		197.8		208.0
Provisions	16		**109.4**		66.3		64.8
Income taxes payable	22		**52.2**		—		1.0
Other taxes payable			**53.9**		34.0		42.9
Current portion of long-term obligations	14,17,19,25		**7.9**		9.2		9.2
Total current liabilities			**849.8**		791.0		906.7
Non-current liabilities							
Long-term obligations	14,17,19,25		**28.0**		50.2		144.8
Deferred revenue	13		**87.3**		90.7		89.2
Retirement benefit liability	20.1		**286.0**		415.7		452.3
Deferred tax liabilities	22		**4.2**		6.0		5.6
Other long-term liabilities	16,18		**63.2**		74.7		76.8
Total liabilities			**1,318.5**		1,428.3		1,675.4
SHAREHOLDERS' EQUITY							
Capital stock	24		**14.9**		14.9		15.0
Retained earnings	24,25		**1,145.3**		1,208.2		1,218.5
Accumulated other comprehensive loss			**(86.4)**		(146.7)		(141.5)
Total shareholders' equity			**1,073.8**		1,076.4		1,092.0
Total liabilities and shareholders' equity		$	**2,392.3**	$	2,504.7	$	2,767.4

The accompanying notes are an integral part of these consolidated financial statements.

On Behalf of the Board of Directors,

W.C.Crowley
Chairman of the Board

D.E.Rosati
Director

CONSOLIDATED STATEMENTS OF NET EARNINGS AND COMPREHENSIVE INCOME
For the 52 and 53-week periods ended February 1, 2014 and February 2, 2013

(in CAD millions, except per share amounts)	Notes		2013		2012 (Note 2.25)
Revenue	26	$	**3,991.8**	$	4,346.5
Cost of goods and services sold	7		**2,548.1**		2,749.2
Selling, administrative and other expenses	9,10,11,19,20.6,27		**1,631.5**		1,669.1
Operating loss			**(187.8)**		(71.8)
Gain on lease terminations and lease amendments	28		**577.2**		167.1
Gain on sale of interest in joint arrangements	11		**66.3**		8.6
Gain on settlement and amendment of retirement benefits	20,27		**42.5**		21.1
Finance costs	17,22		**10.8**		15.1
Interest income	5		**2.6**		4.3
Earnings before income taxes			**490.0**		114.2
Income tax (expense) recovery					
Current	22		**(71.6)**		(8.2)
Deferred	22		**28.1**		(4.8)
			(43.5)		(13.0)
Net earnings		$	**446.5**	$	101.2
Basic net earnings per share	33	$	**4.38**	$	0.99
Diluted net earnings per share	33	$	**4.38**	$	0.99
Net earnings		$	**446.5**	$	101.2
Other comprehensive income (loss), net of taxes:					
Items that may subsequently be reclassified to net income:					
Gain on foreign exchange derivatives			**7.8**		—
Reclassification to net earnings of gain on foreign exchange derivatives			**(1.8)**		(0.2)
Item that will not be subsequently reclassified to net income:					
Remeasurement gain (loss) on net defined retirement benefit liability	20.7		**54.3**		(5.0)
Total other comprehensive income (loss)			**60.3**		(5.2)
Total comprehensive income		$	**506.8**	$	96.0

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the 52 and 53-week periods ended February 1, 2014 and February 2, 2013

(in CAD millions)	Notes	Capital stock	Retained earnings	Accumulated other comprehensive loss (income): *Foreign exchange derivatives designated as cash flow hedges*	*Remeasurement (loss) gain*	Total accumulated other comprehensive (loss) income	Shareholders' equity
Balance as at February 2, 2013		**$ 14.9**	**$ 1,208.2**	**$ —**	**$ (146.7)**	**$ (146.7)**	**$ 1,076.4**
Net earnings			**446.5**	**—**	**—**	**—**	**446.5**
Other comprehensive income (loss)							
Gain on foreign exchange derivatives, net of income tax expense of $2.8				**7.8**	**—**	**7.8**	**7.8**
Reclassification of gain on foreign exchange derivatives, net of income tax expense of $0.6				**(1.8)**	**—**	**(1.8)**	**(1.8)**
Remeasurement gain on net defined retirement benefit liability, net of income tax expense of $19.4	20.7			**—**	**54.3**	**54.3**	**54.3**
Total other comprehensive income		**—**	**—**	**6.0**	**54.3**	**60.3**	**60.3**
Total comprehensive income		**—**	**446.5**	**6.0**	**54.3**	**60.3**	**506.8**
Dividends declared	24		**(509.4)**				**(509.4)**
Balance as at February 1, 2014		**$ 14.9**	**$ 1,145.3**	**$ 6.0**	**$ (92.4)**	**$ (86.4)**	**$ 1,073.8**
Balance as at January 28, 2012		$ 15.0	$ 1,218.5	$ 0.2	$ (141.7)	$ (141.5)	$ 1,092.0
Net earnings			101.2	—	—	—	101.2
Other comprehensive loss							
Reclassification of gain on foreign exchange derivatives, net of income tax expense of nil				(0.2)	—	(0.2)	(0.2)
Remeasurement loss on net defined retirement benefit liability, net of income tax recovery of $3.5	20.7			—	(5.0)	(5.0)	(5.0)
Total other comprehensive loss		—	—	(0.2)	(5.0)	(5.2)	(5.2)
Total comprehensive income (loss)		—	101.2	(0.2)	(5.0)	(5.2)	96.0
Repurchases of common shares	24	(0.1)	(9.6)				(9.7)
Dividends declared	24		(101.9)				(101.9)
Balance as at February 2, 2013		$ 14.9	$ 1,208.2	$ —	$ (146.7)	$ (146.7)	$ 1,076.4

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the 52 and 53-week periods ended February 1, 2014 and February 2, 2013

(in CAD millions)	Notes		2013		2012 (Note 2.25)
Cash flow used for operating activities					
Net earnings		$	**446.5**	$	101.2
Adjustments for:					
Depreciation and amortization expense	9.10.2		**111.4**		126.5
Loss on disposal of property, plant and equipment			**1.2**		1.2
Impairment losses	9.10.29		**33.8**		2.0
Gain on sale of interest in joint arrangements	11		**(66.3)**		(8.6)
Gain on lease terminations and lease amendments	28		**(577.2)**		(167.1)
Finance costs	17		**10.8**		15.1
Interest income	5		**(2.6)**		(4.3)
Retirement benefit plans expense	20.6		**32.0**		31.6
Gain on settlement and amendment of retirement benefits	20		**(42.5)**		(21.1)
Short-term disability expense			**8.0**		8.4
Income tax expense	22		**43.5**		13.0
Interest received	5		**2.5**		2.3
Interest paid	17		**(6.2)**		(7.1)
Retirement and other benefit plans contributions	20.6		**(53.5)**		(63.0)
Income tax (payments) refunds, net	22		**(14.0)**		9.0
Other income tax deposits	22		**(18.9)**		(4.1)
Changes in non-cash working capital	34		**73.3**		(122.9)
Changes in long-term assets and liabilities	35		**(7.6)**		33.2
			(25.8)		(54.7)
Cash flow generated from investing activities					
Purchases of property, plant and equipment and intangible assets	9.10.2		**(70.8)**		(101.6)
Proceeds from sale of property, plant and equipment			**1.9**		2.2
Proceeds from lease terminations	28		**590.5**		175.0
Proceeds from sale of joint arrangements	11		**315.4**		38.3
Proceeds from sale of Cantrex operations	30		**—**		3.5
			837.0		117.4
Cash flow used for financing activities					
Interest paid on finance lease obligations	17.19		**(2.5)**		(2.4)
Repayment of long-term obligations			**(30.1)**		(146.3)
Proceeds from long-term obligations			**4.5**		35.8
Dividend payments	24		**(509.4)**		(101.9)
Repurchases of common shares	24		**—**		(9.7)
			(537.5)		(224.5)
Effect of exchange rate on cash and cash equivalents at end of period			**1.6**		0.1
Increase (decrease) in cash and cash equivalents			**275.3**		(161.7)
Cash and cash equivalents at beginning of period		$	**238.5**	$	400.2
Cash and cash equivalents at end of period		$	**513.8**	$	238.5

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General information

Sears Canada Inc. is incorporated in Canada. The address of its registered office and principal place of business is 290 Yonge Street, Suite 700, Toronto, Ontario, Canada M5B 2C3. The principal activities of Sears Canada Inc. and its subsidiaries (the "Company") include the sale of goods and services through the Company's Retail channels, which includes its Full-line, Sears Home, Hometown Dealer, Outlet, Appliances and Mattresses, Corbeil Electrique Inc. ("Corbeil") stores, and its Direct (catalogue/ internet) channel. It also includes service revenue related to product repair and logistics. Commission revenue includes travel, home improvement services, insurance, and performance payments received from JPMorgan Chase Bank, N.A. (Toronto Branch) ("JPMorgan Chase") under the Company's long-term credit card marketing and servicing alliance with JPMorgan Chase. The Company has a multi-year licensing arrangement with TravelBrands Inc. ("TravelBrands")(formerly known as Thomas Cook Canada Inc.), under which TravelBrands manages the day-to-day operations of all Sears Travel offices and provides commissions to the Company. The Company also entered in a multi-year licensing agreement with SHS Services Management Inc. ("SHS"), under which SHS oversaw the day-to-day operations of all Sears Home Installed Products and Services business ("HIPS"). On December 13, 2013, SHS announced it was in receivership, and all offers of services provided by SHS ceased (see Note 14). Licensee fee revenues are comprised of payments received from licensees, including TravelBrands and SHS, that operate within the Company's stores. The Company is a party to a number of real estate joint arrangements which have been classified as joint operations and accounted for by recognizing the Company's share of joint arrangements' assets, liabilities, revenues and expenses for financial reporting purposes.

The indirect parent of the Company is Sears Holdings Corporation ("Sears Holdings"), incorporated in the U.S. in the state of Delaware. The ultimate controlling party of the Company is ESL Investments, Inc. (incorporated in the U.S. in the state of Florida) through Sears Holdings.

2. Significant accounting policies

2.1 Statement of compliance

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

2.2 Basis of preparation and presentation

The principal accounting policies of the Company have been applied consistently in the preparation of its consolidated financial statements for all periods presented. These financial statements follow the same accounting policies and methods of application as those used in the preparation of the 2012 Annual Consolidated Financial Statements, except as noted below. The Company's significant accounting policies are detailed in Note 2.

The Company adopted the following new standards and amendments which became effective "in" or "for" the fiscal year ended February 1, 2014:

- *IAS 1, Presentation of Financial Statements ("IAS 1")*

  The IASB has amended IAS 1 to require additional disclosures for items presented in Other Comprehensive Income ("OCI") on a before-tax basis and requires items to be grouped and presented in OCI based on whether they are potentially reclassifiable to earnings or loss subsequently (i.e. items that may be reclassified and those that will not be reclassified to earnings or loss). These amendments are effective for annual periods beginning on or after July 1, 2012 and require full retrospective application. As a result of the adoption of the IAS 1 amendment, the Company modified its presentation of OCI in the Consolidated Statements of Net Earnings and Comprehensive Income;

- *IAS 28, Investments in Associates and Joint Ventures ("IAS 28")*

  IAS 28 (as amended in 2011) supersedes IAS 28 (2003), *Investments in Associates* and outlines how to apply, with certain limited exceptions, the equity method to investments in associates and joint ventures. The standard also defines an associate by reference to the concept of "significant influence", which requires power to participate in financial and operating policy decisions of an investee (but not joint control or control of those policies). Based on the Company's assessment of this amendment, there is no impact on its consolidated financial statements;

- *IFRS 7, Financial Instruments: Disclosures ("IFRS 7")*

  The IASB has amended IFRS 7. The amendment establishes disclosure requirements to help users better assess the effect or potential effect of offsetting arrangements on a company's financial position. These amendments are effective for annual periods beginning on or after January 1, 2013 and must be applied retrospectively. Based on the Company's assessment of this amendment, there is no impact on its consolidated financial statements;

- *IFRS 10, Consolidated Financial Statements ("IFRS 10")*

  IFRS 10 establishes the standards for the presentation and preparation of consolidated financial statements when an entity controls one or more entities. Based on the Company's assessment of this amendment, there is no impact on its consolidated financial statements;

- *IFRS 11, Joint Arrangements ("IFRS 11")*

  IFRS 11, along with IFRS 12 described below, replaces IAS 31, *Interests in Joint Ventures* ("IAS 31") and requires that a party in a joint arrangement assess its rights and obligations to determine the type of joint arrangement and account for those rights and obligations accordingly. The adoption of this standard has impacted the Company's Financial Statements as described in Note 2.25;

- *IFRS 12, Disclosure of Involvement with Other Entities ("IFRS 12")*

  IFRS 12, along with IFRS 11 described above, replaces IAS 31. IFRS 12 requires the disclosure of information that enables users of financial statements to evaluate the nature of and the risks associated with, the entity's interests in joint arrangements and the impact of those interests on its financial position, financial performance and cash flows. These amendments are effective for annual periods beginning on or after January 1, 2013 and must be applied retrospectively. Disclosures required under IFRS 12 for the consolidated financial statements have been included in Note 11; and

- *IFRS 13, Fair Value Measurement ("IFRS 13")*

  IFRS 13 provides guidance to improve consistency and comparability in fair value measurements and related disclosures through a 'fair value hierarchy'. This standard applies when another IFRS requires or permits fair value measurements or disclosures. Disclosures required under IFRS 13 for the consolidated financial statements have been included in Note 14.5.

2.3 Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, with the exception of certain financial instruments that are measured at fair value and the retirement benefit asset, which is the net total of plan assets and the present value of the retirement benefit liability. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

2.4 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company as well as all of its subsidiaries. Real estate joint arrangements are accounted for by recognizing the Company's share of the joint arrangements' assets, liabilities, revenues and expenses (described further in Note 2.13).

The fiscal year of the Company consists of a 52 or 53-week period ending on the Saturday closest to January 31. The fiscal years for the 2013 and 2012 consolidated financial statements represent the 52-week period ended February 1, 2014 ("Fiscal 2013" or "2013") and the 53-week period ended February 2, 2013 ("Fiscal 2012" or "2012"), respectively.

The Company's consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. The Company is comprised of two reportable segments, Merchandising and Real Estate Joint Arrangements (see Note 23).

2.5 Cash and cash equivalents

Cash and cash equivalents include highly liquid investments with maturities of 90 days or less at the date of purchase. Cash and cash equivalents are considered to be restricted when they are subject to contingent rights of a third party customer, vendor, government agency or financial institution.

2.6 Short-term investments

Short-term investments include investments with maturities between 91 to 364 days from the date of purchase.

2.7 Inventories

Inventories are measured at the lower of cost and net realizable value. Cost is determined using the weighted average cost method, based on individual items. The cost is comprised of the purchase price, plus the costs incurred in bringing the inventory to its present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs to sell. Rebates and allowances received from vendors are recognized as a reduction to the cost of inventory, unless the rebates clearly relate to the reimbursement of specific expenses. A provision for shrinkage and obsolescence is calculated based on historical experience. All inventories consist of finished goods.

2.8 Property, plant and equipment

Property, plant and equipment are measured at cost or deemed cost less accumulated depreciation and accumulated impairment losses. Costs include expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes site preparation costs, design and engineering fees, freight (only on initial freight costs incurred between the vendor and the Company), installation expenses and provincial sales tax (Saskatchewan, Manitoba and Prince Edward Island), and is net of any vendor subsidies or reimbursements. An allocation of general and specific incremental interest charges for major construction projects is also included in the cost of related assets. Property, plant and equipment within one of the Company's Regina logistics centres have been classified as held for sale in the Consolidated Statements of Financial Position (see Note 29).

When the significant parts of an item of property, plant and equipment have varying useful lives, they are accounted for as separate components of property, plant and equipment. Depreciation is calculated based on the depreciable amount of the asset or significant component thereof, if applicable, which is the cost of the asset or significant component less its residual value. Depreciation is recognized using the straight-line method for each significant component of an item of property, plant and equipment and is recorded in "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings and Comprehensive Income. The estimated useful lives are 2 to 13 years for equipment and fixtures and 10 to 50 years for buildings and building improvements. The estimated useful lives, residual values and depreciation methods for property, plant and equipment are reviewed annually and adjusted, if appropriate, with the effect of any changes in estimates accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease, unless it is reasonably certain that the Company will obtain ownership by the end of the lease term.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the proceeds from sale or the cost of retirement and the carrying amount of the asset, and is recognized in the Consolidated Statements of Net Earnings and Comprehensive Income.

For a discussion on the impairment of tangible assets, refer to Note 2.11. Property, plant and equipment are reviewed at the end of each reporting period to determine whether there is an indicator of impairment.

2.9 Investment property

The Company's investment property consists of vacant land which is not currently used in its operations. Investment property is measured at its deemed cost less accumulated impairment losses.

The fair values of the investment property is estimated using observable data based on the current cost of acquiring comparable properties within the market area and the capitalization of the property's anticipated revenue. The Company engages independent qualified third parties to conduct appraisals of its investment property.

The gain or loss arising from the disposal or retirement of an item of investment property is determined as the difference between the proceeds from sale or the cost of retirement, and the carrying amount of the asset, and is recognized in the Consolidated Statements of Net Earnings and Comprehensive Income.

For a discussion on the impairment of tangible assets, refer to Note 2.11. Investment property is reviewed at the end of each reporting period to determine whether there is any indicator of impairment.

2.10 Intangible assets

2.10.1 Finite life intangible assets other than goodwill

Finite life intangible assets consist of purchased and internally developed software. Intangible assets are carried at cost less accumulated amortization and accumulated impairment losses and are amortized on a straight-line basis over their estimated useful lives which range from 2 to 5 years. The useful lives of all intangible assets other than goodwill are finite. Amortization expense is included in "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings and Comprehensive Income. The estimated useful lives and amortization methods for intangible assets other than goodwill are reviewed annually, with the effect of any changes in estimates being accounted for on a prospective basis.

Internally developed software costs are capitalized when the following criteria are met:

- It is technically feasible to complete the software so that it will be available for use;
- The Company intends to complete the software product;
- The Company has an ability to use the software;
- The Company can demonstrate how the software will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use the software product are available; and
- The expenditure attributable to the software product during its development can be reliably measured.

Costs that qualify for capitalization are limited to those that are directly related to each software development project.

2.10.2 Goodwill

Goodwill arising in a business combination is recognized as an asset at the date that control is acquired ("the acquisition date"). Goodwill is measured as the excess of the sum of the consideration transferred, over the net fair value of identifiable assets acquired less liabilities assumed as of the acquisition date.

2.11 Impairment of tangible assets and intangible assets with finite useful lives

At the end of each reporting period, the Company reviews property, plant and equipment, investment property, intangible assets and goodwill for indicators of impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the assets are then grouped together into the smallest group of assets that generate independent cash inflows from continuing use (the "cash generating unit" or "CGU") and a recoverable amount is estimated for that CGU. The Company has determined that its CGUs are primarily its retail stores.

Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs. Otherwise, they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

If the recoverable amount of an asset or a CGU is estimated to be less than its carrying amount, the asset or CGU will be reduced to its recoverable amount and an impairment loss is recognized immediately. If an impairment for a CGU has been identified, the impairment is first allocated to goodwill before other assets held by the CGU. Where goodwill is not part of a CGU, an impairment loss is recognized as a reduction in the carrying amount of the assets included in the CGU on a pro rata basis.

Where an impairment loss subsequently reverses (not applicable to goodwill), the carrying amount of the asset or CGU is revised to an estimate of its recoverable amount limited to the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized immediately.

2.12 Impairment of goodwill

Goodwill is not amortized but is reviewed for impairment at least annually. For the purposes of impairment testing, goodwill is allocated to each of the Company's CGUs expected to benefit from the synergies of the combination.

CGUs to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to the other assets of the unit on a pro-rata basis, based on the carrying amount of each asset in the unit. Impairment losses for goodwill are not reversed in subsequent periods.

2.13 Joint arrangements

Joint arrangements are arrangements of which two or more parties have joint control. Joint control is considered to be when all parties to the joint arrangement are required to reach unanimous consent over decisions about relevant business activities pertaining to the contractual arrangement.

The Company has determined that its real estate joint arrangements are joint operations. A joint operation is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control and whereby each party has rights to the assets and liabilities relating to the arrangement. Interests in joint operations are accounted for by recognizing the Corporation's share of assets, liabilities, revenues, and expenses incurred jointly.

2.14 Leasing arrangements

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

2.14.1 The Company as lessor

The Company has entered into a number of agreements to sub-lease premises to third parties. All sub-leases to third parties are classified as operating leases. Rental income from operating leases is recognized on a straight-line basis over the term of the lease.

2.14.2 The Company as lessee

Assets held under finance leases are initially recognized by the Company at the lower of the fair value of the asset and the present value of the minimum lease payments. The corresponding current and non-current liabilities to the lessor are included in the Consolidated Statements of Financial Position as a finance lease obligation in "Current portion of long-term obligations" and "Long-term obligations," respectively. The assets are depreciated using the same accounting policy as applicable to property, plant and equipment (see Note 2.8).

Lease payments are apportioned between finance costs and the lease obligation in order to achieve a constant rate of interest on the remaining balance of the liability. The minimum lease payments are allocated between the land and building element in proportion to the relative fair values of the leasehold interests, in each of these elements of the lease.

Assets under operating leases are not recognized by the Company. Operating lease payments are recognized in "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings and Comprehensive Income.

In the event that lease incentives are received from the landlord, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

2.15 Retirement benefit plans

The Company currently maintains a defined contribution and a defined benefit registered pension plan, which covers eligible regular full-time and part-time associates, a non-registered supplemental savings arrangement and a defined benefit non-pension retirement plan, which provides life insurance, medical and dental benefits to eligible retired associates through a health and welfare trust.

2.15.1 Defined contribution plan

A defined contribution plan is a post-employment benefit plan under which the Company pays fixed or matching contributions based on employee contributions into a separate legal entity and has no further legal or constructive obligation to pay additional amounts. Company contributions to the defined contribution retirement benefit plan are recognized as an expense when employees have rendered services entitling them to the contributions.

2.15.2 Defined benefit plans

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations prepared by independent qualified actuaries at least every 3 years. Remeasurements comprised of actuarial gains and losses, the effect of the asset ceiling (if applicable) and the return on plan assets (excluding interest) are recognized immediately in the statement of financial position with a charge or credit to other comprehensive income in the period in which they occur. The Company performs remeasurements at least annually. Remeasurements recorded in Other comprehensive income are not recycled into profit or loss. However, the entity may transfer those amounts recognized in other comprehensive income within accumulated other comprehensive income ("AOCI"). Past service cost is recognized in profit or loss in the period of plan amendment. Net-interest is calculated by applying the discount rate to the net defined benefit liability or asset. Defined benefit costs are split into three categories:

- service cost, past-service cost, gains and losses on curtailments and settlements;
- net interest expense or income;
- remeasurements.

The Company presents the first two components of defined benefit costs in "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings and Comprehensive Income.

Remeasurements are recorded in Other comprehensive income.

The retirement benefit obligation recognized in the Consolidated Statements of Financial Position represents the actual deficit or surplus in the Company's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

2.15.3 Termination benefits

A liability for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognizes any related restructuring costs.

2.16 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, excluding sales taxes. Revenue is reduced for estimated customer returns, discounts and other similar allowances.

2.16.1 Sale of goods

Revenue from the sale of goods is recognized upon delivery of goods to the customer. In the case of goods sold in-store, delivery is generally complete at the point of sale. For goods subject to delivery such as furniture or major appliances, and goods sold online or through the catalogue, delivery is complete when the goods are delivered to the customers' selected final destination or picked up from a catalogue agent. In the case of goods subject to installation, such as home improvement products, revenue is recognized when the goods have been delivered and the installation is complete.

2.16.2 Rendering of services

Revenue from a contract to provide services is recognized by reference to the stage of completion of the contract.

Extended warranty service contracts

The Company sells extended warranty service contracts with terms of coverage generally between 12 and 60 months. Revenue from the sale of each contract is deferred and amortized on a straight-line basis over the term of the related contract.

Product repair, handling and installation services

Product repair, handling and installation services revenue is recognized once the services are complete. These services are performed within a short timeframe which is typically one day.

2.16.3 Commission and licensee fee revenue

The Company earns commission revenue by selling various products and services that are provided by third parties, such as sales of travel services, home improvement products and insurance programs. As the Company is not the primary obligor in these transactions, these commissions are recognized upon sale of the related product or service.

Fee revenue is received from a variety of licensees that operate in the Company's stores. Revenue earned is based on a percentage of licensee sales. Revenue is recorded upon sale of the related product or service.

Revenue is received from JPMorgan Chase relating to credit sales. Revenue is based on a percentage of sales charged on the Sears Card or Sears MasterCard and is included in revenue when the sale occurs.

2.16.4 Interest income

Interest income is recognized when it is probable that the economic benefits will flow to the Company and the amount of income can be reliably measured. Interest income is accrued on a periodic basis by reference to the principal outstanding and the applicable interest rate.

2.16.5 Customer loyalty program

The Sears Club Points Program (the "Program") allows members to earn points from eligible purchases made on their Sears Card and/or Sears MasterCard. Members can then redeem points in accordance with the Program rewards schedule for merchandise. When points are earned, the Company defers revenue equal to the fair value of the awards adjusted for expected redemptions. When awards are redeemed, the redemption value of the awards is charged against deferred revenue and recognized as revenue. The redemption rates are reviewed on a regular basis and are adjusted based upon expected future activity.

2.16.6 Gift cards

The Company sells gift cards through its retail stores, websites and third parties with no administrative fee charges or expiration dates. No revenue is recognized at the time gift cards are sold. Revenue is recognized as a merchandise sales when the gift card is redeemed by the customer. The Company also recognizes income when the likelihood of the gift card being redeemed by the customer is remote, which is generally at the end of 18 months subsequent to issuance, estimated based on historical redemption patterns.

2.16.7 Cost of goods and services sold

Cost of goods and services sold includes the purchase price of merchandise sold, freight and handling costs incurred in preparing the related inventory for sale, installation costs incurred relating to the sale of goods subject to installation, write-downs taken on inventory during the period, physical inventory losses and costs of services provided during the period relating to services sold, less rebates from suppliers relating to merchandise sold.

2.17 Foreign currency translation

Transactions in currencies other than the Company's functional currency are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency at the exchange rates prevailing at that date.

Non-monetary assets and liabilities denominated in a foreign currency that are measured at historical cost are translated using the exchange rate at the date of the transaction and are not retranslated.

Exchange differences arising on retranslation are recognized in the Consolidated Statements of Net Earnings and Comprehensive Income in the period in which they arise, except for exchange differences on certain foreign currency hedging transactions.

2.18 Consideration from a vendor

The Company has arrangements with its vendors that provide for rebates subject to binding contractual agreements. Rebates on inventories subject to binding agreements are recognized as a reduction of the cost of sales or related inventories for the period, provided the rebates are probable and reasonably estimable. Rebates on advertising costs subject to binding agreements are recognized as a reduction of the advertising expense for the period, provided the rebates are probable and reasonably estimable.

2.19 Taxation

Income tax expense represents the sum of current tax expense and deferred tax expense.

2.19.1 Current tax

Tax currently payable or recoverable is based on taxable earnings or loss for the reporting period. Taxable income differs from earnings as reported in the Consolidated Statements of Net Earnings and Comprehensive Income, due to income or expenses that are taxable or deductible in other years and items that are not taxable or deductible for tax purposes. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted as at the end of the reporting period and includes any adjustments to taxes payable and/or taxes recoverable in respect of prior years.

2.19.2 Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases used in the computation of taxable earnings or loss.

Deferred tax liabilities are generally recognized for taxable temporary differences. Deferred tax assets are generally recognized for deductible temporary differences to the extent that it is probable that taxable income will be available, against which deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary differences arise from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable net earnings or loss nor the accounting income or loss.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and investments in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognized to the extent that it is probable that there will be sufficient taxable earnings against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to be applicable in the period in which the liability is settled or the asset realized, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities, when they relate to income taxes levied by the same taxation authority and when the Company intends to settle its current tax assets and liabilities on a net basis. Deferred tax assets and liabilities are not discounted.

2.19.3 Current and deferred tax for the period

Current and deferred tax are recognized as a tax expense or recovery in the Consolidated Statements of Net Earnings and Comprehensive Income, except when they relate to items that are recognized outside of earnings or loss (whether in OCI, or directly in equity), in which case, the tax is also recognized outside of earnings or loss, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is included in the accounting for the business combination. Interest on the Company's tax position is recognized as a finance cost.

2.20 Provisions

Provisions are recognized when the Company has a present obligation, legal or constructive, as a result of a past event, it is probable that the Company will be required to settle the obligation and a reliable estimate can be made for the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties specific to the obligation. Where a provision is measured using the cash flow estimated to settle the present obligation, its carrying amount is the present value of such cash flows.

When some or all of the economic resources required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

2.20.1 Onerous contract provisions

An onerous contract provision is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations. The provision is measured at the present value of the lower of the expected cost of terminating the contract or the expected cost of continuing with the contract. Before a provision is established, the Company recognizes any impairment loss on the assets associated with that contract.

2.20.2 General liability provisions

The Company purchases third party insurance for automobile, damage to a claimant's property or bodily injury from use of a product, and general liability claims that exceed a certain dollar level. However, the Company is responsible for the payment of claims under these insured limits. In estimating the obligation associated with incurred losses, the Company utilizes actuarial methodologies which are based on historical data and validated by an independent third party. Loss estimates are adjusted based on actual claims settlements and reported claims.

2.20.3 Warranty provisions

An estimate for warranty provisions is made at the time the merchandise is sold based on historical warranty trends. Please also see Note 16.

2.20.4 Returns and allowances provisions

Provisions for returns and allowances are made based on historical rates which represent the expected future outflow of economic resources on current sales.

2.20.5 Environmental provisions

The Company is exposed to environmental risks as an owner, lessor and lessee of property. Under federal and provincial laws, the owner, lessor or lessee could be liable for the costs of removal and remediation of certain hazardous substances on its properties or disposed of at other locations. The failure to remove or remediate such substances, if any, could lead to claims against the Company. The provision is based on assessments conducted by third parties, as well as historical data.

2.21 Financial assets

All financial assets are recognized and derecognized on the trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned. Financial assets are initially measured at fair value plus transaction costs, except for those financial assets at 'fair value through profit or loss' ("FVTPL") for which the transaction costs are expensed as incurred.

Financial assets and liabilities are offset with the net amount presented in the Consolidated Statements of Financial Position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Financial assets are classified into the following categories: financial assets at FVTPL, 'held-to-maturity' investments, 'available-for-sale' ("AFS") financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. Currently the Company does not have any 'held-to-maturity' investments.

2.21.1 Effective interest method

The effective interest method calculates the amortized cost of a financial asset or financial liability and allocates interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flow (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Interest income or expense is recognized on an effective interest basis for financial assets and financial liabilities other than those classified as at FVTPL.

2.21.2 Financial assets at FVTPL

Financial assets are classified at FVTPL when the financial asset is either held-for-trading or it is designated as at FVTPL.

2.21.3 AFS financial assets

The Company's cash equivalents have been classified as AFS financial assets and are measured at fair value. Gains and losses arising from changes in fair value are recognized in OCI, with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognized in "Selling, administrative and other expenses" or "Interest Income" in the Consolidated Statements of Net Earnings and Comprehensive Income. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously included in AOCI is reclassified to "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings and Comprehensive Income.

2.21.4 Loans and receivables

Cash held by the bank and restricted cash and cash equivalents are classified as 'loans and receivables' and are measured at amortized cost.

Trade receivables and other receivables that have fixed or determinable payments that are not quoted in an active market are also classified as 'loans and receivables'. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables, where the recognition of interest would be immaterial.

2.21.5 Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that the estimated future cash flow of the financial asset have been negatively affected as a result of events that have occurred after its initial recognition.

For all financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Default or delinquency in interest or principal payments; or
- Probability that the borrower will enter bankruptcy or financial reorganization.

For financial assets carried at amortized cost, the amount of any impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flow discounted at the financial asset's initial effective interest rate. When a subsequent event causes the amount of any impairment loss to decrease, the decrease in impairment loss is reversed through the Consolidated Statements of Net Earnings and Comprehensive Income.

The carrying amount of the financial asset is reduced by any impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, its carrying amount is written off including any amounts previously recorded in the allowance account. Subsequent recoveries of amounts previously written off are credited to "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings and Comprehensive Income. Changes in the carrying amount of the allowance account are also recognized in "Selling, administrative and other expenses".

2.21.6 Derecognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to the cash flow from the asset expire, or when substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

2.22 Financial liabilities and equity instruments

2.22.1 Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

2.22.2 Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issuance costs.

2.22.3 Financial liabilities

Financial liabilities are recognized on the trade date at which the Company becomes a party to the contractual provisions of the instrument. Financial liabilities are classified as either financial liabilities at 'FVTPL' or 'other financial liabilities'.

2.22.4 Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when they are either held-for-trading or designated as at FVTPL. Currently the Company does not have any financial liabilities that have been designated as at FVTPL upon initial recognition.

2.22.5 Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost with interest expense recognized on an effective interest method.

The Company amortizes debt issuance transaction costs over the life of the debt using the effective interest method.

2.22.6 Derecognition of financial liabilities

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or expired.

2.23 Derivative financial instruments

The Company enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange option contracts and interest rate swaps. Further details on derivative financial instruments are disclosed in Note 14.

Derivatives are initially recognized at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized immediately in "Selling, administrative and other expenses" unless the derivative is designated and effective as a hedging instrument, in which case, the timing of the recognition depends on the nature of the hedge relationship. The Company designates certain derivatives as hedges of highly probable forecasted transactions or hedges of foreign currency risk of firm commitments (cash flow hedges).

A derivative with a positive fair value is recognized as a financial asset, whereas a derivative with a negative fair value is recognized as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realized or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

2.23.1 Hedge accounting

The Company designates certain hedging instruments, which include derivatives, as cash flow hedges. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedging relationship, the Company documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedging transactions. At the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Note 14 sets out details of the fair values of the derivative instruments used for hedging purposes.

2.23.2 Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in OCI. The gain or loss relating to the ineffective portion is recognized immediately in "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings and Comprehensive Income. Amounts previously recognized in OCI and accumulated in AOCI within equity are reclassified in the periods when the hedged items are recognized (i.e. to "Cost of goods and services sold" in the Consolidated Statements of Net Earnings and Comprehensive Income).

Hedge accounting is discontinued when the Company revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gains or losses accumulated in AOCI within equity at the time of discontinuation remain in equity and are transferred to "Cost of goods and services sold" in the Consolidated Statements of Net Earnings and Comprehensive Income when the forecasted transaction is ultimately recognized. When a forecasted transaction is no longer expected to occur, the gains or losses accumulated in equity are recognized immediately.

2.24 Net earnings per share

Net earnings per share is calculated using the weighted average number of shares outstanding during the reporting period. Diluted net earnings per share is determined using the 'treasury stock method,' which considers the potential for the issuance of new shares created by unexercised in-the-money options.

2.25 Changes in Accounting Policy

IFRS 11, Joint Arrangements

The Company adopted IFRS 11 in the first quarter of 2013. On May 12, 2011 the IASB issued IFRS 11 and required that a party in a joint arrangement assess its rights and obligations to determine the type of joint arrangement and account for those rights and obligations accordingly. The Company has real estate joint arrangements related to three shopping centres, for which decisions regarding relevant activities require unanimous consent of the parties sharing control. In the event of a dispute between the parties sharing control of the joint arrangements, settlement occurs through unbiased arbitration, legal action, or a sale of the party's interest in the joint arrangement to the other party. The Company examined the legal structure, contractual arrangements and other relevant facts and circumstances of each joint arrangement, and the Company determined that it had rights to the assets and obligations to the liabilities of each joint arrangement. Therefore, the Company has determined that its real estate joint arrangements are joint operations and have been recognized in accordance with the Company's interest in the assets and liabilities of these arrangements.

IFRS 11 is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The amendments are required to be applied retrospectively in accordance with IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

As the Company implemented IFRS 11 in the first quarter of 2013, the Company has retrospectively adjusted the assets and liabilities as at February 2, 2013 and January 28, 2012 and income, expenses and cash flow for the 53-week period ended February 2, 2013.

A summary of the impact arising from the application of the change in accounting policy is as follows:

Consolidated Statements of Financial Position

(Increase (decrease) in CAD millions)	As at February 2, 2013	As at January 28, 2012
Cash and cash equivalents	$ 1.5	$ 2.8
Accounts receivable, net	1.5	1.4
Prepaid expenses	(1.5)	—
Net change to current assets	1.5	4.2
Property, plant and equipment	278.5	324.1
Investment in joint arrangements	(263.4)	(301.4)
Other long-term assets	9.0	9.8
Net change to total assets	25.6	36.7
Accounts payable and accrued liabilities	1.7	4.0
Deferred revenue	0.3	—
Other taxes payable	0.1	0.1
Current portion of long-term obligations	4.0	4.1
Net change to current liabilities	6.1	8.2
Long-term obligations	19.3	27.2
Deferred tax liabilities	0.2	0.3
Other long-term liabilities	—	1.0
Net change to total liabilities	25.6	36.7

Consolidated Statements of Net Earnings

(Increase (decrease) in CAD millions)	53-Week Period Ended February 2, 2013
Revenue	$ 45.8
Selling, administrative and other expenses	34.7
Finance costs	1.8
Interest income	0.2
Share of income from joint arrangements	(9.5)

Consolidated Statements of Cash Flows

(Increase (decrease) in cash flow arising from items noted below in CAD millions)		53-Week Period Ended February 2, 2013
Depreciation and amortization	$	13.2
Impairment loss		2.2
Share of income from joint arrangements		9.5
Finance costs		1.8
Interest income		(0.2)
Interest paid		(1.8)
Changes in non-cash working capital		0.7
Changes in long-term assets and liabilities		(1.2)
Additions of property, plant & equipment and intangible assets		(4.1)
Repayment on long-term obligations		(4.0)
Dividends received from joint arrangements		(18.4)

As a result of the adoption of IFRS 11 in the first quarter of 2013, the Company has two reportable segments: Merchandising and Real Estate Joint Arrangement operations. Refer to Note 23 for segmented information disclosure.

3. Issued standards not yet adopted

The Company monitors the standard setting process for new standards and interpretations issued by the IASB that the Company may be required to adopt in the future. Since the impact of a proposed standard may change during the review period, the Company does not comment publicly until the standard has been finalized and the effects have been determined.

On December 16, 2011, the IASB issued amendments to two previously released standards. They are as follows:

IAS 32, Financial Instruments: Presentation ("IAS 32")

The IASB amended IAS 32 to address inconsistencies in current practice in the application of offsetting criteria. The amendments provide clarification with respect to the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement. These amendments are effective for annual periods beginning on or after January 1, 2014. The Company is currently assessing the impact of these amendments on the Company's consolidated financial statements and related note disclosures.

IFRS 9, Financial Instruments ("IFRS 9")

This standard will ultimately replace IAS 39, *Financial Instruments: Recognition and Measurement* in phases. The first phase of IFRS 9 was issued on November 12, 2009 and addresses the classification and measurement of financial assets. The second phase of IFRS 9 was issued on October 28, 2010 incorporating new requirements on accounting for financial liabilities. On December 16, 2011, the IASB amended the mandatory effective date of IFRS 9 to fiscal years beginning on or after January 1, 2015. The amendment also provides relief from the requirement to recast comparative financial statements for the effect of applying IFRS 9. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. On November 19, 2013, the IASB withdrew the mandatory effective date of IFRS 9. The Company will evaluate the overall impact on the Company's consolidated financial statements when the final standard, including all phases, is issued.

On May 20, 2013, the IASB issued the following interpretation:

IFRIC 21, Levies ("IFRIC 21")

This interpretation provides guidance on when to recognize a liability for a levy imposed by a government, both for levies that are accounted for in accordance with *IAS 37, Provisions, Contingent Liabilities and Contingent Assets* and those where the timing and amount of the levy is certain. This interpretation is applicable for annual periods on or after January 1, 2014. The Company is currently assessing the impact of these amendments on the Company's consolidated financial statements and related note disclosures.

4. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Company's accounting policies, management is required to make judgments, estimates and assumptions with regards to the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

The following are the critical judgments that management has made in the process of applying the Company's accounting policies, key assumptions concerning the future and other key sources of estimation uncertainty that have the potential to materially impact the carrying amounts of assets and liabilities.

4.1 Legal liabilities

Assessing the financial outcome of uncertain legal positions requires judgment to be made regarding the relative merits of each claim and the extent to which a claim is likely to be successful. The assessments are based on reviews conducted by internal and external counsel, when appropriate.

Changes in estimates or assumptions could cause changes to "Provisions" on the Consolidated Statements of Financial Position and a charge or credit to "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings and Comprehensive Income. For additional information, see Note 16.

4.2 Inventory

4.2.1 Obsolescence, valuation and inventory stock losses

Inventory is written-down to reflect future losses on the disposition of obsolete merchandise. Future losses are estimated based on historical trends that vary depending on the type of inventory.

An adjustment is made each period to value inventory at the lower of cost and net realizable value. This adjustment is estimated based on historical trends that vary depending on the type of inventory.

Inventory is adjusted to reflect estimated inventory stock losses incurred in the year based on recent historical inventory count data.

4.2.2 Vendor rebates

Inventory is adjusted to reflect vendor rebates received or receivable based on vendor agreements. This adjustment is estimated based on historical data and current vendor agreements.

4.2.3 Freight

Inbound freight incurred to bring inventory to its present location is estimated each reporting period and is included in the cost of inventory. This estimate is based on historical freight costs incurred.

Changes in estimates may result in changes to "Inventories" on the Consolidated Statements of Financial Position and a charge or credit to "Cost of goods and services sold" in the Consolidated Statements of Net Earnings and Comprehensive Income. For additional information, see Note 7.

4.3 Impairment of property, plant and equipment and intangible assets

The Company's property, plant and equipment and intangible assets have been allocated to CGUs. Determining whether the CGU is impaired requires an estimation of the recoverable amount of the CGU, which is the higher of the fair value less costs to sell and its value in use. To determine the recoverable amount of the CGU, management is required to estimate its fair value by evaluating the expected future cash flow using an appropriate growth rate, the estimated costs to sell and a suitable discount rate to calculate the value in use.

Changes in estimates may result in changes to "Property, plant and equipment" and "Intangible assets" on the Consolidated Statements of Financial Position and a charge or credit to "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings and Comprehensive Income. For additional information, see Note 9 and Note 10.2.

4.4 Impairment of goodwill

Determining whether goodwill is impaired requires the Company to determine the recoverable amount of the CGU to which the goodwill is allocated. To determine the recoverable amount of the CGU, management is required to estimate its fair value by evaluating expected future cash flow using an appropriate growth rate, the estimated costs to sell and a suitable discount rate to calculate the value in use.

Changes in estimates may result in changes to "Goodwill" on the Consolidated Statements of Financial Position and a charge to "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings and Comprehensive Income. For additional information, see Note 10.1.

4.5 Retirement benefit liability

The retirement benefit liability is estimated based on certain actuarial assumptions, including the discount rate, inflation rate, salary growth and mortality rates. New regulations and market driven changes may impact the assumptions made.

Changes in estimates may result in changes to the "Retirement benefit liability" on the Consolidated Statements of Financial Position and a charge or credit to "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings and Comprehensive Income. For additional information, see Note 20.

4.6 Loyalty program deferred revenue

The fair value of Sears Club points granted is deferred at the time of the related initial sale transaction and is recognized upon redemption of the points for merchandise. The redemption value of the points is estimated at the initial sale transaction, based on historical behaviour and trends in redemption rates and redemption values, as well as an adjustment for the percentage of points that are expected to be converted to reward cards, but for which the likelihood of redemption is remote ("reward card breakage").

Changes in estimates may result in changes to "Deferred revenue" (current) on the Consolidated Statements of Financial Position and an increase or decrease to "Revenue" and/or "Cost of goods and services sold" in the Consolidated Statements of Net Earnings and Comprehensive Income. For additional information, see Note 13.

4.7 Derivative assets and liabilities

All derivatives are measured at fair value. U.S. dollar option contracts are traded over-the-counter and give holders the right to buy, or sell, a specified amount of U.S. currency at an agreed upon price and date in the future. Fair values of the U.S. dollar option contracts are derived using a Black-Scholes valuation model. The Company is required to estimate various inputs which are used in this model that are a combination of quoted prices and observable market inputs. The fair values of derivatives include an adjustment for credit risk when appropriate.

Changes in estimates may result in changes to "Derivative financial assets" and "Derivative financial liabilities" on the Consolidated Statements of Financial Position and a charge or credit to "Cost of goods and services sold", "Selling, administrative and other expenses" or "Other comprehensive income" in the Consolidated Statements of Net Earnings and Comprehensive Income. For additional information, see Note 14.

4.8 Provisions

Provisions are estimated based on historical data, cost estimates provided by specialists and future projections.

Changes in estimates or assumptions could cause changes to "Provisions" on the Consolidated Statements of Financial Position and a charge or credit to "Cost of goods and services sold" or "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings and Comprehensive Income. For additional information, see Note 16.

4.9 Leasing arrangements

The Company has applied judgment in the classification of its leasing arrangements, which is determined at the inception of the lease and is based on the substance of the transaction, rather than its legal form. The Company's leases were evaluated based on certain significant assumptions including the discount rate, economic life of an asset, lease term and existence of a bargain renewal option.

Changes in estimates or assumptions could cause changes to "Property, plant and equipment", "Principal payments on long-term obligations due within one year" and "Long-term obligations" on the Consolidated Statements of Financial Position and a charge or credit to "Selling, administrative and other expenses" and "Finance costs" in the Consolidated Statements of Net Earnings and Comprehensive Income. For additional information, see Note 19.

4.10 Taxes

In the ordinary course of business, the Company is subject to ongoing audits by tax authorities. While the Company believes that its tax filing positions are appropriate and supportable, certain matters are periodically challenged by tax authorities. The Company applies judgment and routinely evaluates and provides for potentially unfavourable outcomes with respect to any tax audits. If the result of a tax audit materially differs from the existing provisions, the Company's effective tax rate and its net earnings will be affected positively or negatively. The Company also uses judgment in assessing the likelihood that deferred income tax assets will be recovered from future taxable income.

Changes in estimates or assumptions could cause changes to "Income taxes recoverable", "Deferred tax assets", "Income and other taxes payable" and "Deferred tax liabilities" on the Consolidated Statements of Financial Position and a charge or credit to "Income tax (expense) recovery" in the Consolidated Statements of Net Earnings and Comprehensive Income. For additional information, see Note 22.

4.11 Gift Cards

The gift card liability is based on the total amount of gift cards outstanding which have not yet been redeemed by customers. The Company also recognizes income when the likelihood of redeeming the gift card is remote ("gift card breakage"). Gift card breakage is estimated based on historical redemption patterns, and changes in estimates of the redemption patterns may result in changes to "Deferred Revenue" (current) on the Consolidated Statements of Financial Position and an increase or decrease to "Revenue" on the Consolidated Statements of Net Earnings and Comprehensive Income.

4.12 Classification of joint arrangements

The Company has classified its 15-20% interest in real estate joint arrangements related to three shopping centres as joint operations. In doing so, the Company determined that the decisions regarding relevant activities require unanimous consent of the parties sharing control. In the event of a dispute between parties sharing control of the joint arrangements, settlement occurs through unbiased arbitration, legal action, or a sale of the party's interest to the other party. The Company examined the legal structure, contractual arrangements and other relevant facts and circumstances for each joint arrangement and determined that it had rights to the assets and obligations to the liabilities of each joint arrangement. Therefore, the Company has determined that its real estate joint arrangements are joint operations and have been recognized in accordance with the Company's interest in the assets and liabilities of these arrangements. For additional information, see Note 11.

5. Cash and cash equivalents and interest income

Cash and cash equivalents

The components of cash and cash equivalents were as follows:

(in CAD millions)		**As at February 1, 2014**		As at February 2, 2013 (Note 2.25)		As at January 28, 2012 (Note 2.25)
Cash	$	**192.4**	$	49.1	$	51.8
Cash equivalents						
Government treasury bills		**299.9**		159.9		199.9
Bank term deposits		—		—		121.0
Investment accounts		**10.4**		20.5		20.3
Restricted cash and cash equivalents		**11.1**		9.0		7.2
Total cash and cash equivalents	$	**513.8**	$	238.5	$	400.2

The components of restricted cash and cash equivalents are further discussed in Note 21.

Interest income

Interest income related primarily to cash and cash equivalents for the fiscal year ended February 1, 2014 totaled $2.6 million (2012: $4.3 million). During Fiscal 2013, the Company received $2.5 million (2012: $2.3 million) in cash related to interest income.

6. Accounts receivable, net

The components of accounts receivable, net were as follows:

(in CAD millions)		As at February 1, 2014		As at February 2, 2013 (Note 2.25)		As at January 28, 2012 (Note 2.25)
Deferred receivables	$	**0.5**	$	0.9	$	1.3
Other receivables		**82.8**		76.8		116.3
Total accounts receivable, net	$	**83.3**	$	77.7	$	117.6

Other receivables primarily consist of amounts due from customers, amounts due from vendors and amounts due from JPMorgan Chase, as part of the Company's long-term credit card marketing and servicing alliance.

Included in the accounts receivable balances above are amounts that are past due but are not provided for, as the Company considers the balances to be collectible. These past due accounts receivable balances are listed below:

(in CAD millions)		As at February 1, 2014		As at February 2, 2013 (Note 2.25)		As at January 28, 2012 (Note 2.25)
Greater than 30 days	$	**5.9**	$	5.5	$	3.2
Greater than 60 days		**2.5**		2.9		3.5
Greater than 90 days		**9.6**		7.6		7.1
Total	$	**18.0**	$	16.0	$	13.8

7. Inventories

The amount of inventory recognized as an expense during Fiscal 2013 was $2,344.3 million (2012: $2,537.5 million), which includes $78.6 million (2012: $92.7 million) of inventory write-downs. These expenses are included in "Cost of goods and services sold" in the Consolidated Statements of Net Earnings and Comprehensive Income. Reversals of prior period inventory write-downs for Fiscal 2013 were $4.9 million (2012: nil).

Inventory is pledged as collateral under the Company's revolving credit facility (see Note 17).

8. Prepaid expenses

The components of prepaid expenses were as follows:

(in CAD millions)		As at February 1, 2014		As at February 2, 2013 (Note 2.25)		As at January 28, 2012 (Note 2.25)
Rent	$	**12.5**	$	13.1	$	14.2
Contracts		**7.4**		7.9		5.2
Supplies		**2.9**		3.1		3.6
Insurance		**0.6**		0.4		0.3
Other		**0.4**		4.1		4.6
Total prepaid expenses	$	**23.8**	$	28.6	$	27.9

9. Property, plant and equipment and investment property

The following is a continuity of property, plant and equipment:

(in CAD millions)	Land	Buildings and Leasehold Improvements	Finance Lease Buildings	Finance Lease Equipment	Equipment and Fixtures	Total (Note 2.25)
Cost or deemed cost						
Balance at January 28, 2012	$ 316.3	$ 1,425.8	$ 37.5	$ 3.5	$ 1,179.4	$ 2,962.5
Additions	—	33.9	11.7	—	40.8	86.4
Disposals	—	(72.6)	(3.5)	—	(45.3)	(121.4)
Balance at February 2, 2013	$ 316.3	$ 1,387.1	$ 45.7	$ 3.5	$ 1,174.9	$ 2,927.5
Additions	—	26.1	1.4	0.9	33.3	61.7
Disposals	(75.7)	(248.9)	(2.6)	—	(78.3)	(405.5)
Net movement to assets held for sale [2]	(2.9)	(36.6)	—	—	(13.9)	(53.4)
Balance at February 1, 2014	**$ 237.7**	**$ 1,127.7**	**$ 44.5**	**$ 4.4**	**$ 1,116.0**	**$ 2,530.3**
Accumulated depreciation and impairment						
Balance at January 28, 2012	$ —	$ 738.7	$ 12.0	$ 1.0	$ 1,014.7	$ 1,766.4
Depreciation expense [1]	—	62.5	5.3	1.0	47.3	116.1
Disposals	—	(31.4)	(3.5)	—	(40.5)	(75.4)
Impairment losses (reversals) [1]	2.2	0.5	—	—	(0.8)	1.9
Balance at February 2, 2013	$ 2.2	$ 770.3	$ 13.8	$ 2.0	$ 1,020.7	$ 1,809.0
Depreciation expense [1]	—	50.6	5.0	1.2	43.5	100.3
Disposals	—	(79.7)	(2.6)	—	(67.4)	(149.7)
Impairment (reversals) losses [1,2]	(2.2)	26.5	—	—	3.4	27.7
Net movement to assets held for sale [2]	—	(28.6)	—	—	(13.9)	(42.5)
Balance at February 1, 2014	**$ —**	**$ 739.1**	**$ 16.2**	**$ 3.2**	**$ 986.3**	**$ 1,744.8**
Total property, plant and equipment						
Net balance at February 1, 2014	**$ 237.7**	**$ 388.6**	**$ 28.3**	**$ 1.2**	**$ 129.7**	**$ 785.5**
Net balance at February 2, 2013	$ 314.1	$ 616.8	$ 31.9	$ 1.5	$ 154.2	$ 1,118.5
Net balance at January 28, 2012	$ 316.3	$ 687.1	$ 25.5	$ 2.5	$ 164.7	$ 1,196.1

1 *Depreciation expense and impairment losses are included in "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings and Comprehensive Income.*

2 *Included in the $27.7 million impairment loss is a loss of $16.5 million related to a Regina logistics centre. Refer to Note 29 "Assets classified as held for sale" for additional information.*

Impairment loss

The Company conducted appraisals of its land and building properties with the assistance of independent qualified third party appraisers . The valuation methods used to determine fair value include the direct capitalization and discounted cash flow methods for buildings and the direct sales comparison for land.

During Fiscal 2013, the Company recognized an impairment loss of $11.7 million on a number of Sears Home stores (2012: nil). The impairment loss is due to indicators (such as a decrease in revenue or decrease in EBITDA) that the recoverable amount is less than the carrying value. The recoverable amounts of the CGUs tested were based on the present value of the estimated cash flow over the lease term. A pre-tax discount rate of 9% was based on management's best estimate of the CGU's weighted average cost of capital considering the risks facing the CGUs. There is no significant impact from a one percentage point increase or decrease in the applied discount rate. There is no significant impact from a ten percentage point increase or decrease in estimated cash flows. The impairment loss of $11.7 million is included in "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings and Comprehensive Income.

The Company recognized an impairment loss of $1.7 million on the Montreal distribution centre (2012: $1.9 million). The impairment loss is due to the application of a lower capitalization rate in the valuation model in comparison to the prior year. The impairment loss of $1.7 million is included in "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings and Comprehensive Income.

During Fiscal 2013, the Company recorded an impairment loss reversal relating to land of $2.2 million in "Selling, administrative and other expenses". The impairment loss reversal was a result of the proceeds received from the agreement to sell its 50% joint arrangement interest in the Promenade de Drummondville property. During Fiscal 2012, the Company recorded an impairment loss reversal relating to leasehold improvements (net of accumulated amortization) of $2.1 million in "Selling, administrative and other expenses". The impairment loss reversal was a result of the proceeds received from the the agreement to surrender and terminate early the operating lease on its Deerfoot (Calgary) Full-line store.

Investment property

Investment property owned by the Company represents vacant land with no operating activity. Investment property within one of the Company's Regina logistics centres ("RLC") have been classified as held for sale in the Consolidated Statements of Financial Position (see Note 29). During Fiscal 2013, there were no investment property additions, disposals or impairment losses. As at February 1, 2014, the carrying value and fair value of investment property were $21.7 million (including $2.4 million included in "Assets held for sale") and $25.8 million, respectively (February 2, 2013: $21.7 million and $25.4 million, January 28, 2012: $21.7 million and $23.2 million). The fair value of the investment property is classified within Level 3 of the fair value hierarchy (described further in Note 14.5). The Company engaged independent qualified third party appraisers to conduct appraisals and the fair value is determined using direct sales comparisons.

10. Goodwill and intangible assets

10.1 Allocation of goodwill to cash generating units

Goodwill has been allocated for impairment testing purposes to the following CGUs:
- Corbeil
- Home Installed Products and Services business

The following is a continuity of goodwill, as allocated by CGU:

(in CAD millions)		**2013**		2012
Corbeil				
Balance, beginning of fiscal year	**$**	**2.6**	$	2.6
Balance, end of fiscal year	**$**	**2.6**	$	2.6
Home Installed Products and Services business				
Balance, beginning of fiscal year	**$**	**6.1**	$	6.1
Impairment losses		**(6.1)**		—
Balance, end of fiscal year	**$**	**—**	$	6.1
Total goodwill	**$**	**2.6**	$	8.7

In the assessment of impairment, management used historical data and past experience as the key assumptions in the determination of the recoverable amount. The Company completed a test for goodwill impairment on an annual basis in Fiscal 2013 and Fiscal 2012. The Company has made certain assumptions for the discount and terminal growth rates to reflect variations in expected future cash flows. These assumptions may differ or change quickly depending on economic conditions or other events. Therefore, it is possible that future changes in assumptions, particularly relating to discount rates and growth rates, may negatively impact future valuations of CGU's and goodwill, which would result in further impairment losses.

- Corbeil

The recoverable amount of this CGU is determined based on its estimated fair value less costs to sell. The fair value was determined based on the present value of the estimated cash flow over a 10 year period and a terminal value equivalent to the present value of 5 times after-tax cash flow representing the value of the business beyond the 10 year cash flow projection. Cost to sell was estimated to be 2% of the fair value, which reflects management's best estimate of the potential costs associated with divesting of the business . A discount rate of 9% was applied to the cash flow projections based on management's best estimate of the CGU's weighted average cost of capital considering the risks facing the CGU. Annual growth rates of 5% for the first 4 years and 2% for the subsequent 6 years were used for Corbeil given the businesses' historical growth experience and anticipated growth. The recoverable amount was determined to be greater than the carrying value including the goodwill allocated to the Corbeil CGU, therefore, no impairment was identified in Fiscal 2013 (2012: Nil).

- Home Installed Products and Services business

The recoverable amount of this CGU is determined based on its estimated fair value less costs to sell. The fair value was determined based on the present value of the estimated free cash flows over a 10 year period. Cost to sell was estimated to be 2% of the fair value of the business, which reflects management's best estimate of the potential costs associated with divesting of the business. On December 13, 2013, SHS announced it was in receivership and all offers of services provided by SHS ceased resulting in uncertainty of future cash flows. The recoverable amount was determined to be less than the carrying value including the goodwill of $6.1 million allocated to the HIPS CGU, resulting in a goodwill impairment of $6.1 million in Fiscal 2013 (2012: Nil). This impairment loss is included in "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings and Comprehensive Income and is attributable to experienced and potential revenue declines in the HIPS business (see Note 14.5).

10.2 Intangible assets

The following is a continuity of intangible assets:

(in CAD millions)		Application Software		Information System Software		Total
Cost or deemed cost						
Balance at January 28, 2012	$	26.8	$	126.0	$	152.8
Additions		8.1		5.8		13.9
Disposals		—		(0.4)		(0.4)
Balance at February 2, 2013	$	34.9	$	131.4	$	166.3
Additions		9.7		2.6		12.3
Disposals		(0.4)		—		(0.4)
Balance at February 1, 2014	**$**	**44.2**	**$**	**134.0**	**$**	**178.2**
Accumulated amortization						
Balance at January 28, 2012	$	13.9	$	115.3	$	129.2
Amortization expense [1]		5.1		5.3		10.4
Disposals		—		(0.5)		(0.5)
Balance at February 2, 2013	$	19.0	$	120.1	$	139.1
Amortization expense [1]		6.1		5.0		11.1
Disposals		(0.2)		—		(0.2)
Balance at February 1, 2014	**$**	**24.9**	**$**	**125.1**	**$**	**150.0**

Total intangible assets

Net balance at February 1, 2014	**$**	**19.3**	**$**	**8.9**	**$**	**28.2**
Net balance at February 2, 2013	$	15.9	$	11.3	$	27.2
Net balance at January 28, 2012	$	12.9	$	10.7	$	23.6

1 *Amortization expense and impairment losses are included in "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings and Comprehensive Income. No impairment losses were recognized on intangible assets for both Fiscal 2013 and Fiscal 2012.*

11. Joint Arrangements

The Company's real estate joint arrangements includes its share of assets, liabilities, revenues, and expenses from its joint arrangement interests in three shopping centres across Canada, all of which contain a Sears store. Joint arrangement interests range from 15% to 20% and are co-owned with Ivanhoé Cambridge Properties to develop and operate commercial properties (shopping malls). The joint operations, Sears ownership interest in each, and principal place of business as at February 1, 2014 are listed below:

Entity Name	Properties	Joint Arrangement Partner	Ownership Interest	Principal Place of Business
Kildonan Place	Kildonan Place	Ivanhoé Cambridge	20%	Winnipeg, Manitoba
Regionaux (Les Rivieres Shopping Centre)	Les Rivières Shopping Centre	Ivanhoé Cambridge	15%	Trois-Rivières, Québec
Regionaux (Les Galeries de Hull)	Les Galeries de Hull	Ivanhoé Cambridge	15%	Gatineau, Québec

During the fourth quarter of 2013, the Company sold its interest in the properties co-owned with the Westcliff Group for total proceeds of $315.4 million, recognizing a pre-tax gain of $66.3 million on the sale. In connection with this transaction, the Company determined that because it had surrendered substantially all of its rights and obligations and had transferred substantially all of the risks and rewards of ownership related to the eight properties, immediate gain recognition was appropriate.

During the fourth quarter of 2012, the Company sold its interest in Medicine Hat for net proceeds of $38.3 million, recognizing a pre-tax gain of $8.6 million on the sale.

Impairment loss

The Company engaged independent qualified third-party appraisers to conduct appraisals of its land and building properties. The valuation methods used to determine fair value include the direct capitalization and discounted cash flow methods for buildings and the direct sales comparison for land.

During Fiscal 2013, the Company recorded an impairment loss reversal of $2.2 million on the Promenades de Drummondville property due to the proceeds received from the sale discussed above (2012: $2.2 million impairment loss on the Promenades de Drummondville property). The fair value of these assets were determined based on an independent, qualified third-party appraisal. The impairment loss reversal of $2.2 million (2012: $2.2 million impairment loss) is included in "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings and Comprehensive Income.

12. Other long-term assets

The components of other long-term assets were as follows:

(in CAD millions)		**As at February 1, 2014**		As at February 2, 2013 (Note 2.25)		As at January 28, 2012 (Note 2.25)
Income taxes recoverable (Note 22)	$	**32.5**	$	13.9	$	30.3
Prepaid rent		**6.1**		7.9		9.5
Receivables		**5.8**		5.2		9.4
Investments		**1.5**		1.5		1.5
Unamortized debt transaction costs		**4.4**		6.2		—
Tenant allowance in joint arrangements		**0.9**		4.2		4.4
Deferred charges		—		4.2		3.9
Other long-term assets	$	**51.2**	$	43.1	$	59.0

13. Deferred revenue

The components of deferred revenue were as follows:

(in CAD millions)		As at February 1, 2014		As at February 2, 2013 (Note 2.25)		As at January 28, 2012 (Note 2.25)
Arising from extended warranty service contracts (i)	$	**148.3**	$	151.5	$	144.6
Arising from unshipped sales (ii)		**62.8**		60.9		65.7
Arising from customer loyalty program (iii)		**38.2**		37.7		41.3
Arising from gift card issuances (iv)		**20.6**		25.5		29.1
Arising from vendor partnership agreements (v)		**—**		6.5		9.7
Other (vi)		**5.1**		6.4		6.8
Total deferred revenue	$	**275.0**	$	288.5	$	297.2
Current	$	**187.7**	$	197.8	$	208.0
Non-current		**87.3**		90.7		89.2
Total deferred revenue	$	**275.0**	$	288.5	$	297.2

The following explanations describe the Company's deferred revenue:

(i) Deferred revenue arising from the sale of extended warranty service contracts, which provide coverage for product repair services over the term of the contracts.

(ii) Deferred revenue arising from the sale of merchandise which has not yet been delivered to or picked up by the customer. The revenue is recognized once the merchandise is delivered to the customer.

(iii) Deferred revenue arising from the Sears Club loyalty program.

(iv) Deferred revenue arising from the purchase of gift cards by customers that have not yet been redeemed for merchandise. At redemption of the gift card, the revenue is recognized.

(v) Deferred revenue arising from multi-element partnership agreements with vendors. The revenue is recognized in accordance with the terms of the agreements.

(vi) Other includes deferred revenue for goods that have not yet been fully delivered or services not yet rendered. The revenue is recognized when the goods have been delivered or by reference to the stage of completion of the service.

14. Financial instruments

In the ordinary course of business, the Company enters into financial agreements with banks and other financial institutions to reduce underlying risks associated with interest rates and foreign currency. The Company does not hold or issue derivative financial instruments for trading or speculative purposes.

Financial instrument risk management

The Company is exposed to credit, liquidity and market risk as a result of holding financial instruments. Market risk consists of foreign exchange and interest rate risk.

14.1 Credit risk

Credit risk refers to the possibility that the Company can suffer financial losses due to the failure of the Company's counterparties to meet their payment obligations. Exposure to credit risk exists for derivative instruments, cash and cash equivalents, accounts receivable and other long-term assets.

Cash and cash equivalents, accounts receivable, derivative instruments and investments included in other long-term assets totaling $605.8 million as at February 1, 2014 (February 2, 2013: $317.7 million, January 28, 2012: $519.3 million) expose the Company to credit risk should the borrower default on maturity of the investment. The Company manages this exposure through policies that require borrowers to have a minimum credit rating of A, and limiting investments with individual borrowers at maximum levels based on credit rating.

The Company is exposed to minimal credit risk from customers as a result of ongoing credit evaluations and review of accounts receivable collectability. As at February 1, 2014, one party represented 11.3% of the Company's accounts receivable (February 2, 2013: no party represented greater than 10.0% of the Company's accounts receivable, January 28, 2012: one party represented 26.5% of the Company's accounts receivable).

14.2 Liquidity risk

Liquidity risk is the risk that the Company may not have cash available to satisfy financial liabilities as they come due. The Company actively maintains access to adequate funding sources to ensure it has sufficient available funds to meet current and foreseeable financial requirements at a reasonable cost.

The following table summarizes the carrying amount and the contractual maturities of both the interest and principal portion of significant financial liabilities as at February 1, 2014:

		Contractual Cash Flow Maturities				
(in CAD millions)	Carrying Amount	Total	Within 1 year	1 year to 3 years	3 years to 5 years	Beyond 5 years
Accounts payable and accrued liabilities	$ 438.7	$ 438.7	$ 438.7	$ —	$ —	$ —
Finance lease obligations including payments due within one year [1]	33.0	43.0	7.2	11.3	10.0	14.5
Real estate joint arrangement obligations including payments due within one year [2]	2.9	3.0	3.0	—	—	—
Operating lease obligations [3]	n/a	481.7	94.8	151.4	109.9	125.6
Royalties [3]	n/a	3.5	0.8	1.5	1.2	—
Purchase agreements [3,5]	n/a	16.9	7.9	9.0	—	—
Retirement benefit plans obligations [4]	286.0	88.0	2.4	58.7	26.9	—
	$ 760.6	**$ 1,074.8**	**$ 554.8**	**$ 231.9**	**$ 148.0**	**$ 140.1**

1 *Cash flow maturities related to finance lease obligations, including payments due within one year, include annual interest on finance lease obligations at a weighted average rate of 7.5%. The Company had no borrowings on the Credit Facility at February 1, 2014.*

2 *Cash flow maturities related to real estate joint arrangement obligations, including payments due within one year, include annual interest on mortgage obligations at a weighted average rate of 2.8%.*

3 *Purchase agreements, operating lease obligations, and royalties are not reported in the Consolidated Statements of Financial Position.*

4 *Payments beyond 2013 are subject to a funding valuation to be completed as at December 31, 2013. Until then, the Company is obligated to fund in accordance with the most recent valuation completed as at December 31, 2010. The Company prefunded 2014 contributions of $15 million in December 2013.*

5 *Certain vendors require minimum purchase commitment levels over the term of the contract.*

Management believes that cash on hand, future cash flow generated from operating activities and availability of current and future funding will be adequate to support these financial liabilities. As of February 1, 2014, the Company does not have any significant capital expenditure commitments.

Market risk

Market risk exists as a result of the potential for losses caused by changes in market factors such as foreign currency exchange rates, interest rates and commodity prices.

14.3 Foreign exchange risk

The Company enters into foreign exchange contracts to reduce the foreign exchange risk with respect to U.S. dollar denominated assets and liabilities and purchases of goods or services. As at February 1, 2014, there were forward contracts outstanding with a notional value of US $90.0 million (February 2, 2013: nil, January 28, 2012: nil) and a fair value of $7.2 million, based on current market rates, included in "Derivative financial assets" (February 2, 2013: nil, January 28, 2012: nil) in the Consolidated Statements of Financial Position. These derivative contracts have settlement dates extending to July 2014. The intrinsic value portion of these derivatives has been designated as a cash flow hedge for hedge accounting treatment under IAS 39, *Financial Instruments: Recognition and Measurement*. These contracts are intended to reduce the foreign exchange risk with respect to anticipated purchases of U.S. dollar denominated goods purchased for resale ("hedged item"). As at February 1, 2014, the designated portion of these hedges was considered effective.

While the notional principal of these outstanding financial instruments is not recorded in the Consolidated Statements of Financial Position, the fair value of the contracts is included in "Derivative financial assets" or "Derivative financial liabilities", depending on the fair value, and classified as current or long-term, depending on the maturities of the outstanding contracts. Changes in the fair value of the designated portion of contracts are included in OCI for cash flow hedges, to the extent the designated portion of the hedges continues to be effective, with any ineffective portion included in "Cost of goods and services sold" in the Consolidated Statements of Net Earnings and Comprehensive Income. Amounts previously included in OCI are reclassified to "Cost of goods and services sold" in the same period in which the hedged item impacted Net Earnings.

During Fiscal 2013, the Company recorded a loss of $7.6 million (2012: loss of $0.6 million), in "Selling, administrative and other expenses", relating to the translation or settlement of U.S. dollar denominated monetary items consisting of cash and cash equivalents, accounts receivable and accounts payable.

The year end exchange rate was 0.8978 U.S. dollar to Canadian dollar. A 10% appreciation or depreciation of the U.S. and or the Canadian dollar exchange rate was determined to have an after-tax impact on net earnings of $0.6 million for U.S. dollar denominated balances included in cash and cash equivalents, accounts receivable and accounts payable at the end of Fiscal 2013.

14.4 Interest rate risk

From time to time, the Company enters into interest rate swap contracts with approved financial institutions to manage exposure to interest rate risks. As at February 1, 2014, the Company had no interest rate swap contracts in place (February 2, 2013: nil, January 28, 2012: nil).

Interest rate risk reflects the sensitivity of the Company's financial condition to movements in interest rates. Financial assets and liabilities which do not bear interest or bear interest at fixed rates are classified as non-interest rate sensitive.

Cash and cash equivalents and borrowings under the secured revolving credit facility, when applicable, are subject to interest rate risk. The total subject to interest rate risk as at February 1, 2014 was a net asset of $515.1 million (February 2, 2013: net asset of $239.8 million, January 28, 2012: net asset of $300.4 million). An increase or decrease in interest rates of 25 basis points would cause an after-tax impact on net earnings of $0.9 million for net assets subject to interest rate risk included in cash and cash equivalents and other long-term assets at the end of Fiscal 2013.

14.5 Classification and fair value of financial instruments

The estimated fair values of financial instruments presented are based on relevant market prices and information available at those dates. The following table summarizes the classification and fair value of certain financial instruments as at the specified dates. The Company determines the classification of a financial instrument when it is initially recorded, based on the underlying purpose of the instrument. As a significant number of the Company's assets and liabilities, including inventories and capital assets, do not meet the definition of financial instruments, values in the tables below do not reflect the fair value of the Company as a whole.

The fair value of financial instruments are classified and measured according to the following three levels, based on the fair value hierarchy.

- Level 1: Quoted prices in active markets for identical assets or liabilities
- Level 2: Inputs other than quoted prices in active markets that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: Inputs for the asset or liability that are not based on observable market data

Classification	Balance Sheet Category	Fair Value Hierarchy[2]	As at February 1, 2014	As at February 2, 2013 (Note 2.25)	As at January 28, 2012 (Note 2.25)
(in CAD millions)					
Available for sale					
Cash equivalents	Cash and cash equivalents[1]	Level 1	**310.3**	180.4	220.2
Fair value through profit or loss					
Long-term investments	Other long-term assets	Level 1	**0.2**	0.2	0.2
U.S. $ derivative contracts	Derivative financial assets	Level 2	**7.2**	—	—
Long-term investments	Other long-term assets	Level 3	**1.3**	1.3	1.3

[1] *Interest income related to cash and cash equivalents is disclosed in Note 5.*
[2] *Classification of fair values relates to 2013*

All other assets that are financial instruments not listed in the chart above have been classified as "Loans and receivables". All other financial instrument liabilities have been classified as "Other liabilities" and are measured at amortized cost in the Consolidated Statements of Financial Position. The carrying value of these financial instruments approximate fair value given that they are short-term in nature.

Effective March 3, 2013, the Company finalized an exclusive, multi-year licensing arrangement with SHS, which resulted in SHS overseeing the day-to-day operations of HIPS. The Company provided SHS an interest-bearing loan which allowed SHS to pay the final purchase price of $5.3 million over 6 years. SHS repaid this loan on September 30, 2013, and shortly afterwards, issued the Company an interest-bearing promissory note for $2.0 million, secured by certain assets of SHS, repayable by July 16, 2015. The promissory note asset is included in "Other long-term assets" in the Consolidated Statements of Financial Position.

On December 13, 2013, SHS announced that it was in receivership. All offers of services provided by SHS ceased, and the Company is working with the Receiver, PricewaterhouseCoopers Inc., on options for completing pending orders. As a result of the announcement, the Company recorded a warranty provision of $2.0 million related to potential future claims for work that had been performed by SHS, as well as assuming the warranty obligations with respect to work previously performed by Sears which had been assumed by SHS.

15. Accounts payable and accrued liabilities

The components of "Accounts payable and accrued liabilities" as included in the Consolidated Statements of Financial Position were as follows:

(in CAD millions)	As at February 1, 2014	As at February 2, 2013 (Note 2.25)	As at January 28, 2012 (Note 2.25)
Total accounts payable	$ **270.7**	$ 307.0	$ 402.5
Payroll and employee benefits	**28.6**	29.1	28.7
Merchandise accruals	**59.9**	71.0	45.3
Short-term leasehold inducements	**8.9**	9.8	8.4
Advertising accruals	**13.8**	12.4	12.7
Other accrued liabilities	**56.8**	54.4	83.2
Total accrued liabilities	$ **168.0**	$ 176.7	$ 178.3
Total accounts payable and accrued liabilities	$ **438.7**	$ 483.7	$ 580.8

16. Provisions

The following is a continuity which shows the change in provisions during Fiscal 2013 and Fiscal 2012:

(in CAD millions)	As at February 2, 2013	Additional Provisions	Release of Provisions	Reversed Provisions	**As at February 1, 2014**
Insurance [i]	$ 18.3	$ 0.1	$ —	$ (1.6)	**$ 16.8**
Returns and allowances [ii]	13.0	7.8	(9.7)	—	**11.1**
Warranties [iii]	11.0	2.0	(0.2)	(4.1)	**8.7**
Sales tax [iv]	2.4	5.4	(1.0)	(0.6)	**6.2**
Severance [v]	14.7	57.1	(20.0)	(1.3)	**50.5**
Environmental [vi]	4.8	4.7	(2.1)	(0.5)	**6.9**
Other provisions	2.5	9.3	(2.1)	(0.1)	**9.6**
Total provisions	$ 66.7	$ 86.4	$ (35.1)	$ (8.2)	**$ 109.8**
Current	$ 66.3	$ 86.4	$ (35.1)	$ (8.2)	**$ 109.4**
Non-current [iii]	0.4	—	—	—	**0.4**
Total provisions	$ 66.7	$ 86.4	$ (35.1)	$ (8.2)	**$ 109.8**

(in CAD millions)	As at January 28, 2012	Additional Provisions	Release of Provisions	Reversed Provisions	As at February 2, 2013
Insurance [i]	$ 19.4	$ 0.2	$ —	$ (1.3)	$ 18.3
Returns and allowances [ii]	12.2	9.8	(9.0)	—	13.0
Warranties [iii]	11.0	0.3	(0.2)	(0.1)	11.0
Sales tax [iv]	1.6	2.5	(0.3)	(1.4)	2.4
Severance [v]	13.5	19.3	(16.0)	(2.1)	14.7
Environmental [vi]	4.6	2.9	(1.3)	(1.4)	4.8
Other provisions	3.0	1.1	(1.2)	(0.4)	2.5
Total provisions	$ 65.3	$ 36.1	$ (28.0)	$ (6.7)	$ 66.7
Current	$ 64.8	$ 36.1	$ (27.9)	$ (6.7)	$ 66.3
Non-current [iii]	0.5	—	(0.1)	—	0.4
Total provisions	$ 65.3	$ 36.1	$ (28.0)	$ (6.7)	$ 66.7

The following explanations describe the Company's provisions:

(i) The provision for insurance, or general liability claims, represents the Company's best estimate of the future outflow of economic resources due to automobile, product and other general liability claims. Insurance claims relating to this provision are expected to be paid over the next several years; however, as the Company has no unconditional right to defer the settlement past at least 12 months, this provision is considered to be current. In estimating the obligation associated with incurred losses, the Company utilizes actuarial methodologies validated by an independent third party.
These actuarial methodologies utilize historical data to project future incurred losses. Loss estimates are adjusted based on reported claims and actual settlements.

(ii) The provision for returns and allowances represents the Company's best estimate of the future outflow of economic resources due to merchandise returns and allowances. Returns and allowances relating to this provision are expected to be realized over the next 12 months. Uncertainty exists relating to the amount and timing of returns and allowances, therefore, historical data has been used to arrive at this estimate.

(iii) The provision for warranty claims represents the Company's best estimate of the future outflow of economic resources that will be required due to the Company's warranty obligations. Uncertainty exists relating to the number of incidents requiring merchandise repair and the related costs. This provision is estimated based on historical warranty trends and costs. The amount of expected reimbursements from vendors recorded as at February 1, 2014 was $0.6 million (February 2, 2013: $2.6 million) and is reflected in "Accounts receivable, net" and "Other long-term assets" in the Consolidated Statements of Financial Position. The provision for warranty claims is expected to be realized within 24 months, with the balance reflected in "Provisions" and "Other long-term liabilities" in the Consolidated Statements of Financial Position.

(iv) The Company maintains provisions for sales tax assessments under active discussion, audit, dispute or appeal with tax authorities. These provisions represent the Company's best estimate of the amount expected to be paid based on qualitative and quantitative assessments. Though uncertainty exists around the timing of settlement of the disputes or appeals with tax authorities, the Company expects that sales tax provisions will be settled within 4 years. However, as the Company has no unconditional right to defer the settlement of these provisions past at least 12 months, these provisions are classified as current.

(v) The provision for severance represents the Company's best estimate of the future outflow of payments to terminated employees . Uncertainty exists in certain cases relating to the amount of severance that will be awarded in court proceedings. As the Company has no unconditional right to defer these payments past 12 months, this provision is classified as current.

(vi) The environmental provision represents the costs to remediate environmental contamination associated with decommissioning auto centres to meet regulatory requirements. The provision is based on assessments conducted by third parties as well as historical data. Given the timing of payments to remediate is uncertain and that the Company has no unconditional right to defer these payments past at least 12 months, this provision is classified as current.

17. Long-term obligations and finance costs

Long-term obligations

Total outstanding long-term obligations were as follows:

(in CAD millions)		**As at February 1, 2014**		As at February 2, 2013 (Note 2.25)		As at January 28, 2012 (Note 2.25)
Real estate joint arrangement obligations - Current	$	**2.9**	$	4.0	$	4.1
Finance lease obligations - Current		**5.0**		5.2		5.1
Total current portion of long-term obligations	$	**7.9**	$	9.2	$	9.2
Secured revolving credit facility, net	$	**—**	$	—	$	93.1
Real estate joint arrangement obligations - Non-current		**—**		19.3		27.2
Finance lease obligations - Non-current		**28.0**		30.9		24.5
Total non-current long-term obligations	$	**28.0**	$	50.2	$	144.8

The Company's debt consists of a secured credit facility and finance lease obligations and the Company's share of its real estate joint arrangement obligations. In September 2010, the Company entered into an $800.0 million senior secured revolving credit facility (the "Credit Facility") with a syndicate of lenders with a maturity date of September 10, 2015. The Credit Facility is secured with a first lien on inventory and credit card receivables. Availability under the Credit Facility is determined pursuant to a borrowing base formula. Availability under the Credit Facility was $374.0 million as at February 1, 2014 (February 2, 2013: $501.5 million, January 28, 2012: $415.1 million). The current availability may be reduced by reserves currently estimated by the Company to be approximately $197.0 million, which may be applied by the lenders at their discretion pursuant to the Credit Facility agreement. As a result of judicial developments relating to the priorities of pension liability relative to certain secured obligations, the Company has executed an amendment to its Credit Facility agreement which would provide additional security to the lenders by pledging certain real estate assets as collateral, thereby partially reducing the potential reserve amount the lenders could apply by up to $150.0 million. As at February 1, 2014, three properties in Ontario have been registered under the amendment to the Credit Facility agreement. The additional reserve amount may increase or decrease in the future based on changes in estimated net pension deficits in the event of a wind-up, and based on the amount, if any, of real estate assets pledged as additional collateral.

The Credit Facility contains covenants which are customary for facilities of this nature and the Company was in compliance with all covenants as at February 1, 2014.

As at February 1, 2014, the Company had no borrowings on the Credit Facility and had unamortized transaction costs incurred to establish the Credit Facility of $4.4 million included in "Other long-term assets" in the Consolidated Statements of Financial Position (February 2, 2013: no borrowings and net of unamortized transaction costs of $6.2 million included in "Other long-term assets", January 28, 2012: borrowings of $93.1 million, net of unamortized transaction costs of $8.0 million, included in "Long-term obligations"). In addition, the Company had $24.0 million (February 2, 2013: $19.7 million, January 28, 2012: $6.3 million) of standby letters of credit outstanding against the Credit Facility. These letters of credit cover various payments primarily relating to utility commitments and defined benefit plan deficit funding (See Note 20 for additional information on Retirement benefits plans). Interest on drawings under the Credit Facility is determined based on bankers' acceptance rates for one to three month terms or the prime rate plus a spread. Interest amounts on the Credit Facility are due monthly and are added to principal amounts outstanding.

As at February 1, 2014, the Company had outstanding merchandise letters of credit of U.S. $9.0 million (February 2, 2013: U.S. $7.9 million, January 28, 2012: U.S. $5.5 million) used to support the Company's offshore merchandise purchasing program with restricted cash and cash equivalents pledged as collateral.

The Company has entered into a mortgage on land that it owns in Burnaby, British Columbia. In accordance with the Burnaby development project with Concord, the land has been allocated as security for future borrowings (see Note 36).

Finance costs

Interest expense on long-term obligations, including the Company's share of interest on long-term obligations of its real estate joint arrangements, finance lease obligations, the current portion of long-term obligations, amortization of transaction costs and commitment fees on the unused portion of the Credit Facility for Fiscal 2013 totaled $11.0 million (2012: $11.2 million). Interest expense is included in "Finance costs" in the Consolidated Statements of Net Earnings and Comprehensive Income. Also included in "Finance costs" for Fiscal 2013, was a recovery of $0.2 million (2012: expense of $3.9 million) for interest on accruals for uncertain tax positions.

The Company's cash payments for interest on long-term obligations, including the Company's share of interest on long-term obligations of its real estate joint arrangements, finance lease obligations, the current portion of long-term obligations and commitment fees on the unused portion of the Credit Facility for Fiscal 2013 totaled $8.7 million (2012: $9.5 million).

18. Other long-term liabilities

The components of other long-term liabilities were as follows:

(in CAD millions)		**As at February 1, 2014**		As at February 2, 2013 (Note 2.25)		As at January 28, 2012 (Note 2.25)
Leasehold inducements	$	**57.0**	$	67.1	$	66.8
Straight-line rent liability		**3.6**		5.0		7.4
Miscellaneous		**2.6**		2.6		2.6
Total other long-term liabilities	$	**63.2**	$	74.7	$	76.8

The non-current portion of the warranties provision (see Note 16) is reflected in the miscellaneous component of "Other long-term liabilities" in the Consolidated Statements of Financial Position.

19. Leasing arrangements

19.1 Finance lease arrangements – Company as lessee

As at February 1, 2014, the Company had finance lease arrangements related to the building and equipment components of certain leased properties, which include retail, office and warehouse locations. The related land components of these properties have been separately classified as operating leases. The buildings and equipment held under finance leases are used in the normal course of operations and do not contain significant unusual or contingent lease terms or restrictions. Building leases typically run for a period of 1 to 10 years, with some leases providing multiple options to renew after that date. Equipment leases typically run for a period of 1 to 5 years, with some leases providing an option to renew after that date.

Finance lease buildings and equipment are included in the Consolidated Statements of Financial Position under "Property, plant and equipment." Note 9 provides further details on the net carrying value of these assets, which as at February 1, 2014 was $29.5 million (February 2, 2013: $33.4 million, January 28, 2012: $28.0 million).

As at February 1, 2014, the corresponding finance lease obligations, current and non-current, were $5.0 million (February 2, 2013: $5.2 million, January 28, 2012: $5.1 million) and $28.0 million (February 2, 2013: $30.9 million, January 28, 2012: $24.5 million), included in the Consolidated Statements of Financial Position under "Current portion of long-term obligations" and "Long-term obligations," respectively (see Note 17).

The table below presents the future minimum lease payments of the Company's finance lease obligations:

	As at February 1, 2014			As at February 2, 2013		
(in CAD millions)	**Finance lease payments**	**Future finance costs**	**Present value of minimum lease payments**	Finance lease payments	Future finance costs	Present value of minimum lease payments
Within 1 year	$ **7.2**	$ **2.2**	$ **5.0**	$ 7.6	$ 2.4	$ 5.2
2 years	**5.8**	**1.9**	**3.9**	6.5	2.1	4.4
3 years	**5.5**	**1.7**	**3.8**	5.1	1.9	3.2
4 years	**5.0**	**1.4**	**3.6**	4.8	1.6	3.2
5 years	**5.0**	**1.1**	**3.9**	4.9	1.4	3.5
Thereafter	**14.5**	**1.8**	**12.7**	19.5	2.9	16.6
Total minimum payments	$ **43.0**	$ **10.1**	$ **32.9**	$ 48.4	$ 12.3	$ 36.1

Interest on finance lease obligations is recognized immediately in "Finance costs" in the Consolidated Statements of Net Earnings and Comprehensive Income (see Note 17). Included in total "Finance costs" in Fiscal 2013, was $2.5 million (2012: $2.4 million) of interest related to finance lease obligations.

19.2 Operating lease arrangements – Company as lessor

The Company has a number of agreements to sub-lease premises to third parties, which are all classified as operating leases. During Fiscal 2013, total sub-lease income from leased premises was $3.0 million (2012: $3.0 million).

As at February 1, 2014, total future minimum lease payments receivable from third party tenants were $10.0 million (2012: $10.3 million).

19.3 Operating lease arrangements – Company as lessee

As at February 1, 2014, the Company had operating lease arrangements related to leased retail and office properties as well as equipment assets. The leases typically run for a period of 1 to 10 years, with some leases providing an option to renew after that date. Some leases include additional or contingent rent payments that are based on sales and step rent payments which are recognized on a straight-line basis over the term of the lease. During Fiscal 2013, contingent rent recognized as an expense in respect of operating leases totaled $1.1 million (2012: $0.9 million). Rental expense for all operating leases totaled $115.6 million in Fiscal 2013 (2012: $113.7 million). These expenses are included in "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings and Comprehensive Income.

The table below presents the contractual maturities of future minimum lease payments for the Company's operating leases:

(in CAD millions)	**As at February 1, 2014**	As at February 2, 2013
Within 1 year	$ **94.8**	$ 98.8
2 years	**82.5**	86.8
3 years	**68.9**	71.6
4 years	**61.1**	54.1
5 years	**48.8**	46.7
Thereafter	**125.6**	146.8
Total operating lease obligations [1]	$ **481.7**	$ 504.8

1 *Operating lease obligations are not reported in the Consolidated Statements of Financial Position*

20. Retirement benefit plans

The Company currently maintains a defined benefit registered pension plan and a defined contribution registered pension plan which covers eligible, regular full-time associates as well as some of its part-time associates. The defined benefit plan provides pensions based on length of service and final average earnings. In addition to a registered retirement savings plan, the pension plan includes a non-registered supplemental savings arrangement in respect to the defined benefit plan. The non-registered portion of the plan is maintained to enable certain associates to continue saving for retirement in addition to the registered limit as prescribed by the Canada Revenue Agency. The Company also maintains a defined benefit non-pension retirement plan which provides life insurance, medical and dental benefits to eligible retired associates through a health and welfare trust ("Other Benefits Plan"). Also provided for under the health and welfare trust are short-term disability payments for active associates. The Company's accounting policies related to retirement benefit plans are described in Note 2.15.

In July 2008, the Company amended its pension plan and introduced a defined contribution component. The defined benefit component continues to accrue benefits related to future compensation increases although no further service credit is earned. In addition, the Company no longer provides medical, dental and life insurance benefits at retirement for associates who had not achieved the eligibility criteria for these non-pension retirement benefits as at December 31, 2008.

In December 2009, the Company made the decision to change funding for non-pension retirement benefits from an actuarial basis to a pay-as-you-go basis to allow the surplus in the health and welfare trust to be utilized to make benefit payments. In addition, to further utilize the surplus, short-term disability payments of eligible associates are paid on a pay-as-you-go basis from the health and welfare trust and are no longer funded by the Company.

In December 2013, the Company amended the early retirement provision of its pension plan to eliminate a benefit for associates who voluntarily resign prior to age of retirement, with effect January 1, 2015. In addition, the Company amended its pension plan for improvements that increase portability of associates' benefit, with effect March 1, 2014, and implemented fixed indexing at 0.5% per annum for eligible retirees, with effect January 1, 2014.

In the first quarter of 2014, the Company will offer lump sum settlements to those terminated associates who previously elected to defer the payment of the defined benefit pension until retirement. The Company expects to settle accepted offers through the third quarter of 2014.

In December 2013, the Company froze the benefits offered under the non-pension retirement plan to benefits levels as at January 1, 2015.

In the fourth quarter of 2013, the Company recorded a pre-tax gain on amendments to retirement benefits of $42.5 million ($42.8 million net of $0.3 million of expenses) as shown on the Consolidated Statements of Net Earnings and Comprehensive Income.

In the fourth quarter of 2012, the Company made a voluntary offer to settle health and dental benefits of eligible members covered under the non-pension retirement plan. Based on the accepted offers, the Company paid $18.1 million and recorded a pre-tax settlement gain of $21.1 million ($21.9 million net of $0.8 million of expenses), as shown on the Consolidated Statements of Net Earnings and Comprehensive Income. In the first quarter of 2014, the Company will make another voluntary offer to eligible members covered under the non-pension retirement plan. The Company expects to settle any acceptances from the offer in the second quarter of 2014.

Risks associated with retirement benefit plans

There is no assurance that the Company's retirement benefit plans will be able to earn the assumed rate of return. New regulations and market driven changes may result in changes in the discount rates and other variables which would result in the Company being required to make contributions in the future that differ significantly from the estimates. Management is required to use assumptions to account for the plans in conformity with IFRS. However, actual future experience will differ from these assumptions giving rise to actuarial gains or losses. In any year, actual experience differing from the assumptions may be material.

Plan assets consist primarily of cash, alternative investments and marketable equity and fixed income securities. The value of the marketable equity and fixed income investments will fluctuate due to changes in market prices. Plan obligations and annual pension expense are determined by independent actuaries and through the use of a number of assumptions. Although the Company believes that the assumptions used in the actuarial valuation process are reasonable, there remains a degree of risk and uncertainty which may cause results to differ from expectations. Significant assumptions in measuring the benefit obligations and pension plan costs include the discount rate and the rate of compensation increase.

Asset-liability matching strategies

Beginning in Fiscal 2011, the Company adopted an asset-liability matching strategy in the Other Benefits Plan wherein assets are invested in accordance with a short-term fixed income mandate. The current portfolio is primarily bonds with maturities not exceeding two years. This investment strategy is aligned with the expected use of the assets, which is to fund the Company's retiree health benefits and short-term disability payments within the next two years.

Plan amendments, curtailments and settlements

In Fiscal 2012, the Company amended the non-registered supplemental savings arrangement in respect to the defined benefit plan to allow the use of letters of credit to satisfy the funding requirement of its deficit. At February 1, 2014 a letter of credit with a notional value of $4.2 million was on deposit with the Trustee for the non-registered portion of the defined benefit plan.

In January 2013, the Company announced the termination of 700 associates. This event did not require the recording of a curtailment as its impact on the pension plan was not significant.

During Fiscal 2013, the Company announced a series of restructurings that resulted in the termination of approximately 1,600 associates who were members of the defined benefit plan. This resulted in a curtailment charge of $4.8 million to the pension plan, which is included in "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings and Comprehensive Income.

Maturity profile of retirement benefit plan obligations

The weighted average durations of the Registered Retirement Plans, Non-registered Pension Plan and Other Benefit Plan are all approximately 10.6 years.

The Company's contractual cash flow maturity relating to retirement benefit plan obligation payments is included under "Liquidity Risk" in Note 14.

20.1 Retirement benefit asset and liability

The Company measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at January 31. The most recent actuarial valuation of the pension plan for funding purposes is dated December 31, 2010. The next actuarial valuation assessment is required as of December 31, 2013 and will be completed by September 30, 2014. An actuarial valuation of the health and welfare trust is performed at least every 3 years, with the last valuation completed as of September 1, 2011.

	2013				2012			
(in CAD millions)	**Registered Retirement Plans**	**Non-Registered Pension Plan**	**Other Benefits Plan**	**Total**	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan	Total
Defined benefit plan assets								
Fair value, beginning balance	**$ 1,219.1**	**$ 49.5**	**$ 44.5**	**$1,313.1**	$ 1,178.9	$ 49.3	$ 68.7	$1,296.9
Interest income	**49.9**	**2.0**	**1.4**	**53.3**	54.0	2.3	2.6	58.9
Remeasurement gain (loss) on return on plan assets	**115.9**	**1.0**	**(0.7)**	**116.2**	73.7	0.1	(1.9)	71.9
Employer contributions	**42.8**	**1.4**	**0.6**	**44.8**	32.7	1.5	18.8	53.0
Administrative expenses	**(0.7)**	**(0.1)**	**—**	**(0.8)**	(0.4)	—	—	(0.4)
Benefits paid[1]	**(114.0)**	**(3.6)**	**(23.8)**	**(141.4)**	(119.8)	(3.7)	(43.7)	(167.2)
Fair value of plan assets, ending balance	**$ 1,313.0**	**$ 50.2**	**$ 22.0**	**$1,385.2**	$ 1,219.1	$ 49.5	$ 44.5	$1,313.1
Defined benefit plan obligations								
Accrued obligations, beginning balance	**$ 1,384.1**	**$ 50.4**	**$ 294.3**	**$1,728.8**	$ 1,377.7	$ 50.1	$ 321.4	$1,749.2
Total current service cost	**0.9**	**—**	**—**	**0.9**	0.9	—	—	0.9
Interest cost	**56.2**	**2.0**	**12.0**	**70.2**	62.6	2.3	14.4	79.3
Benefits paid	**(114.0)**	**(3.6)**	**(15.6)**	**(133.2)**	(119.8)	(3.7)	(35.6)	(159.1)
Settlement gain	**—**	**—**	**—**	**—**	—	—	(21.9)	(21.9)
Curtailment loss	**4.2**	**—**	**—**	**4.2**	—	—	—	—
Plan amendment loss (gain)	**1.0**	**—**	**(43.8)**	**(42.8)**	—	—	—	—
Special termination benefits loss	**0.6**	**—**	**—**	**0.6**	—	—	—	—
Actuarial losses	**47.2**	**1.5**	**(6.2)**	**42.5**	62.7	1.7	16.0	80.4
Accrued plan obligations, ending balance	**$ 1,380.2**	**$ 50.3**	**$ 240.7**	**$1,671.2**	$ 1,384.1	$ 50.4	$ 294.3	$1,728.8
Funded status of plan – (deficit)	**(67.2)**	**(0.1)**	**(218.7)**	**(286.0)**	(165.0)	(0.9)	(249.8)	(415.7)
Retirement benefit liability at end of fiscal year, net	**$ (67.2)**	**$ (0.1)**	**$ (218.7)**	**$ (286.0)**	$ (165.0)	$ (0.9)	$ (249.8)	$ (415.7)

The retirement benefit liability is included in the Company's Consolidated Statements of Financial Position as follows:

Retirement benefit liability	**$ (67.2)**	**$ (0.1)**	**$ (218.7)**	**$ (286.0)**	$ (165.0)	$ (0.9)	$ (249.8)	$ (415.7)

1 *Benefits paid from the funded assets include retiree benefits and short-term disability of active employees. Other benefits consist of retiree health and dental claims.*

20.2 Fair value of plan assets

The fair value of plan assets disaggregated by asset class and fair value hierarchy level as at February 1, 2014 and February 2, 2013 was as follows:

	As at February 1, 2014				As at February 2, 2013			
	Registered Retirement Plans	**Non-Registered Pension Plan**	**Other Benefits Plan**	**Total**	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan	Total
Cash and cash equivalents								
Level 1	$ **34.6**	$ **24.3**	$ **—**	$ **58.9**	$ 41.2	$ 25.2	$ 0.1	$ 66.5
Subtotal	**34.6**	**24.3**	**—**	**58.9**	41.2	25.2	0.1	66.5
Corporate bonds and notes								
Level 2	**619.3**	**—**	**4.7**	**624.0**	604.7	—	12.3	617.0
Level 3	**122.2**	**—**	**1.0**	**123.2**	59.7	—	0.9	60.6
Subtotal	**741.5**	**—**	**5.7**	**747.2**	664.4	—	13.2	677.6
U.S. Government bonds and securities								
Level 2	**—**	**—**	**—**	**—**	0.9	—	—	0.9
Subtotal	**—**	**—**	**—**	**—**	0.9	—	—	0.9
Common stock, preferred stock and REITS								
Level 1	**172.0**	**—**	**—**	**172.0**	181.7	—	—	181.7
Subtotal	**172.0**	**—**	**—**	**172.0**	181.7	—	—	181.7
Common or collective trusts								
Level 2	**268.2**	**25.4**	**—**	**293.6**	251.8	24.3	—	276.1
Subtotal	**268.2**	**25.4**	**—**	**293.6**	251.8	24.3	—	276.1
Short-term collective investment funds								
Level 2	**117.6**	**0.4**	**1.1**	**119.1**	66.0	—	0.8	66.8
Subtotal	**117.6**	**0.4**	**1.1**	**119.1**	66.0	—	0.8	66.8
Hedge funds, options and futures								
Level 3	**2.7**	**—**	**—**	**2.7**	3.0	—	—	3.0
Subtotal	**2.7**	**—**	**—**	**2.7**	3.0	—	—	3.0
Receivables (liabilities)								
Level 1	**(1.8)**	**—**	**0.1**	**(1.7)**	6.8	—	0.5	7.3
Level 2	**—**	**—**	**—**	**—**	(0.8)	—	—	(0.8)
Subtotal	**(1.8)**	**—**	**0.1**	**(1.7)**	6.0	—	0.5	6.5
Miscellaneous other liabilities								
Level 1	**(22.5)**	**—**	**—**	**(22.5)**	—	—	—	—
Level 2	**0.7**	**0.1**	**15.1**	**15.9**	4.1	—	29.9	34.0
Subtotal	**(21.8)**	**0.1**	**15.1**	**(6.6)**	4.1	—	29.9	34.0
Total fair value of plan assets	$ **1,313.0**	$ **50.2**	$ **22.0**	$ **1,385.2**	$ 1,219.1	$ 49.5	$ 44.5	$ 1,313.1

The three levels of the fair value hierarchy referenced above are discussed in Note 14.5.

20.3 Plan assets investment allocation

During Fiscal 2011, the Company changed the target asset allocation to 55-75% fixed income and 25-45% equity for the registered and non-registered pension plans. For the assets in the health and welfare trust, included in Other Benefit Plans, the Company changed the asset allocation to 100% fixed income. As at the end of Fiscal 2013 and 2012, the assets were in line with the target allocation range, with the transitioning of assets from hedge funds, options and futures essentially complete. The asset allocation may be changed from time to time in terms of weighting between fixed income, equity and other asset classes as well as within the asset classes themselves.

The plan's target allocation is determined taking into consideration the amounts and timing of projected liabilities, the Company's funding policies and expected returns on various asset classes. To develop the expected long-term rate of return on assets assumption, the Company considered the historical returns and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio.

At as the end of the current and prior fiscal years. plan assets were invested in the following classes of securities:

	As at February 1, 2014			As at February 2, 2013		
	Registered Retirement Plans	**Non-Registered Pension Plan**	**Other Benefits Plan**	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan
Fixed income securities	**73.3%**	**62.9%**	**100.0%**	72.3%	66.5%	100.0%
Alternative investments	**0.2%**	**—%**	**—%**	0.2%	—%	—%
Equity securities	**26.5%**	**37.1%**	**—%**	27.5%	33.5%	—%
Total	**100.0%**	**100.0%**	**100.0%**	100.0%	100.0%	100.0%

20.4 Pension assumptions

The significant actuarial assumptions were as follows (weighted average assumptions) as at February 1, 2014 and February 2, 2013:

	As at February 1, 2014			As at February 2, 2013		
	Registered Retirement Plans	**Non-Registered Pension Plan**	**Other Benefits Plan**	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan
Discount rate used in calculation of						
Accrued benefit plan obligations	**4.20%**	**4.20%**	**4.20%**	4.20%	4.20%	4.20%
Benefit plans expense	**4.20%**	**4.20%**	**4.20%**	4.20%	4.20%	4.20%
Rate of compensation increase used in calculation of						
Accrued benefit plan obligations	**3.50%**	**3.50%**	**3.50%**	3.50%	3.50%	3.50%
Benefit plans expense	**3.50%**	**3.50%**	**3.50%**	3.50%	3.50%	3.50%
Expected long-term rate of return on plan assets used in calculation of benefit plans expense	**4.20%**	**4.20%**	**4.20%**	4.20%	4.20%	4.20%
Health care cost trend rates						
Used in calculation of accrued benefit plan obligations			**4.92%**			6.14%
Used in calculation of benefit plans expense			**6.14%**			6.23%
Cost trend rate declines to			**2.45%**			3.82%
Year that the rate reaches assumed constant			**2030**			2030

20.5 Sensitivity of significant actuarial assumptions

The following table summarizes the sensitivity of significant actuarial assumptions on the Company's defined benefit obligation:

	2013			2012		
(in CAD millions)	**Registered Retirement Plans**	**Non-Registered Pension Plan**	**Other Benefits Plan**	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan
Discount rate sensitivity						
Accrued benefit plan obligations						
100 basis point increase in discount rate	**$ (144.8)**	**$ (4.8)**	**$ (22.2)**	$ (153.4)	$ (4.8)	$ (29.6)
100 basis point decrease in discount rate	**177.1**	**5.8**	**26.4**	190.5	5.7	35.5
Benefit plans expense						
100 basis point increase in discount rate	**(6.5)**	**(0.2)**	**(1.1)**	(6.7)	(0.3)	0.8
100 basis point decrease in discount rate	**4.6**	**0.2**	**1.3**	5.1	0.2	(1.2)
Rate of compensation increase sensitivity						
Accrued benefit plan obligations						
50 basis point increase in rate of compensation increase	**8.8**	**0.4**	**n/a**	18.5	0.5	n/a
50 basis point decrease in rate of compensation increase	**(9.7)**	**(0.4)**	**n/a**	(16.4)	(0.3)	n/a
Benefit plans expense						
50 basis point increase in rate of compensation increase	**0.4**	—	**n/a**	1.0	—	n/a
50 basis point decrease in rate of compensation increase	**(0.4)**	—	**n/a**	(0.9)	—	n/a
Health care cost trend rate sensitivity						
Accrued benefit plan obligations						
100 basis point increase in health care trend rate	**n/a**	**n/a**	**18.9**	n/a	n/a	30.7
100 basis point decrease in health care trend rate	**n/a**	**n/a**	**(16.3)**	n/a	n/a	(26.1)
Benefit plans expense						
100 basis point increase in health care trend rate	**n/a**	**n/a**	**1.3**	n/a	n/a	1.3
100 basis point decrease in health care trend rate	**n/a**	**n/a**	**(1.1)**	n/a	n/a	(1.2)

The methods and assumptions used in determining the above sensitivity are consistent with the methods and assumptions used to determine the pension plan obligations and with the methods and assumptions used in Fiscal 2012.

20.6 Retirement benefit plans expense and contributions

The expense for the defined benefit, defined contribution and other benefit plans for Fiscal 2013 and Fiscal 2012, was as follows:

			2013					2012
(in CAD millions)	**Registered Retirement Plans**	**Non-Registered Pension Plan**	**Other Benefits Plan**	**Total**	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan	Total
Current service cost, net of employee contributions	$ **0.9**	$ **—**	$ **—**	$ **0.9**	$ 0.9	$ —	$ —	$ 0.9
Net interest	**6.3**	**—**	**10.6**	**16.9**	8.7	(0.1)	11.8	20.4
Curtailment loss	**4.2**	**—**	**—**	**4.2**	—	—	—	—
Plan amendment loss (gain)	**1.0**	**—**	**(43.8)**	**(42.8)**	—	—	—	—
Settlement gain	**—**	**—**	**—**	**—**	—	—	(21.9)	(21.9)
Special termination benefits loss	**0.6**	**—**	**—**	**0.6**	—	—	—	—
Administrative expenses	**0.7**	**0.1**	**—**	**0.8**	0.4	—	—	0.4
Net defined benefit plans expense (income)	$ **13.7**	$ **0.1**	$ **(33.2)**	$ **(19.4)**	$ 10.0	$ (0.1)	$ (10.1)	$ (0.2)
Net defined contribution plan expense	**8.4**	**—**	**0.2**	**8.6**	9.7	—	0.2	9.9
Total retirement benefit plans expense (income) [1]	$ **22.1**	$ **0.1**	$ **(33.0)**	$ **(10.8)**	$ 19.7	$ (0.1)	$ (9.9)	$ 9.7

1 *Not included in total expense recognized are short-term disability payments of $8.2 million (2012: $8.1 million) that were paid from the health and welfare trust. Both short-term disability and the retirement benefit plans expense (income) are included in "Selling, administrative and other expenses", unless disclosed elsewhere, in the Company's Consolidated Statements of Net Earnings and Comprehensive Income.*

Total cash contributions made by the Company to its defined benefit, defined contribution and other benefit plans, including payments to settle health and dental benefits of eligible members covered under the non-pension retirement plan, for the fiscal year ended February 1, 2014 were $53.5 million (2012: $63.0 million). For Fiscal 2014, it is estimated that the Company will make contributions of approximately $12.0 million to its defined benefit, defined contribution and other benefit plans, which include funding obligations as described in Note 14.2.

20.7 Remeasurements of the net defined retirement benefit liability

			2013					2012
(in CAD millions)	**Registered Retirement Plans**	**Non-Registered Pension Plan**	**Other Benefits Plan**	**Total**	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan	Total
Actuarial gain (loss) on difference between expected interest income and actual return on plan assets	$ **115.9**	$ **1.0**	$ **(0.7)**	$ **116.2**	$ 73.7	$ 0.1	$ (1.9)	$ 71.9
Actuarial (loss) gain due to change in demographic	**(35.3)**	**(1.3)**	**6.2**	**(30.4)**	—	—	—	—
Actuarial loss due to change in financial assumptions	**—**	**—**	**—**	**—**	(80.9)	(2.5)	(16.0)	(99.4)
Actuarial (loss) gain due to all other experiences	**(11.9)**	**(0.2)**	**—**	**(12.1)**	18.2	0.8	—	19.0
Total pre-tax remeasurement gains (losses)	$ **68.7**	$ **(0.5)**	$ **5.5**	$ **73.7**	$ 11.0	$ (1.6)	$ (17.9)	$ (8.5)
Income tax (expense) recovery on remeasurement gains (losses)				**(19.4)**				3.5
Total remeasurement gains (losses), net of income taxes [1]				$ **54.3**				$ (5.0)

1 *Total remeasurement gains (losses), net of income taxes, are included in "Other comprehensive (income) loss" in the Company's Consolidated Statements of Net Earnings and Comprehensive Income.*

The actuarial losses associated with changes in financial assumptions are due to changes in the discount rate. There are no changes to the discount rate as at February 1, 2014 for the Registered Retirement Plans, Non-registered Pension Plan (2012: a decrease of 0.5%), and Other Benefits Plan (2012: a decrease of 0.4%). The actuarial loss associated with changes in demographic are largely related to the change in the mortality table. The mortality table was updated in 2013 to reflect that members of the above Plans are living longer.

21. Contingent liabilities

21.1 Legal Proceedings

The Company is involved in various legal proceedings incidental to the normal course of business. The Company takes into account all available information, including guidance from experts (such as internal and external legal counsel) at the time of reporting to determine if it is probable that a present obligation (legal or constructive) exists, if it is probable that an outflow of resources embodying economic benefit will be required to settle such obligation and whether the Company can reliably measure such obligation at the end of the reporting period. The Company is of the view that, although the outcome of such legal proceedings cannot be predicted with certainty, the final disposition is not expected to have a material adverse effect on the consolidated financial statements, including its Consolidated Statements of Financial Position, Consolidated Statements of Net Earnings and Comprehensive Income, and Consolidated Statements of Cash Flows.

21.2 Commitments and guarantees

Commitments

As at February 1, 2014, cash and cash equivalents that are restricted represent cash and investments pledged as collateral for letter of credit obligations issued under the Company's offshore merchandise purchasing program of $11.1 million (February 2, 2013: $9.0 million, January 28, 2012: $7.2 million), which is the Canadian equivalent of U.S. $10.0 million (February 2, 2013: U.S. $9.0 million, January 28, 2012: U.S. $7.2 million).

The Company has certain vendors which require minimum purchase commitment levels over the term of the contract. Refer to Note 14.2 "Liquidity Risk".

Guarantees

The Company has provided the following significant guarantees to third parties:

Royalty License Agreements

The Company pays royalties under various merchandise license agreements, which are generally based on the sale of products. Certain license agreements require a minimum guaranteed payment of royalties over the term of the contract, regardless of sales. Total future minimum royalty payments under such agreements were $3.5 million as at February 1, 2014 (February 2, 2013: $2.3 million, January 28, 2012: $3.1 million).

Other Indemnification Agreements

In the ordinary course of business, the Company has provided indemnification commitments to counterparties in transactions such as leasing transactions, royalty agreements, service arrangements, investment banking agreements and director and officer indemnification agreements. The Company has also provided certain indemnification agreements in connection with the sale of the credit and financial services operations in November 2005. The foregoing indemnification agreements require the Company to compensate the counterparties for costs incurred as a result of changes in laws and regulations, or as a result of litigation or statutory claims, or statutory sanctions that may be suffered by a counterparty as a consequence of the transaction. The terms of these indemnification agreements will vary based on the contract and typically do not provide for any limit on the maximum potential liability. Historically, the Company has not made any significant payments under such indemnifications and no amounts have been accrued in the consolidated financial statements with respect to these indemnification commitments.

22. Income taxes

The average combined federal and provincial statutory income tax rate applied to the Company was 26.5% for Fiscal 2013 (2012: 25.5%) due to higher legislated statutory tax rates in the current year. A reconciliation of income taxes at the average statutory tax to actual income tax expense for Fiscal 2013 and Fiscal 2012 is as follows:

(in CAD millions)		**2013**		2012
Earnings before income taxes	$	**490.0**	$	114.2
Income taxes at the average statutory tax rate	$	**129.6**	$	29.1
(Decrease) increase in income taxes resulting from				
Non-taxable portion of capital gain		**(77.0)**		(16.4)
Non-deductible items		**0.4**		1.7
Prior year assessments		**(0.6)**		2.7
Prior year true-up		**0.3**		—
Others		**0.6**		—
		53.3		17.1
Effective tax rate before the following adjustments		**10.9%**		15.0%
Changes in tax rates or imposition of new taxes		**(9.8)**		(4.1)
Total income tax expense	$	**43.5**	$	13.0
Effective tax rate		**8.9%**		11.4%

The Company's total net cash refunds or payments of income taxes for the current year was a net payment of $32.9 million (2012: net refund of $4.9 million).

In the ordinary course of business, the Company is subject to ongoing audits by tax authorities. While the Company believes that its tax filing positions are appropriate and supportable, periodically, certain matters are challenged by tax authorities. During Fiscal 2013, the Company recorded charges for interest on prior period tax re-assessments and accruals for uncertain tax positions as described in the table below, all included in the Consolidated Statements of Net Earnings and Comprehensive Income as follows:

(in CAD millions)		**2013**		2012
Finance costs recovery (increase)	$	**0.2**	$	(3.9)
Income tax recovery (expense):				
Current	$	**0.6**	$	(5.4)
Deferred	$	**(0.2)**	$	2.2
Total benefits (charges) on uncertain tax positions	$	**0.6**	$	(7.1)

As the Company routinely evaluates and provides for potentially unfavourable outcomes, with respect to any tax audits, the Company believes that, other than as noted above, the final disposition of tax audits will not have a material adverse effect on liquidity.

In Fiscal 2013, the Company received federal and consequential provincial re-assessments to previous tax filings which the Company is disputing. For these disputed amounts, the Company placed a deposit of $28.0 million in Fiscal 2013, of which $20.2 million has been included in "Other long-term assets" and $7.8 million has been included in "Income taxes payable" in the Consolidated Statements of Financial Position as at February 1, 2014.

Included in "Other long-term assets" in the Consolidated Statements of Financial Position, as at February 1, 2014, were receivables of $32.5 million (February 2, 2013: $13.9 million) related to payments made by the Company for disputed tax assessments.

The tax effects of the significant components of temporary timing differences giving rise to the Company's net deferred tax assets were as follows:

(in CAD millions)		As at February 2, 2013 (Note 2.25)		Recognized in earnings		Recognized in equity		**As at February 1, 2014**
Deferred revenue	$	1.0	$	(0.2)	$	—	$	**0.8**
Other long term liabilities		26.9		(2.3)		—		**24.6**
Derivative financial assets		—		—		(2.2)		**(2.2)**
Property, plant and equipment		(74.6)		30.7		—		**(43.9)**
Investment property		(37.3)		8.6		—		**(28.7)**
Goodwill and intangible assets		0.5		0.9		—		**1.4**
Retirement benefit obligations		109.9		(14.7)		(19.2)		**76.0**
Provisions		53.0		3.5		—		**56.5**
Other		(1.6)		1.6		—		**—**
Total deferred tax assets, net	$	77.8	$	28.1	$	(21.4)	$	**84.5**

(in CAD millions)		As at January 28, 2012 (Note 2.25)		Recognized in earnings		Recognized in equity		As at February 2, 2013 (Note 2.25)
Deferred revenue	$	1.2	$	(0.2)	$	—	$	1.0
Other long term liabilities		24.3		2.6		—		26.9
Derivative financial assets		0.1		(0.1)		—		—
Property, plant and equipment		(93.4)		18.8		—		(74.6)
Investment property		(37.1)		(0.2)		—		(37.3)
Goodwill and intangible assets		0.8		(0.3)		—		0.5
Retirement benefit obligations		118.0		(11.6)		3.5		109.9
Provisions		54.4		(1.4)		—		53.0
Tax credit carry forwards		12.9		(12.9)		—		—
Other		(2.2)		0.6		—		(1.6)
Total deferred tax assets, net	$	79.0	$	(4.7)	$	3.5	$	77.8

(in CAD millions)		**As at February 1, 2014**		As at February 2, 2013 (Note 2.25)		As at January 28, 2012 (Note 2.25)
Deferred tax assets	$	**88.7**	$	83.8	$	84.6
Deferred tax liabilities		**(4.2)**		(6.0)		(5.6)
Total deferred tax assets, net	$	**84.5**	$	77.8	$	79.0

23. Segmented information

In order to identify the Company's reportable segments, the Company uses the process outlined in IFRS 8, *Operating Segments* which includes the identification of the Chief Operating Decision Maker, the identification of operating segments, which has been done based on Company formats, and the aggregation of operating segments. The Company has aggregated its operating segments into two reportable segments: Merchandising and Real Estate Joint Arrangement operations. The Merchandising segment includes revenues from the sale of merchandise and related services to customers. The Real Estate Joint Arrangement segment includes income from the Company's joint arrangement interests in shopping centres across Canada, all of which contain a Sears store.

23.1 Segmented statements of earnings

(in CAD millions)		2013		2012 (Note 2.25)
Total revenue				
Merchandising	$	**3,945.8**	$	4,300.7
Real Estate Joint Arrangements		**46.0**		45.8
Total revenues	$	**3,991.8**	$	4,346.5
Segmented operating (loss) income				
Merchandising	$	**(205.1)**	$	(81.5)
Real Estate Joint Arrangements		**17.3**		9.7
Total segmented operating loss	$	**(187.8)**	$	(71.8)
Finance costs				
Merchandising	$	**9.3**	$	13.3
Real Estate Joint Arrangements		**1.5**		1.8
Total finance costs	$	**10.8**	$	15.1
Interest income				
Merchandising	$	**2.5**	$	4.1
Real Estate Joint Arrangements		**0.1**		0.2
Total interest income	$	**2.6**	$	4.3
Gain on lease terminations and lease amendments				
Merchandising	$	**577.2**	$	167.1
Real Estate Joint Arrangements		**—**		—
Total gain on lease terminations and lease amendments	$	**577.2**	$	167.1
Gain on sale of interest in real estate joint arrangements				
Merchandising	$	**—**	$	—
Real Estate Joint Arrangements		**66.3**		8.6
Total gain on sale of interest in real estate joint arrangements	$	**66.3**	$	8.6
Gain on settlement and amendment of retirement benefits				
Merchandising	$	**42.5**	$	21.1
Real Estate Joint Arrangements		**—**		—
Total gain on settlement and amendment of retirement benefits	$	**42.5**	$	21.1
Income tax (expense) recovery				
Merchandising	$	**(40.1)**	$	(12.1)
Real Estate Joint Arrangements		**(3.4)**		(0.9)
Total income tax expense	$	**(43.5)**	$	(13.0)
Net earnings	$	**446.5**	$	101.2

23.2 Segmented statements of total assets

(in CAD millions)		As at February 1, 2014		As at February 2, 2013 (Note 2.25)		As at January 28, 2012 (Note 2.25)
Merchandising	$	**2,354.2**	$	2,210.8	$	2,425.6
Real Estate Joint Arrangements		**38.1**		293.9		341.8
Total assets	$	**2,392.3**	$	2,504.7	$	2,767.4

23.3 Segmented statements of total liabilities

(in CAD millions)		As at February 1, 2014		As at February 2, 2013 (Note 2.25)		As at January 28, 2012 (Note 2.25)
Merchandising	$	**1,314.4**	$	1,402.3	$	1,638.7
Real Estate Joint Arrangements		**4.1**		26.0		36.7
Total liabilities	$	**1,318.5**	$	1,428.3	$	1,675.4

24. Capital stock

On May 22, 2013, the Toronto Stock Exchange ("TSX") accepted the Company's Notice of Intention to make a Normal Course Issuer Bid ("2013 NCIB"). The 2013 NCIB permits the Company to purchase for cancellation up to 5% of its issued and outstanding common shares, representing 5,093,883 of the issued and outstanding common shares as at May 10, 2013. Under the 2013 NCIB, purchases were allowed to commence on May 24, 2013 and must terminate by May 23, 2014 or on such earlier date as the Company may complete its purchases pursuant to the 2013 NCIB. The total purchase of common shares by the Company pursuant to the 2013 NCIB will not exceed, in the aggregate, 5% of all outstanding common shares, and is subject to the limits under the TSX rules, including a daily limit of 25% of the average daily trading volume (which, cannot exceed 19,689 common shares a day), and a limit of one block purchase per week.

There were no share purchases during Fiscal 2013 (2012: 870,633 shares were purchased for $9.7 million as part of a normal course issuer bid in place for the period of May 25, 2011 to May 24, 2012). The impact of the share repurchases in Fiscal 2012 was a decrease to "Capital stock" and "Retained earnings" in the Consolidated Statements of Financial Position of $0.1 million and $9.6 million, respectively.

During Fiscal 2013, the Company distributed $509.4 million to holders of common shares as an extraordinary cash dividend (2012: $101.9 million). Payment in the amount of $5.00 per common share was made on December 6, 2013.

The authorized common share capital of the Company consists of an unlimited number of common shares without nominal or par value and an unlimited number of class 1 preferred shares, issuable in one or more series (the "Class 1 Preferred Shares").

As at the end of February 1, 2014, the only shares outstanding were common shares of the Company. The following table presents a continuity of capital stock for the fiscal years ended February 1, 2014 and February 2, 2013:

			2013			2012
(in CAD millions, except number of shares)	**Number of Common Shares**		**Stated Value**	Number of Common Shares		Stated Value
Balance, beginning of fiscal year	**101,877,662**	$	**14.9**	102,748,295	$	15.0
Repurchases of common shares	—		—	(870,633)		(0.1)
Balance, end of fiscal year	**101,877,662**	$	**14.9**	101,877,662	$	14.9

ESL Investments, Inc., and investment affiliates including Edward S. Lampert, collectively "ESL", together form the ultimate controlling party of the Company. ESL is the beneficial holder of 28,158,368 or 27.6%, of the common shares of the Company as at February 1, 2014 (February 2, 2013: 28,158,368 or 27.6%, January 28, 2012: nil). Sears Holdings, the controlling shareholder of the Company, is the beneficial holder of 51,962,391 or 51.0%, of the common shares of the Company as at February 1, 2014 (February 2, 2013: 51,962,391 or 51%, January 28, 2012: 97,341,670 or 94.7%). The issued and outstanding shares are fully paid and have no par value.

25. Capital disclosures

The Company's objectives when managing capital are:

- Maintain financial flexibility thus allowing the Company to preserve its ability to meet financial objectives and continue as a going concern;
- Provide an appropriate return to shareholders; and
- Maintain a capital structure that allows the Company to obtain financing should the need arise.

The Company manages and makes adjustments to its capital structure, when necessary, in light of changes in economic conditions, the objectives of its shareholders, the cash requirements of the business and the condition of capital markets. In order to maintain or adjust the capital structure, the Company may pay a dividend or return capital to shareholders, modify debt levels or sell assets.

The Company defines capital as follows:

- Long-term obligations, including the current portion of long-term obligations ("Total long-term obligations"); and
- Shareholders' equity.

The following table presents summary quantitative data with respect to the Company's capital resources:

(in CAD millions)		**As at February 1, 2014**		As at February 2, 2013 (Note 2.25)		As at January 28, 2012 (Note 2.25)
Total long-term obligations	**$**	**35.9**	$	59.4	$	154.0
Shareholders' equity		**1,073.8**		1,076.4		1,092.0
Total	**$**	**1,109.7**	$	1,135.8	$	1,246.0

26. Revenue

The components of the Company's revenue were as follows:

(in CAD millions)		**2013**		2012 (Note 2.25)
Apparel and Accessories	**$**	**1,462.8**	$	1,474.2
Home and Hardlines		**998.4**		1,125.4
Major Appliances		**823.3**		876.3
Other merchandise revenue		**227.7**		362.5
Services and other		**342.6**		367.7
Commission and licensee revenue		**137.0**		140.4
Total revenue	**$**	**3,991.8**	$	4,346.5

27. Employee benefits expense

The components of the Company's employee benefits expense for the current and prior fiscal year were as follows:

(in CAD millions)		**2013**		2012
Wages and salaries	$	**585.2**	$	657.9
Paid absences [1]		**55.6**		62.1
Benefits				
Provincial healthcare costs		**13.6**		15.5
Flex benefits		**15.0**		16.6
Retirement benefit plans expense [2]		**(10.8)**		9.7
Statutory deductions [3]		**40.5**		45.7
Severance		**60.5**		17.1
Other employer paid benefits		**3.2**		(1.2)
Total benefits expense	$	**762.8**	$	823.4

[1] *Paid absences are expenses related to vacation, statutory holidays and sick days.*
[2] *Included in Retirement benefit plans expense for Fiscal 2013 was a $42.8 million gain related to the amendments to the defined benefit registered retirement plan and non-pension retirement benefit plan (2012: $21.9 million gain related to settlement of a voluntary buyout of non-pension retirement benefits).*
[3] *Statutory deductions consist of the employer portion of payment for the Canada Pension Plan and Employment Insurance.*

These expenses are included in "Cost of goods and services sold", "Selling, administrative and other expenses" and "Gain on settlement and amendment of retirement benefits" in the Consolidated Statements of Net Earnings and Comprehensive Income.

28. Gain on lease terminations and lease amendments

On June 14, 2013, the Company announced its intention to enter into a series of transactions related to its leases on two properties: Yorkdale Shopping Centre (Toronto) and Square One Shopping Centre (Mississauga). The landlords approached the Company with a proposal to enter into a series of lease amendments for a total consideration of $191.0 million, being the amount the landlords were willing to pay for the right to require the Company to vacate the two locations.

On June 24, 2013, the Company received proceeds of $191.0 million upon closing of the transaction which gave the landlords the right to require the Company to vacate the two locations by March 31, 2014. The landlords exercised such right on July 25, 2013. The transaction resulted in a pre-tax gain of $185.7 million, net of legal costs and the de-recognition of leasehold improvements of $5.3 million.

The Company also granted the owners of the Scarborough Town Centre (Toronto) property an option to enter into certain lease amendments in exchange for $1.0 million, which was paid on June 24, 2013. The option may be exercised at any time up to and including June 20, 2018, and would require the Company to complete certain lease amendments in exchange for $53.0 million. Such lease amendments would allow the owners to require the Company to close its store. As of February 1, 2014, the option had not been exercised and was included in "Accounts payable and accrued liabilities" in the Consolidated Statements of Financial Position.

On October 29, 2013, the Company announced that it would terminate its leases in respect of four stores and partially terminate its lease in a fifth location, for a total consideration of $400.0 million. Four of the five stores are owned by The Cadillac Fairview Corporation Limited (Cadillac Fairview) and are located in Ontario: Toronto Eaton Centre, Sherway Gardens, Markville Shopping Centre and London-Masonville Place. The fifth store is located at Richmond Shopping Centre in British Columbia and is co-owned by Ivanhoé Cambridge II Inc. and Cadillac Fairview. The transaction requires Sears to vacate Sherway Gardens, London-Masonville Place and the retail floors of the Toronto Eaton Centre ("TEC"), by February 28, 2014, and Markville and Richmond Shopping Centres by February 28, 2015. On November 12, 2013, the Company received proceeds of $400.0 million for these transactions, resulting in a pre-tax gain of $391.5 million, net of legal costs and the de-recognition of leasehold improvements and furniture and fixtures of $9.5 million.

As part of this transaction, the Company vacated the retail floors of the TEC. The Company will continue to use the office floors of the TEC as its headquarters under terms consistent with the existing lease. In accordance with *IAS 17, Leases*, the lease on the office floors of the TEC was assessed as a finance lease. The Company has transferred all risks and rewards associated with the vacated retail floors, has no significant continuing involvement related to these floors, and all costs associated with vacating the retail floors have been measured reliably.

In accordance with *IAS 18, Revenue*, the Company has recognized the entire gain of $391.5 million in Fiscal 2013 in the Consolidated Statements of Net Earnings and Comprehensive Income.

On March 2, 2012, the Company entered into an agreement to surrender and terminate early the operating leases on three properties: Vancouver Pacific Centre, Chinook Centre (Calgary) and Rideau Centre (Ottawa). The Company was a long-term and important anchor tenant in the three properties, and the landlord approached the Company with a proposal to terminate early the three leases and vacate the premises in exchange for $170.0 million. The payment represented the amount the landlord was willing to pay for the right to redevelop the property based upon their analysis of the potential returns from redevelopment.

On the closing date, April 20, 2012, the Company received cash proceeds of $170.0 million for the surrender of the three leases, resulting in a pre-tax gain of $164.3 million, net of legal costs and the de-recognition of leasehold improvements of $5.7 million. The Company exited all three properties on October 31, 2012 and has no further financial obligation related to the transaction.

On June 20, 2012, the Company entered an agreement to surrender and terminate early the operating lease on its Deerfoot (Calgary) property. The landlord approached the Company with a proposal to terminate early the lease in exchange for cash proceeds of $5.0 million, subject to certain closing conditions, on the closing date of October 26, 2012. In Fiscal 2010, the Company incurred an impairment loss of $2.9 million relating to the property, plant and equipment at its Deerfoot property. As a result of the agreement and expected proceeds, the Company recorded an impairment loss reversal (net of accumulated amortization) of $2.1 million in "Selling, administrative and other expenses". On the closing date of October 26, 2012, the Company vacated the property and received cash proceeds of $5.0 million, resulting in a pre-tax gain of $2.8 million, net of legal costs and the de-recognition of leasehold improvements and furniture and fixtures of $2.2 million. The Company has no further financial obligation related to the transaction.

29. Assets classified as held for sale

On October 29, 2013, the Company announced the future closure of one of its RLC. The RLC including the adjacent vacant property, which are owned by the Company, is being marketed for sale and if a buyer is identified that will purchase the RLC at a price acceptable to the Company, then the RLC will be sold. This process has been approved by senior management of the Company, and based on these factors, the Company has concluded that the sale is highly probable.

(in CAD millions)		As at February 1, 2014
Property, plant and equipment	$	**10.9**
Investment property		**2.4**
Assets classified as held for sale	$	**13.3**

The carrying value of property, plant and equipment and investment property of the RLC held for sale was higher than the estimated fair value less costs to sell and, as a result, the Company recognized an impairment loss of $16.5 million. This amount is included in the $27.7 million of impairment (reversals) losses in the property, plant and equipment continuity in Note 9. The Company determined fair value by engaging an independent qualified third party appraiser to conduct an appraisal of its RLC land and building properties. The valuation method used to determine fair value was the direct sales comparison approach. Impairment losses are included in "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings and Comprehensive Income.

The operations of the RLC is not presented as discontinued operations on the Consolidated Statement of Net Earnings and Comprehensive Income as they do not represent a separate geographical area of operations or a separate major line of business.

30. Sale of Cantrex Group Inc. ("Cantrex")

On April 24, 2012, the Company entered an agreement to sell the operations of its subsidiary, Cantrex, to Nationwide Marketing Group, LLC for $3.5 million, equal to the net carrying amount of specified Cantrex assets and liabilities. On April 29, 2012, the Company received the proceeds on the sale, de-recognized the assets and liabilities sold and recorded a gain on sale of nil.

31. Related party transactions

The immediate parent of the Company is Sears Holdings. The ultimate controlling party of the Company is ESL Investments, Inc. (incorporated in the U.S. in the state of Florida) through Sears Holdings. The Company also has interests in joint arrangements, as described in Note 11.

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Company and other related parties are disclosed below.

31.1 Trading transactions

During the current and prior fiscal year, the Company entered into the following trading transactions with related parties:

				2013				2012
(in CAD millions)	**Purchase of goods**	**Services received**	**Other**	**Total**	Purchase of goods	Services received	Other	Total
Sears Holdings Corporation	$ —	$ **4.5**	$ **0.4**	$ **4.9**	$ —	$ 5.0	$ 0.2	$ 5.2
Real estate joint arrangements	—	**3.9**	—	**3.9**	—	4.5	—	4.5
Total related party transactions	$ —	$ **8.4**	$ **0.4**	$ **8.8**	$ —	$ 9.5	$ 0.2	$ 9.7

The following balances were outstanding as at the end of the fiscal year:

			Amounts receivable from related parties
(in CAD millions)	**As at February 1, 2014**	As at February 2, 2013	As at January 28, 2012
Sears Holdings Corporation	$ —	$ 0.3	$ 0.1

			Amounts payable to related parties
(in CAD millions)	**As at February 1, 2014**	As at February 2, 2013	As at January 28, 2012
Sears Holdings Corporation	$ **0.4**	$ 0.7	$ 0.6

The related party transactions with Sears Holdings are in the ordinary course of business for shared merchandise purchasing services. These transactions were recorded either at fair market value or the exchange amount, which was established and agreed to by the related parties. These balances are included in "Accounts payable and accrued liabilities" and "Accounts receivable, net" in the Consolidated Statements of Financial Position.

The related party transactions with the various real estate joint arrangements represent lease payments for the lease of the Company's stores. These transactions were recorded either at fair market value or the exchange amount, which was established and agreed to by the related parties.

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No expense has been recognized in the current or prior fiscal periods for bad or doubtful debts in respect of the amounts owed by related parties.

The Company's Audit Committee is responsible for pre-approving all related party transactions that have a value greater than $1.0 million.

32. Key management personnel compensation

Key management personnel are those individuals having the authority and responsibility for planning, directing and controlling the activities of the Company. The Company considers the Board of Directors and the following former and current members of senior management to be key management personnel:

Former President and Chief Executive Officer;
President and Chief Executive Officer;
Executive Vice-President and Chief Financial Officer;
Former Executive Vice-President, Financial Services;
Former Senior Vice-President & Chief Information Officer;
Former Senior Vice President, General Merchandise Manager, Accessories Merchandising;
Former Senior Vice President, General Merchandise Manager, Apparel Merchandising;
Former Senior Vice-President, Home & Hardlines;
Former Senior Vice-President, Marketing;
Former Senior Vice-President, Human Resources;
Executive Vice-President, Chief Operating Officer and General Counsel;
Former Senior Vice-President, Retail Stores;
Senior Vice President, Home & Hardlines and Strategic Initiatives
Senior Vice President, Human Resources;
Senior Vice President, Apparel and Accessories;
Former Senior Vice President, Logistics and Supply Chain;
Interim Senior Vice President, Retail Stores; and
Interim Senior Vice President, Direct.

Key management personnel compensation was as follows:

(in CAD millions)		**2013**		2012
Salaries and perquisites	$	**8.1**	$	7.4
Annual incentive plans and other bonuses		**1.2**		0.9
Pensions		**0.1**		0.1
Termination benefits		**1.3**		0.9
Total key management personnel compensation	$	**10.7**	$	9.3

33. Net earnings per share

A reconciliation of the number of shares used in the net earnings per share calculation is as follows:

(Number of shares)	**2013**	2012
Weighted average number of shares per basic net earnings per share calculation	**101,877,662**	102,078,477
Effect of dilutive instruments outstanding	—	—
Weighted average number of shares per diluted net earnings per share calculation	**101,877,662**	102,078,477

"Net earnings" as disclosed in the Consolidated Statements of Net Earnings and Comprehensive Income was used as the numerator in calculating the basic and diluted net earnings per share. For the fiscal year ended February 1, 2014, there were no outstanding options to exclude from the calculation of diluted net earnings per share. For the fiscal year ended February 2, 2013, 5,440 outstanding options were excluded from the calculation of diluted net earnings per share as they were anti-dilutive.

34. Changes in non-cash working capital balances

Cash generated from (used for) non-cash working capital balances were comprised of the following:

(in CAD millions)		2013		2012 (Note 2.25)
Accounts receivable, net	$	**(6.6)**	$	36.4
Inventories		**76.8**		(27.5)
Prepaid expenses		**4.8**		(0.7)
Accounts payable and accrued liabilities		**(52.6)**		(86.9)
Deferred revenue		**(10.1)**		(10.2)
Provisions		**43.1**		1.5
Income and other taxes payable and recoverable		**19.5**		(35.5)
Effect of foreign exchange rates		**(1.6)**		—
Cash generated from (used for) non-cash working capital balances	$	**73.3**	$	(122.9)

35. Changes in long-term assets and liabilities

Cash (used for) generated from long-term assets and liabilities were comprised of the following:

(in CAD millions)		2013		2012 (Note 2.25)
Other long-term assets	$	**7.0**	$	23.1
Other long-term liabilities		**(14.9)**		(1.0)
Other		**0.3**		11.1
Cash (used for) generated from long-term assets and liabilities	$	**(7.6)**	$	33.2

36. Burnaby arrangement

On October 11, 2013, the Company announced that it entered into a binding agreement with Concord Pacific Group of Companies ("Concord") to pursue the development of nine acres of the Company's property on and adjacent to the Company's store located at the Metropolis at Metrotown in Burnaby, British Columbia (the "Project"). Closing under the agreement is contingent upon obtaining the approval from the City of Burnaby for the Project, which is expected to occur over an extended period of time.

This agreement contemplates the sale of a 50% interest in the site for a value of approximately $140.0 million subject to adjustments, and the retention of Concord on customary terms to manage the development. $15.0 million of the purchase price is to be paid in cash on closing, with the balance represented by an interest-free long term note secured by Concord's 50% interest in the property, the principal of which is expected to be repaid out of cash flow generated from the Project over time. It is contemplated that this note will be subordinated to other debt financing expected to be raised and used to develop the Project. The note will be guaranteed by a Concord affiliate. Following the sale of the 50% interest, it is contemplated that the parties will enter into a co-ownership arrangement. If third party debt financing cannot be obtained, Concord will be responsible for providing debt financing to develop the Project (which would, with certain exceptions, be subordinated to the long-term note held by the Company). The estimated cost to fully develop and build out the Project as contemplated is currently in excess of $1.0 billion. Completion of the Project as contemplated is subject to strategic considerations, including, but not limited to, potential shifts in the Canadian economy and the condition of the real estate market now and in the future.

In January 2014, in conjunction with Concord obtaining financing to develop the Project, Sears entered into a demand mortgage for $25.0 million, secured by the Project property. Interest on drawings under the mortgage is determined based on the prime rate plus a spread, and is due monthly. As at February 1, 2014, the Company had no borrowings on the mortgage. In January 2014, Concord entered into a demand loan agreement for $20.0 million. The loan is guaranteed by Concord's parent company, One West Holdings Ltd., and the Company's undrawn $25.0 million mortgage has been pledged as collateral. As at February 1, 2014, Concord had borrowed $12.6 million against the available demand loan.

37. Approval of consolidated financial statements

The consolidated financial statements were approved by Board of Directors and authorized for issue on March 13, 2014.

DIRECTORS AND OFFICERS

Board of Directors

Douglas Campbell

President and Chief Executive Officer of the Corporation

William C. Crowley [2,3]

Chief Exective Officer
Ashe Capital Management, LLC

William R. Harker [2,3]

President
Ashe Capital Management, LLC

R. Raja Khanna [1,4]

Chief Executive Officer
Blue Ant Media Inc.

James McBurney [1,4]

Corporate Director

Deborah E. Rosati [1,2,4]

Corporate Director and Advisor

Donald C. Ross [1,2,4]

Senior of Counsel
Covington & Burling LLP

H Ronald Weissman [1]

Corporate Director

Officers

Douglas Campbell

President and Chief Executive Officer

E.J. Bird

Executive Vice-President and Chief Financial Officer

Klaudio Leshnjani

Executive Vice-President and Chief Operating Officer

Committees

1 Audit Committee
2 Human Resources and Compensation Committee
3 Investment Committee
4 Nominating and Corporate Governance Committee

CORPORATE INFORMATION

Head Office

Sears Canada Inc.
290 Yonge Street
Suite 700
Toronto, Ontario
M5B 2C3

Website:www.sears.ca
E-mail:home@sears.ca

For more information about the Company, or for additional copies of the Annual Report, write to the Corporate Communications Department at the Head Office of Sears Canada Inc., or call 416-941-4428.

The Company's regulatory filings can be found on the SEDAR website at www.sedar.com and on the U.S. Securities Exchange Commission (SEC) website at www.sec.gov.

Stock Exchange Listing

Toronto Stock Exchange
Trading symbol: SCC

Transfer Agent and Registrar

CST Trust Company
P.O. Box 700, Station B
Montreal, Québec
H3B 3K3

Answerline:	416-682-3860
	1-800-387-0825
Fax:	1-888-249-6189
Website:	www.canstockta.com
E-Mail:	inquiries@canstockta.com

Annual and Special Meeting

The Annual and Special Meeting of the Shareholders of Sears Canada Inc. will be held on Thursday, April 24, 2014 at 8:00 a.m. in Room 5B1, Fifth floor, 290 Yonge Street, Toronto, Ontario Canada.

Édition française du Rapport annuel

On peut se procurer l'édition française de ce rapport en écrivant au:

Service national des communications
Sears Canada Inc.
290 Yonge Street
Suite 700
Toronto, Ontario
M5B 2C3

Pour obtenir de plus amples renseignements au sujet de la Société ou pour obtenir des exemplaires supplémentaires du rapport annuel, veuillez écrire au service national des Communications au siège social de Sears Canada Inc., ou composez le 416-941-4428.

Les dépôts réglementaires de la Société se trouvent sur le site Web de SEDAR à l'adresse www.sedar.com et sur le site Web de la Securities Exchange Commission (« SEC ») des États-Unis à l'adresse www.sec.gov.

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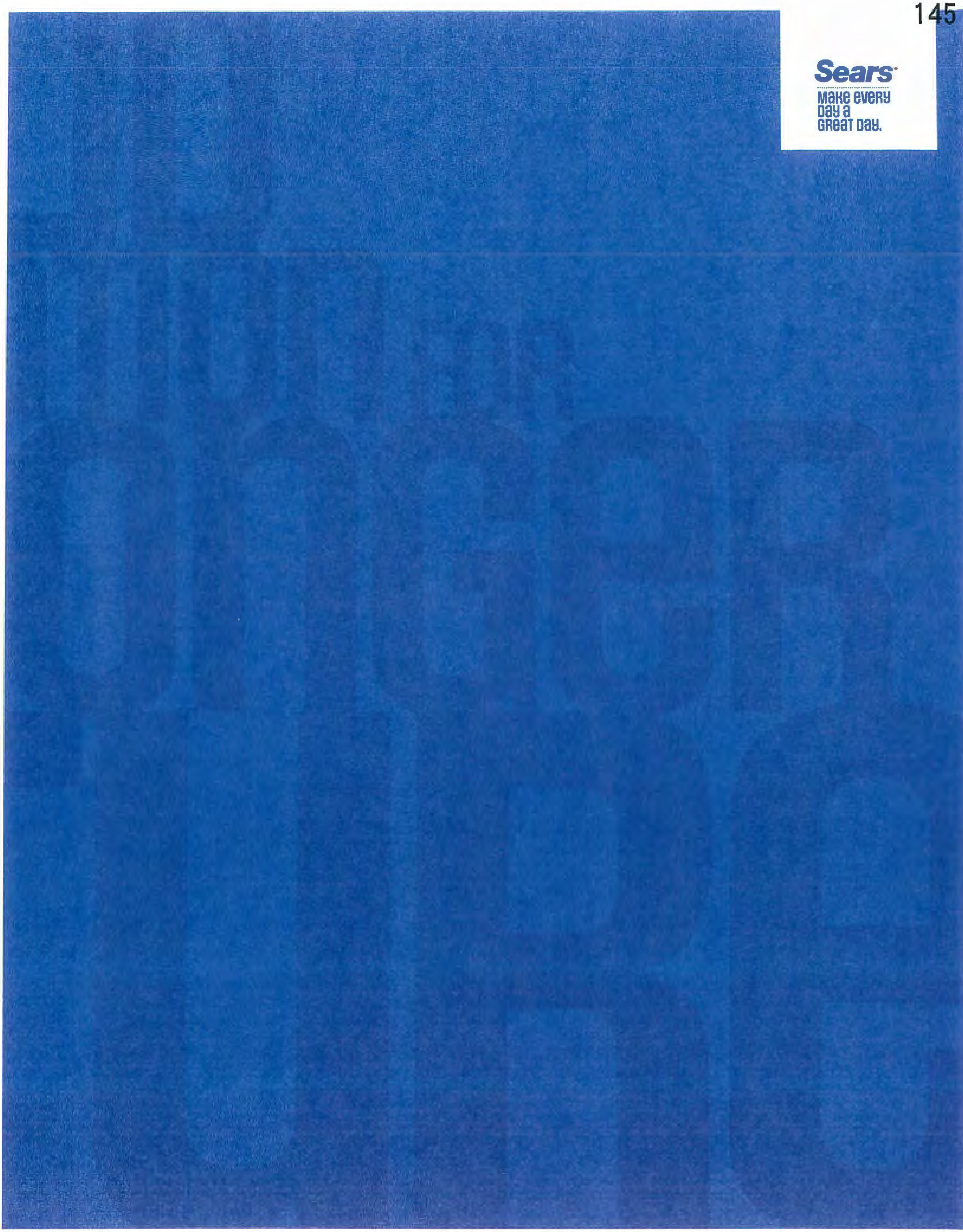
Sears
Make every
Day a
Great Day.

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 13F

FORM 13F COVER PAGE

OMB APPROVAL	
OMB Number:	3235-0006
Expires:	Oct 31, 2018
Estimated average burden	
hours per response:	23.8

Report for the Calendar Year or Quarter Ended: 12-31-2014

Check here if Amendment ☐ Amendment Number:

This Amendment (Check only one.): ☐ is a restatement.
☐ adds new holdings entries.

Institutional Investment Manager Filing this Report:

Name: RBS Partners, L.P.
Address: 1170 Kane Concourse
Suite 200
Bay Harbor Islands, FL 33154
Form 13F File Number: 028-02610

The institutional investment manager filing this report and the person by whom it is signed hereby represent that the person signing the report is authorized to submit it, that all information contained herein is true, correct and complete, and that it is understood that all required items, statements, schedules, lists, and tables, are considered integral parts of this form.

Person Signing this Report on Behalf of Reporting Manager:
Name: Edward S. Lampert
Title: Chief Executive Officer of the General Partner
Phone: (305) 702-2100

Signature, Place, and Date of Signing:

/s/ Edward S. Lampert	Bay Harbor, FL	02-17-2015
[Signature]	[City, State]	[Date]

Report Type (Check only one.):

☒ 13F HOLDINGS REPORT. (Check here if all holdings of this reporting manager are reported in this report.)

☐ 13F NOTICE. (Check here if no holdings reported are in this report, and all holdings are reported by other reporting manager(s).)

☐

☐ 13F COMBINATION REPORT. (Check here if a portion of the holdings for this reporting manager are reported in this report and a portion are reported by other reporting manager(s).)

Form 13F Summary Page

Report Summary:

Number of Other Included Managers:	1
Form 13F Information Table Entry Total:	12
Form 13F Information Table Value Total:	2,211,277
	(thousands)

List of Other Included Managers:

Provide a numbered list of the name(s) and Form 13F file number(s) of all institutional investment managers with respect to which this report is filed, other than the manager filing this report.

[If there are no entries in this list, state "NONE" and omit the column headings and list entries.]

No.	Form 13F File Number	Name
1	028-11470	ESL Investments, Inc.

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 13F

OMB APPROVAL	
OMB Number:	3235-0006
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FORM 13F INFORMATION TABLE

COLUMN 1	COLUMN 2	COLUMN 3	COLUMN 4	COLUMN 5			COLUMN 6	COLUMN 7	COLUMN 8		
			VALUE	SHRS OR	SH/	PUT/	INVESTMENT	OTHER	VOTING AUTHORITY		
NAME OF ISSUER	TITLE OF CLASS	CUSIP	(x$1000)	PRN AMT	PRN	CALL	DISCRETION	MANAGER	SOLE	SHARED	NONE
AUTONATION INC	COM	05329W102	527.413	8.730.562	SH		SOLE	0	8.730.562	0	0
AUTONATION INC	COM	05329W102	275	4.554	SH		DFND	1	4.554	0	0
GAP INC DEL	COM	364760108	12.539	297.779	SH		SOLE	0	297.779	0	0
INTERNATIONAL BUSINESS MACHS	COM	459200101	34.752	216.605	SH		SOLE	0	216.605	0	0
LANDS END INC NEW	COM	51509F105	428.939	7.949.202	SH		SOLE	0	7.949.202	0	0
LANDS END INC NEW	COM	51509F105	178	3.301	SH		DFND	1	3.301	0	0
SEARS CDA INC	COM	81234D109	270.008	28.096.581	SH		SOLE	0	28.096.581	0	0
SEARS CDA INC	COM	81234D109	85	8.822	SH		DFND	1	8.822	0	0
SEARS HLDGS CORP	COM	812350106	871.572	26.427.295	SH		SOLE	0	26.427.295	0	0
SEARS HLDGS CORP	COM	812350106	362	10.977	SH		DFND	1	10.977	0	0
SEARS HOMETOWN & OUTLET STOR	COM	812362101	65.121	4.952.151	SH		SOLE	0	4.952.151	0	0
SEARS HOMETOWN & OUTLET STOR	COM	812362101	33	2.506	SH		DFND	1	2.506	0	0

Make every day a great day.

2012 ANNUAL REPORT
SEARS CANADA INC.

A little over a year ago, we set our company upon a different course. We are now emboldened by a great and simple purpose: to make every day a great day for our customers. The more we matter to those who matter most to our business, the more valuable our business will be.

Table of Contents

Certain information in the accompanying "Letter to Our Shareholders" is forward-looking and is subject to important risks and uncertainties, which are described in the "Cautionary statement regarding forward-looking information" on page 13 of this Annual Report.

Financial Highlights

Unless otherwise noted, 2012 results reflect a 53-week period while 2011 results reflect a 52-week period.

(in CAD millions, except per share amounts)		**Fiscal 2012**		Fiscal 2011
Total revenue	$	**4,300.7**	$	4,619.3
Same store sales (%)*		**(5.6)%**		(7.5)%
Adjusted EBITDA*		**47.0**		124.0
Net earnings (loss)		**101.2**		(50.3)

		As at February 2, 2013		As at January 28, 2012
Cash and cash equivalents	$	**237.0**	$	397.4
Working capital		**415.3**		471.0
Inventories		**851.4**		823.9
Total assets		**2,479.1**		2,730.7
Total long-term obligations, including principal payments on long-term obligations due within one year		**36.1**		122.7
Shareholders' equity		**1,076.4**		1,092.0

		As at February 2, 2013		As at January 28, 2012
Per share of capital stock				
Basic net earnings (loss)	$	**0.99**	$	(0.48)
Diluted net earnings (loss)	$	**0.99**	$	(0.48)
Shareholders' equity	$	**10.57**	$	10.63

** Same store sales and Adjusted EBITDA are operating performance and non-International Financial Reporting Standards ("IFRS") measures, respectively. See Section 1.e. "Use of Non-IFRS Measures, Measures of Operating Performance, and Reconciliation of Net Earnings (Loss) to Adjusted EBITDA".*

- Revenue was $4,300.7 million for the 53-week period ended February 2, 2013 ("Fiscal 2012") compared to $4,619.3 million for the 52-week period ended January 28, 2012 ("Fiscal 2011"), a decrease of 6.9%. The decrease is primarily attributable to sales declines in Craftsman®, electronics, bedroom and bath, women's apparel, and menswear categories, partially offset by higher revenue from major appliances. In addition, the decrease in revenues is partially attributable to the closure of 4 Full-Line stores during Fiscal 2012 and the sale of Cantrex Group Inc. ("Cantrex") during the second quarter of 2012.

- Revenue was approximately $25.5 million lower as a result of the closure of 4 Full-Line stores during Fiscal 2012. Revenue was also positively impacted by approximately $38.3 million due to the 53rd week in Fiscal 2012.

- Same store sales decreased 5.6% compared to Fiscal 2011. Same store sales is a measure of operating performance used by management, the retail industry and investors to compare retail operations, excluding the impact of store openings and closures. See Section 1.e. "Use of Non-IFRS Measures, Measures of Operating Performance and Reconciliation of Net Earnings (Loss) to Adjusted EBITDA."

- Gross margin rate was 36.1% for Fiscal 2012 compared to 36.5% in Fiscal 2011. In Fiscal 2011 there was a one-time inventory charge, relating to planned disposition of excess inventory. The Fiscal 2011 gross margin rate excluding the one-time inventory charge was 37.4%. The decrease in the gross margin rate in Fiscal 2012 compared to Fiscal 2011 was due primarily to reduced margin in fitness and recreation, Corbeil Electique Inc. ("Corbeil"), children's wear, jewelery, accessories and luggage and footwear categories.

- Fiscal 2012 Adjusted EBITDA was $47.0 million compared to $124.0 million for Fiscal 2011. Adjusted EBITDA is a non-IFRS measure. See Section 1.e. "Use of Non-IFRS Measures, Measures of Operating Performance and Reconciliation of Net Earnings (Loss) to Adjusted EBITDA" regarding the use of non-IFRS measures and an explanation of components of Adjusted EBITDA for respective periods.

- Basic net earnings per common share was $0.99 in Fiscal 2012 compared to a basic net loss per common share of $0.48 for Fiscal 2011.

- Total cash and cash equivalents was $237.0 million as at February 2, 2013 compared to $397.4 million as at January 28, 2012. The decrease of $160.4 million was primarily due to repayment of long-term obligations of $142.3 million, $101.9 million in dividend payments during the latter part of Fiscal 2012, and the purchase of $97.5 million in property, plant and equipment and intangible assets, partially offset by $175.0 million in proceeds from lease terminations received during Fiscal 2012, and the net proceeds received of $38.3 million from the sale of the Company's interest in Medicine Hat Mall at the end of Fiscal 2012.

Letter to Our Shareholders

A message from Calvin McDonald, President and Chief Executive Officer

Sears Canada is concluding the first full year of our Transformation plan. The three-year plan is centered on re-establishing the business and carrying out strategies designed to trade ourselves out of what we traded ourselves into over a period of several years. Our focus in 2012 was to get the basics, executing on fundamentals and reconnecting with customers in a significant way.

In delivering against our Vision of creating lifelong relationships built on trust and our Mission centered on working for Canadian families, we established several initiatives during the year. These were positioned to get at basics and build our foundation for the future.

Since we launched the Transformation, we have consistently used the Formula for Growth, expressed as five components, as our foundation for improvement:

1. Build the Core
2. Be Customer Driven and Marketing Led
3. Get Value Right
4. Operate the Best Formats
5. Organize the Right Talent and Create a Winning Attitude

The unique initiatives we introduced this year are spread across these five strategic pillars and linked by two common themes: improve our product and change our behaviour.

With this framework in mind, here are some of the accomplishments we saw in 2012 as we moved forward to strengthen Sears relationship with Canadian consumers.

Build the Core

This pillar of the Formula for Growth is our focus on core competencies. We must protect and build market share in the categories where we can win by promoting our unrivaled blend of authoritative assortment, unique services and exclusive brands. Our goal is to deliver consistently across these categories and be Canadians' retailer of choice for their needs...head to toe, wall to wall, for self, family and home.

Some of the accomplishments within Build the Core were:

- The establishment of our Hero shops: We cannot be all things to all customers, so we identified categories where Canadians will give us strong consideration because of our established position in the marketplace such as Major Appliances, Mattresses, Kids, Women's Dresses, Men's Dresswear, and Kitchen. We need to support these categories and present them to Canadians effectively. A big piece of the work that lies ahead of us is to turn dollar share into share of mind; this way, customers can be advocates for Sears in these important categories. An increase in same store sales for our apparel business in the fourth quarter of 2012 for the first time in eight quarters was a positive result of the work we have been doing on building the core;

- The full execution of our aggressive "attack plan" for both major appliances and mattresses: This included uplifted advertising, associate training, innovative financing programs and 'after-sale' service enhancements. Sears considers itself a leader in these categories and is determined to maintain its market leading position;

- The launch of "The Baby's Room" in June, a full-service headquarters for baby products and nursery equipment: We introduced new products, new brands, updated signing and a reflow of the floor plan. Young families are a key target market, and our aim is to attract new parents to Sears and convert them to loyal shoppers for life. We have achieved monthly double-digit sales increases on average since we launched, a strong signal that we're resonating with customers in a meaningful way; and

- Establishing strategic alliances: In January 2013 we joined with Buffalo International Inc. to design and build Sears private brand of denim based apparel, Nevada. The Aldo Group will be working with us in a similar fashion for men's and women's private brand Attitude and Nevada footwear, as well as the Jessica brand for women. We also teamed up with SHS Services Management Inc. to manage and operate our installed home services business. These are organizations that have the capacity and desire to work with Sears, and who can execute better on the sourcing end using our expertise and capability on the distribution and brand reputation end. Our approach is to align with companies that can provide immediate credibility and continuity to our brands and services.

  We will continue to assess our strengths and core competencies and evolve the business model as appropriate to strengthen Sears position in the marketplace.

Be Customer Driven and Marketing Led

We need to be focused on our customers who come from all walks of life and demographic profiles. Taking into account the breadth of product in our Hero shops and our market share, it follows that we already attract a broad range of Canadian consumers, and many of them have a Sears Financial Credit Card. Our opportunity is to utilize this information to be more targeted in our marketing, convert in-store traffic into transactions and change the perception of our brand. This pillar is about using the information customers share with us to make their shopping experience with Sears more effective and more likely to result in lifelong relationships.

Some of the accomplishments within Be Customer Driven and Marketing Led were:

- The relaunch of the Sears brand under the statement "Make Every Day a Great Day": Over half a million views of our Holiday-timed video-commercial was an early and encouraging sign that Canadians are responding positively to the changes we are making and the Company we are trying to become. Every day being a great day is what we want our customers to experience as a result of using our products and services;

- The seasonal publication of the LOOK! *report*: Four editions were distributed in 2012 - Spring, Summer, Fall and Holiday - highlighting the season's fashion trends with handy tips from our trend directors aimed at establishing Sears as a trusted resource to customers looking for style and product tips along with great fashion. Our Buyers vie to get their items selected for the LOOK! *report* and the friendly competition has resulted in a high quality publication featuring the best of the season. The LOOK! *report* has produced check out rates of advertised merchandise at three times the average of other promotional vehicles;

- The creation of meaningful events that fulfill the occasion-based needs of our customers: The Great Canadian Coat Sale in the fall, the Little Black Dress Event for Holiday, the Shape Your Shape Event in January for fitness - these are important time frames for our customers and Sears responded with meaningful assortments and in-store presence to demonstrate leadership in product and marketing. These events increased customer consideration of Sears for key lines like apparel and helped us acquire new customers; and

- The delivery of our 60th Wish Book: Since 1953 Canadian households have marked the coming of the Christmas Season with the arrival of the Wish Book and this year's version did not disappoint, garnering orders from some 600,000 unique households. During 2013, we will celebrate our 60th anniversary and invite customers to join in the celebration on various occasions.

<u>Get Value Right</u>

We believe Value is more than price. It is a blend of price, quality and the service that customers experience when they shop at Sears, and our value proposition holds a unique place within the Canadian marketplace. Throughout the year, we introduced initiatives that helped to strengthen all three components of our value equation.

<u>Some of the accomplishments within Get Value Right were:</u>

- The "Over 5,000 new lower prices" initiative was a campaign to effectively convey our approach to pricing: Sears is a promotional business, and we will continue to have sale prices that Canadians desire. We focused on striking a balance among three principles: being competitive at all times on highly identifiable and often-purchased items, building line structures that provide a good-better-best range of product, and having realistic regular prices that customers can believe;

- The introduction of Sears "Canada's Best" seal of approval: An item reflecting the highest standards of quality, style and innovation, at surprising prices. The items are labelled with special product tags and supported by informative marketing so that customers know they are buying the very best available when they buy a product identified as "Canada's Best" and still getting the value they expect from Sears;

- The expansion of our Price Protection guarantee for big-ticket items: We want to ensure that customers can shop us with confidence for larger purchases, so we extended our 60-day Price Protection Plus guarantee on major appliances to match any competitor 90 days after a Sears purchase and we also introduced an industry leading 365-day sleep guarantee for mattresses so customers feel comfortable with this long-term investment;

- The re-affirmation, in May, of the Company's commitment to customer service with a renewed customer promise: The Company invested in over 100,000 hours of hands-on training nationwide touching every store associate on expectations. Unfriendly policies were replaced with practices that customers would expect from Sears including an updated returns policy that allows 90 days for a return to be made on most products using a Sears credit card; and

- The introduction of the Gold Badge program, which recognizes individual store customer service excellence: Each store is rated based on feedback from customers who have specifically shopped in that store. Stores must achieve a rating of 9 or 10 on all questions by at least 73% of customers who filled out a survey. If they achieve this, every associate gets to wear a gold-coloured badge for the ensuing year as a visible sign of their accomplishment. Fifteen stores achieved this highly coveted symbol of recognition in 2012.

Operate the Best Formats

A competitive advantage for Sears is our ability to trade through multiple formats operating in many different sizes of communities. Operating the best formats is focused on aligning our category strengths with the market and creating more value from our trading strategies with retail concepts that align to customer needs.

Some of the accomplishments within Operate the Best Formats were:

- The complete refresh of eight full-line stores in 2012: Our goal was to create a stage for product which we accomplished by focusing on four components: showcasing our hero categories, conducting a substantial merchandise re-mix, creating centres of interest where we could promote events with authority, and paying special attention to the basics business so customers can count on Sears every time they visit to be in stock of the most wanted items. The stores are performing well above comparable stores in both sales and gross profit and Apparel is outperforming our other businesses reinforcing our decision to make significant enhancements to the visual presentation in that area;

- The unveiling of a brand new relocated 78,000 square foot state-of-the-art Sears Home store at Ottawa's Pinecrest shopping centre: The store has significantly improved its sales and features 54 mattress sets, our largest, and 475 major appliances, compared to 300 in an average store. Associates are equipped with tablets so they can find additional product information for customers and verify any competing offers in the marketplace;

- The establishment of Sears wholly-owned subsidiary Corbeil Appliances in the Greater Toronto area: This successful, Quebec-based chain, previously unknown in this area, brought a mid-to-high level of appliances to Vaughan, Richmond Hill, Mississauga and Burlington and introduced southern Ontario to an appliance specialist with kitchen renovation capability;

- The investment in our website, Sears.ca: We made the site easier to navigate, increased the functionality, improved searching capability and redesigned the home page. We made Direct our Toy headquarters this year by reallocating the Toy department space in retail to The Baby's Room, and directing Toy customers with effective in-store presentations to sears.ca where the Direct channel enjoyed a significant increase in business as a result; and

- Identifying opportunities for non-strategic businesses and assets: During 2012, the Company vacated four full-line stores, surrendering early its leases on two stores in Calgary and one each in Vancouver and Ottawa. This was an opportunity for Sears that was based on leaving locations that did not trade to our strengths as a retailer, and that also provided financial consideration that would have taken a substantially long time to generate had we kept operating them as we were.

  We constantly review our businesses and assets and will continue to act on those that are no longer strategic for Sears and where we can help Sears to be more profitable in the long term. We need to be operating in formats and locations where we can trade most effectively.

Organize the Right Talent and Create a Winning Attitude

Organizing talent compels us to address structure, breaking down silos, fixing bad processes, and putting in place efficient models designed to increase productivity. Creating a winning attitude speaks to culture...changing our behaviour, thinking differently, and putting in place plans and initiatives that let the organization believe in success, exude confidence and adopt the retail swagger prevalent in winning organizations.

Some of the accomplishments within Organize the Right Talent and Create a Winning Attitude were:

- The open communication channels that have been established between the retail support centre and individual associates: An online idea sharing forum, a regular blog from me, a recognition program called WOW that allows for accolades of exceptional actions to be called out, and a cross-functional Associate Advisory Council have all been avenues through which associates can provide input into how improvements can be made enterprise-wide for optimal results;

- The first graduating "class" of the Sears Future Leaders program: This concentrated development program selects 24 candidates each term from within Sears and externally who want to establish a career in retailing blending hands-on experience with a formal sharing of knowledge and skills of the retail industry;

- The strengthening of the Executive Leadership Team: In addition to some changes within our merchandising, marketing and operational leaders with a focus on action and results, of particular note is the appointment of Doug Campbell to Executive Vice-President and Chief Operating Officer overseeing various operational functions and efficiency improvements across the organization; and

- Right-sizing the organization: As we continue to make improvements in efficiencies, we must maintain an organizational structure that reflects best of breed without compromising customer service. At the end of fiscal 2012, we reduced our staff count by 700 associates, mostly from logistics and non customer-facing store roles. The organization needs to remain competitive within an industry that is increasing its pace and responsiveness capacity.

  We will continue to review our business as processes are improved and ensure we have an allocation of resources that properly supports the organization as it evolves.

In 2012, our job was to get the basics...reestablish the fundamentals needed to operate a successful retail business. We rebalanced prices, we brought in sound customer service policies, we identified our "core" Hero categories and put resources behind them, we restructured buying and store operations teams, we defined what a Sears department store and Sears Home store should look like, we began to change behaviour, and we started to install a high-performing management team that can lead an organization of 29,000 through a transformation of significant proportion.

These were fundamental accomplishments, and we needed to do this to establish our retail rhythm. In 2013, we will focus on maintaining that retail rhythm, living it, and gaining momentum. While there are some external factors that can impact our business, there is much within our control that we can do to improve our performance. "Control the Controllables" is an internal theme that we are spreading across the enterprise. In tough times, great retailers find a way. Sears needs to act differently and start to achieve different results.

Sears Canada celebrates its 60th anniversary in 2013. We issued our inaugural catalogue in early 1953: the Spring and Summer catalogue of that year. A few months later, on September 17, we opened our first store in Stratford, Ontario. Since then, the Company has become one of Canada's major retailers with operations coast to coast, boasting a powerful brand and coveted reputation.

But it's a different landscape in 2013 than it was six decades ago. Sears cannot rely on its accomplishments of the past to be successful. Today, our customers have a lot of choice, some of it close by and reachable from their homes and some of it across the world and reachable by a click of their keyboard. We need to respond and, as a merchant, this is centered around changing our product and changing our behaviour.

Our aim is to have the products and services customers receive from Sears help make every day a great day for them. That is relevance. And that is how much a part of their lives we need to be. The foundation built over 60 years can help us, but it can't sustain us. We need to be top of mind in the minds of Canadians for the lines of products in which we trade, and the Transformation we have begun is the route that can help us get there successfully.

I wish to acknowledge associates, past and present, who, over six decades, have provided Sears with a level of dedication and commitment that is needed to form and operate a Company of our significance, and I look forward to working with the team in place today to take us to the next level and journey through the Transformation of Sears Canada.

Sincerely,

Calvin McDonald.

Calvin McDonald,
President and Chief Executive Officer

Five Year Summary

	IFRS Fiscal 2012[A]	IFRS Fiscal 2011[A]	IFRS Fiscal 2010[A]	CGAAP Fiscal 2010[B]	CGAAP Fiscal 2009[C]	CGAAP Fiscal 2008[D]
Results for the year (in CAD millions)						
Total revenue	**$ 4,300.7**	$ 4,619.3	$ 4,938.5	$ 4,957.8	$ 5,200.6	$ 5,733.2
Depreciation and amortization	**113.3**	114.9	123.6	104.6	117.4	126.9
Earnings (Loss) before income taxes	**114.2**	(56.9)	187.1	219.8	347.6	422.0
Income tax (expense) recovery	**(13.0)**	6.6	(62.1)	(70.0)	(112.9)	(131.3)
Net earnings (loss)	**101.2**	(50.3)	125.0	149.8	234.7	290.7
Dividends declared	**101.9**	—	753.4	753.4	—	—
Capital expenditures[E]	**97.5**	84.3	60.0	62.4	65.7	97.1
Year end position (in CAD millions)						
Accounts receivable, net	**$ 76.2**	$ 116.2	$ 144.0	$ 143.2	$ 131.1	$ 138.7
Inventories[F]	**851.4**	823.9	953.2	953.2	852.3	968.3
Property, plant and equipment	**840.0**	872.0	900.7	577.4	620.2	696.0
Total assets	**2,479.1**	2,730.7	2,907.5	2,509.8	3,404.8	3,237.3
Working capital	**415.3**	471.0	536.9	610.6	1,114.7	1,148.8
Total long-term obligations, including principal payments on long-term obligations due within one year	**36.1**	122.7	129.1	136.1	350.7	364.6
Shareholders' equity	**1,076.4**	1,092.0	1,260.4	1,000.5	1,657.5	1,483.2
Per share of capital stock						
Basic net earnings (loss)	**$ 0.99**	$ (0.48)	$ 1.16	$ 1.40	$ 2.18	$ 2.70
Dividends declared	**1.00**	—	7.00	7.00	—	—
Shareholders' equity	**10.57**	10.63	11.96	9.32	15.40	13.78
Financial ratios						
Return on average shareholders equity (%)[G]	**9.3**	(4.3)	7.7	11.3	14.9	22.6
Current ratio	**1.5**	1.5	1.5	1.6	1.8	2.0
Return on total revenues (%)	**2.4**	(1.1)	2.5	3.0	4.5	5.1
Debt/equity ratio	**3/97**	10/90	9/91	12/88	17/83	20/80
Pre-tax margin (%)	**2.7**	(1.2)	3.8	4.4	6.7	7.4
Number of Selling Units						
Full-line Department stores	**118**	122	122	122	122	122
Sears Home stores	**48**	48	48	48	48	48
Outlet stores	**11**	11	11	11	12	11
Specialty type: Appliances and Mattresses	**4**	4	4	4	4	6
Hometown Dealer stores	**261**	285	268	268	186	171
Sears Floor Covering Centres	**—**	17	20	20	22	30
Sears Home Services Showrooms	**9**	13	13	13	13	13
Cantrex	**—**	799	768	768	793	824
Corbeil	**33**	30	30	30	30	30
Travel offices	**101**	108	108	108	108	106
Catalogue merchandise pick-up locations	**1,512**	1,734	1,822	1,822	1,853	1,858

[A] The 2012 fiscal year ("Fiscal 2012"), 2011 fiscal year ("Fiscal 2011") and 2010 fiscal year ("Fiscal 2010") refers to the 53-week period ended February 2, 2013, and the 52-week period ended January 28, 2012, and January 29, 2011 respectively, reported under International Financial Reporting Standards ("IFRS").

[B] The 2010 fiscal year ("Fiscal 2010") represents the 52-week period ended January 29, 2011, reported under Canadian Generally Accepted Accounting Principles ("CGAAP").

[C] The 2009 fiscal year ("Fiscal 2009") represents the 52-week period ended January 30, 2010, reported under CGAAP.

[D] The 2008 fiscal year ("Fiscal 2008") represents the 52-week period ended January 31, 2009, reported under CGAAP.

[E] Capital expenditures have not been reduced by cash payments outstanding at year end resulting from normal trade terms.

[F] As a result of the Company's change in accounting policy for inventories in Fiscal 2008, the inventory balances included in this table are not comparable. See Note 2 "Significant accounting policies" of the Notes to the Consolidated Financial Statements.

[G] The return on average shareholders' equity (%) for IFRS Fiscal 2010 was calculated taking net earnings for Fiscal 2010, divided by the average of shareholders' equity for the period ended January 29, 2011 ($1,260.4 million) and the opening Consolidated Statement of Financial Position as at January 31, 2010 ($2,004.4 million) reported under IFRS.

Quarterly Performance

The Company's operations are seasonal in nature. Accordingly, merchandise and service revenue, as well as performance payments received from JPMorgan Chase Bank, N.A. (Toronto Branch), referred to as commission revenue, will vary by quarter based upon consumer spending behaviour. Historically, the Company's revenue and earnings are higher in the fourth quarter than in any of the other three quarters due to the holiday season. The Company is able to adjust certain variable costs in response to seasonal revenue patterns; however, costs such as occupancy are fixed, causing the Company to report a disproportionate level of earnings in the fourth quarter. Other factors that affect the Company's sales and financial performance include actions by its competitors, timing of its promotional events, and changes in population and other demographics. Accordingly, the Company's results for any one fiscal quarter are not necessarily indicative of the results to be expected for any other quarter, or the full year, and comparable store sales for any particular period may increase or decrease.

The table below outlines select financial data for the eight most recently completed quarters. The quarterly results are unaudited and have been prepared under IFRS.

	Fourth Quarter		**Third Quarter**		**Second Quarter**		**First Quarter**	
(in CAD millions, except per share amounts)	**2012**	2011	2012	2011	2012	2011	2012	2011
Total revenue	**$1,298.0**	$ 1,365.9	$ 1,037.5	$ 1,113.2	$ 1,050.1	$ 1,147.7	$ 915.1	$ 992.5
Net earnings (loss)	**$ 39.9**	$ 41.0	$ (21.9)	$ (44.1)	$ (9.8)	$ (0.2)	$ 93.1	$ (47.0)
Basic net earnings (loss) per share	**$ 0.39**	$ 0.39	$ (0.22)	$ (0.42)	$ (0.10)	$ 0.00	$ 0.91	$ (0.45)
Diluted net earnings (loss) per share	**$ 0.39**	$ 0.39	$ (0.22)	$ (0.42)	$ (0.10)	$ 0.00	$ 0.91	$ (0.45)

Common Share Market Information

The table below provides prices for the Company's common shares traded on the Toronto Stock Exchange (symbol: SCC).

	Fourth Quarter		**Third Quarter**		**Second Quarter**		**First Quarter**	
	2012	2011	2012	2011	2012	2011	2012	2011
High	**$ 12.98**	$ 15.33	$ 11.79	$ 15.51	$ 13.73	$ 19.78	$14.24	$ 20.35
Low	**$ 9.50**	$ 10.12	$ 10.10	$ 12.51	$ 9.76	$ 15.27	$11.60	$ 19.11
Close	**$ 9.50**	$ 11.63	$ 10.69	$ 15.10	$ 10.16	$ 15.27	$13.50	$ 19.88
Average daily trading volume	**122,655**	27,473	23,487	11,609	16,694	45,750	7,784	17,473

Management's Discussion and Analysis

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Management's Discussion and Analysis

"Sears", "Sears Canada" or "the Company" refers to Sears Canada Inc. and its subsidiaries, together with its investment in joint venture interests.

Management's Discussion and Analysis ("MD&A") contains commentary from the Company's management regarding strategy, operating results and financial position. Management is responsible for its accuracy, integrity and objectivity, and develops, maintains and supports the necessary systems and controls to provide reasonable assurance as to the accuracy of the comments contained herein.

This MD&A should be read in conjunction with the Consolidated Financial Statements and Notes to the Consolidated Financial Statements for the 53-week period ended February 2, 2013 ("Fiscal 2012" or "2012"). The 2011 fiscal year refers to the 52-week period ended January 28, 2012 ("Fiscal 2011" or "2011"). The fourth quarter unaudited results for Fiscal 2012 and Fiscal 2011 reflect the 14-week period ended February 2, 2013 ("Q4 2012") and the 13-week period ended January 28, 2012 ("Q4 2011"), respectively.

This MD&A is current as of March 14, 2013 unless otherwise stated.

Additional information relating to the Company, including the Company's Annual Information Form ("AIF") dated March 14, 2013 and the Management Proxy Circular dated March 14, 2013, can be obtained by contacting the Company at 416-941-4428. The 2012 Annual Report, together with the AIF and Management Proxy Circular, have been filed electronically with securities regulators in Canada through the System for Electronic Document Analysis and Retrieval ("SEDAR") and can be accessed on the SEDAR website at www.sedar.com and on the U.S. Securities Exchange Commission ("SEC") website at www.sec.gov.

Unless otherwise indicated, all amounts are expressed in Canadian dollars.

Cautionary Statement Regarding Forward-Looking Information

Certain information in the Annual Report and in this MD&A is forward-looking and is subject to important risks and uncertainties. Forward-looking information concerns, among other things, the Company's future financial performance, business strategy, plans, expectations, goals and objectives, and includes statements concerning possible or assumed future results set out under Section 1 "Company Performance", Section 2 "Consolidated Financial Position, Liquidity and Capital Resources", Section 3 "Financial Instruments", Section 6 "Shareholders' Equity", Section 9 "Accounting Policies and Estimates" and Section 11 "Risks and Uncertainties". Often, but not always, forward-looking information can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "scheduled", "estimates", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases, or statements that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. Although the Company believes that the estimates reflected in such forward-looking information are reasonable, such forward-looking information involves known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking information and undue reliance should not be placed on such information.

Factors which could cause actual results to differ materially from current expectations include, but are not limited to: the ability of the Company to successfully implement its strategic initiatives; productivity improvement and cost reduction initiatives and whether such initiatives will yield the expected benefits; the results achieved pursuant to the Company's long-term credit card marketing and servicing alliance with JPMorgan Chase Bank, N.A. (Toronto Branch), or JPMorgan Chase; general economic conditions; competitive conditions in the businesses in which the Company participates; changes in consumer spending; seasonal weather patterns; weaker business performance in the fourth quarter; customer preference toward product offerings; ability to retain senior management and key personnel; ability of the Company to successfully manage its inventory levels; disruptions to the Company's computer systems; economic, social, and political instability in jurisdictions where suppliers are located; increased shipping costs, potential transportation delays and interruptions;

damage to the reputations of the brands the Company sells; changes in the Company's relationship with its suppliers; the outcome of product liability claims; any significant security compromise or breach of the Company's customer, associate or Company information; the credit worthiness and financial stability of tenants, partners and co-venturers, with respect to the Company's real estate joint venture interests; possible changes in the Company's ownership by Sears Holdings Corporation ("Sears Holdings") and other significant shareholders following the spin-off of a minority interest in Sears Canada by Sears Holdings; interest rate fluctuations and other changes in funding costs and investment income; fluctuations in foreign currency exchange rates; the possibility of negative investment returns in the Company's pension plan or an unexpected increase to the defined benefit obligation; the impairment of goodwill and other assets; new accounting pronouncements, or changes to existing pronouncements, that impact the methods we use to report our financial condition and results from operations; uncertainties associated with critical accounting assumptions and estimates; the outcome of pending legal proceedings; compliance costs associated with environmental laws and regulations; the possible future termination of certain intellectual property rights associated with the "Sears" name and brand names if Sears Holdings reduces its interest in the Company to less than 25%; and changes in laws, rules and regulations applicable to the Company. Information about these factors, other material factors that could cause actual results to differ materially from expectations and about material factors or assumptions applied in preparing forward-looking information, may be found in this MD&A and in the Company's 2011 recast Annual Report under Section 12 "Risks and Uncertainties" and elsewhere in the Company's filings with securities regulators. The forward-looking information in the Annual Report and in this MD&A are, unless otherwise indicated, stated as of the date hereof and are presented for the purpose of assisting investors and others in understanding our financial position and results of operations as well as our objectives and strategic priorities, and may not be appropriate for other purposes. The Company does not undertake any obligation to update publicly or to revise any forward-looking information, whether as a result of new information, future events or otherwise, except as required by law.

1. Company Performance

a. Operations

The Company's operations are focused on merchandising and include the sale of goods and services through the Company's Retail channels, which includes its Full-Line, Sears Home, Hometown Dealer, Outlet, Appliances and Mattresses, Corbeil Electrique Inc. ("Corbeil") stores, and its Direct (catalogue/internet) channel. It also includes service revenue related to product repair and home improvement. Commission revenues include travel, insurance, and performance payments which are primarily received from the Company's long-term credit card marketing and servicing alliance with JPMorgan Chase. The Company has also partnered with Thomas Cook Canada Inc. ("Thomas Cook") in a multi-year licensing arrangement, under which Thomas Cook manages the day-to-day operations of all Sears Travel offices and provides commissions and licensing fees to the Company. Licensing fee revenues are comprised of payments received from licensees that operate within the Company's stores. The Company is a party to a number of joint ventures which have been classified as jointly controlled entities for financial reporting purposes. These joint ventures are jointly controlled by the joint venture partners who are entitled to a share of the respective joint ventures' income or loss.

Retail Channel

Full-Line Department stores – Sears Full-Line Department stores are located primarily in suburban enclosed shopping centres. The major merchandise categories include the following:

Apparel & Accessories - Women's, men's and children's apparel, nursery products, cosmetics, jewellery, footwear and accessories.

Home & Hardlines - Home furnishings and mattresses, home décor, lawn and garden, hardware, electronics and leisure, and seasonal products.

Major Appliances - refrigeration, laundry, ranges, floorcare and sewing.

Although merchandise varies by store, the merchandise sales mix between the three major categories are approximately 55% Apparel and Accessories, 25% Home and Hardlines and 20% Major Appliances.

Full-Line Department stores also offer Sears Home Services and include a Sears catalogue merchandise pick-up location. Sears Travel offices and licensed businesses, such as optical centres and portrait studios, are also located in most of the Company's Full-Line Department stores.

Sears Home stores – Sears Home stores are typically located in power centres and present an extensive selection of furniture, mattresses and box-springs, major appliances and electronics. The majority of these stores range in size from 35,000 to 60,000 square feet. Home Improvement Products and Services operations are located within 8 of 9 Sears Home stores. The showrooms provide a range of products and services sold under the Sears Home Services banner that are complementary to home furnishings and major appliances.

Hometown Dealer stores – Sears Hometown Dealer locations are independently operated and offer major appliances, furniture, home electronics, outdoor power equipment as well as a catalogue merchandise pick-up location. Most Hometown Dealer stores are located in markets that had previously been served by a catalogue agent and continue to lack the population to support a Full-Line Department store.

Outlet stores – Sears Outlet stores offer clearance merchandise, particularly from the Company's Direct channel, as well as surplus big-ticket items from all channels.

Appliances and Mattresses stores – The Sears Appliances and Mattresses stores are part of the Company's strategy to bring its product categories to a growing number of customers who shop in conveniently located power centres. These stores are smaller in size (approximately 10,000 to 15,000 square feet) and feature a wide selection of major appliances, mattresses and box-springs, and include Sears private labels and a variety of national brands.

Corbeil – Corbeil is a chain of major appliance specialty stores located throughout Québec, Greater Toronto Area and Eastern Ontario. There are 33 stores in the chain, 17 of which are franchised. The chain also includes one liquidation centre and one distribution centre in Montreal. Stores average approximately 6,500 square feet in size.

Sears Travel – Sears Travel service operates within 101 Sears locations across Canada, an online travel service at www.searstravel.ca and 1-866-FLY-SEARS, which connects customers to the nearest geographical branch. As of January 30, 2011, Thomas Cook manages the day-to-day operations of all Sears Travel offices and the Sears Travel website.

Sears Home Services

Sears Home Services was formed as a result of combining Home Improvement Products and Services and Product Repair Services. Sears Home Services is marketed through 82 Full-line department stores, 21 Parts and Services stores and 8 of 9 Sears Home Services Showrooms located within Sears Home and Outlet stores, by telephone at 1-800-4-MY-HOME (English) or 1-800-LE-FOYER (French) and online at Sears.ca. Sears Home Services provides a broad range of home services, including the sale, installation, maintenance and repair of heating and cooling equipment, roofing, doors and windows, flooring, window coverings, energy audits, kitchen and bathroom renovations, carpet and upholstery cleaning and duct cleaning. Sears Home Services also offers the largest and most comprehensive parts and service network in Canada, with over 1 million parts available and a network of more than 2,000 technicians and contractors.

Direct Channel

The Company's Direct channel is comprised of its catalogue business, which is Canada's largest general merchandise catalogue business, and Sears.ca, one of Canada's leading online shopping destinations with over 91 million visits in Fiscal 2012. With two distribution centres exclusively dedicated to servicing the Direct channel and 1,512 catalogue merchandise pick-up locations nationwide, Sears can deliver orders in most areas of the country. Orders can be placed by telephone at 1-800-26-SEARS, by mail, fax, online at Sears.ca or in person through Sears stores and catalogue agents. At the end of Fiscal 2012, over 1,300 of the total 1,512 catalogue merchandise pick-up locations were independently operated under independent local ownership, with the remaining 168 units located within Sears corporate stores.

Catalogue – In Fiscal 2012, over 15 different catalogues were distributed throughout Canada reaching up to approximately 2.9 million households. In addition, during Fiscal 2012, Sears distributed 7 Specialogues designed to offer more seasonally relevant merchandise to specific customers.

Sears.ca – The Company's website, Sears.ca, enables the Company to provide new and exciting merchandise offers directly to web customers and highlights the Company's extensive general merchandise selection. In Fiscal 2012, the Company continued to invest in its online capabilities to improve the user experience, and engage new customers and demographics. Sears is committed to maintaining its reputation as a trusted Canadian retailer by focusing on customer privacy, security, and satisfaction when shopping on Sears.ca.

Logistics

National Logistics Centres– Sears operates 6 logistics centres strategically located across the country. The total floor area of these logistics centres was 6.5 million square feet at the end of Fiscal 2012, of which 5.6 million square feet is devoted to warehouse and logistics operations. The remainder of the space is utilized for other Sears operations, including call centre services.

S.L.H. Transport Inc. ("SLH") – The Company's wholly-owned subsidiary, SLH, transports merchandise to stores, catalogue merchandise pick-up locations and directly to customers. SLH is responsible for providing logistics services for the Company's merchandising operations by operating a fleet of tractors and trailers to provide carrier services for Sears and contract carrier services to commercial customers who are unrelated to Sears. The arrangements with third parties increase SLH's fleet utilization and improve the efficiency of its operations. SLH continues to grow and has developed a nationwide distribution network to provide better and more consistent service to its customers.

As at the end of Fiscal 2012, Fiscal 2011, and the 52-week period ended January 29, 2011 ("Fiscal 2010"), the Company's locations were distributed across the country as follows:

	Atlantic	Québec	Ontario	Prairies	Pacific	As at February 2, 2013 Total	As at January 28, 2012 Total	As at January 29, 2011 Total
Full-Line Department stores	12	27	45	20	14	**118**	122	122
Sears Home stores	2	12	19	10	5	**48**	48	48
Outlet stores	1	1	6	1	2	**11**	11	11
Specialty type: Appliances and Mattresses stores			3	1	—	**4**	4	4
Corporate stores	15	40	73	32	21	**181**	185	185
Hometown Dealer stores	52	30	62	70	47	**261**	285	268
Sears Home Services Showrooms	1	3	2	1	2	**9**	13	13
Corbeil Franchise stores	—	15	2	—	—	**17**	19	19
Corbeil Corporate stores	—	12	4	—	—	**16**	11	11
Corbeil	—	27	6	—	—	**33**	30	30
Sears Floor Covering Centres	—	—	—	—	—	**—**	17	20
Cantrex	—	—	—	—	—	**—**	799	768
Travel offices	7	21	42	17	14	**101**	108	108
Catalogue merchandise pick-up locations	219	345	427	375	146	**1,512**	1,734	1,822

In Fiscal 2012, the Company closed 4 Full-Line stores as a result of the lease terminations that occurred during the year. The Company also closed 222 Catalogue merchandise pick-up locations, 24 Hometown Dealer stores and 17 Floor Covering Centres. During the second quarter of 2012, Cantrex was sold. Refer to Note 29 "Sale of Cantrex Group Inc." in the Notes to the Consolidated Financial Statements for a description of the transaction.

In Fiscal 2011, the Company opened 20 Hometown Dealer stores and 3 Catalogue merchandise pick-up locations. The Company also closed 3 Hometown Dealer stores, 3 Floor Covering Centres and 91 Catalogue merchandise pick-up locations.

In Fiscal 2010, the Company opened 83 new Hometown Dealer stores and 4 Floor Covering Centres. The Company also closed 1 Hometown Dealer store, 1 Outlet store and 5 Floor Covering Centres. The increase in Cantrex members over the year was due to the new Alliance program, which offered members access to certain retail services including customer financial solutions, protection plans (extended warranties) and web solutions.

As at the end of Fiscal 2012, Fiscal 2011, and Fiscal 2010, the gross square footage for corporate store locations was as follows:

(square feet, millions)	**As at February 2, 2013**	As at January 28, 2012	As at January 29, 2011
Full-Line Department stores	**15.2**	16.5	16.5
Sears Home stores	**2.1**	2.1	2.1
Outlet stores	**0.8**	0.8	0.8
Appliances and Mattresses stores	**0.1**	0.1	0.1
Corbeil	**0.1**	0.1	0.1
Total	**18.3**	19.6	19.6

Gross square footage for corporate store locations as at February 2, 2013 decreased compared to January 28, 2012 due to 4 Full-Line store closures as a result of lease terminations during Fiscal 2012.

Gross square footage for corporate store locations as at January 28, 2012 remained the same as compared to January 29, 2011.

Investment in Joint Ventures – The Company's investment in joint ventures includes its share of income or losses from its joint venture interests in 11 shopping centres across Canada, most of which contain a Sears store. Joint venture investments range from 15% to 50% and are co-owned with major shopping centre owners.

The Company's joint ventures are in partnership with Westcliff Group and Ivanhoe Cambridge Properties. The jointly controlled entities and the Company's ownership interest in each as at February 2, 2013 are listed below:

Entity Name	Properties	Joint Venture Partner	Ownership Interest
Carrefour Richelieu Realties (St-Jérôme)	Carrefour Richelieu	Westcliff Group	50%
Carrefour Richelieu Realties (St-Jean)	Carrefour du Nord	Westcliff Group	50%
Carrefour Richelieu Realties (Carrefour Angrignon)	Carrefour Angrignon	Westcliff Group	50%
Carrefour Richelieu Realties (Place Angrignon)	Place Angrignon	Westcliff Group	50%
Carrefour Richelieu Realties (Pierre Caisse)	Place Pierre Caisse	Westcliff Group	50%
Carrefour Richelieu Realties (Drummondville)	Promenades de Drummondville	Westcliff Group	50%
Méga-Centre Drummondville	Mega Centre Drummondville	Westcliff Group	50%
Société de Gestion des Neiges Ville- Marie	Various land holdings in Quebec, Canada	Westcliff Group	50%
133562 Canada Inc.	Various land holdings in Quebec, Canada	Westcliff Group	50%
172098 Canada Inc.	Drummondville Stripmall	Westcliff Group	50%
Kildonan Place	Kildonan Place	Ivanhoe Cambridge	20%
Regionaux (Les Rivières Shopping Centre)	Les Rivieres Shopping Centre	Ivanhoe Cambridge	15%
Regionaux (Les Galeries de Hull)	Les Galeries de Hull	Ivanhoe Cambridge	15%

During Q4 2012, the Company sold its interest in Medicine Hat Mall for net proceeds of $38.3 million, recognizing a pre-tax gain of $8.6 million on the sale. During Fiscal 2011, the Company sold its share of assets in Chatham Centre for net proceeds of $1.6 million, recognizing a gain of $0.1 million on the sale.

b. Core Capabilities

The Company's key resources and capabilities include its associates, brand equity, specialized services, national presence and logistics. The Company's ability to raise funds and working capital to support its operations is also a key capability and is discussed further in Section 2 "Consolidated Financial Position, Liquidity and Capital Resources" of this MD&A.

Associates

- Sears associates are a critical asset to the Company. Sears works to inspire its associates to be committed to building lifelong customer relationships built on trust;

Brand equity

- The Company works closely with its suppliers in product development, design and quality standards. Many lines of merchandise are manufactured with features exclusive to Sears and are sold under the Company's private label brands, such as Jessica®, Nevada®, Attitude® Jay Manuel, Whole Home®, Kenmore®, and Craftsman®. The Company believes that its private label and national brands have significant recognition and value with customers;

Specialized services

- Apart from retail merchandise, the Company also offers a wide range of specialized services to attract a broad customer base. These services include product repair, the sale, installation, maintenance and repair of heating and cooling equipment, roofing, door and window replacement, flooring, window coverings, energy audits, kitchen and bathroom renovations, carpet and upholstery cleaning, and duct cleaning. The Company also offers portrait studio, optical, travel, floral, wireless and long distance, insurance, deferred financing and real estate services;

National Presence

- The Company's expansive physical and online presence puts it in proximity to customers all across Canada. Sears operates 118 Full-Line department stores, 357 specialty stores (including 48 Sears Home stores, 11 Outlet stores, 4 Appliances and Mattresses stores, 261 Hometown Dealer stores operated under independent local ownership and 33 Corbeil stores), 101 Sears Travel offices and over 1,500 merchandise pick-up locations for orders placed through the catalogue or online at www.sears.ca; and

Logistics

- The ability to move merchandise efficiently to stores, merchandise pick-up locations or directly to customers is one of the Company's key capabilities. The Company's wholly-owned subsidiary, SLH, is responsible for providing transportation services for the Company's merchandising operations and has arrangements with third parties to increase SLH's fleet utilization and improve its operating effectiveness. The Company conducts operations in six National Logistics Centres located in Vancouver, Calgary, Regina, Vaughan, Belleville and Montreal.

c. Strategic Initiatives

During Fiscal 2012, Sears Canada remained focused on executing its three-year Transformation strategy announced in 2011. This year, the Company implemented a number of significant changes, including the introduction of a new pricing model, the promotion of Sears fashion through the new LOOK! report, the start of the Full-Line and Sears Home store refreshes, the re-launch of the Gold Badge program designed to reward outstanding customer service, and the introduction of the new master brand strategy. Sears will continue with further initiatives to retain its competitive position within the Canadian retail landscape.

The Transformation's Formula for Growth is comprised of five key pillars as follows:

1. **Build the Core:** Implementing fundamental merchandise category plans to ensure that the right products and services are being offered in categories where the Company has a strong competitive position with Canadians, such as major appliances and mattresses;

2. **Be Customer Driven:** More fully and effectively utilizing our customer database to develop our merchandising and marketing strategies;

3. **Get Value Right:** Demonstrating a competitive value equation where our everyday price is more competitive, our promotions are well understood and balanced, our quality is superior and our service is dependable;

4. **Operate Effective Formats:** We are a multi-format retailer, operating in many different markets. We are working to align our category strengths with the market and to create more value from our trading strategies with retail concepts aligned to customer needs, including developing separate tactical approaches for our Full-line Department stores, Sears Home stores, Hometown Dealer stores, and Corbeil stores; and

5. **Organize the Right Talent and Create a Winning Attitude:** Maintaining a strong leadership team supported by loyal and dedicated associates who are committed to the implementation of our Transformation strategy.

The initiatives and corresponding results listed below include both new results seen in the fourth quarter and a recap of results from Fiscal 2012.

Build the core

- Announced three new alliances with The Aldo Group ("Aldo"), Buffalo International Inc. ("Buffalo") and SHS Services Management Inc. ("SHS"). The Company will continue to deepen relationships with successful organizations which can provide immediate credibility and continuity to our brands and services. Aldo is considered an industry leader in footwear fashion design and manufacturing capability, Buffalo's design and sourcing capability in denim-based apparel will help us attract a new and younger customer, and the combination of Sears brand, reputation and customer service with SHS's expertise, processes and technology is expected to improve the operating efficiency of the Home Services business;

- Implemented a new strategy for toys by moving the focus to online sales, in order to free up floor space previously dedicated to a category that was only a key focus area for three months of the year. The online approach was augmented with an in-store aisle program in the fourth quarter to display 15 of the best toys for the holiday season;

- Introduced "The Baby's Room," the new nursery and infant accessories department, part of the Kids Room children's area. In May 2012 Sears held a vendor tradeshow to 'baby-train' store associates from across Canada; on June 1, 2012 a public launch was held in Toronto featuring a seminar by parenting expert Nanny Robina;

- In September, 2012 Sears Canada became the first Canadian retailer to earn the Parent Tested Parent Approved (PTPA) seal of approval from North America's largest parent tester community; and

- Launched an online points redemption system in Sears Financial for its five million plus card members - one of the first major retail loyalty programs in Canada to do so.

Be customer driven

- Launched the new Sears brand positioning, "Make every day a great day" at a gathering of more than 1,500 associates and media on November 7, 2012. Sears developed and ran the new Holiday-themed TV commercial called "The Gift" with a background song called "Best Year" commissioned by Sears to represent the new brand. As of the end of January 2013, Sears has had over 5,000 downloads of "Best Year" and over half a million views of "The Gift." On December 15, 2012 Sears reinforced its dedication to customers and associates through its "Sears National Great Day" event featuring Holiday festivities, giveaways and one-day deals at stores across Canada;

- Published 4 editions of the LOOK! report including the fourth quarter's November Holiday edition. The LOOK! report features fashion, beauty, and lifestyle trends and highlights the Company's newest products of the season. The releases were supported with in-store fashion shows, an exclusive evening event for Sears VIP customers, and smaller customer events in stores across the country;

- Launched the 60th edition of the annual Wish Book, the Company's Christmas catalogue. This year's edition featured a commemorative cover that included images of every Wish Book published since our very first one 60 years ago in 1953. Over 3 million copies of the special edition Wish Book were distributed across Canada, featuring 736 pages of holiday gift ideas; and

- Waived the 2.5% foreign currency transaction charge on purchases made using Sears Financial™ MasterCard and Sears Financial ™ Voyage ™ MasterCard to appeal to the 65% of Canadians shopping and travelling abroad.

Get value right

- Reaffirmed Sears role as a Canadian retailer dedicated to keeping Canadians shopping at home by extending its annual "Black Friday" promotion to run from Thursday, November 22 through Sunday, November 25 (through Monday, November 26 for major appliances, electronics, fitness and snowblowers). Sears brought Black Friday savings to Canadians with hundreds of items at specially marked prices backed by a price match guarantee;

- Introduced the first products that meet Sears "Canada's Best" seal of approval criteria. The Canada's Best label will be assigned to an assortment of fashion and home products that meet required standards in quality, style and innovation. Products offered with this label are intended to be desirable and offer customers clear value when compared to competitors' offerings;

- Introduced a hassle-free return policy that includes a satisfaction guarantee with every purchase: if not completely satisfied, customers can now exchange or return almost all products within 30 days, or 90 days if they use their Sears Financial credit cards; and

- Lowered the price on over 5,000 products including items in every store and in every department and concurrently introduced specially-priced must-have WOW items.

Operate effective formats

- Continued to invest in store refreshes, with refreshes in Grande Prairie and Nanaimo stores underway, building on the new store concept implemented in Fiscal 2012, with the first round of refreshes in Barrie, Belleville, Newmarket and the Lime Ridge Mall in Hamilton stores and the second round of refreshes in Ville d'Anjou, St. Jerome, Oshawa and Sudbury stores. The refreshed store concept features improved presentation, wider aisles, streamlined offerings with new brands and a blend of items priced at both everyday value and at sale prices;

- Unveiled the 78,000 sq. ft. Sears Home store at the Pinecrest Shopping Centre in Ottawa, housing the largest major appliance and mattress shops of any Sears location, an expanded selection of accent furniture, chairs and tables and new brands of furniture;

- Opened 4 Corbeil stores in Sears initial Greater Toronto Area expansion plans for Corbeil. The Corbeil stores are located in Richmond Hill, Mississauga, Vaughan and Burlington;

- Launched an e-commerce transactional shoppable iPad application that features the 60th anniversary Wish Book, and due to the positive response from customers, this application will serve as a permanent Sears iPad Catalogue application, which will be updated throughout the year;

- Invested in upgrading Sears.ca, the largest Canadian transactional retail website. Sears Canada revamped its bilingual website to improve functionality, navigation, and overall shopping experience; and

- Sold the Company's 40% ownership of the leasehold interest in Medicine Hat Mall in Alberta to the Company's joint venture partner, Sleeping Bay Building Corp., and received net proceeds of $38.3 million. Earlier this year, Sears exited and returned leases on 4 properties to the landlords for financial consideration comprising Vancouver's Pacific Centre, Chinook Centre and Deerfoot Mall locations in Calgary, and the Rideau Centre store in Ottawa.

Organize the right talent and create a winning attitude

- Created the Associate Advisory Council consisting of 21 individuals from different business lines and across Canada with the mandate to provide critical insight, perspective and counsel to senior management;

- Unveiled the new team of Store Managers, District Managers and Category Specialists operating under a new structure in store operations and executed a large-scale associate move in the Company's retail support centre, designed to ensure physical organization aligns with work flow; and

- Appointed Douglas C. Campbell Executive Vice-President and Chief Operating Officer of the Company, overseeing retail operations, logistics, replenishment, information technology and international sourcing, and leading the Company's undertaking to improve efficiency across the enterprise. Sears has made changes to its management team designed to lead the organization effectively through the Transformation and help the Company achieve its operational and financial objectives.

"Live Green" Initiatives

The Company conducts its operations with a commitment to achieving success on economic, social and environmental levels. The Company continues to build upon the following three-point plan on environmental sustainability:

1. Enable customers to "Live Green", reduce their energy bills and create a healthy home;

2. Reduce the environmental impact of Sears Canada's operations; and

3. Nurture a culture of sustainability among the Company's associates, customers and the communities in which the Company operates.

Sears Canada continued to focus on these three priorities by implementing the following initiatives during Q4 2012:

- Partnered with electric utility companies in Nova Scotia, British Columbia and Saskatchewan to promote major appliances and electronics energy saving products;

- Launched a province-wide fridge and freezer pick-up and recycling program in Ontario; and
- Completed a national re-lamping project which resulted in the replacement of over 625,000 bulbs, and which is expected to provide energy savings of over 13 million kilowatt hours annually.

SLH:

- Installation of wide-base tires and trailer skirts and the reduction of metric tonne miles, resulting in fuel savings of approximately 1.8 million litres;
- Implemented best in class route optimization technology to improve route planning, as well as driver and truck utilization; and
- SLH continued its participation in the Ontario LCV (Long Combination Vehicle) pilot project run by the Ministry of Transportation, which is restricted to a select group of qualified carriers and Ontario Trucking Association members. In 2012, SLH's LCV program generated fuel savings of over 620,000 litres.

Corporate Social Responsibility

The following is a summary of the results of the Company and its associates' corporate social responsibility efforts during Fiscal 2012:

- Assisted our local store charity partners through the sale of our 60th Anniversary charity plush, Cooper™/MC the bear. Sears charity plush has been helping children since 1998, raising over $1.3 million since 2005. Two dollars from the sale of each bear supported the healthy development of Canadian youth through after-school and children's health initiatives;
- Held our 25th annual Sears Boys & Girls Club of Canada ("BGCC") Golf Tournament near Toronto, in cooperation with our vendors, raising over $200,000 to support BGCC youth programs, funds which Sears matched;
- Presented our 14th annual Tree of Wishes program in-stores, for which customers and associates donated holiday season gifts valued at over $230,000 to less fortunate children, with the help of local charities:
- Held the second annual Sears Great Canadian Run (the "Run"), a full day running adventure hosted in two cities: Toronto in September and Ottawa in October. The Runs were held to benefit local pediatric oncology hospitals and organizations in the cities where the Runs took place, such as the Children's Hospital of Eastern Ontario. Support was also extended to Sears National pediatric oncology research initiatives such as The Sears Childhood Cancer Fellowship at the Hospital for Sick Children in Toronto; and
- The Sears Great Canadian Chill took place in four communities between New Year's Day and Family Day: Toronto and Ottawa on New Year's Day, Vancouver on February 18 and London on March 3. This traditional Canadian "polar-bear dip" is held to raise funds for the fight against childhood cancer. Several hundred people braved the cold waters to help support this worthy cause, with funds going to the Sears Canada Charitable Foundation to be distributed to children's hospitals for oncology needs.

d. Outlook

As Canadians' needs in a shopping experience evolve, Sears Canada is focused on keeping pace with emerging trends and innovative delivery of products and services, and is reinvigorating its business to better serve and grow with its customers. For the upcoming year, Sears will continue to execute on its Transformation. Some of the priorities for the 52-week period ending February 1, 2014 ("Fiscal 2013") include the following:

- Continuing to maximize opportunities in merchandising categories where the Company has already established authority with customers, such as major appliances and mattresses, further developing private brands, and renewing focus on several additional "hero" categories;
- Improving customer service across all shopping formats and more effectively leveraging customer research, insights and loyalty data;

- Enhancing efficiency of marketing programs;
- Refining the approach to pricing and creating a logical blend of everyday value items, weekly specials and compelling sales promotions, providing merchandise with a quality level that customers should expect from Sears, resulting in an improved mix of regular versus promotional and clearance sales; and
- Attracting and retaining top talent in the industry, conducting associate engagement initiatives, and developing a performance-based culture across the Company.

Although management believes that Sears will achieve its long-term goal of sustainable and profitable growth, there can be no assurance that the Company will successfully implement these strategic initiatives or whether such initiatives will yield the expected results. For a discussion of the risks and uncertainties inherent in the Company's business, refer to Section 11 "Risks and Uncertainties".

e. Use of Non-IFRS Measures, Measures of Operating Performance and Reconciliation of Net Earnings (Loss) to Adjusted EBITDA

The Company's consolidated financial statements are prepared in accordance with IFRS. Management uses IFRS, non-IFRS and operating performance measures as key performance indicators to better assess the Company's underlying performance and provides this additional information in this MD&A.

Same store sales is a measure of operating performance used by management, the retail industry and investors to compare retail operations, excluding the impact of store openings and closures. Same store sales represents merchandise sales generated through operations in the Company's Full-line, Sears Home, Hometown Dealer and Corbeil stores that were continuously open during both of the periods being compared. More specifically, the same store sales metric compares the same calendar weeks for each period and represents the 14 and 53-week periods ended February 2, 2013 and the 13 and 52-week periods ended January 28, 2012. The calculation of same store sales is a performance metric and may be impacted by store space expansion and contraction.

A reconciliation of the Company's total revenue to same store sales is outlined in the following table:

	Fourth Quarter		**Fiscal**	
(in CAD millions)	**2012**	2011	**2012**	2011
Total revenue	**$ 1,298.0**	$ 1,365.9	**$ 4,300.7**	$ 4,619.3
Non-comparable store sales	**364.5**	318.6	**1,169.6**	1,119.5
Same store sales	**933.5**	1,047.3	**3,131.1**	3,499.8
Same store sales percentage change	**(3.8)%**	(7.4)%	**(5.6)%**	(7.5)%

Adjusted EBITDA is a non-IFRS measure and excludes finance costs, interest income, share of income or loss from joint ventures, income tax expense or recovery, depreciation and amortization and income or expenses of a non-recurring or one-time nature. Adjusted EBITDA is a measure used by management, the retail industry and investors as an indicator of the Company's operating performance, ability to incur and service debt, and as a valuation metric. The Company uses Adjusted EBITDA to evaluate the operating performance of its business as well as an executive compensation metric. While Adjusted EBITDA is a non-IFRS measure, management believes that it is an important indicator of operating performance because it excludes the effect of financing and investing activities by eliminating the effects of interest and depreciation and removes the impact of certain non-recurring items that are not indicative of our ongoing operating performance. Therefore, management believes Adjusted EBITDA gives investors greater transparency in assessing the Company's results of operations.

These measures do not have any standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other reporting issuers. Adjusted EBITDA should not be considered in isolation or as an alternative to measures prepared in accordance with IFRS.

A reconciliation of the Company's net earnings (loss) to Adjusted EBITDA is outlined in the following table:

(in CAD millions, except per share amounts)	Fourth Quarter **2012**	Fourth Quarter 2011	Fiscal **2012**	Fiscal 2011
Net earnings (loss)	$ **39.9**	$ 41.0	$ **101.2**	$ (50.3)
Transformation expense[1]	**12.6**	14.4	**12.6**	60.0
Gain on lease terminations[2]	—	—	**(167.1)**	—
Accelerated tenant inducement amortization[3]	—	—	**(4.0)**	—
Lease exit costs[4]	**2.0**	—	**8.0**	—
Gain on settlement of post-retirement benefits[5]	**(21.1)**	—	**(21.1)**	—
Gain on sale of interest in joint venture[6]	**(8.6)**	—	**(8.6)**	—
Depreciation and amortization expense	**28.1**	28.8	**113.3**	114.9
Finance costs	**2.4**	4.0	**13.3**	16.0
Interest income	**(0.8)**	(0.4)	**(4.1)**	(1.7)
Share of income from joint ventures	**(0.1)**	(1.5)	**(9.5)**	(8.3)
Income tax expense (recovery)	**8.0**	15.5	**13.0**	(6.6)
Adjusted EBITDA[7]	$ **62.4**	$ 101.8	$ **47.0**	$ 124.0
Basic net earnings (loss) per share	$ **0.39**	$ 0.39	$ **0.99**	$ (0.48)

[1] Transformation expense during 2012 relates to severance costs incurred during the year. Fiscal 2011 transformation expense includes costs related to internal reorganization and the disposition of excess inventory.
[2] Gain on lease terminations represents the pre-tax gain on the early surrender and return of leases on four properties.
[3] Accelerated tenant inducement amortization represents the accelerated amortization of lease inducements relating to four of the properties referred to in footnote 2 above.
[4] Lease exit costs represent costs incurred to exit properties referred to in footnote 2 above.
[5] Gain arising from the settlement of post-retirement benefits of eligible members covered under the non-pension post-retirement plan.
[6] During Q4 2012, the Company sold its interest in Medicine Hat Mall for net proceeds of \$38.3 million, recognizing a pre-tax gain of \$8.6 million on the sale.
[7] Adjusted EBITDA is a measure used by management, the retail industry and investors as an indicator of the Company's performance, ability to incur and service debt, and as a valuation metric. Adjusted EBITDA is a non-IFRS measure.

f. Consolidated Financial Results

(in CAD millions)	Fiscal **2012**	% Chg 2012 vs 2011	2011
Revenue	$ **4,300.7**	(6.9)%	$ 4,619.3
Cost of goods and services sold	**2,749.2**	(6.2)%	2,932.3
Selling, adminstrative and other expenses	**1,634.4**	(6.0)%	1,737.9
Operating (loss) earnings	**(82.9)**	(62.9)%	(50.9)
Gain on lease terminations	**167.1**	100.0 %	—
Gain on sale of interest in joint venture	**8.6**	100.0 %	—
Gain on settlement of post-retirement benefits	**21.1**	100.0 %	—
Finance costs	**13.3**	(16.9)%	16.0
Interest income	**4.1**	141.2 %	1.7
Share of income from joint ventures	**9.5**	14.5 %	8.3
Earnings (loss) before income taxes	**114.2**	300.7 %	(56.9)
Income tax (expense) recovery	**(13.0)**	(297.0)%	6.6
Net earnings (loss)	$ **101.2**	301.2 %	$ (50.3)

2012 compared with 2011 – Total revenue in Fiscal 2012 declined 6.9% to \$4,300.7 million compared to \$4,619.3 million during the same period in Fiscal 2011. Same store sales decreased by 5.6% in Fiscal 2012 compared to Fiscal 2011.

The decrease is primarily attributable to sales declines in Craftsman®, electronics , bedroom and bath, womens' apparel and menswear categories, partially offset by revenue improvements in major appliances, specifically in the refrigerators , laundry and ranges categories. In addition, $25.5 million of the decrease in revenues is attributable to the closure of 4 Full-Line stores during Fiscal 2012 and the sale of Cantrex during Q2 2012. Revenue was positively impacted by approximately $38.3 million due to the additional 53rd week in Fiscal 2012.

Cost of goods and services sold was $2,749.2 million in Fiscal 2012 compared to $2,932.3 million in Fiscal 2011, a 6.2% decrease year-over-year. This decrease was primarily attributable to lower sales volumes.

The Company's gross margin rate was 36.1% for Fiscal 2012 compared to 36.5% in Fiscal 2011. In Fiscal 2011 there was a one-time inventory charge, relating to planned disposition of excess inventory. The Fiscal 2011 gross margin rate excluding the one-time inventory charge was 37.4%. The decrease in the gross margin rate in Fiscal 2012 compared to Fiscal 2011 was due primarily to reduced margin in fitness and recreation, Corbeil, children's wear, jewelery, accessories and luggage and footwear categories.

Selling, administrative and other expenses including depreciation and amortization expense was $1,634.4 million in Fiscal 2012 compared to $1,737.9 million in Fiscal 2011. The decrease in expense was primarily driven by reduced spending in advertising. Advertising expense decreased primarily due to planned reductions in catalogue pages and circulation, decreases in retail advertising relating to Full-Line, and a reduction in pre-print advertising. Expenses were negatively impacted by Transformation costs of $12.6 million related primarily to severance associated with approximately 700 associates in the Retail Support Centre, Full-Line stores and logistics areas.

On March 2, 2012, the Company entered into an agreement to surrender and terminate early the operating leases on three properties: Vancouver Pacific Centre, Chinook Centre (Calgary) and Rideau Centre (Ottawa). The Company was a long-term and important anchor tenant in the three properties, and the landlord approached the Company with a proposal to terminate early the three leases and vacate the premises in exchange for $170.0 million. The payment represents the amount the landlord was willing to pay for the right to redevelop the property based upon its analysis of the potential returns from redevelopment.

On the closing date, April 20, 2012, the Company received cash proceeds of $170.0 million for the surrender of the three leases, resulting in a pre-tax gain of $164.3 million for the 13-week period ended April 28, 2012, net of the de-recognition of leasehold improvements of $5.7 million. The Company exited all three properties on October 31, 2012, and has no further financial obligation related to the transaction. The pre-tax gain is excluded from Adjusted EBITDA. Included in "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss) for the 53-week period ended February 2, 2013 is $8.0 million of exit costs relating to these three properties, partially offset by $4.0 million of accelerated amortization of deferred lease inducements.

On June 20, 2012, the Company entered into an agreement to surrender and terminate early the operating lease on its Deerfoot (Calgary) property. The landlord approached the Company with a proposal to terminate early the lease in exchange for cash proceeds of $5.0 million, subject to certain closing conditions, on the closing date of October 26, 2012. In Fiscal 2010, the Company incurred an impairment loss of $2.9 million relating to the property, plant and equipment at its Deerfoot property. As a result of the agreement and expected proceeds, the Company recorded an impairment loss reversal (net of accumulated amortization) of $2.1 million in "Selling, administrative and other expenses" in the second quarter of 2012. On the closing date of October 26, 2012, the Company vacated the property and received cash proceeds of $5.0 million, resulting in a pre-tax gain of $2.8 million for the 13-week period ended October 27, 2012, net of the de-recognition of leasehold improvements and furniture and fixtures of $2.2 million. The pre-tax gain is excluded from Adjusted EBITDA. The Company has no further financial obligation related to the transaction.

Finance costs in Fiscal 2012 decreased by 16.9% to $13.3 million compared to $16.0 million during Fiscal 2011 due to lower long-term debt levels compared to last year.

Interest income increased by 141.2% to $4.1 million in Fiscal 2012 compared to $1.7 million in Fiscal 2011 primarily due to interest income of $1.6 million earned on deposits made to tax authorities and higher levels of cash and cash equivalents, prior to the dividend payment of $101.9 million in January 2013.

Share of income from joint ventures in Fiscal 2012 increased by 14.5% to $9.5 million compared to $8.3 million for Fiscal 2011. The increase is primarily due to lower expenses incurred by the Westcliff joint venture properties, partially offset by an impairment loss of $2.2 million on the Promenades de Drummondville property recorded in Q4 2012, and lower income due to the sale of the Chatham joint venture property in the third quarter of 2011.

During Q4 2012, the Company sold its interest in Medicine Hat Mall for net proceeds of $38.3 million, recognizing a pre-tax gain of $8.6 million on the sale.

In the fourth quarter of 2012, the Company made a voluntary offer to settle health and dental benefits of eligible members covered under the non-pension post retirement plan. Based on the accepted offers, the Company paid $18.1 million and recorded a pre-tax settlement gain of $21.1 million ($21.9 million net of $0.8 million of expenses), as shown on the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). The gain has been excluded from Adjusted EBITDA.

Income tax expense was $13.0 million for Fiscal 2012 compared to an income tax recovery of $6.6 million in Fiscal 2011. The year-over-year change was primarily attributable to higher taxable earnings as a result of the gain recognized on the termination of the 4 leases during Fiscal 2012.

Adjusted EBITDA for Fiscal 2012 was $47.0 million compared to $124.0 million in Fiscal 2011, a decrease of $77.0 million.

g. Fourth Quarter Results

	Fourth Quarter		
(in CAD millions)	**2012**	**% Chg 2012 vs 2011**	2011
Revenue	$ **1,298.0**	(5.0)%	$ 1,365.9
Cost of goods and services sold	**848.7**	(1.8)%	864.6
Selling, adminstrative and other expenses	**429.6**	(3.0)%	442.7
Operating earnings	**19.7**	(66.4)%	58.6
Gain on sale of interest in joint venture	**8.6**	100.0 %	—
Gain on settlement of post-retirement benefits	**21.1**	100.0 %	—
Finance costs	**2.4**	(40.0)%	4.0
Interest income	**0.8**	100.0 %	0.4
Share of income from joint ventures	**0.1**	(93.3)%	1.5
Earnings before income taxes	**47.9**	(15.2)%	56.5
Income tax expense	**(8.0)**	(48.4)%	(15.5)
Net earnings	$ **39.9**	(2.7)%	$ 41.0

Q4 2012 compared with Q4 2011 – Total revenue in Q4 2012 decreased by 5.0% to $1,298.0 million compared to $1,365.9 million in Q4 2011, with same store sales declines of 3.8% in Q4 2012. The revenue decline is mainly attributed to sales declines in electronics, the Craftsman®, fitness and recreation, and men's casual wear categories. In addition, $29.1 million of the decrease in revenues is attributable to the closure of 4 Full-Line stores during Fiscal 2012 and the sale of Cantrex during the second quarter of 2012.

During Q4 2012, the Company has achieved improved results in sales of major appliances, specifically in the refrigerators, laundry and ranges categories. In addition, there were sales increases in apparel and accessories, specifically in children's furniture and children's wear. Revenue in Q4 2012 was also positively impacted by approximately $38.3 million due to the 53rd week in Fiscal 2012.

Cost of goods and services sold was $848.7 million in Q4 2012 compared to $864.6 million in Q4 2011, a 1.8% decrease quarter-over-quarter. This decrease is primarily attributable to lower sales volumes and lower merchandise losses, despite the 53rd week of additional sales volume in Fiscal 2012.

The Company's gross margin rate was 34.6% in Q4 2012 compared to 36.7% in Q4 2011. The decrease in the gross profit rate was due primarily to reduced margins in Corbeil, accessories, women's intimates and footwear categories.

Selling, administrative and other expenses, including depreciation and amortization expense was $429.6 million in Q4 2012 compared to $442.7 million in Q4 2011. The decrease in expense was primarily driven by reduced spending in advertising.

Advertising expense decreased primarily due to reductions in catalogue pages and circulation and decreases in retail advertising relating to Full-Line. Expenses were negatively impacted by Transformation costs of $12.6 million incurred in Q4 2012 related to severance primarily associated with approximately 700 associates in the Retail Support Centre, Full-Line stores and logistics areas.

Depreciation and amortization expense in Q4 2012 was comparable to the depreciation and amortization expense for Q4 2011.

Finance costs in Q4 2012 decreased to $2.4 million compared to $4.0 million in Q4 2011 due to lower long-term debt levels compared to last year.

Interest income increased to $0.8 million in Q4 2012 compared to $0.4 million in Q4 2011. The increase in the period is due to higher levels of cash and cash equivalents compared to the same time last year.

During Q4 2012, the Company sold its interest in Medicine Hat Mall for net proceeds of $38.3 million, recognizing a pre-tax gain of $8.6 million on the sale.

In the fourth quarter of 2012, the Company made a voluntary offer to settle health and dental benefits of eligible members covered under the non-pension post retirement plan. Based on the accepted offers, the Company paid $18.1 million and recorded a pre-tax settlement gain of $21.1 million ($21.9 million net of $0.8 million of expenses), as shown on the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss).

Income tax expense decreased to $8.0 million in Q4 2012 compared to $15.5 million in Q4 2011 due to lower taxable earnings.

Adjusted EBITDA for Q4 2012 was $62.4 million compared to $101.8 million in Q4 2011, a decrease of $39.4 million.

2. Consolidated Financial Position, Liquidity and Capital Resources

Current assets as at February 2, 2013 were $169.3 million lower than at January 28, 2012 due primarily to the reduction of $160.4 million in cash and cash equivalents, a decrease in accounts receivable of $40.0 million compared to last year, partially offset by a $27.5 million increase in inventories compared to last year due primarily to the timing of inventory receipts.

Current liabilities as at February 2, 2013 were $113.6 million lower than January 28, 2012 due primarily to a reduction in accounts payable and accrued liabilities of $94.8 million, primarily due to the timing of inventory and expense receipts, and vendor payments.

Inventories were $851.4 million as at February 2, 2013 compared to $823.9 million at January 28, 2012. The $27.5 million increase in the inventory balance is primarily due to the timing of inventory receipts, and a reduction in inventory reserve balances due to improved inventory quality.

Total cash and cash equivalents was $237.0 million as at February 2, 2013 compared to $397.4 million as at January 28, 2012. The decrease of $160.4 million was primarily due to repayment of long-term obligations of $142.3 million, $101.9 million in dividend payments during Q4 2012, and the purchase of $97.5 million in property, plant and equipment and intangible assets, partially offset by $175.0 million in proceeds from lease terminations received during Fiscal 2012, and $38.3 million received for the sale of the Company's interest in Medicine Hat Mall.

Total assets and liabilities as at the end of Fiscal 2012 and Fiscal 2011 are as follows:

(in CAD millions, at period end)		**As at February 2, 2013**		As at January 28, 2012
Total assets	$	**2,479.1**	$	2,730.7
Total liabilities	$	**1,402.7**	$	1,638.7

Total assets as at February 2, 2013 decreased by $251.6 million to $2,479.1 million compared to $2,730.7 million in Fiscal 2011 due primarily to lower cash and cash equivalents, property plant and equipment and investment in joint ventures as a result of the sale of the Company's interest in Medicine Hat Mall which occurred during Q4 2012.

Total liabilities as at February 2, 2013 decreased by $236.0 million to $1,402.7 million compared to $1,638.7 million in Fiscal 2011, due primarily to lower accounts payable and accrued liabilities, long-term obligations and retirement benefit liability.

Cash flow generated from (used for) operating activities - Cash flow from operating activities decreased by $164.9 million for the period ended February 2, 2013 to cash flow used for operating activities of $79.9 million compared to cash flow generated from operating activities of $85.0 million during the period ended January 28, 2012. The Company's primary source of operating cash flow is the sale of goods and services to customers, while the primary use of cash in operating activities is the purchase of merchandise inventories. The decrease in cash from operating activities is attributable to unfavourable changes in accounts payable and accrued liabilities, retirement benefit contributions, inventories and deferred revenue, partially offset by favourable changes in accounts receivable.

Accounts payable and accrued liabilities decreased $94.8 million from January 28, 2012 to $482.0 million as at February 2, 2013 primarily due to timing of payments to vendors and inventory receipts.

Retirement benefit liability decreased by $36.6 million due primarily to a voluntary offer to settle health and dental benefits of eligible members covered under the non-pension post retirement plan. Based on the accepted offers, the Company paid $18.1 million and recorded a pre-tax settlement gain of $21.1 million ($21.9 million net of $0.8 million of expenses).

Inventories increased by $27.5 million from January 28, 2012 to $851.4 million as at February 2, 2013 due to the timing of inventory receipts in addition to a reduction in inventory reserves during the year due to improvements in inventory quality.

Accounts receivable decreased by $40.0 million from January 28, 2012 to $76.2 million as at February 2, 2013 primarily due to the sale of the Cantrex operations at the beginning of the second quarter of 2012.

Cash flow (used for) generated from investing activities - Cash flow generated from investing activities increased by $203.4 million for the period ended February 2, 2013 to $139.9 million compared to cash flow used for investing activities of $63.5 million for the period ended January 28, 2012 primarily due to proceeds received from lease terminations of $175.0 million and proceeds received from the sale of the Company's interest in Medicine Hat Mall of $38.3 million. Cash flow generated from these transactions was partially offset by $97.5 million of capital expenditures incurred during the year.

Cash flow used for financing activities - Cash flow used for financing activities increased by $164.2 million to $220.5 million for the period ended February 2, 2013 compared to $56.3 million for the period ended January 28, 2012. The increase in cash flow used is primarily due to an extraordinary dividend payment of $101.9 million which occurred during Q4 2012, and additional repayments made on the credit facility during Fiscal 2012.

Contractual Obligations

Contractual obligations, including payments due over the next five fiscal years and thereafter, are shown in the following table:

		Contractual Cash Flow Maturities				
(in CAD millions)	Carrying Amount	Total	Within 1 year	1 year to 3 years	3 years to 5 years	Beyond 5 years
Accounts payable and accrued liabilities	$ 482.0	$ 482.0	$ 482.0	$ —	$ —	$ —
Long-term obligations including payments due within one year [1]	36.1	48.4	7.6	11.6	9.7	19.5
Operating lease obligations [2]	n/a	496.7	96.7	155.2	98.9	145.9
Minimum purchase commitments [2,4]	n/a	17.5	5.0	12.5	—	—
Royalties [2]	n/a	2.3	1.8	0.5	—	—
Retirement benefit plans obligations [2,3]	415.7	114.9	29.3	58.7	26.9	—
	$ 933.8	**$ 1,161.8**	**$ 622.4**	**$ 238.5**	**$ 135.5**	**$ 165.4**

1 *Cash flow maturities related to long-term obligations, including payments due within one year, include annual interest on finance lease obligations at a weighted average rate of 7.6%. The Company had no borrowings on the Credit Facility at February 2, 2013.*

2 *Minimum purchase commitments, operating lease obligations, retirement benefit plans funding obligations and royalties are not reported in the Consolidated Statements of Financial Position.*

3 *Payments beyond 2013 are subject to a funding valuation to be completed as at December 31, 2013. Until then, the Company is obligated to fund in accordance with the most recent valuation completed as at December 31, 2010.*

4 *Certain vendors require minimum purchase commitment levels over the term of the contract.*

Retirement Benefit Plans

In Fiscal 2012, the Company's retirement benefit plan obligations decreased by $36.6 million to $415.7 million compared to Fiscal 2011 due to increases in the amortization of actuarial losses partially offset by lower interest expense, and the buyout described below.

In the fourth quarter of 2012, the Company made a voluntary offer to settle health and dental benefits of eligible members covered under the non-pension post retirement plan. Based on the accepted offers, the Company paid $18.1 million and recorded a pre-tax settlement gain of $21.1 million ($21.9 million net of $0.8 million of expenses), as shown on the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss).

See Note 2, "Significant accounting policies", Note 4 "Critical accounting judgments and key sources of estimation uncertainty" and Note 20 "Retirement benefit plans" in the Notes to the Consolidated Financial Statements for a description of the Company's benefit plans. Also see Section 9c for a description of the Company's early adoption of IAS 19 (Revised) – Employee Benefits.

The Company measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at January 31. The most recent actuarial valuation of the pension plan for funding purposes is dated December 31, 2010. The next actuarial valuation assessment is required as of December 31, 2013. An actuarial valuation of the health and welfare trust is performed at least every 3 years, with the last valuation completed as of September 1, 2011.

During Fiscal 2011, the Company changed the target asset allocation to 55-75% fixed income and 25-45% equity for the registered and non-registered pension plans. For the assets in the health and welfare trust, included in Other Benefit Plans, the Company changed the asset allocation to 100% fixed income. As at the end of Fiscal 2012 and 2011, the assets were in line with the target allocation range, with the transitioning of assets from alternative investments near completion. The asset allocation may be changed from time to time in terms of weighting between fixed income, equity and other asset classes as well as within the asset classes themselves.

The plan's target allocation is determined taking into consideration the amounts and timing of projected liabilities, the Company's funding policies and expected returns on various asset classes. To develop the expected long-term rate of return on assets assumption, the Company considered the historical returns and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio.

The Company early adopted the amendments to IAS 19 beginning January 29, 2012, with retrospective application to prior reporting periods. A description of the nature of the change in accounting policy and a summary of its impact to the Company's consolidated financial statements are included in Note 2 "Significant Accounting Policies" of the Notes to the Consolidated Financial Statements.

Capital Resources

The Company's capital expenditures, working capital needs, debt repayment and other financing needs are funded primarily through cash generated from operations. In selecting appropriate funding choices, the Company's objective is to manage its capital structure in such a way as to diversify its funding sources, while minimizing its funding costs and risks. Sears expects to be able to satisfy all of its financing requirements through cash on hand, cash generated by operations and available credit facilities. The Company's cost of funding is affected by a variety of general economic conditions, including the overall interest rate environment, as well as the Company's financial performance, credit ratings and fluctuations of its credit spread over applicable reference rates.

The Company's debt consists of a secured credit facility and finance lease obligations. In September 2010, the Company entered into an $800.0 million senior secured revolving credit facility (the "Credit Facility") with a syndicate of lenders with a maturity date of September 10, 2015. The Credit Facility is secured with a first lien on inventory and credit card receivables. Availability under the Credit Facility is determined pursuant to a borrowing base formula. Availability under the Credit Facility was $501.5 million as at February 2, 2013 (January 28, 2012: $415.1 million). The current availability may be reduced by reserves currently estimated by the Company to be approximately $300.0 million, which may be applied by the lenders at their discretion pursuant to the Credit Facility agreement. As a result of judicial developments relating to the priorities of pension liability relative to certain secured obligations, the Company has executed an amendment to its Credit Facility agreement which would provide additional security to the lenders, with respect to the Company's unfunded pension liability by pledging certain real estate assets as collateral, thereby partially reducing the potential reserve amount the lenders could apply by up to $150.0 million. The potential additional reserve amount may increase or decrease in the future based on estimated net pension liabilities.

The Company regularly monitors its sources and uses of cash and its level of cash on hand, and considers the most effective use of cash on hand including, repayment of obligations, potential acquisitions, stock purchases and dividends.

As at February 2, 2013, the Company had no borrowings on the Credit Facility and had unamortized transaction costs incurred to establish the Credit Facility of $6.2 million included in "Other long-term assets" in the Consolidated Statements of Financial Position (January 28, 2012: borrowings of $93.1 million, net of unamortized transaction costs of $8.0 million, included in "Long-term obligations"). In addition, the Company had $19.7 million (January 28, 2012: $6.3 million) of standby letters of credit outstanding against the Credit Facility. These letters of credit cover various payments including third party payments, utility commitments and defined benefit plan deficit funding (See Note 20 "Retirement benefit plans" of the Notes to the Consolidated Financial Statements for additional information on retirement benefits plans). Interest on drawings under the Credit Facility is determined based on bankers' acceptance rates for one to three month terms or the prime rate plus a spread. Interest amounts on the Credit Facility are due monthly and are added to principal amounts outstanding.

As at February 2, 2013, the Company had outstanding merchandise letters of credit of U.S. $7.9 million (January 28, 2012: U.S. $5.5 million) used to support the Company's offshore merchandise purchasing program with restricted cash and cash equivalents pledged as collateral.

3. Financial Instruments

The Company is exposed to credit, liquidity and market risk as a result of holding financial instruments. Market risk consists of foreign exchange and interest rate risk. See Note 14 "Financial instruments" of the Notes to the Consolidated Financial Statements for additional information.

Credit risk

Credit risk refers to the possibility that the Company can suffer financial losses due to the failure of the Company's counterparties to meet their payment obligations. Exposure to credit risk exists for derivative instruments, cash and cash equivalents, short-term investments, accounts receivable and other long-term assets.

Cash and cash equivalents, short-term investments, accounts receivable and other long-term assets of $314.5 million as at February 2, 2013 (January 28, 2012: $514.9 million) expose the Company to credit risk should the borrower default on maturity of the investment. The Company manages this exposure through policies that require borrowers to have a minimum credit rating of A, and limiting investments with individual borrowers at maximum levels based on credit rating.

The Company is exposed to minimal credit risk from customers as a result of ongoing credit evaluations and review of accounts receivable collectability. As at February 2, 2013, no customers represented greater than 10.0% of the Company's accounts receivable (January 28, 2012 : one customer represented 26.5% of the Company's accounts receivable).

Liquidity risk

Liquidity risk is the risk that the Company may not have cash available to satisfy financial liabilities as they come due. The Company actively maintains access to adequate funding sources to ensure it has sufficient available funds to meet current and foreseeable financial requirements at a reasonable cost.

Market risk

Market risk exists as a result of the potential for losses caused by changes in market factors such as foreign currency exchange rates, interest rates and commodity prices.

From time to time, the Company enters into foreign exchange contracts to reduce the foreign exchange risk with respect to U.S. dollar denominated assets and liabilities and for purchases of goods or services. As at February 2, 2013 and January 28, 2012, there were no contracts outstanding and therefore no derivative financial assets or liabilities were recognized in the Consolidated Statements of Financial Position.

During Fiscal 2012, the Company recorded a loss of $0.6 million (2011: gain of $0.9 million), relating to the translation or settlement of U.S. dollar denominated monetary items consisting of cash and cash equivalents, accounts receivable and accounts payable.

The period end exchange rate was 1.0027 U.S. dollar to Canadian dollar. A 10% appreciation or depreciation of the U.S. and or the Canadian dollar exchange rate was determined to have an after-tax impact on net earnings (loss) of $4.3 million for U.S. dollar denominated balances included in cash and cash equivalents, accounts receivable and accounts payable.

Interest rate risk

From time to time, the Company enters into interest rate swap contracts with approved financial institutions to manage exposure to interest rate risks. Interest rate risk reflects the sensitivity of the Company's financial condition to movements in interest rates. Financial assets and liabilities which do not bear interest or bear interest at fixed rates are classified as non-interest rate sensitive. As at February 2, 2013 and January 28, 2012, there were no contracts outstanding and therefore no derivative financial assets or financial liabilities were recognized in the Consolidated Statements of Financial Position.

4. Funding Costs

The funding costs for the Company in Fiscal 2012 and Fiscal 2011 are outlined in the table below:

	Fourth Quarter		Fiscal	
(in CAD millions)	**2012**	2011	**2012**	2011
Interest costs				
Total long-term obligations at end of period[1]	$ **36.1**	$ 122.7	$ **36.1**	$ 122.7
Average long-term obligations for period	**36.7**	76.9	**50.2**	69.7
Long-term funding costs[2]	**0.6**	0.7	**2.9**	3.3
Average rate of long-term funding	**6.1%**	3.7%	**5.7%**	4.7%

[1]*Includes principal payments due within one year.*

[2]*Excludes standby fee on the unused portion of the Credit Facility, amortization of debt issuance costs, interest accrued related to uncertain tax positions and sales tax assessments, and finance costs relating to finance lease obligations.*

See Section 2 "Consolidated Financial Position, Liquidity and Capital Resources" of this MD&A for a description of the Company's funding sources.

5. Related Party Transactions

On May 17, 2012 the Company announced Sears Holdings' plan to pursue a distribution, on a pro rata basis, to its shareholders, of a portion of its holdings in the Company such that, immediately following the distribution, Sears Holdings would retain approximately 51% of the issued and outstanding shares of Sears Canada. The distribution was made on November 13, 2012 to Sears Holdings' stockholders of record as of the close of business on November 1, 2012, the record date for the distribution. Every share of Sears Holdings common stock held as of the close of the business on the record date entitled the holder to a distribution of 0.4283 Sears Canada common shares. In connection with the announced distribution, the Company has filed documents with the SEC.

As at March 14, 2013, Sears Holdings and its affiliates are the beneficial holders of 51,962,391 common shares, representing approximately 51 % of the Company's total outstanding common shares.

In the ordinary course of business, the Company and Sears Holdings periodically share selected services, associates, and tangible and intangible assets. Transactions between the Company and Sears Holdings are recorded either at fair market value or the exchange amount, which was established and agreed to by the related parties. See Note 30 "Related party transactions" of the Notes to the Consolidated Financial Statements for a detailed description of these related party transactions.

Intangible Properties

The Company has a license from Sears Roebuck to use the name "Sears" as part of its corporate name. The Company also has licenses from Sears Roebuck to use other brand names, including Kenmore®, Craftsman®, and DieHard®. The Company has established procedures to register and otherwise vigorously protect its intellectual property, including the protection of the Sears Roebuck trademark used by the Company in Canada.

Cross Border Vendor Agreement

The Company is party to a cross border vendor agreement with Sears Roebuck establishing a collaboration and allowing the Company and Sears Roebuck to use each other's websites to sell merchandise in the United States and Canada. Merchandise sold pursuant to the agreement will obligate the Company or Sears Roebuck, as applicable, to pay fees to the other party equal to (i) for some transactions, a percentage of merchandise selling prices, and (ii) for other transactions, a percentage of the revenue booked by the applicable seller. This agreement can be terminated by either party on 60 days' written notice and will also terminate upon a transaction that results in the Company no longer being an affiliate of Sears Holdings.

Software Agreement

The Company and Sears Roebuck are party to an information technology agreement for the sharing of information technology and software development, ownership and costs, which agreement (i) either party may terminate on 90 days' written notice, or (ii) will automatically terminate if Sears Holdings ceases to control 50% of the voting power of Sears Canada.

Import Services

Pursuant to an agreement between Sears Roebuck and the Company dated January 1, 1995, Sears Canada utilizes the international merchandise purchasing services of Sears Holdings. Sears Holdings may provide assistance to the Company with respect to monitoring and facilitating the production, inspection and delivery of imported merchandise and the payment to vendors. Sears Canada pays Sears Holdings a stipulated percentage of the value of the imported merchandise. In Fiscal 2012, Sears Canada paid $5.1 million to Sears Holdings in connection with this agreement compared to $4.7 million in Fiscal 2011.

Review and Approval

Material related party transactions are currently reviewed by the Audit Committee of the Company's Board of Directors (the "Audit Committee"). The Audit Committee is responsible for pre-approving all related party transactions that have a value greater than $1.0 million.

6. Shareholders' Equity

The only outstanding shares of the Company are common shares. The number of outstanding common shares at the end of Fiscal 2012 and Fiscal 2011 Consolidated Statement of Financial Position are as follows:

	As at February 2, 2013	As at January 28, 2012
Outstanding common shares	**101,877,662**	102,748,295

In Fiscal 2012, no common shares were issued (2011: no common shares were issued) with respect to the exercise of options pursuant to the Employees Stock Plan.

On May 24, 2011, the Company filed a Normal Course Issuer Bid with the Toronto Stock Exchange ("TSX") for the period of May 25, 2011 to May 24, 2012 ("2011 NCIB"). Pursuant to the 2011 NCIB, the Company was permitted to purchase for cancellation up to 5% of its issued and outstanding common shares, equivalent to 5,268,599 common shares based on the common shares issued and outstanding as at May 9, 2011. The Company did not purchase common shares under the 2011 NCIB if such shares could not be purchased at prices that the Company considered attractive. Decisions regarding the timing of purchases were based on market conditions and other factors. The Company did not renew its 2011 NCIB subsequent to May 24, 2012.

From time to time, when the Company did not possess material undisclosed information about itself or its securities, it entered into a pre-defined plan with a designated broker to allow for the repurchase of common shares at times when the Company ordinarily would not have been active in the market due to its own internal trading blackout periods, insider trading rules, or otherwise. Any such plans entered into with the Company's designated broker were adopted in accordance with the requirements of applicable Canadian securities laws.

During Fiscal 2012, 870,633 shares were purchased for $9.7 million (2011: 2,668,800 shares were purchased for $42.0 million) and cancelled. As at March 14, 2013, there were 101,877,662 common shares and 5,080 tandem award options outstanding under the Employees Stock Plan.

Shareholders may obtain, without charge, a copy of the Notice of 2011 NCIB that the Company filed with the TSX by contacting the Company at 416-941-4428 or home@sears.ca.

7. Profit Sharing and Stock-Based Compensation

a. Employee Profit Sharing Plan

The Sears Plan for Sharing Profits with Employees ("Employee Profit Sharing Plan"), established in 1976, was discontinued on January 1, 2005. Upon the announcement of the discontinuance of the plan, members had the option to retain or sell their common shares of the Company held in the plan. During Fiscal 2012, the Company wound up the Employee Profit Sharing Plan and distributed the remaining assets to its eligible members.

b. Stock Option and Share Purchase Plans for Employees and Directors

The Company has three stock-based compensation plans: the Employees Stock Plan, the Stock Option Plan for Directors and the Directors' Share Purchase Plan.

The Employees Stock Plan, which expired on April 19, 2008, provided for the granting of options and Special Incentive Shares and Options, which vested over three years and expired ten years from the grant date. The Employee Stock Plan permitted the issuance of tandem awards. Following the last grant in 2004, the Company discontinued the granting of options and Special Incentive Shares and Options under the Employees Stock Plan. Notwithstanding the expiry of the Employees Stock Plan, all outstanding stock options may be exercised or allowed to expire in accordance with the terms of their grants. For the fiscal year ended February 2, 2013 there were 5,440 options outstanding under the Employees Stock Plan.

The Stock Option Plan for Directors provides for the granting of stock options to Directors who are not employees of the Company or Sears Holdings. Options granted under the Stock Option Plan for Directors generally vest over three years and are exercisable within ten years from the grant date. No stock options have been granted under the Stock Option Plan for Directors since the last grant in 2003.

The Directors' Share Purchase Plan provides for the granting of common shares to Directors, to be purchased by the Company on the TSX, as part of their annual remuneration for services rendered on the Board. Following the last grant in 2005, the Company has discontinued the granting of shares under the Directors' Share Purchase Plan.

8. Event After the Reporting Period

Subsequent to year end, the Company finalized an exclusive, multi-year licensing arrangement with SHS Services Management Inc. ("SHS Services"), which will result in SHS Services overseeing the day-to-day operations of all Sears installed home improvements business. The licensing agreement, effective March 3, 2013, is expected to result in a reduction to revenues and expenses; however, the impact to net earnings is not expected to be significant.

9. Accounting Policies and Estimates

a. Critical Accounting Estimates

In the application of the Company's accounting policies, management is required to make judgments, estimates and assumptions with regard to the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

The following are the critical judgments that management has made in the process of applying the Company's accounting policies, key assumptions concerning the future and other key sources of estimation uncertainty that have the potential to materially impact the carrying amounts of assets and liabilities within the next fiscal year.

Legal Liabilities

Assessing the financial outcome of uncertain legal positions requires judgment to be made regarding the relative merits of each claim and the extent to which a claim is likely to be successful. The assessments are based on reviews conducted by internal and external counsel, when appropriate.

Changes in estimates or assumptions could cause changes to "Provisions" on the Consolidated Statements of Financial Position and a charge or credit to "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). For additional information, see Note 16 "Provisions" in the Notes to the Consolidated Financial Statements.

Inventory

Obsolescence, Valuation and Inventory Stock Losses
Inventory is written-down to reflect future losses on the disposition of obsolete merchandise. Future losses are estimated based on historical trends that vary depending on the type of inventory.

An adjustment is made each period to value inventory at the lower of cost and net realizable value. This adjustment is estimated based on historical trends that vary depending on the type of inventory.

Inventory is adjusted to reflect estimated inventory stock losses incurred in the year based on recent historical inventory count data.

Vendor Rebates
Inventory is adjusted to reflect vendor rebates received or receivable based on vendor agreements. This adjustment is estimated based on historical data and current vendor agreements.

Freight
Inbound freight incurred to bring inventory to its present location is estimated each reporting period and is included in the cost of inventory. This estimate is based on historical freight costs incurred.

Changes in estimates may result in changes to "Inventories" on the Consolidated Statements of Financial Position and a charge or credit to "Cost of goods and services sold" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). For additional information, see Note 7 "Inventories" in the Notes to the Consolidated Financial Statements.

Impairment of Property, Plant and Equipment and Intangible Assets

The Company's property, plant and equipment and intangible assets have been allocated to Cash Generating Units ("CGU"). Determining whether the CGU is impaired requires an estimation of the recoverable amount of the CGU, which is the higher of the fair value less costs to sell and its value in use. To determine the recoverable amount of the CGU, management is required to estimate its fair value by evaluating the expected future cash flows using an appropriate growth rate, the estimated costs to sell and a suitable discount rate to calculate the value in use.

Changes in estimates may result in changes to "Property, plant and equipment" and "Intangible assets" on the Consolidated Statements of Financial Position and a charge or credit to "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). For additional information, see Note 9 "Property, plant and equipment and investment property", and Note 10.2 "Intangible assets" respectively, in the Notes to the Consolidated Financial Statements.

Impairment of Goodwill

Determining whether goodwill is impaired requires the Company to determine the recoverable amount of the CGU to which the goodwill is allocated. To determine the recoverable amount of the CGU, management is required to estimate its fair value by evaluating expected future cash flows using an appropriate growth rate, the estimated costs to sell and a suitable discount rate to calculate the value in use.

Changes in estimates may result in reduction to "Goodwill" on the Consolidated Statements of Financial Position and a charge to "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). For additional information, see Note 10 "Goodwill and intangible assets" in the Notes to the Consolidated Financial Statements.

Retirement Benefit Liability

The retirement benefit liability is estimated based on certain actuarial assumptions, including the discount rate, inflation rate, salary growth and mortality rates. New regulations and market driven changes may impact the assumptions made.

Changes in estimates may result in changes to the "Retirement benefit liability" on the Consolidated Statements of Financial Position and a charge or credit to "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings (Loss) and Other Comprehensive Income (Loss). For additional information, see Note 20 "Retirement benefit plans" in the Notes to the Consolidated Financial Statements.

Loyalty Program Deferred Revenue

The fair value of Sears Club points granted is deferred at the time of the related initial sale transaction and is recognized upon redemption of the points for merchandise. The redemption value of the points is estimated based on historical behaviour and trends in redemption rates and redemption values.

Changes in estimates may result in changes to "Deferred revenue" (current and non-current) in the Consolidated Statements of Financial Position and an increase or decrease to "Revenue" and/or "Cost of goods and services sold" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). For additional information, see Note 13 "Deferred revenue" in the Notes to the Consolidated Financial Statements.

Derivative Assets and Liabilities

All derivatives are measured at fair value. U.S. dollar option contracts are traded over-the-counter and give holders the right to buy, or sell, a specified amount of U.S. currency at an agreed upon price and date in the future. Fair values of the U.S. dollar option contracts are derived using a Black-Scholes valuation model. The Company is required to estimate various inputs which are used in this model that are a combination of quoted prices and observable market inputs. The fair values of derivatives include an adjustment for credit risk when appropriate.

Changes in estimates may result in changes to "Derivative financial assets" and "Derivative financial liabilities" on the Consolidated Statements of Financial Position and a charge or credit to "Cost of goods and services sold", "Selling, administrative and other expenses" or "Other comprehensive income (loss)" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). For additional information, see Note 14 "Financial instruments" in the Notes to the Consolidated Financial Statements.

Provisions

Provisions are estimated based on historical data, cost estimates provided by specialists and future projections. Changes in estimates or assumptions could cause changes to "Provisions" on the Consolidated Statements of Financial Position and a charge or credit to "Cost of goods and services sold" or "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). For additional information, see Note 16 "Provisions" in the Notes to the Consolidated Financial Statements.

Leasing Arrangements

The Company has applied judgment in the classification of its leasing arrangements, which is determined at the inception of the lease and is based on the substance of the transaction, rather than its legal form. The Company's leases were evaluated based on certain significant assumptions including the discount rate, economic life of a building, lease term and existence of a bargain renewal option.

Changes in estimates or assumptions could cause changes to "Property, plant and equipment", "Principal payments on long-term obligations due within one year" and "Long-term obligations" on the Consolidated Statements of Financial Position and a charge or credit to "Selling, administrative and other expenses" and "Finance costs" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). For additional information, see Note 19 "Leasing arrangements" in the Notes to the Consolidated Financial Statements.

Taxes

In the ordinary course of business, the Company is subject to ongoing audits by tax authorities. While the Company believes that its tax filing positions are appropriate and supportable, certain matters are periodically challenged by tax authorities. The Company applies judgment and routinely evaluates and provides for potentially unfavourable outcomes with respect to any tax audits. If the result of a tax audit materially differs from the existing provisions, the Company's effective tax rate and its net earnings (loss) will be affected positively or negatively.

Changes in estimates or assumptions could cause changes to "Income taxes recoverable", "Deferred tax assets", "Income and other taxes payable" and "Deferred tax liabilities" on the Consolidated Statements of Financial Position and a charge or credit to "Income tax expense (recovery)" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). For additional information, see Note 22 "Income taxes" in the Notes to the Consolidated Financial Statements.

b. Issued Standards Not Yet Adopted

The Company monitors the standard setting process for new standards and interpretations issued by the IASB that the Company may be required to adopt in the future. Since the impact of a proposed standard may change during the review period, the Company does not comment publicly until the standard has been finalized and the effects have been determined.

On December 16, 2011, the IASB issued amendments to three previously released standards. They are as follows:

IAS 32, Financial Instruments: Presentation ("IAS 32")

The IASB amended IAS 32 to address inconsistencies in current practice in the application of offsetting criteria. The amendments provide clarification with respect to the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. These amendments are effective for annual periods beginning on or after January 1, 2014. The Company is currently assessing the impact of these amendments on the Company's consolidated financial statements and related note disclosures.

IFRS 7, Financial Instruments: Disclosures ("IFRS 7")

The IASB first amended IFRS 7 on October 7, 2010, to require additional disclosures regarding transfers of financial assets. These amendments are effective for annual periods beginning on or after July 1, 2011. The Company applied these amendments beginning the first quarter of its Fiscal 2012 year.

On December 16, 2011, the IASB approved amendments to IFRS 7, which establishes disclosure requirements to help users better assess the effect or potential effect of offsetting arrangements on a company's financial position. These amendments are effective for annual periods beginning on or after January 1, 2013. The Company will apply these amendments beginning the first quarter of its Fiscal 2013 year and is currently assessing the impact on the Company's disclosures.

IFRS 9, Financial Instruments ("IFRS 9")

The IASB issued IFRS 9 on November 12, 2009, which will ultimately replace IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39"). The replacement of IAS 39 is a three-phase project with the objective of improving and simplifying the reporting for financial instruments.

The first phase of the project provides guidance on the classification and measurement of financial assets. IFRS 9 was subsequently reissued on October 28, 2010, incorporating new requirements on accounting for financial liabilities. On December 16, 2011, the IASB amended the mandatory effective date of IFRS 9 to fiscal years beginning on or after January 1, 2015. The amendment also provides relief from the requirement to recast comparative financial statements for the effect of applying IFRS 9. The Company is monitoring the impact of amendments to this standard and is currently assessing the impact on the Company's disclosures.

On June 16, 2011, the IASB issued amendments to the following standard:

IAS 1, Presentation of Financial Statements ("IAS 1")

The IASB has amended IAS 1 to require additional disclosures for items presented in OCI on a before-tax basis and requires items to be grouped and presented in OCI based on whether they are potentially reclassifiable to earnings or loss subsequently (i.e. items that may be reclassified and those that will not be reclassified to earnings or loss). These amendments are effective for annual periods beginning on or after July 1, 2012 and require full retrospective application. The Company will apply these amendments beginning the first quarter of its Fiscal 2013 year and is currently assessing the impact to its consolidated financial statements.

On May 12, 2011, the IASB issued four new standards, all of which are applicable to Annual Reporting periods beginning on or after January 1, 2013. The Company is currently assessing the impact of these standards on its consolidated financial statements and related note disclosures. The following is a list and description of these standards:

IAS 28, Investments in Associates and Joint Ventures ("IAS 28")

IAS 28 (as amended in 2011) supersedes IAS 28 (2003), *Investments in Associates* and outlines how to apply, with certain limited exceptions, the equity method to investments in associates and joint ventures. The standard also defines an associate by reference to the concept of "significant influence", which requires power to participate in financial and operating policy decisions of an investee (but not joint control or control of those polices);

IFRS 10, Consolidated Financial Statements ("IFRS 10")

IFRS 10 establishes the standards for the presentation and preparation of consolidated financial statements when an entity controls one or more entities;

IFRS 11, Joint Arrangements ("IFRS 11")

IFRS 11 replaces IAS 31, *Interests in Joint Ventures* ("IAS 31") and requires that a party in a joint arrangement assess its rights and obligations to determine the type of joint arrangement and account for those rights and obligations accordingly;

IFRS 12, Disclosure of Involvement with Other Entities ("IFRS 12")

IFRS 12, along with IFRS 11 described above, replaces IAS 31. IFRS 12 requires the disclosure of information that enables users of financial statements to evaluate the nature of and the risks associated with, the entity's interests in joint ventures and the impact of those interests on its financial position, financial performance and cash flows; and

IFRS 13, Fair Value Measurement ("IFRS 13")

IFRS 13 provides guidance to improve consistency and comparability in fair value measurements and related disclosures through a 'fair value hierarchy'. This standard applies when another IFRS requires or permits fair value measurements or disclosures. IFRS 13 does not apply for share-based payment transactions, leasing transactions and measurements that are similar to, but are not fair value.

c. Early adoption of IAS 19 (Revised) – Employee Benefits ("IAS 19")

The Company has elected to early adopt IAS 19 (Revised) in the first quarter of 2012. On June 16, 2011, the IASB issued amendments to IAS 19 which included the elimination of the "corridor approach," which is the option to defer and amortize the recognition of actuarial gains and losses. The significant amendments to IAS 19 are as follows:

- The "corridor approach" is to be replaced with full and immediate recognition of actuarial gain and loss remeasurements in "Other comprehensive (loss) income" ("OCI");
- Retirement benefit costs are to consist of service costs, net interest and remeasurements, with remeasurements being recorded in OCI;
- Past service costs are to be recognized immediately in the Consolidated Statements of Net Earnings (Loss);

- Expected returns on plan assets will no longer be recognized in profit or loss. Instead, interest income on plan assets, calculated using the discount rate used to measure the pension obligation, will be recognized in the Consolidated Statements of Net Earnings (Loss),
- Plan administration costs are to be expensed as incurred; and
- Disclosures relating to retirement benefit plans will be enhanced and will include discussions on risk associated with each plan, an explanation of items recognized in the consolidated financial statements and descriptions of the amount, timing and uncertainty on the Company's future cash flows.

The amendments to IAS 19 are effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The amendments are required to be applied retrospectively in accordance with IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*. As discussed above, the Company has elected to early adopt the amendments to IAS 19, and as such, the Company has retrospectively adjusted the assets and liabilities for the 52-week periods ending January 28, 2012, January 29, 2011 and January 31, 2010 and income and expenses and cash flows for the 52-week periods ended January 28, 2012 and January 29, 2011.

Impact on financial statement captions

A summary of the impact arising from the application of the change in accounting policy is as follows:

Consolidated Statements of Financial Position

(Increase (decrease) in CAD millions)		As at January 28, 2012
Retirement benefit asset	$	(187.7)
Retirement benefit liability		308.2
Net change to retirement benefit asset and liability		(495.9)
Deferred tax assets		84.0
Deferred tax liabilities		(43.6)
Net change to deferred tax assets and liabilities		127.6
Accumulated other comprehensive loss		(141.7)
Retained earnings		(226.6)

Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss)

(Increase (decrease) in CAD millions, except per share amounts)		**53-Week Period Ended February 2, 2013**
Selling, administrative and other expenses	$	**(24.4)**
Earnings before income taxes		**24.4**
Deferred income tax expense		**6.4**
Net earnings		**18.0**
Basic net earnings per share		**0.17**
Diluted net earnings per share		**0.17**
Other comprehensive income		**1.3**
Total comprehensive income		**19.3**

Consolidated Statements of Cash Flows

(Increase (decrease) in CAD millions)		**53-Week Period Ended February 2, 2013**
Net earnings	$	**18.0**
Retirement benefit plans expense		**(24.4)**
Income tax expense		**6.4**

Please refer to Note 20 "Retirement benefit plans" in the Notes to the Consolidated Financial Statements for the prior year comparative figures.

10. Disclosure Controls and Procedures

Disclosure Controls and Procedures

Management of the Company is responsible for establishing and maintaining a system of disclosure controls and procedures ("DC&P") that are designed to provide reasonable assurance that information required to be disclosed by the Company in its public disclosure documents, including its Annual and Interim MD&A, Annual and Interim Financial Statements, and Annual Information Form is recorded, processed, summarized and reported within required time periods and includes controls and procedures designed to ensure that the information required to be disclosed by the Company in its public disclosure documents is accumulated and communicated to the Company's management, including the Chief Executive Officer ("CEO") and Interim Chief Financial Officer ("Interim CFO"), to allow timely decisions regarding required DC&P.

Management of the Company, including the CEO and Interim CFO, has caused to be evaluated under their supervision, the Company's DC&P, and has concluded that the Company's DC&P was effective for the year ended February 2, 2013.

Internal Control over Financial Reporting

Management of the Company is also responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

Internal control systems, regardless of superiority in design, have inherent limitations. Therefore, even those systems that have been determined to have been designed effectively can only provide reasonable assurance with respect to financial reporting and financial statement preparation.

Management of the Company has evaluated whether there were changes in the internal control over financial reporting during Fiscal 2012 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting and has determined that no material changes occurred during this period.

11. Risks and Uncertainties

Risks Relating to Our Business

If the Company is unable to compete effectively in the highly competitive retail industry, the Company's business and results of operations could be materially adversely affected.

The Canadian retail market remains highly competitive as key players and new entrants compete for market share. International retailers continue to expand into Canada while existing competitors enhance their product offerings and become direct competitors. The Company's competitors include traditional full-line department stores, discount department stores, wholesale clubs, "big-box" retailers, internet retailers and specialty stores offering alternative retail formats. Failure to develop and implement appropriate competitive strategies and the performance of Sears competitors could have a material adverse effect on the Company's business, results of operations and financial condition.

To stay competitive and relevant to Sears customers, significant initiatives in support of the Company's strategic plan are underway for Fiscal 2012. These initiatives include improvements in business processes, advancements in information technology and other organizational changes. The achievement of strategic goals may be adversely affected by a wide range of factors, many of which are beyond the Company's control. The inability to execute and integrate strategic plans could have a negative impact on the Company's current operations, market reputation, customer satisfaction and financial position. The Company's potential to implement and achieve Sears long-term strategic objectives is dependent on the achievement of these strategic plans and initiatives. There can be no assurance that such plans and initiatives will yield the expected results, either of which could cause the Company to fall short in achieving financial objectives and long-range goals.

Additional risk may arise when foreign retailers carrying on business in Canada in competition with Sears engage in marketing activities which are not in full compliance with Canadian legal requirements regarding advertising and labeling rules and product quality standards. Such retailers may gain an unfair advantage and their activities may negatively affect the Company's business and results of operations.

The majority of the performance payments earned pursuant to the credit card marketing and servicing alliance with JPMorgan Chase are related to customers' purchases using the Sears Card and Sears MasterCard. The credit card industry is highly competitive as credit card issuers continue to expand their product offerings to distinguish their cards. As competition increases, there is a risk that a reduction in the percentage of purchases charged to the Sears Card and Sears MasterCard may negatively impact the Company's results of operations and financial condition.

Due to the seasonality of the Company's business, the Company's results of operations would be adversely affected if Sears business performed poorly in the fourth quarter or as a result of unseasonable weather patterns.

The Company's operations are seasonal in nature with respect to results of operations and in products and services offered. Merchandise and service revenues, as well as performance payments received from JPMorgan Chase, vary by quarter based upon consumer spending behavior. Historically, the Company's revenues and earnings have been higher in the fourth quarter due to the holiday season and we have reported a disproportionate level of earnings in that quarter. As a result, the fourth quarter results of operations significantly impacts the Company's annual results of operations. The Company's fourth quarter results of operations may fluctuate significantly, based on many factors, including holiday spending patterns and weather conditions. In addition, the Company offers many seasonal goods and services. The Company establishes budgeted inventory levels and promotional activity in accordance with its strategic initiatives and expected consumer demand. Businesses that generate revenue from the sale of seasonal merchandise and services are subject to the risk of changes in consumer spending behavior as a result of unseasonable weather patterns.

If the Company fails to offer merchandise and services that Sears customers want, Sears sales may be limited, which would reduce the Company's revenues and profits and adversely impact Sears results of operations.

To be successful, the Company must identify, obtain supplies and offer to customers attractive, relevant and high-quality merchandise and services on a continuous basis. Customers' preferences may change over time. If we misjudge either the demand for products and services Sears sells or the Company's customers' purchasing habits and tastes, the Company may be faced with excess inventories of some products and missed opportunities for products and services Sears chose not to offer. This could have a negative effect on the Company's revenues and profits and adversely impact Sears results of operations.

The Company's failure to retain Sears senior management team and to continue to attract qualified new personnel could adversely affect the Company's business and results of operations.

The Company's success is dependent on its ability to attract, motivate and retain senior leaders and other key personnel. The loss of one or more of the members of the Company's senior management may disrupt Sears business and adversely affect Sears results of operations. Furthermore, the Company may not be successful in attracting, assimilating and retaining new personnel to grow Sears business profitably. The inability to attract and retain key personnel could have an adverse effect on the Company's business.

If the Company does not successfully manage its inventory levels, the Company's results of operations will be adversely affected.

The Company must maintain sufficient in-stock inventory levels to operate the business successfully while minimizing out-of-stock levels. A significant portion of inventory is sourced from vendors requiring advance notice periods in order to supply the quantities that we require. These lead times may adversely impact the Company's ability to respond to changing consumer preferences, resulting in inventory levels that are insufficient to meet demand or in merchandise that may have to be sold at lower prices. Inappropriate inventory levels or a failure to accurately anticipate the future demand for a particular product or the time it will take to obtain new inventory may negatively impact the Company's results of operations.

The Company relies extensively on computer systems to process transactions, summarize results and manage its business. Disruptions in these systems could harm the Company's ability to run its business.

Given the number of individual transactions that the Company processes each year, it is critical that the Company maintain uninterrupted operation of its computer and communications hardware and software systems. These systems are subject to obsolescence, damage or interruption from power outages, computer and telecommunications failures, computer viruses, security breaches, catastrophic events such as fires, natural disasters and adverse weather occurrences and usage errors by the Company's employees. If the systems are damaged or cease to function properly, the Company may have to make a significant investment to fix or replace them, may suffer interruptions in operations in the interim and the Company's reputation with its customers may be harmed.

The Company's ability to maintain sufficient inventory levels in its stores is critical to the Company's success and largely depends upon the efficient and uninterrupted operation of its computer and communications hardware and software systems. Any material interruption in the Company's computer operations may have a material adverse effect on the Company's business and results of operations.

The Company relies on foreign sources for significant amounts of its merchandise, and the Company's business may therefore be negatively affected by the risks associated with international trade.

The Company is dependent upon a significant amount of products that originate from non-Canadian markets. In particular, the Company sources a significant amount of products from China. The Company is subject to the risks that are associated with the sourcing and delivery of this merchandise, including: potential economic, social and political instability in jurisdictions where suppliers are located; increased shipping costs, potential transportation delays and interruptions; adverse foreign currency fluctuations, changes in international laws, rules and regulations pertaining to the importation of products and quotas; and the imposition and collection of taxes and duties. Any increase in cost to the Company of merchandise purchased from foreign vendors or restriction on the merchandise made available to the Company by such vendors could have an adverse effect on the Company's business and results of operations.

Damage to the reputations of the brands the Company sells could reduce the Company's revenues and profits and adversely impact the Company's results of operations.

As a diverse and multi-channel retailer, the Company promotes many brands as part of the Company's normal course of business. These brands include the Sears brand, Sears private label brands for product lines such as Jessica, and non-proprietary brands exclusive to Sears. Damage to the reputation of these brands or the reputation of the suppliers of these brands could negatively impact consumer opinions of the Company or its related products and reduce its revenues and profits and adversely impact its results of operations. In those circumstances, it may be difficult and costly for Sears to regain customer confidence.

If the Company's relationships with its significant suppliers were to be impaired, it could have a negative impact on the Company's competitive position and its results of operations and financial condition.

Although the Company's business is not substantially dependent on any one supplier, the Company's relationship with certain suppliers is of significance to its merchandising strategy, including attracting customers to its locations, cross-segment sales and image. The loss of a significant supplier relationship could result in lower revenues and decreased customer interest in Sears stores, which, in turn, would adversely affect Sears results of operations and financial condition. In addition, Sears may not be able to develop relationships with new suppliers, and products from alternative sources, if any, may be of a lesser quality and more expensive than those Sears currently purchases.

The lack of willingness of the Company's vendors to provide acceptable payment terms could negatively impact Sears liquidity and/or reduce the availability of products or services that Sears seeks to procure.

The Company depends on its vendors to provide it with financing for the Company's purchases of inventory and services. Sears vendors could seek to limit the availability of vendor credit to Sears or other terms under which they sell to Sears, or both, which could negatively impact the Company's liquidity. In addition, the inability of the Company's vendors to access liquidity, or the insolvency of the Company's vendors, could lead to their failure to deliver inventory or other services to Sears. Certain of the Company's vendors may finance their operations and/or reduce the risk associated with collecting accounts receivable from Sears by selling or "factoring" the receivables or by purchasing credit insurance or other forms of protection from loss associated with Sears credit risks. The ability of Sears vendors to do so is subject to the Company's perceived credit quality. The Company's vendors could be limited in their ability to factor receivables or obtain credit protection in the future because of sears perceived financial position and credit worthiness, which could reduce the availability of products or services the Company seeks to procure.

The Company may be subject to product liability claims if people or properties are harmed by the products the Company sells or the services it offers.

The Company sells products produced by third party manufacturers. Some of these products may expose the Company to product liability claims relating to personal injury, death or property damage caused by such products and may require the Company to take actions, such as product recalls. In addition, the Company also provides various services which could give rise to such claims. Although Sears maintains liability insurance to mitigate these potential claims, Sears cannot be certain that its coverage will be adequate for liabilities actually incurred or that insurance will continue to be available on economically reasonable terms or at all.

Product liability claims can be expensive to defend and can divert the attention of management and other personnel for significant periods, regardless of the ultimate outcome. Claims of this nature, as well as product recalls, could also have a negative impact on customer confidence in the products and services Sears offers and on the Company's reputation, and adversely affect the Company's business and its results of operations.

If the Company does not maintain the security of its customers, associates or Company information, the Company could damage its reputation, incur substantial additional costs and become subject to litigation.

Any significant security compromise or breach of customer, associate or Company data, either held or maintained by the Company or its third party providers, could significantly damage the Company's reputation and brands and result in additional costs, lost sales, fines and/or lawsuits. The regulatory environment in Canada related to information security and privacy is very rigorous. There is no guarantee that the procedures that we have implemented to protect against unauthorized access to secured data are adequate to safeguard against all data security breaches. A data security breach could negatively impact the Company's business and its results of operations.

The performance of the Company's real estate joint ventures may be affected by events outside of the Company's control.

The primary objective of the Company's real estate joint venture operations is to maximize the returns on its investments in shopping center real estate. Sears reviews the performance of these joint ventures on a regular basis. Shopping center investments are non-core assets that Sears sells when Sears believes it is financially advantageous to do so. Similarly, the Company may also develop excess land within these real estate holdings and shopping center joint venture investments when it is advantageous to do so. The return on such transactions is contingent on the state of the economic environment and other factors. In addition, the credit worthiness and financial stability of tenants and partners could negatively impact the Company's results of operations.

The Company is subject to a number of long-term real estate leases which could restrict the Company's ability to respond to changes in demographics or the retail environment and adversely affect the Company's results of operations.

As of February 2, 2013, the Company operated a total of 118 Full-line Department stores, 357 specialty stores (including 48 Sears Home stores, 11 Outlet stores, four Appliances and Mattresses stores, 261 Hometown Dealer stores operated under independent local ownership and 33 Corbeil stores), 1,512 catalogue merchandise pick-up locations and 101 Sears Travel offices. Company owned stores consist of 14 Full-line Department stores and two Sears Home stores, with the majority of the remainder held under long-term leases. While the Company is able to change its merchandise mix and relocate stores in order to maintain competitiveness, the Company is restricted from vacating a current site without breaching its contractual obligations and incurring lease-related expenses for the remaining portion of the lease-term. The long-term nature of the leases may limit the Company's ability to respond in a timely manner to changes in the demographic or retail environment at any location, which could adversely affect the Company's results of operations. In addition, when leases for the stores in the Company's ongoing operations expire, the Company may be unable to negotiate renewals, either on commercially acceptable terms, or at all, which could cause us to close stores. Accordingly, the Company is subject to the risks associated with leasing real estate, which could have an adverse effect on the Company's results of operations.

The Company may be subject to legal proceedings if the Company violates the operating covenants in its real estate leases that could adversely affect the Company's business and results of operations.

As of February 2, 2013, the Company had operating covenants with landlords for approximately 100 Sears brand corporate stores. An operating covenant generally requires the Company, during normal operating hours, to operate a store continuously as per the identified format in the lease agreement. As of February 2, 2013, the remaining term of the various Sears operating covenants ranged from less than one year to 25 years, with an average remaining term of approximately seven years. Failure to observe operating covenants may result in legal proceedings against the Company and adversely affect the Company's business and results of operations.

The Company is subject to laws and regulations that impact its business and a failure to comply with such laws and regulations could lead to lawsuits or regulatory actions against the Company that could adversely affect the Company's business and results of operations.

Laws and regulations are in place to protect the interests and well-being of the Company's customers and communities, business partners, suppliers, employees, shareholders and creditors. Changes to statutes, laws, regulations or regulatory policies, including changes in the interpretation, implementation or enforcement of statutes, laws, regulations and regulatory policies, could adversely affect the Company's business and results of operations. In addition, Sears may incur significant costs in the course of complying with any changes to applicable statutes, laws, regulations and regulatory policies.

The Company's failure to comply with applicable statutes, laws, regulations or regulatory policies could result in a judicial or regulatory judgment or sanctions and financial penalties that could adversely impact the Company's reputation, business and results of operations. Although the Company believes that it has taken reasonable measures designed to ensure compliance with governing statutes, laws, regulations and regulatory policies in the jurisdictions in which it conducts business, there is no assurance that the Company will always be in compliance or deemed to be in compliance.

The Company is required to comply with federal and provincial environmental laws and regulations, the cost of which may adversely affect the Company's results of operations and financial condition.

The Company is exposed to environmental risk as an owner, lessor and lessee of property. Under federal and provincial laws, the owner, lessor or lessee could be liable for the costs of removal and remediation of certain hazardous substances on its properties or disposed of at other locations. The failure to remove or remediate such substances, if any, could lead to claims against the Company.

The Company is currently remediating various locations across Canada where it operated auto centers, gas bars and a logistics facility. The extent of the remediation and the costs thereof have not yet been determined. Sears continues to monitor the costs of remediation and appropriately provide for these costs in its reserves. If we commit to renovating a leased or owned building that contains or may contain asbestos, or if asbestos is inadvertently disturbed, we will be legally obligated to comply with asbestos removal standards. The extent of this liability has not yet been determined because the costs to remove asbestos depend upon factors including, among others, the location and extent of any renovations undertaken. Inadvertent disturbance of asbestos cannot be foreseen. The costs incurred by Sears could be significant and may negatively impact the Company's results of operations and financial condition.

The Company is exposed to a variety of legal proceedings, including class action lawsuits, and tax audits which, if adversely decided, could materially adversely affect the Company.

The Company is currently involved in various legal proceedings incidental to the normal course of business. Although the Company is of the view that the final disposition of any such litigation is not expected to have a material adverse effect on its liquidity, consolidated financial position or results of operations, the outcome of such litigation cannot be predicted with certainty.

In the ordinary course of business, the Company is subject to ongoing audits by tax authorities. While we believe that the Company's tax filing positions are appropriate and supportable, periodically, certain matters are reviewed and from time to time and challenged by the tax authorities. As the Company routinely evaluates and provides for potentially unfavorable outcomes with respect to any tax audits, it believes that the final disposition of tax audits will not have a material adverse effect on its liquidity, consolidated financial position or results of operations. If the result of a tax audit materially differs from the existing provisions, the Company's effective tax rate and net earnings could be affected positively or negatively in the period in which the tax audits are completed.

Events outside the Company's control such as social or political unrest, natural disasters, extreme or unseasonable weather, acts of war or terrorism, systems breakdowns or power outages could have a material adverse effect on the Company's business and results of operations.

The Company's business is sensitive to customers' spending patterns, which may be affected by domestic and international social or political unrest, natural disasters, extreme or unseasonable weather, acts of war or terrorism, or other significant events outside of the Company's control, any of which could lead to a decrease in spending by consumers. In addition, such events as well as systems breakdowns and power outages could cause store closures, disrupt supply chain or other operations, delay shipments of merchandise to consumers, reduce revenue and result in expenses to repair or replace facilities. Disruptions during a peak season such as the month of December, which may account for up to 40% of a year's earnings, could have a particularly adverse effect on the Company's business and results of operations.

The Company's business could suffer if it is unsuccessful in making, integrating, and maintaining acquisitions and investments.

From time to time we pursue strategic acquisitions of, joint ventures with, or investments in, other companies or businesses, although the Company has no present commitments with respect to any material acquisitions or investments. Any such acquisition, joint venture or investment that the Company makes may require Sears to spend its cash, or incur debt, contingent liabilities, or amortization expenses related to intangible assets, any of which could reduce the Company's profitability and harm its business.

Acquisitions, joint ventures and investments also increase the complexity of the Company's business and place strain on its management, personnel, operations, supply chain, financial resources, and internal financial controls and reporting functions. The Company may not be able to manage acquisitions, joint ventures or investments effectively, which could damage the Company's reputation, limit its growth and adversely affect its business and results of operations.

Financial Risks

The Company's business has been and will continue to be affected by Canadian and worldwide economic conditions; a persistence or worsening of current economic conditions could lead to reduced revenues and gross margins, and negatively impact the Company's liquidity.

The Company plans its operations giving regard to economic and financial variables that are beyond its control. Changes to these variables may adversely impact the Company's performance. Should the current economic conditions persist or worsen, heightened competition, a further decline in consumer confidence, lower disposable income, higher unemployment and personal debt levels may result, which could lead to reduced demand for the Company's products and services. Any of these events could cause the Company to increase inventory markdowns and promotional expenses, thereby reducing the Company's gross margins and results of operations. The Company's results of operations have been negatively impacted as a result of the current economic conditions and the volatility in the Canadian and global economies and it is difficult to accurately assess the potential impact on the Company's business. If the Canadian or global economies continue to worsen, however, the Company could experience a decline in same store sales, erosion of gross profit and profitability.

Increasing fuel and energy costs may have a significant negative impact on the Company's operations. The Company requires significant quantities of fuel for the vehicles used to distribute and deliver inventory and the Company is exposed to the risk associated with variations in the market price for petroleum products. The Company could experience a disruption in energy supplies, including its supply of gasoline, as a result of factors that are beyond the Company's control, which could have an adverse effect on the Company's business. Certain of the Company's vendors also are experiencing increases in the cost of various raw materials, such as cotton, oil- related materials, steel and rubber, which could result in increases in the prices that the Company pays for merchandise, particularly apparel, appliances and tires and adversely affect the Company's results of operations.

Liquidity Risk

The Company could face liquidity risk due to various factors, including but not limited to, the unpredictability of the current economic climate, failure to secure appropriate funding vehicles and cash flow issues relating to the operation and management of the business. Failure to fulfill financial obligations due and owing from the Company as a result of this liquidity risk could have undesirable consequences on Sears.

Fluctuations in U.S. and Canadian dollar exchange rates may affect the Company's results of operations.

The Company's foreign exchange risk is currently limited to currency fluctuations between the Canadian and U.S. dollar. The Company is vulnerable to increases in the value of the U.S. dollar relative to the Canadian dollar because the majority of its revenues are denominated in Canadian dollars and a substantial amount of the merchandise the Company purchases is priced in U.S. dollars. The costs of these goods in Canadian dollars rise when the U.S. dollar increases in value relative to the Canadian dollar and, as a result, the Company may be forced to increase its prices or reduce its gross margins. We may use foreign currency forward and option contracts to hedge the exchange rate risk on a portion of the Company's expected requirement for U.S. dollars. There can be no assurance that the Company's hedging efforts will achieve their intended results or that the Company's estimate of its requirement for U.S. dollars will be accurate, with the result that currency fluctuations may have an adverse impact on the Company's results of operations.

In addition, the appreciation of the Canadian dollar over the past few years relative to the U.S. dollar presents an additional challenge to the Company as its customers are motivated to cross-border shop, which may have an adverse impact on the Company's results of operations.

The Company is exposed to counterparty credit risk which could adversely affect its results of operations.

Credit risk refers to the possibility that the Company can suffer financial losses due to the failure of counterparties to meet their payment obligations to the Company. Exposure to credit risk exists for derivative instruments, cash and cash equivalents, short- term investments, accounts receivable and investments included in other long-term assets. Cash and cash equivalents, accounts receivable, derivative financial assets, and other long-term assets of $314.5 million as at February 2, 2013 (January 28, 2012: $514.9 million) expose the Company to credit risk should the borrower default on maturity of the investment.

Although the Company seeks to manage this exposure through policies that require borrowers to have a minimum credit rating of A, and limiting investments with individual borrowers at maximum levels based on credit rating, there can be no assurance that the Company will be able to successfully manage its credit risk.

The Company invests its surplus cash in investment grade, short-term money market instruments, the return on which depends upon interest rates and the credit worthiness of the issuer. The Company attempts to mitigate credit risk resulting from the possibility that an issuer may default on repayment by requiring that issuers have a minimum credit rating and limiting exposures to individual borrowers.

The Company is exposed to interest rate risk which could adversely affect its results of operations.
Interest rate risk reflects the sensitivity of the Company's financial condition to movements in interest rates. Financial assets and liabilities which do not bear interest or bear interest at fixed rates are classified as non-interest rate sensitive. Cash and cash equivalents and borrowings under the Company's $800.0 million senior secured revolving credit facility, or the Credit Facility, are subject to interest rate risk. The total outstanding balance subject to interest rate risk as at February 2, 2013 was a net asset of $238.3 million (January 28, 2012: $297.7 million). An increase or decrease in interest rate of 0.25% would cause an immaterial after-tax impact on net earnings (loss).

Expenses associated with the Company's retirement benefit plans may fluctuate significantly depending on changes in actuarial assumptions, future market performance of plan assets, and other events outside of the Company's control and adversely affect the Company's results of operations.
The Company currently maintains a defined benefit registered pension plan, a non-registered supplemental savings arrangement and a defined benefit non-pension post-retirement plan, which provides life insurance, medical and dental benefits to eligible retired associates through a health and welfare trust. The defined benefit plan continues to accrue benefits related to future compensation increases although no further service credit is earned. In addition, the Company no longer provides medical, dental and life insurance benefits at retirement for associates who had not achieved the eligibility criteria for these non- pension post-retirement benefits as at December 31, 2008.

There is no assurance that the Company's retirement benefit plans will be able to earn the assumed rate of return. New regulations and market driven changes may result in changes in the discount rates and other variables which would result in the Company being required to make contributions in the future that differ significantly from the estimates.

Management is required to use assumptions to account for the plans in conformity with IFRS. However, actual future experience will differ from these assumptions giving rise to actuarial gains or losses. In any year, actual experience differing from the assumptions may be material. Plan assets consist primarily of cash, alternative investments, marketable equity and fixed income securities. The value of the marketable equity and fixed income investments will fluctuate due to changes in market prices. Plan obligations and annual pension expense are determined by independent actuaries and through the use of a number of assumptions.

Although the Company believes that the assumptions used in the actuarial valuation process are reasonable, there remains a degree of risk and uncertainty which may cause results to differ materially from expectations. Significant assumptions in measuring the benefit obligations and pension plan costs include the discount rate and the rate of compensation increase. See Note 20.4 "Pension assumptions" of the Notes to the 2012 Annual Consolidated Financial Statements for more information on the weighted-average actuarial assumptions for the plans.

The Company faces risks associated with impairment of goodwill and other assets.
The Company's goodwill, intangible assets and long-lived assets, primarily consisting of stores and joint ventures, are subject to periodic testing for impairment. A significant amount of judgment is involved in the periodic testing. Failure to achieve sufficient levels of cash flow within each of the Company's cash generating units or specific operating units could result in impairment charges for goodwill and intangible assets or fixed asset impairment for long-lived assets, which could have a material adverse effect on the Company's reported results of operations.

Risks Relating to the Company's Relationship with Sears Holdings

The Company may lose rights to some intellectual property if Sears Holdings' equity ownership in the Company falls below specified thresholds.
The Company relies on its right to use the "Sears" name, including as part of the Company's corporate and commercial name, which the Company considers a significant and valuable aspect of its business. The Company's right to use the "Sears" name and certain other brand names was granted pursuant to a license agreement with Sears Holdings.

The Company's license to use the "Sears" name and certain brand names may be terminated if Sears Holdings' indirect ownership interest in the Company is reduced to less than 25%. In addition, the Company's license to use the "Sears" name may also terminate upon the occurrence of certain bankruptcy events. Losing the Company's right to use these intellectual properties could significantly diminish the Company's competitiveness and could materially harm its business. If the license agreement is terminated, the Company would attempt to renegotiate the license agreement although the terms of any renegotiated license agreement would likely be less favorable to the Company.

Some of the Company's directors and executive officers may have conflicts of interest because of their ownership of Sears Holdings common stock and positions with Sears Holdings.
Some of our directors and executive officers own Sears Holdings common stock. In addition, one of our directors, William R. Harker, is a consultant to Sears Holdings. Ownership of Sears Holdings common stock by our directors and officers and the presence of persons associated with Sears Holdings on the Company's board of directors could create, or appear to create, conflicts of interest with respect to matters involving both the Company and Sears Holdings.

Risks Relating to Our Common Shares

As long as Sears Holdings or ESL Investments, Inc. ("ESL") controls the Company, a shareholder's ability to influence matters requiring shareholder approval will be limited.
Sears Holdings controls approximately 51% of the Company's voting power and ESL directly controls approximately 28% of the Company's voting power. As of the date of this MD&A, ESL controlled Sears Holdings and, therefore, ESL directly or indirectly controls approximately 79% of the Company's voting power. So long as ESL directly or indirectly controls a majority of the Company's outstanding common shares, ESL will have the ability to control the election of the board of directors and the outcome of certain shareholder votes.

Accordingly, Sears Holdings and ESL will continue to have the ability to exercise control over certain actions to be taken or approved by the Company's directors and shareholders, including with respect to certain mergers or business combinations or dispositions of all or substantially all of the Company's assets. Sears Holdings and ESL's voting control may discourage transactions involving a change of control of the Company, including transactions in which a shareholder might otherwise receive a premium for his/her shares over the then-current market price. Subject to certain limits, Sears Holdings is also not prohibited from selling a controlling interest in the Company to a third party and may do so without shareholder approval and, subject to applicable laws, without providing for a purchase of a shareholder's common shares.
Sears Holdings and ESL's interests may be different than a shareholder's interests and Sears Holdings and ESL may have investments in other companies that may compete with the Company, and may have interests from time to time that diverge from the interests of shareholders, particularly with regard to new investment opportunities.

In addition, conflicts of interest may arise between Sears Holdings and/or ESL and the Company, including corporate opportunities, potential acquisitions or transactions, as well as other matters. The Company may be adversely affected by any conflicts of interest between Sears Holdings and/or ESL and the Company.

Furthermore, neither Sears Holdings nor ESL owes the Company or the Company's shareholders any fiduciary duties under Canadian law.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The preparation and presentation of the Company's consolidated financial statements and the overall accuracy and integrity of the Company's financial reporting are the responsibility of management. The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB), and include certain amounts that are based on management's best estimates and judgments. Financial information contained elsewhere in this Annual Report is consistent with the information set out in the consolidated financial statements.

In fulfilling its responsibilities, management has developed and maintains an extensive system of disclosure controls and procedures and internal control over financial reporting processes that are designed to provide reasonable assurance that assets are safeguarded, transactions are properly recorded and reported within the required time periods, and financial records are reliable for the preparation of the financial statements. The Company's internal auditors, who are employees of the Company, also review and evaluate internal controls on behalf of management.

The Board of Directors monitors management's fulfillment of its responsibilities for financial reporting and internal controls principally through the Audit Committee. The Audit Committee, which is comprised solely of independent directors, meets regularly with management, the internal audit department and the Company's external auditors to review and discuss audit activity and results, internal accounting controls and financial reporting matters. The external auditors and the internal audit department have unrestricted access to the Audit Committee, management and the Company's records. The Audit Committee is also responsible for recommending to the Board of Directors the proposed nomination of the external auditors for appointment by the shareholders. Based upon the review and recommendation of the Audit Committee, the consolidated financial statements and Management's Discussion and Analysis have been approved by the Board of Directors.

The Company's external auditors, Deloitte LLP, have audited the consolidated financial statements in accordance with International Financial Reporting Standards as issued by the IASB.

Calvin McDonald
President and Chief Executive Officer

E.J. Bird
Interim Chief Financial Officer

Toronto, Ontario
March 14, 2013

Report of Independent Registered Chartered Accountants

To the Shareholders and Board of Directors of
Sears Canada Inc.

We have audited the accompanying consolidated financial statements of Sears Canada Inc. and subsidiaries, which comprise the consolidated statements of financial position as at February 2, 2013 and January 28, 2012 and the consolidated statements of net earnings (loss) and comprehensive income (loss), consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the 53 and 52-week periods ended February 2, 2013 and January 28, 2012, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Sears Canada Inc. and subsidiaries as at February 2, 2013 and January 28, 2012 and their financial performance and cash flows for the 53 and 52-week periods ended February 2, 2013 and January 28, 2012 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Deloitte LLP

Independent Registered Chartered Accountants
Licensed Public Accountants
March 14, 2013
Toronto, Canada

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CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in CAD millions)	Notes		As at February 2, 2013		As at January 28, 2012
ASSETS					
Current assets					
Cash and cash equivalents	5	$	**237.0**	$	397.4
Accounts receivable, net	6,14		**76.2**		116.2
Income taxes recoverable	22		**5.5**		4.1
Inventories	7		**851.4**		823.9
Prepaid expenses	8		**30.1**		27.9
Total current assets			**1,200.2**		1,369.5
Non-current assets					
Property, plant and equipment	9,19		**840.0**		872.0
Investment property	9		**21.7**		21.7
Intangible assets	10.2		**27.2**		23.6
Goodwill	10.1		**8.7**		8.7
Investment in joint ventures	11		**263.4**		301.4
Deferred tax assets	22		**83.8**		84.6
Other long-term assets	12,14,16,22		**34.1**		49.2
Total assets		$	**2,479.1**	$	2,730.7
LIABILITIES					
Current liabilities					
Accounts payable and accrued liabilities	14,15	$	**482.0**	$	576.8
Deferred revenue	13		**197.5**		208.0
Provisions	16		**66.3**		64.8
Income taxes payable	22		**—**		1.0
Other taxes payable			**33.9**		42.8
Current portion of long-term obligations	14,17,19,25		**5.2**		5.1
Total current liabilities			**784.9**		898.5
Non-current liabilities					
Long-term obligations	14,17,19,25		**30.9**		117.6
Deferred revenue	13		**90.7**		89.2
Retirement benefit liability	20.1		**415.7**		452.3
Deferred tax liabilities	22		**5.8**		5.3
Other long-term liabilities	16,18		**74.7**		75.8
Total liabilities			**1,402.7**		1,638.7
SHAREHOLDERS' EQUITY					
Capital stock	24		**14.9**		15.0
Retained earnings	24,25		**1,208.2**		1,218.5
Accumulated other comprehensive loss			**(146.7)**		(141.5)
Total shareholders' equity			**1,076.4**		1,092.0
Total liabilities and shareholders' equity		$	**2,479.1**	$	2,730.7

The accompanying notes are an integral part of these consolidated financial statements.

On Behalf of the Board of Directors,

W.C.Crowley
Chairman of the Board

E.J. Bird
Director

CONSOLIDATED STATEMENTS OF NET EARNINGS (LOSS) AND COMPREHENSIVE INCOME (LOSS)
For the 53 and 52-week periods ended February 2, 2013 and January 28, 2012

(in CAD millions, except per share amounts)	Notes		2012		2011
Revenue	26	$	**4,300.7**	$	4,619.3
Cost of goods and services sold	7		**2,749.2**		2,932.3
Selling, administrative and other expenses	9,10,20.4,27		**1,634.4**		1,737.9
Operating loss			**(82.9)**		(50.9)
Gain on lease terminations	28		**167.1**		—
Gain on sale of interest in joint venture	11		**8.6**		—
Gain on settlement of post-retirement benefits	20		**21.1**		—
Finance costs	17,22		**13.3**		16.0
Interest income	5		**4.1**		1.7
Share of income from joint ventures	11		**9.5**		8.3
Earnings (loss) before income taxes			**114.2**		(56.9)
Income tax (expense) recovery					
Current	22		**(8.2)**		(18.7)
Deferred	22		**(4.8)**		25.3
			(13.0)		6.6
Net earnings (loss)		$	**101.2**	$	(50.3)
Basic net earnings (loss) per share	32	$	**0.99**	$	(0.48)
Diluted net earnings (loss) per share	32	$	**0.99**	$	(0.48)
Net earnings (loss)		$	**101.2**	$	(50.3)
Other comprehensive loss, net of taxes:					
Loss on foreign exchange derivatives, net of income tax recovery of nil (2011: recovery of $1.7)			—		(4.1)
Reclassification to net earnings (loss) of (gain) loss on foreign exchange derivatives, net of income tax recovery of nil (2011: recovery of $2.8)			**(0.2)**		7.1
Remeasurement loss on net defined retirement benefit liability, net of income tax recovery of $3.5 (2011: recovery of $27.4)	20.7		**(5.0)**		(79.1)
Total other comprehensive loss			**(5.2)**		(76.1)
Comprehensive income (loss)		$	**96.0**	$	(126.4)

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the 53 and 52-week periods ended February 2, 2013 and January 28, 2012

				Accumulated other comprehensive loss (income)			
(in CAD millions)	Notes	Capital stock	Retained earnings	*Foreign exchange derivatives designated as cash flow hedges*	*Remeasurement loss*	Total Accumulated other comprehensive loss (income)	Shareholders' equity
Balance as at January 28, 2012		**$ 15.0**	**$1,218.5**	**$ 0.2**	**$ (141.7)**	**$ (141.5)**	**$ 1,092.0**
Net earnings			**101.2**	—	—	—	**101.2**
Other comprehensive loss							
Reclassification of gain on foreign exchange derivatives				**(0.2)**	—	**(0.2)**	**(0.2)**
Remeasurement loss on net defined retirement benefit liability				—	**(5.0)**	**(5.0)**	**(5.0)**
Total other comprehensive loss		—	—	**(0.2)**	**(5.0)**	**(5.2)**	**(5.2)**
Total comprehensive income (loss)		—	**101.2**	**(0.2)**	**(5.0)**	**(5.2)**	**96.0**
Repurchases of common shares	24	**(0.1)**	**(9.6)**				**(9.7)**
Dividends declared			**(101.9)**				**(101.9)**
Balance as at February 2, 2013		**$ 14.9**	**$1,208.2**	**$ —**	**$ (146.7)**	**$ (146.7)**	**$ 1,076.4**
Balance as at January 29, 2011		$ 15.4	$1,310.4	$ (2.8)	$ (62.6)	$ (65.4)	$ 1,260.4
Net loss			(50.3)	—	—	—	(50.3)
Other comprehensive (loss) income							
Loss on foreign exchange derivatives				(4.1)	—	(4.1)	(4.1)
Reclassification of loss on foreign exchange derivatives				7.1	—	7.1	7.1
Remeasurement loss on net defined retirement benefit liability				—	(79.1)	(79.1)	(79.1)
Total other comprehensive (loss) income		—	—	3.0	(79.1)	(76.1)	(76.1)
Total comprehensive (loss) income		—	(50.3)	3.0	(79.1)	(76.1)	(126.4)
Repurchases of common shares	24	(0.4)	(41.6)				(42.0)
Balance as at January 28, 2012		$ 15.0	$1,218.5	$ 0.2	$ (141.7)	$ (141.5)	$ 1,092.0

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the 53 and 52-week periods ended February 2, 2013 and January 28, 2012

(in CAD millions)	Notes	2012	2011
Cash flow (used for) generated from operating activities			
Net earnings (loss)		$ **101.2**	$ (50.3)
Adjustments for:			
Depreciation and amortization expense	9,10.2	**113.3**	114.9
Impairment (reversal) losses	9	**(0.2)**	2.5
Loss on disposal of property, plant and equipment		**1.2**	1.1
Gain on sale of interest in joint venture	11	**(8.6)**	—
Gain on lease terminations	28	**(167.1)**	—
Finance costs	17	**13.3**	16.0
Interest income	5	**(4.1)**	(1.7)
Share of income from joint ventures	11	**(9.5)**	(8.3)
Retirement benefit plans expense	20.4	**31.6**	30.2
Gain on settlement of post-retirement benefits	20	**(21.1)**	—
Short-term disability expense	20.4	**8.4**	8.4
Income tax expense (recovery)	22	**13.0**	(6.6)
Interest received	5	**2.3**	1.6
Interest paid	17	**(5.3)**	(4.6)
Retirement benefit plans contributions	20.4	**(63.0)**	(17.9)
Income tax refunds (payments), net	22	**9.0**	(21.6)
Other income tax (deposits) receipts, net	22	**(4.1)**	—
Changes in non-cash working capital	33	**(122.2)**	29.6
Changes in long-term assets and liabilities		**32.0**	(8.3)
		(79.9)	85.0
Cash flow generated from (used for) investing activities			
Purchases of property, plant and equipment and intangible assets	9,10.2	**(97.5)**	(84.3)
Proceeds from sale of property, plant and equipment		**2.2**	0.7
Proceeds from lease terminations	28	**175.0**	—
Proceeds from sale of Cantrex operations	29	**3.5**	—
Proceeds from sale of joint venture	11	**38.3**	—
Dividends received from joint ventures		**18.4**	20.1
		139.9	(63.5)
Cash flow used for financing activities			
Interest paid on finance lease obligations	17,19	**(2.4)**	(2.2)
Repayment of long-term obligations		**(142.3)**	(117.1)
Proceeds from long-term obligations		**35.8**	105.0
Dividend payments	24	**(101.9)**	—
Repurchases of common shares	24	**(9.7)**	(42.0)
		(220.5)	(56.3)
Effect of exchange rate on cash and cash equivalents at end of period		**0.1**	(0.1)
Decrease in cash and cash equivalents		**(160.4)**	(34.9)
Cash and cash equivalents at beginning of period		$ **397.4**	$ 432.3
Cash and cash equivalents at end of period		$ **237.0**	$ 397.4

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General information

Sears Canada Inc. is incorporated in Canada. The address of its registered office and principal place of business is 290 Yonge Street, Suite 700, Toronto, Ontario, Canada M5B 2C3. The principal activities of Sears Canada Inc. and its subsidiaries (the "Company") include the sale of goods and services through the Company's Retail channel, which includes its Full-line, Sears Home, Hometown Dealer, Outlet, Appliances and Mattresses, Corbeil Electrique Inc. ("Corbeil") stores, and its Direct (catalogue/internet) channel. It also includes service revenue related to product repair, home improvement, and logistics. Commission revenue includes travel, insurance, and performance payments received from JPMorgan Chase Bank, N.A. (Toronto Branch) ("JPMorgan Chase") under the Company's long-term credit card marketing and servicing alliance with JPMorgan Chase. The Company has partnered with Thomas Cook Canada Inc. ("Thomas Cook") in a multi-year licensing arrangement, under which Thomas Cook manages the day-to-day operations of all Sears Travel offices. Licensee fee revenues are comprised of payments received from licensees, including Thomas Cook, that operate within the Company's stores. The Company is a party to a number of joint ventures which have been classified as jointly controlled entities for financial reporting purposes. These joint ventures are jointly controlled by the venturers who are entitled to a share of the joint ventures' income or loss.

The indirect parent of the Company is Sears Holdings Corporation ("Sears Holdings"), incorporated in the U.S. in the state of Delaware. The ultimate controlling party of the Company is ESL Investments, Inc. (incorporated in the U.S. in the state of Florida) through Sears Holdings.

2. Significant accounting policies

2.1 Statement of compliance

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS"), which are effective and applicable to the Company as at the end of its current fiscal year.

2.2 Basis of preparation and presentation

The principal accounting policies of the Company have been applied consistently in the preparation of its consolidated financial statements for all periods presented. These financial statements follow the same accounting policies and methods of application as those used in the preparation of the recast 2011 Annual Consolidated Financial Statements. The Company's significant accounting policies are detailed in Note 2.

The fiscal year of the Company consists of a 52 or 53-week period ending on the Saturday closest to January 31. The fiscal years for the 2012 and 2011 consolidated financial statements represent the 53-week period ended February 2, 2013 ("Fiscal 2012" or "2012") and the 52-week period ended January 28, 2012 ("Fiscal 2011" or "2011"), respectively.

The Company's consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. The Company reports as a single business segment but operates several operating segments, with operations focused on the merchandising of products and services (see Note 23).

2.3 Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, with the exception of certain financial instruments that are measured at fair value and the retirement benefit asset, which is the net total of plan assets and the present value of the retirement benefit liability. On transition to IFRS, the Company elected to measure certain of its property, plant and equipment at fair value. The fair value was set as the deemed cost, in accordance with IFRS 1, as at that date, and represents the historical cost basis measurement. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

2.4 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company as well as all of its subsidiaries. Real estate joint venture investments are accounted for using the equity method of accounting (described further in Note 2.13).

Subsidiaries include all entities where the Company has the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities.

All intercompany balances and transactions, income and expenses arising from intercompany transactions are eliminated in the preparation of the consolidated financial statements.

2.5 Cash and cash equivalents

Cash and cash equivalents include highly liquid investments with maturities of 90 days or less at the date of purchase. Cash and cash equivalents are considered to be restricted when they are subject to contingent rights of a third party customer, vendor, government agency or financial institution.

2.6 Short-term investments

Short-term investments include investments with maturities between 91 to 364 days from the date of purchase.

2.7 Inventories

Inventories are measured at the lower of cost and net realizable value. Cost is determined using the weighted average cost method, based on individual items. The cost is comprised of the purchase price, plus the costs incurred in bringing the inventory to its present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs to sell. Rebates and allowances received from vendors are recognized as a reduction to the cost of inventory, unless the rebates clearly relate to the reimbursement of specific expenses. A provision for shrinkage and obsolescence is calculated based on historical experience. All inventories consist of finished goods.

2.8 Property, plant and equipment

Property, plant and equipment are measured at cost or deemed cost less accumulated depreciation and accumulated impairment losses. Costs include expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes site preparation costs, design and engineering fees, freight (only on initial freight costs incurred between the vendor and the Company), installation expenses and provincial sales tax (Saskatchewan, Manitoba and Prince Edward Island), and is net of any vendor subsidies or reimbursements. An allocation of general and specific incremental interest charges for major construction projects is also included in the cost of related assets.

When the significant parts of an item of property, plant and equipment have varying useful lives, they are accounted for as separate components of property, plant and equipment. Depreciation is calculated based on the depreciable amount of the asset or significant component thereof, if applicable, which is the cost of the asset or significant component less its residual value. Depreciation is recognized using the straight-line method for each significant component of an item of property, plant and equipment and is recorded in "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). The estimated useful lives are 2 to 13 years for equipment and fixtures and 10 to 50 years for buildings and building improvements. The estimated useful lives, residual values and depreciation methods for property, plant and equipment are reviewed annually and adjusted, if appropriate, with the effect of any changes in estimates accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease, unless it is reasonably certain that the Company will obtain ownership by the end of the lease term.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the proceeds from sale or the cost of retirement and the carrying amount of the asset, and is recognized in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss).

For a discussion on the impairment of tangible assets refer to Note 2.11. Property, plant and equipment are reviewed at the end of each reporting period to determine whether there is an indicator of impairment.

2.9 Investment property

The Company's investment property consists of vacant land which is not currently used in its operations. Investment property is measured at its deemed cost less accumulated impairment losses.

The fair values of the investment property is estimated using observable data based on the current cost of acquiring comparable properties within the market area and the capitalization of the property's anticipated revenue. The Company engages independent qualified third parties to conduct appraisals of its investment property.

The gain or loss arising on the disposal or retirement of an item of investment property is determined as the difference between the proceeds from sale or the cost of retirement, and the carrying amount of the asset, and is recognized in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss).

Investment property is reviewed at the end of each reporting period to determine whether there is any indicator of impairment.

2.10 Intangible assets

2.10.1 Finite life intangible assets other than goodwill

Finite life intangible assets consist of purchased and internally developed software. Intangible assets are carried at cost less accumulated amortization and accumulated impairment losses and are amortized on a straight-line basis over their estimated useful lives which range from 2 to 5 years. The useful lives of all intangible assets other than goodwill are finite. Amortization expense is included in "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). The estimated useful lives and amortization methods for intangible assets other than goodwill are reviewed annually, with the effect of any changes in estimates being accounted for on a prospective basis.

Internally developed software costs are capitalized when the following criteria are met:

- It is technically feasible to complete the software so that it will be available for use;
- The Company intends to complete the software product;
- The Company has an ability to use the software;
- The Company can demonstrate how the software will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use the software product are available; and
- The expenditure attributable to the software product during its development can be reliably measured.

Costs that qualify for capitalization are limited to those that are directly related to each software development project.

2.10.2 Goodwill

Goodwill arising in a business combination is recognized as an asset at the date that control is acquired ("the acquisition date"). Goodwill is measured as the excess of the sum of the consideration transferred, over the net fair value of identifiable assets acquired less liabilities assumed as of the acquisition date.

2.11 Impairment of tangible assets and intangible assets with finite useful lives

At the end of each reporting period, the Company reviews property, plant and equipment, investment property, intangible assets and goodwill for indicators of impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the assets are then grouped together into the smallest group of assets that generate independent cash inflows from continuing use (the "cash generating unit" or "CGU") and a recoverable amount is estimated for that CGU.

Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs. Otherwise, they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

If the recoverable amount of an asset or a CGU is estimated to be less than its carrying amount, the asset or CGU will be reduced to its recoverable amount and an impairment loss is recognized immediately. If an impairment for a CGU has been identified, the impairment is first allocated to goodwill before other assets held by the CGU. Where goodwill is not part of a CGU, an impairment loss is recognized as a reduction in the carrying amount of the assets included in the CGU on a pro rata basis.

Where an impairment loss subsequently reverses (not applicable to goodwill), the carrying amount of the asset or CGU is revised to an estimate of its recoverable amount limited to the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized immediately.

2.12 Impairment of goodwill

Goodwill is not amortized but is reviewed for impairment at least annually. For the purposes of impairment testing, goodwill is allocated to each of the Company's CGUs expected to benefit from the synergies of the combination.

CGUs to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to the other assets of the unit on a pro-rata basis, based on the carrying amount of each asset in the unit. Impairment losses for goodwill are not reversed in subsequent periods.

2.13 Investment in joint ventures

Joint ventures are those entities over which the Company has joint control, established by contractual agreement. The Company is a party to a number of joint ventures which have been classified as jointly controlled entities for financial reporting purposes. These joint ventures are jointly controlled by the venturers who are entitled to a share of the joint ventures' income or loss.

Investments in joint ventures are accounted for using the equity method as follows:

- From the date that joint control commences, until the date that it ceases, the Company's share of post-acquisition income or losses from joint ventures is recognized in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss), with a corresponding increase or decrease to the carrying amount of the investments.
- The joint venture reporting periods used in the application of the equity method differ from the Company's reporting period end by 1 to 2 months.
- The accounting policies of the joint ventures are aligned with those of the Company for the purposes of applying the equity method.
- Gains on transactions between the Company and its joint ventures are eliminated to the extent of the Company's interest in the joint ventures, and losses are eliminated unless the transaction provides evidence of an impairment of the assets transferred.

The Company presents its joint venture investments in "Investment in joint ventures" on the Consolidated Statements of Financial Position. The Company presents its share of income or losses from joint ventures in "Share of income from joint ventures" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss).

2.14 Leasing arrangements

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

2.14.1 The Company as lessor

The Company has entered into a number of agreements to sub-lease premises to third parties. All sub-leases to third parties are classified as operating leases. Rental income from operating leases is recognized on a straight-line basis over the term of the lease.

2.14.2 The Company as lessee

Assets held under finance leases are initially recognized by the Company at the lower of the fair value of the asset and the present value of the minimum lease payments. The corresponding current and non-current liabilities to the lessor are included in the Consolidated Statements of Financial Position as a finance lease obligation in "Principal payments on long-term obligations due within one year" and "Long-term obligations," respectively. The assets are depreciated using the same accounting policy as applicable to property, plant and equipment (see Note 2.8).

Lease payments are apportioned between finance costs and the lease obligation in order to achieve a constant rate of interest on the remaining balance of the liability. The minimum lease payments are allocated between the land and building element in proportion to the relative fair values of the leasehold interests, in each of these elements of the lease.

Assets under operating leases are not recognized by the Company. Operating lease payments are recognized in "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss).

In the event that lease incentives are received to enter into leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

2.15 Retirement benefit plans

The Company currently maintains a defined contribution and a defined benefit registered pension plan, which covers eligible regular full-time and part-time associates, a non-registered supplemental savings arrangement and a defined benefit non-pension post retirement plan, which provides life insurance, medical and dental benefits to eligible retired associates through a health and welfare trust.

2.15.1 Defined contribution plan

A defined contribution plan is a post-employment benefit plan under which the Company pays fixed or matching contributions based on employee contributions into a separate legal entity and has no further legal or constructive obligation to pay additional amounts. Company contributions to the defined contribution retirement benefit plan are recognized as an expense when employees have rendered services entitling them to the contributions.

2.15.2 Defined benefit plans

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations prepared by independent qualified actuaries at least every 3 years. Remeasurements comprising of actuarial gains and losses, the effect of the asset ceiling (if applicable) and the return on plan assets (excluding interest) are recognized immediately in the statement of financial position with a charge or credit to other comprehensive income (loss) in the period in which they occur. Remeasurements recorded in Other comprehensive income (loss) are not recycled into profit or loss. However, the entity may transfer those amounts recognized in other comprehensive income (loss) within Accumulated other comprehensive income (loss). Past service cost is recognized in profit or loss in the period of plan amendment. Net-interest is calculated by applying the discount rate to the net defined benefit liability or asset. Defined benefit costs are split into three categories:

- service cost, past-service cost, gains and losses on curtailments and settlements;
- net interest expense or income;
- remeasurements.

The Company presents the first two components of defined benefit costs in "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss).

Remeasurements are recorded in Other comprehensive income (loss).

The retirement benefit obligation recognized in the Consolidated Statements of Financial Position represents the actual deficit or surplus in the Company's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

2.15.3 Termination benefits

A liability for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognizes any related restructuring costs.

2.16 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, excluding sales taxes. Revenue is reduced for estimated customer returns, discounts and other similar allowances.

2.16.1 Sale of goods

Revenue from the sale of goods is recognized upon delivery to the customer. Revenue relating to goods sold subject to installation, such as home improvement products, is recognized when the goods have been delivered and the installation is complete.

2.16.2 Rendering of services

Revenue from a contract to provide services is recognized by reference to the stage of completion of the contract.

Extended warranty service contracts

The Company sells extended warranty service contracts with terms of coverage generally between 12 and 60 months. Revenue from the sale of each contract is deferred and amortized on a straight-line basis over the term of the related contract.

Product repair, handling and installation services

Product repair, handling and installation services revenue is recognized once the services are complete. These services are performed within a short timeframe which is typically one day.

2.16.3 Commission and licensee fee revenue

Commission revenue

The Company earns commission revenue by selling various products and services that are provided by third parties, such as sales of travel services, home improvement products and insurance programs. As the Company is not the primary obligor in these transactions, these commissions are recognized upon sale of the related product or service.

Licensee fee revenue

Fee revenue is received from a variety of licensees that operate in the Company's stores. Revenue earned is based on a percentage of licensee sales. Revenue is recorded upon sale of the related product or service.

Credit card revenue

Revenue is received from JPMorgan Chase relating to credit sales. Revenue is based on a percentage of sales charged on the Sears Card or Sears MasterCard and is included in revenue when the sale occurs.

2.16.4 Interest income

Interest income is recognized when it is probable that the economic benefits will flow to the Company and the amount of income can be reliably measured. Interest income is accrued on a periodic basis by reference to the principal outstanding and the applicable interest rate.

2.16.5 Customer loyalty program

The Sears Club Points Program (the "Program") allows members to earn points from eligible purchases made on their Sears Card and/or Sears MasterCard. Members can then redeem points in accordance with the Program rewards schedule for merchandise. When points are earned, the Company defers revenue equal to the fair value of the awards adjusted for expected redemptions. When awards are redeemed, the redemption value of the awards is charged against deferred revenue and recognized as revenue. The redemption rates are reviewed on an ongoing basis and are adjusted based upon expected future activity.

2.16.6 Cost of goods and services sold

Cost of goods and services sold includes the purchase price of merchandise sold, freight and handling costs incurred in preparing the related inventory for sale, installation costs incurred relating to the sale of goods subject to installation, write-downs taken on inventory during the period, physical inventory losses and costs of services provided during the period relating to services sold, less rebates from suppliers relating to merchandise sold.

2.17 Foreign currency translation

Transactions in currencies other than the Company's functional currency are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency at the exchange rates prevailing at that date.

Non-monetary assets and liabilities denominated in a foreign currency that are measured at historical cost are translated using the exchange rate at the date of the transaction and are not retranslated.

Exchange differences arising on retranslation are recognized in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss) in the period in which they arise, except for exchange differences on certain foreign currency hedging transactions.

2.18 Consideration from a vendor

The Company has arrangements with its vendors that provide for rebates subject to binding contractual agreements. Rebates on inventories subject to binding agreements are recognized as a reduction of the cost of sales or related inventories for the period, provided the rebates are probable and reasonably estimable. Rebates on advertising costs subject to binding agreements are recognized as a reduction of the advertising expense for the period, provided the rebates are probable and reasonably estimable.

2.19 Taxation

Income tax expense represents the sum of current tax expense and deferred tax expense.

2.19.1 Current tax

Tax currently payable or recoverable is based on taxable earnings or loss for the reporting period. Taxable income differs from earnings as reported in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss), due to income or expenses that are taxable or deductible in other years and items that are not taxable or deductible for tax purposes. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted as at the end of the reporting period and includes any adjustments to taxes payable and/or taxes recoverable in respect of prior years.

2.19.2 Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases used in the computation of taxable earnings or loss.

Deferred tax liabilities are generally recognized for taxable temporary differences. Deferred tax assets are generally recognized for deductible temporary differences to the extent that it is probable that taxable income will be available, against which deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary differences arise from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable net earnings or loss nor the accounting income or loss.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and investments in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognized to the extent that it is probable that there will be sufficient taxable earnings against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to be applicable in the period in which the liability is settled or the asset realized, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities, when they relate to income taxes levied by the same taxation authority and when the Company intends to settle its current tax assets and liabilities on a net basis. Deferred tax assets and liabilities are not discounted.

2.19.3 Current and deferred tax for the period

Current and deferred tax are recognized as a tax expense or recovery in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss), except when they relate to items that are recognized outside of earnings or loss (whether in Other comprehensive income (loss), "OCI", or directly in equity), in which case, the tax is also recognized outside of earnings or loss, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is included in the accounting for the business combination. Interest on the Company's tax position is recognized as a finance cost.

2.20 Provisions

Provisions are recognized when the Company has a present obligation, legal or constructive, as a result of a past event, it is probable that the Company will be required to settle the obligation and a reliable estimate can be made for the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties specific to the obligation. Where a provision is measured using the cash flow estimated to settle the present obligation, its carrying amount is the present value of such cash flows.

When some or all of the economic resources required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

2.20.1 Onerous contract provisions

An onerous contract provision is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations. The provision is measured at the present value of the lower of the expected cost of terminating the contract or the expected cost of continuing with the contract. Before a provision is established, the Company recognizes any impairment loss on the assets associated with that contract.

2.20.2 General liability provisions

The Company purchases third party insurance for automobile, damage to a claimant's property or bodily injury from use of a product, and general liability claims that exceed a certain dollar level. However, the Company is responsible for the payment of claims under these insured limits. In estimating the obligation associated with incurred losses, the Company utilizes actuarial methodologies which are based on historical data and validated by an independent third party. Loss estimates are adjusted based on actual claims settlements and reported claims.

2.20.3 Warranty provisions

An estimate for warranty provisions is made at the time the merchandise is sold based on historical warranty trends. Please also see Note 16.

2.20.4 Returns and allowances provisions

Provisions for returns and allowances are made based on historical rates which represent the expected future outflow of economic resources on current sales.

2.20.5 Environmental provisions

The Company is exposed to environmental risks as an owner, lessor and lessee of property. Under federal and provincial laws, the owner, lessor or lessee could be liable for the costs of removal and remediation of certain hazardous substances on its properties or disposed of at other locations. The failure to remove or remediate such substances, if any, could lead to claims against the Company. The provision is based on assessments conducted by third parties, as well as historical data.

2.21 Financial assets

All financial assets are recognized and derecognized on the trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned. Financial assets are initially measured at fair value plus transaction costs, except for those financial assets at 'fair value through profit or loss' ("FVTPL") for which the transaction costs are expensed as incurred.

Financial assets and liabilities are offset with the net amount presented in the Consolidated Statements of Financial Position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Financial assets are classified into the following categories: financial assets at FVTPL, 'held-to-maturity' investments, 'available-for-sale' ("AFS") financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. Currently the Company does not have any 'held-to-maturity' investments.

2.21.1 Effective interest method

The effective interest method calculates the amortized cost of a financial asset or financial liability and allocates interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash

flow (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Interest income or expense is recognized on an effective interest basis for financial assets and financial liabilities other than those classified as at FVTPL.

2.21.2 Financial assets at FVTPL

Financial assets are classified at FVTPL when the financial asset is either held-for-trading or it is designated as at FVTPL.

2.21.3 AFS financial assets

The Company's cash equivalents have been classified as AFS financial assets and are measured at fair value. Gains and losses arising from changes in fair value are recognized in OCI, with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognized in "Selling, administrative and other expenses" or "Interest Income" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously included in accumulated other comprehensive income (loss)" ("AOCI") is reclassified to "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss).

2.21.4 Loans and receivables

Cash held by the bank and restricted cash and cash equivalents are classified as 'loans and receivables' and are measured at amortized cost.

Trade receivables and other receivables that have fixed or determinable payments that are not quoted in an active market are also classified as 'loans and receivables'. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables, where the recognition of interest would be immaterial.

2.21.5 Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that the estimated future cash flow of the financial asset have been negatively affected as a result of events that have occurred after its initial recognition.

For all financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Default or delinquency in interest or principal payments; or
- Probability that the borrower will enter bankruptcy or financial reorganization.

For financial assets carried at amortized cost, the amount of any impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flow discounted at the financial asset's initial effective interest rate. When a subsequent event causes the amount of any impairment loss to decrease, the decrease in impairment loss is reversed through the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss).

The carrying amount of the financial asset is reduced by any impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible its carrying amount is written off including any amounts previously recorded in the allowance account. Subsequent recoveries of amounts previously written off are credited to "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). Changes in the carrying amount of the allowance account are also recognized in "Selling, administrative and other expenses".

2.21.6 Derecognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to the cash flow from the asset expire, or when substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

2.22 Financial liabilities and equity instruments

2.22.1 Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

2.22.2 Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issuance costs.

2.22.3 Financial liabilities

Financial liabilities are recognized on the trade date at which the Company becomes a party to the contractual provisions of the instrument. Financial liabilities are classified as either financial liabilities at 'FVTPL' or 'other financial liabilities'.

2.22.4 Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when they are either held-for-trading or designated as at FVTPL. Currently the Company does not have any financial liabilities that have been designated as at FVTPL upon initial recognition.

2.22.5 Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost with interest expense recognized on an effective interest method.

The Company amortizes debt issuance transaction costs over the life of the debt using the effective interest method.

2.22.6 Derecognition of financial liabilities

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or expired.

2.23 Net earnings (loss) per share

Net earnings (loss) per share is calculated using the weighted average number of shares outstanding during the reporting period. Diluted net earnings (loss) per share is determined using the 'treasury stock method,' which considers the potential for the issuance of new shares created by unexercised in-the-money options.

2.24 Changes in Accounting Policy

IAS 19 (Revised), Employee Benefits ("IAS 19")

The Company elected to early adopt IAS 19 (Revised) in the first quarter of 2012. On June 16, 2011, the IASB issued amendments to IAS 19 which included the elimination of the "corridor approach," which is the option to defer and amortize the recognition of actuarial gains and losses. The significant amendments to IAS 19 are as follows:

- The "corridor approach" is to be replaced with full and immediate recognition of actuarial gain and loss remeasurements in "Other comprehensive income (loss)" ("OCI");
- Retirement benefit costs are to consist of service costs, net interest and remeasurements, with remeasurements being recorded in OCI;
- Past service costs are to be recognized immediately in the Consolidated Statements of Net Earnings (Loss);
- Expected returns on plan assets will no longer be recognized in profit or loss. Instead, interest income on plan assets, calculated using the discount rate used to measure the pension obligation, will be recognized in the Consolidated Statements of Net Earnings (Loss);
- Plan administration costs are to be expensed as incurred; and
- Disclosures relating to retirement benefit plans will be enhanced and will include discussions on risk associated with each plan, an explanation of items recognized in the consolidated financial statements and descriptions of the amount, timing and uncertainty on the Company's future cash flows.

The amendments to IAS 19 are effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The amendments are required to be applied retrospectively in accordance with IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors.

As the Company adopted the amendments to IAS 19 in the first quarter of 2012, the Company has retrospectively adjusted the assets and liabilities as at January 28, 2012, January 29, 2011 and January 31, 2010 and income, expenses and cash flow for the 52-week periods ended January 28, 2012 and January 29, 2011.

Impact on financial statement captions

A summary of the impact arising from the application of the change in accounting policy is as follows:

Consolidated Statements of Financial Position

(Increase (decrease) in CAD millions)		As at January 28, 2012
Retirement benefit asset	$	(187.7)
Retirement benefit liability		308.2
Net change to retirement benefit asset and liability		(495.9)
Deferred tax assets		84.0
Deferred tax liabilities		(43.6)
Net change to deferred tax assets and liabilities		127.6
Accumulated other comprehensive loss		(141.7)
Retained earnings		(226.6)

Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss)

(Increase (decrease) in CAD millions, except per share amounts)		**53-Week Period Ended February 2, 2013**
Selling, administrative and other expenses	$	**(24.4)**
Earnings before income taxes		**24.4**
Deferred income tax expense		**6.4**
Net earnings		**18.0**
Basic net earnings per share		**0.17**
Diluted net earnings per share		**0.17**
Other comprehensive income		**1.3**
Total comprehensive income		**19.3**

Consolidated Statements of Cash Flows

(Increase (decrease) in CAD millions)		**53-Week Period Ended February 2, 2013**
Net earnings	$	**18.0**
Retirement benefit plans expense		**(24.4)**
Income tax expense		**6.4**

Please refer to Note 20 for the prior year comparative figures.

3. Issued standards not yet adopted

The Company monitors the standard setting process for new standards and interpretations issued by the IASB that the Company may be required to adopt in the future. Since the impact of a proposed standard may change during the review period, the Company does not comment publicly until the standard has been finalized and the effects have been determined.

On December 16, 2011, the IASB issued amendments to three previously released standards. They are as follows:

IAS 32, Financial Instruments: Presentation ("IAS 32")

The IASB amended IAS 32 to address inconsistencies in current practice in the application of offsetting criteria. The amendments provide clarification with respect to the meaning of 'currently has a legally enforceable right of set-off'

and that some gross settlement systems may be considered equivalent to net settlement. These amendments are effective for annual periods beginning on or after January 1, 2014. The Company is currently assessing the impact of these amendments on the Company's consolidated financial statements and related note disclosures.

IFRS 7, Financial Instruments: Disclosures ("IFRS 7")

The IASB first amended IFRS 7 on October 7, 2010, to require additional disclosures regarding transfers of financial assets. These amendments are effective for annual periods beginning on or after July 1, 2011. The Company applied these amendments beginning the first quarter of its Fiscal 2012 year.

On December 16, 2011, the IASB approved amendments to IFRS 7, which establishes disclosure requirements to help users better assess the effect or potential effect of offsetting arrangements on a company's financial position. These amendments are effective for annual periods beginning on or after January 1, 2013. The Company will apply these amendments beginning the first quarter of its Fiscal 2013 year and is currently assessing the impact on the Company's disclosures.

IFRS 9, Financial Instruments ("IFRS 9")

The IASB issued IFRS 9 on November 12, 2009, which will ultimately replace IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39"). The replacement of IAS 39 is a three-phase project with the objective of improving and simplifying the reporting for financial instruments.

The first phase of the project provides guidance on the classification and measurement of financial assets. IFRS 9 was subsequently reissued on October 28, 2010, incorporating new requirements on accounting for financial liabilities. On December 16, 2011, the IASB amended the mandatory effective date of IFRS 9 to fiscal years beginning on or after January 1, 2015. The amendment also provides relief from the requirement to recast comparative financial statements for the effect of applying IFRS 9. The Company is monitoring the impact of amendments to this standard and is currently assessing the impact on the Company's disclosures.

On June 16, 2011, the IASB issued amendments to the following standard:

IAS 1, Presentation of Financial Statements ("IAS 1")

The IASB has amended IAS 1 to require additional disclosures for items presented in OCI on a before-tax basis and requires items to be grouped and presented in OCI based on whether they are potentially reclassifiable to earnings or loss subsequently (i.e. items that may be reclassified and those that will not be reclassified to earnings or loss). These amendments are effective for annual periods beginning on or after July 1, 2012 and require full retrospective application. The Company will apply these amendments beginning the first quarter of its Fiscal 2013 year and is currently assessing the impact to its consolidated financial statements.

On May 12, 2011, the IASB issued four new standards, all of which are applicable to Annual Reporting periods beginning on or after January 1, 2013. The Company is currently assessing the impact of these standards on its consolidated financial statements and related note disclosures. The following is a list and description of these standards:

IAS 28, Investments in Associates and Joint Ventures ("IAS 28")

IAS 28 (as amended in 2011) supersedes IAS 28 (2003), *Investments in Associates* and outlines how to apply, with certain limited exceptions, the equity method to investments in associates and joint ventures. The standard also defines an associate by reference to the concept of "significant influence", which requires power to participate in financial and operating policy decisions of an investee (but not joint control or control of those polices);

IFRS 10, Consolidated Financial Statements ("IFRS 10")

IFRS 10 establishes the standards for the presentation and preparation of consolidated financial statements when an entity controls one or more entities;

IFRS 11, Joint Arrangements ("IFRS 11")

IFRS 11 replaces IAS 31, *Interests in Joint Ventures* ("IAS 31") and requires that a party in a joint arrangement assess its rights and obligations to determine the type of joint arrangement and account for those rights and obligations accordingly;

IFRS 12, Disclosure of Involvement with Other Entities ("IFRS 12")

IFRS 12, along with IFRS 11 described above, replaces IAS 31. IFRS 12 requires the disclosure of information that enables users of financial statements to evaluate the nature of and the risks associated with, the entity's interests in joint ventures and the impact of those interests on its financial position, financial performance and cash flows; and

IFRS 13, Fair Value Measurement ("IFRS 13")

IFRS 13 provides guidance to improve consistency and comparability in fair value measurements and related disclosures through a 'fair value hierarchy'. This standard applies when another IFRS requires or permits fair value measurements or disclosures. IFRS 13 does not apply for share-based payment transactions, leasing transactions and measurements that are similar to, but are not fair value.

4. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Company's accounting policies, management is required to make judgments, estimates and assumptions with regards to the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

The following are the critical judgments that management has made in the process of applying the Company's accounting policies, key assumptions concerning the future and other key sources of estimation uncertainty that have the potential to materially impact the carrying amounts of assets and liabilities within the next fiscal year.

4.1 Legal liabilities

Assessing the financial outcome of uncertain legal positions requires judgment to be made regarding the relative merits of each claim and the extent to which a claim is likely to be successful. The assessments are based on reviews conducted by internal and external counsel, when appropriate.

Changes in estimates or assumptions could cause changes to "Provisions" on the Consolidated Statements of Financial Position and a charge or credit to "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). For additional information, see Note 16.

4.2 Inventory

4.2.1 Obsolescence, valuation and inventory stock losses

Inventory is written-down to reflect future losses on the disposition of obsolete merchandise. Future losses are estimated based on historical trends that vary depending on the type of inventory.

An adjustment is made each period to value inventory at the lower of cost and net realizable value. This adjustment is estimated based on historical trends that vary depending on the type of inventory.

Inventory is adjusted to reflect estimated inventory stock losses incurred in the year based on recent historical inventory count data.

4.2.2 Vendor rebates

Inventory is adjusted to reflect vendor rebates received or receivable based on vendor agreements. This adjustment is estimated based on historical data and current vendor agreements.

4.2.3 Freight

Inbound freight incurred to bring inventory to its present location is estimated each reporting period and is included in the cost of inventory. This estimate is based on historical freight costs incurred.

Changes in estimates may result in changes to "Inventories" on the Consolidated Statements of Financial Position and a charge or credit to "Cost of goods and services sold" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). For additional information, see Note 7.

4.3 Impairment of property, plant and equipment and intangible assets

The Company's property, plant and equipment and intangible assets have been allocated to CGUs. Determining whether the CGU is impaired requires an estimation of the recoverable amount of the CGU, which is the higher of the fair value less costs to sell and its value in use. To determine the recoverable amount of the CGU, management is required to estimate its fair value by evaluating the expected future cash flow using an appropriate growth rate, the estimated costs to sell and a suitable discount rate to calculate the value in use.

Changes in estimates may result in changes to "Property, plant and equipment" and "Intangible assets" on the Consolidated Statements of Financial Position and a charge or credit to "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). For additional information, see Note 9 and Note 10.2.

4.4 Impairment of goodwill

Determining whether goodwill is impaired requires the Company to determine the recoverable amount of the CGU to which the goodwill is allocated. To determine the recoverable amount of the CGU, management is required to estimate its fair value by evaluating expected future cash flow using an appropriate growth rate, the estimated costs to sell and a suitable discount rate to calculate the value in use.

Changes in estimates may result in changes to "Goodwill" on the Consolidated Statements of Financial Position and a charge to "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). For additional information, see Note 10.1.

4.5 Retirement benefit liability

The retirement benefit liability is estimated based on certain actuarial assumptions, including the discount rate, inflation rate, salary growth and mortality rates. New regulations and market driven changes may impact the assumptions made.

Changes in estimates may result in changes to the "Retirement benefit liability" on the Consolidated Statements of Financial Position and a charge or credit to "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). For additional information, see Note 20.

4.6 Loyalty program deferred revenue

The fair value of Sears Club points granted is deferred at the time of the related initial sale transaction and is recognized upon redemption of the points for merchandise. The redemption value of the points is estimated based on historical behaviour and trends in redemption rates and redemption values.

Changes in estimates may result in changes to "Deferred revenue" (current and non-current) on the Consolidated Statements of Financial Position and an increase or decrease to "Revenue" and/or "Cost of goods and services sold" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). For additional information, see Note 13.

4.7 Derivative assets and liabilities

All derivatives are measured at fair value. U.S. dollar option contracts are traded over-the-counter and give holders the right to buy, or sell, a specified amount of U.S. currency at an agreed upon price and date in the future. Fair values of the U.S. dollar option contracts are derived using a Black-Scholes valuation model. The Company is required to estimate various inputs which are used in this model that are a combination of quoted prices and observable market inputs. The fair values of derivatives include an adjustment for credit risk when appropriate.

Changes in estimates may result in changes to "Derivative financial assets" and "Derivative financial liabilities" on the Consolidated Statements of Financial Position and a charge or credit to "Cost of goods and services sold", "Selling, administrative and other expenses" or "Other comprehensive income (loss)" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). For additional information, see Note 14.

4.8 Provisions

Provisions are estimated based on historical data, cost estimates provided by specialists and future projections.

Changes in estimates or assumptions could cause changes to "Provisions" on the Consolidated Statements of Financial Position and a charge or credit to "Cost of goods and services sold" or "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). For additional information, see Note 16.

4.9 Leasing arrangements

The Company has applied judgment in the classification of its leasing arrangements, which is determined at the inception of the lease and is based on the substance of the transaction, rather than its legal form. The Company's leases were evaluated based on certain significant assumptions including the discount rate, economic life of a building, lease term and existence of a bargain renewal option.

Changes in estimates or assumptions could cause changes to "Property, plant and equipment", "Principal payments on long-term obligations due within one year" and "Long-term obligations" on the Consolidated Statements of Financial Position and a charge or credit to "Selling, administrative and other expenses" and "Finance costs" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). For additional information, see Note 19.

4.10 Taxes

In the ordinary course of business, the Company is subject to ongoing audits by tax authorities. While the Company believes that its tax filing positions are appropriate and supportable, certain matters are periodically challenged by tax authorities. The Company applies judgment and routinely evaluates and provides for potentially unfavourable outcomes with respect to any tax audits. If the result of a tax audit materially differs from the existing provisions, the Company's effective tax rate and its net earnings (loss) will be affected positively or negatively.

Changes in estimates or assumptions could cause changes to "Income taxes recoverable", "Deferred tax assets", "Income and other taxes payable" and "Deferred tax liabilities" on the Consolidated Statements of Financial Position and a charge or credit to "Income tax expense (recovery)" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). For additional information, see Note 22.

5. Cash and cash equivalents and interest income

Cash and cash equivalents

The components of cash and cash equivalents were as follows:

(in CAD millions)		**As at February 2, 2013**		As at January 28, 2012
Cash	$	**47.6**	$	49.0
Cash equivalents				
Government treasury bills		**159.9**		199.9
Bank term deposits		—		121.0
Investment accounts		**20.5**		20.3
Restricted cash and cash equivalents		**9.0**		7.2
Total cash and cash equivalents	$	**237.0**	$	397.4

The components of restricted cash and cash equivalents are further discussed in Note 21.

Interest income

Interest income related primarily to cash and cash equivalents for the fiscal year ended February 2, 2013 totaled $4.1 million (2011: $1.7 million). During Fiscal 2012, the Company received $2.3 million (2011: $1.6 million) in cash related to interest income.

6. Accounts receivable, net

The components of accounts receivable, net were as follows:

(in CAD millions)		**As at February 2, 2013**		As at January 28, 2012
Deferred receivables	$	**0.9**	$	1.3
Other receivables		**75.3**		114.9
Total accounts receivable, net	$	**76.2**	$	116.2

Other receivables primarily consist of amounts due from customers, amounts due from vendors and amounts due from JPMorgan Chase, as part of the Company's long-term credit card marketing and servicing alliance.

Included in the accounts receivable balances above are amounts that are past due but are not provided for, as the Company considers the balances to be collectible. These past due accounts receivable balances are listed below:

(in CAD millions)		As at February 2, 2013		As at January 28, 2012
Greater than 30 days	$	**5.5**	$	3.2
Greater than 60 days		**2.9**		3.5
Greater than 90 days		**6.8**		6.4
Total	$	**15.2**	$	13.1

7. Inventories

The amount of inventory recognized as an expense during Fiscal 2012 was $2,537.5 million (2011: $2,703.5 million), which includes $92.7 million (2011: $115.4 million) of inventory write-downs. These expenses are included in "Cost of goods and services sold" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss).

Inventory is pledged as collateral under the Company's revolving credit facility.

8. Prepaid expenses

The components of prepaid expenses were as follows:

(in CAD millions)		As at February 2, 2013		As at January 28, 2012
Rent	$	**13.1**	$	14.2
Contracts		**7.9**		5.2
Advertising raw materials		**1.7**		1.5
Supplies		**3.1**		3.6
Insurance		**0.4**		0.3
Miscellaneous		**3.9**		3.1
Total prepaid expenses	$	**30.1**	$	27.9

9. Property, plant and equipment and investment property

The following is a continuity of property, plant and equipment:

(in CAD millions)	Land	Buildings and Leasehold Improvements	Finance Lease Buildings	Finance Lease Equipment	Equipment and Fixtures	Total
Cost or deemed cost						
Balance at January 29, 2011	$ 231.0	$ 1,125.8	$ 37.5	$ —	$ 1,151.5	$ 2,545.8
Additions	—	31.1	—	3.5	45.1	79.7
Disposals	—	(4.8)	—	—	(17.8)	(22.6)
Balance at January 28, 2012	$ 231.0	$ 1,152.1	$ 37.5	$ 3.5	$ 1,178.8	$ 2,602.9
Additions	—	29.8	11.7	—	40.6	82.1
Disposals	—	(32.2)	(3.5)	—	(45.0)	(80.7)
Balance at February 2, 2013	**$ 231.0**	**$ 1,149.7**	**$ 45.7**	**$ 3.5**	**$ 1,174.4**	**$ 2,604.3**
Accumulated depreciation and impairment						
Balance at January 29, 2011	$ —	$ 656.4	$ 6.5	$ —	$ 982.2	$ 1,645.1
Depreciation expense [1]	—	51.0	5.5	1.0	49.3	106.8
Disposals	—	(3.8)	—	—	(17.2)	(21.0)
Balance at January 28, 2012	$ —	$ 703.6	$ 12.0	$ 1.0	$ 1,014.3	$ 1,730.9
Depreciation expense [1]	—	49.2	5.3	1.0	47.4	102.9
Disposals	—	(25.7)	(3.5)	—	(40.1)	(69.3)
Impairment losses (reversals) [1]	$ —	$ 0.5	$ —	$ —	$ (0.7)	$ (0.2)
Balance at February 2, 2013	**$ —**	**$ 727.6**	**$ 13.8**	**$ 2.0**	**$ 1,020.9**	**$ 1,764.3**
Total property, plant and equipment						
Net Balance at February 2, 2013	**$ 231.0**	**$ 422.1**	**$ 31.9**	**$ 1.5**	**$ 153.5**	**$ 840.0**
Net Balance at January 28, 2012	$ 231.0	$ 448.5	$ 25.5	$ 2.5	$ 164.5	$ 872.0

1 *Depreciation expense and impairment losses are included in "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss).*

Impairment loss

The Company engaged independent qualified third party appraisers to conduct appraisals of its land and building properties. The valuation methods used to determine fair value include the direct capitalization and discounted cash flow methods for buildings and the direct sales comparison for land.

During Fiscal 2012, the Company recognized an impairment loss of $1.9M on the Montreal distribution centre (2011: Nil). The impairment loss is due to the application of a lower market rent rate in the valuation model in comparison to the prior year. The impairment loss of $1.9M is included in "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss).

During Fiscal 2012, the Company recorded an impairment loss reversal relating to leasehold improvements (net of accumulated amortization) of $2.1 million in "Selling, administrative and other expenses". The impairment loss reversal was a result of the proceeds received from the agreement to surrender and terminate early the operating lease on its Deerfoot (Calgary) Full-line store. The Company did not record any reversals of previously recorded impairment losses during Fiscal 2011.

Investment property

Investment property owned by the Company represents vacant land with no operating activity. During Fiscal 2012, there were no investment property additions, disposals or impairment losses. As at February 2, 2013, the carrying value and fair value of investment property were $21.7 million and $25.4 million, respectively (January 28, 2012: $21.7 million and $23.2 million).

10. Goodwill and intangible assets

10.1 Allocation of goodwill to cash generating units

Goodwill has been allocated for impairment testing purposes to the following CGUs:

- Corbeil
- Home Improvement Product Services

The following is a continuity of goodwill, as allocated by CGU:

(in CAD millions)		**2012**		2011
Corbeil				
Balance, beginning of fiscal year	$	**2.6**	$	2.6
Balance, end of fiscal year	$	**2.6**	$	2.6
Home Improvement Product Services				
Balance, beginning of fiscal year	$	**6.1**	$	8.6
Impairment losses		—		(2.5)
Balance, end of fiscal year	$	**6.1**	$	6.1
Total goodwill	$	**8.7**	$	8.7

In the assessment of impairment, management used historical data and past experience as the key assumptions in the determination of the recoverable amount. The Company completed a test for goodwill impairment on an annual basis in Fiscal 2012 and Fiscal 2011.

The Company has made certain assumptions for the discount and terminal growth rates to reflect variations in expected future cash flows. These assumptions may differ or change quickly depending on economic conditions or other events. Therefore, it is possible that future changes in assumptions may negatively impact future valuations of CGU's and goodwill, which would result in further impairment losses.

- Corbeil

The recoverable amount of this CGU is determined based on its estimated fair value less costs to sell. The fair value was determined based on the present value of the estimated cash flow over a 10 year period and a terminal value equivalent to the present value of 5 times after-tax cash flow representing the value of the business beyond the 10 year cash flow projection. Cost to sell was estimated to be 2% of the fair value, which reflects management's best estimate of the potential costs associated with divesting of the businesses considered. A discount rate of 10.2% was applied to the cash flow projections based on management's best estimate of the CGU's weighted average cost of capital considering the risks facing the CGU. Annual growth rates of 5% for the first 5 years and 2% for the subsequent 5 years were used for Corbeil given the businesses' historical growth experience and anticipated growth. The recoverable amount was determined to be greater than the carrying value including the goodwill allocated to the Corbeil CGU, therefore, no impairment was identified in Fiscal 2012 (2011: Nil).

- Home Improvement Product Services

The recoverable amount of this CGU is determined based on its estimated fair value less costs to sell. The fair value was determined based on the present value of the estimated cash flow over a 10 year period. Cost to sell was estimated to be 2% of the fair value of the business. This reflects management's best estimate of the potential costs associated with divesting of the business. A discount rate of 12% per annum was used, based on management's best estimate of the CGU's weighted average cost of capital considering the risks facing the CGU. The cash flow projection is based on management's best estimate given the new strategic relationship with SHS Services Management Inc. to commence in Fiscal 2013. For additional information, please see Note 34. The recoverable amount was determined to be greater than the carrying value including the goodwill allocated to the Home Improvement Product Services CGU, therefore, no impairment was identified in Fiscal 2012 (2011: $2.5 million).

10.2 Intangible assets

The following is a continuity of intangible assets:

(in CAD millions)		Application Software		Information System Software		Total
Cost or deemed cost						
Balance at January 29, 2011	$	20.0	$	124.6	$	144.6
Additions		6.8		1.5		8.3
Disposals		—		(0.1)		(0.1)
Balance at January 28, 2012	$	26.8	$	126.0	$	152.8
Additions		8.1		5.8		13.9
Disposals		—		(0.4)		(0.4)
Balance at February 2, 2013	**$**	**34.9**	**$**	**131.4**	**$**	**166.3**
Accumulated amortization						
Balance at January 29, 2011	$	10.2	$	110.9	$	121.1
Amortization expense [1]		3.7		4.4		8.1
Balance at January 28, 2012	$	13.9	$	115.3	$	129.2
Amortization expense [1]		5.1		5.3		10.4
Disposals		—		(0.5)		(0.5)
Balance at February 2, 2013	**$**	**19.0**	**$**	**120.1**	**$**	**139.1**
Total intangible assets						
Net Balance at February 2, 2013	**$**	**15.9**	**$**	**11.3**	**$**	**27.2**
Net Balance at January 28, 2012	$	12.9	$	10.7	$	23.6

1 *Amortization expense and impairment losses are included in "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). No impairment losses were recognized on intangible assets for both Fiscal 2012 and Fiscal 2011.*

11. Investment in joint ventures

The Company's investment in joint ventures includes its share of income or losses from its joint venture interests in 11 shopping centres across Canada, most of which contain a Sears store. Joint venture investments range from 15% to 50% and are co-owned with Westcliff Group and Ivanhoe Cambridge Properties. The jointly controlled entities and Sears ownership interest in each as at February 2, 2013 are listed below:

Entity Name	Properties	Joint Venture Partner	Ownership Interest
Carrefour Richelieu Realties (St-Jérôme)	Carrefour Richelieu	Westcliff Group	50%
Carrefour Richelieu Realties (St-Jean)	Carrefour du Nord	Westcliff Group	50%
Carrefour Richelieu Realties (Carrefour Angrignon)	Carrefour Angrignon	Westcliff Group	50%
Carrefour Richelieu Realties (Place Angrignon)	Place Angrignon	Westcliff Group	50%
Carrefour Richelieu Realties (Pierre Caisse)	Place Pierre Caisse	Westcliff Group	50%
Carrefour Richelieu Realties (Drummondville)	Promenades de Drummondville	Westcliff Group	50%
Méga-Centre Drummondville	Mega Centre Drummondville	Westcliff Group	50%
Société de Gestion des Neiges Ville- Marie	Various land holdings in Quebec, Canada	Westcliff Group	50%
133562 Canada Inc.	Various land holdings in Quebec, Canada	Westcliff Group	50%
172098 Canada Inc.	Drummondville Stripmall	Westcliff Group	50%
Kildonan Place	Kildonan Place	Ivanhoe Cambridge	20%
Regionaux (Les Rivières Shopping Centre)	Les Rivieres Shopping Centre	Ivanhoe Cambridge	15%
Regionaux (Les Galeries de Hull)	Les Galeries de Hull	Ivanhoe Cambridge	15%

During the fourth quarter of 2012, the Company sold its interest in Medicine Hat Mall for net proceeds of $38.3 million, recognizing a pre-tax gain of $8.6 million on the sale. During the third quarter of 2011, the Company sold its share of assets in Chatham Centre for net proceeds of $1.6 million, recognizing a pre-tax gain of $0.1 million on the sale.

The following represents the Company's share of investments in the assets and liabilities, revenues and expenses of the joint ventures:

(in CAD millions)		As at February 2, 2013		As at January 28, 2012
Current assets	$	**3.0**	$	6.4
Non-current assets		**287.9**		333.5
Total assets	$	**290.9**	$	339.9
Current liabilities	$	**5.8**	$	7.9
Non-current liabilities		**21.7**		30.6
Total liabilities	$	**27.5**	$	38.5
Investment in joint ventures	$	**263.4**	$	301.4

(in CAD millions)		2012		2011
Revenues	$	**46.2**	$	48.0
Expenses				
Administrative and other expenses		**19.8**		23.3
Impairment loss		**2.2**		—
Finance costs		**1.5**		2.0
Tax expense		**—**		0.1
Depreciation expense		**13.2**		14.3
Share of income from joint ventures	$	**9.5**	$	8.3

Impairment loss

The Company engaged independent qualified third-party appraisers to conduct appraisals of its land and building properties. The valuation methods used to determine fair value include the direct capitalization and discounted cash flow methods for buildings and the direct sales comparison for land.

During Fiscal 2012, the Company recognized an impairment loss of $2.2 million on the Promenades de Drummondville property (2011: Nil). The fair value of these assets were determined based on an independent, qualified third-party appraisal. The impairment loss of $2.2 million is included in "Share of income from joint ventures" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss).

12. Other long-term assets

The components of other long-term assets were as follows:

(in CAD millions)		As at February 2, 2013		As at January 28, 2012
Income taxes recoverable	$	**13.9**	$	30.3
Prepaid rent		**9.4**		11.0
Receivables		**3.3**		6.6
Investments		**1.3**		1.3
Unamortized debt transaction costs		**6.2**		—
Other long-term assets	$	**34.1**	$	49.2

13. Deferred revenue

The components of deferred revenue were as follows:

(in CAD millions)		As at February 2, 2013		As at January 28, 2012
Arising from extended warranty service contracts (i)	$	**151.5**	$	144.6
Arising from unshipped sales (ii)		**60.9**		65.7
Arising from customer loyalty program (iii)		**37.7**		41.3
Arising from gift card issuances (iv)		**25.5**		29.1
Arising from vendor partnership agreements (v)		**6.5**		9.7
Other (vi)		**6.1**		6.8
Total deferred revenue	$	**288.2**	$	297.2
Current	$	**197.5**	$	208.0
Non-current		**90.7**		89.2
Total deferred revenue	$	**288.2**	$	297.2

The following explanations describe the Company's deferred revenue:

(i) Deferred revenue arising from the sale of extended warranty service contracts, which provide coverage for product repair services over the term of the contracts.

(ii) Deferred revenue arising from the sale of merchandise which has not yet been delivered to or picked up by the customer. The revenue is recognized once the merchandise is delivered to the customer.

(iii) Deferred revenue arising from the Company's Sears Club loyalty program.

(iv) Deferred revenue arising from the purchase of gift cards by customers that have not yet been redeemed for merchandise. At redemption of the gift card, the revenue is recognized.

(v) Deferred revenue arising from multi-element partnership agreements with vendors. The revenue is recognized in accordance with the terms of the agreements.

(vi) Other includes deferred revenue for goods that have not yet been fully delivered or services not yet rendered. The revenue is recognized when the goods have been delivered or by reference to the stage of completion of the service.

14. Financial instruments

In the ordinary course of business, the Company enters into financial agreements with banks and other financial institutions to reduce underlying risks associated with interest rates and foreign currency. The Company does not hold or issue derivative financial instruments for trading or speculative purposes.

Financial instrument risk management

The Company is exposed to credit, liquidity and market risk as a result of holding financial instruments. Market risk consists of foreign exchange and interest rate risk.

14.1 Credit risk

Credit risk refers to the possibility that the Company can suffer financial losses due to the failure of the Company's counterparties to meet their payment obligations. Exposure to credit risk exists for derivative instruments, cash and cash equivalents, accounts receivable and other long-term assets.

Cash and cash equivalents, accounts receivable and investments included in other long-term assets of $314.5 million as at February 2, 2013 (January 28, 2012: $514.9 million) expose the Company to credit risk should the borrower default on maturity of the investment. The Company manages this exposure through policies that require borrowers to have a minimum credit rating of A, and limiting investments with individual borrowers at maximum levels based on credit rating.

The Company is exposed to minimal credit risk from customers as a result of ongoing credit evaluations and review of accounts receivable collectability. As at February 2, 2013, no customers represented greater than 10.0% of the Company's accounts receivable (January 28, 2012 : one customer represented 26.5% of the Company's accounts receivable).

14.2 Liquidity risk

Liquidity risk is the risk that the Company may not have cash available to satisfy financial liabilities as they come due. The Company actively maintains access to adequate funding sources to ensure it has sufficient available funds to meet current and foreseeable financial requirements at a reasonable cost.

The following table summarizes the carrying amount and the contractual maturities of both the interest and principal portion of significant financial liabilities as at February 2, 2013:

		Contractual Cash Flow Maturities				
(in CAD millions)	Carrying Amount	Total	Within 1 year	1 year to 3 years	3 years to 5 years	Beyond 5 years
Accounts payable and accrued liabilities	$ 482.0	$ 482.0	$ 482.0	$ —	$ —	$ —
Long-term obligations including payments due within one year [1]	36.1	48.4	7.6	11.6	9.7	19.5
Operating lease obligations [2]	n/a	496.7	96.7	155.2	98.9	145.9
Minimum purchase commitments [2,4]	n/a	17.5	5.0	12.5	—	—
Royalties [2]	n/a	2.3	1.8	0.5	—	—
Retirement benefit plans obligations [2,3]	415.7	114.9	29.3	58.7	26.9	—
	$ 933.8	**$ 1,161.8**	**$ 622.4**	**$ 238.5**	**$ 135.5**	**$ 165.4**

1 *Cash flow maturities related to long-term obligations, including payments due within one year, include annual interest on finance lease obligations at a weighted average rate of 7.6%. The Company had no borrowings on the Credit Facility at February 2, 2013.*

2 *Minimum purchase commitments, operating lease obligations, retirement benefit plans funding obligations and royalties are not reported in the Consolidated Statements of Financial Position.*

3 *Payments beyond 2013 are subject to a funding valuation to be completed as at December 31, 2013. Until then, the Company is obligated to fund in accordance with the most recent valuation completed as at December 31, 2010.*

4 *Certain vendors require minimum purchase commitment levels over the term of the contract.*

Management believes that cash on hand, future cash flow generated from operations and availability of current and future funding will be adequate to support these financial liabilities.

Market risk

Market risk exists as a result of the potential for losses caused by changes in market factors such as foreign currency exchange rates, interest rates and commodity prices.

14.3 Foreign exchange risk

The Company enters into foreign exchange contracts to reduce the foreign exchange risk with respect to U.S. dollar denominated assets and liabilities and purchases of goods or services. As at February 2, 2013 and January 28, 2012, there were no contracts outstanding and therefore no derivative financial assets nor derivative financial liabilities were recognized in the Consolidated Statements of Financial Position.

During Fiscal 2012, the Company recorded a loss of $0.6 million (2011: gain of $0.9 million), relating to the translation or settlement of U.S. dollar denominated monetary items consisting of cash and cash equivalents, accounts receivable and accounts payable.

The period end exchange rate was 1.0027 U.S. dollar to Canadian dollar. A 10% appreciation or depreciation of the U.S. and or the Canadian dollar exchange rate was determined to have an after-tax impact on net earnings (loss) of $4.3 million for U.S. dollar denominated balances included in cash and cash equivalents, accounts receivable and accounts payable.

14.4 Interest rate risk

From time to time, the Company enters into interest rate swap contracts with approved financial institutions to manage exposure to interest rate risks. As at February 2, 2013, the Company had no interest rate swap contracts in place (January 28, 2012: nil).

Interest rate risk reflects the sensitivity of the Company's financial condition to movements in interest rates. Financial assets and liabilities which do not bear interest or bear interest at fixed rates are classified as non-interest rate sensitive.

Cash and cash equivalents and borrowings under the secured revolving credit facility are subject to interest rate risk. The total subject to interest rate risk as at February 2, 2013 was a net asset of $238.3 million (January 28, 2012: net asset of $297.7 million). An increase or decrease in interest rates of 0.25% would cause an immaterial after-tax impact on net (loss) earnings.

14.5 Classification and fair value of financial instruments

The estimated fair values of financial instruments presented are based on relevant market prices and information available at those dates. The following table summarizes the classification and fair value of certain financial instruments as at the specified dates. The Company determines the classification of a financial instrument when it is initially recorded, based on the underlying purpose of the instrument. As a significant number of the Company's assets and liabilities, including inventories and capital assets, do not meet the definition of financial instruments, values in the tables below do not reflect the fair value of the Company as a whole.

The fair value of financial instruments are classified and measured according to the following three levels, based on the fair value hierarchy.

- Level 1: Quoted prices in active markets for identical assets or liabilities
- Level 2: Inputs other than quoted prices in active markets that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: Inputs for the asset or liability that are not based on observable market data

(in CAD millions)

Classification	Balance Sheet Category	Fair Value Hierarchy[1]	**As at February 2, 2013**	As at January 28, 2012
Available for sale				
Cash equivalents	Cash and cash equivalents[1]	Level 1	**159.9**	199.9
Cash equivalents	Cash and cash equivalents[1]	Level 2	**20.5**	20.3
Fair value through profit or loss				
Long-term investments	Other long-term assets	Level 3	**1.3**	1.3

[1] *Interest income related to cash and cash equivalents is disclosed in Note 5.*

All other assets that are financial instruments not listed in the chart above have been classified as "Loans and receivables". All other financial instrument liabilities have been classified as "Other liabilities" and are measured at amortized cost in the Consolidated Statements of Financial Position. The carrying value of these financial instruments approximate fair value given that they are short-term in nature.

15. Accounts payable and accrued liabilities

The components of "Accounts payable and accrued liabilities" as included in the Consolidated Statements of Financial Position were as follows:

(in CAD millions)		As at February 2, 2013		As at January 28, 2012
Total accounts payable	$	**305.7**	$	401.9
Payroll and employee benefits		**29.1**		28.7
Merchandise accruals		**71.0**		45.3
Short-term leasehold inducements		**9.8**		8.4
Advertising accruals		**12.4**		12.7
Other accrued liabilities		**54.0**		79.8
Total accrued liabilities	$	**176.3**	$	174.9
Total accounts payable and accrued liabilities	$	**482.0**	$	576.8

16. Provisions

The following is a continuity which shows the change in provisions during Fiscal 2012 and Fiscal 2011:

(in CAD millions)		As at January 28, 2012		Additional Provisions		Release of Provisions		Reversed Provisions		As at February 2, 2013
Insurance (i)	$	19.4	$	0.2	$	(1.3)	$	—	$	**18.3**
Returns and allowances (ii)		12.2		9.8		(9.0)		—		**13.0**
Warranties (iii)		11.0		0.3		(0.2)		(0.1)		**11.0**
Sales tax (iv)		1.6		2.5		(0.3)		(1.4)		**2.4**
Severance (v)		13.5		19.3		(16.0)		(2.1)		**14.7**
Environmental (vi)		4.6		2.9		(1.3)		(1.4)		**4.8**
Other provisions (vii)		3.0		1.1		(1.2)		(0.4)		**2.5**
Total provisions	$	65.3	$	36.1	$	(29.3)	$	(5.4)	$	**66.7**
Current	$	64.8	$	36.1	$	(29.2)	$	(5.4)	$	**66.3**
Non-current (iii)		0.5		—		(0.1)		—		**0.4**
Total provisions	$	65.3	$	36.1	$	(29.3)	$	(5.4)	$	**66.7**

(in CAD millions)		As at January 29, 2011		Additional Provisions		Release of Provisions		Reversed Provisions		As at January 28, 2012
Insurance (i)	$	23.8	$	1.4	$	(5.8)	$	—	$	19.4
Returns and allowances (ii)		14.3		12.2		(14.3)		—		12.2
Warranties (iii)		13.1		—		(2.1)		—		11.0
Sales tax (iv)		5.4		—		(3.8)		—		1.6
Severance (v)		2.7		12.9		(2.1)		—		13.5
Environmental (vi)		5.0		2.9		(2.0)		(1.3)		4.6
Other provisions (vii)		1.6		2.7		(1.3)		—		3.0
Total provisions	$	65.9	$	32.1	$	(31.4)	$	(1.3)	$	65.3
Current	$	65.3	$	32.1	$	(31.3)	$	(1.3)	$	64.8
Non-current (iii)		0.6		—		(0.1)		—		0.5
Total provisions	$	65.9	$	32.1	$	(31.4)	$	(1.3)	$	65.3

The following explanations describe the Company's provisions:

(i) The provision for insurance, or general liability claims, represents the Company's best estimate of the future outflow of economic resources due to automobile, product and other general liability claims. Insurance claims relating to this provision are expected to be paid over the next several years; however, as the Company has no unconditional right to defer the settlement past at least 12 months, this provision is considered to be current. In estimating the obligation associated with incurred losses, the Company utilizes actuarial methodologies validated by an independent third party.
These actuarial methodologies utilize historical data to project future incurred losses. Loss estimates are adjusted based on reported claims and actual settlements.

(ii) The provision for returns and allowances represents the Company's best estimate of the future outflow of economic resources due to merchandise returns and allowances. Returns and allowances relating to this provision are expected to be realized over the next 12 months. Uncertainty exists relating to the amount and timing of returns and allowances, therefore, historical data has been used to arrive at this estimate.

(iii) The provision for warranty claims represents the Company's best estimate of the future outflow of economic resources that will be required due to the Company's warranty obligations. Costs incurred to service warranty claims relating to this provision are expected to be paid out over the next 2 years. Uncertainty exists relating to the number of incidents requiring merchandise repair and the related costs. This provision is estimated based on historical warranty trends and costs. The amount of expected reimbursements recorded as at February 2, 2013 was $2.6 million (January 28, 2012: $2.3 million) and is reflected in "Accounts receivable, net" and "Other long-term assets" in the Consolidated Statements of Financial Position. The provision for warranty claims is comprised of both a current (claims realized within 12 months) and non-current component (claims realized between 13 and 24 months), with the balances respectively reflected in "Provisions" and "Other long-term liabilities" (see Note 18) in the Consolidated Statements of Financial Position.

(iv) The Company maintains provisions for sales tax assessments under active discussion, audit, dispute or appeal with tax authorities. These provisions represent the Company's best estimate of the amount expected to be paid based on qualitative and quantitative assessments. Though uncertainty exists around the timing of settlement of the disputes or appeals with tax authorities, the Company expects that sales tax provisions will be settled within 4 years. However, as the Company has no unconditional right to defer the settlement of these provisions past at least 12 months, these provisions are classified as current.

(v) The provision for severance represents the Company's best estimate of the future outflow of payments to terminated employees who have made claims. Uncertainty exists relating to the amount of severance that will be awarded in court proceedings. As the Company has no unconditional right to defer these payments past 12 months, this provision is classified as current.

(vi) The environmental provision represents the costs to remediate environmental contamination associated with decommissioning auto centres as well as the cost to remove asbestos to meet regulatory requirements. The provision is based on assessments conducted by third parties as well as historical data. Given the timing of payments to remediate is uncertain and that the Company has no unconditional right to defer these payments past at least 12 months, this provision is classified as current.

(vii) The provisions for other represent the Company's best estimate of various reserves relating to the future outflow of economic resources due to obligations for miscellaneous claims. The estimates for these provisions have been made on the basis of information currently available to determine the obligations. These provisions are classified as current.

17. Long-term obligations and finance costs

Long-term obligations

Total outstanding long-term obligations were as follows:

(in CAD millions)		**As at February 2, 2013**		As at January 28, 2012
Finance lease obligations - Current		**5.2**		5.1
Total principal payments on long-term obligations due within one year	$	**5.2**	$	5.1
Secured revolving credit facility, net	$	**—**	$	93.1
Finance lease obligations - Non-current		**30.9**		24.5
Total long-term obligations	$	**30.9**	$	117.6

The Company's debt consists of a secured credit facility and finance lease obligations. In September 2010, the Company entered into an $800.0 million senior secured revolving credit facility (the "Credit Facility") with a syndicate of lenders with a maturity date of September 10, 2015. The Credit Facility is secured with a first lien on inventory and credit card receivables. Availability under the Credit Facility is determined pursuant to a borrowing base formula. Availability under the Credit Facility was $501.5 million as at February 2, 2013 (January 28, 2012: $415.1 million). The current availability may be reduced by reserves currently estimated by the Company to be approximately $300.0 million, which may be applied by the lenders at their discretion pursuant to the Credit Facility agreement. As a result of judicial developments relating to the priorities of pension liability relative to certain secured obligations, the Company has executed an amendment to its Credit Facility agreement which would provide additional security to the lenders, with respect to the Company's unfunded pension liability by pledging certain real estate assets as collateral, thereby partially reducing the potential reserve amount the lenders could apply by up to $150.0 million. The potential additional reserve amount may increase or decrease in the future based on estimated net pension liabilities.

The Credit Facility contains covenants which are customary for facilities of this nature and the Company was in compliance with all covenants as at February 2, 2013.

As at February 2, 2013, the Company had no borrowings on the Credit Facility and had unamortized transaction costs incurred to establish the Credit Facility of $6.2 million included in "Other long-term assets" in the Consolidated Statements of Financial Position (January 28, 2012: borrowings of $93.1 million, net of unamortized transaction costs of $8.0 million, included in "Long-term obligations"). In addition, the Company had $19.7 million (January 28, 2012: $6.3 million) of standby letters of credit outstanding against the Credit Facility. These letters of credit cover various payments including third party payments, utility commitments and defined benefit plan deficit funding (See Note 20 for additional information on Retirement benefits plans). Interest on drawings under the Credit Facility is determined based on bankers' acceptance rates for one to three month terms or the prime rate plus a spread. Interest amounts on the Credit Facility are due monthly and are added to principal amounts outstanding.

As at February 2, 2013, the Company had outstanding merchandise letters of credit of U.S. $7.9 million (January 28, 2012: U.S. $5.5 million) used to support the Company's offshore merchandise purchasing program with restricted cash and cash equivalents pledged as collateral.

Finance costs

Interest expense on long-term obligations, including finance lease obligations, the current portion of long-term obligations, amortization of transaction costs and commitment fees on the unused portion of the Credit Facility for Fiscal 2012 totaled $9.4 million (2011: $9.3 million). Interest expense is included in "Finance costs" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). Also included in "Finance costs" for Fiscal 2012, were $3.9 million (2011: $5.2 million) of interest on accruals for uncertain tax positions and nil (2011: $1.5 million) related to interest on a sales tax assessment.

The Company's cash payments for interest on long-term obligations, including finance lease obligations, the current portion of long-term obligations and commitment fees on the unused portion of the Credit Facility for Fiscal 2012 totaled $7.7 million (2011: $6.8 million).

18. Other long-term liabilities

The components of other long-term liabilities were as follows:

(in CAD millions)		**As at February 2, 2013**		As at January 28, 2012
Leasehold inducements	$	**67.1**	$	66.8
Straight-line rent liability		**5.0**		6.4
Miscellaneous		**2.6**		2.6
Total other long-term liabilities	$	**74.7**	$	75.8

The non-current portion of the warranties provision (see Note 16) is reflected in the miscellaneous component of "Other long-term liabilities" in the Consolidated Statements of Financial Position.

19. Leasing arrangements

19.1 Finance lease arrangements – Company as lessee

As at February 2, 2013, the Company had finance lease arrangements related to the building and equipment components of certain leased properties, which include retail, office and warehouse locations. The related land components of these properties have been separately classified as operating leases. The buildings and equipment held under finance leases are used in the normal course of operations and do not contain significant unusual or contingent lease terms or restrictions. Building leases typically run for a period of 1 to 10 years, with some leases providing an option to renew after that date. Equipment leases typically run for a period of 1 to 5 years, with some leases providing an option to renew after that date.

Finance lease buildings and equipment are included in the Consolidated Statements of Financial Position under "Property, plant and equipment." Note 9 provides further details on the net carrying value of these assets, which as at February 2, 2013 was $33.4 million (January 28, 2012: $28.0 million).

As at February 2, 2013, the corresponding finance lease obligations, current and non-current, were $5.2 million (January 28, 2012: $5.1 million) and $30.9 million (January 28, 2012: $24.5 million), included in the Consolidated Statements of Financial Position under "Principal payments on long-term obligations due within one year" and "Long-term obligations," respectively (see Note 17).

The table below presents the future minimum lease payments of the Company's finance lease obligations:

			As at February 2, 2013			As at January 28, 2012
(in CAD millions)	**Finance lease payments**	**Future finance costs**	**Present value of minimum lease payments**	Finance lease payments	Future finance costs	Present value of minimum lease payments
Within 1 year	**$ 7.6**	**$ 2.4**	**$ 5.2**	$ 7.0	$ 1.9	$ 5.1
2 years	**6.5**	**2.1**	**4.4**	6.0	1.5	4.5
3 years	**5.1**	**1.9**	**3.2**	4.8	1.2	3.6
4 years	**4.8**	**1.6**	**3.2**	3.3	1.1	2.2
5 years	**4.9**	**1.4**	**3.5**	3.1	0.9	2.2
Thereafter	**19.5**	**2.9**	**16.6**	14.2	2.2	12.0
Total minimum payments	**$ 48.4**	**$ 12.3**	**$ 36.1**	$ 38.4	$ 8.8	$ 29.6

Interest on finance lease obligations is recognized immediately in "Finance costs" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss) (see Note 17). Included in total "Finance costs" in Fiscal 2012, was $2.4 million (2011: $2.2 million) of interest related to finance lease obligations.

19.2 Operating lease arrangements – Company as lessor

The Company has a number of agreements to sub-lease premises to third parties, which are all classified as operating leases. During Fiscal 2012, total sub-lease income from leased premises was $3.0 million (2011: $2.8 million).

As at February 2, 2013, total future minimum lease payments receivable from third party tenants were $10.3 million (2011: $9.7 million).

19.3 Operating lease arrangements – Company as lessee

As at February 2, 2013, the Company had operating lease arrangements related to leased retail and office properties as well as equipment assets. The leases typically run for a period of 1 to 10 years, with some leases providing an option to renew after that date. Some leases include additional or contingent rent payments that are based on sales and step rent payments which are recognized on a straight-line basis over the term of the lease. During Fiscal 2012, contingent rent recognized as an expense in respect of operating leases totaled $0.9 million (2011: $0.9 million). Rental expense for all operating leases totaled $105.6 million in Fiscal 2012 (2011: $103.4 million). These expenses are included in "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss).

The table below presents the contractual maturities of future minimum lease payments for the Company's operating leases:

(in CAD millions)		As at February 2, 2013		As at January 28, 2012
Within 1 year	$	**96.7**	$	102.7
2 years		**85.1**		86.2
3 years		**70.1**		66.8
4 years		**52.9**		55.9
5 years		**46.0**		42.1
Thereafter		**145.9**		156.4
Total operating lease obligations [1]	$	**496.7**	$	510.1

1 *Operating lease obligations are not reported in the Consolidated Statements of Financial Position*

20. Retirement benefit plans

The Company currently maintains a defined benefit registered pension plan and a defined contribution registered pension plan which covers eligible, regular full-time associates as well as some of its part-time associates. The defined benefit plan provides pensions based on length of service and final average earnings. In addition to a registered retirement savings plan, the pension plan includes a non-registered supplemental savings arrangement in respect to the defined benefit plan. The non-registered portion of the plan is maintained to enable certain associates to continue saving for retirement in addition to the registered limit as prescribed by the Canada Revenue Agency. The Company also maintains a defined benefit non-pension post retirement plan which provides life insurance, medical and dental benefits to eligible retired associates through a health and welfare trust ("Other Benefits Plan"). Also provided for under the health and welfare trust are short-term disability payments for active associates. The Company's accounting policies related to retirement benefit plans are described in Note 2.15.

In July 2008, the Company amended its pension plan and introduced a defined contribution component. The defined benefit component continues to accrue benefits related to future compensation increases although no further service credit is earned. In addition, the Company no longer provides medical, dental and life insurance benefits at retirement for associates who had not achieved the eligibility criteria for these non-pension post retirement benefits as at December 31, 2008. Effective December 2009, the Company made the decision to change funding for non pension post retirement benefits from an actuarial basis to a pay-as-you-go basis to allow the surplus in the health and welfare trust to be utilized to make benefit payments. In addition, to further utilize the surplus, short-term disability payments of eligible associates are paid on a pay-as-you-go basis from the health and welfare trust and are no longer funded by the Company.

In the fourth quarter of 2012, the Company made a voluntary offer to settle health and dental benefits of eligible members covered under the non-pension post retirement plan. Based on the accepted offers, the Company paid $18.1 million and recorded a pre-tax settlement gain of $21.1 million ($21.9 million net of $0.8 million of expenses), as shown on the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss).

The Company early adopted the amendments to IAS 19 beginning January 29, 2012, with retrospective application to prior reporting periods. A description of the nature of the change in accounting policy and a summary of its impact to the Company's consolidated financial statements are included in Note 2.

Risks associated with retirement benefit plans

There is no assurance that the Company's retirement benefit plans will be able to earn the assumed rate of return. New regulations and market driven changes may result in changes in the discount rates and other variables which would result in the Company being required to make contributions in the future that differ significantly from the estimates. Management is required to use assumptions to account for the plans in conformity with IFRS. However, actual future experience will differ from these assumptions giving rise to actuarial gains or losses. In any year, actual experience differing from the assumptions may be material.

Plan assets consist primarily of cash, alternative investments and marketable equity and fixed income securities. The value of the marketable equity and fixed income investments will fluctuate due to changes in market prices. Plan obligations and annual pension expense are determined by independent actuaries and through the use of a number of assumptions. Although the Company believes that the assumptions used in the actuarial valuation process are reasonable, there remains a degree of risk and uncertainty which may cause results to differ from expectations. Significant assumptions in measuring the benefit obligations and pension plan costs include the discount rate and the rate of compensation increase.

Asset-liability matching strategies

Beginning in Fiscal 2011, the Company adopted an asset-liability matching strategy in the Other Benefits Plan wherein assets are invested in accordance with a short-term fixed income mandate. The current portfolio is primarily bonds with maturities not exceeding two years. This investment strategy is aligned with the expected use of the assets, which is to fund the Company's retiree health benefits and short-term disability payments within the next two years.

Plan amendments, curtailments and settlements

In Fiscal 2012, the Company amended the non-registered supplemental savings arrangement in respect to the defined benefit plan to allow the use of letters of credit to satisfy the funding requirement of its deficit. At February 2, 2013 a letter of credit with a notional value of $4.6 million was on deposit with the Trustee for the non-registered portion of the defined benefit plan.

In January 2013, the Company announced the termination of 700 associates. This event did not require the recording of a curtailment as its impact on the pension plan was not significant.

Maturity profile of retirement benefit plan obligations

The weighted average durations of the Registered Retirement Plans, Non-registered Pension Plan and Other Benefit Plan are all approximately 11 years.

The Company's contractual cash flow maturity relating to retirement benefit plan obligation payments is included under "Liquidity Risk" in Note 14.

20.1 Retirement benefit asset and liability

The Company measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at January 31. The most recent actuarial valuation of the pension plan for funding purposes is dated December 31, 2010. The next actuarial valuation assessment is required as of December 31, 2013. An actuarial valuation of the health and welfare trust is performed at least every 3 years, with the last valuation completed as of September 1, 2011.

				2012				2011
(in CAD millions)	**Registered Retirement Plans**	**Non-Registered Pension Plan**	**Other Benefits Plan**	**Total**	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan	Total
Defined benefit plan assets								
Fair value, beginning balance	**$ 1,178.9**	**$ 49.3**	**$ 68.7**	**$1,296.9**	$ 1,241.7	$ 47.4	$ 89.9	$1,379.0
Interest income	**54.0**	**2.3**	**2.6**	**58.9**	64.8	2.6	4.1	71.5
Remeasurement gain (loss) on return on plan assets	**73.7**	**0.1**	**(1.9)**	**71.9**	(14.8)	(1.6)	(1.0)	(17.4)
Employer contributions	**32.7**	**1.5**	**18.8**	**53.0**	0.9	6.4	0.7	8.0
Administrative expenses	**(0.4)**	**—**	**—**	**(0.4)**	(0.5)	—	(0.1)	(0.6)
Benefits paid[1]	**(119.8)**	**(3.7)**	**(43.7)**	**(167.2)**	(113.2)	(5.5)	(24.9)	(143.6)
Fair value of plan assets, ending balance	**$ 1,219.1**	**$ 49.5**	**$ 44.5**	**$1,313.1**	$ 1,178.9	$ 49.3	$ 68.7	$1,296.9
Defined benefit plan obligations								
Accrued obligations, beginning balance	**$ 1,377.7**	**$ 50.1**	**$ 321.4**	**$1,749.2**	$ 1,354.7	$ 47.8	$ 302.7	$1,705.2
Total current service cost	**0.9**	**—**	**—**	**0.9**	0.9	—	—	0.9
Interest cost	**62.6**	**2.3**	**14.4**	**79.3**	70.9	2.5	15.8	89.2
Benefits paid	**(119.8)**	**(3.7)**	**(35.6)**	**(159.1)**	(113.2)	(5.5)	(16.4)	(135.1)
Settlement gain	**—**	**—**	**(21.9)**	**(21.9)**	—	—	—	—
Actuarial losses	**62.7**	**1.7**	**16.0**	**80.4**	64.4	5.3	19.3	89.0
Accrued plan obligations, ending balance	**$ 1,384.1**	**$ 50.4**	**$ 294.3**	**$1,728.8**	$ 1,377.7	$ 50.1	$ 321.4	$1,749.2
Funded status of plan – (deficit)	**(165.0)**	**(0.9)**	**(249.8)**	**(415.7)**	(198.8)	(0.8)	(252.7)	(452.3)
Retirement benefit liability at end of fiscal year, net	**$ (165.0)**	**$ (0.9)**	**$ (249.8)**	**$ (415.7)**	$ (198.8)	$ (0.8)	$ (252.7)	$ (452.3)
The retirement benefit liability is included in the Company's Consolidated Statements of Financial Position as follows:								
Retirement benefit liability	**$ (165.0)**	**$ (0.9)**	**$ (249.8)**	**$ (415.7)**	$ (198.8)	$ (0.8)	$ (252.7)	$ (452.3)
Retirement benefit liability at end of fiscal year, net	**$ (165.0)**	**$ (0.9)**	**$ (249.8)**	**$ (415.7)**	$ (198.8)	$ (0.8)	$ (252.7)	$ (452.3)

1 *Benefits paid from the funded assets include retiree benefits and short-term disability of active employees. Other benefits consist of retiree health and dental claims.*

20.2 Fair value of plan assets

The fair value of plan assets disaggregated by asset class and fair value hierarchy level as at February 2, 2013 and January 28, 2012 was as follows:

	As at February 2, 2013				As at January 28, 2012			
	Registered Retirement Plans	**Non-Registered Pension Plan**	**Other Benefits Plan**	**Total**	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan	Total
Cash and cash equivalents								
Level 1	$ **41.2**	$ **25.2**	$ **0.1**	$ **66.5**	$ 25.5	$ 26.3	$ —	$ 51.8
Subtotal	**41.2**	**25.2**	**0.1**	**66.5**	25.5	26.3	—	51.8
Corporate bonds and notes								
Level 1	—	—	—	—		—	—	—
Level 2	**604.7**	—	**12.3**	**617.0**	550.8	—	18.6	569.4
Level 3	**59.7**	—	**0.9**	**60.6**	63.1	—	0.9	64.0
Subtotal	**664.4**	—	**13.2**	**677.6**	613.9	—	19.5	633.4
U.S. Government bonds and securities								
Level 1	—	—	—	—	0.1	—	—	0.1
Level 2	**0.9**	—	—	**0.9**	1.8	—	—	1.8
Subtotal	**0.9**	—	—	**0.9**	1.9	—	—	1.9
Common stock, preferred stock and REITS								
Level 1	**181.7**	—	—	**181.7**	219.6	—	—	219.6
Level 2	—	—	—	—	0.9	—	—	0.9
Subtotal	**181.7**	—	—	**181.7**	220.5	—	—	220.5
Common or collective trusts								
Level 1	—	—	—	—	—	—	—	—
Level 2	**251.8**	**24.3**	—	**276.1**	282.9	23.0	—	305.9
Level 3	—	—	—	—	—			—
Subtotal	**251.8**	**24.3**	—	**276.1**	282.9	23.0	—	305.9
Short-term collective investment funds								
Level 1	—	—	—	—	—	—	—	—
Level 2	**66.0**	—	**0.8**	**66.8**	6.4	—	0.9	7.3
Subtotal	**66.0**	—	**0.8**	**66.8**	6.4	—	0.9	7.3
Hedge funds, options and futures								
Level 2	—	—	—	—	—	—	—	—
Level 3	**3.0**	—	—	**3.0**	15.4	—	0.2	15.6
Subtotal	**3.0**	—	—	**3.0**	15.4	—	0.2	15.6
Receivables								
Level 1	**6.8**	—	**0.5**	**7.3**	9.7	—	0.7	10.4
Level 2	**(0.8)**	—	—	**(0.8)**	(7.1)	—	—	(7.1)
Subtotal	**6.0**	—	**0.5**	**6.5**	2.6	—	0.7	3.3
Miscellaneous other assets								
Level 1	—	—	—	—	—	—	—	—
Level 2	**4.1**	—	**29.9**	**34.0**	9.8	—	47.4	57.2
Level 3	—	—	—	—	—	—	—	—
Subtotal	**4.1**	—	**29.9**	**34.0**	9.8	—	47.4	57.2
Total fair value of plan assets	$ **1,219.1**	$ **49.5**	$ **44.5**	$ **1,313.1**	$ 1,178.9	$ 49.3	$ 68.7	$ 1,296.9

The three levels of the fair value hierarchy referenced above are discussed in Note 14.5.

20.3 Plan assets investment allocation

During Fiscal 2011, the Company changed the target asset allocation to 55-75% fixed income and 25-45% equity for the registered and non-registered pension plans. For the assets in the health and welfare trust, included in Other Benefit Plans, the Company changed the asset allocation to 100% fixed income. As at the end of Fiscal 2012 and 2011, the assets were in line with the target allocation range, with the transitioning of assets from alternative investments near completion. The asset allocation may be changed from time to time in terms of weighting between fixed income, equity and other asset classes as well as within the asset classes themselves.

The plan's target allocation is determined taking into consideration the amounts and timing of projected liabilities, the Company's funding policies and expected returns on various asset classes. To develop the expected long-term rate of return on assets assumption, the Company considered the historical returns and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio.

At as the end of the current and prior fiscal years, plan assets were invested in the following classes of securities:

			As at February 2, 2013			As at January 28, 2012
	Registered Retirement Plans	**Non-Registered Pension Plan**	**Other Benefits Plan**	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan
Fixed income securities	**72.3%**	**66.5%**	**100.0%**	69.8%	69.5%	99.7%
Alternative investments	**0.2%**	**—%**	**—%**	1.3%	0.4%	0.3%
Equity securities	**27.5%**	**33.5%**	**—%**	28.9%	30.1%	—%
Total	**100.0%**	**100.0%**	**100.0%**	100.0%	100.0%	100.0%

20.4 Pension assumptions

The significant actuarial assumptions were as follows (weighted average assumptions) as at February 2, 2013 and January 28, 2012 :

			As at February 2, 2013			As at January 28, 2012
	Registered Retirement Plans	**Non-Registered Pension Plan**	**Other Benefits Plan**	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan
Discount rate used in calculation of						
Accrued benefit plan obligations	**4.20%**	**4.20%**	**4.20%**	4.70%	4.70%	4.60%
Benefit plans expense	**4.20%**	**4.20%**	**4.20%**	4.70%	4.70%	4.60%
Rate of compensation increase used in calculation of						
Accrued benefit plan obligations	**3.50%**	**3.50%**	**3.50%**	3.50%	3.50%	3.50%
Benefit plans expense	**3.50%**	**3.50%**	**3.50%**	3.50%	3.50%	3.50%
Expected long-term rate of return on plan assets used in calculation of benefit plans expense	**4.20%**	**4.20%**	**4.20%**	4.70%	4.70%	4.60%
Health care cost trend rates						
Used in calculation of accrued benefit plan obligations			**6.14%**			6.23%
Used in calculation of benefit plans expense			**6.23%**			6.78%
Cost trend rate declines to			**3.82%**			3.82%
Year that the rate reaches assumed constant			**2030**			2030

20.5 Sensitivity of significant actuarial assumptions

The following table summarizes the sensitivity of significant actuarial assumptions on the Company's defined benefit obligation:

	2012			2011		
(in CAD millions)	**Registered Retirement Plans**	**Non-Registered Pension Plan**	**Other Benefits Plan**	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan
Discount rate sensitivity						
Accrued benefit plan obligations						
1% increase in discount rate	$ **(153.4)**	$ **(4.8)**	$ **(29.6)**	$ (150.2)	$ (5.0)	(31.0)
1% decrease in discount rate	**190.5**	**5.7**	**35.5**	187.7	6.0	37.0
Benefit plans expense						
1% increase in discount rate	**(6.7)**	**(0.3)**	**0.8**	(8.1)	(0.1)	0.2
1% decrease in discount rate	**5.1**	**0.2**	**(1.2)**	6.1	—	(0.5)
Rate of compensation increase sensitivity						
Accrued benefit plan obligations						
0.5% increase in rate of compensation increase	**18.5**	**0.5**	**n/a**	21.9	1.0	n/a
0.5% decrease in rate of compensation increase	**(16.4)**	**(0.3)**	**n/a**	(19.4)	(0.6)	n/a
Benefit plans expense						
0.5% increase in rate of compensation increase	**1.0**	**—**	**n/a**	1.1	—	n/a
0.5% decrease in rate of compensation increase	**(0.9)**	**—**	**n/a**	(1.0)	—	n/a
Health care cost trend rate sensitivity						
Accrued benefit plan obligations						
1% increase in health care trend rate	**n/a**	**n/a**	**30.7**	n/a	n/a	29.2
1% decrease in health care trend rate	**n/a**	**n/a**	**(26.1)**	n/a	n/a	(25.0)
Benefit plans expense						
1% increase in health care trend rate	**n/a**	**n/a**	**1.3**	n/a	n/a	1.8
1% decrease in health care trend rate	**n/a**	**n/a**	**(1.2)**	n/a	n/a	(1.8)

The methods and assumptions used in determining the above sensitivity are consistent with the methods and assumptions used to determine the pension plan obligations and with the methods and assumptions used in Fiscal 2011.

20.6 Retirement benefit plans expense and contributions

The expense for the defined benefit, defined contribution and other benefit plans for Fiscal 2012 and Fiscal 2011, was as follows:

	2012				2011			
(in CAD millions)	**Registered Retirement Plans**	**Non-Registered Pension Plan**	**Other Benefits Plan**	**Total**	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan	Total
Current service cost, net of employee contributions	$ **0.9**	$ **—**	$ **—**	$ **0.9**	$ 0.9	$ —	$ —	$ 0.9
Net interest	**8.7**	**(0.1)**	**11.8**	**20.4**	6.1	(0.1)	11.7	17.7
Settlement gain	**—**	**—**	**(21.9)**	**(21.9)**	—	—	—	—
Administrative expenses	**0.4**	**—**	**—**	**0.4**	0.5	—	0.1	0.6
Net defined benefit plans expense (income)	$ **10.0**	$ **(0.1)**	$ **(10.1)**	$ **(0.2)**	$ 7.5	$ (0.1)	$ 11.8	$ 19.2
Net defined contribution plan expense	**9.7**	**—**	**0.2**	**9.9**	10.7	—	0.3	11.0
Total retirement benefit plans expense (income) [1]	$ **19.7**	$ **(0.1)**	$ **(9.9)**	$ **9.7**	$ 18.2	$ (0.1)	$ 12.1	$ 30.2

1 *Not included in total expense recognized are short-term disability payments of $8.1 million (2011: $8.4 million) that were paid from the health and welfare trust. Both short-term disability and the retirement benefit plans expense are included in "Selling, administrative and other expenses", unless disclosed elsewhere, in the Company's Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss).*

Total cash contributions made by the Company to its defined benefit, defined contribution and other benefit plans, including payments to settle health and dental benefits of eligible members covered under the non-pension post retirement plan, for the fiscal year ended February 2, 2013 were $63.0 million (2011: $17.9 million). For Fiscal 2013, it is estimated that the Company will make contributions of approximately $44.5 million to its defined benefit, defined contribution and other benefit plans, which include funding obligations as described in Note 14.2.

20.7 Remeasurements of the net defined retirement benefit liability

	2012				2011			
(in CAD millions)	**Registered Retirement Plans**	**Non-Registered Pension Plan**	**Other Benefits Plan**	**Total**	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan	Total
Actuarial gain (loss) on difference between expected interest income and actual return on plan assets	$ **73.7**	$ **0.1**	$ **(1.9)**	$ **71.9**	$ (14.8)	$ (1.6)	$ (1.0)	$ (17.4)
Actuarial gain (loss) due to change in demographic	**—**	**—**	**—**	**—**	19.0	0.3	(0.6)	18.7
Actuarial loss due to change in financial assumptions	**(80.9)**	**(2.5)**	**(16.0)**	**(99.4)**	(108.6)	(3.6)	(27.0)	(139.2)
Actuarial gain (loss) due to all other experiences	**18.2**	**0.8**	**—**	**19.0**	25.2	(2.0)	8.2	31.4
Total pre-tax remeasurement losses	$ **11.0**	$ **(1.6)**	$ **(17.9)**	$ **(8.5)**	$ (79.2)	$ (6.9)	$ (20.4)	$ (106.5)
Income tax recovery on remeasurement losses				**3.5**				27.4
Total remeasurement losses, net of income taxes [1]				$ **(5.0)**				$ (79.1)

1 *Total remeasurement losses, net of income taxes, are included in "Other comprehensive loss" in the Company's Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss).*

The actuarial losses associated with changes in financial assumptions are due to changes in the discount rate. The discount rate as at February 2, 2013 decreased 0.5% for the Registered Retirement Plans and the Non-registered Pension Plan (2011: a decrease of 0.7%), and 0.4% for the Other Benefits Plan (2011: a decrease of 0.8%).

21. Contingent liabilities

21.1 Legal Proceedings

The Company is involved in various legal proceedings incidental to the normal course of business. The Company takes into account all available information, including guidance from experts (such as internal and external legal counsel) at the time of reporting to determine if it is probable that a present obligation (legal or constructive) exists, if it is probable that an outflow of resources embodying economic benefit will be required to settle such obligation and whether the Company can reliably measure such obligation at the end of the reporting period. The Company is of the view that, although the outcome of such legal proceedings cannot be predicted with certainty, the final disposition is not expected to have a material adverse effect on the Company's Consolidated Financial Statements, including its Consolidated Statements of Financial Position, Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss), and Consolidated Statements of Cash Flows.

21.2 Commitments and guarantees

Commitments

As at February 2, 2013, cash and cash equivalents that are restricted represent cash and investments pledged as collateral for letter of credit obligations issued under the Company's offshore merchandise purchasing program of $9.0 million (January 28, 2012: $7.2 million), which is the Canadian equivalent of U.S. $9.0 million (January 28, 2012: U.S. $7.2 million).

The Company has certain vendors which require minimum purchase commitment levels over the term of the contract. Refer to Note 14.2 "Liquidity Risk".

Guarantees

The Company has provided the following significant guarantees to third parties:

Royalty License Agreements

The Company pays royalties under various merchandise license agreements, which are generally based on the sale of products. Certain license agreements require a minimum guaranteed payment of royalties over the term of the contract, regardless of sales. Total future minimum royalty payments under such agreements were $2.3 million as at February 2, 2013 (January 28, 2012: $3.1 million).

Other Indemnification Agreements

In the ordinary course of business, the Company has provided indemnification commitments to counterparties in transactions such as leasing transactions, royalty agreements, service arrangements, investment banking agreements and director and officer indemnification agreements. The Company has also provided certain indemnification agreements in connection with the sale of the credit and financial services operations in November 2005. The foregoing indemnification agreements require the Company to compensate the counterparties for costs incurred as a result of changes in laws and regulations, or as a result of litigation or statutory claims, or statutory sanctions that may be suffered by a counterparty as a consequence of the transaction. The terms of these indemnification agreements will vary based on the contract and typically do not provide for any limit on the maximum potential liability. Historically, the Company has not made any significant payments under such indemnifications and no amounts have been accrued in the consolidated financial statements with respect to these indemnification commitments.

22. Income taxes

The average combined federal and provincial statutory income tax rate applied to the Company was 25.5% for Fiscal 2012 (2011: 28.5%) due to lower legislated statutory tax rates in the current year. A reconciliation of income taxes at the average statutory tax to actual income tax expense for Fiscal 2012 and Fiscal 2011 is as follows:

(in CAD millions)		2012		2011
Earnings (loss) before income taxes	$	**114.2**	$	(56.9)
Income taxes at the average statutory tax rate	$	**29.1**	$	(16.2)
Increase (decrease) in income taxes resulting from				
Non-taxable portion of capital gain		**(19.7)**		—
Non-deductible items		**1.7**		2.1
Prior year assessments		**2.7**		5.1
Prior year true-up		**—**		(0.1)
		13.8		(9.1)
Effective tax rate before the following adjustments		**12.1%**		16.0%
Changes in tax rates or imposition of new taxes		**(0.8)**		2.5
Total income tax expense (recovery)	$	**13.0**	$	(6.6)
Effective tax rate		**11.4%**		11.6%

The Company's total net cash refunds or payments of income taxes for the current year was a net refund of $4.9 million (2011: net payment of $21.6 million).

In the ordinary course of business, the Company is subject to ongoing audits by tax authorities. While the Company believes that its tax filing positions are appropriate and supportable, periodically, certain matters are challenged by tax authorities. During Fiscal 2012, the Company recorded charges for interest on prior period tax re-assessments and accruals for uncertain tax positions as described in the table below, all included in the Consolidated Statement of Net Earnings (Loss) and Comprehensive Income (Loss) as follows:

(in CAD millions)		2012		2011
Finance costs	$	**(3.9)**	$	(5.2)
Income tax recovery (expense):				
Current	$	**(5.4)**	$	(17.9)
Deferred	$	**2.2**	$	12.8
Total charges on uncertain tax positions	$	**(7.1)**	$	(10.3)

As the Company routinely evaluates and provides for potentially unfavourable outcomes, with respect to any tax audits, the Company believes that, other than as noted above, the final disposition of tax audits will not have a material adverse effect on liquidity.

During Fiscal 2012, the tax authorities settled a disputed tax assessment with the Company and refunded the associated deposit. As a result, the Company reclassified $28.2 million from "Other long-term assets" to "Income taxes recoverable" in the Consolidated Statement of Financial Position. The Company received $29.4 million in net refunds of tax and interest in respect of this issue and recognized $1.9 million net interest income relating to this settlement in "Interest income" in the Consolidated Statement of Net Earnings (Loss) and Comprehensive Income (Loss).

In Fiscal 2012, the Company received re-assessments to previous tax filings which the Company is disputing. The Company expects to place $54.9 million on deposit with the tax authorities relating to these disputed tax matters while the issues are being resolved. During Fiscal 2012, the Company paid $33.5 million of the anticipated deposit of which $11.1 million has been included in "Other long-term assets" and $22.4 million has been included in "Income taxes recoverable" in the Consolidated Statement of Financial Position as at February 2, 2013.

Included in "Other long-term assets" in the Consolidated Statements of Financial Position, as at February 2, 2013, were receivables of $13.9 million (January 28, 2012: $30.3 million) related to payments made by the Company for disputed tax assessments. Of the $33.5 million paid by the Company in deposits during the year for tax disputes, $11.1million in related payments was recorded in Long Term Recoverable.

The tax effects of the significant components of temporary timing differences giving rise to the Company's net deferred tax assets and liabilities were as follows:

(in CAD millions)		**As at February 2, 2013**		As at January 28. 2012
Prepaid expenses	$	—	$	(0.4)
Accrued liabilities and other long-term liabilities		**57.1**		57.2
Deferred retirement benefit plans		**43.8**		51.4
Other post-retirement benefits		**66.0**		65.0
Amounts related to tax losses carried forward		**0.1**		0.2
Non-depreciable property, plant and equipment		**(37.3)**		(36.6)
Depreciable property, plant and equipment		**(49.5)**		(56.6)
Deferred charges		**(1.5)**		(0.3)
Other		**(0.7)**		(0.7)
Subtotal	$	**78.0**	$	79.2
Amounts related to other comprehensive income (loss)		—		0.1
Total deferred tax assets (liabilities), net	$	**78.0**	$	79.3
Deferred tax assets	$	**83.8**	$	84.6
Deferred tax liabilities		**(5.8)**		(5.3)
Total deferred tax assets (liabilities), net	$	**78.0**	$	79.3

23. Operating segments

In order to identify the Company's reportable segments, the Company uses the process outlined in IFRS 8, which includes the identification of the Chief Operating Decision Maker, the identification of operating segments, which has been done based on Company formats, and the aggregation of operating segments. The Company has aggregated its operating segments into one reportable segment, which derives its revenue from the sale of merchandise and related services to customers.

24. Capital stock

On May 24, 2011, the Company renewed the Normal Course Issuer Bid with the Toronto Stock Exchange ("TSX") for the period of May 25, 2011 to May 24, 2012 ("2011 NCIB"). Pursuant to the 2011 NCIB, the Company was permitted to purchase for cancellation up to 5% of its issued and outstanding common shares, equivalent to 5,268,599 common shares based on the common shares issued and outstanding as at May 9, 2011. The Company did not renew its 2011 NCIB subsequent to May 24, 2012.

During Fiscal 2012, 870,633 shares were purchased for $9.7 million (2011: 2,668,800 shares were purchased for $42.0 million) and cancelled. The impact of the share repurchases was a decrease to "Capital stock" and "Retained earnings" in the Consolidated Statements of Financial Position of $0.1 million and $9.6 million (2011: $0.4 million and $41.6 million), respectively.

On May 17, 2012 the Company announced Sears Holdings' plan to pursue a distribution, on a pro rata basis, to its shareholders, of a portion of its holdings in the Company such that, immediately following the distribution, Sears Holdings would retain approximately 51% of the issued and outstanding shares of Sears Canada. The distribution was made on November 13, 2012 to Sears Holdings' shareholders of record as of the close of business on November 1, 2012, the record date for the distribution. Every share of Sears Holdings common stock held as of the close of business on the record date entitled the holder to a distribution of 0.4283 Sears Canada common shares. In connection with the announced distribution, the Company has filed documents with the United States Securities and Exchange Commission (SEC).

During Fiscal 2012, the Company distributed $101.9 million to holders of common shares as an extraordinary cash dividend. Payment in the amount of $1.00 per common share was made on December 31, 2012 to shareholders of record as at the close of business on December 24, 2012.

The authorized common share capital of the Company consists of an unlimited number of common shares without nominal or par value and an unlimited number of class 1 preferred shares, issuable in one or more series (the "Class 1 Preferred Shares").
As at the end of February 2, 2013, the only shares outstanding were common shares of the Company. The following table presents a continuity of capital stock for the fiscal years ended February 2, 2013 and January 28, 2012:

		2012		2011
(in CAD millions, except number of shares)	**Number of Common Shares**	**Stated Value**	Number of Common Shares	Stated Value
Balance, beginning of fiscal year	**102,748,295**	**$ 15.0**	105,417,095	$ 15.4
Repurchases of common shares	**(870,633)**	**(0.1)**	(2,668,800)	(0.4)
Balance, end of fiscal year	**101,877,662**	**$ 14.9**	102,748,295	$ 15.0

ESL Investments, Inc., and investment affiliates including Edward S. Lampert, together form the ultimate controlling party of the Company, and is the beneficial holder of 28,158,368 or 27.6%, of the common shares of the Company as at February 2, 2013 (January 28, 2012: nil). Sears Holdings, the controlling shareholder of the Company, is the beneficial holder of 51,962,391 or 51.0%, of the common shares of the Company as at February 2, 2013 (January 28, 2012: 97,341,670.0 or 94.7%). The issued and outstanding shares are fully paid and have no par value.

25. Capital disclosures

The Company's objectives when managing capital are:

- Maintain financial flexibility thus allowing the Company to preserve its ability to meet financial objectives and continue as a going concern;
- Provide an appropriate return to shareholders; and
- Maintain a capital structure that allows the Company to obtain financing should the need arise.

The Company manages and makes adjustments to its capital structure, when necessary, in light of changes in economic conditions, the objectives of its shareholders, the cash requirements of the business and the condition of capital markets. In order to maintain or adjust the capital structure, the Company may pay a dividend or return capital to shareholders, modify debt levels or sell assets.

The Company defines capital as follows:

- Long-term obligations, including the current portion of long-term obligations ("Total long-term obligations"); and
- Shareholders' equity.

The following table presents summary quantitative data with respect to the Company's capital resources:

(in CAD millions)	**As at February 2, 2013**	As at January 28, 2012
Total long-term obligations	**$ 36.1**	$ 122.7
Shareholders' equity	**1,076.4**	1,092.0
Total	**$ 1,112.5**	$ 1,214.7

26. Revenue

The components of the Company's revenue were as follows:

(in CAD millions)	**2012**	2011
Apparel and Accessories	**$ 1,474.2**	$ 1,607.9
Home and Hardlines	**1,125.4**	1,293.6
Major Appliances	**876.3**	864.0
Other merchandise revenue	**362.5**	360.2
Services and other	**321.9**	347.4
Commission revenue	**113.7**	116.7
Licensee revenue	**26.7**	29.5
Total revenue	**$ 4,300.7**	$ 4,619.3

27. Employee benefits expense

The components of the Company's employee benefits expense for the current and prior fiscal year were as follows:

(in CAD millions)		2012		2011 (Recast - Note 2)
Wages and salaries	$	**657.9**	$	685.0
Paid absences [1]		**62.1**		67.1
Benefits				
Provincial healthcare costs		**15.5**		15.4
Flex benefits		**16.6**		16.2
Retirement benefit plans expense		**9.7**		30.2
Statutory deductions [2]		**45.7**		46.0
Severance [3]		**17.1**		25.3
Other employer paid benefits		**(1.2)**		2.1
Total benefits expense	$	**823.4**	$	887.3

1 *Paid absences are expenses related to vacation, statutory holidays and sick days.*
2 *Statutory deductions consist of the employer portion of payment for the Canada Pension Plan and Employment Insurance.*
3 *Included in Severance for Fiscal 2012 were $12.6 million (2011: $19.3 million) of costs related to transformation.*

These expenses are included in "Cost of goods and services sold" and "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss).

28. Gain on lease terminations

On March 2, 2012, the Company entered into an agreement to surrender and terminate early the operating leases on three properties: Vancouver Pacific Centre, Chinook Centre (Calgary) and Rideau Centre (Ottawa). The Company was a long-term and important anchor tenant in the three properties, and the landlord approached the Company with a proposal to terminate early the three leases and vacate the premises in exchange for $170.0 million. The payment represents the amount the landlord was willing to pay for the right to redevelop the property based upon their analysis of the potential returns from redevelopment.

On the closing date, April 20, 2012, the Company received cash proceeds of $170.0 million for the surrender of the three leases, resulting in a pre-tax gain of $164.3 million, net of the de-recognition of leasehold improvements of $5.7 million. The Company exited all three properties on October 31, 2012, and has no further financial obligation related to the transaction.

On June 20, 2012, the Company entered an agreement to surrender and terminate early the operating lease on its Deerfoot (Calgary) property. The landlord approached the Company with a proposal to terminate early the lease in exchange for cash proceeds of $5.0 million, subject to certain closing conditions, on the closing date of October 26, 2012. In Fiscal 2010, the Company incurred an impairment loss of $2.9 million relating to the property, plant and equipment at its Deerfoot property. As a result of the agreement and expected proceeds, the Company recorded an impairment loss reversal (net of accumulated amortization) of $2.1 million in "Selling, administrative and other expenses". On the closing date of October 26, 2012, the Company vacated the property and received cash proceeds of $5.0 million, resulting in a pre-tax gain of $2.8 million, net of the de-recognition of leasehold improvements and furniture and fixtures of $2.2 million. The Company has no further financial obligation related to the transaction.

29. Sale of Cantrex Group Inc. ("Cantrex")

On April 24, 2012, the Company entered an agreement to sell the operations of its subsidiary, Cantrex, to Nationwide Marketing Group, LLC for $3.5 million, equal to the net carrying amount of specified Cantrex assets and liabilities. On April 29, 2012, the Company received the proceeds on the sale, de-recognized the assets and liabilities sold and recorded a gain on sale of nil.

30. Related party transactions

The immediate parent of the Company is Sears Holdings. The ultimate controlling party of the Company is ESL Investments, Inc. (incorporated in the U.S. in the state of Florida) through Sears Holdings. The Company also has investments in joint ventures, as described in Note 11.

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Company and other related parties are disclosed below.

30.1 Trading transactions

During the current and prior fiscal year, the Company entered into the following trading transactions with related parties:

				2012				2011
(in CAD millions)	**Purchase of goods**	**Services received**	**Other**	**Total**	Purchase of goods	Services received	Other	Total
Sears Holdings Corporation	$ —	$ **5.0**	$ **0.2**	$ **5.2**	$ 0.3	$ 4.8	$ 0.5	$ 5.6
Real estate joint ventures	—	**4.5**	—	**4.5**	—	4.4	—	4.4
Total related party transactions	$ —	$ **9.5**	$ **0.2**	$ **9.7**	$ 0.3	$ 9.2	$ 0.5	$ 10.0

The following balances were outstanding as at the end of the fiscal year:

	Amounts receivable from related parties	
(in CAD millions)	**As at February 2, 2013**	As at January 28, 2012
Sears Holdings Corporation	$ **0.3**	$ 0.1
Total	$ **0.3**	$ 0.1

	Amounts payable to related parties	
(in CAD millions)	**As at February 2, 2013**	As at January 28, 2012
Sears Holdings Corporation	$ **0.7**	$ 0.6
Total	$ **0.7**	$ 0.6

The related party transactions with Sears Holdings are in the ordinary course of business for shared merchandise purchasing services. These transactions were recorded either at fair market value or the exchange amount, which was established and agreed to by the related parties. These balances are included in "Accounts payable and accrued liabilities" and "Accounts receivable, net" in the Consolidated Statements of Financial Position.

The related party transactions with the various real estate joint ventures represent lease payments for the lease of the Company's stores. These transactions were recorded either at fair market value or the exchange amount, which was established and agreed to by the related parties.

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No expense has been recognized in the current or prior fiscal periods for bad or doubtful debts in respect of the amounts owed by related parties.

The Company's Audit Committee is responsible for pre-approving all related party transactions that have a value greater than $1.0 million.

31. Key management personnel compensation

Key management personnel are those individuals having the authority and responsibility for planning, directing and controlling the activities of the Company. The Company considers the Board of Directors and the following former and current members of senior management to be key management personnel:

Chief Executive Officer;
Former Senior Vice-President and Chief Financial Officer;
Executive Vice-President and Chief Operating Officer;
Former Executive Vice-President and Chief Administrative Officer;
Former Executive Vice-President, Merchandising, Apparel and Accessories;
Former Senior Vice-President, Merchandising, Home and Hardlines;

Executive Vice-President, Financial Services;
Senior Vice-President and Chief Information Officer, Information Technology and Business Process Improvement;
Senior Vice-President, General Merchandise Manager, Accessories Merchandising;
Senior Vice-President, General Merchandise Manager, Apparel Merchandising;
Senior Vice-President, Home and Hardlines, Major Appliances;
Senior Vice-President, Customer Experience, Shared Services and Merchant Marketing;
Senior Vice-President, Human Resources;
Former Senior Vice-President, Business Capability and Human Resources
Current and former Senior Vice-President, Marketing;
Senior Vice-President and General Counsel; and
Senior Vice-President, Retail Stores.

Key management personnel compensation was as follows:

(in CAD millions)		**2012**		2011
Salaries and perquisites	$	**6.5**	$	5.2
Annual incentive plans		**0.9**		2.2
Pensions		**0.1**		—
Termination benefits		**0.5**		1.2
Total key management personnel compensation	$	**8.0**	$	8.6

32. Net earnings (loss) per share

A reconciliation of the number of shares used in the net earnings (loss) per share calculation is as follows:

(Number of shares)	**2012**	2011
Weighted average number of shares per basic net earnings (loss) per share calculation	**102,078,477**	104,275,192
Effect of dilutive instruments outstanding	—	—
Weighted average number of shares per diluted net earnings (loss) per share calculation	**102,078,477**	104,275,192

"Net earnings (loss)" as disclosed in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss) was used as the numerator in calculating the basic and diluted net earnings (loss) per share. For the fiscal year ended February 2, 2013, 5,440 outstanding options were excluded from the calculation of diluted net earnings per share as they were anti-dilutive. For the fiscal year ended January 28, 2012, the Company incurred a net loss and therefore all potential common shares were anti-dilutive.

33. Changes in non-cash working capital balances

Cash generated from (used for) non-cash working capital balances were comprised of the following:

(in CAD millions)		**2012**		2011
Accounts receivable, net	$	**36.5**	$	27.8
Inventories		**(27.5)**		129.3
Prepaid expenses		**(2.2)**		3.9
Accounts payable and accrued liabilities		**(84.5)**		(95.8)
Deferred revenue		**(10.6)**		(16.0)
Provisions		**1.6**		(0.5)
Income and other taxes payable and recoverable		**(35.5)**		(19.2)
Effect of foreign exchange rates		—		0.1
Cash generated from (used for) non-cash working capital balances	$	**(122.2)**	$	29.6

34. Event after the reporting period

Subsequent to year end, the Company finalized an exclusive, multi-year licensing arrangement with SHS Services Management Inc. ("SHS Services"), which will result in SHS Services overseeing the day-to-day operations of all Sears Home Improvements Product Services business. The licensing agreement, effective March 3, 2013, is expected to result in a reduction to revenues and expenses, however, the impact to net earnings is not expected to be significant.

35. Approval of consolidated financial statements

The consolidated financial statements were approved by the Board of Directors and authorized for issue on March 14, 2013.

DIRECTORS AND OFFICERS

Board of Directors

E. J. Bird [3]
Interim Chief Financial Officer of the Corporation

William C. Crowley [2,3]
Managing Member
CRK Capital Partners, LLC

William R. Harker [2,3]
Principal
The Harker Group LLC

R. Raja Khanna [1,4]
Chief Executive Officer
Blue Ant Media Inc.

James McBurney [1,4]
Chief Executive Officer
White Tiger Gold Ltd.

Calvin McDonald
President and Chief Executive Officer of the Corporation

Deborah E. Rosati [1,2,4]
Corporate Director and Advisor

Donald C. Ross [2,4]
Partner
Osler, Hoskin & Harcourt LLP

Officers

Calvin McDonald
President and Chief Executive Officer

E. J. Bird
Interim Chief Financial Officer

Doug Campbell
Executive Vice-President and Chief Operating Officer

Peter Kalen
Executive Vice-President, Financial Services

Klaudio Leshnjani
Senior Vice-President and General Counsel

Committees

1 Audit Committee
2 Human Resources and Compensation Committee
3 Investment Committee
4 Nominating and Corporate Governance Committee

CORPORATE INFORMATION

Head Office

Sears Canada Inc.
290 Yonge Street
Suite 700
Toronto, Ontario
M5B 2C3

Website:www.sears.ca
E-mail:home@sears.ca

For more information about the Company, or for additional copies of the Annual Report, write to the Corporate Communications Department at the Head Office of Sears Canada Inc., or call 416-941-4428.

The Company's regulatory filings can be found on the SEDAR website at www.sedar.com.

Stock Exchange Listing

Toronto Stock Exchange
Trading symbol: SCC

Transfer Agent and Registrar

CIBC Mellon Trust Company[1]
P.O. Box 700, Station B
Montreal, Québec
H3B 3K3

Answerline:416-682-3860
1-800-387-0825

Fax: 1-888-249-6189

Website:www.canstockta.com

E-Mail:inquiries@canstockta.com

Annual Meeting

The Annual Meeting of Shareholders of Sears Canada Inc. will be held on Thursday, April 25, 2013 at 8:00 a.m. in Room 5B1, Fifth floor, 290 Yonge Street, Toronto, Ontario, Canada.

Édition française du Rapport annuel

On peut se procurer l'édition française de ce rapport en écrivant au:

Service de Communications de l'entreprise
Sears Canada Inc.
290 Yonge Street
Suite 700
Toronto, Ontario
M5B 2C3

Pour de plus amples renseignments au sujet de la Société, veuillez écrire au service national de communication, ou composer le 416-941-4428.

Les dépots réglementaires de la Société figurent sur le site Web de SEDAR à l'adresse www.sedar.com.

[1] *Canadian Stock Transfer Company Inc. acts as the Administrative Agent for CIBC Mellon Trust Company.*

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Sears

TAB D

This is Exhibit "D" referred to in the

Affidavit of

JONATHAN WYPYCH

Sworn before me,

this 1ST day of March, 2018

A Commissioner for taking Affidavits

Shannon Beverley Ste. Marie, a Commissioner, etc.,
Province of Ontario, while a Student-at-Law.
Expires March 23, 2019.

Make every day a great day.

2012 ANNUAL REPORT
SEARS CANADA INC.

A little over a year ago, we set our company upon a different course. We are now emboldened by a great and simple purpose: to make every day a great day for our customers. The more we matter to those who matter most to our business, the more valuable our business will be.

Table of Contents

Certain information in the accompanying "Letter to Our Shareholders" is forward-looking and is subject to important risks and uncertainties, which are described in the "Cautionary statement regarding forward-looking information" on page 13 of this Annual Report.

Financial Highlights

Unless otherwise noted, 2012 results reflect a 53-week period while 2011 results reflect a 52-week period.

(in CAD millions, except per share amounts)		**Fiscal 2012**		Fiscal 2011
Total revenue	$	**4,300.7**	$	4,619.3
Same store sales (%)*		**(5.6)%**		(7.5)%
Adjusted EBITDA*		**47.0**		124.0
Net earnings (loss)		**101.2**		(50.3)

		As at February 2, 2013		As at January 28, 2012
Cash and cash equivalents	$	**237.0**	$	397.4
Working capital		**415.3**		471.0
Inventories		**851.4**		823.9
Total assets		**2,479.1**		2,730.7
Total long-term obligations, including principal payments on long-term obligations due within one year		**36.1**		122.7
Shareholders' equity		**1,076.4**		1,092.0

		As at February 2, 2013		As at January 28, 2012
Per share of capital stock				
Basic net earnings (loss)	$	**0.99**	$	(0.48)
Diluted net earnings (loss)	$	**0.99**	$	(0.48)
Shareholders' equity	$	**10.57**	$	10.63

** Same store sales and Adjusted EBITDA are operating performance and non-International Financial Reporting Standards ("IFRS") measures, respectively. See Section 1.e. "Use of Non-IFRS Measures, Measures of Operating Performance, and Reconciliation of Net Earnings (Loss) to Adjusted EBITDA".*

- Revenue was $4,300.7 million for the 53-week period ended February 2, 2013 ("Fiscal 2012") compared to $4,619.3 million for the 52-week period ended January 28, 2012 ("Fiscal 2011"), a decrease of 6.9%. The decrease is primarily attributable to sales declines in Craftsman®, electronics, bedroom and bath, women's apparel, and menswear categories, partially offset by higher revenue from major appliances. In addition, the decrease in revenues is partially attributable to the closure of 4 Full-Line stores during Fiscal 2012 and the sale of Cantrex Group Inc. ("Cantrex") during the second quarter of 2012.

- Revenue was approximately $25.5 million lower as a result of the closure of 4 Full-Line stores during Fiscal 2012. Revenue was also positively impacted by approximately $38.3 million due to the 53rd week in Fiscal 2012.

- Same store sales decreased 5.6% compared to Fiscal 2011. Same store sales is a measure of operating performance used by management, the retail industry and investors to compare retail operations, excluding the impact of store openings and closures. See Section 1.e. "Use of Non-IFRS Measures, Measures of Operating Performance and Reconciliation of Net Earnings (Loss) to Adjusted EBITDA."

- Gross margin rate was 36.1% for Fiscal 2012 compared to 36.5% in Fiscal 2011. In Fiscal 2011 there was a one-time inventory charge, relating to planned disposition of excess inventory. The Fiscal 2011 gross margin rate excluding the one-time inventory charge was 37.4%. The decrease in the gross margin rate in Fiscal 2012 compared to Fiscal 2011 was due primarily to reduced margin in fitness and recreation, Corbeil Electique Inc. ("Corbeil"), children's wear, jewelery, accessories and luggage and footwear categories.

- Fiscal 2012 Adjusted EBITDA was $47.0 million compared to $124.0 million for Fiscal 2011. Adjusted EBITDA is a non-IFRS measure. See Section 1.e. "Use of Non-IFRS Measures, Measures of Operating Performance and Reconciliation of Net Earnings (Loss) to Adjusted EBITDA" regarding the use of non-IFRS measures and an explanation of components of Adjusted EBITDA for respective periods.

- Basic net earnings per common share was $0.99 in Fiscal 2012 compared to a basic net loss per common share of $0.48 for Fiscal 2011.

- Total cash and cash equivalents was $237.0 million as at February 2, 2013 compared to $397.4 million as at January 28, 2012. The decrease of $160.4 million was primarily due to repayment of long-term obligations of $142.3 million, $101.9 million in dividend payments during the latter part of Fiscal 2012, and the purchase of $97.5 million in property, plant and equipment and intangible assets, partially offset by $175.0 million in proceeds from lease terminations received during Fiscal 2012, and the net proceeds received of $38.3 million from the sale of the Company's interest in Medicine Hat Mall at the end of Fiscal 2012.

Letter to Our Shareholders

A message from Calvin McDonald, President and Chief Executive Officer

Sears Canada is concluding the first full year of our Transformation plan. The three-year plan is centered on re-establishing the business and carrying out strategies designed to trade ourselves out of what we traded ourselves into over a period of several years. Our focus in 2012 was to get the basics, executing on fundamentals and reconnecting with customers in a significant way.

In delivering against our Vision of creating lifelong relationships built on trust and our Mission centered on working for Canadian families, we established several initiatives during the year. These were positioned to get at basics and build our foundation for the future.

Since we launched the Transformation, we have consistently used the Formula for Growth, expressed as five components, as our foundation for improvement:
1. Build the Core
2. Be Customer Driven and Marketing Led
3. Get Value Right
4. Operate the Best Formats
5. Organize the Right Talent and Create a Winning Attitude

The unique initiatives we introduced this year are spread across these five strategic pillars and linked by two common themes: improve our product and change our behaviour.

With this framework in mind, here are some of the accomplishments we saw in 2012 as we moved forward to strengthen Sears relationship with Canadian consumers.

Build the Core

This pillar of the Formula for Growth is our focus on core competencies. We must protect and build market share in the categories where we can win by promoting our unrivaled blend of authoritative assortment, unique services and exclusive brands. Our goal is to deliver consistently across these categories and be Canadians' retailer of choice for their needs...head to toe, wall to wall, for self, family and home.

Some of the accomplishments within Build the Core were:
- The establishment of our Hero shops: We cannot be all things to all customers, so we identified categories where Canadians will give us strong consideration because of our established position in the marketplace such as Major Appliances, Mattresses, Kids, Women's Dresses, Men's Dresswear, and Kitchen. We need to support these categories and present them to Canadians effectively. A big piece of the work that lies ahead of us is to turn dollar share into share of mind; this way, customers can be advocates for Sears in these important categories. An increase in same store sales for our apparel business in the fourth quarter of 2012 for the first time in eight quarters was a positive result of the work we have been doing on building the core;

- The full execution of our aggressive "attack plan" for both major appliances and mattresses: This included uplifted advertising, associate training, innovative financing programs and 'after-sale' service enhancements. Sears considers itself a leader in these categories and is determined to maintain its market leading position;

- The launch of "The Baby's Room" in June, a full-service headquarters for baby products and nursery equipment: We introduced new products, new brands, updated signing and a reflow of the floor plan. Young families are a key target market, and our aim is to attract new parents to Sears and convert them to loyal shoppers for life. We have achieved monthly double-digit sales increases on average since we launched, a strong signal that we're resonating with customers in a meaningful way; and

- Establishing strategic alliances: In January 2013 we joined with Buffalo International Inc. to design and build Sears private brand of denim based apparel, Nevada. The Aldo Group will be working with us in a similar fashion for men's and women's private brand Attitude and Nevada footwear, as well as the Jessica brand for women. We also teamed up with SHS Services Management Inc. to manage and operate our installed home services business. These are organizations that have the capacity and desire to work with Sears, and who can execute better on the sourcing end using our expertise and capability on the distribution and brand reputation end. Our approach is to align with companies that can provide immediate credibility and continuity to our brands and services.

  We will continue to assess our strengths and core competencies and evolve the business model as appropriate to strengthen Sears position in the marketplace.

Be Customer Driven and Marketing Led

We need to be focused on our customers who come from all walks of life and demographic profiles. Taking into account the breadth of product in our Hero shops and our market share, it follows that we already attract a broad range of Canadian consumers, and many of them have a Sears Financial Credit Card. Our opportunity is to utilize this information to be more targeted in our marketing, convert in-store traffic into transactions and change the perception of our brand. This pillar is about using the information customers share with us to make their shopping experience with Sears more effective and more likely to result in lifelong relationships.

Some of the accomplishments within Be Customer Driven and Marketing Led were:

- The relaunch of the Sears brand under the statement "Make Every Day a Great Day": Over half a million views of our Holiday-timed video-commercial was an early and encouraging sign that Canadians are responding positively to the changes we are making and the Company we are trying to become. Every day being a great day is what we want our customers to experience as a result of using our products and services;

- The seasonal publication of the LOOK! *report*: Four editions were distributed in 2012 - Spring, Summer, Fall and Holiday - highlighting the season's fashion trends with handy tips from our trend directors aimed at establishing Sears as a trusted resource to customers looking for style and product tips along with great fashion. Our Buyers vie to get their items selected for the LOOK! *report* and the friendly competition has resulted in a high quality publication featuring the best of the season. The LOOK! *report* has produced check out rates of advertised merchandise at three times the average of other promotional vehicles;

- The creation of meaningful events that fulfill the occasion-based needs of our customers: The Great Canadian Coat Sale in the fall, the Little Black Dress Event for Holiday, the Shape Your Shape Event in January for fitness - these are important time frames for our customers and Sears responded with meaningful assortments and in-store presence to demonstrate leadership in product and marketing. These events increased customer consideration of Sears for key lines like apparel and helped us acquire new customers; and

- The delivery of our 60th Wish Book: Since 1953 Canadian households have marked the coming of the Christmas Season with the arrival of the Wish Book and this year's version did not disappoint, garnering orders from some 600,000 unique households. During 2013, we will celebrate our 60th anniversary and invite customers to join in the celebration on various occasions.

Get Value Right

We believe Value is more than price. It is a blend of price, quality and the service that customers experience when they shop at Sears, and our value proposition holds a unique place within the Canadian marketplace. Throughout the year, we introduced initiatives that helped to strengthen all three components of our value equation.

Some of the accomplishments within Get Value Right were:

- The "Over 5,000 new lower prices" initiative was a campaign to effectively convey our approach to pricing: Sears is a promotional business, and we will continue to have sale prices that Canadians desire. We focused on striking a balance among three principles: being competitive at all times on highly identifiable and often-purchased items, building line structures that provide a good-better-best range of product, and having realistic regular prices that customers can believe;

- The introduction of Sears "Canada's Best" seal of approval: An item reflecting the highest standards of quality, style and innovation, at surprising prices. The items are labelled with special product tags and supported by informative marketing so that customers know they are buying the very best available when they buy a product identified as "Canada's Best" and still getting the value they expect from Sears;

- The expansion of our Price Protection guarantee for big-ticket items: We want to ensure that customers can shop us with confidence for larger purchases, so we extended our 60-day Price Protection Plus guarantee on major appliances to match any competitor 90 days after a Sears purchase and we also introduced an industry leading 365-day sleep guarantee for mattresses so customers feel comfortable with this long-term investment;

- The re-affirmation, in May, of the Company's commitment to customer service with a renewed customer promise: The Company invested in over 100,000 hours of hands-on training nationwide touching every store associate on expectations. Unfriendly policies were replaced with practices that customers would expect from Sears including an updated returns policy that allows 90 days for a return to be made on most products using a Sears credit card; and

- The introduction of the Gold Badge program, which recognizes individual store customer service excellence: Each store is rated based on feedback from customers who have specifically shopped in that store. Stores must achieve a rating of 9 or 10 on all questions by at least 73% of customers who filled out a survey. If they achieve this, every associate gets to wear a gold-coloured badge for the ensuing year as a visible sign of their accomplishment. Fifteen stores achieved this highly coveted symbol of recognition in 2012.

Operate the Best Formats

A competitive advantage for Sears is our ability to trade through multiple formats operating in many different sizes of communities. Operating the best formats is focused on aligning our category strengths with the market and creating more value from our trading strategies with retail concepts that align to customer needs.

Some of the accomplishments within Operate the Best Formats were:

- The complete refresh of eight full-line stores in 2012: Our goal was to create a stage for product which we accomplished by focusing on four components: showcasing our hero categories, conducting a substantial merchandise re-mix, creating centres of interest where we could promote events with authority, and paying special attention to the basics business so customers can count on Sears every time they visit to be in stock of the most wanted items. The stores are performing well above comparable stores in both sales and gross profit and Apparel is outperforming our other businesses reinforcing our decision to make significant enhancements to the visual presentation in that area;

- The unveiling of a brand new relocated 78,000 square foot state-of-the-art Sears Home store at Ottawa's Pinecrest shopping centre: The store has significantly improved its sales and features 54 mattress sets, our largest, and 475 major appliances, compared to 300 in an average store. Associates are equipped with tablets so they can find additional product information for customers and verify any competing offers in the marketplace;

- The establishment of Sears wholly-owned subsidiary Corbeil Appliances in the Greater Toronto area: This successful, Quebec-based chain, previously unknown in this area, brought a mid-to-high level of appliances to Vaughan, Richmond Hill, Mississauga and Burlington and introduced southern Ontario to an appliance specialist with kitchen renovation capability;

- The investment in our website, Sears.ca: We made the site easier to navigate, increased the functionality, improved searching capability and redesigned the home page. We made Direct our Toy headquarters this year by reallocating the Toy department space in retail to The Baby's Room, and directing Toy customers with effective in-store presentations to sears.ca where the Direct channel enjoyed a significant increase in business as a result; and

- Identifying opportunities for non-strategic businesses and assets: During 2012, the Company vacated four full-line stores, surrendering early its leases on two stores in Calgary and one each in Vancouver and Ottawa. This was an opportunity for Sears that was based on leaving locations that did not trade to our strengths as a retailer, and that also provided financial consideration that would have taken a substantially long time to generate had we kept operating them as we were.

  We constantly review our businesses and assets and will continue to act on those that are no longer strategic for Sears and where we can help Sears to be more profitable in the long term. We need to be operating in formats and locations where we can trade most effectively.

Organize the Right Talent and Create a Winning Attitude

Organizing talent compels us to address structure, breaking down silos, fixing bad processes, and putting in place efficient models designed to increase productivity. Creating a winning attitude speaks to culture…changing our behaviour, thinking differently, and putting in place plans and initiatives that let the organization believe in success, exude confidence and adopt the retail swagger prevalent in winning organizations.

Some of the accomplishments within Organize the Right Talent and Create a Winning Attitude were:

- The open communication channels that have been established between the retail support centre and individual associates: An online idea sharing forum, a regular blog from me, a recognition program called WOW that allows for accolades of exceptional actions to be called out, and a cross-functional Associate Advisory Council have all been avenues through which associates can provide input into how improvements can be made enterprise-wide for optimal results;

- The first graduating "class" of the Sears Future Leaders program: This concentrated development program selects 24 candidates each term from within Sears and externally who want to establish a career in retailing blending hands-on experience with a formal sharing of knowledge and skills of the retail industry;

- The strengthening of the Executive Leadership Team: In addition to some changes within our merchandising, marketing and operational leaders with a focus on action and results, of particular note is the appointment of Doug Campbell to Executive Vice-President and Chief Operating Officer overseeing various operational functions and efficiency improvements across the organization; and

- Right-sizing the organization: As we continue to make improvements in efficiencies, we must maintain an organizational structure that reflects best of breed without compromising customer service. At the end of fiscal 2012, we reduced our staff count by 700 associates, mostly from logistics and non customer-facing store roles. The organization needs to remain competitive within an industry that is increasing its pace and responsiveness capacity.

  We will continue to review our business as processes are improved and ensure we have an allocation of resources that properly supports the organization as it evolves.

In 2012, our job was to get the basics…reestablish the fundamentals needed to operate a successful retail business. We rebalanced prices, we brought in sound customer service policies, we identified our "core" Hero categories and put resources behind them, we restructured buying and store operations teams, we defined what a Sears department store and Sears Home store should look like, we began to change behaviour, and we started to install a high-performing management team that can lead an organization of 29,000 through a transformation of significant proportion.

These were fundamental accomplishments, and we needed to do this to establish our retail rhythm. In 2013, we will focus on maintaining that retail rhythm, living it, and gaining momentum. While there are some external factors that can impact our business, there is much within our control that we can do to improve our performance. "Control the Controllables" is an internal theme that we are spreading across the enterprise. In tough times, great retailers find a way. Sears needs to act differently and start to achieve different results.

Sears Canada celebrates its 60th anniversary in 2013. We issued our inaugural catalogue in early 1953: the Spring and Summer catalogue of that year. A few months later, on September 17, we opened our first store in Stratford, Ontario. Since then, the Company has become one of Canada's major retailers with operations coast to coast, boasting a powerful brand and coveted reputation.

But it's a different landscape in 2013 than it was six decades ago. Sears cannot rely on its accomplishments of the past to be successful. Today, our customers have a lot of choice, some of it close by and reachable from their homes and some of it across the world and reachable by a click of their keyboard. We need to respond and, as a merchant, this is centered around changing our product and changing our behaviour.

Our aim is to have the products and services customers receive from Sears help make every day a great day for them. That is relevance. And that is how much a part of their lives we need to be. The foundation built over 60 years can help us, but it can't sustain us. We need to be top of mind in the minds of Canadians for the lines of products in which we trade, and the Transformation we have begun is the route that can help us get there successfully.

I wish to acknowledge associates, past and present, who, over six decades, have provided Sears with a level of dedication and commitment that is needed to form and operate a Company of our significance, and I look forward to working with the team in place today to take us to the next level and journey through the Transformation of Sears Canada.

Sincerely,

Calvin McDonald,
President and Chief Executive Officer

Five Year Summary

	IFRS Fiscal 2012[A]	IFRS Fiscal 2011[A]	IFRS Fiscal 2010[A]	CGAAP Fiscal 2010[B]	CGAAP Fiscal 2009[C]	CGAAP Fiscal 2008[D]
Results for the year (in CAD millions)						
Total revenue	**$ 4,300.7**	$ 4,619.3	$ 4,938.5	$ 4,957.8	$ 5,200.6	$ 5,733.2
Depreciation and amortization	**113.3**	114.9	123.6	104.6	117.4	126.9
Earnings (Loss) before income taxes	**114.2**	(56.9)	187.1	219.8	347.6	422.0
Income tax (expense) recovery	**(13.0)**	6.6	(62.1)	(70.0)	(112.9)	(131.3)
Net earnings (loss)	**101.2**	(50.3)	125.0	149.8	234.7	290.7
Dividends declared	**101.9**	—	753.4	753.4	—	—
Capital expenditures[E]	**97.5**	84.3	60.0	62.4	65.7	97.1
Year end position (in CAD millions)						
Accounts receivable, net	**$ 76.2**	$ 116.2	$ 144.0	$ 143.2	$ 131.1	$ 138.7
Inventories[F]	**851.4**	823.9	953.2	953.2	852.3	968.3
Property, plant and equipment	**840.0**	872.0	900.7	577.4	620.2	696.0
Total assets	**2,479.1**	2,730.7	2,907.5	2,509.8	3,404.8	3,237.3
Working capital	**415.3**	471.0	536.9	610.6	1,114.7	1,148.8
Total long-term obligations, including principal payments on long-term obligations due within one year	**36.1**	122.7	129.1	136.1	350.7	364.6
Shareholders' equity	**1,076.4**	1,092.0	1,260.4	1,000.5	1,657.5	1,483.2
Per share of capital stock						
Basic net earnings (loss)	**$ 0.99**	$ (0.48)	$ 1.16	$ 1.40	$ 2.18	$ 2.70
Dividends declared	**1.00**	—	7.00	7.00	—	—
Shareholders' equity	**10.57**	10.63	11.96	9.32	15.40	13.78
Financial ratios						
Return on average shareholders equity (%)[G]	**9.3**	(4.3)	7.7	11.3	14.9	22.6
Current ratio	**1.5**	1.5	1.5	1.6	1.8	2.0
Return on total revenues (%)	**2.4**	(1.1)	2.5	3.0	4.5	5.1
Debt/equity ratio	**3/97**	10/90	9/91	12/88	17/83	20/80
Pre-tax margin (%)	**2.7**	(1.2)	3.8	4.4	6.7	7.4
Number of Selling Units						
Full-line Department stores	**118**	122	122	122	122	122
Sears Home stores	**48**	48	48	48	48	48
Outlet stores	**11**	11	11	11	12	11
Specialty type: Appliances and Mattresses	**4**	4	4	4	4	6
Hometown Dealer stores	**261**	285	268	268	186	171
Sears Floor Covering Centres	**—**	17	20	20	22	30
Sears Home Services Showrooms	**9**	13	13	13	13	13
Cantrex	**—**	799	768	768	793	824
Corbeil	**33**	30	30	30	30	30
Travel offices	**101**	108	108	108	108	106
Catalogue merchandise pick-up locations	**1,512**	1,734	1,822	1,822	1,853	1,858

[A] *The 2012 fiscal year ("Fiscal 2012"), 2011 fiscal year ("Fiscal 2011") and 2010 fiscal year ("Fiscal 2010") refers to the 53-week period ended February 2, 2013, and the 52-week period ended January 28, 2012, and January 29, 2011 respectively, reported under International Financial Reporting Standards ("IFRS").*

[B] *The 2010 fiscal year ("Fiscal 2010") represents the 52-week period ended January 29, 2011, reported under Canadian Generally Accepted Accounting Principles ("CGAAP").*

[C] *The 2009 fiscal year ("Fiscal 2009") represents the 52-week period ended January 30, 2010, reported under CGAAP.*

[D] *The 2008 fiscal year ("Fiscal 2008") represents the 52-week period ended January 31, 2009, reported under CGAAP.*

[E] *Capital expenditures have not been reduced by cash payments outstanding at year end resulting from normal trade terms.*

[F] *As a result of the Company's change in accounting policy for inventories in Fiscal 2008, the inventory balances included in this table are not comparable. See Note 2 "Significant accounting policies" of the Notes to the Consolidated Financial Statements.*

[G] *The return on average shareholders' equity (%) for IFRS Fiscal 2010 was calculated taking net earnings for Fiscal 2010, divided by the average of shareholders' equity for the period ended January 29, 2011 ($1,260.4 million) and the opening Consolidated Statement of Financial Position as at January 31, 2010 ($2,004.4 million) reported under IFRS.*

Quarterly Performance

The Company's operations are seasonal in nature. Accordingly, merchandise and service revenue, as well as performance payments received from JPMorgan Chase Bank, N.A. (Toronto Branch), referred to as commission revenue, will vary by quarter based upon consumer spending behaviour. Historically, the Company's revenue and earnings are higher in the fourth quarter than in any of the other three quarters due to the holiday season. The Company is able to adjust certain variable costs in response to seasonal revenue patterns; however, costs such as occupancy are fixed, causing the Company to report a disproportionate level of earnings in the fourth quarter. Other factors that affect the Company's sales and financial performance include actions by its competitors, timing of its promotional events, and changes in population and other demographics. Accordingly, the Company's results for any one fiscal quarter are not necessarily indicative of the results to be expected for any other quarter, or the full year, and comparable store sales for any particular period may increase or decrease.

The table below outlines select financial data for the eight most recently completed quarters. The quarterly results are unaudited and have been prepared under IFRS.

	Fourth Quarter		**Third Quarter**		**Second Quarter**		**First Quarter**	
(in CAD millions, except per share amounts)	**2012**	2011	2012	2011	2012	2011	2012	2011
Total revenue	**$1,298.0**	$ 1,365.9	$ 1,037.5	$ 1,113.2	$ 1,050.1	$ 1,147.7	$ 915.1	$ 992.5
Net earnings (loss)	$ **39.9**	$ 41.0	$ (21.9)	$ (44.1)	$ (9.8)	$ (0.2)	$ 93.1	$ (47.0)
Basic net earnings (loss) per share	$ **0.39**	$ 0.39	$ (0.22)	$ (0.42)	$ (0.10)	$ 0.00	$ 0.91	$ (0.45)
Diluted net earnings (loss) per share	$ **0.39**	$ 0.39	$ (0.22)	$ (0.42)	$ (0.10)	$ 0.00	$ 0.91	$ (0.45)

Common Share Market Information

The table below provides prices for the Company's common shares traded on the Toronto Stock Exchange (symbol: SCC).

	Fourth Quarter		**Third Quarter**		**Second Quarter**		**First Quarter**	
	2012	2011	2012	2011	2012	2011	2012	2011
High	$ **12.98**	$ 15.33	$ 11.79	$ 15.51	$ 13.73	$ 19.78	$14.24	$ 20.35
Low	$ **9.50**	$ 10.12	$ 10.10	$ 12.51	$ 9.76	$ 15.27	$11.60	$ 19.11
Close	$ **9.50**	$ 11.63	$ 10.69	$ 15.10	$ 10.16	$ 15.27	$13.50	$ 19.88
Average daily trading volume	**122,655**	27,473	23,487	11,609	16,694	45,750	7,784	17,473

Management's Discussion and Analysis

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Management's Discussion and Analysis

"Sears", "Sears Canada" or "the Company" refers to Sears Canada Inc. and its subsidiaries, together with its investment in joint venture interests.

Management's Discussion and Analysis ("MD&A") contains commentary from the Company's management regarding strategy, operating results and financial position. Management is responsible for its accuracy, integrity and objectivity, and develops, maintains and supports the necessary systems and controls to provide reasonable assurance as to the accuracy of the comments contained herein.

This MD&A should be read in conjunction with the Consolidated Financial Statements and Notes to the Consolidated Financial Statements for the 53-week period ended February 2, 2013 ("Fiscal 2012" or "2012"). The 2011 fiscal year refers to the 52-week period ended January 28, 2012 ("Fiscal 2011" or "2011"). The fourth quarter unaudited results for Fiscal 2012 and Fiscal 2011 reflect the 14-week period ended February 2, 2013 ("Q4 2012") and the 13-week period ended January 28, 2012 ("Q4 2011"), respectively.

This MD&A is current as of March 14, 2013 unless otherwise stated.

Additional information relating to the Company, including the Company's Annual Information Form ("AIF") dated March 14, 2013 and the Management Proxy Circular dated March 14, 2013, can be obtained by contacting the Company at 416-941-4428. The 2012 Annual Report, together with the AIF and Management Proxy Circular, have been filed electronically with securities regulators in Canada through the System for Electronic Document Analysis and Retrieval ("SEDAR") and can be accessed on the SEDAR website at www.sedar.com and on the U.S. Securities Exchange Commission ("SEC") website at www.sec.gov.

Unless otherwise indicated, all amounts are expressed in Canadian dollars.

Cautionary Statement Regarding Forward-Looking Information

Certain information in the Annual Report and in this MD&A is forward-looking and is subject to important risks and uncertainties. Forward-looking information concerns, among other things, the Company's future financial performance, business strategy, plans, expectations, goals and objectives, and includes statements concerning possible or assumed future results set out under Section 1 "Company Performance", Section 2 "Consolidated Financial Position, Liquidity and Capital Resources", Section 3 "Financial Instruments", Section 6 "Shareholders' Equity", Section 9 "Accounting Policies and Estimates" and Section 11 "Risks and Uncertainties". Often, but not always, forward-looking information can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "scheduled", "estimates", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases, or statements that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. Although the Company believes that the estimates reflected in such forward-looking information are reasonable, such forward-looking information involves known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking information and undue reliance should not be placed on such information.

Factors which could cause actual results to differ materially from current expectations include, but are not limited to: the ability of the Company to successfully implement its strategic initiatives; productivity improvement and cost reduction initiatives and whether such initiatives will yield the expected benefits; the results achieved pursuant to the Company's long-term credit card marketing and servicing alliance with JPMorgan Chase Bank, N.A. (Toronto Branch), or JPMorgan Chase; general economic conditions; competitive conditions in the businesses in which the Company participates; changes in consumer spending; seasonal weather patterns; weaker business performance in the fourth quarter; customer preference toward product offerings; ability to retain senior management and key personnel; ability of the Company to successfully manage its inventory levels; disruptions to the Company's computer systems; economic, social, and political instability in jurisdictions where suppliers are located; increased shipping costs, potential transportation delays and interruptions;

damage to the reputations of the brands the Company sells; changes in the Company's relationship with its suppliers; the outcome of product liability claims; any significant security compromise or breach of the Company's customer, associate or Company information; the credit worthiness and financial stability of tenants, partners and co-venturers, with respect to the Company's real estate joint venture interests; possible changes in the Company's ownership by Sears Holdings Corporation ("Sears Holdings") and other significant shareholders following the spin-off of a minority interest in Sears Canada by Sears Holdings; interest rate fluctuations and other changes in funding costs and investment income; fluctuations in foreign currency exchange rates; the possibility of negative investment returns in the Company's pension plan or an unexpected increase to the defined benefit obligation; the impairment of goodwill and other assets; new accounting pronouncements, or changes to existing pronouncements, that impact the methods we use to report our financial condition and results from operations; uncertainties associated with critical accounting assumptions and estimates; the outcome of pending legal proceedings; compliance costs associated with environmental laws and regulations; the possible future termination of certain intellectual property rights associated with the "Sears" name and brand names if Sears Holdings reduces its interest in the Company to less than 25%; and changes in laws, rules and regulations applicable to the Company. Information about these factors, other material factors that could cause actual results to differ materially from expectations and about material factors or assumptions applied in preparing forward-looking information, may be found in this MD&A and in the Company's 2011 recast Annual Report under Section 12 "Risks and Uncertainties" and elsewhere in the Company's filings with securities regulators. The forward-looking information in the Annual Report and in this MD&A are, unless otherwise indicated, stated as of the date hereof and are presented for the purpose of assisting investors and others in understanding our financial position and results of operations as well as our objectives and strategic priorities, and may not be appropriate for other purposes. The Company does not undertake any obligation to update publicly or to revise any forward-looking information, whether as a result of new information, future events or otherwise, except as required by law.

1. Company Performance

a. Operations

The Company's operations are focused on merchandising and include the sale of goods and services through the Company's Retail channels, which includes its Full-Line, Sears Home, Hometown Dealer, Outlet, Appliances and Mattresses, Corbeil Electrique Inc. ("Corbeil") stores, and its Direct (catalogue/internet) channel. It also includes service revenue related to product repair and home improvement. Commission revenues include travel, insurance, and performance payments which are primarily received from the Company's long-term credit card marketing and servicing alliance with JPMorgan Chase. The Company has also partnered with Thomas Cook Canada Inc. ("Thomas Cook") in a multi-year licensing arrangement, under which Thomas Cook manages the day-to-day operations of all Sears Travel offices and provides commissions and licensing fees to the Company. Licensing fee revenues are comprised of payments received from licensees that operate within the Company's stores. The Company is a party to a number of joint ventures which have been classified as jointly controlled entities for financial reporting purposes. These joint ventures are jointly controlled by the joint venture partners who are entitled to a share of the respective joint ventures' income or loss.

Retail Channel

Full-Line Department stores – Sears Full-Line Department stores are located primarily in suburban enclosed shopping centres. The major merchandise categories include the following:

Apparel & Accessories - Women's, men's and children's apparel, nursery products, cosmetics, jewellery, footwear and accessories.

Home & Hardlines - Home furnishings and mattresses, home décor, lawn and garden, hardware, electronics and leisure, and seasonal products.

Major Appliances - refrigeration, laundry, ranges, floorcare and sewing.

Although merchandise varies by store, the merchandise sales mix between the three major categories are approximately 55% Apparel and Accessories, 25% Home and Hardlines and 20% Major Appliances.

Full-Line Department stores also offer Sears Home Services and include a Sears catalogue merchandise pick-up location. Sears Travel offices and licensed businesses, such as optical centres and portrait studios, are also located in most of the Company's Full-Line Department stores.

Sears Home stores – Sears Home stores are typically located in power centres and present an extensive selection of furniture, mattresses and box-springs, major appliances and electronics. The majority of these stores range in size from 35,000 to 60,000 square feet. Home Improvement Products and Services operations are located within 8 of 9 Sears Home stores. The showrooms provide a range of products and services sold under the Sears Home Services banner that are complementary to home furnishings and major appliances.

Hometown Dealer stores – Sears Hometown Dealer locations are independently operated and offer major appliances, furniture, home electronics, outdoor power equipment as well as a catalogue merchandise pick-up location. Most Hometown Dealer stores are located in markets that had previously been served by a catalogue agent and continue to lack the population to support a Full-Line Department store.

Outlet stores – Sears Outlet stores offer clearance merchandise, particularly from the Company's Direct channel, as well as surplus big-ticket items from all channels.

Appliances and Mattresses stores – The Sears Appliances and Mattresses stores are part of the Company's strategy to bring its product categories to a growing number of customers who shop in conveniently located power centres. These stores are smaller in size (approximately 10,000 to 15,000 square feet) and feature a wide selection of major appliances, mattresses and box-springs, and include Sears private labels and a variety of national brands.

Corbeil – Corbeil is a chain of major appliance specialty stores located throughout Québec, Greater Toronto Area and Eastern Ontario. There are 33 stores in the chain, 17 of which are franchised. The chain also includes one liquidation centre and one distribution centre in Montreal. Stores average approximately 6,500 square feet in size.

Sears Travel – Sears Travel service operates within 101 Sears locations across Canada, an online travel service at www.searstravel.ca and 1-866-FLY-SEARS, which connects customers to the nearest geographical branch. As of January 30, 2011, Thomas Cook manages the day-to-day operations of all Sears Travel offices and the Sears Travel website.

Sears Home Services

Sears Home Services was formed as a result of combining Home Improvement Products and Services and Product Repair Services. Sears Home Services is marketed through 82 Full-line department stores, 21 Parts and Services stores and 8 of 9 Sears Home Services Showrooms located within Sears Home and Outlet stores, by telephone at 1-800-4-MY-HOME (English) or 1-800-LE-FOYER (French) and online at Sears.ca. Sears Home Services provides a broad range of home services, including the sale, installation, maintenance and repair of heating and cooling equipment, roofing, doors and windows, flooring, window coverings, energy audits, kitchen and bathroom renovations, carpet and upholstery cleaning and duct cleaning. Sears Home Services also offers the largest and most comprehensive parts and service network in Canada, with over 1 million parts available and a network of more than 2,000 technicians and contractors.

Direct Channel

The Company's Direct channel is comprised of its catalogue business, which is Canada's largest general merchandise catalogue business, and Sears.ca, one of Canada's leading online shopping destinations with over 91 million visits in Fiscal 2012. With two distribution centres exclusively dedicated to servicing the Direct channel and 1,512 catalogue merchandise pick-up locations nationwide, Sears can deliver orders in most areas of the country. Orders can be placed by telephone at 1-800-26-SEARS, by mail, fax, online at Sears.ca or in person through Sears stores and catalogue agents. At the end of Fiscal 2012, over 1,300 of the total 1,512 catalogue merchandise pick-up locations were independently operated under independent local ownership, with the remaining 168 units located within Sears corporate stores.

Catalogue – In Fiscal 2012, over 15 different catalogues were distributed throughout Canada reaching up to approximately 2.9 million households. In addition, during Fiscal 2012, Sears distributed 7 Specialogues designed to offer more seasonally relevant merchandise to specific customers.

Sears.ca – The Company's website, Sears.ca, enables the Company to provide new and exciting merchandise offers directly to web customers and highlights the Company's extensive general merchandise selection. In Fiscal 2012, the Company continued to invest in its online capabilities to improve the user experience, and engage new customers and demographics. Sears is committed to maintaining its reputation as a trusted Canadian retailer by focusing on customer privacy, security, and satisfaction when shopping on Sears.ca.

Logistics

National Logistics Centres– Sears operates 6 logistics centres strategically located across the country. The total floor area of these logistics centres was 6.5 million square feet at the end of Fiscal 2012, of which 5.6 million square feet is devoted to warehouse and logistics operations. The remainder of the space is utilized for other Sears operations, including call centre services.

S.L.H. Transport Inc. ("SLH") – The Company's wholly-owned subsidiary, SLH, transports merchandise to stores, catalogue merchandise pick-up locations and directly to customers. SLH is responsible for providing logistics services for the Company's merchandising operations by operating a fleet of tractors and trailers to provide carrier services for Sears and contract carrier services to commercial customers who are unrelated to Sears. The arrangements with third parties increase SLH's fleet utilization and improve the efficiency of its operations. SLH continues to grow and has developed a nationwide distribution network to provide better and more consistent service to its customers.

As at the end of Fiscal 2012, Fiscal 2011, and the 52-week period ended January 29, 2011 ("Fiscal 2010"), the Company's locations were distributed across the country as follows:

	Atlantic	Québec	Ontario	Prairies	Pacific	**As at February 2, 2013 Total**	As at January 28, 2012 Total	As at January 29, 2011 Total
Full-Line Department stores	12	27	45	20	14	**118**	122	122
Sears Home stores	2	12	19	10	5	**48**	48	48
Outlet stores	1	1	6	1	2	**11**	11	11
Specialty type: Appliances and Mattresses stores			3	1	—	**4**	4	4
Corporate stores	15	40	73	32	21	**181**	185	185
Hometown Dealer stores	52	30	62	70	47	**261**	285	268
Sears Home Services Showrooms	1	3	2	1	2	**9**	13	13
Corbeil Franchise stores	—	15	2	—	—	**17**	19	19
Corbeil Corporate stores	—	12	4	—	—	**16**	11	11
Corbeil	—	27	6	—	—	**33**	30	30
Sears Floor Covering Centres	—	—	—	—	—	—	17	20
Cantrex	—	—	—	—	—	—	799	768
Travel offices	7	21	42	17	14	**101**	108	108
Catalogue merchandise pick-up locations	219	345	427	375	146	**1,512**	1,734	1,822

In Fiscal 2012, the Company closed 4 Full-Line stores as a result of the lease terminations that occurred during the year. The Company also closed 222 Catalogue merchandise pick-up locations, 24 Hometown Dealer stores and 17 Floor Covering Centres. During the second quarter of 2012, Cantrex was sold. Refer to Note 29 "Sale of Cantrex Group Inc." in the Notes to the Consolidated Financial Statements for a description of the transaction.

In Fiscal 2011, the Company opened 20 Hometown Dealer stores and 3 Catalogue merchandise pick-up locations. The Company also closed 3 Hometown Dealer stores, 3 Floor Covering Centres and 91 Catalogue merchandise pick-up locations.

In Fiscal 2010, the Company opened 83 new Hometown Dealer stores and 4 Floor Covering Centres. The Company also closed 1 Hometown Dealer store, 1 Outlet store and 5 Floor Covering Centres. The increase in Cantrex members over the year was due to the new Alliance program, which offered members access to certain retail services including customer financial solutions, protection plans (extended warranties) and web solutions.

As at the end of Fiscal 2012, Fiscal 2011, and Fiscal 2010, the gross square footage for corporate store locations was as follows:

(square feet, millions)	**As at February 2, 2013**	As at January 28, 2012	As at January 29, 2011
Full-Line Department stores	**15.2**	16.5	16.5
Sears Home stores	**2.1**	2.1	2.1
Outlet stores	**0.8**	0.8	0.8
Appliances and Mattresses stores	**0.1**	0.1	0.1
Corbeil	**0.1**	0.1	0.1
Total	**18.3**	19.6	19.6

Gross square footage for corporate store locations as at February 2, 2013 decreased compared to January 28, 2012 due to 4 Full-Line store closures as a result of lease terminations during Fiscal 2012.

Gross square footage for corporate store locations as at January 28, 2012 remained the same as compared to January 29, 2011.

Investment in Joint Ventures – The Company's investment in joint ventures includes its share of income or losses from its joint venture interests in 11 shopping centres across Canada, most of which contain a Sears store. Joint venture investments range from 15% to 50% and are co-owned with major shopping centre owners.

The Company's joint ventures are in partnership with Westcliff Group and Ivanhoe Cambridge Properties. The jointly controlled entities and the Company's ownership interest in each as at February 2, 2013 are listed below:

Entity Name	Properties	Joint Venture Partner	Ownership Interest
Carrefour Richelieu Realties (St-Jérôme)	Carrefour Richelieu	Westcliff Group	50%
Carrefour Richelieu Realties (St-Jean)	Carrefour du Nord	Westcliff Group	50%
Carrefour Richelieu Realties (Carrefour Angrignon)	Carrefour Angrignon	Westcliff Group	50%
Carrefour Richelieu Realties (Place Angrignon)	Place Angrignon	Westcliff Group	50%
Carrefour Richelieu Realties (Pierre Caisse)	Place Pierre Caisse	Westcliff Group	50%
Carrefour Richelieu Realties (Drummondville)	Promenades de Drummondville	Westcliff Group	50%
Méga-Centre Drummondville	Mega Centre Drummondville	Westcliff Group	50%
Société de Gestion des Neiges Ville- Marie	Various land holdings in Quebec, Canada	Westcliff Group	50%
133562 Canada Inc.	Various land holdings in Quebec, Canada	Westcliff Group	50%
172098 Canada Inc.	Drummondville Stripmall	Westcliff Group	50%
Kildonan Place	Kildonan Place	Ivanhoe Cambridge	20%
Regionaux (Les Rivières Shopping Centre)	Les Rivieres Shopping Centre	Ivanhoe Cambridge	15%
Regionaux (Les Galeries de Hull)	Les Galeries de Hull	Ivanhoe Cambridge	15%

During Q4 2012, the Company sold its interest in Medicine Hat Mall for net proceeds of $38.3 million, recognizing a pre-tax gain of $8.6 million on the sale. During Fiscal 2011, the Company sold its share of assets in Chatham Centre for net proceeds of $1.6 million, recognizing a gain of $0.1 million on the sale.

b. Core Capabilities

The Company's key resources and capabilities include its associates, brand equity, specialized services, national presence and logistics. The Company's ability to raise funds and working capital to support its operations is also a key capability and is discussed further in Section 2 "Consolidated Financial Position, Liquidity and Capital Resources" of this MD&A.

Associates

- Sears associates are a critical asset to the Company. Sears works to inspire its associates to be committed to building lifelong customer relationships built on trust;

Brand equity

- The Company works closely with its suppliers in product development, design and quality standards. Many lines of merchandise are manufactured with features exclusive to Sears and are sold under the Company's private label brands, such as Jessica®, Nevada®, Attitude® Jay Manuel, Whole Home®, Kenmore®, and Craftsman®. The Company believes that its private label and national brands have significant recognition and value with customers;

Specialized services

- Apart from retail merchandise, the Company also offers a wide range of specialized services to attract a broad customer base. These services include product repair, the sale, installation, maintenance and repair of heating and cooling equipment, roofing, door and window replacement, flooring, window coverings, energy audits, kitchen and bathroom renovations, carpet and upholstery cleaning, and duct cleaning. The Company also offers portrait studio, optical, travel, floral, wireless and long distance, insurance, deferred financing and real estate services;

National Presence

- The Company's expansive physical and online presence puts it in proximity to customers all across Canada. Sears operates 118 Full-Line department stores, 357 specialty stores (including 48 Sears Home stores, 11 Outlet stores, 4 Appliances and Mattresses stores, 261 Hometown Dealer stores operated under independent local ownership and 33 Corbeil stores), 101 Sears Travel offices and over 1,500 merchandise pick-up locations for orders placed through the catalogue or online at www.sears.ca; and

Logistics

- The ability to move merchandise efficiently to stores, merchandise pick-up locations or directly to customers is one of the Company's key capabilities. The Company's wholly-owned subsidiary, SLH, is responsible for providing transportation services for the Company's merchandising operations and has arrangements with third parties to increase SLH's fleet utilization and improve its operating effectiveness. The Company conducts operations in six National Logistics Centres located in Vancouver, Calgary, Regina, Vaughan, Belleville and Montreal.

c. Strategic Initiatives

During Fiscal 2012, Sears Canada remained focused on executing its three-year Transformation strategy announced in 2011. This year, the Company implemented a number of significant changes, including the introduction of a new pricing model, the promotion of Sears fashion through the new LOOK! report, the start of the Full-Line and Sears Home store refreshes, the re-launch of the Gold Badge program designed to reward outstanding customer service, and the introduction of the new master brand strategy. Sears will continue with further initiatives to retain its competitive position within the Canadian retail landscape.

The Transformation's Formula for Growth is comprised of five key pillars as follows:

1. **Build the Core:** Implementing fundamental merchandise category plans to ensure that the right products and services are being offered in categories where the Company has a strong competitive position with Canadians, such as major appliances and mattresses;

2. **Be Customer Driven:** More fully and effectively utilizing our customer database to develop our merchandising and marketing strategies;

3. **Get Value Right:** Demonstrating a competitive value equation where our everyday price is more competitive, our promotions are well understood and balanced, our quality is superior and our service is dependable;

4. **Operate Effective Formats:** We are a multi-format retailer, operating in many different markets. We are working to align our category strengths with the market and to create more value from our trading strategies with retail concepts aligned to customer needs, including developing separate tactical approaches for our Full-line Department stores, Sears Home stores, Hometown Dealer stores, and Corbeil stores; and

5. **Organize the Right Talent and Create a Winning Attitude:** Maintaining a strong leadership team supported by loyal and dedicated associates who are committed to the implementation of our Transformation strategy.

The initiatives and corresponding results listed below include both new results seen in the fourth quarter and a recap of results from Fiscal 2012.

Build the core

- Announced three new alliances with The Aldo Group ("Aldo"), Buffalo International Inc. ("Buffalo") and SHS Services Management Inc. ("SHS"). The Company will continue to deepen relationships with successful organizations which can provide immediate credibility and continuity to our brands and services. Aldo is considered an industry leader in footwear fashion design and manufacturing capability, Buffalo's design and sourcing capability in denim-based apparel will help us attract a new and younger customer, and the combination of Sears brand, reputation and customer service with SHS's expertise, processes and technology is expected to improve the operating efficiency of the Home Services business;

- Implemented a new strategy for toys by moving the focus to online sales, in order to free up floor space previously dedicated to a category that was only a key focus area for three months of the year. The online approach was augmented with an in-store aisle program in the fourth quarter to display 15 of the best toys for the holiday season;

- Introduced "The Baby's Room," the new nursery and infant accessories department, part of the Kids Room children's area. In May 2012 Sears held a vendor tradeshow to 'baby-train' store associates from across Canada; on June 1, 2012 a public launch was held in Toronto featuring a seminar by parenting expert Nanny Robina;

- In September, 2012 Sears Canada became the first Canadian retailer to earn the Parent Tested Parent Approved (PTPA) seal of approval from North America's largest parent tester community; and

- Launched an online points redemption system in Sears Financial for its five million plus card members - one of the first major retail loyalty programs in Canada to do so.

Be customer driven

- Launched the new Sears brand positioning, "Make every day a great day" at a gathering of more than 1,500 associates and media on November 7, 2012. Sears developed and ran the new Holiday-themed TV commercial called "The Gift" with a background song called "Best Year" commissioned by Sears to represent the new brand. As of the end of January 2013, Sears has had over 5,000 downloads of "Best Year" and over half a million views of "The Gift." On December 15, 2012 Sears reinforced its dedication to customers and associates through its "Sears National Great Day" event featuring Holiday festivities, giveaways and one-day deals at stores across Canada;

- Published 4 editions of the LOOK! report including the fourth quarter's November Holiday edition. The LOOK! report features fashion, beauty, and lifestyle trends and highlights the Company's newest products of the season. The releases were supported with in-store fashion shows, an exclusive evening event for Sears VIP customers, and smaller customer events in stores across the country;

- Launched the 60th edition of the annual Wish Book, the Company's Christmas catalogue. This year's edition featured a commemorative cover that included images of every Wish Book published since our very first one 60 years ago in 1953. Over 3 million copies of the special edition Wish Book were distributed across Canada, featuring 736 pages of holiday gift ideas; and

- Waived the 2.5% foreign currency transaction charge on purchases made using Sears Financial™ MasterCard and Sears Financial ™ Voyage ™ MasterCard to appeal to the 65% of Canadians shopping and travelling abroad.

Get value right

- Reaffirmed Sears role as a Canadian retailer dedicated to keeping Canadians shopping at home by extending its annual "Black Friday" promotion to run from Thursday, November 22 through Sunday, November 25 (through Monday, November 26 for major appliances, electronics, fitness and snowblowers). Sears brought Black Friday savings to Canadians with hundreds of items at specially marked prices backed by a price match guarantee;

- Introduced the first products that meet Sears "Canada's Best" seal of approval criteria. The Canada's Best label will be assigned to an assortment of fashion and home products that meet required standards in quality, style and innovation. Products offered with this label are intended to be desirable and offer customers clear value when compared to competitors' offerings;

- Introduced a hassle-free return policy that includes a satisfaction guarantee with every purchase: if not completely satisfied, customers can now exchange or return almost all products within 30 days, or 90 days if they use their Sears Financial credit cards; and

- Lowered the price on over 5,000 products including items in every store and in every department and concurrently introduced specially-priced must-have WOW items.

Operate effective formats

- Continued to invest in store refreshes, with refreshes in Grande Prairie and Nanaimo stores underway, building on the new store concept implemented in Fiscal 2012, with the first round of refreshes in Barrie, Belleville, Newmarket and the Lime Ridge Mall in Hamilton stores and the second round of refreshes in Ville d'Anjou, St. Jerome, Oshawa and Sudbury stores. The refreshed store concept features improved presentation, wider aisles, streamlined offerings with new brands and a blend of items priced at both everyday value and at sale prices;.

- Unveiled the 78,000 sq. ft. Sears Home store at the Pinecrest Shopping Centre in Ottawa, housing the largest major appliance and mattress shops of any Sears location, an expanded selection of accent furniture, chairs and tables and new brands of furniture;

- Opened 4 Corbeil stores in Sears initial Greater Toronto Area expansion plans for Corbeil. The Corbeil stores are located in Richmond Hill, Mississauga, Vaughan and Burlington;

- Launched an e-commerce transactional shoppable iPad application that features the 60^{th} anniversary Wish Book, and due to the positive response from customers, this application will serve as a permanent Sears iPad Catalogue application, which will be updated throughout the year;

- Invested in upgrading Sears.ca, the largest Canadian transactional retail website. Sears Canada revamped its bilingual website to improve functionality, navigation, and overall shopping experience; and

- Sold the Company's 40% ownership of the leasehold interest in Medicine Hat Mall in Alberta to the Company's joint venture partner, Sleeping Bay Building Corp., and received net proceeds of $38.3 million. Earlier this year, Sears exited and returned leases on 4 properties to the landlords for financial consideration comprising Vancouver's Pacific Centre, Chinook Centre and Deerfoot Mall locations in Calgary, and the Rideau Centre store in Ottawa.

Organize the right talent and create a winning attitude

- Created the Associate Advisory Council consisting of 21 individuals from different business lines and across Canada with the mandate to provide critical insight, perspective and counsel to senior management;

- Unveiled the new team of Store Managers, District Managers and Category Specialists operating under a new structure in store operations and executed a large-scale associate move in the Company's retail support centre, designed to ensure physical organization aligns with work flow; and

- Appointed Douglas C. Campbell Executive Vice-President and Chief Operating Officer of the Company, overseeing retail operations, logistics, replenishment, information technology and international sourcing, and leading the Company's undertaking to improve efficiency across the enterprise. Sears has made changes to its management team designed to lead the organization effectively through the Transformation and help the Company achieve its operational and financial objectives.

"Live Green" Initiatives

The Company conducts its operations with a commitment to achieving success on economic, social and environmental levels. The Company continues to build upon the following three-point plan on environmental sustainability:

1. Enable customers to "Live Green", reduce their energy bills and create a healthy home;

2. Reduce the environmental impact of Sears Canada's operations; and

3. Nurture a culture of sustainability among the Company's associates, customers and the communities in which the Company operates.

Sears Canada continued to focus on these three priorities by implementing the following initiatives during Q4 2012:

- Partnered with electric utility companies in Nova Scotia, British Columbia and Saskatchewan to promote major appliances and electronics energy saving products;

- Launched a province-wide fridge and freezer pick-up and recycling program in Ontario; and

- Completed a national re-lamping project which resulted in the replacement of over 625,000 bulbs, and which is expected to provide energy savings of over 13 million kilowatt hours annually.

SLH:

- Installation of wide-base tires and trailer skirts and the reduction of metric tonne miles, resulting in fuel savings of approximately 1.8 million litres;

- Implemented best in class route optimization technology to improve route planning, as well as driver and truck utilization; and

- SLH continued its participation in the Ontario LCV (Long Combination Vehicle) pilot project run by the Ministry of Transportation, which is restricted to a select group of qualified carriers and Ontario Trucking Association members. In 2012, SLH's LCV program generated fuel savings of over 620,000 litres.

Corporate Social Responsibility

The following is a summary of the results of the Company and its associates' corporate social responsibility efforts during Fiscal 2012:

- Assisted our local store charity partners through the sale of our 60th Anniversary charity plush, Cooper™/MC the bear. Sears charity plush has been helping children since 1998, raising over $1.3 million since 2005. Two dollars from the sale of each bear supported the healthy development of Canadian youth through after-school and children's health initiatives;

- Held our 25th annual Sears Boys & Girls Club of Canada ("BGCC") Golf Tournament near Toronto, in cooperation with our vendors, raising over $200,000 to support BGCC youth programs, funds which Sears matched;

- Presented our 14th annual Tree of Wishes program in-stores, for which customers and associates donated holiday season gifts valued at over $230,000 to less fortunate children, with the help of local charities;

- Held the second annual Sears Great Canadian Run (the "Run"), a full day running adventure hosted in two cities: Toronto in September and Ottawa in October. The Runs were held to benefit local pediatric oncology hospitals and organizations in the cities where the Runs took place, such as the Children's Hospital of Eastern Ontario. Support was also extended to Sears National pediatric oncology research initiatives such as The Sears Childhood Cancer Fellowship at the Hospital for Sick Children in Toronto; and

- The Sears Great Canadian Chill took place in four communities between New Year's Day and Family Day: Toronto and Ottawa on New Year's Day, Vancouver on February 18 and London on March 3. This traditional Canadian "polar-bear dip" is held to raise funds for the fight against childhood cancer. Several hundred people braved the cold waters to help support this worthy cause, with funds going to the Sears Canada Charitable Foundation to be distributed to children's hospitals for oncology needs.

d. Outlook

As Canadians' needs in a shopping experience evolve, Sears Canada is focused on keeping pace with emerging trends and innovative delivery of products and services, and is reinvigorating its business to better serve and grow with its customers. For the upcoming year, Sears will continue to execute on its Transformation. Some of the priorities for the 52-week period ending February 1, 2014 ("Fiscal 2013") include the following:

- Continuing to maximize opportunities in merchandising categories where the Company has already established authority with customers, such as major appliances and mattresses, further developing private brands, and renewing focus on several additional "hero" categories;

- Improving customer service across all shopping formats and more effectively leveraging customer research, insights and loyalty data;

- Enhancing efficiency of marketing programs;
- Refining the approach to pricing and creating a logical blend of everyday value items, weekly specials and compelling sales promotions, providing merchandise with a quality level that customers should expect from Sears, resulting in an improved mix of regular versus promotional and clearance sales; and
- Attracting and retaining top talent in the industry, conducting associate engagement initiatives, and developing a performance-based culture across the Company.

Although management believes that Sears will achieve its long-term goal of sustainable and profitable growth, there can be no assurance that the Company will successfully implement these strategic initiatives or whether such initiatives will yield the expected results. For a discussion of the risks and uncertainties inherent in the Company's business, refer to Section 11 "Risks and Uncertainties".

e. Use of Non-IFRS Measures, Measures of Operating Performance and Reconciliation of Net Earnings (Loss) to Adjusted EBITDA

The Company's consolidated financial statements are prepared in accordance with IFRS. Management uses IFRS, non-IFRS and operating performance measures as key performance indicators to better assess the Company's underlying performance and provides this additional information in this MD&A.

Same store sales is a measure of operating performance used by management, the retail industry and investors to compare retail operations, excluding the impact of store openings and closures. Same store sales represents merchandise sales generated through operations in the Company's Full-line, Sears Home, Hometown Dealer and Corbeil stores that were continuously open during both of the periods being compared. More specifically, the same store sales metric compares the same calendar weeks for each period and represents the 14 and 53-week periods ended February 2, 2013 and the 13 and 52-week periods ended January 28, 2012. The calculation of same store sales is a performance metric and may be impacted by store space expansion and contraction.

A reconciliation of the Company's total revenue to same store sales is outlined in the following table:

	Fourth Quarter		**Fiscal**	
(in CAD millions)	**2012**	2011	**2012**	2011
Total revenue	**$ 1,298.0**	$ 1,365.9	**$ 4,300.7**	$ 4,619.3
Non-comparable store sales	**364.5**	318.6	**1,169.6**	1,119.5
Same store sales	**933.5**	1,047.3	**3,131.1**	3,499.8
Same store sales percentage change	**(3.8)%**	(7.4)%	**(5.6)%**	(7.5)%

Adjusted EBITDA is a non-IFRS measure and excludes finance costs, interest income, share of income or loss from joint ventures, income tax expense or recovery, depreciation and amortization and income or expenses of a non-recurring or one-time nature. Adjusted EBITDA is a measure used by management, the retail industry and investors as an indicator of the Company's operating performance, ability to incur and service debt, and as a valuation metric. The Company uses Adjusted EBITDA to evaluate the operating performance of its business as well as an executive compensation metric. While Adjusted EBITDA is a non-IFRS measure, management believes that it is an important indicator of operating performance because it excludes the effect of financing and investing activities by eliminating the effects of interest and depreciation and removes the impact of certain non-recurring items that are not indicative of our ongoing operating performance. Therefore, management believes Adjusted EBITDA gives investors greater transparency in assessing the Company's results of operations.

These measures do not have any standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other reporting issuers. Adjusted EBITDA should not be considered in isolation or as an alternative to measures prepared in accordance with IFRS.

A reconciliation of the Company's net earnings (loss) to Adjusted EBITDA is outlined in the following table:

	Fourth Quarter		Fiscal	
(in CAD millions, except per share amounts)	**2012**	2011	**2012**	2011
Net earnings (loss)	**$ 39.9**	$ 41.0	**$ 101.2**	$ (50.3)
Transformation expense[1]	**12.6**	14.4	**12.6**	60.0
Gain on lease terminations[2]	—	—	**(167.1)**	—
Accelerated tenant inducement amortization[3]	—	—	**(4.0)**	—
Lease exit costs[4]	**2.0**	—	**8.0**	—
Gain on settlement of post-retirement benefits[5]	**(21.1)**	—	**(21.1)**	—
Gain on sale of interest in joint venture[6]	**(8.6)**	—	**(8.6)**	—
Depreciation and amortization expense	**28.1**	28.8	**113.3**	114.9
Finance costs	**2.4**	4.0	**13.3**	16.0
Interest income	**(0.8)**	(0.4)	**(4.1)**	(1.7)
Share of income from joint ventures	**(0.1)**	(1.5)	**(9.5)**	(8.3)
Income tax expense (recovery)	**8.0**	15.5	**13.0**	(6.6)
Adjusted EBITDA[7]	**$ 62.4**	$ 101.8	**$ 47.0**	$ 124.0
Basic net earnings (loss) per share	**$ 0.39**	$ 0.39	**$ 0.99**	$ (0.48)

[1]Transformation expense during 2012 relates to severance costs incurred during the year. Fiscal 2011 transformation expense includes costs related to internal reorganization and the disposition of excess inventory.
[2]Gain on lease terminations represents the pre-tax gain on the early surrender and return of leases on four properties.
[3]Accelerated tenant inducement amortization represents the accelerated amortization of lease inducements relating to four of the properties referred to in footnote 2 above.
[4]Lease exit costs represent costs incurred to exit properties referred to in footnote 2 above.
[5]Gain arising from the settlement of post-retirement benefits of eligible members covered under the non-pension post-retirement plan.
[6]During Q4 2012, the Company sold its interest in Medicine Hat Mall for net proceeds of $38.3 million, recognizing a pre-tax gain of $8.6 million on the sale.
[7]Adjusted EBITDA is a measure used by management, the retail industry and investors as an indicator of the Company's performance, ability to incur and service debt, and as a valuation metric. Adjusted EBITDA is a non-IFRS measure.

f. Consolidated Financial Results

	Fiscal		
(in CAD millions)	**2012**	% Chg 2012 vs 2011	2011
Revenue	**$ 4,300.7**	(6.9)%	$ 4,619.3
Cost of goods and services sold	**2,749.2**	(6.2)%	2,932.3
Selling, adminstrative and other expenses	**1,634.4**	(6.0)%	1,737.9
Operating (loss) earnings	**(82.9)**	(62.9)%	(50.9)
Gain on lease terminations	**167.1**	100.0 %	—
Gain on sale of interest in joint venture	**8.6**	100.0 %	—
Gain on settlement of post-retirement benefits	**21.1**	100.0 %	—
Finance costs	**13.3**	(16.9)%	16.0
Interest income	**4.1**	141.2 %	1.7
Share of income from joint ventures	**9.5**	14.5 %	8.3
Earnings (loss) before income taxes	**114.2**	300.7 %	(56.9)
Income tax (expense) recovery	**(13.0)**	(297.0)%	6.6
Net earnings (loss)	**$ 101.2**	301.2 %	$ (50.3)

2012 compared with 2011 – Total revenue in Fiscal 2012 declined 6.9% to $4,300.7 million compared to $4,619.3 million during the same period in Fiscal 2011. Same store sales decreased by 5.6% in Fiscal 2012 compared to Fiscal 2011.

The decrease is primarily attributable to sales declines in Craftsman®, electronics , bedroom and bath, womens' apparel and menswear categories, partially offset by revenue improvements in major appliances, specifically in the refrigerators , laundry and ranges categories. In addition, $25.5 million of the decrease in revenues is attributable to the closure of 4 Full-Line stores during Fiscal 2012 and the sale of Cantrex during Q2 2012. Revenue was positively impacted by approximately $38.3 million due to the additional 53rd week in Fiscal 2012.

Cost of goods and services sold was $2,749.2 million in Fiscal 2012 compared to $2,932.3 million in Fiscal 2011, a 6.2% decrease year-over-year. This decrease was primarily attributable to lower sales volumes.

The Company's gross margin rate was 36.1% for Fiscal 2012 compared to 36.5% in Fiscal 2011. In Fiscal 2011 there was a one-time inventory charge, relating to planned disposition of excess inventory. The Fiscal 2011 gross margin rate excluding the one-time inventory charge was 37.4%. The decrease in the gross margin rate in Fiscal 2012 compared to Fiscal 2011 was due primarily to reduced margin in fitness and recreation, Corbeil, children's wear, jewelery, accessories and luggage and footwear categories.

Selling, administrative and other expenses including depreciation and amortization expense was $1,634.4 million in Fiscal 2012 compared to $1,737.9 million in Fiscal 2011. The decrease in expense was primarily driven by reduced spending in advertising. Advertising expense decreased primarily due to planned reductions in catalogue pages and circulation, decreases in retail advertising relating to Full-Line, and a reduction in pre-print advertising. Expenses were negatively impacted by Transformation costs of $12.6 million related primarily to severance associated with approximately 700 associates in the Retail Support Centre, Full-Line stores and logistics areas.

On March 2, 2012, the Company entered into an agreement to surrender and terminate early the operating leases on three properties: Vancouver Pacific Centre, Chinook Centre (Calgary) and Rideau Centre (Ottawa). The Company was a long-term and important anchor tenant in the three properties, and the landlord approached the Company with a proposal to terminate early the three leases and vacate the premises in exchange for $170.0 million. The payment represents the amount the landlord was willing to pay for the right to redevelop the property based upon its analysis of the potential returns from redevelopment.

On the closing date, April 20, 2012, the Company received cash proceeds of $170.0 million for the surrender of the three leases, resulting in a pre-tax gain of $164.3 million for the 13-week period ended April 28, 2012, net of the de-recognition of leasehold improvements of $5.7 million. The Company exited all three properties on October 31, 2012, and has no further financial obligation related to the transaction. The pre-tax gain is excluded from Adjusted EBITDA. Included in "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss) for the 53-week period ended February 2, 2013 is $8.0 million of exit costs relating to these three properties, partially offset by $4.0 million of accelerated amortization of deferred lease inducements.

On June 20, 2012, the Company entered into an agreement to surrender and terminate early the operating lease on its Deerfoot (Calgary) property. The landlord approached the Company with a proposal to terminate early the lease in exchange for cash proceeds of $5.0 million, subject to certain closing conditions, on the closing date of October 26, 2012. In Fiscal 2010, the Company incurred an impairment loss of $2.9 million relating to the property, plant and equipment at its Deerfoot property. As a result of the agreement and expected proceeds, the Company recorded an impairment loss reversal (net of accumulated amortization) of $2.1 million in "Selling, administrative and other expenses" in the second quarter of 2012. On the closing date of October 26, 2012, the Company vacated the property and received cash proceeds of $5.0 million, resulting in a pre-tax gain of $2.8 million for the 13-week period ended October 27, 2012, net of the de-recognition of leasehold improvements and furniture and fixtures of $2.2 million. The pre-tax gain is excluded from Adjusted EBITDA. The Company has no further financial obligation related to the transaction.

Finance costs in Fiscal 2012 decreased by 16.9% to $13.3 million compared to $16.0 million during Fiscal 2011 due to lower long-term debt levels compared to last year.

Interest income increased by 141.2% to $4.1 million in Fiscal 2012 compared to $1.7 million in Fiscal 2011 primarily due to interest income of $1.6 million earned on deposits made to tax authorities and higher levels of cash and cash equivalents, prior to the dividend payment of $101.9 million in January 2013.

Share of income from joint ventures in Fiscal 2012 increased by 14.5% to $9.5 million compared to $8.3 million for Fiscal 2011. The increase is primarily due to lower expenses incurred by the Westcliff joint venture properties, partially offset by an impairment loss of $2.2 million on the Promenades de Drummondville property recorded in Q4 2012, and lower income due to the sale of the Chatham joint venture property in the third quarter of 2011.

During Q4 2012, the Company sold its interest in Medicine Hat Mall for net proceeds of $38.3 million, recognizing a pre-tax gain of $8.6 million on the sale.

In the fourth quarter of 2012, the Company made a voluntary offer to settle health and dental benefits of eligible members covered under the non-pension post retirement plan. Based on the accepted offers, the Company paid $18.1 million and recorded a pre-tax settlement gain of $21.1 million ($21.9 million net of $0.8 million of expenses), as shown on the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). The gain has been excluded from Adjusted EBITDA.

Income tax expense was $13.0 million for Fiscal 2012 compared to an income tax recovery of $6.6 million in Fiscal 2011. The year-over-year change was primarily attributable to higher taxable earnings as a result of the gain recognized on the termination of the 4 leases during Fiscal 2012.

Adjusted EBITDA for Fiscal 2012 was $47.0 million compared to $124.0 million in Fiscal 2011, a decrease of $77.0 million.

g. Fourth Quarter Results

	Fourth Quarter		
(in CAD millions)	**2012**	**% Chg 2012 vs 2011**	2011
Revenue	$ **1,298.0**	(5.0)%	$ 1,365.9
Cost of goods and services sold	**848.7**	(1.8)%	864.6
Selling, adminstrative and other expenses	**429.6**	(3.0)%	442.7
Operating earnings	**19.7**	(66.4)%	58.6
Gain on sale of interest in joint venture	**8.6**	100.0 %	—
Gain on settlement of post-retirement benefits	**21.1**	100.0 %	—
Finance costs	**2.4**	(40.0)%	4.0
Interest income	**0.8**	100.0 %	0.4
Share of income from joint ventures	**0.1**	(93.3)%	1.5
Earnings before income taxes	**47.9**	(15.2)%	56.5
Income tax expense	**(8.0)**	(48.4)%	(15.5)
Net earnings	$ **39.9**	(2.7)%	$ 41.0

Q4 2012 compared with Q4 2011 – Total revenue in Q4 2012 decreased by 5.0% to $1,298.0 million compared to $1,365.9 million in Q4 2011, with same store sales declines of 3.8% in Q4 2012. The revenue decline is mainly attributed to sales declines in electronics, the Craftsman®, fitness and recreation, and men's casual wear categories. In addition, $29.1 million of the decrease in revenues is attributable to the closure of 4 Full-Line stores during Fiscal 2012 and the sale of Cantrex during the second quarter of 2012.

During Q4 2012, the Company has achieved improved results in sales of major appliances, specifically in the refrigerators, laundry and ranges categories. In addition, there were sales increases in apparel and accessories, specifically in children's furniture and children's wear. Revenue in Q4 2012 was also positively impacted by approximately $38.3 million due to the 53rd week in Fiscal 2012.

Cost of goods and services sold was $848.7 million in Q4 2012 compared to $864.6 million in Q4 2011, a 1.8% decrease quarter-over-quarter. This decrease is primarily attributable to lower sales volumes and lower merchandise losses, despite the 53rd week of additional sales volume in Fiscal 2012.

The Company's gross margin rate was 34.6% in Q4 2012 compared to 36.7% in Q4 2011. The decrease in the gross profit rate was due primarily to reduced margins in Corbeil, accessories, women's intimates and footwear categories.

Selling, administrative and other expenses, including depreciation and amortization expense was $429.6 million in Q4 2012 compared to $442.7 million in Q4 2011. The decrease in expense was primarily driven by reduced spending in advertising.

Advertising expense decreased primarily due to reductions in catalogue pages and circulation and decreases in retail advertising relating to Full-Line. Expenses were negatively impacted by Transformation costs of $12.6 million incurred in Q4 2012 related to severance primarily associated with approximately 700 associates in the Retail Support Centre, Full-Line stores and logistics areas.

Depreciation and amortization expense in Q4 2012 was comparable to the depreciation and amortization expense for Q4 2011.

Finance costs in Q4 2012 decreased to $2.4 million compared to $4.0 million in Q4 2011 due to lower long-term debt levels compared to last year.

Interest income increased to $0.8 million in Q4 2012 compared to $0.4 million in Q4 2011. The increase in the period is due to higher levels of cash and cash equivalents compared to the same time last year.

During Q4 2012, the Company sold its interest in Medicine Hat Mall for net proceeds of $38.3 million, recognizing a pre-tax gain of $8.6 million on the sale.

In the fourth quarter of 2012, the Company made a voluntary offer to settle health and dental benefits of eligible members covered under the non-pension post retirement plan. Based on the accepted offers, the Company paid $18.1 million and recorded a pre-tax settlement gain of $21.1 million ($21.9 million net of $0.8 million of expenses), as shown on the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss).

Income tax expense decreased to $8.0 million in Q4 2012 compared to $15.5 million in Q4 2011 due to lower taxable earnings.

Adjusted EBITDA for Q4 2012 was $62.4 million compared to $101.8 million in Q4 2011, a decrease of $39.4 million.

2. Consolidated Financial Position, Liquidity and Capital Resources

Current assets as at February 2, 2013 were $169.3 million lower than at January 28, 2012 due primarily to the reduction of $160.4 million in cash and cash equivalents, a decrease in accounts receivable of $40.0 million compared to last year, partially offset by a $27.5 million increase in inventories compared to last year due primarily to the timing of inventory receipts.

Current liabilities as at February 2, 2013 were $113.6 million lower than January 28, 2012 due primarily to a reduction in accounts payable and accrued liabilities of $94.8 million, primarily due to the timing of inventory and expense receipts, and vendor payments.

Inventories were $851.4 million as at February 2, 2013 compared to $823.9 million at January 28, 2012. The $27.5 million increase in the inventory balance is primarily due to the timing of inventory receipts, and a reduction in inventory reserve balances due to improved inventory quality.

Total cash and cash equivalents was $237.0 million as at February 2, 2013 compared to $397.4 million as at January 28, 2012. The decrease of $160.4 million was primarily due to repayment of long-term obligations of $142.3 million, $101.9 million in dividend payments during Q4 2012, and the purchase of $97.5 million in property, plant and equipment and intangible assets, partially offset by $175.0 million in proceeds from lease terminations received during Fiscal 2012, and $38.3 million received for the sale of the Company's interest in Medicine Hat Mall.

Total assets and liabilities as at the end of Fiscal 2012 and Fiscal 2011 are as follows:

(in CAD millions, at period end)	**As at February 2, 2013**	As at January 28, 2012
Total assets	**$ 2,479.1**	$ 2,730.7
Total liabilities	**$ 1,402.7**	$ 1,638.7

Total assets as at February 2, 2013 decreased by $251.6 million to $2,479.1 million compared to $2,730.7 million in Fiscal 2011 due primarily to lower cash and cash equivalents, property plant and equipment and investment in joint ventures as a result of the sale of the Company's interest in Medicine Hat Mall which occurred during Q4 2012.

Total liabilities as at February 2, 2013 decreased by $236.0 million to $1,402.7 million compared to $1,638.7 million in Fiscal 2011, due primarily to lower accounts payable and accrued liabilities, long-term obligations and retirement benefit liability.

Cash flow generated from (used for) operating activities - Cash flow from operating activities decreased by $164.9 million for the period ended February 2, 2013 to cash flow used for operating activities of $79.9 million compared to cash flow generated from operating activities of $85.0 million during the period ended January 28, 2012. The Company's primary source of operating cash flow is the sale of goods and services to customers, while the primary use of cash in operating activities is the purchase of merchandise inventories. The decrease in cash from operating activities is attributable to unfavourable changes in accounts payable and accrued liabilities, retirement benefit contributions, inventories and deferred revenue, partially offset by favourable changes in accounts receivable.

Accounts payable and accrued liabilities decreased $94.8 million from January 28, 2012 to $482.0 million as at February 2, 2013 primarily due to timing of payments to vendors and inventory receipts.

Retirement benefit liability decreased by $36.6 million due primarily to a voluntary offer to settle health and dental benefits of eligible members covered under the non-pension post retirement plan. Based on the accepted offers, the Company paid $18.1 million and recorded a pre-tax settlement gain of $21.1 million ($21.9 million net of $0.8 million of expenses).

Inventories increased by $27.5 million from January 28, 2012 to $851.4 million as at February 2, 2013 due to the timing of inventory receipts in addition to a reduction in inventory reserves during the year due to improvements in inventory quality.

Accounts receivable decreased by $40.0 million from January 28, 2012 to $76.2 million as at February 2, 2013 primarily due to the sale of the Cantrex operations at the beginning of the second quarter of 2012.

Cash flow (used for) generated from investing activities - Cash flow generated from investing activities increased by $203.4 million for the period ended February 2, 2013 to $139.9 million compared to cash flow used for investing activities of $63.5 million for the period ended January 28, 2012 primarily due to proceeds received from lease terminations of $175.0 million and proceeds received from the sale of the Company's interest in Medicine Hat Mall of $38.3 million. Cash flow generated from these transactions was partially offset by $97.5 million of capital expenditures incurred during the year.

Cash flow used for financing activities - Cash flow used for financing activities increased by $164.2 million to $220.5 million for the period ended February 2, 2013 compared to $56.3 million for the period ended January 28, 2012. The increase in cash flow used is primarily due to an extraordinary dividend payment of $101.9 million which occurred during Q4 2012, and additional repayments made on the credit facility during Fiscal 2012.

Contractual Obligations

Contractual obligations, including payments due over the next five fiscal years and thereafter, are shown in the following table:

(in CAD millions)	Carrying Amount	Total	Contractual Cash Flow Maturities Within 1 year	1 year to 3 years	3 years to 5 years	Beyond 5 years
Accounts payable and accrued liabilities	$ 482.0	$ 482.0	$ 482.0	$ —	$ —	$ —
Long-term obligations including payments due within one year [1]	36.1	48.4	7.6	11.6	9.7	19.5
Operating lease obligations [2]	n/a	496.7	96.7	155.2	98.9	145.9
Minimum purchase commitments [2,4]	n/a	17.5	5.0	12.5	—	—
Royalties [2]	n/a	2.3	1.8	0.5	—	—
Retirement benefit plans obligations [2,3]	415.7	114.9	29.3	58.7	26.9	—
	$ 933.8	**$ 1,161.8**	**$ 622.4**	**$ 238.5**	**$ 135.5**	**$ 165.4**

1 *Cash flow maturities related to long-term obligations, including payments due within one year, include annual interest on finance lease obligations at a weighted average rate of 7.6%. The Company had no borrowings on the Credit Facility at February 2, 2013.*

2 *Minimum purchase commitments, operating lease obligations, retirement benefit plans funding obligations and royalties are not reported in the Consolidated Statements of Financial Position.*

3 *Payments beyond 2013 are subject to a funding valuation to be completed as at December 31, 2013. Until then, the Company is obligated to fund in accordance with the most recent valuation completed as at December 31, 2010.*

4 *Certain vendors require minimum purchase commitment levels over the term of the contract.*

Retirement Benefit Plans

In Fiscal 2012, the Company's retirement benefit plan obligations decreased by $36.6 million to $415.7 million compared to Fiscal 2011 due to increases in the amortization of actuarial losses partially offset by lower interest expense, and the buyout described below.

In the fourth quarter of 2012, the Company made a voluntary offer to settle health and dental benefits of eligible members covered under the non-pension post retirement plan. Based on the accepted offers, the Company paid $18.1 million and recorded a pre-tax settlement gain of $21.1 million ($21.9 million net of $0.8 million of expenses), as shown on the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss).

See Note 2, "Significant accounting policies", Note 4 "Critical accounting judgments and key sources of estimation uncertainty" and Note 20 "Retirement benefit plans" in the Notes to the Consolidated Financial Statements for a description of the Company's benefit plans. Also see Section 9c for a description of the Company's early adoption of IAS 19 (Revised) – Employee Benefits.

The Company measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at January 31. The most recent actuarial valuation of the pension plan for funding purposes is dated December 31, 2010. The next actuarial valuation assessment is required as of December 31, 2013. An actuarial valuation of the health and welfare trust is performed at least every 3 years, with the last valuation completed as of September 1, 2011.

During Fiscal 2011, the Company changed the target asset allocation to 55-75% fixed income and 25-45% equity for the registered and non-registered pension plans. For the assets in the health and welfare trust, included in Other Benefit Plans, the Company changed the asset allocation to 100% fixed income. As at the end of Fiscal 2012 and 2011, the assets were in line with the target allocation range, with the transitioning of assets from alternative investments near completion. The asset allocation may be changed from time to time in terms of weighting between fixed income, equity and other asset classes as well as within the asset classes themselves.

The plan's target allocation is determined taking into consideration the amounts and timing of projected liabilities, the Company's funding policies and expected returns on various asset classes. To develop the expected long-term rate of return on assets assumption, the Company considered the historical returns and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio.

The Company early adopted the amendments to IAS 19 beginning January 29, 2012, with retrospective application to prior reporting periods. A description of the nature of the change in accounting policy and a summary of its impact to the Company's consolidated financial statements are included in Note 2 "Significant Accounting Policies" of the Notes to the Consolidated Financial Statements.

Capital Resources

The Company's capital expenditures, working capital needs, debt repayment and other financing needs are funded primarily through cash generated from operations. In selecting appropriate funding choices, the Company's objective is to manage its capital structure in such a way as to diversify its funding sources, while minimizing its funding costs and risks. Sears expects to be able to satisfy all of its financing requirements through cash on hand, cash generated by operations and available credit facilities. The Company's cost of funding is affected by a variety of general economic conditions, including the overall interest rate environment, as well as the Company's financial performance, credit ratings and fluctuations of its credit spread over applicable reference rates.

The Company's debt consists of a secured credit facility and finance lease obligations. In September 2010, the Company entered into an $800.0 million senior secured revolving credit facility (the "Credit Facility") with a syndicate of lenders with a maturity date of September 10, 2015. The Credit Facility is secured with a first lien on inventory and credit card receivables. Availability under the Credit Facility is determined pursuant to a borrowing base formula. Availability under the Credit Facility was $501.5 million as at February 2, 2013 (January 28, 2012: $415.1 million). The current availability may be reduced by reserves currently estimated by the Company to be approximately $300.0 million, which may be applied by the lenders at their discretion pursuant to the Credit Facility agreement. As a result of judicial developments relating to the priorities of pension liability relative to certain secured obligations, the Company has executed an amendment to its Credit Facility agreement which would provide additional security to the lenders, with respect to the Company's unfunded pension liability by pledging certain real estate assets as collateral, thereby partially reducing the potential reserve amount the lenders could apply by up to $150.0 million. The potential additional reserve amount may increase or decrease in the future based on estimated net pension liabilities.

The Company regularly monitors its sources and uses of cash and its level of cash on hand, and considers the most effective use of cash on hand including, repayment of obligations, potential acquisitions, stock purchases and dividends.

As at February 2, 2013, the Company had no borrowings on the Credit Facility and had unamortized transaction costs incurred to establish the Credit Facility of $6.2 million included in "Other long-term assets" in the Consolidated Statements of Financial Position (January 28, 2012: borrowings of $93.1 million, net of unamortized transaction costs of $8.0 million, included in "Long-term obligations"). In addition, the Company had $19.7 million (January 28, 2012: $6.3 million) of standby letters of credit outstanding against the Credit Facility. These letters of credit cover various payments including third party payments, utility commitments and defined benefit plan deficit funding (See Note 20 "Retirement benefit plans" of the Notes to the Consolidated Financial Statements for additional information on retirement benefits plans). Interest on drawings under the Credit Facility is determined based on bankers' acceptance rates for one to three month terms or the prime rate plus a spread. Interest amounts on the Credit Facility are due monthly and are added to principal amounts outstanding.

As at February 2, 2013, the Company had outstanding merchandise letters of credit of U.S. $7.9 million (January 28, 2012: U.S. $5.5 million) used to support the Company's offshore merchandise purchasing program with restricted cash and cash equivalents pledged as collateral.

3. Financial Instruments

The Company is exposed to credit, liquidity and market risk as a result of holding financial instruments. Market risk consists of foreign exchange and interest rate risk. See Note 14 "Financial instruments" of the Notes to the Consolidated Financial Statements for additional information.

Credit risk

Credit risk refers to the possibility that the Company can suffer financial losses due to the failure of the Company's counterparties to meet their payment obligations. Exposure to credit risk exists for derivative instruments, cash and cash equivalents, short-term investments, accounts receivable and other long-term assets.

Cash and cash equivalents, short-term investments, accounts receivable and other long-term assets of $314.5 million as at February 2, 2013 (January 28, 2012: $514.9 million) expose the Company to credit risk should the borrower default on maturity of the investment. The Company manages this exposure through policies that require borrowers to have a minimum credit rating of A, and limiting investments with individual borrowers at maximum levels based on credit rating.

The Company is exposed to minimal credit risk from customers as a result of ongoing credit evaluations and review of accounts receivable collectability. As at February 2, 2013, no customers represented greater than 10.0% of the Company's accounts receivable (January 28, 2012 : one customer represented 26.5% of the Company's accounts receivable).

Liquidity risk

Liquidity risk is the risk that the Company may not have cash available to satisfy financial liabilities as they come due. The Company actively maintains access to adequate funding sources to ensure it has sufficient available funds to meet current and foreseeable financial requirements at a reasonable cost.

Market risk

Market risk exists as a result of the potential for losses caused by changes in market factors such as foreign currency exchange rates, interest rates and commodity prices.

From time to time, the Company enters into foreign exchange contracts to reduce the foreign exchange risk with respect to U.S. dollar denominated assets and liabilities and for purchases of goods or services. As at February 2, 2013 and January 28, 2012, there were no contracts outstanding and therefore no derivative financial assets or liabilities were recognized in the Consolidated Statements of Financial Position.

During Fiscal 2012, the Company recorded a loss of $0.6 million (2011: gain of $0.9 million), relating to the translation or settlement of U.S. dollar denominated monetary items consisting of cash and cash equivalents, accounts receivable and accounts payable.

The period end exchange rate was 1.0027 U.S. dollar to Canadian dollar. A 10% appreciation or depreciation of the U.S. and or the Canadian dollar exchange rate was determined to have an after-tax impact on net earnings (loss) of $4.3 million for U.S. dollar denominated balances included in cash and cash equivalents, accounts receivable and accounts payable.

Interest rate risk

From time to time, the Company enters into interest rate swap contracts with approved financial institutions to manage exposure to interest rate risks. Interest rate risk reflects the sensitivity of the Company's financial condition to movements in interest rates. Financial assets and liabilities which do not bear interest or bear interest at fixed rates are classified as non-interest rate sensitive. As at February 2, 2013 and January 28, 2012, there were no contracts outstanding and therefore no derivative financial assets or financial liabilities were recognized in the Consolidated Statements of Financial Position.

4. Funding Costs

The funding costs for the Company in Fiscal 2012 and Fiscal 2011 are outlined in the table below:

	Fourth Quarter		Fiscal	
(in CAD millions)	**2012**	2011	**2012**	2011
Interest costs				
Total long-term obligations at end of period[1]	$ **36.1**	$ 122.7	$ **36.1**	$ 122.7
Average long-term obligations for period	**36.7**	76.9	**50.2**	69.7
Long-term funding costs[2]	**0.6**	0.7	**2.9**	3.3
Average rate of long-term funding	**6.1%**	3.7%	**5.7%**	4.7%

[1]Includes principal payments due within one year.

[2]Excludes standby fee on the unused portion of the Credit Facility, amortization of debt issuance costs, interest accrued related to uncertain tax positions and sales tax assessments, and finance costs relating to finance lease obligations.

See Section 2 "Consolidated Financial Position, Liquidity and Capital Resources" of this MD&A for a description of the Company's funding sources.

5. Related Party Transactions

On May 17, 2012 the Company announced Sears Holdings' plan to pursue a distribution, on a pro rata basis, to its shareholders, of a portion of its holdings in the Company such that, immediately following the distribution, Sears Holdings would retain approximately 51% of the issued and outstanding shares of Sears Canada. The distribution was made on November 13, 2012 to Sears Holdings' stockholders of record as of the close of business on November 1, 2012, the record date for the distribution. Every share of Sears Holdings common stock held as of the close of the business on the record date entitled the holder to a distribution of 0.4283 Sears Canada common shares. In connection with the announced distribution, the Company has filed documents with the SEC.

As at March 14, 2013, Sears Holdings and its affiliates are the beneficial holders of 51,962,391 common shares, representing approximately 51 % of the Company's total outstanding common shares.

In the ordinary course of business, the Company and Sears Holdings periodically share selected services, associates, and tangible and intangible assets. Transactions between the Company and Sears Holdings are recorded either at fair market value or the exchange amount, which was established and agreed to by the related parties. See Note 30 "Related party transactions" of the Notes to the Consolidated Financial Statements for a detailed description of these related party transactions.

Intangible Properties

The Company has a license from Sears Roebuck to use the name "Sears" as part of its corporate name. The Company also has licenses from Sears Roebuck to use other brand names, including Kenmore®, Craftsman®, and DieHard®. The Company has established procedures to register and otherwise vigorously protect its intellectual property, including the protection of the Sears Roebuck trademark used by the Company in Canada.

Cross Border Vendor Agreement

The Company is party to a cross border vendor agreement with Sears Roebuck establishing a collaboration and allowing the Company and Sears Roebuck to use each other's websites to sell merchandise in the United States and Canada. Merchandise sold pursuant to the agreement will obligate the Company or Sears Roebuck, as applicable, to pay fees to the other party equal to (i) for some transactions, a percentage of merchandise selling prices, and (ii) for other transactions, a percentage of the revenue booked by the applicable seller. This agreement can be terminated by either party on 60 days' written notice and will also terminate upon a transaction that results in the Company no longer being an affiliate of Sears Holdings.

Software Agreement

The Company and Sears Roebuck are party to an information technology agreement for the sharing of information technology and software development, ownership and costs, which agreement (i) either party may terminate on 90 days' written notice, or (ii) will automatically terminate if Sears Holdings ceases to control 50% of the voting power of Sears Canada.

Import Services

Pursuant to an agreement between Sears Roebuck and the Company dated January 1, 1995, Sears Canada utilizes the international merchandise purchasing services of Sears Holdings. Sears Holdings may provide assistance to the Company with respect to monitoring and facilitating the production, inspection and delivery of imported merchandise and the payment to vendors. Sears Canada pays Sears Holdings a stipulated percentage of the value of the imported merchandise. In Fiscal 2012, Sears Canada paid $5.1 million to Sears Holdings in connection with this agreement compared to $4.7 million in Fiscal 2011.

Review and Approval

Material related party transactions are currently reviewed by the Audit Committee of the Company's Board of Directors (the "Audit Committee"). The Audit Committee is responsible for pre-approving all related party transactions that have a value greater than $1.0 million.

6. Shareholders' Equity

The only outstanding shares of the Company are common shares. The number of outstanding common shares at the end of Fiscal 2012 and Fiscal 2011 Consolidated Statement of Financial Position are as follows:

	As at February 2, 2013	As at January 28, 2012
Outstanding common shares	**101,877,662**	102,748,295

In Fiscal 2012, no common shares were issued (2011: no common shares were issued) with respect to the exercise of options pursuant to the Employees Stock Plan.

On May 24, 2011, the Company filed a Normal Course Issuer Bid with the Toronto Stock Exchange ("TSX") for the period of May 25, 2011 to May 24, 2012 ("2011 NCIB"). Pursuant to the 2011 NCIB, the Company was permitted to purchase for cancellation up to 5% of its issued and outstanding common shares, equivalent to 5,268,599 common shares based on the common shares issued and outstanding as at May 9, 2011. The Company did not purchase common shares under the 2011 NCIB if such shares could not be purchased at prices that the Company considered attractive. Decisions regarding the timing of purchases were based on market conditions and other factors. The Company did not renew its 2011 NCIB subsequent to May 24, 2012.

From time to time, when the Company did not possess material undisclosed information about itself or its securities, it entered into a pre-defined plan with a designated broker to allow for the repurchase of common shares at times when the Company ordinarily would not have been active in the market due to its own internal trading blackout periods, insider trading rules, or otherwise. Any such plans entered into with the Company's designated broker were adopted in accordance with the requirements of applicable Canadian securities laws.

During Fiscal 2012, 870,633 shares were purchased for $9.7 million (2011: 2,668,800 shares were purchased for $42.0 million) and cancelled. As at March 14, 2013, there were 101,877,662 common shares and 5,080 tandem award options outstanding under the Employees Stock Plan.

Shareholders may obtain, without charge, a copy of the Notice of 2011 NCIB that the Company filed with the TSX by contacting the Company at 416-941-4428 or home@sears.ca.

7. Profit Sharing and Stock-Based Compensation

a. Employee Profit Sharing Plan

The Sears Plan for Sharing Profits with Employees ("Employee Profit Sharing Plan"), established in 1976, was discontinued on January 1, 2005. Upon the announcement of the discontinuance of the plan, members had the option to retain or sell their common shares of the Company held in the plan. During Fiscal 2012, the Company wound up the Employee Profit Sharing Plan and distributed the remaining assets to its eligible members.

b. Stock Option and Share Purchase Plans for Employees and Directors

The Company has three stock-based compensation plans: the Employees Stock Plan, the Stock Option Plan for Directors and the Directors' Share Purchase Plan.

The Employees Stock Plan, which expired on April 19, 2008, provided for the granting of options and Special Incentive Shares and Options, which vested over three years and expired ten years from the grant date. The Employee Stock Plan permitted the issuance of tandem awards. Following the last grant in 2004, the Company discontinued the granting of options and Special Incentive Shares and Options under the Employees Stock Plan. Notwithstanding the expiry of the Employees Stock Plan, all outstanding stock options may be exercised or allowed to expire in accordance with the terms of their grants. For the fiscal year ended February 2, 2013 there were 5,440 options outstanding under the Employees Stock Plan.

The Stock Option Plan for Directors provides for the granting of stock options to Directors who are not employees of the Company or Sears Holdings. Options granted under the Stock Option Plan for Directors generally vest over three years and are exercisable within ten years from the grant date. No stock options have been granted under the Stock Option Plan for Directors since the last grant in 2003.

The Directors' Share Purchase Plan provides for the granting of common shares to Directors, to be purchased by the Company on the TSX, as part of their annual remuneration for services rendered on the Board. Following the last grant in 2005, the Company has discontinued the granting of shares under the Directors' Share Purchase Plan.

8. Event After the Reporting Period

Subsequent to year end, the Company finalized an exclusive, multi-year licensing arrangement with SHS Services Management Inc. ("SHS Services"), which will result in SHS Services overseeing the day-to-day operations of all Sears installed home improvements business. The licensing agreement, effective March 3, 2013, is expected to result in a reduction to revenues and expenses; however, the impact to net earnings is not expected to be significant.

9. Accounting Policies and Estimates

a. Critical Accounting Estimates

In the application of the Company's accounting policies, management is required to make judgments, estimates and assumptions with regard to the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

The following are the critical judgments that management has made in the process of applying the Company's accounting policies, key assumptions concerning the future and other key sources of estimation uncertainty that have the potential to materially impact the carrying amounts of assets and liabilities within the next fiscal year.

Legal Liabilities

Assessing the financial outcome of uncertain legal positions requires judgment to be made regarding the relative merits of each claim and the extent to which a claim is likely to be successful. The assessments are based on reviews conducted by internal and external counsel, when appropriate.

Changes in estimates or assumptions could cause changes to "Provisions" on the Consolidated Statements of Financial Position and a charge or credit to "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). For additional information, see Note 16 "Provisions" in the Notes to the Consolidated Financial Statements.

Inventory

Obsolescence, Valuation and Inventory Stock Losses
Inventory is written-down to reflect future losses on the disposition of obsolete merchandise. Future losses are estimated based on historical trends that vary depending on the type of inventory.

An adjustment is made each period to value inventory at the lower of cost and net realizable value. This adjustment is estimated based on historical trends that vary depending on the type of inventory.

Inventory is adjusted to reflect estimated inventory stock losses incurred in the year based on recent historical inventory count data.

Vendor Rebates
Inventory is adjusted to reflect vendor rebates received or receivable based on vendor agreements. This adjustment is estimated based on historical data and current vendor agreements.

Freight
Inbound freight incurred to bring inventory to its present location is estimated each reporting period and is included in the cost of inventory. This estimate is based on historical freight costs incurred.

Changes in estimates may result in changes to "Inventories" on the Consolidated Statements of Financial Position and a charge or credit to "Cost of goods and services sold" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). For additional information, see Note 7 "Inventories" in the Notes to the Consolidated Financial Statements.

Impairment of Property, Plant and Equipment and Intangible Assets

The Company's property, plant and equipment and intangible assets have been allocated to Cash Generating Units ("CGU"). Determining whether the CGU is impaired requires an estimation of the recoverable amount of the CGU, which is the higher of the fair value less costs to sell and its value in use. To determine the recoverable amount of the CGU, management is required to estimate its fair value by evaluating the expected future cash flows using an appropriate growth rate, the estimated costs to sell and a suitable discount rate to calculate the value in use.

Changes in estimates may result in changes to "Property, plant and equipment" and "Intangible assets" on the Consolidated Statements of Financial Position and a charge or credit to "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). For additional information, see Note 9 "Property, plant and equipment and investment property", and Note 10.2 "Intangible assets" respectively, in the Notes to the Consolidated Financial Statements.

Impairment of Goodwill

Determining whether goodwill is impaired requires the Company to determine the recoverable amount of the CGU to which the goodwill is allocated. To determine the recoverable amount of the CGU, management is required to estimate its fair value by evaluating expected future cash flows using an appropriate growth rate, the estimated costs to sell and a suitable discount rate to calculate the value in use.

Changes in estimates may result in reduction to "Goodwill" on the Consolidated Statements of Financial Position and a charge to "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). For additional information, see Note 10 "Goodwill and intangible assets" in the Notes to the Consolidated Financial Statements.

Retirement Benefit Liability

The retirement benefit liability is estimated based on certain actuarial assumptions, including the discount rate, inflation rate, salary growth and mortality rates. New regulations and market driven changes may impact the assumptions made.

Changes in estimates may result in changes to the "Retirement benefit liability" on the Consolidated Statements of Financial Position and a charge or credit to "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings (Loss) and Other Comprehensive Income (Loss). For additional information, see Note 20 "Retirement benefit plans" in the Notes to the Consolidated Financial Statements.

Loyalty Program Deferred Revenue

The fair value of Sears Club points granted is deferred at the time of the related initial sale transaction and is recognized upon redemption of the points for merchandise. The redemption value of the points is estimated based on historical behaviour and trends in redemption rates and redemption values.

Changes in estimates may result in changes to "Deferred revenue" (current and non-current) in the Consolidated Statements of Financial Position and an increase or decrease to "Revenue" and/or "Cost of goods and services sold" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). For additional information, see Note 13 "Deferred revenue" in the Notes to the Consolidated Financial Statements.

Derivative Assets and Liabilities

All derivatives are measured at fair value. U.S. dollar option contracts are traded over-the-counter and give holders the right to buy, or sell, a specified amount of U.S. currency at an agreed upon price and date in the future. Fair values of the U.S. dollar option contracts are derived using a Black-Scholes valuation model. The Company is required to estimate various inputs which are used in this model that are a combination of quoted prices and observable market inputs. The fair values of derivatives include an adjustment for credit risk when appropriate.

Changes in estimates may result in changes to "Derivative financial assets" and "Derivative financial liabilities" on the Consolidated Statements of Financial Position and a charge or credit to "Cost of goods and services sold", "Selling, administrative and other expenses" or "Other comprehensive income (loss)" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). For additional information, see Note 14 "Financial instruments" in the Notes to the Consolidated Financial Statements.

Provisions

Provisions are estimated based on historical data, cost estimates provided by specialists and future projections. Changes in estimates or assumptions could cause changes to "Provisions" on the Consolidated Statements of Financial Position and a charge or credit to "Cost of goods and services sold" or "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). For additional information, see Note 16 "Provisions" in the Notes to the Consolidated Financial Statements.

Leasing Arrangements

The Company has applied judgment in the classification of its leasing arrangements, which is determined at the inception of the lease and is based on the substance of the transaction, rather than its legal form. The Company's leases were evaluated based on certain significant assumptions including the discount rate, economic life of a building, lease term and existence of a bargain renewal option.

Changes in estimates or assumptions could cause changes to "Property, plant and equipment", "Principal payments on long-term obligations due within one year" and "Long-term obligations" on the Consolidated Statements of Financial Position and a charge or credit to "Selling, administrative and other expenses" and "Finance costs" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). For additional information, see Note 19 "Leasing arrangements" in the Notes to the Consolidated Financial Statements.

Taxes

In the ordinary course of business, the Company is subject to ongoing audits by tax authorities. While the Company believes that its tax filing positions are appropriate and supportable, certain matters are periodically challenged by tax authorities. The Company applies judgment and routinely evaluates and provides for potentially unfavourable outcomes with respect to any tax audits. If the result of a tax audit materially differs from the existing provisions, the Company's effective tax rate and its net earnings (loss) will be affected positively or negatively.

Changes in estimates or assumptions could cause changes to "Income taxes recoverable", "Deferred tax assets", "Income and other taxes payable" and "Deferred tax liabilities" on the Consolidated Statements of Financial Position and a charge or credit to "Income tax expense (recovery)" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). For additional information, see Note 22 "Income taxes" in the Notes to the Consolidated Financial Statements.

b. Issued Standards Not Yet Adopted

The Company monitors the standard setting process for new standards and interpretations issued by the IASB that the Company may be required to adopt in the future. Since the impact of a proposed standard may change during the review period, the Company does not comment publicly until the standard has been finalized and the effects have been determined.

On December 16, 2011, the IASB issued amendments to three previously released standards. They are as follows:

IAS 32, Financial Instruments: Presentation ("IAS 32")

The IASB amended IAS 32 to address inconsistencies in current practice in the application of offsetting criteria. The amendments provide clarification with respect to the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. These amendments are effective for annual periods beginning on or after January 1, 2014. The Company is currently assessing the impact of these amendments on the Company's consolidated financial statements and related note disclosures.

IFRS 7, Financial Instruments: Disclosures ("IFRS 7")

The IASB first amended IFRS 7 on October 7, 2010, to require additional disclosures regarding transfers of financial assets. These amendments are effective for annual periods beginning on or after July 1, 2011. The Company applied these amendments beginning the first quarter of its Fiscal 2012 year.

On December 16, 2011, the IASB approved amendments to IFRS 7, which establishes disclosure requirements to help users better assess the effect or potential effect of offsetting arrangements on a company's financial position. These amendments are effective for annual periods beginning on or after January 1, 2013. The Company will apply these amendments beginning the first quarter of its Fiscal 2013 year and is currently assessing the impact on the Company's disclosures.

IFRS 9, Financial Instruments ("IFRS 9")

The IASB issued IFRS 9 on November 12, 2009, which will ultimately replace IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39"). The replacement of IAS 39 is a three-phase project with the objective of improving and simplifying the reporting for financial instruments.

The first phase of the project provides guidance on the classification and measurement of financial assets. IFRS 9 was subsequently reissued on October 28, 2010, incorporating new requirements on accounting for financial liabilities. On December 16, 2011, the IASB amended the mandatory effective date of IFRS 9 to fiscal years beginning on or after January 1, 2015. The amendment also provides relief from the requirement to recast comparative financial statements for the effect of applying IFRS 9. The Company is monitoring the impact of amendments to this standard and is currently assessing the impact on the Company's disclosures.

On June 16, 2011, the IASB issued amendments to the following standard:

IAS 1, Presentation of Financial Statements ("IAS 1")

The IASB has amended IAS 1 to require additional disclosures for items presented in OCI on a before-tax basis and requires items to be grouped and presented in OCI based on whether they are potentially reclassifiable to earnings or loss subsequently (i.e. items that may be reclassified and those that will not be reclassified to earnings or loss). These amendments are effective for annual periods beginning on or after July 1, 2012 and require full retrospective application. The Company will apply these amendments beginning the first quarter of its Fiscal 2013 year and is currently assessing the impact to its consolidated financial statements.

On May 12, 2011, the IASB issued four new standards, all of which are applicable to Annual Reporting periods beginning on or after January 1, 2013. The Company is currently assessing the impact of these standards on its consolidated financial statements and related note disclosures. The following is a list and description of these standards:

IAS 28, Investments in Associates and Joint Ventures ("IAS 28")

IAS 28 (as amended in 2011) supersedes IAS 28 (2003), *Investments in Associates* and outlines how to apply, with certain limited exceptions, the equity method to investments in associates and joint ventures. The standard also defines an associate by reference to the concept of "significant influence", which requires power to participate in financial and operating policy decisions of an investee (but not joint control or control of those polices);

IFRS 10, Consolidated Financial Statements ("IFRS 10")

IFRS 10 establishes the standards for the presentation and preparation of consolidated financial statements when an entity controls one or more entities;

IFRS 11, Joint Arrangements ("IFRS 11")

IFRS 11 replaces IAS 31, *Interests in Joint Ventures* ("IAS 31") and requires that a party in a joint arrangement assess its rights and obligations to determine the type of joint arrangement and account for those rights and obligations accordingly;

IFRS 12, Disclosure of Involvement with Other Entities ("IFRS 12")

IFRS 12, along with IFRS 11 described above, replaces IAS 31. IFRS 12 requires the disclosure of information that enables users of financial statements to evaluate the nature of and the risks associated with, the entity's interests in joint ventures and the impact of those interests on its financial position, financial performance and cash flows; and

IFRS 13, Fair Value Measurement ("IFRS 13")

IFRS 13 provides guidance to improve consistency and comparability in fair value measurements and related disclosures through a 'fair value hierarchy'. This standard applies when another IFRS requires or permits fair value measurements or disclosures. IFRS 13 does not apply for share-based payment transactions, leasing transactions and measurements that are similar to, but are not fair value.

c. Early adoption of IAS 19 (Revised) – Employee Benefits ("IAS 19")

The Company has elected to early adopt IAS 19 (Revised) in the first quarter of 2012. On June 16, 2011, the IASB issued amendments to IAS 19 which included the elimination of the "corridor approach," which is the option to defer and amortize the recognition of actuarial gains and losses. The significant amendments to IAS 19 are as follows:

- The "corridor approach" is to be replaced with full and immediate recognition of actuarial gain and loss remeasurements in "Other comprehensive (loss) income" ("OCI");
- Retirement benefit costs are to consist of service costs, net interest and remeasurements, with remeasurements being recorded in OCI;
- Past service costs are to be recognized immediately in the Consolidated Statements of Net Earnings (Loss);

- Expected returns on plan assets will no longer be recognized in profit or loss. Instead, interest income on plan assets, calculated using the discount rate used to measure the pension obligation, will be recognized in the Consolidated Statements of Net Earnings (Loss),
- Plan administration costs are to be expensed as incurred; and
- Disclosures relating to retirement benefit plans will be enhanced and will include discussions on risk associated with each plan, an explanation of items recognized in the consolidated financial statements and descriptions of the amount, timing and uncertainty on the Company's future cash flows.

The amendments to IAS 19 are effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The amendments are required to be applied retrospectively in accordance with IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*. As discussed above, the Company has elected to early adopt the amendments to IAS 19, and as such, the Company has retrospectively adjusted the assets and liabilities for the 52-week periods ending January 28, 2012, January 29, 2011 and January 31, 2010 and income and expenses and cash flows for the 52-week periods ended January 28, 2012 and January 29, 2011.

Impact on financial statement captions

A summary of the impact arising from the application of the change in accounting policy is as follows:

Consolidated Statements of Financial Position

(Increase (decrease) in CAD millions)		As at January 28, 2012
Retirement benefit asset	$	(187.7)
Retirement benefit liability		308.2
Net change to retirement benefit asset and liability		(495.9)
Deferred tax assets		84.0
Deferred tax liabilities		(43.6)
Net change to deferred tax assets and liabilities		127.6
Accumulated other comprehensive loss		(141.7)
Retained earnings		(226.6)

Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss)

(Increase (decrease) in CAD millions, except per share amounts)		**53-Week Period Ended February 2, 2013**
Selling, administrative and other expenses	$	**(24.4)**
Earnings before income taxes		**24.4**
Deferred income tax expense		**6.4**
Net earnings		**18.0**
Basic net earnings per share		**0.17**
Diluted net earnings per share		**0.17**
Other comprehensive income		**1.3**
Total comprehensive income		**19.3**

Consolidated Statements of Cash Flows

(Increase (decrease) in CAD millions)		**53-Week Period Ended February 2, 2013**
Net earnings	$	**18.0**
Retirement benefit plans expense		**(24.4)**
Income tax expense		**6.4**

Please refer to Note 20 "Retirement benefit plans" in the Notes to the Consolidated Financial Statements for the prior year comparative figures.

10. Disclosure Controls and Procedures

Disclosure Controls and Procedures

Management of the Company is responsible for establishing and maintaining a system of disclosure controls and procedures ("DC&P") that are designed to provide reasonable assurance that information required to be disclosed by the Company in its public disclosure documents, including its Annual and Interim MD&A, Annual and Interim Financial Statements, and Annual Information Form is recorded, processed, summarized and reported within required time periods and includes controls and procedures designed to ensure that the information required to be disclosed by the Company in its public disclosure documents is accumulated and communicated to the Company's management, including the Chief Executive Officer ("CEO") and Interim Chief Financial Officer ("Interim CFO"), to allow timely decisions regarding required DC&P.

Management of the Company, including the CEO and Interim CFO, has caused to be evaluated under their supervision, the Company's DC&P, and has concluded that the Company's DC&P was effective for the year ended February 2, 2013.

Internal Control over Financial Reporting

Management of the Company is also responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

Internal control systems, regardless of superiority in design, have inherent limitations. Therefore, even those systems that have been determined to have been designed effectively can only provide reasonable assurance with respect to financial reporting and financial statement preparation.

Management of the Company has evaluated whether there were changes in the internal control over financial reporting during Fiscal 2012 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting and has determined that no material changes occurred during this period.

11. Risks and Uncertainties

Risks Relating to Our Business

If the Company is unable to compete effectively in the highly competitive retail industry, the Company's business and results of operations could be materially adversely affected.

The Canadian retail market remains highly competitive as key players and new entrants compete for market share. International retailers continue to expand into Canada while existing competitors enhance their product offerings and become direct competitors. The Company's competitors include traditional full-line department stores, discount department stores, wholesale clubs, "big-box" retailers, internet retailers and specialty stores offering alternative retail formats. Failure to develop and implement appropriate competitive strategies and the performance of Sears competitors could have a material adverse effect on the Company's business, results of operations and financial condition.

To stay competitive and relevant to Sears customers, significant initiatives in support of the Company's strategic plan are underway for Fiscal 2012. These initiatives include improvements in business processes, advancements in information technology and other organizational changes. The achievement of strategic goals may be adversely affected by a wide range of factors, many of which are beyond the Company's control. The inability to execute and integrate strategic plans could have a negative impact on the Company's current operations, market reputation, customer satisfaction and financial position. The Company's potential to implement and achieve Sears long-term strategic objectives is dependent on the achievement of these strategic plans and initiatives. There can be no assurance that such plans and initiatives will yield the expected results, either of which could cause the Company to fall short in achieving financial objectives and long-range goals.

Additional risk may arise when foreign retailers carrying on business in Canada in competition with Sears engage in marketing activities which are not in full compliance with Canadian legal requirements regarding advertising and labeling rules and product quality standards. Such retailers may gain an unfair advantage and their activities may negatively affect the Company's business and results of operations.

The majority of the performance payments earned pursuant to the credit card marketing and servicing alliance with JPMorgan Chase are related to customers' purchases using the Sears Card and Sears MasterCard. The credit card industry is highly competitive as credit card issuers continue to expand their product offerings to distinguish their cards. As competition increases, there is a risk that a reduction in the percentage of purchases charged to the Sears Card and Sears MasterCard may negatively impact the Company's results of operations and financial condition.

Due to the seasonality of the Company's business, the Company's results of operations would be adversely affected if Sears business performed poorly in the fourth quarter or as a result of unseasonable weather patterns.

The Company's operations are seasonal in nature with respect to results of operations and in products and services offered. Merchandise and service revenues, as well as performance payments received from JPMorgan Chase, vary by quarter based upon consumer spending behavior. Historically, the Company's revenues and earnings have been higher in the fourth quarter due to the holiday season and we have reported a disproportionate level of earnings in that quarter. As a result, the fourth quarter results of operations significantly impacts the Company's annual results of operations. The Company's fourth quarter results of operations may fluctuate significantly, based on many factors, including holiday spending patterns and weather conditions. In addition, the Company offers many seasonal goods and services. The Company establishes budgeted inventory levels and promotional activity in accordance with its strategic initiatives and expected consumer demand. Businesses that generate revenue from the sale of seasonal merchandise and services are subject to the risk of changes in consumer spending behavior as a result of unseasonable weather patterns.

If the Company fails to offer merchandise and services that Sears customers want, Sears sales may be limited, which would reduce the Company's revenues and profits and adversely impact Sears results of operations.

To be successful, the Company must identify, obtain supplies and offer to customers attractive, relevant and high-quality merchandise and services on a continuous basis. Customers' preferences may change over time. If we misjudge either the demand for products and services Sears sells or the Company's customers' purchasing habits and tastes, the Company may be faced with excess inventories of some products and missed opportunities for products and services Sears chose not to offer. This could have a negative effect on the Company's revenues and profits and adversely impact Sears results of operations.

The Company's failure to retain Sears senior management team and to continue to attract qualified new personnel could adversely affect the Company's business and results of operations.

The Company's success is dependent on its ability to attract, motivate and retain senior leaders and other key personnel. The loss of one or more of the members of the Company's senior management may disrupt Sears business and adversely affect Sears results of operations. Furthermore, the Company may not be successful in attracting, assimilating and retaining new personnel to grow Sears business profitably. The inability to attract and retain key personnel could have an adverse effect on the Company's business.

If the Company does not successfully manage its inventory levels, the Company's results of operations will be adversely affected.

The Company must maintain sufficient in-stock inventory levels to operate the business successfully while minimizing out-of-stock levels. A significant portion of inventory is sourced from vendors requiring advance notice periods in order to supply the quantities that we require. These lead times may adversely impact the Company's ability to respond to changing consumer preferences, resulting in inventory levels that are insufficient to meet demand or in merchandise that may have to be sold at lower prices. Inappropriate inventory levels or a failure to accurately anticipate the future demand for a particular product or the time it will take to obtain new inventory may negatively impact the Company's results of operations.

The Company relies extensively on computer systems to process transactions, summarize results and manage its business. Disruptions in these systems could harm the Company's ability to run its business.

Given the number of individual transactions that the Company processes each year, it is critical that the Company maintain uninterrupted operation of its computer and communications hardware and software systems. These systems are subject to obsolescence, damage or interruption from power outages, computer and telecommunications failures, computer viruses, security breaches, catastrophic events such as fires, natural disasters and adverse weather occurrences and usage errors by the Company's employees. If the systems are damaged or cease to function properly, the Company may have to make a significant investment to fix or replace them, may suffer interruptions in operations in the interim and the Company's reputation with its customers may be harmed.

The Company's ability to maintain sufficient inventory levels in its stores is critical to the Company's success and largely depends upon the efficient and uninterrupted operation of its computer and communications hardware and software systems. Any material interruption in the Company's computer operations may have a material adverse effect on the Company's business and results of operations.

The Company relies on foreign sources for significant amounts of its merchandise, and the Company's business may therefore be negatively affected by the risks associated with international trade.

The Company is dependent upon a significant amount of products that originate from non-Canadian markets. In particular, the Company sources a significant amount of products from China. The Company is subject to the risks that are associated with the sourcing and delivery of this merchandise, including: potential economic, social and political instability in jurisdictions where suppliers are located; increased shipping costs, potential transportation delays and interruptions; adverse foreign currency fluctuations, changes in international laws, rules and regulations pertaining to the importation of products and quotas; and the imposition and collection of taxes and duties. Any increase in cost to the Company of merchandise purchased from foreign vendors or restriction on the merchandise made available to the Company by such vendors could have an adverse effect on the Company's business and results of operations.

Damage to the reputations of the brands the Company sells could reduce the Company's revenues and profits and adversely impact the Company's results of operations.

As a diverse and multi-channel retailer, the Company promotes many brands as part of the Company's normal course of business. These brands include the Sears brand, Sears private label brands for product lines such as Jessica, and non-proprietary brands exclusive to Sears. Damage to the reputation of these brands or the reputation of the suppliers of these brands could negatively impact consumer opinions of the Company or its related products and reduce its revenues and profits and adversely impact its results of operations. In those circumstances, it may be difficult and costly for Sears to regain customer confidence.

If the Company's relationships with its significant suppliers were to be impaired, it could have a negative impact on the Company's competitive position and its results of operations and financial condition.

Although the Company's business is not substantially dependent on any one supplier, the Company's relationship with certain suppliers is of significance to its merchandising strategy, including attracting customers to its locations, cross-segment sales and image. The loss of a significant supplier relationship could result in lower revenues and decreased customer interest in Sears stores, which, in turn, would adversely affect Sears results of operations and financial condition. In addition, Sears may not be able to develop relationships with new suppliers, and products from alternative sources, if any, may be of a lesser quality and more expensive than those Sears currently purchases.

The lack of willingness of the Company's vendors to provide acceptable payment terms could negatively impact Sears liquidity and/or reduce the availability of products or services that Sears seeks to procure.

The Company depends on its vendors to provide it with financing for the Company's purchases of inventory and services. Sears vendors could seek to limit the availability of vendor credit to Sears or other terms under which they sell to Sears, or both, which could negatively impact the Company's liquidity. In addition, the inability of the Company's vendors to access liquidity, or the insolvency of the Company's vendors, could lead to their failure to deliver inventory or other services to Sears. Certain of the Company's vendors may finance their operations and/or reduce the risk associated with collecting accounts receivable from Sears by selling or "factoring" the receivables or by purchasing credit insurance or other forms of protection from loss associated with Sears credit risks. The ability of Sears vendors to do so is subject to the Company's perceived credit quality. The Company's vendors could be limited in their ability to factor receivables or obtain credit protection in the future because of sears perceived financial position and credit worthiness, which could reduce the availability of products or services the Company seeks to procure.

The Company may be subject to product liability claims if people or properties are harmed by the products the Company sells or the services it offers.

The Company sells products produced by third party manufacturers. Some of these products may expose the Company to product liability claims relating to personal injury, death or property damage caused by such products and may require the Company to take actions, such as product recalls. In addition, the Company also provides various services which could give rise to such claims. Although Sears maintains liability insurance to mitigate these potential claims, Sears cannot be certain that its coverage will be adequate for liabilities actually incurred or that insurance will continue to be available on economically reasonable terms or at all.

Product liability claims can be expensive to defend and can divert the attention of management and other personnel for significant periods, regardless of the ultimate outcome. Claims of this nature, as well as product recalls, could also have a negative impact on customer confidence in the products and services Sears offers and on the Company's reputation, and adversely affect the Company's business and its results of operations.

If the Company does not maintain the security of its customers, associates or Company information, the Company could damage its reputation, incur substantial additional costs and become subject to litigation.

Any significant security compromise or breach of customer, associate or Company data, either held or maintained by the Company or its third party providers, could significantly damage the Company's reputation and brands and result in additional costs, lost sales, fines and/or lawsuits. The regulatory environment in Canada related to information security and privacy is very rigorous. There is no guarantee that the procedures that we have implemented to protect against unauthorized access to secured data are adequate to safeguard against all data security breaches. A data security breach could negatively impact the Company's business and its results of operations.

The performance of the Company's real estate joint ventures may be affected by events outside of the Company's control.

The primary objective of the Company's real estate joint venture operations is to maximize the returns on its investments in shopping center real estate. Sears reviews the performance of these joint ventures on a regular basis. Shopping center investments are non-core assets that Sears sells when Sears believes it is financially advantageous to do so. Similarly, the Company may also develop excess land within these real estate holdings and shopping center joint venture investments when it is advantageous to do so. The return on such transactions is contingent on the state of the economic environment and other factors. In addition, the credit worthiness and financial stability of tenants and partners could negatively impact the Company's results of operations.

The Company is subject to a number of long-term real estate leases which could restrict the Company's ability to respond to changes in demographics or the retail environment and adversely affect the Company's results of operations.

As of February 2, 2013, the Company operated a total of 118 Full-line Department stores, 357 specialty stores (including 48 Sears Home stores, 11 Outlet stores, four Appliances and Mattresses stores, 261 Hometown Dealer stores operated under independent local ownership and 33 Corbeil stores), 1,512 catalogue merchandise pick-up locations and 101 Sears Travel offices. Company owned stores consist of 14 Full-line Department stores and two Sears Home stores, with the majority of the remainder held under long-term leases. While the Company is able to change its merchandise mix and relocate stores in order to maintain competitiveness, the Company is restricted from vacating a current site without breaching its contractual obligations and incurring lease-related expenses for the remaining portion of the lease-term. The long-term nature of the leases may limit the Company's ability to respond in a timely manner to changes in the demographic or retail environment at any location, which could adversely affect the Company's results of operations. In addition, when leases for the stores in the Company's ongoing operations expire, the Company may be unable to negotiate renewals, either on commercially acceptable terms, or at all, which could cause us to close stores. Accordingly, the Company is subject to the risks associated with leasing real estate, which could have an adverse effect on the Company's results of operations.

The Company may be subject to legal proceedings if the Company violates the operating covenants in its real estate leases that could adversely affect the Company's business and results of operations.

As of February 2, 2013, the Company had operating covenants with landlords for approximately 100 Sears brand corporate stores. An operating covenant generally requires the Company, during normal operating hours, to operate a store continuously as per the identified format in the lease agreement. As of February 2, 2013, the remaining term of the various Sears operating covenants ranged from less than one year to 25 years, with an average remaining term of approximately seven years. Failure to observe operating covenants may result in legal proceedings against the Company and adversely affect the Company's business and results of operations.

The Company is subject to laws and regulations that impact its business and a failure to comply with such laws and regulations could lead to lawsuits or regulatory actions against the Company that could adversely affect the Company's business and results of operations.

Laws and regulations are in place to protect the interests and well-being of the Company's customers and communities, business partners, suppliers, employees, shareholders and creditors. Changes to statutes, laws, regulations or regulatory policies, including changes in the interpretation, implementation or enforcement of statutes, laws, regulations and regulatory policies, could adversely affect the Company's business and results of operations. In addition, Sears may incur significant costs in the course of complying with any changes to applicable statutes, laws, regulations and regulatory policies.

The Company's failure to comply with applicable statutes, laws, regulations or regulatory policies could result in a judicial or regulatory judgment or sanctions and financial penalties that could adversely impact the Company's reputation, business and results of operations. Although the Company believes that it has taken reasonable measures designed to ensure compliance with governing statutes, laws, regulations and regulatory policies in the jurisdictions in which it conducts business, there is no assurance that the Company will always be in compliance or deemed to be in compliance.

The Company is required to comply with federal and provincial environmental laws and regulations, the cost of which may adversely affect the Company's results of operations and financial condition.

The Company is exposed to environmental risk as an owner, lessor and lessee of property. Under federal and provincial laws, the owner, lessor or lessee could be liable for the costs of removal and remediation of certain hazardous substances on its properties or disposed of at other locations. The failure to remove or remediate such substances, if any, could lead to claims against the Company.

The Company is currently remediating various locations across Canada where it operated auto centers, gas bars and a logistics facility. The extent of the remediation and the costs thereof have not yet been determined. Sears continues to monitor the costs of remediation and appropriately provide for these costs in its reserves. If we commit to renovating a leased or owned building that contains or may contain asbestos, or if asbestos is inadvertently disturbed, we will be legally obligated to comply with asbestos removal standards. The extent of this liability has not yet been determined because the costs to remove asbestos depend upon factors including, among others, the location and extent of any renovations undertaken. Inadvertent disturbance of asbestos cannot be foreseen. The costs incurred by Sears could be significant and may negatively impact the Company's results of operations and financial condition.

The Company is exposed to a variety of legal proceedings, including class action lawsuits, and tax audits which, if adversely decided, could materially adversely affect the Company.

The Company is currently involved in various legal proceedings incidental to the normal course of business. Although the Company is of the view that the final disposition of any such litigation is not expected to have a material adverse effect on its liquidity, consolidated financial position or results of operations, the outcome of such litigation cannot be predicted with certainty.

In the ordinary course of business, the Company is subject to ongoing audits by tax authorities. While we believe that the Company's tax filing positions are appropriate and supportable, periodically, certain matters are reviewed and from time to time and challenged by the tax authorities. As the Company routinely evaluates and provides for potentially unfavorable outcomes with respect to any tax audits, it believes that the final disposition of tax audits will not have a material adverse effect on its liquidity, consolidated financial position or results of operations. If the result of a tax audit materially differs from the existing provisions, the Company's effective tax rate and net earnings could be affected positively or negatively in the period in which the tax audits are completed.

Events outside the Company's control such as social or political unrest, natural disasters, extreme or unseasonable weather, acts of war or terrorism, systems breakdowns or power outages could have a material adverse effect on the Company's business and results of operations.

The Company's business is sensitive to customers' spending patterns, which may be affected by domestic and international social or political unrest, natural disasters, extreme or unseasonable weather, acts of war or terrorism, or other significant events outside of the Company's control, any of which could lead to a decrease in spending by consumers. In addition, such events as well as systems breakdowns and power outages could cause store closures, disrupt supply chain or other operations, delay shipments of merchandise to consumers, reduce revenue and result in expenses to repair or replace facilities. Disruptions during a peak season such as the month of December, which may account for up to 40% of a year's earnings, could have a particularly adverse effect on the Company's business and results of operations.

The Company's business could suffer if it is unsuccessful in making, integrating, and maintaining acquisitions and investments.

From time to time we pursue strategic acquisitions of, joint ventures with, or investments in, other companies or businesses, although the Company has no present commitments with respect to any material acquisitions or investments. Any such acquisition, joint venture or investment that the Company makes may require Sears to spend its cash, or incur debt, contingent liabilities, or amortization expenses related to intangible assets, any of which could reduce the Company's profitability and harm its business.

Acquisitions, joint ventures and investments also increase the complexity of the Company's business and place strain on its management, personnel, operations, supply chain, financial resources, and internal financial controls and reporting functions. The Company may not be able to manage acquisitions, joint ventures or investments effectively, which could damage the Company's reputation, limit its growth and adversely affect its business and results of operations.

Financial Risks

The Company's business has been and will continue to be affected by Canadian and worldwide economic conditions; a persistence or worsening of current economic conditions could lead to reduced revenues and gross margins, and negatively impact the Company's liquidity.

The Company plans its operations giving regard to economic and financial variables that are beyond its control. Changes to these variables may adversely impact the Company's performance. Should the current economic conditions persist or worsen, heightened competition, a further decline in consumer confidence, lower disposable income, higher unemployment and personal debt levels may result, which could lead to reduced demand for the Company's products and services. Any of these events could cause the Company to increase inventory markdowns and promotional expenses, thereby reducing the Company's gross margins and results of operations. The Company's results of operations have been negatively impacted as a result of the current economic conditions and the volatility in the Canadian and global economies and it is difficult to accurately assess the potential impact on the Company's business. If the Canadian or global economies continue to worsen, however, the Company could experience a decline in same store sales, erosion of gross profit and profitability.

Increasing fuel and energy costs may have a significant negative impact on the Company's operations. The Company requires significant quantities of fuel for the vehicles used to distribute and deliver inventory and the Company is exposed to the risk associated with variations in the market price for petroleum products. The Company could experience a disruption in energy supplies, including its supply of gasoline, as a result of factors that are beyond the Company's control, which could have an adverse effect on the Company's business. Certain of the Company's vendors also are experiencing increases in the cost of various raw materials, such as cotton, oil- related materials, steel and rubber, which could result in increases in the prices that the Company pays for merchandise, particularly apparel, appliances and tires and adversely affect the Company's results of operations.

Liquidity Risk

The Company could face liquidity risk due to various factors, including but not limited to, the unpredictability of the current economic climate, failure to secure appropriate funding vehicles and cash flow issues relating to the operation and management of the business. Failure to fulfill financial obligations due and owing from the Company as a result of this liquidity risk could have undesirable consequences on Sears.

Fluctuations in U.S. and Canadian dollar exchange rates may affect the Company's results of operations.

The Company's foreign exchange risk is currently limited to currency fluctuations between the Canadian and U.S. dollar. The Company is vulnerable to increases in the value of the U.S. dollar relative to the Canadian dollar because the majority of its revenues are denominated in Canadian dollars and a substantial amount of the merchandise the Company purchases is priced in U.S. dollars. The costs of these goods in Canadian dollars rise when the U.S. dollar increases in value relative to the Canadian dollar and, as a result, the Company may be forced to increase its prices or reduce its gross margins. We may use foreign currency forward and option contracts to hedge the exchange rate risk on a portion of the Company's expected requirement for U.S. dollars. There can be no assurance that the Company's hedging efforts will achieve their intended results or that the Company's estimate of its requirement for U.S. dollars will be accurate, with the result that currency fluctuations may have an adverse impact on the Company's results of operations.

In addition, the appreciation of the Canadian dollar over the past few years relative to the U.S. dollar presents an additional challenge to the Company as its customers are motivated to cross-border shop, which may have an adverse impact on the Company's results of operations.

The Company is exposed to counterparty credit risk which could adversely affect its results of operations.

Credit risk refers to the possibility that the Company can suffer financial losses due to the failure of counterparties to meet their payment obligations to the Company. Exposure to credit risk exists for derivative instruments, cash and cash equivalents, short- term investments, accounts receivable and investments included in other long-term assets. Cash and cash equivalents, accounts receivable, derivative financial assets, and other long-term assets of $314.5 million as at February 2, 2013 (January 28, 2012: $514.9 million) expose the Company to credit risk should the borrower default on maturity of the investment.

Although the Company seeks to manage this exposure through policies that require borrowers to have a minimum credit rating of A, and limiting investments with individual borrowers at maximum levels based on credit rating, there can be no assurance that the Company will be able to successfully manage its credit risk.

The Company invests its surplus cash in investment grade, short-term money market instruments, the return on which depends upon interest rates and the credit worthiness of the issuer. The Company attempts to mitigate credit risk resulting from the possibility that an issuer may default on repayment by requiring that issuers have a minimum credit rating and limiting exposures to individual borrowers.

The Company is exposed to interest rate risk which could adversely affect its results of operations.
Interest rate risk reflects the sensitivity of the Company's financial condition to movements in interest rates. Financial assets and liabilities which do not bear interest or bear interest at fixed rates are classified as non-interest rate sensitive. Cash and cash equivalents and borrowings under the Company's $800.0 million senior secured revolving credit facility, or the Credit Facility, are subject to interest rate risk. The total outstanding balance subject to interest rate risk as at February 2, 2013 was a net asset of $238.3 million (January 28, 2012: $297.7 million). An increase or decrease in interest rate of 0.25% would cause an immaterial after-tax impact on net earnings (loss).

Expenses associated with the Company's retirement benefit plans may fluctuate significantly depending on changes in actuarial assumptions, future market performance of plan assets, and other events outside of the Company's control and adversely affect the Company's results of operations.
The Company currently maintains a defined benefit registered pension plan, a non-registered supplemental savings arrangement and a defined benefit non-pension post-retirement plan, which provides life insurance, medical and dental benefits to eligible retired associates through a health and welfare trust. The defined benefit plan continues to accrue benefits related to future compensation increases although no further service credit is earned. In addition, the Company no longer provides medical, dental and life insurance benefits at retirement for associates who had not achieved the eligibility criteria for these non- pension post-retirement benefits as at December 31, 2008.

There is no assurance that the Company's retirement benefit plans will be able to earn the assumed rate of return. New regulations and market driven changes may result in changes in the discount rates and other variables which would result in the Company being required to make contributions in the future that differ significantly from the estimates.

Management is required to use assumptions to account for the plans in conformity with IFRS. However, actual future experience will differ from these assumptions giving rise to actuarial gains or losses. In any year, actual experience differing from the assumptions may be material. Plan assets consist primarily of cash, alternative investments, marketable equity and fixed income securities. The value of the marketable equity and fixed income investments will fluctuate due to changes in market prices. Plan obligations and annual pension expense are determined by independent actuaries and through the use of a number of assumptions.

Although the Company believes that the assumptions used in the actuarial valuation process are reasonable, there remains a degree of risk and uncertainty which may cause results to differ materially from expectations. Significant assumptions in measuring the benefit obligations and pension plan costs include the discount rate and the rate of compensation increase. See Note 20.4 "Pension assumptions" of the Notes to the 2012 Annual Consolidated Financial Statements for more information on the weighted-average actuarial assumptions for the plans.

The Company faces risks associated with impairment of goodwill and other assets.
The Company's goodwill, intangible assets and long-lived assets, primarily consisting of stores and joint ventures, are subject to periodic testing for impairment. A significant amount of judgment is involved in the periodic testing. Failure to achieve sufficient levels of cash flow within each of the Company's cash generating units or specific operating units could result in impairment charges for goodwill and intangible assets or fixed asset impairment for long-lived assets, which could have a material adverse effect on the Company's reported results of operations.

Risks Relating to the Company's Relationship with Sears Holdings

The Company may lose rights to some intellectual property if Sears Holdings' equity ownership in the Company falls below specified thresholds.
The Company relies on its right to use the "Sears" name, including as part of the Company's corporate and commercial name, which the Company considers a significant and valuable aspect of its business. The Company's right to use the "Sears" name and certain other brand names was granted pursuant to a license agreement with Sears Holdings.

The Company's license to use the "Sears" name and certain brand names may be terminated if Sears Holdings' indirect ownership interest in the Company is reduced to less than 25%. In addition, the Company's license to use the "Sears" name may also terminate upon the occurrence of certain bankruptcy events. Losing the Company's right to use these intellectual properties could significantly diminish the Company's competitiveness and could materially harm its business. If the license agreement is terminated, the Company would attempt to renegotiate the license agreement although the terms of any renegotiated license agreement would likely be less favorable to the Company.

Some of the Company's directors and executive officers may have conflicts of interest because of their ownership of Sears Holdings common stock and positions with Sears Holdings.
Some of our directors and executive officers own Sears Holdings common stock. In addition, one of our directors, William R. Harker, is a consultant to Sears Holdings. Ownership of Sears Holdings common stock by our directors and officers and the presence of persons associated with Sears Holdings on the Company's board of directors could create, or appear to create, conflicts of interest with respect to matters involving both the Company and Sears Holdings.

Risks Relating to Our Common Shares

As long as Sears Holdings or ESL Investments, Inc. ("ESL") controls the Company, a shareholder's ability to influence matters requiring shareholder approval will be limited.
Sears Holdings controls approximately 51% of the Company's voting power and ESL directly controls approximately 28% of the Company's voting power. As of the date of this MD&A, ESL controlled Sears Holdings and, therefore, ESL directly or indirectly controls approximately 79% of the Company's voting power. So long as ESL directly or indirectly controls a majority of the Company's outstanding common shares, ESL will have the ability to control the election of the board of directors and the outcome of certain shareholder votes.

Accordingly, Sears Holdings and ESL will continue to have the ability to exercise control over certain actions to be taken or approved by the Company's directors and shareholders, including with respect to certain mergers or business combinations or dispositions of all or substantially all of the Company's assets. Sears Holdings and ESL's voting control may discourage transactions involving a change of control of the Company, including transactions in which a shareholder might otherwise receive a premium for his/her shares over the then-current market price. Subject to certain limits, Sears Holdings is also not prohibited from selling a controlling interest in the Company to a third party and may do so without shareholder approval and, subject to applicable laws, without providing for a purchase of a shareholder's common shares.
Sears Holdings and ESL's interests may be different than a shareholder's interests and Sears Holdings and ESL may have investments in other companies that may compete with the Company, and may have interests from time to time that diverge from the interests of shareholders, particularly with regard to new investment opportunities.

In addition, conflicts of interest may arise between Sears Holdings and/or ESL and the Company, including corporate opportunities, potential acquisitions or transactions, as well as other matters. The Company may be adversely affected by any conflicts of interest between Sears Holdings and/or ESL and the Company.

Furthermore, neither Sears Holdings nor ESL owes the Company or the Company's shareholders any fiduciary duties under Canadian law.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The preparation and presentation of the Company's consolidated financial statements and the overall accuracy and integrity of the Company's financial reporting are the responsibility of management. The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB), and include certain amounts that are based on management's best estimates and judgments. Financial information contained elsewhere in this Annual Report is consistent with the information set out in the consolidated financial statements.

In fulfilling its responsibilities, management has developed and maintains an extensive system of disclosure controls and procedures and internal control over financial reporting processes that are designed to provide reasonable assurance that assets are safeguarded, transactions are properly recorded and reported within the required time periods, and financial records are reliable for the preparation of the financial statements. The Company's internal auditors, who are employees of the Company, also review and evaluate internal controls on behalf of management.

The Board of Directors monitors management's fulfillment of its responsibilities for financial reporting and internal controls principally through the Audit Committee. The Audit Committee, which is comprised solely of independent directors, meets regularly with management, the internal audit department and the Company's external auditors to review and discuss audit activity and results, internal accounting controls and financial reporting matters. The external auditors and the internal audit department have unrestricted access to the Audit Committee, management and the Company's records. The Audit Committee is also responsible for recommending to the Board of Directors the proposed nomination of the external auditors for appointment by the shareholders. Based upon the review and recommendation of the Audit Committee, the consolidated financial statements and Management's Discussion and Analysis have been approved by the Board of Directors.

The Company's external auditors, Deloitte LLP, have audited the consolidated financial statements in accordance with International Financial Reporting Standards as issued by the IASB.

Calvin McDonald
President and Chief Executive Officer

E.J. Bird
Interim Chief Financial Officer

Toronto, Ontario
March 14, 2013

Report of Independent Registered Chartered Accountants

To the Shareholders and Board of Directors of
Sears Canada Inc.

We have audited the accompanying consolidated financial statements of Sears Canada Inc. and subsidiaries, which comprise the consolidated statements of financial position as at February 2, 2013 and January 28, 2012 and the consolidated statements of net earnings (loss) and comprehensive income (loss), consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the 53 and 52-week periods ended February 2, 2013 and January 28, 2012, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Sears Canada Inc. and subsidiaries as at February 2, 2013 and January 28, 2012 and their financial performance and cash flows for the 53 and 52-week periods ended February 2, 2013 and January 28, 2012 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Deloitte LLP

Independent Registered Chartered Accountants
Licensed Public Accountants
March 14, 2013
Toronto, Canada

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CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in CAD millions)	Notes		As at **February 2, 2013**		As at January 28, 2012
ASSETS					
Current assets					
Cash and cash equivalents	5	$	**237.0**	$	397.4
Accounts receivable, net	6,14		**76.2**		116.2
Income taxes recoverable	22		**5.5**		4.1
Inventories	7		**851.4**		823.9
Prepaid expenses	8		**30.1**		27.9
Total current assets			**1,200.2**		1,369.5
Non-current assets					
Property, plant and equipment	9,19		**840.0**		872.0
Investment property	9		**21.7**		21.7
Intangible assets	10.2		**27.2**		23.6
Goodwill	10.1		**8.7**		8.7
Investment in joint ventures	11		**263.4**		301.4
Deferred tax assets	22		**83.8**		84.6
Other long-term assets	12,14,16,22		**34.1**		49.2
Total assets		$	**2,479.1**	$	2,730.7
LIABILITIES					
Current liabilities					
Accounts payable and accrued liabilities	14,15	$	**482.0**	$	576.8
Deferred revenue	13		**197.5**		208.0
Provisions	16		**66.3**		64.8
Income taxes payable	22		**—**		1.0
Other taxes payable			**33.9**		42.8
Current portion of long-term obligations	14,17,19,25		**5.2**		5.1
Total current liabilities			**784.9**		898.5
Non-current liabilities					
Long-term obligations	14,17,19,25		**30.9**		117.6
Deferred revenue	13		**90.7**		89.2
Retirement benefit liability	20.1		**415.7**		452.3
Deferred tax liabilities	22		**5.8**		5.3
Other long-term liabilities	16,18		**74.7**		75.8
Total liabilities			**1,402.7**		1,638.7
SHAREHOLDERS' EQUITY					
Capital stock	24		**14.9**		15.0
Retained earnings	24,25		**1,208.2**		1,218.5
Accumulated other comprehensive loss			**(146.7)**		(141.5)
Total shareholders' equity			**1,076.4**		1,092.0
Total liabilities and shareholders' equity		$	**2,479.1**	$	2,730.7

The accompanying notes are an integral part of these consolidated financial statements.

On Behalf of the Board of Directors,

W.C.Crowley
Chairman of the Board

E.J. Bird
Director

CONSOLIDATED STATEMENTS OF NET EARNINGS (LOSS) AND COMPREHENSIVE INCOME (LOSS)
For the 53 and 52-week periods ended February 2, 2013 and January 28, 2012

(in CAD millions, except per share amounts)	Notes		2012		2011
Revenue	26	$	**4,300.7**	$	4,619.3
Cost of goods and services sold	7		**2,749.2**		2,932.3
Selling, administrative and other expenses	9,10,20.4,27		**1,634.4**		1,737.9
Operating loss			**(82.9)**		(50.9)
Gain on lease terminations	28		**167.1**		—
Gain on sale of interest in joint venture	11		**8.6**		—
Gain on settlement of post-retirement benefits	20		**21.1**		—
Finance costs	17,22		**13.3**		16.0
Interest income	5		**4.1**		1.7
Share of income from joint ventures	11		**9.5**		8.3
Earnings (loss) before income taxes			**114.2**		(56.9)
Income tax (expense) recovery					
Current	22		**(8.2)**		(18.7)
Deferred	22		**(4.8)**		25.3
			(13.0)		6.6
Net earnings (loss)		**$**	**101.2**	$	(50.3)
Basic net earnings (loss) per share	32	**$**	**0.99**	$	(0.48)
Diluted net earnings (loss) per share	32	**$**	**0.99**	$	(0.48)
Net earnings (loss)		$	**101.2**	$	(50.3)
Other comprehensive loss, net of taxes:					
Loss on foreign exchange derivatives, net of income tax recovery of nil (2011: recovery of $1.7)			—		(4.1)
Reclassification to net earnings (loss) of (gain) loss on foreign exchange derivatives, net of income tax recovery of nil (2011: recovery of $2.8)			**(0.2)**		7.1
Remeasurement loss on net defined retirement benefit liability, net of income tax recovery of $3.5 (2011: recovery of $27.4)	20.7		**(5.0)**		(79.1)
Total other comprehensive loss			**(5.2)**		(76.1)
Comprehensive income (loss)		$	**96.0**	$	(126.4)

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the 53 and 52-week periods ended February 2, 2013 and January 28, 2012

(in CAD millions)	Notes	Capital stock	Retained earnings	Accumulated other comprehensive loss (income): Foreign exchange derivatives designated as cash flow hedges	Remeasurement loss	Total Accumulated other comprehensive loss (income)	Shareholders' equity
Balance as at January 28, 2012		**$ 15.0**	**$1,218.5**	**$ 0.2**	**$ (141.7)**	**$ (141.5)**	**$ 1,092.0**
Net earnings			**101.2**	—	—	—	**101.2**
Other comprehensive loss							
Reclassification of gain on foreign exchange derivatives				**(0.2)**	—	**(0.2)**	**(0.2)**
Remeasurement loss on net defined retirement benefit liability				—	**(5.0)**	**(5.0)**	**(5.0)**
Total other comprehensive loss		—	—	**(0.2)**	**(5.0)**	**(5.2)**	**(5.2)**
Total comprehensive income (loss)		—	**101.2**	**(0.2)**	**(5.0)**	**(5.2)**	**96.0**
Repurchases of common shares	24	**(0.1)**	**(9.6)**				**(9.7)**
Dividends declared			**(101.9)**				**(101.9)**
Balance as at February 2, 2013		**$ 14.9**	**$1,208.2**	**$ —**	**$ (146.7)**	**$ (146.7)**	**$ 1,076.4**
Balance as at January 29, 2011		$ 15.4	$1,310.4	$ (2.8)	$ (62.6)	$ (65.4)	$ 1,260.4
Net loss			(50.3)	—	—	—	(50.3)
Other comprehensive (loss) income							
Loss on foreign exchange derivatives				(4.1)	—	(4.1)	(4.1)
Reclassification of loss on foreign exchange derivatives				7.1	—	7.1	7.1
Remeasurement loss on net defined retirement benefit liability				—	(79.1)	(79.1)	(79.1)
Total other comprehensive (loss) income		—	—	3.0	(79.1)	(76.1)	(76.1)
Total comprehensive (loss) income		—	(50.3)	3.0	(79.1)	(76.1)	(126.4)
Repurchases of common shares	24	(0.4)	(41.6)				(42.0)
Balance as at January 28, 2012		$ 15.0	$1,218.5	$ 0.2	$ (141.7)	$ (141.5)	$ 1,092.0

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the 53 and 52-week periods ended February 2, 2013 and January 28, 2012

(in CAD millions)	Notes	2012	2011
Cash flow (used for) generated from operating activities			
Net earnings (loss)		$ **101.2**	$ (50.3)
Adjustments for:			
Depreciation and amortization expense	9,10.2	**113.3**	114.9
Impairment (reversal) losses	9	**(0.2)**	2.5
Loss on disposal of property, plant and equipment		**1.2**	1.1
Gain on sale of interest in joint venture	11	**(8.6)**	—
Gain on lease terminations	28	**(167.1)**	—
Finance costs	17	**13.3**	16.0
Interest income	5	**(4.1)**	(1.7)
Share of income from joint ventures	11	**(9.5)**	(8.3)
Retirement benefit plans expense	20.4	**31.6**	30.2
Gain on settlement of post-retirement benefits	20	**(21.1)**	—
Short-term disability expense	20.4	**8.4**	8.4
Income tax expense (recovery)	22	**13.0**	(6.6)
Interest received	5	**2.3**	1.6
Interest paid	17	**(5.3)**	(4.6)
Retirement benefit plans contributions	20.4	**(63.0)**	(17.9)
Income tax refunds (payments), net	22	**9.0**	(21.6)
Other income tax (deposits) receipts, net	22	**(4.1)**	—
Changes in non-cash working capital	33	**(122.2)**	29.6
Changes in long-term assets and liabilities		**32.0**	(8.3)
		(79.9)	85.0
Cash flow generated from (used for) investing activities			
Purchases of property, plant and equipment and intangible assets	9,10.2	**(97.5)**	(84.3)
Proceeds from sale of property, plant and equipment		**2.2**	0.7
Proceeds from lease terminations	28	**175.0**	—
Proceeds from sale of Cantrex operations	29	**3.5**	—
Proceeds from sale of joint venture	11	**38.3**	—
Dividends received from joint ventures		**18.4**	20.1
		139.9	(63.5)
Cash flow used for financing activities			
Interest paid on finance lease obligations	17,19	**(2.4)**	(2.2)
Repayment of long-term obligations		**(142.3)**	(117.1)
Proceeds from long-term obligations		**35.8**	105.0
Dividend payments	24	**(101.9)**	—
Repurchases of common shares	24	**(9.7)**	(42.0)
		(220.5)	(56.3)
Effect of exchange rate on cash and cash equivalents at end of period		**0.1**	(0.1)
Decrease in cash and cash equivalents		**(160.4)**	(34.9)
Cash and cash equivalents at beginning of period		$ **397.4**	$ 432.3
Cash and cash equivalents at end of period		$ **237.0**	$ 397.4

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General information

Sears Canada Inc. is incorporated in Canada. The address of its registered office and principal place of business is 290 Yonge Street, Suite 700, Toronto, Ontario, Canada M5B 2C3. The principal activities of Sears Canada Inc. and its subsidiaries (the "Company") include the sale of goods and services through the Company's Retail channel, which includes its Full-line, Sears Home, Hometown Dealer, Outlet, Appliances and Mattresses, Corbeil Electrique Inc. ("Corbeil") stores, and its Direct (catalogue/internet) channel. It also includes service revenue related to product repair, home improvement, and logistics. Commission revenue includes travel, insurance, and performance payments received from JPMorgan Chase Bank, N.A. (Toronto Branch) ("JPMorgan Chase") under the Company's long-term credit card marketing and servicing alliance with JPMorgan Chase. The Company has partnered with Thomas Cook Canada Inc. ("Thomas Cook") in a multi-year licensing arrangement, under which Thomas Cook manages the day-to-day operations of all Sears Travel offices. Licensee fee revenues are comprised of payments received from licensees, including Thomas Cook, that operate within the Company's stores. The Company is a party to a number of joint ventures which have been classified as jointly controlled entities for financial reporting purposes. These joint ventures are jointly controlled by the venturers who are entitled to a share of the joint ventures' income or loss.

The indirect parent of the Company is Sears Holdings Corporation ("Sears Holdings"), incorporated in the U.S. in the state of Delaware. The ultimate controlling party of the Company is ESL Investments, Inc. (incorporated in the U.S. in the state of Florida) through Sears Holdings.

2. Significant accounting policies

2.1 Statement of compliance

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS"), which are effective and applicable to the Company as at the end of its current fiscal year.

2.2 Basis of preparation and presentation

The principal accounting policies of the Company have been applied consistently in the preparation of its consolidated financial statements for all periods presented. These financial statements follow the same accounting policies and methods of application as those used in the preparation of the recast 2011 Annual Consolidated Financial Statements. The Company's significant accounting policies are detailed in Note 2.

The fiscal year of the Company consists of a 52 or 53-week period ending on the Saturday closest to January 31. The fiscal years for the 2012 and 2011 consolidated financial statements represent the 53-week period ended February 2, 2013 ("Fiscal 2012" or "2012") and the 52-week period ended January 28, 2012 ("Fiscal 2011" or "2011"), respectively.

The Company's consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. The Company reports as a single business segment but operates several operating segments, with operations focused on the merchandising of products and services (see Note 23).

2.3 Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, with the exception of certain financial instruments that are measured at fair value and the retirement benefit asset, which is the net total of plan assets and the present value of the retirement benefit liability. On transition to IFRS, the Company elected to measure certain of its property, plant and equipment at fair value. The fair value was set as the deemed cost, in accordance with IFRS 1, as at that date, and represents the historical cost basis measurement. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

2.4 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company as well as all of its subsidiaries. Real estate joint venture investments are accounted for using the equity method of accounting (described further in Note 2.13).

Subsidiaries include all entities where the Company has the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities.

All intercompany balances and transactions, income and expenses arising from intercompany transactions are eliminated in the preparation of the consolidated financial statements.

2.5 Cash and cash equivalents

Cash and cash equivalents include highly liquid investments with maturities of 90 days or less at the date of purchase. Cash and cash equivalents are considered to be restricted when they are subject to contingent rights of a third party customer, vendor, government agency or financial institution.

2.6 Short-term investments

Short-term investments include investments with maturities between 91 to 364 days from the date of purchase.

2.7 Inventories

Inventories are measured at the lower of cost and net realizable value. Cost is determined using the weighted average cost method, based on individual items. The cost is comprised of the purchase price, plus the costs incurred in bringing the inventory to its present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs to sell. Rebates and allowances received from vendors are recognized as a reduction to the cost of inventory, unless the rebates clearly relate to the reimbursement of specific expenses. A provision for shrinkage and obsolescence is calculated based on historical experience. All inventories consist of finished goods.

2.8 Property, plant and equipment

Property, plant and equipment are measured at cost or deemed cost less accumulated depreciation and accumulated impairment losses. Costs include expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes site preparation costs, design and engineering fees, freight (only on initial freight costs incurred between the vendor and the Company), installation expenses and provincial sales tax (Saskatchewan, Manitoba and Prince Edward Island), and is net of any vendor subsidies or reimbursements. An allocation of general and specific incremental interest charges for major construction projects is also included in the cost of related assets.

When the significant parts of an item of property, plant and equipment have varying useful lives, they are accounted for as separate components of property, plant and equipment. Depreciation is calculated based on the depreciable amount of the asset or significant component thereof, if applicable, which is the cost of the asset or significant component less its residual value. Depreciation is recognized using the straight-line method for each significant component of an item of property, plant and equipment and is recorded in "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). The estimated useful lives are 2 to 13 years for equipment and fixtures and 10 to 50 years for buildings and building improvements. The estimated useful lives, residual values and depreciation methods for property, plant and equipment are reviewed annually and adjusted, if appropriate, with the effect of any changes in estimates accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease, unless it is reasonably certain that the Company will obtain ownership by the end of the lease term.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the proceeds from sale or the cost of retirement and the carrying amount of the asset, and is recognized in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss).

For a discussion on the impairment of tangible assets refer to Note 2.11. Property, plant and equipment are reviewed at the end of each reporting period to determine whether there is an indicator of impairment.

2.9 Investment property

The Company's investment property consists of vacant land which is not currently used in its operations. Investment property is measured at its deemed cost less accumulated impairment losses.

The fair values of the investment property is estimated using observable data based on the current cost of acquiring comparable properties within the market area and the capitalization of the property's anticipated revenue. The Company engages independent qualified third parties to conduct appraisals of its investment property.

The gain or loss arising on the disposal or retirement of an item of investment property is determined as the difference between the proceeds from sale or the cost of retirement, and the carrying amount of the asset, and is recognized in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss).

Investment property is reviewed at the end of each reporting period to determine whether there is any indicator of impairment.

2.10 Intangible assets

2.10.1 Finite life intangible assets other than goodwill

Finite life intangible assets consist of purchased and internally developed software. Intangible assets are carried at cost less accumulated amortization and accumulated impairment losses and are amortized on a straight-line basis over their estimated useful lives which range from 2 to 5 years. The useful lives of all intangible assets other than goodwill are finite. Amortization expense is included in "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). The estimated useful lives and amortization methods for intangible assets other than goodwill are reviewed annually, with the effect of any changes in estimates being accounted for on a prospective basis.

Internally developed software costs are capitalized when the following criteria are met:

- It is technically feasible to complete the software so that it will be available for use;
- The Company intends to complete the software product;
- The Company has an ability to use the software;
- The Company can demonstrate how the software will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use the software product are available; and
- The expenditure attributable to the software product during its development can be reliably measured.

Costs that qualify for capitalization are limited to those that are directly related to each software development project.

2.10.2 Goodwill

Goodwill arising in a business combination is recognized as an asset at the date that control is acquired ("the acquisition date"). Goodwill is measured as the excess of the sum of the consideration transferred, over the net fair value of identifiable assets acquired less liabilities assumed as of the acquisition date.

2.11 Impairment of tangible assets and intangible assets with finite useful lives

At the end of each reporting period, the Company reviews property, plant and equipment, investment property, intangible assets and goodwill for indicators of impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the assets are then grouped together into the smallest group of assets that generate independent cash inflows from continuing use (the "cash generating unit" or "CGU") and a recoverable amount is estimated for that CGU.

Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs. Otherwise, they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

If the recoverable amount of an asset or a CGU is estimated to be less than its carrying amount, the asset or CGU will be reduced to its recoverable amount and an impairment loss is recognized immediately. If an impairment for a CGU has been identified, the impairment is first allocated to goodwill before other assets held by the CGU. Where goodwill is not part of a CGU, an impairment loss is recognized as a reduction in the carrying amount of the assets included in the CGU on a pro rata basis.

Where an impairment loss subsequently reverses (not applicable to goodwill), the carrying amount of the asset or CGU is revised to an estimate of its recoverable amount limited to the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized immediately.

2.12 Impairment of goodwill

Goodwill is not amortized but is reviewed for impairment at least annually. For the purposes of impairment testing, goodwill is allocated to each of the Company's CGUs expected to benefit from the synergies of the combination.

CGUs to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the CGU is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to the other assets of the unit on a pro-rata basis, based on the carrying amount of each asset in the unit. Impairment losses for goodwill are not reversed in subsequent periods.

2.13 Investment in joint ventures

Joint ventures are those entities over which the Company has joint control, established by contractual agreement. The Company is a party to a number of joint ventures which have been classified as jointly controlled entities for financial reporting purposes. These joint ventures are jointly controlled by the venturers who are entitled to a share of the joint ventures' income or loss.

Investments in joint ventures are accounted for using the equity method as follows:

- From the date that joint control commences, until the date that it ceases, the Company's share of post-acquisition income or losses from joint ventures is recognized in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss), with a corresponding increase or decrease to the carrying amount of the investments.
- The joint venture reporting periods used in the application of the equity method differ from the Company's reporting period end by 1 to 2 months.
- The accounting policies of the joint ventures are aligned with those of the Company for the purposes of applying the equity method.
- Gains on transactions between the Company and its joint ventures are eliminated to the extent of the Company's interest in the joint ventures, and losses are eliminated unless the transaction provides evidence of an impairment of the assets transferred.

The Company presents its joint venture investments in "Investment in joint ventures" on the Consolidated Statements of Financial Position. The Company presents its share of income or losses from joint ventures in "Share of income from joint ventures" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss).

2.14 Leasing arrangements

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

2.14.1 The Company as lessor

The Company has entered into a number of agreements to sub-lease premises to third parties. All sub-leases to third parties are classified as operating leases. Rental income from operating leases is recognized on a straight-line basis over the term of the lease.

2.14.2 The Company as lessee

Assets held under finance leases are initially recognized by the Company at the lower of the fair value of the asset and the present value of the minimum lease payments. The corresponding current and non-current liabilities to the lessor are included in the Consolidated Statements of Financial Position as a finance lease obligation in "Principal payments on long-term obligations due within one year" and "Long-term obligations," respectively. The assets are depreciated using the same accounting policy as applicable to property, plant and equipment (see Note 2.8).

Lease payments are apportioned between finance costs and the lease obligation in order to achieve a constant rate of interest on the remaining balance of the liability. The minimum lease payments are allocated between the land and building element in proportion to the relative fair values of the leasehold interests, in each of these elements of the lease.

Assets under operating leases are not recognized by the Company. Operating lease payments are recognized in "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss).

In the event that lease incentives are received to enter into leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

2.15 Retirement benefit plans

The Company currently maintains a defined contribution and a defined benefit registered pension plan, which covers eligible regular full-time and part-time associates, a non-registered supplemental savings arrangement and a defined benefit non-pension post retirement plan, which provides life insurance, medical and dental benefits to eligible retired associates through a health and welfare trust.

2.15.1 Defined contribution plan

A defined contribution plan is a post-employment benefit plan under which the Company pays fixed or matching contributions based on employee contributions into a separate legal entity and has no further legal or constructive obligation to pay additional amounts. Company contributions to the defined contribution retirement benefit plan are recognized as an expense when employees have rendered services entitling them to the contributions.

2.15.2 Defined benefit plans

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations prepared by independent qualified actuaries at least every 3 years. Remeasurements comprising of actuarial gains and losses, the effect of the asset ceiling (if applicable) and the return on plan assets (excluding interest) are recognized immediately in the statement of financial position with a charge or credit to other comprehensive income (loss) in the period in which they occur. Remeasurements recorded in Other comprehensive income (loss) are not recycled into profit or loss. However, the entity may transfer those amounts recognized in other comprehensive income (loss) within Accumulated other comprehensive income (loss). Past service cost is recognized in profit or loss in the period of plan amendment. Net-interest is calculated by applying the discount rate to the net defined benefit liability or asset. Defined benefit costs are split into three categories:

- service cost, past-service cost, gains and losses on curtailments and settlements;
- net interest expense or income;
- remeasurements.

The Company presents the first two components of defined benefit costs in "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss).

Remeasurements are recorded in Other comprehensive income (loss).

The retirement benefit obligation recognized in the Consolidated Statements of Financial Position represents the actual deficit or surplus in the Company's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

2.15.3 Termination benefits

A liability for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognizes any related restructuring costs.

2.16 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, excluding sales taxes. Revenue is reduced for estimated customer returns, discounts and other similar allowances.

2.16.1 Sale of goods

Revenue from the sale of goods is recognized upon delivery to the customer. Revenue relating to goods sold subject to installation, such as home improvement products, is recognized when the goods have been delivered and the installation is complete.

2.16.2 Rendering of services

Revenue from a contract to provide services is recognized by reference to the stage of completion of the contract.

Extended warranty service contracts

The Company sells extended warranty service contracts with terms of coverage generally between 12 and 60 months. Revenue from the sale of each contract is deferred and amortized on a straight-line basis over the term of the related contract.

Product repair, handling and installation services

Product repair, handling and installation services revenue is recognized once the services are complete. These services are performed within a short timeframe which is typically one day.

2.16.3 Commission and licensee fee revenue

Commission revenue

The Company earns commission revenue by selling various products and services that are provided by third parties, such as sales of travel services, home improvement products and insurance programs. As the Company is not the primary obligor in these transactions, these commissions are recognized upon sale of the related product or service.

Licensee fee revenue

Fee revenue is received from a variety of licensees that operate in the Company's stores. Revenue earned is based on a percentage of licensee sales. Revenue is recorded upon sale of the related product or service.

Credit card revenue

Revenue is received from JPMorgan Chase relating to credit sales. Revenue is based on a percentage of sales charged on the Sears Card or Sears MasterCard and is included in revenue when the sale occurs.

2.16.4 Interest income

Interest income is recognized when it is probable that the economic benefits will flow to the Company and the amount of income can be reliably measured. Interest income is accrued on a periodic basis by reference to the principal outstanding and the applicable interest rate.

2.16.5 Customer loyalty program

The Sears Club Points Program (the "Program") allows members to earn points from eligible purchases made on their Sears Card and/or Sears MasterCard. Members can then redeem points in accordance with the Program rewards schedule for merchandise. When points are earned, the Company defers revenue equal to the fair value of the awards adjusted for expected redemptions. When awards are redeemed, the redemption value of the awards is charged against deferred revenue and recognized as revenue. The redemption rates are reviewed on an ongoing basis and are adjusted based upon expected future activity.

2.16.6 Cost of goods and services sold

Cost of goods and services sold includes the purchase price of merchandise sold, freight and handling costs incurred in preparing the related inventory for sale, installation costs incurred relating to the sale of goods subject to installation, write-downs taken on inventory during the period, physical inventory losses and costs of services provided during the period relating to services sold, less rebates from suppliers relating to merchandise sold.

2.17 Foreign currency translation

Transactions in currencies other than the Company's functional currency are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency at the exchange rates prevailing at that date.

Non-monetary assets and liabilities denominated in a foreign currency that are measured at historical cost are translated using the exchange rate at the date of the transaction and are not retranslated.

Exchange differences arising on retranslation are recognized in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss) in the period in which they arise, except for exchange differences on certain foreign currency hedging transactions.

2.18 Consideration from a vendor

The Company has arrangements with its vendors that provide for rebates subject to binding contractual agreements. Rebates on inventories subject to binding agreements are recognized as a reduction of the cost of sales or related inventories for the period, provided the rebates are probable and reasonably estimable. Rebates on advertising costs subject to binding agreements are recognized as a reduction of the advertising expense for the period, provided the rebates are probable and reasonably estimable.

2.19 Taxation

Income tax expense represents the sum of current tax expense and deferred tax expense.

2.19.1 Current tax

Tax currently payable or recoverable is based on taxable earnings or loss for the reporting period. Taxable income differs from earnings as reported in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss), due to income or expenses that are taxable or deductible in other years and items that are not taxable or deductible for tax purposes. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted as at the end of the reporting period and includes any adjustments to taxes payable and/or taxes recoverable in respect of prior years.

2.19.2 Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases used in the computation of taxable earnings or loss.

Deferred tax liabilities are generally recognized for taxable temporary differences. Deferred tax assets are generally recognized for deductible temporary differences to the extent that it is probable that taxable income will be available, against which deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary differences arise from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable net earnings or loss nor the accounting income or loss.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and investments in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognized to the extent that it is probable that there will be sufficient taxable earnings against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to be applicable in the period in which the liability is settled or the asset realized, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities, when they relate to income taxes levied by the same taxation authority and when the Company intends to settle its current tax assets and liabilities on a net basis. Deferred tax assets and liabilities are not discounted.

2.19.3 Current and deferred tax for the period

Current and deferred tax are recognized as a tax expense or recovery in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss), except when they relate to items that are recognized outside of earnings or loss (whether in Other comprehensive income (loss), "OCI", or directly in equity), in which case, the tax is also recognized outside of earnings or loss, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is included in the accounting for the business combination. Interest on the Company's tax position is recognized as a finance cost.

2.20 Provisions

Provisions are recognized when the Company has a present obligation, legal or constructive, as a result of a past event, it is probable that the Company will be required to settle the obligation and a reliable estimate can be made for the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties specific to the obligation. Where a provision is measured using the cash flow estimated to settle the present obligation, its carrying amount is the present value of such cash flows.

When some or all of the economic resources required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

2.20.1 Onerous contract provisions

An onerous contract provision is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations. The provision is measured at the present value of the lower of the expected cost of terminating the contract or the expected cost of continuing with the contract. Before a provision is established, the Company recognizes any impairment loss on the assets associated with that contract.

2.20.2 General liability provisions

The Company purchases third party insurance for automobile, damage to a claimant's property or bodily injury from use of a product, and general liability claims that exceed a certain dollar level. However, the Company is responsible for the payment of claims under these insured limits. In estimating the obligation associated with incurred losses, the Company utilizes actuarial methodologies which are based on historical data and validated by an independent third party. Loss estimates are adjusted based on actual claims settlements and reported claims.

2.20.3 Warranty provisions

An estimate for warranty provisions is made at the time the merchandise is sold based on historical warranty trends. Please also see Note 16.

2.20.4 Returns and allowances provisions

Provisions for returns and allowances are made based on historical rates which represent the expected future outflow of economic resources on current sales.

2.20.5 Environmental provisions

The Company is exposed to environmental risks as an owner, lessor and lessee of property. Under federal and provincial laws, the owner, lessor or lessee could be liable for the costs of removal and remediation of certain hazardous substances on its properties or disposed of at other locations. The failure to remove or remediate such substances, if any, could lead to claims against the Company. The provision is based on assessments conducted by third parties, as well as historical data.

2.21 Financial assets

All financial assets are recognized and derecognized on the trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned. Financial assets are initially measured at fair value plus transaction costs, except for those financial assets at 'fair value through profit or loss' ("FVTPL") for which the transaction costs are expensed as incurred.

Financial assets and liabilities are offset with the net amount presented in the Consolidated Statements of Financial Position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Financial assets are classified into the following categories: financial assets at FVTPL, 'held-to-maturity' investments, 'available-for-sale' ("AFS") financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. Currently the Company does not have any 'held-to-maturity' investments.

2.21.1 Effective interest method

The effective interest method calculates the amortized cost of a financial asset or financial liability and allocates interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash

flow (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Interest income or expense is recognized on an effective interest basis for financial assets and financial liabilities other than those classified as at FVTPL.

2.21.2 Financial assets at FVTPL

Financial assets are classified at FVTPL when the financial asset is either held-for-trading or it is designated as at FVTPL.

2.21.3 AFS financial assets

The Company's cash equivalents have been classified as AFS financial assets and are measured at fair value. Gains and losses arising from changes in fair value are recognized in OCI, with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognized in "Selling, administrative and other expenses" or "Interest Income" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously included in accumulated other comprehensive income (loss)" ("AOCI") is reclassified to "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss).

2.21.4 Loans and receivables

Cash held by the bank and restricted cash and cash equivalents are classified as 'loans and receivables' and are measured at amortized cost.

Trade receivables and other receivables that have fixed or determinable payments that are not quoted in an active market are also classified as 'loans and receivables'. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables, where the recognition of interest would be immaterial.

2.21.5 Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that the estimated future cash flow of the financial asset have been negatively affected as a result of events that have occurred after its initial recognition.

For all financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Default or delinquency in interest or principal payments; or
- Probability that the borrower will enter bankruptcy or financial reorganization.

For financial assets carried at amortized cost, the amount of any impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flow discounted at the financial asset's initial effective interest rate. When a subsequent event causes the amount of any impairment loss to decrease, the decrease in impairment loss is reversed through the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss).

The carrying amount of the financial asset is reduced by any impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible its carrying amount is written off including any amounts previously recorded in the allowance account. Subsequent recoveries of amounts previously written off are credited to "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). Changes in the carrying amount of the allowance account are also recognized in "Selling, administrative and other expenses".

2.21.6 Derecognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to the cash flow from the asset expire, or when substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

2.22 Financial liabilities and equity instruments

2.22.1 Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

2.22.2 Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issuance costs.

2.22.3 Financial liabilities

Financial liabilities are recognized on the trade date at which the Company becomes a party to the contractual provisions of the instrument. Financial liabilities are classified as either financial liabilities at 'FVTPL' or 'other financial liabilities'.

2.22.4 Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when they are either held-for-trading or designated as at FVTPL. Currently the Company does not have any financial liabilities that have been designated as at FVTPL upon initial recognition.

2.22.5 Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost with interest expense recognized on an effective interest method.

The Company amortizes debt issuance transaction costs over the life of the debt using the effective interest method.

2.22.6 Derecognition of financial liabilities

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or expired.

2.23 Net earnings (loss) per share

Net earnings (loss) per share is calculated using the weighted average number of shares outstanding during the reporting period. Diluted net earnings (loss) per share is determined using the 'treasury stock method,' which considers the potential for the issuance of new shares created by unexercised in-the-money options.

2.24 Changes in Accounting Policy

IAS 19 (Revised), Employee Benefits ("IAS 19")

The Company elected to early adopt IAS 19 (Revised) in the first quarter of 2012. On June 16, 2011, the IASB issued amendments to IAS 19 which included the elimination of the "corridor approach," which is the option to defer and amortize the recognition of actuarial gains and losses. The significant amendments to IAS 19 are as follows:

- The "corridor approach" is to be replaced with full and immediate recognition of actuarial gain and loss remeasurements in "Other comprehensive income (loss)" ("OCI");
- Retirement benefit costs are to consist of service costs, net interest and remeasurements, with remeasurements being recorded in OCI;
- Past service costs are to be recognized immediately in the Consolidated Statements of Net Earnings (Loss);
- Expected returns on plan assets will no longer be recognized in profit or loss. Instead, interest income on plan assets, calculated using the discount rate used to measure the pension obligation, will be recognized in the Consolidated Statements of Net Earnings (Loss);
- Plan administration costs are to be expensed as incurred; and
- Disclosures relating to retirement benefit plans will be enhanced and will include discussions on risk associated with each plan, an explanation of items recognized in the consolidated financial statements and descriptions of the amount, timing and uncertainty on the Company's future cash flows.

The amendments to IAS 19 are effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The amendments are required to be applied retrospectively in accordance with IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors.

As the Company adopted the amendments to IAS 19 in the first quarter of 2012, the Company has retrospectively adjusted the assets and liabilities as at January 28, 2012, January 29, 2011 and January 31, 2010 and income, expenses and cash flow for the 52-week periods ended January 28, 2012 and January 29, 2011.

Impact on financial statement captions

A summary of the impact arising from the application of the change in accounting policy is as follows:

Consolidated Statements of Financial Position

(Increase (decrease) in CAD millions)		As at January 28, 2012
Retirement benefit asset	$	(187.7)
Retirement benefit liability		308.2
Net change to retirement benefit asset and liability		(495.9)
Deferred tax assets		84.0
Deferred tax liabilities		(43.6)
Net change to deferred tax assets and liabilities		127.6
Accumulated other comprehensive loss		(141.7)
Retained earnings		(226.6)

Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss)

(Increase (decrease) in CAD millions, except per share amounts)		**53-Week Period Ended February 2, 2013**
Selling, administrative and other expenses	$	**(24.4)**
Earnings before income taxes		**24.4**
Deferred income tax expense		**6.4**
Net earnings		**18.0**
Basic net earnings per share		**0.17**
Diluted net earnings per share		**0.17**
Other comprehensive income		**1.3**
Total comprehensive income		**19.3**

Consolidated Statements of Cash Flows

(Increase (decrease) in CAD millions)		**53-Week Period Ended February 2, 2013**
Net earnings	$	**18.0**
Retirement benefit plans expense		**(24.4)**
Income tax expense		**6.4**

Please refer to Note 20 for the prior year comparative figures.

3. Issued standards not yet adopted

The Company monitors the standard setting process for new standards and interpretations issued by the IASB that the Company may be required to adopt in the future. Since the impact of a proposed standard may change during the review period, the Company does not comment publicly until the standard has been finalized and the effects have been determined.

On December 16, 2011, the IASB issued amendments to three previously released standards. They are as follows:

IAS 32, Financial Instruments: Presentation ("IAS 32")

The IASB amended IAS 32 to address inconsistencies in current practice in the application of offsetting criteria. The amendments provide clarification with respect to the meaning of 'currently has a legally enforceable right of set-off'

and that some gross settlement systems may be considered equivalent to net settlement. These amendments are effective for annual periods beginning on or after January 1, 2014. The Company is currently assessing the impact of these amendments on the Company's consolidated financial statements and related note disclosures.

IFRS 7, Financial Instruments: Disclosures ("IFRS 7")

The IASB first amended IFRS 7 on October 7, 2010, to require additional disclosures regarding transfers of financial assets. These amendments are effective for annual periods beginning on or after July 1, 2011. The Company applied these amendments beginning the first quarter of its Fiscal 2012 year.

On December 16, 2011, the IASB approved amendments to IFRS 7, which establishes disclosure requirements to help users better assess the effect or potential effect of offsetting arrangements on a company's financial position. These amendments are effective for annual periods beginning on or after January 1, 2013. The Company will apply these amendments beginning the first quarter of its Fiscal 2013 year and is currently assessing the impact on the Company's disclosures.

IFRS 9, Financial Instruments ("IFRS 9")

The IASB issued IFRS 9 on November 12, 2009, which will ultimately replace IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39"). The replacement of IAS 39 is a three-phase project with the objective of improving and simplifying the reporting for financial instruments.

The first phase of the project provides guidance on the classification and measurement of financial assets. IFRS 9 was subsequently reissued on October 28, 2010, incorporating new requirements on accounting for financial liabilities. On December 16, 2011, the IASB amended the mandatory effective date of IFRS 9 to fiscal years beginning on or after January 1, 2015. The amendment also provides relief from the requirement to recast comparative financial statements for the effect of applying IFRS 9. The Company is monitoring the impact of amendments to this standard and is currently assessing the impact on the Company's disclosures.

On June 16, 2011, the IASB issued amendments to the following standard:

IAS 1, Presentation of Financial Statements ("IAS 1")

The IASB has amended IAS 1 to require additional disclosures for items presented in OCI on a before-tax basis and requires items to be grouped and presented in OCI based on whether they are potentially reclassifiable to earnings or loss subsequently (i.e. items that may be reclassified and those that will not be reclassified to earnings or loss). These amendments are effective for annual periods beginning on or after July 1, 2012 and require full retrospective application. The Company will apply these amendments beginning the first quarter of its Fiscal 2013 year and is currently assessing the impact to its consolidated financial statements.

On May 12, 2011, the IASB issued four new standards, all of which are applicable to Annual Reporting periods beginning on or after January 1, 2013. The Company is currently assessing the impact of these standards on its consolidated financial statements and related note disclosures. The following is a list and description of these standards:

IAS 28, Investments in Associates and Joint Ventures ("IAS 28")

IAS 28 (as amended in 2011) supersedes IAS 28 (2003), *Investments in Associates* and outlines how to apply, with certain limited exceptions, the equity method to investments in associates and joint ventures. The standard also defines an associate by reference to the concept of "significant influence", which requires power to participate in financial and operating policy decisions of an investee (but not joint control or control of those polices);

IFRS 10, Consolidated Financial Statements ("IFRS 10")

IFRS 10 establishes the standards for the presentation and preparation of consolidated financial statements when an entity controls one or more entities;

IFRS 11, Joint Arrangements ("IFRS 11")

IFRS 11 replaces IAS 31, *Interests in Joint Ventures* ("IAS 31") and requires that a party in a joint arrangement assess its rights and obligations to determine the type of joint arrangement and account for those rights and obligations accordingly;

IFRS 12, Disclosure of Involvement with Other Entities ("IFRS 12")

IFRS 12, along with IFRS 11 described above, replaces IAS 31. IFRS 12 requires the disclosure of information that enables users of financial statements to evaluate the nature of and the risks associated with, the entity's interests in joint ventures and the impact of those interests on its financial position, financial performance and cash flows; and

IFRS 13, Fair Value Measurement ("IFRS 13")

IFRS 13 provides guidance to improve consistency and comparability in fair value measurements and related disclosures through a 'fair value hierarchy'. This standard applies when another IFRS requires or permits fair value measurements or disclosures. IFRS 13 does not apply for share-based payment transactions, leasing transactions and measurements that are similar to, but are not fair value.

4. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Company's accounting policies, management is required to make judgments, estimates and assumptions with regards to the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

The following are the critical judgments that management has made in the process of applying the Company's accounting policies, key assumptions concerning the future and other key sources of estimation uncertainty that have the potential to materially impact the carrying amounts of assets and liabilities within the next fiscal year.

4.1 Legal liabilities

Assessing the financial outcome of uncertain legal positions requires judgment to be made regarding the relative merits of each claim and the extent to which a claim is likely to be successful. The assessments are based on reviews conducted by internal and external counsel, when appropriate.

Changes in estimates or assumptions could cause changes to "Provisions" on the Consolidated Statements of Financial Position and a charge or credit to "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). For additional information, see Note 16.

4.2 Inventory

4.2.1 Obsolescence, valuation and inventory stock losses

Inventory is written-down to reflect future losses on the disposition of obsolete merchandise. Future losses are estimated based on historical trends that vary depending on the type of inventory.

An adjustment is made each period to value inventory at the lower of cost and net realizable value. This adjustment is estimated based on historical trends that vary depending on the type of inventory.

Inventory is adjusted to reflect estimated inventory stock losses incurred in the year based on recent historical inventory count data.

4.2.2 Vendor rebates

Inventory is adjusted to reflect vendor rebates received or receivable based on vendor agreements. This adjustment is estimated based on historical data and current vendor agreements.

4.2.3 Freight

Inbound freight incurred to bring inventory to its present location is estimated each reporting period and is included in the cost of inventory. This estimate is based on historical freight costs incurred.

Changes in estimates may result in changes to "Inventories" on the Consolidated Statements of Financial Position and a charge or credit to "Cost of goods and services sold" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). For additional information, see Note 7.

4.3 Impairment of property, plant and equipment and intangible assets

The Company's property, plant and equipment and intangible assets have been allocated to CGUs. Determining whether the CGU is impaired requires an estimation of the recoverable amount of the CGU, which is the higher of the fair value less costs to sell and its value in use. To determine the recoverable amount of the CGU, management is required to estimate its fair value by evaluating the expected future cash flow using an appropriate growth rate, the estimated costs to sell and a suitable discount rate to calculate the value in use.

Changes in estimates may result in changes to "Property, plant and equipment" and "Intangible assets" on the Consolidated Statements of Financial Position and a charge or credit to "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). For additional information, see Note 9 and Note 10.2.

4.4 Impairment of goodwill

Determining whether goodwill is impaired requires the Company to determine the recoverable amount of the CGU to which the goodwill is allocated. To determine the recoverable amount of the CGU, management is required to estimate its fair value by evaluating expected future cash flow using an appropriate growth rate, the estimated costs to sell and a suitable discount rate to calculate the value in use.

Changes in estimates may result in changes to "Goodwill" on the Consolidated Statements of Financial Position and a charge to "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). For additional information, see Note 10.1.

4.5 Retirement benefit liability

The retirement benefit liability is estimated based on certain actuarial assumptions, including the discount rate, inflation rate, salary growth and mortality rates. New regulations and market driven changes may impact the assumptions made.

Changes in estimates may result in changes to the "Retirement benefit liability" on the Consolidated Statements of Financial Position and a charge or credit to "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). For additional information, see Note 20.

4.6 Loyalty program deferred revenue

The fair value of Sears Club points granted is deferred at the time of the related initial sale transaction and is recognized upon redemption of the points for merchandise. The redemption value of the points is estimated based on historical behaviour and trends in redemption rates and redemption values.

Changes in estimates may result in changes to "Deferred revenue" (current and non-current) on the Consolidated Statements of Financial Position and an increase or decrease to "Revenue" and/or "Cost of goods and services sold" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). For additional information, see Note 13.

4.7 Derivative assets and liabilities

All derivatives are measured at fair value. U.S. dollar option contracts are traded over-the-counter and give holders the right to buy, or sell, a specified amount of U.S. currency at an agreed upon price and date in the future. Fair values of the U.S. dollar option contracts are derived using a Black-Scholes valuation model. The Company is required to estimate various inputs which are used in this model that are a combination of quoted prices and observable market inputs. The fair values of derivatives include an adjustment for credit risk when appropriate.

Changes in estimates may result in changes to "Derivative financial assets" and "Derivative financial liabilities" on the Consolidated Statements of Financial Position and a charge or credit to "Cost of goods and services sold", "Selling, administrative and other expenses" or "Other comprehensive income (loss)" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). For additional information, see Note 14.

4.8 Provisions

Provisions are estimated based on historical data, cost estimates provided by specialists and future projections.

Changes in estimates or assumptions could cause changes to "Provisions" on the Consolidated Statements of Financial Position and a charge or credit to "Cost of goods and services sold" or "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). For additional information, see Note 16.

4.9 Leasing arrangements

The Company has applied judgment in the classification of its leasing arrangements, which is determined at the inception of the lease and is based on the substance of the transaction, rather than its legal form. The Company's leases were evaluated based on certain significant assumptions including the discount rate, economic life of a building, lease term and existence of a bargain renewal option.

Changes in estimates or assumptions could cause changes to "Property, plant and equipment", "Principal payments on long-term obligations due within one year" and "Long-term obligations" on the Consolidated Statements of Financial Position and a charge or credit to "Selling, administrative and other expenses" and "Finance costs" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). For additional information, see Note 19.

4.10 Taxes

In the ordinary course of business, the Company is subject to ongoing audits by tax authorities. While the Company believes that its tax filing positions are appropriate and supportable, certain matters are periodically challenged by tax authorities. The Company applies judgment and routinely evaluates and provides for potentially unfavourable outcomes with respect to any tax audits. If the result of a tax audit materially differs from the existing provisions, the Company's effective tax rate and its net earnings (loss) will be affected positively or negatively.

Changes in estimates or assumptions could cause changes to "Income taxes recoverable", "Deferred tax assets", "Income and other taxes payable" and "Deferred tax liabilities" on the Consolidated Statements of Financial Position and a charge or credit to "Income tax expense (recovery)" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). For additional information, see Note 22.

5. Cash and cash equivalents and interest income

Cash and cash equivalents

The components of cash and cash equivalents were as follows:

(in CAD millions)		**As at February 2, 2013**		As at January 28, 2012
Cash	$	**47.6**	$	49.0
Cash equivalents				
Government treasury bills		**159.9**		199.9
Bank term deposits		**—**		121.0
Investment accounts		**20.5**		20.3
Restricted cash and cash equivalents		**9.0**		7.2
Total cash and cash equivalents	$	**237.0**	$	397.4

The components of restricted cash and cash equivalents are further discussed in Note 21.

Interest income

Interest income related primarily to cash and cash equivalents for the fiscal year ended February 2, 2013 totaled $4.1 million (2011: $1.7 million). During Fiscal 2012, the Company received $2.3 million (2011: $1.6 million) in cash related to interest income.

6. Accounts receivable, net

The components of accounts receivable, net were as follows:

(in CAD millions)		**As at February 2, 2013**		As at January 28, 2012
Deferred receivables	$	**0.9**	$	1.3
Other receivables		**75.3**		114.9
Total accounts receivable, net	$	**76.2**	$	116.2

Other receivables primarily consist of amounts due from customers, amounts due from vendors and amounts due from JPMorgan Chase, as part of the Company's long-term credit card marketing and servicing alliance.

Included in the accounts receivable balances above are amounts that are past due but are not provided for, as the Company considers the balances to be collectible. These past due accounts receivable balances are listed below:

(in CAD millions)		As at February 2, 2013		As at January 28, 2012
Greater than 30 days	$	**5.5**	$	3.2
Greater than 60 days		**2.9**		3.5
Greater than 90 days		**6.8**		6.4
Total	$	**15.2**	$	13.1

7. Inventories

The amount of inventory recognized as an expense during Fiscal 2012 was $2,537.5 million (2011: $2,703.5 million), which includes $92.7 million (2011: $115.4 million) of inventory write-downs. These expenses are included in "Cost of goods and services sold" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss).

Inventory is pledged as collateral under the Company's revolving credit facility.

8. Prepaid expenses

The components of prepaid expenses were as follows:

(in CAD millions)		As at February 2, 2013		As at January 28, 2012
Rent	$	**13.1**	$	14.2
Contracts		**7.9**		5.2
Advertising raw materials		**1.7**		1.5
Supplies		**3.1**		3.6
Insurance		**0.4**		0.3
Miscellaneous		**3.9**		3.1
Total prepaid expenses	$	**30.1**	$	27.9

9. Property, plant and equipment and investment property

The following is a continuity of property, plant and equipment:

(in CAD millions)	Land	Buildings and Leasehold Improvements	Finance Lease Buildings	Finance Lease Equipment	Equipment and Fixtures	Total
Cost or deemed cost						
Balance at January 29, 2011	$ 231.0	$ 1,125.8	$ 37.5	$ —	$ 1,151.5	$ 2,545.8
Additions	—	31.1	—	3.5	45.1	79.7
Disposals	—	(4.8)	—	—	(17.8)	(22.6)
Balance at January 28, 2012	$ 231.0	$ 1,152.1	$ 37.5	$ 3.5	$ 1,178.8	$ 2,602.9
Additions	—	29.8	11.7	—	40.6	82.1
Disposals	—	(32.2)	(3.5)	—	(45.0)	(80.7)
Balance at February 2, 2013	**$ 231.0**	**$ 1,149.7**	**$ 45.7**	**$ 3.5**	**$ 1,174.4**	**$ 2,604.3**
Accumulated depreciation and impairment						
Balance at January 29, 2011	$ —	$ 656.4	$ 6.5	$ —	$ 982.2	$ 1,645.1
Depreciation expense [1]	—	51.0	5.5	1.0	49.3	106.8
Disposals	—	(3.8)	—	—	(17.2)	(21.0)
Balance at January 28, 2012	$ —	$ 703.6	$ 12.0	$ 1.0	$ 1,014.3	$ 1,730.9
Depreciation expense [1]	—	49.2	5.3	1.0	47.4	102.9
Disposals	—	(25.7)	(3.5)	—	(40.1)	(69.3)
Impairment losses (reversals) [1]	$ —	$ 0.5	$ —	$ —	$ (0.7)	$ (0.2)
Balance at February 2, 2013	**$ —**	**$ 727.6**	**$ 13.8**	**$ 2.0**	**$ 1,020.9**	**$ 1,764.3**
Total property, plant and equipment						
Net Balance at February 2, 2013	**$ 231.0**	**$ 422.1**	**$ 31.9**	**$ 1.5**	**$ 153.5**	**$ 840.0**
Net Balance at January 28, 2012	$ 231.0	$ 448.5	$ 25.5	$ 2.5	$ 164.5	$ 872.0

[1] *Depreciation expense and impairment losses are included in "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss).*

Impairment loss

The Company engaged independent qualified third party appraisers to conduct appraisals of its land and building properties. The valuation methods used to determine fair value include the direct capitalization and discounted cash flow methods for buildings and the direct sales comparison for land.

During Fiscal 2012, the Company recognized an impairment loss of $1.9M on the Montreal distribution centre (2011: Nil). The impairment loss is due to the application of a lower market rent rate in the valuation model in comparison to the prior year. The impairment loss of $1.9M is included in "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss).

During Fiscal 2012, the Company recorded an impairment loss reversal relating to leasehold improvements (net of accumulated amortization) of $2.1 million in "Selling, administrative and other expenses". The impairment loss reversal was a result of the proceeds received from the agreement to surrender and terminate early the operating lease on its Deerfoot (Calgary) Full-line store. The Company did not record any reversals of previously recorded impairment losses during Fiscal 2011.

Investment property

Investment property owned by the Company represents vacant land with no operating activity. During Fiscal 2012, there were no investment property additions, disposals or impairment losses. As at February 2, 2013, the carrying value and fair value of investment property were $21.7 million and $25.4 million, respectively (January 28, 2012: $21.7 million and $23.2 million).

10. Goodwill and intangible assets

10.1 Allocation of goodwill to cash generating units

Goodwill has been allocated for impairment testing purposes to the following CGUs:

- Corbeil
- Home Improvement Product Services

The following is a continuity of goodwill, as allocated by CGU:

(in CAD millions)		**2012**		2011
Corbeil				
Balance, beginning of fiscal year	$	**2.6**	$	2.6
Balance, end of fiscal year	$	**2.6**	$	2.6
Home Improvement Product Services				
Balance, beginning of fiscal year	$	**6.1**	$	8.6
Impairment losses		**—**		(2.5)
Balance, end of fiscal year	$	**6.1**	$	6.1
Total goodwill	$	**8.7**	$	8.7

In the assessment of impairment, management used historical data and past experience as the key assumptions in the determination of the recoverable amount. The Company completed a test for goodwill impairment on an annual basis in Fiscal 2012 and Fiscal 2011.

The Company has made certain assumptions for the discount and terminal growth rates to reflect variations in expected future cash flows. These assumptions may differ or change quickly depending on economic conditions or other events. Therefore, it is possible that future changes in assumptions may negatively impact future valuations of CGU's and goodwill, which would result in further impairment losses.

- Corbeil

The recoverable amount of this CGU is determined based on its estimated fair value less costs to sell. The fair value was determined based on the present value of the estimated cash flow over a 10 year period and a terminal value equivalent to the present value of 5 times after-tax cash flow representing the value of the business beyond the 10 year cash flow projection. Cost to sell was estimated to be 2% of the fair value, which reflects management's best estimate of the potential costs associated with divesting of the businesses considered. A discount rate of 10.2% was applied to the cash flow projections based on management's best estimate of the CGU's weighted average cost of capital considering the risks facing the CGU. Annual growth rates of 5% for the first 5 years and 2% for the subsequent 5 years were used for Corbeil given the businesses' historical growth experience and anticipated growth. The recoverable amount was determined to be greater than the carrying value including the goodwill allocated to the Corbeil CGU, therefore, no impairment was identified in Fiscal 2012 (2011: Nil).

- Home Improvement Product Services

The recoverable amount of this CGU is determined based on its estimated fair value less costs to sell. The fair value was determined based on the present value of the estimated cash flow over a 10 year period. Cost to sell was estimated to be 2% of the fair value of the business. This reflects management's best estimate of the potential costs associated with divesting of the business. A discount rate of 12% per annum was used, based on management's best estimate of the CGU's weighted average cost of capital considering the risks facing the CGU. The cash flow projection is based on management's best estimate given the new strategic relationship with SHS Services Management Inc. to commence in Fiscal 2013. For additional information, please see Note 34. The recoverable amount was determined to be greater than the carrying value including the goodwill allocated to the Home Improvement Product Services CGU, therefore, no impairment was identified in Fiscal 2012 (2011: $2.5 million).

10.2 Intangible assets

The following is a continuity of intangible assets:

(in CAD millions)		Application Software		Information System Software		Total
Cost or deemed cost						
Balance at January 29, 2011	$	20.0	$	124.6	$	144.6
Additions		6.8		1.5		8.3
Disposals		—		(0.1)		(0.1)
Balance at January 28, 2012	$	26.8	$	126.0	$	152.8
Additions		8.1		5.8		13.9
Disposals		—		(0.4)		(0.4)
Balance at February 2, 2013	**$**	**34.9**	**$**	**131.4**	**$**	**166.3**
Accumulated amortization						
Balance at January 29, 2011	$	10.2	$	110.9	$	121.1
Amortization expense [1]		3.7		4.4		8.1
Balance at January 28, 2012	$	13.9	$	115.3	$	129.2
Amortization expense [1]		5.1		5.3		10.4
Disposals		—		(0.5)		(0.5)
Balance at February 2, 2013	**$**	**19.0**	**$**	**120.1**	**$**	**139.1**
Total intangible assets						
Net Balance at February 2, 2013	**$**	**15.9**	**$**	**11.3**	**$**	**27.2**
Net Balance at January 28, 2012	$	12.9	$	10.7	$	23.6

1 *Amortization expense and impairment losses are included in "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). No impairment losses were recognized on intangible assets for both Fiscal 2012 and Fiscal 2011.*

11. Investment in joint ventures

The Company's investment in joint ventures includes its share of income or losses from its joint venture interests in 11 shopping centres across Canada, most of which contain a Sears store. Joint venture investments range from 15% to 50% and are co-owned with Westcliff Group and Ivanhoe Cambridge Properties. The jointly controlled entities and Sears ownership interest in each as at February 2, 2013 are listed below:

Entity Name	Properties	Joint Venture Partner	Ownership Interest
Carrefour Richelieu Realties (St-Jérôme)	Carrefour Richelieu	Westcliff Group	50%
Carrefour Richelieu Realties (St-Jean)	Carrefour du Nord	Westcliff Group	50%
Carrefour Richelieu Realties (Carrefour Angrignon)	Carrefour Angrignon	Westcliff Group	50%
Carrefour Richelieu Realties (Place Angrignon)	Place Angrignon	Westcliff Group	50%
Carrefour Richelieu Realties (Pierre Caisse)	Place Pierre Caisse	Westcliff Group	50%
Carrefour Richelieu Realties (Drummondville)	Promenades de Drummondville	Westcliff Group	50%
Méga-Centre Drummondville	Mega Centre Drummondville	Westcliff Group	50%
Société de Gestion des Neiges Ville- Marie	Various land holdings in Quebec. Canada	Westcliff Group	50%
133562 Canada Inc.	Various land holdings in Quebec, Canada	Westcliff Group	50%
172098 Canada Inc.	Drummondville Stripmall	Westcliff Group	50%
Kildonan Place	Kildonan Place	Ivanhoe Cambridge	20%
Regionaux (Les Rivières Shopping Centre)	Les Rivieres Shopping Centre	Ivanhoe Cambridge	15%
Regionaux (Les Galeries de Hull)	Les Galeries de Hull	Ivanhoe Cambridge	15%

During the fourth quarter of 2012, the Company sold its interest in Medicine Hat Mall for net proceeds of $38.3 million, recognizing a pre-tax gain of $8.6 million on the sale. During the third quarter of 2011, the Company sold its share of assets in Chatham Centre for net proceeds of $1.6 million, recognizing a pre-tax gain of $0.1 million on the sale.

The following represents the Company's share of investments in the assets and liabilities, revenues and expenses of the joint ventures:

(in CAD millions)		As at February 2, 2013		As at January 28, 2012
Current assets	$	**3.0**	$	6.4
Non-current assets		**287.9**		333.5
Total assets	$	**290.9**	$	339.9
Current liabilities	$	**5.8**	$	7.9
Non-current liabilities		**21.7**		30.6
Total liabilities	$	**27.5**	$	38.5
Investment in joint ventures	$	**263.4**	$	301.4

(in CAD millions)		2012		2011
Revenues	$	**46.2**	$	48.0
Expenses				
Administrative and other expenses		**19.8**		23.3
Impairment loss		**2.2**		—
Finance costs		**1.5**		2.0
Tax expense		**—**		0.1
Depreciation expense		**13.2**		14.3
Share of income from joint ventures	$	**9.5**	$	8.3

Impairment loss

The Company engaged independent qualified third-party appraisers to conduct appraisals of its land and building properties. The valuation methods used to determine fair value include the direct capitalization and discounted cash flow methods for buildings and the direct sales comparison for land.

During Fiscal 2012, the Company recognized an impairment loss of $2.2 million on the Promenades de Drummondville property (2011: Nil). The fair value of these assets were determined based on an independent, qualified third-party appraisal. The impairment loss of $2.2 million is included in "Share of income from joint ventures" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss).

12. Other long-term assets

The components of other long-term assets were as follows:

(in CAD millions)		As at February 2, 2013		As at January 28, 2012
Income taxes recoverable	$	**13.9**	$	30.3
Prepaid rent		**9.4**		11.0
Receivables		**3.3**		6.6
Investments		**1.3**		1.3
Unamortized debt transaction costs		**6.2**		—
Other long-term assets	$	**34.1**	$	49.2

13. Deferred revenue

The components of deferred revenue were as follows:

(in CAD millions)		As at February 2, 2013		As at January 28, 2012
Arising from extended warranty service contracts (i)	$	**151.5**	$	144.6
Arising from unshipped sales (ii)		**60.9**		65.7
Arising from customer loyalty program (iii)		**37.7**		41.3
Arising from gift card issuances (iv)		**25.5**		29.1
Arising from vendor partnership agreements (v)		**6.5**		9.7
Other (vi)		**6.1**		6.8
Total deferred revenue	$	**288.2**	$	297.2
Current	$	**197.5**	$	208.0
Non-current		**90.7**		89.2
Total deferred revenue	$	**288.2**	$	297.2

The following explanations describe the Company's deferred revenue:

(i) Deferred revenue arising from the sale of extended warranty service contracts, which provide coverage for product repair services over the term of the contracts.

(ii) Deferred revenue arising from the sale of merchandise which has not yet been delivered to or picked up by the customer. The revenue is recognized once the merchandise is delivered to the customer.

(iii) Deferred revenue arising from the Company's Sears Club loyalty program.

(iv) Deferred revenue arising from the purchase of gift cards by customers that have not yet been redeemed for merchandise. At redemption of the gift card, the revenue is recognized.

(v) Deferred revenue arising from multi-element partnership agreements with vendors. The revenue is recognized in accordance with the terms of the agreements.

(vi) Other includes deferred revenue for goods that have not yet been fully delivered or services not yet rendered. The revenue is recognized when the goods have been delivered or by reference to the stage of completion of the service.

14. Financial instruments

In the ordinary course of business, the Company enters into financial agreements with banks and other financial institutions to reduce underlying risks associated with interest rates and foreign currency. The Company does not hold or issue derivative financial instruments for trading or speculative purposes.

Financial instrument risk management

The Company is exposed to credit, liquidity and market risk as a result of holding financial instruments. Market risk consists of foreign exchange and interest rate risk.

14.1 Credit risk

Credit risk refers to the possibility that the Company can suffer financial losses due to the failure of the Company's counterparties to meet their payment obligations. Exposure to credit risk exists for derivative instruments, cash and cash equivalents, accounts receivable and other long-term assets.

Cash and cash equivalents, accounts receivable and investments included in other long-term assets of $314.5 million as at February 2, 2013 (January 28, 2012: $514.9 million) expose the Company to credit risk should the borrower default on maturity of the investment. The Company manages this exposure through policies that require borrowers to have a minimum credit rating of A, and limiting investments with individual borrowers at maximum levels based on credit rating.

The Company is exposed to minimal credit risk from customers as a result of ongoing credit evaluations and review of accounts receivable collectability. As at February 2, 2013, no customers represented greater than 10.0% of the Company's accounts receivable (January 28, 2012 : one customer represented 26.5% of the Company's accounts receivable).

14.2 Liquidity risk

Liquidity risk is the risk that the Company may not have cash available to satisfy financial liabilities as they come due. The Company actively maintains access to adequate funding sources to ensure it has sufficient available funds to meet current and foreseeable financial requirements at a reasonable cost.

The following table summarizes the carrying amount and the contractual maturities of both the interest and principal portion of significant financial liabilities as at February 2, 2013:

		Contractual Cash Flow Maturities				
(in CAD millions)	Carrying Amount	Total	Within 1 year	1 year to 3 years	3 years to 5 years	Beyond 5 years
Accounts payable and accrued liabilities	$ 482.0	$ 482.0	$ 482.0	$ —	$ —	$ —
Long-term obligations including payments due within one year [1]	36.1	48.4	7.6	11.6	9.7	19.5
Operating lease obligations [2]	n/a	496.7	96.7	155.2	98.9	145.9
Minimum purchase commitments [2,4]	n/a	17.5	5.0	12.5	—	—
Royalties [2]	n/a	2.3	1.8	0.5	—	—
Retirement benefit plans obligations [2,3]	415.7	114.9	29.3	58.7	26.9	—
	$ 933.8	**$ 1,161.8**	**$ 622.4**	**$ 238.5**	**$ 135.5**	**$ 165.4**

1 *Cash flow maturities related to long-term obligations, including payments due within one year, include annual interest on finance lease obligations at a weighted average rate of 7.6%. The Company had no borrowings on the Credit Facility at February 2, 2013.*

2 *Minimum purchase commitments, operating lease obligations, retirement benefit plans funding obligations and royalties are not reported in the Consolidated Statements of Financial Position.*

3 *Payments beyond 2013 are subject to a funding valuation to be completed as at December 31, 2013. Until then, the Company is obligated to fund in accordance with the most recent valuation completed as at December 31, 2010.*

4 *Certain vendors require minimum purchase commitment levels over the term of the contract.*

Management believes that cash on hand, future cash flow generated from operations and availability of current and future funding will be adequate to support these financial liabilities.

Market risk

Market risk exists as a result of the potential for losses caused by changes in market factors such as foreign currency exchange rates, interest rates and commodity prices.

14.3 Foreign exchange risk

The Company enters into foreign exchange contracts to reduce the foreign exchange risk with respect to U.S. dollar denominated assets and liabilities and purchases of goods or services. As at February 2, 2013 and January 28, 2012, there were no contracts outstanding and therefore no derivative financial assets nor derivative financial liabilities were recognized in the Consolidated Statements of Financial Position.

During Fiscal 2012, the Company recorded a loss of $0.6 million (2011: gain of $0.9 million), relating to the translation or settlement of U.S. dollar denominated monetary items consisting of cash and cash equivalents, accounts receivable and accounts payable.

The period end exchange rate was 1.0027 U.S. dollar to Canadian dollar. A 10% appreciation or depreciation of the U.S. and or the Canadian dollar exchange rate was determined to have an after-tax impact on net earnings (loss) of $4.3 million for U.S. dollar denominated balances included in cash and cash equivalents, accounts receivable and accounts payable.

14.4 Interest rate risk

From time to time, the Company enters into interest rate swap contracts with approved financial institutions to manage exposure to interest rate risks. As at February 2, 2013, the Company had no interest rate swap contracts in place (January 28, 2012: nil).

Interest rate risk reflects the sensitivity of the Company's financial condition to movements in interest rates. Financial assets and liabilities which do not bear interest or bear interest at fixed rates are classified as non-interest rate sensitive.

Cash and cash equivalents and borrowings under the secured revolving credit facility are subject to interest rate risk. The total subject to interest rate risk as at February 2, 2013 was a net asset of $238.3 million (January 28, 2012: net asset of $297.7 million). An increase or decrease in interest rates of 0.25% would cause an immaterial after-tax impact on net (loss) earnings.

14.5 Classification and fair value of financial instruments

The estimated fair values of financial instruments presented are based on relevant market prices and information available at those dates. The following table summarizes the classification and fair value of certain financial instruments as at the specified dates. The Company determines the classification of a financial instrument when it is initially recorded, based on the underlying purpose of the instrument. As a significant number of the Company's assets and liabilities, including inventories and capital assets, do not meet the definition of financial instruments, values in the tables below do not reflect the fair value of the Company as a whole.

The fair value of financial instruments are classified and measured according to the following three levels, based on the fair value hierarchy.

- Level 1: Quoted prices in active markets for identical assets or liabilities
- Level 2: Inputs other than quoted prices in active markets that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: Inputs for the asset or liability that are not based on observable market data

(in CAD millions)

Classification	Balance Sheet Category	Fair Value Hierarchy[1]	**As at February 2, 2013**	As at January 28, 2012
Available for sale				
Cash equivalents	Cash and cash equivalents[1]	Level 1	**159.9**	199.9
Cash equivalents	Cash and cash equivalents[1]	Level 2	**20.5**	20.3
Fair value through profit or loss				
Long-term investments	Other long-term assets	Level 3	**1.3**	1.3

[1] *Interest income related to cash and cash equivalents is disclosed in Note 5.*

All other assets that are financial instruments not listed in the chart above have been classified as "Loans and receivables". All other financial instrument liabilities have been classified as "Other liabilities" and are measured at amortized cost in the Consolidated Statements of Financial Position. The carrying value of these financial instruments approximate fair value given that they are short-term in nature.

15. Accounts payable and accrued liabilities

The components of "Accounts payable and accrued liabilities" as included in the Consolidated Statements of Financial Position were as follows:

(in CAD millions)		As at February 2, 2013		As at January 28, 2012
Total accounts payable	$	**305.7**	$	401.9
Payroll and employee benefits		**29.1**		28.7
Merchandise accruals		**71.0**		45.3
Short-term leasehold inducements		**9.8**		8.4
Advertising accruals		**12.4**		12.7
Other accrued liabilities		**54.0**		79.8
Total accrued liabilities	$	**176.3**	$	174.9
Total accounts payable and accrued liabilities	$	**482.0**	$	576.8

16. Provisions

The following is a continuity which shows the change in provisions during Fiscal 2012 and Fiscal 2011:

(in CAD millions)		As at January 28, 2012		Additional Provisions		Release of Provisions		Reversed Provisions		As at February 2, 2013
Insurance (i)	$	19.4	$	0.2	$	(1.3)	$	—	$	**18.3**
Returns and allowances (ii)		12.2		9.8		(9.0)		—		**13.0**
Warranties (iii)		11.0		0.3		(0.2)		(0.1)		**11.0**
Sales tax (iv)		1.6		2.5		(0.3)		(1.4)		**2.4**
Severance (v)		13.5		19.3		(16.0)		(2.1)		**14.7**
Environmental (vi)		4.6		2.9		(1.3)		(1.4)		**4.8**
Other provisions (vii)		3.0		1.1		(1.2)		(0.4)		**2.5**
Total provisions	$	65.3	$	36.1	$	(29.3)	$	(5.4)	$	**66.7**
Current	$	64.8	$	36.1	$	(29.2)	$	(5.4)	$	**66.3**
Non-current (iii)		0.5		—		(0.1)		—		**0.4**
Total provisions	$	65.3	$	36.1	$	(29.3)	$	(5.4)	$	**66.7**

(in CAD millions)		As at January 29, 2011		Additional Provisions		Release of Provisions		Reversed Provisions		As at January 28, 2012
Insurance (i)	$	23.8	$	1.4	$	(5.8)	$	—	$	19.4
Returns and allowances (ii)		14.3		12.2		(14.3)		—		12.2
Warranties (iii)		13.1		—		(2.1)		—		11.0
Sales tax (iv)		5.4		—		(3.8)		—		1.6
Severance (v)		2.7		12.9		(2.1)		—		13.5
Environmental (vi)		5.0		2.9		(2.0)		(1.3)		4.6
Other provisions (vii)		1.6		2.7		(1.3)		—		3.0
Total provisions	$	65.9	$	32.1	$	(31.4)	$	(1.3)	$	65.3
Current	$	65.3	$	32.1	$	(31.3)	$	(1.3)	$	64.8
Non-current (iii)		0.6		—		(0.1)		—		0.5
Total provisions	$	65.9	$	32.1	$	(31.4)	$	(1.3)	$	65.3

The following explanations describe the Company's provisions:

(i) The provision for insurance, or general liability claims, represents the Company's best estimate of the future outflow of economic resources due to automobile, product and other general liability claims. Insurance claims relating to this provision are expected to be paid over the next several years; however, as the Company has no unconditional right to defer the settlement past at least 12 months, this provision is considered to be current. In estimating the obligation associated with incurred losses, the Company utilizes actuarial methodologies validated by an independent third party.
These actuarial methodologies utilize historical data to project future incurred losses. Loss estimates are adjusted based on reported claims and actual settlements.

(ii) The provision for returns and allowances represents the Company's best estimate of the future outflow of economic resources due to merchandise returns and allowances. Returns and allowances relating to this provision are expected to be realized over the next 12 months. Uncertainty exists relating to the amount and timing of returns and allowances, therefore, historical data has been used to arrive at this estimate.

(iii) The provision for warranty claims represents the Company's best estimate of the future outflow of economic resources that will be required due to the Company's warranty obligations. Costs incurred to service warranty claims relating to this provision are expected to be paid out over the next 2 years. Uncertainty exists relating to the number of incidents requiring merchandise repair and the related costs. This provision is estimated based on historical warranty trends and costs. The amount of expected reimbursements recorded as at February 2, 2013 was $2.6 million (January 28, 2012: $2.3 million) and is reflected in "Accounts receivable, net" and "Other long-term assets" in the Consolidated Statements of Financial Position. The provision for warranty claims is comprised of both a current (claims realized within 12 months) and non-current component (claims realized between 13 and 24 months), with the balances respectively reflected in "Provisions" and "Other long-term liabilities" (see Note 18) in the Consolidated Statements of Financial Position.

(iv) The Company maintains provisions for sales tax assessments under active discussion, audit, dispute or appeal with tax authorities. These provisions represent the Company's best estimate of the amount expected to be paid based on qualitative and quantitative assessments. Though uncertainty exists around the timing of settlement of the disputes or appeals with tax authorities, the Company expects that sales tax provisions will be settled within 4 years. However, as the Company has no unconditional right to defer the settlement of these provisions past at least 12 months, these provisions are classified as current.

(v) The provision for severance represents the Company's best estimate of the future outflow of payments to terminated employees who have made claims. Uncertainty exists relating to the amount of severance that will be awarded in court proceedings. As the Company has no unconditional right to defer these payments past 12 months, this provision is classified as current.

(vi) The environmental provision represents the costs to remediate environmental contamination associated with decommissioning auto centres as well as the cost to remove asbestos to meet regulatory requirements. The provision is based on assessments conducted by third parties as well as historical data. Given the timing of payments to remediate is uncertain and that the Company has no unconditional right to defer these payments past at least 12 months, this provision is classified as current.

(vii) The provisions for other represent the Company's best estimate of various reserves relating to the future outflow of economic resources due to obligations for miscellaneous claims. The estimates for these provisions have been made on the basis of information currently available to determine the obligations. These provisions are classified as current.

17. Long-term obligations and finance costs

Long-term obligations

Total outstanding long-term obligations were as follows:

(in CAD millions)		**As at February 2, 2013**		As at January 28, 2012
Finance lease obligations - Current		**5.2**		5.1
Total principal payments on long-term obligations due within one year	$	**5.2**	$	5.1
Secured revolving credit facility, net	$	**—**	$	93.1
Finance lease obligations - Non-current		**30.9**		24.5
Total long-term obligations	$	**30.9**	$	117.6

The Company's debt consists of a secured credit facility and finance lease obligations. In September 2010, the Company entered into an $800.0 million senior secured revolving credit facility (the "Credit Facility") with a syndicate of lenders with a maturity date of September 10, 2015. The Credit Facility is secured with a first lien on inventory and credit card receivables. Availability under the Credit Facility is determined pursuant to a borrowing base formula. Availability under the Credit Facility was $501.5 million as at February 2, 2013 (January 28, 2012: $415.1 million). The current availability may be reduced by reserves currently estimated by the Company to be approximately $300.0 million, which may be applied by the lenders at their discretion pursuant to the Credit Facility agreement. As a result of judicial developments relating to the priorities of pension liability relative to certain secured obligations, the Company has executed an amendment to its Credit Facility agreement which would provide additional security to the lenders, with respect to the Company's unfunded pension liability by pledging certain real estate assets as collateral, thereby partially reducing the potential reserve amount the lenders could apply by up to $150.0 million. The potential additional reserve amount may increase or decrease in the future based on estimated net pension liabilities.

The Credit Facility contains covenants which are customary for facilities of this nature and the Company was in compliance with all covenants as at February 2, 2013.

As at February 2, 2013, the Company had no borrowings on the Credit Facility and had unamortized transaction costs incurred to establish the Credit Facility of $6.2 million included in "Other long-term assets" in the Consolidated Statements of Financial Position (January 28, 2012: borrowings of $93.1 million, net of unamortized transaction costs of $8.0 million, included in "Long-term obligations"). In addition, the Company had $19.7 million (January 28, 2012: $6.3 million) of standby letters of credit outstanding against the Credit Facility. These letters of credit cover various payments including third party payments, utility commitments and defined benefit plan deficit funding (See Note 20 for additional information on Retirement benefits plans). Interest on drawings under the Credit Facility is determined based on bankers' acceptance rates for one to three month terms or the prime rate plus a spread. Interest amounts on the Credit Facility are due monthly and are added to principal amounts outstanding.

As at February 2, 2013, the Company had outstanding merchandise letters of credit of U.S. $7.9 million (January 28, 2012: U.S. $5.5 million) used to support the Company's offshore merchandise purchasing program with restricted cash and cash equivalents pledged as collateral.

Finance costs

Interest expense on long-term obligations, including finance lease obligations, the current portion of long-term obligations, amortization of transaction costs and commitment fees on the unused portion of the Credit Facility for Fiscal 2012 totaled $9.4 million (2011: $9.3 million). Interest expense is included in "Finance costs" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). Also included in "Finance costs" for Fiscal 2012, were $3.9 million (2011: $5.2 million) of interest on accruals for uncertain tax positions and nil (2011: $1.5 million) related to interest on a sales tax assessment.

The Company's cash payments for interest on long-term obligations, including finance lease obligations, the current portion of long-term obligations and commitment fees on the unused portion of the Credit Facility for Fiscal 2012 totaled $7.7 million (2011: $6.8 million).

18. Other long-term liabilities

The components of other long-term liabilities were as follows:

(in CAD millions)		**As at February 2, 2013**		As at January 28, 2012
Leasehold inducements	$	**67.1**	$	66.8
Straight-line rent liability		**5.0**		6.4
Miscellaneous		**2.6**		2.6
Total other long-term liabilities	$	**74.7**	$	75.8

The non-current portion of the warranties provision (see Note 16) is reflected in the miscellaneous component of "Other long-term liabilities" in the Consolidated Statements of Financial Position.

19. Leasing arrangements

19.1 Finance lease arrangements – Company as lessee

As at February 2, 2013, the Company had finance lease arrangements related to the building and equipment components of certain leased properties, which include retail, office and warehouse locations. The related land components of these properties have been separately classified as operating leases. The buildings and equipment held under finance leases are used in the normal course of operations and do not contain significant unusual or contingent lease terms or restrictions. Building leases typically run for a period of 1 to 10 years, with some leases providing an option to renew after that date. Equipment leases typically run for a period of 1 to 5 years, with some leases providing an option to renew after that date.

Finance lease buildings and equipment are included in the Consolidated Statements of Financial Position under "Property, plant and equipment." Note 9 provides further details on the net carrying value of these assets, which as at February 2, 2013 was $33.4 million (January 28, 2012: $28.0 million).

As at February 2, 2013, the corresponding finance lease obligations, current and non-current, were $5.2 million (January 28, 2012: $5.1 million) and $30.9 million (January 28, 2012: $24.5 million), included in the Consolidated Statements of Financial Position under "Principal payments on long-term obligations due within one year" and "Long-term obligations," respectively (see Note 17).

The table below presents the future minimum lease payments of the Company's finance lease obligations:

			As at February 2, 2013			As at January 28, 2012
(in CAD millions)	**Finance lease payments**	**Future finance costs**	**Present value of minimum lease payments**	Finance lease payments	Future finance costs	Present value of minimum lease payments
Within 1 year	**$ 7.6**	**$ 2.4**	**$ 5.2**	$ 7.0	$ 1.9	$ 5.1
2 years	**6.5**	**2.1**	**4.4**	6.0	1.5	4.5
3 years	**5.1**	**1.9**	**3.2**	4.8	1.2	3.6
4 years	**4.8**	**1.6**	**3.2**	3.3	1.1	2.2
5 years	**4.9**	**1.4**	**3.5**	3.1	0.9	2.2
Thereafter	**19.5**	**2.9**	**16.6**	14.2	2.2	12.0
Total minimum payments	**$ 48.4**	**$ 12.3**	**$ 36.1**	$ 38.4	$ 8.8	$ 29.6

Interest on finance lease obligations is recognized immediately in "Finance costs" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss) (see Note 17). Included in total "Finance costs" in Fiscal 2012, was $2.4 million (2011: $2.2 million) of interest related to finance lease obligations.

19.2 Operating lease arrangements – Company as lessor

The Company has a number of agreements to sub-lease premises to third parties, which are all classified as operating leases. During Fiscal 2012, total sub-lease income from leased premises was $3.0 million (2011: $2.8 million).

As at February 2, 2013, total future minimum lease payments receivable from third party tenants were $10.3 million (2011: $9.7 million).

19.3 Operating lease arrangements – Company as lessee

As at February 2, 2013, the Company had operating lease arrangements related to leased retail and office properties as well as equipment assets. The leases typically run for a period of 1 to 10 years, with some leases providing an option to renew after that date. Some leases include additional or contingent rent payments that are based on sales and step rent payments which are recognized on a straight-line basis over the term of the lease. During Fiscal 2012, contingent rent recognized as an expense in respect of operating leases totaled $0.9 million (2011: $0.9 million). Rental expense for all operating leases totaled $105.6 million in Fiscal 2012 (2011: $103.4 million). These expenses are included in "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss).

The table below presents the contractual maturities of future minimum lease payments for the Company's operating leases:

(in CAD millions)		As at February 2, 2013		As at January 28, 2012
Within 1 year	$	**96.7**	$	102.7
2 years		**85.1**		86.2
3 years		**70.1**		66.8
4 years		**52.9**		55.9
5 years		**46.0**		42.1
Thereafter		**145.9**		156.4
Total operating lease obligations [1]	$	**496.7**	$	510.1

1 *Operating lease obligations are not reported in the Consolidated Statements of Financial Position*

20. Retirement benefit plans

The Company currently maintains a defined benefit registered pension plan and a defined contribution registered pension plan which covers eligible, regular full-time associates as well as some of its part-time associates. The defined benefit plan provides pensions based on length of service and final average earnings. In addition to a registered retirement savings plan, the pension plan includes a non-registered supplemental savings arrangement in respect to the defined benefit plan. The non-registered portion of the plan is maintained to enable certain associates to continue saving for retirement in addition to the registered limit as prescribed by the Canada Revenue Agency. The Company also maintains a defined benefit non-pension post retirement plan which provides life insurance, medical and dental benefits to eligible retired associates through a health and welfare trust ("Other Benefits Plan"). Also provided for under the health and welfare trust are short-term disability payments for active associates. The Company's accounting policies related to retirement benefit plans are described in Note 2.15.

In July 2008, the Company amended its pension plan and introduced a defined contribution component. The defined benefit component continues to accrue benefits related to future compensation increases although no further service credit is earned. In addition, the Company no longer provides medical, dental and life insurance benefits at retirement for associates who had not achieved the eligibility criteria for these non-pension post retirement benefits as at December 31, 2008. Effective December 2009, the Company made the decision to change funding for non pension post retirement benefits from an actuarial basis to a pay-as-you-go basis to allow the surplus in the health and welfare trust to be utilized to make benefit payments. In addition, to further utilize the surplus, short-term disability payments of eligible associates are paid on a pay-as-you-go basis from the health and welfare trust and are no longer funded by the Company.

In the fourth quarter of 2012, the Company made a voluntary offer to settle health and dental benefits of eligible members covered under the non-pension post retirement plan. Based on the accepted offers, the Company paid $18.1 million and recorded a pre-tax settlement gain of $21.1 million ($21.9 million net of $0.8 million of expenses), as shown on the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss).

The Company early adopted the amendments to IAS 19 beginning January 29, 2012, with retrospective application to prior reporting periods. A description of the nature of the change in accounting policy and a summary of its impact to the Company's consolidated financial statements are included in Note 2.

Risks associated with retirement benefit plans

There is no assurance that the Company's retirement benefit plans will be able to earn the assumed rate of return. New regulations and market driven changes may result in changes in the discount rates and other variables which would result in the Company being required to make contributions in the future that differ significantly from the estimates. Management is required to use assumptions to account for the plans in conformity with IFRS. However, actual future experience will differ from these assumptions giving rise to actuarial gains or losses. In any year, actual experience differing from the assumptions may be material.

Plan assets consist primarily of cash, alternative investments and marketable equity and fixed income securities. The value of the marketable equity and fixed income investments will fluctuate due to changes in market prices. Plan obligations and annual pension expense are determined by independent actuaries and through the use of a number of assumptions. Although the Company believes that the assumptions used in the actuarial valuation process are reasonable, there remains a degree of risk and uncertainty which may cause results to differ from expectations. Significant assumptions in measuring the benefit obligations and pension plan costs include the discount rate and the rate of compensation increase.

Asset-liability matching strategies

Beginning in Fiscal 2011, the Company adopted an asset-liability matching strategy in the Other Benefits Plan wherein assets are invested in accordance with a short-term fixed income mandate. The current portfolio is primarily bonds with maturities not exceeding two years. This investment strategy is aligned with the expected use of the assets, which is to fund the Company's retiree health benefits and short-term disability payments within the next two years.

Plan amendments, curtailments and settlements

In Fiscal 2012, the Company amended the non-registered supplemental savings arrangement in respect to the defined benefit plan to allow the use of letters of credit to satisfy the funding requirement of its deficit. At February 2, 2013 a letter of credit with a notional value of $4.6 million was on deposit with the Trustee for the non-registered portion of the defined benefit plan.

In January 2013, the Company announced the termination of 700 associates. This event did not require the recording of a curtailment as its impact on the pension plan was not significant.

Maturity profile of retirement benefit plan obligations

The weighted average durations of the Registered Retirement Plans, Non-registered Pension Plan and Other Benefit Plan are all approximately 11 years.

The Company's contractual cash flow maturity relating to retirement benefit plan obligation payments is included under "Liquidity Risk" in Note 14.

20.1 Retirement benefit asset and liability

The Company measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at January 31. The most recent actuarial valuation of the pension plan for funding purposes is dated December 31, 2010. The next actuarial valuation assessment is required as of December 31, 2013. An actuarial valuation of the health and welfare trust is performed at least every 3 years, with the last valuation completed as of September 1, 2011.

	2012				2011			
(in CAD millions)	**Registered Retirement Plans**	**Non-Registered Pension Plan**	**Other Benefits Plan**	**Total**	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan	Total
Defined benefit plan assets								
Fair value. beginning balance	**$ 1,178.9**	**$ 49.3**	**$ 68.7**	**$1,296.9**	$ 1,241.7	$ 47.4	$ 89.9	$1,379.0
Interest income	**54.0**	**2.3**	**2.6**	**58.9**	64.8	2.6	4.1	71.5
Remeasurement gain (loss) on return on plan assets	**73.7**	**0.1**	**(1.9)**	**71.9**	(14.8)	(1.6)	(1.0)	(17.4)
Employer contributions	**32.7**	**1.5**	**18.8**	**53.0**	0.9	6.4	0.7	8.0
Administrative expenses	**(0.4)**	**—**	**—**	**(0.4)**	(0.5)	—	(0.1)	(0.6)
Benefits paid[1]	**(119.8)**	**(3.7)**	**(43.7)**	**(167.2)**	(113.2)	(5.5)	(24.9)	(143.6)
Fair value of plan assets, ending balance	**$ 1,219.1**	**$ 49.5**	**$ 44.5**	**$1,313.1**	$ 1,178.9	$ 49.3	$ 68.7	$1,296.9
Defined benefit plan obligations								
Accrued obligations, beginning balance	**$ 1,377.7**	**$ 50.1**	**$ 321.4**	**$1,749.2**	$ 1,354.7	$ 47.8	$ 302.7	$1,705.2
Total current service cost	**0.9**	**—**	**—**	**0.9**	0.9	—	—	0.9
Interest cost	**62.6**	**2.3**	**14.4**	**79.3**	70.9	2.5	15.8	89.2
Benefits paid	**(119.8)**	**(3.7)**	**(35.6)**	**(159.1)**	(113.2)	(5.5)	(16.4)	(135.1)
Settlement gain	**—**	**—**	**(21.9)**	**(21.9)**	—	—	—	—
Actuarial losses	**62.7**	**1.7**	**16.0**	**80.4**	64.4	5.3	19.3	89.0
Accrued plan obligations, ending balance	**$ 1,384.1**	**$ 50.4**	**$ 294.3**	**$1,728.8**	$ 1,377.7	$ 50.1	$ 321.4	$1,749.2
Funded status of plan – (deficit)	**(165.0)**	**(0.9)**	**(249.8)**	**(415.7)**	(198.8)	(0.8)	(252.7)	(452.3)
Retirement benefit liability at end of fiscal year, net	**$ (165.0)**	**$ (0.9)**	**$ (249.8)**	**$ (415.7)**	$ (198.8)	$ (0.8)	$ (252.7)	$ (452.3)
The retirement benefit liability is included in the Company's Consolidated Statements of Financial Position as follows:								
Retirement benefit liability	**$ (165.0)**	**$ (0.9)**	**$ (249.8)**	**$ (415.7)**	$ (198.8)	$ (0.8)	$ (252.7)	$ (452.3)
Retirement benefit liability at end of fiscal year, net	**$ (165.0)**	**$ (0.9)**	**$ (249.8)**	**$ (415.7)**	$ (198.8)	$ (0.8)	$ (252.7)	$ (452.3)

1 *Benefits paid from the funded assets include retiree benefits and short-term disability of active employees. Other benefits consist of retiree health and dental claims.*

20.2 Fair value of plan assets

The fair value of plan assets disaggregated by asset class and fair value hierarchy level as at February 2, 2013 and January 28, 2012 was as follows:

				As at February 2, 2013				As at January 28, 2012
	Registered Retirement Plans	**Non-Registered Pension Plan**	**Other Benefits Plan**	**Total**	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan	Total
Cash and cash equivalents								
Level 1	**$ 41.2**	**$ 25.2**	**$ 0.1**	**$ 66.5**	$ 25.5	$ 26.3	$ —	$ 51.8
Subtotal	**41.2**	**25.2**	**0.1**	**66.5**	25.5	26.3	—	51.8
Corporate bonds and notes								
Level 1	—	—	—	—		—	—	—
Level 2	**604.7**	—	**12.3**	**617.0**	550.8	—	18.6	569.4
Level 3	**59.7**	—	**0.9**	**60.6**	63.1	—	0.9	64.0
Subtotal	**664.4**	—	**13.2**	**677.6**	613.9	—	19.5	633.4
U.S. Government bonds and securities								
Level 1	—	—	—	—	0.1	—	—	0.1
Level 2	**0.9**	—	—	**0.9**	1.8	—	—	1.8
Subtotal	**0.9**	—	—	**0.9**	1.9	—	—	1.9
Common stock, preferred stock and REITS								
Level 1	**181.7**	—	—	**181.7**	219.6	—	—	219.6
Level 2	—	—	—	—	0.9	—	—	0.9
Subtotal	**181.7**	—	—	**181.7**	220.5	—	—	220.5
Common or collective trusts								
Level 1	—	—	—	—	—	—	—	—
Level 2	**251.8**	**24.3**	—	**276.1**	282.9	23.0	—	305.9
Level 3	—	—	—	—	—			—
Subtotal	**251.8**	**24.3**	—	**276.1**	282.9	23.0	—	305.9
Short-term collective investment funds								
Level 1	—	—	—	—	—	—	—	—
Level 2	**66.0**	—	**0.8**	**66.8**	6.4	—	0.9	7.3
Subtotal	**66.0**	—	**0.8**	**66.8**	6.4	—	0.9	7.3
Hedge funds, options and futures								
Level 2	—	—	—	—	—	—	—	—
Level 3	**3.0**	—	—	**3.0**	15.4	—	0.2	15.6
Subtotal	**3.0**	—	—	**3.0**	15.4	—	0.2	15.6
Receivables								
Level 1	**6.8**	—	**0.5**	**7.3**	9.7	—	0.7	10.4
Level 2	**(0.8)**	—	—	**(0.8)**	(7.1)	—	—	(7.1)
Subtotal	**6.0**	—	**0.5**	**6.5**	2.6	—	0.7	3.3
Miscellaneous other assets								
Level 1	—	—	—	—	—	—	—	—
Level 2	**4.1**	—	**29.9**	**34.0**	9.8	—	47.4	57.2
Level 3	—	—	—	—	—	—	—	—
Subtotal	**4.1**	—	**29.9**	**34.0**	9.8	—	47.4	57.2
Total fair value of plan assets	**$ 1,219.1**	**$ 49.5**	**$ 44.5**	**$ 1,313.1**	$ 1,178.9	$ 49.3	$ 68.7	$ 1,296.9

The three levels of the fair value hierarchy referenced above are discussed in Note 14.5.

20.3 Plan assets investment allocation

During Fiscal 2011, the Company changed the target asset allocation to 55-75% fixed income and 25-45% equity for the registered and non-registered pension plans. For the assets in the health and welfare trust, included in Other Benefit Plans, the Company changed the asset allocation to 100% fixed income. As at the end of Fiscal 2012 and 2011, the assets were in line with the target allocation range, with the transitioning of assets from alternative investments near completion. The asset allocation may be changed from time to time in terms of weighting between fixed income, equity and other asset classes as well as within the asset classes themselves.

The plan's target allocation is determined taking into consideration the amounts and timing of projected liabilities, the Company's funding policies and expected returns on various asset classes. To develop the expected long-term rate of return on assets assumption, the Company considered the historical returns and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio.

At as the end of the current and prior fiscal years, plan assets were invested in the following classes of securities:

	As at February 2, 2013			As at January 28, 2012		
	Registered Retirement Plans	**Non-Registered Pension Plan**	**Other Benefits Plan**	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan
Fixed income securities	**72.3%**	**66.5%**	**100.0%**	69.8%	69.5%	99.7%
Alternative investments	**0.2%**	**—%**	**—%**	1.3%	0.4%	0.3%
Equity securities	**27.5%**	**33.5%**	**—%**	28.9%	30.1%	—%
Total	**100.0%**	**100.0%**	**100.0%**	100.0%	100.0%	100.0%

20.4 Pension assumptions

The significant actuarial assumptions were as follows (weighted average assumptions) as at February 2, 2013 and January 28, 2012 :

	As at February 2, 2013			As at January 28, 2012		
	Registered Retirement Plans	**Non-Registered Pension Plan**	**Other Benefits Plan**	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan
Discount rate used in calculation of Accrued benefit plan obligations	**4.20%**	**4.20%**	**4.20%**	4.70%	4.70%	4.60%
Benefit plans expense	**4.20%**	**4.20%**	**4.20%**	4.70%	4.70%	4.60%
Rate of compensation increase used in calculation of Accrued benefit plan obligations	**3.50%**	**3.50%**	**3.50%**	3.50%	3.50%	3.50%
Benefit plans expense	**3.50%**	**3.50%**	**3.50%**	3.50%	3.50%	3.50%
Expected long-term rate of return on plan assets used in calculation of benefit plans expense	**4.20%**	**4.20%**	**4.20%**	4.70%	4.70%	4.60%
Health care cost trend rates						
Used in calculation of accrued benefit plan obligations			**6.14%**			6.23%
Used in calculation of benefit plans expense			**6.23%**			6.78%
Cost trend rate declines to			**3.82%**			3.82%
Year that the rate reaches assumed constant			**2030**			2030

20.5 Sensitivity of significant actuarial assumptions

The following table summarizes the sensitivity of significant actuarial assumptions on the Company's defined benefit obligation:

	2012			2011		
(in CAD millions)	**Registered Retirement Plans**	**Non-Registered Pension Plan**	**Other Benefits Plan**	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan
Discount rate sensitivity						
Accrued benefit plan obligations						
1% increase in discount rate	**$ (153.4)**	**$ (4.8)**	**$ (29.6)**	$ (150.2)	$ (5.0)	(31.0)
1% decrease in discount rate	**190.5**	**5.7**	**35.5**	187.7	6.0	37.0
Benefit plans expense						
1% increase in discount rate	**(6.7)**	**(0.3)**	**0.8**	(8.1)	(0.1)	0.2
1% decrease in discount rate	**5.1**	**0.2**	**(1.2)**	6.1	—	(0.5)
Rate of compensation increase sensitivity						
Accrued benefit plan obligations						
0.5% increase in rate of compensation increase	**18.5**	**0.5**	**n/a**	21.9	1.0	n/a
0.5% decrease in rate of compensation increase	**(16.4)**	**(0.3)**	**n/a**	(19.4)	(0.6)	n/a
Benefit plans expense						
0.5% increase in rate of compensation increase	**1.0**	**—**	**n/a**	1.1	—	n/a
0.5% decrease in rate of compensation increase	**(0.9)**	**—**	**n/a**	(1.0)	—	n/a
Health care cost trend rate sensitivity						
Accrued benefit plan obligations						
1% increase in health care trend rate	**n/a**	**n/a**	**30.7**	n/a	n/a	29.2
1% decrease in health care trend rate	**n/a**	**n/a**	**(26.1)**	n/a	n/a	(25.0)
Benefit plans expense						
1% increase in health care trend rate	**n/a**	**n/a**	**1.3**	n/a	n/a	1.8
1% decrease in health care trend rate	**n/a**	**n/a**	**(1.2)**	n/a	n/a	(1.8)

The methods and assumptions used in determining the above sensitivity are consistent with the methods and assumptions used to determine the pension plan obligations and with the methods and assumptions used in Fiscal 2011.

20.6 Retirement benefit plans expense and contributions

The expense for the defined benefit, defined contribution and other benefit plans for Fiscal 2012 and Fiscal 2011, was as follows:

	2012				2011			
(in CAD millions)	**Registered Retirement Plans**	**Non-Registered Pension Plan**	**Other Benefits Plan**	**Total**	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan	Total
Current service cost, net of employee contributions	**$ 0.9**	**$ —**	**$ —**	**$ 0.9**	$ 0.9	$ —	$ —	$ 0.9
Net interest	**8.7**	**(0.1)**	**11.8**	**20.4**	6.1	(0.1)	11.7	17.7
Settlement gain	**—**	**—**	**(21.9)**	**(21.9)**	—	—	—	—
Administrative expenses	**0.4**	**—**	**—**	**0.4**	0.5	—	0.1	0.6
Net defined benefit plans expense (income)	**$ 10.0**	**$ (0.1)**	**$ (10.1)**	**$ (0.2)**	$ 7.5	$ (0.1)	$ 11.8	$ 19.2
Net defined contribution plan expense	**9.7**	**—**	**0.2**	**9.9**	10.7	—	0.3	11.0
Total retirement benefit plans expense (income) [1]	**$ 19.7**	**$ (0.1)**	**$ (9.9)**	**$ 9.7**	$ 18.2	$ (0.1)	$ 12.1	$ 30.2

[1] *Not included in total expense recognized are short-term disability payments of $8.1 million (2011: $8.4 million) that were paid from the health and welfare trust. Both short-term disability and the retirement benefit plans expense are included in "Selling, administrative and other expenses", unless disclosed elsewhere, in the Company's Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss).*

Total cash contributions made by the Company to its defined benefit, defined contribution and other benefit plans, including payments to settle health and dental benefits of eligible members covered under the non-pension post retirement plan, for the fiscal year ended February 2, 2013 were $63.0 million (2011: $17.9 million). For Fiscal 2013, it is estimated that the Company will make contributions of approximately $44.5 million to its defined benefit, defined contribution and other benefit plans, which include funding obligations as described in Note 14.2.

20.7 Remeasurements of the net defined retirement benefit liability

	2012				2011			
(in CAD millions)	**Registered Retirement Plans**	**Non-Registered Pension Plan**	**Other Benefits Plan**	**Total**	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan	Total
Actuarial gain (loss) on difference between expected interest income and actual return on plan assets	**$ 73.7**	**$ 0.1**	**$ (1.9)**	**$ 71.9**	$ (14.8)	$ (1.6)	$ (1.0)	$ (17.4)
Actuarial gain (loss) due to change in demographic	**—**	**—**	**—**	**—**	19.0	0.3	(0.6)	18.7
Actuarial loss due to change in financial assumptions	**(80.9)**	**(2.5)**	**(16.0)**	**(99.4)**	(108.6)	(3.6)	(27.0)	(139.2)
Actuarial gain (loss) due to all other experiences	**18.2**	**0.8**	**—**	**19.0**	25.2	(2.0)	8.2	31.4
Total pre-tax remeasurement losses	**$ 11.0**	**$ (1.6)**	**$ (17.9)**	**$ (8.5)**	$ (79.2)	$ (6.9)	$ (20.4)	$ (106.5)
Income tax recovery on remeasurement losses				**3.5**				27.4
Total remeasurement losses, net of income taxes [1]				**$ (5.0)**				$ (79.1)

[1] *Total remeasurement losses, net of income taxes, are included in "Other comprehensive loss" in the Company's Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss).*

The actuarial losses associated with changes in financial assumptions are due to changes in the discount rate. The discount rate as at February 2, 2013 decreased 0.5% for the Registered Retirement Plans and the Non-registered Pension Plan (2011: a decrease of 0.7%), and 0.4% for the Other Benefits Plan (2011: a decrease of 0.8%).

21. Contingent liabilities

21.1 Legal Proceedings

The Company is involved in various legal proceedings incidental to the normal course of business. The Company takes into account all available information, including guidance from experts (such as internal and external legal counsel) at the time of reporting to determine if it is probable that a present obligation (legal or constructive) exists, if it is probable that an outflow of resources embodying economic benefit will be required to settle such obligation and whether the Company can reliably measure such obligation at the end of the reporting period. The Company is of the view that, although the outcome of such legal proceedings cannot be predicted with certainty, the final disposition is not expected to have a material adverse effect on the Company's Consolidated Financial Statements, including its Consolidated Statements of Financial Position, Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss), and Consolidated Statements of Cash Flows.

21.2 Commitments and guarantees

Commitments

As at February 2, 2013, cash and cash equivalents that are restricted represent cash and investments pledged as collateral for letter of credit obligations issued under the Company's offshore merchandise purchasing program of $9.0 million (January 28, 2012: $7.2 million), which is the Canadian equivalent of U.S. $9.0 million (January 28, 2012: U.S. $7.2 million).

The Company has certain vendors which require minimum purchase commitment levels over the term of the contract. Refer to Note 14.2 "Liquidity Risk".

Guarantees

The Company has provided the following significant guarantees to third parties:

Royalty License Agreements

The Company pays royalties under various merchandise license agreements, which are generally based on the sale of products. Certain license agreements require a minimum guaranteed payment of royalties over the term of the contract, regardless of sales. Total future minimum royalty payments under such agreements were $2.3 million as at February 2, 2013 (January 28, 2012: $3.1 million).

Other Indemnification Agreements

In the ordinary course of business, the Company has provided indemnification commitments to counterparties in transactions such as leasing transactions, royalty agreements, service arrangements, investment banking agreements and director and officer indemnification agreements. The Company has also provided certain indemnification agreements in connection with the sale of the credit and financial services operations in November 2005. The foregoing indemnification agreements require the Company to compensate the counterparties for costs incurred as a result of changes in laws and regulations, or as a result of litigation or statutory claims, or statutory sanctions that may be suffered by a counterparty as a consequence of the transaction. The terms of these indemnification agreements will vary based on the contract and typically do not provide for any limit on the maximum potential liability. Historically, the Company has not made any significant payments under such indemnifications and no amounts have been accrued in the consolidated financial statements with respect to these indemnification commitments.

22. Income taxes

The average combined federal and provincial statutory income tax rate applied to the Company was 25.5% for Fiscal 2012 (2011: 28.5%) due to lower legislated statutory tax rates in the current year. A reconciliation of income taxes at the average statutory tax to actual income tax expense for Fiscal 2012 and Fiscal 2011 is as follows:

(in CAD millions)		2012		2011
Earnings (loss) before income taxes	$	**114.2**	$	(56.9)
Income taxes at the average statutory tax rate	$	**29.1**	$	(16.2)
Increase (decrease) in income taxes resulting from				
Non-taxable portion of capital gain		**(19.7)**		—
Non-deductible items		**1.7**		2.1
Prior year assessments		**2.7**		5.1
Prior year true-up		—		(0.1)
		13.8		(9.1)
Effective tax rate before the following adjustments		**12.1%**		16.0%
Changes in tax rates or imposition of new taxes		**(0.8)**		2.5
Total income tax expense (recovery)	$	**13.0**	$	(6.6)
Effective tax rate		**11.4%**		11.6%

The Company's total net cash refunds or payments of income taxes for the current year was a net refund of $4.9 million (2011: net payment of $21.6 million).

In the ordinary course of business, the Company is subject to ongoing audits by tax authorities. While the Company believes that its tax filing positions are appropriate and supportable, periodically, certain matters are challenged by tax authorities. During Fiscal 2012, the Company recorded charges for interest on prior period tax re-assessments and accruals for uncertain tax positions as described in the table below, all included in the Consolidated Statement of Net Earnings (Loss) and Comprehensive Income (Loss) as follows:

(in CAD millions)		2012		2011
Finance costs	$	**(3.9)**	$	(5.2)
Income tax recovery (expense):				
Current	$	**(5.4)**	$	(17.9)
Deferred	$	**2.2**	$	12.8
Total charges on uncertain tax positions	$	**(7.1)**	$	(10.3)

As the Company routinely evaluates and provides for potentially unfavourable outcomes, with respect to any tax audits, the Company believes that, other than as noted above, the final disposition of tax audits will not have a material adverse effect on liquidity.

During Fiscal 2012, the tax authorities settled a disputed tax assessment with the Company and refunded the associated deposit. As a result, the Company reclassified $28.2 million from "Other long-term assets" to "Income taxes recoverable" in the Consolidated Statement of Financial Position. The Company received $29.4 million in net refunds of tax and interest in respect of this issue and recognized $1.9 million net interest income relating to this settlement in "Interest income" in the Consolidated Statement of Net Earnings (Loss) and Comprehensive Income (Loss).

In Fiscal 2012, the Company received re-assessments to previous tax filings which the Company is disputing. The Company expects to place $54.9 million on deposit with the tax authorities relating to these disputed tax matters while the issues are being resolved. During Fiscal 2012, the Company paid $33.5 million of the anticipated deposit of which $11.1 million has been included in "Other long-term assets" and $22.4 million has been included in "Income taxes recoverable" in the Consolidated Statement of Financial Position as at February 2, 2013.

Included in "Other long-term assets" in the Consolidated Statements of Financial Position, as at February 2, 2013, were receivables of $13.9 million (January 28, 2012: $30.3 million) related to payments made by the Company for disputed tax assessments. Of the $33.5 million paid by the Company in deposits during the year for tax disputes, $11.1million in related payments was recorded in Long Term Recoverable.

The tax effects of the significant components of temporary timing differences giving rise to the Company's net deferred tax assets and liabilities were as follows:

(in CAD millions)		**As at February 2, 2013**		As at January 28, 2012
Prepaid expenses	**$**	**—**	$	(0.4)
Accrued liabilities and other long-term liabilities		**57.1**		57.2
Deferred retirement benefit plans		**43.8**		51.4
Other post-retirement benefits		**66.0**		65.0
Amounts related to tax losses carried forward		**0.1**		0.2
Non-depreciable property, plant and equipment		**(37.3)**		(36.6)
Depreciable property, plant and equipment		**(49.5)**		(56.6)
Deferred charges		**(1.5)**		(0.3)
Other		**(0.7)**		(0.7)
Subtotal	**$**	**78.0**	$	79.2
Amounts related to other comprehensive income (loss)		**—**		0.1
Total deferred tax assets (liabilities), net	**$**	**78.0**	$	79.3
Deferred tax assets	**$**	**83.8**	$	84.6
Deferred tax liabilities		**(5.8)**		(5.3)
Total deferred tax assets (liabilities), net	**$**	**78.0**	$	79.3

23. Operating segments

In order to identify the Company's reportable segments, the Company uses the process outlined in IFRS 8, which includes the identification of the Chief Operating Decision Maker, the identification of operating segments, which has been done based on Company formats, and the aggregation of operating segments. The Company has aggregated its operating segments into one reportable segment, which derives its revenue from the sale of merchandise and related services to customers.

24. Capital stock

On May 24, 2011, the Company renewed the Normal Course Issuer Bid with the Toronto Stock Exchange ("TSX") for the period of May 25, 2011 to May 24, 2012 ("2011 NCIB"). Pursuant to the 2011 NCIB, the Company was permitted to purchase for cancellation up to 5% of its issued and outstanding common shares, equivalent to 5,268,599 common shares based on the common shares issued and outstanding as at May 9, 2011. The Company did not renew its 2011 NCIB subsequent to May 24, 2012.

During Fiscal 2012, 870,633 shares were purchased for $9.7 million (2011: 2,668,800 shares were purchased for $42.0 million) and cancelled. The impact of the share repurchases was a decrease to "Capital stock" and "Retained earnings" in the Consolidated Statements of Financial Position of $0.1 million and $9.6 million (2011: $0.4 million and $41.6 million), respectively.

On May 17, 2012 the Company announced Sears Holdings' plan to pursue a distribution, on a pro rata basis, to its shareholders, of a portion of its holdings in the Company such that, immediately following the distribution, Sears Holdings would retain approximately 51% of the issued and outstanding shares of Sears Canada. The distribution was made on November 13, 2012 to Sears Holdings' shareholders of record as of the close of business on November 1, 2012, the record date for the distribution. Every share of Sears Holdings common stock held as of the close of business on the record date entitled the holder to a distribution of 0.4283 Sears Canada common shares. In connection with the announced distribution, the Company has filed documents with the United States Securities and Exchange Commission (SEC).

During Fiscal 2012, the Company distributed $101.9 million to holders of common shares as an extraordinary cash dividend. Payment in the amount of $1.00 per common share was made on December 31, 2012 to shareholders of record as at the close of business on December 24, 2012.

The authorized common share capital of the Company consists of an unlimited number of common shares without nominal or par value and an unlimited number of class 1 preferred shares, issuable in one or more series (the "Class 1 Preferred Shares").
As at the end of February 2, 2013, the only shares outstanding were common shares of the Company. The following table presents a continuity of capital stock for the fiscal years ended February 2, 2013 and January 28, 2012:

		2012			2011
(in CAD millions, except number of shares)	**Number of Common Shares**		**Stated Value**	Number of Common Shares		Stated Value
Balance, beginning of fiscal year	**102,748,295**	**$**	**15.0**	105,417,095	$	15.4
Repurchases of common shares	**(870,633)**		**(0.1)**	(2,668,800)		(0.4)
Balance, end of fiscal year	**101,877,662**	**$**	**14.9**	102,748,295	$	15.0

ESL Investments, Inc., and investment affiliates including Edward S. Lampert, together form the ultimate controlling party of the Company, and is the beneficial holder of 28,158,368 or 27.6%, of the common shares of the Company as at February 2, 2013 (January 28, 2012: nil). Sears Holdings, the controlling shareholder of the Company, is the beneficial holder of 51,962,391 or 51.0%, of the common shares of the Company as at February 2, 2013 (January 28, 2012: 97,341,670.0 or 94.7%). The issued and outstanding shares are fully paid and have no par value.

25. Capital disclosures

The Company's objectives when managing capital are:

- Maintain financial flexibility thus allowing the Company to preserve its ability to meet financial objectives and continue as a going concern;
- Provide an appropriate return to shareholders; and
- Maintain a capital structure that allows the Company to obtain financing should the need arise.

The Company manages and makes adjustments to its capital structure, when necessary, in light of changes in economic conditions, the objectives of its shareholders, the cash requirements of the business and the condition of capital markets. In order to maintain or adjust the capital structure, the Company may pay a dividend or return capital to shareholders, modify debt levels or sell assets.

The Company defines capital as follows:

- Long-term obligations, including the current portion of long-term obligations ("Total long-term obligations"); and
- Shareholders' equity.

The following table presents summary quantitative data with respect to the Company's capital resources:

(in CAD millions)		**As at February 2, 2013**		As at January 28, 2012
Total long-term obligations	**$**	**36.1**	$	122.7
Shareholders' equity		**1,076.4**		1,092.0
Total	**$**	**1,112.5**	$	1,214.7

26. Revenue

The components of the Company's revenue were as follows:

(in CAD millions)		**2012**		2011
Apparel and Accessories	**$**	**1,474.2**	$	1,607.9
Home and Hardlines		**1,125.4**		1,293.6
Major Appliances		**876.3**		864.0
Other merchandise revenue		**362.5**		360.2
Services and other		**321.9**		347.4
Commission revenue		**113.7**		116.7
Licensee revenue		**26.7**		29.5
Total revenue	**$**	**4,300.7**	$	4,619.3

27. Employee benefits expense

The components of the Company's employee benefits expense for the current and prior fiscal year were as follows:

(in CAD millions)		2012		2011 (Recast - Note 2)
Wages and salaries	$	**657.9**	$	685.0
Paid absences [1]		**62.1**		67.1
Benefits				
Provincial healthcare costs		**15.5**		15.4
Flex benefits		**16.6**		16.2
Retirement benefit plans expense		**9.7**		30.2
Statutory deductions [2]		**45.7**		46.0
Severance [3]		**17.1**		25.3
Other employer paid benefits		**(1.2)**		2.1
Total benefits expense	$	**823.4**	$	887.3

[1] *Paid absences are expenses related to vacation, statutory holidays and sick days.*
[2] *Statutory deductions consist of the employer portion of payment for the Canada Pension Plan and Employment Insurance.*
[3] *Included in Severance for Fiscal 2012 were $12.6 million (2011: $19.3 million) of costs related to transformation.*

These expenses are included in "Cost of goods and services sold" and "Selling, administrative and other expenses" in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss).

28. Gain on lease terminations

On March 2, 2012, the Company entered into an agreement to surrender and terminate early the operating leases on three properties: Vancouver Pacific Centre, Chinook Centre (Calgary) and Rideau Centre (Ottawa). The Company was a long-term and important anchor tenant in the three properties, and the landlord approached the Company with a proposal to terminate early the three leases and vacate the premises in exchange for $170.0 million. The payment represents the amount the landlord was willing to pay for the right to redevelop the property based upon their analysis of the potential returns from redevelopment.

On the closing date, April 20, 2012, the Company received cash proceeds of $170.0 million for the surrender of the three leases, resulting in a pre-tax gain of $164.3 million, net of the de-recognition of leasehold improvements of $5.7 million. The Company exited all three properties on October 31, 2012, and has no further financial obligation related to the transaction.

On June 20, 2012, the Company entered an agreement to surrender and terminate early the operating lease on its Deerfoot (Calgary) property. The landlord approached the Company with a proposal to terminate early the lease in exchange for cash proceeds of $5.0 million, subject to certain closing conditions, on the closing date of October 26, 2012. In Fiscal 2010, the Company incurred an impairment loss of $2.9 million relating to the property, plant and equipment at its Deerfoot property. As a result of the agreement and expected proceeds, the Company recorded an impairment loss reversal (net of accumulated amortization) of $2.1 million in "Selling, administrative and other expenses". On the closing date of October 26, 2012, the Company vacated the property and received cash proceeds of $5.0 million, resulting in a pre-tax gain of $2.8 million, net of the de-recognition of leasehold improvements and furniture and fixtures of $2.2 million. The Company has no further financial obligation related to the transaction.

29. Sale of Cantrex Group Inc. ("Cantrex")

On April 24, 2012, the Company entered an agreement to sell the operations of its subsidiary, Cantrex, to Nationwide Marketing Group, LLC for $3.5 million, equal to the net carrying amount of specified Cantrex assets and liabilities. On April 29, 2012, the Company received the proceeds on the sale, de-recognized the assets and liabilities sold and recorded a gain on sale of nil.

30. Related party transactions

The immediate parent of the Company is Sears Holdings. The ultimate controlling party of the Company is ESL Investments, Inc. (incorporated in the U.S. in the state of Florida) through Sears Holdings. The Company also has investments in joint ventures, as described in Note 11.

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Company and other related parties are disclosed below.

30.1 Trading transactions

During the current and prior fiscal year, the Company entered into the following trading transactions with related parties:

	2012				2011			
(in CAD millions)	**Purchase of goods**	**Services received**	**Other**	**Total**	Purchase of goods	Services received	Other	Total
Sears Holdings Corporation	$ —	$ **5.0**	$ **0.2**	$ **5.2**	$ 0.3	$ 4.8	$ 0.5	$ 5.6
Real estate joint ventures	—	**4.5**	—	**4.5**	—	4.4	—	4.4
Total related party transactions	$ —	$ **9.5**	$ **0.2**	$ **9.7**	$ 0.3	$ 9.2	$ 0.5	$ 10.0

The following balances were outstanding as at the end of the fiscal year:

	Amounts receivable from related parties	
(in CAD millions)	**As at February 2, 2013**	As at January 28, 2012
Sears Holdings Corporation	$ **0.3**	$ 0.1
Total	$ **0.3**	$ 0.1

	Amounts payable to related parties	
(in CAD millions)	**As at February 2, 2013**	As at January 28, 2012
Sears Holdings Corporation	$ **0.7**	$ 0.6
Total	$ **0.7**	$ 0.6

The related party transactions with Sears Holdings are in the ordinary course of business for shared merchandise purchasing services. These transactions were recorded either at fair market value or the exchange amount, which was established and agreed to by the related parties. These balances are included in "Accounts payable and accrued liabilities" and "Accounts receivable, net" in the Consolidated Statements of Financial Position.

The related party transactions with the various real estate joint ventures represent lease payments for the lease of the Company's stores. These transactions were recorded either at fair market value or the exchange amount, which was established and agreed to by the related parties.

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No expense has been recognized in the current or prior fiscal periods for bad or doubtful debts in respect of the amounts owed by related parties.

The Company's Audit Committee is responsible for pre-approving all related party transactions that have a value greater than $1.0 million.

31. Key management personnel compensation

Key management personnel are those individuals having the authority and responsibility for planning, directing and controlling the activities of the Company. The Company considers the Board of Directors and the following former and current members of senior management to be key management personnel:

Chief Executive Officer;
Former Senior Vice-President and Chief Financial Officer;
Executive Vice-President and Chief Operating Officer;
Former Executive Vice-President and Chief Administrative Officer;
Former Executive Vice-President, Merchandising, Apparel and Accessories;
Former Senior Vice-President, Merchandising, Home and Hardlines;

Executive Vice-President, Financial Services;
Senior Vice-President and Chief Information Officer, Information Technology and Business Process Improvement;
Senior Vice-President, General Merchandise Manager, Accessories Merchandising;
Senior Vice-President, General Merchandise Manager, Apparel Merchandising;
Senior Vice-President, Home and Hardlines, Major Appliances;
Senior Vice-President, Customer Experience, Shared Services and Merchant Marketing;
Senior Vice-President, Human Resources;
Former Senior Vice-President, Business Capability and Human Resources
Current and former Senior Vice-President, Marketing;
Senior Vice-President and General Counsel; and
Senior Vice-President, Retail Stores.

Key management personnel compensation was as follows:

(in CAD millions)		**2012**		2011
Salaries and perquisites	**$**	**6.5**	$	5.2
Annual incentive plans		**0.9**		2.2
Pensions		**0.1**		—
Termination benefits		**0.5**		1.2
Total key management personnel compensation	**$**	**8.0**	$	8.6

32. Net earnings (loss) per share

A reconciliation of the number of shares used in the net earnings (loss) per share calculation is as follows:

(Number of shares)	**2012**	2011
Weighted average number of shares per basic net earnings (loss) per share calculation	**102,078,477**	104,275,192
Effect of dilutive instruments outstanding	**—**	—
Weighted average number of shares per diluted net earnings (loss) per share calculation	**102,078,477**	104,275,192

"Net earnings (loss)" as disclosed in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss) was used as the numerator in calculating the basic and diluted net earnings (loss) per share. For the fiscal year ended February 2, 2013, 5,440 outstanding options were excluded from the calculation of diluted net earnings per share as they were anti-dilutive. For the fiscal year ended January 28, 2012, the Company incurred a net loss and therefore all potential common shares were anti-dilutive.

33. Changes in non-cash working capital balances

Cash generated from (used for) non-cash working capital balances were comprised of the following:

(in CAD millions)		**2012**		2011
Accounts receivable, net	**$**	**36.5**	$	27.8
Inventories		**(27.5)**		129.3
Prepaid expenses		**(2.2)**		3.9
Accounts payable and accrued liabilities		**(84.5)**		(95.8)
Deferred revenue		**(10.6)**		(16.0)
Provisions		**1.6**		(0.5)
Income and other taxes payable and recoverable		**(35.5)**		(19.2)
Effect of foreign exchange rates		**—**		0.1
Cash generated from (used for) non-cash working capital balances	**$**	**(122.2)**	$	29.6

34. Event after the reporting period

Subsequent to year end, the Company finalized an exclusive, multi-year licensing arrangement with SHS Services Management Inc. ("SHS Services"), which will result in SHS Services overseeing the day-to-day operations of all Sears Home Improvements Product Services business. The licensing agreement, effective March 3, 2013, is expected to result in a reduction to revenues and expenses, however, the impact to net earnings is not expected to be significant.

35. Approval of consolidated financial statements

The consolidated financial statements were approved by the Board of Directors and authorized for issue on March 14, 2013.

DIRECTORS AND OFFICERS

Board of Directors

E. J. Bird [3]
Interim Chief Financial Officer of the Corporation

William C. Crowley [2,3]
Managing Member
CRK Capital Partners, LLC

William R. Harker [2,3]
Principal
The Harker Group LLC

R. Raja Khanna [1,4]
Chief Executive Officer
Blue Ant Media Inc.

James McBurney [1,4]
Chief Executive Officer
White Tiger Gold Ltd.

Calvin McDonald
President and Chief Executive Officer of the Corporation

Deborah E. Rosati [1,2,4]
Corporate Director and Advisor

Donald C. Ross [2,4]
Partner
Osler, Hoskin & Harcourt LLP

Officers

Calvin McDonald
President and Chief Executive Officer

E. J. Bird
Interim Chief Financial Officer

Doug Campbell
Executive Vice-President and Chief Operating Officer

Peter Kalen
Executive Vice-President, Financial Services

Klaudio Leshnjani
Senior Vice-President and General Counsel

Committees

1 Audit Committee
2 Human Resources and Compensation Committee
3 Investment Committee
4 Nominating and Corporate Governance Committee

CORPORATE INFORMATION

Head Office

Sears Canada Inc.
290 Yonge Street
Suite 700
Toronto, Ontario
M5B 2C3

Website:www.sears.ca
E-mail:home@sears.ca

For more information about the Company, or for additional copies of the Annual Report, write to the Corporate Communications Department at the Head Office of Sears Canada Inc., or call 416-941-4428.

The Company's regulatory filings can be found on the SEDAR website at www.sedar.com.

Stock Exchange Listing

Toronto Stock Exchange
Trading symbol: SCC

Transfer Agent and Registrar

CIBC Mellon Trust Company[1]
P.O. Box 700, Station B
Montreal, Québec
H3B 3K3

Answerline:416-682-3860
1-800-387-0825

Fax: 1-888-249-6189

Website:www.canstockta.com

E-Mail:inquiries@canstockta.com

Annual Meeting

The Annual Meeting of Shareholders of Sears Canada Inc. will be held on Thursday, April 25, 2013 at 8:00 a.m. in Room 5B1, Fifth floor, 290 Yonge Street, Toronto, Ontario, Canada.

Édition française du Rapport annuel

On peut se procurer l'édition française de ce rapport en écrivant au:

Service de Communications de l'entreprise
Sears Canada Inc.
290 Yonge Street
Suite 700
Toronto, Ontario
M5B 2C3

Pour de plus amples renseignments au sujet de la Société, veuillez écrire au service national de communication, ou composer le 416-941-4428.

Les dépots réglementaires de la Société figurent sur le site Web de SEDAR à l`adresse www.sedar.com.

[1] *Canadian Stock Transfer Company Inc. acts as the Administrative Agent for CIBC Mellon Trust Company.*

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TAB E

This is Exhibit "E" referred to in the

Affidavit of

JONATHAN WYPYCH

Sworn before me,

this 1ST day of March, 2018

A Commissioner for taking Affidavits

Shannon Beverley Ste. Marie, a Commissioner, etc.,
Province of Ontario, while a Student-at-Law.
Expires March 23, 2019.

2014 SEARS CANADA ANNUAL REPORT

When I arrived at Sears Canada, I shared "Seven Rules to Win" with the organization, key imperatives that winning organizations follow, understanding, of course, that it all starts with talented and passionate people.

1. All Goodness comes from Product. 2. Without Revenue there is no Profit. 3. Size matters... we must use, protect and grow Scale. 4. Manage in the Details: You must own and know your Business. 5. Speed is Cheap... it is much more profitable to win fast and much less costly to lose (and learn) fast. 6. Simplify, Simplify, Simplify. 7. All Progress depends on the Unreasonable Man (George Bernard Shaw): The reasonable man says, "I understand," the unreasonable man says "why not." Being reasonable will not get us to the promised land.

— Ron Boire, President and CEO

Table of Contents

Certain information in the accompanying "Letter to Our Shareholders" and "Letter from the Chief Financial Officer" is forward-looking and is subject to important risks and uncertainties, which are described in the "Cautionary statement regarding forward-looking information" on page 13 of this Annual Report.

Financial Highlights

(in CAD millions, except per share amounts)		**Fiscal 2014**		Fiscal 2013
Total revenue	$	**3,424.5**	$	3,991.8
Same store sales (%)[1]		**(8.3)%**		(2.7)%
Adjusted EBITDA[1]		**(122.4)**		35.7
Net (loss) earnings		**(338.8)**		446.5

		As at January 31, 2015		As at February 1, 2014
Cash and cash equivalents	$	**259.0**	$	513.8
Working capital		**522.0**		567.0
Inventories		**641.4**		774.6
Total assets		**1,774.1**		2,392.3
Total long-term obligations, including principal payments on long-term obligations due within one year		**28.1**		35.9
Shareholders' equity		**570.8**		1,073.8

		As at January 31, 2015		As at February 1, 2014
Per share of capital stock				
Basic net (loss) earnings	$	**(3.32)**	$	4.38
Diluted net (loss) earnings	$	**(3.32)**	$	4.38
Shareholders' equity	$	**5.60**	$	10.54

1 Same store sales and Adjusted EBITDA are operating performance and non-International Financial Reporting Standards ("IFRS") measures, respectively. See Section 1.e. "Use of Non-IFRS Measures, Measures of Operating Performance and Reconciliation of Net (Loss) Earnings to Adjusted EBITDA".

- Revenue was $3,424.5 million for the 52-week period ended January 31, 2015 ("Fiscal 2014") compared to $3,991.8 million for the 52-week period ended February 1, 2014 ("Fiscal 2013"), a decrease of $567.3 million. The decrease was primarily attributable to sales declines across all product categories. Other merchandise revenue decreased by $22.2 million, primarily due to the termination of the licensing arrangement with SHS Services Management Inc ("SHS"). Included in the total revenue decrease for Fiscal 2014 described above, was the effect of the closure of five full-line stores previously announced during Fiscal 2013, which negatively impacted revenue for Fiscal 2014 by $156.0 million, compared to Fiscal 2013. Also included in the total revenue decrease in Fiscal 2014 was a decrease in Services and other revenue of $67.8 million compared to Fiscal 2013, primarily related to the sale of interests in certain joint arrangements in the fourth quarter of Fiscal 2013.

- Same store sales decreased 8.3% compared to Fiscal 2013. Same store sales is a measure of operating performance used by management, the retail industry and investors to compare retail operations, excluding the impact of store openings and closures. See Section 1.e. "Use of Non-IFRS Measures, Measures of Operating Performance and Reconciliation of Net (Loss) Earnings to Adjusted EBITDA".

- Gross margin rate was 32.6% for Fiscal 2014 compared to 36.2% in Fiscal 2013. The decrease in gross margin rate was due primarily to reduced margin in home furnishings, home décor, Craftsman®, Air & Water Products ("CAWP"), electronics, floorcare, sewing, major appliances, jewellery, accessories & luggage, footwear, women's intimates, children's wear, men's wear and women's apparel as a result of increased clearance or promotional activities, partially offset by increased margins in seasonal, fitness & recreation and cosmetics. The decrease was also related to the sale of interests in certain joint arrangements in the fourth quarter of Fiscal 2013, which negatively impacted the Company's gross margin rate by 90 basis points for Fiscal 2014.

- Adjusted net (loss) earnings before interest, taxes, depreciation and amortization ("Adjusted EBITDA") in Fiscal 2014 was $(122.4) million, as compared to $35.7 million in Fiscal 2013, a decrease of $158.1 million. Adjusted

EBITDA was impacted by the loss of rental income of $22.5 million from the sale of certain joint arrangements sold in the fourth quarter of Fiscal 2013, $20.1 million related to the closure of five full-line department stores previously announced during Fiscal 2013 and $6.8 million due to the termination of the licensing arrangement with SHS, partially offset by $2.5 million in incremental foreign exchange gain, as compared to Fiscal 2013. Adjusted EBITDA is a non-IFRS measure. See Section 1.e. "Use of Non-IFRS Measures, Measures of Operating Performance and Reconciliation of Net (Loss) Earnings to Adjusted EBITDA" regarding the use of non-IFRS measures and an explanation of components of Adjusted EBITDA for respective periods.

- Basic net loss per common share was $3.32 in Fiscal 2014 compared to a basic net earnings per common share of $4.38 for Fiscal 2013.

- Total cash and cash equivalents was $259.0 million as at January 31, 2015 compared to $513.8 million as at February 1, 2014. The decrease of $254.8 million was primarily due to a higher net loss, tax payments made for taxable income earned from the gains on lease terminations and lease amendments and the sale of interests in certain joint arrangements in Fiscal 2013, severance payments associated with Fiscal 2013 transformation activities, purchases of property, plant and equipment and intangible assets and contributions to the Company's retirement benefit plans, partially offset by the proceeds from the sale of the Company's interest in certain joint arrangements in Fiscal 2014.

Authentically Canadian

Letter to Our Shareholders
A message from Ron Boire, President and Chief Executive Officer

The year 2014 was one of disappointing results for Sears Canada, with a loss of $122.4 million in Adjusted EBITDA and a same store sales decrease of 8.3%. While our year-end position of cash and cash equivalents of $259.0 million continues to be healthy, our retail business was not successful in 2014. Sears Canada has traditionally had a strong balance sheet with some of the most valued retail real estate in Canada and superior brand assets. Consequently, we have everything we need to fund and execute our transformation and build one of Canada's best retailers, and that is our objective.

I joined Sears Canada on October 15, 2014 and my first focus was on our leadership team and the culture. The organization has been through years of declining performance and needed to learn how to win again. In my first of what have become regular blogs to all team members, I shared with them "Seven Rules to Win". They are listed on the inside front cover of this Report. I used these to instill key imperatives that winning organizations follow, understanding, of course, that it all starts with talented and passionate people.

It is difficult by any measure to say that all of our leadership team members were appropriately positioned for their roles and responsibilities given our performance over the past several years, so, as a result, since October 15, 2014, roughly 25% of our senior leadership team have exited the company or been reassigned to more appropriate positions. I believe that the leadership team in place today is focused on winning, passionate about our business and up to the task of transforming our company.

When I first arrived at Sears Canada, I was struck by the pride the Company's team members felt and indeed expressed about working here. It served as an indicator to me of how distinct the Sears Canada brand is, how much potential there is for this brand and how much opportunity there is to really emphasize the "Canada" part of our name and the uniqueness that comes with that. We owe these 19,000 team members as well as our shareholders much better than we have produced so far.

Over the first six decades of our Company's existence, during which we were incorporated as Simpsons-Sears and subsequently Sears Canada, Sears emerged as our predominant brand name. As we continue into our seventh decade as Sears Canada, we will be more vocal about the Canada part and our authentically Canadian character. Our Company can be described in ways that are, indeed, uniquely Canadian. Genuine. Reliable. A retailer that sells products that are timeless, built to last, supported by the best guarantees, on trend but not trying to form the cutting edge. Our customers are Canadians who work hard for a living, and who will pay a bit more but expect a lot more.

Strategic Plan

The management team and I have established a three-year strategic plan which has been approved by the Board of Directors. We are putting retail essentials in place or reinforcing existing capabilities which form the base of our strategic initiatives. We have established four areas of focus by which we will measure our progress.

These four areas of focus are Product, Operations, Infrastructure and Network.

Product:

Our goal is to provide Canadians with fashionable product made of high quality materials and workmanship at affordable prices while providing great service. Clearly, we need to be better at this than we have been over the past several years.

One of the best vehicles we have of demonstrating this to Canadians is through our Canada's Best program. This stamp of approval is meant to identify key items throughout the store that offer high quality at almost surprising prices considering the materials and workmanship involved in the construction. One great example of this is our men's and women's parkas which, depending on length, are priced every day for $179.97 to $219.97. In season, the parkas are dominantly displayed in-store and supported by feature signing. The intrinsic and extrinsic features and benefits and styling perfectly align with how we expect consumers would rate an item as Canada's Best. However, our execution for many of our other Canada's Best items across our various departments must improve. To that end, we are developing a full assortment of Canada's Best product that will best demonstrate to Canadians how Sears stands for great value. No product can receive the Canada's Best endorsement without going through a rigourous vetting process that includes our chief merchants and myself. These are products about which we are most serious and I expect them to elevate our entire product portfolio.

Another example of great, affordable quality product is our line of Pure NRG Athletics which we rolled out for women in February 2014. It is an exclusive line of performance clothing for the active woman who expects high-quality fashionable workout wear without the high prices. We are filling the gap in the "athleisure" segment for Canadians who want to have the look and performance of modern-day activewear, but have sensibilities that prevent them from spending over $100 on a single pair of fashion yoga pants! Pure NRG Athletics fashion yoga pants can be purchased at Sears for $49.99. We followed up on the women's launch by adding Pure NRG Athletics in Kids in Fall 2014 and a men's line debuted at the beginning of 2015.

Our private brands are critical to our future success, and national brands also play an important part. As an example, we recently introduced U.S. Polo Assn., which is exclusive to Sears in Canada. This world-renowned apparel brand has, like us, a great heritage, having been established in 1890. We launched in menswear during Fall 2014, and we are adding women's wear in Spring 2015. National brands like this are ideal for Sears Canada because they are aimed at families who want great quality at prices they can afford, and therefore complement our private brands perfectly.

Speaking of national brands, I have spent a great deal of time over the past several months meeting with all of our top suppliers. I have met with them in Toronto, New York, Korea and China among other places, and universally our vendors want Sears Canada to win. They understand that we hold a special place in the market and are working to help us transform and grow our business.

We want to fill our store with meaningful statements of focused product in the categories where we know we can win. To make room for these products, we are making tough decisions about which lines and products to keep and which to discontinue. There are lines where we can compete and be, or potentially be, a market leader and make money. There are others where we can not.

We are implementing "portfolio" category management to assess each product category, rationalizing and optimizing low profit categories. Our mission is to replace any space that becomes available with more profitable merchandise. In response to our initial review, by the end of the first quarter of 2015, our stores will no longer have home electronics departments as we know them today and we will be reducing our hardware and tool departments significantly. Mattresses, in which we are a market leader and make money, will absorb most of this space. This change will also allow us to expand categories like vacuums and fitness equipment in some stores or bring fitness apparel and equipment together in one wellness presentation. We will continue to apply this process across the enterprise. There are no protected categories at Sears Canada when it comes to producing a profitable desirable portfolio of products for our customers.

Operations:

Operations emphasizes managing the inventory and supply chain to be cost efficient while providing exceptional service in delivering product to customers. Operations also includes executing best-in-class practices in functions that support our core business such as financial services, store operations and human resources.

In addition to great quality at prices Canadians expect from Sears, our customers also expect and deserve a certain level of service. This component of our value proposition helps differentiate us from competitors who trade solely on price. In late 2014, we successfully tested a concierge service in the Sears Home channel, where we sell mattresses, furniture and major appliances. This special service provided our customers with a team member who would be a single point of contact for them until the merchandise they purchased was satisfactorily delivered to their home. The investment in this contact person has proven to be well worth it, and customers appreciate being able to call one single Sears team member at their local store that is empowered to solve their problems. We will be extending and refining this program as we move through 2015.

The delivery component of a purchase is an important part of the sales process. Our structure uses delivery contractors to bring merchandise to customers' homes. Those contractors must be an extension of the Sears experience. To the customer, it's one transaction and one company, and that company is Sears. As part of our focus on improved customer service, we will be developing a "white glove" approach to delivery, which will focus on both aptitude and attitude of the delivery personnel who enter our customers' homes to perform this key component of the purchase. We have been testing a white glove program in the greater Toronto area for several months and the results are very encouraging. Errors are down, quality is up, and customer satisfaction is way up.

One of our wins in 2014 in the Operations arena was that we ended the year with $124.4 million less inventory than we ended 2013, exclusive of amounts related to the closures of full-line stores. This puts us in a better open-to-buy position for new goods, especially as we enter a new season. However, we are still forcing some of the category inventory reductions at a high level, which is not optimal. True inventory efficiency will come as we build sophistication into our inventory planning with a more balanced flow of product entering our stores. System enhancements are being implemented this year which will provide our merchandising teams with improved sales planning, purchase order, allocation, and assortment planning capabilities which will help increase the effectiveness and efficiency of our inventory management.

Infrastructure:

Infrastructure captures our focus on developing the right support framework including investing in upgraded technology to support our omni-channel strategy and the business.

Our most important goal is to become a truly omni-channel retailer. As a multi-channel retailer, Sears Canada has a great history of doing business across various channels - various retail store formats, catalogue, online - but being omni-channel requires a seamless integration of these channels in the eyes of the customer.

Most customers who buy online still browse in-store because they want to see and feel the item before buying. Yet, other customers browse online but purchase in-store because they enjoy the shopping experience. Customers have told us that they want to see Sears Canada conduct its business across all channels seamlessly.

We will become a progressive retailer where Online hosts a fully integrated merchandise assortment across all channels, with marketing that applies across the enterprise, that uses fulfillment out of multiple locations including distribution centres *and* stores, and whose channels have common pricing and promotion.

As we announced last year, we entered into an agreement with Oracle Canada to purchase their Retail Merchandising Suite which, when coupled with IBM's Sterling Order Management System, will solidify our omni-channel business model allowing us to provide a seamless shopping experience across all channels. Shortly after arriving here, I reviewed the timing to get these systems up and running and was able to move forward the implementation dates of key milestones of the project. The result is that customers will see the first key benefits by this summer with more to follow over the next 18 months. These systems will drive our conversion to a truly omni-channel retailer with integrated inventories, marketing strategies, and a fully integrated, expanded merchandise assortment.

As we implement our new system over the next couple of years, our goal is to achieve three things: a unified brand story across all channels that promises a consistently superior customer experience, an integrated back-office operating model with agile and innovative technology that enables a world class customer experience and lower costs to achieve the level of service we need to compete.

Network:

The Network area of focus centers on ensuring we are optimizing the value of our multiple channels and facilities and considering, where necessary, divestiture of non-core assets and poor-performing units.

We are a general merchandise retailer but we can't be all things to all people. We trade across many channels; full-line department stores, Sears Home, Hometown (Dealer) stores, Outlet stores, Corbeil appliance stores, catalogue and online. We are in the product repair services business. We are in the travel business. We have a wholly-owned transportation subsidiary, SLH Transport. We own and lease valuable locations from coast to coast totaling almost 24 million square feet.

Our responsibility is to make sure we are deriving value from these assets or taking action to reduce losses associated with operating them. Whereas our full-line department stores are generally profitable before corporate overhead allocation, we likely have opportunities in other channels to optimize value as well as our inventory and marketing investments. We have evaluated all of these channels and locations and will take action to close or exit businesses or locations where it make sense long-term for the Company.

Last year, we sold our interests in the last three joint arrangement ownership interests the Company had in shopping centres for $71.7 million. In March of 2015, we announced an agreement to sell three retail store properties for $140.0 million and lease them back under long-term agreements to continue serving our customers in those markets. This transaction is a great example of how we can unlock value and maintain or enhance our core retail business. There are many ways to create value from our properties and facilities, and we will continue to creatively explore options that best serve the Company's long-term interest.

Authentically Canadian:

Sears Canada is authentically Canadian, and we believe our approach to improving our business is authentically Canadian. Initiatives that are planned within these four areas of focus support key stakeholder elements which we believe are important to our success: quality, value, profitability, being a lean organization and omni-channel friendly. These are elements which customers, shareholders, and our own team members connect with Sears and which these stakeholders believe represent our position in the Canadian retail landscape.

Our 19,000 Sears Canada team members continue to demonstrate a commitment and passion to make our Company Canada's best. I thank them for their support and continued tireless effort and I am proud to be on their team as we work together to achieve our goals for 2015.

I believe the initiatives discussed here lay the foundation for us to be a successful progressive retailer that serves its customers on their terms, that supports its team members with a great place to work, and that provides its shareholders with a strong return on their investment.

Sincerely,

Ron Boire,
President and Chief Executive Officer

Letter from the Chief Financial Officer

Our 2014 financial results were disappointing. Same store sales decreased 8.3%, Adjusted EBITDA was a loss of $122.4 million and our net loss was $338.8 million or $3.32 per share. In the "Letter to Our Shareholders" earlier in this Annual Report, the Chief Executive Officer highlights some of the key initiatives being implemented as part of the Company's three-year plan and we look forward to seeing the financial benefits of those initiatives as we move forward.

Despite our disappointing results, there were positive developments during 2014 that position us well for the years ahead.

Our financial position as we ended 2014 was strong. We had $259.0 million of cash with no significant debt. We were undrawn on our credit facility at year-end. Based on our borrowing base and net of outstanding letters of credit of $39.3 million, we had availability under our credit facility of approximately $260.7 million bringing our total liquidity to $519.7 million. We are particularly pleased to share this with our vendor partners as they continue to support Sears Canada in its merchandising initiatives.

Total selling, general and administrative expenses decreased in 2014 by $107.7 million, or 6.6%, to $1,523.8 million. Excluding non-cash expenses such as depreciation and amortization, impairment charges, severance costs and other non-recurring items, adjusted selling, general and administrative expenses decreased in 2014 by $141.8 million, or 10.3%, to $1,235.5 million. A portion of this reduction reflects our lower sales. However, it also includes significantly reduced fixed costs that will allow us to compete more effectively.

During 2014, we resolved tax audit issues relating to our 2006 and 2007 returns. In addition, as a result of a taxable loss in 2014, we expect to recover previously paid taxes related to taxable income generated in 2012 and 2013. In combination, these factors led to $114.2 million of the increase in income tax recoverable that we had at year-end. We expect to receive these funds during 2015 which will significantly bolster our liquidity position. Furthermore, we expect to have approximately $39.1 million in tax operating loss carryforwards that would shelter future gains on asset dispositions or taxable operating income.

We completed a buy-out offer to retired associates with respect to their company-provided health, dental and life insurance benefits. For a cash cost of $14.6 million, including $0.8 million in fees, we retired obligations with a book value of $25.2 million resulting in a pre-tax gain of $10.6 million during 2014. We made another such offer to retired associates that started in February 2015 and should be completed by the end of the first quarter of 2015.

As mentioned in the Chief Executive Officer's "Letter to Our Shareholders", we also had significant achievements in inventory management, reducing inventory investment by $124.4 million, exclusive of amounts related to the closures of full-line stores, and also within our real estate portfolio where we realized net proceeds of $71.7 million during 2014 related to the disposition of joint arrangement ownership interests and $130.0 million in March of 2015 related to the sale of three stores which we will lease back under long-term agreements.

I would like to acknowledge and recognize the efforts of Sears Canada team members throughout the organization over the past year. I am looking forward to seeing the benefits of their hard work that was begun in 2014.

EJ Bird

E.J. Bird
Executive Vice-President and Chief Financial Officer

Five Year Summary

	Fiscal 2014[1]	Fiscal 2013[1]	Fiscal 2012[1, 2]	Fiscal 2011[1]	Fiscal 2010[1]
Results for the year (in CAD millions)					
Total revenue	$ **3,424.5**	$ 3,991.8	$ 4,346.5	$ 4,619.3	$ 4,938.5
Depreciation and amortization	**89.3**	111.4	126.5	114.9	123.6
(Loss) earnings before income taxes	**(360.0)**	490.0	114.2	(56.9)	187.1
Income tax recovery (expense)	**21.2**	(43.5)	(13.0)	6.6	(62.1)
Net (loss) earnings	**(338.8)**	446.5	101.2	(50.3)	125.0
Dividends declared	—	509.4	101.9	—	753.4
Capital expenditures[3]	**54.0**	70.8	101.6	84.3	60.0
Year end position (in CAD millions)					
Accounts receivable, net	$ **73.0**	$ 83.3	$ 77.7	$ 116.2	$ 144.0
Inventories	**641.4**	774.6	851.4	823.9	953.2
Property, plant and equipment	**567.6**	785.5	1,118.5	872.0	900.7
Total assets	**1,774.1**	2,392.3	2,504.7	2,730.7	2,907.5
Working capital	**522.0**	567.0	410.7	471.0	536.9
Total long-term obligations, including principal payments on long-term obligations due within one year	**28.1**	35.9	59.4	122.7	129.1
Shareholders' equity	**570.8**	1,073.8	1,076.4	1,092.0	1,260.4
Per share of capital stock					
Basic net (loss) earnings	$ **(3.32)**	$ 4.38	$ 0.99	$ (0.48)	$ 1.16
Dividends declared	—	5.00	1.00	—	7.00
Shareholders' equity	**5.60**	10.54	10.57	10.63	11.96
Financial ratios					
Return on average shareholders equity (%)	**(41.2)**	41.5	9.3	(4.3)	7.7
Current ratio	**1.8**	1.7	1.5	1.5	1.5
Return on total revenues (%)	**(9.9)**	11.2	2.3	(1.1)	2.5
Debt/equity ratio (%)	**4.9**	3.3	5.5	11.2	10.2
Pre-tax margin (%)	**(10.5)**	12.3	2.6	(1.2)	3.8
Breakdown of the Company's locations					
Full-Line Department stores	**113**	118	118	122	122
Sears Home stores	**47**	48	48	48	48
Outlet stores	**11**	11	11	11	11
Specialty type: Appliances and Mattresses	**1**	4	4	4	4
Hometown stores	**201**	234	261	285	268
Sears Home Services Showrooms	—	8	9	13	13
Corbeil	**35**	34	33	30	30
National Logistics Centres	**6**	6	6	6	6
Sears Floor Covering Centres	—	—	—	17	20
Cantrex	—	—	—	799	768
Travel offices	**96**	97	101	108	108
Catalogue merchandise pick-up locations	**1,335**	1,446	1,512	1,734	1,822

1 *The 2014 fiscal year ("Fiscal 2014"), 2013 fiscal year ("Fiscal 2013"), 2012 fiscal year ("Fiscal 2012"), 2011 fiscal year("Fiscal 2011") and 2010 fiscal year ("Fiscal 2010") refers to the 52-week period ended January 31, 2015, 52-week period ended February 1, 2014, the 53-week period ended February 2, 2013, the 52-week period ended January 28, 2012, and the 52-week period ended January 29, 2011, respectively, reported under International Financial Reporting Standards ("IFRS").*

2 *Adjusted to reflect the changes resulting from the retrospective application of the change in accounting policy related to the adoption of accounting standard "IFRS 11, Joint Arrangements".*

3 *Capital expenditures represents purchases for which payment has been made by the end of the fiscal year.*

Quarterly Performance

The Company's operations are seasonal in nature. Accordingly, merchandise and service revenue, as well as performance payments received from JPMorgan Chase Bank, N.A. (Toronto Branch), referred to as commission revenue, will vary by quarter based upon consumer spending behaviour. Historically, the Company's revenue and earnings are higher in the fourth quarter than in any of the other three quarters due to the holiday season. The Company is able to adjust certain variable costs in response to seasonal revenue patterns; however, costs such as occupancy are fixed, causing the Company to report a disproportionate level of earnings in the fourth quarter. Other factors that affect the Company's sales and financial performance include actions by its competitors, timing of its promotional events, and changes in population and other demographics. Accordingly, the Company's results for any one fiscal quarter are not necessarily indicative of the results to be expected for any other quarter, or the full year, and comparable store sales for any particular period may increase or decrease.

The table below outlines select financial data for the eight most recently completed quarters. The quarterly results are unaudited and have been prepared under IFRS.

	Fourth Quarter		Third Quarter		Second Quarter		First Quarter	
(in CAD millions, except per share amounts)	**2014**	2013	2014	2013	2014	2013	2014	2013
Total revenue	**$ 972.5**	$ 1,182.3	$ 834.5	$ 982.3	$ 845.8	$ 960.1	$ 771.7	$ 867.1
Net (loss) earnings	**$ (123.6)**	$ 373.7	$ (118.7)	$ (48.8)	$ (21.3)	$ 152.8	$ (75.2)	$ (31.2)
Basic net (loss) earnings per share	**$ (1.21)**	$ 3.67	$ (1.16)	$ (0.48)	$ (0.21)	$ 1.50	$ (0.74)	$ (0.31)
Diluted net (loss) earnings per share	**$ (1.21)**	$ 3.67	$ (1.16)	$ (0.48)	$ (0.21)	$ 1.50	$ (0.74)	$ (0.31)

Common Share Market Information

The table below provides prices for the Company's common shares traded on the Toronto Stock Exchange (symbol: SCC).

	Fourth Quarter		Third Quarter		Second Quarter		First Quarter	
	2014	2013[1]	2014	2013	2014	2013	2014	2013
High	**$ 12.85**	$ 19.20	$ 16.65	$ 14.50	$ 16.45	$ 13.25	$ 17.12	$ 9.94
Low	**$ 10.26**	$ 12.07	$ 8.56	$ 11.70	$ 13.51	$ 8.96	$ 12.31	$ 8.85
Close	**$ 11.90**	$ 13.00	$ 10.85	$ 14.41	$ 14.02	$ 12.92	$ 16.50	$ 9.46
Average daily trading volume	**16,648**	86,585	44,681	25,813	15,501	146,327	20,288	34,326

[1] *During Q4 2013, the Company distributed an extraordinary cash dividend to holders of common shares, of $5.00 per share.*

The table below provides prices for the Company's common shares traded on the NASDAQ (symbol: SRSC), quoted in U.S. dollars.

	Fourth Quarter		Third Quarter		Second Quarter		First Quarter	
	2014[1]	2013	2014[1]	2013	2014[1]	2013	2014[1]	2013
High	**$ 10.87**	$ —	$ 9.94	$ —	$ —	$ —	$ —	$ —
Low	**$ 9.06**	$ —	$ 9.50	$ —	$ —	$ —	$ —	$ —
Close	**$ 9.32**	$ —	$ 9.66	$ —	$ —	$ —	$ —	$ —
Average daily trading volume	**110,423**	—	20,009	—	—	—	—	—

[1] *Began trading on the NASDAQ during the 13-week period ended November 1, 2014.*

Management's Discussion and Analysis

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Management's Discussion and Analysis

"Sears", "Sears Canada", "we", "us", "our" or "the Company" refers to Sears Canada Inc. and its subsidiaries, together with its investments in real estate joint arrangements.

Management's Discussion and Analysis ("MD&A") contains commentary from the Company's management regarding strategy, operating results and financial position. Management is responsible for its accuracy, integrity and objectivity, and develops, maintains and supports the necessary systems and controls to provide reasonable assurance as to the accuracy of the comments contained herein.

This MD&A should be read in conjunction with the Consolidated Financial Statements and Notes to the Consolidated Financial Statements for the 52-week period ended January 31, 2015 ("Fiscal 2014" or "2014"). The 2013 fiscal year refers to the 52-week period ended February 1, 2014 ("Fiscal 2013" or "2013"). The fourth quarter unaudited results for Fiscal 2014 and Fiscal 2013 reflect the 13-week period ended January 31, 2015 ("Q4 2014") and the 13-week period ended February 1, 2014 ("Q4 2013"), respectively. The 2012 fiscal year refers to the 53-week period ended February 2, 2013 ("Fiscal 2012" or "2012"). The 2015 fiscal year refers to the 52-week period ending January 30, 2016 ("Fiscal 2015" or "2015").

This MD&A is current as of March 12, 2015 unless otherwise stated.

Additional information relating to the Company, including the Company's Annual Information Form ("AIF") dated March 12, 2015 and the Management Proxy Circular dated March 12, 2015, can be obtained by contacting Sears Canada's Corporate Communications department at 416-941-4428. The 2014 Annual Report, together with the AIF and Management Proxy Circular, have been filed electronically with securities regulators in Canada through the System for Electronic Document Analysis and Retrieval ("SEDAR") and can be accessed on the SEDAR website at www.sedar.com and on the U.S. Securities Exchange Commission ("SEC") website at www.sec.gov.

Unless otherwise indicated, all amounts are expressed in Canadian dollars.

Cautionary Statement Regarding Forward-Looking Information

Certain information in the Annual Report and in this MD&A is forward-looking and is subject to important risks and uncertainties. Forward-looking information concerns, among other things, the Company's future financial performance, business strategy, plans, expectations, goals and objectives, and includes statements concerning possible or assumed future results set out under Section 1 "Company Performance", Section 3 "Consolidated Financial Position, Liquidity and Capital Resources", Section 4 "Financial Instruments", Section 7 "Shareholders' Equity", Section 9 "Event After the Reporting Period", Section 10 "Accounting Policies and Estimates" and Section 12 "Risks and Uncertainties". Often, but not always, forward-looking information can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "scheduled", "estimates", "intends", "anticipates" or "does not anticipate" or "believes", or variations of such words and phrases, or statements that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. Although the Company believes that the estimates reflected in such forward-looking information are reasonable, such forward-looking information involves known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking information, and undue reliance should not be placed on such information.

Factors which could cause actual results to differ materially from current expectations include, but are not limited to: the Company's inability to compete effectively in the highly competitive retail industry; weaker business performance in the fourth quarter; the ability of the Company to successfully implement its strategic initiatives; changes in consumer spending; ability to retain senior management and key personnel; ability of the Company to successfully manage its inventory levels; customer preference toward product offerings; the results achieved pursuant to the Company's credit card marketing and servicing alliance with JPMorgan Chase Bank, N.A. (Toronto Branch) ("JPMorgan Chase"); ability to secure an agreement with a financial institution for the management of the credit and financial services operations, or to secure an agreement on terms and conditions as favorable to us as those we currently have under our credit card marketing and servicing alliance with JPMorgan Chase; disruptions to the Company's computer systems; economic, social, and political instability in jurisdictions where suppliers are located; structural integrity and fire safety of foreign factories; increased shipping costs, potential transportation delays and interruptions; damage to the reputations of the brands the Company sells; changes in the Company's relationship with its suppliers; the Company's reliance on third parties in outsourcing arrangements, and their ability to perform the arrangements for which they have been engaged for; willingness of the Company's vendors to provide acceptable payment terms; the outcome of product liability claims; any significant security compromise or breach of the Company's customer, associate or Company information; the outcome of pending legal proceedings; compliance costs associated with environmental laws and regulations; maintaining adequate insurance coverage; seasonal weather patterns; ability to make, integrate and maintain acquisitions and investments; general economic conditions; liquidity risk and failure to fulfill financial obligations; fluctuations in foreign currency exchange rates; the credit worthiness and financial stability of the Company's licensees and business partners; possible limits on our access to capital markets and other financing sources; interest rate fluctuations and other changes in funding costs and investment income; the possibility of negative investment returns in the Company's pension plan or an increase to the defined benefit obligation including the potentially restrictive impact such an increase might have on credit availability; the impairment of intangible and other long-lived assets; the possible future termination of certain intellectual property rights associated with the "Sears" name and brand names if Sears Holdings Corporation ("Holdings") reduces its interest in the Company to less than 10%; potential conflict of interest of some of the directors and executive officers of the Company owing to their ownership of Holdings' common stock; possible changes in the Company's ownership by Edwards S. Lampert, ESL Investments and other significant shareholders; productivity improvement and cost reduction initiatives and whether such initiatives will yield the expected benefits; competitive conditions in the businesses in which the Company participates; new accounting pronouncements, or changes to existing pronouncements, that impact the methods the Company uses to report our financial position and results from operations; uncertainties associated with critical accounting assumptions and estimates; and changes in laws, rules and regulations applicable to the Company. Information about these factors, other material factors that could cause actual results to differ materially from expectations and about material factors or assumptions applied in preparing forward-looking information, may be found in this MD&A and in the Company's 2014 Annual Report under Section 12 "Risks and Uncertainties" and elsewhere in the Company's filings with securities regulators. The forward-looking information in the Annual Report and in this MD&A are, unless otherwise indicated, stated as of the date hereof and is presented for the purpose of assisting investors and others in understanding the Company's financial position and results of operations as well as the Company's objectives and strategic priorities, and may not be appropriate for other purposes. The Company does not undertake any obligation to update publicly or to revise any forward-looking information, whether as a result of new information, future events or otherwise, except as required by law.

1. Company Performance

a. Business Segments

Sears classifies its operations in two reportable business segments: merchandising and real estate joint arrangements. The Company's methodology for segmenting its business is described in Note 23 "Segmented information"of the Notes to the Consolidated Financial Statements for Fiscal 2014.

Merchandising Operations

The Company's merchandising segment includes the sale of goods and services through the Company's Retail channels, which includes its Full-Line, Sears Home, Hometown, Outlet, Appliances and Mattresses, Corbeil Electrique Inc. ("Corbeil") stores and its Direct (catalogue/internet) channel. It also includes service revenue related primarily to product repair. Commission revenue includes travel, home improvement services, wireless and long distance plans, insurance and performance payments received from JPMorgan Chase under the Company's credit card marketing and servicing alliance with JPMorgan Chase. The Company has a multi-year licensing arrangement with TravelBrands Inc. ("TravelBrands"), (formerly known as Thomas Cook Canada Inc.), under which TravelBrands manages the day-to-day operations of all Sears Travel offices and provides commissions to the Company. Licensee fee revenues are comprised of payments received from licensees, including TravelBrands, that operate within the Company's stores.

Retail Channel

Full-Line Department stores – Sears full-line department stores are located primarily in suburban enclosed shopping centres. The major merchandise categories include the following:

Apparel & Accessories - women's, men's and children's apparel, nursery products, cosmetics, jewellery, footwear and accessories.

Home & Hardlines - home furnishings and mattresses, home décor, lawn and garden, hardware, electronics, leisure, seasonal products, toys, floorcare, sewing and major appliances.

Although merchandise varies by store, the merchandise sales mix between the two major categories are approximately 40% Home & Hardlines and 60% Apparel & Accessories.

Full-line department stores include a Sears catalogue merchandise pick-up location. Sears Travel offices and licensed businesses, such as optical centres and portrait studios, are also located in many of the Company's full-line department stores.

Sears Home stores – Sears Home stores are typically located in power centres and present an extensive selection of furniture, mattresses and box-springs, and major appliances. The majority of these stores range in size from 35,000 to 60,000 square feet.

Hometown stores – Sears Hometown locations are primarily independently operated and offer major appliances, furniture, mattresses and box-springs, electronics, outdoor power equipment as well as a catalogue merchandise pick-up location. Most Hometown stores are located in markets that lack the population to support a full-line department store.

Outlet stores – Sears Outlet stores offer clearance merchandise, primarily from the Company's full-line department stores and Direct channel, as well as surplus big-ticket items from all channels.

Corbeil – Corbeil is a chain of major appliance specialty stores located throughout Québec, the Greater Toronto Area and Eastern Ontario. There are 35 stores in the chain, 16 of which are franchised. The chain also includes one liquidation centre and one distribution centre in Montreal. Stores average approximately 6,500 square feet in size.

Sears Travel – Sears Travel service operates within 96 Sears locations across Canada, an online travel service at www.searstravel.ca and 1-866-FLY-SEARS, which connects customers to the nearest geographical branch. TravelBrands manages the day-to-day operations of all Sears Travel offices and the Sears Travel website.

Sears Home Services

Commencing under the Sears Home Improvements brand the Company offers Sears Carpet and Duct cleaning, Installation and Assembly of products purchased at Sears stores, Sears Custom Window Coverings and Sears Heating & Cooling.

Direct Channel

The Company's Direct channel is comprised of its catalogue business, which is Canada's largest general merchandise catalogue business, and Sears.ca, one of Canada's leading online shopping destinations with over 101.5 million visits in Fiscal 2014, including desktop and mobile platforms. With two distribution centres exclusively dedicated to servicing the Direct channel and 1,335 catalogue merchandise pick-up locations nationwide, Sears can deliver orders in most areas of the country. Orders can be placed by telephone at 1-800-26-SEARS, by mail, by fax, online at Sears.ca or in person through Sears stores and catalogue agents. At the end of Fiscal 2014, 1,171 of the total 1,335 catalogue merchandise pick-up locations were independently operated under local ownership, with the remaining 164 units located within Sears locations.

Catalogue – In Fiscal 2014, 22 different catalogues were distributed throughout Canada, including eight Specialogues, designed to offer more seasonally relevant merchandise to specific customers.

Sears.ca – The Company's website, Sears.ca, enables the Company to provide new merchandise offers directly to web customers and highlights the Company's extensive general merchandise selection. In Fiscal 2014, the Company continued to invest in its online capabilities to improve the user experience, and engage new customers and demographics. Sears is committed to maintaining its reputation as a trusted Canadian retailer by focusing on customer privacy and satisfaction when shopping on Sears.ca.

Logistics

National Logistics Centres ("NLC") – Sears operates six logistics centres strategically located across the country. The logistics centres are comprised of seven owned and two leased warehouse facilities which serve all channels of the business. The total floor area of these logistics centres was 6.6 million square feet at the end of Fiscal 2014, of which 5.0 million square feet is devoted to warehouse and logistics operations. The remainder of the space is utilized for other Sears operations, including call centre services. The Regina, Saskatchewan, logistics centre was closed in 2014 and replaced by a new logistics centre located in Calgary, Alberta. See Note 29 "Assets classified as held for sale" of the Notes to the Consolidated Financial Statements for Fiscal 2014 for additional information.

S.L.H. Transport Inc. ("SLH") – The Company's wholly-owned subsidiary, SLH, transports merchandise to stores and catalogue merchandise pick-up locations. SLH is responsible for providing logistics services for the Company's merchandising operations by operating a fleet of tractors and trailers to provide carrier services for Sears and contract carrier services to commercial customers who are unrelated to Sears. The arrangements with third parties increase SLH's fleet utilization and improve the efficiency of its operations. SLH has developed a nationwide distribution network to provide better and more consistent service to its customers.

As at the end of Fiscal 2014, Fiscal 2013, and Fiscal 2012, the Company's locations were distributed across the country as follows:

	Atlantic	Québec	Ontario	Prairies	Pacific	As at January 31, 2015 Total	As at February 1, 2014 Total	As at February 2, 2013 Total
Full-Line Department stores	12	27	40	20	14	**113**	118	118
Sears Home stores	2	11	19	10	5	**47**	48	48
Outlet stores	1	1	6	1	2	**11**	11	11
Specialty type: Appliances and Mattresses stores	—	—	1	—	—	**1**	4	4
Corporate stores	15	39	66	31	21	**172**	181	181
Hometown stores	45	21	41	56	38	**201**	234	261
Sears Home Services Showrooms[1]	—	—	—	—	—	—	8	9
Corbeil Franchise stores	—	14	2	—	—	**16**	16	17
Corbeil Corporate stores	—	13	6	—	—	**19**	18	16
Corbeil	—	27	8	—	—	**35**	34	33
NLCs[2]	—	1	2	2	1	**6**	6	6
Travel offices	7	22	37	16	14	**96**	97	101
Catalogue merchandise pick-up locations	191	313	373	334	124	**1,335**	1,446	1,512

1 *During Fiscal 2014, the Company closed all Sears Home Services Showrooms in connection to the SHS receivership described in Note 14 of the Notes to the Consolidated Financial Statements for Fiscal 2014.*

2 *Sears operates six logistics centres strategically located across the country, each referred to as a NLC. The NLC's are comprised of seven owned and two leased warehouse facilities which serve all channels of the business.*

In Fiscal 2014, the Company closed five full-line department stores, as a result of lease terminations and lease amendments that occurred during Fiscal 2013. The Company also closed one Sears Home store, three Appliances and Mattresses stores, 34 Hometown stores, one Travel office and 142 Catalogue merchandise pick-up locations. The Company opened one Hometown store, one Corbeil Franchise store and 31 Catalogue merchandise pick-up locations, and converted one Corbeil Franchise store to a Corbeil Corporate store. During the first quarter of 2015, two full-line department stores, one Sears Home store, one Outlet store, one Appliance and Mattresses store and one Corbeil Corporate store will be closed. Refer to Note 28 "Gain on lease terminations and lease amendments" of the Notes to the Consolidated Financial Statements for Fiscal 2014 for additional information.

In Fiscal 2013, the Company closed 28 Hometown stores, four Travel offices, and 66 Catalogue merchandise pick-up locations. The Company also opened one Hometown store.

In Fiscal 2012, the Company closed four full-line stores as a result of the lease terminations and lease amendments that occurred during the year. The Company also closed 222 Catalogue merchandise pick-up locations, 24 Hometown stores and 17 Sears Floor Covering Centres. During the second quarter of 2012, Cantrex Group Inc. was sold. Refer to Note 30 "Sale of Cantrex Group Inc." of the Notes to the Consolidated Financial Statements for Fiscal 2013 for additional information.

As of the end of Fiscal 2014, the number of selling units leased and owned by the Company was as follows:

	Leased	Owned	Total
Full-Line Department	99	14	113
Sears Home stores	45	2	47
Outlet stores	11	—	11
Specialty type: Appliances and Mattresses stores	1	—	1
Hometown stores[1]	22	—	22
Corbeil[1]	31	—	31
Total[2]	**209**	**16**	**225**

1 Only Hometown and Corbeil stores that are not independently owned and operated are included.

2 Travel offices and Catalogue merchandise pick-up locations are located in other Sears stores or local businesses, and therefore not included.

As at the end of Fiscal 2014, Fiscal 2013, and Fiscal 2012, the gross square footage for corporate store locations (both owned and leased) and NLCs was as follows:

(square feet, millions)	**As at January 31, 2015**	As at February 1, 2014	As at February 2, 2013
Full-Line Department stores	**14.1**	15.2	15.2
Sears Home stores	**2.1**	2.1	2.1
Outlet stores	**0.8**	0.8	0.8
Other[1]	**0.3**	0.3	0.3
NLCs	**6.6**	6.5	6.5
Total	**23.9**	24.9	24.9

1 Other includes Appliances and Mattresses, Hometown and Corbeil stores.

Gross square footage for corporate store locations as at January 31, 2015 decreased compared to February 1, 2014 due to five full-line store closures as a result of lease terminations and lease amendments that occurred during Fiscal 2013. As of March 1, 2015, the gross square footage for full-fine stores decreased from 14.1 million square feet to 13.8 million square feet due to two full-line store closures as a result of lease terminations announced during Fiscal 2013 described in Note 28 "Gain on lease terminations and lease amendments" of the Notes to the Consolidated Financial Statements for Fiscal 2014.

Gross square footage for corporate store locations as at February 1, 2014 did not change as compared to February 2, 2013.

Real Estate Joint Arrangements

The primary objective of the Company's real estate joint arrangements was to maximize the returns on its investment in shopping centre real estate. Sears reviewed the performance of these joint arrangements on a regular basis. Shopping centres were considered non-core assets. During Fiscal 2014, the Company sold all of its shopping centre real estate joint arrangements, as described in Note 11 "Joint arrangements" of the Notes to the Consolidated Financial Statements for Fiscal 2014.

b. Core Capabilities

The Company's key resources and capabilities include its employees, brand equity, specialized services, national presence and logistics.

Employees

- Sears employees are a critical asset to the Company. Sears works to inspire its employees to enrich the lives of Canadians through products, services, community involvement and experiences;

Brand equity

- The Company works closely with its suppliers in product development, design and quality standards. Many lines of merchandise are manufactured with features exclusive to Sears and are sold under the Company's private label brands, such as Jessica®, Nevada®, Attitude®, Pure NRG Athletics®, Whole Home®, Kenmore® and Craftsman®. The Company believes that its private label and national brands have significant recognition and value with customers;

Specialized services

- Apart from retail merchandise, the Company also offers a wide range of specialized services to attract a broad customer base. These services include product repair, parts sales, portrait studios, optical services, travel, floral delivery, wireless and long distance plans, insurance and deferred financing;

National presence

- The Company's physical and online presence puts it in proximity to most customers across Canada. As of the end of Fiscal 2014, Sears operated 113 Full-Line Department stores, 295 specialty stores (including 47 Sears Home stores, 11 Outlet stores, one Appliances and Mattresses stores, 201 Hometown stores primarily operated under independent local ownership and 35 Corbeil stores), 96 Sears Travel offices and over 1,300 merchandise pick-up locations for orders placed through the catalogue or online at www.sears.ca; and

Logistics

- The Company has the capability to move merchandise efficiently to stores, merchandise pick-up locations, or directly to customers. The Company's wholly-owned subsidiary, SLH, is responsible for providing transportation services for the Company's merchandising operations and has arrangements with third parties to increase SLH's revenue and fleet utilization, and improve its operating effectiveness. The Company conducts operations in six NLCs located in Vancouver, Calgary (two locations), Vaughan, Belleville and Montreal.

c. Strategic Initiatives

Sears Canada is updating the retail principles that will form the foundation of its future strategic initiatives, which are prioritized to enable Sears to change its trajectory and establish prominence and relevance with Canadian consumers as the increasingly competitive retail landscape evolves. Initiatives will be developed to deliver what the Company believes are high-quality products and value for consumers, with a seamless customer experience across all channels and formats, while at the same time continuing to adjust the operating expense base to better reflect the size and needs of the current business.

In general, the four areas of focus are as follows:

1. **Product** - Our goal is to provide Canadians with fashionable product made of high quality materials and workmanship at affordable prices with great service.

2. **Operations** - Operations emphasizes managing the inventory and supply chain to be cost efficient while providing exceptional customer service in delivering product to customers. Operations also includes executing best-in-class practices in functions that support the core business such as financial services, store operations and human resources.

3. **Infrastructure** - Infrastructure captures our focus on developing the right support framework including investing in upgraded technology to support our Omni-channel strategy and the business.

4. **Network** - The Network area of focus centers on ensuring we are optimizing the value of our multiple channels and facilities and considering, where necessary, divestiture of non-core assets and poor-performing units.

During Fiscal 2014, the Company undertook the following key initiatives to improve its performance, which are organized within the four areas of focus.

Product

- Launched PURE NRG Athletics®/MD, a private brand of performance clothing for the active woman who expects high-quality fashionable workout wear without the high prices. The new private label line includes an assortment focused around yoga pants coordinated with stylish tank tops, t-shirts, shorts, hoodies and zip-ups with functional features. Subsequent to the initial launch of women's activewear, Sears introduced PURE NRG Athletics apparel lines for men and kids. The Company believes that PURE NRG Athletics fills a gap in the marketplace for high-quality workout apparel at competitive prices;

- Introduced the exclusive Style at Home™/MC collection, which was created for décor-savvy Canadians and comprises an assortment of fashionable bedding, bed basics, sheets, bath coordinates, shower curtains and window dressings. The Style at Home collection is the largest Sears home décor brand launch in the past decade, with more than 400 new products. The line, a creative collaboration between the Company and its supplier, was created exclusively for Sears and offers customers a fresh perspective on the latest trends and enduring classics;

- Launched a new private label for men branded Logan Hill™/MC, a casual new brand that pulls together a collection of styles, colours and fabrics. Logan Hill features both classic and relaxed looks and contains a mix of seasonal fashion basics including pants, sweaters, sports shirts, polos, overcoats and parkas;

- Continued to entrench the Sears-exclusive Craftsman® name as a leader in outdoor power equipment with the launch of the first Quiet Power Technology™ lawn mower, featuring an engine made by Briggs & Stratton®/MD. The Craftsman 22" 3-in-1 mower is 55% quieter than comparable Craftsman mowers with the same power output. In time for winter, Sears offered a Craftsman Single Stage Snow Blower, featuring a Briggs & Stratton 250cc engine, 11.5 ft. lbs. of torque and 14 cutting surfaces, which cuts through heavy snow and ice 30% faster than our standard model. Both Craftsman products were sold under the Canada's Best seal of approval, signifying that they are exclusive to Sears and meet the highest standards in quality, value and innovation;

- Introduced a new line of women's Jessica® Intimates, including bras, panties, shapewear and sleepwear, which feature improved product quality. The new line also features both versatility and fashion, with availability in various sizes and focuses on product fit, fabric and functionality. The new line includes fashion-forward designs in order to increase its appeal to a broader range of customers;

- Hosted in store fitness lifestyle events in Sears stores at Southgate Mall (Edmonton, Alberta), Bramalea City Centre (Brampton, Ontario) and Centre Commercial Les Rivières (Trois Rivières, Québec) on January 17, 2015. The events featured a local fitness expert who talked to customers about fitness and healthy living. The stores were presented to feature a variety of items associated with healthy living, including small kitchen appliances, fitness equipment and PURE NRG Athletics apparel; and

- Extended the agreement pursuant to which the Company licenses the right to use the "Sears" name and certain other brand names associated with a number of its major product lines. With this change, the agreement will continue to apply so long as Holdings continues to own at least 10% of the voting shares of the Company (the previous agreement was void if Holdings' ownership fell below 25%) and the Company will have the continued right to use the trademarks on a royalty-free basis in the event of termination for five years (previously three years).

Operations

- Continued to implement an inventory management program targeted at reducing surpluses and out-of-season content to allow adequate room for in-season merchandise. As of the end of Fiscal 2014, this program has successfully decreased overall inventory, exclusive of any amounts related to the full-line store closures, by $238.4 million since August 3, 2013 when the initiative was launched and by $124.4 million compared to the end of Fiscal 2013. Sears continues to implement new operating procedures which ensure merchandise received by a store is moved directly to the selling floor, and not held in a stockroom where the customer has no view;

- Extended the term of its senior secured revolving credit facility ("Amended Credit Facility") to May 28, 2019 and reduced the total credit limit from $800.0 million to $300.0 million. The Amended Credit Facility better reflects the Company's current borrowing base, which has decreased due to lower inventory levels than those experienced prior to the Amended Credit Facility, and reduces financing costs by lowering the annual fees on the undrawn facility by over 70%. The Amended Credit Facility is held by a syndicate of lenders arranged and administered by Wells Fargo Capital Finance, part of Wells Fargo & Company;

- Following the announcement by Target Canada ("Target") that it would cease operating and close all Canadian operations, Sears Canada held special career and recruitment events for affected Target employees. These events included activities such as local job fairs across Canada, where Sears helped match great candidates with their next career opportunity. There was also an open invitation to Target head office employees for a meet-and-greet with Sears executives on Wednesday, January 21, 2015 at Sears Retail Support Centre, which approximately 150 Target employees attended. To help employees during this time of uncertainty, Sears Canada offered affected Target Canada employees the Sears Canada employee discount for a period of 16 weeks to help them get to know the Company and its products better; and

- Announced the appointment of Ronald D. Boire as President and Chief Executive Officer ("CEO") effective January 23, 2015. Mr. Boire served as the Company's acting president and CEO since October 15, 2014. Prior to his role with Sears Canada, Mr. Boire was Executive Vice President, Chief Merchandising Officer and President, Sears and Kmart formats at Holdings. Prior to joining Holdings in January 2012, Mr. Boire was President and CEO at Brookstone, Inc., a position he held from October 2009. Prior to that Mr. Boire worked at Toys "R" Us, Inc., becoming President of the North American division in 2006.

Infrastructure

- Announced the purchase of the Oracle Retail Merchandising System. This purchase, along with the Company's investment in IBM's Sterling Order Management System and process improvements currently underway, are expected to improve our customers' shopping experience. The investment in these systems is being made to provide an improved in-stock position of the Company's most popular items. Sears will also be able to customize promotions, such as pop-up promotions at point-of-sale or tailored offers made on mobile devices, to customers while shopping in the store.

Customers will have visibility of store inventory online to enable fulfillment of online orders from stores and vice-versa. These enhancements are expected to provide Sears the long-term capability to meet and exceed the high level of service which today's retail customer seeks; and

- Opened a new 240,000 square foot small-ticket fulfillment centre located in Calgary, Alberta, creating approximately 200 new jobs. The Calgary fulfillment centre is a modern operation with advanced product and packaging systems that is designed to facilitate faster processing of customer orders. The Calgary fulfillment centre can pick, pack and ship small-ticket items such as apparel, home décor, small appliances and toys for customers in western Canada who order from the Company's Direct channel, which includes the Company's various catalogues and e-commerce offerings at www.sears.ca.

Network

- Returned three leased full-line stores to The Cadillac Fairview Corporation Limited ("Cadillac Fairview") as part of a previously announced transaction. Sears stores at Toronto Eaton Centre (Toronto, Ontario), Sherway Gardens (Toronto, Ontario) and Masonville Place (London, Ontario) were vacated on February 28, 2014. Also as part of this transaction effective February 28, 2015, Sears returned its store at Markville Shopping Centre (Toronto, Ontario) to Cadillac Fairview and its store at Richmond Centre (Richmond British Columbia) to Ivanhoé Cambridge Properties ("Ivanhoé"). The agreement for the return of the five stores, originally announced on October 29, 2013, was for a total consideration received of $400.0 million;

- Returned two leased full-line stores located at Yorkdale Shopping Centre (Toronto, Ontario) and Square One Shopping Centre (Mississauga, Ontario) to co-owners Oxford Properties Group Inc. and the Alberta Investment Management Corporation on March 9, 2014, as part of a previously announced transaction. The agreement for the return of the two leased stores plus an option for the return of the leased full-line store at Scarborough Town Centre (Toronto, Ontario), originally announced on June 14, 2013, was for a total consideration received of $192.0 million;

- On June 2, 2014, closed the sale of its 15% joint arrangement interest in the Les Rivières Shopping Centre (Trois-Rivières, Québec) to Ivanhoé for total proceeds of $33.5 million, pursuant to an agreement entered into on May 16, 2014. The shopping centre was a joint arrangement the Company held with affiliates of Ivanhoé. Sears will continue to operate its department store in the shopping centre, and Ivanhoé will continue to manage the property. This transaction had no effect on the employees or operation of the store located within the shopping centre;

- On June 16, 2014, entered into a binding agreement with Concord Pacific Group of Companies ("Concord") to pursue the development of the 12-acre Sears site located at the North Hill Shopping Centre in Calgary, Alberta. The arrangement contemplates the sale of a 50% interest in the site for a value of approximately $15.0 million, subject to adjustments, and the retention of Concord, on customary terms, to manage most facets of the development. Following the transfer of the 50% interest, the parties will enter into a co-ownership joint arrangement. The vision of the redevelopment is an infill project consisting of residential high-rises, with a potential retail component (see Note 35 "North Hill and Burnaby arrangements" of the Notes to the Consolidated Financial Statements for Fiscal 2014);

- On September 17, 2014, closed the sale of its 20% joint arrangement interest in Kildonan Place (Winnipeg, Manitoba) to H&R Real Estate Investment Trust for total proceeds of $27.7 million. Kildonan Place was a joint arrangement the Company held with Ivanhoé. This transaction had no effect on the employees or operation of the store located within the shopping centre; and

- On September 30, 2014, closed the sale of its 15% joint arrangement interest in Les Galeries de Hull (Gatineau, Québec) to Fonds de Placement Immobilier Cominar for total proceeds of $10.5 million. Les Galeries de Hull was a joint arrangement the Company held with Ivanhoé. This transaction had no effect on the employees or operation of the store located within the shopping centre.

"Live Green" Initiatives

The Company conducts its operations with a commitment to achieving success on economic, social and environmental levels. The Company continues to build upon the following three-point plan on environmental sustainability:

1. Enable customers to "Live Green", reduce their energy bills and create a healthy home;

2. Reduce the environmental impact of Sears Canada's operations; and

3. Nurture a culture of sustainability among the Company's employees, customers and the communities in which the Company operates.

Sears continued to focus on these three priorities by implementing or continuing the following initiative during Q4 2014:

- Sears Canada's new recycling partner, GreenSpace Waste Solutions ("GreenSpace"), began handling the Company's recycling activities in June 2014. GreenSpace was selected for its ability to maximize the value of recycled materials and for its expertise in driving waste diversion activities. This has resulted in more than $235,000 in avoided costs, including an 88% increase in rebates for recycled materials from June to December of this year, as compared to the same period in 2013. GreenSpace has also improved reporting capabilities, which helps the Company track progress towards its goal of diverting 90% of its waste from landfill.

Corporate Social Responsibility

The following is a summary of the results of the Company and its employees' corporate social responsibility efforts during Fiscal 2014:

- Raised over $576,000 by sponsoring the 27th Annual Sears Boys & Girls Club Golf Tournament in Stouffville, Ontario, in August, and the annual Opération Enfant Soleil ("OES") Golf Tournament held at Elm Ridge Golf Club near Montreal. The tournaments support children and youth development and children's pediatrics in Québec, respectively;

- Conducted the fourth annual *Sears Great Canadian Run* with community-based relays from Toronto, Ontario to Blue Mountain/Collingwood, Ontario, from Ottawa, Ontario to Montebello, Québec and, new for 2014, from Calgary, Alberta to Camp Kindle, Alberta, which is a camp for children with cancer. The three runs facilitated approximately $900,000 in donations for childhood cancer;

- Sponsored the seventh annual *Sears National Kids Cancer Ride* (the "Ride"), in cooperation with Coast to Coast Against Cancer Foundation. This 7,000 km cycling journey rolled across Canada from September 4-20, raising funds and awareness for the fight against childhood cancer. This year, Sears, its customers and its employees raised or donated over $660,000 in funds and logistical support and services for the Ride;

- Supported over 200 local store charity partners through the sale of our Holiday charity plush, Finn™/MC the bear. Sears charity plush has been helping children since 1998, raising over $1.5 million since 2005. Proceeds from the sale of each bear supported the healthy development of Canadian youth through after-school and children's health initiatives as well as the Canadian Association of Military Family Resource Centres. In addition, Sears donated thousands of Nate™/MC and Cooper™/MC plush bears and exclusive Newberry™/MC dolls to the Boys and Girls Clubs of Canada and to the Santa Clause Parade in Toronto, Ontario; and

- The Sears Tree of Wishes in Sears full-line and select Sears Home, Outlet and Hometown stores helped to bring joy to less fortunate children who may otherwise not have received a gift during the Holiday season. For the 2014 Holiday season, the Tree of Wishes program helped to bring smiles to about 7,000 children, with Sears customers and employees donating gifts valued at over $180,000.

d. Outlook

As Canadians' needs in a shopping experience evolve, Sears Canada is focused on keeping pace with emerging trends and innovative delivery of products and services, and is reinvigorating its business to better serve and grow with its customers. As an overarching approach to meeting these needs, Sears will set its sights on providing a seamless omni-channel retail experience for customers, and is investing in technology to support this strategy.

As management continues to change the Company's trajectory and establish prominence and relevance with Canadians within a continually changing retail landscape, Sears Canada is setting and prioritizing strategic initiatives that support four areas of focus: Product, Operations, Infrastructure and the Company's Network.

Although management believes that Sears will achieve its long-term goal of sustainable and profitable growth, there can be no assurance that the Company will successfully implement these strategic initiatives or whether such initiatives will yield the expected results. For a discussion of the risks and uncertainties inherent in the Company's business, refer to Section 12 "Risks and Uncertainties".

e. Use of Non-IFRS Measures, Measures of Operating Performance and Reconciliation of Net (Loss) Earnings to Adjusted EBITDA

The Company's consolidated financial statements are prepared in accordance with IFRS. Management uses IFRS, non-IFRS and operating performance measures as key performance indicators to better assess the Company's underlying performance and provides this additional information in this MD&A.

Same store sales is a measure of operating performance used by management, the retail industry and investors to compare retail operations, excluding the impact of store openings and closures. The same store sales metric excludes the Direct channel. Same store sales represents merchandise sales generated through operations in the Company's Full-Line, Sears Home, Hometown, Outlet and Corbeil stores that were continuously open during both of the periods being compared. More specifically, the same store sales metric compares the same calendar weeks for each period and represents the 13 and 52-week periods ended January 31, 2015 and February 1, 2014. The calculation of same store sales is a performance metric and may be impacted by store space expansion and contraction.

A reconciliation of the Company's total merchandising revenue to same store sales is outlined in the following table:

	Fourth Quarter		**Fiscal**	
(in CAD millions)	**2014**	2013	**2014**	2013
Total revenue	$ **972.5**	$ 1,169.2	$ **3,420.5**	$ 3,945.8
Non-comparable sales	**231.3**	335.4	**814.2**	1,003.5
Same store sales	**741.2**	833.8	**2,606.3**	2,942.3
Percentage change in same store sales	**(9.1)%**	(6.4)%	**(8.3)%**	(2.7)%
Percentage change in same store sales by category				
Apparel & Accessories	**(10.7)%**	1.1 %	**(6.2)%**	4.2 %
Home & Hardlines	**(8.0)%**	(12.4)%	**(10.3)%**	(7.6)%

Adjusted EBITDA is a non-IFRS measure and excludes finance costs, interest income, income tax expense or recovery, depreciation and amortization and income or expenses of a non-recurring, unusual or one-time nature. Adjusted EBITDA is a measure used by management, the retail industry and investors as an indicator of the Company's operating performance, ability to incur and service debt, and as a valuation metric. The Company uses Adjusted EBITDA to evaluate the operating performance of its business as well as an executive compensation metric. While Adjusted EBITDA is a non-IFRS measure, management believes that it is an important indicator of operating performance because it excludes the effect of financing and investing activities by eliminating the effects of interest and depreciation and removes the impact of certain non-recurring items that are not indicative of our ongoing operating performance. Therefore, management believes Adjusted EBITDA gives investors greater transparency in assessing the Company's results of operations.

These measures do not have any standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other reporting issuers. Adjusted EBITDA should not be considered in isolation or as an alternative to measures prepared in accordance with IFRS.

A reconciliation of the Company's net (loss) earnings to Adjusted EBITDA is outlined in the following table:

	Fourth Quarter		Fiscal	
(in CAD millions, except per share amounts)	**2014**	2013	**2014**	2013
Net (loss) earnings	**$ (123.6)**	$ 373.7	**$ (338.8)**	$ 446.5
Transformation expense[1]	**0.3**	51.2	**19.8**	72.9
Other asset impairment[2]	**99.3**	11.2	**115.0**	11.2
Warehouse impairment[3]	**—**	—	**44.4**	16.5
SHS warranty and other costs[4]	**3.1**	2.0	**9.7**	2.0
Lease exit costs[5]	**—**	5.4	**4.1**	5.6
Goodwill impairment[6]	**—**	—	**2.6**	6.1
Gain on lease terminations and lease amendments[7]	**—**	(391.5)	**—**	(577.2)
Accelerated tenant inducement and average rent amortization[8]	**—**	2.3	**—**	(2.2)
Gain on settlement and amendment of retirement benefits[9]	**—**	(42.5)	**(10.6)**	(42.5)
Gain on sale of interest in joint arrangements[10]	**—**	(66.3)	**(35.1)**	(66.3)
Depreciation and amortization expense	**23.2**	23.6	**89.3**	111.4
Finance (recovery) costs	**(4.7)**	2.7	**1.0**	10.8
Interest income	**(0.6)**	(1.0)	**(2.6)**	(2.6)
Income tax (recovery) expense	**(25.8)**	47.2	**(21.2)**	43.5
Adjusted EBITDA[11]	**$ (28.8)**	$ 18.0	**$ (122.4)**	$ 35.7
Basic net (loss) earnings per share	**$ (1.21)**	$ 3.67	**$ (3.32)**	$ 4.38

1 *Transformation expense during 2014 and 2013 relates primarily to severance costs incurred during the period. These costs are included in "Selling, administrative and other expenses" in the Company's consolidated financial statements for the 52-week periods ended January 31, 2015 and February 1, 2014.*

2 *Other asset impairment represents the charge related to writing down the carrying value of the property, plant and equipment and intangible assets of certain cash generating units described in Note 9 and Note 10 of the Company's consolidated financial statements for the 52-week periods ended January 31, 2015 and February 1, 2014.*

3 *Warehouse impairment represents the charge related to writing down the carrying value of the property, plant and equipment of the Montreal warehouse during 2014, and writing down the carrying value of the property, plant and equipment and investment properties of the Broad Street Logistics Centre located in Regina during 2013, to fair value less costs to sell described in Note 9 and Note 29 of the Company's consolidated financial statements for the 52-week periods ended January 31, 2015 and February 1, 2014.*

4 *SHS warranty and other costs represent the estimated costs to the Company related to potential claims for work that had been performed prior to SHS announcing it was in receivership described in Note 14 of the Company's consolidated financial statements for the 52-week periods ended January 31, 2015 and February 1, 2014.*

5 *Lease exit costs relate primarily to costs incurred to exit certain properties during 2014 and 2013. These costs are included in "Selling, administrative and other expenses" in the Company's consolidated financial statements for the 52-week periods ended January 31, 2015 and February 1, 2014.*

6 *Goodwill impairment represents the charge related to writing off the carrying value of goodwill related to the Corbeil cash generating unit during 2014, and the HIPS cash generating unit during 2013, described in Note 10 of the Company's consolidated financial statements for the 52-week periods ended January 31, 2015 and February 1, 2014.*

7 *Gain on lease terminations and lease amendments represents the gain arising from payments made to Sears by landlords for the early vacating of properties described in Note 28 of the Company's consolidated financial statements for the 52-week periods ended January 31, 2015 and February 1, 2014.*

8 *Accelerated tenant inducement and average rent amortization represents the accelerated amortization of lease inducements and average rent assets relating to the properties in footnote 7 above. This amortization is included in "Selling, administrative and other expenses" in the Company's consolidated financial statements for the 52-week periods ended January 31, 2015 and February 1, 2014.*

9 *Gain on settlement and amendment of retirement benefits primarily represents the settlement of retirement benefits of eligible members covered under the non-pension retirement plan during 2014, and the settlement and freezing of retirement benefits of eligible members covered under the non-pension retirement plan during 2013, described in Note 20 of the Company's consolidated financial statements for the 52-week periods ended January 31, 2015 and February 1, 2014.*

10 *Gain on sale of interest in joint arrangements represents the gain associated with selling the Company's interest in the properties co-owned with Ivanhoé during 2014, and with selling the Company's interest in the properties co-owned with the Westcliff Group of Companies during 2013, described in Note 11 of the Company's consolidated financial statements for the 52-week periods ended January 31, 2015 and February 1, 2014.*

11 *Adjusted EBITDA is a measure used by management, the retail industry and investors as an indicator of the Company's performance, ability to incur and service debt, and as a valuation metric. Adjusted EBITDA is a non-IFRS measure.*

f. Consolidated Financial Results

		Fiscal		
(in CAD millions)		**2014**	% Chg 2014 vs 2013	2013
Revenue	$	**3,424.5**	(14.2)% $	3,991.8
Cost of goods and services sold		**2,308.0**	(9.4)%	2,548.1
Selling, administrative and other expenses		**1,523.8**	(6.6)%	1,631.5
Operating loss		**(407.3)**	(116.9)%	(187.8)
Gain on lease terminations and lease amendments		—	(100.0)%	577.2
Gain on sale of interest in joint arrangements		**35.1**	(47.1)%	66.3
Gain on settlement and amendment of retirement benefits		**10.6**	(75.1)%	42.5
Finance costs		**1.0**	(90.7)%	10.8
Interest income		**2.6**	— %	2.6
(Loss) earnings before income taxes		**(360.0)**	(173.5)%	490.0
Income tax recovery (expense)		**21.2**	148.7 %	(43.5)
Net (loss) earnings	$	**(338.8)**	(175.9)% $	446.5

2014 compared with 2013 – Total revenue in Fiscal 2014 decreased by 14.2% to $3,424.5 million compared to $3,991.8 million during the same period in Fiscal 2013. Same store sales decreased by 8.3% in Fiscal 2014 compared to Fiscal 2013. The revenue in Fiscal 2014 relating to Home & Hardlines decreased by $273.7 million, or 14.6%, compared to the same period in Fiscal 2013, due to sales declines in all product categories. Same store sales in Home & Hardlines decreased by 10.3%. The revenue in Fiscal 2014 relating to Apparel & Accessories decreased by $195.9 million, or 13.9%, compared to Fiscal 2013, primarily due to sales declines in all product categories. Same store sales in Apparel & Accessories decreased by 6.2%. Other merchandise revenue in Fiscal 2014 decreased by $22.2 million, or 9.7%, compared to Fiscal 2013, primarily due to the termination of the licensing arrangement with SHS. Included in the total revenue decrease in Fiscal 2014 was the impact of the closure of five full-line stores previously announced during Fiscal 2013, which negatively impacted revenue in Fiscal 2014 by $156.0 million, compared to Fiscal 2013, as described in Note 28 "Gain on lease terminations and lease amendments" of the Notes to the Consolidated Financial Statements for Fiscal 2014. Also included in the total revenue decrease in Fiscal 2014 was a decrease in Services and other revenue of $67.8 million compared to the same period in Fiscal 2013, primarily related to the sale of the Company's interest in certain joint arrangements in the fourth quarter of Fiscal 2013, as described in Note 11 "Joint arrangements" of the Notes to the the Consolidated Financial Statements for Fiscal 2014 and reduced sales of extended warranty service contracts.

Total revenue recognized from points redemption under the loyalty program in Fiscal 2014 was $50.9 million (Fiscal 2013: $39.7 million) and total revenue deferred related to points issuances was $50.5 million (Fiscal 2013: $41.7 million). Total revenue recognized in Fiscal 2014 for unredeemed points (by exclusion from deferral in the loyalty point redemption rate) increased to $11.0 million (Fiscal 2013: $7.6 million) due to an overall increase in points issuance. The increase in total revenue deferred related to increased points issuance was primarily due to a combination of the recently introduced points-based customer acquisition bonus and higher new accounts compared to 2013.

Cost of goods and services sold was $2,308.0 million in Fiscal 2014 compared to $2,548.1 million in Fiscal 2013, a 9.4% decrease year-over-year. This decrease was attributable primarily to both lower sales volumes which included the impact of the closure of five full-line stores announced during Fiscal 2013, and the termination of the licensing arrangement with SHS.

The Company's gross margin rate was 32.6% in Fiscal 2014 compared to 36.2% in Fiscal 2013. The decrease in the gross margin rate in Fiscal 2014 compared to Fiscal 2013 was due primarily to reduced margin in home furnishings, home décor, CAWP, electronics, floorcare, sewing, major appliances, jewellery, accessories & luggage, footwear, women's intimates, children's wear, men's wear and women's apparel as a result of increased clearance or promotional activities, partially offset by increased margins in seasonal, fitness & recreation and cosmetics. In addition, reduced margin in Services and other revenue was related to the sale of the Company's interest in certain joint arrangements in the fourth quarter of Fiscal 2013, which negatively impacted the Company's gross margin rate by 90 basis points in Fiscal 2014.

Selling, administrative and other expenses, including depreciation and amortization expense, decreased by $107.7 million or 6.6% to $1,523.8 million in Fiscal 2014 compared to Fiscal 2013. Excluding transformation expenses of $19.8 million in Fiscal 2014 (Fiscal 2013 : $72.9 million) and non-recurring items such as asset impairments, joint arrangement costs primarily related to the sale of the Company's interest in certain joint arrangements in the fourth quarter of Fiscal 2013 and lease exit costs of $169.5 million (Fiscal 2013: $70.1 million), accelerated tenant inducement and average rent amortization of nil (Fiscal 2013: benefit of $2.2 million) and SHS warranty and other costs of $9.7 million (Fiscal 2013: $2.0 million), selling, administrative and other expenses declined by $163.9 million or 11.0% in Fiscal 2014, as compared to Fiscal 2013. The decrease in expense, excluding non-recurring items, was attributable to lower spending on advertising and payroll. Advertising expense decreased primarily due to reductions in retail advertising and catalogue circulation. Payroll expense decreased primarily due to a reduced number of employees, as a result of previously announced transformation actions. Transformation expenses are included in selling, administrative and other expenses and decreased by $53.1 million to $19.8 million in Fiscal 2014, compared to Fiscal 2013. Foreign exchange loss also decreased by $2.5 million in Fiscal 2014 compared to Fiscal 2013. See Note 9 "Property, plant and equipment and investment properties", Note 10 "Goodwill and intangible assets" and Note 29 "Assets classified as held for sale" of the Notes to the Consolidated Financial Statements for Fiscal 2014 for additional information regarding impairment costs.

Depreciation and amortization expense in Fiscal 2014 decreased by $22.1 million to $89.3 million compared to Fiscal 2013, primarily due to the closure of five full-line stores previously announced during Fiscal 2013, the sale of the Company's interest in certain joint arrangements during the fourth quarter of Fiscal 2013, and the impairment of certain assets during Fiscal 2013 and Fiscal 2014. The Company regularly monitors the business for indicators of impairment, and assesses the potential impact to the carrying value of our assets on a quarterly basis, as described in Note 9 "Property, plant and equipment and investment properties" of the Notes to the Consolidated Financial Statements for Fiscal 2014.

During Fiscal 2014, the Company sold its interest in the properties co-owned with Ivanhoé for total proceeds of $71.7 million, recognizing a pre-tax gain of $35.1 million on the sale. In connection with these transactions, the Company determined that because it had surrendered substantially all of its rights and obligations and had transferred substantially all of the risks and rewards of ownership related to the three properties, immediate gain recognition was appropriate. See Note 11 "Joint Arrangements" of the Notes to the Consolidated Financial Statements for Fiscal 2014 for additional information.

During Fiscal 2014, the Company's defined benefit plan offered lump sum settlements to those terminated employees who previously elected to defer the payment of the defined benefit pension until retirement. The accepted offers of $23.6 million were settled by the end of October 2014. In addition, the Company made a voluntary offer to settle medical and dental benefits of eligible members covered under a health and welfare trust ("Other Benefits Plan"). The Company incurred expenses of $0.8 million related to these offers, during 2014 and these expenses were included in "Selling, administrative and other expenses". The Company paid $13.8 million to settle acceptances from the Other Benefits Plan offer and recorded a pre-tax gain of $10.6 million ($11.4 million settlement gain less fees of $0.8 million) during 2014 related to these offers.

Finance costs in Fiscal 2014 decreased by 90.7% to $1.0 million compared to $10.8 million in Fiscal 2013, primarily attributable to the interest recovery on uncertain tax positions of $6.5 million (Fiscal 2013: $0.2 million). In addition, interest declined due to lower commitment fees related to our Amended Credit Facility (see Section 3 "Consolidated Financial Position, Liquidity and Capital Resources" for additional information).

Interest income in Fiscal 2014 of $2.6 million was comparable to interest income in Fiscal 2013.

Income tax recovery increased to $21.2 million in Fiscal 2014 compared to an income tax expense of $43.5 million in Fiscal 2013. The year-over-year change was primarily attributable to higher losses in Fiscal 2014, partially offset by the write-down of deferred tax assets of $88.6 million, as described in Note 22 "Income taxes" of the Notes to the Consolidated Financial Statements for Fiscal 2014.

Adjusted EBITDA in Fiscal 2014 was $(122.4) million, compared to $35.7 million in Fiscal 2013, a decrease of $158.1 million. Adjusted EBITDA was impacted by the loss of rental income of $22.5 million from the sale of the Company's interest in certain joint arrangements in the fourth quarter of Fiscal 2013, $20.1 million related to the closure of five full-line stores previously announced during Fiscal 2013 and $6.8 million due to the termination of the licensing arrangement with SHS, partially offset by $2.5 million in incremental foreign exchange gain, as compared to Fiscal 2013.

g. Fourth Quarter Results

		Fourth Quarter		
(in CAD millions)		**2014**	% Chg 2014 vs 2013	2013
Revenue	$	**972.5**	(17.7)% $	1,182.3
Cost of goods and services sold		**676.9**	(14.6)%	792.2
Selling, administrative and other expenses		**450.3**	(3.7)%	467.8
Operating loss		**(154.7)**	(99.1)%	(77.7)
Gain on lease terminations and lease amendments		—	(100.0)%	391.5
Gain on sale of interest in joint arrangements		—	(100.0)%	66.3
Gain on settlement and amendment of retirement benefits		—	(100.0)%	42.5
Finance (recovery) costs		**(4.7)**	(274.1)%	2.7
Interest income		**0.6**	(40.0)%	1.0
(Loss) earnings before income taxes		**(149.4)**	(135.5)%	420.9
Income tax recovery (expense)		**25.8**	154.7 %	(47.2)
Net (loss) earnings	$	**(123.6)**	(133.1)% $	373.7

Q4 2014 compared with Q4 2013 – Total revenue in Q4 2014 decreased by 17.7% to $972.5 million compared to $1,182.3 million in Q4 2013, with same store sales declining 9.1% in Q4 2014 compared to Q4 2013. The revenue relating to Home & Hardlines in Q4 2014 decreased by $83.2 million, or 15.7%, compared to the same period in Fiscal 2013, due to sales declines in all product categories. Same store sales in Home & Hardlines decreased by 8.0%. The revenue relating to Apparel & Accessories decreased by $95.6 million, or 20.0%, in Q4 2014 compared to the same period in Fiscal 2013, due to sales declines in all product categories. Same store sales in Apparel & Accessories decreased by 10.7%. Other merchandise revenue decreased by $7.7 million, or 15.1%, in Q4 2014 compared to the same period in Fiscal 2013, primarily due to the termination of the licensing arrangement with SHS. Included in the total revenue decrease in Q4 2014 was the impact of the closure of five full-line stores previously announced during Fiscal 2013, which negatively impacted revenue in Q4 2014 by $59.3 million, compared to the same period in Fiscal 2013, as described in Note 28 "Gain on lease terminations and lease amendments" of the Notes to the Consolidated Financial Statements for Fiscal 2014. Also included in the total revenue decrease in Q4 2014 was a decrease in Services and other revenue of $19.8 million compared to the same period in Fiscal 2013, primarily related to the sale of the Company's interest in certain joint arrangements in the fourth quarter of Fiscal 2013, as described in Note 11 "Joint arrangements" of the Notes to the Consolidated Financial Statements for Fiscal 2014 and reduced sales of extended warranty service contracts.

Total revenue recognized from points redemption under the loyalty program in Q4 2014 was $14.8 million (Q4 2013: $13.7 million) and total revenue deferred related to points issuances in Q4 2014 was $13.9 million (Q4 2013: $14.1 million). Total revenue recognized in Q4 2014 for unredeemed points (by exclusion from deferral in the loyalty point redemption rate) remained at $3.1 million (Q4 2013: $3.1 million). The increase in total recognized revenue was primarily due to higher redemption rate and the points-based acquisition bonus.

Cost of goods and services sold was $676.9 million in Q4 2014 compared to $792.2 million in Q4 2013, a 14.6% decrease. This decrease was attributable to both lower sales volumes which included the impact of the closure of five full-line stores announced during Fiscal 2013, and the termination of the licensing arrangement with SHS, .

The Company's gross margin rate was 30.4% in Q4 2014 compared to 33.0% in Q4 2013. The decrease in the gross margin rate was due primarily to reduced margin in electronics, major appliances, children's wear and women's apparel as a result of increased clearance or promotional activities, partially offset by increased margins in home décor, seasonal and footwear. In addition, reduced margin in Services and other revenue was related to the sale of the Company's interest in certain joint arrangements in the fourth quarter of Fiscal 2013, which negatively impacted the Company's gross margin rate by 80 basis points in Q4 2014.

Selling, administrative and other expenses, including depreciation and amortization expense decreased by $17.5 million or 3.7% to $450.3 million in Q4 2014 compared to Q4 2013. Excluding transformation expenses of $0.3 million in Q4 2014 (Q4 2013: $51.2 million) and non-recurring items such as asset impairments, joint arrangement costs primarily related to the sale of the Company's interest in certain joint arrangements during the fourth quarter of Fiscal 2013 and lease exit costs of

$99.3 million (Q4 2013: $24.0 million), accelerated tenant inducement and average rent amortization of nil (Q4 2013: $2.3 million) and SHS warranty and other costs of $3.1 million (Q4 2013: $2.0 million), selling, administrative and other expenses declined by $40.7 million or 10.5% in Q4 2014, as compared to Q4 2013. The decrease in expenses, excluding non-recurring items, was primarily attributable to lower spending on advertising and payroll. Advertising expense decreased primarily due to reductions in retail advertising and catalogue circulation, and page counts. Payroll expense decreased primarily due to a reduced number of employees, as a result of previously announced transformation actions. Transformation expenses are included in selling, administrative and other expenses and decreased by $50.9 million to $0.3 million in Q4 2014, compared to Q4 2013. See Note 9 "Property, plant and equipment and investment properties", Note 10 "Goodwill and intangible assets" and Note 29 "Assets classified as held for sale" of the Notes to the Consolidated Financial Statements for Fiscal 2014 for additional information regarding impairment costs.

Depreciation and amortization expense in Q4 2014 was comparable to depreciation and amortization expense in Q4 2013.

Finance recovery in Q4 2014 increased to $4.7 million compared to finance costs of $2.7 million in Q4 2013, primarily attributable to the interest recovery on uncertain tax positions of $6.4 million (Q4 2013: nil). In addition, interest declined due to lower commitment fees related to our Amended Credit Facility (see Section 3 "Consolidated Financial Position, Liquidity and Capital Resources" for additional information).

Interest income in Q4 2014 of $0.6 million was comparable to interest income in Q4 2013.

Income tax recovery increased to $25.8 million in Q4 2014 compared to an income tax expense of $47.2 million in Q4 2013. The year-over-year change was primarily attributable to higher losses in Q4 2014 as a result of the gains on lease terminations and lease amendments and from the sale of the Company's interest in certain joint arrangements in Q4 2013.

Adjusted EBITDA in Q4 2014 was $(28.8) million, compared to $18.0 million in Q4 2013, a decrease of $46.8 million. Adjusted EBITDA was impacted by the loss of rental income of $6.3 million from the sale of the Company's interest in certain joint arrangements in the fourth quarter of Fiscal 2013, $3.5 million related to the closure of five full-line stores previously announced during Fiscal 2013 and $1.4 million due to the termination of the licensing arrangement with SHS, partially offset by $0.5 million in incremental foreign exchange gain, as compared to Q4 2013.

2. Segment Performance

Results of Merchandising Operations

	Fourth Quarter			Fiscal		
(in CAD millions)	**2014**	% Chg 2014 vs 2013	2013	**2014**	% Chg 2014 vs 2013	2013
Total Revenue	$ **972.5**	(16.8)%	$ 1,169.2	$ **3,420.5**	(13.3)%	$ 3,945.8
Cost of goods and services sold, operating, administrative and selling expenses[1]	**1,001.3**	(13.5)%	1,157.5	**3,545.0**	(9.9)%	3,934.7
Adjusted EBITDA	$ **(28.8)**	(346.2)%	$ 11.7	$ **(124.5)**	*nm*	$ 11.1

"nm" means "not meaningful"

[1] *Excludes depreciation and amortization, transformation expenses and non-recurring items.*

Comparative Analysis - Revenue for the Company's merchandise operations decreased by 16.8% in Q4 2014 and 13.3% in Fiscal 2014, compared to the same periods in Fiscal 2013. Adjusted EBITDA decreased to $(28.8) million in Q4 2014 and $(124.5) million in Fiscal 2014, compared to $11.7 million and $11.1 million for the same periods in Fiscal 2013. Refer to Section 1.f. "Consolidated Financial Results" and 1.g. "Fourth Quarter Results" for additional information.

Results of Real Estate Joint Arrangements

	Fourth Quarter			Fiscal		
(in CAD millions)	**2014**	% Chg 2014 vs 2013	2013	**2014**	% Chg 2014 vs 2013	2013
Total Revenue	$ **—**	(100.0)%	$ 13.1	$ **4.0**	(91.3)%	$ 46.0
Cost of goods and services sold, operating, administrative and selling expenses[1]	**—**	(100.0)%	6.8	**1.9**	(91.1)%	21.4
Adjusted EBITDA	$ **—**	(100.0)%	$ 6.3	$ **2.1**	(91.5)%	$ 24.6

Comparative Analysis - Revenue for the Company's real estate joint arrangements in Q4 2014 and Fiscal 2014 decreased by 100.0% and 91.3%, respectively, as compared to the same periods in Fiscal 2013, primarily related to the sale of the Company's interest in certain joint arrangements in the fourth quarter of Fiscal 2013. Adjusted EBITDA for Q4 2014 decreased to nil in Q4 2014 and $2.1 million in Fiscal 2014, as compared to $6.3 million and $24.6 million for the same periods in Fiscal 2013. During Fiscal 2014, the Company sold all of its interests in shopping centre real estate joint arrangements, as described in Note 11 "Joint arrangements" of the Notes to the Consolidated Financial Statements for Fiscal 2014.

3. Consolidated Financial Position, Liquidity and Capital Resources

Current assets as at January 31, 2015 were $1,149.8 million, which was $267.0 million lower than as at February 1, 2014. The decrease was primarily due to a $254.8 million decrease in cash and cash equivalents and $133.2 million in inventory due to improved management of inventory receipts, partially offset by a $126.4 million increase in income taxes recoverable primarily due to the utilization of loss carrybacks in certain subsidiaries of the Company and a reclassification from deferred tax assets.

Current liabilities as at January 31, 2015 were $627.8 million, which was $222.0 million lower than as at February 1, 2014 due primarily to a decrease of $79.3 million in accounts payable and accrued liabilities, primarily due to lower inventory receipts and expense reductions, a decrease of $50.8 million in provisions from severance payments related to previously announced transformation actions in the prior period and a decrease of $71.5 million in income taxes payable and other taxes payable from tax payments made in the first half of 2014 for taxable income earned in the fourth quarter of Fiscal 2013.

Inventories were $641.4 million as at January 31, 2015 compared to $774.6 million as at February 1, 2014. The $133.2 million decrease in the inventory balance is primarily due to improved management of supply chain and store allocation compared to Fiscal 2013, and $11.0 million related to the closure of the five full-line stores previously announced during Fiscal 2013.

Total cash and cash equivalents was $259.0 million as at January 31, 2015, as compared to $513.8 million as at February 1, 2014. The decrease of $254.8 million was primarily due to a higher net loss, tax payments made for taxable income earned from the gains on lease terminations and lease amendments and from the sale of the Company's interest in certain joint arrangements in Fiscal 2013, severance payments associated with Fiscal 2013 transformation activities, purchases of property, plant and equipment and intangible assets and contributions to the Company's retirement benefit plans, partially offset by the proceeds from the sale of the Company's interest in certain joint arrangements in Fiscal 2014.

Total assets and liabilities as at the end of Fiscal 2014 and Fiscal 2013 are as follows:

(in CAD millions)	**As at January 31, 2015**	As at February 1, 2014
Total assets	$ **1,774.1**	$ 2,392.3
Total liabilities	$ **1,203.3**	$ 1,318.5

Total assets as at January 31, 2015 decreased by $618.2 million to $1,774.1 million compared to $2,392.3 million as at February 1, 2014, due primarily to lower cash and cash equivalents, lower inventory, depreciation, amortization and impairment of property, plant and equipment and intangible assets and the write down of deferred tax assets, partially offset by increases in income taxes recoverable due to a settlement with the taxation authorities for the taxation years 2006 and 2007 and the utilization of loss carrybacks in certain subsidiaries of the Company generated in Fiscal 2014.

The expected cash recoverable from the settlement is $52.5 million. Refer to Note 22 "Income taxes" of the Notes to the Consolidated Financial Statements for Fiscal 2014 for additional information.

Total liabilities as at January 31, 2015 decreased by $115.2 million to $1,203.3 million compared to $1,318.5 million as at February 1, 2014, due primarily to decreases in accounts payable and accrued liabilities, provisions, income taxes payable and other taxes payable, partially offset by increases in retirement benefit liability.

Cash flow used for operating activities - Cash flow used for operating activities increased by $238.8 million in Fiscal 2014 to $264.6 million compared to cash flow used for operating activities of $25.8 million in Fiscal 2013. The Company's primary source of operating cash flow is the sale of goods and services to customers and the primary use of cash in operating activities is the purchase of merchandise inventories. The increase in cash used for operating activities was primarily attributable to a higher net loss, after adjusting for depreciation and amortization expense, impairment losses, and gains on lease terminations and lease amendments in both periods, severance payments related to previously announced transformation actions in the prior period and tax payments made for taxable income earned on the gains from lease terminations and lease amendments and the sale of the Company's interest in certain joint arrangements in Fiscal 2013, partially offset by lower inventory levels, as compared to the same period in Fiscal 2013.

Cash flow generated from investing activities - Cash flow generated from investing activities was $18.9 million in Fiscal 2014, as compared to cash flow generated from investing activities of $837.0 million in Fiscal 2013. The decrease of $818.1 million in cash generated from investing activities was primarily due to proceeds received of $905.9 million from lease terminations and lease amendments and from the sale of the Company's interest in certain joint arrangements in Fiscal 2013 and a decrease in capital expenditure spending of $16.8 million to $54.0 million.

Cash flow used for financing activities - Cash flow used for financing activities decreased by $526.5 million to $11.0 million in Fiscal 2014 compared to $537.5 million in Fiscal 2013. The decrease in cash flow used was primarily due to an extraordinary dividend payment of $509.4 million in Q4 2013 and repayments on long-term obligations related to the joint arrangements made during Fiscal 2013.

Contractual Obligations

Contractual obligations, including payments due over the next five fiscal years and thereafter, are shown in the following table:

		Contractual Cash Flow Maturities				
(in CAD millions)	Carrying Amount	Total	Within 1 year	1 year to 3 years	3 years to 5 years	Beyond 5 years
Accounts payable and accrued liabilities	$ 359.4	$ 359.4	$ 359.4	$ —	$ —	$ —
Finance lease obligations including payments due within one year[1]	28.1	36.0	5.8	10.6	9.9	9.7
Operating lease obligations[2]	n/a	428.8	93.8	145.5	94.6	94.9
Royalties[2]	n/a	3.4	0.8	2.6	—	—
Purchase agreements[2,4]	n/a	9.7	6.4	3.3	—	—
Retirement benefit plans obligations[3]	407.4	85.9	20.2	40.5	24.9	0.3
	$ 794.9	**$ 923.2**	**$ 486.4**	**$ 202.5**	**$ 129.4**	**$ 104.9**

1 *Cash flow maturities related to finance lease obligations, including payments due within one year, include annual interest on finance lease obligations at a weighted average rate of 7.6%.*

2 *Purchase agreements, operating lease obligations, and royalties are not reported in the Consolidated Statements of Financial Position.*

3 *Payments are based on a funding valuation as at December 31, 2013 which was completed on June 30, 2014. Any obligation beyond 2019 would be based on a funding valuation to be completed as at December 31, 2016.*

4 *Certain vendors require minimum purchase commitment levels over the term of the contract.*

Retirement Benefit Plans

In Fiscal 2014, the Company's retirement benefit plan obligations increased by $121.4 million to $407.4 million compared to Fiscal 2013 primarily due to the decrease in discount rate and then offset by the plan amendments.

In December 2013, the Company amended the early retirement provision of its defined benefit plan to eliminate a benefit for employees who voluntarily resign prior to age of retirement, with effect January 1, 2015. In addition, the Company amended the defined benefit plan for improvements that increase portability of employees' benefit, with effect March 1, 2014, and implemented fixed indexing at 0.5% per annum for eligible retirees, with effect January 1, 2014. In December 2013, the Company froze the benefits offered under the Other Benefits Plan to benefits levels as at January 1, 2015. In the fourth quarter of 2013, the Company recorded a pre-tax gain on amendments to retirement benefits of $42.5 million ($42.8 million net of $0.3 million of expenses) as shown on the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income. Refer to Note 20 "Retirement benefit plans" of the Notes to the Consolidated Financial Statements for Fiscal 2014 for more details.

During Fiscal 2014, the Company's defined benefit plan offered lump sum settlements to those terminated employees who previously elected to defer the payment of the defined benefit pension until retirement. The accepted offers of $23.6 million were settled by the end of October 2014. In addition, the Company made a voluntary offer to settle medical and dental benefits of eligible members covered under the Other Benefits Plan. The Company incurred expenses of $0.8 million related to these offers, during 2014 and these expenses were included in "Selling, administrative and other expenses". The Company paid $13.8 million to settle acceptances from the Other Benefits Plan offer and recorded a pre-tax gain of $10.6 million ($11.4 million settlement gain less fees of $0.8 million) during 2014 related to these offers. Included in the "Total pre-tax remeasurement (losses) gains" of $131.9 million in Note 20 "Retirement benefit plans" of the Notes to the Consolidated Financial Statements for Fiscal 2014, is a $2.7 million pre-tax remeasurement gain related to these offers.

In February 2015 the Company will make another voluntary offer to settle medical and dental benefits of eligible members covered under the Other Benefits Plan. The Company expects to settle any acceptances under this voluntary offer during the 13-week period ended May 2, 2015.

The Company measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at January 31. The most recent actuarial valuation of the pension plan for funding purposes is dated December 31, 2013, which was completed on June 30, 2014. An actuarial valuation of the health and welfare obligations is performed at least every three years, with the last valuation completed as of January 31, 2014.

During Fiscal 2014, the Company changed the target asset allocation to 55-80% fixed income and 20-45% equity for the defined benefit registered pension plan. For the assets in the health and welfare trust, included in Other Benefit Plans, the asset allocation is 100% fixed income. As at the end of Fiscal 2014 and 2013, the assets were in line with the target allocation range. The asset allocation may be changed from time to time in terms of weighting between fixed income, equity and other asset classes as well as within the asset classes themselves.

The plan's target allocation is determined taking into consideration the amounts and timing of projected liabilities, the Company's funding policies and expected returns on various asset classes. To develop the expected long-term rate of return on assets assumption, the Company considered the historical returns and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio.

Capital Resources

The Company's capital expenditures, working capital needs, debt repayment and other financing needs are funded primarily through cash generated from operations and existing cash on hand. In selecting appropriate funding choices, the Company's objective is to manage its capital structure in such a way as to diversify its funding sources, while minimizing its funding costs and risks. Sears expects to be able to satisfy all of its financing requirements through cash on hand, cash generated by operations and, if necessary, availability under the Company's credit facility as described below. The Company's cost of funding is affected by general economic conditions, including the overall interest rate environment, as well as the Company's financial performance, credit ratings and fluctuations of its credit spread over applicable reference rates.

The Company's debt consisted of finance lease obligations. The Company's share of its real estate joint arrangement obligations were fully repaid during Fiscal 2014. In September 2010, the Company entered into an $800.0 million senior secured revolving credit facility (the "Credit Facility") with a syndicate of lenders with a maturity date of September 10, 2015.

On May 28, 2014, the Company announced that it had extended the term of its Credit Facility to May 28, 2019 and reduced the total credit limit to $300.0 million. The Amended Credit Facility is secured with a first lien on inventory and credit card receivables. The Company incurred additional transaction costs of $1.0 million in Fiscal 2014 related to the Amended Credit Facility.

Availability under the Amended Credit Facility is determined pursuant to a borrowing base formula, up to a maximum availability of $300.0 million. Availability under the Amended Credit Facility was $260.7 million as at January 31, 2015 (February 1, 2014: $374.0 million). In 2013, as a result of judicial developments relating to the priorities of pension liability relative to certain secured obligations, the Company provided additional security to the lenders by pledging certain real estate assets as collateral, thereby partially reducing the potential reserve amount the lenders could apply. As at January 31, 2015, three properties in Ontario have been registered under the Amended Credit Facility. The additional reserve amount may increase or decrease in the future based on changes in estimated net pension deficits in the event of a wind-up, and based on the amount of real estate assets pledged as additional collateral. The estimated reserves, if applied as at January 31, 2015, would reduce the Company's borrowing availability by $26.0 million.

The Amended Credit Facility contains covenants which are customary for facilities of this nature and the Company was in compliance with all covenants as at January 31, 2015.

As at January 31, 2015, the Company had no borrowings on the Amended Credit Facility and had unamortized transaction costs associated with the Amended Credit Facility of $4.2 million included in "Other long-term assets" in the Consolidated Statements of Financial Position (February 1, 2014: no borrowings and net of unamortized transaction costs of $4.4 million included in "Other long-term assets"). In addition, the Company had $39.3 million (February 1, 2014: $24.0 million) of standby letters of credit outstanding against the Amended Credit Facility. These letters of credit cover various payment obligations. Interest on drawings under the Amended Credit Facility is determined based on bankers' acceptance rates for one to three month terms or the prime rate plus a spread. Interest amounts on the Amended Credit Facility are due monthly and are added to principal amounts outstanding.

As at January 31, 2015, the Company had outstanding merchandise letters of credit of U.S. $6.9 million (February 1, 2014: U.S. $9.0 million) used to support the Company's offshore merchandise purchasing program with restricted cash pledged as collateral.

The Company has entered into a mortgage on land that it owns in Burnaby, British Columbia. In accordance with the Burnaby development project with Concord, the land has been allocated as security for future borrowings (see Note 35 "North Hill and Burnaby arrangements" of the Notes to the Consolidated Financial Statements for Fiscal 2014 for additional information).

4. Financial Instruments

The Company is exposed to credit, liquidity and market risk as a result of holding financial instruments. Market risk consists of foreign exchange and interest rate risk. See Note 14 "Financial instruments" of the Notes to the Consolidated Financial Statements for Fiscal 2014 for additional information.

Credit risk

Credit risk refers to the possibility that the Company can suffer financial losses due to the failure of the Company's counterparties to meet their payment obligations. Exposure to credit risk exists for derivative instruments, cash and cash equivalents, accounts receivable and other long-term assets.

Cash and cash equivalents, accounts receivable, derivative instruments and investments included in other long-term assets totaling $340.5 million as at January 31, 2015 (February 1, 2014: $605.8 million) expose the Company to credit risk should the borrower default on maturity of the investment. The Company manages this exposure through policies that require borrowers to have a minimum credit rating of A, and limiting investments with individual borrowers at maximum levels based on credit rating.

The Company is exposed to minimal credit risk from third parties as a result of ongoing credit evaluations and review of accounts receivable collectability. As at January 31, 2015, one party represented 11.0% of the Company's net accounts receivable (February 1, 2014: one party represented 11.3% of the Company's net accounts receivable).

Liquidity risk

Liquidity risk is the risk that the Company may not have cash available to satisfy financial liabilities as they come due. The Company actively maintains access to adequate funding sources to ensure it has sufficient available funds to meet current and foreseeable financial requirements at a reasonable cost.

Market risk

Market risk exists as a result of the potential for losses caused by changes in market factors such as foreign currency exchange rates, interest rates and commodity prices.

From time to time, the Company enters into foreign exchange contracts to reduce the foreign exchange risk with respect to U.S. dollar denominated assets and liabilities and purchases of goods or services. As at January 31, 2015, there were forward contracts outstanding with a notional value of U.S. $40.0 million (February 1, 2014: U.S. $90.0 million) and a fair value of $7.2 million included in "Derivative financial assets" (February 1, 2014: $7.2 million) in the Consolidated Statements of Financial Position. These derivative contracts have settlement dates extending to April 2015. The intrinsic value portion of these derivatives has been designated as a cash flow hedge for hedge accounting treatment under International Accounting Standards ("IAS") 39, *Financial Instruments: Recognition and Measurement*. These contracts are intended to reduce the foreign exchange risk with respect to anticipated purchases of U.S. dollar denominated goods purchased for resale ("hedged item"). As at January 31, 2015, the designated portion of these hedges was considered effective.

While the notional principal of these outstanding financial instruments is not recorded in the Consolidated Statements of Financial Position, the fair value of the contracts is included in "Derivative financial assets" or "Derivative financial liabilities", depending on the fair value, and classified as current or long-term, depending on the maturities of the outstanding contracts. Changes in the fair value of the designated portion of contracts are included in "Other comprehensive income (loss), net of taxes" ("OCI") for cash flow hedges, to the extent the designated portion of the hedges continues to be effective, with any ineffective portion included in "Cost of goods and services sold" in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income. Amounts previously included in OCI are reclassified to "Cost of goods and services sold" in the same period in which the hedged item impacted net (loss) earnings.

During Fiscal 2014, the Company recorded a loss of $5.0 million (2013: loss of $7.6 million), in "Selling, administrative and other expenses", relating to the translation or settlement of U.S. dollar denominated monetary items consisting of cash and cash equivalents, accounts receivable and accounts payable.

The year end exchange rate was 0.7867 U.S. dollar to Canadian dollar. A 10% appreciation or depreciation of the U.S. dollar and/or the Canadian dollar exchange rate was determined to have an after-tax impact on net (loss) earnings of $0.3 million for U.S. dollar denominated balances included in cash and cash equivalents, accounts receivable and accounts payable.

Interest rate risk

From time to time, the Company enters into interest rate swap contracts with approved financial institutions to manage exposure to interest rate risks. As at January 31, 2015, the Company had no interest rate swap contracts in place (February 1, 2014: nil).

Interest rate risk reflects the sensitivity of the Company's financial condition to movements in interest rates. Financial assets and liabilities which do not bear interest or bear interest at fixed rates are classified as non-interest rate sensitive.

Cash and cash equivalents and borrowings under the Amended Credit Facility, when applicable, are subject to interest rate risk. The total subject to interest rate risk as at January 31, 2015 was a net asset of $260.3 million (February 1, 2014: net asset of $515.1 million). An increase or decrease in interest rates of 25 basis points would cause an after-tax impact on net (loss) earnings of $0.5 million for net assets subject to interest rate risk included in cash and cash equivalents and other long-term assets at the end of Fiscal 2014.

5. Funding Costs

The funding costs for the Company in Fiscal 2014 and Fiscal 2013 are outlined in the table below:

(in CAD millions)	Fourth Quarter **2014**	Fourth Quarter 2013	Fiscal **2014**	Fiscal 2013
Interest costs				
Total long-term obligations at end of period[1]	**$ 28.1**	$ 35.9	**$ 28.1**	$ 35.9
Average long-term obligations for period[2]	**28.6**	44.5	**31.0**	52.1
Long-term funding costs[3]	**0.5**	1.0	**2.3**	4.1
Average rate of long-term funding	**7.0%**	9.0%	**7.4%**	7.9%

1 *Includes current portion of long-term obligations.*

2 *The average long-term obligations is calculated as an average of the opening and ending balances as at each reporting date throughout the period.*

3 *Excludes standby fee on the unused portion of the Amended Credit Facility, amortization of debt issuance costs, interest (recovered) accrued related to uncertain tax positions and sales tax assessments.*

See Section 3 "Consolidated Financial Position, Liquidity and Capital Resources" of this MD&A for a description of the Company's funding sources.

6. Related Party Transactions

As at March 12, 2015, ESL Investments, Inc., and investment affiliates including Edward S. Lampert, (collectively "ESL"), was the beneficial holder of 50,438,809 common shares, representing approximately 49.5%, of the Company's total outstanding common shares. Holdings was the beneficial holder of 11,962,391 common shares, representing approximately 11.7% of the Company's total outstanding common shares.

On October 2, 2014, Holdings announced the commencement of a rights offering for 40 million common shares of the Company. Each holder of Holdings' common stock received one subscription right for each share of Holdings' common stock held as of the close of business on October 16, 2014, the record date for the rights offering. Each subscription right entitled the holder to purchase their pro rata portion of the Company's common shares being sold by Holdings in the rights offering at a price of $10.60 per share (U.S. $9.50 per share).

In connection with the rights offering, the Company listed its common shares on the NASDAQ where the rights were also listed. The subscription rights expired at the close of business on November 7, 2014. ESL exercised their pro rata portion of the rights in full prior to November 1, 2014.

Transactions in the ordinary course of business between the Company and Holdings are recorded either at fair market value or the exchange amount, which was established and agreed to by the related parties. See Note 30 "Related party transactions" of the Notes to the Consolidated Financial Statements for Fiscal 2014 for a detailed description of these related party transactions.

Intangible Properties

The Company has a license from Holdings to use the name "Sears" as part of its corporate name. The Company also has licenses from Holdings to use other brand names, including Kenmore®, Craftsman®, and DieHard®. The Company has established procedures to register and otherwise vigorously protect its intellectual property, including the protection of the Holdings trademarks used by the Company in Canada.

Software Agreement

The Company and Holdings are parties to an information technology agreement for the sharing of information technology and software development, ownership and costs, which agreement, as amended October 7, 2014, terminated when Holdings ceased to control 50% of the voting power of Sears Canada, subject to a three year transition period.

Import Services

Pursuant to an agreement between Holdings and the Company dated January 1, 1995, Sears Canada utilizes the international merchandise purchasing services of Holdings. Holdings may provide assistance to the Company with respect to monitoring and facilitating the production, inspection and delivery of imported merchandise and the payment to vendors. Sears Canada pays Holdings a fee based on a stipulated percentage of the value of the imported merchandise. In Fiscal 2014, Sears Canada paid $3.6 million to Holdings in connection with this agreement compared to $4.8 million in Fiscal 2013.

Review and Approval

Material related party transactions are reviewed by the Audit Committee of the Company's Board of Directors (the "Audit Committee"). The Audit Committee is responsible for pre-approving all related party transactions that have a value greater than $1.0 million.

7. Shareholders' Equity

The only outstanding shares of the Company are common shares. The number of outstanding common shares at the end of Fiscal 2014 and Fiscal 2013 are as follows:

	As at January 31, 2015	As at February 1, 2014
Outstanding common shares	**101,877,662**	101,877,662

In Fiscal 2014, no common shares were issued (2013: no common shares were issued) with respect to the exercise of options pursuant to the Employees Stock Plan as all options expired on February 1, 2014. Refer to Section 8 "Share Based Compensation" for additional information.

On May 22, 2013, the Toronto Stock Exchange ("TSX") accepted the Company's Notice of Intention to make a Normal Course Issuer Bid ("2013 NCIB") and permitted the Company to purchase for cancellation its common shares. Purchases were allowed to commence on May 24, 2013 and were to be terminated by May 23, 2014. There were no share purchases made under the 2013 NCIB. The Company did not renew the Normal Course Issuer Bid subsequent to May 23, 2014.

Prior to May 23, 2014, from time to time, when the Company did not possess material undisclosed information about itself or its securities, it entered into a pre-defined plan with a designated broker to allow for the repurchase of common shares at times when the Company ordinarily would not have been active in the market due to its own internal trading blackout periods, insider trading rules, or otherwise. Any such plans entered into with the Company's designated broker were adopted in accordance with the requirements of applicable Canadian securities laws.

As at March 12, 2015, there were 101,877,662 common shares outstanding.

8. Share Based Compensation

Restricted Share Unit Grant ("RSU")

During Fiscal 2014, the Company granted 225,000 RSUs (2013: nil) to an executive under an equity-based compensation plan. For equity-settled awards, the fair value of the grant of RSUs is recognized as compensation expense over the period that the related service is rendered with a corresponding increase in equity. The total amount expensed is recognized over a three-year vesting period on a tranche basis, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, the estimate of the number of equity interests that are expected to vest is reviewed. The impact of any revision to original estimates is recognized in "Selling, administrative and other expenses" in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income.

These RSUs had a grant-date fair value of $1.9 million (2013: nil). The fair value of the grant was determined based on the Company's share price at the date of grant, and is entitled to accrue common share dividends equivalent to those declared by the Company, which would be settled by a grant of additional RSUs to the executive.

Compensation expense included in "Selling, administrative and other expenses" for Fiscal 2014 related to RSUs was $0.4 million (2013: nil).

9. Event After the Reporting Period

On March 11, 2015, the Company announced it had entered into an agreement with Concord to sell and lease back three of its owned properties for a total consideration of $140.0 million subject to certain adjustments. The Company expects net proceeds after any adjustments or taxes to be approximately $130.0 million. The properties in the transaction include the Company's stores and surrounding area located at the North Hill Shopping Centre in Calgary, Alberta, Metropolis at

Metrotown in Burnaby, British Columbia and Cottonwood Mall in Chilliwack, British Columbia. These properties, including land, building and equipment, had a net carrying value of approximately $60.9 million included in "Property, plant and equipment" in the Consolidated Statements of Financial Position, as at January 31, 2015. The agreement is subject to customary closing conditions. The transaction is scheduled to close on June 8, 2015, and the ultimate amount and timing of gain recognition will be determined during the second quarter of Fiscal 2015. Upon closing, the existing arrangements with Concord described in Note 35 "North Hill and Burnaby arrangements" of the Notes to the Consolidated Financial Statements for Fiscal 2014, will terminate. The Company will continue to operate the stores located at these shopping centres under long-term leases and there is no impact on customers or employees at these locations.

10. Accounting Policies and Estimates

a. Critical Accounting Estimates

In the application of the Company's accounting policies, management is required to make judgments, estimates and assumptions with regards to the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

The following are the critical judgments that management has made in the process of applying the Company's accounting policies, key assumptions concerning the future and other key sources of estimation uncertainty that have the potential to materially impact the carrying amounts of assets and liabilities within the next fiscal year.

10.1 Legal liabilities

Assessing the financial outcome of uncertain legal positions requires judgment to be made regarding the relative merits of each claim and the extent to which a claim is likely to be successful. The assessments are based on reviews conducted by internal and external counsel, when appropriate.

Changes in estimates or assumptions could cause changes to "Provisions" on the Consolidated Statements of Financial Position and a charge or credit to "Selling, administrative and other expenses" in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income. See Note 16 "Provisions" of the Notes to the Consolidated Financial Statements for Fiscal 2014 for additional information.

10.2 Inventory

10.2.1 Obsolescence, valuation and inventory stock losses

Inventory is written-down to reflect future losses on the disposition of obsolete merchandise. Future losses are estimated based on historical trends that vary depending on the type of inventory.

An adjustment is made each period to value inventory at the lower of cost and net realizable value. This adjustment is estimated based on historical trends that vary depending on the type of inventory.

Inventory is adjusted to reflect estimated inventory stock losses incurred in the year based on recent historical inventory count data.

10.2.2 Vendor rebates

Inventory is adjusted to reflect vendor rebates received or receivable based on vendor agreements. This adjustment is estimated based on historical data and current vendor agreements.

10.2.3 Freight

Inbound freight incurred to bring inventory to its present location is estimated each reporting period and is included in the cost of inventory. This estimate is based on historical freight costs incurred.

Changes in estimates may result in changes to "Inventories" on the Consolidated Statements of Financial Position and a charge or credit to "Cost of goods and services sold" in the Consolidated Statements of Net (Loss) Earnings and

Comprehensive (Loss) Income. See Note 7 "Inventories" of the Notes to the Consolidated Financial Statements for Fiscal 2014 for additional information.

10.3 Impairment of property, plant and equipment and intangible assets

The Company's property, plant and equipment and intangible assets have been allocated to cash generating units ("CGU"). At the end of each reporting period, the carrying amounts of property, plant and equipment and intangible assets with finite useful lives are assessed to determine if there is any evidence that an asset is impaired. Determining if there are any facts and circumstances indicating impairment loss is a subjective process involving judgment and a number of estimates and assumptions. If there are such facts and circumstances, the recoverable amount of the asset is estimated.

Assets that cannot be tested individually for impairment are grouped into the smallest group of assets that generates cash inflows through continued use that are largely independent of the cash inflows from other assets or groups of assets (cash generating unit or CGU).

The recoverable amount of an asset or a CGU is the higher of its value in use and fair value less costs to sell. To determine value in use, expected future cash flows are discounted using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. In the process of measuring expected future cash flows, the Company makes assumptions about future operating profit. These assumptions relate to future events and circumstances. Although the assumptions are based on market information available at the time of the assessment, actual results may vary.

The Company's corporate and intangible assets do not generate separate cash flows. If there is evidence that a corporate or intangible asset is impaired, the recoverable amount is determined for the CGU to which the corporate asset belongs. Impairments are recorded when the carrying amount of the CGU to which the corporate asset belongs is higher than its recoverable amount.

Changes in estimates may result in changes to "Property, plant and equipment" and "Intangible assets" on the Consolidated Statements of Financial Position and a charge or credit to "Selling, administrative and other expenses" in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income. See Note 9 "Property, plant and equipment and investment properties" and Note 10 "Goodwill and intangible assets" of the Notes to the Consolidated Financial Statements for Fiscal 2014 for additional information.

10.4 Impairment of goodwill

Determining whether goodwill is impaired requires the Company to determine the recoverable amount of the CGU to which the goodwill is allocated. To determine the recoverable amount of the CGU, management is required to estimate its value by evaluating expected future cash flow using an appropriate growth rate, the estimated costs to sell and a suitable discount rate to calculate the value in use. See Note 10 "Goodwill and intangible assets" of the Notes to the Consolidated Financial Statements for Fiscal 2014 for additional information.

10.5 Retirement benefit liability

The retirement benefit liability is estimated based on certain actuarial assumptions, including the discount rate, inflation rate, salary growth and mortality rates. New regulations and market driven changes may impact the assumptions made.

Changes in estimates may result in changes to the "Retirement benefit liability" on the Consolidated Statements of Financial Position and a charge or credit to "Selling, administrative and other expenses" and OCI in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income. See Note 20 "Retirement benefit plans" of the Notes to the Consolidated Financial Statements for Fiscal 2014 for additional information.

10.6 Loyalty program deferred revenue

The fair value of Sears Club points granted is deferred at the time of the related initial sale transaction and is recognized upon redemption of the points for merchandise. The redemption value of the points is estimated at the initial sale transaction, based on historical behaviour and trends in redemption rates and redemption values, as well as an adjustment for the percentage of points that are expected to be converted to reward cards, but for which the likelihood of redemption is remote ("reward card breakage").

Changes in estimates may result in changes to "Deferred revenue" (current) on the Consolidated Statements of Financial Position and an increase or decrease to "Revenue" in the Consolidated Statements of Net (Loss) Earnings and

Comprehensive (Loss) Income. See Note 13 "Deferred revenue" of the Notes to the Consolidated Financial Statements for Fiscal 2014 for additional information.

10.7 Derivative assets and liabilities

All derivatives are measured at fair value. U.S. dollar forward contracts are traded over-the-counter and give holders the right to buy a specified amount of U.S. currency at an agreed upon price and date in the future. Fair values of the U.S. dollar forward contracts is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate. The fair value of fuel swaps is based on counterparty confirmations tested for reasonableness by discounting estimated future cash flows derived from the terms and maturity of each contract using market fuel prices at the measurement date. The Company is required to estimate various inputs which are used in these calculations that are a combination of quoted prices and observable market inputs. The fair values of derivatives include an adjustment for credit risk when appropriate.

Changes in estimates may result in changes to "Derivative financial assets" and "Derivative financial liabilities" on the Consolidated Statements of Financial Position and a charge or credit to "Cost of goods and services sold", "Selling, administrative and other expenses" or OCI in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income. See Note 14 "Financial instruments" of the Notes to the Consolidated Financial Statements for Fiscal 2014 for additional information.

10.8 Provisions

Provisions are estimated based on historical data, cost estimates provided by specialists and future projections.

Changes in estimates or assumptions could cause changes to "Provisions" on the Consolidated Statements of Financial Position and a charge or credit to "Cost of goods and services sold" or "Selling, administrative and other expenses" in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income. See Note 16 "Provisions" of the Notes to the Consolidated Financial Statements for Fiscal 2014 for additional information.

10.9 Leasing arrangements

The Company has applied judgment in the classification of its leasing arrangements, which is determined at the inception of the lease and is based on the substance of the transaction, rather than its legal form. The Company's leases were evaluated based on certain significant assumptions including the discount rate, economic life of an asset, lease term and existence of a bargain renewal option.

Changes in estimates or assumptions could cause changes to "Property, plant and equipment", "Current portion of long-term obligations" and "Long-term obligations" on the Consolidated Statements of Financial Position and a charge or credit to "Selling, administrative and other expenses" and "Finance costs" in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income. See Note 19 "Leasing arrangements" of the Notes to the Consolidated Financial Statements for Fiscal 2014 for additional information.

10.10 Taxes

In the ordinary course of business, the Company is subject to ongoing audits by tax authorities. While the Company believes that its tax filing positions are appropriate and supportable, certain matters are periodically challenged by tax authorities. The Company applies judgment and routinely evaluates and provides for potentially unfavourable outcomes with respect to any tax audits. If the result of a tax audit materially differs from the existing provisions, the Company's effective tax rate and its net (loss) earnings will be affected positively or negatively. The Company also uses judgment in assessing the likelihood that deferred income tax assets will be recovered from future taxable income by considering factors such as the reversal of deferred income tax liabilities, projected future taxable income, tax planning strategies and changes in tax laws.

Changes in estimates or assumptions could cause changes to "Income taxes recoverable", "Deferred tax assets", "Income and other taxes payable" and "Deferred tax liabilities" on the Consolidated Statements of Financial Position and a charge or credit to "Income tax recovery (expense)" in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income. See Note 22 "Income taxes" of the Notes to the Consolidated Financial Statements for Fiscal 2014 for additional information.

10.11 Gift Card

The gift card liability is based on the total amount of gift cards outstanding which have not yet been redeemed by customers. The Company also recognizes income when the likelihood of redeeming the gift card is remote ("gift card breakage"). Gift card breakage is estimated based on historical redemption patterns. Changes in estimates of the redemption patterns may result in changes to "Deferred Revenue" (current) on the Consolidated Statements of Financial Position and an increase or decrease to "Revenue" in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income.

10.12 Classification of joint arrangements

The Company had classified its interests in real estate joint arrangements related to three shopping centres as joint operations. In doing so, the Company determined that the decisions regarding relevant activities require unanimous consent of the parties sharing control. In the event of a dispute between parties sharing control of the joint arrangements, settlement occurs through unbiased arbitration, legal action, or a sale of the party's interest to the other party. The Company examined the legal structure, contractual arrangements and other relevant facts and circumstances for each joint arrangement and determined that it had rights to the assets and obligations to the liabilities of each joint arrangement. Therefore, the Company has determined that its real estate joint arrangements were joint operations and were recognized in accordance with the Company's interest in the assets, liabilities, revenues and expenses of these arrangements. See Note 11 "Joint arrangements" of the Notes to the Consolidated Financial Statements for Fiscal 2014 for additional information.

b. Issued Standards Not Yet Adopted

The Company monitors the standard setting process for new standards and interpretations issued by the International Accounting Standards Board ("IASB") that the Company may be required to adopt in the future. Since the impact of a proposed standard may change during the review period, the Company does not comment publicly until the standard has been finalized and the effects have been determined.

In July 2014, the IASB issued the final publication of the following standard:

IFRS 9, Financial Instruments ("IFRS 9")

IFRS 9 replaces IAS 39, *Financial Instruments: Recognition and Measurement*. This standard establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. This standard also includes a new general hedge accounting standard which will align hedge accounting more closely with risk management. It does not fully change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however, it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. Adoption of IFRS 9 is mandatory and will be effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Company is currently assessing the impact of adopting this standard on the Company's consolidated financial statements and related note disclosures.

In May 2014, the IASB issued the following new standard:

IFRS 15, Revenue from Contracts with Customers ("IFRS 15")

IFRS 15 replaces IAS 11, *Construction Contracts*, and IAS 18, *Revenue*, as well as various interpretations regarding revenue. This standard introduces a single model for recognizing revenue that applies to all contracts with customers, except for contracts that are within the scope of standards on leases, insurance and financial instruments. This standard also requires enhanced disclosures. Adoption of IFRS 15 is mandatory and will be effective for annual periods beginning on or after January 1, 2017, with earlier adoption permitted. The Company is currently assessing the impact of adopting this standard on the Company's consolidated financial statements and related note disclosures.

In May 2014, the IASB issued amendments to a previously released standard as follows:

IFRS 11, Joint Arrangements ("IFRS 11")

The IASB has amended IFRS 11 to require business combination accounting to be applied to acquisitions of interests in a joint operation that constitute a business. The amendments will be effective for annual periods beginning on or after January 1, 2016, with earlier adoption permitted. The Company is currently assessing the impact of these amendments on the Company's consolidated financial statements and related note disclosures.

11. Disclosure Controls and Procedures

Disclosure Controls and Procedures

Management of the Company is responsible for establishing and maintaining a system of disclosure controls and procedures ("DC&P") that are designed to provide reasonable assurance that information required to be disclosed by the Company in its public disclosure documents, including its Annual and Interim MD&A, Annual and Interim Financial Statements, and AIF is recorded, processed, summarized and reported within required time periods and includes controls and procedures designed to ensure that the information required to be disclosed by the Company in its public disclosure documents is accumulated and communicated to the Company's management, including the CEO and Chief Financial Officer ("CFO"), to allow timely decisions regarding required DC&P.

Management of the Company, including the CEO and CFO, has caused to be evaluated under their supervision, the Company's DC&P, and has concluded that the Company's DC&P was effective for the year ended January 31, 2015.

Internal Control over Financial Reporting

Management of the Company is also responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

Management of the Company, including the CEO and CFO, has caused to be evaluated the internal control over financial reporting and has concluded, based on that evaluation, that the Company's internal control over financial reporting was effective as at the fiscal year-end, being January 31, 2015. Additionally, Management of the Company evaluated whether there were changes in the internal control over financial reporting during Fiscal 2014 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting and has determined that no such changes occurred during this period.

Internal control systems, regardless of superiority in design, have inherent limitations. Therefore, even those systems that have been determined to have been designed effectively can only provide reasonable assurance with respect to financial reporting and financial statement preparation.

12. Risks and Uncertainties

Risks Relating to Our Business

If the Company is unable to compete effectively in the highly competitive retail industry, the Company's business and results of operations could be materially adversely affected.

The Canadian retail market remains highly competitive as key players and new entrants compete for market share. International retailers continue to expand into Canada while existing competitors enhance their product offerings and become direct competitors. The Company's competitors include traditional full-line department stores, discount department stores, wholesale clubs, 'big-box' retailers, internet retailers and specialty stores offering alternative retail formats. Failure to develop and implement appropriate competitive strategies and the performance of the Company's competitors could have a material adverse effect on the Company's business, results of operations, and financial condition.

In order to stay competitive and relevant to our customers, the Company's strategic plan for 2015 is centered on four areas of focus: product, operations, infrastructure and network. The achievement of strategic goals may be adversely affected by a wide range of factors, many of which are beyond the Company's control. The inability to execute and integrate strategic plans could have a negative impact on the Company's current operations, market reputation, customer satisfaction and financial position. The Company's ability to implement and achieve its long-term strategic objectives is dependent on the achievement of these strategic plans and initiatives. There can be no assurance that such plans and initiatives will yield the expected results, either of which could cause the Company to fall short in achieving financial objectives and long-range goals.

Additional risk may arise when retailers carrying on business in Canada in competition with the Company engage in marketing activities which are not in full compliance with Canadian legal requirements regarding advertising and labeling rules and product quality standards. Such retailers may gain an unfair advantage and their activities may negatively affect the Company's business and results of operations.

The majority of the performance payments earned pursuant to the credit card marketing and servicing alliance with JPMorgan Chase are related to customers' purchases using the Sears Card and Sears MasterCard. The credit card industry is highly competitive as credit card issuers continue to expand their product offerings to distinguish their cards. As competition increases, there is a risk that a reduction in the percentage of purchases charged to the Sears Card and Sears MasterCard may negatively impact the Company's results of operations and financial condition.

Due to the seasonality of the Company's business, the Company's results of operations would be adversely affected if the Company's business performed poorly in the fourth quarter or as a result of unseasonable weather patterns.

The Company's operations are seasonal in nature with respect to results of operations and in products and services offered. Merchandise and service revenues, as well as performance payments received from JPMorgan Chase, vary by quarter based upon consumer spending behavior. Historically, the Company's revenues and earnings have been higher in the fourth quarter due to the holiday season and we have reported a disproportionate level of earnings in that quarter. As a result, the fourth quarter results of operations significantly impacts the Company's annual results of operations. The Company's fourth quarter results of operations may fluctuate significantly based on many factors, including holiday spending patterns and weather conditions. In addition, the Company offers many seasonal goods and services. The Company establishes budgeted inventory levels and promotional activity in accordance with its strategic initiatives and expected consumer demand. Businesses that generate revenue from the sale of seasonal merchandise and services are subject to the risk of changes in consumer spending behavior as a result of unseasonable weather patterns.

If the Company fails to offer merchandise and services that the Company's customers want, the Company's sales may be limited, which would reduce the Company's revenues and profits and adversely impact the Company's results of operations.

To be successful, the Company must identify, obtain supplies, and offer to customers attractive, relevant and high-quality merchandise and services on a continuous basis. Customers' preferences may change over time. If we misjudge either the demand for products and services the Company sells or the Company's customers' purchasing habits and tastes, the Company may be faced with excess inventories of some products and missed opportunities for products and services the Company chose not to offer. This could have a negative effect on the Company's revenues and profits and adversely impact our results of operations.

The Company's failure to retain our senior management team and to continue to attract qualified new personnel could adversely affect the Company's business and results of operations.

The Company's success is dependent on its ability to attract, motivate and retain senior leaders and other key personnel. The loss of one or more of the members of the Company's senior management may disrupt the Company's business and adversely affect its results of operations. Furthermore, the Company may not be successful in attracting, assimilating and retaining new personnel to grow its business profitably. The inability to attract and retain key personnel could have an adverse effect on the Company's business.

If the Company does not successfully manage its inventory levels, the Company's results of operations will be adversely affected.

The Company must maintain sufficient in-stock inventory levels to operate the business successfully while minimizing out-of-stock levels. A significant portion of inventory is sourced from vendors requiring advance notice periods in order to supply the quantities that we require. These lead times may adversely impact the Company's ability to respond to changing consumer preferences, resulting in inventory levels that are insufficient to meet demand or in merchandise that may have to be sold at lower prices. Inappropriate inventory levels or a failure to accurately anticipate the future demand for a particular product or the time it will take to obtain new inventory may negatively impact the Company's results of operations.

If the Company is unable to secure an agreement with a financial institution for the management of the credit and financial services operations under substantially the same terms and conditions as currently in existence, the Company's results of operations may be negatively impacted.

The credit and financial services operations of the Company are currently managed by JPMorgan Chase. The Company entered into a long-term marketing and servicing alliance with JPMorgan Chase in 2006 with a term of 10 years.

On November 17, 2014, the Company and JPMorgan Chase announced that their credit agreement relating to the Sears Card and Sears MasterCard credit cards will terminate on the expiration date set forth in the agreement, which is November 15, 2015. JPMorgan Chase will continue to service the Company's credit card business to at least November 15, 2015 and will have no obligation to do so after such date. As the Company is currently in the process of considering available options with respect to the future management of the credit and financial services operations, there is a risk that the Company may not be able to secure a new agreement, or secure an agreement with substantially the same terms and conditions that it previously had with JPMorgan Chase, which may in turn affect the Company's results of operations and financial condition.

The Company relies extensively on computer systems to process transactions, summarize results and manage its business. Disruptions in these systems could harm the Company's ability to run its business.

Given the number of individual transactions that the Company processes each year, it is critical that the Company maintains uninterrupted operation of its computer and communications hardware and software systems. These systems are subject to obsolescence, damage or interruption from power outages, computer and telecommunications failures, computer viruses, security breaches, catastrophic events such as fires, natural disasters and adverse weather occurrences and usage errors by the Company's employees. If the systems are damaged or cease to function properly, the Company may have to make a significant investment to fix or replace them, may suffer interruptions in operations in the interim and the Company's reputation with its customers may be harmed.

The Company's ability to maintain sufficient inventory levels in its stores is critical to the Company's success and largely depends upon the efficient and uninterrupted operation of its computer and communications hardware and software systems. Any material interruption in the Company's computer operations may have a material adverse effect on the Company's business and results of operations.

The Company relies on foreign sources for significant amounts of its merchandise, and the Company's business may therefore be negatively affected by the risks associated with international trade.

The Company is dependent upon a significant amount of products that originate from non-Canadian markets. In particular, the Company sources a significant amount of products from China. The Company is subject to the risks that are associated with the sourcing and delivery of this merchandise, including: potential economic, social, and political instability in jurisdictions where suppliers are located; structural integrity and fire safety of foreign factories; increased shipping costs, potential transportation delays and interruptions; adverse foreign currency fluctuations; changes in international laws, rules and regulations pertaining to the importation of products and quotas; and the imposition and collection of taxes and duties. Any increase in cost to the Company of merchandise purchased from foreign vendors or restriction on the merchandise made available to the Company by such vendors could have an adverse effect on the Company's business and results of operations.

Damage to the reputations of the brands the Company sells could reduce the Company's revenues and profits and adversely impact the Company's results of operations.

As a diverse and multi-channel retailer, the Company promotes many brands as part of the Company's normal course of business. These brands include the Sears brand, Sears private label brands for product lines such as Jessica, and non-proprietary brands exclusive to the Company. Damage to the reputation of these brands or the reputation of the suppliers of these brands could negatively impact consumer opinions of the Company or its related products and reduce its revenues and profits and adversely impact its results of operations. In those circumstances, it may be difficult and costly for the Company to regain customer confidence.

If the Company's relationships with its significant suppliers were to be impaired, it could have a negative impact on the Company's competitive position and adversely impact its results of operations and financial condition.

Although the Company's business is not substantially dependent on any one supplier, the Company's relationship with certain suppliers is of significance to its merchandising strategy, including attracting customers to its locations, cross-segment sales and image. The loss of a significant supplier relationship could result in lower revenues and decreased customer interest in the Company's stores, which, in turn, would adversely affect the Company's results of operations and financial condition. In addition, the Company may not be able to develop relationships with new suppliers, and products from alternative sources, if any, may be of a lesser quality and more expensive than those the Company currently purchases.

We rely on third parties to provide us with services in connection with the administration of certain business functions.

The Company has entered into agreements with third-party service providers (both domestic and international) to provide processing and administration functions over a broad range of areas. These areas include finance and accounting, information technology, call centre, payroll and procurement functions. Services provided by third parties as a part of outsourcing initiatives could be interrupted as a result of many factors, such as social or political unrest, natural disasters, extreme or unseasonable weather, acts of war or terrorism, systems breakdowns or power outages or other significant events outside of the Company's control, contract disputes, or failure by third parties to provide these services on a timely basis within service level expectations and performance standards, which could result in a disruption of the Company's business, and adversely affect the Company's results of operations. In addition, to the extent the Company is unable to maintain its outsourcing arrangements, it could potentially incur substantial costs, including costs associated with hiring new employees, in order to return these services in-house.

The Company relies on its relationship with a number of licensees to manage and operate the day-to-day operations of certain components of the Company's business.

The Company has entered into licensing arrangements with various third parties. The financial instability of licensees and their inability to fulfill the terms and obligations under their respective agreements with the Company could potentially have a negative effect on the Company's revenues with respect to these arrangements and could cause the Company to incur substantial costs, including moving the services in-house or finding an alternative third party to perform the services.

The lack of willingness of the Company's vendors to provide acceptable payment terms could negatively impact the Company's liquidity and/or reduce the availability of products or services that the Company seeks to procure.

The Company depends on its vendors to provide it with financing for the Company's purchases of inventory and services. The Company's vendors could seek to limit the availability of vendor credit to the Company or other terms under which they sell to the Company, or both, which could negatively impact the Company's liquidity. In addition, the inability of the Company's vendors to access liquidity, or the insolvency of the Company's vendors, could lead to their failure to deliver inventory or other services to the Company. Certain of the Company's vendors may finance their operations and/or reduce the risk associated with collecting accounts receivable from the Company by selling or "factoring" the receivables or by purchasing credit insurance or other forms of protection from loss associated with the Company's credit risks. The ability of the Company's vendors to do so is subject to the Company's perceived credit quality. The Company's vendors could be limited in their ability to factor receivables or obtain credit protection in the future because of the Company's perceived financial position and credit worthiness, which could reduce the availability of products or services the Company seeks to procure.

The Company may be subject to product liability claims if people or properties are harmed by the products the Company sells or the services it offers.

The Company sells products produced by third party manufacturers. Some of these products may expose the Company to product liability claims relating to personal injury, death or property damage caused by such products and may require the Company to take actions, such as product recalls. In addition, the Company also provides various services which could give rise to such claims. Although the Company maintains liability insurance to mitigate these potential claims, the Company cannot be certain that its coverage will be adequate for liabilities actually incurred or that insurance will continue to be available on economically reasonable terms or at all.

Product liability claims can be expensive to defend and can divert the attention of management and other personnel for significant periods, regardless of the ultimate outcome. Claims of this nature, as well as product recalls, could also have a negative impact on customer confidence in the products and services the Company offers and on the Company's reputation, and adversely affect the Company's business and its results of operations.

If the Company does not maintain the security of its customers, employees or Company information, the Company could damage its reputation, incur substantial additional costs and become subject to litigation.

Any significant security compromise or breach of customer, associate or Company data, either held or maintained by the

Company or its third party providers, could significantly damage the Company's reputation and brands and result in additional costs, lost sales, fines and/or lawsuits. The regulatory environment in Canada related to information security and privacy is very rigorous. There is no guarantee that the procedures that we have implemented to protect against unauthorized access to secured data are adequate to safeguard against all data security breaches. A data security breach could negatively impact the Company's business and its results of operations.

The Company is subject to a number of long-term real estate leases which could restrict the Company's ability to respond to changes in demographics or the retail environment and adversely impact the Company's results of operations.

As of January 31, 2015, the Company operated a total of 113 Full-line department stores, 295 specialty stores (including 47 Sears Home stores, 11 Outlet stores, one Appliances and Mattresses stores, 201 Hometown stores operated under independent local ownership and 35 Corbeil stores), 1,335 catalogue merchandise pick-up locations and 96 Sears Travel offices. Company owned stores consist of 14 Full-line department stores and two Sears Home stores, with the majority of the remainder held under long-term leases. While the Company is able to change its merchandise mix and relocate stores in order to maintain competitiveness, the Company is restricted from vacating a current site without breaching its contractual obligations and incurring lease-related expenses for the remaining portion of the lease-term. The long-term nature of the leases may limit the Company's ability to respond in a timely manner to changes in the demographic or retail environment at any location, which could adversely affect the Company's results of operations. In addition, when leases for the stores in the Company's ongoing operations expire, the Company may be unable to negotiate renewals, either on commercially acceptable terms, or at all, which could cause us to close stores. Accordingly, the Company is subject to the risks associated with leasing real estate, which could have an adverse effect on the Company's results of operations.

The Company may be subject to legal proceedings if the Company violates the operating covenants in its real estate leases that could adversely affect the Company's business and results of operations.

As of January 31, 2015, the Company had operating covenants with landlords for approximately 99 Sears brand corporate stores. An operating covenant generally requires the Company, during normal operating hours, to operate a store continuously as per the identified format in the lease agreement. As of January 31, 2015, the remaining term of the various Sears operating covenants ranged from less than one year to 21 years, with an average remaining term of approximately five years, excluding options to extend leases. Failure to observe operating covenants may result in legal proceedings against the Company and adversely affect the Company's business and results of operations.

The Company is subject to laws and regulations that impact its business and a failure to comply with such laws and regulations could lead to lawsuits or regulatory actions against the Company that could adversely affect the Company's business and results of operations.

Laws and regulations are in place to protect the interests and well-being of the Company's customers and communities, business partners, suppliers, employees, shareholders and creditors. Changes to statutes, laws, regulations or regulatory policies, including changes in the interpretation, implementation or enforcement of statutes, laws, regulations and regulatory policies, could adversely affect the Company's business and results of operations. In addition, the Company may incur significant costs in the course of complying with any changes to applicable statutes, laws, regulations and regulatory policies.

The Company's failure to comply with applicable statutes, laws, regulations or regulatory policies could result in a judicial or regulatory judgment or sanctions and financial penalties that could adversely impact the Company's reputation, business and results of operations. Although the Company believes that it has taken reasonable measures designed to ensure compliance with governing statutes, laws, regulations and regulatory policies in the jurisdictions in which it conducts business, there is no assurance that the Company will always be in compliance or deemed to be in compliance.

In addition, changing laws, regulations and standards relating to corporate governance and public disclosure, including those related to foreign private issuers and the Sarbanes-Oxley Act of 2002, and related regulations implemented by the United States SEC are creating uncertainty for foreign private issuers, increasing legal and financial compliance costs, and making some activities more time consuming. The Company is currently evaluating and monitoring developments with respect to new and proposed rules, such as the new conflict minerals disclosure requirements, and cannot predict or estimate the amount of additional costs it may incur or the timing of such costs. We intend to invest resources to comply with evolving laws, regulations and standards, and this investment may result in increased general and administrative expenses. If our efforts to comply with new laws, regulations and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to practice, regulatory authorities may initiate legal proceedings against us and our business may be harmed. The costs of compliance or our failure to comply with these laws, rules and regulations could adversely affect our reputation, business, results of operations, financial condition and the price of our common shares.

The Company may lose its foreign private issuer status in the future, which could result in significant additional costs and expenses to the Company.

In order to maintain the Company's current status as a foreign private issuer ("FPI") under U.S. federal securities laws, a majority of the Company's common shares must be either directly or indirectly owned by non-residents of the United States. If the majority of the Company's common shares are owned by residents of the United States, and any of (i) the majority of the Company's executive officers or directors are United States citizens or residents, (ii) more than fifty percent of the Company's assets are located in the United States or (iii) the Company's business is administered principally in the United Sates, then the Company would lose its FPI status. The Company currently satisfies the test and qualifies as a FPI, but it cannot be certain that it will continue to meet these requirements in the future. The regulatory and compliance costs to the Company under U.S. federal securities laws as a U.S. domestic issuer may be significantly more than the costs the Company incurs as a Canadian FPI. If the Company ceases to be a FPI, the Company would not be eligible to use the multijurisdictional disclosure system or other foreign issuer forms and would be required to file periodic and current reports and registration statements on U.S. domestic issuer forms with the SEC, which are more detailed and extensive than the forms available to an FPI. The Company may also be required to prepare its financial statements in accordance with U.S. generally accepted accounting principles, and these additional reporting obligations could be costly and have a negative impact on the Company's financial condition.

The Company is required to comply with federal and provincial environmental laws and regulations, the cost of which may adversely affect the Company's results of operations and financial condition.

The Company is exposed to environmental risk as an owner, lessor and lessee of property. Under federal and provincial laws, the owner, lessor or lessee could be liable for the costs of removal and remediation of certain hazardous substances on its properties or disposed of at other locations. The failure to remove or remediate such substances, if any, could lead to claims against the Company.

The Company is currently remediating various locations across Canada where it has operated auto centres, gas bars and a logistics facility. The extent of the remediation and the costs thereof have not yet been determined. The Company continues to monitor the costs of remediation and appropriately provide for these costs in its reserves. If we commit to renovating a leased or owned building that contains or may contain asbestos, or if asbestos is inadvertently disturbed, we will be legally obligated to comply with asbestos removal standards. The extent of this liability has not yet been determined because the costs to remove asbestos depend upon factors including, among others, the location and extent of any renovations undertaken. Inadvertent disturbance of asbestos cannot be foreseen. The costs incurred by the Company could be significant and may negatively impact the Company's results of operations and financial condition.

The Company is exposed to a variety of legal proceedings, including class action lawsuits, and tax audits which, if adversely decided, could materially adversely affect the Company.

The Company is currently involved in various legal proceedings incidental to the normal course of business. Although the Company is of the view that the final disposition of any such litigation is not expected to have a material adverse effect on its liquidity, consolidated financial position or results of operations, the outcome of such litigation cannot be predicted with certainty.

In the ordinary course of business, the Company is subject to ongoing audits by tax authorities. While we believe that the Company's tax filing positions are appropriate and supportable, periodically, certain matters are reviewed and from time to time are challenged by the tax authorities. As the Company routinely evaluates and provides for potentially unfavorable outcomes with respect to any tax audits, it believes that the final disposition of tax audits will not have a material adverse effect on its liquidity, consolidated financial position or results of operations. If the result of a tax audit materially differs from the existing provisions, the Company's effective tax rate and net earnings could be affected positively or negatively in the period in which the tax audits are completed.

The Company's results of operations may be adversely impacted if insurance coverage is deemed insufficient or if the Company or the insurance industry is affected by unexpected material events.

The Company maintains directors and officers insurance, liability insurance, business interruption and property insurance and this insurance coverage reflects deductibles, self-insured retentions, limits of liability and similar provisions. Although the Company has taken measures to ensure that it has the appropriate coverage, including maintaining an annual reserve for liability claims, there is no guarantee that the Company's insurance coverage will be sufficient, or that insurance proceeds will be paid to us in a timely manner. In addition, there are types of losses we may incur but against which we cannot be insured or which we believe are not economically reasonable to insure, such as losses due to acts of war and certain natural disasters. If we incur these losses and they are material, our business, operating results and financial condition may be adversely affected. Also, certain material events may result in sizable losses for the insurance industry and materially adversely impact the availability of adequate insurance coverage or result in significant premium increases. Accordingly, we may elect to self-insure, accept higher deductibles or reduce the amount of coverage in response to such market changes.

Events outside the Company's control such as social or political unrest, natural disasters, extreme or unseasonable weather, acts of war or terrorism, systems breakdowns or power outages could have a material adverse effect on the Company's business and results of operations.

The Company's business is sensitive to customers' spending patterns, which may be affected by domestic and international social or political unrest, natural disasters, extreme or unseasonable weather, acts of war or terrorism, or other significant events outside of the Company's control, any of which could lead to a decrease in spending by consumers. In addition, such events as well as systems breakdowns and power outages could cause store closures, disrupt supply chain or other operations, delay shipments of merchandise to consumers, reduce revenue and result in expenses to repair or replace facilities. Disruptions during a peak season such as the month of December, which may account for up to 40% of a year's earnings, could have a particularly adverse effect on the Company's business and results of operations.

The Company's business could suffer if it is unsuccessful in making, integrating, and maintaining acquisitions and investments.

From time to time we pursue strategic acquisitions of, joint arrangements with, or investments in, other companies or businesses, although the Company has no present commitments with respect to any material acquisitions or investments. Any such acquisition, joint arrangement or investment that the Company makes may require the Company to spend its cash, or incur debt, contingent liabilities, or amortization expenses related to intangible assets, any of which could reduce the Company's profitability and harm its business. Acquisitions, joint arrangements and investments also increase the complexity of the Company's business and place strain on its management, personnel, operations, supply chain, financial resources, and internal financial controls and reporting functions. The Company may not be able to manage acquisitions, joint arrangements or investments effectively, which could damage the Company's reputation, limit its growth and adversely affect its business and results of operations.

Financial Risks

The Company's business has been and will continue to be affected by Canadian and worldwide economic conditions; worsening of current economic conditions could lead to reduced revenues and gross margins, and negatively impact the Company's liquidity.

The Company plans its operations giving regard to economic and financial variables that are beyond its control. Changes to these variables may adversely impact the Company's performance. Should the current economic conditions worsen, heightened competition, a decline in consumer confidence, lower disposable income, higher unemployment and personal debt levels may result, which could lead to reduced demand for the Company's products and services. Any of these events could cause the Company to increase inventory markdowns and promotional expenses, thereby reducing the Company's gross margins and results of operations. If the Canadian or global economies worsen, the Company could experience a decline in same store sales, erosion of gross profit and profitability.

Volatility in fuel and energy costs may have a significant impact on the Company's operations. The Company requires significant quantities of fuel for the vehicles used to distribute and deliver inventory and the Company is exposed to the risk associated with variations in the market price for petroleum products. The Company could experience a disruption in energy supplies, including its supply of gasoline, as a result of factors that are beyond the Company's control, which could have an adverse effect on the Company's business. In addition, if certain of the Company's vendors experience increases in the cost of products they purchase due to the strengthening of the U.S. dollar, it could result in increases in the prices that the Company pays for merchandise, particularly apparel and appliances, and adversely affect the Company's results of operations.

Liquidity Risk

The Company is exposed to liquidity risk and its failure to fulfill financial obligations could adversely affect its results of operations and financial condition.

The Company could face liquidity risk due to various factors, including but not limited to, the unpredictability of the current economic climate, failure to secure appropriate funding vehicles and cash flow issues relating to the operation and management of the business. Failure to fulfill financial obligations due and owing from the Company as a result of this liquidity risk could have undesirable consequences on the Company.

Fluctuations in U.S. and Canadian dollar exchange rates may adversely impact the Company's results of operations.

The Company's foreign exchange risk is currently limited to currency fluctuations between the Canadian and U.S. dollar. The Company is vulnerable to increases in the value of the U.S. dollar relative to the Canadian dollar because almost all of its revenues are denominated in Canadian dollars and a substantial amount of the merchandise the Company purchases is priced in U.S. dollars. The costs of these goods in Canadian dollars rise when the U.S. dollar increases in value relative to the Canadian dollar and, as a result, the Company may be forced to increase its prices or reduce its gross margins. We may use foreign currency forward and option contracts to hedge the exchange rate risk on a portion of the Company's expected requirement for U.S. dollars. There can be no assurance that the Company's hedging efforts will achieve their intended results or that the Company's estimate of its requirement for U.S. dollars will be accurate, with the result that currency fluctuations may have an adverse impact on the Company's results of operations. Furthermore, many vendors who are paid in Canadian dollars may have significant costs that are priced in U.S. dollars. Such vendors may seek to increase prices charged to the Company for goods and services and, as a result, the Company may be forced to increase its prices or reduce its gross margins.

In addition, any significant appreciation of the Canadian dollar relative to the U.S. dollar presents an additional challenge to the Company as its customers are motivated to cross-border shop, which may have an adverse impact on the Company's results of operations.

The Company is exposed to counterparty credit risk which could adversely affect its results of operations.

Credit risk refers to the possibility that the Company can suffer financial losses due to the failure of counterparties to meet their payment obligations to the Company. Exposure to credit risk exists for derivative instruments, cash and cash equivalents, short- term investments, accounts receivable and investments included in other long-term assets. Cash and cash equivalents, accounts receivable, derivative financial assets, and other long-term assets of $340.5 million as at January 31, 2015 (February 1, 2014: $605.8 million) expose the Company to credit risk should the borrower default on maturity of the investment.

Although the Company seeks to manage this exposure through policies that require borrowers to have a minimum credit rating of A, and limiting investments with individual borrowers at maximum levels based on credit rating, there can be no assurance that the Company will be able to successfully manage its credit risk.

The Company invests its surplus cash in investment grade, short-term money market instruments, the return on which depends upon interest rates and the credit worthiness of the issuer. The Company attempts to mitigate credit risk resulting from the possibility that an issuer may default on repayment by requiring that issuers have a minimum credit rating and limiting exposures to individual borrowers.

Expenses associated with the Company's retirement benefit plans may fluctuate significantly depending on changes in actuarial assumptions, future market performance of plan assets, and other events outside of the Company's control and adversely affect the Company's results of operations.

The Company currently maintains a defined benefit registered pension plan, a non-registered supplemental savings arrangement and a defined benefit non-pension retirement plan, which provides life insurance, medical and dental benefits to eligible retired employees through a health and welfare trust. The defined benefit plan continues to accrue benefits related to future compensation increases although no further service credit is earned. In addition, the Company no longer provides medical, dental and life insurance benefits at retirement for employees who had not achieved the eligibility criteria for these non-pension retirement benefits as at December 31, 2008.

There is no assurance that the Company's retirement benefit plans will be able to earn the assumed rate of return. New regulations and market driven changes may result in changes in the discount rates and other variables which would result in the Company being required to make contributions in the future that differ significantly from the estimates.

Management is required to use assumptions to account for the plans in conformity with IFRS. However, actual future experience will differ from these assumptions giving rise to actuarial gains or losses. In any year, actual experience differing from the assumptions may be material. Plan assets consist primarily of cash, alternative investments, marketable equity and fixed income securities. The value of the marketable equity and fixed income investments will fluctuate due to changes in market prices. Plan obligations and annual pension expense are determined by independent actuaries and through the use of a number of assumptions.

Although the Company believes that the assumptions used in the actuarial valuation process are reasonable, there remains a degree of risk and uncertainty which may cause results to differ materially from expectations. Significant assumptions in measuring the benefit obligations and pension plan costs include the discount rate and the rate of compensation increase. See Note 20.4 "Pension assumptions" of the Notes to the Consolidated Financial Statements for Fiscal 2014 for more information on the weighted-average actuarial assumptions for the plans.

The Company is exposed to interest rate risk which could adversely affect its results of operations.

Interest rate risk reflects the sensitivity of the Company's financial condition to movements in interest rates. Financial assets and liabilities which do not bear interest or bear interest at fixed rates are classified as non-interest rate sensitive. Cash and cash equivalents and borrowings under the Company's Amended Credit Facility, when applicable, are subject to interest rate risk. The total outstanding balance subject to interest rate risk as at January 31, 2015 was a net asset of $260.3 million (February 1, 2014: $515.1 million). An increase or decrease in interest rates of 25 basis points would cause an after-tax impact on net (loss) earnings of $0.5 million.

Certain factors, including changes in market conditions and our credit ratings, may limit our access to capital markets and other financing sources, which could materially increase our borrowing costs.

In addition to credit terms from vendors, our liquidity needs are funded by our operating cash flows and, to the extent necessary, borrowings under our credit agreements and access to capital markets. The availability of financing depends on numerous factors, including economic and market conditions, our operating performance, our credit ratings, and lenders' assessments of our prospects and the prospects of the retail industry in general. Changes in these factors may affect our cost of financing, liquidity and our ability to access financing sources. Rating agencies revise their ratings for the companies that they follow from time to time and our ratings may be revised or withdrawn in their entirety at any time.

While the Amended Credit Facility currently provides for up to $300.0 million of lender commitments, availability under the Amended Credit Facility is determined pursuant to a borrowing base formula based on eligible assets consisting of inventory and credit card receivables and may be reduced by reserves, as estimated by the Company, which may be applied by the lenders at their discretion pursuant to the Amended Credit Facility agreement. If the value of eligible assets, net of any applicable reserves, are not sufficient to support borrowings of up to the full amount of the commitments under the facility, the Company will not have full access to the facility, but rather could have access to a lesser amount as determined by the borrowing base and reserve estimates.

The lenders under our Amended Credit Facility may not be able to meet their commitments if they experience shortages of capital and liquidity and there can be no assurance that our ability to otherwise access the credit markets will not be adversely affected by changes in the financial markets and the global economy.

The Company faces risks associated with impairment of intangible and other long-lived assets.

The Company's intangible assets and long-lived assets, primarily consisting of stores, are subject to periodic testing for impairment. A significant amount of judgment is involved in the periodic testing. Failure to achieve sufficient levels of cash flow within each of the Company's cash generating units or specific operating units could result in impairment charges for intangible assets or long-lived assets, which could have a material adverse effect on the Company's reported results of operations.

Risks Relating to the Company's Relationship with Holdings

The Company may lose rights to some intellectual property if Holdings' equity ownership in the Company falls below specified thresholds or in other circumstances involving financial distress.

The Company relies on its right to use the "Sears" name, including as part of the Company's corporate and commercial name, which the Company considers a significant and valuable aspect of its business. The Company's right to use the "Sears" name and certain other brand names was granted pursuant to the license agreement amendments, which state in the event Holdings' ownership interest in the Company is reduced to less than 10.0%, the license agreement would remain in effect for a period of five years after such reduction in ownership, after which the Company would no longer be permitted to use the "Sears" name and certain other brand names. In addition, the Company's license to use the "Sears" name and certain other brand names (subject to an extension of up to four years at a royalty rate to be agreed equal to the lesser of a fair market rate based on the value of such mark or the lowest rate which will provide a reasonable incentive to introduce Sears Canada to phase out the use of such mark during such extended period, if the Company reasonably determines that a longer transition is necessary) may also terminate upon the occurrence of certain bankruptcy events involving the Company. In addition, in the event of a bankruptcy proceeding involving Holdings, there is a risk of the license agreement being terminated under the governing insolvency legislation. Losing the right to use these intellectual properties could significantly diminish the Company's competitiveness in the marketplace and could materially harm the business. If either the license agreement or the technology agreement is terminated, the Company may attempt to renegotiate such agreement although the terms of any renegotiated agreement will be less favorable to the Company.

Some of the Company's directors and executive officers may have conflicts of interest because of their ownership of Holdings common stock.

Some of the Company's directors and executive officers may own Holdings common stock. Ownership of Holdings common stock by our directors and/or officers could create, or appear to create, conflicts of interest with respect to matters involving both the Company and Holdings.

Risks Relating to Our Common Shares

As long as ESL exerts significant voting influence over the Company, a shareholder's ability to influence matters requiring shareholder approval will be limited.

ESL is the largest shareholder of the Company, both directly through ownership in the Company, and indirectly through shareholdings in Holdings. Prior to October 16, 2014, Holdings was the controlling shareholder of the Company.

As at March 12, 2015, ESL was the beneficial holder of approximately 49.5% of the common shares of the Company and Holdings was the beneficial holder of approximately 11.7%, of the common shares of the Company.

So long as ESL directly or indirectly controls the Company's outstanding Common Shares, they will have the ability to control the election of the Board of Directors and the outcome of certain shareholder votes. Accordingly, ESL will have the ability to exercise control over certain actions to be taken or approved by the Company's directors and shareholders, including with respect to certain mergers or business combinations or dispositions of all or substantially all of our assets.

ESL's voting control may discourage transactions involving a change of control of the Company, including transactions in which shareholders might otherwise receive a premium for their shares over the then-current market price. Subject to certain limits, ESL is also not prohibited from selling a controlling interest in the Company to a third party and may do so without shareholder approval and, subject to applicable laws, without providing for a purchase of shareholders' common shares. Accordingly, shareholders' common shares may be worth less than they would be if ESL did not maintain voting control over the Company.

ESL's interests may be different than other shareholders' interests and Holdings and ESL may have investments in other companies that may compete with the Company and may have interests from time to time that diverge from the interests of the Company's other shareholders, particularly with regard to new investment opportunities.

In addition, conflicts of interest may arise between Holdings and/or ESL and the Company, including corporate opportunities, potential acquisitions or transactions as well as other matters. The Company may be adversely affected by any conflicts of interest between Holdings and/or ESL and the Company. Furthermore, neither Holdings nor ESL owes the Company or the Company's shareholders any fiduciary duties under Canadian law.

In the event that Holdings experiences financial difficulty, it is not possible to predict with certainty the jurisdiction or jurisdictions in which insolvency or similar proceedings would be commenced or the outcome of such proceedings. If a bankruptcy, insolvency or similar event occurs, there could be proceedings involving Holdings in the United States or elsewhere and it is possible that the Company could be made a part of these proceedings. This risk decreases as the percentage of common shares held by Holdings decreases.

The price of the Company's common shares may decline if ESL or Holdings alter their strategy with respect to their ownership of the Company's shares.

ESL and Holdings have advised the Company that they have not reached any decision regarding whether or for how long they will retain their share ownership in the Company and what form, if any, the disposition or distribution of their common shares will take. ESL and Holdings will, in their respective sole discretions, determine the timing and terms of any transactions with respect to their common shares, taking into account business and market conditions and other factors that they deem relevant. Neither ESL or Holdings are subject to any contractual obligation to maintain their ownership position in the Company, nor is ESL subject to any contractual obligation to the Company to maintain its ownership in Holdings. Consequently, we cannot be assured that either ESL or Holdings will maintain its current direct or indirect ownership of the Company's common shares. Any announcement by ESL or Holdings that they have reached a determination regarding what to do with their direct or indirect ownership of our common shares, or the perception by the investment community that ESL or Holdings has reached such a determination, could have an adverse impact on the price of the Company's common shares.

The market price of the Company's common shares is subject to market value fluctuations.

From time to time, the stock market experiences significant price and volume volatility that may affect the market price of the Company's common shares for reasons unrelated to its performance. In addition, the financial markets are generally characterized by extensive interconnections among financial institutions and, accordingly, defaults by other financial institutions in Canada, the United States or other countries could adversely affect the Company and the market price of its common shares. The value of the Company's common shares is also subject to market value fluctuations based upon factors which influence its operations, such as legislative or regulatory developments, competition, technological change and global capital market activity.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The preparation and presentation of the Company's consolidated financial statements and the overall accuracy and integrity of the Company's financial reporting are the responsibility of management. The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB), and include certain amounts that are based on management's best estimates and judgments. Financial information contained elsewhere in this Annual Report is consistent with the information set out in the consolidated financial statements.

In fulfilling its responsibilities, management has developed and maintains an extensive system of disclosure controls and procedures and internal control over financial reporting processes that are designed to provide reasonable assurance that assets are safeguarded, transactions are properly recorded and reported within the required time periods, and financial records are reliable for the preparation of the financial statements. The Company's internal auditors, who are employees of the Company, also review and evaluate internal controls on behalf of management.

The Board of Directors monitors management's fulfillment of its responsibilities for financial reporting and internal controls principally through the Audit Committee. The Audit Committee, which is comprised solely of independent directors, meets regularly with management, the internal audit department and the Company's external auditors to review and discuss audit activity and results, internal accounting controls and financial reporting matters. The external auditors and the internal audit department have unrestricted access to the Audit Committee, management and the Company's records. The Audit Committee is also responsible for recommending to the Board of Directors the proposed nomination of the external auditors for appointment by the shareholders. Based upon the review and recommendation of the Audit Committee, the consolidated financial statements and Management's Discussion and Analysis have been approved by the Board of Directors.

The Company's external auditors, Deloitte LLP, have audited the consolidated financial statements in accordance with International Financial Reporting Standards as issued by the IASB.

EJ Bird

Ron Boire
President and Chief Executive Officer

E.J. Bird
Chief Financial Officer

Toronto, Ontario
March 12, 2015

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards. The control framework used by the Company's management to assess the effectiveness of the Company's internal control over financial reporting is the *Internal Control - Integrated Framework* 2013 (COSO framework) published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Internal control systems, regardless of superiority in design, have inherent limitations. Therefore, even those systems that have been determined to have been designed effectively can only provide reasonable assurance with respect to financial reporting and financial statement preparation.

Management of the Company, including its chief executive officer and chief financial officer, has evaluated the Company's internal control over financial reporting and has concluded that it was effective as at January 31, 2015.

Deloitte LLP, the independent registered public accounting firm that audited the Company's consolidated financial statements for the fiscal year ended January 31, 2015, has issued its opinion on the Company's internal control over financial reporting as stated in their report included herein.

Ron Boire President and Chief Executive Officer	E.J. Bird Chief Financial Officer

Toronto, Ontario
March 12, 2015

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of
Sears Canada Inc.

We have audited the accompanying consolidated financial statements of Sears Canada Inc. and subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at January 31, 2015 and February 1, 2014, and the consolidated statements of net (loss) earnings and comprehensive (loss) income, consolidated statements of changes in shareholders' equity, and consolidated statements of cash flows for the 52-week periods ended January 31, 2015 and February 1, 2014, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Sears Canada Inc. and subsidiaries as at January 31, 2015 and February 1, 2014, and their financial performance and their cash flows for the 52-week periods ended January 31, 2015 and February 1, 2014 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Other Matter

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of January 31, 2015, based on the criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 12, 2015 expressed an unqualified opinion on the Company's internal control over financial reporting.

Deloitte LLP

Chartered Professional Accountants, Chartered Accountants
Licensed Public Accountants
March 12, 2015
Toronto, Canada

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of
Sears Canada Inc.

We have audited the internal control over financial reporting of Sears Canada Inc. and subsidiaries (the "Company") as of January 31, 2015, based on the criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 31, 2015, based on the criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the 52 week-period ended January 31, 2015 of the Company and our report dated March 12, 2015 expressed an unmodified opinion on those financial statements.

Deloitte LLP

Chartered Professional Accountants, Chartered Accountants
Licensed Public Accountants
March 12, 2015
Toronto, Canada

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CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in CAD millions)	Notes		As at **January 31, 2015**		As at February 1, 2014
ASSETS					
Current assets					
Cash and cash equivalents	5	$	**259.0**	$	513.8
Accounts receivable, net	6,14,16		**73.0**		83.3
Income taxes recoverable	22		**127.2**		0.8
Inventories	7		**641.4**		774.6
Prepaid expenses	8		**28.7**		23.8
Derivative financial assets	14		**7.2**		7.2
Assets classified as held for sale	29		**13.3**		13.3
Total current assets			**1,149.8**		1,416.8
Non-current assets					
Property, plant and equipment	9,19		**567.6**		785.5
Investment properties	9		**19.3**		19.3
Intangible assets	10.2		**16.2**		28.2
Goodwill	10.1		**—**		2.6
Deferred tax assets	22		**0.7**		88.7
Other long-term assets	12,14,16,17,22		**20.5**		51.2
Total assets		$	**1,774.1**	$	2,392.3
LIABILITIES					
Current liabilities					
Accounts payable and accrued liabilities	14,15	$	**359.4**	$	438.7
Deferred revenue	13		**171.2**		187.7
Provisions	16		**58.6**		109.4
Income taxes payable	22		**—**		52.2
Other taxes payable			**34.6**		53.9
Current portion of long-term obligations	14,17,19,25		**4.0**		7.9
Total current liabilities			**627.8**		849.8
Non-current liabilities					
Long-term obligations	14,17,19,25		**24.1**		28.0
Deferred revenue	13		**76.8**		87.3
Retirement benefit liability	14,20.1		**407.4**		286.0
Deferred tax liabilities	22		**3.4**		4.2
Other long-term liabilities	16,18		**63.8**		63.2
Total liabilities			**1,203.3**		1,318.5
SHAREHOLDERS' EQUITY					
Capital stock	24		**14.9**		14.9
Retained earnings			**806.9**		1,145.3
Accumulated other comprehensive loss			**(251.0)**		(86.4)
Total shareholders' equity	**25**		**570.8**		1,073.8
Total liabilities and shareholders' equity		$	**1,774.1**	$	2,392.3

The accompanying notes are an integral part of these consolidated financial statements.

On Behalf of the Board of Directors,

W.C.Crowley
Chairman of the Board

D.E.Rosati
Director

CONSOLIDATED STATEMENTS OF NET (LOSS) EARNINGS AND COMPREHENSIVE (LOSS) INCOME
For the 52-week periods ended January 31, 2015 and February 1, 2014

(in CAD millions, except per share amounts)	Notes		2014		2013
Revenue	26	$	**3,424.5**	$	3,991.8
Cost of goods and services sold	7,14,27		**2,308.0**		2,548.1
Selling, administrative and other expenses	9,10,11,14,19,20,24,27		**1,523.8**		1,631.5
Operating loss			**(407.3)**		(187.8)
Gain on lease terminations and lease amendments	28		—		577.2
Gain on sale of interest in joint arrangements	11		**35.1**		66.3
Gain on settlement and amendment of retirement benefits	20,27		**10.6**		42.5
Finance costs	17,19,22		**1.0**		10.8
Interest income	5		**2.6**		2.6
(Loss) earnings before income taxes			**(360.0)**		490.0
Income tax recovery (expense)					
Current	22		**74.7**		(71.6)
Deferred	22		**(53.5)**		28.1
			21.2		(43.5)
Net (loss) earnings		$	**(338.8)**	$	446.5
Basic net (loss) earnings per share	32	$	**(3.32)**	$	4.38
Diluted net (loss) earnings per share	32	$	**(3.32)**	$	4.38
Net (loss) earnings		$	**(338.8)**	$	446.5
Other comprehensive income (loss), net of taxes:					
Items that may subsequently be reclassified to net (loss) earnings:					
Gain on foreign exchange derivatives			**10.8**		7.8
Reclassification to net (loss) earnings of gain on foreign exchange derivatives			**(10.1)**		(1.8)
Items that will not subsequently be reclassified to net (loss) earnings:					
Remeasurement (loss) gain on net defined retirement benefit liability and write down of deferred income tax asset associated with previously recorded remeasurement losses	20.7, 22		**(165.3)**		54.3
Total other comprehensive (loss) income			**(164.6)**		60.3
Total comprehensive (loss) income		$	**(503.4)**	$	506.8

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the 52-week periods ended January 31, 2015 and February 1, 2014

				Accumulated other comprehensive loss			
(in CAD millions)	Notes	Capital stock	Retained earnings	Foreign exchange derivatives designated as cash flow hedges	Remeasurement (loss) gain	Total accumulated other comprehensive loss	Shareholders' equity
Balance as at February 1, 2014		**$ 14.9**	**$ 1,145.3**	**$ 6.0**	**$ (92.4)**	**$ (86.4)**	**$ 1,073.8**
Net loss			**(338.8)**	—	—	—	**(338.8)**
Other comprehensive income (loss)							
Gain on foreign exchange derivatives, net of income tax expense of $3.9				**10.8**	—	**10.8**	**10.8**
Reclassification of gain on foreign exchange derivatives, net of income tax expense of $3.6				**(10.1)**	—	**(10.1)**	**(10.1)**
Remeasurement loss on net defined retirement benefit liability and the write down of deferred income tax asset associated with previously recorded remeasurement losses	20.7, 22			—	**(165.3)**	**(165.3)**	**(165.3)**
Total other comprehensive income (loss)		—	—	**0.7**	**(165.3)**	**(164.6)**	**(164.6)**
Total comprehensive (loss) income		—	**(338.8)**	**0.7**	**(165.3)**	**(164.6)**	**(503.4)**
Share based compensation	24	—	**0.4**	—	—	—	**0.4**
Balance as at January 31, 2015		**$ 14.9**	**$ 806.9**	**$ 6.7**	**$ (257.7)**	**$ (251.0)**	**$ 570.8**

Balance as at February 2, 2013		$ 14.9	$ 1,208.2	$ —	$ (146.7)	$ (146.7)	$ 1,076.4
Net earnings			446.5	—	—	—	446.5
Other comprehensive income (loss)							
Gain on foreign exchange derivatives, net of income tax expense of $2.8				7.8	—	7.8	7.8
Reclassification of gain on foreign exchange derivatives, net of income tax expense of $0.6				(1.8)	—	(1.8)	(1.8)
Remeasurement gain on net defined retirement benefit liability, net of income tax expense of $19.4	20.7			—	54.3	54.3	54.3
Total other comprehensive.income		—	—	6.0	54.3	60.3	60.3
Total comprehensive income		—	446.5	6.0	54.3	60.3	506.8
Dividends declared	24	—	(509.4)	—	—	—	(509.4)
Balance as at February 1, 2014		$ 14.9	$ 1,145.3	$ 6.0	$ (92.4)	$ (86.4)	$ 1,073.8

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the 52-week periods ended January 31, 2015 and February 1, 2014

(in CAD millions)	Notes	2014	2013
Cash flow used for operating activities			
Net (loss) earnings		$ **(338.8)**	$ 446.5
Adjustments for:			
Depreciation and amortization expense	9,10.2	**89.3**	111.4
Share based compensation	24	**0.4**	—
(Gain) loss on disposal of property, plant and equipment		**(0.6)**	1.2
Impairment losses	9,10,11,29	**162.0**	33.8
Gain on sale of interest in joint arrangements	11	**(35.1)**	(66.3)
Gain on lease terminations and lease amendments	28	—	(577.2)
Finance costs	17	**1.0**	10.8
Interest income	5	**(2.6)**	(2.6)
Retirement benefit plans expense	20.6	**19.0**	32.0
Gain on settlement and amendment of retirement benefits	20	**(10.6)**	(42.5)
Short-term disability expense		**5.7**	8.0
Income tax (recovery) expense	22	**(21.2)**	43.5
Interest received	5	**2.5**	2.5
Interest paid	17	**(3.3)**	(6.2)
Retirement benefit plans contributions	20	**(24.2)**	(53.5)
Income tax payments, net	22	**(60.7)**	(14.0)
Other income tax deposits	22	**(10.3)**	(18.9)
Changes in non-cash working capital balances	33	**(67.3)**	73.3
Changes in non-cash long-term assets and liabilities	34	**30.2**	(7.6)
		(264.6)	(25.8)
Cash flow generated from investing activities			
Purchases of property, plant and equipment and intangible assets	9,10.2	**(54.0)**	(70.8)
Proceeds from sale of property, plant and equipment		**1.2**	1.9
Proceeds from lease terminations and lease amendments	28	—	590.5
Proceeds from sale of interest in joint arrangements	11	71.7	315.4
		18.9	837.0
Cash flow used for financing activities			
Interest paid on finance lease obligations	17,19	**(2.2)**	(2.5)
Repayment of long-term obligations		**(11.2)**	(30.1)
Proceeds from long-term obligations		**3.4**	4.5
Dividend payments	24	—	(509.4)
Transaction fees associated with amended credit facility	17	**(1.0)**	—
		(11.0)	(537.5)
Effect of exchange rate on cash and cash equivalents at end of period		**1.9**	1.6
(Decrease) increase in cash and cash equivalents		**(254.8)**	275.3
Cash and cash equivalents at beginning of period		$ **513.8**	$ 238.5
Cash and cash equivalents at end of period	5	$ **259.0**	$ 513.8

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General information

Sears Canada Inc. is incorporated in Canada. The address of its registered office and principal place of business is 290 Yonge Street, Suite 700, Toronto, Ontario, Canada M5B 2C3. The principal activities of Sears Canada Inc. and its subsidiaries (the "Company") include the sale of goods and services through the Company's Retail channels, which includes its full-line, Sears Home, Hometown, Outlet, Appliances and Mattresses, Corbeil Electrique Inc. ("Corbeil") stores, and its Direct (catalogue/internet) channel. It also includes service revenue related to product repair and logistics. Commission revenue includes travel, home improvement services, insurance, wireless and long distance plans, and performance payments received from JPMorgan Chase Bank, N.A. (Toronto Branch) ("JPMorgan Chase") under the Company's credit card marketing and servicing alliance with JPMorgan Chase. The Company has a multi-year licensing arrangement with TravelBrands Inc. ("TravelBrands") (formerly known as Thomas Cook Canada Inc.), under which TravelBrands manages the day-to-day operations of all Sears Travel offices and provides commissions to the Company. The Company also entered into a multi-year licensing agreement with SHS Services Management Inc. ("SHS") on March 3, 2013, under which SHS oversaw the day-to-day operations of all Sears Home Installed Products and Services business ("HIPS"). On December 13, 2013, SHS announced it was in receivership, and all offers of services provided by SHS ceased (see Note 14). Licensee fee revenue is comprised of payments received from licensees, including TravelBrands, that operate within the Company's stores. The Company was a party to a number of real estate joint arrangements which have been classified as joint operations and accounted for by recognizing the Company's share of joint arrangements' assets, liabilities, revenues and expenses for financial reporting purposes.

2. Significant accounting policies

2.1 Statement of compliance

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

2.2 Basis of preparation and presentation

The principal accounting policies of the Company have been applied consistently in the preparation of its consolidated financial statements for all periods presented. These financial statements follow the same accounting policies and methods of application as those used in the preparation of the 2013 Annual Consolidated Financial Statements, except as noted below. The Company's significant accounting policies are detailed in Note 2.

The Company adopted the following new standards and amendments which became effective "in" or "for" the fiscal year ended January 31, 2015:

- *IAS 32, Financial Instruments: Presentation ("IAS 32")*

  The IASB has amended IAS 32 to provide clarification on the requirements for offsetting financial assets and liabilities. These amendments are effective for annual periods beginning on or after January 1, 2014. Based on the Company's assessment of these amendments, there is no impact on its consolidated financial statements;

- *IFRIC 21, Levies ("IFRIC 21")*

  IFRIC 21 provides guidance on when to recognize a liability for a levy imposed by a government, both for levies that are accounted for in accordance with IAS 37, *Provisions, Contingent Liabilities and Contingent Assets* and those where the timing and amount of the levy is certain. This interpretation is applicable for annual periods on or after January 1, 2014. Based on the Company's assessment of this interpretation, there is no impact on its consolidated financial statements; and

- *IFRS 2, Share-based payment ("IFRS 2")*

  The IASB has amended IFRS 2 to clarify the definition of "vesting conditions", and by separately defining a "performance condition" and a "service condition". A performance condition requires the counterparty to complete a specified period of service ("service period") and to meet a specified performance target during the service period. A service condition solely requires the counterparty to complete a service period. The amendment is effective for share-based payment transactions for which the grant date is on or after July 1, 2014. Based on the Company's assessment of this amendment, there is no impact on its consolidated financial statements.

2.3 Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, with the exception of certain financial instruments that are measured at fair value and the retirement benefit liability, which is the net total of retirement benefit plan assets and the present value of accrued retirement benefit plan obligations. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

2.4 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company as well as all of its subsidiaries. Real estate joint arrangements were accounted for by recognizing the Company's share of the joint arrangements' assets, liabilities, revenues and expenses (described further in Note 2.13).

The fiscal year of the Company consists of a 52 or 53-week period ending on the Saturday closest to January 31. The fiscal years for the 2014 and 2013 consolidated financial statements represent the 52-week period ended January 31, 2015 ("Fiscal 2014" or "2014") and the 52-week period ended February 1, 2014 ("Fiscal 2013" or "2013"), respectively.

The Company's consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. The Company is comprised of two reportable segments, Merchandising and Real Estate Joint Arrangements (see Note 23).

2.5 Cash and cash equivalents

Cash and cash equivalents include highly liquid investments with maturities of 90 days or less at the date of purchase. Cash and cash equivalents are considered to be restricted when they are subject to contingent rights of a third party customer, vendor, government agency or financial institution.

2.6 Short-term investments

Short-term investments include investments with maturities between 91 to 364 days from the date of purchase.

2.7 Inventories

Inventories are measured at the lower of cost and net realizable value. Cost is determined using the weighted average cost method, based on individual items. The cost is comprised of the purchase price, plus the costs incurred in bringing the inventory to its present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs to sell. Rebates and allowances received from vendors are recognized as a reduction to the cost of inventory, unless the rebates clearly relate to the reimbursement of specific expenses. A provision for shrinkage and obsolescence is calculated based on historical experience. All inventories consist of finished goods.

2.8 Property, plant and equipment

Property, plant and equipment are measured at cost or deemed cost less accumulated depreciation and accumulated impairment losses. Costs include expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes site preparation costs, design and engineering fees, freight (only on initial freight costs incurred between the vendor and the Company), installation expenses and provincial sales tax (Saskatchewan, Manitoba and British Columbia), and is net of any vendor subsidies or reimbursements. An allocation of general and specific incremental interest charges for major construction projects is also included in the cost of related assets. Property, plant and equipment within one of the Company's Regina logistics centres have been classified as held for sale in the Consolidated Statements of Financial Position (see Note 29).

When the significant parts of an item of property, plant and equipment have varying useful lives, they are accounted for as separate components of property, plant and equipment. Depreciation is calculated based on the depreciable amount of the asset or significant component thereof, if applicable, which is the cost of the asset or significant component less its residual value. Depreciation is recognized using the straight-line method for each significant component of an item of property, plant and equipment and is recorded in "Selling, administrative and other expenses" in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income. The estimated useful lives are 2 to 13 years for equipment and fixtures and 10 to 50 years for buildings and building improvements. The estimated useful lives, residual values and depreciation methods for property, plant and equipment are reviewed annually and adjusted, if appropriate, with the effect of any changes in estimates accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease, unless it is reasonably certain that the Company will obtain ownership by the end of the lease term.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the proceeds from sale or the cost of retirement and the carrying amount of the asset, and is recognized in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income.

For a discussion on the impairment of tangible assets, refer to Note 2.11. Property, plant and equipment are reviewed at the end of each reporting period to determine if there are any indicators of impairment.

2.9 Investment properties

The Company's investment properties consist of vacant land which is not currently used in its operations. Investment properties are measured at their deemed cost less accumulated impairment losses.

The fair value of an investment property is estimated using observable data based on the current cost of acquiring a comparable property within the market area and the capitalization of the property's anticipated revenue. The Company engages independent qualified third parties to conduct appraisals of its investment properties.

The gain or loss arising from the disposal or retirement of an investment property is determined as the difference between the proceeds from sale or the cost of retirement, and the carrying amount of the asset, and is recognized in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income.

For a discussion on the impairment of tangible assets, refer to Note 2.11. Investment properties are reviewed at the end of each reporting period to determine if there are any indicators of impairment.

2.10 Intangible assets

2.10.1 Finite life intangible assets other than goodwill

Finite life intangible assets consist of purchased and internally developed software. Intangible assets are carried at cost less accumulated amortization and accumulated impairment losses and are amortized on a straight-line basis over their estimated useful lives which range from 2 to 5 years. The useful lives of all intangible assets other than goodwill are finite. Amortization expense is included in "Selling, administrative and other expenses" in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income. The estimated useful lives and amortization methods for intangible assets other than goodwill are reviewed annually, with the effect of any changes in estimates being accounted for on a prospective basis.

Internally developed software costs are capitalized when the following criteria are met:

- It is technically feasible to complete the software so that it will be available for use;
- The Company intends to complete the software product;
- The Company has an ability to use the software;
- The Company can demonstrate how the software will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use the software product are available; and
- The expenditure attributable to the software product during its development can be reliably measured.

Costs that qualify for capitalization are limited to those that are directly related to each software development project.

2.10.2 Goodwill

Goodwill arising in a business combination is recognized as an asset at the date that control is acquired ("the acquisition date"). Goodwill is measured as the excess of the sum of the consideration transferred, over the net fair value of identifiable assets acquired less liabilities assumed as of the acquisition date.

2.11 Impairment of tangible assets and intangible assets with finite useful lives

At the end of each reporting period, the Company reviews property, plant and equipment, investment properties, intangible assets and goodwill for indicators of impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the assets are then grouped together into the smallest group of assets that generate independent cash inflows from continuing use (the "cash generating unit" or "CGU") and a recoverable amount is estimated for that CGU. The Company has determined that its CGUs are primarily its retail stores.

Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs. Otherwise, they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

If the recoverable amount of an asset or a CGU is estimated to be less than its carrying amount, the asset or CGU will be reduced to its recoverable amount and an impairment loss is recognized immediately. If an impairment for a CGU has been identified, the impairment is first allocated to goodwill before other assets held by the CGU. Where goodwill is not part of a CGU, an impairment loss is recognized as a reduction in the carrying amount of the assets included in the CGU on a pro rata basis.

Where an impairment loss subsequently reverses (not applicable to goodwill), the carrying amount of the asset or CGU is revised to an estimate of its recoverable amount limited to the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized immediately.

2.12 Impairment of goodwill

Goodwill was not amortized but was reviewed for impairment at least annually. For the purposes of impairment testing, goodwill was allocated to each of the Company's CGUs expected to benefit from the synergies of the combination.

CGUs to which goodwill had been allocated were tested for impairment annually, or more frequently when there was an indication that the unit may be impaired. If the recoverable amount of the CGU was less than its carrying amount, the impairment loss was allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to the other assets of the unit on a pro-rata basis, based on the carrying amount of each asset in the unit. Impairment losses for goodwill are not reversed in subsequent periods.

2.13 Joint arrangements

Joint arrangements are arrangements of which two or more parties have joint control. Joint control is considered to be when all parties to the joint arrangement are required to reach unanimous consent over decisions about relevant business activities pertaining to the contractual arrangement.

The Company had determined that its real estate joint arrangements were joint operations. A joint operation is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control and whereby each party has rights to the assets and liabilities relating to the arrangement. Interests in joint operations were accounted for by recognizing the Company's share of assets, liabilities, revenues, and expenses incurred jointly.

2.14 Leasing arrangements

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

2.14.1 The Company as lessor

The Company has entered into a number of agreements to sub-lease premises to third parties. All sub-leases to third parties are classified as operating leases. Rental income from operating leases is recognized on a straight-line basis over the term of the lease.

2.14.2 The Company as lessee

Assets held under finance leases are initially recognized by the Company at the lower of the fair value of the asset and the present value of the minimum lease payments. The corresponding current and non-current liabilities to the lessor are included in the Consolidated Statements of Financial Position as a finance lease obligation in "Current portion of long-term obligations" and "Long-term obligations," respectively. The assets are depreciated using the same accounting policy as applicable to property, plant and equipment (see Note 2.8).

Lease payments are apportioned between finance costs and the lease obligation in order to achieve a constant rate of interest on the remaining balance of the liability. The minimum lease payments are allocated between the land and building element in proportion to the relative fair values of the leasehold interests, in each of these elements of the lease.

Assets under operating leases are not recognized by the Company. Operating lease payments are recognized in "Selling, administrative and other expenses" in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income.

In the event that lease incentives are received from the landlord, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

2.15 Retirement benefit plans

The Company currently maintains a defined contribution and a defined benefit registered pension plan, which covers eligible regular full-time and part-time employees, a non-registered supplemental savings arrangement and a defined benefit non-pension retirement plan, which provides life insurance, medical and dental benefits to eligible retired employees through a health and welfare trust.

2.15.1 Defined contribution plan

A defined contribution plan is a post-employment benefit plan under which the Company pays fixed or matching contributions based on employee contributions into a separate legal entity and has no further legal or constructive obligation to pay additional amounts. Company contributions to the defined contribution retirement benefit plan are recognized as an expense when employees have rendered services entitling them to the contributions.

2.15.2 Defined benefit plans

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations prepared by independent qualified actuaries at least every 3 years. Remeasurements comprised of actuarial gains and losses, the effect of the asset ceiling (if applicable) and the return on plan assets (excluding interest) are recognized immediately in the Consolidated Statements of Financial Position with a charge or credit to "Other comprehensive income (loss), net of taxes" ("OCI") in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income, in the period in which they occur. The Company performs remeasurements at least annually. Remeasurements recorded in OCI are not recycled into profit or loss. However, the entity may transfer those amounts recognized in OCI within "Accumulated other comprehensive loss" ("AOCL") in the Consolidated Statements of Changes in Shareholders' Equity. Past service cost is recognized in profit or loss in the period of plan amendment. Net-interest is calculated by applying the discount rate to the net defined benefit liability or asset. Defined benefit costs are split into three categories:

- service cost, past-service cost, gains and losses on curtailments and settlements;
- net interest expense or income;
- remeasurements.

The Company presents the first two components of defined benefit costs in "Selling, administrative and other expenses" in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income.

Remeasurements are recorded in OCI.

The retirement benefit obligation recognized in the Consolidated Statements of Financial Position represents the actual deficit or surplus in the Company's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

2.15.3 Termination benefits

A liability for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognizes any related restructuring costs.

2.16 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, excluding sales taxes. Revenue is reduced for estimated customer returns, discounts and other similar allowances.

2.16.1 Sale of goods

Revenue from the sale of goods is recognized upon delivery of goods to the customer. In the case of goods sold in-store, delivery is generally complete at the point of sale. For goods subject to delivery such as furniture or major appliances, and goods sold online or through the catalogue, delivery is complete when the goods are delivered to the customers' selected final destination or picked up from a catalogue agent. In the case of goods subject to installation, such as home improvement products, revenue is recognized when the goods have been delivered and the installation is complete.

2.16.2 Rendering of services

Revenue from a contract to provide services is recognized by reference to the stage of completion of the contract.

Extended warranty service contracts

The Company sells extended warranty service contracts with terms of coverage generally between 12 and 60 months. Revenue from the sale of each contract is deferred and amortized on a straight-line basis over the term of the related contract.

Product repair, handling and installation services

Product repair, handling and installation services revenue is recognized once the services are complete. These services are performed within a short timeframe.

2.16.3 Commission and licensee fee revenue

The Company earns commission revenue by selling various products and services that are provided by third parties, such as sales of travel services, home improvement products and insurance programs. As the Company is not the primary obligor in these transactions, these commissions are recognized upon sale of the related product or service.

Fee revenue is received from a variety of licensees that operate in the Company's stores. Revenue earned is based on a percentage of licensee sales. Revenue is recorded upon sale of the related product or service.

Revenue is received from JPMorgan Chase relating to credit sales. Revenue is based on a percentage of sales charged on the Sears Card or Sears MasterCard and is included in revenue when the sale occurs.

2.16.4 Interest income

Interest income is recognized when it is probable that the economic benefits will flow to the Company and the amount of income can be reliably measured. Interest income is accrued on a periodic basis by reference to the principal outstanding and the applicable interest rate.

2.16.5 Customer loyalty program

The Sears Club Points Program (the "Program") allows members to earn points from eligible purchases made on their Sears Card and/or Sears MasterCard. Members can then redeem points in accordance with the Program rewards schedule for merchandise. When points are earned, the Company defers revenue equal to the fair value of the awards adjusted for expected redemptions. When awards are redeemed, the redemption value of the awards is charged against deferred revenue and recognized as revenue. The expected future redemption rates are reviewed on an ongoing basis and are adjusted based upon expected future activity.

2.16.6 Gift cards

The Company sells gift cards through its retail stores, websites and third parties with no administrative fee charges or expiration dates. No revenue is recognized at the time gift cards are sold. Revenue is recognized as a merchandise sale when the gift card is redeemed by the customer. The Company also recognizes income when the likelihood of the gift card being redeemed by the customer is remote, which is generally at the end of 18 months subsequent to issuance, estimated based on historical redemption patterns.

2.16.7 Cost of goods and services sold

Cost of goods and services sold includes the purchase price of merchandise sold, freight and handling costs incurred in preparing the related inventory for sale, installation costs incurred relating to the sale of goods subject to installation, write-downs taken on inventory during the period, physical inventory losses and costs of services provided during the period relating to services sold, less rebates from suppliers relating to merchandise sold.

2.17 Foreign currency translation

Transactions in currencies other than the Company's functional currency are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency at the exchange rates prevailing at that date.

Non-monetary assets and liabilities denominated in a foreign currency that are measured at historical cost are translated using the exchange rate at the date of the transaction and are not retranslated.

Exchange differences arising on retranslation are recognized in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income in the period in which they arise, except for exchange differences on certain foreign currency hedging transactions (see Note 14.3).

2.18 Consideration from a vendor

The Company has arrangements with its vendors that provide for rebates subject to binding contractual agreements. Rebates on inventories subject to binding agreements are recognized as a reduction of the cost of sales or related inventories for the period, provided the rebates are probable and reasonably estimable. Rebates on advertising costs subject to binding agreements are recognized as a reduction of the advertising expense for the period, provided the rebates are probable and reasonably estimable.

2.19 Taxation

Income tax expense represents the sum of current tax expense and deferred tax expense.

2.19.1 Current tax

Tax currently payable or recoverable is based on taxable earnings or loss for the reporting period. Taxable income differs from earnings as reported in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income, due to income or expenses that are taxable or deductible in other years and items that are not taxable or deductible for tax purposes. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted as at the end of the reporting period and includes any adjustments to taxes payable and/or taxes recoverable in respect of prior years.

2.19.2 Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases used in the computation of taxable earnings or loss.

Deferred tax liabilities are generally recognized for taxable temporary differences. Deferred tax assets are generally recognized for deductible temporary differences to the extent that it is probable that taxable income will be available, against which deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary differences arise from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable net earnings or loss nor the accounting income or loss.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and written down to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to be applicable in the period in which the liability is settled or the asset is realized, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities, when they relate to income taxes levied by the same taxation authority and when the Company intends to settle its current tax assets and liabilities on a net basis. Deferred tax assets and liabilities are not discounted.

2.19.3 Current and deferred tax for the period

Current and deferred tax are recognized as a tax expense or recovery in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income, except when they relate to items that are recognized outside of earnings or loss (whether in OCI, or directly in equity), in which case, the tax is also recognized outside of earnings or loss, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is included in the accounting for the business combination. Interest on the Company's tax position is recognized as a finance cost.

2.20 Provisions

Provisions are recognized when the Company has a present obligation, legal or constructive, as a result of a past event, it is probable that the Company will be required to settle the obligation and a reliable estimate can be made for the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties specific to the obligation. Where a provision is measured using the cash flow estimated to settle the present obligation, its carrying amount is the present value of such cash flows.

When some or all of the economic resources required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

2.20.1 Onerous contract provisions

An onerous contract provision is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations. The provision is measured at the present value of the lower of the expected cost of terminating the contract or the expected cost of continuing with the contract. Before a provision is established, the Company recognizes any impairment loss on the assets associated with that contract. The onerous contract provision is included in "Other provisions" as seen in Note 16.

2.20.2 General liability provisions

The Company purchases third party insurance for automobile, damage to a claimant's property or bodily injury from use of a product and general liability claims that exceed a certain dollar level. However, the Company is responsible for the payment of claims under these insured limits. In estimating the obligation associated with incurred losses, the Company utilizes actuarial methodologies which are based on historical data and validated by an independent third party. Loss estimates are adjusted based on actual claims settlements and reported claims (see Note 16).

2.20.3 Warranty provisions

An estimate for warranty provisions is made at the time the merchandise is sold based on historical warranty trends (see Note 16).

2.20.4 Returns and allowances provisions

Provisions for returns and allowances are made based on historical rates which represent the expected future outflow of economic resources on current sales (see Note 16).

2.20.5 Environmental provisions

The Company is exposed to environmental risks as an owner, lessor and lessee of property. Under federal and provincial laws, the owner, lessor or lessee could be liable for the costs of removal and remediation of certain hazardous substances on its properties or disposed of at other locations. The failure to remove or remediate such substances, if any, could lead to claims against the Company. The provision is based on assessments conducted by third parties, as well as historical data (see Note 16).

2.21 Financial assets

All financial assets are recognized and derecognized on the trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned. Financial assets are initially measured at fair value plus transaction costs, except for those financial assets at 'fair value through profit or loss' ("FVTPL") for which the transaction costs are expensed as incurred.

Financial assets and liabilities are offset with the net amount presented in the Consolidated Statements of Financial Position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Financial assets are classified into the following categories: financial assets at FVTPL, 'held-to-maturity' investments, 'available-for-sale' ("AFS") financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. Currently the Company does not have any 'held-to-maturity' investments.

2.21.1 Effective interest method

The effective interest method calculates the amortized cost of a financial asset or financial liability and allocates interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flow (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Interest income or expense is recognized on an effective interest basis for financial assets and financial liabilities other than those classified as at FVTPL.

2.21.2 Financial assets at FVTPL

Financial assets are classified at FVTPL when the financial asset is either held-for-trading or it is designated as at FVTPL.

2.21.3 AFS financial assets

The Company's cash equivalents have been classified as AFS financial assets and are measured at fair value. Gains and losses arising from changes in fair value are recognized in OCI, with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognized in "Selling, administrative and other expenses" or "Interest income" in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously included in AOCL is reclassified to "Selling, administrative and other expenses" in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income.

2.21.4 Loans and receivables

Cash held by the bank and restricted cash and cash equivalents are classified as 'loans and receivables' and are measured at amortized cost.

Trade receivables and other receivables that have fixed or determinable payments that are not quoted in an active market are also classified as 'loans and receivables'. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables, where the recognition of interest would be immaterial.

2.21.5 Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that the estimated future cash flow of the financial asset have been negatively affected as a result of events that have occurred after its initial recognition.

For all financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Default or delinquency in interest or principal payments; or
- Probability that the borrower will enter bankruptcy or financial reorganization.

For financial assets carried at amortized cost, the amount of any impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flow discounted at the financial asset's initial effective interest rate. When a subsequent event causes the amount of any impairment loss to decrease, the decrease in impairment loss is reversed through the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income.

The carrying amount of the financial asset is reduced by any impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, its carrying amount is written off including any amounts previously recorded in the allowance account. Subsequent recoveries of amounts previously written off are credited to "Selling, administrative and other expenses" in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income. Changes in the carrying amount of the allowance account are also recognized in "Selling, administrative and other expenses".

2.21.6 Derecognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to the cash flow from the asset expire, or when substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

2.22 Financial liabilities and equity instruments

2.22.1 Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

2.22.2 Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issuance costs.

2.22.3 Financial liabilities

Financial liabilities are recognized on the trade date at which the Company becomes a party to the contractual provisions of the instrument. Financial liabilities are classified as either financial liabilities at 'FVTPL' or 'other financial liabilities'.

2.22.4 Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when they are either held-for-trading or designated as at FVTPL. Currently the Company does not have any financial liabilities that have been designated as at FVTPL upon initial recognition.

2.22.5 Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost with interest expense recognized on an effective interest method.

The Company amortizes debt issuance transaction costs over the life of the debt using the effective interest method.

2.22.6 Derecognition of financial liabilities

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or expired.

2.23 Derivative financial instruments

The Company enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange option contracts and interest rate swaps. Further details on derivative financial instruments are disclosed in Note 14.

Derivatives are initially recognized at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized immediately in "Selling, administrative and other expenses" in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income, unless the derivative is designated and effective as a hedging instrument, in which case, the timing of the recognition depends on the nature of the hedge relationship. The Company designates certain derivatives as hedges of highly probable forecasted transactions or hedges of foreign currency risk of firm commitments (cash flow hedges).

A derivative with a positive fair value is recognized as a financial asset, whereas a derivative with a negative fair value is recognized as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realized or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

2.23.1 Hedge accounting

The Company designates certain hedging instruments, which include derivatives, as cash flow hedges. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedging relationship, the Company documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedging transactions. At the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Note 14 sets out details of the fair values of the derivative instruments used for hedging purposes.

2.23.2 Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in OCI. The gain or loss relating to the ineffective portion is recognized immediately in "Selling, administrative and other expenses" in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income. Amounts previously recognized in OCI and accumulated in AOCL within equity are reclassified in the periods when the hedged items are recognized (i.e. to "Cost of goods and services sold" in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income).

Hedge accounting is discontinued when the Company revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gains or losses accumulated in AOCL within equity at the time of discontinuation remain in equity and are transferred to "Cost of goods and services sold" in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income when the forecasted transaction is ultimately recognized. When a forecasted transaction is no longer expected to occur, the gains or losses accumulated in equity are recognized immediately.

2.24 Net (loss) earnings per share

Net (loss) earnings per share is calculated using the weighted average number of shares outstanding during the reporting period. Diluted net (loss) earnings per share is determined using the 'treasury stock method,' which considers the potential for the issuance of new shares created by unexercised in-the-money options, if any such options are outstanding.

2.25 Share based compensation

The Company granted restricted share units ("RSUs") to an employee under an equity-based compensation plan. For equity-settled awards, the fair value of the grant of RSUs is recognized as a compensation expense over the period that the related service is rendered with a corresponding increase in equity. The total amount expensed is recognized over a three-year vesting period on a tranche basis, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, the estimate of the number of equity interests that are expected to vest is revised. The impact of the revision to original estimates, if any, is recognized in "Selling, administrative and other expenses" in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income.

3. Issued standards not yet adopted

The Company monitors the standard setting process for new standards and interpretations issued by the IASB that the Company may be required to adopt in the future. Since the impact of a proposed standard may change during the review period, the Company does not comment publicly until the standard has been finalized and the effects have been determined.

In July 2014, the IASB issued the final publication of the following standard:

IFRS 9, Financial Instruments ("IFRS 9")

IFRS 9 replaces IAS 39, *Financial Instruments: Recognition and Measurement*. This standard establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. This standard also includes a new general hedge accounting standard which will align hedge accounting more closely with risk management. It does not fully change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however, it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. Adoption of IFRS 9 is mandatory and will be effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Company is currently assessing the impact of adopting this standard on the Company's consolidated financial statements and related note disclosures.

In May 2014, the IASB issued the following new standard:

IFRS 15, Revenue from Contracts with Customers ("IFRS 15")

IFRS 15 replaces IAS 11, *Construction Contracts*, and IAS 18, *Revenue*, as well as various interpretations regarding revenue. This standard introduces a single model for recognizing revenue that applies to all contracts with customers, except for contracts that are within the scope of standards on leases, insurance and financial instruments. This standard also requires enhanced disclosures. Adoption of IFRS 15 is mandatory and will be effective for annual periods beginning on or after January 1, 2017, with earlier adoption permitted. The Company is currently assessing the impact of adopting this standard on the Company's consolidated financial statements and related note disclosures.

In May 2014, the IASB issued amendments to a previously released standard as follows:

IFRS 11, Joint Arrangements ("IFRS 11")

The IASB has amended IFRS 11 to require business combination accounting to be applied to acquisitions of interests in a joint operation that constitute a business. The amendments will be effective for annual periods beginning on or after January 1, 2016, with earlier adoption permitted. The Company is currently assessing the impact of these amendments on the Company's consolidated financial statements and related note disclosures.

4. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Company's accounting policies, management is required to make judgments, estimates and assumptions with regards to the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

The following are the critical judgments that management has made in the process of applying the Company's accounting policies, key assumptions concerning the future and other key sources of estimation uncertainty that have the potential to materially impact the carrying amounts of assets and liabilities.

4.1 Legal liabilities

Assessing the financial outcome of uncertain legal positions requires judgment to be made regarding the relative merits of each claim and the extent to which a claim is likely to be successful. The assessments are based on reviews conducted by internal and external counsel, when appropriate.

Changes in estimates or assumptions could cause changes to "Provisions" on the Consolidated Statements of Financial Position and a charge or credit to "Selling, administrative and other expenses" in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income. For additional information, see Note 16.

4.2 Inventory

4.2.1 Obsolescence, valuation and inventory stock losses

Inventory is written down to reflect future losses on the disposition of obsolete merchandise. Future losses are estimated based on historical trends that vary depending on the type of inventory.

An adjustment is made each period to value inventory at the lower of cost and net realizable value. This adjustment is estimated based on historical trends that vary depending on the type of inventory.

Inventory is adjusted to reflect estimated inventory stock losses incurred in the year based on recent historical inventory count data.

4.2.2 Vendor rebates

Inventory is adjusted to reflect vendor rebates received or receivable based on vendor agreements. This adjustment is estimated based on historical data and current vendor agreements.

4.2.3 Freight

Inbound freight incurred to bring inventory to its present location is estimated each reporting period and is included in the cost of inventory. This estimate is based on historical freight costs incurred.

Changes in estimates may result in changes to "Inventories" on the Consolidated Statements of Financial Position and a charge or credit to "Cost of goods and services sold" in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income. For additional information, see Note 7.

4.3 Impairment of property, plant and equipment and intangible assets

The Company's property, plant and equipment and intangible assets have been allocated to CGUs. At the end of each reporting period, the carrying amounts of property, plant and equipment and intangible assets with finite useful lives are assessed to determine if there is any evidence that an asset is impaired. Determining if there are any facts and circumstances indicating impairment loss is a subjective process involving judgment and a number of estimates and assumptions. If there are such facts and circumstances, the recoverable amount of the asset is estimated.

Assets that cannot be tested individually for impairment are grouped into the smallest group of assets that generates cash inflows through continued use that are largely independent of the cash inflows from other assets or groups of assets (cash generating unit or CGU).

The recoverable amount of an asset or a CGU is the higher of its value in use and fair value less costs to sell. To determine value in use, expected future cash flows are discounted using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. In the process of measuring expected future cash flows, the Company makes assumptions about future operating profit. These assumptions relate to future events and circumstances. Although the assumptions are based on market information available at the time of the assessment, actual results may vary.

The Company's corporate and intangible assets do not generate separate cash flows. If there is evidence that a corporate or intangible asset is impaired, the recoverable amount is determined for the CGU to which the corporate asset belongs. Impairments are recorded when the carrying amount of the CGU to which the corporate asset belongs is higher than its recoverable amount.

Changes in estimates may result in changes to "Property, plant and equipment" and "Intangible assets" on the Consolidated Statements of Financial Position and a charge or credit to "Selling, administrative and other expenses" in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income. For additional information, see Note 9 and Note 10.2.

4.4 Impairment of goodwill

Determining whether goodwill is impaired requires the Company to determine the recoverable amount of the CGU to which the goodwill is allocated. To determine the recoverable amount of the CGU, management is required to estimate its value by evaluating expected future cash flow using an appropriate growth rate, the estimated costs to sell and a suitable discount rate to calculate the value in use. For additional information, see Note 10.1.

4.5 Retirement benefit liability

The retirement benefit liability is estimated based on certain actuarial assumptions, including the discount rate, inflation rate, salary growth and mortality rates. New regulations and market driven changes may impact the assumptions made.

Changes in estimates may result in changes to the "Retirement benefit liability" on the Consolidated Statements of Financial Position and a charge or credit to "Selling, administrative and other expenses" and OCI in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income. For additional information, see Note 20.

4.6 Loyalty program deferred revenue

The fair value of Sears Club points granted is deferred at the time of the related initial sale transaction and is recognized upon redemption of the points for merchandise. The redemption value of the points is estimated at the initial sale transaction, based on historical behaviour and trends in redemption rates and redemption values, as well as an adjustment for the percentage of points that are expected to be converted to reward cards, but for which the likelihood of redemption is remote ("reward card breakage").

Changes in estimates may result in changes to "Deferred revenue" (current) on the Consolidated Statements of Financial Position and an increase or decrease to "Revenue" in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income. For additional information, see Note 13.

4.7 Derivative assets and liabilities

All derivatives are measured at fair value. U.S. dollar forward contracts are traded over-the-counter and give holders the right to buy a specified amount of U.S. currency at an agreed upon price and date in the future. Fair values of the U.S. dollar forward contracts is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate. The fair value of fuel swaps is based on counterparty confirmations tested for reasonableness by discounting estimated future cash flows derived from the terms and maturity of each contract using market fuel prices at the measurement date. The Company is required to estimate various inputs which are used in these calculations that are a combination of quoted prices and observable market inputs. The fair values of derivatives include an adjustment for credit risk when appropriate.

Changes in estimates may result in changes to "Derivative financial assets" and "Derivative financial liabilities" on the Consolidated Statements of Financial Position and a charge or credit to "Cost of goods and services sold", "Selling, administrative and other expenses" or OCI in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income. For additional information, see Note 14.

4.8 Provisions

Provisions are estimated based on historical data, cost estimates provided by specialists and future projections.

Changes in estimates or assumptions could cause changes to "Provisions" on the Consolidated Statements of Financial Position and a charge or credit to "Cost of goods and services sold" or "Selling, administrative and other expenses" in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income. For additional information, see Note 16.

4.9 Leasing arrangements

The Company has applied judgment in the classification of its leasing arrangements, which is determined at the inception of the lease and is based on the substance of the transaction, rather than its legal form. The Company's leases were evaluated based on certain significant assumptions including the discount rate, economic life of an asset, lease term and existence of a bargain renewal option.

Changes in estimates or assumptions could cause changes to "Property, plant and equipment", "Current portion of long-term obligations" and "Long-term obligations" on the Consolidated Statements of Financial Position and a charge or credit to "Selling, administrative and other expenses" and "Finance costs" in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income. For additional information, see Note 19.

4.10 Taxes

In the ordinary course of business, the Company is subject to ongoing audits by tax authorities. While the Company believes that its tax filing positions are appropriate and supportable, certain matters are periodically challenged by tax authorities. The Company applies judgment and routinely evaluates and provides for potentially unfavourable outcomes with respect to any tax audits. If the result of a tax audit materially differs from the existing provisions, the Company's effective tax rate and its net (loss) earnings will be affected positively or negatively. The Company also uses judgment in assessing the likelihood that deferred income tax assets will be recovered from future taxable income by considering factors such as the reversal of deferred income tax liabilities, projected future taxable income, tax planning strategies and changes in tax laws.

Changes in estimates or assumptions could cause changes to "Income taxes recoverable", "Deferred tax assets", "Income and other taxes payable" and "Deferred tax liabilities" on the Consolidated Statements of Financial Position and a charge or credit to "Income tax recovery (expense)" in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income. For additional information, see Note 22.

4.11 Gift cards

The gift card liability is based on the total amount of gift cards outstanding which have not yet been redeemed by customers. The Company also recognizes income when the likelihood of redeeming the gift card is remote ("gift card breakage"). Gift card breakage is estimated based on historical redemption patterns. Changes in estimates of the redemption patterns may result in changes to "Deferred revenue" (current) on the Consolidated Statements of Financial Position and an increase or decrease to "Revenue" in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income.

4.12 Classification of joint arrangements

The Company had classified its interests in real estate joint arrangements related to shopping centres as joint operations. In doing so, the Company determined that the decisions regarding relevant activities required unanimous consent of the parties sharing control. In the event of a dispute between parties sharing control of the joint arrangements, settlement occured through unbiased arbitration, legal action, or a sale of the party's interest to the other party. The Company examined the legal structure, contractual arrangements and other relevant facts and circumstances for each joint arrangement and determined that it had rights to the assets and obligations to the liabilities of each joint arrangement. Therefore, the Company had determined that its real estate joint arrangements were joint operations and were recognized in accordance with the Company's interest in the assets, liabilities, revenues and expenses of these arrangements. For additional information, see Note 11.

5. Cash and cash equivalents and interest income

Cash and cash equivalents

The components of cash and cash equivalents were as follows:

(in CAD millions)		**As at January 31, 2015**		As at February 1, 2014
Cash	$	**239.9**	$	192.4
Cash equivalents				
Government treasury bills		**—**		299.9
Investment accounts		**—**		10.4
Restricted cash		**19.1**		11.1
Total cash and cash equivalents	$	**259.0**	$	513.8

The components of restricted cash are further discussed in Note 21.

Interest income

Interest income related primarily to cash and cash equivalents for the fiscal year ended January 31, 2015 totaled $2.6 million (2013: $2.6 million). During Fiscal 2014, the Company received $2.5 million (2013: $2.5 million) in cash related to interest income.

6. Accounts receivable, net

The components of accounts receivable, net were as follows:

(in CAD millions)		**As at January 31, 2015**		As at February 1, 2014
Deferred receivables	$	**0.4**	$	0.5
Other receivables		**72.6**		82.8
Total accounts receivable, net	$	**73.0**	$	83.3

Other receivables primarily consist of amounts due from customers, amounts due from vendors and amounts due from JPMorgan Chase, as part of the Company's credit card marketing and servicing alliance.

Included in the accounts receivable balances above are amounts that are past due but are not provided for, as the Company considers the balances to be collectible. These past due accounts receivable balances are listed below:

(in CAD millions)		As at January 31, 2015		As at February 1, 2014
Greater than 30 days	$	**5.9**	$	5.9
Greater than 60 days		**2.5**		2.5
Greater than 90 days		**5.9**		9.6
Total	$	**14.3**	$	18.0

7. Inventories

The amount of inventory recognized as an expense during Fiscal 2014 was $2,111.4 million (2013: $2,344.3 million), which includes $106.0 million (2013: $90.7 million) of inventory write-downs. These expenses are included in "Cost of goods and services sold" in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income. Reversals of prior period inventory write-downs for Fiscal 2014 were $4.0 million (2013: $4.9 million).

Inventory is pledged as collateral under the Company's revolving credit facility (see Note 17).

8. Prepaid expenses

The components of prepaid expenses were as follows:

(in CAD millions)		As at January 31, 2015		As at February 1, 2014
Rent	$	**11.4**	$	12.5
Contracts		**10.2**		7.4
Supplies		**3.0**		2.9
Insurance		**0.8**		0.6
Other		**3.3**		0.4
Total prepaid expenses	$	**28.7**	$	23.8

9. Property, plant and equipment and investment properties

The following is a continuity of property, plant and equipment:

(in CAD millions)		Land		Buildings and Leasehold Improvements		Finance Lease Buildings		Finance Lease Equipment		Equipment and Fixtures		Total
Cost or deemed cost												
Balance at February 2, 2013	$	316.3	$	1,387.1	$	45.7	$	3.5	$	1,174.9	$	2,927.5
Additions		—		26.1		1.4		0.9		33.3		61.7
Disposals		(75.7)		(248.9)		(2.6)		—		(78.3)		(405.5)
Net movement to assets held for sale [2]		(2.9)		(36.6)		—		—		(13.9)		(53.4)
Balance at February 1, 2014	$	237.7	$	1,127.7	$	44.5	$	4.4	$	1,116.0	$	2,530.3
Additions		0.2		1.0		—		0.1		28.5		29.8
Disposals		(9.5)		(42.3)		(3.0)		(3.5)		(8.5)		(66.8)
Balance at January 31, 2015	**$**	**228.4**	**$**	**1,086.4**	**$**	**41.5**	**$**	**1.0**	**$**	**1,136.0**	**$**	**2,493.3**
Accumulated depreciation and impairment												
Balance at February 2, 2013	$	2.2	$	770.3	$	13.8	$	2.0	$	1,020.7	$	1,809.0
Depreciation expense [1]		—		50.6		5.0		1.2		43.5		100.3
Disposals		—		(79.7)		(2.6)		—		(67.4)		(149.7)
Impairment (reversals) losses [1,2]		(2.2)		26.5		—		—		3.4		27.7
Net movement to assets held for sale [2]		—		(28.6)		—		—		(13.9)		(42.5)
Balance at February 1, 2014	$	—	$	739.1	$	16.2	$	3.2	$	986.3	$	1,744.8
Depreciation expense [1]		—		35.9		3.8		0.8		36.4		76.9
Disposals		—		(18.2)		(3.0)		(3.5)		(7.1)		(31.8)
Impairment losses [1]		—		91.1		17.1		—		27.6		135.8
Balance at January 31, 2015	**$**	**—**	**$**	**847.9**	**$**	**34.1**	**$**	**0.5**	**$**	**1,043.2**	**$**	**1,925.7**
Total property, plant and equipment												
Net balance at January 31, 2015	**$**	**228.4**	**$**	**238.5**	**$**	**7.4**	**$**	**0.5**	**$**	**92.8**	**$**	**567.6**
Net balance at February 1, 2014	$	237.7	$	388.6	$	28.3	$	1.2	$	129.7	$	785.5

1 *Depreciation expense and impairment (reversals) losses are included in "Selling, administrative and other expenses" in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income.*

2 *Included in the $27.7 million impairment loss is a loss of $16.5 million related to a Regina logistics centre. Refer to Note 29 "Assets classified as held for sale" for additional information.*

Impairment loss

The Company conducted appraisals of certain land and building properties that it owned, with the assistance of independent qualified third party appraisers. The valuation methods used to determine fair value include the direct capitalization and discounted cash flow methods for buildings and the direct sales comparison for land.

During Fiscal 2014, the Company recognized an impairment loss of $68.3 million (2013: nil) on a number of Sears full-line and Corbeil stores, an impairment loss of $17.6 million (2013: $11.7 million) on a number of Sears Home stores and an impairment loss of $5.5 million (2013: nil) on a number of Hometown stores. The impairment loss was due to indicators (in particular a decrease in revenue or decrease in cash flows) that the recoverable amount was less than the carrying value. The recoverable amounts of the CGUs tested were based on the present value of the estimated cash flow, over the lease term plus two renewals for Sears full-line and Home stores and five years for Hometown stores, as this was management's best estimate of the useful life of the assets of these CGUs. A pre-tax discount rate of 10.8% was based on management's best estimate of the CGUs' weighted average cost of capital considering the risks facing the CGUs. The estimated cash flows for the CGUs described above assumed no future improvement in the CGUs' results, given their recent operating performance. If considered independently, a two percentage point change in the applied discount rate, a ten percentage point change in the estimated cash flows and a change in the number of renewal terms would have an insignificant impact on the amount of the reported impairment loss.

During Fiscal 2014, the Company undertook a comprehensive evaluation of its logistics network for current and future needs, given its changing warehousing requirements. Accordingly, the Company determined that the Montreal distribution centre ("MDC") may be considered for disposition. The Company determined the fair value of the MDC by engaging an independent qualified third party appraiser to conduct an appraisal of the property. The valuation methods used included the direct capitalization and discounted cash flow methods, and the direct sales comparison approach. A discount rate of 8.5% and a rate of inflation of 2.5% were applied to cash flow projections over a period of 10 years. The Company assessed various scenarios provided by the appraiser to determine a fair value. As a result of the carrying amount exceeding the recoverable amount of $44.3 million for the MDC, an impairment loss of $44.4 million (2013: $1.7 million) was included in "Selling, administrative and other expenses" in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income.

The Company will continue to assess the recoverable amount of the CGUs at the end of each reporting period and adjust the carrying amount accordingly. To determine the recoverable amount of the CGUs, the Company will consider factors such as expected future cash flows, growth rates, capitalization rates and an appropriate discount rate to calculate the fair value or value in use as required.

The impairment loss of $135.8 million (2013: $27.7 million) was included in "Selling, administrative and other expenses" in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income. Included in the impairment loss of $27.7 million during Fiscal 2013, was an impairment loss reversal relating to land of $2.2 million. The impairment loss reversal was a result of the proceeds received from the agreement to sell the Company's 50% joint arrangement interest in the Promenade de Drummondville property ("Drummondville"). See Note 11 for additional information.

The total impairment loss related to property, plant and equipment, goodwill and intangible assets and assets classified as held for sale included in Fiscal 2014 was $162.0 million (2013: $33.8 million). See Note 10 and Note 29 for additional information.

Investment properties

Investment properties owned by the Company represent vacant land with no operating activity. Investment property within the Company's Broad Street Logistics Centre located in Regina ("Broad Street") has been classified as held for sale in the Consolidated Statements of Financial Position (see Note 29). During Fiscal 2014, there were no investment property additions, disposals, impairment losses or reversals. As at January 31, 2015, the carrying value and fair value of investment properties were $21.7 million ($2.4 million included in "Assets held for sale") and $27.7 million, respectively (February 1, 2014: $21.7 million and $25.8 million). The fair value of the investment properties are classified within Level 3 of the fair value hierarchy (described further in Note 14.6). The Company engaged independent qualified third party appraisers to conduct appraisals and the fair value is determined using direct sales comparisons.

10. Goodwill and intangible assets

10.1 Allocation of goodwill to cash generating units

Goodwill has been allocated for impairment testing purposes to the following CGUs:

- Corbeil
- HIPS

The following is a continuity of goodwill, as allocated by CGU:

(in CAD millions)		**2014**		2013
Corbeil				
Balance, beginning of fiscal year	$	**2.6**	$	2.6
Impairment losses		**(2.6)**		—
Balance, end of fiscal year	$	**—**	$	2.6
HIPS				
Balance, beginning of fiscal year	$	**—**	$	6.1
Impairment losses		**—**		(6.1)
Balance, end of fiscal year	$	**—**	$	—
Total goodwill	$	**—**	$	2.6

In the assessment of impairment, management used historical data and past experience as the key assumptions in the determination of the recoverable amount. The Company made certain assumptions for the discount and terminal growth rates to reflect variations in expected future cash flows.

- Corbeil

The recoverable amount of the Corbeil CGU was determined based on its estimated fair value less costs to sell. The fair value was determined based on the present value of the estimated free cash flows over a 10 year period. Cost to sell was estimated to be 2% of the fair value of the CGU, which reflected management's best estimate of the potential costs associated with divesting of the business. A pre-tax discount rate of 10.2% per annum was used, based on management's best estimate of the Company's weighted average cost of capital adjusted for the risks facing the Corbeil CGU. Annual growth rates of 5% for the first 2 years and 2% for the subsequent 8 years were used for Corbeil given the CGU's historical growth experience and anticipated growth. The recoverable amount was determined to be less than the carrying value including the goodwill of $2.6 million related to the Corbeil CGU, resulting in a goodwill impairment of $2.6 million in Fiscal 2014 (2013: nil). Impairment losses were included in "Selling, administrative and other expenses" in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income. This impairment loss was attributable to revenue declines experienced in the Corbeil business, which were considered in the annual growth rate assumptions.

- HIPS

The recoverable amount of this CGU was determined based on its estimated fair value less costs to sell. The fair value was determined based on the present value of the estimated free cash flows over a 10 year period. Cost to sell was estimated to be 2% of the fair value of the CGU, which reflected management's best estimate of the potential costs associated with divesting of the business. On December 13, 2013, SHS announced it was in receivership and all offers of services provided by SHS ceased resulting in uncertainty of future cash flows. The recoverable amount was determined to be less than the carrying value including the goodwill of $6.1 million allocated to the HIPS CGU, resulting in a goodwill impairment of $6.1 million in Fiscal 2013. This impairment loss was included in "Selling, administrative and other expenses" in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income and was attributable to experienced and potential revenue declines in the HIPS business (see Note 14).

10.2 Intangible assets

The following is a continuity of intangible assets:

(in CAD millions)		Application Software		Information System Software		Total
Cost or deemed cost						
Balance at February 2, 2013	$	34.9	$	131.4	$	166.3
Additions		9.7		2.6		12.3
Disposals		(0.4)		—		(0.4)
Balance at February 1, 2014	$	44.2	$	134.0	$	178.2
Additions		21.8		2.2		24.0
Balance at January 31, 2015	**$**	**66.0**	**$**	**136.2**	**$**	**202.2**
Accumulated amortization						
Balance at February 2, 2013	$	19.0	$	120.1	$	139.1
Amortization expense [1]		6.1		5.0		11.1
Disposals		(0.2)		—		(0.2)
Balance at February 1, 2014	$	24.9	$	125.1	$	150.0
Amortization expense [1]		2.4		10.0		12.4
Impairment losses [1]		23.6		—		23.6
Balance at January 31, 2015	**$**	**50.9**	**$**	**135.1**	**$**	**186.0**
Total intangible assets						
Net balance at January 31, 2015	**$**	**15.1**	**$**	**1.1**	**$**	**16.2**
Net balance at February 1, 2014	$	19.3	$	8.9	$	28.2

1 *Amortization expense and impairment losses are included in "Selling, administrative and other expenses" in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income.*

Impairment loss

During Fiscal 2014, the Company recognized an impairment loss of $23.6 million (2013: nil) on intangible assets allocated to a number of Sears full-line and Home stores. The impairment loss was due to indicators (in particular a decrease in revenue or decrease in cash flows) that the recoverable amount was less than the carrying value. The loss was included in "Selling, administrative and other expenses" in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income.

11. Joint arrangements

The Company's real estate joint arrangements in 2014 included its share of assets, liabilities, revenues, and expenses from its joint arrangement interests in three shopping centres across Canada, all of which contained a Sears store. Joint arrangement interests ranged from 15% to 20% and were co-owned with Ivanhoé Cambridge II Inc. ("Ivanhoé") to develop and operate commercial properties (shopping malls).

During the third quarter of 2014, the Company sold its 15% joint arrangement interest in Les Galeries de Hull shopping centre ("Hull") that it co-owned with Ivanhoé, to Fonds de placement immobilier Cominar for total proceeds of $10.5 million, recognizing a pre-tax gain of $3.4 million on the sale. The sale closed on September 30, 2014. In connection with this transaction, the Company determined that because the Company had surrendered substantially all of its rights and obligations and had transferred substantially all of the risks and rewards of ownership related to the property, immediate gain recognition was appropriate. Cominar had previously entered into an agreement to acquire Ivanhoé's 85% joint arrangement interest in Hull as announced on August 26, 2014. Following the sale, the Company continues to operate its store in the shopping centre on terms and conditions unchanged from those before the sale.

During the third quarter of 2014, the Company sold its 20% joint arrangement interest in Kildonan Place Shopping Centre ("Kildonan") that it co-owned with Ivanhoé, to H&R Real Estate Investment Trust for total proceeds of $27.7 million, recognizing a pre-tax gain of $11.2 million on the sale. The sale closed on September 17, 2014, pursuant to an agreement entered into on August 6, 2014. In connection with this transaction, the Company determined that because it had surrendered substantially all of its rights and obligations and had transferred substantially all of the risks and rewards of ownership related to the property, immediate gain recognition was appropriate. Following the sale, the Company continues to operate its store in the shopping centre on terms and conditions unchanged from those before the sale.

During the second quarter of 2014, the Company sold its 15% joint arrangement interest in Les Rivières Shopping Centre that it co-owned with Ivanhoé for total proceeds of $33.5 million, to Ivanhoé, recognizing a pre-tax gain of $20.5 million on the sale. The sale closed on June 2, 2014, pursuant to an agreement entered into on May 16, 2014. In connection with this transaction, the Company determined that because it had surrendered substantially all of its rights and obligations and had transferred substantially all of the risks and rewards of ownership related to the property, immediate gain recognition was appropriate.

During the fourth quarter of 2013, the Company sold its interest in the properties co-owned with the Westcliff Group for total proceeds of $315.4 million, recognizing a pre-tax gain of $66.3 million on the sale. In connection with this transaction, the Company determined that because it had surrendered substantially all of its rights and obligations and had transferred substantially all of the risks and rewards of ownership related to the eight properties, immediate gain recognition was appropriate. Following the sale, the Company continues to operate its stores in the shopping centres on terms and conditions unchanged from those before the sale.

Impairment loss

The Company engaged independent qualified third-party appraisers to conduct appraisals of its land and building properties. The valuation methods used to determine fair value included the direct capitalization and discounted cash flow methods for buildings and the direct sales comparison for land.

During Fiscal 2013, the Company recorded an impairment loss reversal of $2.2 million on Drummondville due to the proceeds received from the sale discussed above (one of the properties co-owned with the Westcliff Group). The $2.2 million impairment loss on Drummondville was originally recorded in the 53-week period ended February 2, 2013. The impairment loss reversal of $2.2 million was included in "Selling, administrative and other expenses" in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income.

12. Other long-term assets

The components of other long-term assets were as follows:

(in CAD millions)		**As at January 31, 2015**		As at February 1, 2014
Income taxes recoverable (Note 22)	$	**6.4**	$	32.5
Prepaid rent		**5.5**		6.1
Receivables		**3.1**		5.8
Investments		**1.3**		1.5
Unamortized debt transaction costs		**4.2**		4.4
Tenant allowance in joint arrangements		**—**		0.9
Other long-term assets	$	**20.5**	$	51.2

13. Deferred revenue

The components of deferred revenue were as follows:

(in CAD millions)		As at January 31, 2015		As at February 1, 2014
Arising from extended warranty service contracts (i)	$	**134.8**	$	148.3
Arising from unshipped sales (ii)		**57.2**		62.8
Arising from customer loyalty program (iii)		**36.8**		38.2
Arising from gift card issuances (iv)		**15.0**		20.6
Other (v)		**4.2**		5.1
Total deferred revenue	$	**248.0**	$	275.0
Current	$	**171.2**	$	187.7
Non-current		**76.8**		87.3
Total deferred revenue	$	**248.0**	$	275.0

The following explanations describe the Company's deferred revenue:

(i) Deferred revenue arising from the sale of extended warranty service contracts, which provide coverage for product repair services over the term of the contracts.

(ii) Deferred revenue arising from the sale of merchandise which has not yet been delivered to or picked up by the customer. The revenue is recognized once the merchandise is delivered to the customer.

(iii) Deferred revenue arising from the Sears Club loyalty program.

(iv) Deferred revenue arising from the purchase of gift cards by customers that have not yet been redeemed for merchandise. The revenue is recognized primarily upon redemption of the gift card.

(v) Other includes deferred revenue for goods that have not yet been fully delivered or services not yet rendered. The revenue is recognized when the goods have been delivered or by reference to the stage of completion of the service.

14. Financial instruments

In the ordinary course of business, the Company enters into financial agreements with banks and other financial institutions to reduce underlying risks associated with interest rates and foreign currency. The Company does not hold or issue derivative financial instruments for trading or speculative purposes.

Financial instrument risk management

The Company is exposed to credit, liquidity and market risk as a result of holding financial instruments. Market risk consists of foreign exchange and interest rate risk.

14.1 Credit risk

Credit risk refers to the possibility that the Company can suffer financial losses due to the failure of the Company's counterparties to meet their payment obligations. Exposure to credit risk exists for derivative instruments, cash and cash equivalents, accounts receivable and other long-term assets.

Cash and cash equivalents, accounts receivable, derivative instruments and investments included in other long-term assets totaling \$340.5 million as at January 31, 2015 (February 1, 2014: \$605.8 million) expose the Company to credit risk should the borrower default on maturity of the investment. The Company manages this exposure through policies that require borrowers to have a minimum credit rating of A, and limiting investments with individual borrowers at maximum levels based on credit rating.

The Company is exposed to minimal credit risk from third parties as a result of ongoing credit evaluations and review of accounts receivable collectability. An allowance account included in "Accounts receivable, net" in the Consolidated Statements of Financial Position totaled \$5.9 million as at January 31, 2015 (February 1, 2014: \$4.2 million). As at January 31, 2015, one party represented 11.0% of the Company's net accounts receivable (February 1, 2014: one party represented 11.3% of the Company's net accounts receivable).

14.2 Liquidity risk

Liquidity risk is the risk that the Company may not have cash available to satisfy financial liabilities as they come due. The Company actively maintains access to adequate funding sources to ensure it has sufficient available funds to meet current and foreseeable financial requirements at a reasonable cost.

The following table summarizes the carrying amount and the contractual maturities of both the interest and principal portion of significant financial liabilities as at January 31, 2015:

		Contractual Cash Flow Maturities				
(in CAD millions)	Carrying Amount	Total	Within 1 year	1 year to 3 years	3 years to 5 years	Beyond 5 years
Accounts payable and accrued liabilities	$ 359.4	$ 359.4	$ 359.4	$ —	$ —	$ —
Finance lease obligations including payments due within one year [1]	28.1	36.0	5.8	10.6	9.9	9.7
Operating lease obligations [2]	n/a	428.8	93.8	145.5	94.6	94.9
Royalties [2]	n/a	3.4	0.8	2.6	—	—
Purchase agreements [2,4]	n/a	9.7	6.4	3.3	—	—
Retirement benefit plans obligations [3]	407.4	85.9	20.2	40.5	24.9	0.3
	$ 794.9	**$ 923.2**	**$ 486.4**	**$ 202.5**	**$ 129.4**	**$ 104.9**

1 *Cash flow maturities related to finance lease obligations, including payments due within one year, include annual interest on finance lease obligations at a weighted average rate of 7.6%.*

2 *Purchase agreements, operating lease obligations, and royalties are not reported in the Consolidated Statements of Financial Position.*

3 *Payments are based on a funding valuation as at December 31, 2013 which was completed on June 30, 2014. Any obligation beyond 2019 would be based on a funding valuation to be completed as at December 31, 2016.*

4 *Certain vendors require minimum purchase commitment levels over the term of the contract.*

Management believes that cash on hand, future cash flow generated from operating activities and availability of current and future funding will be adequate to support these financial liabilities. As of January 31, 2015, the Company does not have any significant capital expenditure commitments.

Market risk

Market risk exists as a result of the potential for losses caused by changes in market factors such as foreign currency exchange rates, interest rates and commodity prices.

14.3 Foreign exchange risk

The Company enters into foreign exchange contracts to reduce the foreign exchange risk with respect to U.S. dollar denominated assets and liabilities and purchases of goods or services. As at January 31, 2015, there were forward contracts outstanding with a notional value of U.S. $40.0 million (February 1, 2014: U.S. $90.0 million) and a fair value of $7.2 million included in "Derivative financial assets" (February 1, 2014: $7.2 million) in the Consolidated Statements of Financial Position. These derivative contracts have settlement dates extending to April 2015. The intrinsic value portion of these derivatives has been designated as a cash flow hedge for hedge accounting treatment under IAS 39. These contracts are intended to reduce the foreign exchange risk with respect to anticipated purchases of U.S. dollar denominated goods purchased for resale ("hedged item"). As at January 31, 2015, the designated portion of these hedges was considered effective.

While the notional principal of these outstanding financial instruments is not recorded in the Consolidated Statements of Financial Position, the fair value of the contracts is included in "Derivative financial assets" or "Derivative financial liabilities", depending on the fair value, and classified as current or long-term, depending on the maturities of the outstanding contracts. Changes in the fair value of the designated portion of contracts are included in OCI for cash flow hedges, to the extent the designated portion of the hedges continues to be effective, with any ineffective portion included in "Cost of goods and services sold" in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income. Amounts previously included in OCI are reclassified to "Cost of goods and services sold" in the same period in which the hedged item impacts net (loss) earnings.

During Fiscal 2014, the Company recorded a loss of $5.0 million (2013: loss of $7.6 million), in "Selling, administrative and other expenses", relating to the translation or settlement of U.S. dollar denominated monetary items consisting of cash and cash equivalents, accounts receivable and accounts payable.

The year end exchange rate was 0.7867 U.S. dollar to Canadian dollar. A 10% appreciation or depreciation of the U.S. dollar and/ or the Canadian dollar exchange rate was determined to have an after-tax impact on net (loss) earnings of $0.3 million for U.S. dollar denominated balances included in cash and cash equivalents, accounts receivable and accounts payable.

14.4 Interest rate risk

From time to time, the Company enters into interest rate swap contracts with approved financial institutions to manage exposure to interest rate risks. As at January 31, 2015, the Company had no interest rate swap contracts in place (February 1, 2014: nil).

Interest rate risk reflects the sensitivity of the Company's financial condition to movements in interest rates. Financial assets and liabilities which do not bear interest or bear interest at fixed rates are classified as non-interest rate sensitive.

Cash and cash equivalents and borrowings under the Amended Credit Facility, when applicable, are subject to interest rate risk. The total subject to interest rate risk as at January 31, 2015 was a net asset of $260.3 million (February 1, 2014: net asset of $515.1 million). An increase or decrease in interest rates of 25 basis points would cause an after-tax impact on net (loss) earnings of $0.5 million for net assets subject to interest rate risk included in cash and cash equivalents and other long-term assets at the end of Fiscal 2014.

14.5 Fuel price risk

The Company entered into fuel derivative contracts to manage the exposure to diesel and natural gas fuel prices and help mitigate volatility in cash flow for the transportation service business and utilities expense. As at January 31, 2015, the fixed to floating rate swap contracts outstanding had a notional volume of 4.7 million litres (February 1, 2014: nil) of diesel and 0.3 million gigajoules ("GJ") (February 1, 2014: nil) of natural gas and a carrying value of less than $0.1 million (February 1, 2014: nil) combined. These derivative contracts have settlement dates extending to December 31, 2015 with monthly settlement of maturing contracts.

14.6 Classification and fair value of financial instruments

The estimated fair values of financial instruments presented are based on relevant market prices and information available at those dates. The following table summarizes the classification and fair value of certain financial instruments as at the specified dates. The Company determines the classification of a financial instrument when it is initially recorded, based on the underlying purpose of the instrument. As a significant number of the Company's assets and liabilities, including inventories and capital assets, do not meet the definition of financial instruments, values in the tables below do not reflect the fair value of the Company as a whole.

The fair value of financial instruments are classified and measured according to the following three levels, based on the fair value hierarchy.

- Level 1: Quoted prices in active markets for identical assets or liabilities
- Level 2: Inputs other than quoted prices in active markets that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: Inputs for the asset or liability that are not based on observable market data

(in CAD millions)

Classification	Balance Sheet Category	Fair Value Hierarchy[2]	**As at January 31, 2015**	As at February 1, 2014
Available for sale				
Cash equivalents	Cash and cash equivalents[1]	Level 1	—	310.3
Fair value through profit or loss				
Long-term investments	Other long-term assets	Level 1	—	0.2
U.S. $ derivative contracts	Derivative financial assets	Level 2	**7.2**	7.2
Long-term investments	Other long-term assets	Level 3	**1.3**	1.3

1 *Interest income related to cash and cash equivalents is disclosed in Note 5.*
2 *Classification of fair values relates to 2014*

All other assets that are financial instruments not listed in the chart above have been classified as "Loans and receivables". All other financial instrument liabilities have been classified as "Other liabilities" and are measured at amortized cost in the Consolidated Statements of Financial Position. The carrying value of these financial instruments approximate fair value given that they are short-term in nature.

Effective March 3, 2013, the Company finalized an exclusive, multi-year licensing arrangement with SHS, which resulted in SHS overseeing the day-to-day operations of HIPS. The Company provided SHS an interest-bearing loan which allowed SHS to pay the final purchase price of $5.3 million over 6 years. SHS repaid this loan on September 30, 2013, and shortly afterwards, issued the Company an interest-bearing promissory note for $2.0 million, secured by certain assets of SHS, repayable by July 16, 2015. The promissory note asset is included in "Accounts receivable, net" in the Consolidated Statements of Financial Position as at January 31, 2015.

On December 13, 2013, SHS announced that it was in receivership. All offers of services provided by SHS ceased, and the Company is working with the Receiver, PricewaterhouseCoopers Inc., on options for completing pending orders. As a result of the announcement, the Company recorded a warranty provision of $2.0 million in the fourth quarter of Fiscal 2013 related to potential future claims for work that had been performed by SHS, as well as assuming the warranty obligations with respect to work previously performed by the Company which had been assumed by SHS.

As a result of an announcement made by the Company on March 21, 2014 regarding certain obligations of SHS, the Company recorded an additional charge of $6.7 million to the warranty provision, and a $3.0 million charge against the receivable (including outstanding commissions receivable and promissory note) during Fiscal 2014. These charges are included in "Selling, administrative and other expenses" in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income. $2.0 million of the charge related to the promissory note, and was recorded to an allowance account included in "Accounts receivable, net" in the Consolidated Statements of Financial Position as at January 31, 2015.

15. Accounts payable and accrued liabilities

The components of "Accounts payable and accrued liabilities" as included in the Consolidated Statements of Financial Position were as follows:

(in CAD millions)		**As at January 31, 2015**		As at February 1, 2014
Total accounts payable	**$**	**205.7**	$	270.7
Accrued liabilities				
Payroll and employee benefits		**26.6**		28.6
Merchandise accruals		**48.5**		59.9
Short-term leasehold inducements		**8.6**		8.9
Advertising accruals		**7.4**		13.8
Other accrued liabilities		**62.6**		56.8
Total accrued liabilities	**$**	**153.7**	$	168.0
Total accounts payable and accrued liabilities	**$**	**359.4**	$	438.7

16. Provisions

The following is a continuity which shows the change in provisions during Fiscal 2014 and Fiscal 2013:

(in CAD millions)	As at February 1, 2014	Additional Provisions	Release of Provisions	Reversed Provisions	**As at January 31, 2015**
Insurance (i)	$ 16.8	$ 1.0	$ (4.1)	$ —	$ **13.7**
Returns and allowances (ii)	11.1	7.3	(6.4)	—	**12.0**
Warranties (iii)	8.7	10.8	(10.4)	(0.9)	**8.2**
Sales tax (iv)	6.2	2.5	(2.4)	(0.3)	**6.0**
Severance (v)	50.5	17.0	(50.4)	(5.2)	**11.9**
Environmental (vi)	6.9	1.5	(2.0)	(0.3)	**6.1**
Other provisions	9.6	0.8	(4.9)	—	**5.5**
Total provisions	$ 109.8	$ 40.9	$ (80.6)	$ (6.7)	$ **63.4**
Current	$ 109.4	$ 36.5	$ (80.6)	$ (6.7)	$ **58.6**
Non-current (iii)	0.4	4.4	—	—	**4.8**
Total provisions	$ 109.8	$ 40.9	$ (80.6)	$ (6.7)	$ **63.4**

(in CAD millions)	As at February 2, 2013	Additional Provisions	Release of Provisions	Reversed Provisions	As at February 1, 2014
Insurance (i)	$ 18.3	$ 4.5	$ (6.0)	$ —	$ 16.8
Returns and allowances (ii)	13.0	7.8	(9.7)	—	11.1
Warranties (iii)	11.0	2.0	(0.2)	(4.1)	8.7
Sales tax (iv)	2.4	5.4	(1.0)	(0.6)	6.2
Severance (v)	14.7	57.1	(20.0)	(1.3)	50.5
Environmental (vi)	4.8	4.7	(2.1)	(0.5)	6.9
Other provisions	2.5	9.3	(2.1)	(0.1)	9.6
Total provisions	$ 66.7	$ 90.8	$ (41.1)	$ (6.6)	$ 109.8
Current	$ 66.3	$ 90.8	$ (41.1)	$ (6.6)	$ 109.4
Non-current (iii)	0.4	—	—	—	0.4
Total provisions	$ 66.7	$ 90.8	$ (41.1)	$ (6.6)	$ 109.8

The following explanations describe the Company's provisions:

(i) The provision for insurance, or general liability claims, represents the Company's best estimate of the future outflow of economic resources due to automobile, product and other general liability claims. Insurance claims relating to this provision are expected to be paid over the next several years; however, as the Company has no unconditional right to defer the settlement past at least 12 months, this provision is considered to be current. In estimating the obligation associated with incurred losses, the Company utilizes actuarial methodologies validated by an independent third party. These actuarial methodologies utilize historical data to project future incurred losses. Loss estimates are adjusted based on reported claims and actual settlements.

(ii) The provision for returns and allowances represents the Company's best estimate of the future outflow of economic resources due to merchandise returns and allowances. Returns and allowances relating to this provision are expected to be realized over the next 12 months. Uncertainty exists relating to the amount and timing of returns and allowances, therefore, historical data has been used to arrive at this estimate.

(iii) The provision for warranty claims represents the Company's best estimate of the future outflow of economic resources that will be required due to the Company's warranty obligations. Uncertainty exists relating to the number of incidents requiring merchandise repair and the related costs. This provision is estimated based on historical warranty trends and costs. The amount of expected reimbursements from vendors recorded as at January 31, 2015 was $0.2 million (February 1, 2014: $0.6 million) and is reflected in "Accounts receivable, net" and "Other long-term assets" in the Consolidated Statements of Financial Position. The provision for warranty claims is primarily expected to be realized within 72 months, with the balance reflected in "Provisions" and "Other long-term liabilities" in the Consolidated Statements of Financial Position.

(iv) The Company maintains provisions for sales tax assessments under active discussion, audit, dispute or appeal with tax authorities. These provisions represent the Company's best estimate of the amount expected to be paid based on qualitative and quantitative assessments. Though uncertainty exists around the timing of settlement of the disputes or appeals with tax authorities, the Company expects that sales tax provisions will be settled within 4 years. However, as the Company has no unconditional right to defer the settlement of these provisions past at least 12 months, these provisions are classified as current.

(v) The provision for severance represents the Company's best estimate of the future outflow of payments to terminated employees . Uncertainty exists in certain cases relating to the amount of severance that will be awarded in court proceedings. As the Company has no unconditional right to defer these payments past at least 12 months, this provision is classified as current.

(vi) The environmental provision primarily represents the costs to remediate environmental contamination associated with decommissioning auto centres to meet regulatory requirements. The provision is based on assessments conducted by third parties as well as historical data. Given the timing of payments to remediate is uncertain and that the Company has no unconditional right to defer these payments past at least 12 months, this provision is classified as current.

17. Long-term obligations and finance costs

Long-term obligations

Total outstanding long-term obligations were as follows:

(in CAD millions)		**As at January 31, 2015**		As at February 1, 2014
Real estate joint arrangement obligations - Current	$	—	$	2.9
Finance lease obligations - Current		**4.0**		5.0
Total current portion of long-term obligations	$	**4.0**	$	7.9
Real estate joint arrangement obligations - Non-current		—		—
Finance lease obligations - Non-current		**24.1**		28.0
Total non-current long-term obligations	$	**24.1**	$	28.0

The Company's debt consisted of finance lease obligations and the Company's share of its real estate joint arrangement obligations. In September 2010, the Company entered into an $800.0 million senior secured revolving credit facility (the "Credit Facility") with a syndicate of lenders with a maturity date of September 10, 2015.

On May 28, 2014, the Company announced that it had extended the term of the Credit Facility (the "Amended Credit Facility") to May 28, 2019 and reduced the total credit limit to $300.0 million. The Amended Credit Facility is secured with a first lien on inventory and credit card receivables. The Company incurred additional transaction costs of $1.0 million in Fiscal 2014 related to the Amended Credit Facility.

Availability under the Amended Credit Facility is determined pursuant to a borrowing base formula, up to a maximum availability of $300.0 million. Availability under the Credit Facility was $260.7 million as at January 31, 2015 (February 1, 2014: $374.0 million). In 2013, as a result of judicial developments relating to the priorities of pension liability relative to certain secured obligations, the Company provided additional security to the lenders by pledging certain real estate assets as collateral, thereby partially reducing the potential reserve amount the lenders could apply. As at January 31, 2015, three properties in Ontario have been registered under the Amended Credit Facility. The additional reserve amount may increase or decrease in the future based on changes in estimated net pension deficits in the event of a wind-up, and based on the amount of real estate assets pledged as additional collateral. The estimated reserves, if applied as at January 31, 2015, would reduce the Company's borrowing availability by $26.0 million.

The Amended Credit Facility contains covenants which are customary for facilities of this nature and the Company was in compliance with all covenants as at January 31, 2015.

As at January 31, 2015, the Company had no borrowings on the Amended Credit Facility and had unamortized transaction costs associated with the Amended Credit Facility of $4.2 million included in "Other long-term assets" in the Consolidated Statements of Financial Position (February 1, 2014: no borrowings and net of unamortized transaction costs of $4.4 million included in "Other long-term assets"). In addition, the Company had $39.3 million (February 1, 2014: $24.0 million) of standby letters of credit outstanding against the Amended Credit Facility. These letters of credit cover various payment obligations. Interest on drawings under the Amended Credit Facility is determined based on bankers' acceptance rates for one to three month terms or the prime rate plus a spread. Interest amounts on the Amended Credit Facility are due monthly and are added to principal amounts outstanding.

As at January 31, 2015, the Company had outstanding merchandise letters of credit of U.S. $6.9 million (February 1, 2014: U.S. $9.0 million) used to support the Company's offshore merchandise purchasing program with restricted cash pledged as collateral.

The Company has entered into a mortgage on land that it owns in Burnaby, British Columbia. In accordance with the Burnaby development project with Concord, the land has been allocated as security for future borrowings (see Note 35).

Finance costs

Interest expense on long-term obligations, including the Company's share of interest on long-term obligations of its real estate joint arrangements, finance lease obligations, amortization of transaction costs and commitment fees on the unused portion of the Amended Credit Facility for Fiscal 2014 totaled $7.3 million (2013: $11.0 million). Interest expense is included in "Finance costs" in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income. Also included in "Finance costs" for Fiscal 2014, was a recovery of $6.5 million (2013: recovery of $0.2 million) for interest on accruals for uncertain tax positions and an expense $0.2 million (2013: nil), for interest on the settlement of a sales tax assessment.

The Company's cash payments for interest on long-term obligations, including the Company's share of interest on long-term obligations of its real estate joint arrangements, finance lease obligations and commitment fees on the unused portion of the Credit Facility for Fiscal 2014 totaled $5.5 million (2013: $8.7 million).

18. Other long-term liabilities

The components of other long-term liabilities were as follows:

(in CAD millions)		**As at January 31, 2015**		As at February 1, 2014
Leasehold inducements	**$**	**50.9**	$	57.0
Straight-line rent liability		**5.0**		3.6
Miscellaneous		**7.9**		2.6
Total other long-term liabilities	**$**	**63.8**	$	63.2

The non-current portion of the warranties provision (see Note 16) is reflected in the miscellaneous component of "Other long-term liabilities" in the Consolidated Statements of Financial Position.

19. Leasing arrangements

19.1 Finance lease arrangements – Company as lessee

As at January 31, 2015, the Company had finance lease arrangements related to the building and equipment components of certain leased properties, which include retail, office and warehouse locations. The related land components of these properties have been separately classified as operating leases. The buildings and equipment held under finance leases are used in the normal course of operations and do not contain significant unusual or contingent lease terms or restrictions. Building leases typically run for a period of 1 to 10 years, with some leases providing multiple options to renew after that date. Equipment leases typically run for a period of 1 to 5 years, with some leases providing an option to renew after that date.

Finance lease buildings and equipment are included in the Consolidated Statements of Financial Position under "Property, plant and equipment." Note 9 provides further details on the net carrying value of these assets, which as at January 31, 2015 was $7.9 million (February 1, 2014: $29.5 million).

As at January 31, 2015, the corresponding finance lease obligations, current and non-current, were $4.0 million (February 1, 2014: $5.0 million) and $24.1 million (February 1, 2014: $28.0 million), included in the Consolidated Statements of Financial Position under "Current portion of long-term obligations" and "Long-term obligations," respectively (see Note 17).

The table below presents the future minimum lease payments of the Company's finance lease obligations:

(in CAD millions)	Finance lease payments	Future finance costs	Present value of minimum lease payments	Finance lease payments	Future finance costs	Present value of minimum lease payments
			As at January 31, 2015			As at February 1, 2014
Within 1 year	$ **5.8**	$ **1.9**	$ **3.9**	$ 7.2	$ 2.2	$ 5.0
2 years	**5.6**	**1.7**	**3.9**	5.8	1.9	3.9
3 years	**5.0**	**1.4**	**3.6**	5.5	1.7	3.8
4 years	**5.0**	**1.1**	**3.9**	5.0	1.4	3.6
5 years	**4.9**	**0.8**	**4.1**	5.0	1.1	3.9
Thereafter	**9.7**	**1.0**	**8.7**	14.5	1.8	12.7
Total minimum payments	$ **36.0**	$ **7.9**	$ **28.1**	$ 43.0	$ 10.1	$ 32.9

Interest on finance lease obligations is recognized immediately in "Finance costs" in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income (see Note 17). Included in total "Finance costs" in Fiscal 2014, was $2.2 million (2013: $2.5 million) of interest paid related to finance lease obligations.

19.2 Operating lease arrangements – Company as lessor

The Company has a number of agreements to sub-lease premises to third parties, which are all classified as operating leases. During Fiscal 2014, total sub-lease income from leased premises was $2.7 million (2013: $3.0 million).

As at January 31, 2015, total future minimum lease payments receivable from third party tenants were $14.7 million (2013: $10.0 million).

19.3 Operating lease arrangements – Company as lessee

As at January 31, 2015, the Company had operating lease arrangements related to leased retail and office properties as well as equipment assets. The leases typically run for a period of 1 to 10 years, with some leases providing an option to renew after that date. Some leases include additional or contingent rent payments that are based on sales and step rent payments which are recognized on a straight-line basis over the term of the lease. During Fiscal 2014, contingent rent recognized as an expense in respect of operating leases totaled $1.0 million (2013: $1.1 million). Rental expense for all operating leases totaled $109.7 million in Fiscal 2014 (2013: $115.6 million). These expenses are included in "Selling, administrative and other expenses" in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income.

The table below presents the contractual maturities of future minimum lease payments for the Company's operating leases:

(in CAD millions)	**As at January 31, 2015**	As at February 1, 2014
Within 1 year	$ **93.8**	$ 94.8
2 years	**77.6**	82.5
3 years	**67.9**	68.9
4 years	**54.4**	61.1
5 years	**40.2**	48.8
Thereafter	**94.9**	125.6
Total operating lease obligations [1]	$ **428.8**	$ 481.7

1 *Operating lease obligations are not reported in the Consolidated Statements of Financial Position*

20. Retirement benefit plans

The Company currently maintains a defined benefit registered pension plan and a defined contribution registered pension plan which covers eligible, regular full-time employees as well as some of its part-time employees. The defined benefit plan provides pensions based on length of service and final average earnings. In addition to a registered retirement savings plan, the pension plan includes a non-registered supplemental savings arrangement in respect to the defined benefit plan. The non-registered portion of the plan is maintained to enable certain employees to continue saving for retirement in addition to the registered limit as prescribed by the Canada Revenue Agency. The Company also maintains a defined benefit non-pension retirement plan which provides life insurance, medical and dental benefits to eligible retired employees through a health and welfare trust ("Other Benefits Plan"). Also provided for under the health and welfare trust are short-term disability payments for active employees. The Company's accounting policies related to retirement benefit plans are described in Note 2.15.

In July 2008, the Company amended its pension plan and introduced a defined contribution component. The defined benefit component continues to accrue benefits related to future compensation increases although no further service credit is earned. In addition, the Company no longer provides medical, dental and life insurance benefits at retirement for employees who had not achieved the eligibility criteria for these non-pension retirement benefits as at December 31, 2008.

In December 2009, the Company made the decision to change funding for non-pension retirement benefits from an actuarial basis to a pay-as-you-go basis to allow the surplus in the health and welfare trust to be utilized to make benefit payments. In addition, to further utilize the surplus, short-term disability payments of eligible employees are paid on a pay-as-you-go basis from the health and welfare trust. Beginning in February 2015, the Company will now be funding the Other Benefits Plan payments as well as short-term disability payments of active employees since the surplus in the health and welfare trust has been depleted.

In December 2013, the Company amended the early retirement provision of its defined benefit plan to eliminate a benefit for employees who voluntarily resign prior to age of retirement, with effect January 1, 2015. In addition, the Company amended the defined benefit plan for improvements that increase portability of employee benefits, with effect March 1, 2014, and implemented fixed indexing at 0.5% per annum for eligible retirees, with effect January 1, 2014. In December 2013, the Company froze the benefits offered under the Other Benefits Plan to benefits levels as at January 1, 2015. In the fourth quarter of 2013, the Company recorded a pre-tax gain on amendments to retirement benefits of $42.5 million ($42.8 million net of $0.3 million of expenses) as shown in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income.

During Fiscal 2014, the Company's defined benefit plan offered lump sum settlements to those terminated employees who previously elected to defer the payment of the defined benefit pension until retirement. The accepted offers of $23.6 million were settled by the end of October 2014. In addition, the Company made a voluntary offer to settle medical and dental benefits of eligible members covered under the Other Benefits Plan. The Company incurred expenses of $0.8 million related to these offers, during 2014 and these expenses were included in "Selling, administrative and other expenses" in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income. In 2014, the Company paid $13.8 million to settle acceptances from the Other Benefits Plan offer and recorded a pre-tax gain on settlement of retirement benefits of $10.6 million ($11.4 million settlement gain less fees of $0.8 million) as shown in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income, related to these offers. Included in the "Total pre-tax remeasurement (losses) gains" of $131.9 million in Note 20.7, is a $2.7 million pre-tax remeasurement gain related to these offers.

In February 2015 the Company will make another voluntary offer to settle medical and dental benefits of eligible members covered under the Other Benefits Plan. The Company expects to settle any acceptances under this voluntary offer in Q1 2015.

Risks associated with retirement benefit plans

There is no assurance that the Company's retirement benefit plans will be able to earn the assumed rate of return. New regulations and market driven changes may result in changes in the discount rates and other variables which would result in the Company being required to make contributions in the future that differ significantly from the estimates. Management is required to use assumptions to account for the plans in conformity with IFRS. However, actual future experience will differ from these assumptions giving rise to actuarial gains or losses. In any year, actual experience differing from the assumptions may be material.

Plan assets consist primarily of cash, alternative investments and marketable equity and fixed income securities. The value of the marketable equity and fixed income investments will fluctuate due to changes in market prices. Plan obligations and annual pension expense are determined by independent actuaries and through the use of a number of assumptions. Although the Company believes that the assumptions used in the actuarial valuation process are reasonable, there remains a degree of risk and uncertainty which may cause results to differ from expectations. Significant assumptions in measuring the benefit obligations and pension plan costs include the discount rate and the rate of compensation increase.

Plan amendments, curtailments and settlements

In Fiscal 2012, the Company amended the non-registered supplemental savings arrangement in respect to the defined benefit plan to allow the use of letters of credit to satisfy the funding requirement of its deficit. At January 31, 2015 a letter of credit with a notional value of $1.3 million was on deposit with the Trustee for the non-registered portion of the defined benefit plan (February 1, 2014: notional value of $4.2 million).

In January 2013, the Company announced the termination of 700 employees. This event did not require the recording of a curtailment as its impact on the pension plan was not significant.

During Fiscal 2013, the Company announced a series of restructurings that resulted in the termination of approximately 1,600 employees who were members of the defined benefit plan. This resulted in a curtailment charge of $4.8 million to the pension plan, which was included in "Selling, administrative and other expenses" in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income.

Maturity profile of retirement benefit plan obligations

The weighted average durations of the Registered Retirement Plans, Non-registered Pension Plan and Other Benefit Plan are all approximately 11.5 years (2013: approximately 10.6 years).

The Company's contractual cash flow maturity relating to retirement benefit plan obligation payments is included under "Liquidity risk" in Note 14.

20.1 Retirement benefit asset and liability

The Company measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at January 31. The most recent actuarial valuation of the pension plan for funding purposes is dated December 31, 2013, which was completed on June 30, 2014. An actuarial valuation of the health and welfare trust is performed at least every three years, with the last valuation completed as of January 31, 2014.

				2014				2013
(in CAD millions)	**Registered Retirement Plans**	**Non-Registered Pension Plan**	**Other Benefits Plan**	**Total**	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan	Total
Defined benefit plan assets								
Fair value, beginning balance	**$ 1,313.0**	**$ 50.2**	**$ 22.0**	**$1,385.2**	$ 1,219.1	$ 49.5	$ 44.5	$1,313.1
Interest income	**53.4**	**2.0**	**0.5**	**55.9**	49.9	2.0	1.4	53.3
Remeasurement gain (loss) on return on plan assets	**65.8**	**1.6**	**(0.1)**	**67.3**	115.9	1.0	(0.7)	116.2
Employer contributions	**1.7**	**1.0**	**14.2**	**16.9**	42.8	1.4	0.6	44.8
Administrative expenses	**(0.6)**	**—**	**—**	**(0.6)**	(0.7)	(0.1)	—	(0.8)
Benefits paid[1]	**(215.5)**	**(4.0)**	**(34.7)**	**(254.2)**	(114.0)	(3.6)	(23.8)	(141.4)
Fair value of plan assets, ending balance	**$ 1,217.8**	**$ 50.8**	**$ 1.9**	**$1,270.5**	$ 1,313.0	$ 50.2	$ 22.0	$1,385.2
Defined benefit plan obligations								
Accrued obligations, beginning balance	**$ 1,380.2**	**$ 50.3**	**$ 240.7**	**$1,671.2**	$ 1,384.1	$ 50.4	$ 294.3	$1,728.8
Total current service cost	**—**	**—**	**—**	**—**	0.9	—	—	0.9
Interest cost	**56.3**	**2.0**	**8.9**	**67.2**	56.2	2.0	12.0	70.2
Benefits paid	**(215.5)**	**(4.0)**	**(28.7)**	**(248.2)**	(114.0)	(3.6)	(15.6)	(133.2)
Curtailment loss	**—**	**—**	**—**	**—**	4.2	—	—	4.2
Plan amendment (gain) loss	**—**	**—**	**(11.4)**	**(11.4)**	1.0	—	(43.8)	(42.8)
Special termination benefits loss	**—**	**—**	**—**	**—**	0.6	—	—	0.6
Actuarial losses (gain)	**170.7**	**6.8**	**21.6**	**199.1**	47.2	1.5	(6.2)	42.5
Accrued plan obligations, ending balance	**$ 1,391.7**	**$ 55.1**	**$ 231.1**	**$1,677.9**	$ 1,380.2	$ 50.3	$ 240.7	$1,671.2
Funded status of plan – (deficit)	**(173.9)**	**(4.3)**	**(229.2)**	**(407.4)**	(67.2)	(0.1)	(218.7)	(286.0)
Retirement benefit liability at end of fiscal year, net	**$ (173.9)**	**$ (4.3)**	**$ (229.2)**	**$ (407.4)**	$ (67.2)	$ (0.1)	$ (218.7)	$ (286.0)

The retirement benefit liability is included in the Company's Consolidated Statements of Financial Position as follows:

Retirement benefit liability	**$ (173.9)**	**$ (4.3)**	**$ (229.2)**	**$ (407.4)**	$ (67.2)	$ (0.1)	$ (218.7)	$ (286.0)

1 *Benefits paid from the funded assets include retiree benefits and short-term disability of active employees. Other benefits consist of retiree health and dental claims.*

20.2 Fair value of plan assets

The fair value of plan assets disaggregated by asset class and fair value hierarchy level as at January 31, 2015 and February 1, 2014 was as follows:

	As at January 31, 2015				As at February 1, 2014			
(in CAD millions)	**Registered Retirement Plans**	**Non-Registered Pension Plan**	**Other Benefits Plan**	**Total**	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan	Total
Cash and cash equivalents								
Level 1	$ **30.5**	$ **23.5**	$ **—**	$ **54.0**	$ 34.6	$ 24.3	$ —	$ 58.9
Subtotal	**30.5**	**23.5**	**—**	**54.0**	34.6	24.3	—	58.9
Corporate bonds and notes								
Level 2	**545.7**	**—**	**—**	**545.7**	619.3	—	4.7	624.0
Level 3	**155.5**	**—**	**1.2**	**156.7**	122.2	—	1.0	123.2
Subtotal	**701.2**	**—**	**1.2**	**702.4**	741.5	—	5.7	747.2
Common stock, preferred stock and REITS								
Level 1	**204.2**	**—**	**—**	**204.2**	172.0	—	—	172.0
Subtotal	**204.2**	**—**	**—**	**204.2**	172.0	—	—	172.0
Common or collective trusts								
Level 2	**185.2**	**27.0**	**—**	**212.2**	268.2	25.4	—	293.6
Subtotal	**185.2**	**27.0**	**—**	**212.2**	268.2	25.4	—	293.6
Short-term collective investment funds								
Level 2	**129.6**	**0.3**	**0.7**	**130.6**	117.6	0.4	1.1	119.1
Subtotal	**129.6**	**0.3**	**0.7**	**130.6**	117.6	0.4	1.1	119.1
Hedge funds								
Level 3	**1.3**	**—**	**—**	**1.3**	2.7	—	—	2.7
Subtotal	**1.3**	**—**	**—**	**1.3**	2.7	—	—	2.7
Receivables (liabilities)								
Level 1	**3.1**	**—**	**—**	**3.1**	(1.8)	—	0.1	(1.7)
Level 2	**(38.1)**	**—**	**—**	**(38.1)**	(22.5)	—	—	(22.5)
Subtotal	**(35.0)**	**—**	**—**	**(35.0)**	(24.3)	—	0.1	(24.2)
Miscellaneous other (liabilities) receivables								
Level 2	**0.8**	**—**	**—**	**0.8**	0.7	0.1	15.1	15.9
Subtotal	**0.8**	**—**	**—**	**0.8**	0.7	0.1	15.1	15.9
Total fair value of plan assets	$ **1,217.8**	$ **50.8**	$ **1.9**	$ **1,270.5**	$ 1,313.0	$ 50.2	$ 22.0	$ 1,385.2

The three levels of the fair value hierarchy referenced above are discussed in Note 14.6.

20.3 Plan assets investment allocation

During Fiscal 2014, the Company changed the target asset allocation to 55-80% fixed income and 20-45% equity for the defined benefit registered pension plan. For the assets in the health and welfare trust, included in Other Benefit Plans, the asset allocation is 100% fixed income. As at the end of Fiscal 2014 and 2013, the assets were in line with the target allocation range. The asset allocation may be changed from time to time in terms of weighting between fixed income, equity and other asset classes as well as within the asset classes themselves.

The plan's target allocation is determined taking into consideration the amounts and timing of projected liabilities, the Company's funding policies and expected returns on various asset classes. To develop the expected long-term rate of return on assets assumption, the Company considered the historical returns and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio.

At as the end of the current and prior fiscal years, plan assets were invested in the following classes of securities:

	As at January 31, 2015			As at February 1, 2014		
	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan
Fixed income securities	**73.0%**	**64.4%**	**100.0%**	73.3%	62.9%	100.0%
Alternative investments	**0.1%**	**—%**	**—%**	0.2%	—%	—%
Equity securities	**26.9%**	**35.6%**	**—%**	26.5%	37.1%	—%
Total	**100.0%**	**100.0%**	**100.0%**	100.0%	100.0%	100.0%

20.4 Pension assumptions

The significant actuarial assumptions were as follows (weighted average assumptions):

	As at January 31, 2015			As at February 1, 2014		
	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan
Discount rate used in calculation of Accrued benefit plan obligations	**3.30%**	**3.30%**	**3.20%**	4.20%	4.20%	4.20%
Benefit plans expense	**3.30%**	**3.30%**	**4.20%**	4.20%	4.20%	4.20%
Rate of compensation increase used in calculation of Accrued benefit plan obligations	**3.50%**	**3.50%**	**3.50%**	3.50%	3.50%	3.50%
Benefit plans expense	**3.50%**	**3.50%**	**3.50%**	3.50%	3.50%	3.50%
Expected long-term rate of return on plan assets used in calculation of benefit plans expense	**3.30%**	**3.30%**	**3.20%**	4.20%	4.20%	4.20%
Health care cost trend rates						
Used in calculation of accrued benefit plan obligations			**4.77%**			4.92%
Used in calculation of benefit plans expense			**4.92%**			6.14%
Cost trend rate declines to			**2.45%**			2.45%
Year that the rate reaches assumed constant			**2030**			2030

20.5 Sensitivity of significant actuarial assumptions

The following table summarizes the sensitivity of significant actuarial assumptions on the Company's defined benefit obligation:

	2014			2013		
(in CAD millions)	**Registered Retirement Plans**	**Non-Registered Pension Plan**	**Other Benefits Plan**	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan
Discount rate sensitivity						
Accrued benefit plan obligations						
100 basis point increase in discount rate	**$ (170.9)**	**$ (5.6)**	**$ (23.1)**	$ (144.8)	$ (4.8)	$ (22.2)
100 basis point decrease in discount rate	**211.8**	**6.8**	**27.6**	177.1	5.8	26.4
Benefit plans expense						
100 basis point increase in discount rate	**(6.9)**	**(0.2)**	**1.6**	(6.5)	(0.2)	(1.1)
100 basis point decrease in discount rate	**5.0**	**0.2**	**(2.1)**	4.6	0.2	1.3
Rate of compensation increase sensitivity						
Accrued benefit plan obligations						
50 basis point increase in rate of compensation increase	**10.8**	**0.4**	**n/a**	8.8	0.4	n/a
50 basis point decrease in rate of compensation increase	**(9.5)**	**(0.3)**	**n/a**	(9.7)	(0.4)	n/a
Benefit plans expense						
50 basis point increase in rate of compensation increase	**0.4**	**—**	**n/a**	0.4	—	n/a
50 basis point decrease in rate of compensation increase	**(0.4)**	**—**	**n/a**	(0.4)	—	n/a
Health care cost trend rate sensitivity						
Accrued benefit plan obligations						
100 basis point increase in health care trend rate	**n/a**	**n/a**	**20.2**	n/a	n/a	18.9
100 basis point decrease in health care trend rate	**n/a**	**n/a**	**(17.3)**	n/a	n/a	(16.3)
Benefit plans expense						
100 basis point increase in health care trend rate	**n/a**	**n/a**	**0.8**	n/a	n/a	1.3
100 basis point decrease in health care trend rate	**n/a**	**n/a**	**(0.7)**	n/a	n/a	(1.1)

The methods and assumptions used in determining the above sensitivity are consistent with the methods and assumptions used to determine the pension plan obligations and with the methods and assumptions used in Fiscal 2013.

20.6 Retirement benefit plans expense and contributions

The expense for the defined benefit, defined contribution and other benefit plans for Fiscal 2014 and Fiscal 2013, was as follows:

	2014				2013			
(in CAD millions)	**Registered Retirement Plans**	**Non-Registered Pension Plan**	**Other Benefits Plan**	**Total**	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan	Total
Current service cost, net of employee contributions	$ —	$ —	$ —	$ —	$ 0.9	$ —	$ —	$ 0.9
Net interest	**2.9**	—	**8.4**	**11.3**	6.3	—	10.6	16.9
Curtailment loss	—	—	—	—	4.2	—	—	4.2
Plan amendment loss (gain)	—	—	—	—	1.0	—	(43.8)	(42.8)
Settlement gain	—	—	**(11.4)**	**(11.4)**	—	—	—	—
Special termination benefits loss	—	—	—	—	0.6	—	—	0.6
Administrative expenses	**0.9**	—	—	**0.9**	0.7	0.1	—	0.8
Net defined benefit plans expense (income)	$ **3.8**	$ —	$ **(3.0)**	$ **0.8**	$ 13.7	$ 0.1	$ (33.2)	$ (19.4)
Net defined contribution plan expense	**6.6**	—	**0.2**	**6.8**	8.4	—	0.2	8.6
Total retirement benefit plans expense (income) [1]	$ **10.4**	$ —	$ **(2.8)**	$ **7.6**	$ 22.1	$ 0.1	$ (33.0)	$ (10.8)

1 *Not included in total expense recognized are short-term disability payments of $5.9 million (2013: $8.2 million) that were paid from the health and welfare trust. Both short-term disability and the retirement benefit plans expense (income) are included in "Selling, administrative and other expenses", unless disclosed elsewhere, in the Company's Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income.*

Total cash contributions made by the Company to its defined benefit, defined contribution and other benefit plans, including payments to settle health and dental benefits of eligible members covered under the non-pension retirement plan, for the fiscal year ended January 31, 2015 were $24.2 million (2013: $53.5 million). During the 52-week period ending January 30, 2016, it is estimated that the Company will make contributions of approximately $43.4 million to its defined benefit, defined contribution and Other Benefits plans, which include funding obligations as described in Note 14.2.

20.7 Remeasurements of the net defined retirement benefit liability

	2014				2013			
(in CAD millions)	**Registered Retirement Plans**	**Non-Registered Pension Plan**	**Other Benefits Plan**	**Total**	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan	Total
Actuarial gain (loss) on difference between expected interest income and actual return on plan assets	$ **65.7**	$ **1.6**	$ **0.1**	$ **67.4**	$ 115.9	$ 1.0	$ (0.7)	$ 116.2
Actuarial (loss) gain due to change in demographic	**(23.6)**	**(0.7)**	**1.2**	**(23.1)**	(35.3)	(1.3)	6.2	(30.4)
Actuarial loss due to change in financial assumptions	**(155.6)**	**(5.1)**	**(22.9)**	**(183.6)**	—	—	—	—
Actuarial gain (loss) due to all other experiences	**8.3**	**(0.9)**	—	**7.4**	(11.9)	(0.2)	—	(12.1)
Total pre-tax remeasurement (loss) gain	$ **(105.2)**	$ **(5.1)**	$ **(21.6)**	$ **(131.9)**	$ 68.7	$ (0.5)	$ 5.5	$ 73.7
Tax on remeasurement gain and write down of deferred income tax asset associated with previously recorded remeasurement losses				**(33.4)**				(19.4)
Total remeasurement (loss) gain, net of income taxes [1]				$ **(165.3)**				$ 54.3

1 *Total remeasurement (loss) gain, net of income taxes, is included in "Total other comprehensive (loss) income" in the Company's Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income.*

The actuarial losses associated with changes in financial assumptions are due to changes in the discount rate as at January 31, 2015 for the Registered Retirement Plans (2013: no changes), Non-registered Pension Plan (2013: no changes), and Other Benefits Plan (2013: no changes).

21. Contingent liabilities

21.1 Legal Proceedings

The Company is involved in various legal proceedings incidental to the normal course of business. The Company takes into account all available information, including guidance from experts (such as internal and external legal counsel) at the time of reporting to determine if it is probable that a present obligation (legal or constructive) exists, if it is probable that an outflow of resources embodying economic benefit will be required to settle such obligation and whether the Company can reliably measure such obligation at the end of the reporting period. The Company is of the view that, although the outcome of such legal proceedings cannot be predicted with certainty, the final disposition is not expected to have a material adverse effect on the consolidated financial statements, including its Consolidated Statements of Financial Position, Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income, and Consolidated Statements of Cash Flows.

21.2 Commitments and guarantees

Commitments

As at January 31, 2015, cash and cash equivalents that were restricted represent cash pledged as collateral for letter of credit obligations issued under the Company's offshore merchandise purchasing program of $19.1 million (February 1, 2014: $11.1 million), which is the Canadian equivalent of U.S. $15.0 million (February 1, 2014: U.S. $10.0 million).

The Company has certain vendors which require minimum purchase commitment levels over the term of the contract. Refer to Note 14.2 "Liquidity risk".

Guarantees

The Company has provided the following significant guarantees to third parties:

Royalty License Agreements

The Company pays royalties under various merchandise license agreements, which are generally based on the sale of products. Certain license agreements require a minimum guaranteed payment of royalties over the term of the contract, regardless of sales. Total future minimum royalty payments under such agreements were $3.4 million as at January 31, 2015 (February 1, 2014: $3.5 million).

Other Indemnification Agreements

In the ordinary course of business, the Company has provided indemnification commitments to counterparties in transactions such as leasing transactions, royalty agreements, service arrangements, investment banking agreements and director and officer indemnification agreements. The Company has also provided certain indemnification agreements in connection with the sale of the credit and financial services operations in November 2005, which expire in November 2015. The foregoing indemnification agreements require the Company to compensate the counterparties for costs incurred as a result of changes in laws and regulations, or as a result of litigation or statutory claims, or statutory sanctions that may be suffered by a counterparty as a consequence of the transaction. The terms of these indemnification agreements will vary based on the contract and typically do not provide for any limit on the maximum potential liability. Historically, the Company has not made any significant payments under such indemnifications and no amounts have been accrued in the consolidated financial statements with respect to these indemnification commitments.

22. Income taxes

The average combined federal and provincial statutory income tax rate applied to the Company was 26.5% for Fiscal 2014 (2013: 26.5%). A reconciliation of income taxes at the average statutory tax to actual income tax expense for Fiscal 2014 and Fiscal 2013 is as follows:

(in CAD millions)		2014		2013
(Loss) earnings before income taxes	$	**(360.0)**	$	490.0
Income tax (recovery) expense at the average statutory tax rate	$	**(95.4)**	$	129.6
(Decrease) increase in income taxes resulting from				
Non-taxable portion of capital gain		**(5.2)**		(77.0)
Non-deductible items		**0.5**		0.4
Prior year adjustments		**(8.4)**		(0.3)
Write down of deferred taxes assets, net		**88.6**		—
Others		**(0.2)**		0.6
		(20.1)		53.3
Effective tax rate before the following adjustments		**5.6%**		10.9%
Changes in tax rates or imposition of new taxes		**(1.1)**		(9.8)
Total income tax (recovery) expense	$	**(21.2)**	$	43.5
Effective tax rate		**5.9%**		8.9%

The Company's total net cash refunds or payments of income taxes for the current year was a net payment of $71.0 million (2013: net payment of $32.9 million).

In the ordinary course of business, the Company is subject to ongoing audits by tax authorities. While the Company believes that its tax filing positions are appropriate and supportable, periodically, certain matters are challenged by tax authorities. In Fiscal 2013, the Company received federal and consequential provincial re-assessments to previous tax filings which the Company disputed. For these disputed amounts, the Company placed a deposit of $28.0 million in Fiscal 2013, of which $20.2 million was included in "Other long-term assets" and $7.8 million was included in "Income taxes payable" in the Consolidated Statements of Financial Position as at February 1, 2014. During Fiscal 2014, the Company reached a settlement with the taxation authorities for issues affecting the taxation years 2006 and 2007, and reversed the tax and charges previously accrued for as uncertain tax positions as described in the table below, and included in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income:

(in CAD millions)		2014		2013
Finance cost recovery [1]	$	**6.5**	$	0.2
Income tax recovery (expense):				
Current		**21.5**		0.6
Deferred		**(14.3)**		(0.2)
Total benefits on uncertain tax positions	$	**13.7**	$	0.6

[1] *Relates to interest owed on cash held on account with taxation authorities.*

The Company routinely evaluates and provides for potentially unfavorable outcomes with respect to any tax audits, and believes that the final disposition of tax audits will not have a material adverse effect on its liquidity.

The expected cash recoverable from the settlement is $52.5 million which is included in "Income taxes recoverable". Also included in "Income taxes recoverable" is $61.7 million related to the utilization of loss carrybacks generated by the Company in 2014. The Company has not recognized the benefit of approximately $39.1 million of loss carryforwards on its consolidated financial statements, which would be used to reduce taxable income generated in future years. These loss carryforwards expire in 20 years. Included in "Other long-term assets" in the Consolidated Statements of Financial Position, as at January 31, 2015, were receivables of $6.4 million (February 1, 2014: $32.5 million) related to payments made by the Company for remaining disputed tax assessments.

The tax effects of the significant components of temporary timing differences giving rise to the Company's net deferred tax assets were as follows:

(in CAD millions)	As at February 1, 2014	Recognized in loss	Recognized in equity	**As at January 31, 2015**
Deferred revenue	$ 0.8	$ (0.3)	$ —	$ **0.5**
Other long term liabilities	24.6	(2.8)	—	**21.8**
Derivative financial assets	(2.2)	—	(0.3)	**(2.5)**
Property, plant and equipment	(43.9)	36.0	—	**(7.9)**
Investment property	(28.7)	0.7	—	**(28.0)**
Goodwill and intangible assets	1.4	(0.3)	—	**1.1**
Retirement benefit obligations	76.0	(2.8)	—	**73.2**
Provisions	56.5	(6.9)	—	**49.6**
Non-capital losses	—	10.4	—	**10.4**
Other	—	1.1	—	**1.1**
Write down of deferred tax assets	—	(88.6)	(33.4)	**(122.0)**
Total deferred tax assets (liabilities), net	$ 84.5	$ (53.5)	$ (33.7)	$ **(2.7)**

(in CAD millions)	As at February 2, 2013	Recognized in earnings	Recognized in equity	As at February 1, 2014
Deferred revenue	$ 1.0	$ (0.2)	$ —	$ 0.8
Other long term liabilities	26.9	(2.3)	—	24.6
Derivative financial assets	—	—	(2.2)	(2.2)
Property, plant and equipment	(74.6)	30.7	—	(43.9)
Investment property	(37.3)	8.6	—	(28.7)
Goodwill and intangible assets	0.5	0.9	—	1.4
Retirement benefit obligations	109.9	(14.7)	(19.2)	76.0
Provisions	53.0	3.5	—	56.5
Other	(1.6)	1.6	—	—
Total deferred tax assets, net	$ 77.8	$ 28.1	$ (21.4)	$ 84.5

(in CAD millions)	**As at January 31, 2015**	As at February 1, 2014
Deferred tax assets	$ **0.7**	$ 88.7
Deferred tax liabilities	**(3.4)**	(4.2)
Total deferred tax assets (liabilities), net	$ **(2.7)**	$ 84.5

During Fiscal 2014, the Company determined that a write down of the deferred tax assets was required and no further recognition of deferred tax assets should be recorded, as it was no longer probable that sufficient taxable income would be available to allow part of the assets to be recovered. In assessing the need for the write down of the deferred tax assets, the Company considered that recent and anticipated profitability were lower than previously planned. The Company also considered the impact on the timing of the implementation of strategic initiatives to improve profitability due to recent senior management changes.

During Fiscal 2014, the Company recognized a write down of the deferred tax assets for $122.0 million (2013: nil). $88.6 million of this charge was included in "Deferred income tax recovery (expense)", and as a portion of the deferred tax assets originated through equity, $33.4 million of this charge was included in OCI in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income in accordance with IAS 12, *Income Taxes.* In addition, a further deferred tax asset of $35.0 million related to the retirement benefit obligations remeasurement at the end of Fiscal 2014, was not recorded. This accounting treatment has no effect on the Company's ability to utilize deferred tax assets to reduce future cash tax payments. The Company will continue to assess the likelihood that the deferred tax assets will be realizable at the end of each reporting period and adjust the carrying amount accordingly, by considering factors such as the reversal of deferred income tax liabilities, projected future taxable income, tax planning strategies and changes in tax laws. The aggregate amount of deductible temporary differences for which no deferred tax asset is recognized as at January 31, 2015, is approximately $551.5 million.

23. Segmented information

In order to identify the Company's reportable segments, the Company uses the process outlined in IFRS 8, *Operating Segments* which includes the identification of the Chief Operating Decision Maker, the identification of operating segments, which has been done based on Company formats, and the aggregation of operating segments. The Company has aggregated its operating segments into two reportable segments: Merchandising and Real Estate Joint Arrangements. The Merchandising segment includes revenue from the sale of merchandise and related services to customers. The Real Estate Joint Arrangement segment includes income from the Company's joint arrangement interests in shopping centres across Canada, all of which contain a Sears store.

23.1 Segmented statements of (loss) earnings

(in CAD millions)		2014		2013
Total revenue				
Merchandising	$	**3,420.5**	$	3,945.8
Real Estate Joint Arrangements		**4.0**		46.0
Total revenues	$	**3,424.5**	$	3,991.8
Segmented operating (loss) income				
Merchandising	$	**(407.9)**	$	(205.1)
Real Estate Joint Arrangements		**0.6**		17.3
Total segmented operating loss	$	**(407.3)**	$	(187.8)
Finance costs				
Merchandising	$	**1.0**	$	9.3
Real Estate Joint Arrangements		**—**		1.5
Total finance costs	$	**1.0**	$	10.8
Interest income				
Merchandising	$	**2.6**	$	2.5
Real Estate Joint Arrangements		**—**		0.1
Total interest income	$	**2.6**	$	2.6
Gain on lease terminations and lease amendments				
Merchandising	$	**—**	$	577.2
Real Estate Joint Arrangements		**—**		—
Total gain on lease terminations and lease amendments	$	**—**	$	577.2
Gain on sale of interest in joint arrangements				
Merchandising	$	**—**	$	—
Real Estate Joint Arrangements		**35.1**		66.3
Total gain on sale of interest in joint arrangements	$	**35.1**	$	66.3
Gain on settlement and amendment of retirement benefits				
Merchandising	$	**10.6**	$	42.5
Real Estate Joint Arrangements		**—**		—
Total gain on settlement and amendment of retirement benefits	$	**10.6**	$	42.5
Income tax recovery (expense)				
Merchandising	$	**28.5**	$	(40.1)
Real Estate Joint Arrangements		**(7.3)**		(3.4)
Total income tax recovery (expense)	$	**21.2**	$	(43.5)
Net (loss) earnings	$	**(338.8)**	$	446.5

23.2 Segmented statements of total assets

(in CAD millions)		As at January 31, 2015		As at February 1, 2014
Merchandising	$	**1,773.9**	$	2,354.2
Real Estate Joint Arrangements		**0.2**		38.1
Total assets	$	**1,774.1**	$	2,392.3

23.3 Segmented statements of total liabilities

(in CAD millions)		As at January 31, 2015		As at February 1, 2014
Merchandising	$	**1,203.1**	$	1,314.4
Real Estate Joint Arrangements		**0.2**		4.1
Total liabilities	$	**1,203.3**	$	1,318.5

24. Capital stock and share based compensation

Capital stock

ESL Investments, Inc., and investment affiliates including Edward S. Lampert, collectively "ESL", form the largest shareholder of the Company, both directly through ownership in the Company, and indirectly through shareholdings in Sears Holdings ("Holdings"). Prior to October 16, 2014, Holdings was the controlling shareholder of the Company.

On October 2, 2014, Holdings announced the commencement of a rights offering for 40 million common shares of the Company. Each holder of Holdings' common stock received one subscription right for each share of Holdings' common stock held as of the close of business on October 16, 2014, the record date for the rights offering. Each subscription right entitled the holder to purchase their pro rata portion of the Company's common shares being sold by Holdings in the rights offering at a price of $10.60 per share (U.S. $9.50 per share). The rights offering is further described in a prospectus filed with securities regulators in Canada and the United States on October 15, 2014, and can be accessed through the System for Electronic Document Analysis and Retrieval ("SEDAR") website at www.sedar.com, and on the U.S. Securities Exchange Commission ("SEC") website at www.sec.gov.

In connection with the rights offering, the Company listed its common shares on the NASDAQ where the rights were also listed. The subscription rights expired at the close of business on November 7, 2014. ESL exercised their pro rata portion of the rights in full in Fiscal 2014.

As at January 31, 2015, ESL was the beneficial holder of 50,438,809 or 49.5%, of the common shares of the Company (February 1, 2014: 28,158,368 or 27.6%). Holdings was the beneficial holder of 11,962,391 or 11.7%, of the common shares of the Company as at January 31, 2015 (February 1, 2014: 51,962,391 or 51.0%). The issued and outstanding shares are fully paid and have no par value.

The Company has a license from Holdings to use the name "Sears" as part of its corporate name. The Company relies on its right to use the "Sears" name, including as part of the Company's corporate and commercial name, which the Company considers a significant and valuable aspect of its business. The Company's right to use the "Sears" name and certain other brand names was granted pursuant to the license agreement amendments, which state in the event Holdings' ownership interest in the Company is reduced to less than 10.0%, the license agreement would remain in effect for a period of five years after such reduction in ownership, after which the Company would no longer be permitted to use the "Sears" name and certain other brand names.

On May 22, 2013, the Toronto Stock Exchange ("TSX") accepted the Company's Notice of Intention to make a Normal Course Issuer Bid ("2013 NCIB") and permitted the Company to purchase for cancellation its common shares. Purchases were allowed to commence on May 24, 2013 and were to be terminated by May 23, 2014. There were no share purchases made under the 2013 NCIB. The Company did not renew the Normal Course Issuer Bid subsequent to May 23, 2014.

During Fiscal 2013, the Company distributed $509.4 million to holders of common shares as an extraordinary cash dividend. Payment in the amount of $5.00 per common share was made on December 6, 2013.

The authorized common share capital of the Company consists of an unlimited number of common shares without nominal or par value and an unlimited number of class 1 preferred shares, issuable in one or more series. As at January 31, 2015, the total number of common shares issued and outstanding of the Company was 101,877,662 (February 1, 2014: 101,877,662) with stated value of $14.9 million (February 1, 2014: $14.9 million).

Share based compensation

During Fiscal 2014, the Company granted 225,000 RSUs (2013: nil) to an executive under an equity-based compensation plan. For equity-settled awards, the fair value of the grant of RSUs is recognized as compensation expense over the period that the related service is rendered with a corresponding increase in equity. The total amount expensed is recognized over a three-year vesting period on a tranche basis, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, the estimate of the number of equity interests that are expected to vest is reviewed. The impact of any revision to original estimates is recognized in "Selling, administrative and other expenses" in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income.

These RSUs had a grant-date fair value of $1.9 million (2013: nil). The fair value of the grant was determined based on the Company's share price at the date of grant, and is entitled to accrue common share dividends equivalent to those declared by the Company, which would be settled by a grant of additional RSUs to the executive.

Compensation expense included in "Selling, administrative and other expenses" for Fiscal 2014 related to RSUs was $0.4 million (2013: nil).

25. Capital disclosures

The Company's objectives when managing capital are:

- Maintain financial flexibility thus allowing the Company to preserve its ability to meet financial objectives and continue as a going concern;
- Provide an appropriate return to shareholders; and
- Maintain a capital structure that allows the Company to obtain financing should the need arise.

The Company manages and makes adjustments to its capital structure, when necessary, in light of changes in economic conditions, the objectives of its shareholders, the cash requirements of the business and the condition of capital markets. In order to maintain or adjust the capital structure, the Company may pay a dividend or return capital to shareholders, modify debt levels or sell assets.

The Company defines capital as follows:

- Long-term obligations, including the current portion of long-term obligations ("Total long-term obligations"); and
- Shareholders' equity.

The following table presents summary quantitative data with respect to the Company's capital resources:

(in CAD millions)		**As at January 31, 2015**		As at February 1, 2014
Total long-term obligations	$	**28.1**	$	35.9
Shareholders' equity		**570.8**		1,073.8
Total	$	**598.9**	$	1,109.7

26. Revenue

The components of the Company's revenue were as follows:

(in CAD millions)		**2014**		2013
Apparel and Accessories[1]	$	**1,214.7**	$	1,410.6
Home and Hardlines[1]		**1,600.2**		1,873.9
Other merchandise revenue		**205.5**		227.7
Services and other		**274.8**		342.6
Commission and licensee revenue		**129.3**		137.0
Total revenue	$	**3,424.5**	$	3,991.8

1 *Certain product lines have been reclassified from the Apparel & Accessories category to the Home & Hardlines category. Also, the Major Appliances category is now included in the Home & Hardlines category. Prior year comparative figures have been restated to reflect these changes. These figures have not been adjusted to account for the impact of store closures.*

27. Employee benefits expense

The components of the Company's employee benefits expense for the current and prior fiscal year were as follows:

(in CAD millions)		**2014**		2013
Wages and salaries	$	**466.5**	$	585.2
Paid absences [1]		**44.3**		55.6
Benefits				
Provincial healthcare costs		**11.1**		13.6
Flex benefits		**13.9**		15.0
Retirement benefit plans expense [2]		**7.9**		(10.8)
Statutory deductions [3]		**33.8**		40.5
Severance		**16.2**		60.5
Other employer paid benefits		**6.6**		3.2
Total benefits expense	**$**	**600.3**	$	762.8

1 *Paid absences are expenses related to vacation, statutory holidays and sick days.*

2 *Included in Retirement benefit plans expense for Fiscal 2014 was an $11.1 million gain related to the amendments to the defined benefit registered retirement plan and non-pension retirement benefit plan (2013: $42.8 million gain related to the amendments to the defined benefit registered retirement plan and non-pension retirement benefit plan).*

3 *Statutory deductions consist of the employer portion of payment for the Canada Pension Plan and Employment Insurance.*

These expenses are included in "Cost of goods and services sold", "Selling, administrative and other expenses" and "Gain on settlement and amendment of retirement benefits" in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income.

28. Gain on lease terminations and lease amendments

On October 29, 2013, the Company announced that it would terminate its leases in respect of four stores and partially terminate its lease in a fifth location, for a total consideration of $400.0 million. Four of the five stores were owned by The Cadillac Fairview Corporation Limited ("Cadillac Fairview") and were located in Ontario: Toronto Eaton Centre, Sherway Gardens, Markville Shopping Centre and London-Masonville Place. The fifth store was located at Richmond Shopping Centre in British Columbia and was co-owned by Ivanhoé and Cadillac Fairview. As required by the terms of the transaction, the Company vacated Sherway Gardens, London-Masonville Place and the retail floors of the Toronto Eaton Centre ("TEC"), by February 28, 2014, and vacated Markville and Richmond Shopping Centres by February 28, 2015. On November 12, 2013, the Company received proceeds of $400.0 million for these transactions, resulting in a pre-tax gain of $391.5 million, net of legal costs and the de-recognition of leasehold improvements and furniture and fixtures of $9.5 million.

As part of this transaction, the Company vacated the retail floors of the TEC. The Company will continue to use the office floors of the TEC as its headquarters under terms consistent with the existing lease. In accordance with *IAS 17, Leases,* the lease on the office floors of the TEC was assessed as a finance lease. As of the end of Fiscal 2013, the Company has transferred all risks and rewards associated with the vacated retail floors, had no significant continuing involvement related to these floors, and all costs associated with vacating the retail floors had been measured reliably.

In accordance with *IAS 18, Revenue,* the Company recognized the entire gain of $391.5 million in Fiscal 2013 in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income.

On June 14, 2013, the Company announced its intention to enter into a series of transactions related to its leases on two properties: Yorkdale Shopping Centre (Toronto) and Square One Shopping Centre (Mississauga). The landlords approached the Company with a proposal to enter into a series of lease amendments for a total consideration of $191.0 million, being the amount the landlords were willing to pay for the right to require the Company to vacate the two locations.

On June 24, 2013, the Company received proceeds of $191.0 million upon closing of the transaction which gave the landlords the right to require the Company to vacate the two locations by March 31, 2014. The landlords exercised such right on July 25, 2013, and the Company vacated the two locations on March 31, 2014. The transaction resulted in a pre-tax gain of $185.7 million, net of legal costs and the de-recognition of leasehold improvements of $5.3 million.

The Company also granted the owners of the Scarborough Town Centre (Toronto) property an option to enter into certain lease amendments in exchange for $1.0 million, which was paid on June 24, 2013. The option may be exercised at any time up to and including June 20, 2018, and would require the Company to complete certain lease amendments in exchange for $53.0 million. Such lease amendments would allow the owners to require the Company to close its store. As of January 31, 2015, the option had not been exercised and was included in "Accounts payable and accrued liabilities" in the Consolidated Statements of Financial Position.

29. Assets classified as held for sale

On October 29, 2013, the Company announced the future closure of the Broad Street Logistics Centre located in Regina ("Broad Street"). Broad Street, including the adjacent vacant property which is owned by the Company, is being marketed for sale and if a buyer is identified that will purchase Broad Street at a price acceptable to the Company, then it will be sold. This process has been approved by senior management of the Company, and based on these factors, the Company has concluded that the sale is highly probable. The Company will continue to assess the recoverable amount of Broad Street at the end of each reporting period and adjust the carrying amount accordingly. To determine the recoverable amount of Broad Street, the Company will consider factors such as expected future cash flows using appropriate market rental rates, the estimated costs to sell and an appropriate discount rate to calculate the fair value.

As at January 31, 2015 and February 1, 2014, the assets of Broad Street were separately classified as held for sale on the Company's Consolidated Statements of Financial Position. The major classes of assets classified as held for sale were as follows:

(in CAD millions)		**Broad Street**
Property, plant and equipment	$	**10.9**
Investment properties		**2.4**
Assets classified as held for sale	$	**13.3**

The carrying value of the property, plant and equipment and investment property of Broad Street was higher than the estimated fair value less costs to sell and, as a result, the Company recognized an impairment loss of $16.5 million in Fiscal 2013. This amount is included in the $27.7 million of impairment (reversals) losses in the property, plant and equipment continuity in Note 9. The Company determined fair value by engaging an independent qualified third party appraiser to conduct an appraisal of the land and building properties of Broad Street. The valuation method used to determine fair value was the direct sales comparison approach. Impairment losses were included in "Selling, administrative and other expenses" in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income.

The operations of Broad Street is not presented as discontinued operations on the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income as they do not represent a separate geographical area of operations nor a separate major line of business.

30. Related party transactions

The ultimate controlling party of the Company is ESL Investments, Inc. (incorporated in the U.S. in the state of Florida). The Company also had interests in joint arrangements, as described in Note 11.

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Company and other related parties are disclosed below.

30.1 Trading transactions

During the current and prior fiscal year, the Company entered into the following trading transactions with related parties:

				2014				2013
(in CAD millions)	**Purchase of goods**	**Services received**	**Other**	**Total**	Purchase of goods	Services received	Other	Total
Sears Holdings Corporation	$ **—**	$ **3.6**	$ **0.4**	$ **4.0**	$ —	$ 4.5	$ 0.4	$ 4.9
Real estate joint arrangements	**—**	**1.0**	**—**	**1.0**	—	3.9	—	3.9
Total related party transactions	$ **—**	$ **4.6**	$ **0.4**	$ **5.0**	$ —	$ 8.4	$ 0.4	$ 8.8

The following balances were outstanding as at the end of the fiscal year:

		Amounts receivable from related parties		
(in CAD millions)		**As at January 31, 2015**		As at February 1, 2014
Sears Holdings Corporation	$	—	$	—

		Amounts payable to related parties		
(in CAD millions)		**As at January 31, 2015**		As at February 1, 2014
Sears Holdings Corporation	$	**0.4**	$	0.4

The related party transactions with Sears Holdings are in the ordinary course of business for shared merchandise purchasing services. These transactions were recorded either at fair market value or the exchange amount, which was established and agreed to by the related parties. These balances are included in "Accounts payable and accrued liabilities" and "Accounts receivable, net" in the Consolidated Statements of Financial Position.

The related party transactions with the various real estate joint arrangements represent lease payments for the lease of the Company's stores. These transactions were recorded either at fair market value or the exchange amount, which was established and agreed to by the related parties.

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No expense has been recognized in the current or prior fiscal periods for bad or doubtful debts in respect of the amounts owed by related parties.

The Company's Audit Committee is responsible for pre-approving all related party transactions that have a value greater than $1.0 million.

31. Key management personnel compensation

Key management personnel are those individuals having the authority and responsibility for planning, directing and controlling the activities of the Company. The Company considers the Board of Directors and the following former and current members of senior management to be key management personnel:

President and Chief Executive Officer;
Former President and Chief Executive Officer;
Executive Vice-President and Chief Financial Officer;
Executive Vice-President and Chief Operating Officer;
Interim Chief Marketing Officer;
Senior Vice-President, Merchant Operations;
Senior Vice-President, Apparel & Accessories;
Senior Vice-President, Home & Hardlines;
Senior Vice-President, Real Estate;
Senior Vice-President, Human Resources;
Senior Vice-President, Retail Stores;
Former Senior Vice-President, Retail Stores;
Former Interim Senior Vice-President, Retail Stores;
Former Senior Vice-President e-Commerce and Omni-Channel and Former Interim Chief Information Officer;
Vice-President and Chief Information Officer; and
Vice-President, General Counsel and Corporate Secretary;

Key management personnel compensation was as follows:

(in CAD millions)		**2014**		2013
Salaries and perquisites	$	**7.7**	$	8.1
Annual incentive plans and other bonuses		**0.3**		1.2
Pensions		—		0.1
Termination benefits		**0.5**		1.3
Total key management personnel compensation	$	**8.5**	$	10.7

32. Net (loss) earnings per share

A reconciliation of the number of shares used in the net (loss) earnings per share calculation is as follows:

(Number of shares)	**2014**	2013
Weighted average number of shares per basic net (loss) earnings per share calculation	**101,877,662**	101,877,662
Effect of dilutive instruments outstanding	**—**	—
Weighted average number of shares per diluted net (loss) earnings per share calculation	**101,877,662**	101,877,662

"Net (loss) earnings" as disclosed in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income was used as the numerator in calculating the basic and diluted net (loss) earnings per share. For 2014 there were no outstanding dilutive instruments. As at February 1, 2014, there were no outstanding options to exclude from the calculation of diluted net (loss) earnings per share.

33. Changes in non-cash working capital balances

Cash (used for) generated from non-cash working capital balances were comprised of the following:

(in CAD millions)		**2014**		2013
Accounts receivable, net	**$**	**10.0**	$	(6.6)
Inventories		**133.2**		76.8
Prepaid expenses		**(5.6)**		4.8
Derivative financial assets		**1.0**		—
Accounts payable and accrued liabilities		**(74.0)**		(52.6)
Deferred revenue		**(16.5)**		(10.1)
Provisions		**(50.8)**		43.1
Income and other taxes payable and recoverable		**(62.5)**		19.5
Effect of foreign exchange rates		**(2.1)**		(1.6)
Cash (used for) generated from non-cash working capital balances	**$**	**(67.3)**	$	73.3

34. Changes in non-cash long-term assets and liabilities

Cash generated from (used for) long-term assets and liabilities were comprised of the following:

(in CAD millions)		**2014**		2013
Other long-term assets	**$**	**40.9**	$	7.0
Other long-term liabilities		**(10.0)**		(14.9)
Deferred tax assets and deferred tax liabilities		**(0.2)**		0.7
Other		**(0.5)**		(0.4)
Cash generated from (used for) non-cash long-term assets and liabilities	**$**	**30.2**	$	(7.6)

35. North Hill and Burnaby arrangements

On June 16, 2014, the Company announced that it entered into a binding agreement with Concord Pacific Group of Companies ("Concord") to pursue the development of the 12-acre Sears site located at the North Hill Shopping Centre in Calgary, Alberta (the "North Hill Project"). Closing under the agreement is conditional upon satisfaction of conditions such as obtaining re-zoning approval from the City of Calgary for the North Hill Project, which management expects to occur over an extended period of time.

This agreement contemplates the sale of a 50% interest in the site for a value of approximately $15.0 million, subject to adjustments, and the retention of Concord or its affiliates, on customary terms, to manage most facets of the development. The purchase price is to be satisfied by an interest-free long-term note secured by Concord's 50% interest in the property, the principal of which is expected to be repaid out of cash flow generated from the North Hill Project over time. It is contemplated that this note will be subordinated to other debt financing expected to be raised and used to develop the North Hill Project. The note will be guaranteed by a Concord affiliate. Following the sale of the 50% interest, it is contemplated that the parties will enter into a co-ownership arrangement. Concord would be responsible for arranging debt financing to develop the North Hill Project through the arrangement. On closing, Concord would also be jointly responsible for any costs incurred to remediate on-site environmental issues associated with the North Hill Project, through their interest in the arrangement, as contained in the environmental provision described in Note 16(vi). The estimated cost to build out the North Hill Project into a residential development as contemplated, is currently $680.0 million. Completion of the North Hill Project as contemplated is subject to strategic considerations, including, but not limited to, potential shifts in the Canadian economy and the condition of the real estate market now and in the future.

On October 11, 2013, the Company announced that it entered into a binding agreement with Concord to pursue the development of nine acres of the Company's property on and adjacent to the Company's store located at the Metropolis at Metrotown in Burnaby, British Columbia (the "Burnaby Project"). Closing under the agreement is conditional upon satisfaction of conditions such as obtaining the approval from the City of Burnaby for the Burnaby Project, which management expects to occur over an extended period of time.

This agreement contemplates the sale of a 50% interest in the site for a value of approximately $140.0 million subject to adjustments, and the retention of Concord on customary terms to manage the development. $15.0 million of the purchase price is to be paid in cash on closing, with the balance to be satisfied by an interest-free long-term note secured by Concord's 50% interest in the property, the principal of which is expected to be repaid out of cash flow generated from the Burnaby Project over time. It is contemplated that this note will be subordinated to other debt financing expected to be raised and used to develop the Burnaby Project. The note will be guaranteed by a Concord affiliate. Following the sale of the 50% interest, it is contemplated that the parties will enter into a co-ownership arrangement. If third party debt financing cannot be obtained, Concord would be responsible for providing debt financing to develop the Burnaby Project (which would, with certain exceptions, be subordinated to the long-term note held by the Company). The estimated cost to build out the Burnaby Project into a mixed-use residential, office and retail shopping centre development as contemplated, is currently in excess of $1.0 billion. Completion of the Burnaby Project as contemplated is subject to strategic considerations, including, but not limited to, potential shifts in the Canadian economy and the condition of the real estate market now and in the future.

In January 2014, in conjunction with Concord obtaining financing to develop the Burnaby Project, the Company entered into a demand mortgage for $25.0 million, secured by the Burnaby Project property. Interest on drawings under the mortgage is determined based on the prime rate plus a spread, and is due monthly. As at January 31, 2015, the Company had no borrowings on the mortgage. In January 2014, Concord entered into a demand loan agreement for $20.0 million. The loan is guaranteed by Concord's parent company, One West Holdings Ltd., and the Company's undrawn $25.0 million mortgage has been pledged as collateral. As at January 31, 2015, Concord has borrowed $13.4 million against the available demand loan. See Note 36 for additional information.

36. Event after the reporting period

On March 11, 2015, the Company announced it had entered into an agreement with Concord to sell and lease back three of its owned properties for a total consideration of $140.0 million subject to certain adjustments. The Company expects net proceeds after any adjustments or taxes to be approximately $130.0 million. The properties in the transaction include the Company's stores and surrounding area located at the North Hill Shopping Centre in Calgary, Alberta, Metropolis at Metrotown in Burnaby, British Columbia and Cottonwood Mall in Chilliwack, British Columbia. These properties, including land, building and equipment, had a net carrying value of approximately $60.9 million included in "Property, plant and equipment" in the Consolidated Statements of Financial Position, as at January 31, 2015. The agreement is subject to customary closing conditions. The transaction is scheduled to close on June 8, 2015, and the ultimate amount and timing of gain recognition will be determined during the second quarter of the 52-week period ended January 30, 2016. Upon closing, the existing arrangements with Concord described in Note 35, will terminate. The Company will continue to operate the stores located at these shopping centres under long-term leases and there is no impact on customers or employees at these locations.

37. Approval of the consolidated financial statements

The consolidated financial statements were approved by Board of Directors and authorized for issue on March 12, 2015.

DIRECTORS AND OFFICERS

Board of Directors

Ronald D. Boire

President and Chief Executive Officer of the Corporation

William C. Crowley [2,3]

Chief Exective Officer
Àshe Capital Partners, LP

Timothy Flemming

Senior Vice-President, Merchant Operations of the Corporation

William R. Harker [2,3]

President
Àshe Capital Partners, LP

R. Raja Khanna [1,4]

Chief Executive Officer
Blue Ant Media Inc.

Klaudio Leshnjani

Executive Vice-President and Chief Operating Officer of the Corporation

James McBurney [1,4]

Corporate Director

Deborah E. Rosati [1,2,4]

Corporate Director and Advisor

Danita Stevenson

Senior Vice-President, Apparel and Accessories of the Corporation

S. Jeffrey Stollenwerk [3]

President, Sears Real Estate Business
Sears Holdings Corporation

Officers

Ronald D. Boire

President and Chief Executive Officer

E.J. Bird

Executive Vice-President and Chief Financial Officer

Klaudio Leshnjani

Executive Vice-President and Chief Operating Officer

Committees

1 Audit Committee
2 Human Resources and Compensation Committee
3 Investment Committee
4 Nominating and Corporate Governance Committee

CORPORATE INFORMATION

Head Office

Sears Canada Inc.
290 Yonge Street
Suite 700
Toronto, Ontario
M5B 2C3

Website:www.sears.ca
E-mail:home@sears.ca

For more information about the Company, or for additional copies of the Annual Report, write to the Corporate Communications Department at the Head Office of Sears Canada Inc., or call 416-941-4428.

The Company's regulatory filings can be found on the SEDAR website at www.sedar.com and on the U.S. Securities Exchange Commission (SEC) website at www.sec.gov.

Stock Exchange Listing

Toronto Stock Exchange
Trading symbol: SCC
NASDAQ
Trading symbol: SRSC

Transfer Agents and Registrars

CST Trust Company
P.O. Box 700, Station B
Montreal, Québec
H3B 3K3

Answerline:	416-682-3860
	1-800-387-0825
Fax:	1-888-249-6189
Website:	www.canstockta.com
E-Mail:	inquiries@canstockta.com

American Stock Transfer & Trust Company, LLC
6201 15th Avenue
Brooklyn, NY
11219

Answerline:	1-800-937-5449
Fax:	718-236-2641
Website:	www.amstock.com
E-Mail:	info@amstock.com

Annual Meeting

The Annual Meeting of the Shareholders of Sears Canada Inc. will be held on Thursday, April 23, 2015 at 8:00 a.m. in the Auditorium, Fourth floor, 290 Yonge Street, Toronto, Ontario Canada.

Édition française du Rapport annuel

On peut se procurer l'édition française de ce rapport en écrivant au:

Service national des communications
Sears Canada Inc.
290 Yonge Street
Suite 700
Toronto, Ontario
M5B 2C3

Pour de plus amples renseignments au sujet de la Société, veuillez écrire au service national de communication, ou composer le 416-941-4428.

Les dépôts réglementaires de la Société se trouvent sur le site Web de SEDAR à l'adresse www.sedar.com et sur le site Web de la Securities Exchange Commission (« SEC ») des États-Unis à l'adresse www.sec.gov.

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Sears

Sears

TAB F

This is Exhibit "F" referred to in the

Affidavit of

JONATHAN WYPYCH

Sworn before me,

this 1ST day of March, 2018

A Commissioner for taking Affidavits

Shannon Beverley Ste. Marie, a Commissioner, etc.,
Province of Ontario, while a Student-at-Law.
Expires March 23, 2019.

2015
SEARS CANADA
ANNUAL REPORT

[redacted]

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Financial Highlights

(in CAD millions, except per share amounts)		**Fiscal 2015**		Fiscal 2014
Total revenue	$	**3,145.7**	$	3,424.5
Total same store sales (%)[1]		**(2.3)%**		(8.3)%
Total Core Retail same store sales (%)[1]		**(0.6)%**		(9.2)%
Adjusted EBITDA[1]		**(160.5)**		(122.4)
Net loss		**(67.9)**		(338.8)

		As at January 30, 2016		As at January 31, 2015
Cash	$	**313.9**	$	259.0
Working capital		**543.0**		522.0
Inventories		**664.8**		641.4
Total assets		**1,633.2**		1,774.1
Total long-term obligations, including principal payments on long-term obligations due within one year		**24.2**		28.1
Shareholders' equity		**554.2**		570.8

		As at January 30, 2016		As at January 31, 2015
Per share of capital stock				
Basic and diluted net loss	$	**(0.67)**	$	(3.32)
Shareholders' equity	$	**5.44**	$	5.60

[1] *Total same store sales, Core Retail same store sales and Adjusted Loss Before Interest, Taxes, Depreciation and Amortization ("EBITDA") are operating performance and non-International Financial Reporting Standards ("IFRS") measures, respectively. See Section 1.e. "Use of Non-IFRS Measures, Measures of Operating Performance and Reconciliation of Net Earnings (Loss) to Adjusted EBITDA".*

- Revenue was $3,145.7 million for the 52-week period ended January 30, 2016 ("Fiscal 2015") compared to $3,424.5 million for the 52-week period ended January 31, 2015 ("Fiscal 2014"), a decrease of $278.8 million. The decrease was primarily attributable to sales declines in home décor, Craftsman®, Air & Water Products ("CAWP"), fitness & recreation, major appliances and all product categories in Apparel & Accessories, partially offset by increased sales in home furnishings. Services and other revenue decreased by $29.2 million, primarily due to reduced shipping fees on sales to customers through our Direct channel, reduced sales of extended warranty service contracts and the loss of rental revenue from the sale of shopping centre joint arrangements in Fiscal 2014. Commission and licensee revenue decreased by $21.2 million, primarily due to reduced revenues after the termination of the credit card marketing and servicing agreement with JPMorgan Chase Bank, N.A. (Toronto Branch) ("JPMorgan Chase") in November 2015. Included in the total revenue decrease for Fiscal 2015 described above, was a decrease in our Direct channel of $97.8 million compared to Fiscal 2014, primarily due to a reduction in catalogues, pages within recurring catalogues and distribution, as well as shift in timing of distribution. Also included in the total revenue decrease for Fiscal 2015 described above, was the effect of store closures during and subsequent to Fiscal 2014, which negatively impacted revenue by $108.3 million.

- Total same store sales decreased 2.3% compared to Fiscal 2014. Same store sales in our full-line and Sears Home stores combined ("Core Retail" stores) decreased by 0.6% compared to Fiscal 2014. Total same store sales is a measure of operating performance used by management, the retail industry and investors to compare retail operations, excluding the impact of store openings and closures. See Section 1.e. "Use of Non-IFRS Measures, Measures of Operating Performance and Reconciliation of Net Earnings (Loss) to Adjusted EBITDA".

- Gross margin rate was 31.8% for Fiscal 2015 compared to 32.6% in Fiscal 2014. The decrease in gross margin rate was due primarily to the weakening Canadian dollar compared to the U.S. dollar resulting in reduced margins in home décor, home furnishings, CAWP, ranges, microwave, laundry, refrigerators, women's apparel and footwear, partially offset by increased margins in fitness & recreation, floorcare, sewing, children's wear and men's wear. Excluding the negative impact of the weakening Canadian dollar in Fiscal 2015, the gross margin rate would have improved by 150 bps to 34.1% in Fiscal 2015 compared to 32.6% in Fiscal 2014. The Company has an active program in place to respond to the effects of the weaker Canadian dollar. This program is expected to continue to partially mitigate foreign exchange risk for 2016. Gross margin rate for Fiscal 2015 was also impacted by the termination of the credit card marketing and servicing agreement with JPMorgan Chase, which negatively impacted the gross margin rate by 40 bps compared to Fiscal 2014.

- Adjusted EBITDA in Fiscal 2015 was a loss of $160.5 million compared to a loss of $122.4 million in Fiscal 2014, an increase of $38.1 million. Adjusted EBITDA was negatively impacted by $71.9 million due to the weakening Canadian dollar compared to the U.S. dollar, $27.8 million due to reduced revenues and incremental expenses incurred after the termination of the credit card marketing and servicing agreement with JPMorgan Chase, $10.8 million of costs incurred to update and modernize the Company's loyalty program, $5.4 million in restructuring costs and the loss of $2.1 million in rental income from the sale of shopping centre joint arrangements. These negative impacts were partially offset by an increase of $25.7 million related to the closure of underperforming stores during and subsequent to Fiscal 2014 and a decrease of $5.9 million in loyalty point redemptions. Excluding the impact of these items, Adjusted EBITDA for Fiscal 2015 improved by $48.3 million compared to Fiscal 2014. Adjusted EBITDA is a non-IFRS measure. See Section 1.e. "Use of Non-IFRS Measures, Measures of Operating Performance and Reconciliation of Net Earnings (Loss) to Adjusted EBITDA" regarding the use of non-IFRS measures and an explanation of the components of Adjusted EBITDA for the respective periods.

- Basic and diluted net loss per common share was $0.67 in Fiscal 2015 compared to a basic and diluted net loss per common share of $3.32 for Fiscal 2014.

- Total cash was $313.9 million as at January 30, 2016 compared to $259.0 million as at January 31, 2015. The increase of $54.9 million was primarily due to net proceeds received from the sale and leaseback transactions described in Note 27 "Gain on sale and leaseback transactions" of the Notes to the Consolidated Financial Statements for Fiscal 2015, proceeds from JPMorgan Chase arising on the sale of their portfolio of credit card accounts related to the Sears credit card and Sears Mastercard described in Note 28 "Gain on termination of credit card arrangement" of the Notes to the Consolidated Financial Statements for Fiscal 2015, and income tax refunds related to the reassessment of the taxation years 2006 to 2008 and the carry back of losses generated by the Company during Fiscal 2014. The impact of these increases was partially offset by cash used for operating activities and purchases of property, plant and equipment and intangible assets during Fiscal 2015.

Management's Discussion and Analysis

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Management's Discussion and Analysis

"Sears", "Sears Canada", "we", "us", "our" or "the Company" refers to Sears Canada Inc. and its subsidiaries.

Management's Discussion and Analysis ("MD&A") contains commentary from the Company's management regarding strategy, operating results and financial position. Management is responsible for its accuracy, integrity and objectivity, and develops, maintains and supports the necessary systems and controls to provide reasonable assurance as to the accuracy of the comments contained herein.

This MD&A should be read in conjunction with the Consolidated Financial Statements and Notes to the Consolidated Financial Statements for the 52-week period ended January 30, 2016 ("Fiscal 2015" or "2015"). The 2014 fiscal year refers to the 52-week period ended January 31, 2015 ("Fiscal 2014" or "2014"). The 2013 fiscal year refers to the 52-week period ended February 1, 2014 ("Fiscal 2013" or "2013"). The fourth quarter unaudited results for Fiscal 2015, Fiscal 2014 and Fiscal 2013 reflect the 13-week periods ended January 30, 2016 ("Q4 2015"), January 31, 2015 ("Q4 2014") and February 1, 2014 ("Q4 2013"), respectively. The third quarter unaudited results for Fiscal 2015 and Fiscal 2014 reflect the 13-week periods ended October 31, 2015 ("Q3 2015") and November 1, 2014 ("Q3 2014"), respectively. The second quarter unaudited results for Fiscal 2015 and Fiscal 2014 reflect the 13-week periods ended August 1, 2015 ("Q2 2015") and August 2, 2014 ("Q2 2014"), respectively. The first quarter unaudited results for Fiscal 2015 and Fiscal 2014 reflect the 13-week periods ended May 2, 2015 ("Q1 2015") and May 3, 2014 ("Q1 2014"), respectively. The 2016 fiscal year refers to the 52-week period ending January 28, 2017 ("Fiscal 2016" or "2016").

This MD&A is current as of March 17, 2016 unless otherwise stated.

Additional information relating to the Company, including the Company's Annual Information Form ("AIF") dated March 17, 2016 and the Management Proxy Circular ("MPC") dated March 17, 2016, can be obtained by contacting Sears Canada's Corporate Communications department at 416-941-4428. The 2015 Annual Report, together with the AIF and MPC, have been filed with securities regulators in Canada through the System for Electronic Document Analysis and Retrieval ("SEDAR") and with the U.S. Securities and Exchange Commission ("SEC"), and can be accessed on the SEDAR website at sedar.com and on the SEC website at sec.gov. Additional information relating to the Company is also available online at sedar.com and at sec.gov.

Unless otherwise indicated, all amounts are expressed in Canadian dollars.

Cautionary Statement Regarding Forward-Looking Information

Certain information in the Annual Report and in this MD&A is forward-looking and is subject to important risks and uncertainties. Forward-looking information concerns, among other things, the Company's future financial performance, business strategy, plans, expectations, goals and objectives, and includes statements concerning possible or assumed future results set out under Section 1 "Company Performance", Section 2 "Consolidated Financial Position, Liquidity and Capital Resources", Section 3 "Financial Instruments", Section 6 "Shareholders' Equity", Section 8 "Accounting Policies and Estimates" and Section 10 "Risks and Uncertainties". Often, but not always, forward-looking information can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "scheduled", "estimates", "intends", "anticipates" or "does not anticipate" or "believes", or variations of such words and phrases, or statements that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. Although the Company believes that the estimates reflected in such forward-looking information are reasonable, such forward-looking information involves known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking information, and undue reliance should not be placed on such information.

Factors which could cause actual results to differ materially from current expectations include, but are not limited to: the proposed real estate transactions in this release, which are subject to closing conditions, not closing on the agreed terms or at all; the Company's inability to compete effectively in the highly competitive retail industry; weaker business performance in the fourth quarter; the ability of the Company to successfully implement its strategic initiatives; changes in consumer spending; ability to retain senior management and key personnel; ability of the Company to successfully manage its inventory levels; customer preference toward product offerings; ability to secure an agreement with a financial institution for the management of the credit and financial services operations; ability of the Company's new loyalty program to attract and retain customers; the ability of the Company to migrate sufficient catalogue customers and business to online; disruptions to the Company's computer systems; economic, social, and political instability in jurisdictions where suppliers are located; structural integrity and fire safety of foreign factories; increased shipping costs, potential transportation delays and interruptions; damage to the reputations of the brands the Company sells; changes in the Company's relationship with its suppliers; the Company's reliance on third parties in outsourcing arrangements, and their ability to perform the arrangements for which they have been engaged; willingness of the Company's vendors to provide acceptable payment terms; the outcome of product liability claims; any significant security compromise or breach of the Company's customer, associate or Company information; the outcome of pending legal proceedings; compliance costs associated with environmental laws and regulations; maintaining adequate insurance coverage; seasonal weather patterns; ability to make, integrate and maintain acquisitions and investments; general economic conditions; liquidity risk and failure to fulfill financial obligations; fluctuations in foreign currency exchange rates; the credit worthiness and financial stability of the Company's licensees and business partners; possible limits on our access to capital markets and other financing sources; interest rate fluctuations and other changes in funding costs and investment income; the possibility of negative investment returns in the Company's pension plan or an increase to the defined benefit obligation including the potentially restrictive impact such an increase might have on credit availability; the impairment of intangible and other long-lived assets; the possible future termination of certain intellectual property rights associated with the "Sears" name and brand names if Sears Holdings Corporation ("Holdings") reduces its interest in the Company to less than 10%; potential conflict of interest of some of the directors and executive officers of the Company owing to their ownership of Holdings' common stock; possible changes in the Company's ownership by Edward S. Lampert, ESL Investments and other significant shareholders; productivity improvement and cost reduction initiatives and whether such initiatives will yield the expected benefits; competitive conditions in the businesses in which the Company participates; new accounting pronouncements, or changes to existing pronouncements, that impact the methods the Company uses to report our financial position and results from operations; uncertainties associated with critical accounting assumptions and estimates; and changes in laws, rules and regulations applicable to the Company. Information about these factors, other material factors that could cause actual results to differ materially from expectations and about material factors or assumptions applied in preparing forward-looking information, may be found in this MD&A and in the Company's 2015 Annual Report under Section 10 "Risks and Uncertainties" and elsewhere in the Company's filings with securities regulators. The forward-looking information in the Annual Report and in this MD&A are, unless otherwise indicated, stated as of the date hereof and is presented for the purpose of assisting investors and others in understanding the Company's financial position and results of operations as well as the Company's objectives and strategic priorities, and may not be appropriate for other purposes. The Company does not undertake any obligation to update publicly or to revise any forward-looking information, whether as a result of new information, future events or otherwise, except as required by law.

Five Year Summary

	Fiscal 2015	Fiscal 2014	Fiscal 2013	Fiscal 2012[1,2]	Fiscal 2011[1]
Results for the year (in CAD millions)					
Total revenue	**$ 3,145.7**	$ 3,424.5	$ 3,991.8	$ 4,346.5	$ 4,619.3
Depreciation and amortization	**48.4**	89.3	111.4	126.5	114.9
(Loss) earnings before income taxes	**(62.7)**	(360.0)	490.0	114.2	(56.9)
Income tax (expense) recovery	**(5.2)**	21.2	(43.5)	(13.0)	6.6
Net (loss) earnings	**(67.9)**	(338.8)	446.5	101.2	(50.3)
Dividends declared	**—**	—	509.4	101.9	—
Capital expenditures[3]	**45.4**	54.0	70.8	101.6	84.3
Year end position (in CAD millions)					
Accounts receivable, net	**$ 59.4**	$ 73.0	$ 83.3	$ 77.7	$ 116.2
Inventories	**664.8**	641.4	774.6	851.4	823.9
Property, plant and equipment	**444.1**	567.6	785.5	1,118.5	872.0
Total assets	**1,633.2**	1,774.1	2,392.3	2,504.7	2,730.7
Working capital	**543.0**	522.0	567.0	410.7	471.0
Total long-term obligations, including principal payments on long-term obligations due within one year	**24.2**	28.1	35.9	59.4	122.7
Shareholders' equity	**554.2**	570.8	1,073.8	1,076.4	1,092.0
Per share of capital stock					
Basic net (loss) earnings	**$ (0.67)**	$ (3.32)	$ 4.38	$ 0.99	$ (0.48)
Dividends declared	**—**	—	5.00	1.00	—
Shareholders' equity	**5.44**	5.60	10.54	10.57	10.63
Financial ratios					
Return on average shareholders equity (%)	**(12.1)**	(41.2)	41.5	9.3	(4.3)
Current ratio	**1.9**	1.8	1.7	1.5	1.5
Return on total revenues (%)	**(2.2)**	(9.9)	11.2	2.3	(1.1)
Debt/equity ratio (%)	**4.4**	4.9	3.3	5.5	11.2
Pre-tax margin (%)	**(2.0)**	(10.5)	12.3	2.6	(1.2)
Breakdown of the Company's locations					
Full-Line Department stores[4]	**95**	113	118	118	122
Sears Home stores	**41**	47	48	48	48
Outlet stores[4]	**23**	11	11	11	11
Specialty type: Appliances and Mattresses	**—**	1	4	4	4
Hometown stores	**125**	201	234	261	285
Sears Home Services Showrooms	**—**	—	8	9	13
Corbeil	**33**	35	34	33	30
National Logistics Centres	**6**	6	6	6	6
Sears Floor Covering Centres	**—**	—	—	—	17
Cantrex	**—**	—	—	—	799
Travel offices	**84**	96	97	101	108
Catalogue and online merchandise pick-up locations	**1,213**	1,335	1,446	1,512	1,734

[1] *The 2012 fiscal year ("Fiscal 2012"), and 2011 fiscal year ("Fiscal 2011") refer to the 53-week period ended February 2, 2013 and the 52-week period ended January 28, 2012, respectively.*

[2] *Adjusted to reflect the changes resulting from the retrospective application of the change in accounting policy related to the adoption of accounting standard "IFRS 11, Joint Arrangements".*

[3] *Capital expenditures represents purchases for which payment has been made by the end of the fiscal year.*

[4] *During 2015, the Company reclassified 16 full-line department stores to the Outlet channel based on changes to their merchandise mix. However, they continue to operate as full-line stores.*

Quarterly Performance

The Company's operations are seasonal in nature. Accordingly, merchandise and service revenue, as well as performance payments received from JPMorgan Chase, referred to as commission revenue, will vary by quarter based upon consumer spending behaviour. Refer to Note 28 "Gain on termination of credit card arrangement" of the Notes to the Consolidated Financial Statements for Fiscal 2015 for additional information on the expiry of the Company's agreement with JPMorgan Chase on November 15, 2015. Historically, the Company's revenue and operating results are higher in the fourth quarter than in any of the other three quarters due to the holiday season. The Company is able to adjust certain variable costs in response to seasonal revenue patterns. However, costs such as occupancy are fixed, causing the Company to report a disproportionate level of earnings in the fourth quarter. Other factors that affect the Company's sales and results of operations include actions by its competitors, timing of its promotional events, and changes in population and other demographics. In addition, the Company offers seasonal goods and services. The Company sets inventory levels and promotional activity to be aligned with its strategic initiatives and expected consumer demands. Businesses that generate revenue from the sale of seasonal merchandise and services are subject to the risk of changes in consumer spending behaviour as a result of unseasonable weather patterns.

Accordingly, the Company's results for any one fiscal quarter are not necessarily indicative of the results to be expected for any other quarter, or the full year, and total same store sales for any particular period may increase or decrease.

The table below outlines select financial data for the eight most recently completed quarters. The quarterly results are unaudited and have been prepared under IFRS.

	Fourth Quarter		Third Quarter		Second Quarter		First Quarter	
(in CAD millions, except per share amounts)	**2015**	2014	2015	2014	2015	2014	2015	2014
Total revenue	**$ 887.6**	$ 972.5	$ 792.1	$ 834.5	$ 768.8	$ 845.8	$ 697.2	$ 771.7
Net earnings (loss)	**$ 30.9**	$ (123.6)	$ (53.2)	$ (118.7)	$ 13.5	$ (21.3)	$ (59.1)	$ (75.2)
Basic and diluted net earnings (loss) per share	**$ 0.30**	$ (1.21)	$ (0.52)	$ (1.16)	$ 0.13	$ (0.21)	$ (0.58)	$ (0.74)

Common Share Market Information

The table below provides prices for the Company's common shares traded on the Toronto Stock Exchange (symbol: SCC).

	Fourth Quarter		Third Quarter		Second Quarter		First Quarter	
	2015	2014	2015	2014	2015	2014	2015	2014
High	**$ 11.25**	$ 12.85	$ 9.88	$ 16.65	$ 11.32	$ 16.45	$ 12.60	$ 17.12
Low	**$ 5.44**	$ 10.26	$ 7.08	$ 8.56	$ 7.11	$ 13.51	$ 9.18	$ 12.31
Close	**$ 6.15**	$ 11.90	$ 9.01	$ 10.85	$ 7.50	$ 14.02	$ 9.36	$ 16.50
Average daily trading volume	**10,764**	16,648	6,462	44,681	12,772	15,501	16,113	20,288

The table below provides prices for the Company's common shares traded on the NASDAQ (symbol: SRSC), quoted in U.S. dollars.

	Fourth Quarter		Third Quarter		Second Quarter		First Quarter	
	2015	2014[1]	2015	2014[1]	2015	2014[1]	2015	2014[1]
High	**$ 8.48**	$ 10.87	$ 7.63	$ 9.94	$ 9.24	$ —	$ 10.00	$ —
Low	**$ 3.75**	$ 9.06	$ 5.22	$ 9.50	$ 5.47	$ —	$ 7.66	$ —
Close	**$ 4.40**	$ 9.32	$ 7.25	$ 9.66	$ 5.77	$ —	$ 7.69	$ —
Average daily trading volume	**46,971**	110,423	45,153	20,009	31,540	—	40,631	—

[1] *Began trading on the NASDAQ during Q3 2014.*

1. Company Performance

a. Merchandising Operations and Business Overview

For Fiscal 2014, the Company was comprised of two reportable segments, Merchandising and Real Estate Joint Arrangements. Prior to Fiscal 2015, the Company disposed of its real estate joint arrangement interests in shopping centres. As a result, the Company is now comprised of one reportable segment, Merchandising. The Company's merchandising operations include the sale of goods and services through the Company's Retail channels, which includes its full-line, Sears Home, Hometown, Outlet, Corbeil Electrique Inc. ("Corbeil") stores and its Direct (catalogue/internet) channel. It also includes service revenue related primarily to logistics services provided through the Company's wholly-owned subsidiary S.L.H. Transport Inc. ("SLH") and product repair. Commission revenue includes travel, home improvement services, wireless and long distance plans, insurance and performance payments received from JPMorgan Chase under the Company's credit card marketing and servicing alliance with JPMorgan Chase. The Company's credit card marketing and servicing alliance agreement with JPMorgan Chase ended on November 15, 2015 (See Note 28 "Gain on termination of credit card arrangement" of the Notes to the Consolidated Financial Statements for Fiscal 2015 for additional information). Licensee fee revenue is comprised of payments received from licensees that operate within the Company's stores (See Note 14 "Financial instruments" of the Notes to the Consolidated Financial Statements for Fiscal 2015 for additional information).

Retail Channel

Full-Line Department stores – Sears full-line department stores are located primarily in suburban enclosed shopping centres. The major merchandise categories include the following:

Apparel & Accessories - women's, men's and children's apparel, nursery products, cosmetics, jewellery, footwear and accessories.

Home & Hardlines - home furnishings and mattresses, home décor, lawn and garden, hardware, leisure, seasonal products, toys, floorcare, sewing and major appliances.

Although merchandise varies by store, the merchandise sales mix between the two major categories are approximately 40% Home & Hardlines and 60% Apparel & Accessories.

Full-line department stores include a Sears catalogue and online merchandise pick-up location. Sears Travel offices and licensed businesses, such as optical centres and portrait studios, are also located in many of the Company's full-line department stores.

Sears Home stores – Sears Home stores are typically located in power centres and present an extensive selection of furniture, mattresses and box-springs, and major appliances. The majority of these stores range in size from 35,000 to 60,000 square feet.

Hometown stores – Sears Hometown locations are primarily independently operated and offer major appliances, furniture, mattresses and box-springs, outdoor power equipment as well as a catalogue and online merchandise pick-up location. Most Hometown stores are located in markets that lack the population to support a full-line department store.

Outlet stores – Sears Outlet stores offer clearance merchandise, primarily from the Company's full-line department stores and Direct channel, as well as surplus big-ticket items from all channels.

Corbeil – Corbeil is a chain of major appliance specialty stores located throughout Québec, the Greater Toronto Area and Eastern Ontario. There are 33 stores in the chain, 16 of which are franchised. The chain also includes two liquidation centres and one distribution centre in Montreal. Stores average approximately 6,500 square feet in size.

Sears Travel – Sears Travel service operates within 84 Sears locations across Canada, an online travel service at searstravel.ca and 1-866-FLY-SEARS, which connects customers to the nearest geographical branch. TravelBrands Inc. manages the day-to-day operations of all Sears Travel offices and the Sears Travel website.

Sears Home Services

Operating under the Sears Home Improvements brand, the Company offers Sears Carpet and Duct cleaning, Installation and Assembly of products purchased at Sears stores, Sears Custom Window Coverings, Sears Windows & Doors and Sears Heating & Cooling.

Direct Channel

The Company's Direct channel is comprised of its catalogue business, which is Canada's largest general merchandise catalogue business, and sears.ca, one of Canada's leading online shopping destinations with over 102.1 million visits in Fiscal 2015, including desktop and mobile platforms. With two distribution centres exclusively dedicated to servicing the Direct channel and 1,213 catalogue and online merchandise pick-up locations nationwide, Sears can deliver orders in most areas of the country. Orders can be placed by telephone at 1-800-26-SEARS, by mail, by fax, online at sears.ca or in person through Sears stores and catalogue agents. At the end of Fiscal 2015 1,066 of the total 1,213 catalogue and online merchandise pick-up locations were independently operated under local ownership, with the remaining 147 units located within Sears locations.

Catalogue – In Fiscal 2015, 21 different catalogues were distributed throughout Canada, including seven Specialogues, designed to offer more seasonally relevant merchandise to specific customers.

Sears.ca – The Company's website, sears.ca, enables the Company to provide new merchandise offers directly to web customers and highlights the Company's extensive general merchandise selection. In Fiscal 2015, the Company continued to invest in its online capabilities to improve the user experience, and engage new customers and demographics. Sears is committed to maintaining its reputation as a trusted Canadian retailer by focusing on customer privacy and satisfaction when shopping on sears.ca.

Logistics

National Logistics Centres ("NLC") – Sears operates six logistics centres strategically located across the country. The logistics centres are comprised of seven owned and one leased warehouse facilities which serve all channels of the business. The total floor area of these logistics centres was 6.5 million square feet at the end of Fiscal 2015, of which 5.0 million square feet is devoted to warehouse and logistics operations. The remainder of the space is utilized for other Sears operations, including call centre services. See Note 29 "Assets classified as held for sale" of the Notes to the Consolidated Financial Statements for Fiscal 2015 for additional information.

S.L.H. Transport Inc. ("SLH") – The Company's wholly-owned subsidiary, SLH, transports merchandise to stores and catalogue and online merchandise pick-up locations. SLH is responsible for providing logistics services for the Company's merchandising operations by operating a fleet of tractors and trailers to provide carrier services for Sears and contract carrier services to commercial customers who are unrelated to Sears. The arrangements with third parties increase SLH's fleet utilization and improve the efficiency of its operations. SLH has developed a nationwide distribution network to provide better and more consistent service to its customers.

As at the end of Fiscal 2015, Fiscal 2014, and Fiscal 2013, the Company's locations were distributed across the country as follows:

	Atlantic	**Québec**	**Ontario**	**Prairies**	**Pacific**	**As at January 30, 2016 Total**	As at January 31, 2015 Total	As at February 1, 2014 Total
Full-Line Department stores	10	23	31	18	13	**95**	113	118
Sears Home stores	1	9	18	8	5	**41**	47	48
Outlet stores[1]	3	4	12	3	1	**23**	11	11
Specialty type: Appliances and Mattresses stores	—	—	—	—	—	—	1	4
Corporate stores	14	36	61	29	19	**159**	172	181
Hometown stores	26	14	14	43	28	**125**	201	234
Sears Home Services Showrooms[2]	—	—	—	—	—	—	—	8
Corbeil Franchise stores	—	14	2	—	—	**16**	16	16
Corbeil Corporate stores	—	12	5	—	—	**17**	19	18
Corbeil	—	26	7	—	—	**33**	35	34
NLCs[3]	—	1	2	2	1	**6**	6	6
Travel offices	7	21	34	12	10	**84**	96	97
Catalogue and online merchandise pick-up locations	174	292	337	299	111	**1,213**	1,335	1,446

1 *During 2015, the Company reclassified 16 full-line department stores to the Outlet channel based on changes to their merchandise mix. However, they continue to operate as full-line stores.*

2 *During Fiscal 2014, the Company closed all Sears Home Services Showrooms in connection to the SHS receivership described in Note 14 "Financial instruments" in the Company's Consolidated Financial Statements for Fiscal 2015.*

3 *Sears operates six logistics centres strategically located across the country, each referred to as a NLC. The NLC's are comprised of seven owned and one leased warehouse facilities which serve all channels of the business.*

In Fiscal 2015, the Company closed two Full line stores, six Sears Home stores, four Outlet stores, one Appliances and Mattresses store, 76 Hometown stores, two Corbeil Corporate stores, 12 Travel offices and 131 catalogue and online merchandise pick-up locations. The Company opened nine catalogue and online merchandise pick-up locations.

In Fiscal 2014, the Company closed five full-line department stores, as a result of lease terminations and lease amendments that occurred during Fiscal 2013. The Company also closed one Sears Home store, three Appliances and Mattresses stores, 34 Hometown stores, one Travel office and 142 catalogue and online merchandise pick-up locations. The Company opened one Hometown store, one Corbeil Franchise store and 31 catalogue and online merchandise pick-up locations, and converted one Corbeil Franchise store to a Corbeil Corporate store.

In Fiscal 2013, the Company closed 28 Hometown stores, four Travel offices, and 66 catalogue and online merchandise pick-up locations. The Company also opened one Hometown store.

As of the end of Fiscal 2015, the number of selling units leased and owned by the Company was as follows:

	Leased	Owned	Total
Full-Line Department	86	9	95
Sears Home stores	39	2	41
Outlet stores[1]	21	2	23
Hometown stores[2]	7	—	7
Corbeil[2]	29	—	29
Total[3]	**182**	**13**	**195**

1 *During 2015, the Company reclassified 16 full-line department stores to the Outlet channel based on changes to their merchandise mix. However, they continue to operate as full-line stores.*

2 *Only Hometown and Corbeil stores that are not independently owned and operated are included.*

3 *Travel offices and catalogue and online merchandise pick-up locations are located in other Sears stores or local businesses, and therefore not included.*

As at the end of Fiscal 2015, Fiscal 2014, and Fiscal 2013, the gross square footage for corporate store locations (both owned and leased) and NLCs was as follows:

(square feet, millions)	**As at January 30, 2016**	As at January 31, 2015	As at February 1, 2014
Full-Line Department stores	**12.4**	14.1	15.2
Sears Home stores	**1.8**	2.1	2.1
Outlet stores[1]	**2.2**	0.9	0.9
Other[2]	**0.2**	0.3	0.3
NLCs	**6.5**	6.6	6.5
Total	**23.1**	24.0	25.0

1 *During 2015, the Company reclassified 16 full-line department stores to the Outlet channel based on changes to their merchandise mix. However, they continue to operate as full-line stores.*

2 *Other includes Hometown and Corbeil stores that are not independently owned and operated. Other also included Appliances and Mattresses as at January 31, 2015 and prior.*

Gross square footage for corporate store locations as at January 30, 2016 decreased compared to January 31, 2015 due to the closure of underperforming stores.

Gross square footage for corporate store locations as at January 31, 2015 decreased compared to February 1, 2014 due to five full-line store closures as a result of lease terminations and lease amendments that occurred during Fiscal 2013.

b. Core Capabilities

The Company's key resources and capabilities include its employees, brand equity, specialized services, national presence and logistics, as described below.

Employees

- Sears employees are a critical asset to the Company. Sears works to inspire its employees to enrich the lives of Canadians through products, services, community involvement and experiences.

Brand equity

- The Company works closely with its suppliers in product development, design and quality standards. Many lines of merchandise are manufactured with features exclusive to Sears and are sold under the Company's private label brands, such as Kenmore®, Craftsman®, Attitude®, Jessica®, Nevada®, N°. 99 Wayne Gretzky Collection®, Pure NRG Athletics® and Whole Home®. The Company believes that its private label and national brands have significant recognition and value with customers.

Specialized services

- Apart from retail merchandise, the Company also offers a wide range of specialized services to attract a broad customer base. These services include product repair, parts sales, protection agreements, portrait studios, optical services, travel, floral delivery, wireless and long distance plans and insurance.

National presence

- The Company's physical and online presence puts it in proximity to most customers across Canada. As of the end of Fiscal 2015, Sears operated 95 Full-line department stores, 222 specialty stores (including 41 Sears Home stores, 23 Outlet stores, 125 Hometown stores primarily operated under independent local ownership and 33 Corbeil stores), 84 Sears Travel offices and over 1,200 merchandise pick-up locations for orders placed through the catalogue or online at sears.ca.

Logistics

- The Company has the capability to move merchandise efficiently to stores, merchandise pick-up locations, or directly to customers. The Company's wholly-owned subsidiary, SLH, is responsible for providing transportation services for the Company's merchandising operations and has arrangements with third parties to increase SLH's revenue and fleet utilization, and improve its operating effectiveness. The Company conducts operations in six NLCs located in Vancouver, Calgary (two locations), Vaughan, Belleville and Montreal.

c. Strategic Initiatives

During Q2 2015, Sears Canada identified three strategic initiatives, which would form the basis of the Company's approach to being successful; they were designed to improve financial and operational results, utilize the Company's valuable cross-country footprint and enhance the shopping experience for Canadian consumers in an increasingly competitive retail landscape. A number of actions were taken during Fiscal 2015 to deliver high-quality products intended to drive sales and maintain a seamless customer experience across all channels and formats, while continuing to adjust the operating expense base and network to better reflect the size and needs of the current business.

The three strategic initiatives are as follows:

1. **Increase revenue** - Actions intended to increase top-line revenue, with the primary focus on building partnerships with vendors that include a commitment to a shop-in-shop concept where the vendors' expertise in product development matched with the Company's extensive distribution capability, will connect great products with Canadian families coast to coast.

2. **Operate profitably** - Actions to reduce inefficient spend in the Company, intended to provide for quarter-over-quarter and year-over-year improvements in EBITDA by getting costs aligned with the revenues generated by the business.

3. **Maintain a strong balance sheet** - Actions that work to strengthen the Company's balance sheet with cash to create a runway for improved earnings and financial stability to ensure Sears is able to maintain its financial flexibility and liquidity. Real estate transactions may form a portion of this area of focus; however, Sears is committed to maintaining a significant presence across Canada in locations that are important to its retail business.

During Fiscal 2015, the Company made progress on its strategic initiatives, having executed the following:

Increase Revenue

- On November 16, 2015, the Company launched an update and modernization to its loyalty program that saw the introduction of a new loyalty card where points can be earned on purchases made in any tender accepted by Sears Canada. Existing Sears Club members retained all previously earned loyalty points which automatically transferred to the new card;

- Partnered with Wayne Gretzky to launch the N°. 99 Wayne Gretzky Collection, a new line of casual men's wear exclusive to Sears, which was available in stores, online and through the catalogue during Fall-Winter 2015 and whose Spring 2016 line was showcased at Toronto's World MasterCard Fashion Week in October 2015, and which subsequently won FASHION Magazine's People's Choice Award for Best Show of Fashion Week;

- The Company considers both its private brands and national brands to be important complements to each other in order to achieve a compelling offer of products to Canadians coast to coast. During 2015, the company continued to promote its key private brands which include Kenmore®, Craftsman®, Jessica® and Nevada® among others, and also added the following national brands: Jessica Simpson®, ONEFASHION by Vero Moda and Gloria Vanderbilt in women's apparel, U.S. Polo Assn.® in children's apparel, Royal Velvet® in Home Decor, and LG and Frigidaire® in Air Conditioning.

- Increased size of mattress shops in full-line stores to display an average of 50 beds per store. The Company refreshed mattress shops with paint, new signing and updated point-of-sale information material, and incorporated more accessories into the displays including pillows, mattress pads and headboards. The Company also began utilizing measurement tools to capture the number of accessories sold with each mattress;

- Began transitioning our product allocation methodology to place a greater emphasis on balancing inventory to a store's sales potential rather than to a store's space. This change in methodology is expected to impact the second half of Fiscal 2016 by driving additional sales, improving inventory turnover, and reducing the amount of clearance inventory.

- Continued the expansion of shop-in-shop concepts with multiple vendor partners and brands including Nygard Slims, Point Zero and U.S. Polo Assn. During 2015, 216 shops were installed, which included 25 N°. 99 Wayne Gretzky Collection installations; and

- Partnered with world-renowned designer Debbie Travis to develop a new line of outdoor home décor and accessories exclusive to Sears which is expected to launch in Spring 2016.

Operate profitably

- During 2015, the Company implemented cost management initiatives with the objective of reducing recurring operating expenses by between $100.0 million to $125.0 million on an annualized basis as compared to 2014. The initiatives were completed during 2015, and have resulted in annualized savings of approximately $125.0 million as compared to 2014. Selling, administrative and other expenses decreased by $225.7 million in Fiscal 2015, as compared to Fiscal 2014. Excluding transformation expenses, impairment charges and other non-recurring items included in selling, administrative and other expenses in both periods, operating expenses decreased $119.5 million or 9.0% in Fiscal 2015, as compared to Fiscal 2014, primarily because of these cost management initiatives. The Company continues to study its business configuration and expects to implement further improvements to the cost structure in 2016 of between $100.0 million to $127.0 million on an annualized basis compared to 2015;

- During 2015, the Company began the implementation of Oracle Retail Merchandise and Merchandise Financial Planning Systems, the acquisition of which was previously announced in 2014. The systems will mark the transformation of our merchandise financial planning capabilities with the intent to optimize cash flow, inventory productivity, receipt flow and in-stock position. The transformation will include the creation of two Centres of Excellence: Merchandise Planning & Inventory Allocation and Merchandise Financial Planning. The focus on applying enhanced pre-season planning capabilities in addition to techniques designed to improve product allocation by store, are expected to improve turnover, margin and cash flow; and

- On February 23, 2016, the Company announced that it had assigned the leases of eight underperforming Sears Home stores to Leon's Furniture Ltd., located throughout British Columbia, Ontario and New Brunswick with effective dates of between June 1, 2016 and July 1, 2016. The Company continues to be responsible for the operating lease obligations as of the effective dates of the assignments until the next renewal period for each of the leases, and will continue to include these amounts as part of the Company's operating lease obligations as disclosed in Section 2 "Consolidated Financial Position, Liquidity and Capital Resources". By assigning these leases, the Company will save approximately $6.9 million annually in lease costs related to the properties.

Maintain a strong balance sheet

- Closed the sale and leaseback transactions with the Concord Pacific Group of Companies ("Concord") previously announced on March 11, 2015, for net proceeds of $130.0 million. The sale and leaseback transactions included the Company's stores and surrounding area located at the North Hill Shopping Centre in Calgary, Alberta, Metropolis at Metrotown in Burnaby, British Columbia and Cottonwood Mall in Chilliwack, British Columbia. The Company has entered into long-term leases for each property, with early termination options available to both the Company and Concord, and the Company will continue to operate the stores located at these shopping centres under the leases with no impact to customers or employees at these locations. The proceeds from the transaction were used for general corporate purposes;

- On September 2, 2015, the Company announced that it had reached an agreement to sell a warehouse for $18.1 million, and had reached an agreement for the sale and leaseback of a non-mall based store property (which the Company will continue to operate post-sale) for an additional $10.0 million. Both agreements are subject to customary closing conditions. The Company's expectation is that these transactions will close during 2016, but there can be no assurance that either of the transactions will be completed on the agreed or contemplated terms or at all;

- On November 13, 2015, the Company announced it had entered into an agreement with Tamworth Properties Inc. to sell and lease back its logistics centre located in Vaughan, Ontario, for a total consideration of $100.0 million. This property, including land, building and equipment had a net carrying value of approximately $76.3 million included in "Property, plant and equipment" and "Investment properties" in the Consolidated Statements of Financial Position as at January 30, 2016. The agreement is subject to customary closing conditions and the transaction is expected to close during 2016, but there can be no assurance that the transactions will be completed on the agreed or contemplated terms or at all. The ultimate amount and timing of gain recognition will be determined upon closing of the transaction. Upon closing, the Company will continue to operate the logistics centre under a long-term lease and there is not expected to be any impact to employees at the logistics centre as a result of this announcement. The proceeds from the transaction will be used for general corporate purposes. Upon closing, the logistics centre will no longer be registered as collateral under the Amended Credit Facility (see Note 17 "Long-term obligations and finance costs" in the Consolidated Financial Statements for Fiscal 2015 for additional information);

- On November 23, 2015, the Company received a payment of $174.0 million from JPMorgan Chase as a result of the sale of their portfolio of credit card accounts and related receivables related to the Sears credit card and the Sears MasterCard. The proceeds from the transaction were used for general corporate purposes;

- On December 3, 2015, the Company announced that it had reached an agreement to sell a vacant warehouse for $8.5 million. The agreement is subject to customary closing conditions. The Company's expectation is that the transaction will close in 2016, but there can be no assurance that the transactions will be completed on the agreed or contemplated terms or at all; and

- On March 18, 2016, the Company announced it had entered into an agreement to sell and lease back its logistics centre located in Calgary, Alberta, for a total consideration of $83.9 million. This property, including land, building and equipment had a net carrying value of approximately $40.9 million included in "Property, plant and equipment" in the Consolidated Statements of Financial Position as at January 30, 2016. The agreement is subject to customary closing conditions and the transaction is expected to close during Fiscal 2016, but there can be no assurance that the transactions will be completed on the agreed or contemplated terms or at all. The ultimate amount and timing of gain recognition will be determined upon closing of the transaction. Upon closing, the Company will continue to operate the logistics centre under a long-term lease and there is not expected to be any impact to employees at the logistics centre as a result of this announcement. The proceeds from the transaction will be used for general corporate purposes. Upon closing, the logistics centre will no longer be registered as collateral under the Amended Credit Facility (see Note 17 "Long-term obligations and finance costs" in the Consolidated Financial Statements for Fiscal 2015 for additional information).

On November 3, 2015, the Company announced the appointment of Carrie Kirkman as President and Chief Merchant. Ms. Kirkman's distinguished career and proven track record in Canadian retail, and her unwavering commitment to excellence, has added significant depth to the Sears Canada leadership team and will enable the Company to accelerate the positive momentum in the business. Ms. Kirkman will support Executive Chairman, Brandon G. Stranzl, as they work to stabilize, revitalize and modernize Sears Canada to enhance the experience of the customer and the profitability of the Company. Ms. Kirkman was appointed as a director of the Company on November 1, 2015.

"Live Green" Initiatives

The Company conducts its operations with a commitment to achieving success on economic, social and environmental levels. The Company continues to build upon the following three-point plan on environmental sustainability:

1. Enable customers to "Live Green", reduce their energy bills and create a healthy home;

2. Reduce the environmental impact of Sears Canada's operations; and

3. Nurture a culture of sustainability among the Company's employees, customers and the communities in which the Company operates.

Sears continued to focus on these three priorities by implementing or continuing the following initiatives during Fiscal 2015:

- Continued to reduce the Company's electricity consumption through the re-commissioning of existing Building Automation systems, retrofitting exterior signs with LED light bulbs and replacing selected HVAC units nationally. These efforts helped drive electricity consumption savings of 14.1 million kWh or 6.3% from February 2015 to December 2015, as compared to the same period in 2014 including the effect of store closures; and

- Sears Canada's recycling partner, GreenSpace Waste Solutions ("GreenSpace"), began handling the Company's recycling activities in June 2014. GreenSpace was selected for its ability to maximize the value of recycled materials and for its expertise in driving waste diversion activities. This has resulted in more than $245,000 in avoided costs during 2015, including rebates for recycled materials, as compared to 2014. GreenSpace has also improved reporting capabilities, which helps the Company track progress towards its long-term goal of diverting 90% of its waste from landfill. As of the end of 2015, the Company was diverting approximately 70% of its waste from landfill.

Corporate Social Responsibility

The following is a summary of the results of the Company and its employees' corporate social responsibility efforts during Fiscal 2015:

- Conducted the fifth annual *Sears Great Canadian Run* with community-based relays from Toronto, Ontario to Blue Mountain/Collingwood, Ontario, from Ottawa, Ontario to Montebello, Québec and from Calgary, Alberta to Camp Kindle, Alberta, which is a camp for children with cancer. The three runs facilitated approximately $794,000 in support for childhood cancer;

- Sponsored the eighth annual *Sears National Kids Cancer Ride* (the "Ride"), in cooperation with Coast to Coast Against Cancer Foundation. This 7,000 km cycling journey rolled across Canada from September 10-26, raising funds and awareness for the fight against childhood cancer. This year, Sears, its corporate partners and its employees raised or donated approximately $410,000 in funds, logistical support and services for the Ride. The Ride raised approximately $334,000 for childhood cancer through donations from Sears customers and employees;

- Coordinated two Gold Month fundraisers in May and November to raise money for the fight against childhood cancer, raising approximately $215,000. The stores provided a point-of-sale opportunity for shoppers to support national pediatric cancer initiatives such as the Sears Childhood cancer Fellowship at the Hospital for Sick Children in Toronto, Ontario; and

- Introduced the "12 Days of Giving" in December where each day featured different initiatives for Sears employees to serve their local communities. Events included Sears first National Volunteer Day for Sears employees to volunteer at their store's local charity partners and organized special skate parties in local communities.

Including the above, Sears, its customers, vendors and its employees raised or facilitated the donation of approximately $7.0 million for various charitable organizations such as Boys & Girls Clubs of Canada, Operation Wish and Opération Enfant Soleil through a variety of events and initiatives.

d. Outlook

As Canadians' needs in a shopping experience evolve, Sears Canada is focused on keeping pace with emerging trends and innovative delivery of products and services, and is reinvigorating its business to better serve and grow with its customers.

As management continues to change the Company's trajectory and establish prominence and relevance with Canadians within a continually changing retail landscape, Sears Canada is setting and prioritizing strategic initiatives that support three key strategic initiatives: Increase Revenue, Operate Profitably and Maintain a Strong Balance Sheet.

Although management believes that Sears will achieve its long-term goal of sustainable and profitable growth, there can be no assurance that the Company will successfully implement the initiatives or whether such initiatives will yield the expected results. For a discussion of the risks and uncertainties inherent in the Company's business, refer to Section 10 "Risks and Uncertainties".

e. Use of Non-IFRS Measures, Measures of Operating Performance and Reconciliation of Net Earnings (Loss) to Adjusted EBITDA

The Company's Consolidated Financial Statements for Fiscal 2015 are prepared in accordance with IFRS. Management uses IFRS, non-IFRS and operating performance measures as key performance indicators to better assess the Company's underlying performance and provides this additional information in this MD&A.

Total same store sales is a measure of operating performance used by management, the retail industry and investors to compare retail operations, excluding the impact of store openings and closures. Total same store sales represents merchandise sales generated through operations in the Company's Full-line, Sears Home, Hometown, Outlet and Corbeil stores that were continuously open during both of the periods being compared. Core Retail same store sales represents merchandise sales generated through operations in the Company's Full-line and Sears Home stores (and exclude Hometown, Outlet and Corbeil, which are considered non-Core), that were continuously open during both of the periods being compared. More specifically, the same store sales metric compares the same calendar weeks for each period and represents the 13 and 52-week periods ended January 30, 2016 and January 31, 2015. The calculation of same store sales is a performance metric and may be impacted by store space expansion and contraction. The same store sales metric exclude the Direct channel.

A reconciliation of the Company's total merchandising revenue to total same store sales is outlined in the following table:

	Fourth Quarter		Fiscal	
(in CAD millions)	**2015**	2014	**2015**	2014
Total merchandising revenue	**$ 887.6**	$ 972.5	**$ 3,145.7**	$ 3,420.5
Non-comparable sales	**194.1**	231.3	**708.5**	814.2
Total same store sales	**693.5**	741.2	**2,437.2**	2,606.3
Percentage change in total same store sales	**(1.6)%**	(9.1)%	**(2.3)%**	(8.3)%
Percentage change in total same store sales by category				
Apparel & Accessories	**0.4 %**	(10.7)%	**(4.6)%**	(6.2)%
Home & Hardlines	**(3.5)%**	(8.0)%	**(0.7)%**	(10.3)%
Percentage change in Core Retail same store sales	**(0.8)%**	(9.8)%	**(0.6)%**	(9.2)%
Percentage change in Core Retail same store sales by category				
Apparel & Accessories	**2.9 %**	(11.2)%	**(1.5)%**	(6.9)%
Home & Hardlines	**(5.1)%**	(8.2)%	**— %**	(11.3)%

Adjusted EBITDA is a non-IFRS measure and excludes finance costs, interest income, income tax expense or recovery, depreciation and amortization and income or expenses of a non-recurring, unusual or one-time nature. Adjusted EBITDA is a measure used by management, the retail industry and investors as an indicator of the Company's operating performance, ability to incur and service debt, and as a valuation metric. The Company uses Adjusted EBITDA to evaluate the operating performance of its business as well as an executive compensation metric. While Adjusted EBITDA is a non-IFRS measure, management believes that it is an important indicator of operating performance because it excludes the effect of financing and investing activities by eliminating the effects of interest and depreciation and removes the impact of certain non-recurring items that are not indicative of our ongoing operating performance. Therefore, management believes Adjusted EBITDA gives investors greater transparency in assessing the Company's results of operations.

A reconciliation of the Company's net earnings (loss) to Adjusted EBITDA is outlined in the following table:

	Fourth Quarter		Fiscal	
(in CAD millions, except per share amounts)	**2015**	2014	**2015**	2014
Net earnings (loss)	**$ 30.9**	$ (123.6)	**$ (67.9)**	$ (338.8)
Transformation expense[1]	**9.7**	0.3	**16.5**	19.8
Gain on termination of credit card arrangement[2]	**(170.7)**	—	**(170.7)**	—
Gain on sale and leaseback transactions[3]	**—**	—	**(67.2)**	—
Gain on settlement of retirement benefits[4]	**—**	—	**(5.1)**	(10.6)
Gain on sale of interest in joint arrangements[5]	**—**	—	**—**	(35.1)
Other asset impairment[6]	**74.6**	99.3	**74.6**	115.0
Warehouse (impairment reversal) impairment[7]	**(11.3)**	—	**(11.3)**	44.4
TBI costs[8]	**—**	—	**6.4**	—
Environmental remediation costs for assets held for sale[9]	**3.2**	—	**3.2**	—
SHS warranty and other costs[10]	**—**	3.1	**—**	9.7
Goodwill impairment[11]	**—**	—	**—**	2.6
Lease exit costs[12]	**—**	—	**—**	4.1
Depreciation and amortization expense	**11.1**	23.2	**48.4**	89.3
Finance costs (recovery)	**2.1**	(4.7)	**9.7**	1.0
Interest income	**(0.3)**	(0.6)	**(2.3)**	(2.6)
Income tax (recovery) expense	**(0.5)**	(25.8)	**5.2**	(21.2)
Adjusted EBITDA[13]	**$ (51.2)**	$ (28.8)	**$ (160.5)**	$ (122.4)
Basic net earnings (loss) per share	**$ 0.30**	$ (1.21)	**$ (0.67)**	$ (3.32)

1 *Transformation expense during 2015 and 2014 relates primarily to severance costs incurred during the period. These costs are included in "Selling, administrative and other expenses" in the Company's Consolidated Financial Statements for Fiscal 2015.*

2 *Gain on termination of credit card arrangement represents the net gain on the sale of JPMorgan Chase's portfolio of credit card accounts and related receivables related to the Sears credit card and Sears Mastercard during 2015, described in Note 28 "Gain on termination of credit card arrangement" in the Company's Consolidated Financial Statements for Fiscal 2015.*

3 *Gain on sale and leaseback transactions represents the net gain related to selling and leasing back certain properties owned by the Company located in Burnaby, British Columbia, Chilliwack, British Columbia and Calgary, Alberta during Q2 2015, described in Note 27 "Gain on sale and leaseback transactions" in the Company's Consolidated Financial Statements for Fiscal 2015.*

4 *Gain on settlement of retirement benefits relates to the settlement of retirement benefits of eligible members covered under the non-pension retirement plan during Q1 2015 and Q2 2014, described in Note 20 "Retirement benefit plans" in the Company's Consolidated Financial Statements for Fiscal 2015.*

5 *Gain on sale of interest in joint arrangements represents the gain associated with selling the Company's interest in certain properties co-owned with Ivanhoé Cambridge during 2014, described in Note 11 "Joint arrangements" in the Company's Consolidated Financial Statements for Fiscal 2015.*

6 *Other asset impairment represents the charge related to writing down the carrying value of the property, plant and equipment and intangibles of certain cash generating units during 2015 and 2014, described in Note 9 "Property, plant and equipment and investment properties" and Note 10 "Goodwill and intangible assets" in the Company's Consolidated Financial Statements for Fiscal 2015.*

7 *Warehouse (impairment reversal) impairment represents the partial reversal during Q4 2015 of the charge related to writing down the carrying value of the property, plant and equipment of the Montreal warehouse during Q3 2014 to fair value less costs to sell. The reversal during Q4 2015 is net of the charge related to writing down the carrying value of the property, plant and equipment of the Broad Street Logistics Centre located in Regina to fair value less costs to sell described in Note 9 "Property, plant and equipment and investment properties" and Note 29 "Assets classified as held for sale" in the Company's Consolidated Financial Statements for Fiscal 2015.*

8 *TBI costs represent the estimated costs to the Company related to TravelBrands Inc. (a licensee of the Company) filing for creditor protection during Q2 2015, described in Note 14 "Financial instruments" in the Company's Consolidated Financial Statements for Fiscal 2015.*

9 *Environmental remediation costs for assets held for sale relate to estimated costs required to restore the Park Street Logistics Centre located in Regina, in order to sell the asset. These costs are included in "Selling, administrative and other expenses" in the Company's Consolidated Financial Statements for Fiscal 2015.*

10 *SHS warranty and other costs represent the estimated costs to the Company related to potential claims for work that had been performed, prior to SHS Services Management Inc. (a former licensee of the Company) announcing it was in receivership, described in Note 14 "Financial instruments" in the Company's Consolidated Financial Statements for Fiscal 2015.*

11 *Goodwill impairment represents the charge related to the write-off of goodwill related to the Corbeil cash generating unit during Q2 2014, described in Note 10 "Goodwill and intangible assets" in the Company's Consolidated Financial Statements for Fiscal 2015.*

12 *Lease exit costs relate primarily to costs incurred to exit certain properties during 2014. These costs were included in "Selling, administrative and other expenses" in the Company's Consolidated Financial Statements for Fiscal 2015.*

13 *Adjusted EBITDA is a measure used by management, the retail industry and investors as an indicator of the Company's operating performance, ability to incur and service debt, and as a valuation metric. Adjusted EBITDA is a non-IFRS measure.*

Adjusted EBITDA and total same store sale metrics do not have any standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other reporting issuers. Adjusted EBITDA and total same store sales metrics should not be considered in isolation or as alternatives to measures prepared in accordance with IFRS.

f. Consolidated Financial Results

(in CAD millions)		Fiscal 2015	% Chg 2015 vs 2014	2014
Revenue	$	**3,145.7**	(8.1)% $	3,424.5
Cost of goods and services sold		**2,145.9**	(7.0)%	2,308.0
Selling, administrative and other expenses		**1,298.1**	(14.8)%	1,523.8
Operating loss		**(298.3)**	26.8 %	(407.3)
Gain on sales and leaseback transactions		**67.2**	100.0 %	—
Gain on termination of credit card arrangement		**170.7**	100.0 %	—
Gain on sale of interest in joint arrangements		—	(100.0)%	35.1
Gain on settlement of retirement benefits		**5.1**	(51.9)%	10.6
Finance costs		**9.7**	870.0 %	1.0
Interest income		**2.3**	(11.5)%	2.6
Loss before income taxes		**(62.7)**	82.6 %	(360.0)
Income tax (expense) recovery		**(5.2)**	(124.5)%	21.2
Net loss	$	**(67.9)**	80.0 % $	(338.8)

2015 compared with 2014 – Total revenue in Fiscal 2015 decreased by 8.1% to $3,145.7 million compared to $3,424.5 million during the same period in Fiscal 2014. Total same store sales decreased by 2.3%, while same store sales in Core Retail stores decreased by only 0.6% in Fiscal 2015 compared to Fiscal 2014. A significant part of the same store sales decline was due to the reduction of certain brands in cosmetics, weak performance in outdoor power equipment (where sales of snow throwers were heavily impacted by unseasonably warm weather, and sales of lawn equipment were heavily impacted by unseasonably cool weather) and electronics, a merchandise category which the Company has almost completely exited. Excluding these categories, total same store sales would have decreased by only 0.1%, and same store sales in Core retail stores would have increased by 1.6%. The balance of the decrease was primarily attributable to closed stores and lower sales in the Direct channel. The revenue in Fiscal 2015 relating to Home & Hardlines decreased by $123.8 million, or 7.7%, compared to the same period in Fiscal 2014, primarily due to sales volume declines in home décor, CAWP, fitness & recreation, toys, seasonal merchandise, electronics and major appliances, partially offset by increased sales in home furnishings. Included in the total revenue decrease in Fiscal 2015 for Home & Hardlines was the effect of store closures during and subsequent to Fiscal 2014, which negatively impacted revenue by $74.9 million. Total same store sales in Home & Hardlines decreased by 0.7% while same store sales in Home & Hardlines in Core Retail stores remained consistent compared to Fiscal 2014. Excluding the impact of the decline in outdoor power equipment and electronics for the reasons noted above, same store sales in Home & Hardlines in Core Retail stores increased by 2.9%. The revenue in Fiscal 2015 relating to Apparel & Accessories decreased by $106.1 million, or 8.7%, compared to Fiscal 2014, primarily due to sales declines in all product categories. Included in the total revenue decrease in Fiscal 2015 for Apparel & Accessories was the effect of store closures during and subsequent to Fiscal 2014, which negatively impacted revenue by $33.4 million. Total same store sales in Apparel & Accessories decreased by 4.6% while same store sales in Apparel & Accessories in Core Retail stores decreased by only 1.5% in Fiscal 2015 compared to Fiscal 2014. Excluding the impact of the decline in cosmetics for the reason noted above, same store sales in Apparel & Accessories in Core Retail stores in Fiscal 2015 was comparable to Fiscal 2014. Services and other revenue decreased by $29.2 million or 10.6%, compared to Fiscal 2014, primarily due to reduced shipping fees on sales to customers through our Direct channel, reduced sales of extended warranty service contracts and the loss of rental revenue from the sale of shopping centre joint arrangements in Fiscal 2014. Commission and licensee revenue decreased by $21.2 million, or 16.4%, compared to Fiscal 2014, primarily due to reduced revenues after the termination of the credit card marketing and servicing agreement with JPMorgan Chase in November 2015. Included in the total revenue decrease for Fiscal 2015 described above, was a decrease in our Direct channel of $98.0 million compared to Fiscal 2014, primarily due to a reduction in catalogues, pages within recurring catalogues and distribution, as well as shift in timing of distribution.

Total revenue recognized from points redemption under the loyalty program in Fiscal 2015 was $45.6 million (Fiscal 2014: $50.9 million) and total revenue deferred related to points issuances was $44.5 million (Fiscal 2014: $50.5 million). Total revenue recognized in Fiscal 2015 for unredeemed points (by exclusion from deferral in the loyalty point redemption rate) decreased to $9.4 million (Fiscal 2014: $11.0 million). The decreases in Fiscal 2015 were primarily due to less points issued and redeemed compared to Fiscal 2014.

Cost of goods and services sold was 7.0% lower in Fiscal 2015 compared to Fiscal 2014. The decrease was primarily attributable to lower sales volumes which included the effect of store closures during and subsequent to Fiscal 2014, partially offset by the weakening Canadian dollar compared to the U.S. dollar, which negatively impacted Fiscal 2015 by $73.7 million.

The Company's gross margin rate was 31.8% in Fiscal 2015 compared to 32.6% in Fiscal 2014. The decrease in the gross margin rate in Fiscal 2015 was primarily attributable to reduced margins in home décor, home furnishings, CAWP, seasonal merchandise, ranges, microwave, laundry, refrigerators, women's apparel and footwear, partially offset by increased margins in fitness & recreation, floorcare, sewing, children's wear and men's wear. Excluding the negative impact of the weakening Canadian dollar in Fiscal 2015, the gross margin rate would have improved by 150 bps (34.1% in Fiscal 2015 compared to 32.6% in Fiscal 2014). The Company has an active program in place to respond to the effects of the weaker Canadian dollar. The Company continues to maintain its foreign exchange hedging programs and operating processes to manage the impact of future volatility in the exchange rate. These programs and processes are expected to continue to partially mitigate foreign exchange risk in 2016. The gross margin rate for Fiscal 2015 was also impacted by the termination of the credit card marketing and servicing agreement with JPMorgan Chase which reduced the gross margin rate by 70 basis points.

Selling, administrative and other expenses, including depreciation and amortization expense, decreased by $225.7 million or 14.8% to $1,298.1 million in Fiscal 2015 compared to Fiscal 2014. Excluding transformation expenses of $16.5 million in Fiscal 2015 (Fiscal 2014 : $19.8 million), impairment charges and other non-recurring items in Fiscal 2015 and Fiscal 2014 as shown in the reconciliation of the Company's net earnings (loss) to Adjusted EBITDA in Section 1.e. "Use of Non-IFRS Measures, Measures of Operating Performance and Reconciliation of Net Earnings (Loss) to Adjusted EBITDA", selling, administrative and other expenses decreased by $119.5 million or 9.0%, in Fiscal 2015 compared to Fiscal 2014. The decrease in expenses, excluding non-recurring items, was primarily attributable to lower spending on advertising and payroll, as well as lower depreciation expenses. Advertising expense decreased primarily due to reductions in retail advertising and catalogue pages. Payroll expense decreased primarily due to a reduced number of employees, as a result of store closures and transformation actions in Fiscal 2015 and Fiscal 2014.

Depreciation and amortization expense in Fiscal 2015 decreased by $40.9 million to $48.4 million compared to Fiscal 2014, primarily due to the impairment of certain assets in Fiscal 2014 and the completion of the sale and leaseback transactions during Fiscal 2015 (see Note 27 "Gain on sale and leaseback transactions"of the Notes to the Consolidated Financial Statements for Fiscal 2015 for additional information). The Company regularly monitors the business for indicators of impairment, and assesses the potential impact to the carrying value of our assets on a quarterly basis. See Note 9 "Property, plant and equipment and investment properties", Note 10 "Goodwill and intangible assets" and Note 29 "Assets classified as held for sale" of the Notes to the Consolidated Financial Statements for Fiscal 2015 for additional information regarding impairment costs.

During Q2 2015, the Company completed the sale and leaseback of three properties to Concord Pacific Group of Companies ("Concord") as previously announced on March 11, 2015, for net proceeds of $130.0 million ($140.0 million of total consideration less $10.0 million of adjustments). The land and building sold for each property had a total net carrying value of approximately $53.1 million previously included in "Property, plant and equipment" in the Consolidated Statements of Financial Position. The total gain on the sale and leaseback transactions was $76.9 million, $67.2 million of which was recognized immediately in the Consolidated Statements of Net Loss and Comprehensive Loss. The remaining $9.7 million of the gain was deferred and is being amortized between four to seven years as a reduction in rent expense, included in "Selling, administrative and other expenses" in the Consolidated Statements of Net Loss and Comprehensive Loss. See Note 27 "Gain on sale and leaseback transactions" in the Notes to the Consolidated Financial Statements for Fiscal 2015 for additional information.

Finance costs in Fiscal 2015 increased by $8.7 million to $9.7 million compared to Fiscal 2014, primarily attributable to the interest expense on income tax assessments and reassessments for the current and prior years of $3.4 million (Fiscal 2014: interest recovery of $6.5 million on income tax reassessments for prior years), partially offset by lower commitment fees related to our Amended Credit Facility (as defined in Section 2 "Consolidated Financial Position, Liquidity and Capital Resources").

Interest income in Fiscal 2015 of $2.3 million was comparable to interest income in Fiscal 2014, and included refund interest on net cash income tax receipts of $1.1 million (2014: $0.1 million)

Income tax expense in Fiscal 2015 increased by $26.4 million to $5.2 million compared to an income tax recovery of $21.2 million in Fiscal 2014, primarily attributable to the non-recognition of deferred tax assets of $56.7 million in Fiscal 2015, partially offset by lower losses. The income tax recovery in Fiscal 2014 included the carry back of losses generated by the

Company in Fiscal 2014, to recover incomes taxes paid related to Fiscal 2013, and settlements reached for fiscal years 2006 to 2008, as described in Note 22 "Income taxes" of the Notes to the Consolidated Financial Statements for Fiscal 2015.

Adjusted EBITDA in Fiscal 2015 was a loss of $160.5 million compared to a loss of $122.4 million in Fiscal 2014, an increase of $38.1 million. Adjusted EBITDA was negatively impacted by $71.9 million due to the weakening Canadian dollar compared to the U.S. dollar, $27.8 million due to reduced revenues and incremental expenses incurred after the termination of the credit card marketing and servicing agreement with JPMorgan Chase, $10.8 million of costs incurred to update and modernize the Company's loyalty program, $5.4 million in restructuring costs and the loss of $2.1 million in rental income from the sale of shopping centre joint arrangements. These negative impacts were partially offset by an increase of $25.7 million related to the closure of underperforming stores during and subsequent to Fiscal 2014 and a decrease of $5.9 million in loyalty point redemptions. Excluding the impact of these items, Adjusted EBITDA for Fiscal 2015 improved by $48.3 million compared to Fiscal 2014. The programs and processes discussed above to counter the impact of the weaker Canadian dollar are expected to continue to partially mitigate foreign exchange risk for 2016. Adjusted EBITDA is a non-IFRS measure.

g. Fourth Quarter Results

		Fourth Quarter			
(in CAD millions)		**2015**	% Chg 2015 vs 2014		2014
Revenue	$	**887.6**	(8.7)%	$	972.5
Cost of goods and services sold		**632.5**	(6.6)%		676.9
Selling, administrative and other expenses		**393.6**	(12.6)%		450.3
Operating loss		**(138.5)**	10.5 %		(154.7)
Gain on termination of credit card arrangement		**170.7**	100.0 %		—
Finance costs (recovery)		**2.1**	144.7 %		(4.7)
Interest income		**0.3**	(50.0)%		0.6
Earnings (loss) before income taxes		**30.4**	120.3 %		(149.4)
Income tax recovery		**0.5**	(98.1)%		25.8
Net earnings (loss)	$	**30.9**	125.0 %	$	(123.6)

Q4 2015 compared with Q4 2014 – Total revenue in Q4 2015 decreased by 8.7% to $887.6 million compared to $972.5 million in Q4 2014. Total same store sales declined by 1.6%, while same store sales in Core Retail stores decreased by only 0.8% in Q4 2015 compared to Q4 2014. A significant part of the same store sales decline was due to the reduction of certain brands in cosmetics, weak performance in outdoor power equipment (where sales of snow throwers were heavily impacted by unseasonably warm weather) and electronics, a merchandise category which the Company has largely exited. Excluding these categories, same store sales would have increased by 1.0%, and same store sales in Core retail stores would have increased by 1.7%. The revenue in Q4 2015 relating to Home & Hardlines decreased by $54.8 million, or 12.2%, compared to Q4 2014, primarily due to sales volume declines in all product categories. Included in the total revenue decrease in Q4 2015 for Home & Hardlines was the effect of store closures subsequent to the end of Q4 2014, which negatively impacted revenue by $27.0 million. Total same store sales in Home & Hardlines decreased by 3.5% and same store sales in Home & Hardlines in Core Retail stores decreased by 5.1% in Q4 2015 compared to Q4 2014. Excluding the impact of declines in outdoor power equipment and electronics for the reasons noted above, same store sales in Home & Hardlines in Core Retail stores decreased by only 1.7%. The revenue in Q4 2015 relating to Apparel & Accessories decreased by $13.8 million, or 3.6% compared to Q4 2014, primarily due to sales volume declines in women's apparel, cosmetics & personal care, jewellery, accessories & luggage, footwear and women's intimates, partially offset by increased sales in children's wear. Included in the total revenue decrease in Q4 2015 for Apparel & Accessories was the effect of the store closures subsequent to the end of Q4 2014, which negatively impacted revenue by $9.7 million. Total same store sales in Apparel & Accessories increased by 0.4% and same store sales in Apparel & Accessories in Core Retail stores increased by 2.9% in Q4 2015 compared to Q4 2014. Excluding the impact of the decline in cosmetics for the reason noted above, same store sales in Apparel & Accessories in Core Retail stores increased by 4.7%. Included in the total revenue decrease in Q4 2015 was a decrease in Commission and licensee revenue of $21.7 million, or 61.1%, compared to Q4 2014, primarily due to reduced revenues after the termination of the credit card marketing and servicing agreement with JPMorgan Chase in November 2015. Refer to Note 28 "Gain on termination of credit card arrangement" of the Notes to the Consolidated Financial Statements for Fiscal 2015 for additional information. Also included in the total revenue decrease in Q4 2015 described above, was a decrease in our Direct channel of $34.5 million compared to Q4 2014, primarily due to a reduction in catalogues, pages within recurring catalogues and distribution, as well as shift in timing of distribution.

Total revenue recognized from points redemption under the loyalty program in Q4 2015 was $2.1 million (Q4 2014: $14.8 million) and total revenue deferred related to points issuances in Q4 2015 was $5.2 million (Q4 2014: $13.9 million). Total revenue recognized in Q4 2015 for unredeemed points (by exclusion from deferral in the loyalty point redemption rate) decreased to $1.0 million (Q4 2014: $3.1 million). The decreases in Q4 2015 were primarily due to less points issued and redeemed compared to Q4 2014.

Cost of goods and services sold was 6.6% lower in Q4 2015 compared to Q4 2014. This decrease was primarily attributable to lower sales volumes which included the impact of store closures subsequent to the end of Q4 2014, partially offset by the weakening Canadian dollar compared to the U.S. dollar, which negatively impacted Q4 2015 by $20.3 million.

The Company's gross margin rate was 28.7% in Q4 2015 compared to 30.4% in Q4 2014. The decrease in the gross margin rate was due primarily to reduced margin in all product categories in Home & Hardlines, and Apparel & Accessories. Excluding the negative impact of the weakening Canadian dollar in Fiscal 2015, the gross margin rate would have improved by 60 bps compared to Q4 2014 (31.0% in Q4 2015 compared to 30.4% in Q4 2014). The Company has an active program in place to respond to the effects of the weaker Canadian dollar. The Company continues to maintain its foreign exchange hedging programs and operating processes to manage the impact of future volatility in the exchange rate. These programs and processes are expected to continue to partially mitigate foreign exchange risk in 2016. The gross margin rate for Q4 2015 was also impacted by the termination of the credit card marketing and servicing agreement with JPMorgan Chase which reduced the gross margin rate by 230 basis points.

Selling, administrative and other expenses, including depreciation and amortization expense decreased by $56.7 million or 12.6% to $393.6 million in Q4 2015 compared to Q4 2014. Excluding transformation expenses of $9.7 million in Q4 2015 (Q4 2014: $0.3 million), impairment charges and other non-recurring items in Q4 2015 as shown in the reconciliation of the Company's net earnings (loss) to Adjusted EBITDA in Section 1.e. "Use of Non-IFRS Measures, Measures of Operating Performance and Reconciliation of Net Earnings (Loss) to Adjusted EBITDA", selling, administrative, and other expenses decreased by $30.2 million, or 8.7%, in Q4 2015 compared to Q4 2014. The decrease in expenses, excluding non-recurring items, was primarily attributable to lower spending on advertising and payroll, as well as lower depreciation expenses. Advertising expense decreased primarily due to reductions in retail advertising and catalogue pages. Payroll expense decreased primarily due to a reduced number of employees, as a result of store closures and transformation actions in Fiscal 2015 and Fiscal 2014.

Depreciation and amortization expense in Q4 2015 decreased by $12.1 million, compared to Q4 2014, primarily due to the impairment of certain assets in Fiscal 2014 and the completion of the sale and leaseback transactions during Fiscal 2015 (see Note 27 "Gain on sale and leaseback transactions"of the Notes to the Consolidated Financial Statements for Fiscal 2015 for additional information). The Company regularly monitors the business for indicators of impairment, and assesses the potential impact to the carrying value of our assets on a quarterly basis. See Note 9 "Property, plant and equipment and investment properties", Note 10 "Goodwill and intangible assets" and Note 29 "Assets classified as held for sale" of the Notes to the Consolidated Financial Statements for Fiscal 2015 for additional information regarding impairment costs.

Finance expense in Q4 2015 increased to $2.1 million compared to finance recovery of $4.7 million in Q4 2014, primarily attributable to the interest expense on income tax assessments and reassessments for the current and prior years of $0.6 million (Q4 2014: interest recovery of $6.4 million on income tax assessments for prior years).

Interest income in Q4 2015 of $0.3 million was comparable to interest income in Q4 2014.

Income tax recovery decreased to $0.5 million in Q4 2015 compared to $25.8 million in Q4 2014. The income tax recovery in Q4 2014 included the carry back of losses generated by the Company in Fiscal 2014, to recover incomes taxes paid related to Fiscal 2013, and settlements reached for fiscal years 2006 to 2008.

Adjusted EBITDA in Q4 2015 was a loss of $51.2 million, compared to a loss of $28.8 million in Q4 2014, an increase of $22.4 million. Adjusted EBITDA was negatively impacted by $18.8 million due to the weakening Canadian dollar compared to the U.S. dollar, $27.8 million due to reduced revenues and incremental expenses incurred after the termination of the credit card marketing and servicing agreement with JPMorgan Chase, $4.7 million of costs incurred to update and modernize the Company's loyalty program and $1.0 million in restructuring costs. These negative impacts were partially offset by an increase of $13.6 million related to the closure of underperforming stores subsequent to Q4 2014, and a decrease of $5.9 million in loyalty point redemptions. Excluding the impact of these items, Adjusted EBITDA for Q4 2015 improved by $10.4 million compared to Q4 2014. The programs and processes discussed above to counter the impact of the weaker Canadian dollar are expected to continue to partially mitigate foreign exchange risk for 2016. Adjusted EBITDA is a non-IFRS measure.

2. Consolidated Financial Position, Liquidity and Capital Resources

Current assets as at January 30, 2016 were $1,133.7 million, which was $16.1 million lower than as at January 31, 2015. The decrease was primarily due to a $91.3 million decrease in income taxes recoverable primarily due to refunds received related to fiscal years 2006 to 2008 and the carry back of losses generated by the Company during Fiscal 2014, a $13.6 million decrease in accounts receivable primarily relating to the termination of the credit card arrangement with JPMorgan Chase. The decreases were partially offset by a $54.9 million increase in cash, a $23.4 million increase in inventory primarily due to increased inventory costs from the weakening of the Canadian dollar compared to the U.S. dollar and an $8.8 million increase in assets classified as held for sale due to the announcement of the future closure of Park Street Logistics Centre described in Note 29 "Assets classified as held for sale" of the Notes to the Consolidated Financial Statements for Fiscal 2015.

Current liabilities as at January 30, 2016 were $590.7 million, which was $37.1 million lower than as at January 31, 2015. The decrease was primarily due to a $26.7 million decrease in accounts payable and accrued liabilities primarily due to timing of payments for inventory receipts and expense reductions and a $12.9 million decrease in deferred revenue primarily related to reduced sales of gift cards, and a decrease in points issuances under the loyalty program.

Inventories were $664.8 million as at January 30, 2016 compared to $641.4 million as at January 31, 2015. The $23.4 million increase in the inventory balance is due to increased inventory costs from the weakening of the Canadian dollar compared to the U.S. dollar, partially offset by reduced inventory related to store closures.

Total cash was $313.9 million as at January 30, 2016, as compared to $259.0 million as at January 31, 2015. The increase of $54.9 million was primarily due to net proceeds received from the sale and leaseback transactions described in Note 27 "Gain on sale and leaseback transactions" of the Notes to the Consolidated Financial Statements for Fiscal 2015, proceeds from JPMorgan Chase arising on the sale of their portfolio of credit card accounts related to the Sears credit card and Sears Mastercard described in Note 28 "Gain on termination of credit card arrangement" of the Notes to the Consolidated Financial Statements for Fiscal 2015, and income tax refunds related to the reassessment of the 2006 to 2008 taxation years and the carry back of losses generated by the Company during Fiscal 2014. The impact of these increases was partially offset by cash used for operating activities and purchases of property, plant and equipment and intangible assets during Fiscal 2015.

Total assets and liabilities as at the end of Fiscal 2015 and Fiscal 2014 are as follows:

(in CAD millions)	**As at January 30, 2016**	As at January 31, 2015
Total assets	**$ 1,633.2**	$ 1,774.1
Total liabilities	**$ 1,079.0**	$ 1,203.3

Total assets as at January 30, 2016 decreased by $140.9 million to $1,633.2 million compared to $1,774.1 million as at January 31, 2015, primarily due to decreases in property plant and equipment of $123.5 million resulting from impairment of property, plant and equipment and intangible assets as well as the sale of assets to Concord and depreciation, decreases in income taxes recoverable of $91.3 million and accounts receivable of $13.6 million, partially offset by increases in cash of $54.9 million, inventories of $23.4 million, assets classified as held for sale of $8.8 million and intangible assets of $6.3 million primarily related to expenditures for upgrades to the Company's Information Technology ("IT") infrastructure.

Total liabilities as at January 30, 2016 decreased by $124.3 million to $1,079.0 million compared to $1,203.3 million as at January 31, 2015, primarily due to a decrease in the retirement benefit liability of $80.5 million resulting from the remeasurement of the defined benefit retirement plans, and contributions to these plans by the Company exceeding the retirement benefit plans expense for Fiscal 2015, described in Note 20 "Retirement benefits plans" of the Consolidated Financial Statements for Fiscal 2015. The decrease in total liabilities was also due to decreases in accounts payable and accrued liabilities of $26.7 million, other taxes payable of $17.3 million and deferred revenue of $15.5 million, partially offset by an increase in provisions of $17.2 million.

Cash flow used for operating activities - Cash flow used for operating activities decreased by $63.1 million in Fiscal 2015 to $201.5 million, as compared to cash flow used for operating activities of $264.6 million in Fiscal 2014. The Company's primary source of operating cash flow is the sale of goods and services to customers and the primary use of cash in operating activities is the purchase of merchandise inventories. The decrease in cash used for operating activities was primarily attributable to a lower net loss, after adjusting for depreciation and amortization expense, net impairment losses, gain on sale and leaseback transactions, gain on termination of credit card arrangement and the gain on sale of interest in joint arrangements. The decrease was also attributable to tax refunds received in Fiscal 2015 related to taxation years 2006 to 2008 and the carry back of losses generated by the Company in Fiscal 2014, partially offset by higher contributions to the retirement benefit plans.

Cash flow generated from investing activities - Cash flow generated from investing activities was $258.9 million in Fiscal 2015, as compared to cash flow generated from investing activities of $18.9 million in Fiscal 2014. The increase of $240.0 million in cash generated from investing activities was primarily due to $174.0 million of proceeds received from the termination of the credit card arrangement with JPMorgan Chase described in Note 28 "Gain on termination of credit card arrangement" of the Notes to the Consolidated Financial Statements for Fiscal 2015, $130.0 million of proceeds received from the sale and leaseback transactions in Fiscal 2015, partially offset by purchases of property, plant and equipment and intangible assets of $45.4 million. Fiscal 2014 included $71.7 million of proceeds from the sale of interest in joint arrangements described in the Note 11 "Joint arrangements" of the Consolidated Financial Statements for Fiscal 2015, partially offset by purchases of property, plant and equipment and intangible assets of $54.0 million.

Cash flow used for financing activities - Cash flow used for financing activities decreased to $5.8 million in Fiscal 2015 compared to $11.0 million in Fiscal 2014, a decrease of $5.2 million. Fiscal 2014 financing activities included the repayment of long-term obligations associated with the Company's interests in certain shopping centre joint arrangements that were disposed of during Fiscal 2014.

Contractual Obligations

Contractual obligations, including payments due over the next five fiscal years and thereafter, are shown in the following table:

		Contractual Cash Flow Maturities				
(in CAD millions)	Carrying Amount	Total	Within 1 year	1 year to 3 years	3 years to 5 years	Beyond 5 years
Accounts payable and accrued liabilities	$ 332.7	$ 332.7	$ 332.7	$ —	$ —	$ —
Finance lease obligations including payments due within one year[1]	24.2	30.2	5.6	10.0	8.7	5.9
Operating lease obligations[2]	n/a	376.3	81.2	130.2	81.5	83.4
Royalties[2]	n/a	15.9	3.4	7.2	5.3	—
Purchase agreements[2,4]	n/a	13.4	12.2	0.5	0.5	0.2
Retirement benefit plans obligations[3]	326.9	65.6	20.2	39.3	5.9	0.2
	$ 683.8	**$ 834.1**	**$ 455.3**	**$ 187.2**	**$ 101.9**	**$ 89.7**

1 *Cash flow maturities related to finance lease obligations, including payments due within one year, include annual interest on finance lease obligations at a weighted average rate of 7.6%.*

2 *Operating lease obligations, royalties and certain purchase agreements are not reported in the Consolidated Statements of Financial Position.*

3 *Payments are based on a funding valuation as at December 31, 2013 which was completed on June 30, 2014. Any obligation beyond 2019 would be based on a funding valuation to be completed as at December 31, 2016.*

4 *Certain vendors require minimum purchase commitment levels over the term of the contract. A portion of these obligations are included in "Other long-term liabilities" in the Consolidated Statements of Financial Position.*

Retirement Benefit Plans

The Company currently maintains a defined benefit registered pension plan and a defined contribution registered pension plan which covers eligible, regular full-time employees as well as some of its part-time employees. The defined benefit plan provides pensions based on length of service and final average earnings. In addition to a registered retirement savings plan, the pension plan includes a non-registered supplemental savings arrangement in respect to the defined benefit plan. The non-registered portion of the plan is maintained to enable certain employees to continue saving for retirement in addition to the registered limit as prescribed by the Canada Revenue Agency. The Company also maintains a defined benefit non-pension retirement plan which provides life insurance, medical and dental benefits to eligible retired employees through a health and welfare trust ("Other Benefits Plan"). Also provided for under the health and welfare trust are short-term disability payments for active employees.

In Fiscal 2015, the Company's retirement benefit plan obligations decreased by $80.5 million to $326.9 million compared to Fiscal 2014 primarily due to an increase in the discount rate and contributions to the retirement benefit plans by the Company exceeding the retirement benefit plans expense for Fiscal 2015.

In December 2013, the Company amended the early retirement provision of its defined benefit plan to eliminate a benefit for employees who voluntarily resign prior to age of retirement, with effect January 1, 2015. In addition, the Company amended the defined benefit plan for improvements that increase portability of employee benefits, with effect March 1, 2014. In December 2013, the Company froze the benefits offered under the Other Benefits Plan to benefits levels as at January 1, 2015. Refer to Note 20 "Retirement benefit plans" of the Notes to the Consolidated Financial Statements for Fiscal 2015 for more details.

During Fiscal 2015 the Company made a voluntary offer to settle medical and dental benefits of eligible members covered under the Other Benefits Plan. The Company paid $4.0 million to settle acceptances from the Other Benefits plan offer and recorded a pre-tax gain on settlement of retirement benefits of $5.1 million ($5.4 million settlement gain less fees of $0.3 million) during Fiscal 2015 related to these offers as shown in the Consolidated Statements of Net Loss and Comprehensive Loss. This payment is included in "Retirement benefit plans contributions" in the Consolidated Statements of Cash Flows. To determine the settlement gain, the Other Benefits plan was remeasured as at the date of settlement, which also resulted in a $2.0 million increase to "Other comprehensive income (loss)" ("OCI").

During Fiscal 2014, the Company's defined benefit plan offered lump sum settlements to those terminated employees who previously elected to defer the payment of the defined benefit pension until retirement. The accepted offers of $23.6 million were settled by the end of October 2014. In addition, the Company made a voluntary offer to settle medical and dental benefits of eligible members covered under the Other Benefits Plan. The Company incurred expenses of $0.8 million related to these offers, during 2014 and these expenses were included in "Selling, administrative and other expenses" in the Consolidated Statements of Net Loss and Comprehensive Loss. In 2014, the Company paid $13.8 million to settle acceptances from the Other Benefits Plan offer included in "Retirement benefit plans contributions" in the Consolidated Statements of Cash Flows, and recorded a pre-tax gain on settlement of retirement benefits of $10.6 million ($11.4 million settlement gain less fees of $0.8 million) related to these offers as shown in the Consolidated Statements of Net Loss and Comprehensive Loss. To determine the settlement gain, the Other Benefits plan was remeasured as at the date of settlement, which also resulted in a $2.7 million increase to OCI.

The Company measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at January 31. The most recent actuarial valuation of the pension plan for funding purposes is dated December 31, 2013, which was completed on June 30, 2014. An actuarial valuation of the health and welfare obligations is performed at least every three years, with the last valuation completed as of January 31, 2014.

During Fiscal 2014, the Company changed the target asset allocation to 55-80% fixed income and 20-45% equity for the defined benefit registered pension plan. For the assets in the health and welfare trust, included in Other Benefit Plans, the asset allocation is 100% fixed income. As at the end of Fiscal 2015 and 2014, the assets were in line with the target allocation range. The asset allocation may be changed from time to time in terms of weighting between fixed income, equity and other asset classes as well as within the asset classes themselves.

The plan's target allocation is determined taking into consideration the amounts and timing of projected liabilities, the Company's funding policies and expected returns on various asset classes. To develop the expected long-term rate of return on assets assumption, the Company considered the historical returns and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio.

Starting in 2016, the Corporation is refining the method used to estimate the interest components of the net periodic benefit cost for pension and other post retirement benefits. Previously, this cost was estimated utilizing a single weighted-average discount rate derived from the yield curve used to measure the defined benefit obligation at the beginning of the year. Under the refined method, we have elected to utilize a full yield curve approach in the estimation of these components by applying the specific spot rates along the yield curve used in the determination of the benefit obligation to the relevant projected cash flows. This change was made to provide a more precise measurement of interest costs by improving the correlation between projected benefit cash flows to the corresponding spot yield curve rates. Differentiating in this way represents a refinement in the basis of estimation applied in prior periods. This change does not affect the measurement of the total defined benefit obligation recorded on the Consolidated Statement of Financial Position as at January 30, 2016 or any other period. This change is accounted for prospectively as a change in accounting estimate.

Capital Resources

The Company's capital expenditures, working capital needs, debt repayment and other financing needs are funded primarily through cash generated from operations and existing cash on hand. In selecting appropriate funding choices, the Company's objective is to manage its capital structure in such a way as to diversify its funding sources, while minimizing its funding costs and risks. Sears expects to be able to satisfy all of its financing requirements through cash on hand, cash generated by operations and, if necessary, availability under the Company's credit facility as described below. The Company's cost of funding is affected by general economic conditions, including the overall interest rate environment, as well as the Company's financial performance, credit ratings and fluctuations of its credit spread over applicable reference rates.

The Company's debt consisted of finance lease obligations. In September 2010, the Company entered into an $800.0 million senior secured revolving credit facility (the "Credit Facility") with a syndicate of lenders with a maturity date of September 10, 2015. On May 28, 2014, the Company announced that it had extended the term of its Credit Facility (the "Amended Credit Facility") to May 28, 2019 and reduced the total credit limit to $300.0 million. The Amended Credit Facility is secured with a first lien on inventory and credit card receivables. The Company incurred additional transaction costs of $1.0 million in Fiscal 2014 related to the Amended Credit Facility.

Availability under the Amended Credit Facility is determined pursuant to a borrowing base formula, up to a maximum availability of $300.0 million. Availability under the Amended Credit Facility was $120.1 million as at January 30, 2016 after application of the pension deficit reserve (January 31, 2015: $260.7 million). In 2013, as a result of judicial developments relating to the priorities of pension liability relative to certain secured obligations, the Company provided additional security to the lenders by pledging certain real estate assets as collateral, thereby partially reducing the potential reserve amount the lenders could apply. As at January 30, 2016, six properties in Canada had been registered under the Amended Credit Facility. The reserve amount may increase or decrease in the future based on changes in estimated net pension deficits in the event of a wind-up, and based on the value of real estate assets pledged as additional collateral.

The Amended Credit Facility contains covenants which are customary for facilities of this nature and the Company was in compliance with all covenants as at January 30, 2016.

As at January 30, 2016, the Company had no borrowings on the Amended Credit Facility and had unamortized transaction costs associated with the Amended Credit Facility of $3.2 million included in "Other long-term assets" in the Consolidated Statements of Financial Position (January 31, 2015: no borrowings and unamortized transaction costs of $4.2 million included in "Other long-term assets"). In addition, the Company had $63.3 million (January 31, 2015: $39.3 million) of letters of credit outstanding against the Amended Credit Facility. These letters of credit cover various payment obligations. Interest on drawings under the Amended Credit Facility is determined based on bankers' acceptance rates for one to three month terms or the prime rate plus a spread. Interest amounts on the Amended Credit Facility are due monthly and are added to principal amounts outstanding if not paid.

As at January 30, 2016, the Company had outstanding merchandise letters of credit of U.S. $4.8 million (January 31, 2015: U.S. $6.9 million) used to support the Company's offshore merchandise purchasing program with restricted cash pledged as collateral.

Upon completion of the sale and leaseback transactions with Concord, the Company was released from all previous agreements with Concord, and the demand mortgage and the demand mortgage for $25.0 million previously secured by the property in Burnaby, British Columbia, was discharged.

3. Financial Instruments

The Company is exposed to credit, liquidity and market risk as a result of holding financial instruments. Market risk consists of foreign exchange, interest rate risk, fuel price and natural gas price risk. See Note 14 "Financial instruments" of the Notes to the Consolidated Financial Statements for Fiscal 2015 for additional information.

Credit risk

Credit risk refers to the possibility that the Company can suffer financial losses due to the failure of the Company's counterparties to meet their payment obligations. Exposure to credit risk exists for derivative instruments, cash, accounts receivable and other long-term assets.

Cash, accounts receivable, derivative instruments and investments included in other long-term assets totaling $381.2 million as at January 30, 2016 (January 31, 2015: $340.5 million) expose the Company to credit risk should the borrower default on maturity of the instruments. The Company manages this exposure through policies that require borrowers to have a minimum credit rating of A, and limiting investments with individual borrowers at maximum levels based on credit rating.

The Company is exposed to minimal credit risk from third parties as a result of ongoing credit evaluations and review of accounts receivable collectability. An allowance account included in "Accounts receivable, net" in the Consolidated Statements of Financial Position, totaled $6.0 million as at January 30, 2016 (January 31, 2015: $8.3 million). As at January 30, 2016, no individual party represented 10% or more of the Company's net accounts receivable (January 31, 2015: one party represented 11.0% of the Company's net accounts receivable).

Liquidity risk

Liquidity risk is the risk that the Company may not have cash available to satisfy financial liabilities as they come due. The Company actively maintains access to adequate funding sources to seek to ensure it has sufficient available funds to meet current and foreseeable financial requirements at a reasonable cost.

Market risk

Market risk exists as a result of the potential for losses caused by changes in market factors such as foreign currency exchange rates, interest rates and commodity prices.

Foreign exchange risk

The Company enters into foreign exchange contracts to reduce the foreign exchange risk with respect to U.S. dollar denominated assets and liabilities and purchases of goods or services. As at January 30, 2016, there were forward contracts outstanding with a notional value of U.S. $168.0 million (January 31, 2015: U.S. $40.0 million) and a fair value of $6.6 million included in "Derivative financial assets" (January 31, 2015: $7.2 million included in "Derivative financial assets") in the Consolidated Statements of Financial Position. These derivative contracts have settlement dates extending to October 2016. The intrinsic value portion of these derivatives has been designated as a cash flow hedge for hedge accounting treatment under International Accounting Standards ("IAS") 39, *Financial Instruments: Recognition and Measurement*. These contracts are intended to reduce the foreign exchange risk with respect to anticipated purchases of U.S. dollar denominated goods purchased for resale ("hedged item"). As at January 30, 2016, the designated portion of these hedges was considered effective.

While the notional principal of these outstanding financial instruments is not recorded in the Consolidated Statements of Financial Position, the fair value of the contracts is included in "Derivative financial assets" or "Derivative financial liabilities", depending on the fair value, and classified as current or long-term, depending on the maturities of the outstanding contracts. Changes in the fair value of the designated portion of contracts are included in OCI for cash flow hedges, to the extent the designated portion of the hedges continues to be effective, with any ineffective portion included in "Cost of goods and services sold" in the Consolidated Statements of Net Loss and Comprehensive Loss. Amounts previously included in OCI are reclassified to "Cost of goods and services sold" in the same period in which the hedged item impacted net loss earnings.

During Fiscal 2015, the Company recorded a loss of $3.2 million (2014: loss of $5.0 million), in "Selling, administrative and other expenses" in the Consolidated Statements of Net Loss and Comprehensive Loss, relating to the translation or settlement of U.S. dollar denominated monetary items consisting of cash, accounts receivable and accounts payable.

The year end exchange rate was 0.714 U.S. dollars to one Canadian dollar. A 10% appreciation or depreciation of the U.S. dollar and/or the Canadian dollar exchange rate was determined to have an after-tax impact on net loss of $0.4 million for U.S. dollar denominated balances included in cash and accounts payable.

Interest rate risk

Interest rate risk reflects the sensitivity of the Company's financial condition to movements in interest rates. Financial assets and liabilities which do not bear interest or bear interest at fixed rates are classified as non-interest rate sensitive.

Cash and other long-term assets, and borrowings under the Amended Credit Facility, when applicable, are subject to interest rate risk. The total subject to interest rate risk as at January 30, 2016 was a net asset of $315.2 million (January 31, 2015: net asset of $260.3 million). An increase or decrease in interest rates of 25 basis points would cause an after-tax impact on net loss of $0.6 million for net assets subject to interest rate risk included in cash and other long-term assets at the end of Fiscal 2015.

Fuel and natural gas price risk

The Company entered into fuel and natural gas derivative contracts to manage the exposure to diesel fuel and natural gas prices and help mitigate volatility in cash flow for the transportation service business and utilities expense, respectively. As at January 30, 2016, the fixed to floating rate swap contracts outstanding had a notional volume of 2.4 million litres (January 31, 2015: 4.7 million litres) of diesel and nil gigajoules ("GJ") (January 31, 2015: 0.3 million GJ) of natural gas and a fair value of less than $0.1 million (January 31, 2015: less than $0.1 million) combined in the Consolidated Statements of Financial Position. These derivative contracts have settlement dates extending to January 31, 2017 with monthly settlement of maturing contracts.

4. Funding Costs

The funding costs for the Company in Fiscal 2015 and Fiscal 2014 are outlined in the table below:

	Fourth Quarter		**Fiscal**	
(in CAD millions)	**2015**	2014	**2015**	2014
Interest costs				
Total long-term obligations at end of period[1]	**$ 24.2**	$ 28.1	**$ 24.2**	$ 28.1
Average long-term obligations for period[2]	**24.6**	28.6	**26.1**	31.0
Long-term funding costs[3]	**0.4**	0.5	**1.9**	2.3
Average rate of long-term funding	**6.5%**	7.0%	**7.3%**	7.4%

1 *Includes current portion of long-term obligations.*

2 *The average long-term obligations is calculated as an average of the opening and ending balances as at each reporting date throughout the period.*

3 *Excludes standby fee on the unused portion of the Amended Credit Facility, amortization of debt issuance costs, accretion on the long-term portion of provisions, interest (recovered) accrued related to uncertain tax positions and sales tax assessments*

See Section 2 "Consolidated Financial Position, Liquidity and Capital Resources" of this MD&A for a description of the Company's funding sources.

5. Related Party Transactions

As at March 17, 2016, ESL Investments, Inc., and investment affiliates including Edward S. Lampert, (collectively "ESL"), was the beneficial holder of 46,162,515 common shares, representing approximately 45.3%, of the Company's total outstanding common shares. Holdings was the beneficial holder of 11,962,391 common shares, representing approximately 11.7% of the Company's total outstanding common shares.

On October 2, 2014, Holdings announced the commencement of a rights offering for 40 million common shares of the Company. Each holder of Holdings' common stock received one subscription right for each share of Holdings' common stock held as of the close of business on October 16, 2014, the record date for the rights offering. Each subscription right entitled the holder to purchase their pro rata portion of the Company's common shares being sold by Holdings in the rights offering at a price of $10.60 per share (U.S. $9.50 per share).

In connection with the rights offering, the Company listed its common shares on the NASDAQ where the rights were also listed. The subscription rights expired at the close of business on November 7, 2014. ESL exercised their pro rata portion of the rights in full in Fiscal 2014.

Transactions in the ordinary course of business between the Company and Holdings are recorded either at fair market value or the exchange amount, which was established and agreed to by the related parties. See Note 30 "Related party transactions" of the Notes to the Consolidated Financial Statements for Fiscal 2015 for additional information regarding these related party transactions.

Intangible Properties

The Company has a license from Holdings to use the name "Sears" as part of its corporate name. The Company also has licenses from Holdings to use other brand names, including Kenmore®, Craftsman®, and DieHard®. The Company has established procedures to register and otherwise vigorously protect its intellectual property, including the protection of the Holdings trademarks used by the Company in Canada.

Software Agreement

The Company and Holdings are parties to an information technology agreement for the sharing of information technology and software development, ownership and costs, which agreement, as amended October 7, 2014, terminated when Holdings ceased to control 50% of the voting power of Sears Canada, subject to a three year transition period.

Import Services and Consulting Services

Pursuant to an agreement between Holdings and the Company dated January 1, 1995, Sears Canada utilizes the international merchandise purchasing services of Holdings. Holdings may provide assistance to the Company with respect to monitoring and facilitating the production, inspection and delivery of imported merchandise and the payment to vendors. Sears Canada pays Holdings a fee based on a stipulated percentage of the value of the imported merchandise. In Fiscal 2015, Sears Canada paid $3.8 million to Holdings in connection with this agreement compared to $3.6 million in Fiscal 2014.

The Company and ESL are parties to an agreement where ESL will provide, when requested by the Company, investment, business and real estate consulting services to the Company. There will be no fees, expenses or disbursements payable by the Company to ESL for these services.

Review and Approval

Material related party transactions are reviewed by the Audit Committee of the Company's Board of Directors (the "Audit Committee"). The Audit Committee is responsible for pre-approving all related party transactions that have a value greater than $1.0 million.

6. Shareholders' Equity

The only outstanding shares of the Company are common shares. The number of outstanding common shares at the end of Fiscal 2015 and Fiscal 2014 are as follows:

	As at January 30, 2016	As at January 31, 2015
Outstanding common shares	**101,877,662**	101,877,662

In Fiscal 2015, no common shares were issued (2014: no common shares were issued) with respect to the exercise of options pursuant to the Employees Stock Plan as all options expired on February 1, 2014. Refer to Section 7 "Share Based Compensation" for additional information.

On May 22, 2013, the Toronto Stock Exchange ("TSX") accepted the Company's Notice of Intention to make a Normal Course Issuer Bid ("2013 NCIB") and permitted the Company to purchase for cancellation its common shares. Purchases were allowed to commence on May 24, 2013 and were to be terminated by May 23, 2014. There were no share purchases made under the 2013 NCIB. The Company did not renew the Normal Course Issuer Bid subsequent to May 23, 2014.

Prior to May 23, 2014, from time to time, when the Company did not possess material undisclosed information about itself or its securities, it entered into a pre-defined plan with a designated broker to allow for the repurchase of common shares at times when the Company ordinarily would not have been active in the market due to its own internal trading blackout periods, insider trading rules, or otherwise. Any such plans entered into with the Company's designated broker were adopted in accordance with the requirements of applicable Canadian securities laws.

As at March 17, 2016, there were 101,877,662 common shares outstanding.

7. Share Based Compensation

Restricted Share Unit Grant ("RSU")

On September 1, 2015, the Company approved the grant of 500,000 restricted share units ("RSUs") to an employee under an equity based compensation plan, vesting over three years on a tranche basis. This grant is to be settled in shares and is contingent upon shareholder approval at the Annual and Special Meeting of the Shareholders on April 27, 2016, and if not approved, would result in cash payments over the next three years to this employee equivalent to the value of the RSUs had they been issued as determined at each vesting date. As at the end of Fiscal 2015, these payments are estimated to total approximately $3.1 million.

The Company granted restricted share units ("RSUs") to an employee in Fiscal 2014 under an equity-based compensation plan, which were forfeited in Fiscal 2015.

8. Accounting Policies and Estimates

a. Critical Accounting Estimates

In the application of the Company's accounting policies, management is required to make judgments, estimates and assumptions with regards to the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

The following are the critical judgments that management has made in the process of applying the Company's accounting policies, key assumptions concerning the future and other key sources of estimation uncertainty that have the potential to materially impact the carrying amounts of assets and liabilities.

8.1 Legal liabilities

Assessing the financial outcome of uncertain legal positions requires judgment to be made regarding the relative merits of each claim and the extent to which a claim is likely to be successful. The assessments are based on reviews conducted by internal and external counsel, when appropriate.

Changes in estimates or assumptions could cause changes to "Provisions" on the Consolidated Statements of Financial Position and a charge or credit to "Selling, administrative and other expenses" in the Consolidated Statements of Net Loss and Comprehensive Loss. See Note 16 "Provisions" of the Notes to the Consolidated Financial Statements for Fiscal 2015 for additional information.

8.2 Inventory

8.2.1 Obsolescence, valuation and inventory stock losses

Inventory is written down to reflect future losses on the disposition of obsolete merchandise. Future losses are estimated based on historical trends that vary depending on the type of inventory.

An adjustment is made each period to value inventory at the lower of cost and net realizable value. This adjustment is estimated based on historical trends that vary depending on the type of inventory.

Inventory is adjusted to reflect estimated inventory stock losses incurred in the year based on recent historical inventory count data.

8.2.2 Vendor rebates

Inventory is adjusted to reflect vendor rebates received or receivable based on vendor agreements. This adjustment is estimated based on historical data and current vendor agreements.

8.2.3 Freight

Inbound freight incurred to bring inventory to its present location is estimated each reporting period and is included in the cost of inventory. This estimate is based on historical freight costs incurred.

Changes in estimates may result in changes to "Inventories" on the Consolidated Statements of Financial Position and a charge or credit to "Cost of goods and services sold" in the Consolidated Statements of Net Loss and Comprehensive Loss. See Note 7 "Inventories" of the Notes to the Consolidated Financial Statements for Fiscal 2015 for additional information.

8.3 Impairment of property, plant and equipment and intangible assets

The Company's property, plant and equipment and intangible assets have been allocated to cash generating units ("CGU"). At the end of each reporting period, the carrying amounts of property, plant and equipment and intangible assets are assessed to determine if there is any evidence that an asset is impaired. Determining if there are any facts and circumstances indicating impairment loss is a subjective process involving judgment and a number of estimates and assumptions. If there are such facts and circumstances, the recoverable amount of the asset is estimated.

Assets that cannot be tested individually for impairment are grouped into the smallest group of assets that generates cash inflows through continued use that are largely independent of the cash inflows from other assets or groups of assets (cash generating unit or CGU).

The recoverable amount of an asset or a CGU is the higher of its value in use and fair value less costs to sell. To determine value in use, expected future cash flows are discounted using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. In the process of measuring expected future cash flows, the Company makes assumptions about future operating profit. These assumptions relate to future events and circumstances. Although the assumptions are based on market information available at the time of the assessment, actual results may vary.

The Company's corporate and intangible assets do not generate separate cash flows. If there is evidence that a corporate or intangible asset is impaired, the recoverable amount is determined for the CGU to which the corporate asset belongs. Impairments are recorded when the carrying amount of the CGU to which the corporate asset belongs is higher than its recoverable amount.

Changes in estimates may result in changes to "Property, plant and equipment" and "Intangible assets" on the Consolidated Statements of Financial Position and a charge or credit to "Selling, administrative and other expenses" in the Consolidated Statements of Net Loss and Comprehensive Loss. See Note 9 "Property, plant and equipment and investment properties" Note 10 "Goodwill and intangible assets" and Note 29 "Assets classified as held for sale" of the Notes to the Consolidated Financial Statements for Fiscal 2015 for additional information.

8.4 Impairment of goodwill

Determining whether goodwill was impaired required the Company to determine the recoverable amount of the CGU to which the goodwill was allocated. To determine the recoverable amount of the CGU, management was required to estimate its value by evaluating expected future cash flow using an appropriate growth rate, the estimated costs to sell and a suitable discount rate to calculate the value in use. See Note 10 "Goodwill and intangible assets" of the Notes to the Consolidated Financial Statements for Fiscal 2015 for additional information.

8.5 Retirement benefit liability

The retirement benefit liability is estimated based on certain actuarial assumptions, including the discount rate, inflation rate, salary growth and mortality rates. New regulations and market driven changes may impact the assumptions made.

Changes in estimates may result in changes to the "Retirement benefit liability" on the Consolidated Statements of Financial Position and a charge or credit to "Selling, administrative and other expenses" and OCI in the Consolidated Statements of Net Loss and Comprehensive Loss. See Note 20 "Retirement benefit plans" of the Notes to the Consolidated Financial Statements for Fiscal 2015 for additional information.

8.6 Loyalty program deferred revenue

The fair value of Sears Club points granted is deferred at the time of the related initial sale transaction and is recognized upon redemption of the points for merchandise. The redemption value of the points is estimated at the initial sale transaction, based on historical behaviour and trends in redemption rates and redemption values, as well as an adjustment for the percentage of points that are expected to be converted to reward cards, but for which the likelihood of redemption is remote ("reward card breakage").

Changes in estimates may result in changes to "Deferred revenue" (current) on the Consolidated Statements of Financial Position and an increase or decrease to "Revenue" in the Consolidated Statements of Net Loss and Comprehensive Loss. See Note 13 "Deferred revenue" of the Notes to the Consolidated Financial Statements for Fiscal 2015 for additional information.

8.7 Derivative assets and liabilities

All derivatives are measured at fair value. U.S. dollar forward contracts are traded over-the-counter and give holders the right to buy a specified amount of U.S. currency at an agreed upon price and date in the future. Fair values of the U.S. dollar forward contracts is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate. The fair value of fuel swaps is based on counterparty confirmations tested for reasonableness by discounting estimated future cash flows derived from the terms and maturity of each contract using market fuel prices at the measurement date. The Company is required to estimate various inputs which are used in these calculations that are a combination of quoted prices and observable market inputs. The fair values of derivatives include an adjustment for credit risk when appropriate.

Changes in estimates may result in changes to "Derivative financial assets" and "Derivative financial liabilities" on the Consolidated Statements of Financial Position and a charge or credit to "Cost of goods and services sold", "Selling, administrative and other expenses" or OCI in the Consolidated Statements of Net Loss and Comprehensive Loss. See Note 14 "Financial instruments" of the Notes to the Consolidated Financial Statements for Fiscal 2015 for additional information.

8.8 Provisions

Provisions are estimated based on historical data, cost estimates provided by specialists and future projections.

Changes in estimates or assumptions could cause changes to "Provisions" on the Consolidated Statements of Financial Position and a charge or credit to "Cost of goods and services sold" or "Selling, administrative and other expenses" in the Consolidated Statements of Net Loss and Comprehensive Loss. See Note 16 "Provisions" of the Notes to the Consolidated Financial Statements for Fiscal 2015 for additional information.

8.9 Leasing arrangements

The Company has applied judgment in the classification of its leasing arrangements, which is determined at the inception of the lease and is based on the substance of the transaction, rather than its legal form. The Company's leases were evaluated based on certain significant assumptions including the discount rate, economic life of an asset, lease term and existence of a bargain renewal option.

Changes in estimates or assumptions could cause changes to "Property, plant and equipment", "Current portion of long-term obligations" and "Long-term obligations" on the Consolidated Statements of Financial Position and a charge or credit to "Selling, administrative and other expenses" and "Finance costs" in the Consolidated Statements of Net Loss and Comprehensive Loss. See Note 19 "Leasing arrangements" of the Notes to the Consolidated Financial Statements for Fiscal 2015 for additional information.

8.10 Taxes

In the ordinary course of business, the Company is subject to ongoing audits by tax authorities. While the Company believes that its tax filing positions are appropriate and supportable, certain matters are periodically challenged by tax authorities. The Company applies judgment and routinely evaluates and provides for potentially unfavourable outcomes with respect to any tax audits. If the result of a tax audit materially differs from the existing provisions, the Company's effective tax rate and its net loss will be affected positively or negatively. The Company also uses judgment in assessing the likelihood that deferred income tax assets will be recovered from future taxable income by considering factors such as the reversal of deferred income tax liabilities, projected future taxable income, tax planning strategies and changes in tax laws.

Changes in estimates or assumptions could cause changes to "Income taxes recoverable", "Deferred tax assets", "Other long-term assets", "Income and other taxes payable" and "Deferred tax liabilities" on the Consolidated Statements of Financial Position and a charge or credit to "Income tax (expense) recovery" in the Consolidated Statements of Net Loss and Comprehensive Loss. See Note 22 "Income taxes" of the Notes to the Consolidated Financial Statements for Fiscal 2015 for additional information.

8.11 Gift Card

The gift card liability is based on the total amount of gift cards outstanding which have not yet been redeemed by customers. The Company also recognizes income when the likelihood of redeeming the gift card is remote ("gift card breakage"). Gift card breakage is estimated based on historical redemption patterns. Changes in estimates of the redemption patterns may result in changes to "Deferred Revenue" (current) on the Consolidated Statements of Financial Position and an increase or decrease to "Revenue" in the Consolidated Statements of Net Loss and Comprehensive Loss.

8.12 Classification of joint arrangements

The Company had classified its interests in real estate joint arrangements related to shopping centres as joint operations. In doing so, the Company determined that the decisions regarding relevant activities require unanimous consent of the parties sharing control. In the event of a dispute between parties sharing control of the joint arrangements, settlement occurs through unbiased arbitration, legal action, or a sale of the party's interest to the other party. The Company examined the legal structure, contractual arrangements and other relevant facts and circumstances for each joint arrangement and determined that it had rights to the assets and obligations to the liabilities of each joint arrangement. Therefore, the Company has determined that its real estate joint arrangements were joint operations and were recognized in accordance with the Company's interest in the assets, liabilities, revenues and expenses of these arrangements. See Note 11 "Joint arrangements" of the Notes to the Consolidated Financial Statements for Fiscal 2015 for additional information.

b. Issued Standards Not Yet Adopted

The Company monitors the standard setting process for new standards and interpretations issued by the International Accounting Standards Board ("IASB") that the Company may be required to adopt in the future. Since the impact of a proposed standard may change during the review period, the Company does not comment publicly until the standard has been finalized and the effects have been determined.

In January 2016, the IASB issued the following new standard:

IFRS 16, Leases ("IFRS 16")

IFRS 16 replaces IAS 17, *Leases*. This standard will bring most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and financing leases. Lessor accounting remains largely unchanged and the distinction between operating and finance leases is retained. Adoption of IFRS 16 is mandatory and will be effective for annual periods beginning on or after January 1, 2019 with earlier adoption permitted. The Company is currently assessing the impact of adopting this standard on the Company's Consolidated Financial Statements and related note disclosures.

In July 2014, the IASB issued the final publication of the following standard:

IFRS 9, Financial Instruments ("IFRS 9")

IFRS 9 replaces IAS 39, *Financial Instruments: Recognition and Measurement*. This standard establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. This standard also includes a new general hedge accounting standard which will align hedge accounting more closely with risk management. It does not fully change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however, it will permit more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. Adoption of IFRS 9 is mandatory and will be effective for annual periods beginning on or after January 1, 2018 with earlier adoption permitted. The Company is currently assessing the impact of adopting this standard on the Company's Consolidated Financial Statements and related note disclosures.

In May 2014, the IASB issued the following new standard:

IFRS 15, Revenue from Contracts with Customers ("IFRS 15")

IFRS 15 replaces IAS 11, *Construction Contracts*, and IAS 18, *Revenue*, as well as various interpretations regarding revenue. This standard introduces a single model for recognizing revenue that applies to all contracts with customers, except for contracts that are within the scope of standards on leases, insurance and financial instruments. This standard also requires enhanced disclosures. Adoption of IFRS 15 is mandatory and will be effective for annual periods beginning on or after January 1, 2017, with earlier adoption permitted. The Company is currently assessing the impact of adopting this standard on the Company's Consolidated Financial Statements and related note disclosures.

9. Disclosure Controls and Procedures

Disclosure Controls and Procedures

Management of the Company is responsible for establishing and maintaining a system of disclosure controls and procedures ("DC&P") that are designed to provide reasonable assurance that information required to be disclosed by the Company in its public disclosure documents, including its Annual and Interim MD&A, Annual and Interim Financial Statements, MPC and AIF is recorded, processed, summarized and reported within required time periods and includes controls and procedures designed to ensure that the information required to be disclosed by the Company in its public disclosure documents is accumulated and communicated to the Company's management, including the Executive Chairman and Chief Financial Officer ("CFO"), to allow timely decisions regarding required DC&P.

Management of the Company, including the Executive Chairman and CFO, has caused to be evaluated under their supervision, the Company's DC&P, and has concluded that the Company's DC&P was effective for the year ended January 30, 2016.

Internal Control over Financial Reporting

Management of the Company is also responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

Management of the Company, including the Executive Chairman and CFO, has caused to be evaluated the internal control over financial reporting and has concluded, based on that evaluation, that the Company's internal control over financial reporting was effective as at the fiscal year-end, being January 30, 2016. Additionally, Management of the Company evaluated whether there were changes in the internal control over financial reporting during Fiscal 2015 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting and has determined that no such changes occurred during this period.

Internal control systems, regardless of superiority in design, have inherent limitations. Therefore, even those systems that have been determined to have been designed effectively can only provide reasonable assurance with respect to financial reporting and financial statement preparation.

10. Risks and Uncertainties

Risks Relating to Our Business

If the Company is unable to compete effectively in the highly competitive retail industry, the Company's business and results of operations could be materially adversely affected.

The Canadian retail market remains highly competitive as key players and new entrants compete for market share. International retailers continue to expand into Canada while existing competitors enhance their product offerings and become direct competitors. The Company's competitors include traditional full-line department stores, discount department stores, wholesale clubs, 'big-box' retailers, internet retailers and specialty stores offering alternative retail formats. Failure to develop and implement appropriate competitive strategies and the performance of the Company's competitors could have a material adverse effect on the Company's business, results of operations, and financial condition.

In order to stay competitive and relevant to our customers, the Company's strategic plan for 2016 is centered on three areas of focus: increase revenue, operate profitably and maintain a strong balance sheet. The achievement of strategic goals may be adversely affected by a wide range of factors, many of which are beyond the Company's control. The inability to execute and integrate strategic plans could have a negative impact on the Company's current operations, market reputation, customer satisfaction and financial position. The Company's ability to implement and achieve its long-term strategic objectives is dependent on the achievement of these strategic plans and initiatives. There can be no assurance that such plans and initiatives will yield the expected results, either of which could cause the Company to fall short in achieving financial objectives and long-range goals.

Additional risk may arise when retailers carrying on business in Canada in competition with the Company engage in marketing activities which are not in full compliance with Canadian legal requirements regarding advertising and labeling rules and product quality standards. Such retailers may gain an unfair advantage and their activities may negatively affect the Company's business and results of operations.

Due to the seasonality of the Company's business, the Company's results of operations would be adversely affected if the Company's business performed poorly in the fourth quarter or as a result of unseasonable weather patterns.

The Company's operations are seasonal in nature with respect to results of operations and in products and services offered. Merchandise and service revenues vary by quarter based upon consumer spending behavior. Historically, the Company's revenues and earnings have been higher in the fourth quarter due to the holiday season and we have reported a disproportionate level of earnings in that quarter. As a result, the fourth quarter results of operations significantly impacts the Company's annual results of operations. The Company's fourth quarter results of operations may fluctuate significantly based on many factors, including holiday spending patterns and weather conditions. In addition, the Company offers many seasonal goods and services. The Company establishes budgeted inventory levels and promotional activity in accordance with its strategic initiatives and expected consumer demand. Businesses that generate revenue from the sale of seasonal merchandise and services are subject to the risk of changes in consumer spending behavior as a result of unseasonable weather patterns.

If the Company fails to offer merchandise and services that the Company's customers want, the Company's sales may be limited, which would reduce the Company's revenues and profits and adversely impact the Company's results of operations.

To be successful, the Company must identify, obtain supplies, and offer to customers attractive, relevant and high-quality merchandise and services on a continuous basis. Customers' preferences may change over time. If we misjudge either the demand for products and services the Company sells or the Company's customers' purchasing habits and tastes, the Company may be faced with excess inventories of some products and missed opportunities for products and services the Company chose not to offer. This could have a negative effect on the Company's revenues and profits and adversely impact our results of operations.

The Company's failure to retain its senior management team and to continue to attract qualified new personnel could adversely affect the Company's business and results of operations.

The Company's success is dependent on its ability to attract, motivate and retain senior leaders and other key personnel. On August 28, 2015, the Company's President and CEO resigned to pursue other opportunities. The loss of one or more of the members of the Company's senior management may disrupt the Company's business and adversely affect its results of operations. Furthermore, the Company may not be successful in attracting, assimilating and retaining new personnel to grow its business profitably. The inability to attract and retain key personnel could have an adverse effect on the Company's business.

If the Company does not successfully manage its inventory levels, the Company's results of operations will be adversely affected.

The Company must maintain sufficient in-stock inventory levels to operate the business successfully while minimizing out-of-stock levels. A significant portion of inventory is sourced from vendors requiring advance notice periods in order to supply the quantities that we require. These lead times may adversely impact the Company's ability to respond to changing consumer preferences, resulting in inventory levels that are insufficient to meet demand or in merchandise that may have to be sold at lower prices. Inappropriate inventory levels or a failure to accurately anticipate the future demand for a particular product or the time it will take to obtain new inventory may negatively impact the Company's results of operations.

If the Company is unable to secure an agreement with a financial institution for the management of the Company's credit and financial services operations, it could materially adversely affect the Company's results of operations.

On November 15, 2015, the program agreement between JPMorgan Chase and the Company relating to the Sears Card and Sears MasterCard credit cards expired. The Company is currently in the process of considering available options with respect to the future management of the credit and financial services operations, but it is likely that the Company will not secure an agreement with substantially the same terms and conditions that it previously had with JPMorgan Chase, and there is a risk that the Company may not be able to secure a new agreement at all, which will continue to have a material adverse effect on the Company's results of operations and financial condition.

If the Company's new loyalty program is unable to attract and retain a sufficient amount of customers, it could adversely affect the Company's results of operations.

On November 16, 2015 the Company launched its new and enhanced Sears Club loyalty program which allows customers to earn and redeem points on purchases at Sears using cash or any debit or credit card accepted by Sears. If the loyalty program does not retain and attract customers, this could have a negative effect on the Company's revenues and profits and adversely impact the Company's results of operations and financial condition.

If the Company is unable to migrate a sufficient amount of catalogue customers and business to online, it could adversely affect the Company's results of operations.

The Company is purposefully reducing its catalogue space and engaging with customers to move them into the online arena. As the Company manages the migration from catalogue to online, catalogue sales may not convert to online sales as quickly as the Company expects and the Company may have to increase its marketing efforts and promotional offers to make this change happen in a shorter timeline. In addition, there is a risk that the secular decline of catalogue sales increases at a faster rate than the Company expects.

The Company relies extensively on computer systems to process transactions, summarize results and manage its business. Disruptions in these systems could harm the Company's ability to run its business.

Given the number of individual transactions that the Company processes each year, it is critical that the Company maintains uninterrupted operation of its computer and communications hardware and software systems. These systems are subject to obsolescence, damage or interruption from power outages, computer and telecommunications failures, computer viruses, security breaches, catastrophic events such as fires, natural disasters and adverse weather occurrences and usage errors by the Company's employees. If the systems are damaged or cease to function properly, the Company may have to make a significant investment to fix or replace them, may suffer interruptions in operations in the interim and the Company's reputation with its customers may be harmed.

The Company's ability to maintain sufficient inventory levels in its stores is critical to the Company's success and largely depends upon the efficient and uninterrupted operation of its computer and communications hardware and software systems. Any material interruption in the Company's computer operations may have a material adverse effect on the Company's business and results of operations.

The Company relies on foreign sources for significant amounts of its merchandise, and the Company's business may therefore be negatively affected by the risks associated with international trade.

The Company is dependent upon a significant amount of products that originate from non-Canadian markets. In particular, the Company sources a significant amount of products from China. The Company is subject to the risks that are associated with the sourcing and delivery of this merchandise, including: potential economic, social, and political instability in jurisdictions where suppliers are located; structural integrity and fire safety of foreign factories; increased shipping costs, potential transportation delays and interruptions; adverse foreign currency fluctuations; changes in international laws, rules and regulations pertaining to the importation of products and quotas; and the imposition and collection of taxes and duties. Any increase in cost to the Company of merchandise purchased from foreign vendors or restriction on the merchandise made available to the Company by such vendors could have an adverse effect on the Company's business and results of operations.

Damage to the reputations of the brands the Company sells could reduce the Company's revenues and profits and adversely impact the Company's results of operations.

As a diverse and multi-channel retailer, the Company promotes many brands as part of the Company's normal course of business. These brands include the Sears brand, Sears private label brands for product lines such as Jessica®, and non-proprietary brands exclusive to the Company. Damage to the reputation of these brands or the reputation of the suppliers of these brands could negatively impact consumer opinions of the Company or its related products and reduce its revenues and profits and adversely impact its results of operations. In those circumstances, it may be difficult and costly for the Company to regain customer confidence.

If the Company's relationships with its significant suppliers were to be impaired, it could have a negative impact on the Company's competitive position and adversely impact its results of operations and financial condition.

Although the Company's business is not substantially dependent on any one supplier, the Company's relationship with certain suppliers is of significance to its merchandising strategy, including attracting customers to its locations, cross-segment sales and image. The loss of a significant supplier relationship could result in lower revenues and decreased customer interest in the Company's stores, which, in turn, would adversely affect the Company's results of operations and financial condition. In addition, the Company may not be able to develop relationships with new suppliers, and products from alternative sources, if any, may be of a lesser quality and more expensive than those the Company currently purchases.

We rely on third parties to provide us with services in connection with the administration of certain business functions.

The Company has entered into agreements with third-party service providers (both domestic and international) to provide processing and administration functions over a broad range of areas. These areas include finance and accounting, information technology, call centre, payroll and procurement functions. Services provided by third parties as a part of outsourcing initiatives could be interrupted as a result of many factors, such as social or political unrest, natural disasters, extreme or unseasonable weather, acts of war or terrorism, systems breakdowns or power outages or other significant events outside of the Company's control, contract disputes, or failure by third parties to provide these services on a timely basis within service level expectations and performance standards, which could result in a disruption of the Company's business, and adversely affect the Company's results of operations. In addition, to the extent the Company is unable to maintain its outsourcing arrangements, it could potentially incur substantial costs, including costs associated with hiring new employees, in order to return these services in-house.

The Company relies on its relationship with a number of licensees to manage and operate the day-to-day operations of certain components of the Company's business.

The Company has entered into licensing arrangements with various third parties. The financial instability of licensees and their inability to fulfill the terms and obligations under their respective agreements with the Company could potentially have a negative effect on the Company's revenues with respect to these arrangements and could cause the Company to incur substantial costs, including moving the services in-house or finding an alternative third party to perform the services.

Certain of the Company's licensees have recently experienced financial difficulties. On May 27, 2015, TravelBrands Inc. ("TravelBrands") sought and obtained an initial order under the Companies' Creditors Arrangements Act (Canada). The Ontario Superior Court of Justice granted TravelBrands the protections afforded by a stay of proceedings while it continued to pursue restructuring initiatives. TravelBrands exited creditor protection subsequent to the end of Fiscal 2015, and continues to be a licensee of the Company, as the Company signed a new contract with TravelBrands with a revised commission structure during Fiscal 2015. TravelBrands manages the day-to-day operations of all Sears Travel offices and pays fees to the Company. On January 9, 2014, PricewaterhouseCoopers Inc. ("PwC") was appointed as receiver of SHS Services Management Inc./Gestion Des Services SHS Inc. and SHS Services Limited Partnership (together, "SHS") pursuant to the *Bankruptcy and Insolvency Act* (Canada). Earlier, on December 13, 2013, PwC was appointed as interim receiver of SHS. Since that time, SHS's operations have been wound down and PwC has been discharging its duties, first as interim receiver and then as receiver, under the relevant appointment orders. Prior to its receivership, SHS was a third-party provider of home products and services that operated under the Sears Home Services/Services résidentiels Sears brand name pursuant to a concession agreement with Sears Canada Inc.

The lack of willingness of the Company's vendors to provide acceptable payment terms could negatively impact the Company's liquidity and/or reduce the availability of products or services that the Company seeks to procure.

The Company depends on its vendors to provide it with financing for the Company's purchases of inventory and services. The Company's vendors could seek to limit the availability of vendor credit to the Company or other terms under which they sell to the Company, or both, which could negatively impact the Company's liquidity. In addition, the inability of the Company's vendors to access liquidity, or the insolvency of the Company's vendors, could lead to their failure to deliver inventory or other services to the Company. Certain of the Company's vendors may finance their operations and/or reduce the risk associated with collecting accounts receivable from the Company by selling or "factoring" the receivables or by purchasing credit insurance or other forms of protection from loss associated with the Company's credit risks. The ability of the Company's vendors to do so is subject to the Company's perceived credit quality. The Company's vendors could be limited in their ability to factor receivables or obtain credit protection in the future because of the Company's perceived financial position and credit worthiness, which could reduce the availability of products or services the Company seeks to procure.

The Company may be subject to product liability claims if people or properties are harmed by the products the Company sells or the services it offers.

The Company sells products produced by third party manufacturers. Some of these products may expose the Company to product liability claims relating to personal injury, death or property damage caused by such products and may require the Company to take actions, such as product recalls. In addition, the Company also provides various services which could give rise to such claims. Although the Company maintains liability insurance to mitigate these potential claims, the Company cannot be certain that its coverage will be adequate for liabilities actually incurred or that insurance will continue to be available on economically reasonable terms or at all.

Product liability claims can be expensive to defend and can divert the attention of management and other personnel for significant periods, regardless of the ultimate outcome. Claims of this nature, as well as product recalls, could also have a negative impact on customer confidence in the products and services the Company offers and on the Company's reputation, and adversely affect the Company's business and its results of operations.

If the Company does not maintain the security of its customers, employees or Company information, the Company could damage its reputation, incur substantial additional costs and become subject to litigation.

Cyber-security risks such as malicious software and attempts to gain unauthorized access to data are rapidly evolving. Technologies or software used to gain unauthorized access, and/or disable, degrade or harm the Company's systems may be difficult to detect or scope for prolonged periods of time, and the Company may be unable to anticipate these techniques or put in place protective or preventative measures. These attempts to gain unauthorized access could lead to disruptions in the Company's systems, unauthorized release of confidential or otherwise protected information or corruption of data. If individuals are successful in filtrating, breaking into, disrupting, damaging or otherwise stealing from the Company's computer systems or those of its third-party providers, the Company may have to make significant investments to fix or replace them, the Company may suffer interruptions in its operations in the interim, the Company may face costly litigation, government investigations, government enforcement actions, fines and/or lawsuits, the ability of customers to shop with the Company may be impacted or halted, and the Company's reputation with its customers and members may be significantly harmed. There is no guarantee that the procedures that we have implemented to protect against unauthorized access to secured data are adequate to safeguard against all data security breaches. A data security breach or any failure by the Company to comply with applicable privacy and information security laws and regulations could result in a loss of customer or member confidence and negatively impact the Company's business and its results of operations.

The Company is subject to a number of long-term real estate leases which could restrict the Company's ability to respond to changes in demographics or the retail environment and adversely impact the Company's results of operations.

As of January 30, 2016, the Company operated a total of 95 Full-line department stores, 222 specialty stores (including 41 Sears Home stores, 23 Outlet stores, 125 Hometown stores operated under independent local ownership and 33 Corbeil stores), 1,213 catalogue and online merchandise pick-up locations and 84 Sears Travel offices. Company owned stores consist of 11 Full-line department stores (including two stores that are included in our Outlet channel based on their merchandise mix) and two Sears Home stores, with the majority of the remainder held under long-term leases. While the Company is able to change its merchandise mix and relocate stores in order to maintain competitiveness, the Company is restricted from vacating a current site without breaching its contractual obligations and incurring lease-related expenses for the remaining portion of the lease-term. The long-term nature of the leases may limit the Company's ability to respond in a timely manner to changes in the demographic or retail environment at any location, which could adversely affect the Company's results of operations. In addition, when leases for the stores in the Company's ongoing operations expire, the Company may be unable to negotiate renewals, either on commercially acceptable terms, or at all, which could cause us to close stores. Accordingly, the Company is subject to the risks associated with leasing real estate, which could have an adverse effect on the Company's results of operations.

The Company may be subject to legal proceedings if the Company violates the operating covenants in its real estate leases that could adversely affect the Company's business and results of operations.

As of January 30, 2016, the Company had operating covenants with landlords for approximately 95 Sears brand corporate stores. An operating covenant generally requires the Company, during normal operating hours, to operate a store continuously as per the identified format in the lease agreement. As of January 30, 2016, the remaining term of the various Sears operating covenants ranged from less than one year to 20 years, with an average remaining term of approximately five years, excluding options to extend leases. Failure to observe operating covenants may result in legal proceedings against the Company and adversely affect the Company's business and results of operations.

The Company is subject to laws and regulations that impact its business and a failure to comply with such laws and regulations could lead to lawsuits or regulatory actions against the Company that could adversely affect the Company's business and results of operations.

Laws and regulations are in place to protect the interests and well-being of the Company's customers and communities, business partners, suppliers, employees, shareholders and creditors. Changes to statutes, laws, regulations or regulatory policies, including changes in the interpretation, implementation or enforcement of statutes, laws, regulations and regulatory policies, could adversely affect the Company's business and results of operations. In addition, the Company may incur significant costs in the course of complying with any changes to applicable statutes, laws, regulations and regulatory policies.

The Company's failure to comply with applicable statutes, laws, regulations or regulatory policies could result in a judicial or regulatory judgment or sanctions and financial penalties that could adversely impact the Company's reputation, business and results of operations. Although the Company believes that it has taken reasonable measures designed to ensure compliance with governing statutes, laws, regulations and regulatory policies in the jurisdictions in which it conducts business, there is no assurance that the Company will always be in compliance or deemed to be in compliance.

In addition, changing laws, regulations and standards relating to corporate governance and public disclosure, including those related to foreign private issuers and the Sarbanes-Oxley Act of 2002, and related regulations implemented by the United States SEC are creating uncertainty for foreign private issuers, increasing legal and financial compliance costs, and making some activities more time consuming. The Company is currently evaluating and monitoring developments with respect to new and proposed rules and cannot predict or estimate the amount of additional costs it may incur or the timing of such costs. We intend to invest resources to comply with evolving laws, regulations and standards, and this investment may result in increased general and administrative expenses. If our efforts to comply with new laws, regulations and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to practice, regulatory authorities may initiate legal proceedings against us and our business may be harmed. The costs of compliance or our failure to comply with these laws, rules and regulations could adversely affect our reputation, business, results of operations, financial condition and the price of our common shares.

The Company may lose its foreign private issuer status in the future, which could result in significant additional costs and expenses to the Company.

In order to maintain the Company's current status as a foreign private issuer ("FPI") under U.S. federal securities laws, a majority of the Company's common shares must be directly or indirectly owned of record by non-U.S. residents. If the majority of the Company's common shares are owned of record by U.S. residents, and any of (i) the majority of the Company's executive officers or directors are U.S. citizens or residents, (ii) more than fifty percent of the Company's assets are located in the United States or (iii) the Company's business is administered principally in the United Sates, then the Company would lose its FPI status. The Company currently qualifies as a FPI, but there can be no assurance that it will continue to meet these requirements in the future. The regulatory and compliance costs to the Company under U.S. federal securities laws as a U.S. domestic issuer may be significantly more than the costs the Company incurs as a Canadian FPI. If the Company ceases to be a FPI, the Company would not be eligible to use the multijurisdictional disclosure system or other foreign issuer forms and would be required to file periodic and current reports and registration statements on U.S. domestic issuer forms with the SEC, which are more detailed and extensive than the forms currently available to the Company. The Company may also be required to prepare its financial statements in accordance with U.S. generally accepted accounting principles, and these additional reporting obligations could be costly and have a negative impact on the Company's financial condition.

The Company is required to comply with federal and provincial environmental laws and regulations, the cost of which may adversely affect the Company's results of operations and financial condition.

The Company is exposed to environmental risk as an owner, lessor and lessee of property. Under federal and provincial laws, the owner, lessor or lessee could be liable for the costs of removal and remediation of certain hazardous substances on its properties or disposed of at other locations. The failure to remove or remediate such substances, if any, could lead to claims against the Company.

The Company is currently remediating various locations across Canada where it has operated auto centres, gas bars and a logistics facility. The extent of the remediation and the costs thereof have not yet been determined. The Company continues to monitor the costs of remediation and appropriately provide for these costs in its reserves. If we commit to renovating a leased or owned building that contains or may contain asbestos, or if asbestos is inadvertently disturbed, we will be legally obligated to comply with asbestos removal standards. The extent of this liability has not yet been determined because the costs to remove asbestos depend upon factors including, among others, the location and extent of any renovations undertaken. Inadvertent disturbance of asbestos cannot be foreseen. The costs incurred by the Company could be significant and may negatively impact the Company's results of operations and financial condition.

The Company is exposed to a variety of legal proceedings, including class action lawsuits, and tax audits which, if adversely decided, could materially adversely affect the Company.

The Company is currently involved in various legal proceedings incidental to the normal course of business. Although the Company is of the view that the final disposition of any such litigation is not expected to have a material adverse effect on its liquidity, consolidated financial position or results of operations, the outcome of such litigation cannot be predicted with certainty and as a result, could have an adverse impact on the Company's reputation and ultimately a material adverse effect on the Company's results of operations and financial condition.

In the ordinary course of business, the Company is subject to ongoing audits by tax authorities. While we believe that the Company's tax filing positions are appropriate and supportable, periodically, certain matters are reviewed and from time to time are challenged by the tax authorities. As the Company routinely evaluates and provides for potentially unfavorable outcomes with respect to any tax audits, it believes that the final disposition of tax audits will not have a material adverse effect on its liquidity, consolidated financial position or results of operations. If the result of a tax audit materially differs from the existing provisions, the Company's effective tax rate and net earnings could be affected positively or negatively in the period in which the tax audits are completed.

The Company's results of operations may be adversely impacted if insurance coverage is deemed insufficient or if the Company or the insurance industry is affected by unexpected material events.

The Company maintains directors and officers insurance, liability insurance, business interruption and property insurance and this insurance coverage reflects deductibles, self-insured retentions, limits of liability and similar provisions. Although the Company has taken measures to ensure that it has the appropriate coverage, including maintaining an annual reserve for liability claims, there is no guarantee that the Company's insurance coverage will be sufficient, or that insurance proceeds will be paid to us in a timely manner. In addition, there are types of losses we may incur but against which we cannot be insured or which we believe are not economically reasonable to insure, such as losses due to acts of war and certain natural disasters. If we incur these losses and they are material, our business, operating results and financial condition may be adversely affected. Also, certain material events may result in sizable losses for the insurance industry and materially adversely impact the availability of adequate insurance coverage or result in significant premium increases. Accordingly, we may elect to self-insure, accept higher deductibles or reduce the amount of coverage in response to such market changes.

Events outside the Company's control such as social or political unrest, natural disasters, extreme or unseasonable weather, acts of war or terrorism, systems breakdowns or power outages could have a material adverse effect on the Company's business and results of operations.

The Company's business is sensitive to customers' spending patterns, which may be affected by domestic and international social or political unrest, natural disasters, extreme or unseasonable weather, acts of war or terrorism, or other significant events outside of the Company's control, any of which could lead to a decrease in spending by consumers. In addition, such events as well as systems breakdowns and power outages could cause store closures, disrupt supply chain or other operations, delay shipments of merchandise to consumers, reduce revenue and result in expenses to repair or replace facilities. Disruptions during a peak season such as the month of December, which may account for up to 40% of a year's earnings, could have a particularly adverse effect on the Company's business and results of operations.

The Company's business could suffer if it is unsuccessful in making, integrating, and maintaining acquisitions and investments.

From time to time we pursue strategic acquisitions of, joint arrangements with, or investments in, other companies or businesses, although the Company has no present commitments with respect to any material acquisitions or investments. Any such acquisition, joint arrangement or investment that the Company makes may require the Company to spend its cash, or incur debt, contingent liabilities, or amortization expenses related to intangible assets, any of which could reduce the Company's profitability and harm its business. Acquisitions, joint arrangements and investments also increase the complexity of the Company's business and place strain on its management, personnel, operations, supply chain, financial resources, and internal financial controls and reporting functions. The Company may not be able to manage acquisitions, joint arrangements or investments effectively, which could damage the Company's reputation, limit its growth and adversely affect its business and results of operations.

Financial Risks

The Company's business has been and will continue to be affected by Canadian and worldwide economic conditions; worsening of current economic conditions could lead to reduced revenues and gross margins, and negatively impact the Company's liquidity.

The Company plans its operations giving regard to economic and financial variables that are beyond its control. Changes to these variables may adversely impact the Company's performance. Should the current economic conditions worsen, heightened competition, a decline in consumer confidence, lower disposable income, higher unemployment and personal debt levels may result, which could lead to reduced demand for the Company's products and services. Any of these events could cause the Company to increase inventory markdowns and promotional expenses, thereby reducing the Company's gross margins and results of operations. If the Canadian or global economies worsen, the Company could experience a decline in same store sales, erosion of gross profit and profitability.

Volatility in fuel and energy costs may have a significant impact on the Company's operations. The Company requires significant quantities of fuel for the vehicles used to distribute and deliver inventory and the Company is exposed to the risk associated with variations in the market price for petroleum products. The Company could experience a disruption in energy supplies, including its supply of gasoline, as a result of factors that are beyond the Company's control, which could have an adverse effect on the Company's business. In addition, if certain of the Company's vendors experience increases in the cost of products they purchase due to the strengthening of the U.S. dollar, it could result in increases in the prices that the Company pays for merchandise, particularly apparel and appliances, and adversely affect the Company's results of operations. During Fiscal 2015 Adjusted EBITDA was negatively impacted by $71.9 million due to the weakening Canadian dollar compared to the U.S. dollar.

Liquidity Risk

The Company is exposed to liquidity risk and its failure to fulfill financial obligations could adversely affect its results of operations and financial condition.

The Company could face liquidity risk due to various factors, including but not limited to, the unpredictability of the current economic climate, failure to secure appropriate funding vehicles and cash flow issues relating to the operation and management of the business. Failure to fulfill financial obligations due and owing from the Company as a result of this liquidity risk could have undesirable consequences on the Company.

Fluctuations in U.S. and Canadian dollar exchange rates may adversely impact the Company's results of operations.

The Company's foreign exchange risk is currently limited to currency fluctuations between the Canadian and U.S. dollar. The Company is vulnerable to increases in the value of the U.S. dollar relative to the Canadian dollar because almost all of its revenues are denominated in Canadian dollars and a substantial amount of the merchandise the Company purchases is priced in U.S. dollars. The costs of these goods in Canadian dollars rise when the U.S. dollar increases in value relative to the Canadian dollar and, as a result, the Company may be forced to increase its prices or reduce its gross margins. We may use foreign currency forward and option contracts to hedge the exchange rate risk on a portion of the Company's expected requirement for U.S. dollars. There can be no assurance that the Company's hedging efforts will achieve their intended results or that the Company's estimate of its requirement for U.S. dollars will be accurate, with the result that currency fluctuations may have an adverse impact on the Company's results of operations. Also, hedging efforts may have the effect of limiting or reducing the total returns to the Company if management's expectations concerning future events prove to be incorrect, in which case the costs associated with the hedging efforts may outweigh their benefits. Furthermore, many vendors who are paid in Canadian dollars may have significant costs that are priced in U.S. dollars. Such vendors may seek to increase prices charged to the Company for goods and services and, as a result, the Company may be forced to increase its prices or reduce its gross margins.

In addition, any significant appreciation of the Canadian dollar relative to the U.S. dollar presents an additional challenge to the Company as its customers are motivated to cross-border shop, which may have an adverse impact on the Company's results of operations.

The Company is exposed to counterparty credit risk which could adversely affect its results of operations.

Credit risk refers to the possibility that the Company can suffer financial losses due to the failure of counterparties to meet their payment obligations to the Company. Exposure to credit risk exists for derivative instruments, cash, accounts receivable and investments included in other long-term assets. Cash, accounts receivable, derivative financial assets and other long-term assets of $381.2 million as at January 30, 2016 (January 31, 2015: $340.5 million) expose the Company to credit risk should the borrower default on maturity of the investment.

Although the Company seeks to manage this exposure through policies that require borrowers to have a minimum credit rating of A, and limiting investments with individual borrowers at maximum levels based on credit rating, there can be no assurance that the Company will be able to successfully manage its credit risk.

The Company invests its surplus cash in investment grade, short-term money market instruments, the return on which depends upon interest rates and the credit worthiness of the issuer. The Company attempts to mitigate credit risk resulting from the possibility that an issuer may default on repayment by requiring that issuers have a minimum credit rating and limiting exposures to individual borrowers.

Expenses associated with the Company's retirement benefit plans may fluctuate significantly depending on changes in actuarial assumptions, future market performance of plan assets, and other events outside of the Company's control and adversely affect the Company's results of operations.

The Company currently maintains a defined benefit registered pension plan, a non-registered supplemental savings arrangement and a defined benefit non-pension retirement plan, which provides life insurance, medical and dental benefits to eligible retired employees through a health and welfare trust. The defined benefit plan continues to accrue benefits related to future compensation increases although no further service credit is earned. In addition, the Company no longer provides medical, dental and life insurance benefits at retirement for employees who had not achieved the eligibility criteria for these non-pension retirement benefits as at December 31, 2008.

There is no assurance that the Company's retirement benefit plans will be able to earn the assumed rate of return. New regulations, regulatory orders and market driven changes may result in changes in the discount rates and other variables which would result in the Company being required to make contributions in the future that differ significantly from the estimates.

Management is required to use assumptions to account for the plans in conformity with IFRS. However, actual future experience will differ from these assumptions giving rise to actuarial gains or losses. In any year, actual experience differing from the assumptions may be material. Plan assets consist primarily of cash, alternative investments, marketable equity and fixed income securities. The value of the marketable equity and fixed income investments will fluctuate due to changes in market prices. Plan obligations and annual pension expense are determined by independent actuaries and through the use of a number of assumptions.

Although the Company believes that the assumptions used in the actuarial valuation process are reasonable, there remains a degree of risk and uncertainty which may cause results to differ materially from expectations. Significant assumptions in measuring the benefit obligations and pension plan costs include the discount rate and the rate of compensation increase. See Note 20.4 "Pension assumptions" of the Notes to the Consolidated Financial Statements for Fiscal 2015 for more information on the weighted-average actuarial assumptions for the plans.

The Company is exposed to interest rate risk which could adversely affect its results of operations.

Interest rate risk reflects the sensitivity of the Company's financial condition to movements in interest rates. Financial assets and liabilities which do not bear interest or bear interest at fixed rates are classified as non-interest rate sensitive. Cash and borrowings under the Company's Amended Credit Facility, when applicable, are subject to interest rate risk. The total outstanding balance subject to interest rate risk as at January 30, 2016 was a net asset of $315.2 million (January 31, 2015: $260.3 million). An increase or decrease in interest rates of 25 basis points would cause an after-tax impact on net (loss) earnings of $0.6 million.

Certain factors, including changes in market conditions and our credit ratings, may limit our access to capital markets and other financing sources, which could materially increase our borrowing costs.

In addition to credit terms from vendors, our liquidity needs are funded by our operating cash flows and, to the extent necessary, borrowings under our credit agreements and access to capital markets. The availability of financing depends on numerous factors, including economic and market conditions, our operating performance, our credit ratings, and lenders' assessments of our prospects and the prospects of the retail industry in general. Changes in these factors may affect our cost of financing, liquidity and our ability to access financing sources. Rating agencies revise their ratings for the companies that they follow from time to time and our ratings may be revised or withdrawn in their entirety at any time.

While the Amended Credit Facility currently provides for up to $300.0 million of lender commitments, availability under the Amended Credit Facility is determined pursuant to a borrowing base formula based on eligible assets consisting of inventory and credit card receivables and may be reduced by reserves, as estimated by the Company, which may be applied by the lenders at their discretion pursuant to the Amended Credit Facility agreement. If the value of eligible assets, net of any applicable reserves, are not sufficient to support borrowings of up to the full amount of the commitments under the facility, the Company will not have full access to the facility, but rather could have access to a lesser amount as determined by the borrowing base and reserve estimates. Availability under the Amended Credit Facility was $120.1 million as at January 30, 2016.

The lenders under our Amended Credit Facility may not be able to meet their commitments if they experience shortages of capital and liquidity and there can be no assurance that our ability to otherwise access the credit markets will not be adversely affected by changes in the financial markets and the global economy.

The Company faces risks associated with impairment of intangible and other long-lived assets.

The Company's intangible assets and long-lived assets, primarily consisting of stores, are subject to periodic testing for impairment. A significant amount of judgment is involved in the periodic testing. Failure to achieve sufficient levels of cash flow within each of the Company's cash generating units or specific operating units could result in impairment charges for intangible assets or long-lived assets, which could have a material adverse effect on the Company's reported results of operations.

Risks Relating to the Company's Relationship with Holdings

The Company may lose rights to some intellectual property if Holdings' equity ownership in the Company falls below specified thresholds or in other circumstances involving financial distress.

The Company relies on its right to use the "Sears" name, including as part of the Company's corporate and commercial name, which the Company considers a significant and valuable aspect of its business. The Company's right to use the "Sears" name and certain other brand names was granted pursuant to the license agreement amendments, which state in the event Holdings' ownership interest in the Company is reduced to less than 10.0%, the license agreement would remain in effect for a period of five years after such reduction in ownership, after which the Company would no longer be permitted to use the "Sears" name and certain other brand names. In addition, the Company's license to use the "Sears" name and certain other brand names (subject to an extension of up to four years at a royalty rate to be agreed equal to the lesser of a fair market rate based on the value of such mark or the lowest rate which will provide a reasonable incentive to induce Sears Canada to phase out the use of such mark during such extended period, if the Company reasonably determines that a longer transition is necessary) may also terminate upon the occurrence of certain bankruptcy events involving the Company. In addition, in the event of a bankruptcy proceeding involving Holdings, there is a risk of the license agreement being terminated under the governing insolvency legislation. Losing the right to use these intellectual properties could significantly diminish the Company's competitiveness in the marketplace and could materially harm the business. If either the license agreement or the technology agreement is terminated, the Company may attempt to renegotiate such agreement although the terms of any renegotiated agreement will be less favorable to the Company.

Some of the Company's directors and executive officers may have conflicts of interest because of their ownership of Holdings common stock.

Some of the Company's directors and executive officers may own Holdings common stock. Ownership of Holdings common stock by our directors and/or officers could create, or appear to create, conflicts of interest with respect to matters involving both the Company and Holdings.

Risks Relating to Our Common Shares

As long as ESL exerts significant voting influence over the Company, a shareholder's ability to influence matters requiring shareholder approval will be limited.

ESL is the largest shareholder of the Company, both directly through ownership in the Company, and indirectly through shareholdings in Holdings. Prior to October 16, 2014, Holdings was the controlling shareholder of the Company.

As at March 17, 2016, ESL was the beneficial holder of approximately 45.3% of the common shares of the Company and Holdings was the beneficial holder of approximately 11.7%, of the common shares of the Company.

So long as ESL directly or indirectly controls the Company's outstanding Common Shares, they will have the ability to control the election of the Board of Directors and the outcome of certain shareholder votes. Accordingly, ESL will have the ability to exercise control over certain actions to be taken or approved by the Company's directors and shareholders, including with respect to certain mergers or business combinations or dispositions of all or substantially all of our assets.

ESL's voting control may discourage transactions involving a change of control of the Company, including transactions in which shareholders might otherwise receive a premium for their shares over the then-current market price. Subject to certain limits, ESL is also not prohibited from selling a controlling interest in the Company to a third party and may do so without shareholder approval and, subject to applicable laws, without providing for a purchase of shareholders' common shares. Accordingly, shareholders' common shares may be worth less than they would be if ESL did not maintain voting control over the Company.

ESL's interests may be different than other shareholders' interests and Holdings and ESL may have investments in other companies that may compete with the Company and may have interests from time to time that diverge from the interests of the Company's other shareholders, particularly with regard to new investment opportunities.

In addition, conflicts of interest may arise between Holdings and/or ESL and the Company, including corporate opportunities, potential acquisitions or transactions as well as other matters. The Company may be adversely affected by any conflicts of interest between Holdings and/or ESL and the Company. Furthermore, neither Holdings nor ESL owes the Company or the Company's shareholders any fiduciary duties under Canadian law.

In the event that Holdings experiences financial difficulty, it is not possible to predict with certainty the jurisdiction or jurisdictions in which insolvency or similar proceedings would be commenced or the outcome of such proceedings. If a bankruptcy, insolvency or similar event occurs, there could be proceedings involving Holdings in the United States or elsewhere and it is possible that the Company could be made a part of these proceedings. This risk decreases as the percentage of common shares held by Holdings decreases.

The price of the Company's common shares may decline if ESL or Holdings alter their strategy with respect to their ownership of the Company's shares.

ESL and Holdings have advised the Company that they have not reached any decision regarding whether or for how long they will retain their share ownership in the Company and what form, if any, the disposition or distribution of their common shares will take. ESL and Holdings will, in their respective sole discretions, determine the timing and terms of any transactions with respect to their common shares, taking into account business and market conditions and other factors that they deem relevant. Neither ESL or Holdings are subject to any contractual obligation to maintain their ownership position in the Company, nor is ESL subject to any contractual obligation to the Company to maintain its ownership in Holdings. Consequently, we cannot be assured that either ESL or Holdings will maintain its current direct or indirect ownership of the Company's common shares. Any announcement by ESL or Holdings that they have reached a determination regarding what to do with their direct or indirect ownership of our common shares, or the perception by the investment community that ESL or Holdings has reached such a determination, could have an adverse impact on the price of the Company's common shares.

The market price of the Company's common shares is subject to market value fluctuations.

From time to time, the stock market experiences significant price and volume volatility that may affect the market price of the Company's common shares for reasons unrelated to its performance. In addition, the financial markets are generally characterized by extensive interconnections among financial institutions and, accordingly, defaults by other financial institutions in Canada, the United States or other countries could adversely affect the Company and the market price of its common shares. The value of the Company's common shares is also subject to market value fluctuations based upon factors which influence its operations, such as legislative or regulatory developments, competition, technological change and global capital market activity.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The preparation and presentation of the Company's consolidated financial statements and the overall accuracy and integrity of the Company's financial reporting are the responsibility of management. The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB), and include certain amounts that are based on management's best estimates and judgments. Financial information contained elsewhere in this Annual Report is consistent with the information set out in the consolidated financial statements.

In fulfilling its responsibilities, management has developed and maintains an extensive system of disclosure controls and procedures and internal control over financial reporting processes that are designed to provide reasonable assurance that assets are safeguarded, transactions are properly recorded and reported within the required time periods, and financial records are reliable for the preparation of the financial statements. The Company's internal auditors also review and evaluate internal controls on behalf of management.

The Board of Directors monitors management's fulfillment of its responsibilities for financial reporting and internal controls principally through the Audit Committee. The Audit Committee, which is comprised solely of independent directors, meets regularly with management, the internal audit department and the Company's external auditors to review and discuss audit activity and results, internal accounting controls and financial reporting matters. The external auditors and the internal audit department have unrestricted access to the Audit Committee, management and the Company's records. The Audit Committee is also responsible for recommending to the Board of Directors the proposed nomination of the external auditors for appointment by the shareholders. Based upon the review and recommendation of the Audit Committee, the consolidated financial statements and Management's Discussion and Analysis have been approved by the Board of Directors.

The Company's external auditors, Deloitte LLP, have audited the consolidated financial statements in accordance with International Financial Reporting Standards as issued by the IASB.

Brandon G. Stranzl Executive Chairman	E.J. Bird Chief Financial Officer

Toronto, Ontario
March 17, 2016

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards. The control framework used by the Company's management to assess the effectiveness of the Company's internal control over financial reporting is the *Internal Control - Integrated Framework* 2013 (COSO framework) published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Internal control systems, regardless of superiority in design, have inherent limitations. Therefore, even those systems that have been determined to have been designed effectively can only provide reasonable assurance with respect to financial reporting and financial statement preparation.

Management of the Company, including its chief executive officer and chief financial officer, has evaluated the Company's internal control over financial reporting and has concluded that it was effective as at January 30, 2016.

Deloitte LLP, the independent registered public accounting firm that audited the Company's consolidated financial statements for the fiscal year ended January 30, 2016, has issued its opinion on the Company's internal control over financial reporting as stated in their report included herein.

Brandon G. Stranzl
Executive Chairman

E.J. Bird
Chief Financial Officer

Toronto, Ontario
March 17, 2016

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of
Sears Canada Inc.

We have audited the accompanying consolidated financial statements of Sears Canada Inc. and subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at January 30, 2016 and January 31, 2015, and the consolidated statements of net loss and comprehensive loss, consolidated statements of changes in shareholders' equity, and consolidated statements of cash flows for the 52-week periods ended January 30, 2016 and January 31, 2015, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Sears Canada Inc. and subsidiaries as at January 30, 2016 and January 31, 2015, and their financial performance and their cash flows for the 52-week periods ended January 30, 2016 and January 31, 2015 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Other Matter

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of January 30, 2016, based on the criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 18, 2016 expressed an unqualified opinion on the Company's internal control over financial reporting.

Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants
March 18, 2016
Toronto, Canada

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of
Sears Canada Inc.

We have audited the internal control over financial reporting of Sears Canada Inc. and subsidiaries (the "Company") as of January 30, 2016 based on the criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 30, 2016, based on the criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the 52 week-period ended January 30, 2016 of the Company and our report dated March 18, 2016 expressed an unmodified opinion on those financial statements.

Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants
March 18, 2016
Toronto, Canada

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CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in CAD millions)	Notes		As at January 30, 2016		As at January 31, 2015
ASSETS					
Current assets					
Cash	5	$	**313.9**	$	259.0
Accounts receivable, net	6,14,16		**59.4**		73.0
Income taxes recoverable	22		**35.9**		127.2
Inventories	7		**664.8**		641.4
Prepaid expenses	8		**31.0**		28.7
Derivative financial assets	14		**6.6**		7.2
Assets classified as held for sale	29		**22.1**		13.3
Total current assets			**1,133.7**		1,149.8
Non-current assets					
Property, plant and equipment	9,19		**444.1**		567.6
Investment properties	9		**17.0**		19.3
Intangible assets	10		**22.5**		16.2
Deferred tax assets	22		**0.6**		0.7
Other long-term assets	12,14,16,17		**15.3**		20.5
Total assets		$	**1,633.2**	$	1,774.1
LIABILITIES					
Current liabilities					
Accounts payable and accrued liabilities	14,15	$	**332.7**	$	359.4
Deferred revenue	13		**158.3**		171.2
Provisions	16		**75.8**		58.6
Income taxes payable			**2.6**		—
Other taxes payable			**17.3**		34.6
Current portion of long-term obligations	14,17,19,24		**4.0**		4.0
Total current liabilities			**590.7**		627.8
Non-current liabilities					
Long-term obligations	14,17,19,24		**20.2**		24.1
Deferred revenue	13		**74.2**		76.8
Retirement benefit liability	14,20		**326.9**		407.4
Deferred tax liabilities	22		**—**		3.4
Other long-term liabilities	16,18		**67.0**		63.8
Total liabilities			**1,079.0**		1,203.3
SHAREHOLDERS' EQUITY					
Capital stock	23		**14.9**		14.9
Retained earnings			**739.0**		806.9
Accumulated other comprehensive loss			**(199.7)**		(251.0)
Total shareholders' equity	24		**554.2**		570.8
Total liabilities and shareholders' equity		$	**1,633.2**	$	1,774.1

The accompanying notes are an integral part of these consolidated financial statements.

On Behalf of the Board of Directors,

B.G.Stranzl
Chairman of the Board

D.E.Rosati
Director

CONSOLIDATED STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS
For the 52-week periods ended January 30, 2016 and January 31, 2015

(in CAD millions, except per share amounts)	Notes		2015		2014
Revenue	25	$	**3,145.7**	$	3,424.5
Cost of goods and services sold	7,14,26		**2,145.9**		2,308.0
Selling, administrative and other expenses	9,10,14,19,20,26		**1,298.1**		1,523.8
Operating loss			**(298.3)**		(407.3)
Gain on sale and leaseback transactions	27		**67.2**		—
Gain on termination of credit card arrangement	28		**170.7**		—
Gain on sale of interest in joint arrangements	11		**—**		35.1
Gain on settlement of retirement benefits	20,26		**5.1**		10.6
Finance costs	17,19,22		**9.7**		1.0
Interest income	5		**2.3**		2.6
Loss before income taxes			**(62.7)**		(360.0)
Income tax (expense) recovery					
Current	22		**(8.1)**		74.7
Deferred	22		**2.9**		(53.5)
			(5.2)		21.2
Net loss		$	**(67.9)**	$	(338.8)
Basic and diluted net loss per share	32	$	**(0.67)**	$	(3.32)
Net loss		$	**(67.9)**	$	(338.8)
Other comprehensive income (loss), net of taxes:					
Items that may subsequently be reclassified to net loss:					
Gain on foreign exchange derivatives			**19.2**		10.8
Reclassification to net loss of gain on foreign exchange derivatives			**(18.7)**		(10.1)
Items that will not subsequently be reclassified to net loss:					
Remeasurement gain (loss) on net defined retirement benefit liability and write down of deferred income tax asset associated with previously recorded remeasurement losses	20,22		**50.8**		(165.3)
Total other comprehensive income (loss)			**51.3**		(164.6)
Total comprehensive loss		$	**(16.6)**	$	(503.4)

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the 52-week periods ended January 30, 2016 and January 31, 2015

				Accumulated other comprehensive loss			
(in CAD millions)	Notes	Capital stock	Retained earnings	Foreign exchange derivatives designated as cash flow hedges	Remeasurement (loss) gain	Total accumulated other comprehensive loss	Shareholders' equity
Balance as at January 31, 2015		**$ 14.9**	**$ 806.9**	**$ 6.7**	**$ (257.7)**	**$ (251.0)**	**$ 570.8**
Net loss			**(67.9)**	—	—	—	**(67.9)**
Other comprehensive income (loss)							
Gain on foreign exchange derivatives, net of income tax expense of $7.1	14			**19.2**	—	**19.2**	**19.2**
Reclassification of gain on foreign exchange derivatives, net of income tax expense of $6.9	14			**(18.7)**	—	**(18.7)**	**(18.7)**
Remeasurement gain on net defined retirement benefit liability	20,22			—	**50.8**	**50.8**	**50.8**
Total other comprehensive income		—	—	**0.5**	**50.8**	**51.3**	**51.3**
Total comprehensive (loss) income		—	**(67.9)**	**0.5**	**50.8**	**51.3**	**(16.6)**
Balance as at January 30, 2016		**$ 14.9**	**$ 739.0**	**$ 7.2**	**$ (206.9)**	**$ (199.7)**	**$ 554.2**

Balance as at February 1, 2014		$ 14.9	$ 1,145.3	$ 6.0	$ (92.4)	$ (86.4)	$ 1,073.8
Net loss			(338.8)	—	—	—	(338.8)
Other comprehensive income (loss)							
Gain on foreign exchange derivatives, net of income tax expense of $3.9	14			10.8	—	10.8	10.8
Reclassification of gain on foreign exchange derivatives, net of income tax expense of $3.6	14			(10.1)	—	(10.1)	(10.1)
Remeasurement loss on net defined retirement benefit liability and the write down of deferred income tax asset associated with previously recorded remeasurement losses	20,22			—	(165.3)	(165.3)	(165.3)
Total other comprehensive income (loss)		—	—	0.7	(165.3)	(164.6)	(164.6)
Total comprehensive (loss) income		—	(338.8)	0.7	(165.3)	(164.6)	(503.4)
Share based compensation		—	0.4	—	—	—	0.4
Balance as at January 31, 2015		$ 14.9	$ 806.9	$ 6.7	$ (257.7)	$ (251.0)	$ 570.8

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the 52-week periods ended January 30, 2016 and January 31, 2015

(in CAD millions)	Notes	2015	2014
Cash flow used for operating activities			
Net loss		$ **(67.9)**	$ (338.8)
Adjustments for:			
Depreciation and amortization expense	9,10	**48.4**	89.3
Share based compensation		**(0.4)**	0.4
Loss (gain) on disposal of property, plant and equipment		**0.3**	(0.6)
Net impairment losses	9,10,29	**63.3**	162.0
Gain on sale and leaseback transactions	27	**(67.2)**	—
Gain on termination of credit card arrangement	28	**(170.7)**	—
Gain on sale of interest in joint arrangements	11	—	(35.1)
Finance costs	17,19,22	**9.7**	1.0
Interest income	5	**(2.3)**	(2.6)
Retirement benefit plans expense	20	**18.9**	19.0
Gain on settlement of retirement benefits	20	**(5.1)**	(10.6)
Short-term disability expense	20	**4.9**	5.7
Income tax expense (recovery)	22	**5.2**	(21.2)
Interest received	5	**1.1**	2.5
Interest paid	17	**(2.7)**	(3.3)
Retirement benefit plans contributions	20	**(48.6)**	(24.2)
Income tax refunds (payments), net	22	**87.6**	(60.7)
Other income tax deposits		—	(10.3)
Changes in non-cash working capital balances	33	**(64.3)**	(67.3)
Changes in non-cash long-term assets and liabilities	34	**(11.7)**	30.2
		(201.5)	(264.6)
Cash flow generated from investing activities			
Purchases of property, plant and equipment and intangible assets	9,10	**(45.4)**	(54.0)
Proceeds from sale of property, plant and equipment		**0.3**	1.2
Proceeds from termination of credit card arrangement	28	**174.0**	—
Net proceeds from sale and leaseback transactions	27	**130.0**	—
Proceeds from sale of interest in joint arrangements	11	—	71.7
		258.9	18.9
Cash flow used for financing activities			
Interest paid on finance lease obligations	17,19	**(1.9)**	(2.2)
Repayment of long-term obligations		**(3.9)**	(7.8)
Transaction fees associated with amended credit facility	17	—	(1.0)
		(5.8)	(11.0)
Effect of exchange rate on cash at end of period		**3.3**	1.9
Increase (decrease) in cash		**54.9**	(254.8)
Cash at beginning of period		$ **259.0**	$ 513.8
Cash at end of period	5	$ **313.9**	$ 259.0

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General information

Sears Canada Inc. is incorporated in Canada. The address of its registered office and principal place of business is 290 Yonge Street, Suite 700, Toronto, Ontario, Canada M5B 2C3. The principal activities of Sears Canada Inc. and its subsidiaries (the "Company") include the sale of goods and services through the Company's Retail channels, which includes its full-line, Sears Home, Hometown, Outlet, Corbeil Electrique Inc. ("Corbeil") stores, and its Direct (catalogue/internet) channel. It also includes service revenue related to product repair and logistics. Commission revenue includes travel, home improvement services, insurance, wireless and long distance plans, and performance payments received from JPMorgan Chase Bank, N.A. (Toronto Branch) ("JPMorgan Chase") under the Company's credit card marketing and servicing alliance with JPMorgan Chase (see Note 28 for additional information). Licensee fee revenue is comprised of payments received from licensees that operate within the Company's stores (see Note 14 for additional information). The Company was a party to a number of real estate joint arrangements which had been classified as joint operations and accounted for by recognizing the Company's share of joint arrangements' assets, liabilities, revenues and expenses for financial reporting purposes (see Note 2.4 for additional information).

2. Significant accounting policies

2.1 Statement of compliance

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

2.2 Basis of preparation and presentation

The principal accounting policies of the Company have been applied consistently in the preparation of its consolidated financial statements for all periods presented. These financial statements follow the same accounting policies and methods of application as those used in the preparation of the 2014 Annual Consolidated Financial Statements. The Company's significant accounting policies are detailed in Note 2.

2.3 Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, with the exception of certain financial instruments that are measured at fair value and the retirement benefit liability, which is the net total of retirement benefit plan assets and the present value of accrued retirement benefit plan obligations. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

2.4 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company as well as all of its subsidiaries. Real estate joint arrangements were accounted for by recognizing the Company's share of the joint arrangements' assets, liabilities, revenues and expenses (described further in Note 2.12).

The fiscal year of the Company consists of a 52 or 53-week period ending on the Saturday closest to January 31. The fiscal years for the 2015 and 2014 consolidated financial statements represent the 52-week period ended January 30, 2016 ("Fiscal 2015" or "2015") and the 52-week period ended January 31, 2015 ("Fiscal 2014" or "2014"), respectively.

The Company's consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. For Fiscal 2014, the Company was comprised of two reportable segments, Merchandising and Real Estate Joint Arrangements. Prior to Fiscal 2015, the Company disposed of its real estate joint arrangement interests in shopping centres. As a result, the Company is now comprised of one reportable segment, Merchandising. Prior year information has been restated to conform to the current year's presentation.

2.5 Cash

Cash is considered to be restricted when it is subject to contingent rights of a third party customer, vendor, government agency or financial institution.

2.6 Inventories

Inventories are measured at the lower of cost and net realizable value. Cost is determined using the weighted average cost method, based on individual items. The cost is comprised of the purchase price, plus the costs incurred in bringing the inventory to its present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs to sell. Rebates and allowances received from vendors are recognized as a reduction to the cost of inventory, unless the rebates clearly relate to the reimbursement of specific expenses. A provision for shrinkage and obsolescence is calculated based on historical experience. All inventories consist of finished goods.

2.7 Property, plant and equipment

Property, plant and equipment are measured at cost or deemed cost less accumulated depreciation and accumulated impairment losses. Costs include expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes site preparation costs, design and engineering fees, freight (only on initial freight costs incurred between the vendor and the Company), installation expenses and provincial sales tax (Saskatchewan, Manitoba and British Columbia), and is net of any vendor subsidies or reimbursements. An allocation of general and specific incremental interest charges for major construction projects is also included in the cost of related assets. Property, plant and equipment within two of the Company's Logistics Centres have been classified as held for sale in the Consolidated Statements of Financial Position (see Note 29).

When the significant parts of an item of property, plant and equipment have varying useful lives, they are accounted for as separate components of property, plant and equipment. Depreciation is calculated based on the depreciable amount of the asset or significant component thereof, if applicable, which is the cost of the asset or significant component less its residual value. Depreciation is recognized using the straight-line method for each significant component of an item of property, plant and equipment and is recorded in "Selling, administrative and other expenses" in the Consolidated Statements of Net Loss and Comprehensive Loss. The estimated useful lives are 2 to 13 years for equipment and fixtures and 10 to 50 years for buildings and building improvements. The estimated useful lives, residual values and depreciation methods for property, plant and equipment are reviewed annually and adjusted, if appropriate, with the effect of any changes in estimates accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease, unless it is reasonably certain that the Company will obtain ownership by the end of the lease term.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the proceeds from sale or the cost of retirement and the carrying amount of the asset, and is recognized in the Consolidated Statements of Net Loss and Comprehensive Loss.

For a discussion on the impairment of tangible assets, refer to Note 2.10. Property, plant and equipment are reviewed at the end of each reporting period to determine if there are any indicators of impairment.

2.8 Investment properties

The Company's investment properties consist of vacant land which is not currently used in its operations. Investment properties are measured at their deemed cost less accumulated impairment losses.

The fair value of an investment property is estimated using observable data based on the current cost of acquiring a comparable property within the market area and the capitalization of the property's anticipated revenue. The Company engages independent qualified third parties to conduct appraisals of its investment properties. Investment properties within two of the Company's Logistics Centres have been classified as held for sale in the Consolidated Statements of Financial Position (see Note 29).

The gain or loss arising from the disposal or retirement of an investment property is determined as the difference between the proceeds from sale or the cost of retirement, and the carrying amount of the asset, and is recognized in the Consolidated Statements of Net Loss and Comprehensive Loss.

For a discussion on the impairment of tangible assets, refer to Note 2.10. Investment properties are reviewed at the end of each reporting period to determine if there are any indicators of impairment.

2.9 Intangible assets

2.9.1 Intangible assets other than goodwill

Intangible assets consist primarily of finite life purchased and internally developed software. Finite life intangible assets are carried at cost less accumulated amortization and accumulated impairment losses and are amortized on a straight-line basis over their estimated useful lives which range from 2 to 5 years. The useful lives of primarily all intangible assets other than goodwill are finite. Certain intangible assets have an indefinite useful life, as there is no foreseeable limit to the period during which the Company expects the assets to generate net cash inflows. Amortization expense is included in "Selling, administrative and other expenses" in the Consolidated Statements of Net Loss and Comprehensive Loss. The estimated useful lives and amortization methods for intangible assets other than goodwill are reviewed annually, with the effect of any changes in estimates being accounted for on a prospective basis.

Internally developed software costs are capitalized when the following criteria are met:

- It is technically feasible to complete the software so that it will be available for use;
- The Company intends to complete the software product;
- The Company has an ability to use the software;
- The Company can demonstrate how the software will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use the software product are available; and
- The expenditure attributable to the software product during its development can be reliably measured.

Costs that qualify for capitalization are limited to those that are directly related to each software development project.

2.9.2 Goodwill

Goodwill arising in a business combination was recognized as an asset at the date that control was acquired ("the acquisition date"). Goodwill was measured as the excess of the sum of the consideration transferred, over the net fair value of identifiable assets acquired less liabilities assumed as of the acquisition date.

2.10 Impairment of tangible assets and intangible assets

At the end of each reporting period, the Company reviews property, plant and equipment, investment properties and intangible assets for indicators of impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the assets are then grouped together into the smallest group of assets that generate independent cash inflows from continuing use (the "cash generating unit" or "CGU") and a recoverable amount is estimated for that CGU. The Company has determined that its CGUs are primarily its retail stores.

Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs. Otherwise, they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

If the recoverable amount of an asset or a CGU is estimated to be less than its carrying amount, the asset or CGU will be reduced to its recoverable amount and an impairment loss is recognized immediately. If an impairment for a CGU has been identified, the impairment was first allocated to goodwill before other assets held by the CGU. Where goodwill is not part of a CGU, an impairment loss is recognized as a reduction in the carrying amount of the assets included in the CGU on a pro rata basis.

Where an impairment loss subsequently reverses (not applicable to goodwill), the carrying amount of the asset or CGU is revised to an estimate of its recoverable amount limited to the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized immediately.

2.11 Impairment of goodwill

Goodwill was not amortized but was reviewed for impairment at least annually. For the purposes of impairment testing, goodwill was allocated to each of the Company's CGUs expected to benefit from the synergies of the combination.

CGUs to which goodwill had been allocated were tested for impairment annually, or more frequently when there was an indication that the unit may be impaired. If the recoverable amount of the CGU was less than its carrying amount, the impairment loss was allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to the other assets of the unit on a pro-rata basis, based on the carrying amount of each asset in the unit. Impairment losses for goodwill cannot be reversed in subsequent periods.

2.12 Joint arrangements

Joint arrangements are arrangements of which two or more parties have joint control. Joint control is considered to be when all parties to the joint arrangement are required to reach unanimous consent over decisions about relevant business activities pertaining to the contractual arrangement.

The Company had determined that its real estate joint arrangements were joint operations. A joint operation is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control and whereby each party has rights to the assets and liabilities relating to the arrangement. Interests in joint operations were accounted for by recognizing the Company's share of assets, liabilities, revenues, and expenses incurred jointly.

2.13 Leasing arrangements

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

2.13.1 The Company as lessor

The Company has entered into a number of agreements to sub-lease premises to third parties. All sub-leases to third parties are classified as operating leases. Rental income from operating leases is recognized as a reduction of rent expense on a straight-line basis over the term of the lease.

2.13.2 The Company as lessee

Assets held under finance leases are initially recognized by the Company at the lower of the fair value of the asset and the present value of the minimum lease payments. The corresponding current and non-current liabilities to the lessor are included in the Consolidated Statements of Financial Position as a finance lease obligation in "Current portion of long-term obligations" and "Long-term obligations," respectively. The assets are depreciated using the same accounting policy as applicable to property, plant and equipment (see Note 2.7).

Lease payments are apportioned between finance costs and the lease obligation in order to achieve a constant rate of interest on the remaining balance of the liability. The minimum lease payments are allocated between the land and building element in proportion to the relative fair values of the leasehold interests, in each of these elements of the lease.

Assets under operating leases are not recognized by the Company. Operating lease payments are recognized in "Selling, administrative and other expenses" in the Consolidated Statements of Net Loss and Comprehensive Loss.

In the event that lease incentives are received from the landlord, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

2.14 Retirement benefit plans

The Company currently maintains a defined contribution and a defined benefit registered pension plan, which covers eligible regular full-time and part-time employees, a non-registered supplemental savings arrangement and a defined benefit non-pension retirement plan, which provides life insurance, medical and dental benefits to eligible retired employees through a health and welfare trust.

2.14.1 Defined contribution plan

A defined contribution plan is a post-employment benefit plan under which the Company pays fixed or matching contributions based on employee contributions into a separate legal entity and has no further legal or constructive obligation to pay additional amounts. Company contributions to the defined contribution retirement benefit plan are recognized as an expense when employees have rendered services entitling them to the contributions.

2.14.2 Defined benefit plans

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations prepared by independent qualified actuaries at least every 3 years. Remeasurements comprised of actuarial gains and losses, the effect of the asset ceiling (if applicable) and the return on plan assets (excluding interest) are recognized immediately in the Consolidated Statements of Financial Position with a charge or credit to "Other comprehensive income (loss), net of taxes" ("OCI") in the Consolidated Statements of Net Loss and Comprehensive Loss, in the period in which they occur. The Company performs remeasurements at least annually. Remeasurements recorded in OCI are not subsequently reclassified into profit or loss. However, the entity may transfer those amounts recognized in OCI within "Accumulated other comprehensive loss" ("AOCL") in the Consolidated Statements of Changes in Shareholders' Equity. Past service cost is recognized in profit or loss in the period of plan amendment. Net-interest is calculated by applying the discount rate to the net defined benefit liability or asset. Defined benefit costs are split into three categories:

- service cost, past-service cost, gains and losses on curtailments and settlements;
- net interest expense or income;
- remeasurements.

The Company presents the first two components of defined benefit costs in "Selling, administrative and other expenses" in the Consolidated Statements of Net Loss and Comprehensive Loss.

Remeasurements are recorded in OCI.

The retirement benefit obligation recognized in the Consolidated Statements of Financial Position represents the actual deficit or surplus in the Company's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

2.14.3 Termination benefits

A liability for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognizes any related restructuring costs.

2.15 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, excluding sales taxes. Revenue is reduced for estimated customer returns, discounts and other similar allowances.

2.15.1 Sale of goods

Revenue from the sale of goods is recognized upon delivery of goods to the customer. In the case of goods sold in-store, delivery is generally complete at the point of sale. For goods subject to delivery such as furniture or major appliances, and goods sold online or through the catalogue, delivery is complete when the goods are delivered to the customers' selected final destination or picked up from a catalogue/online agent. In the case of goods subject to installation, such as home improvement products, revenue is recognized when the goods have been delivered and the installation is complete.

2.15.2 Rendering of services

Revenue from a contract to provide services is recognized by reference to the stage of completion of the contract.

Extended warranty service contracts

The Company sells extended warranty service contracts with terms of coverage generally between 12 and 60 months. Revenue from the sale of each contract is deferred and amortized on a straight-line basis over the term of the related contract.

Product repair, handling and installation services

Product repair, handling and installation services revenue is recognized once the services are complete. These services are performed within a short timeframe.

2.15.3 Commission and licensee fee revenue

The Company earns commission revenue by selling various products and services that are provided by third parties, such as sales of travel services, home improvement products and insurance programs. As the Company is not the primary obligor in these transactions, these commissions are recognized upon sale of the related product or service.

Fee revenue is received from a variety of licensees that operate in the Company's stores. Revenue earned is based on a percentage of licensee sales. Revenue is recorded upon sale of the related product or service.

Revenue was received from JPMorgan Chase relating to credit sales. Revenue was primarily based on a percentage of sales charged on the Sears Card or Sears MasterCard and was included in revenue when the sale occurred (see Note 28 for additional information).

2.15.4 Interest income

Interest income is recognized when it is probable that the economic benefits will flow to the Company and the amount of income can be reliably measured. Interest income is accrued on a periodic basis by reference to the principal outstanding and the applicable interest rate.

2.15.5 Customer loyalty program

The Sears Club Points Program (the "Program") allows members to earn points from eligible purchases made on any tender accepted by the Company. Members can then redeem points in accordance with the Program rewards schedule for merchandise. When points are earned, the Company defers revenue equal to the fair value of the awards adjusted for expected redemptions. When awards are redeemed, the redemption value of the awards is charged against deferred revenue and recognized as revenue. The expected future redemption rates are reviewed on an ongoing basis and are adjusted based upon expected future activity.

2.15.6 Gift cards

The Company sells gift cards through its retail stores, websites and third parties with no administrative fee charges or expiration dates. No revenue is recognized at the time gift cards are sold. Revenue is recognized as a merchandise sale when the gift card is redeemed by the customer. The Company also recognizes income when the likelihood of the gift card being redeemed by the customer is remote, which is generally at the end of 18 months subsequent to issuance, estimated based on historical redemption patterns.

2.15.7 Cost of goods and services sold

Cost of goods and services sold includes the purchase price of merchandise sold, freight and handling costs incurred in preparing the related inventory for sale, installation costs incurred relating to the sale of goods subject to installation, write-downs taken on inventory during the period, physical inventory losses and costs of services provided during the period relating to services sold, less rebates from suppliers relating to merchandise sold.

2.16 Foreign currency translation

Transactions in currencies other than the Company's functional currency are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency at the exchange rates prevailing at that date.

Exchange differences arising on re-translation are recognized in the Consolidated Statements of Net Loss and Comprehensive Loss in the period in which they arise, except for exchange differences on certain foreign currency hedging transactions (see Note 14.3).

Non-monetary assets and liabilities denominated in a foreign currency that are measured at historical cost are translated using the exchange rate at the date of the transaction and are not retranslated.

2.17 Consideration from a vendor

The Company has arrangements with its vendors that provide for rebates subject to binding contractual agreements. Rebates on inventories subject to binding agreements are recognized as a reduction of the cost of sales or related inventories for the period, provided the rebates are probable and reasonably estimable. Rebates on advertising costs subject to binding agreements are recognized as a reduction of the advertising expense for the period, provided the rebates are probable and reasonably estimable.

2.18 Taxation

Income tax expense represents the sum of current tax expense and deferred tax expense.

2.18.1 Current tax

Tax currently payable or recoverable is based on taxable earnings or loss for the reporting period. Taxable income differs from earnings as reported in the Consolidated Statements of Net Loss and Comprehensive Loss, due to income or expenses that are taxable or deductible in other years and items that are not taxable or deductible for tax purposes. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted as at the end of the reporting period and includes any adjustments to taxes payable and/or taxes recoverable in respect of prior years.

2.18.2 Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases used in the computation of taxable earnings or loss.

Deferred tax liabilities are typically recognized for taxable temporary differences. Deferred tax assets are typically recognized for deductible temporary differences to the extent that it is probable that taxable income will be available, against which deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary differences arise from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable net earnings or loss nor the accounting income or loss.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and written down to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to be applicable in the period in which the liability is settled or the asset is realized, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities, when they relate to income taxes levied by the same taxation authority and when the Company intends to settle its current tax assets and liabilities on a net basis. Deferred tax assets and liabilities are not discounted.

2.18.3 Current and deferred tax for the period

Current and deferred tax are recognized as a tax expense or recovery in the Consolidated Statements of Net Loss and Comprehensive Loss, except when they relate to items that are recognized outside of earnings or loss (whether in OCI, or directly in equity), in which case, the tax is also recognized outside of earnings or loss, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is included in the accounting for the business combination. Interest on the Company's tax position is recognized as a finance cost.

2.19 Provisions

Provisions are recognized when the Company has a present obligation, legal or constructive, as a result of a past event, it is probable that the Company will be required to settle the obligation and a reliable estimate can be made for the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties specific to the obligation. Where a provision is measured using the cash flow estimated to settle the present obligation, its carrying amount is the present value of such cash flows.

When some or all of the economic resources required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

2.19.1 Onerous contract provisions

An onerous contract provision is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations. The provision is measured at the present value of the lower of the expected cost of terminating the contract or the expected cost of continuing with the contract. Before a provision is established, the Company recognizes any impairment loss on the assets associated with that contract. The onerous contract provision is included in "Other provisions" as seen in Note 16.

2.19.2 General liability provisions

The Company purchases third party insurance for automobile, damage to a claimant's property or bodily injury from use of a product and general liability claims that exceed a certain dollar level. However, the Company is responsible for the payment of claims under these insured limits. In estimating the obligation associated with incurred losses, the Company utilizes actuarial methodologies which are based on historical data and validated by an independent third party. Loss estimates are adjusted based on actual claims settlements and reported claims (see Note 16).

2.19.3 Warranty provisions

An estimate for warranty provisions is made at the time the merchandise is sold based on historical warranty trends (see Note 16).

2.19.4 Returns and allowances provisions

Provisions for returns and allowances are made based on historical rates which represent the expected future outflow of economic resources on current sales (see Note 16).

2.19.5 Environmental provisions

The Company is exposed to environmental risks as an owner, lessor and lessee of property. Under federal and provincial laws, the owner, lessor or lessee could be liable for the costs of removal and remediation of certain hazardous substances on its properties or disposed of at other locations. The failure to remove or remediate such substances, if any, could lead to claims against the Company. The provision is based on assessments conducted by third parties, as well as historical data (see Note 16).

2.20 Financial assets

All financial assets are recognized and derecognized on the trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned. Financial assets are initially measured at fair value plus transaction costs, except for those financial assets at 'fair value through profit or loss' ("FVTPL") for which the transaction costs are expensed as incurred.

Financial assets and liabilities are offset with the net amount presented in the Consolidated Statements of Financial Position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Financial assets are classified into the following categories: financial assets at FVTPL, 'held-to-maturity' investments, 'available-for-sale' ("AFS") financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. Currently the Company does not have any 'held-to-maturity' investments.

2.20.1 Effective interest method

The effective interest method calculates the amortized cost of a financial asset or financial liability and allocates interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flow (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Interest income or expense is recognized on an effective interest basis for financial assets and financial liabilities other than those classified as at FVTPL.

2.20.2 Financial assets at FVTPL

Financial assets are classified at FVTPL when the financial asset is either held-for-trading or it is designated as at FVTPL.

2.20.3 AFS financial assets

Gains and losses arising from changes in fair value of AFS are recognized in OCI, with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognized in "Selling, administrative and other expenses" or "Interest income" in the Consolidated Statements of Net Loss and Comprehensive Loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously included in AOCL is reclassified to "Selling, administrative and other expenses" in the Consolidated Statements of Net Loss and Comprehensive Loss.

2.20.4 Loans and receivables

Cash held by the bank and restricted cash are classified as 'loans and receivables' and are measured at amortized cost.

Trade receivables and other receivables that have fixed or determinable payments that are not quoted in an active market are also classified as 'loans and receivables'. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables, where the recognition of interest would be immaterial.

2.20.5 Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that the estimated future cash flow of the financial asset have been negatively affected as a result of events that have occurred after its initial recognition.

For all financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Default or delinquency in interest or principal payments; or
- Probability that the borrower will enter bankruptcy or financial reorganization.

For financial assets carried at amortized cost, the amount of any impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flow discounted at the financial asset's initial effective interest rate. When a subsequent event causes the amount of any impairment loss to decrease, the decrease in impairment loss is reversed through the Consolidated Statements of Net Loss and Comprehensive Loss.

The carrying amount of the financial asset is reduced by any impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, its carrying amount is written off including any amounts previously recorded in the allowance account. Subsequent recoveries of amounts previously written off are credited to "Selling, administrative and other expenses" in the Consolidated Statements of Net Loss and Comprehensive Loss. Changes in the carrying amount of the allowance account are also recognized in "Selling, administrative and other expenses".

2.20.6 Derecognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to the cash flow from the asset expire, or when substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

2.21 Financial liabilities and equity instruments

2.21.1 Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

2.21.2 Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issuance costs.

2.21.3 Financial liabilities

Financial liabilities are recognized on the trade date at which the Company becomes a party to the contractual provisions of the instrument. Financial liabilities are classified as either financial liabilities at 'FVTPL' or 'other financial liabilities'.

2.21.4 Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when they are either held-for-trading or designated as at FVTPL. Currently the Company does not have any financial liabilities that have been designated as at FVTPL upon initial recognition.

2.21.5 Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost with interest expense recognized on an effective interest method.

The Company amortizes debt issuance transaction costs over the life of the debt using the effective interest method.

2.21.6 Derecognition of financial liabilities

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or expired.

2.22 Derivative financial instruments

The Company enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts and interest rate swaps. Further details on derivative financial instruments are disclosed in Note 14.

Derivatives are initially recognized at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized immediately in "Selling, administrative and other expenses" in the Consolidated Statements of Net Loss and Comprehensive Loss, unless the derivative is designated and effective as a hedging instrument, in which case, the timing of the recognition depends on the nature of the hedge relationship. The Company designates certain derivatives as hedges of highly probable forecasted transactions or hedges of foreign currency risk of firm commitments (cash flow hedges).

A derivative with a positive fair value is recognized as a financial asset, whereas a derivative with a negative fair value is recognized as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realized or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

2.22.1 Hedge accounting

The Company designates certain hedging instruments, which include derivatives, as cash flow hedges. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedging relationship, the Company documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedging transactions. At the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Note 14 sets out details of the fair values of the derivative instruments used for hedging purposes.

2.22.2 Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in OCI. The gain or loss relating to the ineffective portion is recognized immediately in "Selling, administrative and other expenses" in the Consolidated Statements of Net Loss and Comprehensive Loss. Amounts previously recognized in OCI and accumulated in AOCL within equity are reclassified in the periods when the hedged items are recognized (i.e. to "Cost of goods and services sold" in the Consolidated Statements of Net Loss and Comprehensive Loss.

Hedge accounting is discontinued when the Company revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gains or losses accumulated in AOCL within equity at the time of discontinuation remain in equity and are transferred to "Cost of goods and services sold" in the Consolidated Statements of Net Loss and Comprehensive Loss when the forecasted transaction is ultimately recognized. When a forecasted transaction is no longer expected to occur, the gains or losses accumulated in equity are recognized immediately.

2.23 Net loss per share

Net loss per share is calculated using the weighted average number of shares outstanding during the reporting period. Diluted net loss per share is determined using the 'treasury stock method,' which considers the potential for the issuance of new shares created by unexercised in-the-money options, if any such options are outstanding.

2.24 Share based compensation

The Company granted restricted share units ("RSUs") to an employee in Fiscal 2014 under an equity-based compensation plan, which were forfeited in Fiscal 2015. For equity-settled awards, the fair value of the grant of RSUs was recognized as a compensation expense over the period that the related service was rendered with a corresponding increase in equity. The total amount expensed was recognized over a three-year vesting period on a tranche basis, which was the period over which all of the specified vesting conditions were to be satisfied. At each balance sheet date, the estimate of the number of equity interests that were expected to vest was revised. The impact of the revision to original estimates, if any, was recognized in "Selling, administrative and other expenses" in the Consolidated Statements of Net Loss and Comprehensive Loss.

3. Issued standards not yet adopted

The Company monitors the standard setting process for new standards and interpretations issued by the IASB that the Company may be required to adopt in the future. Since the impact of a proposed standard may change during the review period, the Company does not comment publicly until the standard has been finalized and the effects have been determined.

In January 2016, the IASB issued the following new standard:

IFRS 16, Leases ("IFRS 16")

IFRS 16 replaces IAS 17, *Leases*. This standard will bring most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and financing leases. Lessor accounting remains largely unchanged and the distinction between operating and finance leases is retained. Adoption of IFRS 16 is mandatory and will be effective for annual periods beginning on or after January 1, 2019 with earlier adoption permitted. The Company is currently assessing the impact of adopting this standard on the Company's consolidated financial statements and related note disclosures.

In July 2014, the IASB issued the final publication of the following standard:

IFRS 9, Financial Instruments ("IFRS 9")

IFRS 9 replaces IAS 39, *Financial Instruments: Recognition and Measurement ("IAS 39")*. This standard establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. This standard also includes a new general hedge accounting standard which will align hedge accounting more closely with risk management. It does not fully change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however, it will permit more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. Adoption of IFRS 9 is mandatory and will be effective for annual periods beginning on or after January 1, 2018 with earlier adoption permitted. The Company is currently assessing the impact of adopting this standard on the Company's consolidated financial statements and related note disclosures.

In May 2014, the IASB issued the following new standard:

IFRS 15, Revenue from Contracts with Customers ("IFRS 15")

IFRS 15 replaces IAS 11, *Construction Contracts*, and IAS 18, *Revenue*, as well as various interpretations regarding revenue. This standard introduces a single model for recognizing revenue that applies to all contracts with customers, except for contracts that are within the scope of standards on leases, insurance and financial instruments. This standard also requires enhanced disclosures. Adoption of IFRS 15 is mandatory and will be effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company is currently assessing the impact of adopting this standard on the Company's consolidated financial statements and related note disclosures.

4. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Company's accounting policies, management is required to make judgments, estimates and assumptions with regards to the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

The following are the critical judgments that management has made in the process of applying the Company's accounting policies, key assumptions concerning the future and other key sources of estimation uncertainty that have the potential to materially impact the carrying amounts of assets and liabilities.

4.1 Legal liabilities

Assessing the financial outcome of uncertain legal positions requires judgment to be made regarding the relative merits of each claim and the extent to which a claim is likely to be successful. The assessments are based on reviews conducted by internal and external counsel, when appropriate.

Changes in estimates or assumptions could cause changes to "Provisions" on the Consolidated Statements of Financial Position and a charge or credit to "Selling, administrative and other expenses" in the Consolidated Statements of Net Loss and Comprehensive Loss. For additional information, see Note 16.

4.2 Inventory

4.2.1 Obsolescence, valuation and inventory stock losses

Inventory is written down to reflect future losses on the disposition of obsolete merchandise. Future losses are estimated based on historical trends that vary depending on the type of inventory.

An adjustment is made each period to value inventory at the lower of cost and net realizable value. This adjustment is estimated based on historical trends that vary depending on the type of inventory.

Inventory is adjusted to reflect estimated inventory stock losses incurred in the year based on recent historical inventory count data.

4.2.2 Vendor rebates

Inventory is adjusted to reflect vendor rebates received or receivable based on vendor agreements. This adjustment is estimated based on historical data and current vendor agreements.

4.2.3 Freight

Inbound freight incurred to bring inventory to its present location is estimated each reporting period and is included in the cost of inventory. This estimate is based on historical freight costs incurred.

Changes in estimates may result in changes to "Inventories" on the Consolidated Statements of Financial Position and a charge or credit to "Cost of goods and services sold" in the Consolidated Statements of Net Loss and Comprehensive Loss. For additional information, see Note 7.

4.3 Impairment of property, plant and equipment and intangible assets

The Company's property, plant and equipment and intangible assets have been allocated to CGUs. At the end of each reporting period, the carrying amounts of property, plant and equipment and intangible assets are assessed to determine if there is any evidence that an asset is impaired. Determining if there are any facts and circumstances indicating impairment loss is a subjective process involving judgment and a number of estimates and assumptions. If there are such facts and circumstances, the recoverable amount of the asset is estimated.

Assets that cannot be tested individually for impairment are grouped into the smallest group of assets that generates cash inflows through continued use that are largely independent of the cash inflows from other assets or groups of assets (cash generating unit or CGU).

The recoverable amount of an asset or a CGU is the higher of its value in use and fair value less costs to sell. To determine value in use, expected future cash flows are discounted using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. In the process of measuring expected future cash flows, the Company makes assumptions about future operating profit. These assumptions relate to future events and circumstances. Although the assumptions are based on market information available at the time of the assessment, actual results may vary.

The Company's corporate and intangible assets do not generate separate cash flows. If there is evidence that a corporate or intangible asset is impaired, the recoverable amount is determined for the CGU to which the corporate asset belongs. Impairments are recorded when the carrying amount of the CGU to which the corporate asset belongs is higher than its recoverable amount.

Changes in estimates may result in changes to "Property, plant and equipment" and "Intangible assets" on the Consolidated Statements of Financial Position and a charge or credit to "Selling, administrative and other expenses" in the Consolidated Statements of Net Loss and Comprehensive Loss. For additional information, see Note 9 and Note 10.2.

4.4 Impairment of goodwill

Determining whether goodwill was impaired required the Company to determine the recoverable amount of the CGU to which the goodwill was allocated. To determine the recoverable amount of the CGU, management was required to estimate its value by evaluating expected future cash flow using an appropriate growth rate, the estimated costs to sell and a suitable discount rate to calculate the value in use. For additional information, see Note 10.1.

4.5 Retirement benefit liability

The retirement benefit liability is estimated based on certain actuarial assumptions, including the discount rate, inflation rate, salary growth and mortality rates. New regulations and market driven changes may impact the assumptions made.

Changes in estimates may result in changes to the "Retirement benefit liability" on the Consolidated Statements of Financial Position and a charge or credit to "Selling, administrative and other expenses" and OCI in the Consolidated Statements of Net Loss and Comprehensive Loss. For additional information, see Note 20.

4.6 Loyalty program deferred revenue

The fair value of Sears Club points granted is deferred at the time of the related initial sale transaction and is recognized upon redemption of the points for merchandise. The redemption value of the points is estimated at the initial sale transaction, based on historical behaviour and trends in redemption rates and redemption values, as well as an adjustment for the percentage of points that are expected to be converted to reward cards, but for which the likelihood of redemption is remote ("reward card breakage").

Changes in estimates may result in changes to "Deferred revenue" (current) on the Consolidated Statements of Financial Position and an increase or decrease to "Revenue" in the Consolidated Statements of Net Loss and Comprehensive Loss. For additional information, see Note 13.

4.7 Derivative assets and liabilities

All derivatives are measured at fair value. U.S. dollar forward contracts are traded over-the-counter and give holders the right to buy a specified amount of U.S. currency at an agreed upon price and date in the future. Fair values of the U.S. dollar forward contracts is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate. The fair value of fuel swaps is based on counterparty confirmations tested for reasonableness by discounting estimated future cash flows derived from the terms and maturity of each contract using market fuel prices at the measurement date. The Company is required to estimate various inputs which are used in these calculations that are a combination of quoted prices and observable market inputs. The fair values of derivatives include an adjustment for credit risk when appropriate.

Changes in estimates may result in changes to "Derivative financial assets" and "Derivative financial liabilities" on the Consolidated Statements of Financial Position and a charge or credit to "Cost of goods and services sold", "Selling, administrative and other expenses" or OCI in the Consolidated Statements of Net Loss and Comprehensive Loss. For additional information, see Note 14.

4.8 Provisions

Provisions are estimated based on historical data, cost estimates provided by specialists and future projections.

Changes in estimates or assumptions could cause changes to "Provisions" on the Consolidated Statements of Financial Position and a charge or credit to "Revenue", "Cost of goods and services sold" or "Selling, administrative and other expenses" in the Consolidated Statements of Net Loss and Comprehensive Loss. For additional information, see Note 16.

4.9 Leasing arrangements

The Company has applied judgment in the classification of its leasing arrangements, which is determined at the inception of the lease and is based on the substance of the transaction, rather than its legal form. The Company's leases were evaluated based on certain significant assumptions including the discount rate, economic life of an asset, lease term and existence of a bargain renewal option.

Changes in estimates or assumptions could cause changes to "Property, plant and equipment", "Current portion of long-term obligations" and "Long-term obligations" on the Consolidated Statements of Financial Position and a charge or credit to "Selling, administrative and other expenses" and "Finance costs" in the Consolidated Statements of Net Loss and Comprehensive Loss. For additional information, see Note 19.

4.10 Taxes

In the ordinary course of business, the Company is subject to ongoing audits by tax authorities. While the Company believes that its tax filing positions are appropriate and supportable, certain matters are periodically challenged by tax authorities. The Company applies judgment and routinely evaluates and provides for potentially unfavourable outcomes with respect to any tax audits. If the result of a tax audit materially differs from the existing provisions, the Company's effective tax rate and its net loss will be affected positively or negatively. The Company also uses judgment in assessing the likelihood that deferred income tax assets will be recovered from future taxable income by considering factors such as the reversal of deferred income tax liabilities, projected future taxable income, tax planning strategies and changes in tax laws.

Changes in estimates or assumptions could cause changes to "Income taxes recoverable", "Deferred tax assets", "Other long-term assets", "Income and other taxes payable" and "Deferred tax liabilities" on the Consolidated Statements of Financial Position and a charge or credit to "Income tax (expense) recovery" in the Consolidated Statements of Net Loss and Comprehensive Loss. For additional information, see Note 22.

4.11 Gift cards

The gift card liability is based on the total amount of gift cards outstanding which have not yet been redeemed by customers. The Company also recognizes income when the likelihood of redeeming the gift card is remote ("gift card breakage"). Gift card breakage is estimated based on historical redemption patterns. Changes in estimates of the redemption patterns may result in changes to "Deferred revenue" (current) on the Consolidated Statements of Financial Position and an increase or decrease to "Revenue" in the Consolidated Statements of Net Loss and Comprehensive Loss.

4.12 Classification of joint arrangements

The Company had classified its interests in real estate joint arrangements related to shopping centres as joint operations. In doing so, the Company determined that the decisions regarding relevant activities required unanimous consent of the parties sharing control. In the event of a dispute between parties sharing control of the joint arrangements, settlement occurred through unbiased arbitration, legal action, or a sale of the party's interest to the other party. The Company examined the legal structure, contractual arrangements and other relevant facts and circumstances for each joint arrangement and determined that it had rights to the assets and obligations to the liabilities of each joint arrangement. Therefore, the Company had determined that its real estate joint arrangements were joint operations and were recognized in accordance with the Company's interest in the assets, liabilities, revenues and expenses of these arrangements. For additional information, see Note 11.

5. Cash and interest income

Cash

The components of cash were as follows:

(in CAD millions)		**As at January 30, 2016**		As at January 31, 2015
Cash	$	**306.9**	$	239.9
Restricted cash		**7.0**		19.1
Total cash	$	**313.9**	$	259.0

The components of restricted cash are further discussed in Note 21.

Interest income

Interest income for the fiscal year ended January 30, 2016 totaled \$2.3 million (2014: \$2.6 million). During Fiscal 2015, the Company received \$1.1 million (2014: \$2.5 million) in cash related to interest income. Interest income for the fiscal year ended January 30, 2016 of \$1.1 million (2014: \$0.1 million) related to refund interest on net cash income tax receipts (see Note 22 for additional information), with the balance related primarily to cash.

6. Accounts receivable, net

The components of accounts receivable, net were as follows:

(in CAD millions)		**As at January 30, 2016**		As at January 31, 2015
Deferred receivables	$	**0.2**	$	0.4
Other receivables		**59.2**		72.6
Total accounts receivable, net	$	**59.4**	$	73.0

As at January 30, 2016, other receivables primarily consist of amounts due from customers and amounts due from vendors. As at January 31, 2015, other receivables primarily consisted of amounts due from customers, amounts due from vendors and amounts due from JPMorgan Chase, as part of the Company's credit card marketing and servicing alliance (see Note 28 for additional information).

Included in the accounts receivable balances above are amounts that are past due but are not provided for, as the Company considers the balances to be collectible. These past due accounts receivable balances are listed below:

(in CAD millions)		As at January 30, 2016		As at January 31, 2015
Greater than 30 days	$	**5.0**	$	6.0
Greater than 60 days		**1.3**		2.5
Greater than 90 days		**4.2**		6.6
Total	$	**10.5**	$	15.1

7. Inventories

The amount of inventory recognized as an expense during Fiscal 2015 was $1,943.8 million (2014: $2,111.4 million), which included $66.2 million (2014: $106.0 million) of inventory write-downs to reduce the carrying amount of inventory to net realizable value. These expenses were included in "Cost of goods and services sold" in the Consolidated Statements of Net Loss and Comprehensive Loss. Inventory write downs included reversals of prior period inventory write-downs for Fiscal 2015 of $1.6 million (2014: $4.0 million), due to an increase in net realizable value.

Inventory is pledged as collateral under the Company's revolving credit facility (see Note 17).

8. Prepaid expenses

The components of prepaid expenses were as follows:

(in CAD millions)		As at January 30, 2016		As at January 31, 2015
Rent	$	**10.7**	$	11.4
Contracts		**11.5**		10.2
Supplies		**2.8**		3.0
Insurance		**0.8**		0.8
Other		**5.2**		3.3
Total prepaid expenses	$	**31.0**	$	28.7

9. Property, plant and equipment and investment properties

The following is a continuity of property, plant and equipment:

(in CAD millions)	Land	Buildings and Leasehold Improvements	Finance Lease Buildings	Finance Lease Equipment	Equipment and Fixtures	Total
Cost or deemed cost						
Balance at February 1, 2014	$ 237.7	$ 1,127.7	$ 44.5	$ 4.4	$ 1,116.0	$ 2,530.3
Additions	0.2	1.0	—	0.1	28.5	29.8
Disposals	(9.5)	(42.3)	(3.0)	(3.5)	(8.5)	(66.8)
Balance at January 31, 2015	$ 228.4	$ 1,086.4	$ 41.5	$ 1.0	$ 1,136.0	$ 2,493.3
Additions	—	14.0	—	0.1	9.6	23.7
Disposals	(52.1)	(16.3)	(3.5)	—	(13.7)	(85.6)
Net movement to assets held for sale [2]	(2.5)	(16.3)	—	—	(7.0)	(25.8)
Balance at January 30, 2016	**$ 173.8**	**$ 1,067.8**	**$ 38.0**	**$ 1.1**	**$ 1,124.9**	**$ 2,405.6**
Accumulated depreciation and impairment						
Balance at February 1, 2014	$ —	$ 739.1	$ 16.2	$ 3.2	$ 986.3	$ 1,744.8
Depreciation expense [1]	—	35.9	3.8	0.8	36.4	76.9
Disposals	—	(18.2)	(3.0)	(3.5)	(7.1)	(31.8)
Impairment losses [1]	—	91.1	17.1	—	27.6	135.8
Balance at January 31, 2015	$ —	$ 847.9	$ 34.1	$ 0.5	$ 1,043.2	$ 1,925.7
Depreciation expense [1]	—	19.7	2.0	0.3	22.9	44.9
Disposals	—	(15.6)	(3.5)	—	(13.7)	(32.8)
Net impairment losses [1]	—	10.5	5.4	—	23.3	39.2
Net movement to assets held for sale [2]	—	(8.5)	—	—	(7.0)	(15.5)
Balance at January 30, 2016	**$ —**	**$ 854.0**	**$ 38.0**	**$ 0.8**	**$ 1,068.7**	**$ 1,961.5**
Total property, plant and equipment						
Net balance at January 30, 2016	**$ 173.8**	**$ 213.8**	**$ —**	**$ 0.3**	**$ 56.2**	**$ 444.1**
Net balance at January 31, 2015	$ 228.4	$ 238.5	$ 7.4	$ 0.5	$ 92.8	$ 567.6

1 *Depreciation expense and impairment losses are included in "Selling, administrative and other expenses" in the Consolidated Statements of Net Loss and Comprehensive Loss.*

2 *Represents the balances related to the Park Street Logistics Centre located in Regina. Refer to Note 29 "Assets classified as held for sale" for additional information.*

Impairment loss

During Fiscal 2015, the Company recognized a net impairment loss of $43.1 million (2014: $67.5 million) on a number of Sears full-line stores, an impairment loss of nil (2014: $0.8 million) on a number of Corbeil stores, a net impairment loss of $4.2 million (2014: $17.6 million) on a number of Sears Home stores, an impairment loss of $0.5 million (2014: $5.5 million) on a number of Hometown stores and an impairment loss of $6.5 million (2014: nil) related to the Direct channel. The impairment loss was due to indicators (in particular a decrease in revenue or decrease in cash flows) that the recoverable amount was less than the carrying value. The recoverable amounts of the CGUs tested were determined in each case as the higher of fair value less costs to sell, or value in use. In calculating fair value less costs to sell, the Company conducted appraisals of certain land and building properties that it owned or leased, with the assistance of independent qualified third party appraisers. The valuation methods used to determine fair value included the direct capitalization and discounted cash flow methods for buildings and the direct sales comparison for land. In calculating value in use the Company used the present value of the estimated cash flows over the lease term plus one renewal for Sears full-line stores and Home stores, five years for Hometown stores and seven years for the internet and catalogue CGUs of the Direct Channel, as this was management's best estimate of the useful life of the assets of these CGUs. A pre-tax discount rate of 12.8% was based on management's best estimate of the CGUs' weighted average cost of capital considering the risks facing the CGUs. The estimated cash flows for the CGUs described above assumed no future improvement in the CGUs' results, given their recent operating performance. In calculating value in use for Sears full-line stores and Home stores, the present value of the estimated cash flows over the lease term with no renewal terms would increase the amount of the total net impairment loss related to property, plant and equipment and intangible assets by approximately $1.3 million.

Impairment reversal

During Fiscal 2014, the Company undertook a comprehensive evaluation of its logistics network for current and future needs, given its changing warehousing requirements. Accordingly, the Company determined that the Montreal distribution centre ("MDC") may be considered for disposition. The Company determined the fair value of the MDC by engaging an independent qualified third party appraiser to conduct an appraisal of the property. The valuation methods used was the direct sales comparison approach. The Company assessed various scenarios provided by the appraiser to determine a fair value. As a result of the carrying amount exceeding the recoverable amount of $44.3 million for the MDC, an impairment loss of $44.4 million was included in "Selling, administrative and other expenses" in the Consolidated Statements of Net Loss and Comprehensive Loss in Fiscal 2014.

During Fiscal 2015, the Company determined that the MDC was no longer being considered for disposition in the foreseeable future. The Company determined the fair value of the MDC by engaging an independent qualified third party appraiser to conduct an appraisal of the property, based on the highest and best use of the MDC. The valuation methods used to determine fair value included the direct capitalization and discounted cash flow methods for buildings and the direct sales comparison for land. As a result of the recoverable amount of $57.5 million exceeding the carrying amount of $42.4 million for the MDC, an impairment reversal of $15.1 million was included in "Selling, administrative and other expenses" in the Consolidated Statements of Net Loss and Comprehensive Loss in Fiscal 2015. The impairment reversal is included in the net impairment losses for 2015 in "Buildings and Leasehold Improvements."

The Company will continue to assess the recoverable amount of the CGUs at the end of each reporting period and adjust the carrying amount accordingly. To determine the recoverable amount of the CGUs, the Company will consider factors such as expected future cash flows, growth rates, capitalization rates and an appropriate discount rate to calculate the fair value or value in use as required.

The net impairment loss to property, plant and equipment of $39.2 million (2014: $135.8 million) was included in "Selling, administrative and other expenses" in the Consolidated Statements of Net Loss and Comprehensive Loss.

The total net impairment loss related to property, plant and equipment, intangible assets and assets classified as held for sale included in Fiscal 2015 was $63.3 million (2014: $162.0 million). See Note 10 and Note 29 for additional information.

Investment properties

Investment properties owned by the Company represent vacant land with no operating activity. Investment property within the Company's Broad Street Logistics Centre ("Broad Street") and Park Street Logistics Centre ("Park Street") both located in Regina have been classified as held for sale in the Consolidated Statements of Financial Position (see Note 29). During Fiscal 2015, there were no investment property additions, disposals, impairment losses or reversals. As at January 30, 2016, the carrying value and fair value of investment properties were $21.7 million ($4.7 million included in "Assets held for sale") and $30.3 million, respectively (January 31, 2015: $21.7 million ($2.4 million included in "Assets held for sale") and $27.7 million). The fair value of the investment properties are classified within Level 3 of the fair value hierarchy (described further in Note 14.6). The Company engaged independent qualified third party appraisers to conduct appraisals and the fair value was determined using direct sales comparisons.

10. Goodwill and intangible assets

10.1 Allocation of goodwill to cash generating units

As at February 1, 2014, goodwill as reported in the Consolidated Statements of Financial Position of $2.6 million related to the Corbeil CGU. In the assessment of impairment, management used historical data and past experience as the key assumptions in the determination of the recoverable amount of the Corbeil CGU. The Company completed a test for goodwill impairment during Fiscal 2014.

The recoverable amount of the Corbeil CGU was determined based on its estimated fair value less costs to sell. The fair value was determined based on the present value of the estimated free cash flows over a 10 year period. Cost to sell was estimated to be 2% of the fair value of the business, which reflected management's best estimate of the potential costs associated with divesting of the business. A pre-tax discount rate of 10.2% per annum was used, based on management's best estimate of the Company's weighted average cost of capital adjusted for the risks facing the Corbeil CGU. Annual growth rates of 5% for the first 2 years and 2% for the subsequent 8 years were used for Corbeil given the businesses' historical growth experience and anticipated growth. The recoverable amount was determined to be less than the carrying value including the goodwill of $2.6 million related to the Corbeil CGU in Fiscal 2014, resulting in a goodwill impairment of $2.6 million. The impairment loss of $2.6 million was included in "Selling, administrative and other expenses" in the Consolidated Statements of Net Loss and Comprehensive Loss. This impairment loss was attributable to revenue declines experienced in the Corbeil business.

10.2 Intangible assets

The following is a continuity of intangible assets:

(in CAD millions)		Application Software		Information System Software and Other		Total
Cost or deemed cost						
Balance at February 1, 2014	$	44.2	$	134.0	$	178.2
Additions		21.8		2.2		24.0
Balance at January 31, 2015	$	66.0	$	136.2	$	202.2
Additions		27.1		3.0		30.1
Disposals		—		(0.1)		(0.1)
Balance at January 30, 2016	**$**	**93.1**	**$**	**139.1**	**$**	**232.2**
Accumulated amortization						
Balance at February 1, 2014	$	24.9	$	125.1	$	150.0
Amortization expense [1]		8.7		3.7		12.4
Impairment losses [1]		23.6		—		23.6
Balance at January 31, 2015	$	57.2	$	128.8	$	186.0
Amortization expense [1]		3.4		0.1		3.5
Disposals		—		(0.1)		(0.1)
Impairment losses [1]		20.3		—		20.3
Balance at January 30, 2016	**$**	**80.9**	**$**	**128.8**	**$**	**209.7**
Total intangible assets						
Net balance at January 30, 2016	**$**	**12.2**	**$**	**10.3**	**$**	**22.5**
Net balance at January 31, 2015	$	8.8	$	7.4	$	16.2

1 *Amortization expense and impairment losses are included in "Selling, administrative and other expenses" in the Consolidated Statements of Net Loss and Comprehensive Loss.*

Impairment loss

During Fiscal 2015, the Company recognized an impairment loss of $20.3 million (2014: $23.6 million) on intangible assets allocated to a number of Sears full-line stores, Home stores, Hometown stores and the Direct Channel. The impairment loss was due to indicators (in particular a decrease in revenue or decrease in cash flows) that the recoverable amount was less than the carrying value. The loss was included in "Selling, administrative and other expenses" in the Consolidated Statements of Net Loss and Comprehensive Loss.

11. Joint arrangements

The Company's real estate joint arrangements in 2014 included its share of assets, liabilities, revenues, and expenses from its joint arrangement interests in three shopping centres across Canada, all of which contained a Sears store. Joint arrangement interests ranged from 15% to 20% and were co-owned with Ivanhoé Cambridge II Inc. ("Ivanhoé") to develop and operate commercial properties (shopping malls).

During the third quarter of 2014, the Company sold its 15% joint arrangement interest in Les Galeries de Hull shopping centre ("Hull") that it co-owned with Ivanhoé, to Fonds de placement immobilier Cominar ("Cominar") for total proceeds of $10.5 million, recognizing a pre-tax gain of $3.4 million on the sale. The sale closed on September 30, 2014. In connection with this transaction, the Company determined that because the Company had surrendered substantially all of its rights and obligations and had transferred substantially all of the risks and rewards of ownership related to the property, immediate gain recognition was appropriate. Cominar had previously entered into an agreement to acquire Ivanhoé's 85% joint arrangement interest in Hull as announced on August 26, 2014. Following the sale, the Company continues to operate its store in the shopping centre on terms and conditions unchanged from those before the sale.

During the third quarter of 2014, the Company sold its 20% joint arrangement interest in Kildonan Place Shopping Centre ("Kildonan") that it co-owned with Ivanhoé, to H&R Real Estate Investment Trust for total proceeds of $27.7 million, recognizing a pre-tax gain of $11.2 million on the sale. The sale closed on September 17, 2014, pursuant to an agreement entered into on August 6, 2014. In connection with this transaction, the Company determined that because it had surrendered substantially all of its rights and obligations and had transferred substantially all of the risks and rewards of ownership related to the property, immediate gain recognition was appropriate. Following the sale, the Company continues to operate its store in the shopping centre on terms and conditions unchanged from those before the sale.

During the second quarter of 2014, the Company sold its 15% joint arrangement interest in Les Rivières Shopping Centre that it co-owned with Ivanhoé for total proceeds of $33.5 million, to Ivanhoé, recognizing a pre-tax gain of $20.5 million on the sale. The sale closed on June 2, 2014, pursuant to an agreement entered into on May 16, 2014. In connection with this transaction, the Company determined that because it had surrendered substantially all of its rights and obligations and had transferred substantially all of the risks and rewards of ownership related to the property, immediate gain recognition was appropriate.

12. Other long-term assets

The components of other long-term assets were as follows:

(in CAD millions)		**As at January 30, 2016**		As at January 31, 2015
Income taxes recoverable	$	**3.8**	$	6.4
Prepaid rent		**5.2**		5.5
Receivables		**1.8**		3.1
Investments		**1.3**		1.3
Unamortized debt transaction costs		**3.2**		4.2
Other long-term assets	$	**15.3**	$	20.5

13. Deferred revenue

The components of deferred revenue were as follows:

(in CAD millions)		**As at January 30, 2016**		As at January 31, 2015
Arising from extended warranty service contracts (i)	$	**131.2**	$	134.8
Arising from unshipped sales (ii)		**50.8**		57.2
Arising from customer loyalty program (iii)		**34.1**		36.8
Arising from gift card issuances (iv)		**10.7**		15.0
Other (v)		**5.7**		4.2
Total deferred revenue	$	**232.5**	$	248.0
Current	$	**158.3**	$	171.2
Non-current		**74.2**		76.8
Total deferred revenue	$	**232.5**	$	248.0

The following explanations describe the Company's deferred revenue:

(i) Deferred revenue arising from the sale of extended warranty service contracts, which provide coverage for product repair services over the term of the contracts.

(ii) Deferred revenue arising from the sale of merchandise which has not yet been delivered to or picked up by the customer. The revenue is recognized once the merchandise is delivered to the customer.

(iii) Deferred revenue arising from the Sears Club loyalty program.

(iv) Deferred revenue arising from the purchase of gift cards by customers that have not yet been redeemed for merchandise. The revenue is recognized primarily upon redemption of the gift card.

(v) Other includes deferred revenue for services that have not yet been fully rendered. The revenue is recognized when the goods have been delivered or by reference to the stage of completion of the service.

14. Financial instruments

In the ordinary course of business, the Company enters into financial agreements with banks and other financial institutions to reduce underlying risks associated with interest rates, foreign currency, and commodity prices. The Company does not hold or issue derivative financial instruments for trading or speculative purposes.

Financial instrument risk management

The Company is exposed to credit, liquidity and market risk as a result of holding financial instruments. Market risk consists of foreign exchange, interest rate, fuel price and natural gas price risk.

14.1 Credit risk

Credit risk refers to the possibility that the Company can suffer financial losses due to the failure of the Company's counterparties to meet their payment obligations. Exposure to credit risk exists for derivative instruments, cash, accounts receivable and other long-term assets.

Cash, accounts receivable, derivative instruments and investments included in other long-term assets totaling $381.2 million as at January 30, 2016 (January 31, 2015: $340.5 million) expose the Company to credit risk should the borrower default on maturity of the instruments. The Company manages this exposure through policies that require borrowers to have a minimum credit rating of A, and limiting investments with individual borrowers at maximum levels based on credit rating.

The Company is exposed to minimal credit risk from third parties as a result of ongoing credit evaluations and review of accounts receivable collectability. An allowance account included in "Accounts receivable, net" in the Consolidated Statements of Financial Position totaled $6.0 million as at January 30, 2016 (January 31, 2015: $8.3 million). As at January 30, 2016, no individual party represented 10% or more of the Company's net accounts receivable (January 31, 2015: one party represented 11.0% of the Company's net accounts receivable).

14.2 Liquidity risk

Liquidity risk is the risk that the Company may not have cash available to satisfy financial liabilities as they come due. The Company actively maintains access to adequate funding sources to seek to ensure it has sufficient available funds to meet current and foreseeable financial requirements at a reasonable cost.

The following table summarizes the carrying amount and the contractual maturities of both the interest and principal portion of significant financial liabilities as at January 30, 2016:

		Contractual Cash Flow Maturities				
(in CAD millions)	Carrying Amount	Total	Within 1 year	1 year to 3 years	3 years to 5 years	Beyond 5 years
Accounts payable and accrued liabilities	$ 332.7	$ 332.7	$ 332.7	$ —	$ —	$ —
Finance lease obligations including payments due within one year [1]	24.2	30.2	5.6	10.0	8.7	5.9
Operating lease obligations [2]	n/a	376.3	81.2	130.2	81.5	83.4
Royalties [2]	n/a	15.9	3.4	7.2	5.3	—
Purchase agreements [2,4]	n/a	13.4	12.2	0.5	0.5	0.2
Retirement benefit plans obligations [3]	326.9	65.6	20.2	39.3	5.9	0.2
	$ 683.8	**$ 834.1**	**$ 455.3**	**$ 187.2**	**$ 101.9**	**$ 89.7**

1 *Cash flow maturities related to finance lease obligations, including payments due within one year, include annual interest on finance lease obligations at a weighted average rate of 7.6%.*

2 *Operating lease obligations, royalties and certain purchase agreements are not reported in the Consolidated Statements of Financial Position.*

3 *Payments are based on a funding valuation as at December 31, 2013 which was completed on June 30, 2014. Any obligation beyond 2019 would be based on a funding valuation to be completed as at December 31, 2016.*

4 *Certain vendors require minimum purchase commitment levels over the term of the contract. A portion of these obligations are included in "Other long-term liabilities" in the Consolidated Statements of Financial Position.*

Management believes that cash on hand, future cash flow generated from operating activities and availability of current and future funding will be adequate to support these financial liabilities. As of January 30, 2016, the Company did not have any significant capital expenditure commitments.

Market risk

Market risk exists as a result of the potential for losses caused by changes in market factors such as foreign currency exchange rates, interest rates and commodity prices.

14.3 Foreign exchange risk

The Company enters into foreign exchange contracts to reduce the foreign exchange risk with respect to U.S. dollar denominated assets and liabilities and purchases of goods or services. As at January 30, 2016, there were forward contracts outstanding with a notional value of U.S. $168.0 million (January 31, 2015: U.S. $40.0 million) and a fair value of $6.6 million included in "Derivative financial assets" (January 31, 2015: $7.2 million included in "Derivative financial assets") in the Consolidated Statements of Financial Position. These derivative contracts have settlement dates extending to October 2016. The intrinsic value portion of these derivatives has been designated as a cash flow hedge for hedge accounting treatment under IAS 39. These contracts are intended to reduce the foreign exchange risk with respect to anticipated purchases of U.S. dollar denominated goods purchased for resale ("hedged item"). As at January 30, 2016, the designated portion of these hedges was considered effective.

While the notional principal of these outstanding financial instruments is not recorded in the Consolidated Statements of Financial Position, the fair value of the contracts is included in "Derivative financial assets" or "Derivative financial liabilities", depending on the fair value, and classified as current or long-term, depending on the maturities of the outstanding contracts. Changes in the fair value of the designated portion of contracts are included in OCI for cash flow hedges, to the extent the designated portion of the hedges continues to be effective, with any ineffective portion included in "Cost of goods and services sold" in the Consolidated Statements of Net Loss and Comprehensive Loss. Amounts previously included in OCI are reclassified to "Cost of goods and services sold" in the same period in which the hedged item impacts net loss.

During Fiscal 2015, the Company recorded a loss of $3.2 million (2014: loss of $5.0 million), in "Selling, administrative and other expenses" in the Consolidated Statements of Net Loss and Comprehensive Loss, relating to the translation or settlement of U.S. dollar denominated monetary items consisting of cash, accounts receivable and accounts payable.

The year end exchange rate was 0.7140 U.S. dollars to one Canadian dollar. A 10% appreciation or depreciation of the U.S. dollar and/or the Canadian dollar exchange rate was determined to have an after-tax impact on net loss of $0.4 million for U.S. dollar denominated balances included in cash and accounts payable.

14.4 Interest rate risk

Interest rate risk reflects the sensitivity of the Company's financial condition to movements in interest rates. Financial assets and liabilities which do not bear interest or bear interest at fixed rates are classified as non-interest rate sensitive.

Net assets included in cash and other long-term assets, and borrowings under the Amended Credit Facility, when applicable, are subject to interest rate risk. The total subject to interest rate risk as at January 30, 2016 was a net asset of $315.2 million (January 31, 2015: net asset of $260.3 million). An increase or decrease in interest rates of 25 basis points would cause an after-tax impact on net loss of $0.6 million for net assets subject to interest rate risk included in cash and other long-term assets at the end of Fiscal 2015.

14.5 Fuel and natural gas price risk

The Company entered into fuel and natural gas derivative contracts to manage the exposure to diesel fuel and natural gas prices and help mitigate volatility in cash flow for the transportation service business and utilities expense, respectively. As at January 30, 2016, the fixed to floating rate swap contracts outstanding had a notional volume of 2.4 million litres (January 31, 2015: 4.7 million litres) of diesel and nil gigajoules ("GJ") (January 31, 2015: 0.3 million GJ) of natural gas and a fair value of less than $0.1 million (January 31, 2015: less than $0.1 million) combined. These derivative contracts have settlement dates extending to January 31, 2017 with monthly settlement of maturing contracts.

14.6 Classification and fair value of financial instruments

The estimated fair values of financial instruments presented are based on relevant market prices and information available at those dates. The following table summarizes the classification and fair value of certain financial instruments as at the specified dates. The Company determines the classification of a financial instrument when it is initially recorded, based on the underlying purpose of the instrument. As a significant number of the Company's assets and liabilities, including inventories and capital assets, do not meet the definition of financial instruments, values in the tables below do not reflect the fair value of the Company as a whole.

The fair value of financial instruments are classified and measured according to the following three levels, based on the fair value hierarchy.

- Level 1: Quoted prices in active markets for identical assets or liabilities
- Level 2: Inputs other than quoted prices in active markets that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: Inputs for the asset or liability that are not based on observable market data

(in CAD millions)

Classification	Balance Sheet Category	Fair Value Hierarchy	**As at January 30, 2016**	As at January 31, 2015
Fair value through profit or loss				
U.S. $ derivative contracts	Derivative financial assets	Level 2	**6.6**	7.2
Long-term investments	Other long-term assets	Level 3	**1.3**	1.3

All other assets that are financial instruments not listed in the chart above have been classified as "Loans and receivables". All other financial instrument liabilities have been classified as "Other liabilities" and are measured at amortized cost in the Consolidated Statements of Financial Position. The carrying value of these financial instruments approximate fair value given that they are primarily short-term in nature.

On May 27, 2015, TravelBrands Inc. ("TravelBrands"), which manages the day-to-day operations of all Sears Travel offices and provides commissions to the Company, announced that it had obtained an Order from the Ontario Superior Court of Justice granting it creditor protection under the Companies' Creditors Arrangement Act (the "Order"). Under the Order, TravelBrands was granted a stay of creditor claims against TravelBrands and its subsidiaries. As a result of this announcement, during Fiscal 2015 the Company recorded a charge of $6.4 million against previous amounts owing from TravelBrands, included in "Selling, administrative and other expenses" in the Consolidated Statements of Net Loss and Comprehensive Loss. TravelBrands exited creditor protection subsequent to the end of Fiscal 2015, and continues to be a licensee of the Company, as the Company signed a new contract with TravelBrands with a revised commission structure during Fiscal 2015.

On December 13, 2013, SHS Services Management Inc. ("SHS"), which managed the day-to-day operations of all Sears Home Installed Products and Services business, announced that it was in receivership. Prior to the announcement, SHS issued the Company an interest-bearing promissory note for $2.0 million, secured by certain assets of SHS, repayable by July 16, 2015. The promissory note, net of allowances was included in "Accounts receivable, net" in the Consolidated Statements of Financial Position as at January 30, 2016. As a result of the announcement, and a subsequent announcement by the Company on March 21, 2014 regarding certain obligations of SHS, the Company recorded a $3.0 million charge against receivables from SHS (including a $1.0 million writeoff of outstanding commissions receivable and a $2.0 million allowance on the promissory note) during Fiscal 2014. The Company also recorded a charge to warranty provision of $8.7 million during Fiscal 2013 and Fiscal 2014 related to potential future claims for work that had been performed by SHS, as well as assuming the warranty obligations with respect to work previously performed by the Company which had been assumed by SHS. The warranty provision balance for these items was $4.1 million as at January 30, 2016 (January 31, 2015: $5.6 million), and was included in "Provisions" and "Other long-term liabilities" in the Consolidated Statements of Financial Position.

15. Accounts payable and accrued liabilities

The components of "Accounts payable and accrued liabilities" as included in the Consolidated Statements of Financial Position were as follows:

(in CAD millions)		**As at January 30, 2016**		As at January 31, 2015
Total accounts payable	$	**162.5**	$	205.7
Accrued liabilities				
Payroll and employee benefits		**29.0**		26.6
Merchandise accruals		**65.6**		48.5
Short-term leasehold inducements		**8.3**		8.6
Advertising accruals		**11.9**		7.4
Other accrued liabilities		**55.4**		62.6
Total accrued liabilities	$	**170.2**	$	153.7
Total accounts payable and accrued liabilities	$	**332.7**	$	359.4

16. Provisions

The following is a continuity which shows the change in provisions during Fiscal 2015 and Fiscal 2014:

(in CAD millions)	As at January 31, 2015	Additional Provisions	Release of Provisions	Reversed Provisions	As at January 30, 2016
Insurance (i)	$ 13.7	$ 3.2	$ (4.8)	$ —	$ **12.1**
Returns and allowances (ii)	12.0	6.5	(7.4)	—	**11.1**
Warranties (iii)	8.2	0.6	(3.6)	—	**5.2**
Sales tax (iv)	6.0	22.1	(1.4)	—	**26.7**
Severance (v)	11.9	28.7	(18.3)	(5.9)	**16.4**
Environmental (vi)	6.1	2.7	(2.1)	(0.3)	**6.4**
Other provisions	5.5	—	(2.4)	(0.2)	**2.9**
Total provisions	$ 63.4	$ 63.8	$ (40.0)	$ (6.4)	$ **80.8**
Current	$ 58.6	$ 63.6	$ (40.0)	$ (6.4)	$ **75.8**
Non-current (iii), (vi)	4.8	0.2	—	—	**5.0**
Total provisions	$ 63.4	$ 63.8	$ (40.0)	$ (6.4)	$ **80.8**

(in CAD millions)	As at February 1, 2014	Additional Provisions	Release of Provisions	Reversed Provisions	As at January 31, 2015
Insurance (i)	$ 16.8	$ 1.0	$ (4.1)	$ —	$ 13.7
Returns and allowances (ii)	11.1	7.3	(6.4)	—	12.0
Warranties (iii)	8.7	10.8	(10.4)	(0.9)	8.2
Sales tax (iv)	6.2	2.5	(2.4)	(0.3)	6.0
Severance (v)	50.5	17.0	(50.4)	(5.2)	11.9
Environmental (vi)	6.9	1.5	(2.0)	(0.3)	6.1
Other provisions	9.6	0.8	(4.9)	—	5.5
Total provisions	$ 109.8	$ 40.9	$ (80.6)	$ (6.7)	$ 63.4
Current	$ 109.4	$ 36.5	$ (80.6)	$ (6.7)	$ 58.6
Non-current (iii)	0.4	4.4	—	—	4.8
Total provisions	$ 109.8	$ 40.9	$ (80.6)	$ (6.7)	$ 63.4

The following explanations describe the Company's provisions:

(i) The provision for insurance, or general liability claims, represents the Company's best estimate of the future outflow of economic resources due to automobile, product and other general liability claims. Insurance claims relating to this provision are expected to be paid over the next several years; however, as the Company has no unconditional right to defer the settlement past at least 12 months, this provision is considered to be current. In estimating the obligation associated with incurred losses, the Company utilizes actuarial methodologies validated by an independent third party. These actuarial methodologies utilize historical data to project future incurred losses. Loss estimates are adjusted based on reported claims and actual settlements.

(ii) The provision for returns and allowances represents the Company's best estimate of the future outflow of economic resources due to merchandise returns and allowances. Returns and allowances relating to this provision are expected to be realized over the next 12 months. Uncertainty exists relating to the amount and timing of returns and allowances, therefore, historical data has been used to arrive at this estimate.

(iii) The provision for warranty claims represents the Company's best estimate of the future outflow of economic resources that will be required due to the Company's warranty obligations. Uncertainty exists relating to the number of incidents requiring merchandise repair and the related costs. This provision is estimated based on historical warranty trends and costs. The amount of expected reimbursements from vendors recorded as at January 30, 2016 was nil (January 31, 2015: $0.2 million) and was included in "Accounts receivable, net" and "Other long-term assets" in the Consolidated Statements of Financial Position. The provision for warranty claims is primarily expected to be realized within 72 months, with the balance included in "Provisions" and "Other long-term liabilities" in the Consolidated Statements of Financial Position.

(iv) The Company maintains provisions for sales tax assessments under active discussion, audit, dispute or appeal with tax authorities. These provisions represent the Company's best estimate of the amount expected to be paid based on qualitative and quantitative assessments. Though uncertainty exists around the timing of settlement of the disputes or appeals with tax authorities, the Company expects that sales tax provisions will be settled within 4 years. However, as the Company has no unconditional right to defer the settlement of these provisions past at least 12 months, these provisions are classified as current.

(v) The provision for severance represents the Company's best estimate of the future outflow of payments to terminated employees . Uncertainty exists in certain cases relating to the amount of severance that will be awarded in court proceedings. As the Company has no unconditional right to defer these payments past at least 12 months, this provision is classified as current.

(vi) The environmental provision primarily represents the costs to remediate environmental contamination associated with decommissioning auto centres to meet regulatory requirements. The provision is based on assessments conducted by third parties as well as historical data. The timing of payments for remediation is uncertain and as the Company has no unconditional right to defer most of these payments past at least 12 months, the balance is included primarily in "Provisions", with the remainder of the balance included in "Other long-term liabilities" in the Consolidated Statements of Financial Position.

17. Long-term obligations and finance costs

Long-term obligations

The Company's debt consists of finance lease obligations. In September 2010, the Company entered into an $800.0 million senior secured revolving credit facility (the "Credit Facility") with a syndicate of lenders with a maturity date of September 10, 2015.

On May 28, 2014, the Company announced that it had extended the term of the Credit Facility (the "Amended Credit Facility") to May 28, 2019 and reduced the total credit limit to $300.0 million. The Amended Credit Facility is secured with a first lien on inventory and credit card receivables. The Company incurred additional transaction costs of $1.0 million in Fiscal 2014 related to the Amended Credit Facility.

Availability under the Amended Credit Facility is determined pursuant to a borrowing base formula, up to a maximum availability of $300.0 million. Availability under the Amended Credit Facility was $120.1 million as at January 30, 2016 after application of the pension deficit reserve (January 31, 2015: $260.7 million). In 2013, as a result of judicial developments relating to the priorities of pension liability relative to certain secured obligations, the Company provided additional security to the lenders by pledging certain real estate assets as collateral, thereby partially reducing the potential reserve amount the lenders could apply. As at January 30, 2016, six properties in Canada had been registered under the Amended Credit Facility. The reserve amount may increase or decrease in the future based on changes in estimated net pension deficits in the event of a wind-up, and based on the value of real estate assets pledged as additional collateral.

The Amended Credit Facility contains covenants which are customary for facilities of this nature and the Company was in compliance with all covenants as at January 30, 2016.

As at January 30, 2016, the Company had no borrowings on the Amended Credit Facility. The Company had unamortized transaction costs associated with the Amended Credit Facility of $3.2 million included in "Other long-term assets" in the Consolidated Statements of Financial Position (January 31, 2015: no borrowings and unamortized transaction costs of $4.2 million included in "Other long-term assets"). In addition, the Company had $63.3 million (January 31, 2015: $39.3 million) of letters of credit outstanding against the Amended Credit Facility. These letters of credit cover various payment obligations. Interest on drawings under the Amended Credit Facility is determined based on bankers' acceptance rates for one to three month terms or the prime rate plus a spread. Interest amounts on the Amended Credit Facility are due monthly and are added to principal amounts outstanding.

As at January 30, 2016, the Company had outstanding merchandise letters of credit of U.S. $4.8 million (January 31, 2015: U.S. $6.9 million) used to support the Company's offshore merchandise purchasing program with restricted cash pledged as collateral.

Finance costs

Interest expense on long-term obligations, including finance lease obligations, the current portion of long-term obligations, amortization of transaction costs, accretion on the long-term portion of provisions and commitment fees on the unused portion of the Amended Credit Facility for Fiscal 2015 totaled $6.3 million (2014: $7.3 million). Interest expense was included in "Finance costs" in the Consolidated Statements of Net Loss and Comprehensive Loss. Also included in "Finance costs" for Fiscal 2015, was an expense of $3.4 million for interest on income tax assessments and reassessments of the current and prior years (2014: recovery of $6.5 million for interest on accruals for uncertain tax positions) and an expense of nil (2014: $0.2 million), for interest on the settlement of a sales tax assessment.

The Company's cash payments for interest on long-term obligations, including finance lease obligations, the current portion of long-term obligations and commitment fees on the unused portion of the Credit Facility for Fiscal 2015 totaled $4.6 million (2014: $5.5 million).

18. Other long-term liabilities

The components of other long-term liabilities were as follows:

(in CAD millions)		As at January 30, 2016		As at January 31, 2015
Leasehold inducements	$	**43.3**	$	50.9
Straight-line rent liability		**11.7**		5.0
Miscellaneous		**12.0**		7.9
Total other long-term liabilities	$	**67.0**	$	63.8

The non-current portions of the warranties and environmental provisions (see Note 16) are reflected in the miscellaneous component of "Other long-term liabilities" in the Consolidated Statements of Financial Position.

19. Leasing arrangements

19.1 Finance lease arrangements – Company as lessee

As at January 30, 2016, the Company had finance lease arrangements related to the building and equipment components of certain leased properties, which include retail, office and warehouse locations. The related land components of these properties have been separately classified as operating leases. The buildings and equipment held under finance leases are used in the normal course of operations and do not contain significant unusual or contingent lease terms or restrictions. Building leases typically run for a period of 1 to 10 years, with some leases providing multiple options to renew after that date. Equipment leases typically run for a period of 1 to 5 years, with some leases providing an option to renew after that date.

Finance lease buildings and equipment are included in the Consolidated Statements of Financial Position under "Property, plant and equipment." Note 9 provides further details on the net carrying value of these assets, which as at January 30, 2016 was $0.3 million (January 31, 2015: $7.9 million).

As at January 30, 2016, the corresponding finance lease obligations, current and non-current, were $4.0 million (January 31, 2015: $4.0 million) and $20.2 million (January 31, 2015: $24.1 million), included in the Consolidated Statements of Financial Position under "Current portion of long-term obligations" and "Long-term obligations," respectively (see Note 17).

The table below presents the future minimum lease payments of the Company's finance lease obligations:

						As at January 30, 2016						As at January 31, 2015
(in CAD millions)		**Finance lease payments**		**Future finance costs**		**Present value of minimum lease payments**		Finance lease payments		Future finance costs		Present value of minimum lease payments
Within 1 year	$	**5.6**	$	**1.6**	$	**4.0**	$	5.8	$	1.8	$	4.0
2 years		**5.0**		**1.5**		**3.5**		5.6		1.8		3.8
3 years		**5.0**		**1.1**		**3.9**		5.0		1.4		3.6
4 years		**4.9**		**0.8**		**4.1**		5.0		1.1		3.9
5 years		**3.8**		**0.5**		**3.3**		4.9		0.8		4.1
Thereafter		**5.9**		**0.5**		**5.4**		9.7		1.0		8.7
Total minimum payments	$	**30.2**	$	**6.0**	$	**24.2**	$	36.0	$	7.9	$	28.1

Interest on finance lease obligations is recognized immediately in "Finance costs" in the Consolidated Statements of Net Loss and Comprehensive Loss (see Note 17). Included in total "Finance costs" in Fiscal 2015, was $1.9 million (2014: $2.2 million) of interest paid related to finance lease obligations.

19.2 Operating lease arrangements – Company as lessor

The Company has a number of agreements to sub-lease premises to third parties, which are all classified as operating leases. During Fiscal 2015, total sub-lease income from leased premises was $2.4 million (2014: $2.7 million).

As at January 30, 2016, total future minimum lease payments receivable from third party tenants were $15.0 million (2014: $14.7 million).

19.3 Operating lease arrangements – Company as lessee

As at January 30, 2016, the Company had operating lease arrangements related to leased retail and office properties as well as equipment assets. The leases typically run for a period of 1 to 10 years, with some leases providing an option to renew after that date. Some leases include additional or contingent rent payments that are based on sales and step rent payments which are recognized on a straight-line basis over the term of the lease. During Fiscal 2015, contingent rent recognized as an expense in respect of operating leases totaled $0.3 million (2014: $1.0 million). Rental expense for all operating leases totaled $99.9 million in Fiscal 2015 (2014: $109.7 million). These expenses are included in "Selling, administrative and other expenses" in the Consolidated Statements of Net Loss and Comprehensive Loss.

The table below presents the contractual maturities of future minimum lease payments for the Company's operating leases:

(in CAD millions)		**As at January 30, 2016**		As at January 31, 2015
Within 1 year	$	**81.2**	$	93.8
2 years		**71.4**		77.6
3 years		**58.8**		67.9
4 years		**46.4**		54.4
5 years		**35.1**		40.2
Thereafter		**83.4**		94.9
Total operating lease obligations [1]	$	**376.3**	$	428.8

1 *Operating lease obligations are not reported in the Consolidated Statements of Financial Position*

20. Retirement benefit plans

The Company currently maintains a defined benefit registered pension plan and a defined contribution registered pension plan which covers eligible, regular full-time employees as well as some of its part-time employees. The defined benefit plan provides pensions based on length of service and final average earnings. In addition to a registered retirement savings plan, the pension plan includes a non-registered supplemental savings arrangement in respect to the defined benefit plan. The non-registered portion of the plan is maintained to enable certain employees to continue saving for retirement in addition to the registered limit as prescribed by the Canada Revenue Agency. The Company also maintains a defined benefit non-pension retirement plan which provides life insurance, medical and dental benefits to eligible retired employees through a health and welfare trust ("Other Benefits Plan"). Also provided for under the health and welfare trust are short-term disability payments for active employees. The Company's accounting policies related to retirement benefit plans are described in Note 2.14.

In July 2008, the Company amended its pension plan and introduced a defined contribution component. The defined benefit component continues to accrue benefits related to future compensation increases although no further service credit is earned, and no contributions are made by employees. In addition, the Company no longer provides medical, dental and life insurance benefits at retirement for employees who had not achieved the eligibility criteria for these non-pension retirement benefits as at December 31, 2008.

In December 2009, the Company made the decision to change funding for non-pension retirement benefits from an actuarial basis to a pay-as-you-go basis to allow the surplus in the health and welfare trust to be utilized to make benefit payments. In addition, to further utilize the surplus, short-term disability payments of eligible employees are paid on a pay-as-you-go basis from the health and welfare trust. Beginning in February 2015, the Company began funding the Other Benefits Plan payments as well as short-term disability payments of active employees since the surplus in the health and welfare trust has been depleted.

In December 2013, the Company amended the early retirement provision of its defined benefit plan to eliminate a benefit for employees who voluntarily resign prior to age of retirement, with effect January 1, 2015. In addition, the Company amended the defined benefit plan for improvements that increase portability of employee benefits, with effect March 1, 2014. In December 2013, the Company froze the benefits offered under the Other Benefits Plan to benefits levels as at January 1, 2015.

During Fiscal 2014, the Company's defined benefit plan offered lump sum settlements to those terminated employees who previously elected to defer the payment of the defined benefit pension until retirement. The accepted offers of $23.6 million were settled by the end of October 2014. In addition, the Company made a voluntary offer to settle medical and dental benefits of eligible members covered under the Other Benefits Plan. The Company incurred expenses of $0.8 million related to these offers, during 2014 and these expenses were included in "Selling, administrative and other expenses" in the Consolidated Statements of Net Loss and Comprehensive Loss. In 2014, the Company paid $13.8 million to settle acceptances from the Other Benefits Plan offer and recorded a pre-tax gain on settlement of retirement benefits of $10.6 million ($11.4 million settlement gain less fees of $0.8 million) as shown in the Consolidated Statements of Net Loss and Comprehensive Loss, related to these offers. Included in the "Total pre-tax remeasurement (losses) gains" of $131.9 million in Note 20.7, is a $2.7 million pre-tax remeasurement gain related to these offers.

During Fiscal 2015, the Company made a voluntary offer to settle medical and dental benefits of eligible members covered under the Other Benefits plan. The Company paid $4.0 million to settle acceptances from the Other Benefits plan offer and recorded a pre-tax gain on settlement of retirement benefits of $5.1 million ($5.4 million settlement gain less fees of $0.3 million) during Fiscal 2015 related to these offers. This payment is included in "Retirement benefit plans contributions" in the Consolidated Statements of Cash Flows. To determine the settlement gain, the Other Benefits plan was remeasured as at the date of settlement, which also resulted in a $2.0 million increase to "Other comprehensive income (loss)" ("OCI").

Risks associated with retirement benefit plans

There is no assurance that the Company's retirement benefit plans will be able to earn the assumed rate of return. New regulations and market driven changes may result in changes in the discount rates and other variables which would result in the Company being required to make contributions in the future that differ significantly from the estimates. Management is required to use assumptions to account for the plans in conformity with IFRS. However, actual future experience will differ from these assumptions giving rise to actuarial gains or losses. In any year, actual experience differing from the assumptions may be material.

Plan assets consist primarily of cash, alternative investments and marketable equity and fixed income securities. The value of the marketable equity and fixed income investments will fluctuate due to changes in market prices. Plan obligations and annual pension expense are determined by independent actuaries and through the use of a number of assumptions. Although the Company believes that the assumptions used in the actuarial valuation process are reasonable, there remains a degree of risk and uncertainty which may cause results to differ from expectations. Significant assumptions in measuring the benefit obligations and pension plan costs include the discount rate and the rate of compensation increase.

Plan amendments, curtailments and settlements

In Fiscal 2012, the Company amended the non-registered supplemental savings arrangement in respect to the defined benefit plan to allow the use of letters of credit to satisfy the funding requirement of its deficit. At January 30, 2016 a letter of credit with a notional value of $2.1 million was on deposit with the Trustee for the non-registered portion of the defined benefit plan (January 31, 2015: notional value of $1.3 million).

Maturity profile of retirement benefit plan obligations

The weighted average durations of the Registered Retirement Plans, Non-registered Pension Plan and Other Benefits Plan are all approximately 10.3 years (2014: approximately 11.5 years).

The Company's contractual cash flow maturity relating to retirement benefit plan obligation payments is included under "Liquidity risk" in Note 14.

20.1 Retirement benefit asset and liability

The Company measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at January 31. The most recent actuarial valuation of the pension plan for funding purposes is dated December 31, 2013, which was completed on June 30, 2014. An actuarial valuation of the health and welfare trust is performed at least every three years, with the last valuation completed as of January 31, 2014.

	2015				2014			
(in CAD millions)	**Registered Retirement Plans**	**Non-Registered Pension Plan**	**Other Benefits Plan**	**Total**	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan	Total
Defined benefit plan assets								
Fair value, beginning balance	**$ 1,217.8**	**$ 50.8**	**$ 1.9**	**$1,270.5**	$ 1,313.0	$ 50.2	$ 22.0	$1,385.2
Interest income	**39.1**	**1.6**	**—**	**40.7**	53.4	2.0	0.5	55.9
Remeasurement (loss) gain on return on plan assets	**(36.5)**	**(1.5)**	**(0.1)**	**(38.1)**	65.8	1.6	(0.1)	67.3
Employer contributions	**20.3**	**0.8**	**21.1**	**42.2**	1.7	1.0	14.2	16.9
Administrative expenses	**(0.5)**	**—**	**—**	**(0.5)**	(0.6)	—	—	(0.6)
Benefits paid[1]	**(133.7)**	**(3.6)**	**(21.4)**	**(158.7)**	(215.5)	(4.0)	(34.7)	(254.2)
Fair value of plan assets, ending balance	**$ 1,106.5**	**$ 48.1**	**$ 1.5**	**$1,156.1**	$ 1,217.8	$ 50.8	$ 1.9	$1,270.5
Defined benefit plan obligations								
Accrued obligations, beginning balance	**$ 1,391.7**	**$ 55.1**	**$ 231.1**	**$1,677.9**	$ 1,380.2	$ 50.3	$ 240.7	$1,671.2
Interest cost	**44.5**	**1.7**	**6.9**	**53.1**	56.3	2.0	8.9	67.2
Benefits paid	**(133.6)**	**(3.6)**	**(16.5)**	**(153.7)**	(215.5)	(4.0)	(28.7)	(248.2)
Settlement gain	**—**	**—**	**(5.4)**	**(5.4)**	—	—	(11.4)	(11.4)
Actuarial (gain) losses	**(76.0)**	**(0.3)**	**(12.6)**	**(88.9)**	170.7	6.8	21.6	199.1
Accrued plan obligations, ending balance	**$ 1,226.6**	**$ 52.9**	**$ 203.5**	**$1,483.0**	$ 1,391.7	$ 55.1	$ 231.1	$1,677.9
Funded status of plan – (deficit)	**(120.1)**	**(4.8)**	**(202.0)**	**(326.9)**	(173.9)	(4.3)	(229.2)	(407.4)
Retirement benefit liability at end of fiscal year, net	**$ (120.1)**	**$ (4.8)**	**$ (202.0)**	**$ (326.9)**	$ (173.9)	$ (4.3)	$ (229.2)	$ (407.4)

The retirement benefit liability is included in the Company's Consolidated Statements of Financial Position as follows:

Retirement benefit liability	**$ (120.1)**	**$ (4.8)**	**$ (202.0)**	**$ (326.9)**	$ (173.9)	$ (4.3)	$ (229.2)	$ (407.4)

1 *Benefits paid from the funded assets include retiree benefits and short-term disability of active employees. Other benefits consist of retiree health and dental claims.*

20.2 Fair value of plan assets

The fair value of plan assets disaggregated by asset class and fair value hierarchy level as at January 30, 2016 and January 31, 2015 was as follows:

				As at January 30, 2016				As at January 31, 2015
(in CAD millions)	**Registered Retirement Plans**	**Non-Registered Pension Plan**	**Other Benefits Plan**	**Total**	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan	Total
Cash and cash equivalents								
Level 2	$ **166.1**	$ **23.0**	$ —	$ **189.1**	$ 30.5	$ 23.5	$ —	$ 54.0
Corporate bonds and notes								
Level 2	**369.4**	—	—	**369.4**	545.7	—	—	545.7
Level 3	**141.5**	—	**1.5**	**143.0**	155.5	—	1.2	156.7
Subtotal	**510.9**	—	**1.5**	**512.4**	701.2	—	1.2	702.4
Common stock, preferred stock and REITS								
Level 1	**193.9**	—	—	**193.9**	204.2	—	—	204.2
Common or collective trusts								
Level 2	**150.8**	**24.9**	—	**175.7**	185.2	27.0	—	212.2
Short-term collective investment funds								
Level 2	**101.6**	**0.2**	—	**101.8**	129.6	0.3	0.7	130.6
Hedge funds								
Level 3	**1.1**	—	—	**1.1**	1.3	—	—	1.3
Receivables (liabilities)								
Level 1	**5.8**	—	—	**5.8**	3.1	—	—	3.1
Level 2	**(21.3)**	—	—	**(21.3)**	(38.1)	—	—	(38.1)
Subtotal	**(15.5)**	—	—	**(15.5)**	(35.0)	—	—	(35.0)
Miscellaneous other (liabilities) receivables								
Level 1	**(2.4)**	—	—	**(2.4)**	—	—	—	—
Level 2	—	—	—	—	0.8	—	—	0.8
Subtotal	**(2.4)**	—	—	**(2.4)**	0.8	—	—	0.8
Total fair value of plan assets	$ **1,106.5**	$ **48.1**	$ **1.5**	$ **1,156.1**	$ 1,217.8	$ 50.8	$ 1.9	$ 1,270.5

The three levels of the fair value hierarchy referenced above are discussed in Note 14.6.

20.3 Plan assets investment allocation

During Fiscal 2014, the Company changed the target asset allocation to 55-80% fixed income and 20-45% equity for the defined benefit registered pension plan. For the assets in the health and welfare trust, included in Other Benefits Plan, the asset allocation is 100% fixed income. As at the end of Fiscal 2015 and 2014, the assets were in line with the target allocation range. The asset allocation may be changed from time to time in terms of weighting between fixed income, equity and other asset classes as well as within the asset classes themselves.

The plan's target allocation is determined taking into consideration the amounts and timing of projected liabilities, the Company's funding policies and expected returns on various asset classes. To develop the expected long-term rate of return on assets assumption, the Company considered the historical returns and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio.

At as the end of the current and prior fiscal years, plan assets were invested in the following classes of securities:

	As at January 30, 2016			As at January 31, 2015		
	Registered Retirement Plans	**Non-Registered Pension Plan**	**Other Benefits Plan**	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan
Fixed income securities	**69.6%**	**69.5%**	**100.0%**	73.0%	64.4%	100.0%
Alternative investments	**0.1%**	**—%**	**—%**	0.1%	—%	—%
Equity securities	**30.3%**	**30.5%**	**—%**	26.9%	35.6%	—%
Total	**100.0%**	**100.0%**	**100.0%**	100.0%	100.0%	100.0%

20.4 Pension assumptions

The significant actuarial assumptions were as follows (weighted average assumptions):

	As at January 30, 2016			As at January 31, 2015		
	Registered Retirement Plans	**Non-Registered Pension Plan**	**Other Benefits Plan**	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan
Discount rate used in calculation of Accrued benefit plan obligations	**3.80%**	**3.70%**	**3.70%**	3.30%	3.30%	3.20%
Benefit plans expense	**3.00%**	**3.00%**	**2.90%**	3.30%	3.30%	4.20%
Rate of compensation increase used in calculation of Accrued benefit plan obligations	**3.50%**	**3.50%**	**3.50%**	3.50%	3.50%	3.50%
Benefit plans expense	**3.50%**	**3.50%**	**3.50%**	3.50%	3.50%	3.50%
Expected long-term rate of return on plan assets used in calculation of benefit plans expense	**3.00%**	**3.00%**	**2.90%**	3.30%	3.30%	3.20%
Health care cost trend rates						
Used in calculation of accrued benefit plan obligations			**4.62%**			4.77%
Used in calculation of benefit plans expense			**4.77%**			4.92%
Cost trend rate declines to			**2.45%**			2.45%
Year that the rate reaches assumed constant			**2030**			2030

Starting in 2016, the Corporation is refining the method used to estimate the interest components of the net periodic benefit cost for pension and other post retirement benefits. Previously, this cost was estimated utilizing a single weighted-average discount rate derived from the yield curve used to measure the defined benefit obligation at the beginning of the year. Under the refined method, we have elected to utilize a full yield curve approach in the estimation of these components by applying the specific spot rates along the yield curve used in the determination of the benefit obligation to the relevant projected cash flows.

This change was made to provide a more precise measurement of interest costs by improving the correlation between projected benefit cash flows to the corresponding spot yield curve rates. Differentiating in this way represents a refinement in the basis of estimation applied in prior periods. This change does not affect the measurement of the total defined benefit obligation recorded on the Consolidated Statement of Financial Position as at January 30, 2016 or any other period.

This change is accounted for prospectively as a change in accounting estimate.

20.5 Sensitivity of significant actuarial assumptions

The following table summarizes the sensitivity of significant actuarial assumptions on the Company's defined benefit obligation:

	2015			2014		
(in CAD millions)	**Registered Retirement Plans**	**Non-Registered Pension Plan**	**Other Benefits Plan**	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan
Discount rate sensitivity						
Accrued benefit plan obligations						
100 basis point increase in discount rate	**$ (130.7)**	**$ (5.1)**	**$ (21.2)**	$ (170.9)	$ (5.6)	$ (23.1)
100 basis point decrease in discount rate	**160.3**	**6.1**	**25.2**	211.8	6.8	27.6
Benefit plans expense						
100 basis point increase in discount rate	**(5.7)**	**(0.2)**	**1.0**	(6.9)	(0.2)	1.6
100 basis point decrease in discount rate	**3.2**	**0.1**	**(1.3)**	5.0	0.2	(2.1)
Rate of compensation increase sensitivity						
Accrued benefit plan obligations						
50 basis point increase in rate of compensation increase	**8.1**	**0.3**	**n/a**	10.8	0.4	n/a
50 basis point decrease in rate of compensation increase	**(7.2)**	**(0.2)**	**n/a**	(9.5)	(0.3)	n/a
Benefit plans expense						
50 basis point increase in rate of compensation increase	**0.4**	**—**	**n/a**	0.4	—	n/a
50 basis point decrease in rate of compensation increase	**(0.3)**	**—**	**n/a**	(0.4)	—	n/a
Health care cost trend rate sensitivity						
Accrued benefit plan obligations						
100 basis point increase in health care trend rate	**n/a**	**n/a**	**18.6**	n/a	n/a	20.2
100 basis point decrease in health care trend rate	**n/a**	**n/a**	**(16.0)**	n/a	n/a	(17.3)
Benefit plans expense						
100 basis point increase in health care trend rate	**n/a**	**n/a**	**0.6**	n/a	n/a	0.8
100 basis point decrease in health care trend rate	**n/a**	**n/a**	**(0.5)**	n/a	n/a	(0.7)

The methods and assumptions used in determining the above sensitivity are consistent with the methods and assumptions used to determine the pension plan obligations and with the methods and assumptions used in Fiscal 2014.

20.6 Retirement benefit plans expense and contributions

The expense for the defined benefit, defined contribution and Other Benefits Plan for Fiscal 2015 and Fiscal 2014, was as follows:

	2015				2014			
(in CAD millions)	**Registered Retirement Plans**	**Non-Registered Pension Plan**	**Other Benefits Plan**	**Total**	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan	Total
Net interest	**$ 5.4**	**$ 0.1**	**$ 6.9**	**$ 12.4**	$ 2.9	$ —	$ 8.4	$ 11.3
Settlement gain	**—**	**—**	**(5.4)**	**(5.4)**	—	—	(11.4)	(11.4)
Administrative expenses	**0.5**	**—**	**0.3**	**0.8**	0.9	—	—	0.9
Net defined benefit plans expense (income)	**$ 5.9**	**$ 0.1**	**$ 1.8**	**$ 7.8**	$ 3.8	$ —	$ (3.0)	$ 0.8
Net defined contribution plan expense	**5.8**	**—**	**0.2**	**6.0**	6.6	—	0.2	6.8
Total retirement benefit plans expense (income)[1]	**$ 11.7**	**$ 0.1**	**$ 2.0**	**$ 13.8**	$ 10.4	$ —	$ (2.8)	$ 7.6

1 *Not included in total expense recognized are short-term disability payments of $4.9 million (2014: $5.9 million) that were paid from the health and welfare trust. Both short-term disability and the retirement benefit plans expense (income) are included in "Selling, administrative and other expenses", unless disclosed elsewhere, in the Company's Consolidated Statements of Net Loss and Comprehensive Loss.*

Total cash contributions made by the Company to its defined benefit, defined contribution and Other Benefits Plans, for the fiscal year ended January 30, 2016 were $48.6 million (2014: $24.2 million), which included $4.9 million (2014: nil), related to short-term disability payments and $4.0 million during Fiscal 2015 (2014: $13.8 million) to settle acceptances from the Other Benefits Plan offers mentioned above. During the 52-week period ending January 28, 2017, it is estimated that the Company will make contributions of approximately $45.0 million to its defined benefit, defined contribution and Other Benefits Plan, which include funding obligations as described in Note 14.2.

20.7 Remeasurements of the net defined retirement benefit liability

	2015				2014			
(in CAD millions)	**Registered Retirement Plans**	**Non-Registered Pension Plan**	**Other Benefits Plan**	**Total**	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan	Total
Actuarial (loss) gain on difference between expected interest income and actual return on plan assets	**$ (36.5)**	**$ (1.5)**	**$ (0.1)**	**$ (38.1)**	$ 65.7	$ 1.6	$ 0.1	$ 67.4
Actuarial (loss) gain due to change in demographic	**—**	**—**	**—**	**—**	(23.6)	(0.7)	1.2	(23.1)
Actuarial gain (loss) due to change in financial assumptions	**68.0**	**2.4**	**9.7**	**80.1**	(155.6)	(5.1)	(22.9)	(183.6)
Actuarial gain (loss) due to all other experiences	**8.0**	**(2.1)**	**2.9**	**8.8**	8.3	(0.9)	—	7.4
Total pre-tax remeasurement gain (loss)	**$ 39.5**	**$ (1.2)**	**$ 12.5**	**$ 50.8**	$ (105.2)	$ (5.1)	$ (21.6)	$ (131.9)
Tax on remeasurement gain and write down of deferred income tax asset associated with previously recorded remeasurement losses				**—**				(33.4)
Total remeasurement gain (loss), net of income taxes[1]				**$ 50.8**				$ (165.3)

1 *Total remeasurement gain (loss), net of income taxes, is included in "Total other comprehensive income (loss)" in the Company's Consolidated Statements of Net Loss and Comprehensive Loss.*

The actuarial losses associated with changes in financial assumptions are due to increases in the discount rate as at January 30, 2016 for the Registered Retirement Plans of 0.5% (2014: Discount rate decrease 0.9%), Non-registered Pension Plan of 0.4% (2014: Discount rate decrease 0.9%), and Other Benefits Plan of 0.5% (2014: Discount rate decrease 1.0%).

21. Contingent liabilities

21.1 Legal proceedings

The Company is involved in various legal proceedings incidental to the normal course of business. The Company takes into account all available information, including guidance from experts (such as internal and external legal counsel) at the time of reporting to determine if it is probable that a present obligation (legal or constructive) exists, if it is probable that an outflow of resources embodying economic benefit will be required to settle such obligation and whether the Company can reliably measure such obligation at the end of the reporting period. The Company is of the view that, although the outcome of such legal proceedings cannot be predicted with certainty, the final disposition is not expected to have a material adverse effect on the consolidated financial statements, including its Consolidated Statements of Financial Position, Consolidated Statements of Net Loss and Comprehensive Loss, and Consolidated Statements of Cash Flows.

21.2 Commitments and guarantees

Commitments

As at January 30, 2016, cash that was restricted represented cash pledged as collateral for letter of credit obligations issued under the Company's offshore merchandise purchasing program of $7.0 million (January 31, 2015: $19.1 million), which is equal to U.S. $5.0 million (January 31, 2015: U.S. $15.0 million).

The Company has certain vendors which require minimum purchase commitment levels over the term of the contract. Refer to Note 14.2 "Liquidity risk".

On September 1, 2015, the Company approved the grant of 500,000 restricted share units ("RSUs") to an employee under an equity based compensation plan, vesting over three years on a tranche basis. This grant is to be settled in shares and is contingent upon shareholder approval at the Annual Shareholders' Meeting on April 21, 2016, and if not approved, would result in cash payments over the next three years to this employee equivalent to the value of the RSUs had they been issued as determined at each vesting date. As at the end of Fiscal 2015, these payments are estimated to total approximately $3.1 million.

Guarantees

The Company has provided the following significant guarantees to third parties:

Royalty License Agreements

The Company pays royalties under various merchandise license agreements, which are generally based on the sale of products. Certain license agreements require a minimum guaranteed payment of royalties over the term of the contract, regardless of sales. Total future minimum royalty payments under such agreements were $15.9 million as at January 30, 2016 (January 31, 2015: $3.4 million).

Other Indemnification Agreements

In the ordinary course of business, the Company has provided indemnification commitments to counterparties in transactions such as leasing transactions, royalty agreements, service arrangements, investment banking agreements and director and officer indemnification agreements. The foregoing indemnification agreements require the Company to compensate the counterparties for costs incurred as a result of changes in laws and regulations, or as a result of litigation or statutory claims, or statutory sanctions that may be suffered by a counterparty as a consequence of the transaction. The terms of these indemnification agreements will vary based on the contract and typically do not provide for any limit on the maximum potential liability. Historically, the Company has not made any significant payments under such indemnifications and no amounts have been accrued in the consolidated financial statements with respect to these indemnification commitments.

22. Income taxes

The average combined federal and provincial statutory income tax rate applied to the Company was 26.8% for Fiscal 2015 (2014: 26.5%). A reconciliation of income taxes at the average statutory tax to actual income tax expense for Fiscal 2015 and Fiscal 2014 is as follows:

(in CAD millions)		**2015**		2014
Loss before income taxes	$	**(62.7)**	$	(360.0)
Income tax recovery at the average statutory tax rate	$	**(16.8)**	$	(95.4)
(Decrease) increase in income taxes resulting from				
Non-taxable portion of capital gain		**(33.3)**		(5.2)
Non-deductible items		**1.0**		0.5
Prior year adjustments		**—**		(8.4)
Non-recognition of deferred taxes assets, net		**56.7**		88.6
Others		**(2.6)**		(0.2)
		5.0		(20.1)
Effective tax rate before the following adjustments		**(8.0)%**		5.6%
Changes in tax rates or imposition of new taxes		**0.2**		(1.1)
Total income tax expense (recovery)	$	**5.2**	$	(21.2)
Effective tax rate		**(8.3)%**		5.9%

The Company's total net cash refunds or payments of income taxes for the current year was a net refund of $87.6 million (2014: net payment of $71.0 million), primarily relating to the settlement for fiscal years 2006 to 2008 and the carry back of losses generated by the Company in Fiscal 2014, and included refund interest on net cash income tax receipts of $1.1 million (2014: $0.1 million) (see Note 5 for additional information).

In the ordinary course of business, the Company is subject to ongoing audits by tax authorities. While the Company believes that its tax filing positions are appropriate and supportable, periodically, certain matters are challenged by tax authorities. During Fiscal 2015 and 2014, the Company was reassessed and reached a settlement with tax authorities for issues affecting the taxation years 2006 and 2007, and recorded the final incremental tax and charges (recoveries) to the accrued amounts for these previously uncertain tax positions as described in the table below, and included in the Consolidated Statements of Net Loss and Comprehensive Loss:

(in CAD millions)		**2015**		2014
Finance costs (recovery) [1]	$	**3.4**	$	(6.5)
Income tax recovery (expense):				
Current		**—**		21.5
Deferred		**—**		(14.3)
Total costs (benefits) on uncertain tax positions	$	**3.4**	$	(13.7)

[1] *Relates to interest cost for amounts owing to taxation authorities or interest (benefit) on cash held and owed from taxation authorities.*

The Company routinely evaluates and provides for potentially unfavourable outcomes with respect to any tax audits, and believes that the final disposition of tax audits will not have a material adverse effect on its liquidity.

The tax effects of the significant components of temporary timing differences giving rise to the Company's net deferred tax assets were as follows:

(in CAD millions)	As at January 31, 2015	Recognized in earnings	Recognized in equity	**As at January 30, 2016**
Deferred revenue	$ 0.5	$ 0.1	$ —	$ **0.6**
Other long term liabilities	21.8	(2.7)	—	**19.1**
Derivative financial assets	(2.5)	(0.4)	0.2	**(2.7)**
Property, plant and equipment	(7.9)	3.7	—	**(4.2)**
Investment property	(28.0)	6.5	—	**(21.5)**
Goodwill and intangible assets	1.1	—	—	**1.1**
Retirement benefit obligations	108.2	(7.0)	(13.6)	**87.6**
Provisions	49.6	11.2	—	**60.8**
Non-capital losses	10.4	41.1	—	**51.5**
Other	1.1	7.1	—	**8.2**
Write down of deferred tax assets	(122.0)	—	—	**(122.0)**
Non-recognition of deferred tax assets	$ (35.0)	$ (56.7)	$ 13.8	$ **(77.9)**
Total deferred tax (liabilities) assets, net	$ (2.7)	$ 2.9	$ 0.4	$ **0.6**

(in CAD millions)	As at February 1, 2014	Recognized in earnings	Recognized in equity	As at January 31, 2015
Deferred revenue	$ 0.8	$ (0.3)	$ —	$ 0.5
Other long term liabilities	24.6	(2.8)	—	21.8
Derivative financial assets	(2.2)	—	(0.3)	(2.5)
Property, plant and equipment	(43.9)	36.0	—	(7.9)
Investment property	(28.7)	0.7	—	(28.0)
Goodwill and intangible assets	1.4	(0.3)	—	1.1
Retirement benefit obligations	76.0	(2.8)	35.0	108.2
Provisions	56.5	(6.9)	—	49.6
Non-capital losses	—	10.4	—	10.4
Other	—	1.1	—	1.1
Write down of deferred tax assets, net	—	(88.6)	(33.4)	(122.0)
Non-recognition of deferred tax assets	—	—	(35.0)	(35.0)
Total deferred tax assets (liabilities), net	$ 84.5	$ (53.5)	$ (33.7)	$ (2.7)

(in CAD millions)	**As at January 30, 2016**	As at January 31, 2015
Deferred tax assets	$ **0.6**	$ 0.7
Deferred tax liabilities	**—**	(3.4)
Total deferred tax assets (liabilities), net	$ **0.6**	$ (2.7)

The Company assesses the likelihood that the deferred tax assets will be realizable at the end of each reporting period and adjusts the carrying amount accordingly, by considering factors such as the reversal of deferred income tax liabilities, projected future taxable income, tax planning strategies and changes in tax laws. The Company has determined that it was not appropriate to recognize all of its deferred tax assets as it was not probable that sufficient taxable income would be available to allow part of the assets to be recovered. This accounting treatment has no effect on the Company's ability to utilize deferred tax assets to reduce future cash tax payments. As of January 30, 2016, the Company has not recognized the benefit of approximately $192.2 million of loss carry forwards on its Financial Statements (which expire in the taxation years 2035 and 2036) and approximately $4.9 million in Ontario minimum tax, which could be used to reduce taxes payable in future periods. The aggregate amount of net deductible temporary differences and loss carry forwards as at January 30, 2016, was approximately $727.6 million, and the tax benefit associated with these items was approximately $195.0 million using the statutory tax rate of 26.8%, which together with the Ontario minimum tax recoverable of approximately $4.9 million amounted to a total tax benefit of $199.9 million.

During Fiscal 2014, the Company recognized a write down of the deferred tax assets for $122.0 million. $88.6 million of this charge was included in "Deferred income tax recovery (expense)", and as a portion of the deferred tax assets originated through equity, $33.4 million of this charge was included in OCI in the Consolidated Statements of Net Loss and Comprehensive Loss in accordance with IAS 12, *Income Taxes*. The aggregate amount of deductible temporary differences for which no deferred tax asset is recognized as at January 30, 2016, is approximately $745.9 million (January 31, 2015: $592.5 million).

23. Capital stock

ESL Investments, Inc., and investment affiliates including Edward S. Lampert, collectively "ESL", form the largest shareholder of the Company, both directly through ownership in the Company, and indirectly through shareholdings in Sears Holdings ("Holdings"). Prior to October 16, 2014, Holdings was the controlling shareholder of the Company.

On October 2, 2014, Holdings announced the commencement of a rights offering for 40 million common shares of the Company. Each subscription right entitled the holder to purchase their pro rata portion of the Company's common shares being sold by Holdings in the rights offering at a price of $10.60 per share (U.S. $9.50 per share). The rights offering is further described in a prospectus filed with securities regulators in Canada and the United States on October 15, 2014, and can be accessed through the System for Electronic Document Analysis and Retrieval ("SEDAR") website at sedar.com, and on the U.S. Securities Exchange Commission ("SEC") website at sec.gov. In connection with the rights offering, the Company listed its common shares on the NASDAQ where the rights were also listed. ESL exercised their pro rata portion of the rights in full in Fiscal 2014.

As at January 30, 2016, ESL was the beneficial holder of 46,162,515 or 45.3%, of the common shares of the Company (January 31, 2015: 50,438,809 or 49.5%). Holdings was the beneficial holder of 11,962,391 or 11.7%, of the common shares of the Company as at January 30, 2016 (January 31, 2015: 11,962,391 or 11.7%). The issued and outstanding shares are fully paid and have no par value.

The Company has a license from Holdings to use the name "Sears" as part of its corporate name. The Company relies on its right to use the "Sears" name, including as part of the Company's corporate and commercial name. The Company's right to use the "Sears" name and certain other brand names was granted pursuant to the license agreement amendments, which state in the event Holdings' ownership interest in the Company is reduced to less than 10.0%, the license agreement would remain in effect for a period of five years after such reduction in ownership, after which the Company would incur a cost to continue to use the "Sears" name and certain other brand names.

The authorized common share capital of the Company consists of an unlimited number of common shares without nominal or par value and an unlimited number of class 1 preferred shares, issuable in one or more series. As at January 30, 2016, the total number of common shares issued and outstanding of the Company was 101,877,662 (January 31, 2015: 101,877,662) with stated value of $14.9 million (January 31, 2015: $14.9 million).

24. Capital disclosures

The Company's objectives when managing capital are:

- Maintain financial flexibility thus allowing the Company to preserve its ability to meet financial objectives and continue as a going concern;
- Provide an appropriate return to shareholders; and
- Maintain a capital structure that allows the Company to obtain financing should the need arise.

The Company manages and makes adjustments to its capital structure, when necessary, in light of changes in economic conditions, the objectives of its shareholders, the cash requirements of the business and the condition of capital markets. In order to maintain or adjust the capital structure, the Company may pay a dividend or return capital to shareholders, modify debt levels or sell assets.

The Company defines capital as follows:

- Long-term obligations, including the current portion of long-term obligations ("Total long-term obligations"); and
- Shareholders' equity.

The following table presents summary quantitative data with respect to the Company's capital resources:

(in CAD millions)		**As at January 30, 2016**		As at January 31, 2015
Total long-term obligations	$	**24.2**	$	28.1
Shareholders' equity		**554.2**		570.8
Total	$	**578.4**	$	598.9

25. Revenue

The components of the Company's revenue were as follows:

(in CAD millions)		2015		2014
Apparel and Accessories	$	**1,108.6**	$	1,214.7
Home and Hardlines		**1,476.4**		1,600.2
Other merchandise revenue		**207.0**		205.5
Services and other		**245.6**		274.8
Commission and licensee revenue		**108.1**		129.3
Total revenue	$	**3,145.7**	$	3,424.5

26. Employee benefits expense

The components of the Company's employee benefits expense for the current and prior fiscal year were as follows:

(in CAD millions)		2015		2014
Wages and salaries	$	**432.6**	$	466.5
Paid absences [1]		**40.0**		44.3
Benefits				
Provincial healthcare costs		**10.3**		11.1
Flex benefits		**12.4**		13.9
Retirement benefit plans expense [2]		**13.5**		7.9
Statutory deductions [3]		**30.9**		33.8
Severance		**25.3**		16.2
Other employer paid benefits		**5.6**		6.6
Total benefits expense	$	**570.6**	$	600.3

1 *Paid absences are expenses related to vacation, statutory holidays and sick days.*

2 *Included in Retirement benefit plans expense for Fiscal 2015 was a $5.4 million gain related to the settlement of retirement benefits under the non-pension retirement benefit plan (does not include fees of $0.3 million). Included in Retirement benefit plans expense for Fiscal 2014 was an $11.1 million gain related to the settlement of retirement benefits under the defined benefit registered retirement plan and non-pension retirement benefit plan (does not include fees of $0.5 million).*

3 *Statutory deductions consist of the employer portion of payment for the Canada Pension Plan and Employment Insurance.*

These expenses are included in "Cost of goods and services sold", "Selling, administrative and other expenses" and "Gain on settlement of retirement benefits" in the Consolidated Statements of Net Loss and Comprehensive Loss.

27. Gain on sale and leaseback transactions

During Fiscal 2015, the Company completed the sale and leaseback of three properties to the Concord Pacific Group of Companies ("Concord") as previously announced on March 11, 2015, for net proceeds of $130.0 million ($140.0 million of total consideration less $10.0 million of adjustments). The properties in the transactions included in the Company's stores and surrounding area located at the North Hill Shopping Centre in Calgary, Alberta, Metropolis at Metrotown in Burnaby, British Columbia and Cottonwood Mall in Chilliwack, British Columbia. The Company has leased each property back for a term of 30 years with early termination options available to both the Company and Concord, and the Company will continue to operate the stores located at these shopping centres under these leases with no impact to customers or employees at these locations.

The land and building sold for the three properties had a total net carrying value of approximately $53.1 million previously included in "Property, plant and equipment" in the Consolidated Statements of Financial Positions.

The total gain on the sale and leaseback transactions was $76.9 million, $67.2 million of which was recognized immediately in the Consolidated Statements of Net Loss and Comprehensive Loss. The remaining $9.7 million of the gain was deferred and is being amortized between four to seven years as a reduction in rent expense, included in "Selling, administrative and other expenses" in the Consolidated Statements of Net Loss and Comprehensive Loss. In determining the appropriate amount of gain to defer in accordance with IAS 17, *Leases*, the Company conducted appraisals of each property to determine their fair values, with the assistance of independent qualified third party appraisers. The valuation method used to determine the fair values of each property was the direct sales comparison approach for land. The deferred gain was included in "Other long-term liabilities" and "Accounts payable and accrued liabilities" in the Consolidated Statements of Financial Positions.

Upon completion of the sale and leaseback transactions, the Company was released from all previous agreements with Concord, and the demand mortgage for $25.0 million previously secured by the property in Burnaby, British Columbia, was discharged.

28. Gain on termination of credit card arrangement

On November 23, 2015, the Company received a payment of $174.0 million from JPMorgan Chase as a result of the sale of their portfolio of credit card accounts and related receivables related to the Sears credit card and Sears Mastercard. The Company recognized a net gain of $170.7 million in the Consolidated Statements of Net Loss and Comprehensive Loss. The possibility of this payment from JPMorgan Chase was previously disclosed in Note 25 "Event after the reporting period" in the unaudited condensed consolidated financial statements of the Company for the 13-week period ended November 1, 2014. The Company's credit card marketing and servicing alliance agreement with JPMorgan Chase ended on November 15, 2015.

29. Assets classified as held for sale

During Fiscal 2015, the Company announced the future closure of Park Street. Park Street, including the adjacent vacant property which is owned by the Company, is being marketed for sale and if a buyer is identified that will purchase Park Street at a price acceptable to the Company, it will be sold. This process has been approved by senior management of the Company, and based on these factors, the Company has concluded that the sale is highly probable.

During Fiscal 2014, the Company closed Broad Street. Broad Street, including the adjacent vacant property which is owned by the Company, is being marketed for sale and if a buyer is identified that will purchase Broad Street at a price acceptable to the Company, it will be sold. This process has been approved by senior management of the Company, and based on these factors, the Company has concluded that the sale is highly probable.

As at January 30, 2016, the assets of Broad Street and Park Street were separately classified as held for sale in the Consolidated Statements of Financial Position. The major classes of assets classified as held for sale were as follows:

(in CAD millions)		Broad Street		Park Street		Total
Property, plant and equipment	$	7.1	$	10.3	$	17.4
Investment property		2.4		2.3		4.7
Assets classified as held for sale	$	9.5	$	12.6	$	22.1

As at January 31, 2015, the assets of Broad Street were separately classified as held for sale in the Consolidated Statements of Financial Position. The major classes of assets classified as held for sale were as follows:

(in CAD millions)		Broad Street
Property, plant and equipment	$	10.9
Investment property		2.4
Assets classified as held for sale	$	13.3

Impairment loss

As at January 30, 2016, the carrying value of the property, plant and equipment and investment property of Broad Street was higher than the estimated fair value less costs to sell and, as a result, the Company recognized an impairment loss of $3.8 million in Fiscal 2015 (2014: nil). The Company determined fair value by engaging an independent qualified third party appraiser to conduct an appraisal of the land and building properties of Broad Street. The valuation methods used was the direct sales comparison approach. The impairment loss was included in "Selling, administrative and other expenses" in the Consolidated Statements of Net Loss and Comprehensive Loss.

The Company will continue to assess the recoverable amounts of Park Street and Broad Street at the end of each reporting period and adjust the carrying amounts accordingly. To determine the recoverable amounts of Park Street and Broad Street, the Company will consider factors such as expected future cash flows using appropriate market rental rates, the estimated costs to sell and an appropriate discount rate to calculate the fair value. The carrying amounts of Park Street and Broad Street are not necessarily indicative of the fair value of each property, as each property has been recorded at the lower of its carrying amount and fair value less costs to sell in accordance with IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations.*

The operations of Broad Street and Park Street were not presented as discontinued operations in the Consolidated Statements of Net Loss and Comprehensive Loss as they did not represent a separate geographical area of operations or a separate major line of business.

30. Related party transactions

The ultimate controlling party of the Company is ESL Investments, Inc. (incorporated in the U.S. in the state of Florida). The Company also had interests in joint arrangements, as described in Note 11.

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Company and other related parties are disclosed below.

30.1 Trading transactions

During the current and prior fiscal year, the Company entered into the following trading transactions with related parties:

				2015				2014
(in CAD millions)	**Purchase of goods**	**Services received**	**Other**	**Total**	Purchase of goods	Services received	Other	Total
Sears Holdings Corporation	**$ —**	**$ 3.8**	**$ 0.2**	**$ 4.0**	$ —	$ 3.6	$ 0.4	$ 4.0
Real estate joint arrangements	**—**	**—**	**—**	**—**	—	1.0	—	1.0
Total related party transactions	**$ —**	**$ 3.8**	**$ 0.2**	**$ 4.0**	$ —	$ 4.6	$ 0.4	$ 5.0

The following balances were outstanding as at the end of the fiscal year:

	Amounts receivable from related parties	
(in CAD millions)	**As at January 30, 2016**	As at January 31, 2015
Sears Holdings Corporation	**$ 0.2**	$ —

	Amounts payable to related parties	
(in CAD millions)	**As at January 30, 2016**	As at January 31, 2015
Sears Holdings Corporation	**$ 0.5**	$ 0.4

The related party transactions with Sears Holdings are in the ordinary course of business for shared merchandise purchasing services. These transactions were recorded either at fair market value or the exchange amount, which was established and agreed to by the related parties. These balances are included in "Accounts payable and accrued liabilities" and "Accounts receivable, net" in the Consolidated Statements of Financial Position.

The related party transactions with the various real estate joint arrangements represent lease payments for the lease of the Company's stores. These transactions were recorded either at fair market value or the exchange amount, which was established and agreed to by the related parties.

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No expense has been recognized in the current or prior fiscal periods for bad or doubtful debts in respect of the amounts owed by related parties.

The Company's Audit Committee is responsible for pre-approving all related party transactions that have a value greater than $1.0 million.

31. Key management personnel compensation

Key management personnel are those individuals having the authority and responsibility for planning, directing and controlling the activities of the Company. The Company considers the Board of Directors and the following former and current members of senior management to be key management personnel:

Executive Chairman;
President and Chief Merchant;
Former President and Chief Executive Officer;
Executive Vice-President and Chief Financial Officer;
Former Executive Vice-President and Chief Operating Officer;
Former Interim Chief Marketing Officer;
Former Senior Vice-President, Merchant Operations;
Former Senior Vice-President, Apparel & Accessories;
Senior Vice-President, Home & Hardlines;
Senior Vice-President, Real Estate;
Senior Vice-President, Human Resources and Information Technology;
Senior Vice-President, Retail Stores;
Senior Vice-President, In-store Marketing;
Senior Vice-President, Planning and Operations;
Vice-President and Chief Information Officer;
Vice-President, General Counsel and Corporate Secretary;
Former Senior Vice-President and Chief Marketing Officer; and
Former Digital and Omni Channel Advisor;

Key management personnel compensation was as follows:

(in CAD millions)		**2015**		2014
Salaries and perquisites	**$**	**11.4**	$	7.7
Annual incentive plans and other bonuses		**3.7**		0.3
Pensions		**0.1**		—
Termination benefits		**4.9**		0.5
Total key management personnel compensation	**$**	**20.1**	$	8.5

32. Net loss per share

A reconciliation of the number of shares used in the net loss per share calculation is as follows:

(Number of shares)	**2015**	2014
Weighted average number of shares per basic net loss per share calculation	**101,877,662**	101,877,662
Effect of dilutive instruments outstanding	**—**	—
Weighted average number of shares per diluted net loss per share calculation	**101,877,662**	101,877,662

"Net loss" as disclosed in the Consolidated Statements of Net Loss and Comprehensive Loss was used as the numerator in calculating the basic and diluted net loss per share. For 2015 and 2014, there were no outstanding dilutive instruments.

33. Changes in non-cash working capital balances

Cash used for non-cash working capital balances were comprised of the following:

(in CAD millions)		2015		2014
Accounts receivable, net	$	**12.5**	$	10.0
Inventories		**(23.4)**		133.2
Prepaid expenses		**(2.3)**		(5.6)
Derivative financial assets		**1.3**		1.0
Accounts payable and accrued liabilities		**(35.3)**		(74.0)
Deferred revenue		**(12.9)**		(16.5)
Provisions		**17.2**		(50.8)
Income and other taxes payable and recoverable		**(18.1)**		(62.5)
Effect of foreign exchange rates		**(3.3)**		(2.1)
Cash used for non-cash working capital balances	$	**(64.3)**	$	(67.3)

34. Changes in non-cash long-term assets and liabilities

Cash (used for) generated from long-term assets and liabilities were comprised of the following:

(in CAD millions)		2015		2014
Other long-term assets	$	**4.3**	$	40.9
Other long-term liabilities		**(16.3)**		(10.0)
Deferred tax assets		**(0.5)**		(0.2)
Other		**0.8**		(0.5)
Cash (used for) generated from non-cash long-term assets and liabilities	$	**(11.7)**	$	30.2

35. Events after the reporting period

On February 23, 2016, the Company announced that it had assigned the leases of eight Sears Home stores to Leon's Furniture Ltd., located throughout British Columbia, Ontario and New Brunswick with effective dates of between June 1, 2016 and July 1, 2016. The Company continues to be responsible for the operating lease obligations as of the effective dates of the assignments until the next renewal period for each of the leases, and will continue to include these amounts as part of the Company's operating lease obligations as disclosed in Note 14.2. The operating lease obligations related to these stores as of the effective dates of the assignments is estimated to be approximately $20.9 million.

On March 18, 2016, the Company announced it had entered into an agreement to sell and lease back its logistics centre located in Calgary, Alberta, for a total consideration of $83.9 million. This property, including land, building and equipment had a net carrying value of approximately $40.9 million included in "Property, plant and equipment" in the Consolidated Statements of Financial Position as at January 30, 2016. The agreement is subject to customary closing conditions, and is scheduled to close during the 52-week period ending January 28, 2017, and the ultimate amount and timing of gain recognition will be determined upon closing of the transaction. Upon closing, the Company will continue to operate the logistics centre under a long-term lease and there is not expected to be any impact to employees at the logistics centre as a result of this announcement. Upon closing, the logistics centre will no longer be registered as collateral under the Amended Credit Facility (see Note 17 for additional information).

36. Approval of the consolidated financial statements

The consolidated financial statements were approved by the Board of Directors and authorized for issue on March 17, 2016.

DIRECTORS AND OFFICERS

Board of Directors[A]

R. Raja Khanna [1,2,4]
Chief Executive Officer
Blue Ant Media Inc.

Carrie Kirkman
President and Chief Merchant of the Corporation

Deborah E. Rosati [1,2,4]
Corporate Director and Advisor

Graham Savage [1,2,4]
Corporate Director and Advisor

Anand A. Samuel [3]
Analyst
ESL Investments Inc.

S. Jeffrey Stollenwerck [3]
President, Sears Real Estate Business
Sears Holdings Corporation

Brandon G. Stranzl [2,3]
Executive Chairman of the Corporation

Officers

Brandon G. Stranzl
Executive Chairman

E.J. Bird
Executive Vice-President and Chief Financial Officer

Carrie Kirkman
President and Chief Merchant

Becky Penrice
Senior Vice-President and Interim Chief Operating Officer

A *Klaudio Leshnjani resigned from the Board of Directors effective February 4, 2016.*

Committees

1 Audit Committee
2 Human Resources and Compensation Committee
3 Investment Committee
4 Nominating and Corporate Governance Committee

CORPORATE INFORMATION

Head Office

Sears Canada Inc.
290 Yonge Street
Suite 700
Toronto, Ontario
M5B 2C3

Website:sears.ca
E-mail:home@sears.ca

For more information about the Company, or for additional copies of the Annual Report, write to the Corporate Communications Department at the Head Office of Sears Canada Inc., or call 416-941-4428.

The Company's regulatory filings can be found on the SEDAR website at sedar.com and on the U.S. Securities Exchange Commission (SEC) website at sec.gov.

Stock Exchange Listing

Toronto Stock Exchange
Trading symbol: SCC
NASDAQ
Trading symbol: SRSC

Transfer Agents and Registrars

CST Trust Company
P.O. Box 700, Station B
Montreal, Québec
H3B 3K3

Answerline:	416-682-3860
	1-800-387-0825
Fax:	1-888-249-6189
Website:	canstockta.com
E-Mail:	inquiries@canstockta.com

American Stock Transfer & Trust Company, LLC
6201 15th Avenue
Brooklyn, NY
11219

Answerline:	1-800-937-5449
Fax:	718-236-2641
Website:	amstock.com
E-Mail:	info@amstock.com

Annual Meeting

The Annual and Special Meeting of the Shareholders of Sears Canada Inc. will be held on Wednesday, April 27, 2016 at 8:00 a.m. in the Auditorium, Fourth floor, 290 Yonge Street, Toronto, Ontario Canada.

Édition française du Rapport annuel

On peut se procurer l'édition française de ce rapport en écrivant au:

Service national des communications
Sears Canada Inc.
290 Yonge Street
Suite 700
Toronto, Ontario
M5B 2C3

Pour de plus amples renseignments au sujet de la Société, veuillez écrire au service national de communication, ou composer le 416-941-4428.

Les dépôts réglementaires de la Société se trouvent sur le site Web de SEDAR à l'adresse sedar.com et sur le site Web de la Securities Exchange Commission (« SEC ») des États-Unis à l'adresse sec.gov.

Sears

Sears

TAB G

This is Exhibit "G" referred to in the

Affidavit of

JONATHAN WYPYCH

Sworn before me,

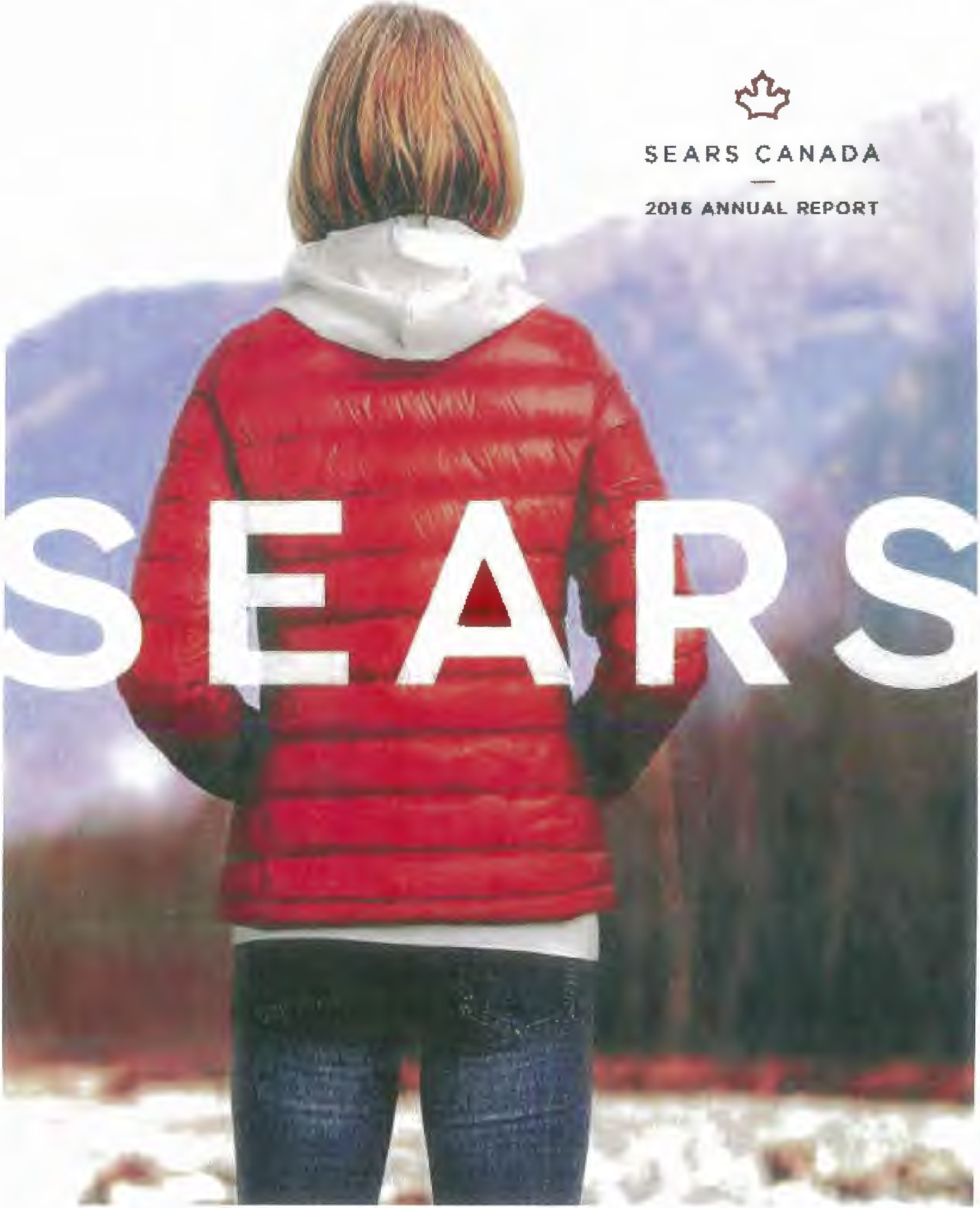
this 1ST day of March, 2018

A Commissioner for taking Affidavits

Shannon Beverley Ste. Marie, a Commissioner, etc.,
Province of Ontario, while a Student-at-Law.
Expires March 23, 2019.

SEARS CANADA

2016 ANNUAL REPORT



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Financial Highlights

(in CAD millions, except per share amounts)		**Fiscal 2016**		Fiscal 2015
Total revenue	$	**2,613.6**	$	3,145.7
Total same store sales (%)[1]		**(4.3)%**		(2.3)%
Total Core Retail same store sales (%)[1]		**(4.9)%**		(0.6)%
Net loss		**(321.0)**		(67.9)
Adjusted EBITDA[1]		**(282.9)**		(160.5)

		As at January 28, 2017		As at January 30, 2016
Cash	$	**235.8**	$	313.9
Working capital		**460.6**		543.0
Inventories		**598.5**		664.8
Total assets		**1,244.4**		1,633.2
Total long-term obligations, including principal payments on long-term obligations due within one year		**20.3**		24.2
Shareholders' equity		**222.2**		554.2

		As at January 28, 2017		As at January 30, 2016
Per share of capital stock				
Basic and diluted net loss	$	**(3.15)**	$	(0.67)
Shareholders' equity	$	**2.18**	$	5.44

[1] *Total same store sales, Core Retail same store sales and Adjusted Net Loss Before Interest, Taxes, Depreciation and Amortization ("EBITDA") are operating performance and non-International Financial Reporting Standards ("IFRS") measures. See Section 1.e. "Use of Non-IFRS Measures, Measures of Operating Performance and Reconciliation of Net (Loss) Earnings to Adjusted EBITDA".*

- Revenue was $2,613.6 million for the 52-week period ended January 28, 2017 ("Fiscal 2016") compared to $3,145.7 million for the 52-week period ended January 30, 2016 ("Fiscal 2015"), a decrease of $532.1 million. The decrease was attributable to sales declines in all product categories in Home & Hardlines and Apparel & Accessories. Included in the total revenue decrease for Fiscal 2016 was a decrease in our Direct channel of $203.0 million compared to Fiscal 2015, primarily due to a decrease in catalogues, catalogue pages and distribution, as well as challenges experienced with the launch of the new website. Also included in the total revenue decrease for Fiscal 2016 was the effect of store closures during and subsequent to Fiscal 2015, which negatively impacted revenue by $136.5 million. Commission and licensee revenue decreased by $75.7 million, primarily due to reduced revenues after the termination of the credit card marketing and servicing agreement with JPMorgan Chase Bank, N.A. (Toronto Branch) ("JPMorgan Chase") in November 2015. Services and other revenue decreased by $8.0 million, primarily due to reduced shipping fees on sales to customers through our Direct channel and Sears Home stores due to store closures.

- Total same store sales decreased by 4.3% in Fiscal 2016 compared to Fiscal 2015. Same store sales in our full-line department and Sears Home stores combined ("Core Retail" stores) decreased by 4.9% in Fiscal 2016 compared to Fiscal 2015. Total same store sales is a measure of operating performance used by management, the retail industry and investors to compare retail operations, excluding the impact of store openings and closures. See Section 1.e. "Use of Non-IFRS Measures, Measures of Operating Performance and Reconciliation of Net (Loss) Earnings to Adjusted EBITDA".

- The Company's gross margin rate was 27.3% in Fiscal 2016 compared to 31.8% in Fiscal 2015. The decrease in the gross margin rate in Fiscal 2016 was impacted by the termination of the credit card marketing and servicing agreement with JPMorgan Chase which reduced the gross margin by $67.8 million, the weakening of the Canadian dollar compared to the U.S. dollar which reduced the gross margin by $63.8 million, and the expenses incurred to resolve customer delivery issues noted during the holiday season which reduced the gross margin by $6.6 million.

- Net loss in Fiscal 2016 was $321.0 million compared to $67.9 million in Fiscal 2015. The increase in the net loss was primarily due to a higher operating loss in Fiscal 2016 and a one-time gain on the termination of the credit card marketing and servicing agreement with JPMorgan Chase in Q4 2015.

- Adjusted EBITDA in Fiscal 2016 was a loss of $282.9 million compared to a loss of $160.5 million in Fiscal 2015, an increase in the loss of $122.4 million. Adjusted EBITDA was negatively impacted by $76.2 million from the termination of the credit card marketing and servicing agreement with JPMorgan Chase, $59.5 million due to the weakening of the Canadian dollar compared to the U.S. dollar, and $24.3 million from expenses incurred for the Initium initiative and challenges experienced with the launch of the new website. These negative impacts were partially offset by a $23.0 million release of sales tax provision, a reduction of $14.9 million related to the closure of underperforming stores subsequent to Fiscal 2015, and a decrease of $5.6 million in severance costs which were not included in transformation expense. Excluding the impact of these items, Adjusted EBITDA for Fiscal 2016 declined by $5.9 million compared to Fiscal 2015. Adjusted EBITDA is a non-IFRS measure. See Section 1.e. "Use of Non-IFRS Measures, Measures of Operating Performance and Reconciliation of Net (Loss) Earnings to Adjusted EBITDA" regarding the use of non-IFRS measures and an explanation of the components of Adjusted EBITDA for the respective periods.

- Total cash was $235.8 million as at January 28, 2017 compared to $313.9 million as at January 30, 2016. The decrease of $78.1 million was primarily due to cash used for operating activities, partially offset by net proceeds received from lease termination and sale and leaseback transactions described in Note 26 "Gain on lease termination and sale and leaseback transactions" of the Notes to the Consolidated Financial Statements for Fiscal 2016.

Management's Discussion and Analysis

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Management's Discussion and Analysis

"Sears", "Sears Canada", "we", "us", "our" or "the Company" refers to Sears Canada Inc. and its subsidiaries.

Management's Discussion and Analysis ("MD&A") contains commentary from the Company's management regarding strategy, operating results and financial position. Management is responsible for its accuracy, integrity and objectivity, and develops, maintains and supports the necessary systems and controls to provide reasonable assurance as to the accuracy of the comments contained herein.

This MD&A should be read in conjunction with the Consolidated Financial Statements and Notes to the Consolidated Financial Statements for the 52-week period ended January 28, 2017 ("Fiscal 2016" or "2016"). The 2015 fiscal year refers to the 52-week period ended January 30, 2016 ("Fiscal 2015" or "2015"). The 2014 fiscal year refers to the 52-week period ended January 31, 2015 ("Fiscal 2014" or "2014"). The fourth quarter unaudited results for Fiscal 2016, Fiscal 2015 and Fiscal 2014 reflect the 13-week periods ended January 28, 2017 ("Q4 2016"), January 30, 2016 ("Q4 2015") and January 31, 2015 ("Q4 2014"), respectively. The third quarter unaudited results for Fiscal 2016 and Fiscal 2015 reflect the 13-week periods ended October 29, 2016 ("Q3 2016") and October 31, 2015 ("Q3 2015"), respectively. The second quarter unaudited results for Fiscal 2016 and Fiscal 2015 reflect the 13-week periods ended July 30, 2016 ("Q2 2016") and August 1, 2015 ("Q2 2015"), respectively. The first quarter unaudited results for Fiscal 2016 and Fiscal 2015 reflect the 13-week periods ended April 30, 2016 ("Q1 2016") and May 2, 2015 ("Q1 2015"), respectively. The 2017 fiscal year refers to the 53-week period ending February 3, 2018 ("Fiscal 2017" or "2017").

This MD&A is current as of April 26, 2017 unless otherwise stated.

Additional information relating to the Company, including the Company's Annual Information Form ("AIF") dated April 26, 2017 and the Management Proxy Circular ("MPC") dated April 26, 2017, can be obtained by contacting Sears Canada's Corporate Communications department at 416-941-4422. The 2016 Annual Report, together with the AIF and MPC, have been filed with securities regulators in Canada through the System for Electronic Document Analysis and Retrieval ("SEDAR") and with the U.S. Securities and Exchange Commission ("SEC"), and can be accessed on the SEDAR website at sedar.com and on the SEC website at sec.gov. Additional information relating to the Company is also available online at sedar.com and at sec.gov.

Unless otherwise indicated, all amounts are expressed in Canadian dollars.

Cautionary Statement Regarding Forward-Looking Information

Certain information in the Annual Report and in this MD&A is forward-looking and is subject to important risks and uncertainties. Forward-looking information concerns, among other things, the Company's future financial performance, business strategy, plans, expectations, goals and objectives, and includes statements concerning possible or assumed future results set out under Section 1 "Company Performance", Section 2 "Consolidated Financial Position, Liquidity and Capital Resources", Section 3 "Financial Instruments", Section 6 "Shareholders' Equity", Section 7 "Accounting Policies and Estimates" and Section 9 "Risks and Uncertainties". Often, but not always, forward-looking information can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "scheduled", "estimates", "intends", "anticipates" or "does not anticipate" or "believes", or variations of such words and phrases, or statements that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. Although the Company believes that the estimates reflected in such forward-looking information are reasonable, such forward-looking information involves known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking information, and undue reliance should not be placed on such information.

Factors which could cause actual results to differ materially from current expectations include, but are not limited to: the Company's ability to compete effectively in the highly competitive retail industry; the ability of the Company to successfully implement its strategic initiatives; the ability of the Company to enhance its financial flexibility and liquidity, including to improve its cash position; weaker business performance in the fourth quarter, traditionally the Company's strongest quarter; seasonal weather patterns; customer preferences and changes in consumer spending; ability to achieve productivity improvements and cost savings; ability to retain senior management and key personnel; ability of the Company to successfully manage its inventory levels; ability of the Company to secure an agreement with a financial institution for the management of the Company's credit and financial services operations; ability to implement and continue the Company's new consumer financing program; the ability of the Company's new loyalty program to attract and retain customers; ability to successfully implement the Company's new digital e-commerce platform nation-wide;

ability of the Company to migrate sufficient catalogue customers and business to online; disruptions to the Company's computer systems; economic, social, and political instability in jurisdictions where suppliers are located; fire damage to and/or, structural integrity and fire safety of, foreign factories; increased shipping costs, potential transportation delays and interruptions; damage to the reputations of the brands the Company sells; changes in the Company's relationship with its suppliers; the Company's reliance on third parties in outsourcing arrangements, and their ability to perform the arrangements for which they have been engaged; the creditworthiness and financial stability of the Company's licensees and business partners; willingness of the Company's vendors to provide acceptable payment terms; the outcome of product liability claims; loss of reputation resulting from security or data breaches or loss of customer information; failure of the Company's IT systems; fraud or theft resulting from weaknesses in the Company's payment systems; effect of long-term leases on the Company's ability to respond to changing demographics; failure to comply with operating covenants in the Company's leases; changes in laws, rules and regulations applicable to the Company; loss of the Company's status as a foreign private issuer; compliance costs associated with environmental laws and regulations; the outcome of pending legal proceedings; maintaining adequate insurance coverage; changes to customer spending patterns due to domestic or international events outside the Company's control; ability to make, integrate and maintain acquisitions and investments; general economic conditions; liquidity risk and failure to fulfill financial obligations; limits on the Company's access to financing sources; fluctuations in foreign currency exchange rates; failure of counterparties to meet their payment obligations to the Company; the possibility of negative investment returns in the Company's pension plan or an increase to the defined benefit obligation including the potentially restrictive impact such an increase might have on credit availability; interest rate fluctuations and other changes in funding costs and investment income; the impairment of intangible and other long-lived assets; the possible future termination of certain intellectual property rights associated with the "Sears" name and brand names if Sears Holdings Corporation ("Sears Holdings") reduces its interest in the Company to less than 10%; potential conflict of interest of some of the directors and executive officers of the Company owing to their ownership of Sears Holdings' common stock; possible changes in the Company's ownership by Edward S. Lampert, ESL Investments, Inc. ("ESL") and other significant shareholders; price and volume volatility of the Company's common shares; new accounting pronouncements, or changes to existing pronouncements, that impact the methods the Company uses to report our financial position and results from operations; and uncertainties associated with critical accounting assumptions and estimates. Information about these factors, other material factors that could cause actual results to differ materially from expectations and about material factors or assumptions applied in preparing forward-looking information, may be found in this MD&A and in the Company's 2016 Annual Report under Section 9 "Risks and Uncertainties" and elsewhere in the Company's filings with securities regulators. The forward-looking information in the Annual Report and in this MD&A are, unless otherwise indicated, stated as of the date hereof and is presented for the purpose of assisting investors and others in understanding the Company's financial position and results of operations as well as the Company's objectives and strategic priorities, and may not be appropriate for other purposes. The Company does not undertake any obligation to update publicly or to revise any forward-looking information, whether as a result of new information, future events or otherwise, except as required by law.

Five Year Summary

	Fiscal 2016	Fiscal 2015	Fiscal 2014	Fiscal 2013	Fiscal 2012[1,2]
Results for the year (in CAD millions)					
Total revenue	$ **2,613.6**	$ 3,145.7	$ 3,424.5	$ 3,991.8	$ 4,346.5
Depreciation and amortization	**31.4**	48.4	89.3	111.4	126.5
(Loss) earnings before income taxes	**(318.2)**	(62.7)	(360.0)	490.0	114.2
Income tax (expense) recovery	**(2.8)**	(5.2)	21.2	(43.5)	(13.0)
Net (loss) earnings	**(321.0)**	(67.9)	(338.8)	446.5	101.2
Dividends declared	—	—	—	509.4	101.9
Capital expenditures[3]	**27.4**	45.4	54.0	70.8	101.6
Year end position (in CAD millions)					
Accounts receivable, net	$ **67.1**	$ 59.4	$ 73.0	$ 83.3	$ 77.7
Inventories	**598.5**	664.8	641.4	774.6	851.4
Property, plant and equipment	**227.1**	444.1	567.6	785.5	1,118.5
Total assets	**1,244.4**	1,633.2	1,774.1	2,392.3	2,504.7
Working capital	**460.6**	543.0	522.0	567.0	410.7
Total long-term obligations, including principal payments on long-term obligations due within one year	**20.3**	24.2	28.1	35.9	59.4
Shareholders' equity	**222.2**	554.2	570.8	1,073.8	1,076.4
Per share of capital stock					
Basic net (loss) earnings	$ **(3.15)**	$ (0.67)	$ (3.32)	$ 4.38	$ 0.99
Dividends declared	—	—	—	5.00	1.00
Shareholders' equity	**2.18**	5.44	5.60	10.54	10.57
Financial ratios					
Current ratio	**1.8**	1.9	1.8	1.7	1.5
Debt/equity ratio (%)	**9.1**	4.4	4.9	3.3	5.5
Gross margin (%)	**27.3**	31.8	32.6	36.2	36.7
Breakdown of the Company's locations					
Full-line department stores[4]	**95**	95	113	118	118
Sears Home stores[5]	**26**	41	47	48	48
Outlet stores[4]	**14**	23	11	11	11
Specialty type: Appliances and Mattresses	—	—	1	4	4
Hometown stores[5]	**69**	125	201	234	261
Sears Home Services showrooms	—	—	—	8	9
Corbeil	**32**	33	35	34	33
National Logistics Centres	**5**	6	6	6	6
Sears Travel offices	**62**	84	96	97	101
Catalogue and online merchandise pick-up locations	**830**	1,213	1,335	1,446	1,512

1 *The 2012 fiscal year ("Fiscal 2012") refers to the 53-week period ended February 2, 2013.*

2 *Adjusted to reflect the changes resulting from the retrospective application of the change in accounting policy related to the adoption of accounting standard "IFRS 11, Joint Arrangements".*

3 *Capital expenditures represent purchases for which payment has been made by the end of the fiscal year.*

4 *During Fiscal 2015, the Company reclassified 16 full-line department stores to the Outlet channel based on changes to their merchandise mix. However, they continue to operate as full-line department stores.*

5 *During Fiscal 2016, the Company reclassified one Hometown store to a Sears Home store based on changes to its merchandise mix.*

Quarterly Performance

The Company's operations are seasonal in nature. Accordingly, merchandise, service and commission revenue will vary by quarter based upon customer spending behaviour. Historically, the Company's revenue and operating results are higher in the fourth quarter than in any of the other three quarters due to the holiday season. The Company is able to adjust certain variable costs in response to seasonal revenue patterns. However, costs such as occupancy are fixed, causing the Company to report a disproportionate level of earnings in the fourth quarter. Other factors that affect the Company's sales and results of operations include actions by its competitors, timing and effectiveness of its promotional events, changes in economic conditions, population and other demographics. In addition, the Company offers seasonal goods and services. The Company sets inventory levels and promotional activity to be aligned with its strategic initiatives and expected consumer demands. Businesses that generate revenue from the sale of seasonal merchandise and services are subject to the risk of changes in consumer spending behaviour as a result of unseasonable weather patterns.

Accordingly, the Company's results for any one fiscal quarter are not necessarily indicative of the results to be expected for any other quarter, or the full year, and total same store sales for any particular period may increase or decrease.

The table below outlines select financial data for the eight most recently completed quarters. The quarterly results are unaudited and have been prepared in accordance with IFRS.

(in CAD millions, except per share amounts)	**Fourth Quarter**		**Third Quarter**		**Second Quarter**		**First Quarter**	
	2016	2015	2016	2015	2016	2015	2016	2015
Total revenue	**$ 744.0**	$ 887.6	$ 625.2	$ 792.1	$ 648.5	$ 768.8	$ 595.9	$ 697.2
Net (loss) earnings	**$ (45.8)**	$ 30.9	$ (120.0)	$ (53.2)	$ (91.6)	$ 13.5	$ (63.6)	$ (59.1)
Basic and diluted net (loss) earnings per share	**$ (0.45)**	$ 0.30	$ (1.18)	$ (0.52)	$ (0.90)	$ 0.13	$ (0.62)	$ (0.58)

Common Share Market Information

The table below provides prices for the Company's common shares traded on the Toronto Stock Exchange (symbol: SCC).

	Fourth Quarter		**Third Quarter**		**Second Quarter**		**First Quarter**	
	2016	2015	2016	2015	2016	2015	2016	2015
High	**$ 2.64**	$ 11.25	$ 3.75	$ 9.88	$ 4.85	$ 11.32	$ 5.98	$ 12.60
Low	**$ 1.95**	$ 5.44	$ 2.65	$ 7.08	$ 3.44	$ 7.11	$ 3.07	$ 9.18
Close	**$ 1.95**	$ 6.15	$ 2.65	$ 9.01	$ 3.50	$ 7.50	$ 4.90	$ 9.36
Average daily trading volume	**20,319**	10,764	11,700	6,462	23,131	12,772	31,015	16,113

The table below provides prices for the Company's common shares traded on the NASDAQ (symbol: SRSC), quoted in U.S. dollars.

	Fourth Quarter		**Third Quarter**		**Second Quarter**		**First Quarter**	
	2016	2015	2016	2015	2016	2015	2016	2015
High	**$ 1.95**	$ 8.48	$ 2.88	$ 7.63	$ 3.76	$ 9.24	$ 4.27	$ 10.00
Low	**$ 1.45**	$ 3.75	$ 1.95	$ 5.22	$ 2.64	$ 5.47	$ 2.36	$ 7.66
Close	**$ 1.45**	$ 4.40	$ 1.95	$ 7.25	$ 2.76	$ 5.77	$ 3.90	$ 7.69
Average daily trading volume	**35,268**	46,971	33,151	45,153	25,616	31,540	70,732	40,631

1. Company Performance

a. Merchandising Operations and Business Overview

The Company is comprised of one reportable segment, Merchandising. The Company's operations include the sale of goods and services through the Company's Retail channels, which includes its full-line department, Sears Home, Hometown, Outlet, Corbeil Electrique Inc. ("Corbeil") stores and its Direct (catalogue/internet) channel. It also includes service revenue related primarily to logistics services provided through the Company's wholly-owned subsidiary S.L.H. Transport Inc. ("SLH") and product repair. Commission revenue includes travel, home improvement services, insurance, wireless and long distance plans. Licensee fee revenue is comprised of payments received from licensees that operate within the Company's stores (See Note 13 "Financial instruments" of the Notes to the Consolidated Financial Statements for Fiscal 2016 for additional information).

Retail Channels

Full-line department stores - Sears full-line department stores are located primarily in suburban enclosed shopping centres. The major merchandise categories include the following:

Apparel & Accessories - women's, men's and children's apparel, nursery products, cosmetics, jewellery, footwear and accessories.

Home & Hardlines - home furnishings and mattresses, home décor, lawn and garden, hardware, leisure, seasonal products, toys, floorcare, sewing and major appliances.

Although merchandise varies by store, the merchandise sales mix between the two major categories are approximately 40% Home & Hardlines and 60% Apparel & Accessories.

Full-line department stores include a Sears catalogue and online merchandise pick-up location. Sears Travel offices and licensed businesses, such as optical centres and portrait studios, are also located in many of the Company's full-line department stores.

Sears Home stores – Sears Home stores are typically located in power centres and present an extensive selection of furniture, mattresses and box-springs, and major appliances. The majority of these stores range in size from 35,000 to 60,000 square feet.

Hometown stores – Sears Hometown locations are primarily independently operated and offer major appliances, furniture, mattresses and box-springs, outdoor power equipment as well as a catalogue and online merchandise pick-up location. Most Hometown stores are located in markets that lack the population to support a full-line department store.

Outlet stores – Sears Outlet stores offer clearance merchandise, primarily from the Company's full-line department stores and Direct channel, as well as surplus big-ticket items from all channels.

Corbeil – Corbeil is a chain of major appliance specialty stores located throughout Québec, the Greater Toronto Area and Eastern Ontario. There are 32 stores in the chain, 16 of which are franchised. The chain also includes two liquidation centres and one distribution centre in Montreal. Stores average approximately 6,500 square feet in size.

Sears Travel – Sears Travel service operates within 62 Sears locations across Canada and via an online travel service at searstravel.ca and 1-866-FLY-SEARS, which connects customers to the nearest geographical branch. TravelBrands Inc. manages the day-to-day operations of all Sears Travel offices and the Sears Travel website.

Sears Home Services

Operating under the Sears Home Improvements brand, the Company offers a broad range of home services, including carpet and duct cleaning, installation and assembly of heating and cooling equipment, custom window coverings, windows and doors, and other products purchased at Sears stores.

Direct Channel

The Company's Direct channel is comprised of its catalogue business, which is Canada's largest general merchandise catalogue business, and sears.ca, an online shopping destination with over 91.3 million visits in Fiscal 2016, including desktop and mobile platforms. With two distribution centres exclusively dedicated to servicing the Direct channel and 830 catalogue and online merchandise pick-up locations nationwide, Sears can deliver orders in most areas of the country. Orders can be placed by telephone at 1-800-26-SEARS, by fax, online at sears.ca or in person through Sears stores and catalogue agents. At the end of Fiscal 2016, 698 of the total 830 catalogue and online merchandise pick-up locations were independently operated under local ownership, with the remaining 132 units located within Sears locations.

Catalogue – In Fiscal 2016, 11 different catalogues were distributed throughout Canada, including four Specialogues, designed to offer more seasonally relevant merchandise to specific customers.

Sears.ca – The Company's website, sears.ca, enables the Company to provide new merchandise offers directly to web customers and highlights the Company's extensive general merchandise selection. In Fiscal 2016, the Company continued to invest in its online capabilities to improve the user experience, and engage new customers and demographics. A new digital e-commerce platform, Initium, was developed and launched in November 2016. Sears is committed to maintaining its reputation as a trusted Canadian retailer by focusing on customer privacy and satisfaction when shopping on sears.ca.

Logistics

National Logistics Centres ("NLC") – Sears operates five logistics centres strategically located across the country. The logistic centres are comprised of two owned and three leased warehouse facilities which serve all channels of the business. The total floor area of these logistics centres was 5.1 million square feet at the end of Fiscal 2016, of which 4.4 million square feet is devoted to warehouse and logistics operations. The remainder of the space is utilized for other Sears operations, including call centre services. See Note 28 "Assets classified as held for sale" of the Notes to the Consolidated Financial Statements for Fiscal 2016 for additional information.

S.L.H. Transport Inc. ("SLH") – The Company's wholly-owned subsidiary, SLH, transports merchandise to stores and catalogue and online merchandise pick-up locations. SLH is responsible for providing logistics services for the Company's merchandising operations by operating a fleet of tractors and trailers to provide carrier services for Sears and contract carrier services to commercial customers who are unrelated to Sears. The arrangements with third parties increase SLH's fleet utilization and improve the efficiency of its operations. SLH has developed a nationwide distribution network to provide better and more consistent service to its customers.

As at the end of Fiscal 2016, Fiscal 2015, and Fiscal 2014, the Company's locations were distributed across the country as follows:

	Atlantic	Québec	Ontario	Prairies	Pacific	As at January 28, 2017 Total	As at January 30, 2016 Total	As at January 31, 2015 Total
Full-line department stores[2]	10	23	32	18	12	**95**	95	113
Sears Home stores[1]	—	5	15	4	2	**26**	41	47
Outlet stores[2]	1	3	7	2	1	**14**	23	11
Specialty type: Appliances and Mattresses stores	—	—	—	—	—	**—**	—	1
Corporate stores	11	31	54	24	15	**135**	159	172
Hometown stores[1]	15	6	8	22	18	**69**	125	201
Corbeil franchise stores	—	14	2	—	—	**16**	16	16
Corbeil corporate stores	—	12	4	—	—	**16**	17	19
Corbeil	—	26	6	—	—	**32**	33	35
NLCs[3]	—	1	2	1	1	**5**	6	6
Travel offices	6	17	26	7	6	**62**	84	96
Catalogue and online merchandise pick-up locations	88	194	265	208	75	**830**	1,213	1,335

1 *During Fiscal 2016, the Company reclassified one Hometown store to a Sears Home store based on changes to its merchandise mix.*

2 *During Fiscal 2015, the Company reclassified 16 full-line department stores to the Outlet channel based on changes to their merchandise mix. However, they continue to operate as full-line department stores.*

3 *Sears operates five logistics centres strategically located across the country, each referred to as a NLC. The NLCs are comprised of two owned and three leased warehouse facilities which serve all channels of the business. See Note 28 "Assets classified as held for sale" in the Company's Consolidated Financial Statements for Fiscal 2016 for additional information.*

In Fiscal 2016, the Company closed 16 Sears Home stores, nine Outlet stores, 55 Hometown stores, one Corbeil corporate store, 22 Sears Travel offices and 467 catalogue and online merchandise pick-up locations. The Company opened 84 catalogue and online merchandise pick-up locations.

In Fiscal 2015, the Company closed two full-line department stores, six Sears Home stores, four Outlet stores, one Appliances and Mattresses store, 76 Hometown stores, two Corbeil corporate stores, 12 Sears Travel offices and 131 catalogue and online merchandise pick-up locations. The Company opened nine catalogue and online merchandise pick-up locations.

In Fiscal 2014, the Company closed five full-line department stores, as a result of lease terminations and lease amendments that occurred during Fiscal 2013. The Company also closed one Sears Home store, three Appliances and Mattresses stores, 34 Hometown stores, one Sears Travel office and 142 catalogue and online merchandise pick-up locations. The Company opened one Hometown store, one Corbeil franchise store and 31 catalogue and online merchandise pick-up locations, and converted one Corbeil franchise store to a Corbeil corporate store.

As of the end of Fiscal 2016, the number of selling units leased and owned by the Company was as follows:

	Leased	Owned	Total
Full-line department stores	87	8	95
Sears Home stores[1]	24	2	26
Outlet stores	12	2	14
Hometown stores[1,2]	3	—	3
Corbeil[2]	29	—	29
Total[3]	**155**	**12**	**167**

1 *During Fiscal 2016, the Company reclassified one Hometown store to a Sears Home store based on changes to its merchandise mix.*

2 *Only Hometown and Corbeil stores that are not independently owned and operated are included.*

3 *Travel offices and catalogue and online merchandise pick-up locations are located in other Sears stores or local businesses, and therefore not included.*

As at the end of Fiscal 2016, Fiscal 2015, and Fiscal 2014, the gross square footage for corporate store locations (both owned and leased) and NLCs was as follows:

(square feet, millions)	**As at January 28, 2017**	As at January 30, 2016	As at January 31, 2015
Full-line department stores[2]	**12.4**	12.4	14.1
Sears Home stores[1]	**1.2**	1.8	2.1
Outlet stores[2]	**1.6**	2.2	0.9
Other[1,3]	**0.2**	0.2	0.3
NLCs	**5.1**	6.5	6.6
Total	**20.5**	23.1	24.0

[1] *During Fiscal 2016, the Company reclassified one Hometown store to a Sears Home store based on changes to its merchandise mix.*

[2] *During Fiscal 2015, the Company reclassified 16 full-line department stores to the Outlet channel based on changes to their merchandise mix. However, they continue to operate as full-line department stores.*

[3] *Other includes Hometown and Corbeil stores that are not independently owned and operated. Other also included Appliances and Mattresses as at January 31, 2015.*

Gross square footage for corporate store locations as at January 28, 2017 decreased compared to January 30, 2016 due to the closure of underperforming stores.

Gross square footage for corporate store locations as at January 30, 2016 decreased compared to January 31, 2015 due to the closure of underperforming stores.

b. Core Capabilities

The Company's key resources and capabilities include its employees, brand equity, omni-channel capabilities, real estate and logistics, as described below.

Employees

- Sears employees are a critical asset to the Company. Sears works to inspire its employees to provide excellent customer service, meaningful experiences and opportunities to participate in community involvement.

Brand equity

- The Company works closely with its suppliers in product development, design and quality standards. Many lines of merchandise are manufactured with features exclusive to Sears and are sold under the Company's private label brands, such as Kenmore® and Craftsman®. The Company believes that its private label and national brands have significant recognition and value with customers.

Omni-channel capabilities

- The Company strives to serve its customers through a network of stores that span all ten provinces, primarily through its 95 full-line department stores, 141 specialty stores (including 26 Sears Home stores, 14 Outlet stores, 69 Hometown stores primarily operated under independent local ownership and 32 Corbeil stores) and 62 Sears Travel offices. The Company has also made significant investment in its digital offering, sears.ca, where customers can shop from the convenience of their electronic devices and have their merchandise delivered in most areas of the country to over 800 merchandise pick-up locations for orders placed through the catalogue or online.

Real Estate

- The Company approaches its real estate portfolio in two primary ways: (1) to provide capital and liquidity to fund growth and pursue other value-creating balance sheet initiatives, and (2) to generate revenue from real estate development and other business partnerships that fit strategically with its retail vision.

Logistics

- The Company has the capability to move merchandise efficiently to stores, merchandise pick-up locations, or directly to customers. The Company's wholly-owned subsidiary, SLH, is responsible for providing transportation services for the Company's merchandising operations and has arrangements with third parties to increase SLH's revenue and fleet utilization, and improve its operating effectiveness. The Company conducts operations in five NLCs located in Vancouver, Calgary, Vaughan, Belleville and Montreal.

c. Strategic Initiatives

During Fiscal 2016, Sears Canada focused on re-engineering the business for long-term growth. The Company's four primary workstreams are intended to drive the Company's business goals of increasing revenue and maintaining a strong balance sheet.

The four primary workstreams are as follows:

1. **Sears 2.0** - Moving Sears physical retail stores to a more productive model, with a more customer-focused and relevant assortment, faster inventory turns, and an assessment of the required square footage per store. Initiatives that drove Sears Canada's in-store business fall into this category.
2. **Initium** - Building a new technology architecture to run Sears Canada, an upgraded e-commerce experience and logistics capabilities. The platform has the potential to structure Sears Canada as a digital commerce company with a network of stores attached, as opposed to a network of stores and legacy technology with a separate e-commerce business.
3. **Real Estate** - Matching the Company's real estate portfolio to better suit its needs for a profitable store-based retail business.
4. **SG&A** - Bringing the Company's Selling, General and Administrative expense structure in line with its revenue.

During Fiscal 2016, the Company made progress on these key workstreams. Highlights from the year in each workstream include:

Sears 2.0

- Launched the Company's first new Sears 2.0 prototype stores at Promenade Mall in Thornhill, Ontario, Mapleview Centre in Burlington, Ontario, Stone Road Mall in Guelph, Ontario and Oshawa Centre in Oshawa, Ontario. The stores underwent significant changes in their layout and offerings all designed to deliver quality products at affordable prices. The Company plans to convert several more stores to the Sears 2.0 format in Fiscal 2017.
- Implemented many in-store initiatives designed to fulfill the Company's goal of enhancing customer service and its commitment to providing high quality products at affordable prices:
  - Internet Price Scraping: Sears Canada is the Canadian leader by sales in the appliances category. To build on this and to provide Canadians the best value, Sears Canada researches competitor pricing daily to seek to ensure we offer the lowest price on comparative items, and a similar program has been instituted for mattresses; and
  - Financing: entered into a new loan processing and servicing agreement with easyfinancial Services Inc. to extend financing options to Sears customers purchasing major appliances and other home appliances following the termination of the JPMorgan Chase credit card agreement in November of 2015.
- During the second half of 2016, the Company soft-launched an off-price business with a dedicated merchandising team to bring outstanding deals on well-known branded products to our customers. The Company will formally launch this business in Spring 2017.
- Unveiled a new logo during Q3 2016, as part of its plan to re-invigorate and revitalize Sears Canada across all lines of business, from e-commerce to in-store experiences, and from merchandise selection and curation to marketing communications.

Initium

- During Q1 2016, Sears Canada launched Initium Commerce Lab, an innovation hub, to design and implement a modernized technology platform for the Company. Initium is an open-concept, creative environment, physically located away from head office operations to more easily facilitate the generation of new ideas and focus on delivering customer-centric, digital solutions:
  - The new digital e-commerce platform launched beta-testing of the new Sears Canada website in Alberta in August of 2016 and British Columbia in October of 2016;
  - The Company employed a team to monitor progress of the beta-test and applied key learnings from the tests, and launched the new website nationally in November;
  - The Company entered into an agreement with CGI to help streamline and update Sears' current technology infrastructure and mainframe applications with the goal of reducing costs and improving efficiency, enabling Sears to decommission systems concurrent to establishing Initium; and

- Sears Canada announced the opening of two new business centres, one in Edmundston, New Brunswick and one in Saint John, New Brunswick, and aims to create 530 new jobs there. These jobs will include business services agents, team leads, information technology support, human resources personnel, administrative support and managers.

Real Estate

- During Q1 2016, the Company completed the sale and leaseback transactions of the NLCs in Vaughan, Ontario and Calgary, Alberta, for net proceeds of $100.0 million and $83.9 million, respectively;
- During Q2 2016, the Company assigned eight of its Sears Home banner store leases to Leon's Furniture Ltd., furthering Sears Canada's strategy to make its core bricks and mortar store footprint more productive;
- During Q3 2016, the Company completed the sale of the Park Street NLC in Regina, Saskatchewan, for net proceeds of $18.1 million;
- During Q4 2016, the Company completed the sale of the Broad Street NLC in Regina, Saskatchewan, and a sale and leaseback of a NLC in Port Coquitlam, British Columbia, for net proceeds of $8.5 million and $22.4 million, respectively;
- During Q4 2016, the Company completed a real estate transaction for net proceeds of $62.1 million, which mainly consisted of a sale and leaseback of a retail store located in Kitchener, Ontario, and a lease termination of the office floors of the Toronto Eaton Centre located in Toronto, Ontario.
- Subsequent to Q4 2016, the Company completed the sale and leaseback of the NLC located in Ville St. Laurent, Quebec, for total consideration of $50.0 million less customary closing adjustments; and
- Subsequent to Q4 2016, the Company completed the sale and leaseback transaction of its retail store located in Regina, Saskatchewan, for total consideration of $7.0 million less customary closing adjustments.

SG&A

- The Company achieved annualized cost reductions of $159.6 million, which exceeded the upper range of the Company's target of $155.0 million in annualized cost reductions.

"Live Green" Initiatives

The Company conducts its operations with a commitment to achieving success on economic, social and environmental levels. The Company continues to build upon the following three-point plan on environmental sustainability:

1. Enable customers to "Live Green", reduce their energy bills and create a healthy home;
2. Reduce the environmental impact of Sears Canada's operations; and
3. Nurture a culture of sustainability among the Company's employees, customers and the communities in which the Company operates.

Sears continued to focus on these three priorities by implementing or continuing the following initiatives during Fiscal 2016:

- Reducing the Company's electricity consumption through the recommissioning of existing Building Automation systems, retrofitting exterior signs with LED modules and replacing selected HVAC units nationally. These efforts helped drive electricity consumption savings of 17.0 million kWh or 7.2% from January 2016 to December 2016, as compared to the same period in 2015, including the effect of store closures; and
- Sears Canada's recycling partner, GreenSpace Waste Solutions ("GreenSpace"), began handling the Company's recycling activities in June 2014. GreenSpace was selected for its ability to maximize the value of recycled materials and for its expertise in driving waste diversion activities. Even as commodity markets weakened and there were several store closures in 2016, total rebates for recyclables remained flat as compared to 2015 at over $697,000. GreenSpace has also improved reporting capabilities, which helps the Company track progress towards its long term waste diversion goals. As of the end of 2016, the Company's NLCs were diverting approximately 90% of their waste from landfill and the Company reduced its waste sent to landfill by over 700 metric tonnes compared to 2015.

Corporate Social Responsibility

The following is a summary of the results of the Company's and its employees' corporate social responsibility efforts during Fiscal 2016:

- Sponsored the ninth annual *Sears National Kids Cancer Ride* (the "Ride"), in cooperation with the Coast to Coast Against Cancer Foundation. This epic 7,000 km cycling journey rolled across Canada from September 10-26, raising funds and awareness for the fight against childhood cancer. This year, Sears, its customers and its associates raised or donated over $883,000 in funds, logistical support and services for the Ride;
- Hosted the 29th Annual Sears Boys & Girls Club of Canada ("BGCC") Golf Tournament near Toronto, in cooperation with our vendors, raising over $230,000 to support BGCC youth programs. Sears matched the funds raised for a total contribution of $460,000;
- Held the semi-annual "Gold Month" fundraiser to raise money for the fight against childhood cancer in May and November achieving $220,000 of donations;
- Coordinated an in-store campaign in support of the Canadian Red Cross Fort McMurray Relief Fund in May. $153,312 was raised to aid in the rebuilding effort, following the municipality's disastrous forest fires; and
- The *Sears Drama Festival* marked the 70th year of the Ontario festival, the eighth year of the British Columbia festival and the Atlantic region celebrated its sixth year with a special scholarship program. The Festival promotes a creative process that allows students to gather information, negotiate ideas, implement and execute a plan, draft a work and create a product, all while developing confidence, important life skills and a strong sense of self.

Including the above, Sears, its customers, vendors and its associates raised or facilitated the donation of approximately $5.3 million for various charitable organizations such as the Sir Edmund Hillary Foundation's annual fundraising event, Operation Wish and Opération Enfant Soleil through a variety of events and initiatives.

d. Outlook

The Canadian retail market remains highly competitive as key players and new entrants compete for market share. International retailers continue to expand into Canada while existing competitors enhance their product offerings and become direct competitors. The Company's competitors include traditional full-line department stores, discount department stores, wholesale clubs, 'big-box' retailers, internet retailers and specialty stores offering alternative retail formats. In order to stay competitive and relevant to our customers, the Company's strategic plan for 2017 centred on three pillars of change: product innovation, customer experience, and brand positioning.

The Company has had recurring operating losses and negative cash flows from operating activities in the last five fiscal years. In response, the Company has taken a number of actions to enhance its financial flexibility, to fund its ongoing business operations and to meet its obligations, including the monetization of real estate assets and joint venture interests and a recent borrowing. See Section 2 "Consolidated Financial Position, Liquidity and Capital Resources - Capital Resources". The Company also expects to pursue other near-term actions to bolster liquidity and fund ongoing business operations. If the Company continues to incur losses, additional actions may be required to maintain the liquidity to operate its business.

Although these initiatives and actions are intended to achieve sustainable growth for the Company, there can be no assurance that the Company will be able to successfully implement them or whether such initiatives or actions will yield the expected results. For a discussion of the risks and uncertainties inherent in the Company's business, see Section 9 "Risks and Uncertainties".

e. Use of Non-IFRS Measures, Measures of Operating Performance and Reconciliation of Net (Loss) Earnings to Adjusted EBITDA

The Company's Consolidated Financial Statements for Fiscal 2016 are prepared in accordance with IFRS. Management uses IFRS, non-IFRS and operating performance measures as key performance indicators to better assess the Company's underlying performance and provides this additional information in this MD&A.

Total same store sales is a measure of operating performance used by management, the retail industry and investors to compare retail operations, excluding the impact of store openings and closures. Total same store sales represents merchandise sales generated through operations in the Company's full-line department, Sears Home, Hometown, Outlet and Corbeil stores that were continuously open during both of the periods being compared. Core Retail same store sales represents merchandise sales generated through operations in the Company's full-line department and Sears Home stores (and exclude Hometown, Outlet and Corbeil, which are considered non-Core), that were continuously open during both of the periods being compared. More specifically, the same store sales metric compares the same calendar weeks for each period and represents the 13 and

52-week periods ended January 28, 2017 and January 30, 2016. The calculation of same store sales is a performance metric and may be impacted by store space expansion and contraction. The same store sales metric excludes the Direct channel.

A reconciliation of the Company's total merchandising revenue to total same store sales is outlined in the following table:

	Fourth Quarter		Fiscal	
(in CAD millions)	**2016**	2015	**2016**	2015
Total merchandising revenue	**$ 744.0**	$ 887.6	**$ 2,613.6**	$ 3,145.7
Non-comparable sales	**110.3**	194.1	**529.0**	708.5
Total same store sales	**633.7**	693.5	**2,084.6**	2,437.2
Percentage change in total same store sales	**1.3 %**	(1.6)%	**(4.3)%**	(2.3)%
Percentage change in total same store sales by category				
Apparel & Accessories	**(1.5)%**	0.4 %	**(5.9)%**	(4.6)%
Home & Hardlines	**4.0 %**	(3.5)%	**(3.3)%**	(0.7)%
Percentage change in Core Retail same store sales	**0.9 %**	(0.8)%	**(4.9)%**	(0.6)%
Percentage change in Core Retail same store sales by category				
Apparel & Accessories	**(1.7)%**	2.9 %	**(5.3)%**	(1.5)%
Home & Hardlines	**3.9 %**	(5.1)%	**(4.9)%**	— %

The Company has noted that the same stores sales metric of Core Retail is no longer a relevant disclosure for the readers of the MD&A as the merchandise sales between Core Retail and non-Core are not regularly reviewed by the Company for allocating resources and assessing performance. Therefore, the same stores sales metric of Core Retail will not be disclosed in the MD&A subsequent to Q4 2016.

Adjusted EBITDA is a non-IFRS measure and excludes finance costs, interest income, income tax expense or recovery, depreciation and amortization and income or expenses of a non-recurring, unusual or one-time nature. Adjusted EBITDA is a measure used by management, the retail industry and investors as an indicator of the Company's operating performance, ability to incur and service debt, and as a valuation metric. The Company uses Adjusted EBITDA to evaluate the operating performance of its business as well as an executive compensation metric. While Adjusted EBITDA is a non-IFRS measure, management believes that it is an important indicator of operating performance because it excludes the effect of financing and investing activities by eliminating the effects of interest and depreciation and removes the impact of certain non-recurring, unusual or one-time nature items that are not indicative of our ongoing operating performance. Therefore, management believes Adjusted EBITDA gives investors greater transparency in assessing the Company's results of operations.

A reconciliation of the Company's net (loss) earnings to Adjusted EBITDA is outlined in the following table:

	Fourth Quarter		Fiscal	
(in CAD millions, except per share amounts)	**2016**	2015	**2016**	2015
Net (loss) earnings	**$ (45.8)**	$ 30.9	**$ (321.0)**	$ (67.9)
Transformation expense[1]	**9.3**	9.7	**44.2**	16.5
Gain on termination of credit card arrangement[2]	**—**	(170.7)	**—**	(170.7)
Gain on lease termination and sale and leaseback transactions[3]	**(59.9)**	—	**(105.9)**	(67.2)
Gain on settlement of retirement benefits[4]	**—**	—	**—**	(5.1)
Assets held for sale impairment[5]	**2.3**	3.8	**7.3**	3.8
Other asset impairment[6]	**27.7**	74.6	**45.0**	74.6
Warehouse impairment reversal[7]	**—**	(15.1)	**—**	(15.1)
TBI costs[8]	**—**	—	**—**	6.4
Environmental remediation costs[9]	**(2.8)**	3.2	**(1.0)**	3.2
Lease exit costs[10]	**2.9**	—	**12.6**	—
Depreciation and amortization expense	**7.3**	11.1	**31.4**	48.4
Finance costs	**0.3**	2.1	**8.9**	9.7
Interest income	**(2.6)**	(0.3)	**(7.2)**	(2.3)
Income tax (recovery) expense	**(2.4)**	(0.5)	**2.8**	5.2
Adjusted EBITDA[11]	**$ (63.7)**	$ (51.2)	**$ (282.9)**	$ (160.5)
Basic net (loss) earnings per share	**$ (0.45)**	$ 0.30	**$ (3.15)**	$ (0.67)

1 *Transformation expense during 2016 and 2015 relates primarily to severance costs incurred during the period. These costs are included in "Selling, administrative and other expenses" in the Company's Consolidated Financial Statements for Fiscal 2016.*

2 *Gain on termination of credit card arrangement represents the net gain on the sale of JPMorgan Chase's portfolio of credit card accounts and related receivables related to the Sears credit card and Sears Mastercard during 2015, described in Note 27 "Gain on termination of credit card arrangement" in the Company's Consolidated Financial Statements for Fiscal 2016.*

3 *Gain on lease termination and sale and leaseback transactions represents the net gain related to a lease termination and selling and leasing back certain properties owned by the Company during Fiscal 2016 and Fiscal 2015, described in Note 26 "Gain on lease termination and sale and leaseback transactions" in the Company's Consolidated Financial Statements for Fiscal 2016.*

4 *Gain on settlement of retirement benefits relates to the settlement of retirement benefits of eligible members covered under the non-pension retirement plan during Q1 2015, described in Note 19 "Retirement benefit plans" in the Company's Consolidated Financial Statements for Fiscal 2016.*

5 *Assets held for sale impairment represents the charge related to writing down the carrying value of the property, plant and equipment of one retail store and certain logistics centres to fair value less costs to sell, described in Note 28 "Assets classified as held for sale" in the Company's Consolidated Financial Statements for Fiscal 2016.*

6 *Other asset impairment represents the charge related to writing down the carrying value of the property, plant and equipment and intangibles of certain cash generating units during 2016 and 2015, described in Note 9 "Property, plant and equipment and investment properties" and Note 10 "Intangible assets" in the Company's Consolidated Financial Statements for Fiscal 2016.*

7 *Warehouse impairment reversal represents the partial reversal during 2015 of the charge related to writing down the carrying value of the property, plant and equipment of the Montreal warehouse during 2014 to fair value less costs to sell, described in Note 9 "Property, plant and equipment and investment properties" in the Company's Consolidated Financial Statements for Fiscal 2016.*

8 *TBI costs represent the estimated costs to the Company related to TravelBrands Inc. (a licensee of the Company) filing for creditor protection during 2015, described in Note 14 "Financial instruments" in the Campany's Consolidated Financial Statements for Fiscal 2015.*

9 *Environmental remediation costs in Fiscal 2015 relate to estimated costs required to restore the Park Street Logistics Centre located in Regina, in order to sell the property in Fiscal 2016. Reversals of environmental remediation costs were made in Fiscal 2016 based on actual environmental remediation costs incurred. These costs were included in "Selling, administrative and other expenses" in the Company's Consolidated Financial Statements for Fiscal 2016. The Park Street Logistics Centre was sold during Fiscal 2016, described in Note 26 "Gain on lease termination and sale and leaseback transactions" in the Company's Consolidated Financial Statements for Fiscal 2016.*

10 *Lease exit costs relate primarily to costs incurred to exit certain properties during Fiscal 2016. These costs were included in "Selling, administrative and other expenses" in the Company's Consolidated Financial Statements for Fiscal 2016.*

11 *Adjusted EBITDA is a measure used by management, the retail industry and investors as an indicator of the Company's operating performance, ability to incur and service debt, and as a valuation metric. Adjusted EBITDA is a non-IFRS measure.*

Adjusted EBITDA and total same store sale metrics do not have any standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other reporting issuers. Adjusted EBITDA and total same store sales metrics should not be considered in isolation or as alternatives to measures prepared in accordance with IFRS.

f. Consolidated Financial Results

(in CAD millions)		Fiscal 2016	% Chg 2016 vs 2015	2015
Revenue	$	**2,613.6**	(16.9)% $	3,145.7
Cost of goods and services sold		**1,900.5**	(11.4)%	2,145.9
Selling, administrative and other expenses		**1,135.5**	(12.5)%	1,298.1
Operating loss		**(422.4)**	(41.6)%	(298.3)
Gain on lease termination and sales and leaseback transactions		**105.9**	57.6 %	67.2
Gain on termination of credit card arrangement		—	(100.0)%	170.7
Gain on settlement of retirement benefits		—	(100.0)%	5.1
Finance costs		**8.9**	(8.2)%	9.7
Interest income		**7.2**	213.0 %	2.3
Loss before income taxes		**(318.2)**	(407.5)%	(62.7)
Income tax expense		**2.8**	(46.2)%	5.2
Net loss	$	**(321.0)**	(372.8)% $	(67.9)

2016 compared with 2015 – Total revenue in Fiscal 2016 decreased by 16.9% to $2,613.6 million compared to $3,145.7 million during the same period in Fiscal 2015. The revenue in Fiscal 2016 relating to Home & Hardlines decreased by $333.0 million, or 22.6%, compared to the same period in Fiscal 2015, due to sales declines in all product categories. Included in the total revenue decrease in Fiscal 2016 for Home & Hardlines was a $137.4 million decrease in Direct channel sales due to a decrease in catalogues, catalogue pages and distribution, as well as challenges experienced with the launch of the new website, and a $121.0 million decrease in retail store sales due to store closures during and subsequent to Fiscal 2015. The revenue in Fiscal 2016 relating to Apparel & Accessories decreased by $114.2 million, or 10.3%, compared to Fiscal 2015, due to sales declines in all product categories. Included in the total revenue decrease in Fiscal 2016 for Apparel & Accessories was a $65.6 million decrease in Direct channel sales due to a decrease in catalogues, catalogue pages and distribution, as well as challenges experienced with the launch of the new website, and a $15.5 million decrease in retail store sales due to store closures during and subsequent to Fiscal 2015. Commission and licensee revenue decreased by $75.7 million, or 70.0%, compared to Fiscal 2015, primarily due to reduced revenues after the termination of the credit card marketing and servicing agreement with JPMorgan Chase in November 2015. Services and other revenue decreased by $8.0 million or 3.3%, compared to Fiscal 2015, primarily due to reduced shipping fees on sales to customers through our Direct channel and Sears Home stores due to store closures.

Total same store sales decreased by 4.3%, while same store sales in Core Retail stores decreased by 4.9% in Fiscal 2016 compared to Fiscal 2015. The same store sales decline was primarily due to a decrease in major appliances due in part to the loss of customer financing solutions with the termination of the credit card marketing and servicing agreement with JPMorgan Chase in November 2015. The decline in the same store sales was also due to a decrease in overall transactions after elevated levels of loyalty point redemptions in Q3 2015 in anticipation of the impending termination of the credit card agreement. Total same store sales in Home & Hardlines decreased by 3.3% while same store sales in Home & Hardlines in Core Retail stores decreased by 4.9% in Fiscal 2016 compared to Fiscal 2015. Total same store sales in Apparel & Accessories decreased by 5.9% while same store sales in Apparel & Accessories in Core Retail stores decreased by only 5.3% in Fiscal 2016 compared to Fiscal 2015.

Total revenue recognized from points redemption under the loyalty program in Fiscal 2016 was $22.7 million (Fiscal 2015: $45.6 million). Total revenue deferred related to points issuances was $18.7 million (Fiscal 2015: $44.5 million), resulting in a net increase of $2.9 million as compared to Fiscal 2015, primarily due to lower point issuances partially offset by lower point redemptions.

Cost of goods and services sold was 11.4% lower in Fiscal 2016 compared to Fiscal 2015. The decrease was primarily attributable to lower sales volumes which included the effect of store closures during and subsequent to Fiscal 2015.

The Company's gross margin rate was 27.3% in Fiscal 2016 compared to 31.8% in Fiscal 2015. The decrease in the gross margin rate in Fiscal 2016 was impacted by the termination of the credit card marketing and servicing agreement with JPMorgan Chase which reduced the gross margin by $67.8 million, the weakening of the Canadian dollar compared to the U.S. dollar which reduced the gross margin by $63.8 million, and the expenses incurred to resolve customer delivery issues noted during the holiday season which reduced the gross margin by $6.6 million.

Selling, administrative and other expenses, including depreciation and amortization expense, decreased by $162.6 million or 12.5% to $1,135.5 million in Fiscal 2016 compared to Fiscal 2015. Excluding transformation expenses of $44.2 million in Fiscal 2016 (Fiscal 2015: $16.5 million), impairment charges and other non-recurring items in Fiscal 2016 and Fiscal 2015 as shown in the reconciliation of the Company's net (loss) earnings to Adjusted EBITDA in Section 1.e. "Use of Non-IFRS Measures, Measures of Operating Performance and Reconciliation of Net (Loss) Earnings to Adjusted EBITDA", selling, administrative and other expenses decreased by $181.3 million or 15.0%, in Fiscal 2016 compared to Fiscal 2015. The decrease in expenses, excluding non-recurring, unusual or one-time nature, was primarily attributable to a release of sales tax provision, lower spending on advertising, payroll and rent, as well as lower depreciation expenses. Advertising expense decreased primarily due to reductions in catalogues and circulation. Payroll expense decreased primarily due to a reduced number of employees, as a result of store closures and transformation activities in Fiscal 2016 and Fiscal 2015. Rent expense decreased primarily due to store closures during and subsequent to Fiscal 2015.

Depreciation and amortization expense in Fiscal 2016 decreased by $17.0 million to $31.4 million compared to Fiscal 2015, primarily due to the impairment of certain assets in Fiscal 2015 and the completion of the sale and leaseback transactions during Fiscal 2016 (see Note 26 "Gain on lease termination and sale and leaseback transactions" of the Notes to the Consolidated Financial Statements for Fiscal 2016 for additional information). The Company regularly monitors the business for indicators of impairment, and assesses the potential impact to the carrying value of our assets on a quarterly basis. See Note 9 "Property, plant and equipment and investment properties", Note 10 "Intangible assets" and Note 28 "Assets classified as held for sale" of the Notes to the Consolidated Financial Statements for Fiscal 2016 for additional information regarding impairment charges.

During Q4 2016, the Company completed a real estate transaction for net proceeds of $62.1 million, which mainly consisted of a sale and leaseback of a retail store located in Kitchener, Ontario, and a lease termination of the office floors of the Toronto Eaton Centre located in Toronto, Ontario. During Q4 2016, the Company completed the sale of the Broad Street NLC in Regina, Saskatchewan, and a sale and leaseback of a NLC in Port Coquitlam, British Columbia, for net proceeds of $8.5 million and $22.4 million, respectively. During Q3 2016, the Company completed the sale of its Park Street NLC located in Regina, Saskatchewan, for net proceeds of $18.1 million. During Q1 2016, the Company completed the sale and leasebacks of its NLCs located in Calgary, Alberta and Vaughan, Ontario, for net proceeds of $83.9 million and $100.0 million, respectively. See Note 26 "Gain on lease termination and sale and leaseback transactions" in the Notes to the Consolidated Financial Statements for Fiscal 2016 for additional information.

Finance costs in Fiscal 2016 decreased by $0.8 million to $8.9 million compared to Fiscal 2015, primarily due to a decrease of $1.7 million in interest expense on prior year income tax reassessments, partially offset by an increase of $0.8 million in interest expense related to letters of credit outstanding against the Amended Credit Facility.

Interest income in Fiscal 2016 increased by $4.9 million to $7.2 million compared to Fiscal 2015, primarily due to a one-time interest of $2.7 million received on prior year income and capital tax reassessments and interest income of $1.7 million recognized on maturity of an investment.

Income tax expense in Fiscal 2016 decreased by $2.4 million to $2.8 million compared to $5.2 million in Fiscal 2015, primarily attributable to the recovery of income taxes paid related to fiscal years 2013 and 2014, due to the implementation of a loss monetization plan in Fiscal 2016.

Net loss in Fiscal 2016 was $321.0 million compared to $67.9 million in Fiscal 2015. The increase in the net loss was primarily due to a higher operating loss in Fiscal 2016 and a one-time gain on the termination of the credit card marketing and servicing agreement with JPMorgan Chase in Q4 2015.

Adjusted EBITDA in Fiscal 2016 was a loss of $282.9 million compared to a loss of $160.5 million in Fiscal 2015, an increase in the loss of $122.4 million. Adjusted EBITDA was negatively impacted by $76.2 million from the termination of the credit card marketing and servicing agreement with JPMorgan Chase, $59.5 million due to the weakening of the Canadian dollar compared to the U.S. dollar, and $24.3 million from expenses incurred for the Initium initiative and challenges experienced with the launch of the new website. These negative impacts were partially offset by a $23.0 million release of sales tax provision, a reduction of $14.9 million related to the closure of underperforming stores subsequent to Fiscal 2015, and a decrease of $5.6 million in severance costs which were not included in transformation expense. Excluding the impact of these items, Adjusted EBITDA for Fiscal 2016 declined by $5.9 million compared to Fiscal 2015. Adjusted EBITDA is a non-IFRS measure.

g. Fourth Quarter Results

		Fourth Quarter			
(in CAD millions)		**2016**	% Chg 2016 vs 2015		2015
Revenue	$	**744.0**	(16.2)%	$	887.6
Cost of goods and services sold		**560.6**	(11.4)%		632.5
Selling, administrative and other expenses		**293.8**	(25.4)%		393.6
Operating loss		**(110.4)**	20.3 %		(138.5)
Gain on lease termination and sale and leaseback transactions		**59.9**	100.0 %		—
Gain on termination of credit card arrangement		—	(100.0)%		170.7
Finance costs		**0.3**	(85.7)%		2.1
Interest income		**2.6**	766.7 %		0.3
(Loss) earnings before income taxes		**(48.2)**	(258.6)%		30.4
Income tax recovery		**2.4**	380.0 %		0.5
Net (loss) earnings	$	**(45.8)**	(248.2)%	$	30.9

Q4 2016 compared with Q4 2015 – Total revenue in Q4 2016 decreased by 16.2% to $744.0 million compared to $887.6 million in Q4 2015. The revenue in Q4 2016 relating to Home & Hardlines decreased by $101.4 million, or 25.8%, compared to Q4 2015, due to sales declines in all product categories. Included in the total revenue decrease in Q4 2016 for Home & Hardlines was a $61.2 million decrease in Direct channel sales primarily due to a decrease in catalogues, catalogue pages and distribution as well as challenges experienced with the launch of the new website, and a $45.3 million decrease in retail store sales due to store closures subsequent to the end of Q4 2015. The revenue in Q4 2016 relating to Apparel & Accessories decreased by $38.4 million, or 10.4% compared to Q4 2015, due to sales declines in all product categories. Included in the total revenue decrease in Q4 2016 for Apparel & Accessories was a $24.6 million decrease in Direct channel sales primarily due to a decrease in catalogues, catalogue pages and distribution as well as challenges experienced with the launch of the new website, and a $9.2 million decrease in retail store sales due to store closures subsequent to the end of Q4 2015. Included in the total revenue decrease in Q4 2016 was a decrease in Commission and licensee revenue of $4.4 million, or 31.9%, compared to Q4 2015, primarily due to reduced revenues after the termination of the credit card marketing and servicing agreement with JPMorgan Chase in November 2015. Refer to Note 27 "Gain on termination of credit card arrangement" of the Notes to the Consolidated Financial Statements for Fiscal 2016 for additional information.

Total same store sales increased by 1.3%, while same store sales in Core Retail stores increased by 0.9% in Q4 2016 compared to Q4 2015. The increase in same store sales was primarily due to the dynamic pricing programs for major appliances and mattresses, and the adjustments made to general pricing, product assortment and brand matrix to better align to the market and customer preferences. Total same store sales in Home & Hardlines increased by 4.0% and same store sales in Home & Hardlines in Core Retail stores increased by 3.9% in Q4 2016 compared to Q4 2015. Total same store sales in Apparel & Accessories decreased by 1.5% and same store sales in Apparel & Accessories in Core Retail stores decreased by 1.7% in Q4 2016 compared to Q4 2015.

Total revenue recognized from points redemption under the loyalty program in Q4 2016 was $3.3 million (Q4 2015: $2.1 million). Total revenue deferred related to points issuances in Q4 2016 was $3.1 million (Q4 2015: $5.2 million), resulting in a net increase of $3.3 million as compared to Q4 2015, primarily due to lower points issuance partially offset by lower points redemption.

Cost of goods and services sold was 11.4% lower in Q4 2016 compared to Q4 2015. This decrease was primarily attributable to lower sales volumes which included the impact of store closures subsequent to the end of Q4 2015.

The Company's gross margin rate was 24.7% in Q4 2016 compared to 28.7% in Q4 2015. The decrease in the gross margin rate in Q4 2016 was impacted by the weakening of the Canadian dollar compared to the U.S. dollar which reduced the gross margin by $11.9 million, the expenses incurred to resolve customer delivery issues noted during the holiday season which reduced the gross margin by $6.6 million, and the termination of the credit card marketing and servicing agreement with JPMorgan Chase which reduced the gross margin by $3.5 million.

Selling, administrative and other expenses, including depreciation and amortization expense decreased by $99.8 million or 25.4% to $293.8 million in Q4 2016 compared to Q4 2015. Excluding transformation expenses of $9.3 million in Q4 2016 (Q4 2015: $9.7 million), impairment charges and other non-recurring items in Q4 2016 as shown in the reconciliation of the Company's net (loss) earnings to Adjusted EBITDA in Section 1.e. "Use of Non-IFRS Measures, Measures of Operating Performance and Reconciliation of Net (Loss) Earnings to Adjusted EBITDA", selling, administrative, and other expenses decreased by $63.0 million, or 19.8%, in Q4 2016 compared to Q4 2015. The decrease in expenses, excluding non-recurring items, was primarily attributable to a release of sales tax provision, lower spending on advertising, payroll and rent, as well as lower depreciation expenses. Advertising expense decreased primarily due to a reduction in catalogues and distribution. Payroll expense decreased primarily due to a reduced number of employees, as a result of store closures and transformation activities in Fiscal 2016 and Fiscal 2015. Rent expense decreased primarily due to store closures during and subsequent to Fiscal 2015.

Depreciation and amortization expense in Q4 2016 decreased by $3.8 million, compared to Q4 2015, primarily due to the impairment of certain assets in Fiscal 2015 and the completion of the sale and leaseback transactions during Fiscal 2016 (see Note 26 "Gain on lease termination and sale and leaseback transactions" of the Notes to the Consolidated Financial Statements for Fiscal 2016 for additional information). The Company regularly monitors the business for indicators of impairment, and assesses the potential impact to the carrying value of our assets on a quarterly basis. See Note 9 "Property, plant and equipment and investment properties", Note 10 "Intangible assets" and Note 28 "Assets classified as held for sale" of the Notes to the Consolidated Financial Statements for Fiscal 2016 for additional information regarding impairment charges.

Finance expense in Q4 2016 decreased to $0.3 million, compared to $2.1 million in Q4 2015, primarily due to a reversal of accrued interest on a sales tax provision of $1.5 million and a decrease of $0.6 million in interest expense on prior year income tax reassessments, partially offset by an increase of $0.3 million in interest expense related to letters of credit outstanding against the Amended Credit Facility.

Interest income in Q4 2016 increased to $2.6 million compared to $0.3 million in Q4 2015, primarily due to a one-time interest of $0.7 million received on prior year capital tax reassessments and interest income of $1.7 million recognized on maturity of an investment.

Income tax recovery increased to $2.4 million in Q4 2016 compared to $0.5 million in Q4 2015. The increase in Q4 2016 was primarily due to the recovery of income taxes paid related to fiscal years 2013 and 2014, from the implementation of a loss monetization plan in Fiscal 2016.

Net loss in Q4 2016 was $45.8 million compared to net earnings of $30.9 million in Q4 2015. The increase in the net loss was primarily due to a one-time gain on the termination of the credit card marketing and servicing agreement with JPMorgan Chase in Q4 2015.

Adjusted EBITDA in Q4 2016 was a loss of $63.7 million, compared to a loss of $51.2 million in Q4 2015, an increase in the loss of $12.5 million. Adjusted EBITDA was positively impacted by a $23.0 million release of sales tax provision, a reduction of $16.4 million related to the closure of underperforming stores subsequent to Q4 2015 and a decrease of $0.3 million in severance costs which were not included in transformation expense. The positive impacts were partially offset by $15.6 million from expenses incurred for the Initium initiative and challenges experienced with the launch of the new website, $9.9 million due to the weakening of the Canadian dollar compared to the U.S dollar, and $1.4 million from the termination of the credit card marketing and servicing agreement with JPMorgan Chase. Excluding the impact of these items, Adjusted EBITDA for Q4 2016 declined by $25.3 million compared to Q4 2015. Adjusted EBITDA is a non-IFRS measure.

2. Consolidated Financial Position, Liquidity and Capital Resources

Current assets as at January 28, 2017 were $1,005.3 million, which was $128.4 million lower than as at January 30, 2016. The decrease was primarily due to a $78.1 million decrease in cash, a $66.3 million decrease in inventory primarily due to reduced inventory levels from store closures and improved inventory purchase management and a $23.6 million decrease in income taxes recoverable primarily due to refunds received related to carry back of losses generated by the Company from Fiscal 2014 and a settlement with tax authorities for fiscal years 2005 to 2008. The decreases were partially offset by a $34.9 million increase in assets classified as held for sale due to a reclassification of capital assets to assets held for sale for proposed sale transactions which are expected to close within the next 12 months, described in Note 28 "Assets classified as held for sale" of the Notes to the Consolidated Financial Statements for Fiscal 2016.

Current liabilities as at January 28, 2017 were $544.7 million, which was $46.0 million lower than as at January 30, 2016. The decrease was primarily due to a $12.9 million decrease in accounts payable and accrued liabilities related to improved inventory purchase management and a reduction in advertising and bonus accruals, and a $22.2 million decrease in deferred revenue primarily due to a decrease in points issuances under the loyalty program and lower unshipped sales.

Inventories were $598.5 million as at January 28, 2017, compared to $664.8 million as at January 30, 2016. The $66.3 million decrease in the inventory balance is primarily due to reduced inventory levels related to store closures and improved inventory purchase management.

Total cash was $235.8 million as at January 28, 2017, as compared to $313.9 million as at January 30, 2016. The decrease of $78.1 million was primarily due to cash used for operating activities. The impact of these decreases were partially offset by net proceeds received from lease termination and sale and leaseback transactions described in Note 26 "Gain on lease termination and sale and leaseback transactions" of the Notes to the Consolidated Financial Statements for Fiscal 2016.

Total assets and liabilities as at the end of Fiscal 2016 and Fiscal 2015 are as follows:

(in CAD millions)		**As at January 28, 2017**		As at January 30, 2016
Total assets	**$**	**1,244.4**	$	1,633.2
Total liabilities	**$**	**1,022.2**	$	1,079.0

Total assets as at January 28, 2017 decreased by $388.8 million to $1,244.4 million compared to $1,633.2 million as at January 30, 2016, primarily due to decreases in property plant and equipment, intangible assets, and investment properties of $214.7 million resulting from impairment and the sale and leaseback transactions, decreases in income taxes recoverable of $23.6 million, cash of $78.1 million and inventories of $66.3 million, partially offset by an increase in assets classified as held for sale of $34.9 million.

Total liabilities as at January 28, 2017 decreased by $56.8 million to $1,022.2 million compared to $1,079.0 million as at January 30, 2016, primarily due to decreases in accounts payable and accrued liabilities of $12.9 million, provisions of $14.2 million, deferred revenue of $27.0 million, and retirement benefit liability of $18.3 million resulting from contributions to the retirement benefit plans by the Company exceeding the retirement benefits plans expense for Fiscal 2016, described in Note 19 "Retirement benefits plans" of the Consolidated Financial Statements for Fiscal 2016. The decrease in total liabilities was partially offset by an increase in other long-term liabilities of $15.9 million, primarily due to the deferred gain on the sale and leaseback transactions described in Note 26 "Gain on lease termination and sale and leaseback transactions" of the Notes to the Consolidated Financial Statements for Fiscal 2016.

Cash flow used for operating activities - Cash flow used for operating activities increased by $139.9 million in Fiscal 2016 to $341.4 million, as compared to cash flow used for operating activities of $201.5 million in Fiscal 2015. The Company's primary source of operating cash flow is the sale of goods and services to customers and the primary use of cash in operating activities is the purchase of merchandise inventories. The increase in cash used for operating activities was primarily attributable to a higher net loss, after adjusting for the gain on termination of the credit card marketing and servicing agreement with JPMorgan Chase for both periods, and lower tax refunds received in Fiscal 2016.

Cash flow generated from investing activities - Cash flow generated from investing activities was $270.7 million in Fiscal 2016, as compared to cash flow generated from investing activities of $258.9 million in Fiscal 2015. The increase of $11.8 million in cash generated from investing activities was primarily due to an increase of $165.0 million in net proceeds from lease termination and sale and leaseback transactions and an increase of $18.0 million from lower purchases of property, plant and equipment and intangible assets, partially offset by a decrease of $174.0 million in proceeds on termination of the credit card marketing and servicing agreement with JPMorgan Chase.

Cash flow used for financing activities - Cash flow used for financing activities of $5.6 million in Fiscal 2016 was comparable to Fiscal 2015.

Contractual Obligations

Contractual obligations, including payments due over the next five fiscal years and thereafter, are shown in the following table:

(in CAD millions)	Carrying Amount	Total	Contractual Cash Flow Maturities Within 1 year	1 year to 3 years	3 years to 5 years	Beyond 5 years
Accounts payable and accrued liabilities	$ 319.8	$ 319.8	$ 319.8	$ —	$ —	$ —
Finance lease obligations including payments due within one year[1]	20.3	24.6	5.0	9.9	6.9	2.8
Operating lease obligations[2]	—	380.2	82.9	135.5	85.8	76.0
Royalties[2]	—	11.6	3.1	5.9	2.6	—
Purchase agreements[2,3]	—	22.4	15.2	6.7	0.5	—
Retirement benefit plans obligations[4]	308.6	207.4	47.9	88.4	71.1	—
	$ 648.7	**$ 966.0**	**$ 473.9**	**$ 246.4**	**$ 166.9**	**$ 78.8**

1 *Cash flow maturities related to finance lease obligations, including payments due within one year, include annual interest on finance lease obligations at a weighted average rate of 7.7%.*

2 *Operating lease obligations, royalties and certain purchase agreements are not reported in the Consolidated Statements of Financial Position.*

3 *Certain vendors require minimum purchase commitment levels over the term of the contract. A portion of these obligations are included in "Other long-term liabilities" in the Consolidated Statements of Financial Position.*

4 *Payments are based on a funding valuation as at December 31, 2015 which was completed on September 27, 2016. Any obligation beyond 2021 would be based on a funding valuation to be completed as at December 31, 2018 or earlier at the Company's discretion.*

Retirement Benefit Plans

The Company currently maintains a hybrid registered pension plan with a defined benefit component and a defined contribution component which covers eligible, regular full-time employees as well as some of its part-time employees. The defined benefit component provides pensions based on length of service and final average earnings. In addition to a registered retirement savings plan, the pension plan includes a non-registered supplemental savings arrangement in respect to the defined benefit component. The non-registered portion of the plan is maintained to enable certain employees to continue saving for retirement in addition to the registered limit as prescribed by the Canada Revenue Agency. The Company also maintains a defined benefit non-pension retirement plan which provides life insurance, medical and dental benefits to eligible retired employees through a health and welfare trust ("Other Benefits Plan"). Also provided for under the health and welfare trust are short-term disability payments for active employees.

In Fiscal 2016, the Company's retirement benefit plan obligations decreased by $18.3 million to $308.6 million compared to Fiscal 2015 primarily due to the contributions to the retirement benefit plans by the Company exceeding the retirement benefit plans expense for Fiscal 2016.

In December 2013, the Company amended the early retirement provision of its defined benefit plan to eliminate a benefit for employees who voluntarily resign prior to age of retirement, with effect January 1, 2015. In addition, the Company amended the defined benefit plan for improvements that increase portability of employee benefits, with effect March 1, 2014. In December 2013, the Company froze the benefits offered under the Other Benefits Plan to benefits levels as at January 1, 2015. Refer to Note 19 "Retirement benefit plans" of the Notes to the Consolidated Financial Statements for Fiscal 2016 for more details.

During Fiscal 2015, the Company made a voluntary offer to settle medical and dental benefits of eligible members covered under the Other Benefits plan. The Company paid $4.0 million to settle acceptances from the Other Benefits plan offer and recorded a pre-tax gain on settlement of retirement benefits of $5.1 million ($5.4 million settlement gain less fees of $0.3 million) during Fiscal 2015 related to these offers. This payment is included in "Retirement benefit plans contributions" in the Consolidated Statements of Cash Flows. To determine the settlement gain, the Other Benefits plan was remeasured as at the date of settlement, which also resulted in a $2.0 million increase to "Other comprehensive income (loss)" ("OCI").

The Company measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at January 31. The most recent actuarial valuation of the pension plan for funding purposes is dated December 31, 2015, which was completed on September 27, 2016. An actuarial valuation of the health and welfare trust is performed at least every three years, with the last valuation completed as of January 31, 2014.

During Fiscal 2016, the Company changed the target asset allocation to 50-70% fixed income and 30-50% equity for the defined benefit registered pension plan. For the assets in the health and welfare trust, included in Other Benefits Plan, the asset allocation is 100% fixed income. As at the end of Fiscal 2016 and 2015, the assets were in line with the target allocation range. The asset allocation may be changed from time to time in terms of weighting between fixed income, equity and other asset classes as well as within the asset classes themselves.

The plan's target allocation is determined taking into consideration the amounts and timing of projected liabilities, the Company's funding policies and expected returns on various asset classes. To develop the expected long-term rate of return on assets assumption, the Company considered the historical returns and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio.

Capital Resources

The Company's capital expenditures, working capital needs, debt repayment and other financing needs are funded primarily through cash generated from operations, existing cash on hand, asset sales and its credit facilities as described below. In selecting appropriate funding choices, the Company's objective is to manage its capital structure in such a way as to diversify its funding sources, while minimizing its funding costs and risks. The Company's cost of funding is affected by general economic conditions, including the overall interest rate environment, as well as the Company's financial performance, credit ratings and fluctuations of its credit spread over applicable reference rates.

The Company's debt consists of finance lease obligations and two credit facilities. In September 2010, the Company entered into an $800.0 million senior secured long-term revolving credit facility with a syndicate of lenders with a maturity date of September 10, 2015. On May 28, 2014, the Company announced that it had extended the term of that facility to May 28, 2019 and reduced the total credit limit to $300.0 million (the "Amended Credit Facility"). The Amended Credit Facility is secured by a first lien on inventory, credit card receivables and certain ancillary assets.

Availability under the Amended Credit Facility is determined pursuant to a borrowing base formula, up to a maximum availability of $300.0 million. Availability under the Amended Credit Facility was $192.3 million as at January 28, 2017 (January 30, 2016: $120.1 million). In 2013, as a result of judicial developments relating to the priorities of defined benefit pension liabilities relative to certain secured obligations, the Company provided additional security to the lenders by pledging certain real estate assets as collateral, thereby partially reducing the potential reserve amount the lenders could apply. As at January 28, 2017, four properties in Canada had been pledged to the lenders under the Amended Credit Facility. The reserve amount may increase or decrease in the future based on changes in estimated net pension deficits in the event of a wind-up, and based on the value of real estate assets pledged as additional collateral. The Amended Credit Facility contains covenants which are customary for facilities of this nature and the Company was in compliance with all covenants as at January 28, 2017.

As at January 28, 2017, the Company had no funded borrowings under the Amended Credit Facility and had unamortized transaction costs associated with the Amended Credit Facility of $2.4 million included in "Other long-term assets" in the Consolidated Statements of Financial Position (January 30, 2016: no funded borrowings and unamortized transaction costs of $3.2 million included in "Other long-term assets"). The Company had $107.7 million (January 30, 2016: $63.3 million) of letters of credit outstanding under the Amended Credit Facility. These letters of credit cover various payment obligations. Interest on drawings under the Amended Credit Facility and letter of credit fees are determined based on bankers' acceptance rates for one to three month terms or the prime rate plus a spread. Interest amounts on the Amended Credit Facility are due monthly.

As at January 28, 2017, the Company had no outstanding merchandise letters of credit (January 30, 2016: U.S. $4.8 million) used to support the Company's offshore merchandise purchasing program with restricted cash pledged as collateral.

On March 20, 2017, the Company entered into a separate Credit Agreement (the "Term Credit Agreement") with a different syndicate of lenders for a five-year secured term loan of up to $300.0 million (the "Term Loan"). The Term Loan is available in two tranches: a first tranche of $125.0 million, which was drawn in full on March 20, 2017, and a second tranche of up to a further $175.0 million (to be secured by qualifying owned and leased real estate), which is available to be drawn at the Company's option, subject to the satisfaction of various conditions, including receipt by the lenders of satisfactory appraisals and environmental reports. The first tranche is secured on a subordinated basis behind the Amended Credit Facility on inventory, credit card receivables and other assets securing that facility, and the second tranche will be secured by a first charge on owned and leased real estate that is to be mutually agreed and which satisfies eligibility criteria. The Term Loan is also secured by a further lien on the Company's furniture, fixtures and equipment. The Term Loan is available for general corporate purposes. The Term Credit Agreement includes a requirement for mandatory repayments to the extent the loan outstanding exceeds the lesser of the amount determined by reference to the borrowing base minus reserves and $300.0 million or if the Company's liquidity falls below an agreed upon level. The Term Credit Agreement also includes certain prepayment penalties. The Term Credit Agreement contains other covenants which are customary for a loan of this nature.

Interest on drawings under the Term Credit Agreement and letter of credit fee are determined based on the LIBOR rate or the prime rate plus a spread. Interest amounts on the Term Credit Agreement are due monthly.

The respective rights of the lenders under the Term Credit Agreement and the lenders under the Amended Credit Facility as to the security and the priority of their security are governed by an intercreditor agreement between each group of lenders.

The Company has had recurring operating losses and negative cash flows from operating activities in the last five fiscal years, with net losses beginning in 2014. In response, the Company has taken a number of actions to enhance its financial flexibility, to fund its ongoing business operations and to meet its financial obligations, including the monetization of real estate assets and joint venture interests and the recent drawdown under the Term Credit Agreement. The Company expects to pursue other near-term actions to bolster liquidity and fund ongoing business operations. If the Company continues to incur losses, additional measures may be required to maintain the liquidity necessary to operate its business. The success of the Company's strategic plan for 2017 is subject to risks and uncertainties with respect to market conditions and other factors that may cause the Company's actual results, cash flow and performance to differ materially from its plans. The Company cannot be sure that cash flows and other internal and external sources of liquidity (including, if available, the second tranche of up to $175.0 million under the Term Credit Agreement) will at all times be sufficient for its ongoing cash requirements in 2017 or thereafter. If necessary, the Company may need to consider additional actions and steps to improve its cash position and address any potential liquidity shortfall, including further asset monetization transactions and seeking additional external sources of financing. The specific actions taken or assets involved, the timing, and the overall amounts involved will depend on a variety of factors, including market conditions, interest in specific assets, the market valuations of those assets and the Company's underlying operating performance.

3. Financial Instruments

The Company is exposed to credit, liquidity and market risk as a result of holding financial instruments. Market risk consists of foreign exchange, interest rate risk, fuel price and natural gas price risk. See Note 13 "Financial instruments" of the Notes to the Consolidated Financial Statements for Fiscal 2016 for additional information.

Credit risk

Credit risk refers to the possibility that the Company can suffer financial losses due to the failure of the Company's counterparties to meet their payment obligations. Exposure to credit risk exists for derivative instruments, cash, accounts receivable and other long-term assets.

Cash, accounts receivable, derivative instruments and investments included in other long-term assets totaling $303.0 million as at January 28, 2017 (January 30, 2016: $381.2 million) expose the Company to credit risk should the borrower default on maturity of the instruments. The Company manages this exposure through policies that require borrowers to have a minimum credit rating of A, and limiting investments with individual borrowers at maximum levels based on credit rating.

The Company is exposed to minimal credit risk from third parties as a result of ongoing credit evaluations and review of accounts receivable collectability. An allowance account included in "Accounts receivable, net" in the Consolidated Statements of Financial Position, totaled $6.1 million as at January 28, 2017 (January 30, 2016: $6.0 million). As at January 28, 2017, no individual party represented 10.0% or more of the Company's net accounts receivable (January 30, 2016: no individual party represented 10.0% of the Company's net accounts receivable).

Liquidity risk

Liquidity risk is the risk that the Company may not have cash available to satisfy financial liabilities as they come due. See "Capital Resources".

Market risk

Market risk exists as a result of the potential for losses caused by changes in market factors such as foreign currency exchange rates, interest rates and commodity prices.

Foreign exchange risk

The Company enters into foreign exchange contracts to reduce the foreign exchange risk with respect to U.S. dollar denominated assets and liabilities and purchases of goods or services. As at January 28, 2017, there were forward contracts outstanding with a notional value of U.S. $82.0 million (January 30, 2016: U.S. $168.0 million) and a fair value of $0.6 million included in "Derivative financial liabilities" (January 30, 2016: $6.6 million included in "Derivative financial assets") in the Consolidated Statements of Financial Position. These derivative contracts have settlement dates extending to June 2017. The intrinsic value portion of these derivatives has been designated as a cash flow hedge for hedge accounting treatment under International Accounting Standards ("IAS") 39, *Financial Instruments: Recognition and Measurement* ("IAS 39"). These contracts are intended to reduce the foreign exchange risk with respect to anticipated purchases of U.S. dollar denominated goods purchased for resale ("hedged item"). As at January 28, 2017, the designated portion of these hedges was considered effective.

While the notional principal of these outstanding financial instruments is not recorded in the Consolidated Statements of Financial Position, the fair value of the contracts is included in "Derivative financial assets" or "Derivative financial liabilities", depending on the fair value, and classified as current or long-term, depending on the maturities of the outstanding contracts. Changes in the fair value of the designated portion of contracts are included in OCI for cash flow hedges, to the extent the designated portion of the hedges continues to be effective, with any ineffective portion included in "Cost of goods and services sold" in the Consolidated Statements of Net Loss and Comprehensive Loss. Amounts previously included in OCI are reclassified to "Cost of goods and services sold" in the same period in which the hedged item impacted net loss.

During Fiscal 2016, the Company recorded a gain of $1.1 million (2015: loss of $3.2 million), in "Selling, administrative and other expenses" in the Consolidated Statements of Net Loss and Comprehensive Loss, relating to the translation or settlement of U.S. dollar denominated monetary items consisting of cash, accounts receivable and accounts payable.

The year end exchange rate was 0.7612 U.S. dollars to one Canadian dollar. A 10% appreciation or depreciation of the U.S. dollar and/or the Canadian dollar exchange rate was determined to have an after-tax impact on net loss of less than $0.1 million for U.S. dollar denominated balances included in cash and accounts payable.

Interest rate risk

Interest rate risk reflects the sensitivity of the Company's financial condition to movements in interest rates. Financial assets and liabilities which do not bear interest or bear interest at fixed rates are classified as non-interest rate sensitive.

Net assets included in cash and other long-term assets, and borrowings under the Amended Credit Facility, when applicable, are subject to interest rate risk. The total subject to interest rate risk as at January 28, 2017 was a net asset of $235.8 million (January 30, 2016: net asset of $315.2 million). An increase or decrease in interest rates of 25 basis points would cause an after-tax impact on net loss of $0.4 million for net assets subject to interest rate risk included in cash and other long-term assets at the end of Fiscal 2016.

Fuel and natural gas price risk

The Company entered into fuel and natural gas derivative contracts to manage the exposure to diesel fuel and natural gas prices and help mitigate volatility in cash flow for the transportation service business and utilities expense, respectively. As at January 28, 2017, the fixed to floating rate swap contracts outstanding had a fair value of $0.1 million included in "Derivative financial assets" (January 30, 2016: less than $0.1 million included in "Derivative financial assets" in the Consolidated Statements of Financial Position). These derivative contracts have settlement dates extending to January 31, 2017 with monthly settlement of maturing contracts.

4. Funding Costs

The funding costs for the Company in Fiscal 2016 and Fiscal 2015 are outlined in the table below:

	Fourth Quarter		Fiscal	
(in CAD millions)	**2016**	2015	**2016**	2015
Interest costs				
Total long-term obligations at end of period[1]	**$ 20.3**	$ 24.2	**$ 20.3**	$ 24.2
Average long-term obligations for period[2]	**20.8**	24.6	**22.2**	26.1
Long-term funding costs[3]	**0.4**	0.4	**1.7**	1.9
Average rate of long-term funding	**7.7%**	6.5%	**7.7%**	7.3%

[1] *Includes current portion of long-term obligations.*

[2] *The average long-term obligations is calculated as an average of the opening and ending balances as at each reporting date throughout the period.*

[3] *Excludes standby fee on the unused portion of the Amended Credit Facility, amortization of debt issuance costs, accretion on the long-term portion of provisions, interest (recovered) accrued related to uncertain tax positions and sales tax assessments.*

See Section 2 "Consolidated Financial Position, Liquidity and Capital Resources" of this MD&A for a description of the Company's funding sources.

5. Related Party Transactions

As at April 26, 2017, ESL Investments, Inc., and investment affiliates including Edward S. Lampert, (collectively "ESL"), was the beneficial holder of 46,162,515 common shares, representing approximately 45.3%, of the Company's total outstanding common shares. Sears Holdings was the beneficial holder of 11,962,391 common shares, representing approximately 11.7% of the Company's total outstanding common shares.

Transactions in the ordinary course of business between the Company and Sears Holdings are recorded either at fair market value or the exchange amount, which was established and agreed to by the related parties. See Note 29 "Related party transactions" of the Notes to the Consolidated Financial Statements for Fiscal 2016 for additional information regarding these related party transactions.

Intangible Properties

The Company has a license from Sears, Roebuck and Co. (a wholly-owned subsidiary of Sears Holdings) to use the name "Sears" as part of its corporate name and other brand names including Kenmore® and DieHard®. The Company has established procedures to register and otherwise vigorously protect its intellectual property, including the protection of the Sears Holdings' trademarks used by the Company in Canada.

Concurrently with the sale by Sears Holdings of its Craftsman business, including the Craftsman® brand, to Stanley, Black & Decker, Inc., the Company's license agreement with Sears Holdings was amended to remove the Craftsman® brand and the Company entered into a trademark license agreement dated March 8, 2017 directly with Stanley, Black & Decker, Inc. for a non-exclusive license (the first 15 years of which are royalty free) to use the Craftsman® brand in Canada.

Software Agreement

The Company and Sears Holdings are parties to an information technology agreement for the sharing of information technology and software development, ownership and costs, which agreement, as amended October 7, 2014, terminated when Sears Holdings ceased to control 50% of the voting power of Sears Canada, subject to a three year transition period.

Import Services and Consulting Services

Pursuant to an agreement between Sears Holdings and the Company dated January 1, 1995, Sears Canada utilizes the international merchandise purchasing services of Sears Holdings. Sears Holdings may provide assistance to the Company with respect to monitoring and facilitating the production, inspection and delivery of imported merchandise and the payment to vendors. Sears Canada pays Sears Holdings a fee based on a stipulated percentage of the value of the imported merchandise. In Fiscal 2016, Sears Canada paid $2.8 million to Sears Holdings in connection with this agreement compared to $3.8 million in Fiscal 2015.

The Company and ESL are parties to an agreement where ESL will provide, when requested by the Company, investment, business and real estate consulting services to the Company. There will be no fees, expenses or disbursements payable by the Company to ESL for these services. No such services were requested during 2016.

Review and Approval

Material related party transactions are reviewed by the Audit Committee of the Company's Board of Directors (the "Audit Committee"). The Audit Committee is responsible for pre-approving all related party transactions that have a value greater than $1.0 million.

6. Shareholders' Equity

As at January 28, 2017, the total number of common shares issued and outstanding of the Company was 101,877,662 (January 30, 2016: 101,877,662), the total number of restricted share units ("RSUs") outstanding was 500,000 (January 30, 2016: nil) and the total number of options granted to acquire common shares outstanding was 67,000 (January 30, 2016: nil).

As at April 26, 2017, there were 101,877,662 common shares, 500,000 RSUs and 67,000 options outstanding.

7. Accounting Policies and Estimates

a. Critical Accounting Estimates

In the application of the Company's accounting policies, management is required to make judgments, estimates and assumptions with regards to the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

The following are the critical judgments that management has made in the process of applying the Company's accounting policies, key assumptions concerning the future and other key sources of estimation uncertainty that have the potential to materially impact the carrying amounts of assets and liabilities.

7.1 Legal liabilities

Assessing the financial outcome of uncertain legal positions requires judgment to be made regarding the relative merits of each claim and the extent to which a claim is likely to be successful. The assessments are based on reviews conducted by internal and external counsel, when appropriate.

Changes in estimates or assumptions could cause changes to "Provisions" on the Consolidated Statements of Financial Position and a charge or credit to "Selling, administrative and other expenses" in the Consolidated Statements of Net Loss and Comprehensive Loss. See Note 15 "Provisions" of the Notes to the Consolidated Financial Statements for Fiscal 2016 for additional information.

7.2 Inventory

7.2.1 Obsolescence, valuation and inventory stock losses

Inventory is written down to reflect future losses on the disposition of obsolete merchandise. Future losses are estimated based on historical trends that vary depending on the type of inventory.

An adjustment is made each period to value inventory at the lower of cost and net realizable value. This adjustment is estimated based on historical trends that vary depending on the type of inventory.

Inventory is adjusted to reflect estimated inventory stock losses incurred in the year based on recent historical inventory count data.

7.2.2 Vendor rebates

Inventory is adjusted to reflect vendor rebates received or receivable based on vendor agreements. This adjustment is estimated based on historical data and current vendor agreements.

7.2.3 Freight

Inbound freight incurred to bring inventory to its present location is estimated at each reporting period and is included in the cost of inventory. This estimate is based on historical freight costs incurred.

Changes in estimates may result in changes to "Inventories" on the Consolidated Statements of Financial Position and a charge or credit to "Cost of goods and services sold" in the Consolidated Statements of Net Loss and Comprehensive Loss. See Note 7 "Inventories" of the Notes to the Consolidated Financial Statements for Fiscal 2016 for additional information.

7.3 Impairment of property, plant and equipment and intangible assets

The Company's property, plant and equipment and intangible assets have been allocated to cash generating units ("CGU"). At the end of each reporting period, the carrying amounts of property, plant and equipment and intangible assets are assessed to determine if there is any evidence that an asset is impaired. Determining if there are any facts and circumstances indicating impairment loss is a subjective process involving judgment and a number of estimates and assumptions. If there are such facts and circumstances, the recoverable amount of the asset is estimated.

Assets that cannot be tested individually for impairment are grouped into the smallest group of assets that generates cash inflows through continued use that are largely independent of the cash inflows from other assets or groups of assets (CGU).

The recoverable amount of an asset or a CGU is the higher of its value in use and fair value less costs to sell. To determine value in use, expected future cash flows are discounted using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. In the process of measuring expected future cash flows, the Company makes assumptions about future operating profit. These assumptions relate to future events and circumstances. Although the assumptions are based on market information available at the time of the assessment, actual results may vary.

The Company's corporate and intangible assets do not generate separate cash flows. If there is evidence that a corporate or intangible asset is impaired, the recoverable amount is determined for the CGU to which the corporate asset belongs. Impairments are recorded when the carrying amount of the CGU to which the corporate asset belongs is higher than its recoverable amount.

Changes in estimates may result in changes to "Property, plant and equipment" and "Intangible assets" on the Consolidated Statements of Financial Position and a charge or credit to "Selling, administrative and other expenses" in the Consolidated Statements of Net Loss and Comprehensive Loss. See Note 9 "Property, plant and equipment and investment properties", Note 10 "Intangible assets", and Note 28 "Assets classified as held for sale" of the Notes to the Consolidated Financial Statements for Fiscal 2016 for additional information.

7.4 Retirement benefit liability

The retirement benefit liability is estimated based on certain actuarial assumptions, including the discount rate, inflation rate, salary growth and mortality rates. New regulations and market driven changes may impact the assumptions made.

Changes in estimates may result in changes to the "Retirement benefit liability" on the Consolidated Statements of Financial Position and a charge or credit to "Selling, administrative and other expenses" and OCI in the Consolidated Statements of Net Loss and Comprehensive Loss. See Note 19 "Retirement benefit plans" of the Notes to the Consolidated Financial Statements for Fiscal 2016 for additional information.

7.5 Loyalty program deferred revenue

The fair value of Sears Club points granted is deferred at the time of the related initial sale transaction and is recognized upon redemption of the points for merchandise. The redemption value of the points is estimated at the initial sale transaction, based on historical behaviour and trends in redemption rates and redemption values, as well as an adjustment for the percentage of points that are expected to be converted to reward cards, but for which the likelihood of redemption is remote ("reward card breakage").

Changes in estimates may result in changes to "Deferred revenue" (current) on the Consolidated Statements of Financial Position and an increase or decrease to "Revenue" in the Consolidated Statements of Net Loss and Comprehensive Loss. See Note 12 "Deferred revenue" of the Notes to the Consolidated Financial Statements for Fiscal 2016 for additional information.

7.6 Derivative assets and liabilities

All derivatives are measured at fair value. U.S. dollar forward contracts are traded over-the-counter and give holders the right to buy a specified amount of U.S. currency at an agreed upon price and date in the future. Fair values of the U.S. dollar forward contracts is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate. The fair value of fuel swaps is based on counterparty confirmations tested for reasonableness by discounting estimated future cash flows derived from the terms and maturity of each contract using market fuel prices at the measurement date. The Company is required to estimate various inputs which are used in these calculations that are a combination of quoted prices and observable market inputs. The fair values of derivatives include an adjustment for credit risk when appropriate.

Changes in estimates may result in changes to "Derivative financial assets" and "Derivative financial liabilities" on the Consolidated Statements of Financial Position and a charge or credit to "Cost of goods and services sold", "Selling, administrative and other expenses" or OCI in the Consolidated Statements of Net Loss and Comprehensive Loss. See Note 13 "Financial instruments" of the Notes to the Consolidated Financial Statements for Fiscal 2016 for additional information.

7.7 Provisions

Provisions are estimated based on historical data, cost estimates provided by specialists and future projections.

Changes in estimates or assumptions could cause changes to "Provisions" on the Consolidated Statements of Financial Position and a charge or credit to "Revenue", "Cost of goods and services sold" or "Selling, administrative and other expenses" in the Consolidated Statements of Net Loss and Comprehensive Loss. See Note 15 "Provisions" of the Notes to the Consolidated Financial Statements for Fiscal 2016 for additional information.

7.8 Leasing arrangements

The Company has applied judgment in the classification of its leasing arrangements, which is determined at the inception of the lease and is based on the substance of the transaction, rather than its legal form. The Company's leases were evaluated based on certain significant assumptions including the discount rate, economic life of an asset, lease term and existence of a bargain renewal option.

Changes in estimates or assumptions could cause changes to "Property, plant and equipment", "Current portion of long-term obligations" and "Long-term obligations" on the Consolidated Statements of Financial Position and a charge or credit to "Selling, administrative and other expenses" and "Finance costs" in the Consolidated Statements of Net Loss and

Comprehensive Loss. See Note 18 "Leasing arrangements" of the Notes to the Consolidated Financial Statements for Fiscal 2016 for additional information.

7.9 Taxes

In the ordinary course of business, the Company is subject to ongoing audits by tax authorities. While the Company believes that its tax filing positions are appropriate and supportable, certain matters are periodically challenged by tax authorities. The Company applies judgment and routinely evaluates and provides for potentially unfavourable outcomes with respect to any tax audits. If the result of a tax audit materially differs from the existing provisions, the Company's effective tax rate and its net loss will be affected positively or negatively. The Company also uses judgment in assessing the likelihood that deferred income tax assets will be recovered from future taxable income by considering factors such as the reversal of deferred income tax liabilities, projected future taxable income, tax planning strategies and changes in tax laws.

Changes in estimates or assumptions could cause changes to "Income taxes recoverable", "Deferred tax assets", "Other long-term assets", "Income and other taxes payable" and "Deferred tax liabilities" on the Consolidated Statements of Financial Position and a charge or credit to "Income tax (expense) recovery" in the Consolidated Statements of Net Loss and Comprehensive Loss. See Note 21 "Income taxes" of the Notes to the Consolidated Financial Statements for Fiscal 2016 for additional information.

7.10 Gift Card

The gift card liability is based on the total amount of gift cards outstanding which have not yet been redeemed by customers. The Company also recognizes income when the likelihood of redeeming the gift card is remote ("gift card breakage"). Gift card breakage is estimated based on historical redemption patterns. Changes in estimates of the redemption patterns may result in changes to "Deferred revenue" (current) on the Consolidated Statements of Financial Position and an increase or decrease to "Revenue" in the Consolidated Statements of Net Loss and Comprehensive Loss.

b. Issued Standards Not Yet Adopted

The Company monitors the standard setting process for new standards and interpretations issued by the International Accounting Standards Board ("IASB") that the Company may be required to adopt in the future.

In January 2016, the IASB issued the following new standard:

IFRS 16, Leases ("IFRS 16")

IFRS 16 replaces IAS 17, *Leases* ("IAS 17"). This standard will bring most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and financing leases. Lessor accounting remains largely unchanged and the distinction between operating and finance leases is retained. Adoption of IFRS 16 is mandatory and will be effective for annual periods beginning on or after January 1, 2019 with earlier adoption permitted. During Fiscal 2016, the Company has formed an implementation team who is currently in the process of assessing the impact of adopting this standard on the Company's consolidated financial statements and related note disclosures.

In July 2014, the IASB issued the final publication of the following standard:

IFRS 9, Financial Instruments ("IFRS 9")

IFRS 9 replaces IAS 39. This standard establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. This standard also includes a new general hedge accounting standard which will align hedge accounting more closely with risk management. It does not fully change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however, it will permit more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. Adoption of IFRS 9 is mandatory and will be effective for annual periods beginning on or after January 1, 2018 with earlier adoption permitted. During Fiscal 2016, the Company has formed an implementation team who is currently in the process of assessing the impact of adopting this standard on the Company's consolidated financial statements and related note disclosures.

In May 2014, the IASB issued the following new standard:

IFRS 15, Revenue from Contracts with Customers ("IFRS 15")

IFRS 15 replaces IAS 11, *Construction Contracts*, and IAS 18, *Revenue*, as well as various interpretations regarding revenue. This standard introduces a single model for recognizing revenue that applies to all contracts with customers, except for contracts that are within the scope of standards on leases, insurance and financial instruments. This standard also requires enhanced disclosures. Adoption of IFRS 15 is mandatory and will be effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. During Fiscal 2016, the Company has formed an implementation team who is currently in the process of assessing the impact of adopting this standard on the Company's consolidated financial statements and related note disclosures.

8. Disclosure Controls and Procedures

Disclosure Controls and Procedures

Management of the Company is responsible for establishing and maintaining a system of disclosure controls and procedures ("DC&P") that are designed to provide reasonable assurance that information required to be disclosed by the Company in its public disclosure documents, including its Annual and Interim MD&A, Annual and Interim Financial Statements, and AIF is recorded, processed, summarized and reported within required time periods and includes controls and procedures designed to ensure that the information required to be disclosed by the Company in its public disclosure documents is accumulated and communicated to the Company's management, including the Executive Chairman and Chief Financial Officer ("CFO"), to allow timely decisions regarding required DC&P.

Management of the Company, including the Executive Chairman and CFO, has caused to be evaluated under their supervision, the Company's DC&P, and has concluded that the Company's DC&P was effective as at the fiscal year end, being January 28, 2017.

Internal Control over Financial Reporting

Management of the Company is also responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

Management of the Company, including the Executive Chairman and CFO, has caused to be evaluated the internal control over financial reporting in accordance with COSO 2013 framework and has concluded, based on that evaluation, that the Company's internal control over financial reporting was effective as at the fiscal year-end, being January 28, 2017. Additionally, Management of the Company evaluated whether there were changes in the internal control over financial reporting during Fiscal 2016 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting and has determined that no such changes occurred during this period.

Internal control systems, regardless of superiority in design, have inherent limitations. Therefore, even those systems that have been determined to have been designed effectively can only provide reasonable assurance with respect to financial reporting and financial statement preparation.

9. Risks and Uncertainties

Risks Relating to Our Business

If the Company is unable to compete effectively in the highly competitive retail industry, the Company's business and results of operations could be materially adversely affected.

The Canadian retail market remains highly competitive as key players and new entrants compete for market share. International retailers continue to expand into Canada while existing competitors enhance their product offerings and become direct competitors. The Company's competitors include traditional full-line department stores, discount department stores, wholesale clubs, 'big-box' retailers, internet retailers and specialty stores offering alternative retail formats. Failure to develop and implement appropriate competitive strategies and the performance of the Company's competitors could have a material adverse effect on the Company's business, results of operations, and financial condition.

In order to stay competitive and relevant to our customers, the Company's strategic plan for 2017 is centred on four strategic initiative workstreams: Sears 2.0, Initium, Real Estate, and SG&A. The achievement of strategic goals may be adversely affected by a wide range of factors, many of which are beyond the Company's control. The inability to execute and integrate strategic plans could have a negative impact on the Company's current operations, market reputation, customer satisfaction and financial position. The Company's ability to implement and achieve its long-term strategic objectives is dependent on the achievement of these strategic plans and initiatives, as well as the availability of sufficient liquidity to fund these planned initiatives. There can be no assurance that such plans and initiatives will yield the expected results, either of which could cause the Company to fall short in achieving financial objectives and long-range goals.

Additional risk may arise when retailers carrying on business in Canada in competition with the Company engage in marketing activities which are not in full compliance with Canadian legal requirements regarding advertising and labeling rules and product quality standards. Such retailers may gain an unfair advantage and their activities may negatively affect the Company's business and results of operations.

The Company faces risks related to its liquidity and financial position.

The Company has had recurring operating losses and negative cash flows from operating activities in the last five fiscal years, with net losses beginning in 2014. In response, the Company has taken a number of actions to enhance its financial flexibility, to fund its ongoing business operations and to meet its financial obligations, including the monetization of real estate assets and joint venture interests and the recent drawdown under the Term Credit Agreement. The Company expects to pursue other near-term actions to bolster liquidity and fund ongoing business operations. If the Company continues to incur losses, additional measures may be required to maintain the liquidity necessary to operate its business.

The success of the Company's strategic plan for 2017 is subject to risks and uncertainties with respect to market conditions and other factors that may cause the Company's actual results, cash flow and performance to differ materially from its plans. The Company cannot be sure that cash flows and other internal and external sources of liquidity (including, if available, the second tranche of up to $175.0 million under the Term Credit Agreement) will at all times be sufficient for its ongoing cash requirements in 2017 or thereafter. If necessary, the Company may need to consider additional actions and steps to improve its cash position and address any potential liquidity shortfall, including further asset monetization transactions and seeking additional external sources of financing. The specific actions taken or assets involved, the timing, and the overall amounts involved will depend on a variety of factors, including market conditions, interest in specific assets, the market valuations of those assets and the Company's underlying operating performance.

There can be no assurance that the Company's business will generate sufficient cash flow or that future borrowings or other sources of capital will be available to the Company in an amount sufficient to enable it to meet its financial obligations and fund its other liquidity needs. If future cash flow from operations and other capital resources are insufficient to pay obligations as they become due or to fund liquidity needs, the Company may need to take additional actions, including reducing or delaying business activities and capital expenditures, selling assets, and obtaining additional equity or debt capital. There can be no assurance that any such actions would be successful, including that any such external sources of capital would be available.

Material factors that could result in the Company being unable to fund working capital needs and other obligations, including the implementation of its strategic plan, include: failure to meet revenue projections, competition from online retailers, changes in consumer behaviour, unavailability of the second tranche under the Term Credit Agreement, suppliers refusing to extend credit or imposing unfavourable payment terms, anticipated savings not being achieved, deterioration of retail, market or economic conditions, delays or disruptions to strategic plan initiatives, and risks relating to successful implementation of the Company's ecommerce business.

Due to the seasonality of the Company's business, the Company's results of operations would be adversely affected if the Company's business performed poorly in the fourth quarter or as a result of unseasonable weather patterns.

The Company's operations are seasonal in nature with respect to results of operations and in products and services offered. Merchandise and service revenues vary by quarter based on consumer spending behaviour. Historically, the Company's revenues and earnings have been higher in the fourth quarter due to the holiday season and it has reported a disproportionate level of earnings in that quarter. In addition, the Company increases its cash used for operations in order to build inventory in the period leading up to the months of November and December in anticipation of higher sales volume in the fourth quarter. As a result, the fourth quarter results of operations significantly impact the Company's annual results of operations. The Company's fourth quarter results of operations may fluctuate significantly based on many factors, including holiday spending patterns and weather conditions. In addition, the Company offers many seasonal goods and services. The Company establishes budgeted inventory levels and promotional activity in accordance with its strategic initiatives and expected consumer demand. Businesses that generate revenue from the sale of seasonal merchandise and services are subject to the risk of changes in consumer spending behaviour as a result of unseasonable weather patterns.

If the Company fails to offer merchandise and services that the Company's customers want, the Company's sales may be limited, which would reduce the Company's revenues and profits and adversely impact its results of operations.

To be successful, the Company must identify, obtain supplies, and offer to customers attractive, relevant and high-quality merchandise and services on a continuous basis. Customer preferences may change over time. If the Company misjudges either the demand for products and services the Company sells or the Company's customers' purchasing habits and tastes, the Company may be faced with excess inventories of some products and missed opportunities for products and services the Company chose not to offer. This could have a negative effect on the Company's business, results of operations and financial condition.

The Company's results depend on its ability to achieve cost savings.

If the Company is unable to bring its SG&A expenses structure in line with its revenue, this could have an adverse effect on the Company's business and results of operations.

The Company's failure to retain its senior management team and to continue to attract qualified new personnel could adversely affect the Company's business and results of operations.

The Company's success is dependent on its ability to attract, motivate and retain senior leaders and other key personnel. The loss of one or more of the members of the Company's senior management may disrupt the Company's business and adversely affect its results of operations. Furthermore, the Company may not be successful in attracting, assimilating and retaining new personnel to grow its business profitably. The inability to attract and retain key personnel could have an adverse effect on the Company's business.

If the Company does not successfully manage its inventory levels, the Company's results of operations will be adversely affected.

The Company must maintain sufficient in-stock inventory levels to operate the business successfully while minimizing out-of-stock levels. A significant portion of inventory is sourced from vendors requiring advance notice periods in order to supply the quantities that we require. These lead times may adversely impact the Company's ability to respond to changing consumer preferences, resulting in inventory levels that are insufficient to meet demand or in merchandise that may have to be sold at lower prices. Inappropriate inventory levels or a failure to accurately anticipate the future demand for a particular product or the time it will take to obtain new inventory may negatively impact the Company's results of operations.

The Company has been unable to date to secure an agreement with a financial institution for the management of the Company's credit and financial services operations, which continues to have a material adverse effect on the Company's results of operations.

On November 15, 2015, the program agreement between JPMorgan Chase and the Company relating to the Sears Card and Sears MasterCard credit cards expired. The Company continues to consider available options with respect to the future management of the credit and financial services operations, but does not expect it will be able to secure an agreement with substantially the same terms and conditions that it previously had with JPMorgan Chase, and there is a risk that the Company may not be able to secure a new agreement at all, which will continue to have a material adverse effect on the Company's results of operations and financial condition.

If the Company is unable to successfully implement and continue the Company's new consumer financing program, it could adversely affect the Company's results of operations.

On March 18, 2016, the Company entered into an agreement with easyfinancial Services Inc. to provide a nation-wide point of sale financing platform for customers on large ticket items. If the financing program does not retain and attract customers, this could have a negative effect on the Company's revenues and adversely impact the Company's results of operations and financial condition.

If the Company's new loyalty program is unable to attract and retain a sufficient amount of customers, it could adversely affect the Company's results of operations.

On November 16, 2015, the Company launched its new and enhanced Sears Club loyalty program which allows customers to earn, and redeem points on purchases at Sears using cash or any debit or credit card accepted by Sears. If the loyalty program does not retain and attract customers, this could have a negative effect on the Company's revenues and adversely impact the Company's results of operations and financial condition.

If the Company is unable to migrate a sufficient amount of catalogue customers and business to online, it could adversely affect the Company's results of operations.

The Company is purposefully reducing its catalogue space and engaging with customers to move them into the online arena. As the Company manages the migration and frequency from catalogue to online, catalogue sales may not convert to online sales as quickly or in the same volume as the Company expects and the Company may have to increase its marketing efforts and promotional offers to make this change happen in a shorter timeline. In addition, there is a risk that the secular decline of catalogue sales increases at a faster rate than the Company expects.

If the Company fails to successfully implement its new digital e-commerce platform nation-wide, it could adversely affect the Company's results of operations.

In 2016, the Company launched the new sears.ca website, incorporating a new technology platform and logistics systems nationally. The Company is currently experiencing operational and integration issues with this website, which the Company is working diligently to address and rectify. However, if it is unable to do so or the new e-commerce platform does not retain and attract customers or otherwise perform in a satisfactory manner, this could have a negative effect on the Company's revenues and reputation and adversely impact the Company's results of operation and financial condition.

The Company relies extensively on computer systems to process transactions, summarize results and manage its business. Disruptions in these systems could harm the Company's ability to run its business.

Given the number of individual transactions that the Company processes each year, it is critical that the Company maintains uninterrupted operation of its computer and communications hardware and software systems. These systems are subject to obsolescence, damage or interruption from power outages, computer and telecommunications failures, computer viruses, security breaches, catastrophic events such as fires, natural disasters and adverse weather occurrences and usage errors by the Company's employees. If the systems are damaged or cease to function properly, the Company may have to make a significant investment to fix or replace them, may suffer interruptions in operations in the interim and the Company's reputation with its customers may be harmed.

The Company's ability to maintain sufficient inventory levels in its stores is critical to its success and largely depends on the efficient and uninterrupted operation of its computer and communications hardware and software systems. Any material interruption in the Company's computer operations may have a material adverse effect on the Company's business and results of operations.

The Company relies on foreign sources for significant amounts of its merchandise, and the Company's business may therefore be negatively affected by the risks associated with international trade.

The Company is dependent on a significant amount of products that originate from non-Canadian markets. In particular, the Company sources a significant amount of products from China. The Company is subject to the risks that are associated with the international sourcing and delivery of merchandise, including: potential economic, social, and political instability in jurisdictions where suppliers are located; structural integrity, health and fire safety of foreign factories; increased shipping costs, potential transportation delays and interruptions; adverse foreign currency fluctuations; changes in laws, rules and regulations pertaining to the export and import of products and quotas; and the imposition and collection of taxes and duties. Any increase in cost to the Company of merchandise purchased from foreign vendors or restriction on the merchandise made available to the Company by such vendors could have an adverse effect on the Company's business and results of operations.

Damage to the reputations of the brands the Company sells could reduce the Company's revenues and profits and adversely impact the Company's results of operations.

As a diverse and multi-channel retailer, the Company promotes many brands as part of the Company's normal course of business. These brands include the Sears brand, Sears private label brands for product lines such as Jessica®, and non-proprietary brands exclusive to the Company. Damage to the reputation of these brands or the reputation of the suppliers of these brands could negatively impact consumer opinions of the Company or its related products and reduce its revenues and adversely impact its results of operations. In those circumstances, it may be difficult and costly for the Company to regain customer confidence.

If the Company's relationships with its significant suppliers were to be impaired, it could have a negative impact on the Company's competitive position and adversely impact its results of operations and financial condition.

Although the Company's business is not substantially dependent on any one supplier, its relationship with certain suppliers is of significance to its merchandising strategy, including attracting customers to its locations, cross-segment sales and image. The loss of a significant supplier relationship could result in lower revenues and decreased customer interest in the Company's stores, which, in turn, would adversely affect the Company's results of operations and financial condition. In addition, the Company may not be able to develop relationships with new suppliers, and products from alternative sources, if any, may be of a lesser quality and more expensive than those the Company currently purchases.

The Company relies on third parties to provide it with services in connection with the administration of certain business functions.

The Company has agreements with third-party service providers (both domestic and international) to provide processing and administration functions over a broad range of areas. These areas include finance and accounting, information technology, call centre, payroll and procurement functions. Services provided by third parties as a part of outsourcing initiatives could be interrupted as a result of many factors, such as social or political unrest, natural disasters, extreme or unseasonable weather, acts of war or terrorism, systems breakdowns or power outages or other significant events outside of the Company's control, contract disputes, or failure by third parties to provide these services on a timely basis within service level expectations and performance standards, which could result in a disruption of the Company's business, and adversely affect the Company's results of operations. In addition, to the extent the Company is unable to maintain its outsourcing arrangements, it could incur substantial costs, including costs associated with hiring and training new employees, in order to return these services in-house. The Company is currently in the process of repatriating its call centre operations.

The Company relies on its relationship with a number of licensees to manage and operate the day-to-day operations of certain components of the Company's business.

The Company has licensing arrangements with various third parties. The financial instability of licensees and their inability to fulfill the terms and obligations under their respective agreements with the Company could potentially have a negative effect on the Company's revenues with respect to these arrangements and could cause the Company to incur substantial costs, including moving the services in-house or finding an alternative third party to perform the services.

Certain of the Company's licensees have recently experienced financial difficulties. On May 27, 2015, TravelBrands Inc. ("TravelBrands") sought and obtained an initial order under the Companies' Creditors Arrangements Act (Canada). The Ontario Superior Court of Justice granted TravelBrands the protections afforded by a stay of proceedings while it continued to pursue restructuring initiatives. TravelBrands exited creditor protection subsequent to the end of Fiscal 2015, and continues to be a licensee of the Company, as the Company signed a new contract with TravelBrands with a revised commission structure during Fiscal 2015. TravelBrands manages the day-to-day operations of all Sears Travel offices and pays fees to the Company.

The lack of willingness of the Company's vendors to provide acceptable payment terms could negatively impact the Company's liquidity and/or reduce the availability of products or services that the Company seeks to procure and sell.

The Company depends on its vendors to provide it with financing for the Company's purchases of inventory and services. The Company's vendors could seek to limit the availability of vendor credit to the Company or modify other terms under which they sell to the Company, or both, which could negatively impact the Company's liquidity. This could include actions such as slowing or ceasing merchandise shipments or requiring or conditioning the sale or shipment of merchandise on new payment terms or other assurances. Such outcomes could have a negative effect on the Company's business, financial condition and results of operations. In addition, the inability of the Company's vendors to access liquidity, or financial difficulties experienced by the Company's vendors, could lead to their failure to deliver inventory or other services to the Company. Certain of the Company's vendors may finance their operations and/or reduce the risk associated with collecting accounts receivable from the Company by selling or "factoring" the receivables or by purchasing credit insurance or other forms of protection from loss associated with the Company's credit risks. The ability of the Company's vendors to do so is subject to the Company's perceived credit quality. The Company's vendors could be limited in their ability to factor receivables or obtain credit protection in the future because of the Company's perceived financial position and creditworthiness, which could reduce the availability of products or services the Company seeks to procure and sell or increase the cost to the Company of those products and services.

The Company may be subject to product liability claims if people or properties are harmed by the products the Company sells or the services it offers.

The Company sells products produced by third party manufacturers. Some of these products may expose the Company to product liability claims relating to personal injury, death or property damage caused by such products and may require the Company to take actions, such as product recalls. In addition, the Company also provides various services which could give rise to such claims. Although the Company maintains liability insurance to mitigate these potential claims, the Company cannot be certain that its coverage will be adequate for liabilities actually incurred or that insurance will continue to be available on economically reasonable terms or at all.

Product liability claims can be expensive to defend and can divert the attention of management and other personnel for significant periods, regardless of the ultimate outcome. Claims of this nature, as well as product recalls, could also have a negative impact on customer confidence in the products and services the Company offers and on the Company's reputation, and adversely affect the Company's business and results of operations.

If the Company does not maintain the security of its customers, employees or Company information, the Company could damage its reputation, incur substantial additional costs and become subject to litigation.

Cyber-security risks, such as malicious software and attempts to gain unauthorized access to data, are rapidly evolving. Technologies or software used to gain unauthorized access, and/or disable, degrade or harm the Company's systems may be difficult to detect or scope for prolonged periods of time, and the Company may be unable to anticipate these actions or put in place adequate protective or preventative measures. These attempts to gain unauthorized access could lead to disruptions in the Company's systems, unauthorized release of confidential or otherwise protected information or corruption of data. If these actions are successful in infiltrating, breaking into, disrupting, damaging or otherwise stealing from the Company's computer systems or those of its third party providers, the Company may have to make significant investments to fix or replace them, may suffer interruptions in its operations in the interim, and may face costly litigation, government investigations, government enforcement actions, fines and/or lawsuits, the ability of customers to shop with the Company may be impacted or halted, and the Company's reputation with its customers and the public may be significantly harmed. There is no guarantee that the procedures implemented by the Company to protect against unauthorized access to secured data will be adequate to safeguard against all data security breaches. A data security breach or any failure by the Company to comply with applicable privacy and information security laws and regulations could result in a loss of customer or public confidence and negatively impact the Company's business and results of operations.

The Company may be subject to failure of its IT systems and to data breaches.

The Company depends on the uninterrupted operation of its IT systems, networks and services, including internal and public internet sites, data hosting and processing facilities, cloud-based services and hardware, such as point-of-sale processing at stores, to operate its business.

The Company has implemented security measures, including employee training, monitoring and testing, maintenance of protective systems and contingency plans, to protect and to prevent unauthorized access of confidential information and to reduce the likelihood of disruptions to its IT systems. The Company also has security processes, protocols and standards that are applicable to its third party service providers.

Despite these measures, all of the Company's information systems, including its back-up systems and any third party service provider systems that it employs, are vulnerable to damage, interruption, disability or failures due to a variety of reasons, including physical theft, electronic theft, fire, power loss, computer and telecommunication failures or other catastrophic events, as well as from internal and external security breaches, denial of service attacks, viruses, worms and other known or unknown disruptive events.

The Company or its third party service providers may be unable to anticipate, timely identify, or appropriately respond, to one or more of the rapidly evolving and increasingly sophisticated means by which computer hackers, cyber terrorists and others may attempt to breach the Company's security measures or those of our third party service providers' information systems.

The Company is subject to payment-related risks that could increase its operating costs, expose the Company to fraud or theft, subject the Company to potential liability and potentially disrupt the Company's business operations.

As a retailer who accepts payments using a variety of methods, including credit and debit cards, and gift cards, the Company is subject to rules, regulations, contractual obligations and compliance requirements, including payment network rules and operating guidelines, data security standards and certification requirements, and rules governing electronic funds transfers. The regulatory environment related to information security and privacy is increasingly rigorous, with new and constantly changing requirements applicable to the business, and compliance with those requirements could result in additional costs or accelerate these costs.

For certain payment methods, including credit and debit cards, the Company pays interchange and other fees, which could increase over time and raise the Company's operating costs. The Company relies on third parties to provide payment processing services, including the processing of credit cards, debit cards, and other forms of electronic payment. If these parties are unable to provide these services to the Company, or if their systems are compromised, it could disrupt the Company's business.

The payment methods that the Company offers also subject the Company to potential fraud and theft by persons who seek to obtain unauthorized access to or exploit any weaknesses that may exist in the payment systems.

The Company is subject to a number of long-term real estate leases which could restrict the Company's ability to respond to changes in demographics or the retail environment and adversely impact the Company's results of operations.

As of January 28, 2017, the Company operated a total of 95 full-line department stores, 141 specialty stores (including 26 Sears Home stores, 14 Outlet stores, 69 Hometown stores operated under independent local ownership and 32 Corbeil stores), 830 catalogue and online merchandise pick-up locations and 62 Sears Travel offices. Company-owned stores consist of 10 full-line department stores (including two stores that are included in our Outlet channel based on their merchandise mix) and two Sears Home stores, with the majority of the remainder held under long-term leases. While the Company is able to change its merchandise mix and relocate stores in order to maintain competitiveness, the Company is restricted from vacating a current site without breaching its contractual obligations and incurring lease-related expenses for the remaining portion of the lease-term. The long-term nature of the leases may limit the Company's ability to respond in a timely manner to changes in the demographic or retail environment at any location, which could adversely affect the Company's results of operations. In addition, when leases for the stores in the Company's ongoing operations expire, the Company may be unable to negotiate renewals, either on commercially acceptable terms, or at all, which could cause us to close stores. Accordingly, the Company is subject to the risks associated with leasing real estate, which could have an adverse effect on the Company's results of operations.

The Company may be subject to legal proceedings if the Company violates the operating covenants in its real estate leases that could adversely affect the Company's business and results of operations.

As of January 28, 2017, the Company had operating covenants with landlords for approximately 95 Sears brand corporate stores. An operating covenant generally requires the Company, during normal operating hours, to operate a store continuously in the identified format as required in the lease agreement. As of January 28, 2017, the remaining term of the various Sears operating covenants ranged from less than one year to 28 years, with an average remaining term of approximately five years, excluding options to extend leases. Failure to observe operating covenants may result in legal proceedings against the Company, as well as termination of the applicable lease, and adversely affect the Company's business and results of operations.

The Company is subject to laws and regulations that impact its business and a failure to comply with such laws and regulations could lead to lawsuits or regulatory actions against the Company that could adversely affect the Company's business and results of operations.

Laws and regulations are in place to protect the interests and well-being of the Company's customers and communities, business partners, suppliers, employees, shareholders and creditors. Changes to laws, regulations or regulatory policies, including changes in the interpretation, implementation or enforcement of laws, regulations and regulatory policies, could adversely affect the Company's business and results of operations. In addition, the Company may incur significant costs in the course of complying with any changes to applicable laws, regulations and regulatory policies.

The Company's failure to comply with applicable laws, regulations or regulatory policies could result in a judicial or regulatory judgment or sanctions and financial penalties that could adversely impact the Company's reputation, business and results of operations. Although the Company believes that it has taken reasonable measures designed to ensure compliance with applicable laws, regulations and regulatory policies in the jurisdictions in which it conducts business, there is no assurance that the Company will always be in compliance or determined to be in compliance.

In addition, changing laws, regulations and standards relating to corporate governance and public disclosure, including those related to foreign private issuers and the Sarbanes-Oxley Act of 2002, and related regulations implemented by securities regulatory authorities in Canada and the United States are creating uncertainty for foreign private issuers, increasing legal and financial compliance costs, and making some activities more time consuming. The Company is currently evaluating and monitoring developments with respect to new and proposed rules and cannot predict or estimate the amount of additional costs it may incur or the timing of such costs. We intend to invest resources to comply with evolving laws, regulations and standards, and this investment may result in increased general and administrative expenses. If our efforts to comply with new laws, regulations and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to practice, regulatory authorities may initiate legal proceedings against us and our business may be harmed. The costs of compliance or our failure to comply with these laws, rules and regulations could adversely affect our reputation, business, results of operations, financial condition and the price of our common shares.

The Company may lose its foreign private issuer status under United States securities laws in the future, which could result in significant additional costs and expenses to the Company.

In order to maintain the Company's current status as a foreign private issuer ("FPI") under U.S. federal securities laws, a majority of the Company's common shares must be directly or indirectly owned of record by non-U.S. residents subject to the following: if the majority of the Company's common shares are owned of record by U.S. residents, and any of (i) the majority of the Company's executive officers or directors are U.S. citizens or residents, (ii) more than 50% of the Company's assets are located in the United States or (iii) the Company's business is administered principally in the United Sates, then the Company would lose its FPI status. The Company currently qualifies as a FPI, but there can be no assurance that it will continue to meet these requirements in the future. The regulatory and compliance costs to the Company under U.S. federal securities laws as a U.S. domestic issuer may be significantly more than the costs the Company incurs as a Canadian FPI. If the Company ceases to be a FPI, it would not be eligible to use the multijurisdictional disclosure system or other foreign issuer forms and would be required to file periodic and current reports and registration statements on U.S. domestic issuer forms with the SEC, which are more detailed and extensive than the forms currently available to the Company. The Company may also be required to prepare its financial statements in accordance with U.S. generally accepted accounting principles, and these additional reporting obligations could be costly and have a negative impact on the Company's financial condition.

The Company is required to comply with federal and provincial environmental laws and regulations, the cost of which may adversely affect the Company's results of operations and financial condition.

The Company is exposed to environmental risk as an owner, lessor and lessee of property. Under federal and provincial laws, the owner, lessor or lessee could be liable for the costs of removal and remediation of certain hazardous substances on its properties or disposed of at other locations. The failure to remove or remediate such substances, if any, could lead to claims against the Company.

The Company is currently remediating various locations across Canada where it has operated auto centres, gas bars and a logistics facility. In some cases, the extent of the remediation and the costs thereof have not yet been determined. The Company continues to monitor the costs of remediation and appropriately provide for these costs in its reserves. If we commit to renovating a leased or owned building that contains or may contain asbestos, or if asbestos is inadvertently disturbed, we will be legally obligated to comply with asbestos removal standards. The extent of this liability has not yet been determined because the costs to remove asbestos depend on various factors, including, among others, the location and extent of any renovations undertaken. Inadvertent disturbance of asbestos cannot be foreseen. The costs incurred by the Company could be significant and may negatively impact the Company's results of operations and financial condition.

The Company is exposed to a variety of legal proceedings, including class action lawsuits, and tax audits which, if adversely decided, could materially adversely affect the Company.

The Company is currently involved in various legal proceedings incidental to the normal course of business. Although the Company is of the view that the final disposition of any such litigation is not expected to have a material adverse effect on its liquidity, consolidated financial position or results of operations, the outcome of such litigation cannot be predicted with certainty. As a result, it could have an adverse impact on the Company's reputation and ultimately a material adverse effect on the Company's results of operations and financial condition.

In the ordinary course of business, the Company is subject to ongoing audits by tax authorities. While we believe that the Company's tax filing positions are appropriate and supportable, periodically, certain matters are reviewed and from time to time are challenged by the tax authorities. As the Company routinely evaluates and provides for potentially unfavorable outcomes with respect to any tax audits, it believes that the final disposition of tax audits will not have a material adverse effect on its liquidity, financial position or results of operations. If the result of a tax audit materially differs from the existing provisions, the Company's effective tax rate and impact on liquidity could be affected positively or negatively in the period in which the tax audits are completed.

The Company's results of operations may be adversely impacted if insurance coverage is deemed insufficient or if the Company or the insurance industry is affected by unexpected material events.

The Company maintains directors and officers insurance, liability insurance, and property insurance and this insurance coverage reflects deductibles, self-insured retentions, limits of liability and similar provisions. Although the Company has taken measures to ensure that it has the appropriate coverage, including maintaining an annual reserve for liability claims, there is no guarantee that the Company's insurance coverage will be sufficient, or that insurance proceeds will be paid to us in a timely manner. In addition, there are types of losses we may incur but against which we cannot be insured or which we believe are not economically reasonable to insure, such as losses due to acts of war and certain natural disasters or business interruption. If we incur these losses and they are material, our business, operating results and financial condition may be adversely affected. Also, certain material events may result in sizable losses for the insurance industry and materially adversely impact the availability of adequate insurance coverage or result in significant premium increases. Accordingly, we may elect to self-insure, accept higher deductibles or reduce the amount of coverage in response to such market changes.

Events outside the Company's control such as social or political unrest, natural disasters, extreme or unseasonable weather, acts of war or terrorism, systems breakdowns or power outages could have a material adverse effect on the Company's business and results of operations.

The Company's business is sensitive to customers' spending patterns, which may be affected by domestic and international social or political unrest, natural disasters, extreme or unseasonable weather, acts of war or terrorism, or other significant events outside of the Company's control, any of which could lead to a decrease in spending by consumers. In addition, such events as well as systems breakdowns and power outages could cause store closures, disrupt supply chain or other operations, delay shipments of merchandise to consumers, reduce revenue and result in expenses to repair or replace facilities. Disruptions during a peak season, such as the month of December, which may account for up to 40% of a year's earnings, could have a particularly adverse effect on the Company's business and results of operations.

The Company's business could suffer if it is unsuccessful in making, integrating, and maintaining acquisitions and investments.

From time to time we pursue strategic acquisitions of, joint arrangements with, or investments in, other companies or businesses, although the Company has no present commitments with respect to any material acquisitions or investments. Any such acquisition, joint arrangement or investment may require the Company to spend its cash, or incur debt, contingent liabilities, or amortization expenses related to intangible assets, any of which could reduce the Company's short-term liquidity and harm its business. Acquisitions, joint arrangements and investments also increase the complexity of the Company's business and strain its management, personnel, operations, supply chain, financial resources, and internal financial controls and reporting functions. The Company may not be able to manage acquisitions, joint arrangements or investments effectively, which could damage the Company's reputation, limit its growth and adversely affect its business and results of operations.

Financial Risks

The Company's business has been and will continue to be affected by Canadian and worldwide economic conditions; worsening of current economic conditions could lead to reduced revenues and gross margins, and negatively impact the Company's liquidity.

The Company plans its operations giving regard to economic and financial variables that are beyond its control. Changes to these variables may adversely impact the Company's performance. Should current economic conditions worsen, heightened competition, a decline in consumer confidence, lower disposable income, higher unemployment and personal debt levels may result, which could lead to reduced demand for the Company's products and services. Any of these events could cause the Company to increase inventory markdowns and promotional expenses, thereby reducing the Company's gross margins and adversely affecting results of operations. If the Canadian or global economies worsen, the Company could experience a decline in same store sales, erosion of gross profit and profitability.

Volatility in fuel and energy costs may have a significant impact on the Company's operations. The Company requires significant quantities of fuel for the vehicles used to distribute and deliver inventory and the Company is exposed to the risk associated with variations in the market price for petroleum products. The Company could experience a disruption in energy supplies, including its supply of gasoline, as a result of factors that are beyond the Company's control, which could have an adverse effect on the Company's business. In addition, if certain of the Company's vendors experience increases in the cost of products they purchase due to the strengthening of the U.S. dollar, it could result in increases in the prices that the Company pays for merchandise, particularly apparel and appliances, and adversely affect the Company's results of operations. During Fiscal 2016, Adjusted EBITDA was negatively impacted by $59.5 million due to the weakening Canadian dollar compared to the U.S. dollar.

Limits on the availability of financing may affect the Company's access to liquidity.

In addition to credit terms from vendors, the Company's liquidity needs are funded by its operating cash flows, borrowings under credit facilities, asset sales and, if available, access to capital markets. The availability of financing depends on numerous factors, including economic and market conditions, the Company's operating performance, and lenders' assessments of the Company's prospects and the prospects of the retail industry in general. Changes in these factors may affect the cost of financing, liquidity and ability to access financing sources.

While the Amended Credit Facility currently provides for up to $300.0 million of lender commitments, availability under the Amended Credit Facility is determined pursuant to a borrowing base formula based on eligible assets consisting of inventory and credit card receivables less applicable reserves which may be applied by the lenders at their discretion pursuant to the Amended Credit Facility. Availability under the Term Credit Agreement is also based on a borrowing base formula based on eligible assets consisting of inventory and credit card receivables and, to the extent the second tranche is advanced, eligible qualifying real estate and leasehold interests, less applicable reserves applied by the lenders at their discretion under the Term Credit Agreement. If the value of eligible assets, net of any applicable reserves, are not sufficient to support borrowings of up to the full amount of the commitments under the facility, the Company will not have full access to the facility and additional reserves are required to be imposed under the Amended Credit Facility with the result that the Company could have access to a lesser amount as determined by the borrowing base and reserve estimates applicable under the Amended Credit Facility and the Term Credit Agreement. Availability under the Amended Credit Facility was $192.3 million as at January 28, 2017. The Term Credit Agreement provides for a five-year secured term loan of up to $300.0 million. The loan is available in two tranches: a first tranche of $125.0 million, which was drawn in full by the Company on March 20, 2017, and a second tranche of up to a further $175.0 million (to be secured by qualifying owned and leased real estate), which is available to be drawn at the Company's option, subject to the satisfaction of various conditions, including receipt by the lenders of satisfactory appraisals and environmental reports. The first tranche is secured on a subordinated basis behind the Amended Credit Facility on inventory, credit card receivables and other assets securing that facility, and the second tranche will be secured by a first charge on owned and leased real estate that satisfy mutually agreed eligibility criteria. The availability of the second tranche will also be subject to the acceptance by the lenders of the real estate and leasehold interests proposed by the Company and by the Company satisfying specified conditions, including receipt by the lenders of satisfactory appraisals and environmental reports. Accordingly, there can be no assurance the Company will receive the full (or any) amount of the second tranche.

The lenders under our credit facilities may not be able to meet their commitments if they experience shortages of capital and liquidity and there can be no assurance that the Company's ability to otherwise access the credit markets will not be adversely affected by changes in the financial markets and the global economy.

Fluctuations in U.S. and Canadian dollar exchange rates may adversely impact the Company's results of operations.

The Company's foreign exchange risk is currently limited to currency fluctuations between the Canadian and U.S. dollar. The Company is vulnerable to increases in the value of the U.S. dollar relative to the Canadian dollar because almost all of its revenues are denominated in Canadian dollars and a substantial amount of the merchandise the Company purchases is priced in U.S. dollars. The cost of these goods in Canadian dollars rises when the U.S. dollar increases in value relative to the Canadian dollar and, as a result, the Company may be forced to increase its prices or reduce its gross margins. We may use foreign currency forward and option contracts to hedge the exchange rate risk on a portion of the Company's expected requirement for U.S. dollars. There can be no assurance that the Company's hedging efforts will achieve their intended results or that the Company's estimate of its requirement for U.S. dollars will be accurate, with the result that currency fluctuations may have an adverse impact on the Company's results of operations. Also, hedging efforts may have the effect of limiting or reducing the total returns to the Company if management's expectations concerning future events prove to be incorrect, in which case the costs associated with the hedging efforts may outweigh their benefits. Furthermore, many vendors who are paid in Canadian dollars may have significant costs that are priced in U.S. dollars. Such vendors may seek to increase prices charged to the Company for goods and services and, as a result, the Company may be forced to increase its prices or reduce its gross margins.

The Term Credit Agreement, and compliance with the borrowing base thereunder, is calculated and determined in U.S. dollars.

In addition, any significant appreciation of the Canadian dollar relative to the U.S. dollar presents an additional challenge to the Company as its customers are motivated to cross-border shop, which may have an adverse impact on the Company's results of operations.

The Company is exposed to counterparty credit risk which could adversely affect its results of operations.

Credit risk refers to the possibility that the Company can suffer financial losses due to the failure of counterparties to meet their payment obligations to the Company. Exposure to credit risk exists for derivative instruments, cash, accounts receivable and investments included in other long-term assets. Cash, accounts receivable, derivative financial assets and other long-term assets of $303.0 million as at January 28, 2017 (January 30, 2016: $381.2 million) expose the Company to credit risk should the borrower default on maturity of the investment.

Although the Company seeks to manage this exposure through policies that require borrowers to have a minimum credit rating of A, and limiting investments with individual borrowers at maximum levels based on credit rating, there can be no assurance that the Company will be able to successfully manage its credit risk.

The Company invests its surplus cash in investment grade, short-term money market instruments, the return on which depends upon interest rates and the creditworthiness of the issuer. The Company attempts to mitigate credit risk resulting from the possibility that an issuer may default on repayment by requiring that issuers have a minimum credit rating and limiting exposures to individual borrowers.

Expenses associated with the Company's retirement benefit plans may fluctuate significantly depending on changes in actuarial assumptions, future market performance of plan assets, and other events outside of the Company's control and adversely affect the Company's results of operations.

The Company currently maintains a hybrid registered pension plan with a defined benefit component, a non-registered supplemental savings arrangement and a defined benefit non-pension retirement plan, which provides life insurance, medical and dental benefits to eligible retired employees through a health and welfare trust. The defined benefit component of the hybrid registered pension plan continues to accrue benefits related to future compensation increases although no further service credit is earned. In addition, the Company no longer provides medical, dental and life insurance benefits at retirement for employees who had not achieved the eligibility criteria for these non-pension retirement benefits as at December 31, 2008.

There is no assurance that the Company's retirement benefit plans will be able to earn the assumed rate of return. New regulations, regulatory orders, changes in actuarial assumptions and market driven changes may result in changes in the discount rates and other variables which would result in the Company being required to make contributions in the future that differ significantly from the estimates.

Management is required to use assumptions to account for the plans in conformity with IFRS. However, actual future experience will differ from these assumptions giving rise to actuarial gains or losses, and those differences may be material. Plan assets consist primarily of cash, alternative investments, marketable equity and fixed income securities. The value of the marketable equity and fixed income investments will fluctuate due to changes in market prices. Plan obligations and annual pension expense are determined by independent actuaries and through the use of a number of assumptions.

Although the Company believes that the assumptions used in the actuarial valuation process are reasonable, there remains a degree of risk and uncertainty which may cause results to differ materially from expectations. Significant assumptions in measuring the benefit obligations and pension plan costs include the discount rate and the rate of compensation increase. See Note 19.4 "Pension assumptions" of the Notes to the Consolidated Financial Statements for Fiscal 2016 for more information on the actuarial assumptions for the plans.

The Company is exposed to interest rate risk which could adversely affect its results of operations.

Interest rate risk reflects the sensitivity of the Company's financial condition to movements in interest rates. Financial assets and liabilities which do not bear interest or bear interest at fixed rates are classified as non-interest rate sensitive. Cash, and borrowings under the Company's credit facilities are subject to interest rate risk. The total outstanding balance subject to interest rate risk as at January 28, 2017 was a net asset of $235.8 million (January 30, 2016: $315.2 million). An increase or decrease in interest rates of 25 basis points (0.25%) would cause an after-tax impact on net loss of $0.4 million.

The Company faces risks associated with impairment of intangible and other long-lived assets.

The Company's intangible assets and long-lived assets, primarily consisting of stores, are subject to periodic testing for impairment. A significant amount of judgment is involved in the periodic testing. Failure to achieve sufficient levels of cash flow within each of the Company's cash generating units or specific operating units could result in impairment charges for intangible assets or long-lived assets, which could have a material adverse effect on the Company's reported results of operations.

Risks Relating to the Company's Relationship with Sears Holdings

The Company may lose rights to material intellectual property if Sears Holdings' equity ownership in the Company falls below specified thresholds or in other circumstances involving financial distress.

The Company relies on its right to use the "Sears" name, including as part of the Company's corporate and commercial name, which the Company considers a significant and valuable aspect of its business. The Company's right to use the "Sears" name and certain other brand names is subject to the terms of the license agreement with Sears, Roebuck and Co. dated January 26, 1987, as amended (the "License Agreement"), which states that, if Sears Holdings' ownership interest in the Company is reduced to less than 10.0%, the License Agreement would remain in effect for a period of five years after such reduction in ownership (subject to an extension of up to four years at a royalty rate to be agreed equal to the lesser of a fair market rate based on the value of such mark or the lowest rate which will provide a reasonable incentive to induce Sears Canada to phase out the use of such mark during such extended period, if the Company reasonably determines that a longer transition is necessary), after which the Company would no longer be permitted to use the "Sears" name and certain other brand names. In addition, the License Agreement also provides that the Company's license to use the "Sears" name and certain other brand names will terminate on the occurrence of certain bankruptcy events involving the Company. In addition, in the event of a bankruptcy proceeding involving Sears Holdings, there is a risk of the License Agreement being terminated under applicable U.S. insolvency legislation. Losing the right to use these intellectual properties could significantly diminish the Company's competitiveness in the marketplace and could materially harm the business. If the License Agreement is terminated, the Company may attempt to renegotiate such agreement although the terms of any such renegotiated agreement may be less favourable to the Company.

Sears Holdings publicly disclosed on March 21, 2017 that, based on its historical operating results, substantial doubt exists as to its ability to continue as a going concern. As a result, there may be an increased risk of the License Agreement being terminated in a bankruptcy proceeding involving Sears Holdings at some point in the future.

Some of the Company's directors may be subject to potential conflicts of interest because of their relationship with ESL or Sears Holdings, including ownership of its common stock.

Some of the Company's directors are employees of ESL or Sears Holdings and may own Sears Holdings or ESL common stock. These relationships could create, or appear to create, conflicts of interest with respect to matters involving both the Company and Sears Holdings or ESL.

Risks Relating to Our Common Shares

As long as ESL exerts significant voting influence over the Company, a shareholder's ability to influence matters requiring shareholder approval will be limited.

ESL is the largest shareholder of the Company, both directly through its ownership of common shares of the Company, and indirectly through its ownership in Sears Holdings. Prior to October 16, 2014, Sears Holdings was the controlling shareholder of the Company.

As at April 26, 2017, ESL was the beneficial holder of approximately 45.3% of the common shares of the Company and Sears Holdings was the beneficial holder of approximately 11.7%, of the common shares of the Company.

So long as ESL directly or indirectly controls the Company through its ownership of our common shares, it will have the ability to control the election of the Board of Directors and the outcome of certain shareholder votes. Accordingly, ESL will have the ability to exercise control over certain actions to be taken or approved by the Company's directors and shareholders, including with respect to mergers or business combinations or dispositions of all or substantially all of our assets.

ESL's voting control may discourage transactions involving a change of control of the Company, including transactions in which shareholders might otherwise receive a premium for their shares over the then-current market price. Subject to certain limits, ESL is also not prohibited from selling a controlling interest in the Company to a third party and may do so without shareholder approval and, subject to applicable laws, without providing for a purchase of other shareholders' common shares. Accordingly, shareholders' common shares may be worth less than they would be if ESL did not maintain voting control over the Company.

ESL's interests may be different than other shareholders' interests and Sears Holdings and ESL may have investments in other companies that compete with the Company and may have interests that from time to time diverge from the interests of the Company's other shareholders, particularly with regard to new investment opportunities.

In addition, conflicts of interest may arise between Sears Holdings and/or ESL and the Company, including corporate opportunities, potential acquisitions or transactions as well as other matters. The Company may be adversely affected by any conflicts of interest between Sears Holdings and/or ESL and the Company. Furthermore, neither Sears Holdings nor ESL owes the Company or the Company's shareholders any fiduciary duties under Canadian law.

If Sears Holdings were to experiences financial difficulty, it is not possible to predict with certainty the jurisdiction or jurisdictions in which insolvency or similar proceedings would be commenced or the outcome of such proceedings. If a bankruptcy, insolvency or similar event occurs, there could be proceedings involving Sears Holdings in the United States or elsewhere and it is possible that the Company could be made a part of these proceedings.

The price of the Company's common shares may decline if ESL or Sears Holdings alter their strategy with respect to their ownership of the Company's shares.

ESL and Sears Holdings have advised the Company that they have not reached any decision regarding whether or for how long they will retain their share ownership in the Company and what form, if any, the disposition or distribution of their common shares will take. ESL and Sears Holdings will, in their respective sole discretions, determine the timing and terms of any transactions with respect to their common shares, taking into account business and market conditions and other factors that they deem relevant. Neither ESL or Sears Holdings are subject to any contractual obligation to maintain their ownership position in the Company, nor is ESL subject to any contractual obligation to the Company to maintain its ownership in Sears Holdings. Consequently, we cannot be assured that either ESL or Sears Holdings will maintain its current direct or indirect ownership of the Company's common shares. Any announcement by ESL or Sears Holdings that they have reached a determination regarding what to do with their direct or indirect ownership of our common shares, or the perception by the investment community that ESL or Sears Holdings has reached such a determination, could have an adverse impact on the price of the Company's common shares as well as our business generally.

The market price of the Company's common shares is subject to market value fluctuations.

From time to time, the stock market experiences significant price and volume volatility that may affect the market price of the Company's common shares for reasons unrelated to its performance. The value of the Company's common shares is also subject to market value fluctuations based on factors which influence its operations, such as legislative or regulatory developments, competition, technological change and global capital market activity.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The preparation and presentation of the Company's consolidated financial statements and the overall accuracy and integrity of the Company's financial reporting are the responsibility of management. The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB), and include certain amounts that are based on management's best estimates and judgments. Financial information contained elsewhere in this Annual Report is consistent with the information set out in the consolidated financial statements.

In fulfilling its responsibilities, management has developed and maintains an extensive system of disclosure controls and procedures and internal control over financial reporting processes that are designed to provide reasonable assurance that assets are safeguarded, transactions are properly recorded and reported within the required time periods, and financial records are reliable for the preparation of the financial statements. The Company's internal auditors also review and evaluate internal controls on behalf of management.

The Board of Directors monitors management's fulfillment of its responsibilities for financial reporting and internal controls principally through the Audit Committee. The Audit Committee, which is comprised solely of independent directors, meets regularly with management, the internal audit department and the Company's external auditors to review and discuss audit activity and results, internal accounting controls and financial reporting matters. The external auditors and the internal audit department have unrestricted access to the Audit Committee, management and the Company's records. The Audit Committee is also responsible for recommending to the Board of Directors the proposed nomination of the external auditors for appointment by the shareholders. Based upon the review and recommendation of the Audit Committee, the consolidated financial statements and Management's Discussion and Analysis have been approved by the Board of Directors.

The Company's external auditors, Deloitte LLP, have audited the consolidated financial statements in accordance with International Financial Reporting Standards as issued by the IASB.

Brandon G. Stranzl Executive Chairman	Billy Wong Chief Financial Officer

Toronto, Ontario
April 26, 2017

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards. The control framework used by the Company's management to assess the effectiveness of the Company's internal control over financial reporting is the *Internal Control - Integrated Framework* 2013 (COSO framework) published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Internal control systems, regardless of superiority in design, have inherent limitations. Therefore, even those systems that have been determined to have been designed effectively can only provide reasonable assurance with respect to financial reporting and financial statement preparation.

Management of the Company, including its Executive Chairman and Chief Financial Officer, has evaluated the Company's internal control over financial reporting and has concluded that it was effective as at January 28, 2017.

Deloitte LLP, the independent registered public accounting firm that audited the Company's consolidated financial statements for the fiscal year ended January 28, 2017, has issued its opinion on the Company's internal control over financial reporting as stated in their report included herein.

Brandon G. Stranzl Executive Chairman	Billy Wong Chief Financial Officer

Toronto, Ontario
April 26, 2017

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of
Sears Canada Inc.

We have audited the accompanying consolidated financial statements of Sears Canada Inc. and subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at January 28, 2017 and January 30, 2016, and the consolidated statements of net loss and comprehensive loss, consolidated statements of changes in shareholders' equity, and consolidated statements of cash flows for the 52-week periods ended January 28, 2017 and January 30, 2016, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Sears Canada Inc. and subsidiaries as at January 28, 2017 and January 30, 2016, and their financial performance and their cash flows for the 52-week periods ended January 28, 2017 and January 30, 2016 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Other Matter

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of January 28, 2017, based on the criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 26, 2017 expressed an unqualified opinion on the Company's internal control over financial reporting.

Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants
April 26, 2017
Toronto, Canada

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of
Sears Canada Inc.

We have audited the internal control over financial reporting of Sears Canada Inc. and subsidiaries (the "Company") as of January 28, 2017, based on the criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 28, 2017, based on the criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the 52 week-period ended January 28, 2017 of the Company and our report dated April 26, 2017 expressed an unmodified/unqualified opinion on those financial statements.

Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants
April 26, 2017
Toronto, Canada

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CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in CAD millions)	Notes	As at January 28, 2017	As at January 30, 2016
ASSETS			
Current assets			
Cash	5	$ **235.8**	$ 313.9
Accounts receivable, net	6,13,15	**67.1**	59.4
Income taxes recoverable	21	**12.3**	35.9
Inventories	7	**598.5**	664.8
Prepaid expenses	8	**34.5**	31.0
Derivative financial assets	13	**0.1**	6.6
Assets classified as held for sale	28	**57.0**	22.1
Total current assets		**1,005.3**	1,133.7
Non-current assets			
Property, plant and equipment	9,18	**227.1**	444.1
Investment properties	9	**2.0**	17.0
Intangible assets	10	**2.0**	22.5
Deferred tax assets	21	**0.7**	0.6
Other long-term assets	11,13,15,16	**7.3**	15.3
Total assets		$ **1,244.4**	$ 1,633.2
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	13,14	$ **319.8**	$ 332.7
Deferred revenue	12	**136.1**	158.3
Provisions	15	**61.6**	75.8
Income taxes payable		**0.6**	2.6
Other taxes payable		**22.3**	17.3
Derivative financial liabilities	13	**0.6**	—
Current portion of long-term obligations	13,16,18,23	**3.7**	4.0
Total current liabilities		**544.7**	590.7
Non-current liabilities			
Long-term obligations	13,16,18,23	**16.6**	20.2
Deferred revenue	12	**69.4**	74.2
Retirement benefit liability	13,19	**308.6**	326.9
Other long-term liabilities	15,17	**82.9**	67.0
Total liabilities		**1,022.2**	1,079.0
SHAREHOLDERS' EQUITY			
Capital stock	22	**14.9**	14.9
Share-based compensation reserve	22	**3.1**	—
Retained earnings		**418.0**	739.0
Accumulated other comprehensive loss		**(213.8)**	(199.7)
Total shareholders' equity	23	**222.2**	554.2
Total liabilities and shareholders' equity		$ **1,244.4**	$ 1,633.2

The accompanying notes are an integral part of these consolidated financial statements.

On Behalf of the Board of Directors,

B.G.Stranzl
Executive Chairman and Director

G.Savage
Director

CONSOLIDATED STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS
For the 52-week periods ended January 28, 2017 and January 30, 2016

(in CAD millions, except per share amounts)	Notes		2016		2015
Revenue	24	$	**2,613.6**	$	3,145.7
Cost of goods and services sold	7,13,25		**1,900.5**		2,145.9
Selling, administrative and other expenses	9,10,13,18,19,25		**1,135.5**		1,298.1
Operating loss			**(422.4)**		(298.3)
Gain on lease termination and sale and leaseback transactions	26		**105.9**		67.2
Gain on termination of credit card arrangement	27		**—**		170.7
Gain on settlement of retirement benefits	19, 25		**—**		5.1
Finance costs	16,18,21		**8.9**		9.7
Interest income	5		**7.2**		2.3
Loss before income taxes			**(318.2)**		(62.7)
Income tax (expense) recovery					
Current	21		**(0.3)**		(8.1)
Deferred	21		**(2.5)**		2.9
			(2.8)		(5.2)
Net loss		$	**(321.0)**	$	(67.9)
Basic and diluted net loss per share	31	$	**(3.15)**	$	(0.67)
Net loss		$	**(321.0)**	$	(67.9)
Other comprehensive (loss) income, net of taxes:					
Items that may subsequently be reclassified to net loss:					
(Loss) gain on foreign exchange derivatives			**(12.6)**		19.2
Reclassification to net loss of loss (gain) on foreign exchange derivatives			**5.0**		(18.7)
Items that will not subsequently be reclassified to net loss:					
Remeasurement (loss) gain on net defined retirement benefit liability	19,21		**(6.5)**		50.8
Total other comprehensive (loss) income, net of taxes			**(14.1)**		51.3
Total comprehensive loss		$	**(335.1)**	$	(16.6)

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the 52-week periods ended January 28, 2017 and January 30, 2016

					Accumulated other comprehensive loss			
(in CAD millions)	Notes	Capital stock	Share-based compensation reserve	Retained earnings	Foreign exchange derivatives designated as cash flow hedges	Remeasurement (loss) gain	Total accumulated other comprehensive loss	Shareholders' equity
Balance as at January 30, 2016		**$ 14.9**	**$ —**	**$ 739.0**	**$ 7.2**	**$ (206.9)**	**$ (199.7)**	**$ 554.2**
Net loss				**(321.0)**	**—**	**—**	**—**	**(321.0)**
Other comprehensive (loss) income								
Loss on foreign exchange derivatives, net of income tax recovery of $2.6	13				**(12.6)**	**—**	**(12.6)**	**(12.6)**
Reclassification of net loss on foreign exchange derivatives, net of income tax recovery of nil	13				**5.0**	**—**	**5.0**	**5.0**
Remeasurement loss on net defined retirement benefit liability	19,21				**—**	**(6.5)**	**(6.5)**	**(6.5)**
Total other comprehensive loss		**—**	**—**	**—**	**(7.6)**	**(6.5)**	**(14.1)**	**(14.1)**
Total comprehensive loss		**—**	**—**	**(321.0)**	**(7.6)**	**(6.5)**	**(14.1)**	**(335.1)**
Share-based compensation	22	**—**	**3.1**	**—**	**—**	**—**	**—**	**3.1**
Balance as at January 28, 2017		**$ 14.9**	**$ 3.1**	**$ 418.0**	**$ (0.4)**	**$ (213.4)**	**$ (213.8)**	**$ 222.2**

Balance as at January 31, 2015		$ 14.9	$ —	$ 806.9	$ 6.7	$ (257.7)	$ (251.0)	$ 570.8
Net loss				(67.9)	—	—	—	(67.9)
Other comprehensive income (loss)								
Gain on foreign exchange derivatives, net of income tax expense of $7.1	13				19.2	—	19.2	19.2
Reclassification of gain on foreign exchange derivatives, net of income tax expense of $6.9	13				(18.7)	—	(18.7)	(18.7)
Remeasurement gain on net defined retirement benefit liability	19,21				—	50.8	50.8	50.8
Total other comprehensive income		—	—	—	0.5	50.8	51.3	51.3
Total comprehensive (loss) income		—	—	(67.9)	0.5	50.8	51.3	(16.6)
Balance as at January 30, 2016		$ 14.9	$ —	$ 739.0	$ 7.2	$ (206.9)	$ (199.7)	$ 554.2

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the 52-week periods ended January 28, 2017 and January 30, 2016

(in CAD millions)	Notes		2016		2015
Cash flow used for operating activities					
Net loss		$	**(321.0)**	$	(67.9)
Adjustments for:					
Depreciation and amortization expense	9,10		**31.4**		48.4
Share-based compensation	22		**3.1**		(0.4)
(Gain) loss on disposal of property, plant and equipment			**(4.4)**		0.3
Net impairment losses	9,10,28		**52.3**		63.3
Gain on lease termination and sale and leaseback transactions	26		**(105.9)**		(67.2)
Gain on termination of credit card arrangement	27		**—**		(170.7)
Finance costs	16,18,21		**8.9**		9.7
Interest income	5		**(7.2)**		(2.3)
Retirement benefit plans expense	19		**14.1**		18.9
Gain on settlement of retirement benefits	19		**—**		(5.1)
Short-term disability expense	19		**4.6**		4.9
Income tax expense	21		**2.8**		5.2
Interest received	5		**7.4**		1.1
Interest paid	16		**(3.4)**		(2.7)
Retirement benefit plans contributions	19		**(43.5)**		(48.6)
Income tax refunds, net	21		**25.0**		87.6
Changes in non-cash working capital balances	32		**0.1**		(64.3)
Changes in non-cash long-term assets and liabilities	33		**(5.7)**		(11.7)
			(341.4)		(201.5)
Cash flow generated from investing activities					
Purchases of property, plant and equipment and intangible assets	9,10		**(27.4)**		(45.4)
Proceeds from sale of property, plant and equipment			**3.1**		0.3
Proceeds from termination of credit card arrangement	27		**—**		174.0
Net proceeds from lease termination and sale and leaseback transactions	26		**295.0**		130.0
			270.7		258.9
Cash flow used for financing activities					
Interest paid on finance lease obligations	16,18		**(1.7)**		(1.9)
Repayment of long-term obligations			**(3.9)**		(3.9)
			(5.6)		(5.8)
Effect of exchange rate on cash at end of period			**(1.8)**		3.3
(Decrease) increase in cash			**(78.1)**		54.9
Cash at beginning of period		$	**313.9**	$	259.0
Cash at end of period	5	$	**235.8**	$	313.9

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General information

Sears Canada Inc. is incorporated in Canada. The address of its registered office and principal place of business is 290 Yonge Street, Suite 700, Toronto, Ontario, Canada M5B 2C3. The principal activities of Sears Canada Inc. and its subsidiaries (the "Company") include the sale of goods and services through the Company's Retail channels, which includes its full-line department, Sears Home, Hometown, Outlet, Corbeil Electrique Inc. stores, and its Direct (catalogue/internet) channel.

2. Significant accounting policies

2.1 Statement of compliance

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

2.2 Basis of preparation and presentation

The principal accounting policies of the Company have been applied consistently in the preparation of its consolidated financial statements for all periods presented. These financial statements follow the same accounting policies and methods of application as those used in the preparation of the 2015 Annual Consolidated Financial Statements. The Company's significant accounting policies are detailed in Note 2.

2.3 Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, with the exception of certain financial instruments, measured at fair value, and the retirement benefit liability, which is the net total of retirement benefit plan assets and the present value of accrued retirement benefit plan obligations. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

2.4 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company as well as all of its subsidiaries.

The fiscal year of the Company consists of a 52 or 53-week period ending on the Saturday closest to January 31. The fiscal years for the 2016 and 2015 consolidated financial statements represent the 52-week period ended January 28, 2017 ("Fiscal 2016" or "2016") and the 52-week period ended January 30, 2016 ("Fiscal 2015" or "2015"), respectively.

The Company's consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

2.5 Uses and sources of liquidity

The Fiscal 2016 financial statements have been prepared on the basis of management's assessment of the Company's ability to continue as a going concern (the "assessment"). In determining whether the assessment is appropriate, management has considered available information for the 12 months from the issuance of the Fiscal 2016 financial statements. Management acknowledges that the Company continues to face a challenging competitive environment with recurring operating losses and negative cash flows from operating activities in the last five fiscal years. While the Company continues to focus on its overall profitability, it reported a net loss in Fiscal 2016 and the Company was required to fund cash used in operating activities with cash from investing activities. Management also considered the impact of the disclosures made by Sears Holdings Corporation ("Sears Holdings"), the beneficial holder of 11.7% of the common shares of the Company, with respect to Sears Holding's ability to continue operating on a going concern basis. In addition, management also evaluated its licensing arrangement with Sears Holdings (see Note 29), and assumed that there was no significant impact to its assessment. In the preparation of the Fiscal 2016 financial statements, management has applied significant judgments to determine that no material uncertainties exist related to events or conditions that cast significant doubt on the Company's ability to continue as a going concern.

In response to the recurring operating losses and negative cash flows from operating activities, the Company has taken a number of actions to enhance its financial flexibility, to fund its ongoing business operations and to meet its obligations. During Fiscal 2016, the Company completed a lease termination and a series of sale and leaseback transactions, as described in Note 26, for total net proceeds of $295.0 million. Subsequent to Fiscal 2016, the Company completed two sale and leaseback transactions, as described in Note 34, for a total consideration of $57.0 million less customary closing adjustments.

Subsequent to Fiscal 2016, the Company entered into a Credit Agreement (the "Term Credit Agreement") dated March 20, 2017 with a syndicate of lenders for a five-year secured term loan (the "Term Loan") of up to $300.0 million. The Term Loan is in addition to the Company's existing $300.0 million secured revolving credit facility pursuant to a Credit Agreement (the "Amended Credit Facility") with a different syndicate of lenders dated September 10, 2010, as amended (see Note 16). As at January 28, 2017, the Company had no funded borrowings on the Amended Credit Facility and the availability under the Amended Credit Facility was $192.3 million. The Amended Credit Facility matures on May 28, 2019. The Term Loan is available in two tranches: a first tranche of $125.0 million (before transaction fees) which was drawn in full on March 20, 2017, and a second tranche of up to a further $175.0 million (before transaction fees and to be secured by qualifying owned and leased real estate), which is available to be drawn at the Company's option, subject to the satisfaction of various conditions including receipt of satisfactory appraisals and environmental reports. The Amended Credit Facility and the Term Credit Agreement are secured by a first charge on the Company's inventory, credit card receivables and related assets, and a selection of the Company's owned and leased real estate that is to be mutually agreed and which satisfies eligibility criteria. The respective rights of the lenders under the Term Credit Agreement and the lenders under the Amended Credit Facility as to the security and the priority of their security are governed by an intercreditor agreement between each group of lenders.

Availability under the Amended Credit Facility is determined pursuant to a borrowing base formula that takes into account the value of inventory and receivables less applicable reserves. Similarly, availability under the Term Loan is also determined pursuant to a borrowing base formula that also takes into account the value of the real estate that forms part of the security for the second tranche less applicable reserves. On a monthly basis, where the amount of loans outstanding exceeds the amount of the applicable borrowing base, the Company is required to repay the amount of such excess.

The Company has established a sales strategy on key merchandising initiatives and is actively working with suppliers to align future merchandise cost prices with more competitive out-the-door selling prices. With the expected higher margins and continued adjustments made to pricing and product assortment to better align to the market and customer preferences, the Company expects improved profitability in Fiscal 2017.

If the Company's actual performance differs materially from its plans and continues to experience operating losses, and is not able to receive the full amount of the second tranche of the Term Credit Agreement, the Company may need to pursue additional sources of liquidity. Management expects that obtaining the additional liquidity from the second tranche up to a further $175.0 million (before transaction fees, to be secured by qualifying owned and leased real estate), the continued focus on expense management and obtaining additional liquidity from the owned and leased properties, will provide the necessary cash position to support operations for 12 months from the issuance of the Fiscal 2016 financial statements.

Based on the above significant judgments, the Company expects to end with a positive cash balance and continue as a going concern for 12 months from the issuance of the Fiscal 2016 financial statements.

2.6 Segments

The Company is comprised of one reportable segment, Merchandising. The Company's operations include the sale of goods and services through its operating segments, the Retail channels and the Direct channel. The Company's chief operating decision maker, identified as the Executive Chairman, allocates resources and assesses performance of the business and other activities at the operating segment level.

2.7 Cash

Cash is considered to be restricted when it is subject to contingent rights of a third party customer, vendor, government agency or financial institution. Cash is also considered to be restricted when it is pledged voluntarily as collateral under the senior secured revolving credit facility to provide additional security to lenders.

2.8 Inventories

Inventories are measured at the lower of cost and net realizable value. Cost is determined using the weighted average cost method, based on individual items. The cost is comprised of the purchase price, plus the costs incurred in bringing the inventory to its present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs to sell. Rebates and allowances received from vendors are recognized as a reduction to the cost of inventory, unless the rebates clearly relate to the reimbursement of specific expenses. A provision for shrinkage and obsolescence is calculated based on historical experience. All inventories consist of finished goods.

2.9 Property, plant and equipment

Property, plant and equipment are measured at cost or deemed cost less accumulated depreciation and accumulated impairment losses. Costs include expenditures that are directly attributable to the acquisition of the asset. Property, plant and equipment within one of the Company's retail stores and one of the Company's logistics centres have been classified as held for sale in the Consolidated Statements of Financial Position (see Note 28).

When the significant parts of an item of property, plant and equipment have varying useful lives, they are accounted for as separate components of property, plant and equipment. Depreciation is calculated based on the depreciable amount of the asset or significant component thereof, if applicable, which is the cost of the asset or significant component less its residual value. Depreciation is recognized using the straight-line method for each significant component of an item of property, plant and equipment and is recorded in "Selling, administrative and other expenses" in the Consolidated Statements of Net Loss and Comprehensive Loss. The estimated useful lives are 2 to 13 years for equipment and fixtures and 10 to 50 years for buildings and building improvements. The estimated useful lives, residual values and depreciation methods for property, plant and equipment are reviewed annually and adjusted, if appropriate, with the effect of any changes in estimates accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease, unless it is reasonably certain that the Company will obtain ownership by the end of the lease term.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the proceeds from sale or the cost of retirement and the carrying amount of the asset, and is recognized in the Consolidated Statements of Net Loss and Comprehensive Loss.

For a discussion on the impairment of tangible assets, refer to Note 2.12. Property, plant and equipment are reviewed at the end of each reporting period to determine if there are any indicators of impairment.

2.10 Investment properties

The Company's investment properties consist of vacant land which is not currently used in its operations. Investment properties are measured at their deemed cost less accumulated impairment losses.

The fair value of an investment property is estimated using observable data based on the current cost of acquiring a comparable property within the market area and the capitalization of the property's anticipated revenue. The Company engages independent qualified third parties to conduct appraisals of its investment properties, when needed.

The gain or loss arising from the disposal or retirement of an investment property is determined as the difference between the proceeds from sale or the cost of retirement, and the carrying amount of the asset, and is recognized in the Consolidated Statements of Net Loss and Comprehensive Loss.

For a discussion on the impairment of tangible assets, refer to Note 2.12. Investment properties are reviewed at the end of each reporting period to determine if there are any indicators of impairment.

2.11 Intangible assets

Intangible assets consist primarily of finite life purchased and internally developed software. Finite life intangible assets are carried at cost less accumulated amortization and accumulated impairment losses and are amortized on a straight-line basis over their estimated useful lives which range from 2 to 5 years. The useful lives of primarily all intangible assets are finite. Certain intangible assets have an indefinite useful life, as there is no foreseeable limit to the period during which the Company expects the assets to generate net cash inflows. Amortization expense is included in "Selling, administrative and other expenses" in the Consolidated Statements of Net Loss and Comprehensive Loss. The estimated useful lives and amortization methods for intangible assets are reviewed annually, with the effect of any changes in estimates being accounted for on a prospective basis.

Internally developed software costs are capitalized when the following criteria are met:

- It is technically feasible to complete the software so that it will be available for use;
- The Company intends to complete the software product;
- The Company has an ability to use the software;
- The Company can demonstrate how the software will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use the software product are available; and
- The expenditure attributable to the software product during its development can be reliably measured.

Costs that qualify for capitalization are limited to those that are directly related to each software development project.

2.12 Impairment of tangible assets and intangible assets

At the end of each reporting period, the Company reviews property, plant and equipment, investment properties and intangible assets for indicators of impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the assets are then grouped together into the smallest group of assets that generate independent cash inflows from continuing use (the "cash generating unit" or "CGU") and a recoverable amount is estimated for that CGU. The Company has determined that its CGUs are primarily its retail stores.

Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs. Otherwise, they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

If the recoverable amount of an asset or a CGU is estimated to be less than its carrying amount, the asset or CGU will be reduced to its recoverable amount and an impairment loss is recognized immediately. If an impairment for a CGU has been identified, an impairment loss is recognized as a reduction in the carrying amount of the assets included in the CGU on a pro rata basis.

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is revised to an estimate of its recoverable amount limited to the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized immediately.

2.13 Leasing arrangements

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

2.13.1 The Company as lessor

The Company has entered into a number of agreements to sub-lease premises to third parties. All sub-leases to third parties are classified as operating leases. Rental income from operating leases is recognized as a reduction of rent expense on a straight-line basis over the term of the lease.

2.13.2 The Company as lessee

Assets held under finance leases are initially recognized by the Company at the lower of the fair value of the asset and the present value of the minimum lease payments. The corresponding current and non-current liabilities to the lessor are included in the Consolidated Statements of Financial Position as a finance lease obligation in "Current portion of long-term obligations" and "Long-term obligations", respectively. The assets are depreciated using the same accounting policy as applicable to property, plant and equipment (see Note 2.9).

Lease payments are apportioned between finance costs and the lease obligation in order to achieve a constant rate of interest on the remaining balance of the liability. The minimum lease payments are allocated between the land and building element in proportion to the relative fair values of the leasehold interests, in each of these elements of the lease.

Assets under operating leases are not recognized by the Company. Operating lease payments are recognized in "Selling, administrative and other expenses" in the Consolidated Statements of Net Loss and Comprehensive Loss.

In the event that lease incentives are received from the landlord, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

2.14 Retirement benefit plans

The Company currently maintains a defined contribution and a defined benefit registered pension plan, which covers eligible regular full-time and part-time employees, a non-registered supplemental savings arrangement and a defined benefit non-pension retirement plan, which provides life insurance, medical and dental benefits to eligible retired employees through a health and welfare trust.

2.14.1 Defined contribution plan

A defined contribution plan is a post-employment benefit plan under which the Company pays fixed or matching contributions based on employee contributions into a separate legal entity and has no further legal or constructive obligation to pay additional amounts. Company contributions to the defined contribution retirement benefit plan are recognized as an expense when employees have rendered services entitling them to the contributions.

2.14.2 Defined benefit plans

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations prepared by independent qualified actuaries at least every three years. Remeasurements comprised of actuarial gains and losses, the effect of the asset ceiling (if applicable) and the return on plan assets (excluding interest) are recognized immediately in the Consolidated Statements of Financial Position with a charge or credit to "Other comprehensive (loss) income, net of taxes" ("OCI") in the Consolidated Statements of Net Loss and Comprehensive Loss, in the period in which they occur. The Company performs remeasurements at least annually. Remeasurements recorded in OCI are not subsequently reclassified into profit or loss. However, the entity may transfer those amounts recognized in OCI within "Accumulated other comprehensive loss" ("AOCL") in the Consolidated Statements of Changes in Shareholders' Equity. Past service cost is recognized in profit or loss in the period of plan amendment. Net-interest is calculated by applying the discount rate to the net defined benefit liability or asset.

Defined benefit costs are split into three categories:

- service cost, past-service cost, gains and losses on curtailments and settlements;
- net interest expense or income;
- remeasurements.

The Company presents the first two components of defined benefit costs in "Selling, administrative and other expenses" in the Consolidated Statements of Net Loss and Comprehensive Loss.

Remeasurements are recorded in OCI.

The retirement benefit obligation recognized in the Consolidated Statements of Financial Position represents the actual deficit or surplus in the Company's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

2.14.3 Termination benefits

A liability for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognizes any related restructuring costs.

2.15 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, excluding sales taxes. Revenue is reduced for estimated customer returns, discounts and other similar allowances.

2.15.1 Sale of goods

Revenue from the sale of goods is recognized upon delivery of goods to the customer. In the case of goods sold in-store, delivery is generally complete at the point of sale. For goods subject to delivery such as furniture or major appliances, and goods sold online or through the catalogue, delivery is complete when the goods are delivered to the customers' selected final destination or picked up from a catalogue/online agent. In the case of goods subject to installation, such as home improvement products, revenue is recognized when the goods have been delivered and the installation is complete.

2.15.2 Rendering of services

Revenue from a contract to provide services is recognized by reference to the stage of completion of the contract.

Extended warranty service contracts

The Company sells extended warranty service contracts with terms of coverage generally between 12 and 60 months. Revenue from the sale of each contract is deferred and amortized on a straight-line basis over the term of the related contract.

Product repair, handling and installation services

Product repair, handling and installation services revenue is recognized once the services are complete. These services are performed within a short timeframe.

2.15.3 Commission and licensee fee revenue

The Company earns commission revenue by selling various products and services that are provided by third parties, such as sales of travel services, home improvement products and insurance programs. As the Company is not the primary obligor in these transactions, these commissions are recognized upon sale of the related product or service.

Fee revenue is received from a variety of licensees that operate in the Company's stores. Revenue earned is based on a percentage of licensee sales. Revenue is recorded upon sale of the related product or service.

Revenue was received from JPMorgan Chase Bank, N.A. (Toronto Branch) ("JPMorgan Chase") relating to credit sales in Fiscal 2015. Revenue was primarily based on a percentage of sales charged on the Sears Card or Sears MasterCard and was included in revenue when the sale occurred (see Note 27 for additional information).

2.15.4 Interest income

Interest income is recognized when it is probable that the economic benefits will flow to the Company and the amount of income can be reliably measured. Interest income is accrued on a periodic basis by reference to the principal outstanding and the applicable interest rate.

2.15.5 Customer loyalty program

The Sears Club Points Program (the "Program") allows members to earn points from eligible purchases made on any tender accepted by the Company. Members can then redeem points in accordance with the Program rewards schedule for merchandise. When points are earned, the Company defers revenue equal to the fair value of the awards adjusted for expected redemptions.

When awards are redeemed, the redemption value of the awards is charged against deferred revenue and recognized as revenue. The expected future redemption rates are reviewed on an ongoing basis and are adjusted based upon expected future activity.

2.15.6 Gift cards

The Company sells gift cards through its retail stores, websites and third parties with no administrative fee charges or expiration dates. No revenue is recognized at the time gift cards are sold. Revenue is recognized as a merchandise sale when the gift card is redeemed by the customer. The Company also recognizes income when the likelihood of the gift card being redeemed by the customer is remote, which is generally at the end of 18 months subsequent to issuance, estimated based on historical redemption patterns.

2.15.7 Cost of goods and services sold

Cost of goods and services sold includes the purchase price of merchandise sold, freight and handling costs incurred in preparing the related inventory for sale, installation costs incurred relating to the sale of goods subject to installation, write-downs taken on inventory during the period, physical inventory losses and costs of services provided during the period relating to services sold, less rebates from suppliers relating to merchandise sold.

2.16 Foreign currency translation

Transactions in currencies other than the Company's functional currency are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency at the exchange rates prevailing at that date.

Exchange differences arising on re-translation are recognized in the Consolidated Statements of Net Loss and Comprehensive Loss in the period in which they arise, except for exchange differences on certain foreign currency hedging transactions (see Note 13.3).

Non-monetary assets and liabilities denominated in a foreign currency that are measured at historical cost are translated using the exchange rate at the date of the transaction and are not retranslated.

2.17 Consideration from a vendor

The Company has arrangements with its vendors that provide for rebates subject to binding contractual agreements. Rebates on inventories subject to binding agreements are recognized as a reduction of the cost of sales or related inventories for the period, provided the rebates are probable and reasonably estimable. Rebates on advertising costs subject to binding agreements are recognized as a reduction of the advertising expense for the period, provided the rebates are probable and reasonably estimable.

2.18 Taxation

Income tax expense represents the sum of current tax expense and deferred tax expense.

2.18.1 Current tax

Tax currently payable or recoverable is based on taxable earnings or loss for the reporting period. Taxable income differs from earnings as reported in the Consolidated Statements of Net Loss and Comprehensive Loss, due to income or expenses that are taxable or deductible in other years and items that are not taxable or deductible for tax purposes. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted as at the end of the reporting period and includes any adjustments to taxes payable and/or taxes recoverable in respect of prior years.

2.18.2 Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases used in the computation of taxable earnings or loss.

Deferred tax liabilities are typically recognized for taxable temporary differences. Deferred tax assets are typically recognized for deductible temporary differences to the extent that it is probable that taxable income will be available, against which deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary differences arise from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable net earnings or loss nor the accounting income or loss.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and written down to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to be applicable in the period in which the liability is settled or the asset is realized, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities, when they relate to income taxes levied by the same taxation authority and when the Company intends to settle its current tax assets and liabilities on a net basis. Deferred tax assets and liabilities are not discounted.

2.18.3 Current and deferred tax for the period

Current and deferred tax are recognized as a tax expense or recovery in the Consolidated Statements of Net Loss and Comprehensive Loss, except when they relate to items that are recognized outside of earnings or loss (whether in OCI, or directly in equity), in which case, the tax is also recognized outside of earnings or loss, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is included in the accounting for the business combination. Interest on the Company's tax position is recognized as a finance cost.

2.19 Provisions

Provisions are recognized when the Company has a present obligation, legal or constructive, as a result of a past event, it is probable that the Company will be required to settle the obligation and a reliable estimate can be made for the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties specific to the obligation. Where a provision is measured using the cash flow estimated to settle the present obligation, its carrying amount is the present value of such cash flows.

When some or all of the economic resources required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

2.19.1 Onerous contract provisions

An onerous contract provision is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations. The provision is measured at the present value of the lower of the expected cost of terminating the contract or the expected cost of continuing with the contract. Before a provision is established, the Company recognizes any impairment loss on the assets associated with that contract. The onerous contract provision is included in "Other provisions" as seen in Note 15.

2.19.2 General liability provisions

The Company purchases third party insurance for automobile, damage to a claimant's property or bodily injury from use of a product and general liability claims that exceed a certain dollar level. However, the Company is responsible for the payment of claims under these insured limits. In estimating the obligation associated with incurred losses, the Company utilizes actuarial methodologies which are based on historical data and validated by an independent third party. Loss estimates are adjusted based on actual claims settlements and reported claims (see Note 15).

2.19.3 Warranty provisions

An estimate for warranty provisions is made at the time the merchandise is sold based on historical warranty trends (see Note 15).

2.19.4 Returns and allowances provisions

Provisions for returns and allowances are made based on historical rates which represent the expected future outflow of economic resources on current sales (see Note 15).

2.19.5 Environmental provisions

The Company is exposed to environmental risks as an owner, lessor and lessee of property. Under federal and provincial laws, the owner, lessor or lessee could be liable for the costs of removal and remediation of certain hazardous substances on its properties or disposed of at other locations. The failure to remove or remediate such substances, if any, could lead to claims against the Company. The provision is based on assessments conducted by third parties, as well as historical data (see Note 15).

2.20 Financial assets

All financial assets are recognized and derecognized on the trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned. Financial assets are initially measured at fair value plus transaction costs, except for those financial assets at 'fair value through profit or loss' ("FVTPL") for which the transaction costs are expensed as incurred.

Financial assets and liabilities are offset with the net amount presented in the Consolidated Statements of Financial Position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Financial assets are classified into the following categories: financial assets at FVTPL, 'available-for-sale' ("AFS") financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

2.20.1 Effective interest method

The effective interest method calculates the amortized cost of a financial asset or financial liability and allocates interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flow (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Interest income or expense is recognized on an effective interest basis for financial assets and financial liabilities other than those classified as at FVTPL.

2.20.2 Financial assets at FVTPL

Financial assets are classified at FVTPL when the financial asset is either held-for-trading or it is designated as at FVTPL.

2.20.3 AFS financial assets

Gains and losses arising from changes in fair value of AFS are recognized in OCI, with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognized in "Selling, administrative and other expenses" or "Interest income" in the Consolidated Statements of Net Loss and Comprehensive Loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously included in AOCL is reclassified to "Selling, administrative and other expenses" in the Consolidated Statements of Net Loss and Comprehensive Loss.

2.20.4 Loans and receivables

Cash held by the bank and restricted cash are classified as 'loans and receivables' and are measured at amortized cost.

Trade receivables and other receivables that have fixed or determinable payments that are not quoted in an active market are also classified as 'loans and receivables'. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables, where the recognition of interest would be immaterial.

2.20.5 Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that the estimated future cash flow of the financial asset have been negatively affected as a result of events that have occurred after its initial recognition.

For all financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- probability that the borrower will enter bankruptcy or financial reorganization.

For financial assets carried at amortized cost, the amount of any impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flow discounted at the financial asset's initial effective interest rate. When a subsequent event causes the amount of any impairment loss to decrease, the decrease in impairment loss is reversed through the Consolidated Statements of Net Loss and Comprehensive Loss.

The carrying amount of the financial asset is reduced by any impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, its carrying amount is written off including any amounts previously recorded in the allowance account. Subsequent recoveries of amounts previously written off are credited to "Selling, administrative and other expenses" in the Consolidated Statements of Net Loss and Comprehensive Loss. Changes in the carrying amount of the allowance account are also recognized in "Selling, administrative and other expenses".

2.20.6 Derecognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to the cash flow from the asset expire, or when substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

2.21 Financial liabilities and equity instruments

2.21.1 Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

2.21.2 Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issuance costs.

2.21.3 Financial liabilities

Financial liabilities are recognized on the trade date at which the Company becomes a party to the contractual provisions of the instrument. Financial liabilities are classified as either financial liabilities at 'FVTPL' or 'other financial liabilities'.

2.21.4 Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when they are either held-for-trading or designated as at FVTPL. Currently, the Company does not have any financial liabilities that have been designated as at FVTPL upon initial recognition.

2.21.5 Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost with interest expense recognized on an effective interest method.

The Company amortizes debt issuance transaction costs over the life of the debt using the effective interest method.

2.21.6 Derecognition of financial liabilities

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or expired.

2.22 Derivative financial instruments

The Company enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts and interest rate swaps. Further details on derivative financial instruments are disclosed in Note 13.

Derivatives are initially recognized at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized immediately in "Selling, administrative and other expenses" in the Consolidated Statements of Net Loss and Comprehensive Loss, unless the derivative is designated and effective as a hedging instrument, in which case, the timing of the recognition depends on the nature of the hedge relationship. The Company designates certain derivatives as hedges of highly probable forecasted transactions or hedges of foreign currency risk of firm commitments (cash flow hedges).

A derivative with a positive fair value is recognized as a financial asset, whereas a derivative with a negative fair value is recognized as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realized or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

2.22.1 Hedge accounting

The Company designates certain hedging instruments, which include derivatives, as cash flow hedges. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedging relationship, the Company documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedging transactions. At the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Note 13 sets out details of the fair values of the derivative instruments used for hedging purposes.

2.22.2 Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in OCI. The gain or loss relating to the ineffective portion is recognized immediately in "Selling, administrative and other expenses" in the Consolidated Statements of Net Loss and Comprehensive Loss. Amounts previously recognized in OCI and accumulated in AOCL within equity are reclassified in the periods when the hedged items are recognized (i.e. to "Cost of goods and services sold" in the Consolidated Statements of Net Loss and Comprehensive Loss.

Hedge accounting is discontinued when the Company revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gains or losses accumulated in AOCL within equity at the time of discontinuation remain in equity and are transferred to "Cost of goods and services sold" in the Consolidated Statements of Net Loss and Comprehensive Loss when the forecasted transaction is ultimately recognized. When a forecasted transaction is no longer expected to occur, the gains or losses accumulated in equity are recognized immediately.

2.23 Net loss per share

Net loss per share is calculated using the weighted average number of shares outstanding during the reporting period. Diluted net loss per share is determined using the 'treasury stock method,' which considers the potential for the issuance of new shares created by unexercised in-the-money options, if any such options are outstanding.

2.24 Share-based compensation

The Company granted restricted share units ("RSUs") to an employee in Fiscal 2015 under an equity-based compensation plan. For equity-settled awards, the fair value of the grant of RSUs is recognized as a compensation expense over the period that the related service is rendered with a corresponding increase in equity. The total amount expensed is recognized over a three-year vesting period on a tranche basis, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, the estimate of the number of equity interests that are expected to vest is revised. The impact of the revision to original estimates, if any, is recognized in "Selling, administrative and other expenses" in the Consolidated Statements of Net Loss and Comprehensive Loss.

3. Issued standards not yet adopted

The Company monitors the standard setting process for new standards and interpretations issued by the IASB that the Company may be required to adopt in the future.

In January 2016, the IASB issued the following new standard:

IFRS 16, Leases ("IFRS 16")

IFRS 16 replaces IAS 17, *Leases* ("IAS 17"). This standard will bring most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and financing leases. Lessor accounting remains largely unchanged and the distinction between operating and finance leases is retained. Adoption of IFRS 16 is mandatory and will be effective for annual periods beginning on or after January 1, 2019 with earlier adoption permitted. During Fiscal 2016, the Company has formed an implementation team who is currently in the process of assessing the impact of adopting this standard on the Company's consolidated financial statements and related note disclosures.

In July 2014, the IASB issued the final publication of the following standard:

IFRS 9, Financial Instruments ("IFRS 9")

IFRS 9 replaces IAS 39, *Financial Instruments: Recognition and Measurement ("IAS 39")*. This standard establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. This standard also includes a new general hedge accounting standard which will align hedge accounting more closely with risk management. It does not fully change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however, it will permit more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. Adoption of IFRS 9 is mandatory and will be effective for annual periods beginning on or after January 1, 2018 with earlier adoption permitted. During Fiscal 2016, the Company has formed an implementation team who is currently in the process of assessing the impact of adopting this standard on the Company's consolidated financial statements and related note disclosures.

In May 2014, the IASB issued the following new standard:

IFRS 15, Revenue from Contracts with Customers ("IFRS 15")

IFRS 15 replaces IAS 11, *Construction Contracts*, and IAS 18, *Revenue*, as well as various interpretations regarding revenue. This standard introduces a single model for recognizing revenue that applies to all contracts with customers, except for contracts that are within the scope of standards on leases, insurance and financial instruments. This standard also requires enhanced disclosures. Adoption of IFRS 15 is mandatory and will be effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. During Fiscal 2016, the Company has formed an implementation team who is currently in the process of assessing the impact of adopting this standard on the Company's consolidated financial statements and related note disclosures.

4. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Company's accounting policies, management is required to make judgments, estimates and assumptions with regards to the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

The following are the critical judgments that management has made in the process of applying the Company's accounting policies, key assumptions concerning the future and other key sources of estimation uncertainty that have the potential to materially impact the carrying amounts of assets and liabilities.

4.1 Legal liabilities

Assessing the financial outcome of uncertain legal positions requires judgment to be made regarding the relative merits of each claim and the extent to which a claim is likely to be successful. The assessments are based on reviews conducted by internal and external counsel, when appropriate.

Changes in estimates or assumptions could cause changes to "Provisions" on the Consolidated Statements of Financial Position and a charge or credit to "Selling, administrative and other expenses" in the Consolidated Statements of Net Loss and Comprehensive Loss. For additional information, see Note 15.

4.2 Inventory

4.2.1 Obsolescence, valuation and inventory stock losses

Inventory is written down to reflect future losses on the disposition of obsolete merchandise. Future losses are estimated based on historical trends that vary depending on the type of inventory.

An adjustment is made each period to value inventory at the lower of cost and net realizable value. This adjustment is estimated based on historical trends that vary depending on the type of inventory.

Inventory is adjusted to reflect estimated inventory stock losses incurred in the year based on recent historical inventory count data.

4.2.2 Vendor rebates

Inventory is adjusted to reflect vendor rebates received or receivable based on vendor agreements. This adjustment is estimated based on historical data and current vendor agreements.

4.2.3 Freight

Inbound freight incurred to bring inventory to its present location is estimated each reporting period and is included in the cost of inventory. This estimate is based on historical freight costs incurred.

Changes in estimates may result in changes to "Inventories" on the Consolidated Statements of Financial Position and a charge or credit to "Cost of goods and services sold" in the Consolidated Statements of Net Loss and Comprehensive Loss. For additional information, see Note 7.

4.3 Impairment of property, plant and equipment and intangible assets

The Company's property, plant and equipment and intangible assets have been allocated to CGUs. At the end of each reporting period, the carrying amounts of property, plant and equipment and intangible assets are assessed to determine if there is any evidence that an asset is impaired. Determining if there are any facts and circumstances indicating impairment loss is a subjective process involving judgment and a number of estimates and assumptions. If there are such facts and circumstances, the recoverable amount of the asset is estimated.

Assets that cannot be tested individually for impairment are grouped into the smallest group of assets that generates cash inflows through continued use that are largely independent of the cash inflows from other assets or groups of assets (cash generating unit or CGU).

The recoverable amount of an asset or a CGU is the higher of its value in use and fair value less costs to sell. To determine value in use, expected future cash flows are discounted using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. In the process of measuring expected future cash flows, the Company makes assumptions about future operating profit. These assumptions relate to future events and circumstances. Although the assumptions are based on market information available at the time of the assessment, actual results may vary.

The Company's corporate and intangible assets do not generate separate cash flows. If there is evidence that a corporate or intangible asset is impaired, the recoverable amount is determined for the CGU to which the corporate asset belongs. Impairments are recorded when the carrying amount of the CGU to which the corporate asset belongs is higher than its recoverable amount.

Changes in estimates may result in changes to "Property, plant and equipment" and "Intangible assets" on the Consolidated Statements of Financial Position and a charge or credit to "Selling, administrative and other expenses" in the Consolidated Statements of Net Loss and Comprehensive Loss. For additional information, see Note 9 and Note 10.

4.4 Retirement benefit liability

The retirement benefit liability is estimated based on certain actuarial assumptions, including the discount rate, inflation rate, salary growth and mortality rates. New regulations and market driven changes may impact the assumptions made.

Changes in estimates may result in changes to the "Retirement benefit liability" on the Consolidated Statements of Financial Position and a charge or credit to "Selling, administrative and other expenses" and OCI in the Consolidated Statements of Net Loss and Comprehensive Loss. For additional information, see Note 19.

4.5 Loyalty program deferred revenue

The fair value of Sears Club points granted is deferred at the time of the related initial sale transaction and is recognized upon redemption of the points for merchandise. The redemption value of the points is estimated at the initial sale transaction, based on historical behaviour and trends in redemption rates and redemption values, as well as an adjustment for the percentage of points that are expected to be converted to reward cards, but for which the likelihood of redemption is remote ("reward card breakage").

Changes in estimates may result in changes to "Deferred revenue" (current) on the Consolidated Statements of Financial Position and an increase or decrease to "Revenue" in the Consolidated Statements of Net Loss and Comprehensive Loss. For additional information, see Note 12.

4.6 Derivative assets and liabilities

All derivatives are measured at fair value. U.S. dollar forward contracts are traded over-the-counter and give holders the right to buy a specified amount of U.S. currency at an agreed upon price and date in the future. Fair values of the U.S. dollar forward contracts is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate. The fair value of fuel swaps is based on counterparty confirmations tested for reasonableness by discounting estimated future cash flows derived from the terms and maturity of each contract using market fuel prices at the measurement date. The Company is required to estimate various inputs which are used in these calculations that are a combination of quoted prices and observable market inputs. The fair values of derivatives include an adjustment for credit risk when appropriate.

Changes in estimates may result in changes to "Derivative financial assets" and "Derivative financial liabilities" on the Consolidated Statements of Financial Position and a charge or credit to "Cost of goods and services sold", "Selling, administrative and other expenses" or OCI in the Consolidated Statements of Net Loss and Comprehensive Loss. For additional information, see Note 13.

4.7 Provisions

Provisions are estimated based on historical data, cost estimates provided by specialists and future projections.

Changes in estimates or assumptions could cause changes to "Provisions" on the Consolidated Statements of Financial Position and a charge or credit to "Revenue", "Cost of goods and services sold" or "Selling, administrative and other expenses" in the Consolidated Statements of Net Loss and Comprehensive Loss. For additional information, see Note 15.

4.8 Leasing arrangements

The Company has applied judgment in the classification of its leasing arrangements, which is determined at the inception of the lease and is based on the substance of the transaction, rather than its legal form. The Company's leases were evaluated based on certain significant assumptions including the discount rate, economic life of an asset, lease term and existence of a bargain renewal option.

Changes in estimates or assumptions could cause changes to "Property, plant and equipment", "Current portion of long-term obligations" and "Long-term obligations" on the Consolidated Statements of Financial Position and a charge or credit to "Selling, administrative and other expenses" and "Finance costs" in the Consolidated Statements of Net Loss and Comprehensive Loss. For additional information, see Note 18.

4.9 Taxes

In the ordinary course of business, the Company is subject to ongoing audits by tax authorities. While the Company believes that its tax filing positions are appropriate and supportable, certain matters are periodically challenged by tax authorities. The Company applies judgment and routinely evaluates and provides for potentially unfavourable outcomes with respect to any tax audits. If the result of a tax audit materially differs from the existing provisions, the Company's effective tax rate and its net loss will be affected positively or negatively. The Company also uses judgment in assessing the likelihood that deferred income tax assets will be recovered from future taxable income by considering factors such as the reversal of deferred income tax liabilities, projected future taxable income, tax planning strategies and changes in tax laws.

Changes in estimates or assumptions could cause changes to "Income taxes recoverable", "Deferred tax assets", "Other long-term assets", "Income and other taxes payable" and "Deferred tax liabilities" on the Consolidated Statements of Financial Position and a charge or credit to "Income tax (expense) recovery" in the Consolidated Statements of Net Loss and Comprehensive Loss. For additional information, see Note 21.

4.10 Gift cards

The gift card liability is based on the total amount of gift cards outstanding which have not yet been redeemed by customers. The Company also recognizes income when the likelihood of redeeming the gift card is remote ("gift card breakage"). Gift card breakage is estimated based on historical redemption patterns. Changes in estimates of the redemption patterns may result in changes to "Deferred revenue" (current) on the Consolidated Statements of Financial Position and an increase or decrease to "Revenue" in the Consolidated Statements of Net Loss and Comprehensive Loss.

5. Cash and interest income

Cash

The components of cash were as follows:

(in CAD millions)		**As at January 28, 2017**		As at January 30, 2016
Cash	**$**	**134.7**	$	306.9
Restricted cash		**101.1**		7.0
Total cash	**$**	**235.8**	$	313.9

As at January 28, 2017, restricted cash of $100.0 million (January 30, 2016: nil) was pledged voluntarily as collateral under the senior secured revolving credit facility to provide additional security to lenders. The other components of restricted cash are further discussed in Note 20.

Interest income

Interest income for the fiscal year ended January 28, 2017 totaled $7.2 million (2015: $2.3 million). During Fiscal 2016, the Company received $7.4 million (2015: $1.1 million) in cash related to interest income. Interest income for the fiscal year ended January 28, 2017 of $3.1 million (2015: $1.1 million) related to refund interest on net cash income tax receipts (see Note 21 for additional information), $1.7 million related to interest income recognized on maturity of an investment, with the balance related primarily to cash.

6. Accounts receivable, net

The components of accounts receivable, net were as follows:

(in CAD millions)		As at January 28, 2017		As at January 30, 2016
Deferred receivables	$	**0.2**	$	0.2
Other receivables		**66.9**		59.2
Total accounts receivable, net	$	**67.1**	$	59.4

Other receivables primarily consist of amounts due from customers and amounts due from vendors.

Included in the accounts receivable balances above are amounts that are past due but are not provided for, as the Company considers the balances to be collectible. These past due accounts receivable balances are listed below:

(in CAD millions)		As at January 28, 2017		As at January 30, 2016
Greater than 30 days	$	**9.9**	$	5.1
Greater than 60 days		**3.4**		2.4
Greater than 90 days		**11.6**		8.3
Total	$	**24.9**	$	15.8

The following is a continuity of the Company's allowances for uncollectable accounts receivable:

(in CAD millions)		As at January 28, 2017		As at January 30, 2016
Allowances, beginning of year	$	**6.0**	$	8.3
Net additions (write-off)		**0.1**		(2.3)
Allowances, end of year	$	**6.1**	$	6.0

7. Inventories

The amount of inventory recognized as an expense during Fiscal 2016 was $1,700.8 million (2015: $1,943.8 million), which included $42.6 million (2015: $66.2 million) of inventory write-downs to reduce the carrying amount of inventory to net realizable value. These expenses were included in "Cost of goods and services sold" in the Consolidated Statements of Net Loss and Comprehensive Loss. Inventory write-downs included reversals of prior period inventory write-downs for Fiscal 2016 of $3.1 million (2015: $1.6 million), due to an increase in net realizable value.

8. Prepaid expenses

The components of prepaid expenses were as follows:

(in CAD millions)		As at January 28, 2017		As at January 30, 2016
Rent	$	**9.5**	$	10.7
Contracts		**13.7**		11.5
Supplies		**3.0**		2.8
Insurance		**1.0**		0.8
Other		**7.3**		5.2
Total prepaid expenses	$	**34.5**	$	31.0

9. Property, plant and equipment and investment properties

The following is a continuity of property, plant and equipment:

(in CAD millions)	Land	Buildings and Leasehold Improvements	Finance Lease Buildings	Finance Lease Equipment	Equipment and Fixtures	Total
Cost or deemed cost						
Balance at January 31, 2015	$ 228.4	$ 1,086.4	$ 41.5	$ 1.0	$ 1,136.0	$ 2,493.3
Additions	—	14.0	—	0.1	9.6	23.7
Disposals	(52.1)	(16.3)	(3.5)	—	(13.7)	(85.6)
Net movement to assets held for sale [2]	(2.5)	(16.3)	—	—	(7.0)	(25.8)
Balance at January 30, 2016	$ 173.8	$ 1,067.8	$ 38.0	$ 1.1	$ 1,124.9	$ 2,405.6
Additions	—	13.6	—	—	11.5	25.1
Disposals	(57.2)	(84.2)	(5.0)	—	(40.7)	(187.1)
Net movement to assets held for sale [2]	(45.0)	(130.0)	—	—	(36.0)	(211.0)
Balance at January 28, 2017	**$ 71.6**	**$ 867.2**	**$ 33.0**	**$ 1.1**	**$ 1,059.7**	**$ 2,032.6**
Accumulated depreciation and impairment						
Balance at January 31, 2015	$ —	$ 847.9	$ 34.1	$ 0.5	$ 1,043.2	$ 1,925.7
Depreciation expense [1]	—	19.7	2.0	0.3	22.9	44.9
Disposals	—	(15.6)	(3.5)	—	(13.7)	(32.8)
Net impairment losses [1]	—	10.5	5.4	—	23.3	39.2
Net movement to assets held for sale [2]	—	(8.5)	—	—	(7.0)	(15.5)
Balance at January 30, 2016	$ —	$ 854.0	$ 38.0	$ 0.8	$ 1,068.7	$ 1,961.5
Depreciation expense [1]	—	11.7	—	0.3	15.6	27.6
Disposals	—	(38.1)	(5.0)	—	(38.1)	(81.2)
Impairment losses [1]	—	8.9	—	—	15.2	24.1
Net movement to assets held for sale [2]	—	(91.9)	—	—	(34.6)	(126.5)
Balance at January 28, 2017	**$ —**	**$ 744.6**	**$ 33.0**	**$ 1.1**	**$ 1,026.8**	**$ 1,805.5**
Net balance at January 28, 2017	**$ 71.6**	**$ 122.6**	**$ —**	**$ —**	**$ 32.9**	**$ 227.1**
Net balance at January 30, 2016	$ 173.8	$ 213.8	$ —	$ 0.3	$ 56.2	$ 444.1

1 *Depreciation expense and impairment losses are included in "Selling, administrative and other expenses" in the Consolidated Statements of Net Loss and Comprehensive Loss.*

2 *Represents the balances related to certain retail stores and logistics centres. Refer to Note 28 "Assets classified as held for sale" for additional information.*

Impairment losses

The Company performed an impairment analysis on its CGUs as required by IAS 36, *Impairment of Assets*. The net impairment losses (reversals) recognized for the current and prior fiscal years were as follows:

(in CAD millions)	**2016**	2015
Sears full-line department stores	**$ 11.6**	$ 43.1
Direct channel	**10.5**	6.5
Other	**2.0**	4.7
Distribution centre	**—**	(15.1)
Total net impairment losses	**$ 24.1**	$ 39.2

The impairment losses were due to indicators (in particular a decrease in revenue or decrease in cash flows) that the recoverable amounts were less than the carrying values. The recoverable amounts of the CGUs tested were determined as the higher of fair value less costs to sell, or value in use. In calculating fair value less costs to sell, the Company conducted appraisals of certain land and building properties that it owned or leased, with the assistance of independent qualified third party appraisers. The valuation methods used to determine fair value included the direct capitalization and discounted cash flow methods for buildings and the direct sales comparison for land. In calculating value in use, the Company used the present value of the estimated cash flows over management's best estimate of the useful life of the CGUs' assets, as applicable. A pre-tax discount rate of 14.0% was based on management's best estimate of the CGUs' weighted average cost of capital considering the risks facing the CGUs.

Impairment reversal

In prior years, an impairment loss of $44.4 million was recorded related to the Montreal distribution centre. During Fiscal 2015, an impairment reversal of $15.1 million was included in "Selling, administrative and other expenses" in the Consolidated Statements of Net Loss and Comprehensive Loss in Fiscal 2015. The impairment reversal was included in the net impairment losses for 2015 in "Buildings and Leasehold Improvements."

Investment properties

Investment properties owned by the Company represent vacant land with no operating activity. During Fiscal 2016, there were disposals of $19.7 million of investment properties and no additions, impairment losses or reversals.

As at January 28, 2017, the carrying value was $2.0 million of which nil was included in "Assets held for sale" (January 30, 2016: $21.7 million of which $4.7 million was included in "Assets held for sale"). The fair value of investment properties was $2.8 million (January 30, 2016: $30.3 million). The fair value of the investment properties are classified within Level 3 of the fair value hierarchy (described further in Note 13.6). The Company engaged independent qualified third party appraisers to conduct appraisals and the fair value was determined using direct sales comparisons.

10. Intangible assets

The following is a continuity of intangible assets:

(in CAD millions)		Application Software		Information System Software and Other		Total
Cost or deemed cost						
Balance at January 31, 2015	$	66.0	$	136.2	$	202.2
Additions		27.1		3.0		30.1
Disposals		—		(0.1)		(0.1)
Balance at January 30, 2016	$	93.1	$	139.1	$	232.2
Additions		3.2		0.1		3.3
Disposals		—		(0.1)		(0.1)
Balance at January 28, 2017	**$**	**96.3**	**$**	**139.1**	**$**	**235.4**
Accumulated amortization						
Balance at January 31, 2015	$	57.2	$	128.8	$	186.0
Amortization expense [1]		3.4		0.1		3.5
Disposals		—		(0.1)		(0.1)
Impairment losses [1]		20.3		—		20.3
Balance at January 30, 2016	$	80.9	$	128.8	$	209.7
Amortization expense [1]		3.7		0.1		3.8
Disposals		—		—		—
Impairment losses [1]		11.1		8.8		19.9
Balance at January 28, 2017	**$**	**95.7**	**$**	**137.7**	**$**	**233.4**
Net balance at January 28, 2017	**$**	**0.6**	**$**	**1.4**	**$**	**2.0**
Net balance at January 30, 2016	$	12.2	$	10.3	$	22.5

1 *Amortization expense and impairment losses are included in "Selling, administrative and other expenses" in the Consolidated Statements of Net Loss and Comprehensive Loss.*

Impairment loss

During Fiscal 2016, the Company recognized an impairment loss of $19.9 million (2015: $20.3 million) on intangible assets of a number of Sears full-line department stores, Sears Home stores, Hometown stores, Sears Travel locations, the Direct channel and Sears Home Services. The impairment loss was due to indicators (in particular a decrease in revenue or decrease in cash flows) that the recoverable amount was less than the carrying value. The loss was included in "Selling, administrative and other expenses" in the Consolidated Statements of Net Loss and Comprehensive Loss.

11. Other long-term assets

The components of other long-term assets were as follows:

(in CAD millions)		**As at January 28, 2017**		As at January 30, 2016
Income taxes recoverable	$	—	$	3.8
Prepaid rent		**4.8**		5.2
Receivables		**0.1**		1.8
Investments		—		1.3
Unamortized debt transaction costs		**2.4**		3.2
Other long-term assets	$	**7.3**	$	15.3

12. Deferred revenue

The components of deferred revenue were as follows:

(in CAD millions)		**As at January 28, 2017**		As at January 30, 2016
Arising from extended warranty service contracts (i)	$	**122.7**	$	131.2
Arising from unshipped sales (ii)		**40.4**		50.8
Arising from customer loyalty program (iii)		**29.5**		34.1
Arising from gift card issuances (iv)		**8.1**		10.7
Other (v)		**4.8**		5.7
Total deferred revenue	$	**205.5**	$	232.5
Current	$	**136.1**	$	158.3
Non-current		**69.4**		74.2
Total deferred revenue	$	**205.5**	$	232.5

The following explanations describe the Company's deferred revenue:

(i) Deferred revenue arising from the sale of extended warranty service contracts, which provide coverage for product repair services over the term of the contracts.

(ii) Deferred revenue arising from the sale of merchandise which has not yet been delivered to or picked up by the customer. The revenue is recognized once the merchandise is delivered to the customer.

(iii) Deferred revenue arising from the Sears Club loyalty program.

(iv) Deferred revenue arising from the purchase of gift cards by customers that have not yet been redeemed for merchandise. The revenue is recognized primarily upon redemption of the gift card.

(v) Other includes deferred revenue for services that have not yet been fully rendered. The revenue is recognized when the goods have been delivered or by reference to the stage of completion of the service.

13. Financial instruments

In the ordinary course of business, the Company enters into financial agreements with banks and other financial institutions to reduce underlying risks associated with interest rates, foreign currency, and commodity prices. The Company does not hold or issue derivative financial instruments for trading or speculative purposes.

Financial instrument risk management

The Company is exposed to credit, liquidity and market risk as a result of holding financial instruments. Market risk consists of foreign exchange, interest rate, fuel price and natural gas price risk.

13.1 Credit risk

Credit risk refers to the possibility that the Company can suffer financial losses due to the failure of the Company's counterparties to meet their payment obligations. Exposure to credit risk exists for derivative instruments, cash, accounts receivable and other long-term assets.

Cash, accounts receivable, derivative instruments and investments included in other long-term assets totaling $303.0 million as at January 28, 2017 (January 30, 2016: $381.2 million) expose the Company to credit risk should the borrower default on maturity of the instruments. The Company manages this exposure through policies that require borrowers to have a minimum credit rating of A, and limiting investments with individual borrowers at maximum levels based on credit rating.

The Company is exposed to minimal credit risk from third parties as a result of ongoing credit evaluations and review of accounts receivable collectability. An allowance account included in "Accounts receivable, net" in the Consolidated Statements of Financial Position totaled $6.1 million as at January 28, 2017 (January 30, 2016: $6.0 million). As at January 28, 2017, no individual party represented 10.0% or more of the Company's net accounts receivable (January 30, 2016: no individual party represented 10% or more of the Company's net accounts receivable).

13.2 Liquidity risk

Liquidity risk is the risk that the Company may not have cash available to satisfy financial liabilities as they come due. The Company actively maintains access to adequate funding sources to seek to ensure it has sufficient available funds to meet current and foreseeable financial requirements at a reasonable cost.

The following table summarizes the carrying amount and the contractual maturities of both the interest and principal portion of significant financial liabilities as at January 28, 2017:

		Contractual Cash Flow Maturities				
(in CAD millions)	Carrying Amount	Total	Within 1 year	1 year to 3 years	3 years to 5 years	Beyond 5 years
Accounts payable and accrued liabilities	$ 319.8	$ 319.8	$ 319.8	$ —	$ —	$ —
Finance lease obligations including payments due within one year [1]	20.3	24.6	5.0	9.9	6.9	2.8
Operating lease obligations [2]	—	380.2	82.9	135.5	85.8	76.0
Royalties [2]	—	11.6	3.1	5.9	2.6	—
Purchase agreements [2,3]	—	22.4	15.2	6.7	0.5	—
Retirement benefit plans obligations [4]	308.6	207.4	47.9	88.4	71.1	—
	$ 648.7	**$ 966.0**	**$ 473.9**	**$ 246.4**	**$ 166.9**	**$ 78.8**

1 *Cash flow maturities related to finance lease obligations, including payments due within one year, include annual interest on finance lease obligations at a weighted average rate of 7.7%.*

2 *Operating lease obligations, royalties and certain purchase agreements are not reported in the Consolidated Statements of Financial Position.*

3 *Certain vendors require minimum purchase commitment levels over the term of the contract. A portion of these obligations are included in "Other long-term liabilities" in the Consolidated Statements of Financial Position.*

4 *Payments are based on a funding valuation as at December 31, 2015 which was completed on September 27, 2016. Any obligation beyond 2021 would be based on a funding valuation to be completed as at December 31, 2018 or earlier at the Company's discretion.*

Market risk

Market risk exists as a result of the potential for losses caused by changes in market factors such as foreign currency exchange rates, interest rates and commodity prices.

13.3 Foreign exchange risk

The Company enters into foreign exchange contracts to reduce the foreign exchange risk with respect to U.S. dollar denominated assets and liabilities and purchases of goods or services. As at January 28, 2017, there were forward contracts outstanding with a notional value of U.S. $82.0 million (January 30, 2016: U.S. $168.0 million) and a fair value of $0.6 million included in "Derivative financial liabilities" (January 30, 2016: $6.6 million included in "Derivative financial assets") in the Consolidated Statements of Financial Position. These derivative contracts have settlement dates extending to June 2017. The intrinsic value portion of these derivatives has been designated as a cash flow hedge for hedge accounting treatment under IAS 39. These contracts are intended to reduce the foreign exchange risk with respect to anticipated purchases of U.S. dollar denominated goods purchased for resale ("hedged item"). As at January 28, 2017, the designated portion of these hedges was considered effective.

While the notional principal of these outstanding financial instruments is not recorded in the Consolidated Statements of Financial Position, the fair value of the contracts is included in "Derivative financial assets" or "Derivative financial liabilities", depending on the fair value, and classified as current or long-term, depending on the maturities of the outstanding contracts. Changes in the fair value of the designated portion of contracts are included in OCI for cash flow hedges, to the extent the designated portion of the hedges continues to be effective, with any ineffective portion included in "Cost of goods and services sold" in the Consolidated Statements of Net Loss and Comprehensive Loss. Amounts previously included in OCI are reclassified to "Cost of goods and services sold" in the same period in which the hedged item impacts net loss.

During Fiscal 2016, the Company recorded a gain of $1.1 million (2015: loss of $3.2 million), in "Selling, administrative and other expenses" in the Consolidated Statements of Net Loss and Comprehensive Loss, relating to the translation or settlement of U.S. dollar denominated monetary items consisting of cash, accounts receivable and accounts payable.

The year end exchange rate was 0.7612 U.S. dollars to one Canadian dollar. A 10% appreciation or depreciation of the U.S. dollar and/or the Canadian dollar exchange rate was determined to have an after-tax impact on net loss of less than $0.1 million for U.S. dollar denominated balances included in cash and accounts payable.

13.4 Interest rate risk

Interest rate risk reflects the sensitivity of the Company's financial condition to movements in interest rates. Financial assets and liabilities which do not bear interest or bear interest at fixed rates are classified as non-interest rate sensitive.

Net assets included in cash and other long-term assets, and borrowings under the Amended Credit Facility, when applicable, are subject to interest rate risk. The total subject to interest rate risk as at January 28, 2017 was a net asset of $235.8 million (January 30, 2016: net asset of $315.2 million). An increase or decrease in interest rates of 25 basis points would cause an after-tax impact on net loss of $0.4 million for net assets subject to interest rate risk included in cash and other long-term assets at the end of Fiscal 2016.

13.5 Fuel and natural gas price risk

The Company entered into fuel and natural gas derivative contracts to manage the exposure to diesel fuel and natural gas prices and help mitigate volatility in cash flow for the transportation service business and utilities expense, respectively. As at January 28, 2017, the fixed to floating rate swap contracts outstanding had a fair value of $0.1 million included in "Derivative financial assets" (January 30, 2016: less than $0.1 million included in "Derivative financial assets") in the Consolidated Statements of Financial Position. These derivative contracts have settlement dates extending to January 31, 2017 with monthly settlement of maturing contracts.

13.6 Classification and fair value of financial instruments

The estimated fair values of financial instruments presented are based on relevant market prices and information available at those dates. The following table summarizes the classification and fair value of certain financial instruments as at the specified dates. The Company determines the classification of a financial instrument when it is initially recorded, based on the underlying purpose of the instrument. As a significant number of the Company's assets and liabilities, including inventories and capital assets, do not meet the definition of financial instruments, values in the tables below do not reflect the fair value of the Company as a whole.

The fair value of financial instruments are classified and measured according to the following three levels, based on the fair value hierarchy.

- Level 1: Quoted prices in active markets for identical assets or liabilities
- Level 2: Inputs other than quoted prices in active markets that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: Inputs for the asset or liability that are not based on observable market data

(in CAD millions) Classification	Balance Sheet Category	Fair Value Hierarchy	**As at January 28, 2017**	As at January 30, 2016
Fair value through profit or loss				
U.S. $ derivative contracts	Derivative financial (liabilities) assets	Level 2	**$ (0.6)**	$ 6.6
Fuel and natural gas derivative contracts	Derivative financial assets	Level 2	**0.1**	—
Long-term investments	Other long-term assets	Level 3	**—**	1.3

All other assets that are financial instruments not listed in the chart above have been classified as "Loans and receivables". All other financial instrument liabilities have been classified as "Other liabilities" and are measured at amortized cost in the Consolidated Statements of Financial Position. The carrying value of these financial instruments approximate fair value given that they are primarily short-term in nature. During Fiscal 2016, no transfers of financial instruments occurred between levels of the fair value hierarchy (2015: nil).

14. Accounts payable and accrued liabilities

The components of "Accounts payable and accrued liabilities" as included in the Consolidated Statements of Financial Position were as follows:

(in CAD millions)	**As at January 28, 2017**	As at January 30, 2016
Total accounts payable	**$ 167.9**	$ 162.5
Accrued liabilities		
Payroll and employee benefits	**22.9**	29.0
Merchandise accruals	**56.0**	65.6
Short-term leasehold inducements	**8.0**	8.3
Advertising accruals	**6.9**	11.9
Other accrued liabilities	**58.1**	55.4
Total accrued liabilities	**$ 151.9**	$ 170.2
Total accounts payable and accrued liabilities	**$ 319.8**	$ 332.7

15. Provisions

The following is a continuity which shows the change in provisions during Fiscal 2016 and Fiscal 2015:

(in CAD millions)	As at January 30, 2016	Additional Provisions	Release of Provisions	Reversed Provisions	**As at January 28, 2017**
Insurance (i)	$ 12.1	$ 5.4	$ (5.2)	$ —	**$ 12.3**
Returns and allowances (ii)	11.1	9.3	(8.3)	—	**12.1**
Warranties (iii)	5.2	—	(1.0)	—	**4.2**
Sales tax (iv)	26.7	2.8	(2.4)	(24.6)	**2.5**
Severance (v)	16.4	36.1	(25.7)	(3.5)	**23.3**
Environmental (vi)	6.4	1.6	(1.9)	(0.3)	**5.8**
Other provisions (vii)	2.9	13.5	(5.5)	—	**10.9**
Total provisions	$ 80.8	$ 68.7	$ (50.0)	$ (28.4)	**$ 71.1**
Current	$ 75.8	$ 64.2	$ (50.0)	$ (28.4)	**$ 61.6**
Non-current (iii), (vi)	5.0	4.5	—	—	**9.5**
Total provisions	$ 80.8	$ 68.7	$ (50.0)	$ (28.4)	**$ 71.1**

(in CAD millions)		As at January 31, 2015		Additional Provisions		Release of Provisions		Reversed Provisions		As at January 30, 2016
Insurance (i)	$	13.7	$	3.2	$	(4.8)	$	—	$	12.1
Returns and allowances (ii)		12.0		6.5		(7.4)		—		11.1
Warranties (iii)		8.2		0.6		(3.6)		—		5.2
Sales tax (iv)		6.0		22.1		(1.4)		—		26.7
Severance (v)		11.9		28.7		(18.3)		(5.9)		16.4
Environmental (vi)		6.1		2.7		(2.1)		(0.3)		6.4
Other provisions (vii)		5.5		—		(2.4)		(0.2)		2.9
Total provisions	$	63.4	$	63.8	$	(40.0)	$	(6.4)	$	80.8
Current	$	58.6	$	63.6	$	(40.0)	$	(6.4)	$	75.8
Non-current (iii) (vi)		4.8		0.2		—		—		5.0
Total provisions	$	63.4	$	63.8	$	(40.0)	$	(6.4)	$	80.8

The following explanations describe the Company's provisions:

(i) The provision for insurance, or general liability claims, represents the Company's best estimate of the future outflow of economic resources due to automobile, product and other general liability claims. Insurance claims relating to this provision are expected to be paid over the next several years; however, as the Company has no unconditional right to defer the settlement past at least 12 months, this provision is considered to be current. In estimating the obligation associated with incurred losses, the Company utilizes actuarial methodologies validated by an independent third party. These actuarial methodologies utilize historical data to project future incurred losses. Loss estimates are adjusted based on reported claims and actual settlements.

(ii) The provision for returns and allowances represents the Company's best estimate of the future outflow of economic resources due to merchandise returns and allowances. Returns and allowances relating to this provision are expected to be realized over the next 12 months. Uncertainty exists relating to the amount and timing of returns and allowances, therefore, historical data has been used to arrive at this estimate.

(iii) The provision for warranty claims represents the Company's best estimate of the future outflow of economic resources that will be required due to the Company's warranty obligations. Uncertainty exists relating to the number of incidents requiring merchandise repair and the related costs. This provision is estimated based on historical warranty trends and costs. The provision for warranty claims is primarily expected to be realized within 72 months, with the balance included in "Provisions" and "Other long-term liabilities" in the Consolidated Statements of Financial Position.

(iv) The Company maintains provisions for sales tax assessments under active discussion, audit, dispute or appeal with tax authorities. These provisions represent the Company's best estimate of the amount expected to be paid based on qualitative and quantitative assessments. Though uncertainty exists around the timing of settlement of the disputes or appeals with tax authorities, the Company expects that sales tax provisions will be settled within four years. However, as the Company has no unconditional right to defer the settlement of these provisions past at least 12 months, these provisions are classified as current.

(v) The provision for severance represents the Company's best estimate of the future outflow of payments to terminated employees. Uncertainty exists in certain cases relating to the amount of severance that will be awarded in court proceedings. As the Company has no unconditional right to defer these payments past at least 12 months, this provision is classified as current.

(vi) The environmental provision primarily represents the costs to remediate environmental contamination associated with decommissioning auto centres to meet regulatory requirements. The provision is based on assessments conducted by third parties as well as historical data. The timing of payments for remediation is uncertain and as the Company has no unconditional right to defer most of these payments past at least 12 months, the balance is included primarily in "Provisions", with the remainder of the balance included in "Other long-term liabilities" in the Consolidated Statements of Financial Position.

(vii) Other provisions primarily relate to onerous contracts. The provision for onerous contracts represents the Company's best estimate of the future outflow of payments when the unavoidable costs of meeting the obligations under a contract exceed the economic benefits expected. Uncertainty exists in certain cases relating to the expected economic benefits under an onerous contract, however the Company expects the onerous contract provisions to be settled within five years. The liability that is expected to be settled within 12 months is included in "Provisions", with the remainder of the balance included in "Other long-term liabilities" in the Consolidated Statements of Financial Position.

16. Long-term obligations and finance costs

Long-term obligations

The Company's debt consists of finance lease obligations. In September 2010, the Company entered into an $800.0 million senior secured revolving credit facility (the "Credit Facility") with a syndicate of lenders with a maturity date of September 10, 2015.

On May 28, 2014, the Company announced that it had extended the term of the Credit Facility (the "Amended Credit Facility") to May 28, 2019 and reduced the total credit limit to $300.0 million. The Amended Credit Facility is secured with a first lien on inventory and credit card receivables.

Availability under the Amended Credit Facility is determined pursuant to a borrowing base formula, up to a maximum availability of $300.0 million. Availability under the Amended Credit Facility was $192.3 million as at January 28, 2017 (January 30, 2016: $120.1 million). In 2013, as a result of judicial developments relating to the priorities of pension liability relative to certain secured obligations, the Company provided additional security to the lenders by pledging certain real estate assets as collateral, thereby partially reducing the potential reserve amount the lenders could apply. As at January 28, 2017, four properties in Canada had been pledged to the lenders under the Amended Credit Facility. The reserve amount may increase or decrease in the future based on changes in estimated net pension deficits in the event of a wind-up, and based on the value of real estate assets pledged as additional collateral.

The Amended Credit Facility contains covenants which are customary for facilities of this nature and the Company was in compliance with all covenants as at January 28, 2017.

As at January 28, 2017, the Company had no funded borrowings on the Amended Credit Facility. The Company had unamortized transaction costs associated with the Amended Credit Facility of $2.4 million included in "Other long-term assets" in the Consolidated Statements of Financial Position (January 30, 2016: no funded borrowings and unamortized transaction costs of $3.2 million included in "Other long-term assets"). In addition, the Company had $107.7 million (January 30, 2016: $63.3 million) of letters of credit outstanding under the Amended Credit Facility. These letters of credit cover various payment obligations. Interest on drawings under the Amended Credit Facility and letter of credit fee are determined based on bankers' acceptance rates for one to three month terms or the prime rate plus a spread. Interest amounts on the Amended Credit Facility are due monthly and are added to principal amounts outstanding.

As at January 28, 2017, the Company had no outstanding merchandise letters of credit (January 30, 2016: U.S. $4.8 million) used to support the Company's offshore merchandise purchasing program.

Finance costs

Interest expense on long-term obligations, including finance lease obligations, the current portion of long-term obligations, amortization of transaction costs, accretion on the long-term portion of provisions and commitment fees on the unused portion of the Amended Credit Facility for Fiscal 2016 totaled $7.2 million (2015: $6.3 million). Interest expense was included in "Finance costs" in the Consolidated Statements of Net Loss and Comprehensive Loss. Also included in "Finance costs" for Fiscal 2016, was an expense of $1.7 million for interest on income tax assessments and reassessments of the current and prior years (2015: expense of $3.4 million).

The Company's cash payments for interest on long-term obligations, including finance lease obligations, the current portion of long-term obligations and commitment fees on the unused portion of the Credit Facility for Fiscal 2016 totaled $5.1 million (2015: $4.6 million).

17. Other long-term liabilities

The components of other long-term liabilities were as follows:

(in CAD millions)		**As at January 28, 2017**		As at January 30, 2016
Leasehold inducements	$	**35.3**	$	43.3
Straight-line rent liability		**33.4**		11.7
Miscellaneous		**14.2**		12.0
Total other long-term liabilities	$	**82.9**	$	67.0

The non-current portions of the warranties and environmental provisions (see Note 15) are reflected in the miscellaneous component of "Other long-term liabilities" in the Consolidated Statements of Financial Position.

18. Leasing arrangements

18.1 Finance lease arrangements – Company as lessee

As at January 28, 2017, the Company had finance lease arrangements related to the building and equipment components of certain leased properties, which include retail, office and warehouse locations. The related land components of these properties have been separately classified as operating leases. The buildings and equipment held under finance leases are used in the normal course of operations and do not contain significant unusual or contingent lease terms or restrictions. Building leases typically run for a period of 1 to 10 years, with some leases providing multiple options to renew after that date. Equipment leases typically run for a period of 1 to 5 years, with some leases providing an option to renew after that date.

Finance lease buildings and equipment are included in the Consolidated Statements of Financial Position under "Property, plant and equipment". Note 9 provides further details on the net carrying value of these assets, which as at January 28, 2017 was nil (January 30, 2016: $0.3 million).

As at January 28, 2017, the corresponding finance lease obligations, current and non-current, were $3.7 million (January 30, 2016: $4.0 million) and $16.6 million (January 30, 2016: $20.2 million), included in the Consolidated Statements of Financial Position under "Current portion of long-term obligations" and "Long-term obligations," respectively (see Note 16).

The table below presents the future minimum lease payments of the Company's finance lease obligations:

			As at January 28, 2017			As at January 30, 2016
(in CAD millions)	**Finance lease payments**	**Future finance costs**	**Present value of minimum lease payments**	Finance lease payments	Future finance costs	Present value of minimum lease payments
Within 1 year	**$ 5.0**	**$ 1.3**	**$ 3.7**	$ 5.6	$ 1.6	$ 4.0
2 years	**5.0**	**1.1**	**3.9**	5.0	1.5	3.5
3 years	**4.9**	**0.8**	**4.1**	5.0	1.1	3.9
4 years	**3.8**	**0.5**	**3.3**	4.9	0.8	4.1
5 years	**3.1**	**0.3**	**2.8**	3.8	0.5	3.3
Thereafter	**2.8**	**0.3**	**2.5**	5.9	0.5	5.4
Total minimum payments	**$ 24.6**	**$ 4.3**	**$ 20.3**	$ 30.2	$ 6.0	$ 24.2

Interest on finance lease obligations is recognized in "Finance costs" in the Consolidated Statements of Net Loss and Comprehensive Loss (see Note 16). Included in total "Finance costs" in Fiscal 2016, was $1.7 million (2015: $1.9 million) of interest paid related to finance lease obligations.

18.2 Operating lease arrangements – Company as lessee

As at January 28, 2017, the Company had operating lease arrangements related to leased land, retail and office properties as well as equipment assets. The leases typically run for a period of 1 to 10 years, with some leases providing an option to renew after that date. Some leases include additional or contingent rent payments that are based on sales and step rent payments which are recognized on a straight-line basis over the term of the lease. During Fiscal 2016, contingent rent recognized as an expense in respect of operating leases totaled $0.8 million (2015: $0.3 million). Rental expense for all operating leases totaled $106.2 million in Fiscal 2016 (2015: $99.9 million). These expenses are included in "Selling, administrative and other expenses" in the Consolidated Statements of Net Loss and Comprehensive Loss.

The table below presents the contractual maturities of future minimum lease payments for the Company's operating leases:

(in CAD millions)	**As at January 28, 2017**	As at January 30, 2016
Within 1 year	**$ 82.9**	$ 81.2
2 years	**72.1**	71.4
3 years	**63.4**	58.8
4 years	**53.1**	46.4
5 years	**32.7**	35.1
Thereafter	**76.0**	83.4
Total operating lease obligations [1]	**$ 380.2**	$ 376.3

1 Operating lease obligations are not reported in the Consolidated Statements of Financial Position.

The Company has a number of agreements to sub-lease premises to third parties, which are all classified as operating leases. During Fiscal 2016, total sub-lease income from leased premises was $2.0 million (2015: $2.4 million). As at January 28, 2017, total future minimum lease payments receivable from third party tenants were $12.9 million (2015: $15.0 million).

19. Retirement benefit plans

The Company currently maintains a hybrid registered pension plan with a defined benefit component and a defined contribution component which covers eligible, regular full-time employees as well as some of its part-time employees. The defined benefit component provides pensions based on length of service and final average earnings. In addition to a registered retirement savings plan, the pension plan includes a non-registered supplemental savings arrangement in respect to the defined benefit component. The non-registered portion of the plan is maintained to enable certain employees to continue saving for retirement in addition to the registered limit as prescribed by the Canada Revenue Agency. The Company also maintains a defined benefit non-pension retirement plan which provides life insurance, medical and dental benefits to eligible retired employees through a health and welfare trust ("Other Benefits Plan"). Also provided for under the health and welfare trust are short-term disability payments for active employees. The Company's accounting policies related to retirement benefit plans are described in Note 2.14.

In July 2008, the Company amended its pension plan and introduced a defined contribution component. The defined benefit component continues to accrue benefits related to future compensation increases although no further service credit is earned, and no contributions are made by employees. In addition, the Company no longer provides medical, dental and life insurance benefits at retirement for employees who had not achieved the eligibility criteria for these non-pension retirement benefits as at December 31, 2008.

In December 2009, the Company made the decision to change funding for non-pension retirement benefits from an actuarial basis to a pay-as-you-go basis to allow the surplus in the health and welfare trust to be utilized to make benefit payments. In addition, to further utilize the surplus, short-term disability payments of eligible employees are paid on a pay-as-you-go basis from the health and welfare trust. Beginning in February 2015, the Company began funding the Other Benefits Plan payments as well as short-term disability payments of active employees since the surplus in the health and welfare trust has been depleted.

In December 2013, the Company amended the early retirement provision of its defined benefit plan to eliminate a benefit for employees who voluntarily resign prior to age of retirement, with effect January 1, 2015. In addition, the Company amended the defined benefit plan for improvements that increase portability of employee benefits, with effect March 1, 2014. In December 2013, the Company froze the benefits offered under the Other Benefits Plan to benefits levels as at January 1, 2015.

During Fiscal 2015, the Company made a voluntary offer to settle medical and dental benefits of eligible members covered under the Other Benefits plan. The Company paid $4.0 million to settle acceptances from the Other Benefits plan offer and recorded a pre-tax gain on settlement of retirement benefits of $5.1 million ($5.4 million settlement gain less fees of $0.3 million) during Fiscal 2015 related to these offers. This payment is included in "Retirement benefit plans contributions" in the Consolidated Statements of Cash Flows. To determine the settlement gain, the Other Benefits plan was remeasured as at the date of settlement, which also resulted in a $2.0 million increase to "Other comprehensive income (loss)" ("OCI").

Risks associated with retirement benefit plans

There is no assurance that the Company's retirement benefit plans will be able to earn the assumed rate of return. New regulations and market driven changes may result in changes in the discount rates and other variables which would result in the Company being required to make contributions in the future that differ significantly from the estimates. Management is required to use assumptions to account for the plans in conformity with IFRS. However, actual future experience will differ from these assumptions giving rise to actuarial gains or losses. In any year, actual experience differing from the assumptions may be material.

Plan assets consist primarily of cash, alternative investments and marketable equity and fixed income securities. The value of the marketable equity and fixed income investments will fluctuate due to changes in market prices. Plan obligations and annual pension expense are determined by independent actuaries and through the use of a number of assumptions. Although the Company believes that the assumptions used in the actuarial valuation process are reasonable, there remains a degree of risk and uncertainty which may cause results to differ from expectations. Significant assumptions in measuring the benefit obligations and pension plan costs include the discount rate and the rate of compensation increase.

Plan amendments, curtailments and settlements

In Fiscal 2012, the Company amended the non-registered supplemental savings arrangement in respect to the defined benefit plan to allow the use of letters of credit to satisfy the funding requirement of its deficit. As at January 28, 2017, a letter of credit with a notional value of $6.8 million was on deposit with the Trustee for the non-registered portion of the defined benefit plan (January 30, 2016: notional value of $2.1 million).

Maturity profile of retirement benefit plan obligations

The weighted average durations of the Registered Retirement Plans, Non-registered Pension Plan and Other Benefits Plan are all approximately 10.2 years (2015: approximately 10.3 years).

The Company's contractual cash flow maturity relating to retirement benefit plan obligation payments is included under "Liquidity risk" in Note 13.

19.1 Retirement benefit asset and liability

The Company measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at January 31. The most recent actuarial valuation of the pension plan for funding purposes is dated December 31, 2015, which was completed on September 27, 2016. An actuarial valuation of the health and welfare trust is performed at least every three years, with the last valuation completed as of January 31, 2014.

				2016				2015
(in CAD millions)	**Registered Retirement Plans**	**Non-Registered Pension Plan**	**Other Benefits Plan**	**Total**	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan	Total
Defined benefit plan assets								
Fair value, beginning balance	**$ 1,106.5**	**$ 48.1**	**$ 1.5**	**$1,156.1**	$ 1,217.8	$ 50.8	$ 1.9	$1,270.5
Interest income	**33.2**	**1.4**	**—**	**34.6**	39.1	1.6	—	40.7
Remeasurement gain (loss) on return on plan assets	**32.0**	**0.1**	**0.6**	**32.7**	(36.5)	(1.5)	(0.1)	(38.1)
Employer contributions	**18.6**	**2.6**	**17.1**	**38.3**	20.3	0.8	21.1	42.2
Administrative expenses	**(0.5)**	**—**	**—**	**(0.5)**	(0.5)	—	—	(0.5)
Benefits paid[1]	**(139.1)**	**(4.2)**	**(17.6)**	**(160.9)**	(133.7)	(3.6)	(21.4)	(158.7)
Fair value of plan assets, ending balance	**$ 1,050.7**	**$ 48.0**	**$ 1.6**	**$1,100.3**	$ 1,106.5	$ 48.1	$ 1.5	$1,156.1
Defined benefit plan obligations								
Accrued obligations, beginning balance	**$ 1,226.6**	**$ 52.9**	**$ 203.5**	**$1,483.0**	$ 1,391.7	$ 55.1	$ 231.1	$1,677.9
Interest cost	**35.8**	**1.5**	**5.7**	**43.0**	44.5	1.7	6.9	53.1
Benefits paid	**(139.1)**	**(4.2)**	**(13.0)**	**(156.3)**	(133.6)	(3.6)	(16.5)	(153.7)
Settlement gain	**—**	**—**	**—**	**—**	—	—	(5.4)	(5.4)
Actuarial losses (gain)	**37.7**	**0.1**	**1.4**	**39.2**	(76.0)	(0.3)	(12.6)	(88.9)
Accrued plan obligations, ending balance	**$ 1,161.0**	**$ 50.3**	**$ 197.6**	**$1,408.9**	$ 1,226.6	$ 52.9	$ 203.5	$1,483.0
Funded status of plan – (deficit)	**(110.3)**	**(2.3)**	**(196.0)**	**(308.6)**	(120.1)	(4.8)	(202.0)	(326.9)
Retirement benefit liability at end of fiscal year, net	**$ (110.3)**	**$ (2.3)**	**$ (196.0)**	**$ (308.6)**	$ (120.1)	$ (4.8)	$ (202.0)	$ (326.9)

1 *Benefits paid from the funded assets include retiree benefits and short-term disability of active employees. Other benefits consist of retiree health and dental claims.*

19.2 Fair value of plan assets

The fair value of plan assets disaggregated by asset class and fair value hierarchy level was as follows (measured at January 31, 2017 and January 31, 2016):

				As at January 28, 2017				As at January 30, 2016
(in CAD millions)	**Registered Retirement Plans**	**Non-Registered Pension Plan**	**Other Benefits Plan**	**Total**	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan	Total
Cash and cash equivalents								
Level 2	$ **12.4**	$ **23.0**	$ **1.6**	$ **37.0**	$ 166.1	$ 23.0	$ —	$ 189.1
Corporate bonds and notes								
Level 2	**305.2**	—	—	**305.2**	369.4	—	—	369.4
Level 3	**136.7**	—	—	**136.7**	141.5	—	1.5	143.0
Subtotal	**441.9**	—	—	**441.9**	510.9	—	1.5	512.4
Common stock, preferred stock and REITS								
Level 1	**294.3**	—	—	**294.3**	193.9	—	—	193.9
Common or collective trusts								
Level 2	**160.5**	**24.4**	—	**184.9**	150.8	24.9	—	175.7
Short-term collective investment funds								
Level 2	**136.4**	**0.6**	—	**137.0**	101.6	0.2	—	101.8
Level 3	**1.5**	—	—	**1.5**	—	—	—	—
Subtotal	**137.9**	**0.6**	—	**138.5**	101.6	0.2	—	101.8
Hedge funds								
Level 3	**0.6**	—	—	**0.6**	1.1	—	—	1.1
Receivables (liabilities)								
Level 1	**4.2**	—	—	**4.2**	5.8	—	—	5.8
Level 2	**4.2**	—	—	**4.2**	(21.3)	—	—	(21.3)
Subtotal	**8.4**	—	—	**8.4**	(15.5)	—	—	(15.5)
Miscellaneous other liabilities								
Level 1	**(5.3)**	—	—	**(5.3)**	(2.4)	—	—	(2.4)
Total fair value of plan assets	$ **1,050.7**	$ **48.0**	$ **1.6**	$ **1,100.3**	$ 1,106.5	$ 48.1	$ 1.5	$ 1,156.1

The three levels of the fair value hierarchy referenced above are discussed in Note 13.6.

19.3 Plan assets investment allocation

During Fiscal 2016, the Company changed the target asset allocation to 50-70% fixed income and 30-50% equity for the defined benefit registered pension plan. For the assets in the health and welfare trust, included in Other Benefits Plan, the asset allocation is 100% fixed income. As at the end of Fiscal 2016 and 2015, the assets were in line with the target allocation range. The asset allocation may be changed from time to time in terms of weighting between fixed income, equity and other asset classes as well as within the asset classes themselves.

The plan's target allocation is determined taking into consideration the amounts and timing of projected liabilities, the Company's funding policies and expected returns on various asset classes. To develop the expected long-term rate of return on assets assumption, the Company considered the historical returns and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio.

At as the end of the current and prior fiscal years, plan assets were invested in the following classes of securities:

			As at January 28, 2017			As at January 30, 2016
	Registered Retirement Plans	**Non-Registered Pension Plan**	**Other Benefits Plan**	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan
Fixed income securities	**58.3%**	**75.5%**	**100.0%**	69.6%	69.5%	100.0%
Alternative investments	**0.1%**	**—%**	**—%**	0.1%	—%	—%
Equity securities	**41.6%**	**24.5%**	**—%**	30.3%	30.5%	—%
Total	**100.0%**	**100.0%**	**100.0%**	100.0%	100.0%	100.0%

19.4 Pension assumptions

The significant actuarial assumptions were as follows (weighted average assumptions):

	As at January 28, 2017			As at January 30, 2016		
	Registered Retirement Plans	**Non-Registered Pension Plan**	**Other Benefits Plan**	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan
Discount rate used in calculation of Accrued benefit plan obligations	**3.70%**	**3.60%**	**3.60%**	3.80%	3.70%	3.70%
Benefit plans expense	**3.00%**	**2.90%**	**2.90%**	3.00%	3.00%	2.90%
Rate of compensation increase used in calculation of Accrued benefit plan obligations	**3.30%**	**3.30%**	**3.30%**	3.50%	3.50%	3.50%
Benefit plans expense	**3.30%**	**3.30%**	**3.30%**	3.50%	3.50%	3.50%
Expected long-term rate of return on plan assets used in calculation of benefit plans expense	**3.00%**	**2.90%**	**2.90%**	3.00%	3.00%	2.90%
Health care cost trend rates						
Used in calculation of accrued benefit plan obligations			**4.47%**			4.62%
Used in calculation of benefit plans expense			**4.62%**			4.77%
Cost trend rate declines to			**2.45%**			2.45%
Year that the rate reaches assumed constant			**2030**			2030

19.5 Sensitivity of significant actuarial assumptions

The following table summarizes the sensitivity of significant actuarial assumptions on the Company's defined benefit obligation:

	2016			2015		
(in CAD millions)	**Registered Retirement Plans**	**Non-Registered Pension Plan**	**Other Benefits Plan**	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan
Discount rate sensitivity						
Accrued benefit plan obligations						
100 basis point increase in discount rate	**$ (122.0)**	**$ (4.8)**	**$ (18.3)**	$ (130.7)	$ (5.1)	$ (21.2)
100 basis point decrease in discount rate	**148.6**	**5.8**	**21.7**	160.3	6.1	25.2
Benefit plans expense						
100 basis point increase in discount rate	**(3.6)**	**(0.1)**	**0.9**	(5.7)	(0.2)	1.0
100 basis point decrease in discount rate	**1.8**	**0.1**	**(1.1)**	3.2	0.1	(1.3)
Rate of compensation increase sensitivity						
Accrued benefit plan obligations						
50 basis point increase in rate of compensation increase	**6.6**	**0.2**	**n/a**	8.1	0.3	n/a
50 basis point decrease in rate of compensation increase	**(6.1)**	**(0.2)**	**n/a**	(7.2)	(0.2)	n/a
Benefit plans expense						
50 basis point increase in rate of compensation increase	**0.2**	**—**	**n/a**	0.4	—	n/a
50 basis point decrease in rate of compensation increase	**(0.2)**	**—**	**n/a**	(0.3)	—	n/a
Health care cost trend rate sensitivity						
Accrued benefit plan obligations						
100 basis point increase in health care trend rate	**n/a**	**n/a**	**16.0**	n/a	n/a	18.6
100 basis point decrease in health care trend rate	**n/a**	**n/a**	**(13.8)**	n/a	n/a	(16.0)
Benefit plans expense						
100 basis point increase in health care trend rate	**n/a**	**n/a**	**0.5**	n/a	n/a	0.6
100 basis point decrease in health care trend rate	**n/a**	**n/a**	**(0.4)**	n/a	n/a	(0.5)

The methods and assumptions used in determining the above sensitivity are consistent with the methods and assumptions used to determine the pension plan obligations and with the methods and assumptions used in Fiscal 2015.

19.6 Retirement benefit plans expense and contributions

The expense for the defined benefit, defined contribution and Other Benefits Plan for Fiscal 2016 and Fiscal 2015, was as follows:

	2016				2015			
(in CAD millions)	**Registered Retirement Plans**	**Non-Registered Pension Plan**	**Other Benefits Plan**	**Total**	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan	Total
Net interest	**$ 2.8**	**$ 0.1**	**$ 5.7**	**$ 8.6**	$ 5.4	$ 0.1	$ 6.9	$ 12.4
Settlement gain	**—**	**—**	**—**	**—**	—	—	(5.4)	(5.4)
Administrative expenses	**0.5**	**—**	**—**	**0.5**	0.5	—	0.3	0.8
Net defined benefit plans expense	**$ 3.3**	**$ 0.1**	**$ 5.7**	**$ 9.1**	$ 5.9	$ 0.1	$ 1.8	$ 7.8
Net defined contribution plan expense	**4.8**	**—**	**0.2**	**5.0**	5.8	—	0.2	6.0
Total retirement benefit plans expense[1]	**$ 8.1**	**$ 0.1**	**$ 5.9**	**$ 14.1**	$ 11.7	$ 0.1	$ 2.0	$ 13.8

1 *Not included in total expense recognized are short-term disability payments of $4.6 million (2015: $4.9 million) that were paid from the health and welfare trust. Both short-term disability and the retirement benefit plans expense are included in "Selling, administrative and other expenses", unless disclosed elsewhere, in the Company's Consolidated Statements of Net Loss and Comprehensive Loss.*

Total cash contributions made by the Company to its defined benefit, defined contribution and Other Benefits Plans, for the fiscal year ended January 28, 2017 were $43.5 million (2015: $48.6 million), which included $4.6 million (2015: $4.9 million), related to short-term disability payments and nil during Fiscal 2016 (2015: $4.0 million) to settle acceptances from the Other Benefits Plan offers mentioned above. During the 52-week period ending February 3, 2018, it is estimated that the Company will make contributions of approximately $69.0 million to its defined benefit, defined contribution and Other Benefits Plan, which include funding obligations as described in Note 13.2.

19.7 Remeasurements of the net defined retirement benefit liability

	2016				2015			
(in CAD millions)	**Registered Retirement Plans**	**Non-Registered Pension Plan**	**Other Benefits Plan**	**Total**	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan	Total
Actuarial gain (loss) on difference between expected interest income and actual return on plan assets	**$ 32.0**	**$ 0.1**	**$ 0.6**	**$ 32.7**	$ (36.5)	$ (1.5)	$ (0.1)	$ (38.1)
Actuarial (loss) gain due to change in financial assumptions	**(18.2)**	**0.7**	**(3.4)**	**(20.9)**	68.0	2.4	9.7	80.1
Actuarial (loss) gain due to all other experiences	**(19.5)**	**(0.8)**	**2.0**	**(18.3)**	8.0	(2.1)	2.9	8.8
Total remeasurement (loss) gain, net of income taxes[1]	**$ (5.7)**	**$ —**	**$ (0.8)**	**$ (6.5)**	$ 39.5	$ (1.2)	$ 12.5	$ 50.8

1 *Total remeasurement (loss) gain, net of income taxes, is included in "Total other comprehensive income (loss)" in the Company's Consolidated Statements of Net Loss and Comprehensive Loss.*

The actuarial losses associated with changes in financial assumptions are due to decreases in the discount rate as at January 28, 2017 for the Registered Retirement Plans of 0.1% (2015: 0.5% increase), Non-registered Pension Plan of 0.1% (2015: 0.4% increase), and Other Benefits Plan of 0.1% (2015: 0.5% increase).

20. Contingent liabilities

20.1 Legal proceedings

The Company is involved in various legal proceedings incidental to the normal course of business. The Company takes into account all available information, including guidance from experts (such as internal and external legal counsel) at the time of reporting to determine if it is probable that a present obligation (legal or constructive) exists, if it is probable that an outflow of resources embodying economic benefit will be required to settle such obligation and whether the Company can reliably measure such obligation at the end of the reporting period. The Company is of the view that, although the outcome of such legal proceedings cannot be predicted with certainty, the final disposition is not expected to have a material adverse effect on the consolidated financial statements, including its Consolidated Statements of Financial Position, Consolidated Statements of Net Loss and Comprehensive Loss, and Consolidated Statements of Cash Flows.

20.2 Commitments and guarantees

Commitments

As at January 28, 2017, cash that was restricted represented cash pledged as collateral for letter of credit obligations issued under the Company's offshore merchandise purchasing program of nil (January 30, 2016: $7.0 million, which is equal to U.S. $5.0 million), and cash pledged as collateral with a counterparty related to outstanding derivative contracts of $1.1 million (January 30, 2016: nil), which was equal to U.S. $0.8 million (January 30, 2016: nil).

The Company has certain vendors which require minimum purchase commitment levels over the term of the contract. Refer to Note 13.2 "Liquidity risk".

Guarantees

The Company has provided the following significant guarantees to third parties:

Royalty License Agreements

The Company pays royalties under various merchandise license agreements, which are generally based on the sale of products. Certain license agreements require a minimum guaranteed payment of royalties over the term of the contract, regardless of sales. Total future minimum royalty payments under such agreements were $11.6 million as at January 28, 2017 (January 30, 2016: $15.9 million).

Other Indemnification Agreements

In the ordinary course of business, the Company has provided indemnification commitments to counterparties in transactions such as leasing transactions, royalty agreements, service arrangements, investment banking agreements and director and officer indemnification agreements. The foregoing indemnification agreements require the Company to compensate the counterparties for costs incurred as a result of changes in laws and regulations, or as a result of litigation or statutory claims, or statutory sanctions that may be suffered by a counterparty as a consequence of the transaction. The terms of these indemnification agreements will vary based on the contract and typically do not provide for any limit on the maximum potential liability. Historically, the Company has not made any significant payments under such indemnifications and no amounts have been accrued in the consolidated financial statements with respect to these indemnification commitments.

21. Income taxes

The average combined federal and provincial statutory income tax rate applied to the Company was 26.9% for Fiscal 2016 (2015: 26.8%). A reconciliation of income taxes at the average statutory tax to actual income tax expense for Fiscal 2016 and Fiscal 2015 is as follows:

(in CAD millions)		**2016**		2015
Loss before income taxes	$	**(318.2)**	$	(62.7)
Income tax recovery at the average statutory tax rate	$	**(85.6)**	$	(16.8)
(Decrease) increase in income taxes resulting from				
Non-taxable portion of capital gain		**(16.1)**		(33.3)
Non-deductible items		**1.5**		1.0
Prior year adjustments		**11.3**		—
Non-recognition of deferred taxes assets, net		**94.6**		56.7
Others		**(2.6)**		(2.6)
		3.1		5.0
Effective tax rate before the following adjustments		**(1.0)%**		(8.0)%
Changes in tax rates or imposition of new taxes		**(0.3)**		0.2
Total income tax expense	$	**2.8**	$	5.2
Effective tax rate		**(0.9)%**		(8.3)%

The Company's total net cash refunds of income taxes for the current year was $25.0 million (2015: net refund of $87.6 million), primarily relating to the settlement for fiscal years 2006 to 2008 and the carry back of losses generated by the Company in Fiscal 2014, and included refund interest on net cash income tax receipts of $3.1 million (2015: $1.1 million) (see Note 5 for additional information).

In the ordinary course of business, the Company is subject to ongoing audits by tax authorities. While the Company believes that its tax filing positions are appropriate and supportable, periodically, certain matters are challenged by tax authorities. During Fiscal 2016, the Company recorded an expense of $1.7 million for interest on income tax assessments and reassessments of the current and prior years (2015: expense of $3.4 million).

The Company routinely evaluates and provides for potentially unfavourable outcomes with respect to any tax audits, and believes that the final disposition of tax audits will not have a material adverse effect on its liquidity.

The tax effects of the significant components of temporary timing differences giving rise to the Company's net deferred tax assets were as follows:

(in CAD millions)	As at January 30, 2016	Recognized in earnings	Recognized in equity	**As at January 28, 2017**
Deferred revenue	$ 0.6	$ 0.3	$ —	$ **0.9**
Other long term liabilities	19.1	(3.0)	—	**16.1**
Derivative financial assets	(2.7)	—	2.8	**0.1**
Property, plant and equipment	(4.2)	—	—	**(4.2)**
Investment property	(21.5)	11.9	—	**(9.6)**
Intangible assets	1.1	0.5	—	**1.6**
Retirement benefit obligations	87.6	(6.2)	1.7	**83.1**
Provisions	60.8	(8.4)	—	**52.4**
Non-capital losses	51.5	88.8	—	**140.3**
Other	8.2	8.2	—	**16.4**
Write down of deferred tax assets	(122.0)	—	—	**(122.0)**
Non-recognition of deferred tax assets	(77.9)	(94.6)	(1.9)	**(174.4)**
Total deferred tax assets, net	$ 0.6	$ (2.5)	$ 2.6	$ **0.7**

(in CAD millions)	As at January 31, 2015	Recognized in earnings	Recognized in equity	As at January 30, 2016
Deferred revenue	$ 0.5	$ 0.1	$ —	$ 0.6
Other long term liabilities	21.8	(2.7)	—	19.1
Derivative financial assets	(2.5)	(0.4)	0.2	(2.7)
Property, plant and equipment	(7.9)	3.7	—	(4.2)
Investment property	(28.0)	6.5	—	(21.5)
Intangible assets	1.1	—	—	1.1
Retirement benefit obligations	108.2	(7.0)	(13.6)	87.6
Provisions	49.6	11.2	—	60.8
Non-capital losses	10.4	41.1	—	51.5
Other	1.1	7.1	—	8.2
Write down of deferred tax assets, net	(122.0)	—	—	(122.0)
Non-recognition of deferred tax assets	(35.0)	(56.7)	13.8	(77.9)
Total deferred tax (liabilities) assets, net	$ (2.7)	$ 2.9	$ 0.4	$ 0.6

The Company assesses the likelihood that the deferred tax assets will be realizable at the end of each reporting period and adjusts the carrying amount accordingly, by considering factors such as the reversal of deferred income tax liabilities, projected future taxable income, tax planning strategies and changes in tax laws. The Company has determined that it was not appropriate to recognize all of its deferred tax assets as it was not probable that sufficient taxable income would be available to allow part of the assets to be recovered. This accounting treatment has no effect on the Company's ability to utilize deferred tax assets to reduce future cash tax payments. As of January 28, 2017, the Company has not recognized the benefit of approximately $520.8 million of loss carry forwards on its Financial Statements (which expire in the taxation years from 2035 to 2037) and approximately $4.9 million in Ontario minimum tax, which could be used to reduce taxes payable in future periods. The aggregate amount of net deductible temporary differences and loss carry forwards as at January 28, 2017, was approximately $1,083.6 million, and the tax benefit associated with these items was approximately $291.5 million using the statutory tax rate of 26.9%, which together with the Ontario minimum tax recoverable of approximately $4.9 million amounted to a total tax benefit of $296.4 million.

During Fiscal 2014, the Company recognized a write down of the deferred tax assets for $122.0 million. $88.6 million of this charge was included in "Deferred income tax recovery (expense)", and as a portion of the deferred tax assets originated through equity, $33.4 million of this charge was included in OCI in the Consolidated Statements of Net Loss and Comprehensive Loss in accordance with IAS 12, *Income Taxes*. The aggregate amount of deductible temporary differences for which no deferred tax asset is recognized as at January 28, 2017, is approximately $1,083.6 million (January 30, 2016: $727.6 million).

22. Capital stock and share-based compensation

Capital Stock

ESL Investments, Inc., and investment affiliates including Edward S. Lampert, collectively "ESL", form the largest shareholder of the Company, both directly through ownership in the Company, and indirectly through shareholdings in Sears Holdings.

As at January 28, 2017, ESL was the beneficial holder of 46,162,515 or 45.3%, of the common shares of the Company (January 30, 2016: 46,162,515 or 45.3%). Sears Holdings was the beneficial holder of 11,962,391 or 11.7%, of the common shares of the Company as at January 28, 2017 (January 30, 2016: 11,962,391 or 11.7%). The issued and outstanding shares are fully paid and have no par value.

The authorized common share capital of the Company consists of an unlimited number of common shares without nominal or par value and an unlimited number of class 1 preferred shares, issuable in one or more series. As at January 28, 2017, the total number of common shares issued and outstanding of the Company was 101,877,662 (January 30, 2016: 101,877,662) with stated value of $14.9 million (January 30, 2016: $14.9 million).

Share-based compensation

During Fiscal 2016, the Company granted 500,000 RSUs to an executive under an equity-based compensation plan. These RSUs had a grant-date fair value of $4.2 million. The fair value of the grant was determined based on the Company's share price at the date of grant. The RSUs are entitled to accrue common share dividends equivalent to those declared by the Company, which would be settled by a grant of additional RSUs to the executive.

During Fiscal 2014, the Company granted 225,000 RSUs to an executive under an equity-based compensation plan, which were forfeited in Fiscal 2015. These RSUs had a grant-date fair value of $1.9 million. The fair value of the grant was determined based on the Company's share price at the date of grant, and was entitled to accrue common share dividends equivalent to those declared by the Company, which would be settled by a grant of additional RSUs to the executive.

Compensation expense related to RSUs included in "Selling, administrative and other expenses" for Fiscal 2016 was $3.1 million (2015: recovery of $0.4 million).

23. Capital disclosures

The Company's objectives when managing capital are:

- Maintain financial flexibility thus allowing the Company to preserve its ability to meet financial objectives and continue as a going concern;
- Provide an appropriate return to shareholders; and
- Maintain a capital structure that allows the Company to obtain financing should the need arise.

The Company manages and makes adjustments to its capital structure, when necessary, in light of changes in economic conditions, the objectives of its shareholders, the cash requirements of the business and the condition of capital markets. In order to maintain or adjust the capital structure, the Company may pay a dividend or return capital to shareholders, modify debt levels or sell assets.

The Company defines capital as follows:

- Long-term obligations, including the current portion of long-term obligations ("Total long-term obligations"); and
- Shareholders' equity.

The following table presents summary quantitative data with respect to the Company's capital resources:

(in CAD millions)		**As at January 28, 2017**		As at January 30, 2016
Total long-term obligations	$	**20.3**	$	24.2
Shareholders' equity		**222.2**		554.2
Total	$	**242.5**	$	578.4

24. Revenue

The components of the Company's revenue were as follows:

(in CAD millions)		**2016**		2015
Apparel and Accessories	$	**994.4**	$	1,108.6
Home and Hardlines		**1,143.4**		1,476.4
Other merchandise revenue		**205.8**		207.0
Services and other		**237.6**		245.6
Commission and licensee revenue		**32.4**		108.1
Total revenue	$	**2,613.6**	$	3,145.7

25. Employee benefits expense

The components of the Company's employee benefits expense were as follows:

(in CAD millions)		**2016**		2015
Wages and salaries	$	**376.5**	$	432.6
Paid absences [1]		**35.0**		40.0
Benefits				
Provincial healthcare costs		**9.4**		10.3
Flex benefits		**10.1**		12.4
Retirement benefit plans expense [2]		**14.0**		13.5
Statutory deductions [3]		**27.0**		30.9
Severance		**36.1**		25.3
Other employer paid benefits		**10.4**		5.6
Total benefits expense	$	**518.5**	$	570.6

1 *Paid absences are expenses related to vacation, statutory holidays and sick days.*

2 *Included in Retirement benefit plans expense for Fiscal 2016 was nil related to the settlement of retirement benefits under the non-pension retirement benefit plan (2015: $5.4 million gain related to the settlement of retirement benefits under the non-pension retirement benefit plan excluding fees of $0.3 million).*

3 *Statutory deductions consist of the employer portion of payment for the Canada Pension Plan and Employment Insurance.*

These expenses are included in "Cost of goods and services sold", "Selling, administrative and other expenses" and "Gain on settlement of retirement benefits" in the Consolidated Statements of Net Loss and Comprehensive Loss.

26. Gain on lease termination and sale and leaseback transactions

During Fiscal 2016, the Company completed a real estate transaction, as previously announced on December 9, 2016, for net proceeds of $62.1 million (total consideration of $62.9 million less adjustments). The transaction mainly consisted of a sale and leaseback of a retail store located in Kitchener, Ontario, and a lease termination of the office floors of the Toronto Eaton Centre located in Toronto, Ontario. The total gain on the transaction was $51.7 million which was recognized in the Consolidated Statements of Net Loss and Comprehensive Loss.

During Fiscal 2016, the Company completed the sale and leaseback of its logistics centre located in Port Coquitlam, British Columbia, for net proceeds of $22.4 million. The total gain on the sale and leaseback transaction was $9.7 million which was recognized in the Consolidated Statements of Net Loss and Comprehensive Loss.

During Fiscal 2016, the Company completed the sale of its Broad Street logistics centre located in Regina, Saskatchewan, for net proceeds of $8.5 million. The total loss on the sale was $1.5 million which was recognized in the Consolidated Statements of Net Loss and Comprehensive Loss.

During Fiscal 2016, the Company completed the sale of its Park Street logistics centre located in Regina, Saskatchewan, for net proceeds of $18.1 million. The total gain on the sale was $5.4 million which was recognized in the Consolidated Statements of Net Loss and Comprehensive Loss.

During Fiscal 2016, the Company completed the sale and leaseback of its logistics centre located in Calgary, Alberta, for net proceeds of $83.9 million. The total gain on this sale and leaseback transaction was $40.1 million, $15.2 million of which was recognized immediately in the Consolidated Statements of Net Loss and Comprehensive Loss. The remaining $24.9 million of the gain was deferred and is being amortized over the term of the lease as a reduction in rent expense, included in "Selling, administrative and other expenses" in the Consolidated Statements of Net Loss and Comprehensive Loss. In determining the appropriate amount of gain to defer in accordance with IAS 17, the Company conducted an appraisal of the property to determine its fair value, with the assistance of independent qualified third party appraisers. The valuation method used to determine the fair value of the property was the direct sales comparison approach for land. The deferred gain was included in "Other long-term liabilities" and "Accounts payable and accrued liabilities" in the Consolidated Statements of Financial Position.

During Fiscal 2016, the Company completed the sale and leaseback of its logistics centre located in Vaughan, Ontario, for net proceeds of $100.0 million. The total gain on this sale and leaseback transaction was $25.4 million which was recognized immediately in the Consolidated Statements of Net Loss and Comprehensive Loss.

During Fiscal 2015, the Company completed the sale and leaseback of three properties to the Concord Pacific Group of Companies ("Concord"), for net proceeds of $130.0 million ($140.0 million of total consideration less $10.0 million of adjustments). The properties in the transactions included the Company's stores and surrounding area located at the North Hill Shopping Centre in Calgary, Alberta, Metropolis at Metrotown in Burnaby, British Columbia and Cottonwood Mall in Chilliwack, British Columbia. The total gain on the sale and leaseback transactions was $76.9 million, $67.2 million of which was recognized immediately in the Consolidated Statements of Net Loss and Comprehensive Loss. The remaining $9.7 million of the gain was deferred and is being amortized between four to seven years as a reduction in rent expense, included in "Selling, administrative and other expenses" in the Consolidated Statements of Net Loss and Comprehensive Loss. In determining the appropriate amount of gain to defer in accordance with IAS 17, the Company conducted appraisals of each property to determine their fair values, with the assistance of independent qualified third party appraisers. The valuation method used to determine the fair values of each property was the direct sales comparison approach for land. The deferred gain was included in "Other long-term liabilities" and "Accounts payable and accrued liabilities" in the Consolidated Statements of Financial Positions. Upon completion of the sale and leaseback transactions, the Company was released from all previous agreements with Concord, and the demand mortgage for $25.0 million previously secured by the property in Burnaby, British Columbia, was discharged.

27. Gain on termination of credit card arrangement

On November 23, 2015, the Company received a payment of $174.0 million from JPMorgan Chase as a result of the sale of their portfolio of credit card accounts and related receivables related to the Sears credit card and Sears Mastercard. The Company recognized a net gain of $170.7 million in the Consolidated Statements of Net Loss and Comprehensive Loss. The Company's credit card marketing and servicing alliance agreement with JPMorgan Chase ended on November 15, 2015.

28. Assets classified as held for sale

Land and buildings are transferred to assets classified as held for sale, from property, plant and equipment and investment property, when they meet the criteria to be assets classified as held for sale in accordance to IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations ("IFRS 5")*. The proposed sale transactions have been approved by senior management of the Company and are expected to close within the next 12 months.

As at January 28, 2017, the assets of one retail store and one logistics centre were separately classified as held for sale in the Consolidated Statements of Financial Position. As at January 30, 2016, the assets of certain logistics centres were separately classified as held for sale in the Consolidated Statements of Financial Position.

The following is a continuity of assets classified as held for sale:

(in CAD millions)	Retail Store	Logistics Centre	Total
Balance at January 31, 2015	$ —	$ 13.3	$ 13.3
Additions	—	12.6	12.6
Disposals	—	—	—
Impairment losses	—	(3.8)	(3.8)
Balance at January 30, 2016	$ —	$ 22.1	$ 22.1
Additions [1]	17.6	69.7	87.3
Disposals [2]	(10.2)	(33.9)	(44.1)
Impairment losses	(0.4)	(7.9)	(8.3)
Balance at January 28, 2017	$ 7.0	$ 50.0	$ 57.0

1 *Included in additions were the assets of one retail store and one logistics centre which were classified as held for sale and subsequently disposed of in Fiscal 2016. See Note 26 "Gain on lease termination and sales leaseback transactions" for additional information regarding disposals.*

2 *See Note 26 "Gain on lease termination and sales leaseback transactions" for additional information regarding disposals.*

Impairment loss

The carrying values of the property, plant and equipment and investment property on one retail store and certain logistics centres were higher than the estimated fair values less costs to sell, and as a result, the Company recognized an impairment loss of $8.3 million in Fiscal 2016 (2015: $3.8 million on one logistics centre). The impairment losses were included in the "Selling, administrative and other expenses" in the Consolidated Statements of Net Loss and Comprehensive Loss.

The Company will continue to assess the fair value less costs to sell of the assets classified as held for sale at the end of each reporting period and adjust the carrying amounts accordingly. To determine the fair value less costs to sell of the assets classified as held for sale, the Company will consider factors such as expected future cash flows using appropriate market rental rates, the estimated costs to sell and an appropriate discount rate to calculate the fair value. The carrying amounts of the assets classified as held for sale are not necessarily indicative of their fair values, as they have been recorded at the lower of their carrying amounts and fair values less costs to sell in accordance with IFRS 5.

The operations of the retail stores and logistics centres classified as held for sale, were not presented as discontinued operations in the Consolidated Statements of Net Loss and Comprehensive Loss, as they did not represent a separate geographical area of operations or a separate major line of business.

29. Related party transactions

The ultimate controlling party of the Company is ESL Investments, Inc. (incorporated in the U.S. in the state of Delaware). Details of transactions between the Company and a related party are disclosed below.

During Fiscal 2016 and Fiscal 2015, the Company entered into the following transactions with a related party:

				2016				2015
(in CAD millions)	**Purchase of goods**	**Services received**	**Other**	**Total**	Purchase of goods	Services received	Other	Total
Sears Holdings Corporation	$ —	$ 2.8	$ 0.2	$ 3.0	$ —	$ 3.8	$ 0.2	$ 4.0

The following balances were outstanding as at January 28, 2017 and January 30, 2016:

	Amounts receivable from a related party	
(in CAD millions)	**As at January 28, 2017**	As at January 30, 2016
Sears Holdings Corporation	$ —	$ 0.2

	Amounts payable to a related party	
(in CAD millions)	**As at January 28, 2017**	As at January 30, 2016
Sears Holdings Corporation	$ **0.2**	$ 0.5

Intangible Properties

The Company has a license from Sears, Roebuck and Co. (a wholly-owned subsidiary of Sears Holdings) to use the name "Sears" as part of its corporate name and other brand names including Kenmore® and DieHard®, collectively referred to as the "License Agreement". The Company has established procedures to register and otherwise vigorously protect its intellectual property, including the protection of the Sears Holdings' trademarks used by the Company in Canada.

The License Agreement states that, if Sears Holdings' ownership interest in the Company is reduced to less than 10.0%, the License Agreement would remain in effect for a period of five years after such reduction in ownership, (subject to an extension of up to four years at a royalty rate to be agreed equal to the lesser of a fair market rate based on the value of such mark or the lowest rate which will provide a reasonable incentive to induce the Company to phase out the use of such mark during such extended period, if the Company reasonably determines that a longer transition is necessary) after which the Company would no longer be permitted to use the "Sears" name and certain other brand names. In addition, the License Agreement also provides that the Company's license to use the "Sears" name and certain other brand names will terminate on the occurrence of certain bankruptcy events involving the Company. In addition, in the event of a bankruptcy proceeding involving Sears Holdings, there is a risk of the License Agreement being terminated under applicable U.S. insolvency legislation. Losing such rights could significantly diminish the Company's competitiveness in the marketplace and could materially harm the business. If the license agreement is terminated, the Company may attempt to renegotiate such agreement although the terms of any such renegotiated agreement may be less favourable to the Company.

Import Services and Consulting Services

Pursuant to an agreement between Sears Holdings and the Company dated January 1, 1995, Sears Canada utilizes the international merchandise purchasing services of Sears Holdings. Sears Holdings may provide assistance to the Company with respect to monitoring and facilitating the production, inspection and delivery of imported merchandise and the payment to vendors. Sears Canada pays Sears Holdings a fee based on a stipulated percentage of the value of the imported merchandise.

The related party transactions with Sears Holdings are in the ordinary course of business for shared merchandise purchasing services. These transactions were recorded either at fair market value or the exchange amount, which was established and agreed to by the related parties. These balances are included in "Accounts payable and accrued liabilities" and "Accounts receivable, net" in the Consolidated Statements of Financial Position.

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No expense has been recognized in the current or prior fiscal periods for bad or doubtful debts in respect of the amounts owed by Sears Holdings.

The Company's Audit Committee is responsible for pre-approving all related party transactions that have a value greater than $1.0 million.

30. Key management personnel compensation

Key management personnel are those individuals having the authority and responsibility for planning, directing and controlling the activities of the Company. The total compensation expense for the Company's key management personnel was as follows:

(in CAD millions)	2016	2015
Salaries and perquisites	$ **13.0**	$ 11.4
Annual incentive plans and other bonuses	**3.2**	3.7
Pensions	**0.1**	0.1
Termination benefits	**1.6**	4.9
Total key management personnel compensation	$ **17.9**	$ 20.1

31. Net loss per share

A reconciliation of the number of shares used in the net loss per share calculation is as follows:

(Number of shares)	2016	2015
Weighted average number of shares per basic net loss per share calculation	**101,877,662**	101,877,662
Effect of dilutive instruments outstanding	—	—
Weighted average number of shares per diluted net loss per share calculation	**101,877,662**	101,877,662

"Net loss" as disclosed in the Consolidated Statements of Net Loss and Comprehensive Loss was used as the numerator in calculating the basic and diluted net loss per share. For 2016 and 2015, there were no outstanding dilutive instruments.

32. Changes in non-cash working capital balances

Cash used for non-cash working capital balances were comprised of the following:

(in CAD millions)		2016		2015
Accounts receivable, net	$	**(7.7)**	$	12.5
Inventories		**66.3**		(23.4)
Prepaid expenses		**(3.5)**		(2.3)
Derivative financial assets		**(3.1)**		1.3
Accounts payable and accrued liabilities		**(18.6)**		(35.3)
Deferred revenue		**(22.2)**		(12.9)
Provisions		**(14.2)**		17.2
Income and other taxes payable and recoverable		**1.3**		(18.1)
Effect of foreign exchange rates		**1.8**		(3.3)
Cash used for non-cash working capital balances	$	**0.1**	$	(64.3)

33. Changes in non-cash long-term assets and liabilities

Cash used for non-cash long-term assets and liabilities were comprised of the following:

(in CAD millions)		2016		2015
Other long-term assets	$	**7.2**	$	4.3
Other long-term liabilities		**(13.5)**		(16.3)
Other		**0.6**		0.3
Cash used for non-cash long-term assets and liabilities	$	**(5.7)**	$	(11.7)

34. Events after the reporting period

On March 1, 2017, the Company announced it had completed the sale and leaseback transaction of its logistics centre located in Ville St. Laurent, Quebec, for a total consideration of $50.0 million less customary closing adjustments. This property, including land, building and equipment, had a net carrying value of approximately $50.0 million included in "Assets classified as held for sale" in the Consolidated Statements of Financial Position as at January 28, 2017. The accounting impact will be determined during the 13-week period ending April 29, 2017.

Concurrently with the sale by Sears Holdings of its Craftsman business, including the Craftsman® brand, to Stanley, Black & Decker, Inc., the Company's license agreement with Sears Holdings was amended to remove the Craftsman® brand and the Company entered into a trademark license agreement dated March 8, 2017 directly with Stanley, Black & Decker, Inc. for a non-exclusive license (the first 15 years of which are royalty free) to use the Craftsman® brand in Canada.

On March 20, 2017, the Company entered into a Credit Agreement with a syndicate of lenders for a five-year secured term loan of up to $300.0 million. The loan is available in two tranches, of which $125.0 million has been drawn, and up to $175.0 million is available on a delayed-draw basis at the Company's option, subject to mutually agreed assets being contributed to the borrowing base. The loan is available for general corporate purposes.

On March 27, 2017, the Company closed the sale and leaseback transaction of its retail store located in Regina, Saskatchewan, for a total consideration of $7.0 million less customary closing adjustments. This property, including land, building and equipment, had a net carrying value of approximately $7.0 million included in "Assets classified as held for sale" in the Consolidated Statements of Financial Position as at January 28, 2017. The accounting impact will be determined during the 13-week period ending April 29, 2017.

35. Approval of the consolidated financial statements

The consolidated financial statements were approved by the Board of Directors and authorized for issue on April 25, 2017.

DIRECTORS AND OFFICERS

Board of Directors

Shahir Guindi

Managing Partner, Montreal Office
Osler, Hoskin & Harcourt LLP

R. Raja Khanna [1,2,4]

Chief Executive Officer
Blue Ant Media Inc.

Deborah E. Rosati [1,4]

Corporate Director and Advisor

Anand A. Samuel [2,3]

Analyst
ESL Investments Inc.

Graham Savage [1,2,4]

Corporate Director

S. Jeffrey Stollenwerck [3]

President, Sears Real Estate Business
Sears Holdings Corporation

Brandon G. Stranzl [3]

Executive Chairman of the Corporation

Heywood Wilansky [2]

President and Chief Executive Officer
Strategic Management Resources LLC

Officers

Brandon G. Stranzl

Executive Chairman

Philip Mohtadi

General Counsel and Corporate Secretary

Billy Wong

Executive Vice-President and Chief Financial Officer

Becky Penrice

Executive Vice-President and Chief Operating Officer

Committees

1 Audit Committee
2 Human Resources and Compensation Committee
3 Investment Committee
4 Nominating and Corporate Governance Committee

CORPORATE INFORMATION

Head Office

Sears Canada Inc.
290 Yonge Street
Suite 700
Toronto, Ontario
M5B 2C3

Website:sears.ca
E-mail:home@sears.ca

For more information about the Company, or for additional copies of the Annual Report, write to the Corporate Communications Department at the Head Office of Sears Canada Inc., or call 416-941-4422.

The Company's regulatory filings can be found on the SEDAR website at sedar.com and on the U.S. Securities Exchange Commission (SEC) website at sec.gov.

Stock Exchange Listing

Toronto Stock Exchange
Trading symbol: SCC
NASDAQ
Trading symbol: SRSC

Transfer Agents and Registrars

CST Trust Company
P.O. Box 700, Station B
Montreal, Québec
H3B 3K3

Answerline:	416-682-3860
	1-800-387-0825
Fax:	1-888-249-6189
Website:	canstockta.com
E-Mail:	inquiries@canstockta.com

American Stock Transfer & Trust Company, LLC
6201 15th Avenue
Brooklyn, NY
11219

Answerline:	1-800-937-5449
Fax:	718-236-2641
Website:	amstock.com
E-Mail:	info@amstock.com

Annual Meeting

The Annual Meeting of the Shareholders of Sears Canada Inc. will be held on Wednesday, June 14, 2017 at 8:00 a.m. in the Auditorium, Fourth floor, 290 Yonge Street, Toronto, Ontario Canada.

Édition française du rapport annuel

On peut se procurer l'édition française de ce rapport en écrivant au :

Service national des communications
Sears Canada Inc.
290 Yonge Street
Suite 700
Toronto (Ontario)
M5B 2C3

Pour de plus amples renseignements au sujet de la Société, veuillez écrire au service national des communications, ou composer le 416-941-4422.

Les dépôts réglementaires de la Société se trouvent sur le site Web de SEDAR à l'adresse sedar.com et sur le site Web de la Securities Exchange Commission (« SEC ») des États-Unis à l'adresse sec.gov.

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SEARS

2016 ANNUAL REPORT

SEARS

TAB H

This is Exhibit "H" referred to in the

Affidavit of

JONATHAN WYPYCH

Sworn before me,

this 1ST day of March, 2018

A Commissioner for taking Affidavits

Shannon Beverley Ste. Marie, a Commissioner, etc.,
Province of Ontario, while a Student-at-Law.
Expires March 23, 2019.

SC 13D/A 1 d812542dsc13da.htm SC 13D/A

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 13D

Under the Securities Exchange Act of 1934
(Amendment No. 4) *

Sears Canada Inc.
(Name of Issuer)

Common Shares, no par value
(Title of Class of Securities)

81234D109
(CUSIP Number)

Janice V. Sharry, Esq.
Haynes and Boone, LLP
2323 Victory Avenue, Suite 700
Dallas, Texas 75219
(214) 651-5000
(Name, Address and Telephone Number of Person Authorized to Receive Notices and Communications)

October 26, 2014
(Date of Event which Requires Filing of this Statement)

If the filing person has previously filed a statement on Schedule 13G to report the acquisition that is the subject of this Schedule 13D, and is filing this schedule because of §§240.13d-1(e), 240.13d-1(f) or 240.13d-1(g), check the following box. ¨

Note: Schedules filed in paper format shall include a signed original and five copies of the schedule, including all exhibits. See §240.13d-7 for other parties to whom copies are to be sent.

* The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter disclosures provided in a prior cover page.

The information required on the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934, as amended ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

CUSIP No. 81234D109

1.	Names of Reporting Persons. ESL Partners, L.P.		
2.	Check the Appropriate Box if a Member of a Group (See Instructions) (a) x (b) ¨		
3.	SEC Use Only		
4.	Source of Funds (See Instructions) OO		
5.	Check if Disclosure of Legal Proceedings Is Required Pursuant to Items 2(d) or 2(e) ¨		
6.	Citizenship or Place of Organization Delaware		
Number of Shares Beneficially Owned by Each Reporting Person With		7.	Sole Voting Power 24,807,223
		8.	Shared Voting Power 0
		9.	Sole Dispositive Power 24,807,223
		10.	Shared Dispositive Power 20,850,304
11.	Aggregate Amount Beneficially Owned by Each Reporting Person 45,657,527		
12.	Check if the Aggregate Amount in Row (11) Excludes Certain Shares (See Instructions) ¨		
13.	Percent of Class Represented by Amount in Row (11) 44.8% (1)		
14.	Type of Reporting Person (See Instructions) PN		

(1) Based upon 101,877,662 Shares of the Issuer outstanding as of October 14, 2014, as disclosed in Amendment No. 1 to Form F-10 filed by the Issuer with the Securities and Exchange Commission on October 15, 2014.

CUSIP No. 81234D109

1.	Names of Reporting Persons. SPE I Partners, LP		
2.	Check the Appropriate Box if a Member of a Group (See Instructions) (a) x (b) ¨		
3.	SEC Use Only		
4.	Source of Funds (See Instructions) OO		
5.	Check if Disclosure of Legal Proceedings Is Required Pursuant to Items 2(d) or 2(e) ¨		
6.	Citizenship or Place of Organization Delaware		
Number of Shares Beneficially Owned by Each Reporting Person With		7.	Sole Voting Power 830,852
		8.	Shared Voting Power 0
		9.	Sole Dispositive Power 830,852
		10.	Shared Dispositive Power 0
11.	Aggregate Amount Beneficially Owned by Each Reporting Person 830,852		
12.	Check if the Aggregate Amount in Row (11) Excludes Certain Shares (See Instructions) ¨		
13.	Percent of Class Represented by Amount in Row (11) 0.8% (1)		
14.	Type of Reporting Person (See Instructions) PN		

(1) Based upon 101,877,662 Shares of the Issuer outstanding as of October 14, 2014, as disclosed in Amendment No. 1 to Form F-10 filed by the Issuer with the Securities and Exchange Commission on October 15, 2014.

CUSIP No. 81234D109

1.	Names of Reporting Persons. SPE Master I, LP		
2.	Check the Appropriate Box if a Member of a Group (See Instructions) (a) x (b) ¨		
3.	SEC Use Only		
4.	Source of Funds (See Instructions) OO		
5.	Check if Disclosure of Legal Proceedings Is Required Pursuant to Items 2(d) or 2(e) ¨		
6.	Citizenship or Place of Organization Delaware		
Number of Shares Beneficially Owned by Each Reporting Person With		7.	Sole Voting Power 1,068,522
		8.	Shared Voting Power 0
		9.	Sole Dispositive Power 1,068,522
		10.	Shared Dispositive Power 0
11.	Aggregate Amount Beneficially Owned by Each Reporting Person 1,068,522		
12.	Check if the Aggregate Amount in Row (11) Excludes Certain Shares (See Instructions) ¨		
13.	Percent of Class Represented by Amount in Row (11) 1.0% (1)		
14.	Type of Reporting Person (See Instructions) PN		

(1) Based upon 101,877,662 Shares of the Issuer outstanding as of October 14, 2014, as disclosed in Amendment No. 1 to Form F-10 filed by the Issuer with the Securities and Exchange Commission on October 15, 2014.

CUSIP No. 81234D109

1.	Names of Reporting Persons. RBS Partners, L.P.		
2.	Check the Appropriate Box if a Member of a Group (See Instructions) (a) x (b) ¨		
3.	SEC Use Only		
4.	Source of Funds (See Instructions) OO		
5.	Check if Disclosure of Legal Proceedings Is Required Pursuant to Items 2(d) or 2(e) ¨		
6.	Citizenship or Place of Organization Delaware		
Number of Shares Beneficially Owned by Each Reporting Person With		7.	Sole Voting Power 26,706,597
		8.	Shared Voting Power 0
		9.	Sole Dispositive Power 26,706,597
		10.	Shared Dispositive Power 20,850,304
11.	Aggregate Amount Beneficially Owned by Each Reporting Person 47,556,901		
12.	Check if the Aggregate Amount in Row (11) Excludes Certain Shares (See Instructions) ¨		
13.	Percent of Class Represented by Amount in Row (11) 46.7% (1)		
14.	Type of Reporting Person (See Instructions) PN		

(1) Based upon 101,877,662 Shares of the Issuer outstanding as of October 14, 2014, as disclosed in Amendment No. 1 to Form F-10 filed by the Issuer with the Securities and Exchange Commission on October 15, 2014.

CUSIP No. 81234D109

1.	Names of Reporting Persons. ESL Institutional Partners, L.P.		
2.	Check the Appropriate Box if a Member of a Group (See Instructions) (a) x (b) ¨		
3.	SEC Use Only		
4.	Source of Funds (See Instructions) OO		
5.	Check if Disclosure of Legal Proceedings Is Required Pursuant to Items 2(d) or 2(e) ¨		
6.	Citizenship or Place of Organization Delaware		
Number of Shares Beneficially Owned by Each Reporting Person With		7.	Sole Voting Power 8,223
		8.	Shared Voting Power 0
		9.	Sole Dispositive Power 8,223
		10.	Shared Dispositive Power 0
11.	Aggregate Amount Beneficially Owned by Each Reporting Person 8,223		
12.	Check if the Aggregate Amount in Row (11) Excludes Certain Shares (See Instructions) ¨		
13.	Percent of Class Represented by Amount in Row (11) 0.0% (1)		
14.	Type of Reporting Person (See Instructions) PN		

(1) Based upon 101,877,662 Shares of the Issuer outstanding as of October 14, 2014, as disclosed in Amendment No. 1 to Form F-10 filed by the Issuer with the Securities and Exchange Commission on October 15, 2014.

CUSIP No. 81234D109

1.	Names of Reporting Persons. RBS Investment Management, L.L.C.		
2.	Check the Appropriate Box if a Member of a Group (See Instructions) (a) x (b) ¨		
3.	SEC Use Only		
4.	Source of Funds (See Instructions) OO		
5.	Check if Disclosure of Legal Proceedings Is Required Pursuant to Items 2(d) or 2(e) ¨		
6.	Citizenship or Place of Organization Delaware		
Number of Shares Beneficially Owned by Each Reporting Person With		7.	Sole Voting Power 8,223
		8.	Shared Voting Power 0
		9.	Sole Dispositive Power 8,223
		10.	Shared Dispositive Power 0
11.	Aggregate Amount Beneficially Owned by Each Reporting Person 8,223		
12.	Check if the Aggregate Amount in Row (11) Excludes Certain Shares (See Instructions) ¨		
13.	Percent of Class Represented by Amount in Row (11) 0.0% (1)		
14.	Type of Reporting Person (See Instructions) OO		

(1) Based upon 101,877,662 Shares of the Issuer outstanding as of October 14, 2014, as disclosed in Amendment No. 1 to Form F-10 filed by the Issuer with the Securities and Exchange Commission on October 15, 2014.

CUSIP No. 81234D109

1.	Names of Reporting Persons. CRK Partners, LLC		
2.	Check the Appropriate Box if a Member of a Group (See Instructions) (a) x (b) ¨		
3.	SEC Use Only		
4.	Source of Funds (See Instructions) OO		
5.	Check if Disclosure of Legal Proceedings Is Required Pursuant to Items 2(d) or 2(e) ¨		
6.	Citizenship or Place of Organization Delaware		
Number of Shares Beneficially Owned by Each Reporting Person With		7.	Sole Voting Power 599
		8.	Shared Voting Power 0
		9.	Sole Dispositive Power 599
		10.	Shared Dispositive Power 0
11.	Aggregate Amount Beneficially Owned by Each Reporting Person 599		
12.	Check if the Aggregate Amount in Row (11) Excludes Certain Shares (See Instructions) ¨		
13.	Percent of Class Represented by Amount in Row (11) 0.0% (1)		
14.	Type of Reporting Person (See Instructions) OO		

(1) Based upon 101,877,662 Shares of the Issuer outstanding as of October 14, 2014, as disclosed in Amendment No. 1 to Form F-10 filed by the Issuer with the Securities and Exchange Commission on October 15, 2014.

CUSIP No. 81234D109

1.	Names of Reporting Persons. ESL Investments, Inc.		
2.	Check the Appropriate Box if a Member of a Group (See Instructions) (a) x (b) ¨		
3.	SEC Use Only		
4.	Source of Funds (See Instructions) OO		
5.	Check if Disclosure of Legal Proceedings Is Required Pursuant to Items 2(d) or 2(e) ¨		
6.	Citizenship or Place of Organization Delaware		
Number of Shares Beneficially Owned by Each Reporting Person With		7.	Sole Voting Power 26,715,419
		8.	Shared Voting Power 0
		9.	Sole Dispositive Power 26,715,419
		10.	Shared Dispositive Power 20,850,304
11.	Aggregate Amount Beneficially Owned by Each Reporting Person 47,565,723		
12.	Check if the Aggregate Amount in Row (11) Excludes Certain Shares (See Instructions) ¨		
13.	Percent of Class Represented by Amount in Row (11) 46.7% (1)		
14.	Type of Reporting Person (See Instructions) CO		

(1) Based upon 101,877,662 Shares of the Issuer outstanding as of October 14, 2014, as disclosed in Amendment No. 1 to Form F-10 filed by the Issuer with the Securities and Exchange Commission on October 15, 2014.

CUSIP No. 81234D109

1.	Names of Reporting Persons. Edward S. Lampert	
2.	Check the Appropriate Box if a Member of a Group (See Instructions) (a) x (b) ¨	
3.	SEC Use Only	
4.	Source of Funds (See Instructions) OO	
5.	Check if Disclosure of Legal Proceedings Is Required Pursuant to Items 2(d) or 2(e) ¨	
6.	Citizenship or Place of Organization United States	
Number of Shares Beneficially Owned by Each Reporting Person With	7.	Sole Voting Power 47,565,723
	8.	Shared Voting Power 0
	9.	Sole Dispositive Power 26,715,419
	10.	Shared Dispositive Power 20,850,304
11.	Aggregate Amount Beneficially Owned by Each Reporting Person 47,565,723	
12.	Check if the Aggregate Amount in Row (11) Excludes Certain Shares (See Instructions) ¨	
13.	Percent of Class Represented by Amount in Row (11) 46.7% (1)	
14.	Type of Reporting Person (See Instructions) IN	

(1) Based upon 101,877,662 Shares of the Issuer outstanding as of October 14, 2014, as disclosed in Amendment No. 1 to Form F-10 filed by the Issuer with the Securities and Exchange Commission on October 15, 2014.

This Amendment No. 4 to Schedule 13D (this "Amendment") relates to common shares, no par value (the "Shares"), of Sears Canada Inc., a corporation organized under the laws of Canada (the "Issuer"). This Amendment amends the Schedule 13D, as previously amended, filed with the Securities and Exchange Commission by ESL Partners, L.P., a Delaware limited partnership ("Partners"), SPE I Partners, LP, a Delaware limited partnership ("SPE I"), SPE Master I, LP, a Delaware limited partnership ("SPE Master I" and, together with SPE I, the "SPEs"), RBS Partners, L.P., a Delaware limited partnership ("RBS"), ESL Institutional Partners, L.P., a Delaware limited partnership ("Institutional"), RBS Investment Management, L.L.C., a Delaware limited liability company ("RBSIM"), CRK Partners, LLC, a Delaware limited liability company ("CRK LLC"), ESL Investments, Inc., a Delaware corporation ("ESL"), and Edward S. Lampert, a United States citizen, by furnishing the information set forth below. Except as otherwise specified in this Amendment, all previous Items are unchanged. Capitalized terms used herein which are not defined herein have the meanings given to them in the Schedule 13D, as previously amended, filed with the Securities and Exchange Commission.

Item 3. Source and Amount of Funds or Other Consideration.

Item 3 is hereby amended and supplemented as follows:

"Effective on October 26, 2014, in connection with the Rights Offering by Holdings to its stockholders, the SPEs privately sold all 4,434,655 subscription rights they received in the Rights Offering (collectively, the "Acquired Rights") to both Partners and Mr. Lampert (together, the "Acquiring Reporting Persons"), at a price of $0.102 per subscription right, the closing price on October 24, 2014. Partners used working capital to privately purchase the Acquired Rights. Mr. Lampert used personal funds to privately purchase the Acquired Rights. The rights purchase agreements are attached hereto as Exhibits 99.4 – 99.7 and incorporated by reference herein.

On October 27, 2014, the Acquiring Reporting Persons exercised the Acquired Rights to purchase an aggregate of 1,665,847 Shares of the Issuer from Holdings for total cash consideration of $15,825,546.50. Partners used working capital to exercise the Acquired Rights to purchase Shares of the Issuer. Mr. Lampert used personal funds to exercise the Acquired Rights to purchase Shares of the Issuer.

The Acquiring Reporting Persons also exercised the over-subscription privileges associated with the Acquired Rights to acquire, upon completion of the Rights Offering, additional Shares of the Issuer, but only to the extent that such exercise would result in the Reporting Persons owning no more than 50,438,811 Shares of the Issuer upon completion of the Rights Offering (and, in any event, less than 50.0% of the Shares of the Issuer then outstanding)."

Item 4. Purpose of Transaction.

Item 4 is hereby amended and supplemented as follows:

"The SPEs are liquidating entities and do not make new investments, such as the exercise of subscription rights. Accordingly, on October 26, 2014, the SPEs privately sold all their subscription rights received in the Rights Offering to the Acquiring Reporting Persons.

On October 27, 2014, the Acquiring Reporting Persons exercised the Acquired Rights to purchase an aggregate of 1,665,847 Shares of the Issuer from Holdings.

The Acquiring Reporting Persons also exercised the over-subscription privileges associated with the Acquired Rights to acquire, upon completion of the Rights Offering, additional Shares of the Issuer, but only to the extent that such exercise would result in the Reporting Persons owning no more than 50,438,811 Shares of the Issuer upon completion of the Rights Offering (and, in any event, less than 50.0% of the Shares of the Issuer then outstanding)."

Item 5. Interest in Securities of the Issuer.

Item 5 is hereby amended and restated in its entirety as follows:

"(a)-(b) Each Reporting Person declares that neither the filing of this statement nor anything herein shall be construed as an admission that such person is, for the purposes of Section 13(d) or 13(g) of the Act or any other purpose, the beneficial owner of any securities covered by this statement.

Each Reporting Person may be deemed to be a member of a group with respect to the Issuer or securities of the Issuer for the purposes of Section 13(d) or 13(g) of the Act. Each Reporting Person declares that neither the filing of this statement nor anything herein shall be construed as an admission that such person is, for the purposes of Section 13(d) or 13(g) of the Act or any other purpose, (i) acting (or has agreed or is agreeing to act) with any other person as a partnership, limited partnership, syndicate, or other group for the purpose of acquiring, holding, or disposing of securities of the Issuer or otherwise with respect to the Issuer or any securities of the Issuer or (ii) a member of any syndicate or group with respect to the Issuer or any securities of the Issuer.

As of October 28, 2014, the Reporting Persons may be deemed to beneficially own the Shares of the Issuer set forth in the table below.

REPORTING PERSON	NUMBER OF SHARES BENEFICIALLY OWNED	PERCENTAGE OF OUTSTANDING SHARES	SOLE VOTING POWER	SHARED VOTING POWER	SOLE DISPOSITIVE POWER	SHARED DISPOSITIVE POWER
ESL Partners, L.P.	45,657,527(1)	44.8%	24,807,223	0	24,807,223	20,850,304(1)
SPE I Partners, LP	830,852	0.8%	830,852	0	830,852	0
SPE Master I, LP	1,068,522	1.0%	1,068,522	0	1,068,522	0
RBS Partners, L.P.	47,556,901(1)(2)	46.7%	26,706,597(2)	0	26,706,597(2)	20,850,304(1)
ESL Institutional Partners, L.P.	8,223	0.0%	8,223	0	8,223	0
RBS Investment Management, L.L.C.	8,223(3)	0.0%	8,223(3)	0	8,223(3)	0
CRK Partners, LLC	599	0.0%	599	0	599	0
ESL Investments, Inc.	47,565,723(1)(4)	46.7%	26,715,419(4)	0	26,715,419(4)	20,850,304(1)
Edward S. Lampert	47,565,723(1)(5)	46.7%	47,565,723(1)(5)	0	26,715,419(5)	20,850,304(1)

(1) This number includes 20,850,304 Shares of the Issuer held by Mr. Lampert. Partners has entered into a Lock-Up Agreement with Mr. Lampert that restricts the purchase and sale of securities owned by Mr. Lampert. Pursuant to the Lock-Up Agreement, Partners may be deemed to have shared dispositive power over, and to indirectly beneficially own, securities owned by Mr. Lampert. RBS, ESL and Mr. Lampert may also be deemed to have shared dispositive power over, and to indirectly beneficially own, such securities.

(2) This number includes 24,807,223 Shares of the Issuer held by Partners, 830,852 Shares of the Issuer held by SPE I and 1,068,522 Shares of the Issuer held by SPE Master I. RBS is the general partner of, and may be deemed to indirectly beneficially own securities owned by, Partners, SPE I and SPE Master I.

(3) This number includes 8,223 Shares of the Issuer held by Institutional. RBSIM is the general partner of, and may be deemed to indirectly beneficially own securities owned by, Institutional.

(4) This number includes 24,807,223 Shares of the Issuer held by Partners, 830,852 Shares of the Issuer held by SPE I, 1,068,522 Shares of the Issuer held by SPE Master I, 8,223 Shares of the Issuer held by Institutional and 599 Shares of the Issuer held by CRK LLC. ESL is the general partner of, and may be deemed to indirectly beneficially own securities owned by, RBS. ESL is the manager of, and may be deemed to indirectly beneficially own securities owned by, RBSIM. ESL is the sole member of, and may be deemed to indirectly beneficially own securities owned by, CRK LLC.

(5) This number includes 24,807,223 Shares of the Issuer held by Partners, 830,852 Shares of the Issuer held by SPE I, 1,068,522 Shares of the Issuer held by SPE Master I, 8,223 Shares of the Issuer held by Institutional and 599 Shares of the Issuer held by CRK LLC. Mr. Lampert is the Chairman, Chief Executive Officer and Director of, and may be deemed to indirectly beneficially own securities owned by, ESL.

(c) Other than as set forth on Annex B hereto, there have been no transactions in the class of securities reported on that were effected by the Reporting Persons during the past sixty days or since the most recent filing of Schedule 13D, whichever is less.

(d) Not applicable.

(e) Not applicable."

Item 6. Contracts, Arrangements, Understandings or Relationships With Respect to Securities of the Issuer.

Item 6 is hereby amended and supplemented as follows:

"The information set forth in Item 4 is incorporated by reference into this Item 6."

Item 7. Material to be Filed as Exhibits.

Item 7 is hereby amended and restated in its entirety as follows:

"The following exhibits are filed as exhibits hereto:

Exhibit	Description of Exhibit
99.1	Letter Agreement, dated June 2, 2010, by and between ESL Partners, L.P. and Edward S. Lampert (incorporated by reference to Exhibit 99.1 to Schedule 13D filed on November 13, 2012).
99.2	Joint Filing Agreement (incorporated by reference to Exhibit 99.2 to Schedule 13D filed on October 3, 2014).
99.3	Form of Subscription Rights Certificate (incorporated by reference to Exhibit 99.3 to Schedule 13D filed on October 17, 2014).
99.4	Rights Purchase Agreement, dated as of October 26, 2014, by and between SPE Master I, LP and ESL Partners, L.P. (filed herewith).
99.5	Rights Purchase Agreement, dated as of October 26, 2014, by and between SPE Master I, LP and Mr. Edward S. Lampert (filed herewith).
99.6	Rights Purchase Agreement, dated as of October 26, 2014, by and between SPE I Partners, LP and ESL Partners, L.P. (filed herewith).
99.7	Rights Purchase Agreement, dated as of October 26, 2014, by and between SPE I Partners, LP and Mr. Edward S. Lampert (filed herewith)."

SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Date: October 28, 2014

ESL PARTNERS, L.P.

By: RBS Partners, L.P., as its general partner

By: ESL Investments, Inc., as its general partner

By: /s/ Edward S. Lampert
Name: Edward S. Lampert
Title: Chief Executive Officer

SPE I PARTNERS, LP

By: RBS Partners, L.P., as its general partner

By: ESL Investments, Inc., as its general partner

By: /s/ Edward S. Lampert
Name: Edward S. Lampert
Title: Chief Executive Officer

SPE MASTER I, LP

By: RBS Partners, L.P., as its general partner

By: ESL Investments, Inc., as its general partner

By: /s/ Edward S. Lampert
Name: Edward S. Lampert
Title: Chief Executive Officer

RBS PARTNERS, L.P.

By: ESL Investments, Inc., as its general partner

By: /s/ Edward S. Lampert
Name: Edward S. Lampert
Title: Chief Executive Officer

ESL INSTITUTIONAL PARTNERS, L.P.

By: RBS Investment Management, L.L.C., as its general partner

By: ESL Investments, Inc., as its manager

By: /s/ Edward S. Lampert
Name: Edward S. Lampert
Title: Chief Executive Officer

RBS INVESTMENT MANAGEMENT, L.L.C.

By: ESL Investments, Inc., as its manager

By: /s/ Edward S. Lampert
Name: Edward S. Lampert
Title: Chief Executive Officer

CRK PARTNERS, LLC

By: ESL Investments, Inc., as its sole member

By: /s/ Edward S. Lampert
Name: Edward S. Lampert
Title: Chief Executive Officer

ESL INVESTMENTS, INC.

By: /s/ Edward S. Lampert
Name: Edward S. Lampert
Title: Chief Executive Officer

EDWARD S. LAMPERT

By: /s/ Edward S. Lampert

ANNEX B

RECENT TRANSACTIONS BY THE REPORTING PERSONS IN THE SECURITIES OF SEARS CANADA INC.

Entity	Date of Transaction	Description of Transaction	Shares Acquired	Shares Disposed	Price Per Share
SPE I Partners, LP	10/26/2014	Private Sale of Subscription Rights		728,699(1)	$ 0.102(2)
SPE Master I, LP	10/26/2014	Private Sale of Subscription Rights		937,147(1)	$ 0.102(2)
ESL Partners, L.P.	10/26/2014	Private Purchase of Subscription Rights	724,636(1)		$ 0.102(2)
Edward S. Lampert	10/26/2014	Private Purchase of Subscription Rights	941,211(1)		$ 0.102(2)
ESL Partners, L.P.	10/27/2014	Exercise of Acquired Subscription Rights	724,636		$ 9.50
Edward S. Lampert	10/27/2014	Exercise of Acquired Subscription Rights	941,211		$ 9.50

(1) Represents Shares of the Issuer that may be acquired upon the exercise of subscription rights to purchase Shares of the Issuer.
(2) Represents the closing price of the subscription rights to purchase Shares of the Issuer on October 24, 2014.

EXHIBIT INDEX

Exhibit	Description of Exhibit
99.1	Letter Agreement, dated June 2, 2010, by and between ESL Partners, L.P. and Edward S. Lampert (incorporated by reference to Exhibit 99.1 to Schedule 13D filed on November 13, 2012).
99.2	Joint Filing Agreement (incorporated by reference to Exhibit 99.2 to Schedule 13D filed on October 3, 2014).
99.3	Form of Subscription Rights Certificate (incorporated by reference to Exhibit 99.3 to Schedule 13D filed on October 17, 2014).
99.4	Rights Purchase Agreement, dated as of October 26, 2014, by and between SPE Master I, LP and ESL Partners, L.P. (filed herewith).
99.5	Rights Purchase Agreement, dated as of October 26, 2014, by and between SPE Master I, LP and Mr. Edward S. Lampert (filed herewith).
99.6	Rights Purchase Agreement, dated as of October 26, 2014, by and between SPE I Partners, LP and ESL Partners, L.P. (filed herewith).
99.7	Rights Purchase Agreement, dated as of October 26, 2014, by and between SPE I Partners, LP and Mr. Edward S. Lampert (filed herewith).

TAB I

This is Exhibit "I" referred to in the

Affidavit of

JONATHAN WYPYCH

Sworn before me,

this 1ST day of March, 2018

A Commissioner for taking Affidavits

Shannon Beverley Ste. Marie, a Commissioner, etc.,
Province of Ontario, while a Student-at-Law.
Expires March 23, 2019.

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 13F

FORM 13F COVER PAGE

OMB APPROVAL	
OMB Number:	3235-0006
Expires:	Oct 31, 2018
Estimated average burden	
hours per response:	23.8

Report for the Calendar Year or Quarter Ended: 12-31-2014

Check here if Amendment ☐ Amendment Number:

This Amendment (Check only one.): ☐ is a restatement.

☐ adds new holdings entries.

Institutional Investment Manager Filing this Report:

Name:	RBS Partners, L.P.
Address:	1170 Kane Concourse Suite 200 Bay Harbor Islands, FL 33154
Form 13F File Number:	028-02610

The institutional investment manager filing this report and the person by whom it is signed hereby represent that the person signing the report is authorized to submit it, that all information contained herein is true, correct and complete, and that it is understood that all required items, statements, schedules, lists, and tables, are considered integral parts of this form.

Person Signing this Report on Behalf of Reporting Manager:

Name:	Edward S. Lampert
Title:	Chief Executive Officer of the General Partner
Phone:	(305) 702-2100

Signature, Place, and Date of Signing:

/s/ Edward S. Lampert	Bay Harbor, FL	02-17-2015
[Signature]	[City, State]	[Date]

Report Type (Check only one.):

☒ 13F HOLDINGS REPORT. (Check here if all holdings of this reporting manager are reported in this report.)

☐ 13F NOTICE. (Check here if no holdings reported are in this report, and all holdings are reported by other reporting manager(s).)

☐

[ ] 13F COMBINATION REPORT. (Check here if a portion of the holdings for this reporting manager are reported in this report and a portion are reported by other reporting manager(s).)

Form 13F Summary Page

Report Summary:

Number of Other Included Managers:	1
Form 13F Information Table Entry Total:	12
Form 13F Information Table Value Total:	2,211,277
	(thousands)

List of Other Included Managers:

Provide a numbered list of the name(s) and Form 13F file number(s) of all institutional investment managers with respect to which this report is filed, other than the manager filing this report.

[If there are no entries in this list, state "NONE" and omit the column headings and list entries.]

No.	Form 13F File Number	Name
1	028-11470	ESL Investments, Inc.

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 13F

OMB APPROVAL	
OMB Number:	3235-0006
Expires:	Oct 31, 2018
Estimated average burden hours per response:	23.8

FORM 13F INFORMATION TABLE

COLUMN 1	COLUMN 2	COLUMN 3	COLUMN 4	COLUMN 5			COLUMN 6	COLUMN 7	COLUMN 8		
			VALUE	SHRS OR	SH/	PUT/	INVESTMENT	OTHER	VOTING AUTHORITY		
NAME OF ISSUER	TITLE OF CLASS	CUSIP	(x$1000)	PRN AMT	PRN	CALL	DISCRETION	MANAGER	SOLE	SHARED	NONE
AUTONATION INC	COM	05329W102	527,413	8,730,562	SH		SOLE	0	8,730,562	0	0
AUTONATION INC	COM	05329W102	275	4,554	SH		DFND	1	4,554	0	0
GAP INC DEL	COM	364760108	12,539	297,779	SH		SOLE	0	297,779	0	0
INTERNATIONAL BUSINESS MACHS	COM	459200101	34,752	216,605	SH		SOLE	0	216,605	0	0
LANDS END INC NEW	COM	51509F105	428,939	7,949,202	SH		SOLE	0	7,949,202	0	0
LANDS END INC NEW	COM	51509F105	178	3,301	SH		DFND	1	3,301	0	0
SEARS CDA INC	COM	81234D109	270,008	28,096,581	SH		SOLE	0	28,096,581	0	0
SEARS CDA INC	COM	81234D109	85	8,822	SH		DFND	1	8,822	0	0
SEARS HLDGS CORP	COM	812350106	871,572	26,427,295	SH		SOLE	0	26,427,295	0	0
SEARS HLDGS CORP	COM	812350106	362	10,977	SH		DFND	1	10,977	0	0
SEARS HOMETOWN & OUTLET STOR	COM	812362101	65,121	4,952,151	SH		SOLE	0	4,952,151	0	0
SEARS HOMETOWN & OUTLET STOR	COM	812362101	33	2,506	SH		DFND	1	2,506	0	0

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., 9370-2751 QUÉBEC INC., 191020 CANADA INC., THE CUT INC., SEARS CONTACT SERVICES INC., INITIUM LOGISTICS SERVICES INC., INITIUM COMMERCE LABS INC., INITIUM TRADING AND SOURCING CORP., SEARS FLOOR COVERING CENTRES INC., 173470 CANADA INC., 2497089 ONTARIO INC., 6988741 CANADA INC., 10011711 CANADA INC., 1592580 ONTARIO LIMITED, 955041 ALBERTA LTD., 4201531 CANADA INC., 168886 CANADA INC., AND 3339611 CANADA INC.

The Applicants

ONTARIO
SUPERIOR COURT OF JUSTICE
Proceeding commenced at Toronto

AFFIDAVIT OF JONATHAN WYPYCH
(Sworn March 1, 2018)

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Lawyers for Mr. Edward S. Lampert, ESL Investments Inc., ESL Partners, L.P. and RBS Partners, L.P. et al

Tab 2

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

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

THE HONOURABLE	)	THURSDAY, THE 26TH
	)	
MR. JUSTICE HAINEY	)	DAY OF APRIL, 2018

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

AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF SEARS CANADA INC., 9370-2751 QUÉBEC INC., 191020 CANADA INC., THE CUT INC., SEARS CONTACT SERVICES INC., INITIUM LOGISTICS SERVICES INC., INITIUM COMMERCE LABS INC., INITIUM TRADING AND SOURCING CORP., SEARS FLOOR 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**")

AMENDED LITIGATION INVESTIGATOR ORDER

THIS MOTION, made by Representative Counsel to the court-appointed Representatives of employees and retirees with respect to pension and post-retirement benefits of the Applicants ("**Retiree Representative Counsel**") pursuant to the *Companies' Creditors Arrangement Act,* RSC 1985, c C-36, (the "**CCAA**") for an order appointing a Litigation Investigator to identify and report on certain rights and claims of the Applicants and SearsConnect (collectively, the "**Sears Canada Entities**") and/or any creditors of the Sears Canada Entities, was heard this day at 330 University Avenue, Toronto, Ontario.

ON READING the Affidavit of William Turner sworn on February 12, 2018 including the exhibits thereto, the Affidavit of William Turner sworn on August 11, 2017, including the exhibits thereto, the Affidavit of William Turner sworn on February 14, 2018 including the exhibits thereto, the Affidavit of Jules Monteyne sworn on February 14, 2018 including the exhibits thereto, the Affidavit of Leanne M. Williams sworn on February 14, 2018 including the exhibits annexed thereto, the Monitor's Fourteenth Report to the Court dated March 1, 2018, and on hearing the submissions of Retiree Representative Counsel, Representative Counsel for the employees of the Sears Canada Entities ("**Employee Representative Counsel**"), counsel for the Applicants, counsel for the Monitor, and such other counsel for various creditors and stakeholders as were present, no one else appearing although duly served as appears from the Affidavit of Service of Veronica de Leoz, sworn February 12, 2018:

1. **THIS COURT ORDERS** that the time for service of the Notice of Motion and the Motion Record herein is hereby abridged and validated so that this Motion is properly returnable today and hereby dispenses with further service thereof.

2. **THIS COURT ORDERS** that Lax O'Sullivan Lisus Gottlieb LLP is hereby appointed as Litigation Investigator (the **"Litigation Investigator"**) in these CCAA proceedings for the benefit of the estates of the Sears Canada Entities and its creditors. The Litigation Investigator shall be an officer of this Court, and is appointed for the purpose of investigating, considering, and reporting to the Creditors' Committee (defined below), regarding any rights or claims, whether legal, equitable, statutory or otherwise, that the Sears Canada Entities and/or any creditors of any of the Sears Canada Entities may have as against any parties, including but not limited to current and former directors, officers, shareholders and advisors of any of the Sears Canada Entities (the **"Mandate"**). For greater certainty, the Litigation Investigator may

investigate any and all claims regardless of whether such claims have been included by creditors' proofs of claims filed pursuant to the Claims Procedure Order and E&R Claims Procedure Order (defined below), however, the Litigation Investigator shall have no role in determining, advising on, opposing, supporting, or articulating any claim of any creditor or stakeholder in the Claims Process, as defined in the Order of this Court dated December 8, 2017 as amended by Order dated February 22, 2018 or as further amended by Order of the Court (as amended, the "**Claims Procedure Order**") or any Claim as defined in the Employee and Retiree Claims Procedure Order dated February 22, 2018 (the "**E&R Claims Procedure Order**") and shall have no role in the distribution or allocation of estate funds.

Litigation Investigator Reporting

3. **THIS COURT ORDERS** that the Litigation Investigator's Mandate shall include reporting to the Creditors' Committee with such details as the Litigation Investigator considers advisable (all such reporting being collectively defined herein as the "**Report**"), taking into account any concerns of privilege and confidentiality. All Reports by the Litigation Investigator and all communications among the Creditors' Committee members and the Litigation Investigator shall be subject to common interest privilege. A Report by the Litigation Investigator will include recommendations regarding a proposed litigation plan that includes, but is not limited to:

(a) those potential rights or claims of the Sears Canada Entities or any creditors of the Sears Canada Entities that should be pursued (if any); and

(b) describing how and by whom such rights or claims (if any) can best be pursued or continued, including, but not limited to:

(i) the coordination of the prosecution of such rights or claims with similar or related facts, rights or other claims that may be asserted by different parties;

(ii) if necessary or desirable, a proposed governance structure for the Creditors' Committee created pursuant to this Order (or as same may be amended, expanded or reconstituted in future, in accordance with the terms of this Order) for the purpose of providing input to the Litigation Investigator in the prosecution of such rights, claims or causes of action; and

(iii) consideration as to the various options available for funding the prosecution of such rights, claims or causes of action.

A confidential briefing ("**Investigator Briefing**") regarding all Reports prepared by the Litigation Investigator shall be given to the Monitor; provided that such Investigator Briefing shall be kept confidential by the Monitor and shall remain subject to privilege.

4. **THIS COURT ORDERS** that following delivery of a Report to the Creditors' Committee in accordance with its Mandate, the Litigation Investigator shall not take any further steps without a further Order of the Court. For greater certainty, nothing herein shall prevent the Litigation Investigator from seeking an Order of the Court authorizing it to pursue any claims identified pursuant to the Mandate.

The Committee

5. **THIS COURT ORDERS** that the Litigation Investigator shall fulfil his Mandate in consultation with a creditors' committee (the "**Creditors' Committee**") comprised of no more than eight (8) members (inclusive of two members on behalf of landlords) at any one time appointed by, or on behalf of the following creditor groups of the Sears Canada Entities: (i) Retiree Representative Counsel; (ii) Employee Representative Counsel; (iii) landlords; (iv) Hometown Dealers Class Action plaintiff counsel; (v) Morneau Shepell Ltd. in its capacity as Administrator for the Sears Canada Inc. Registered Retirement Plan; (vi) the Ontario Superintendent of Financial Services as Administrator of the Pension Benefits Guarantee Fund; and (vii) such other unsecured creditors of the Sears Canada Entities not represented in (i) through (vi) above as the majority of the Creditors' Committee may agree be included, in consultation with the Monitor, or as may be directed by the Court. The Creditors' Committee and the Litigation Investigator shall cooperate with the Monitor, and the Monitor shall cooperate with the Litigation Investigator and the Creditors' Committee in connection with the Mandate. The Creditors' Committee shall consult with and provide input to the Litigation Investigator with respect to the Mandate.

6. **THIS COURT ORDERS** that each member of the Creditors' Committee (including any alternates or replacements from the same stakeholder group as may be appointed by an existing member) may be a creditor itself or counsel/advisor representing that stakeholder interest, but in either case each member shall execute a Confidentiality Agreement in a form acceptable to the Litigation Investigator, the Sears Canada Entities and the Monitor prior to being entitled to participate in any discussions or meetings of the Creditors' Committee, receive any information from the Monitor, the Litigation Investigator or any other member of the Creditors' Committee,

or to receive the Report. The Litigation Investigator will meet with the Creditors' Committee at least monthly, or such other times as may be agreed by the Litigation Investigator and the Creditors' Committee. Meetings will only be conducted in person, to ensure the confidentiality of all discussions.

7. **THIS COURT ORDERS** that the Monitor shall provide to the Litigation Investigator (and, upon execution of appropriate Confidentiality Agreements, for delivery by the Litigation Investigator to the Creditors' Committee) a confidential briefing regarding the "Transactions of Interest" as identified in the Monitor's 11th Report to the Court (the "**Monitor Briefing**"). To the extent that the Litigation Investigator requests documents or information from the Sears Canada Entities and such requests are consistent with the Mandate (the "**Additional Company Information**"), then, subject to satisfactory resolution of issues of privilege and confidentiality (including any terms regarding sharing of information with the Creditors' Committee), the Sears Canada Entities shall cooperate with the Monitor to provide the Additional Company Information to the Litigation Investigator. The Monitor's delivery of the Monitor Briefing pursuant to the terms of this Order shall be subject to common interest privilege and strict confidentiality, and the Monitor is protected for so doing pursuant to section 142 of the *Courts of Justice Act* (Ontario). The Sears Canada Entities' delivery of the Additional Company Information pursuant to the terms of this Order shall be subject to strict confidentiality, and the Sears Canada Entities and their directors and officers are protected for so doing pursuant to section 142 of the *Courts of Justice Act* (Ontario). In the event of any concerns being raised regarding the delivery by the Monitor of any particular aspect of the Monitor Briefing that cannot be resolved without breaching the underlying basis for the concern, such concerns shall be resolved following a review by an independent party appointed by the Monitor and the

Litigation Investigator (or, absent agreement on the identity of such party, by the Court). Notwithstanding the foregoing, any document provided by the Sears Canada Entities as part of the Additional Company Information may be submitted by a party in receipt of such document to the court under seal for the purposes of resolving any dispute over whether such document should be produced in litigation.

8. **THIS COURT ORDERS** that the Monitor or the Sears Canada Entities, as the case may be, shall maintain copies and a record of all documents: (i) received by the Monitor from the Sears Canada Entities and provided to the Litigation Investigator in accordance with this Order; or (ii) provided by the Sears Canada Entities to the Litigation Investigator in accordance with this Order.

9. **THIS COURT ORDERS** that prior to any production of documents by the Monitor or the Sears Canada Entities to the Litigation Investigator to facilitate the fulfillment of the Mandate, the Monitor or Sears Canada Entities, as the case may be, shall take reasonable steps to review such documents to identify any:

(a) documents that contain any communication that is between a lawyer and the ESL parties and/or Sears Holdings Corporation;

(b) documents containing any communication by or to the ESL parties and/or Sears Holdings Corporation and/or any current or former directors or officers of the Sears Canada Entities (a "**Current or Former D&O**") created on or after November 26, 2013 and related to the 1291079 Ontario Ltd and Sears Canada Inc. et. al. class action of November 6, 2015 (Ontario Superior Court of Justice) File No. 4114/15); and

(c) documents containing communications between a law firm and a Current or Former D&O for which privilege could reasonably be asserted, or documents that reflect legal advice or litigation work product prepared for the benefit of a Current or Former D&O, whether alone or as part of a joint retainer.

Hereafter, items a), b), and c) shall be referred to collectively as the "**Potentially Shared Privileged Documents**"). No waiver of any privilege shall have occurred by the inadvertent delivery of documents to the Litigation Investigator should a Potentially Shared Privileged Document not be identified or if any other document subject to privilege (including solicitor-client privilege, litigation privilege, and common interest privilege) is produced or disclosed to the Litigation Investigator.

10. **THIS COURT ORDERS** that in the event that the Monitor and/or Sears Canada Entities intend to produce any Potentially Shared Privileged Documents to the Litigation Investigator in facilitation of the fulfillment of the Mandate, the Monitor or the Sears Canada Entities, as the case may be, shall provide a list of such documents on reasonable notice, which shall be no less than seven days, to the ESL parties, Sears Holdings Corporation and/or the Current or Former D&Os to the extent that such parties may be able to assert privilege over the documents, so that any issue regarding privilege may be resolved by the parties or determined by this Court.

11. **THIS COURT ORDERS** that the Litigation Investigator shall create and maintain a detailed list (including creation date, sender, recipient and subject) of those document(s) received from the Sears Canada Entities (either directly or through the Monitor) that it provides to the Creditors' Committee or their counsel or agents.

12. **THIS COURT ORDERS** that, for greater certainty, any right, claim or cause of action identified by the Litigation Investigator as capable of being advanced and that is advanced with approval of the Court, whether by the Litigation Investigator or otherwise, may be removed from the claims process established under the Claims Procedure Order or the E&R Claims Procedure Order.

13. **THIS COURT ORDERS** that the Claims Procedure Order is hereby amended as follows:

(i) subparagraph (vii) in the definition of "Excluded Claim" is hereby amended to read as follows: "Claim that may be asserted by any of the Sears Canada Entities <u>or that are advanced by the Litigation Investigator or any creditors, in each case, as may be permitted or directed by further Order of the Court,</u> against the Sears Canada Entities or any Directors and/or Officers, which for greater certainty shall include any Claim that may be identified, reviewed or investigated as part of the Litigation Investigator's Mandate (as defined in an Order of the Court dated March 2, 2018)".

14. **THIS COURT ORDERS** that the E&R Claims Procedure Order is hereby amended as follows:

(i) the definition of "Excluded Claim" is hereby amended to add a new subparagraph (vi) that shall read as follows: "Claim that is advanced by the Litigation Investigator or any creditors, in each case, as may be permitted or directed by further Order of the Court, against the Sears Canada Entities or any Directors and/or Officers, which for greater certainty shall include any Claim that may be identified, reviewed or investigated as part of the Litigation Investigator's Mandate (as defined in an Order of the Court dated March 2, 2018)".

Litigation Investigator Costs

15. **THIS COURT ORDERS** that the Litigation Investigator shall be paid from the funds of the Applicants its reasonable fees and disbursements, including the fees of any counsel retained by the Litigation Investigator in respect of the Mandate, the amount of which is not to exceed a budget approved by the Creditors' Committee in consultation with the Monitor prior to the Litigation Investigator commencing work in respect of fulfilling its Mandate in accordance with this Order. The Litigation Investigator and any counsel it retains shall be paid forthwith upon rendering fully-redacted versions of their accounts to the Applicants and the Monitor. Un-redacted versions of accounts rendered by the Litigation Investigator shall be made available to the Creditors' Committee and, upon request of the Court and subject to a sealing order to protect privilege and confidentiality, to the Court. In the event of any disagreement with respect to a proposed budget, any requested increased to such budget, or any accounts rendered by the Litigation Investigator, such disagreement may be remitted to this Court for determination.

16. **THIS COURT ORDERS** that the Litigation Investigator shall be entitled to the benefit of the Administrative Charge, as defined in the Initial Order issued by the Court dated June 22, 2017 as amended, for the Litigation Investigator's costs, as security for its professional fees, taxes, and disbursements reasonably incurred.

17. **THIS COURT ORDERS** that the Litigation Investigator is hereby authorized to take all appropriate steps and do all appropriate acts necessary or desirable to carry out its Mandate in accordance with the terms of this Order.

18. **THIS COURT ORDERS** that the Litigation Investigator shall be at liberty, and is hereby authorized, at any time, to apply to this Court for advice and directions in respect of its Mandate or any variation or expansion of the powers and duties of the Litigation Investigator, which shall be brought on at least seven (7) business days' notice to the Service List in these CCAA proceedings, unless time for service is otherwise abridged.

19. **THIS COURT ORDERS** that the Litigation Investigator shall have no personal liability as a result of the performance of its duties in carrying out the provisions of this Order, save and except for liability arising out of gross negligence or wilful misconduct. The Creditors' Committee members shall have no liability as a result of their participation on the Creditors' Committee or in providing input to the Litigation Investigator, save and except for liability arising out of gross negligence or wilful misconduct.

20. **THIS COURT ORDERS** that no action or proceeding may be commenced against the Litigation Investigator or any Creditors' Committee member in respect of the performance of its or their duties under this Order without leave of this Court on seven (7) business days' notice to the Litigation Investigator and the Creditors' Committee.

21. **THIS COURT ORDERS** that notwithstanding:

(a) the pendency of these proceedings;

(b) any applications for a bankruptcy order now or hereafter issued pursuant to the *Bankruptcy and Insolvency Act* (Canada) (the "**BIA**") in respect of any of the Applicants and any bankruptcy order issued pursuant to such applications; or

(c) any assignment in bankruptcy made in respect of any of the Applicants;

the provisions of this Order shall be binding on any Investigator in bankruptcy or receiver that may be appointed in respect of any of the Applicants and any payments of fees and disbursements made to the Litigation Investigator in accordance with this Order shall not be void or voidable by creditors of any of the Applicants, nor shall any such payments constitute nor be deemed to be a fraudulent preference, assignment, fraudulent conveyance, transfer at undervalue, or any reviewable transaction under the BIA or any other applicable federal or provincial legislation, nor constitute oppressive or unfairly prejudicial conduct pursuant to any applicable federal or provincial legislation.

22. **THIS COURT HEREBY REQUESTS** the aid and recognition of any court, tribunal, regulatory or administrative bodies having jurisdiction in Canada or in the United States of America, to give effect to this Order and to assist the Litigation Investigator in carrying out the terms of this Order. All courts, tribunals, regulatory and administrative bodies are hereby respectfully requested to make such orders and to provide such assistance to the Litigation Investigator as may be necessary or desirable to give effect to this Order, or to assist the Litigation Investigator in carrying out the terms of this Order.

HAINEY, J.

ENTERED AT / INSCRIT À TORONTO
ON / BOOK NO:
LE / DANS LE REGISTRE NO:

APR 2 6 2018

PER / PAR: NB

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., 9370-2751 QUÉBEC INC., 191020 CANADA INC., THE CUT INC., SEARS CONTACT SERVICES INC., INITIUM LOGISTICS SERVICES INC., INITIUM COMMERCE LABS INC., INITIUM TRADING AND SOURCING CORP., SEARS FLOOR COVERING CENTRES INC., 173470 CANADA INC., 2497089 ONTARIO INC., 6988741 CANADA INC., 10011711 CANADA INC., 1592580 ONTARIO LIMITED, 955041, ALBERTA LTD., 4201531 CANADA INC., 168886 CANADA INC., AND 3339611 CANADA INC.

(each, an "Applicant", and collectively, the "Applicants")

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

Proceeding commenced at Toronto

AMENDED LITIGATION INVESTIGATOR ORDER

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IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, R.S.C. 1985 c. C-36, AS AMENDED
AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF SEARS CANADA INC., 9370-2751 QUEBEC INC., 191020 CANADA INC., THE CUT INC., SEARS CONTACT SERVICES INC., INITIUM LOGISTICS SERVICES INC., INITIUM COMMERCE LABS INC., INITIUM TRADING AND SOURCING CORP., SEARS FLOOR COVERING CENTRES INC., 173470 CANADA INC., 2497089 ONTARIO INC., 6988741 CANADA INC., 10011711 CANADA INC., 1592580 ONTARIO LIMITED, 955041, ALBERTA LTD., 4201531 CANADA INC., 168886 CANADA INC., AND 3339611 CANADA INC.

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

ONTARIO
SUPERIOR COURT OF JUSTICE
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