

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

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

**SUPPLEMENT TO THE THIRD REPORT OF FTI CONSULTING CANADA INC., AS
MONITOR**

OCTOBER 3, 2017

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

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

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

APPLICANTS

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

A. INTRODUCTION

1. On October 2, 2017, the Monitor filed the Third Report to the Court (the “**Third Report**”) in these CCAA Proceedings in relation to a motion by the Applicants, returnable October 4, 2017, for among other things, the approval of various sale, lease surrender and lease transfer transactions. Capitalized terms used herein and not otherwise defined in this Supplement to the Third Report have the meanings given to them in the Third Report.

2. The purpose of this Supplement to the Third Report of the Monitor is to provide an update to the Court on the status of the Seventh Amendments to the DIP Credit Agreements.

Seventh Amendments to the DIP Credit Agreements

3. In the Third Report, the Monitor reported on the current status of the DIP Credit Agreements, including:
 - (a) the negotiation of Seventh Amendments to: (i) modify minimum inventory balance thresholds; and (ii) respond to the Applicants' failure to meet certain milestones for the selection of successful bids by September 25, 2017 and the commencement of store closure sales for all locations not the subject of those successful bids by September 27, 2017 (the "**Milestone Breaches**"); and
 - (b) the suspension of funding under the DIP ABL Credit Agreement as a result of the Milestone Breaches until such time as amendments and forbearance agreements satisfactory to the DIP Lenders were entered into pursuant to the proposed Seventh Amendments.
4. The Seventh Amendments have now been concluded in the forms attached hereto as Appendix "**A**". The Seventh Amendments include the following material requirements:
 - (a) an agreement in form and substance acceptable to the DIP Lenders must be entered into with a liquidator to undertake liquidations of the remaining Sears Canada locations on October 7, 2017 (the "**Acceptable Liquidation Agreement**");
 - (b) the Acceptable Liquidation Agreement must be approved by the Court no later than October 13, 2017; and
 - (c) a bid that is satisfactory to the DIP Lenders providing for a liquidation sale in respect of the stores for which Sears Canada has agreed to surrender its leases must be delivered to the DIP Lenders by October 6, 2017.

5. The Acceptable Liquidation Agreement must provide for the commencement of a liquidation sale at the remaining Sears Canada locations by October 19, 2017, which date can be extended to October 26, 2017 in the DIP Lenders' discretion. As a result, the Acceptable Liquidation Agreement will be able to move forward quickly if a going concern solution for the business cannot be implemented and provide greater recoveries to other creditors at that time.
6. The Seventh Amendments provide for aggregate fees to the DIP Lenders of US\$1,500,000.
7. As part of the Seventh Amendments, the Applicants and the DIP ABL Lenders have agreed that draws under the DIP ABL Credit Agreement will resume in respect of the week ending October 7, 2017 in accordance with the draft amended budget delivered by Sears Canada to the DIP Lenders and, in respect of each week thereafter, in accordance with the then-current DIP budget that has been approved by the DIP Lenders in their sole discretion.

The Monitor respectfully submits to the Court this Supplement to the Third Report.

Dated this 3rd day of October, 2017.

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



Paul Bishop
Senior Managing Director



Greg Watson
Senior Managing Director

APPENDIX "A"
SEVENTH AMENDMENTS

**AMENDMENT #7, EXTENSION AND FORBEARANCE TO SENIOR SECURED
SUPERPRIORITY CREDIT AGREEMENT**

This Amendment #7, Extension and Forbearance to Senior Secured Superpriority Credit Agreement is dated as of October 3, 2017.

B E T W E E N:

SEARS CANADA INC., as Borrower

and

THE TERM DIP LENDERS NAMED HEREIN

and

**GACP FINANCE CO., LLC
as Term DIP Agent**

and

**GACP FINANCE CO., LLC
as Lead Arranger**

and

**GACP FINANCE CO., LLC
as Syndication Agent**

and

**TPG SPECIALTY LENDING, INC.
as Documentation Agent**

WHEREAS Sears Canada Inc., as borrower (the “**Borrower**”), the banks, financial institutions and other institutional lenders listed on the signature pages thereto (the “**Term DIP Lenders**”), GACP Finance Co., LLC, as administrative agent and syndication agent (the “**Term DIP Agent**”), entered into that certain senior secured superpriority credit agreement dated as of June 22, 2017 (the “**Original Term DIP Credit Agreement**”) pursuant to which the Term DIP Lenders agreed to extend the Term DIP Loan to the Borrower during the pendency of its proceedings under the CCAA subject to and in accordance with the terms of such Term DIP Credit Agreement.

AND WHEREAS the Borrower, the Term DIP Lenders, and the Term DIP Agent, entered into that certain amendment #1 to senior secured superpriority credit agreement dated as of July 12, 2017 to amend the Original Term DIP Credit Agreement (the “**Term DIP Credit Agreement First Amendment**”), that certain amendment #2 to senior secured superpriority credit agreement dated as of August 18, 2017 to amend the Original Term DIP Credit Agreement as amended by the Term DIP Credit Agreement First Amendment (the “**Term DIP Credit Agreement Second Amendment**”), that certain amendment #3 to senior secured superpriority credit agreement dated as of September 1, 2017 to amend the Original Term DIP Credit Agreement as amended by the Term DIP Credit Agreement First Amendment and the Term DIP Credit Agreement Second Amendment (the “**Term DIP Credit Agreement Third Amendment**”), that certain

amendment #4 to senior secured superpriority credit agreement dated as of September 8, 2017 to amend the Original Term DIP Credit Agreement as amended by the Term DIP Credit Agreement First Amendment, the Term DIP Credit Agreement Second Amendment and the Term DIP Credit Agreement Third Amendment (the “**Term DIP Credit Agreement Fourth Amendment**”), that certain amendment #5 to senior secured superpriority credit agreement dated as of September 15, 2017 to amend the Original Term DIP Credit Agreement as amended by the Term DIP Credit Agreement First Amendment, the Term DIP Credit Agreement Second Amendment, the Term DIP Credit Agreement Third Amendment, and the Term DIP Credit Agreement Fourth Amendment (the “**Term DIP Credit Agreement Fifth Amendment**”), and that certain amendment #6 to senior secured superpriority credit agreement dated as of September 22, 2017 to amend the Original Term DIP Credit Agreement as amended by the Term DIP Credit Agreement First Amendment, the Term DIP Credit Agreement Second Amendment, the Term DIP Credit Agreement Third Amendment, the Term DIP Credit Agreement Fourth Amendment, and the Term DIP Credit Agreement Fifth Amendment (the “**Term DIP Credit Agreement Sixth Amendment**”) (the Original Term DIP Credit Agreement as amended by the Term DIP Credit Agreement First Amendment, the Term DIP Credit Agreement Second Amendment, the Term DIP Credit Agreement Third Amendment, the Term DIP Credit Agreement Fourth Amendment, the Term DIP Credit Agreement Fifth Amendment, and the Term DIP Credit Agreement Sixth Amendment is collectively called the “**Term DIP Credit Agreement**” or the “**Credit Agreement**”);

AND WHEREAS, the Borrower (i) has not chosen the Successful Bid(s) acceptable to the Term DIP Lenders on or before September 25, 2017, (ii) has not commenced store closure sales for all locations not part of the Successful Bid(s) and inventory located thereon on or before September 27, 2017 (collectively, the “**Breached Milestones**”), in each case as required pursuant to Sections 5.01(ee)(vi) and 5.01(ee)(vii) of the Credit Agreement and pursuant to Paragraph 3 of the SISP Order, and (iii) has not provided notice to the Term DIP Agent of the Events of Default arising as a result of the Breached Milestones as required pursuant to Section 5.01(k)(iv) of the Credit Agreement (collectively, the “**Existing Breaches**”);

AND WHEREAS, as a result of the Existing Breaches, there exist Events of Default under Section 6.01(c), Section 6.01(q) and Section 6.01(r)(vi) of the Credit Agreement (collectively, the “**Existing Defaults**”);

AND WHEREAS, the Term DIP Agent and the Term DIP Lenders have agreed to extend certain Milestones under the Credit Agreement, forbear from accelerating the Obligations and exercising their remedies under the Credit Agreement, the Security Documents and the other Loan Documents in respect of the Existing Defaults and to make certain amendments to the Credit Agreement, all on and subject to the terms and conditions set forth in this Amendment #7, Extension and Forbearance to Senior Secured Superpriority Credit Agreement (this “**Agreement**”);

NOW THEREFORE THIS AGREEMENT WITNESSES THAT in consideration of the covenants and agreements contained herein and for other good and valuable consideration (the receipt and sufficiency of which are hereby acknowledged), the parties hereto agree as follows:

Section 1 General

In this Agreement (including the recitals) unless otherwise defined or the context otherwise requires, all capitalized terms shall have the respective meanings specified in the Term DIP Credit Agreement, as amended hereby. This Agreement constitutes a Loan Document.

Section 2 To be Read with Term DIP Credit Agreement

This Agreement is an amendment to the Term DIP Credit Agreement. Unless the context of this Agreement otherwise requires, the Term DIP Credit Agreement and this Agreement shall be read together and shall have effect as if the provisions of the Term DIP Credit Agreement and this Agreement were contained in

one agreement. The term “**Agreement**” when used in the Term DIP Credit Agreement means the Term DIP Credit Agreement and the schedules thereto, as previously amended and as amended by this Agreement and as may be further amended, revised, replaced, supplemented or restated from time to time.

Section 3 Headings

The division of this Agreement into Articles and Sections and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation of this Agreement. The terms “**this Agreement**”, “**hereof**”, “**hereunder**” and similar expressions refer to this Agreement and not to any particular Article, Section or other portion hereof and include any agreement supplemental hereto. Unless otherwise specified, references herein to Articles and Sections are to Articles and Sections of this Agreement.

Section 4 Number

Words importing the singular number only shall include the plural and *vice versa*, words importing the masculine gender shall include the feminine and neuter genders and *vice versa*.

Section 5 Forbearance

- (a) The Term DIP Agent, on behalf of itself and the Term DIP Lenders, agrees that it shall not demand or accelerate payment of Obligations or take any enforcement action or proceeding against the Borrower or the other Loan Parties to enforce any rights or remedies under the Credit Agreement, the Security Documents or any other Loan Document with respect to any Existing Defaults (the “**Forbearance**”) until the earliest to occur of any of the following events (each a “**Forbearance Termination Event**”):
- (i) the occurrence of any Event of Default other than the Existing Defaults;
 - (ii) the failure by the Borrower to (A) deliver liquidation bids to the Term DIP Agent and the Term DIP Lenders on or before October 2, 2017 with a liquidation commencement date of October 19, 2017 (or such other date as the Term DIP Agent and the Term DIP Lenders may agree in their sole and absolute discretion but, in any event, no later than October 26, 2017) (the “**October Liquidation Bids**”); and provided that the Term DIP Agent confirms in writing to the Borrower no later than October 6, 2017 that one of such October Liquidation Bids is satisfactory to the Term DIP Agent and the Term DIP Lenders in their sole and absolute discretion, (B) enter into a liquidation agreement in respect of such satisfactory October Liquidation Bid on or before October 7, 2017 with a liquidation commencement date of not later than October 19, 2017 (or such other date as the Term DIP Agent and the Term DIP Lenders may agree in their sole and absolute discretion but, in any event, no later than October 26, 2017) which October Liquidation Bid shall be in form and substance satisfactory to the Term DIP Agent and the Term DIP Lenders in their sole and absolute discretion (the “**October Liquidation Agreement**”), (C) serve the motion record to the CCAA Proceedings service list for approval of the October Liquidation Agreement on or before October 9, 2017 and file such motion record with the CCAA Court on or before October 10, 2017, (D) obtain a CCAA Court Order in form and substance satisfactory to the Term DIP Agent and the Term DIP Lenders approving the October Liquidation Agreement on or before October 13, 2017, or (E) on or before October 19, 2017 (or such other date as the Term DIP Agent and the Term DIP Lenders may agree in their sole and absolute discretion but, in any event, no later than October 26, 2017), either (I) commence the liquidation pursuant to the terms of the October Liquidation Agreement or (II) repay the Obligations in full;

- (iii) the Term DIP Agent and the Term DIP Lenders do not confirm to the Borrower in writing on or before October 6, 2017 that the terms of one of the October Liquidation Bids is satisfactory to the Term Agent and the Term DIP Lenders in their sole and absolute discretion;
 - (iv) the failure by the Borrower to (A) solicit liquidation bids for delivery to the Borrower on or before October 4, 2017 with respect to those stores in respect of which the Borrower has agreed to surrender lease (the “**Store Closure Liquidation Bids**”), (B) receive one or more Store Closure Liquidation Bids in form and substance satisfactory to the Term DIP Agent and the Term DIP Lenders in their sole and absolute discretion on or before October 6, 2017 or (C) proceed to enter into definitive agreements in respect of any such Store Closure Liquidation Bids or seek approval of the CCAA Court in respect thereof promptly following request by the Term DIP Agent on behalf of Term DIP Lenders;
 - (v) the Term DIP Agent and the Term DIP Lenders do not approve in writing on or before October 6, 2017 the amended DIP Budget submitted by the Borrower, such approval to be given or declined by the Term DIP Agent and the Term DIP Lenders in their sole and absolute discretion; or
 - (vi) the failure of the Borrower to pay to the Term DIP Agent on or before October 3, 2017 (i) in accordance with the terms hereof the Amendment Fee to the Term DIP Agent for and on behalf of the Term DIP Lenders and (ii) the fees and expenses incurred by the Term DIP Agent and/or the Term DIP Lenders and due pursuant to the Term DIP Credit Agreement and the other Loan Documents including those owing pursuant to Section 10 hereof (collectively, the “**October 3 Fee and Expense Payment**”).
- (b) The Borrower agrees that each of the Forbearance Termination Events listed in items (ii) through (vi) (inclusive) in Section 5(a) above shall constitute additional Events of Default under the Credit Agreement without any action or notice required whatsoever.
 - (c) At any time on or after the occurrence of a Forbearance Termination Event, and for certainty without any action or notice required whatsoever, the Term DIP Agent, on behalf of itself and the Term DIP Lenders, may enforce all of its rights and remedies under the Credit Agreement, the Security Documents and any other Loan Documents against the Borrower and the other Loan Parties in accordance with applicable law and the Initial Order, whether as a result of the occurrence of the Existing Defaults or any other Event of Default.

Section 6 Amendment

- 6.1 Amendments to Section 5.01(cc). Section 5.01(cc) of the Credit Agreement is hereby amended by deleting paragraph (ii) thereof in its entirety, and by substituting the following in its stead:

“(ii) the actual amount of the Loan Parties’ Total Eligible Inventory Available shall be equal to at least (each a “Minimum Inventory Amount”): (A) solely in respect of the week ending September 2, 2017, 80.0% of the amount of Total Eligible Inventory Available reflected in the DIP Budget as of the Effective Date for such week, (B) solely in respect of the week ending September 9, 2017, 82.0% of the amount of Total Eligible Inventory Available reflected in the DIP Budget as of the Effective Date for such week, (C) solely in respect of the week ending September 16, 2017, 70.0% of the amount of Total Eligible Inventory Available reflected in the DIP Budget as of the Effective Date for such week, (D) solely in respect of the weeks ending September 23, 2017 and September 30, 2017, 65.0% of the amount of Total Eligible Inventory Available reflected in the DIP Budget as of the

Effective Date for such week, and (E) in respect of any other Testing Period, 90% of the amount of Total Eligible Inventory Available reflected in the DIP Budget for such Testing Period, provided that, if for any relevant period the actual amount of Total Eligible Inventory Available is less than the Minimum Inventory Amount for such period (the amount of such shortfall being, the “Inventory Shortfall Amount”) and such Inventory Shortfall Amount is a result of any store closure not set out in the DIP Budget and set out on Schedule 1.01D as of the Effective Date, the Permitted Net Cash Variance Amount in effect at such time shall be decreased by the amount of the Inventory Shortfall Amount and if, after giving effect to such decrease in the Permitted Net Cash Variance Amount the Loan Parties remain in compliance with the covenant in paragraph (i) above, it shall not constitute an Event of Default pursuant to this paragraph (ii).”

Section 7 Representations and Warranties

In order to induce the Term DIP Agent and the Term DIP Lenders to enter into this Agreement, the Borrower represents and warrants to the Term DIP Agent and to the Term DIP Lenders as follows:

- (a) the representations and warranties made by each Loan Party in or pursuant to the Loan Documents are true and correct on and as of the date hereof in all material respects, except to the extent that (A) such representations or warranties are qualified by a materiality standard, in which case they shall be true and correct in all respects, (B) such representations or warranties expressly relate to an earlier date (in which case such representations and warranties were true and correct in all material respects as of such earlier date), and (C) such representations and warranties relate to Section 5.01(f) of the Term DIP Credit Agreement, in which case such representation and warranties shall be limited to clauses (c) and (d) of the definition of “Material Adverse Effect”;
- (b) all necessary corporate, company or partnership action has been taken to authorize the execution, delivery and performance of this Agreement by the applicable Loan Parties and each has duly executed and delivered this Agreement;
- (c) each of (i) this Agreement, and (ii) the Term DIP Credit Agreement as amended by this Agreement, is a legal, valid and binding obligation of each of the applicable Loan Parties enforceable against them in accordance with its terms (except as such enforceability may be limited by applicable bankruptcy, insolvency, reorganization or similar laws affecting creditors’ rights generally and by principles of equity); and
- (d) as of the date hereof and after giving effect to this Agreement, no Event of Default or Default under the Term DIP Credit Agreement exists, other than the Existing Defaults.

Section 8 Amendment Fee

In order to induce the Term DIP Agent and the Term DIP Lenders to enter into this Amending Agreement, the Borrower agrees to pay to the Term DIP Agent for and on behalf of the Term DIP Lenders an amendment fee equal to 50 bps of the Term DIP Loan Amount (the “**Amendment Fee**”). The Amendment Fee is and shall be deemed to be fully earned on the execution of this Amending Agreement by the parties hereto and which Amendment Fee shall be payable in full on or before October 3, 2017. The Borrower irrevocably covenants and agrees that it will (i) request an Extension of Credit (as that term is defined in the ABL DIP Credit Agreement) under the ABL DIP Credit Agreement by delivering the required form of notice of borrowing to the ABL DIP Agent in an amount sufficient for the Borrower to pay to the Term DIP Agent the October 3 Fee and Expense Payment in full on or before October 3, 2017 and (ii) direct the ABL DIP Agent to pay such October 3 Fee and Expense Payment directly to the Term DIP Agent on or before October 3, 2017.

Section 9 Conditions Precedent

This Agreement shall be subject to and conditional upon the following conditions precedent being satisfied:

- (a) delivery to the Term DIP Agent and the Term DIP Lenders of written confirmation from the Monitor and the Borrower (or their respective counsel on their behalf) that no approval of the CCAA Court is required in connection with this Agreement;
- (b) execution and delivery of this Agreement by the Loan Parties, the Term DIP Agent and the Required Lenders;
- (c) all action on the part of the Loan Parties necessary for the valid execution, delivery and performance by the Loan Parties of this Agreement shall have been duly and effectively taken; and
- (d) the ABL DIP Credit Agreement shall be concurrently amended to reflect the same amendments to the ABL DIP Credit Agreement as the amendments to the Term DIP Credit Agreement contained in this Agreement.

Section 10 Expenses

The Borrower agrees to pay all reasonable costs and expenses of the Term DIP Agent incurred in connection with this Agreement and all related matters, including but not limited to preparation, negotiation, execution, documentation and enforcement of this Agreement and the Term DIP Credit Agreement and all legal fees and disbursements related thereto, all in accordance with Section 8.04 of the Credit Agreement, and in each case by no later than October 3, 2017.

Section 11 Continuance of Term DIP Credit Agreement and Loan Documents

The Term DIP Credit Agreement and Loan Documents, except as expressly amended by this Agreement, shall be and continue in full force and effect and are hereby confirmed and the rights and obligations of all parties thereunder shall not be affected or prejudiced in any manner except as specifically provided for herein. The Borrower confirms and agrees that (i) all of its covenants and obligations under the Term DIP Credit Agreement and each other Loan Document to which it is a party are reaffirmed and remain in full force and effect on a continuous basis and (ii) the execution of this Agreement shall not operate as a waiver of any right, power or remedy of Term DIP Agent or any Term DIP Lender, constitute a waiver of any provision of any of the Loan Documents or serve to effect a novation of the Obligations.

Section 12 No Waiver

The Borrower acknowledges and confirms that, except for the Forbearance in respect of the Existing Defaults which shall automatically terminate upon the occurrence of a Forbearance Termination Event without any action or notice required whatsoever, none of the terms contained in this Agreement shall operate or be construed as a waiver of any of the provisions of the Loan Documents, and this Agreement shall not operate and shall not be construed as a waiver of any Default or Event of Default existing on or prior to the date hereof (including the Existing Defaults) or any future Default or Event of Default.

Section 13 Counterparts/Electronic Signatures

This Agreement may be executed in any number of separate counterparts, each of which shall be deemed an original and all of said counterparts taken together shall be deemed to constitute one and the same instrument. Delivery of an executed counterpart of a signature page to this Agreement by telecopier or by

direct electronic transmission of a pdf formatted counterpart shall be effective as delivery of a manually executed counterpart of this Agreement.

Section 14 Governing Law

This Agreement shall be construed and interpreted in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein and each of the parties hereto irrevocably attorns to the jurisdiction of the courts of the Province of Ontario.

Section 15 Successors and Assigns

This Agreement shall be binding on and enure to the benefit of the respective successors and permitted assigns of each of the parties hereto in accordance with the terms of the Term DIP Credit Agreement.


[Signature Pages to Follow]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

SEARS CANADA INC., as Borrower

By: P. MONTAG
Name: P. MONTAG
Title: Secretary

GACP FINANCE CO., LLC,
as Term DIP Agent and a Term DIP Lender

By: 

Name: John Ahn

Title: President

TPG SPECIALTY LENDING, INC.,
as Documentation Agent and a Term DIP Lender

By:  _____
Name:
Title:

CORPORATE CAPITAL TRUST, INC.,
as a Term DIP Lender

By: 

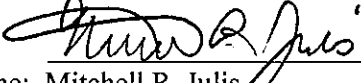
Name: _____

Title:

JEFFREY M SMITH
AUTHORIZED SIGNATORY

**CANYON VALUE REALIZATION FUND, L.P.,
as a Term DIP Lender**

**By: Canyon Capital Advisors LLC,
its Investment Advisor**


By: 
Name: Mitchell R. Julis
Title: Authorized Signatory

**CANYON BLUE CREDIT INVESTMENT FUND
L.P., as a Term DIP Lender**

**By: Canyon Capital Advisors LLC,
its co-Investment Advisor**

By: 
Name:

**By: Canyon Partners Real Estate LLC,
its co-investment Advisor**

By: 
Name: Mitchell R. Julis
Title: Authorized Signatory

THIS SEVENTH AMENDING AGREEMENT, EXTENSION AND FORBEARANCE
made as of the 3rd day of October, 2017

B E T W E E N:

SEARS CANADA INC., as Borrower

and

THE LENDERS NAMED HEREIN

and

THE L/C ISSUING BANK NAMED HEREIN

and

WELLS FARGO CAPITAL FINANCE CORPORATION CANADA
as Administrative Agent, Collateral Agent and Swingline Lender

WHEREAS Sears Canada Inc., as borrower (the “**Borrower**”), the banks, financial institutions and other institutional lenders listed on the signature pages thereto (the “**Lenders**”), the L/C Issuing Bank party thereto, and Wells Fargo Capital Finance Corporation Canada, as administrative agent and collateral agent (the “**Agent**”), entered into that certain senior secured superpriority debtor-in-possession amended and restated credit agreement dated as of June 22, 2017, as amended pursuant to a first amending agreement dated as of July 12, 2017, a second amending agreement dated as of August 18, 2017, a third amending agreement dated as of September 1, 2017, a fourth amending agreement dated as of September 8, 2017, a fifth amending agreement dated as of September 15, 2017 and a sixth amending agreement dated as of September 22, 2017 (the “**Credit Agreement**”) pursuant to which certain credit facilities continued to be made available to the Borrower during the pendency of its proceedings under the *Companies’ Creditors Arrangement Act* (Canada);

AND WHEREAS, the Borrower (i) has not chosen the Successful Bid(s) acceptable to the DIP Lenders on or before September 25, 2017, (ii) has not commenced store closure sales for all locations not part of the Successful Bid(s) and inventory located thereon on or before September 27, 2017 in each case as required pursuant to paragraphs (vi) and (vii) of Section 6.01(aa) of the Credit Agreement and pursuant to Paragraph 3 of the SISP Order (collectively, the “**Breached Milestones**”) and (iii) has not provided notice to the Agent of the Events of Default arising as a result of the Breached Milestones as required pursuant to Section 6.01(j)(iv) (collectively, the “**Existing Breaches**”).

AND WHEREAS, as a result of the Existing Breaches, there exist Events of Default under Section 7.01(c), Section 7.01(q) and Section 7.01(r)(v) of the Credit Agreement (collectively, the “**Existing Defaults**”);

AND WHEREAS, the Agent and the Lenders have agreed to extend certain Milestones under the Credit Agreement, forbear from accelerating the Obligations and exercising their remedies under the Credit Agreement, the Security Documents and the other Loan Documents in respect of the Existing Defaults and to make certain amendments to the Credit Agreement, all on the terms and conditions set forth in this amending, extension and forbearance agreement (this “**Agreement**”);

NOW THEREFORE THIS AGREEMENT WITNESSES THAT in consideration of the covenants and agreements contained herein and for other good and valuable consideration (the receipt and sufficiency of which are hereby acknowledged), the parties hereto agree as follows:

Section 1 General

In this Agreement (including the recitals) unless otherwise defined or the context otherwise requires, all capitalized terms shall have the respective meanings specified in the Credit Agreement, as amended hereby.

Section 2 To be Read with Credit Agreement

This Agreement is an amendment to the Credit Agreement. Unless the context of this Agreement otherwise requires, the Credit Agreement and this Agreement shall be read together and shall have effect as if the provisions of the Credit Agreement and this Agreement were contained in one agreement. The term “**Agreement**” when used in the Credit Agreement means the Credit Agreement and the schedules thereto, as previously amended and as amended and supplemented by this Agreement and as may be further amended, revised, replaced, supplemented or restated from time to time. This Agreement constitutes a Loan Document.

Section 3 Headings

The division of this Agreement into Articles and Sections and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation of this Agreement. The terms “**this Agreement**”, “**hereof**”, “**hereunder**” and similar expressions refer to this Agreement and not to any particular Article, Section or other portion hereof and include any agreement supplemental hereto. Unless otherwise specified, references herein to Articles and Sections are to Articles and Sections of this Agreement.

Section 4 Number

Words importing the singular number only shall include the plural and *vice versa*, words importing the masculine gender shall include the feminine and neuter genders and *vice versa*.

Section 5 Forbearance

- (a) The Agent, on behalf of itself and the Lenders, agrees that it shall not demand or accelerate payment of Obligations or take any enforcement action or proceeding against the Borrower or the other Loan Parties to enforce any rights or remedies under the Credit Agreement, the Security Documents or any other Loan Document with respect to any Existing Defaults (the “**Forbearance**”) until the earliest to occur of the following events (each a “**Forbearance Termination Event**”):

- (i) the occurrence of any Event of Default other than the Existing Defaults;
- (ii) the failure by the Borrower to (A) deliver liquidation bids to the Agent and the Lenders on or before October 2, 2017 with a liquidation commencement date of October 19, 2017, or such later date as the Agent and the Lenders may agree in their sole and absolute discretion, but in any event no later than October 26, 2017, (the “**October Liquidation Bids**”), (B) provided that the Agent confirms in writing to the Borrower by no later than October 6, 2017 that one of the October Liquidation Bids is satisfactory to the Agent and the Lenders in their sole and absolute discretion, enter into a liquidation agreement in respect of such satisfactory October Liquidation Bid with a liquidation commencement date of October 19, 2017, or such later date as the Agent and the Lenders may agree in their sole and absolute discretion, but in any event no later than October 26, 2017, which shall be in form and substance satisfactory to the Agent and the Lenders in their sole and absolute discretion (the “**October Liquidation Agreement**”) on or before October 7, 2017, (C) serve a motion record to the CCAA Proceedings service list for approval of the October Liquidation Agreement on or before October 9, 2017 and file such motion record with the CCAA Court on or before October 10, 2017, and, (D) obtain a CCAA Court Order in form and substance satisfactory to the Agent and the Lenders approving the October Liquidation Agreement on or before October 13, 2017, or (E) on or before October 19, 2017, or such later date as the Agent and the Lenders may agree in their sole and absolute discretion, but in any event no later than October 26, 2017, either (I) commence the liquidation pursuant to the terms of the October Liquidation Agreement or (II) repay the Obligations in full;
- (iii) the Agent and the Lenders do not confirm to the Borrower in writing on or before October 6, 2017 that the terms of one of the October Liquidation Bids is satisfactory to the Agent and the Lenders in their sole and absolute discretion;
- (iv) the failure by the Borrower to (A) solicit liquidation bids for delivery to the Borrower on or before October 4, 2017 with respect to those stores in respect of which the Borrower has agreed to surrender lease (the “**Store Closure Liquidation Bids**”), (B) receive one or more Store Closure Liquidation Bids in form and substance satisfactory to the Agent and the Lenders in their sole and absolute discretion on or before October 6, 2017 or (C) proceed to enter into definitive agreements in respect of any such Store Closure Liquidation Bids or seek approval of the CCAA Court in respect thereof promptly following request by the Agent on behalf of the Lenders;
- (v) the Agent and the Lenders do not approve in writing on or before October 6, 2017, the amended DIP Budget submitted by the Borrower, such approval to be given or declined by the Agent and the Lenders in their sole and absolute discretion; or

- (vi) the failure of the Borrower to pay (i) the Amendment Fee to the Agent for and on behalf of the Lenders on or before October 3, 2017 or (ii) the fees and expenses incurred by the Agent and/or the Lenders and due pursuant to the Credit Agreement and the other Loan Documents as at the date hereof, including those owing pursuant to Section 10 hereof on or before October 3, 2017.
- (b) The Borrower agrees that each of the Forbearance Termination Events listed in items (ii) through (viii) (inclusive) in paragraph 5(a) above shall constitute Events of Default under the Credit Agreement without any action or notice required whatsoever.
- (c) At any time on or after the occurrence of a Forbearance Termination Event, and for certainty without any action or notice required whatsoever, the Agent, on behalf of itself and the Lenders, may enforce all of its rights and remedies under the Credit Agreement, the Security Documents and any other Loan Documents against the Borrower and the other Loan Parties in accordance with applicable law and the Initial Order, whether as a result of the occurrence of the Existing Defaults or any other Event of Default.
- (d) Notwithstanding the existence of the Existing Defaults, following the effectiveness of this Agreement and until the occurrence of a Forbearance Termination Event, the Lenders agree to continue to provide Extensions of Credit in accordance with the terms and conditions of the Credit Agreement (as amended and supplemented hereby), (i) solely in respect of the week ending October 7, 2017 in accordance with the draft amended DIP Budget delivered by the Borrower on October 2, 2017 (the “**Draft Budget**”) in amounts not to exceed the projected Extensions of Credit for such week under the Draft Budget and (ii) in respect of each week thereafter, in accordance with the then-current DIP Budget that has been approved by the Agent and the Lenders in their sole and absolute discretion (the “**Approved Budget**”) in amounts not to exceed the projected Extensions of Credit for the relevant weekly period under the Approved Budget; provided that, in each case, (A) after giving effect to any such Extensions of Credit, the aggregate amount of all Extensions of Credit do not exceed the Total ABL Exposure (including LCs) as set out in the Draft Budget (solely in respect of the week ending October 7, 2017) and as set out in the Approved Budget for each relevant weekly period thereafter and (B) all conditions precedent set out in Section 4.03 of the Credit Agreement to each Extension of Credit are met (other than the condition set out in Section 4.03(b) of the Credit Agreement, to the extent it cannot be met solely as a result of the Existing Defaults).

Section 6 Amendment

- 6.1 Amendment to Section 6.01(y). Section 6.01(y) of the Credit Agreement is hereby amended by deleting paragraph (ii) thereof in its entirety, and by substituting the following in its stead:

“(ii) the actual amount of the Loan Parties’ Total Eligible Inventory Available shall be equal to at least (each a “Minimum Inventory Amount”): (A) solely in respect of the week ending September 2, 2017, 80% of the amount of Total Eligible Inventory Available reflected in the DIP Budget for such week, (B) solely in respect of the week ending September 9, 2017, 82% of the amount of Total Eligible Inventory Available reflected in the DIP Budget for such week, (C) solely in respect of the week ending September 16, 2017, 70% of the amount of Total Eligible Inventory Available reflected in the DIP Budget for such week, (D) solely in respect of the weeks ending September 23, 2017 and September 30, 2017, 65% of the amount of Total Eligible Inventory Available reflected in the DIP Budget for such week and (E) in respect of any other Testing Period, 90% of the amount of Total Eligible Inventory Available reflected in the DIP Budget for such Testing Period, provided that, if for any relevant period the actual amount of Total Eligible Inventory Available is less than the Minimum Inventory Amount for such period (the amount of such shortfall being, the “Inventory Shortfall Amount”) and such Inventory Shortfall Amount is a result of any store closure not set out in the DIP Budget and set out on Schedule 1.01C as of the Effective Date, the Permitted Net Cash Variance Amount in effect at such time shall be decreased by the amount of the Inventory Shortfall Amount and if, after giving effect to such decrease in the Permitted Net Cash Variance Amount the Loan Parties remain in compliance with the covenant in paragraph (i) above, it shall not constitute an Event of Default pursuant to this paragraph (ii).”

Section 7 Representations and Warranties

In order to induce the Agent and the Lenders to enter into this Agreement, the Borrower represents and warrants to the Agent and to the Lenders as follows:

- (a) the representations and warranties made by each Loan Party in or pursuant to the Loan Documents are true and correct on and as of the date hereof in all material respects, except to the extent that (A) such representations or warranties are qualified by a materiality standard, in which case they shall be true and correct in all respects, (B) such representations or warranties expressly relate to an earlier date (in which case such representations and warranties were true and correct in all material respects as of such earlier date), and (C) such representations and warranties relate to Section 5.01(f) of the Credit Agreement, in which case such representation and warranties shall be limited to clause (c) of the definition of “Material Adverse Effect”;
- (b) all necessary corporate, company or partnership action has been taken to authorize the execution, delivery and performance of this Agreement by the applicable Loan Parties and each has duly executed and delivered this Agreement;
- (c) each of (i) this Agreement and (ii) the Credit Agreement, as amended by this Agreement, is a legal, valid and binding obligation of each of the applicable Loan Parties enforceable against them in accordance with its terms (except as such enforceability may be limited by applicable bankruptcy, insolvency, reorganization or similar laws affecting creditors’ rights generally and by principles of equity); and

- (d) as of the date hereof and after giving effect to this Agreement, no Event of Default or Default under the Credit Agreement exists, other than the Existing Defaults.

Section 8 Amendment Fee

In order to induce the Agent and the Lenders to enter into this Agreement, the Borrower agrees to pay an amendment fee equal to \$750,000 (the “**Amendment Fee**”), which fee shall be fully earned upon execution and delivery of this Agreement by the parties hereto and which fee shall be payable in full on or before October 3, 2017. Agent is expressly authorized by the Borrower to (a) charge such Amendment Fee due and owing to the Borrower’s loan account in accordance with the terms of the Credit Agreement; and (b) to designate such amount as a Revolving Advance under the Credit Agreement.

Section 9 Conditions Precedent

This Agreement shall be subject to and conditional upon the following conditions precedent being satisfied:

- (a) delivery of written confirmation from the Monitor and the Borrower (or their respective counsel on their behalf) that no approval of the CCAA Court is required in connection with this Agreement;
- (b) execution and delivery of this Agreement by the Loan Parties, the Agent and the Required Lenders; and
- (c) all action on the part of the Loan Parties necessary for the valid execution, delivery and performance by the Loan Parties of this Agreement shall have been duly and effectively taken.

Section 10 Expenses

The Borrower agrees to pay all reasonable, documented out-of-pocket expenses of the Agent incurred in connection with this Agreement, including but not limited to preparation, negotiation, execution, documentation and enforcement of this Agreement and the Credit Agreement and all legal fees and disbursements related thereto, all in accordance with Section 9.04 of the Credit Agreement and in each case by no later than October 3, 2017.

Section 11 Continuance of Credit Agreement and Loan Documents

The Credit Agreement and Loan Documents, except as expressly amended by this Agreement, shall be and continue in full force and effect and are hereby confirmed and the rights and obligations of all parties thereunder shall not be affected or prejudiced in any manner except as specifically provided for herein.

Section 12 No Waiver

The Borrower acknowledges and confirms that, except for the Forbearance in respect of the Existing Defaults which shall terminate upon the occurrence of a Forbearance Termination Event,

without any action or notice required whatsoever, none of the terms contained in this Agreement shall operate or be construed as a waiver of any of the provisions of the Loan Documents, and this Agreement shall not operate and shall not be construed as a waiver of any Default or Event of Default existing on or prior to the date hereof (including the Existing Defaults) or any future Default or Event of Default.

Section 13 Counterparts

This Agreement may be executed in any number of separate counterparts, each of which shall be deemed an original and all of said counterparts taken together shall be deemed to constitute one and the same instrument. Delivery of an executed counterpart of a signature page to this Agreement by telecopier or by direct electronic transmission of a pdf formatted counterpart shall be effective as delivery of a manually executed counterpart of this Agreement.

Section 14 Governing Law

This Agreement shall be construed and interpreted in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein and each of the parties hereto irrevocably attorns to the jurisdiction of the courts of the Province of Ontario.

Section 15 Successors and Assigns

This Agreement shall be binding on and enure to the benefit of the respective successors and permitted assigns of each of the parties hereto in accordance with the terms of the Credit Agreement.

[Signature Pages to Follow]

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

SEARS CANADA INC., as Borrower

By: P. M. MONTADY
Name: P. M. MONTADY
Title: Secretary

WELLS FARGO CAPITAL FINANCE
CORPORATION CANADA, as Agent, a Lender
and Swingline Lender

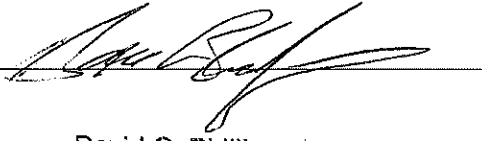
By: _____
Name: _____
Title: _____

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

SEARS CANADA INC., as Borrower


By: _____
Name:
Title:

**WELLS FARGO CAPITAL FINANCE
CORPORATION CANADA, as Agent, a Lender
and Swingline Lender**

By: 
Name:
Title:

David G. Phillips
Senior Vice President
Credit Officer, Canada
Wells Fargo Capital Finance
Corporation Canada

**BANK OF AMERICA, N.A., CANADA
BRANCH, as a Lender**

By: 
Name: Sylwia Durkiewicz
Title: Vice President

**CANADIAN IMPERIAL BANK OF
COMMERCE, as a Lender**

By: 
Name: _____
Title: **Italo Fortino
Authorized Signatory**


**Anthony Tsuen
Authorized Signatory**

IN THE MATTER OF THE COMPANIES' CREDITORS ARRANGEMENT ACT, R.S.C. 1985, c. C-36, AS
AMENDED
AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF SEARS CANADA
INC., *et al.*

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

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

Proceeding commenced at TORONTO

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

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Monitor