

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

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

THIRD REPORT OF FTI CONSULTING CANADA INC., AS MONITOR

OCTOBER 2, 2017

Contents

Section	Page
A. INTRODUCTION.....	3
B. TERMS OF REFERENCE.....	6
C. THE ACTIVITIES OF THE SEARS CANADA GROUP AND THE MONITOR	7
SISP Process	7
DIP Facilities	8
Suppliers	11
Landlords	11
Employee Matters	12
KERP	13
Other Activities of the Monitor.....	14
D. UPDATE ON THE LIQUIDATION PROCESS	15
E. RECEIPTS AND DISBURSEMENTS FOR THE SEVEN-WEEK PERIOD ENDING SEPTEMBER 23, 2017.....	15
F. REVISED CASH FLOW FORECAST FOR THE PERIOD ENDING NOVEMBER 11, 2017.....	18
G. SALE PROCESS UPDATE.....	20
H. UPDATE ON SOLICITATION OF LIQUIDATION PROPOSALS FOR REMAINING LOCATIONS	22
I. RESULTS OF THE SISP	24

J. SALE APPROVAL MOTIONS.....60

K. DISTRIBUTION67

L. SEALING ORDER68

M. STAY EXTENSION69

**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

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

A. INTRODUCTION

1. On June 22, 2017, Sears Canada Inc. (“**Sears Canada**”) and a number of its operating subsidiaries (collectively with Sears Canada, the “**Sears Canada Group**” or the “**Applicants**”) sought and obtained an initial order (as amended and restated on July 13, 2017, the “**Initial Order**”), under the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “**CCAA**”). The relief granted pursuant to the Initial Order was also extended to Sears Connect LP, a partnership forming part of the operations of the Sears Canada Group. The proceedings commenced under the CCAA by the Sears Canada Group are referred to herein as the “**CCAA Proceedings**”.
2. The Initial Order, among other things:

- (a) appointed FTI Consulting Canada Inc. as monitor of the Sears Canada Group (the “**Monitor**”) in the CCAA Proceedings;
 - (b) granted an initial stay of proceedings against the Sears Canada Group until July 22, 2017;
 - (c) authorized the Sears Canada Group to enter into the DIP Credit Agreements (as defined below) and access funds available under the facilities provided under these agreements (the “**DIP Facilities**”); and
 - (d) scheduled a comeback motion for July 13, 2017 (the “**Comeback Motion**”).
3. Following the Comeback Motion, the Court extended the stay of proceedings to October 4, 2017. In addition, the following orders were issued:
 - (a) the amended and restated Initial Order;
 - (b) an order setting out the terms of the appointment of Ursel Phillips Fellows Hopkinson LLP as representative counsel for the non-unionized active and former employees of the Sears Canada Group (“**Employee Representative Counsel**”);
 - (c) an order setting out the terms of the appointment of Koskie Minsky LLP as representative counsel to the non-unionized retirees and non-unionized active and former employees of the Sears Canada Group with respect to pension and post-employment benefit matters (“**Pension and Retiree Representative Counsel**”);
 - (d) an order (the “**PRB Suspension Order**”) authorizing the eventual suspension of special payments under the Sears Canada Pension Plan, certain payments in connection with supplemental pension plans and certain payments under post-retirement benefit plans pursuant to a term sheet agreed to by the Superintendent of Financial Services, as Administrator of the Pension Benefits Guarantee Fund (the “**Superintendent**”), Employee Representative Counsel, Pension and Retiree Representative Counsel, each of their respective representatives, and the Sears Canada Group (the “**Suspension Term Sheet**”); and

- (e) an order approving a sale and investor solicitation process (the “**SISP**”) to solicit interest in potential transactions, including investment and liquidation proposals, involving the business, property, assets and/or leases of the Applicants (the “**SISP Approval Order**”).
4. On July 18, 2017, the Court issued a Liquidation Sale Approval Order, which approved
- (i) a process for the liquidation of inventory, furniture, fixtures and equipment (“**FF&E**”) at locations scheduled for closure (the “**Liquidation Process**”); and
 - (ii) in connection with that Liquidation Process, an Amended and Restated Agency Agreement and a Consulting Agreement between Sears Canada and the agent and consultant described therein.
5. The purpose of this third report of the Monitor (the “**Third Report**”) is to provide the Court with updated information, and where appropriate the Monitor’s comments and recommendations, regarding the following:
- (a) the activities of the Sears Canada Group and the Monitor since the last report of the Monitor;
 - (b) an update on the Liquidation Process;
 - (c) the Sears Canada Group’s liquidity position and future cash requirements, including the Sears Canada Group’s receipts and disbursements for the period ending September 23, 2017 and the Sears Canada Group’s revised cash flow forecast;
 - (d) the results of the SISP to date;
 - (e) an update on the going concern proposal put forward by Sears Canada’s Chief Executive Officer;
 - (f) an update on the solicitation of liquidation proposals for the remaining stores of Sears Canada;

- (g) the Sears Canada Group's motions for approval of various sale transactions identified and negotiated through the SISP (the "**Sale Transactions**") and certain distributions of proceeds of the Sale Transactions to the lenders under the DIP Term Credit Agreement (the "**DIP Term Lenders**") and the DIP ABL Credit Agreement (the "**DIP ABL Lenders**") (the DIP Term Credit Agreement together with the DIP ABL Credit Agreement, the "**DIP Credit Agreements**"); and
- (h) the Sears Canada Group's request for an extension of the Stay Period (as defined in the Initial Order) to November 7, 2017.

B. TERMS OF REFERENCE

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

9. The Monitor has prepared this Third Report in connection with the hearing on October 4, 2017.
10. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian Dollars.
11. Capitalized terms not otherwise defined herein have the meanings ascribed to them in the affidavit of Mr. Billy Wong, the Chief Financial Officer of Sears Canada, sworn on June 22, 2017 (the “**First Wong Affidavit**”), the affidavit of Mr. Mark Caiger, Managing Director, BMO Nesbitt Burns Inc., affirmed on September 28, 2017 (the “**Caiger Affidavit**”), the SISP and the prior reports of the Monitor in these proceedings.

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

12. The activities of the Sears Canada Group and the Monitor since August 16, 2017, being the date of the Second Report, are summarized below.

SISP Process

13. Following the issuance of the SISP Approval Order, the Sears Canada Group together with its legal counsel and the Sale Advisor implemented the SISP. As required by the SISP Approval Order, the Monitor and the Special Committee (as defined in the SISP Approval Order) have supervised the implementation of the SISP by the Sears Canada Group and its advisors.
14. In particular, the Monitor has:
 - (a) ensured that appropriate protections were put in place to preserve the integrity and fairness of the SISP, including with respect to senior management’s involvement in the SISP;
 - (b) been consulted on documentation to be used to implement the SISP;
 - (c) participated in extensive meetings, negotiations and discussions with SISP participants interested in all or part of the business and assets of the Sears Canada Group;

- (d) reviewed and provided feedback to the Sale Advisor, the Sears Canada Group and the Special Committee regarding the bids and expressions of interest received through the SISP; and
 - (e) worked with the Sears Canada Group to provide disclosure of information regarding the progress and results of the SISP to various stakeholder groups in accordance with their access to information rights under the SISP and the Suspension Term Sheet.
15. Further details on the results of the SISP are provided later in this Third Report.

DIP Facilities

16. The Sears Canada Group with the assistance of the Monitor has reviewed compliance with the covenants contained in the DIP Credit Agreements. Given the retail nature of the Sears Canada business and the need for any inventory liquidation process to be completed before the end of the holiday season, the DIP Credit Agreements had a series of critical milestones, a number of which were also incorporated into the SISP. At a high level, this included a Binding Bid Deadline under the SISP of August 31, the selection of “Successful Bids” by September 25, the commencement of liquidations by September 27 for stores not included in Successful Bids, court approval by October 4, 2017 and closing of such sales by October 25, 2017.
17. The DIP Credit Agreements have each been amended six times and a seventh amendment is currently in the process of being completed, as described below.
- (a) As described in the First Report of the Monitor, dated July 12, 2017, certain administrative amendments were made to the DIP Credit Agreements to respond to concerns raised by the Monitor regarding the characterization and repayment of the reimbursement obligations that may arise as a result of draws on letters of credit issued in the pre-filing period.

- (b) A second administrative amendment was made to each of the DIP Credit Agreements on August 18, 2017 to modify the financial reporting requirements contained in the DIP Credit Agreements.
- (c) Four additional weekly amendments were made to each of the DIP Credit Agreements, commencing on September 1, 2017, which provided for certain modifications to the minimum inventory balance requirements in each of the DIP Credit Agreements for each week. While Sears Canada had not maintained inventory levels as forecast in the initial DIP budget, it had generated higher than forecast levels of cash and thus any shortfall in inventory relative to the forecast were offset by higher than forecasted levels of liquidity. However, if the weekly amendments had not been agreed to, Sears Canada would have been in breach of the minimum inventory balance requirements. In connection with these amendments, the need for a revised DIP Budget was acknowledged by the Applicants and the DIP Lenders. In the case of one of these amendments, entered into for the week ended September 16, 2017, aggregate fees of \$1,125,000 were paid to the DIP Lenders (calculated as 0.25% of the aggregate commitment amounts under the DIP Facilities).
- (d) Subsequently, the Applicants failed to meet certain milestones under the DIP Credit Agreements 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**”). At the time of issuing this Third Report, the Applicants and the DIP Lenders were negotiating the terms of a seventh amending agreement, extension and forbearance in respect of each DIP Credit Agreement (collectively, the “**Seventh Amendments**”) to (i) again modify the minimum inventory balance thresholds; and (ii) respond to the Milestone Breaches, including by extending the milestones for the commencement of a liquidation; and (iii) to provide for the delivery of an amended DIP Budget acceptable to the DIP Lenders. No default notices were issued by the DIP Lenders further to the Milestone Breaches. The proposed

Seventh Amendments provide for aggregate fees to the DIP Lenders of \$1,500,000.

18. During the week of September 25, 2017, after the first Milestone Breach, the Applicants submitted requests for the issuance of two letters of credit under the DIP ABL Credit Agreement. The lenders under the DIP ABL Credit Agreement (the “**DIP ABL Lenders**”) declined to honour those requests as a result of the Milestone Breaches until such time as an amendment and forbearance agreement (including a revised DIP Budget) satisfactory to the DIP Lenders was entered into. The Seventh Amendments are being negotiated as a result of this requirement. During this time, the Applicants have utilized cash on hand to continue to discharge their post-filing commitments.
19. Pursuant to the draft of the Seventh Amendments that the Monitor has reviewed, the Applicants and the DIP ABL Lenders would agree that draws under the DIP ABL Credit Agreement will resume following satisfaction of certain conditions, including the provision of an acceptable amended DIP Budget reflecting the liquidation of the remaining inventory of Sears Canada commencing on a date in the near future that remains to be finalized. The current status of the process to solicit liquidation proposals is set out in greater detail later in this Third Report.
20. The Applicants’ cash flow forecast shows that they will have sufficient liquidity to operate until October 5, 2017. However, the Monitor notes that the Applicants will face a liquidity shortfall if draws under the DIP ABL Credit Agreement do not recommence by that date. The Monitor will report to the Court if it appears that draws under the DIP ABL Credit Agreement will not recommence as necessary to meet the Applicants’ liquidity needs.
21. The balances outstanding under the DIP Credit Agreements as of September 29, 2017 were:
 - (a) DIP ABL Credit Agreement: (i) advances of \$79.4 million; and (ii) undrawn letters of credit issued in the amount of \$17.3 million, in each case plus interest and costs; and

- (b) DIP Term Credit Agreement: advances of \$146.6 million plus interest and costs.

Suppliers

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

Landlords

24. The Applicants continue to consider and seek to resolve, with the assistance of the Monitor, issues described in the Second Report of the Monitor regarding the assertions of certain landlords relating to the calculation and payment of real property taxes in the post-filing period.
25. Since the date of the Second Report, the Applicants, in consultation with the Monitor and the Sale Advisor, have considered the renewal of certain of the Applicants' leases and have taken steps in respect of such renewals that are, in the Monitor's view, consistent with the objectives of the CCAA Proceedings, the SISP and the Applicants' obligations in the circumstances.
26. The Monitor has been advised by counsel to certain landlords of delays in receipt of payments of rent and related amounts in the post-filing period. The Monitor has worked with the Applicants to resolve any such payment delay issues. The Monitor has no knowledge of any intentional steps by the Applicants to delay payment of rent or related amounts. The Applicants have worked to investigate and resolve issues in a timely manner. The Monitor has advised the Sears Canada Group that rent payments must be made in accordance with the Initial Order, and any issues identified must be resolved in a timely manner. In many cases, the delays appear to be related to timing of receipt of supporting documentation and invoices by the Applicants.

Employee Matters

27. The Applicants, with the assistance of the Monitor, have worked with Employee Representative Counsel, Pension and Retiree Representative Counsel, counsel to the Financial Services Commission of Ontario (“FSCO”), and their respective advisors, to provide these parties with the information that they are entitled to receive pursuant to the terms of the Suspension Term Sheet.
28. In addition, the Monitor has reviewed applications to the Employee Hardship Fund approved pursuant to an order of the Court granted on August 18, 2017. To date, the Monitor has received 22 applications to the Employee Hardship Fund, 15 of which have been approved. At the date of this report, approximately \$35,000 has been distributed or committed for distribution from the Employee Hardship Fund. The Monitor has been informed by Service Canada that any funds paid to former employees who are also receiving Employment Insurance must be considered as earnings for the purpose of Employment Insurance. Therefore, any amounts paid from the Employee Hardship Fund to former employees who are receiving Employment Insurance will reduce or eliminate employment insurance entitlements of the hardship fund applicant and, accordingly, will provide no benefit to the hardship fund applicant. Employee Representative Counsel has been engaged in discussions with Service Canada regarding this issue.
29. During August, the Monitor was informed of complaints by certain employees of the Sears Canada Group relating to the change of such employees’ compensation structure from a commission-based structure to a fixed hourly rate structure in the post-filing period to provide certainty of ongoing compensation levels to both the Applicants and their employees. The shift in pay structure could have affected individual employees positively or negatively relative to the former commission-based structure depending upon the level of sales in a pay period and access to sufficient levels of sellable inventory upon which a commission could be earned. In order to eliminate any perceived unfairness that may arise if an employee would have earned more on a commission basis during a particular period but for the shift to a fixed hourly rate, Sears Canada has agreed to revert to a commission structure for any two pay periods where a particular employee would have earned more on a commission basis than on an hourly wage basis. The

Monitor has been engaged in discussions with the Applicants and Employee Representative Counsel on this matter and is supportive of this resolution.

Pension and Benefits Matters

30. At a hearing on August 18, 2017, Pension and Retiree Representative Counsel advised the Court of their intention to bring a motion for a wind-up of the Sears Canada Registered Retirement Plan. The motion record of Pension and Retiree Representative Counsel on this matter has been served. At a case conference on September 12th, 2017, the motion of the Pension and Retiree Representative Counsel was adjourned on terms set out in the Endorsement of Justice Hainey made on that date.
31. The Monitor has also received correspondence and engaged in discussions regarding certain other pension and benefits matters including:
 - (a) discussions with Pension and Retiree Representative Counsel and Sun Life, as administrator of certain of the Applicants' benefit plans, regarding administrative steps to be taken in connection with the suspension of post-employment benefits following September 30, 2017; and
 - (b) matters raised by Pension and Retiree Representative Counsel regarding the transfer ratio applicable to certain pension beneficiaries who completed commuted value transfer requests.

KERP

32. In accordance with the Initial Order, the Sears Canada Group has implemented the Court-approved KERP. The first instalment of the KERP was paid to the eligible KERP participants on August 8, 2017, other than those instalments that were to be used to fund the Employee Hardship Fund. The second instalment of the KERP was paid to eligible KERP participants on September 25, 2017. The Monitor understands that Sears Canada continues to hold the portion of the second instalment of the KERP that was previously allocated for future contribution to the Employee Hardship Fund as there is uncertainty

regarding the agreement of the KERP beneficiary who previously proposed to contribute such funds to now proceed to contribute those funds to the Employee Hardship Fund.

Other Activities of the Monitor

33. The Monitor has also undertaken the following activities:

- (a) monitored the Sears Canada Group's receipts and disbursements including the receipts and disbursements of S.L.H. Transport Inc. ("SLH") and Corbeil Électrique Inc. ("Corbeil");
- (b) maintained the current Service List for these CCAA Proceedings and posted regular updates of the Service List to the Monitor's Website;
- (c) with the assistance of the Applicants where appropriate, responded to stakeholders who have contacted the Monitor directly or via the Monitor's hotline or email address;
- (d) worked with Management to review and monitor the Sears Canada Group's ongoing merchandise and purchasing requirements, and related commitments;
- (e) monitored the status of the Sears Canada Group's process to liquidate inventory, fixtures and equipment at stores identified for closure;
- (f) supervised and assisted in activities related to the SISP, and worked with the Special Committee and advisors to ensure that the SISP was conducted in a manner consistent with standards expected of similar processes under the CCAA;
- (g) provided SISP-related information to counsel and advisors to FSCO, Employee Representative Counsel, Pension and Retiree Representative Counsel and their advisors;
- (h) assisted the Applicants in implementing arrangements with Travel Brands Inc. ("TBI") for the orderly transition and wind-up of the Sears Travel business currently operated by TBI at various concessions within the Applicants' stores;

- (i) worked with Employee Representative Counsel and Pension and Retiree Representative Counsel and their advisors to respond to questions and provide information to their respective constituents;
- (j) worked with the Sears Canada Group and the DIP Lenders on matters relating to the DIP Credit Agreements; and
- (k) worked with the Sears Canada Group to ensure appropriate accounting for pre-filing and post-filing obligations.

D. UPDATE ON THE LIQUIDATION PROCESS

- 34. The Monitor has reviewed the progress of the Liquidation Process on an ongoing basis from the commencement of that process.
- 35. The Monitor has not identified any matters in connection with the Liquidation Process that result in any material concerns.
- 36. Pursuant to the agreements governing the Liquidation Process, the Liquidation Process is scheduled to be completed by October 12, 2017. As of the date of this Report, the Liquidation Process is complete at all Full Line, Home and Outlet stores. Sales at all but one Dealer store have been completed. The remaining Dealer store is expected to close on October 4, 2017.

E. RECEIPTS AND DISBURSEMENTS FOR THE SEVEN-WEEK PERIOD ENDING SEPTEMBER 23, 2017

- 37. The Sears Canada Group's actual net cash outflow on a consolidated basis for the seven-week period ended September 23, 2017, was approximately \$55.2 million, compared to a forecast net cash outflow of \$99.3 million resulting in a positive variance of approximately \$44.1 million as indicated in the table below:

VARIANCE REPORT	Actual	Forecast	Variance
(CAD in Millions)	For the 7 Week Period Ending September 23, 2017		
Operating Receipts	227.3	244.1	(16.8)
Operating Disbursements			
Payroll and Employee Related Costs	(56.5)	(45.6)	(10.9)
Merchandise Vendors	(140.0)	(184.6)	44.6
Non-Merchandise Vendors	(43.3)	(50.3)	7.0
Rent and Property Taxes	(20.5)	(18.7)	(1.8)
Sales Taxes	(2.1)	(5.0)	2.9
Pension	(3.7)	(3.7)	-
IT Costs	-	-	-
Recovery of Expenses from Agent	6.4	9.2	(2.8)
Capital Expenditures	(0.3)	(3.8)	3.5
Total Operating Disbursements	(260.0)	(302.5)	42.5
Net Operating Cash Inflows / (Outflows)	(32.7)	(58.4)	25.7
Professional Fees	(10.3)	(10.6)	0.3
Repayments of Existing Credit Facilities	(9.5)	(27.8)	18.3
DIP Fees and Interest Paid	(2.7)	(2.5)	(0.2)
Net Cash Inflows / (Outflows)	(55.2)	(99.3)	44.1
Cash			
Beginning Balance	48.4	58.5	(10.1)
Net Cash Inflows / (Outflows)	(55.2)	(99.3)	44.1
DIP Draws / (Repayments)	50.0	70.8	(20.8)
Others incl. FX Valuation	-	-	-
Ending Balance	43.2	30.0	13.2

38. Explanations for the key variances are as follows:

- (a) the negative variance in Operating Receipts of approximately \$16.8 million includes approximately \$3.0 million of timing differences, which are expected to reverse in future forecast periods and \$13.8 million of permanent differences due to lower-than-forecasted sales;
- (b) the negative variance in Payroll and Employee Related Costs of approximately \$10.9 million is a permanent difference related primarily to forecasted cost savings initiatives which are not expected to be achieved as planned;

- (c) the positive variance in Merchandise Vendor disbursements of \$44.7 million is a permanent difference resulting from lower-than-forecast merchandise purchases;
- (d) the positive variance in Non-Merchandise Vendor disbursements of approximately \$7.0 million reflects a combination of credit terms being extended by vendors and on-going discussions with vendors regarding order quantities and service levels during the CCAA Proceedings and is expected to reverse in future forecast periods;
- (e) the negative variance in Rent and Property Taxes of approximately \$1.8 million is a timing difference resulting from the payment of property taxes associated with leased properties twice each month compared to weekly payments which was assumed in the cash flow forecast;
- (f) the positive variance in Sales Tax disbursements of approximately \$2.9 million is a permanent difference resulting from the receipt of sales tax refunds that were not contemplated in the CCAA Cash Flow Forecast due to uncertainty with respect to timing;
- (g) the negative variance in Recovery of Expenses from Agent of approximately \$2.8 million is primarily a timing difference resulting from the reimbursement of expenses by the third party liquidator agent that is expected to reverse in future forecast periods;
- (h) the positive variance in Capital Expenditure disbursements of approximately \$3.5 million is a timing difference resulting from vendors extending credit terms for capital expenditure-related projects whereas the cash flow forecast assumed the timing of payments would be cash on delivery; and
- (i) the lower-than-forecast draws on the DIP ABL Facility reflect the net positive cash flow variances described above.

39. The Initial Order allowed the Sears Canada Group to continue to utilize their existing Cash Management System as described in the First Wong Affidavit and the pre-filing

report of the Monitor. After the commencement of the CCAA Proceedings, the Sears Canada Group has continued to utilize its Cash Management System in a manner consistent with past practice.

F. REVISED CASH FLOW FORECAST FOR THE PERIOD ENDING NOVEMBER 11, 2017

40. The Revised Cash Flow Forecast covers the seven week period ending November 11, 2017 and is attached as Appendix “A” to this Third Report.
41. The Revised Cash Flow Forecast shows an operational cash inflow (after including forecasted asset sale proceeds) of approximately \$8.4 million for the forecast period, a net cash outflow of approximately \$8.1 million, professional fees of approximately \$12.5 million and fees and interest in connection with the DIP Credit Agreements of approximately \$4.0 million.
42. The forecasted receipts of asset sale proceeds in the amount of approximately \$57 million from certain of the transactions for which the Applicants are seeking approval on their October 4th motions have a significant impact upon the Revised Cash Flow Forecast.
43. As shown in the Revised Cash Flow Forecast, the Sears Canada Group will require additional funding for operations totalling approximately \$4.9 million during the forecast period. The Monitor notes that the forecast period covers only the time period of the proposed extended Stay Period requested by the Applicants. A longer cash flow forecast would not provide useful information to stakeholders at this time as any such longer cash flow forecast would depend to a high degree upon future developments in the SISF process that are not known at this time.
44. Pursuant to section 23(1)(b) of the CCAA¹ and in accordance with the Canadian Association of Insolvency and Restructuring Professionals Standard of Practice 09-1, the Monitor hereby reports to the Court as follows:

¹ Section 23(1)(b) of the CCAA requires the Monitor to review the Sears Canada Group’s cash-flow statements as to its reasonableness and file a report with the court on the Monitor’s findings.

- (a) the Monitor has reviewed the Revised Cash Flow Forecast, which was prepared by Management for the purpose described in notes to the Cash Flow Forecast (the “**Forecast Notes**”), using the Probable Assumptions and Hypothetical Assumptions set out therein;
- (b) the review consisted of inquiries, analytical procedures and discussion related to information provided by certain members of Management and employees of the Sears Canada Group. Since Hypothetical Assumptions need not be supported, the Monitor’s procedures with respect to the Hypothetical Assumptions were limited to evaluating whether the Hypothetical Assumptions were consistent with the purpose of the Revised Cash Flow Forecast. The Monitor has also reviewed the support provided by Management for the Probable Assumptions and the preparation and presentation of the Revised Cash Flow Forecast;
- (c) based on that review, and as at the date of this Third Report, nothing has come to the attention of the Monitor that causes it to believe that:
 - (i) the Hypothetical Assumptions are inconsistent with the purpose of the Revised Cash Flow Forecast;
 - (ii) the Probable Assumptions are not suitably supported or consistent with the plans of the Sears Canada Group or do not provide a reasonable basis for the Revised Cash Flow Forecast, given the Hypothetical Assumptions; or
 - (iii) the Revised Cash Flow Forecast does not reflect the Probable and Hypothetical Assumptions;
- (d) since the Revised Cash Flow Forecast is based on assumptions regarding future events, actual results will vary from the forecast even if the Hypothetical Assumptions occur. Those variations may be material. Accordingly, the Monitor expresses no assurance as to whether the Revised Cash Flow Forecast will be achieved. The Monitor also expresses no opinion or other form of assurance with respect to the accuracy of any financial information presented in this Third Report, or relied upon by the Monitor in preparing this Third Report; and

45. The Revised Cash Flow Forecast has been prepared solely for the purpose described in the Forecast Notes. The Revised Cash Flow Forecast should not be relied upon for any other purpose.

G. SALE PROCESS UPDATE

46. The SISP was approved by the Court on July 13, 2017, and commenced immediately thereafter. The SISP has been conducted by BMO Nesbitt Burns Inc. (“**BMO**” or the “**Sale Advisor**”) under the supervision of both the Monitor and the Special Committee.
47. The SISP solicited interest in a broad range of transactions to refinance, restructure, sell or reorganize the business and assets of the Sears Canada Group. Transactions considered under the SISP would generally fall into the following categories:
- (a) a going concern sale of the retail business of Sears Canada, subject to the elimination of certain under-performing assets and stores;
 - (b) a going concern sale of individual self-contained business lines within the Sears Canada Group, including SLH’s transportation and logistics business (the “**SLH Business**”) and Corbeil’s specialty appliance sales business (the “**Corbeil Business**”);
 - (c) real estate transactions involving:
 - (i) the sale of owned real estate;
 - (ii) the transfer and assignment of store and warehouse leases to other potential tenants;
 - (iii) the surrender of store and warehouse leases back to the landlords under those leases in return for a cash payment from the landlord; or
 - (iv) lease modification transactions pursuant to which landlords would agree to amendments to existing leases that may make such leases more attractive to any party continuing the Sears Canada business, or to a transferee of such lease; and

- (d) sales of ancillary assets, such as intellectual property rights.
48. The preliminary steps in the SISP, including steps to solicit interest from potential bidders, are described in greater detail in the Caiger Affidavit.
49. As stated in the SISP, certain members of Sears Canada's management, and specifically Mr. Brandon Stranzl, Sears Canada's Chief Executive Officer (Mr. Stranzl and his associates in respect of the Stranzl Group Proposal (defined below), the "**Stranzl Group**"), advised the Special Committee and Sears Canada's advisors that they, working with their external advisors, intended to submit a bid or proposal (the "**Stranzl Group Proposal**") for a going concern transaction for the Sears Canada business. The Special Committee worked in consultation with the Monitor and Sears Canada's advisors to establish a protocol for discussions and information sharing with members of management to ensure that the integrity of the SISP would not be impacted by the possibility of the Stranzl Group Proposal. A copy of that protocol is attached hereto as Appendix "B" (the "**Insider Protocol**"). The Monitor is not aware of any breaches of the Insider Protocol. As previously reported, on August 15, 2017, Mr. Stranzl stepped away from the day-to-day operations of Sears Canada and focused efforts on the development of the Stranzl Group Proposal. The Insider Protocol contemplated the possibility that the Applicants could agree to pay for costs that were in furtherance of a management-led bid provided that those costs could only be paid if the Special Committee and the Monitor determined that such costs were for the benefit of the estate. In this regard, with the approval of the Special Committee and the Monitor, the Applicants have paid US\$105,000 in respect of work fees to lenders supporting the Stranzl Group Proposal.
50. If any DIP Lender intended to participate as a bidder in the Sale Process, such party was required to provide written notice of such intention on or before July 17, 2017. This was necessary because certain representatives of the DIP Lenders would receive confidential updates on the status of bids and potential bids in the SISP. No such notices were received and, to the Monitor's knowledge, no DIP Lender is participating as a bidder in the Sale Process. The Monitor was informed of, and consented to, discussions between DIP Lenders and the Stranzl Group regarding financing of a going concern transaction.

However, that consent was provided based upon assurances that confidential information regarding the progress of the SISP would not be disclosed by the DIP Lenders, as required by the DIP Lenders' confidentiality obligations. In the Monitor's view, these confidentiality obligations provided sufficient protections for confidential SISP-related information.

51. During the SISP, the DIP Lenders, FSCO, counsel to FSCO, Employee Representative Counsel and Pension and Retiree Representative Counsel and their respective financial advisors received regular scheduled updates (generally weekly prior to the Binding Bid Deadline under the SISP) on the progress of the SISP to the extent required by, and subject to the confidentiality requirements contained in, the SISP and the Suspension Term Sheet. The Monitor was present for all scheduled SISP updates.

H. UPDATE ON SOLICITATION OF LIQUIDATION PROPOSALS FOR REMAINING LOCATIONS

52. In connection with the SISP and in accordance with the requirements of the DIP Credit Agreements, the Sale Advisor has solicited liquidation proposals ("**Additional Liquidation Proposals**") for the inventory and FF&E of the Applicants from a number of firms with recognized expertise in the retail disposition field. Such liquidation proposals are also necessary for the Monitor to complete an analysis of alternative transactions.
53. The Sale Advisor has received a number of Additional Liquidation Proposals assuming different liquidation sale start dates and is expecting to receive more in the coming days.
54. The economic terms and the structures of the Additional Liquidation Proposals received to date vary significantly. Principal differences relate to the net minimum guarantee ("**NMG**") proposed, the sharing percentages over and above the NMG, payment of operating expenses by the liquidator, and other fees proposed by the liquidator.
55. The proceeds that are anticipated to be generated pursuant to any of the Additional Liquidation Proposals received so far, together with the anticipated proceeds from the sale of the Applicants' other assets and businesses, appear sufficient to repay the amounts

outstanding under the DIP Credit Agreements assuming no material delays in the implementation of such transactions and liquidation proposals. As such, any variation in the proceeds received from Additional Liquidation Proposals is anticipated to impact recovery to unsecured creditors.

56. The structure of certain of the Additional Liquidation Proposals would require the DIP ABL Lenders to continue to fund the Applicants' losses for a longer period of time. This is the case when a liquidation proposal does not provide for the payment of the NMG at the beginning of the liquidation. A liquidation proposal that does not provide for the payment of the NMG upfront may increase the risk profile of the transaction, such risk may be mitigated by retaining title to inventory, control over sales proceeds and the provision of letters of credit or other payment guarantees.
57. The DIP Credit Agreements required the commencement of liquidations on September 27, 2017 for stores not subject to a Successful Bid received by September 25, 2017, both of which milestones were breached. The Seventh Amendment would extend the time for the Applicants to obtain liquidation proposals to a date in the near future that is not yet finalized.
58. The Applicants have not entered into, nor are they seeking the approval of, any Additional Liquidation Proposal at this time. However, the Monitor recognises that Sears Canada is operating at a substantial weekly loss. With the passage of time the amount that will be available to unsecured creditors is reduced. Accordingly, the Monitor anticipates, and the current drafts of the Seventh Amendments would require, that the Applicants return to this Court in the coming days in order to seek the approval of an Additional Liquidation Proposal that can be implemented in short order, if a going concern solution for the business of Sears Canada can no longer be pursued. The Monitor, the Applicants and their advisors are cognisant of the fact that liquidation sales in the retail industry yield better results if they are completed before and during the lead up to the December holiday season, which also impacts recovery to stakeholders.

I. RESULTS OF THE SISP

59. The SISP established August 31, 2017 at 5:00 p.m. (Eastern time) as the deadline for receipt of Binding Bids and Binding Lease Modification Proposals (the “**Binding Bid Deadline**”). As of the Binding Bid Deadline, a number of proposals were received and had not expired or been revoked. A summary of those proposals and their progress through the SISP after the Binding Bid Deadline is attached hereto as Confidential Appendix “C” (the “**Confidential Bid Summary**”).
60. The purchase consideration under the various transactions described below has been kept confidential at this time as has the number of bidders for each asset. The purchase consideration and the number of bidders for each asset is in all cases commercially sensitive information. If the transactions described below were not completed as anticipated and the assets and businesses of the Applicants needed to be the subject of a further marketing process, the disclosure of the proposed purchase consideration under such transactions and further information on the interest in each particular asset would be prejudicial to any such future marketing efforts.

Retail Business of Sears Canada

61. BMO contacted seven parties who were believed to have a potential interest in acquiring, or investing in, a restructured full-line retail business of Sears Canada.
62. Upon execution of non-disclosure agreements, three of these parties accessed the electronic data room established for due diligence purposes by BMO.
63. One of the interested parties was the Stranzl Group.
64. On the Binding Bid Deadline, a number of expressions of interest in connection with the retail business of Sears Canada were received and were reviewed in detail by the Applicants, the Special Committee, the Monitor and their respective legal and financial advisors, as applicable. Each of these expressions of interest was non-compliant with the requirements of a Binding Bid under the SISP for one or more of the following reasons:
- (a) conditionality regarding due diligence and financing;

- (b) deficiencies in quantum of a cash deposit; or
- (c) deficiencies in the scope of transaction documentation provided by potential bidders.

Stranzl Group Proposal

- 65. One of the non-compliant bids was the Stranzl Group Proposal.
- 66. The SISP provides that Sears Canada, with the consent of the Monitor, BMO and the DIP Lenders, could allow a non-compliant bid to continue in the SISP process. Sears Canada, with the consent of the Monitor and BMO, determined that the Stranzl Group Proposal should continue to be explored in the SISP. The DIP Lenders were aware of this approach and neither consented nor objected to Sears Canada proceeding in that manner.
- 67. The other potential bids for the retail business of Sears Canada have not been advanced at this time either because the quantum of potential consideration is insufficient, uncertain or the transactions are otherwise not executable.
- 68. Following the Binding Bid Deadline, extensive due diligence requests from the Stranzl Group were satisfied, meetings were held with the Stranzl Group to explain concerns with the Stranzl Group Proposal including its conditionality, the financial terms of the transaction as compared to other options available to the Applicants, and timelines to complete the transaction.
- 69. On September 25, 2017, a revised bid was submitted by the Stranzl Group, together with certain conditional financing commitments. Further meetings were held with the Stranzl Group and their advisors, including, most recently, on September 27th, and September 29th.
- 70. A revised form of asset purchase agreement was delivered on September 29, 2017, however a number of critical economic terms were left blank. The Monitor has received a copy of a letter from counsel to the Stranzl Group indicating that the Stranzl Group intends to present an updated proposal on value.

71. The Monitor, the Applicants and their respective advisors and counsel have worked diligently with the Stranzl Group to achieve a going concern transaction. However, at this date, the Monitor notes that the Stranzl Group Proposal remains conditional in a number of respects, and accordingly presents significant closing risk and uncertain recoveries. The above noted parties are continuing to work with the Stranzl Group to address the deficiencies in its offer.
72. The current circumstances facing Sears Canada, with its increasing DIP obligations, its continuing operating losses and the upcoming holiday season, provide limited flexibility for the Applicants to continue to seek to advance a going concern solution. The Monitor also notes that the DIP Credit Agreements, as amended, are expected to require that the Applicants commence a liquidation of inventory at all stores in the very near future. As noted earlier in this Third Report, the Applicants' current liquidity situation requires immediate and ongoing funding under the DIP ABL Credit Agreement and, as a result, this timeline is a key consideration. The Stranzl Group Proposal as currently presented may not be executable within the timeline and liquidity available to the Applicants.
73. The Monitor reviewed the economic terms presented in the initial Stranzl Group Proposal. Based upon the Monitor's preliminary analysis, it appears that the terms of the initial Stranzl Group Proposal provide lower recoveries to non-assumed unsecured creditors than are available through individual sales of the Applicants' remaining assets and a liquidation of remaining inventory and FF&E.
74. The Monitor believes the viability of a going concern transaction can continue to be explored subject to time constraints imposed by the Applicants' ongoing operating losses, financing arrangements, liquidity and necessary timelines to commence a liquidation process, but only in conjunction with (and not to the exclusion of) the other value maximizing transactions described below that can be completed while not necessarily eliminating any opportunity for the completion of a modified going concern transaction with the Stranzl Group.
75. The Monitor considered the potential impact of the transactions described below upon the viability of the Stranzl Group Proposal. The Monitor understands that Mr. Stranzl

believes the completion of certain of the below real estate transactions will affect the viability of a going concern transaction as certain financially strong store locations will be closed and the value of the collateral available to finance the Stranzl Group Proposal will be diminished. The Monitor has considered these concerns and consulted with stakeholders. In the Monitor's view, the potential prejudice of delaying approval of the executable transactions described below, which provide material and certain value to the Applicants, outweighs the concern that completing such transactions could prejudice a possible going concern bid that remains subject to all of the uncertainties and completion risks described above.

Corbeil Business

76. BMO contacted 21 parties who were believed to have a potential interest in acquiring, or investing in, the Corbeil Business.
77. In total, 18 of these parties accessed the electronic data room to engage in due diligence.
78. Bids received for the Corbeil business were reviewed in detail by the Applicants, the Special Committee, the Monitor and their respective legal and financial advisors, as applicable.
79. No bids were received for the full line retail business of Sears Canada that also overlapped with the Corbeil Business. In addition, there was no material overlap between the bids for the Corbeil Business and any real estate bids. As a result, following the bid deadline, BMO, in consultation with the Monitor, the Special Committee and the DIP Lenders, commenced negotiations immediately to finalize a transaction for the sale of the Corbeil Business.
80. After review of the bids received, the Applicants, in consultation with BMO, the Monitor and the DIP Lenders, determined that the bid of Am-Cam Électroménagers Inc. (a subsidiary of Distinctive Appliances Inc.) (the "**Corbeil Purchaser**") was the highest and otherwise best offer for the Corbeil Business. Following the Bid Deadline, BMO, in consultation with the Monitor, the Special Committee and the DIP Lenders finalized a transaction with the Corbeil Purchaser on the terms contained the Asset Purchase

Agreement between Sears Canada, Corbeil and the Corbeil Purchaser (the “**Corbeil APA**”). A redacted version of such Corbeil APA is included in the Applicants’ motion materials. A summary of the confidential terms redacted from the Corbeil APA are included in the summary attached as Confidential Appendix “C” hereto.

81. The Monitor understands that, in accordance with the SISP, the form of Corbeil APA is acceptable to the DIP Lenders.
82. The material terms of the Corbeil APA are as follows:²
 - (a) Deposit: The Corbeil Purchaser has provided a cash deposit equal to 10% of the cash purchase price under the Corbeil APA, in accordance with the SISP.
 - (b) Transfer Taxes: The Corbeil Purchaser is responsible for the payment of transfer taxes.
 - (c) Purchased Assets: All of the right, title and interest of Corbeil in the assets, property and undertaking used in connection with the business and operations of Corbeil, being a chain of appliance specialty stores in Quebec, the Greater Toronto Area and Eastern Ontario, but excluding the Excluded Assets (as described below). The Purchased Assets shall be transferred free and clear of Encumbrances other than Permitted Encumbrances (on an ‘as is, where is’ basis).
 - (d) Covenants of Sears Canada: Sears Canada is involved in the Corbeil APA solely for the purposes of agreeing that, prior to the Closing Time, it will have entered into all agreements with Corbeil and have done all things necessary to effect the transfer to Corbeil of SCI IT Employees and the SCI IT Assets exclusively used to support the Corbeil Business and to license to the Corbeil Purchaser the SCI IT Assets not exclusively used to support the Acquired Business.

² Capitalized terms used in this section and not otherwise defined have the meanings given to them in the Corbeil APA. The summary provided in this section is for general information purposes only. In the case of any inconsistency between this summary and the terms of the Corbeil APA, the Corbeil APA governs.

- (e) Assumed Liabilities: Obligations under Assumed Contracts, Personal Property Leases and Real Property Leases, post-closing liabilities related to the Purchased Assets or the Corbeil Business, deferred revenues, warranty obligations, employee liabilities as described in greater detail below, and tax liabilities for post-closing tax periods (or portions thereof beginning post-closing, and gift card liabilities).
- (f) Excluded Assets: Include assets owned by franchisees of the Corbeil Business, cash and cash equivalents, any assets of Sears Canada not related exclusively to the Corbeil Business, the corporate records of Corbeil or Sears Canada, excluded contracts, assets in Employee Plans, and licenses and registrations.
- (g) Excluded Liabilities: All liabilities that are not expressly assumed, including Cure Costs under Assumed Contracts, environmental liabilities relating to facts existing pre-closing, liabilities under Employee Plans, trade payables accrued pre-closing, and intercompany accounts payable.
- (h) Purchase Price Adjustment and Holdback: The Purchase Price will be subject to post-closing adjustment on the basis of the amount(s) by which accounts receivable, prepaid expenses, inventory, assumed employee liabilities, and deferred revenues as of the Closing Date exceed or fall short of specified targets for each such category of adjustment, which will be set out on a Draft Closing Date Statement to be prepared by the Corbeil Purchaser and delivered to Corbeil within 30 days after the Closing Date, subject to a dispute mechanism contained in the Corbeil APA. The draft Approval and Vesting Order will require the Monitor to hold back a portion of the cash from the Purchase Price pending settlement of the adjustments to the Purchase Price, to be disbursed in accordance with the terms of the Approval and Vesting Order.
- (i) Representations and Warranties: The representations and warranties are generally consistent with customary representations of a transaction of this type. The transaction is entered into on an 'as is, where is' basis.

- (j) Covenants of Corbeil: With the exception of certain covenants related to employee matters, Assumed Contracts, Real Property Leases and Personal Property Leases described below, the covenants in the Corbeil APA are customary for transactions of this type in all material respects.
- (k) Conditions: Conditions of closing are generally customary for a transaction of this type and include the granting of an Approval and Vesting Order and, where applicable, an Assignment Order, substantially in the forms attached as schedules to the Corbeil APA; consents to assignment or court approval of the assignment of certain key contracts identified in the Corbeil APA and *Competition Act* and similar (if any) required approvals. The transaction contains a condition in favour of the Corbeil Purchaser that no Material Adverse Effect shall have occurred.
- (l) Outside Date: The Corbeil APA may be terminated by either the Corbeil Purchaser or the Seller (with the consent of the Monitor and the DIP Lenders) if closing has not occurred before December 13, 2017 (the “**Sunset Date**”), provided that if the only condition that is not met by that date is the Regulatory Approval, then the Sunset Date may be postponed to February 28, 2018.
- (m) Guarantee: The obligations of the Corbeil Purchaser under the Corbeil APA are guaranteed by its affiliate, Distinctive Appliances Inc. (subject to a maximum obligation equal to the Purchase Price).
- (n) Franchise Matters: The Corbeil Business includes 16 franchised locations. The Corbeil APA seeks to transfer Corbeil’s interest in those franchise arrangements, but does not purport to transfer any franchisee’s interest in its particular franchised location.

83. If Corbeil is not able to obtain the written consent of a counterparty to an Assumed Contract, a Personal Property Lease or a Real Property Lease to the Buyer on terms acceptable to Corbeil and the Corbeil Purchaser, acting reasonably, Corbeil is required to seek, at a later date, an assignment order compelling the assignment of such agreements to the Corbeil Purchaser. Any Cure Costs associated with the assignment of such

agreements are to be paid by Corbeil. The Cure Costs are to be held by the Monitor and disbursed in accordance with the assignment order. Subject to the Key Consents condition described above, in the event a consent to assignment or an assignment order is not obtained for a particular contract, the transaction will be completed without the assignment of such contract; provided, however, that in the case of a failure to obtain a consent to assignment or an assignment order in respect of a real property lease, the purchase price under the Corbeil APA will be adjusted downward based upon the portion of the Purchase Price allocated to such leased location and (at the election of the Corbeil Purchaser) any personal property located at such leased location that the Corbeil Purchaser elects not to purchase.

84. The Corbeil Purchaser may (in its sole discretion), up to ten business days prior to closing, remove one or more of the Assumed Contracts, Personal Property Leases or Real Property Leases provided such contracts have not previously been disclosed to the Corbeil Purchaser, provided that no reduction in the Purchase Price and no delay to Closing shall occur by reason of any such exclusion of a contract by the Corbeil Purchaser.
85. At least seven days prior to the Closing Date, the Corbeil Purchaser will provide a list of the employees of the Corbeil Business to whom the Corbeil Purchaser intends to make offers of employment to. Offers shall be made to at least 90% of the Employees at all locations that the Corbeil Purchaser is acquiring in this transaction. The Corbeil Purchaser has agreed that at least 90% of offers of employment will be on terms that are substantially similar in the aggregate to those currently available to each employee. The Corbeil Purchaser will recognize the service of assumed employees with Corbeil and Sears Canada. The Corbeil Purchaser will assume all vacation pay and wage liability for assumed employees, whether accruing or arising prior to or following the Closing Date. The Buyer will not assume any obligations under existing Employee Plans or pension plans. However, for the purpose of any employee plans of the Corbeil Purchaser in which any assumed employee participates, the Corbeil Purchaser will recognize the service date of each such assumed employee, to the same extent that service credit would be given under the analogous employee plan of Seller, for purposes of eligibility and

vesting, and with respect to any severance or vacation plan, the determination of levels of benefits, but not for purposes of benefit accrual. The Corbeil Purchaser will be responsible for all benefits claims post-closing for assumed employees.

86. For commercial reasons post-closing, the Corbeil Purchaser requires that Corbeil's corporate name be changed to a name that does not contain the name 'Corbeil'. The Applicants seek an order of the court authorizing the name change without shareholder approval. The Monitor does not have any concerns regarding the proposed name change, which is a common step in asset sale transactions in CCAA proceedings. The Monitor notes that the Applicants and the Monitor will still be permitted to use the name 'Corbeil' to the extent necessary in the CCAA proceedings.

SLH Business

87. BMO contacted 25 parties who were believed to have a potential interest in acquiring, or investing in, the SLH Business.
88. In total, 17 of these parties accessed the electronic data room to engage in due diligence.
89. Bids received for the SLH Business were reviewed in detail by the Applicants, the Special Committee, the Monitor and their respective legal and financial advisors, as applicable.
90. The SLH Business itself is not the subject of any bids from parties interested in other assets in the sale process. If no going concern transaction is completed, the services of SLH would be required to transport inventory for Sears Canada at least until the end of 2017. In the case of a potential going concern transaction, the services of SLH may be required for transportation and logistics needs post-closing.
91. After reviewing the bids received, the Applicants, in consultation with BMO, the Monitor and the DIP Lenders, determined that the bid of 8507597 Canada Inc. (a subsidiary of CAT Inc. (a national and cross-border freight carrier in North America)) (the "**SLH Purchaser**") was the highest and best offer for the SLH Business. Following the Bid Deadline, BMO, in consultation with the Monitor, the Special Committee and the DIP

Lenders finalized a transaction with the SLH Purchaser on the terms contained in the Asset Purchase Agreement dated September 29, 2017 (the “**SLH APA**”) between SLH, the SLH Purchaser, Sears Canada and 168886 Canada Inc. (“**168886**”). Sears Canada and 168886 (a wholly-owned subsidiary of SLH which employs employees located in provinces other than Ontario and Quebec), are only parties to the SLH APA for purposes of certain specific provisions related to them. A redacted version of the SLH APA is included in the Applicants’ Motion materials. A summary of the confidential terms redacted from the SLH APA are included in the summary attached as Confidential Appendix “C” hereto.

92. The Monitor understands that, in accordance with the SISP, the form of SLH APA is acceptable to the DIP Lenders.
93. The material terms of the SLH APA are as follows:³
 - (a) Purchase Price: The SLH Purchaser will pay the Purchase Price in cash and by the assumption of the Accrued Liabilities, with the possibility of an additional “top up” cash payment if the Accrued Liabilities are less than a threshold amount specified in the SLH APA. The Purchase Price is also subject to certain adjustments discussed below.
 - (b) Deposit: The SLH Purchaser has provided a cash deposit equal to approximately 10% of the purchase price (including the amount notionally attributed to the Accrued Liabilities) under the SLH APA.
 - (c) Transfer Taxes: The Purchase Price is exclusive of all applicable sales and transfer taxes which shall be paid by the SLH Purchaser.

³ Capitalized terms used in this section and not otherwise defined have the meanings given to them in the SLH APA. The summary provided in this section is for general information purposes only. In the case of any inconsistency between this summary and the terms of the SLH APA, the SLH APA governs.

- (d) Purchased Assets: On the Closing Date, upon the terms and conditions set out in the SLH APA, SLH will sell and the SLH Purchaser will purchase (on an 'as is, where is' basis) all of the right, title and interest of SLH in the assets, property and undertaking owned or used in connection with the logistics business of transportation services relating to the domestic and cross-border truckload delivery, freight management and shunt operations provided or carried on by SLH. The Purchased Assets include: accounts receivable, prepaid expenses and deposits, inventory, fixed assets and equipment, vehicles, specified personal property leases, specified real property leases and other specified contracts, intellectual property, IT systems and assets, goodwill, employee records and other business records, insurance policies, actions, loans and assets contributed to certain Assumed Employee Plans, but excluding the Excluded Assets (as described below).
- (e) Assumed Liabilities: As of the Closing Time, the SLH Purchaser shall assume from SLH and shall pay, discharge and perform, as the case may be, from and after the Closing Time, among other things, all post-closing obligations under Assumed Contracts (including specifically listed Personal Property Leases) and the Assumed Real Property Leases and all Cure Costs; post-closing liabilities related to the Purchased Assets or the SLH Business, all warranty obligations relating to services, products or product or service warranties of SLH, various liabilities and obligations relating to employees, taxes arising post-closing, certain environmental liabilities; provided that the SLH Purchaser's liability in respect of a subset of the Assumed Liabilities representing the Accrued Liabilities is limited to an amount up to \$1,000,000.
- (f) Excluded Assets: The Purchased Assets shall not include cash and cash equivalents, real property leases except for the specified assumed real property leases, any real or immovable property owned by SLH, the corporate records of SLH, contracts that are not expressly assumed, collateral rights under agreements, director and officer insurance policies, securities, tax refunds; ordinary course

assets and assets contributed to Employee Plans by or on behalf of employees who are not being assumed by the SLH Purchaser.

- (g) Excluded Liabilities: All debts, obligations, contracts and liabilities of or relating to the SLH Business, the Purchased Assets, SLH or any predecessors of SLH, and the SLH's affiliates, of any kind or nature, existing or occurring prior to the Closing Time that are not expressly assumed, including environmental liabilities relating to facts existing pre-closing, liabilities under Employee Plans other than Assumed Employee Plans, trade payables accrued pre-closing, intercompany accounts payable and pre-closing tax liabilities.
- (h) Purchase Price Adjustment: The SLH APA provides for certain purchase price adjustments in the case of deviations of closing date accounts receivable from a target accounts receivable balance and deviations of the number of motorized and non-motorized vehicles available to the SLH Purchaser from SLH on Closing relative to a target number of available vehicles.
- (i) Designation of Additional Purchased Assets: Prior to Closing, the SLH Purchaser may, subject to SLH's consent, designate specified additional contracts as additional Purchased Assets; provided that SLH shall not be required to seek Court approval for the assignment of any such additional contracts which are designated after October 6, 2017. In addition, following Closing, (i) subject to certain time restrictions and the consent of SLH and Sears Canada, the SLH Purchaser may designate additional specified Real Property Leases for acquisition by it in exchange for the assumption of all liabilities with respect thereto and other nominal consideration and following such designation, SLH or Sears Canada, as applicable, and the SLH Purchaser shall negotiate and, if agreed, enter into an agreement for the purchase and sale and, if applicable, assignment of such Real Property Leases and thereafter SLH or Sears Canada, as applicable, will use commercially reasonable efforts to promptly seek an approval and vesting order and, if applicable, an assignment order from the Court with respect to such Real Property Leases; and (ii) upon notice from the SLH Purchaser to SLH and Sears

Canada that it wishes to enter into negotiations with the counterparty to any such Real Property Lease or any Employee that is an employee of SLH, Sears Canada or 168886, then SLH, Sears Canada or 168886, as applicable, will use commercially reasonable efforts to facilitate such negotiations.

- (j) Representations and Warranties: The representations and warranties are generally consistent with customary representations of a transaction of this type. The transaction is entered into on an 'as is, where is' basis.
 - (k) Covenants: With the exception of certain covenants related to employee matters and a transition services agreement, each described below and those described above, the covenants in the SLH APA are customary for transactions of this type in all material respects.
 - (l) Conditions: Conditions of closing are customary for a transaction of this type and include the granting of an Approval and Vesting Order substantially in the form attached as a schedule to the SLH APA and, where applicable, an Assignment Order; *Competition Act* approval and *Canada Transportation Act* approval.
 - (m) Closing Date: The Closing will take place on the date that is five business days after the conditions to Closing have been satisfied, or at such other date as may be agreed upon in writing by the parties.
 - (n) Outside Date: The SLH APA may be terminated by either the SLH Purchaser or the Sellers (with the consent of the Monitor and the DIP Lenders) if Closing has not occurred before October 25, 2017 (subject to extension in certain circumstances by SLH for a further 60 days). If the Approval and Vesting Order is not obtained by October 4, 2017, the SLH APA may be terminated by SLH.
94. SLH has agreed to use commercially reasonable efforts to obtain the written consent of the Landlords to the assignment of the Assumed Real Property Leases to the SLH Purchaser, to the extent such consent is required by the terms of the Assumed Real Property Leases. Where SLH is unable to obtain the necessary Landlord Consents, SLH agrees to make an application for an Assignment Order, assigning all of its rights and

obligations under the applicable Assumed Real Property Lease(s) to the SLH Purchaser. The parties further agree that where they are unable to obtain the Landlord's Consent or an Assignment Order in respect of any Assumed Real Property Leases, they will nonetheless close the transaction in respect of any Assumed Real Property Leases for which the Landlord's Consent or an Assignment Order has been obtained, and the Purchase Price will be adjusted accordingly.

95. No later than two business days following the date of the Approval and Vesting Order, if granted, the SLH Purchaser will provide offers, conditional on Closing, to employees of the SLH Business selected by the SLH Purchaser. The terms of such employment will be substantially similar in aggregate to those currently provided to such employees. The SLH Purchaser will recognize service of the continuing employees of SLH. The SLH Purchaser will advise SLH not later than two business days prior to the Closing Date if the SLH Purchaser wishes to assume one or more of the existing SLH Employee Plans (to the extent transferrable and exclusive to SLH or 168886) and shall become liable for claims incurred under such assumed Employee Plans in the post-closing period and will transition the assumed employees under such assumed Employee Plans to new benefit plans established by the SLH Purchaser. Such new benefit plans will recognize the service of each assumed employee to SLH. However, there is no obligation for the SLH Purchaser to assume any existing Employee Plans.
96. The SLH Purchaser and Sears Canada have agreed to enter into a transition services agreement on Closing, pursuant to which the SLH Purchaser will continue to provide services to Sears Canada under the terms and conditions currently in place between SLH and Sears Canada for the period from the Closing Date until December 31, 2017, subject to Sears Canada's option to extend such period by an additional 120 days after December 31, 2017, subject to certain changes in the terms and conditions for such extension period. Such agreement will be terminable by Sears Canada at any time without penalty.
97. For commercial reasons post-closing, the SLH Purchaser requires that SLH's corporate name be changed to a name that uses only SLH's corporation number. The Applicants seek an order of the court authorizing the name change without shareholder approval.

The Monitor does not have any concerns regarding the proposed name change, which is a common step in asset sale transactions in CCAA proceedings and otherwise to provide the purchaser with the goodwill associated with the seller's name. The Monitor notes that the Applicants and the Monitor will not be restricted from using the name 'SLH' to the extent necessary in the CCAA proceedings.

Other Ancillary Assets and Business Lines

98. Through the SISP, the Applicants also solicited sale and investment proposals for various other businesses ancillary to the core retail and logistics businesses of the Sears Canada Group.
99. BMO contacted 38 parties in connection with these ancillary business lines and received expressions of interest resulting in executable transactions for: the Home Services Business, the 'Ship to Home' license; and certain 'Viking' trademarks (the "**Ancillary Asset Transactions**").
100. These transactions are of relatively limited value by comparison to the other transactions described in this Third Report. These transactions are summarized briefly below.
101. The Monitor understands that, in accordance with the SISP, the forms of transaction agreements described below are acceptable to the DIP Lenders.

Home Services Business

102. Sears Canada carries on a business known as Sears Oil Services / Produits et services de chauffage au mazout Sears; Sears Heating and Cooling / Produits de chauffage et de climatisation Sears; and Sears Duct Cleaning Services / Services de nettoyage de conduits Sears (collectively, the "**Home Services Business**") which are currently operated by Confort Expert Inc. ("**Confort Expert**") under a Branded Concession Agreement (as amended from time to time, the "**BCA**") with Sears Canada.
103. Pursuant to the SISP, Confort Expert is the successful bidder in a transaction to acquire Sears Canada's right, title and interest in the Home Services Business. The terms of this transaction are contained in an Asset Purchase Agreement between Sears Canada and

Confort Expert (the “**Home Services APA**”), a redacted copy of which is included in the Applicants’ motion materials.

104. The material terms of the Home Services APA are as follows:⁴

- (a) Deposit: A cash deposit was delivered in the requisite amount pursuant to the SISP.
- (b) Transfer Taxes: Any transfer taxes are to be paid by Confort Expert.
- (c) Purchased Assets: The purchased assets include Sears Canada’s right, title and interest in the assets used in connection with the Home Services Business, which includes: (i) accounts receivable; (ii) prepaid expenses; (iii) residential heating furnaces, heat pumps, hot water tanks and heaters powered in whole or in part by fuel-oil that are owned by Sears Canada and rented or leased by customers; (iv) maintenance or services contracts with customers to which Sears Canada is a party or by which it is bound and contracts for the rental or lease of the above rental equipment to which Sears Canada is a party or by which it is bound; (v) goodwill; (vi) business records; (vii) claims and causes of action; and (viii) insurance.
- (d) Excluded Assets: Confort Expert is not acquiring: (i) cash and cash equivalents, any fixed assets or equipment of Sears Canada (other than inventory) for use in or relating to the Home Services Business; (iii) corporate records; (iv) any contracts other than those described above; (v) intellectual property of Sears Canada; (vi) information technology systems; (vii) vehicles; (viii) collateral given by Sears Canada to secure outstanding letters of credit in respect of any excluded liability or asset; (ix) rights of Sears Canada under certain agreements, including contracts other than as described above; (x) interests in real property whether owned or leased; (xi) rights of Sears Canada under director and officer insurance policies;

⁴ Capitalized terms used in this section and not otherwise defined have the meanings given to them in the Home Services APA. The summary provided in this section is for general information purposes only. In the case of any inconsistency between this summary and the terms of the Home Services APA, the Home Services APA governs.

(xii) securities of subsidiaries of Sears Canada; (xiii) any rights related to employees; (xiv) licenses and registrations of Sears Canada; (xv) tax refunds; (xvi) avoidance claims; (xvii) loans due to Sears Canada; and (xviii) assets sold in the ordinary course.

- (e) Assumed Liabilities: Confort Expert will assume the following liabilities: (i) obligations under the assumed contracts, (ii) post-closing liabilities related to the Home Services Business, (iii) environmental liabilities, arising post-closing, (iv) tax liabilities arising in the post-closing period.
- (f) Representations and Warranties: These are customary for transactions of this nature. The transaction is to be completed on an 'as is, where is basis'.
- (g) Covenants: These are customary for transactions of this nature.
- (h) Conditions: These are customary for a transaction of this nature and include the requirement to obtain an Approval and Vesting Order and, if required to assign any assumed contracts, an Assignment Order.

105. As noted above, the proposed transaction does not involve the assumption of any employees of Sears Canada by the purchaser.

106. The assumed contracts under the Home Services APA are limited only to customer service contracts and contracts for the rental of equipment, which will be sold to Confort Expert under this transaction, from Sears Canada to these customers. These customer service and rental arrangements will continue post-closing between the customers and Confort Expert. All customer contracts to be assumed under the Home Services APA will be the subject of an Assignment Order as required by the Home Services APA. However, the Monitor understands that consent is not required under the terms of such contracts in order for the assignment to be effective. Notice of the motion to approve the proposed transaction will be provided to customers through a posting on the website of Sears Canada at www.searshomeimprovements.ca and on the Monitor's website and it is contemplated that the purchaser will send a notice to customers by a specific mailing not later than 75 days after the issuance of an approval and vesting order.

107. Sears Canada and Confort Expert are currently parties to the BCA. The Home Services APA contemplates the termination of the BCA, and the rights of Confort Expert thereunder, provided that, the rights of Confort Expert under the BCA to the use of the ‘Sears’ name will survive for a period of 75 days post-closing of the Home Services APA.

Viking Brand

108. Sears Canada is the owner of certain trademarks related to the Viking appliance brand.
109. Bids received for the Viking appliance brand were reviewed in detail by the Applicants, the Special Committee, the Monitor and their respective legal and financial advisors, as applicable.
110. The highest or otherwise best transaction generated from the SISP for these assets was an offer from Canadian Tire Corporation, Limited (“**Canadian Tire**”). The terms of this transaction are contained in an Asset Purchase Agreement dated September 29, 2017 (the “**Viking APA**”).
111. As described in the Applicants’ motion materials, the assets that are the subject of this transaction are also the subject of a right of first negotiation and a right of first refusal (the “**Viking ROFR**”) in favour of The Middleby Corporation (“**Middleby**”). The Viking ROFR was among the surviving provisions of an expired License Agreement made December 19, 2002, between Sears Canada and Viking Range Corporation (as predecessor to Middleby) (the “**Viking License Agreement**”).
112. A disclaimer notice in respect of the surviving provisions of the Viking License Agreement, including the Viking ROFR, was delivered to Middleby by the Applicants on September 27, 2017. The Monitor approved the disclaimer of the Viking ROFR. In the Monitor’s view, the disclaimer of the Viking ROFR is appropriate in the circumstances as:
- (a) it will allow the Applicants to maximize the value of these assets;

- (b) the disclaimer does not cause significant financial hardship to Middleby as Middleby's rights to utilize the licensed trademarks has already been terminated; and
- (c) Middleby elected to participate in the SISP bidding process and was provided a full opportunity both at the Binding Bid Deadline and through subsequent rounds of negotiations to put its best bid forward in that process, which ultimately was not the highest or otherwise best bid.

113. The material terms of the Viking APA are as follows:⁵

- (a) Deposit: Canadian Tire has provided a cash deposit equal to 10% of the cash purchased price initially offered by Canadian Tire at the Binding Bid Deadline.
- (b) Purchased Assets: The right, title and interest in and to all of Sears Canada's trademarks exclusively related to the "Viking" trademark and brand, including the applications and registrations identified in Schedule 2.1 of the Viking APA as (i) VIKING (Registration No. TMDA47453); (ii) VIKING & DESIGN (Registration No. TMA5999901); (iii) VIKING & Design (Application No. 1731943); and (iv) Representation of a Single-Masted Viking Galley (Registration No. UCA41844), as well as all Documents that are in the Seller's possession, if any.
- (c) Assumption of Liabilities: As of Closing, Canadian Tire will assume and pay, discharge and perform, as the case may be, from and after Closing and liabilities of the Seller with respect to the Purchased Assets to the extent such obligations and liabilities consist of liabilities and obligations that arise in respect of and relate to the period on and after Closing.
- (d) Representations and Warranties: The representations and warranties are generally consistent with customary representations of a transaction of this type. As well,

⁵ Capitalized terms used in this section and not otherwise defined have the meanings given to them in the Viking APA. The summary provided in this section is for general information purposes only. In the case of any inconsistency between this summary and the terms of the Viking APA, the Viking APA governs.

Sears Canada represents and warrants that the Viking License Agreement as well as any subsequent renewals of the Viking License Agreement or similar arrangements have been terminated, expired, or disclaimed. The transaction is entered into on an 'as is, where is' basis.

- (e) Covenants: Sears Canada covenants between the date of the Viking APA and Closing to, among other things, use commercially reasonable efforts to preserve and not abandon the Purchased Assets.
- (f) Conditions: Conditions of Closing are customary for a transaction of this type and include the granting of the Approval and Vesting Order substantially in the form attached as a schedule to the Viking APA. The Approval and Vesting Order must also be a final order at the time of closing. In addition, Sears Canada is required to have commenced the disclaimer process regarding the surviving provisions of the Viking License Agreement, including the Viking ROFR, and such disclaimer must have become effective either by the passage of time without objection by Middleby or by court order.
- (g) Outside Date: The Viking APA may be terminated by either Canadian Tire or Sears Canada (with the consent of the Monitor and the DIP Lenders) if the Closing has not occurred on or before December 4, 2017 (subject to the parties agreeing in writing to such other date (with the consent of the DIP Lenders and Monitor, in the case of Sears Canada)).

Ship to Home

114. Sears Canada also received a SISP-compliant offer from Clear Destination Inc. to purchase Sears Canada's right, title and interest in a License and Services Agreement dated as of October 31, 2016, pursuant to which Clear Destination Inc. licensed to Sears Canada certain rights to intellectual property associated with certain 'ship-to-home' services offered by Sears Canada. The transaction was, in substance a settlement, of all parties' existing and future obligations under the license arrangement. The transaction

was undertaken on an ‘as is, where is’ basis. The Applicants completed this transaction on October 2, 2017.

115. The value of this transaction was significantly below the thresholds at which court approval is required under paragraph 10(a) of the Initial Order for asset sales. As a result, the Applicants did not seek court approval for this transaction.

Real Estate

116. The SISP contemplated three potential transaction structures to monetize real estate value:

- (a) Sales of owned real estate (“**Property Sale Transactions**”);
- (b) Transfers of leases to new tenants (“**Lease Transfer Transactions**”); and
- (c) Surrenders of leases to landlords (“**Lease Surrender Transactions**”).

117. Template transaction documents were prepared for each of the foregoing types of transactions. Under each type of transaction, the applicable transaction document included the following material provisions:

- (a) In the case of transactions other than Lease Surrender Transactions, a deposit of 10% of the cash purchase consideration must be submitted by the acquirer to be held in escrow by the Monitor.
- (b) The purchase consideration would be subject to customary adjustments.
- (c) Any taxes associated with the closing of these transactions would be paid by the acquirer.
- (d) The acquirer would acquire Sears Canada’s interest in any outstanding realty tax appeals and would be entitled to assume and retain carriage of such appeals. Sears Canada would cooperate with the acquirer with respect to such appeals, including by granting such authorizations to enable the purchaser to pursue and prosecute such appeals at the purchaser’s cost and expense. The realty tax

appeals would be acquired for purchase consideration equal to 100% of the expected refund credit or rebate that may arise from such appeals.

- (e) Acquirers would be required to replace or match letters of credit posted by Sears Canada in respect of the subject property on closing.
- (f) Transactions would be completed on an 'as is, where is' basis without representations and warranties other than minimal warranties expressly stated in the transaction documents that are customary for transactions of this type in an insolvency context.
- (g) Sears Canada would have no obligations to repair or otherwise remediate the applicable property. The acquirer would be responsible for the condition of the property on closing.
- (h) In the case of the Lease Surrender Agreement and the Lease Transfer Agreement, the acquirer would agree to assume liabilities relating to the property arising after the closing date.
- (i) A post-closing access period of up to 15 weeks would be available to allow Sears Canada, or its agents, to access the property for the purpose of liquidating remaining inventory and FF&E. Such access would be governed by an access agreement to be entered into by the parties.
- (j) Sears Canada would terminate on closing, at its expense, any contracts in connection with the property that are not specifically assumed.
- (k) Closing would be conditional upon court approval.
- (l) Closing shall be no later than October 25, 2017, unless the parties agree to extend the closing date; provided however, that Sears Canada would be permitted to extend the closing date by 60 days without the consent of the counterparty.

118. Lease Surrender Transactions and Lease Transfer Transactions will result in additional benefits to the estate as they will eliminate certain landlord claims against the estate that would arise from a disclaimer of these leases.

119. The Applicants are seeking approval on October 4, 2017, for the following real estate transactions:

Transaction Type	Property	Acquirer / Landlord
Property Sale Transaction	2311 McPhillips Street, Winnipeg Manitoba (“ Winnipeg Garden City ”)	1562903 Ontario Limited (an affiliate of Riocan Real Estate Investment Trust)
Lease Transfer Transaction	#10, 5800-79 Avenue S.E., Calgary, Alberta (“ Calgary Distribution Centre ”)	Indigo Books & Music Inc.
Lease Surrender Transactions	4567 Lougheed Highway, Burnaby, British Columbia (“ Brentwood Mall ”)	Shape Brentwood Limited Partnership, Brentwood Towncentre Limited Partnership and 0862223 B.C. Ltd.
	4750 Rutherford Road, Nanaimo, British Columbia (“ Nanaimo North ”)	Shape Properties (Nanaimo) Corp. and NNTC Equities Inc. and 1854 Holdings Ltd.
	48 Kenmount Rd., St. John's, NL (“ Avalon Mall ”)	Crombie Developments Limited ⁶
	999 Upper Wentworth Street, Hamilton, Ontario (“ Lime Ridge ”)	CF/Realty Holdings Inc. / Ontrea Inc.
	66Q – 1485 Portage Avenue, Winnipeg, Manitoba (“ Polo Park ”)	Ontrea Inc.
	6801 Route Transcanadienne, Pointe-Claire, Quebec (“ Pointe-Claire ”)	Fairview Point-Claire Leaseholds Inc.
	1800 Sheppard Avenue East, Suite 330, Willowdale, Ontario (“ Fairview Mall ”)	Fairmall Leaseholds Inc.
	300 Borough Drive, Scarborough, Ontario (“ Scarborough Town Centre ”)	Scarborough Town Centre Holdings Inc.
	240 Leighland Ave, Oakville, Ontario (“ Oakville Place ”)	Riocan Holdings (Oakville Place) Inc.
2271 Harvey Avenue, Kelowna, British Columbia (“ Kelowna Full Line Store / Home Store ”)	Orchard Park Shopping Centre Holdings Inc.	

⁶ This transaction is structured as a lease amendment transaction which shortens the term of the lease such that the lease would expire in February 2018.

120. Information on the financial terms of the above proposed transactions and information on other bids for the above described properties are set out in Confidential Appendix “C” to this Third Report.
121. As set out in the draft Approval and Vesting Orders in respect of each of the real property transactions, it is contemplated that the proceeds of these transactions (subject in certain cases to holdbacks for Construction Lien Claim Reserves, as described in greater detail below) will be used to partially repay the outstanding balances under the DIP Credit Agreements in accordance with their terms including the related intercreditor arrangements. Aside from other charges granted by Order of the Court, the security of the DIP Lenders ranks, with respect to the assets being transferred pursuant to these transactions, in priority to all other security interests attaching to such assets that the Monitor is aware of.
122. Except where otherwise noted below, all bids described below complied with the requirements of the SISP.⁷

Winnipeg Garden City

123. The Winnipeg Garden City property is an owned real property asset that was the subject of a prior Motion for an Approval and Vesting Order heard by the Court on August 22, 2017. The Motion was dismissed and the Winnipeg Garden City property was placed back into the SISP.
124. The terms of the successful bid for this property are contained in a Further Amended Agreement of Purchase and Sale between Sears Canada, as vendor, and 1562903 Ontario Limited (“**Riocan Winnipeg**”), as purchaser, dated September 27, 2017 (the “**Winnipeg Purchase Agreement**”).

⁷ The summary provided in this section is for general information purposes only. In the case of any inconsistency between this summary and the terms of the real estate transaction agreements, the real estate transaction agreements will govern.

125. The terms of the Winnipeg Purchase Agreement are substantially similar to the template Property Sale Transaction terms described above. Modifications to the template transaction terms include:
- (a) Closing shall be no later than October 16, 2017, without a right for Sears Canada to unilaterally extend the closing date.
 - (b) Post-closing access provisions have been removed as the Winnipeg Garden City location was one of the stores for which an inventory liquidation was approved by the Court on July 18, 2017, and the Liquidation Process is complete at this location.
 - (c) The deposit paid by Riocan Winnipeg is slightly less than 10% of the aggregate final purchase price under the Winnipeg Purchase Agreement as the deposit provided by Riocan Winnipeg was based upon the initial bid submitted by Riocan Winnipeg at the Bidding Bid Deadline.
 - (d) Riocan Winnipeg is not acquiring any realty tax appeals that may exist in respect of this property.
 - (e) Riocan Winnipeg is not assuming any contracts or permitted encumbrances in connection with the property. Sears Canada must terminate, effective on closing, any contracts related to this property.

Calgary Distribution Centre

126. The Calgary Distribution Centre is a leased property.
127. The terms of the successful bid for the Calgary Distribution Centre lease (the “**Calgary DC Lease**”) are contained in a Lease Transfer Agreement between Sears Canada, as assignor, and Indigo Books & Music Inc. (“**Indigo**”), as assignee, dated September 28, 2017 (the “**Calgary DC Agreement**”).

128. The terms of the Calgary DC Agreement are substantially similar to the template Lease Transfer Transaction terms described above. Modifications to the template transaction terms include:
- (a) Completion of the transaction is conditional upon entry of the landlord at the Calgary Distribution Centre property entering into a consent agreement (the “**Landlord’s Consent**”) that provides for a consent to the transfer of the Calgary DC Lease and also provides for the transfer of ownership of certain FF&E and trade fixtures to Indigo. Required terms of the Landlord’s consent are set out in Section 5.4 of the Calgary DC Lease Agreement. The Monitor understands that the landlord is currently working with Sears Canada to arrive at a mutually acceptable consent.
 - (b) Completion of the transaction is also conditional upon the assignment of Sears Canada’s interest in certain software license and client support agreements with Bastian Solutions Canada (the “**Assigned Software Contracts**”), either by consent of the counterparty or by an assignment order. If an assignment order is required, the Monitor is advised that the Applicants will return to court for such an order at a later date on notice to interested parties.
 - (c) Closing of the transaction must occur no later than November 30, 2017, or such other date as the parties mutually agree.
 - (d) Any cure costs payable in connection with obtaining the Landlord’s Consent or the assignment of the Assigned Software Contracts are paid directly by Sears Canada or treated as a deduction from the acquisition price. These costs are estimated by Sears Canada to be relatively limited as compared to the proceeds to be generated from this transaction.
 - (e) No post-closing access period is required for this property as all Sears Canada owned inventory will have been removed from this location by the anticipated closing date.

- (f) As noted above, Indigo is acquiring certain FF&E and trade fixtures in connection with this transaction and the Landlord's Consent. The Monitor understands that the fixtures and equipment located at this property are particularly valuable and useful for the specific purposes for which Indigo intends to use this property.
129. The Monitor is satisfied that Indigo has the capability to perform its obligations under both the lease and the Assigned Software Contracts. Indigo is a publicly traded company on the TSX. According to Indigo's public disclosures, as of July 1, 2017, it operated 89 superstores under the banners Chapters and Indigo and 122 small format stores under the banners Coles, Indigospirit, SmithBooks and The Book Company.

Brentwood Mall / Nanaimo North

130. The Lease Surrender Transactions for the Brentwood Mall and the Nanaimo North location are governed by two Lease Surrender Agreements (the "**Shape Agreements**") and are referred to herein as the "**Brentwood Mall Transaction**" and the "**Nanaimo Transaction**".
131. The Brentwood Transaction is entered into with Shape Brentwood Limited Partnership, Brentwood Towncentre Limited Partnership and 0862223 B.C. Ltd. (collectively, "**Shape Brentwood**").
132. The Nanaimo Transaction is entered into with Shape Properties (Nanaimo) Corp., NNTC Equities Inc. and 1854 Holdings Ltd. (collectively, "**Shape Nanaimo**" and, together with Shape Brentwood, "**Shape**").
133. The Brentwood Mall location was the subject of a proposed development arrangement in 2015 described in a letter agreement between Shape Brentwood, Sears Canada and a third party developer. A copy of the letter agreement is attached hereto as Confidential Appendix "D". The proposed development arrangement ascribed significant value to the Brentwood Mall location and Sears Canada's interest in that location due to Sears Canada's long term lease at that location. The Monitor has reviewed correspondence suggesting that the third party developer that was party to the proposed development arrangement has asserted that it may have certain consent rights in connection with the

Brentwood Mall Transaction pursuant to the terms of the letter agreement governing the proposed development arrangement. The Monitor has reviewed this matter and has not identified any such consent rights that exist at this time.

134. The Shape Agreements, in their final form, were not compliant with the SISP. Following an initial submission of a bid that complied with the SISP requirements prior to the Binding Bid Deadline, counsel to Shape submitted an updated bid on September 21, 2017, the terms of which were materially superior to the prior bid submitted by Shape for the Brentwood Mall and Nanaimo North properties and also superior to the terms of any other transaction options for these premises that was available at that time. The updated bid was non-compliant with the SISP as it expired at 7 p.m. that same day. The SISP required that all Binding Bids remain open until September 29, 2017.
135. The Applicants considered the bid at a telephone meeting of the Special Committee in the afternoon of September 21st. The Applicants also consulted with counsel to the DIP Lenders in connection with the proposed updated transactions. The Monitor was consulted and was present at both the meeting of the Special Committee and the discussion with the DIP Lenders. The Monitor's counsel spoke with counsel for FSCO. However, due to the compressed timelines, the Applicants and the Monitor were not able to meaningfully consult with FSCO prior to the deadline for acceptance of this updated bid.
136. The Sale Advisor contacted representatives of Shape prior to the deadline for acceptance of the updated bid and asked for an extension of the acceptance deadline for the updated bid to allow for additional stakeholder consultation. The Monitor attended this call. Shape did not immediately agree to the extension request and the Applicants ultimately accepted the updated bid from Shape on September 21st to ensure the bid did not expire.
137. Counsel to FSCO was advised of the decision to accept the updated offer from Shape on the morning of September 22nd. Pension and Retiree Representative Counsel and Employee Representative Counsel were advised in general terms of the acceptance of a bid for certain leases on the morning of September 22nd as well. However, due to restrictions placed upon the information that could be delivered to Pension and Retiree

Representative Counsel and Employee Representative Counsel, the full details of the transaction could not be disclosed to them.

138. In determining to accept the updated bid from Shape, the Applicants considered, among other things, the impact that such a transaction could have on any going concern transaction that may be further developed given the apparent value of the Brentwood Mall lease and also the impact of potentially losing a certain, immediate and significant recovery from the Brentwood Mall lease if the bid were permitted to lapse. The Applicants determined, following the consultations described above, that the best option in the circumstances was to accept the updated Brentwood Mall Transaction and Nanaimo Transaction.
139. In the circumstances, the Monitor supports the decision to accept the Brentwood Mall Transaction and the Nanaimo Transactions and believes these transactions are the highest and best offers available for these properties, both as of September 21st and as of the current date.
140. The Monitor also understands that the leases that are the subject of the Brentwood Mall Transaction and the Nanaimo Transaction are excluded assets under the proposed Stanzl Group going concern transaction.
141. The Shape Agreements are substantially similar to the template Lease Surrender Transaction terms described above. Modifications to the template transaction terms include:
 - (a) The Approval and Vesting Order must be granted on or before October 4, 2017.
 - (b) Closing is scheduled to occur three business days following the issuance of the Approval and Vesting Order.
 - (c) Mutual releases by Sears Canada and Shape are to be exchanged.

Avalon Mall

142. Sears Canada and Crombie Developments Limited (“**Crombie**”) are parties to a Lease dated November 3, 2005 (the “**Avalon Lease**”) pursuant to which Sears Canada leases premises located within the retail mall known as the Avalon Mall in St. John’s Newfoundland.
143. Discussions between the Sale Advisor and Crombie regarding a proposal to enter into a lease surrender transaction began on September 15, 2017.
144. Following discussions between the Sale Advisor and Crombie, Crombie delivered an offer to enter into a Lease Surrender Transaction on September 21, 2017.
145. As this offer was received after the Binding Bid Deadline it was not compliant with the requirements of the SISP. While the SISP allows Sears Canada, with the consent of the Monitor, the Sale Advisor and the DIP Lenders to waive compliance with certain of the Binding Bid criteria in the SISP, the SISP does not specifically allow these parties to waive the requirement to submit a Binding Bid by the Binding Bid Deadline. However, the SISP does not state that the Court cannot consider a transaction that is submitted after the Binding Bid Deadline. In the circumstances the Monitor recommends that the Court consider this late bid. The Crombie bid is the highest or otherwise best bid for the Avalon Lease.
146. The Avalon Lease transaction is not in the form of the template agreement for a Lease Surrender Transaction. The Avalon Lease transaction is structured as a Lease Amending Agreement between Sears Canada and Crombie, dated as of September 28, 2017 (the “**Avalon Lease Agreement**”).
147. Pursuant to the Avalon Lease Agreement, Crombie agrees to pay a fee to Sears Canada in return for Sears Canada’s agreement to shorten the term of the Avalon Lease such that it would expire on February 28, 2018. Sears Canada would be entitled to conduct a liquidation sale of its inventory, trade fixtures, furniture, chattels, signs, and other items during the remaining amended term of the Avalon Lease. This liquidation would be undertaken in accordance with the guidelines established in the July 18, 2017 Liquidation

Sale Approval Order of this court. The Monitor is of the view that the Avalon Lease Agreement provides sufficient time to complete a liquidation at the Avalon Mall location.

148. The closing date for the transaction must occur on or before October 25, 2017, which date may be extended by Sears Canada for an additional period of 60 days.
149. The transaction is conditional upon court approval.

Lime Ridge, Polo Park, Pointe-Claire, Fairview Mall

150. The Lease Surrender Transactions for Lime Ridge, Polo Park, Pointe-Claire and Fairview Mall (collectively, the “**CF Transactions**”) are governed by two separate Lease Surrender Agreements, each dated September 27, 2017:
 - (a) a Lease Surrender Agreement CF Lime Ridge CF Polo Park between Sears Canada, as tenant, and CF/Realty Holdings Inc. and Ontrea Inc., as landlord entities (the “**CF Polo Park/Lime Ridge Agreement**”); and
 - (b) a Lease Surrender Agreement CF Fairview Mall CF Pointe Claire between Sears Canada, as tenant and Fairmall Leaseholds Inc. and Fairview Pointe-Claire Leaseholds Inc., as landlord entities (the “**CF Fairview / Pointe Claire Agreement**” and, together with the “CF Polo Park / Lime Ridge Agreement, the “**CF Agreements**”).
151. The CF Fairview / Pointe Claire Agreement and the CF Polo Park / Lime Ridge Agreement are substantially similar to the template Lease Surrender Transaction terms described above. Modifications to the template transaction terms include:
 - (a) the outside date for completion of these transactions is October 31, 2017. The Approval and Vesting Order must be granted on or before the date that is three business days prior to October 31, 2017;
 - (b) the CF Polo Park / Lime Ridge Agreement permits Sears Canada to exclude either of the leases being surrendered pursuant to this agreement from the transaction,

with a corresponding decrease to the transaction price. Sears Canada has not elected to exclude either lease;

- (c) the CF Fairview / Pointe Claire agreement permits Sears Canada to exclude the Fairview Mall lease from the transaction, with a corresponding decrease to the transaction price. Sears Canada has not elected to exclude that lease;
- (d) the landlord entities shall not assume any obligations or liabilities of Sears Canada to third parties with respect to these premises, whether in respect of the period before or after closing;
- (e) the landlord entities are not assuming any obligations to obtain the return of outstanding letters of credit or to provide matching security for any remaining letters of credit;
- (f) the landlord entities and Sears Canada shall execute mutual releases;
- (g) the post-closing access period during which Sears Canada may liquidate inventory and FF&E from these locations will terminate on December 15, 2017, which provides a materially reduced access period relative to other transactions. Sears Canada has advised that it believes it can complete all necessary liquidation steps in the period provided;
- (h) Sears Canada must terminate, prior to the completion of the post-closing access period, any subleases, licenses or other agreements providing a right of occupancy to all or any part of the premises to third parties, including license arrangements with an auto centre at the Lime Ridge location. Sears Canada has advised that the contractual terms of such license arrangements will permit the termination of such arrangements as required by the CF Transactions;
- (i) the completion of the CF Transactions is conditional upon the discharge of encumbrances on the premises that are the subject of the CF Transactions and encumbrances on other properties owned by the landlords or their affiliates and occupied by Sears Canada. This may require Sears Canada to use a portion of the

proceeds from the CF Transactions to satisfy encumbrances on these additional properties. The proceeds of the CF Transaction net of the amounts required to satisfy these encumbrances still represents the highest potential recovery for the subject assets; and

- (j) the draft Approval and Vesting Order for each transaction agreement provides for a “Construction Lien Claim Reserve” in the maximum amount of all construction liens registered against the properties that are the subject of the CF Transactions that are approved under each order. These proceeds will be held pending resolution of any priority claims to such proceeds by the holders of construction liens, the DIP Lenders or any other parties with an interest in such proceeds. The purpose of the Construction Lien Claim Reserve is to facilitate the discharge of specified construction liens from the premises that are the subject of the CF Transactions and to ensure that no construction lien claim holder is prejudiced by such discharge.

Scarborough Town Centre

- 152. The Lease Surrender Transaction for Scarborough Town Centre (collectively, the “**STC Transaction**”) is governed by a Lease Surrender Agreement, dated September 27, 2017 (the “**STC Agreement**”).
- 153. The STC Agreement is substantially similar to the template Lease Surrender Transaction terms described above. Modifications to the template transaction terms include:
 - (a) the property shall, on closing, be free and clear of, among other things, construction liens arising out of any work performed by, for or on behalf of Sears Canada at the leased premises or the furnishing of services, materials and supplies therefor; and
 - (b) the draft Approval and Vesting Order for this transaction agreement provides for a “Construction Lien Claim Reserve” in the maximum amount of all construction liens registered against the property. These proceeds will be held pending resolution of any priority claims to such proceeds by the holders of construction

liens, the DIP Lenders or any other parties with an interest in such proceeds. The purpose of the Construction Lien Claim Reserve is to facilitate the discharge of specified construction liens from the premises and to ensure that no construction lien claim holder is prejudiced by such discharge.

Oakville Place

154. The Lease Surrender Transaction for Oakville Place (collectively, the “**Oakville Transaction**”) is governed by a Lease Termination Agreement (the “**Oakville Agreement**”) with Riocan Holdings (Oakville Place) Inc.
155. The Oakville Agreement is substantially similar to the template Lease Surrender Transaction terms described above. Modifications to the template transaction terms include:
 - (a) the closing date shall be no later than November 24, 2017, unless otherwise consented to by the landlord or otherwise ordered by the Court;
 - (b) the landlord is not acquiring any realty tax appeals;
 - (c) the landlord entities are not assuming any obligations to obtain the return of outstanding letters of credit or to provide matching security for any remaining letters of credit;
 - (d) the transaction requires the discharge of all construction liens and underlying claims, demands and causes of action listed on a schedule to the Oakville Agreement as well as other construction liens that may be registered against the property or premises up to and including the business day immediately prior to the granting of the Order of the Court approving the transaction;
 - (e) unlike the Lease Surrender Agreements entered into in respect of other properties, the Oakville Agreement terminates the lease effective at 11:59 p.m. on the day immediately before the closing date;

- (f) the post-closing access period under this transaction shall terminate on December 31, 2017, which provides a materially reduced access period relative to other transactions. Sears Canada has advised that it believes it can complete all necessary liquidation steps in the period provided; and
- (g) the draft Approval and Vesting Order for this transaction agreement provides for a Construction Lien Claim Reserve in the maximum amount of all construction liens registered against the property that is the subject of the transaction. These proceeds will be held pending resolution of any priority claims to such proceeds by the holders of construction liens, the DIP Lenders or any other parties with an interest in such proceeds. The purpose of the Construction Lien Claim Reserve is to facilitate the discharge of specified construction liens from the premises that are the subject of the Oakville Transaction and to ensure that no construction lien claim holder is prejudiced by such discharge.

Kelowna Full Line Store / Home Store

- 156. The Lease Surrender Transaction for the Sears Canada Full-line Department Store and Home Store at the Orchard Park Shopping Centre in Kelowna, British Columbia (collectively, the “**Kelowna Transaction**”) is governed by a Lease Termination Agreement (the “**Kelowna Agreement**”) with Orchard Park Shopping Centre Holdings Inc. (the “**Kelowna Landlord**”).
- 157. The initial bid submitted by the Kelowna Landlord was not technically compliant with the SISP, as it was not irrevocable for 20 business days following the Binding Bid Deadline. However, the Monitor, DIP Lenders, and Sale Advisor waived the event of non-compliance as allowed for in the SISP because this transaction was a value maximizing option, the nature of the non-compliance was determined not to be material and the waiver in this case did not materially prejudice other participants in the SISP.
- 158. The Kelowna Agreement is substantially similar to the template Lease Surrender Transaction terms described above. Modifications to the template transaction terms include:

- (a) certain exceptions to the releases provided in favour of Sears Canada have been added for deliberate, intentional or grossly negligent conduct;
- (b) Sears Canada is obligated to ensure that any and all construction liens registered, perfected or pending against the properties or premises that are the subject of the Kelowna Transaction or that may become registered against the property or premises, in each case in respect of work contracted for or on behalf of Sears Canada and conducted prior to the closing date are discharged and that any construction lien trust claims in respect of same are satisfied or discharged by the closing date; and
- (c) the draft Approval and Vesting Order for the Kelowna Transaction provides for a Construction Lien Claim Reserve in the maximum amount of all construction liens registered against the property that is the subject of the transaction. These proceeds will be held pending resolution of any priority claims to such proceeds by the holders of construction liens, the DIP Lenders or any other parties with an interest in such proceeds. The purpose of the Construction Lien Claim Reserve is to facilitate the discharge of specified construction liens from the premises that are the subject of the Kelowna Transaction and to ensure that no construction lien claim holder is prejudiced by such discharge.

J. SALE APPROVAL MOTIONS

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

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

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

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

- (a) whether the process leading to the proposed sale or disposition was reasonable in the circumstances;
- (b) whether the monitor approved the process leading to the proposed sale or disposition;
- (c) whether the monitor filed with the court a report stating that in their opinion the sale or disposition would be more beneficial to the creditors than a sale or disposition under a bankruptcy;
- (d) the extent to which the creditors were consulted;
- (e) the effects of the proposed sale or disposition on the creditors and other interested parties; and
- (f) whether the consideration to be received for the assets is reasonable and fair, taking into account their market value.

161. In the Monitor's view, the process considerations under Section 36 of the CCAA should be evaluated in the current circumstances for the SISP and all of the above transactions as a whole. Where unique considerations apply to any individual transaction, those considerations are also noted below.
162. Capitalized terms used in this section of the Third Report and not otherwise defined are as defined in the SISP.

Reasonableness of the Process

163. The SISP was approved by the Court on July 13, 2017.
164. As noted in the Caiger Affidavit, the Sale Advisor contacted 145 potentially interested parties regarding their interest in participating in the SISP. These parties were identified in part based upon the Sale Advisor's experience in the market as well as prior expressions of interest received by Sears Canada. In addition, the Monitor notes that the SISP was the subject of significant media attention, thereby further increasing the notice to all *bona fide* interested parties about the ongoing SISP.
165. The Monitor engaged in discussions with representatives of Sears Canada prior to the Binding Bid Deadline to obtain information on the pre-filing marketing processes for Sears Canada's businesses and assets, including the real estate portfolio of Sears Canada.

The Monitor has noted only very limited circumstances where offers were not obtained for assets where these initial discussions indicated value may exist.

166. The SISP in this case was an expedited one-stage process. The Monitor notes that often a sale process for a business the size of the Applicants would involve a two stage marketing process, where preliminary non-binding expressions of interest are sought followed by a request for binding offers after an extended due diligence period. However, the timeline for the SISP in this case was reasonable and necessary in the circumstances in view of:
- (a) the continuing operating losses of the Applicants during the CCAA Proceedings, which resulted in material ongoing draws under the DIP ABL Credit Agreement;
 - (b) the milestones established by the DIP Lenders, who were funding the operating losses of the Applicants pursuant to the DIP Credit Agreements;
 - (c) the need to determine on an expedited basis whether a going concern solution could be implemented so that, in the absence of such a going concern solution, the inventory of the business could be liquidated for maximum value during the busy holiday retail season; and
 - (d) the fact that certain of the Applicants' assets, including its leases, may decrease in value over time.
167. The Monitor participated in all stages of the SISP and is satisfied that the SISP was carried out in accordance with the SISP Order, that the opportunity to acquire assets offered under the SISP was widely known and that the process that resulted in the transactions for which approval is sought on the Applicants' October 4th motions was fair and reasonable. In the Monitor's view, the Applicants' marketing efforts during the SISP were appropriate in the circumstances.
168. The Monitor notes that in certain cases the Applicants continued to negotiate transactions with bidders whose bids were not fully compliant with all requirements of the SISP. In such circumstances, the Monitor supported the decision to continue such negotiations as

(i) such negotiations had the potential to maximize value for creditors; (ii) in the case of the Stranzl Group Proposal, the proposed transaction provides an opportunity to preserve a going concern while not impairing the Applicants' ability to generate value from the other transactions identified through the SISP; and (iii) no other participants in the SISP were unfairly prejudiced by the decision to continue to consider such non-compliant offers.

Monitor Approval of the Process

169. The Monitor approved the process set out in the SISP that led to the sales and dispositions for which the Applicants now seek Court approval.

Comparison to Sale in Bankruptcy

170. In a bankruptcy scenario, many of the assets that the Applicants seek to sell at this time would have decreased, or no, value.

171. In a bankruptcy process, the going concern businesses of SLH and Corbeil would likely reduce or cease operations, resulting in a loss of significant value from the going concern transactions that are currently available for these assets.

172. A bankruptcy process would also likely result in the liquidation of all remaining assets of Sears Canada. The high probability of such a liquidation, and the absence of a going concern alternative, would reduce the likelihood that the Applicants would be able to generate maximum value from lease transactions.

Consultations with Creditors

173. During the weeks that followed the Binding Bid Deadline, the Monitor facilitated discussions with the Applicants, the DIP Lenders, FSCO and its advisors and Employee Representative Counsel and Pension and Retiree Representative Counsel and their advisors to provide information contemplated by the SISP and the Suspension Term Sheet.

174. On September 6, 2017, the Sale Advisor and counsel to the Applicants met and consulted with the Monitor, the Monitor's counsel, and the legal and financial advisors to the DIP

Lenders for the purpose of determining whether to continue negotiations with a select number of bidders and to take such steps as were necessary to finalize and consummate successful bids in the context of the SISP. Legal counsel and the financial advisors to FSCO also attended this meeting and received information on the SISP as required by the Suspension Term Sheet.

175. As required by the Suspension Term Sheet, the Monitor ensured that the Applicants provided to FSCO and its advisors the same information in respect of SISP updates as were provided to the DIP Lenders' Restricted Process Observers (as defined in the SISP).
176. The Monitor also made arrangements for meetings and conference calls with FSCO and its advisors and with Pension and Retiree Representative Counsel and Employee Representative Counsel and their financial advisors where each group was provided with SISP updates.
177. The DIP Lenders have been consulted on a regular basis throughout the SISP and have received ongoing updates on the status of bids in the SISP and access to information regarding updated transaction documentation for various transactions that were and continue to be the subject of negotiation through their direct access to the electronic data room established by the Applicants to hold bid documentation. The Monitor understands that the DIP Lenders have consented to all transactions presented for court approval on October 4, 2017, including the forms of transaction agreements proposed.
178. Prior to the Monitor providing its consents to the proposed transactions for which approval is sought on October 4th, the Monitor ensured that the DIP Lenders, FSCO and Employee and Pension and Retiree Representative Counsel were provided an opportunity to comment on transactions being put forward and the process generally.
179. In the past two weeks, the following stakeholder discussions, among others, took place:
 - (a) September 22, 2017: the Monitor and its counsel participated in a conference call with counsel to the Applicants, the Sale Advisor, the Pension and Retiree Representative Counsel and Employee Representative Counsel and their financial

advisors, Ernst & Young Inc. to discuss, among other things, the anticipated ranges of proceeds from potential transactions under consideration;

- (b) September 22, 2017: the Monitor and its counsel participated in a conference call with counsel to the Applicants, the Sale Advisor and FSCO. This discussion covered similar topics to the Pension and Retiree Representative Counsel and Employee Representative Counsel discussions earlier that morning;
- (c) September 27, 2017: the Monitor and its counsel participated in an in-person meeting with counsel to the Applicants, the Sale Advisor and FSCO and its advisors to discuss potential recoveries from various transaction opportunities;
- (d) September 27, 2017: the Monitor and its counsel participated in a conference call with counsel to the Applicants, the Sale Advisor, the Pension and Retiree Representative Counsel and Employee Representative Counsel and their financial advisors, Ernst & Young Inc. to discuss potential recoveries from various transaction opportunities; and
- (e) September 28, 2017: the Monitor and its counsel participated in a conference call with counsel to FSCO.

180. In addition to the above discussions, the Monitor is aware that *ad hoc* discussions have taken place between counsel to the Applicants or the Monitor and counsel to the above groups as well as discussions and exchanges of information between the Monitor, the Sale Advisor and the financial advisors to the above groups.

181. Finally, the Monitor was advised that:

- (a) a meeting took place between representatives of the Stranzl Group, counsel to the Applicants and representatives of the Minister of Finance in the morning of September 29, 2017; and
- (b) discussions are taking place between Employee Representative Counsel and counsel to the Stranzl Group.

182. The Monitor recognizes the importance of communication and participation of various groups of stakeholders in these proceedings and will ensure that circumstances continue to exist for stakeholders to obtain appropriate information in the circumstances, while respecting the need to ensure confidentiality to maintain the integrity of the SISP.

Effect of the Transactions on Creditors and Other Interested Parties

183. The proposed transactions maximize value from all executable options available at this time while at the same time recognizing and protecting to the extent possible the interests of those stakeholders, such as active employees, who would benefit from a potential going concern solution by taking steps to the extent possible to seek to preserve assets and operations that would be necessary for a going concern solution at this time.

184. The proposed real estate transactions also preserve the rights of construction lien claimants to assert any priority rights that they may have to sale proceeds available under these transactions.

185. The proposed real estate transactions also protect the rights of Sears Canada to, if necessary, liquidate inventory and other assets at the locations that are the subject of the proposed real estate transactions in an orderly and value maximizing manner.

186. The proposed going concern transactions for Corbeil and SLH will preserve employment and contractual arrangements for a material portion of the employees and other stakeholders in those businesses.

187. The proposed transactions do not engage the provisions of the SISP Order relating to rights of first refusal as none of the transactions for which approval is sought relate to properties subject to any such rights of first refusal.

Fairness of the Consideration

188. In each case, the transactions brought for approval on the Applicants' October 4th motions represent the highest and best executable offer obtained through the SISP for the asset being sold.

189. The Monitor notes that certain of the assets that are subject to the October 4th sale approval motions, particularly the real estate assets, are subject to material use restrictions, potentially limiting the universe of potential buyers other than going concern bidders or other parties operating similar businesses.
190. Appraisals are not available for a large majority of the assets that the Applicants are seeking approval to sell on October 4th. However, where appraisals are available, the purchase prices offered are within reasonable proximity to appraised value.⁸

Monitor's Recommendation

191. The transactions for which the Applicants seek approval at this time are the highest and best offers obtained for each of the subject assets. The Monitor supports the Applicants' requests for approval of these transactions.
192. The Monitor notes the significant efforts that have been made over the past months to solicit offers and enter into transactions for the Applicants' assets and businesses. Each of these negotiations is subject to its own dynamics and complexities. The Applicants require certainty with respect to their go-forward plans through the very important holiday retail season. In addition, the Applicants continue to require liquidity to be injected to cover overhead costs and delaying sale transactions could lead to erosion of recoveries to creditors as a result of increases to such overhead costs. For all of these reasons, the Monitor supports moving forward with the transactions for which the Applicants seek approval on their October 4th motions.

K. DISTRIBUTION

193. If the transactions for which approval is sought on the October 4th motion is granted by the Court, the Applicants also seek orders authorizing distributions of the net proceeds of

⁸ The Monitor notes that appraised value is in many cases not indicative of true realizable value in the current context due to the assumptions that are often included in such appraisals regarding, among other things, the future use of the property.

those transactions to the DIP Lenders, subject to the requirement to retain certain amounts in Construction Lien Claims Reserves described above.

194. Pursuant to the Initial Order, the DIP Lenders were granted court-ordered charges over all of the assets, undertakings and properties of the Applicants (collectively, the “**DIP Charges**”). The DIP Charges have priority over all other encumbrances on the Applicants’ assets other than the Administration Charge, the KERP Priority Charge and the Directors’ Priority Charge (in each case as defined in the Initial Order).
195. The DIP Credit Agreements provide that the net proceeds of dispositions, such as the sales described herein, shall be applied promptly, and in any event no later than three business days after receipt thereof, to prepay obligations under the DIP Credit Agreements in accordance with the intercreditor arrangements between the DIP Lenders.
196. The approvals sought by the Applicants for distribution of sale proceeds to the DIP Lenders are consistent with the terms of the DIP Credit Agreements and are consistent with the priority of the DIP Charges.
197. The Monitor notes that certain of the sale proceeds will be retained as a Construction Lien Claims Reserve and, as a result, any priority claims to such funds that any construction lien claim holders may wish to assert on account of registered construction liens are protected by the proposed orders.

L. SEALING ORDER

198. Confidential Appendix “C” to this Third Report contain information, including information on the bids received for various assets in the SISP and the purchase prices for the transactions that the Applicants seek approval for on their October 4th motions. The public disclosure of this information would be harmful to the integrity of the SISP for the reasons set out earlier in this Third Report, including if any of the assets and businesses of the Applicants needed to be the subject of a further marketing process. The Monitor supports the Applicants’ request for an order that the Confidential Appendices to this Third Report be kept confidential and not form part of the public record pending a further Order of the Court.

199. The letter agreement attached hereto as Confidential Appendix “D” contains confidential commercial terms agreed to between Sears Canada and certain third parties. The disclosure of these terms would be prejudicial to the parties to this letter agreement. No interested party will be prejudiced by the sealing of this letter agreement.

M. STAY EXTENSION

200. The Stay Period (as defined in the Initial Order) currently expires on October 4, 2017.

201. The Applicants require additional time to complete the implementation of the SISP, including the implementation of additional transactions that are either in the process of being finalized or are still being negotiated, to maximize recoveries for all stakeholders. The Applicants require the continued stability provided by the Court-ordered stay of proceedings in order to complete this process.

202. The Applicants are requesting an extension of the Stay Period to November 7, 2017.

203. The Revised Cash Flow Forecasts demonstrate that, subject to the underlying assumptions including continued availability of funding under the DIP Credit Agreements, the Applicants will have sufficient liquidity to fund operations until November 7, 2017. As noted above, if it appears that the Applicants will not have access to continued availability under the DIP Credit Agreements, the Monitor will promptly report on this issue to the Court.

204. The Monitor believes that the Applicants have acted and continue to act in good faith and with due diligence and that circumstances exist that make an extension of the Stay Period appropriate.

205. The Monitor notes that the restructuring and sale efforts of the Applicants will not be completed by November 7, 2017. However, in the Monitor’s view, by November 7, 2017, the Applicants will have additional information to determine the next material steps in these proceedings and any further stay extensions required at that time.

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

Dated this 2nd 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

A handwritten signature in black ink that reads "Paul Bishop". The signature is written in a cursive style with a large initial "P".

Paul Bishop
Senior Managing Director

A handwritten signature in blue ink that reads "Greg Watson". The signature is written in a cursive style with a large initial "G".

Greg Watson
Senior Managing Director

APPENDIX "A"

REVISED CASH FLOW FORECAST

Sears Canada Group

CCAA Cash Flow Forecast [1]

(CAD in thousands)

Week Ending (Saturday)		30-Sep-17	7-Oct-17	14-Oct-17	21-Oct-17	28-Oct-17	4-Nov-17	11-Nov-17	Total
CCAA Filing Week		15	16	17	18	19	20	21	Total
Receipts									
Trade Receipts	[2]	30,913	30,246	30,246	35,103	31,943	42,135	41,516	242,101
Proceeds - Asset Sales	[3]	-	25	33,015	8,000	6,900	9,513	-	57,453
Total Receipts		30,913	30,271	63,261	43,103	38,843	51,647	41,516	299,554
Operating Disbursements									
Payroll and Employee Related Costs	[4]	(8,512)	(6,156)	(11,768)	(725)	(16,843)	(3,425)	(10,543)	(57,972)
Merchandise Vendors	[5]	(17,600)	(19,775)	(19,775)	(19,775)	(19,775)	(18,363)	(18,363)	(133,425)
Non-Merchandise Vendors	[6]	(3,739)	(9,508)	(9,508)	(9,508)	(9,508)	(10,896)	(8,896)	(61,561)
Rent and Property Taxes	[7]	(933)	(4,808)	(1,865)	(4,808)	-	(6,452)	-	(18,867)
Sales Taxes	[8]	(1,718)	-	-	(550)	(824)	-	-	(3,092)
Pension	[9]	(3,685)	-	-	-	-	-	-	(3,685)
IT Costs	[10]	(400)	(4,200)	-	-	-	(7,417)	-	(12,017)
Capital Expenditures	[11]	(75)	(75)	(75)	(75)	(75)	(75)	(75)	(525)
Total Operating Disbursements		(36,661)	(44,522)	(42,991)	(35,440)	(47,025)	(46,627)	(37,876)	(291,143)
Net Operating Cash Inflows / (Outflows)		(5,748)	(14,251)	20,270	7,662	(8,181)	5,020	3,639	8,411
Professional Fees	[12]	(1,983)	(1,870)	(1,757)	(1,757)	(1,983)	(1,641)	(1,528)	(12,520)
DIP Fees and Interest Paid	[13]	-	(2,981)	-	-	-	(1,006)	-	(3,987)
Net Cash Inflows / (Outflows)		(7,731)	(19,103)	18,513	5,905	(10,164)	2,373	2,111	(8,096)
Cash									
Beginning Balance		43,171	35,440	40,037	40,050	39,955	39,990	39,963	43,171
Net Cash Inflows / (Outflows)		(7,731)	(19,103)	18,513	5,905	(10,164)	2,373	2,111	(8,096)
DIP Draws / (Repayments)	[14]	-	23,700	(18,500)	(6,000)	10,200	(2,400)	(2,100)	4,900
Ending Balance		35,440	40,037	40,050	39,955	39,990	39,963	39,974	39,974

Notes:

[1] The purpose of this cash flow forecast is to estimate the liquidity requirements of the Sears Canada Group during the forecast period.

[2] Forecast Trade Receipts includes collections from the sale of merchandise and services, net of returns, and includes sales taxes.

The sales forecast is based on historical sales patterns, seasonality and management's current expectations. With respect to stores subject to transactions for which the Applicants are seeking court approval on October 4, 2017, Trade Receipts also include the receipts from the liquidation of the remaining inventory at these stores.

[3] Proceeds - Asset Sales includes the proceeds from transactions pursuant to the SISF for which the Applicants will be seeking Court approval on October 4, 2017.

[4] Forecast Payroll and Employee Related Costs are based on recent payroll amounts.

[5] Forecast Merchandise Vendor disbursements include payments to vendors for purchase of merchandise goods and other products.

[6] Forecast Non-Merchandise Vendor disbursements include selling, general, and administrative costs excluding rent, property taxes, sales taxes, pension costs, and some IT costs which are captured separately in the CCAA Cash Flow Forecast.

[7] Forecast Rent and Property Taxes includes payment to landlords, common-area maintenance costs, and property taxes in respect of owned and leased properties.

[8] Forecast Sales Taxes reflects net GST, HST, and PST amounts remitted to/from the federal and provincial governments. Payments are generally made one month in arrears.

[9] Forecast Pensions reflect monthly payments related to the defined benefit pension plan. The regular payments relating to the defined contribution pension plan are included in the Payroll and Employee Related Costs line above. Pursuant to an order issued by the Court on July 13, 2017, special payments in respect of the defined benefit pension plan will cease after September 30, 2017.

[10] Forecast IT Costs reflect disbursements made to certain IT-related vendors based on existing terms and conditions of the contract.

[11] Forecast Capital Expenditures reflect estimated capital spending required to maintain the stores in the normal course of business.

[12] Forecast Professional Fees include legal and financial advisor fees associated with the CCAA proceedings and are based on estimates provided by the advisors.

[13] Forecast DIP Fees and Interest Paid reflect all payments relating to the DIP facilities including commitment and other fees during the forecast period.

[14] Forecast DIP Draws / (Repayments) are based on funding requirements and maintaining a minimum \$40 million cash balance for the Sears Canada Group.

APPENDIX "B"

INSIDER PROTOCOL

INSIDER PROTOCOL

Capitalized terms not otherwise defined herein shall have the meaning ascribed thereto in the Order of the Ontario Superior Court of Justice (Commercial List) made July 13, 2017 approving the sale and investment solicitation process (the “**SISP**”), a copy of which is attached as Schedule “A”.

For the purposes of this protocol, “**Management**” shall be defined as all members of management of Sears Canada involved in any capacity in connection with the submission of any going concern or other bid or proposal for the Full Line Retail Business pursuant to the SISP (a “**Management Bid**”).

Pursuant to the SISP, the Financial Advisor and Sears Canada with the assistance of its advisors and in consultation with and under the supervision of the Monitor is conducting the Sale Process including providing information to assist third parties in making Binding Bids.

Management has advised the Special Committee and Sears Canada’s advisors that they intend to submit a Management Bid in the SISP. This protocol has been established to ensure the integrity and fairness of the SISP for all participants in view of a potential bid by Management. In addition to the specific provisions of the SISP, the following protocol shall be followed by the Applicants, the Financial Advisor, the Monitor and Management:

1. The Financial Advisor may, upon request, work with Management on the preparation of financial and presentation materials with respect to Management’s operating and business plan for the purposes of a Management Bid (“**Management Plan**”); provided, however, that such assistance will not include recommendations on any such Management Plan. The Monitor shall participate in any discussions in which the Financial Advisor and Management intend to discuss the Management Bid.
2. The Financial Advisor may introduce Potential Sponsors to Management and *bona fide* third parties, as a determined by the Special Committee and the Monitor, who are considering submitting Binding Bids to purchase the Full Line Retail Business of Sears Canada on a going concern basis (“**Going Concern Bidders**”). The Financial Advisor shall consult with the Special Committee of Sears Canada and the Monitor regarding how to partner Potential Sponsors with Management or other Going Concern Bidders, taking into account information shared by each such Potential Sponsor with the Financial Advisor. The Financial Advisor shall inform the Special Committee and the Monitor of all Potential Sponsors who the Financial Advisors engage in discussions with. A “Potential Sponsor” shall mean a potential provider of equity financing in support of a Binding Bid in respect of the Full Line Retail Business of Sears Canada on a going concern basis, as applicable, but does not include potential providers having a stated continuing interest in making a Binding Bid. Potential Sponsors shall be required to execute a form of Non-Disclosure Agreement acceptable to Sears Canada’s counsel and the Monitor prior to engaging in discussions with any potential bidder, including Management.
3. In accordance with the provisions of the SISP, the Financial Advisor may share the terms of any Lease Modification Proposal with Going Concern Bidders and Management so

that such bidders may consider the potential for assuming the Lease(s) subject to such proposal as part of their bid.

4. The Financial Advisor may request that each Going Concern Bidder or Management provide one or more alternative going concern bids which may exclude one or more Assets from their bid, provided that it is understood that such bidder is under no obligation to do so. This request may be made to accommodate a potential or actual Binding Bid or Binding Lease Surrender Proposal for such Asset(s). It is understood that, in making such request, the Financial Advisor will not share any other Bid Information with any of the bidders.
5. If Management receives any in-bound communications with respect to the SISP from any party, the following steps shall be taken:
 - (a) Management will not engage in any discussion with such parties and shall instead direct such parties to speak to the Financial Advisor. The Monitor shall be notified of such parties delivering inbound communications; and
 - (b) the Financial Advisor may, pursuant to section 2 above, re-introduce such parties to Management if they are a Potential Sponsor and provided they have signed an NDA acceptable to the Company's counsel and the Monitor. Management may engage in independent negotiations and discussions with such parties (with no authority to waive any provisions of such Party's NDA) once the foregoing steps have been completed.
6. The SISP governs the participation of Management in meetings with third party bidders. In addition the Financial Advisor may interact with Management on a day-to-day basis as required on matters in connection with the operation of the business, the administration of the case and obtaining information to meet the needs of participants in the SISP. All discussions between Management and the Financial Advisor in connection with a Management Bid (other than as expressly permitted by sections 1 to 5 above) and any negotiations with respect to a Management Bid shall only occur if a representative of the Monitor and/or the Monitor's counsel are present for such discussion.
7. With the prior consent of the Monitor and the Special Committee, the Financial Advisor may permit Management or other Going Concern Bidders to engage in direct negotiations with Landlords related to Leases in connection with: (i) Lease Modification Proposals or (ii) counter-parties to Binding Bids that are structured as sale-and-leaseback proposals that need to be finalized as a pre-condition to such Management Bid or going concern bid being selected as a Successful Bid. A representative of the Monitor and/or the Monitor's counsel shall be present for any such negotiations.
8. In addition to any confidentiality and non-disclosure obligations that Management may be bound by, Management shall maintain all Confidential Information on a strictly confidential basis only and shall not be permitted to share such Confidential Information with anyone other than their professional advisors (on a confidential basis), without the consent of the Special Committee and the Financial Advisor in consultation with the Monitor. "Confidential Information" shall mean non-public information about Sears

Canada's business, contracts, performance, outlook, assets or liabilities and information with respect to any other participant in the SISP.

9. Management shall not incur costs on the Company's account in furtherance of a Management Bid without prior approval of the Special Committee and the Monitor, which approval shall only be provided if the Special Committee and the Monitor determine that such costs are for the benefit of the estate. For greater certainty, nothing in this protocol is intended to amend or alter any other policies or directives issued by the Special Committee and the Board of Directors of Sears Canada.
10. Management shall confirm in any discussions with each Potential Sponsor, financing sources or other third parties in accordance with this protocol, that Management is not representing or negotiating on behalf of Sears Canada in connection with the SISP.

SCHEDULE "A"
SISP APPROVAL ORDER

(see attached)

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

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



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

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

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

SISP APPROVAL ORDER

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

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

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

SERVICE AND DEFINITIONS

1. THIS COURT ORDERS that the time for service of the Notice of Motion and the Motion Record herein is hereby abridged and validated so that this Motion is properly returnable today and hereby dispenses with further service thereof.
2. THIS COURT ORDERS that any capitalized term used and not defined herein, shall have the meaning ascribed thereto in the Initial Order in these proceedings dated June 22, 2017, as amended (the “**Initial Order**”) or the Sale Process, as applicable.

APPROVAL OF THE SALE PROCESS

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

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

6. THIS COURT ORDERS that:

- (a) by no later than August 4, 2017, on the request of a holder of a Property Agreement, the Applicants shall advise such holder whether the Applicants intend to take the position that the ROFRs subject to such request are no longer in force; and
- (b) if the Applicants have received a Binding Bid in the Sale Process for an Asset that is the subject of a ROFR under a Property Agreement from a bidder (a "**ROFR Bidder**") and the Applicants take the position that the ROFR will not be triggered by such Binding Bid, then the Applicants will provide written notice to the relevant holder of the applicable Property Agreement as follows:
 - (i) if such holder is not a bidder in the Sale Process for such Asset, by September 8, 2017; and
 - (ii) if such holder is a bidder in the Sale Process for such Asset, then once the Applicants have elected to proceed with the transaction with the ROFR Bidder, and in any event, no later than September 25, 2017. The Applicants shall serve materials in connection with such Asset sale to any party other than such holder by September 26, 2017.

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

damages or liabilities resulting from gross negligence or willful misconduct of the Applicants, the Monitor or the Financial Advisor, as applicable, as determined by this Court.

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

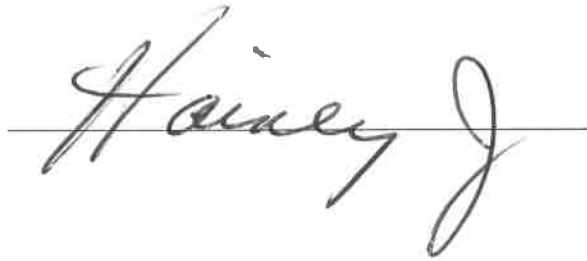
9. THIS COURT ORDERS that at any time during the Sale Process, the Monitor, the Applicants or the DIP Lenders may apply to the Court for directions with respect to the Sale Process.

GENERAL

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

11. THIS COURT HEREBY REQUESTS the aid and recognition of any Court, tribunal, regulatory or administrative bodies, having jurisdiction in Canada or in the United States of America, to give effect to this Order and to assist the Applicants, the Monitor and their respective agents in carrying out the terms of this Order. All courts, tribunals, regulatory and administrative bodies are hereby respectfully requested to make such orders and to provide such assistance to the

Applicants and to the Monitor, as an officer of this Court, as may be necessary or desirable to give effect to this Order, to grant representative status to the Monitor in any foreign proceeding, or to assist the Applicants and the Monitor and their respective agents in carrying out the terms of this Order.

A handwritten signature in cursive script, reading "Hainey J.", written over a horizontal line.

ENTERED AT / INSCRIT À TORONTO
ON / BOOK NO:
LE / DANS LE REGISTRE NO:

JUL 18 2017

PER / PAR: 

SCHEDULE "A"
SALE PROCESS

(See attached)

Schedule "A" Sale Process

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

Sale and Investment Solicitation Process

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

Solicitation Process

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

contain restrictions in the nature of a right of first refusal, option to purchase or similar right, the beneficiary of such agreement(s) reserves all rights and remedies in respect of such agreement(s). The contents of this paragraph 6(e) shall be placed in the data room for any Asset that is subject to a ROFR.

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

Submission of Binding Offers

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

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

Evaluation of Competing Bids and Proposals and Court Approval

11. Following the Binding Bid Deadline and the Binding Lease Modification Proposal Deadline, as applicable, Sears Canada shall consult with the Monitor, the Sale Advisor and the DIP Lenders and decide whether to (i) continue negotiations with a selected number of bidders that have submitted Binding Bids, Binding Lease Modification Proposals and/or Binding Lease Surrender Proposals, with a view to selecting one or more non-overlapping Bindings Bids, Binding Lease Modification Proposals and/or Binding Lease Surrender Proposals (collectively, the "**Successful**

Bid(s)) upon approval of the Board of Directors of Sears Canada, and (ii) take such steps as are necessary to finalize and consummate the Successful Bid(s). Sears Canada shall have no obligation to conclude a sale arising out of this Sale Process and reserves the right and unfettered discretion to reject any bid or proposal (including any Binding Bid, Binding Lease Modification Proposal and Binding Lease Surrender Proposal), but shall not do so without the approval of the Monitor after consultation with the DIP Lenders. If Sears Canada does select any Successful Bid(s), it shall be under no obligation to accept the highest bid.

12. Following selection of a Successful Bid(s), Sears Canada and its advisors in consultation with the Monitor shall seek to settle any necessary definitive agreement(s) with respect to the Successful Bid(s) in form and substance acceptable to the DIP Lenders and the Board of Directors of Sears Canada. Once all necessary definitive agreement(s) with respect to a Successful Bid have been finalized, Sears Canada will apply to the Court as soon as reasonably practicable for an order in form and substance acceptable to the Monitor and the DIP Lenders (an **"Approval and Vesting Order"**) approving such Successful Bid and authorizing Sears Canada to (i) enter into any and all necessary agreements with respect to the Successful Bid, (ii) undertake such other actions as may be necessary to give effect to such Successful Bid, and (iii) implement the transaction(s) contemplated in such Successful Bid.
13. Each Landlord shall be advised by no later than two business days after the selection of a Successful Bid(s) relating to such Landlord's Lease(s), and in any event no later than October 6, 2017, which of its Lease(s) are included in such Successful Bid(s).

Deposits

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

Consents and Information

15. Any amendments to this Sale Process, including the relevant dates and deadlines set forth herein, may be made with the written consent of the Special Committee, the Monitor and the DIP Lenders, or by further order of the Court.
16. Notwithstanding anything else contained herein, Sears Canada, in its reasonable business judgment and in consultation with the Sale Advisor, the Monitor and the DIP Lenders may, from time to time, withdraw any Leases or Assets from this Sale Process in accordance with the CCAA, and Sears Canada's rights under the Initial Order.

17. If any DIP Lender intends to participate as a bidder in this Sale Process, such party must provide written notice of such intention (the "**Participation Notice**") to the Sale Advisor, with a copy to the Monitor, on or before July 17, 2017 (the "**Participation Notice Deadline**"). Any DIP Lender who delivers a Participation Notice shall not be entitled to any Bid Information or Confidential Information (each as defined below), and cannot be a Restricted Process Observer (as defined below), or to participate in the review or drafting of Transaction Documents or the review, consideration, negotiation or selection of Successful Bid(s). The failure of such parties to deliver a Participation Notice by the Participation Deadline shall render such parties unable to participate as a bidder in this Sale Process.
18. Subject to the confidentiality terms hereof, the Sale Advisor shall provide regular updates to the DIP Lenders and their advisors with respect to matters related to the Sale Process. Any information that is provided by the Sale Advisor, Sears Canada, the Monitor or their advisors to any of the DIP Lenders or their advisors, in respect of the Sale Process, including regarding any participants therein, any bids received or terms thereof or otherwise ("**Confidential Information**"), will be provided on a strictly confidential basis only and such parties shall not be permitted to share such Confidential Information with anyone other than any other DIP Lenders or the DIP Lenders' advisors, without the consent of Sears Canada and the Sale Advisor in consultation with the Monitor.

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

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

Documents or the review, consideration, negotiation or selection of Successful Bid(s), and may be subject to further restrictions as may be determined from time to time by the Special Committee in consultation with Sears Canada's advisors and the Monitor.

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

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

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

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

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

ONTARIO
SUPERIOR COURT OF JUSTICE
(Commercial List)

Proceeding commenced at Toronto

SISP APPROVAL ORDER

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CONFIDENTIAL APPENDIX “C”

BID SUMMARY

CONFIDENTIAL APPENDIX “D”

BRENTWOOD LETTER AGREEMENT

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

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

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