Sears

SEARS CANADA INC.

FIRST QUARTER REPORT
for the period ended May 3, 2014

Management's Discussion and Analysis

Table of Contents

1. **Company Performance**
2. **Segment Performance**
3. **Consolidated Financial Position, Liquidity and Capital Resources**
4. **Financial Instruments**
5. **Funding Costs**
6. **Related Party Transactions**
7. **Shareholders' Equity**
8. **Events After the Reporting Period**
9. **Accounting Policies and Estimates**
10. **Disclosure Controls and Procedures**
11. **Risks and Uncertainties**

Management's Discussion and Analysis

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

This quarterly report to Shareholders, which includes the Management's Discussion and Analysis ("MD&A"), current as at June 2, 2014 unless otherwise stated, and the unaudited condensed consolidated financial statements for the 13-week period ended May 3, 2014 ("Q1 2014 financial statements") (together, the "Quarterly Report"), contains commentary from the Company's management regarding strategy, operating results and financial position. Management is responsible for its accuracy, integrity and objectivity, and develops, maintains and supports the necessary systems and controls to provide reasonable assurance as to the accuracy of the comments contained herein.

The first quarter ("Q1") unaudited results for the 52-week period ending January 31, 2015 ("Fiscal 2014" or "2014") and the 52-week period ended February 1, 2014 ("Fiscal 2013" or "2013") reflect the 13-week periods ended May 3, 2014 ("Q1 2014") and May 4, 2013 ("Q1 2013"), respectively. The 2012 fiscal year refers to the 53-week period ended February 2, 2013 ("Fiscal 2012" or "2012").

This Quarterly Report should be read in conjunction with the Consolidated Financial Statements, and Notes to the Consolidated Financial Statements for Fiscal 2013. These items are contained in the Company's 2013 Annual Report, which can be obtained by contacting Sears Canada's Corporate Communications department at 416-941-4428. The 2013 Annual Report has also been filed electronically with securities regulators in Canada through the System for Electronic Document Analysis and Retrieval ("SEDAR") and can be accessed on the SEDAR website at www.sedar.com. Additional information relating to the Company is also available online at www.sedar.com and on the U.S. Securities Exchange Commission ("SEC") website at www.sec.gov. Information contained in, or otherwise accessible through, websites mentioned in this Quarterly Report do not form a part of this document. All references in this Quarterly Report to websites are inactive textual references only.

Additional information relating to the Company, including the Company's Annual Information Form ("AIF") dated March 13, 2014 and the Management Proxy Circular dated March 13, 2014, can be obtained by contacting Sears Canada's Corporate Communications department at 416-941-4428. The 2013 Annual Report, together with the AIF and Management Proxy Circular, have been filed electronically with securities regulators in Canada and the United States and can be accessed on the SEDAR website at www.sedar.com and on the SEC website at www.sec.gov.

The Q1 2014 financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"). Management uses IFRS, non-IFRS and operating performance measures as key performance indicators to better assess the Company's underlying performance and provides this additional information in this MD&A so that readers may do the same. See Section 1.e. "Use of Non-IFRS Measures, Measures of Operating Performance and Reconciliation of Net Loss to Adjusted EBITDA" for additional information.

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

Cautionary Statement Regarding Forward-Looking Information

Certain information in the Quarterly Report is forward-looking and is subject to important risks and uncertainties. Forward-looking information concerns, among other things, the Company's future financial performance, business strategy, plans, expectations, goals and objectives, and includes statements concerning possible or assumed future results set out under Section 1 "Company Performance", Section 3 "Consolidated Financial Position, Liquidity and Capital Resources", Section 4 "Financial Instruments", Section 7 "Shareholders' Equity", Section 8 "Events After the Reporting Period", Section 9 "Accounting Policies and Estimates" and Section 11 "Risks and Uncertainties". Often, but not always, forward-looking information can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "scheduled", "estimates", "intends", "anticipates" or "does not anticipate" or "believes", or variations of such words and phrases, or statements that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. Although the Company believes that the estimates reflected in such forward-looking information are reasonable, such forward-looking information involves known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking information, and undue reliance should not be placed on such information.

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

2014 First Quarter Highlights

For the 13-week periods ended May 3, 2014 and May 4, 2013
(unaudited)

(in CAD millions, except per share amounts)	First Quarter **2014**	% Chg 2014 vs 2013	2013
Total revenue	**$ 771.7**	(11.0)%	$ 867.1
Same store sales (%)[1]	**(7.6)%**		(2.6)%
Adjusted EBITDA[1]	**(58.1)**	(492.9)%	(9.8)
Net loss	**(75.2)**	(141.0)%	(31.2)
Basic net loss per share	**(0.74)**	(138.7)%	(0.31)

(in CAD millions)	**As at May 3, 2014**	% Chg 2014 vs 2013	As at May 4, 2013
Cash and cash equivalents	**$ 270.2**	146.3 %	$ 109.7
Inventories	**792.1**	(11.1)%	891.1
Total assets	**2,191.9**	(9.3)%	2,417.5
Shareholders' equity	**995.0**	(4.8)%	1,045.2

1 Same store sales and Adjusted EBITDA are operating performance and non-IFRS measures, respectively. See Section 1e "Use of Non-IFRS Measures, Measures of Operating Performance and Reconciliation of Net Loss to Adjusted EBITDA".

Common Share Market Information

(Toronto Stock Exchange - Trading Symbol SCC)

	First Quarter **2014**	2013
High	**$ 17.12**	$ 9.94
Low	**$ 12.31**	$ 8.85
Close	**$ 16.50**	$ 9.46
Average daily trading volume	**20,288**	34,326

- Revenue was $771.7 million in Q1 2014, a decrease of 11.0% compared to Q1 2013. The decrease was primarily attributable to sales declines in electronics, home décor, home furnishings, major appliances and women's apparel, and included a decrease of $23.7 million attributable to the closure of full-line stores announced during Fiscal 2013 and $9.0 million related to certain joint arrangements sold during Fiscal 2013. These decreases were partially offset by an increase in sales of seasonal merchandise.
- Same store sales for Q1 2014 decreased 7.6% compared to the same period last year.
- Cost management resulted in selling, administrative and other expenses to decrease by $17.2 million in Q1 2014 compared to Q1 2013. Excluding transformation expenses and non-recurring items included in selling, administrative and other expenses in both periods, cost management resulted in operating expense reductions of $34.5 million in Q1 2014 compared to the same period last year.
- The Company continued to make progress on its transformation, having executed the following initiatives in Q1 2014:
    - Continued to implement an inventory reduction program that has successfully decreased inventory by $99.0 million since Q1 2013, which includes $41.1 million related to the closure of full-line stores;
    - Announced that it has purchased the Oracle Retail Merchandise System ("RMS") which is expected to significantly improve the Sears customer shopping experience;

- Launched two private labels: PURE NRG Athletics™/MC and Logan Hill™/MC. PURE NRG Athletics™/MC is performance clothing for the active woman who expects high-quality fashionable workout wear without the high prices. Logan Hill™/MC is a casual brand of mens' sportswear separates; and
- Introduced the exclusive Style at Home™/MC collection, which was created for décor-savvy Canadians and comprises an assortment of fashionable bedding, bed basics, sheets, bath coordinates, shower curtains and window dressings.

- The Company's gross margin rate was 32.8% in Q1 2014 compared to 38.0% in Q1 2013. The decrease in Q1 2014 was primarily due to reduced margins in seasonal, toys, jewellery, accessories and footwear as a result of increased clearance activities. The decrease in Q1 2014 was also related to certain joint arrangements sold during the fourth quarter of Fiscal 2013.
- Adjusted net (loss) earnings before interest, taxes, depreciation and amortization ("Adjusted EBITDA") in Q1 2014 was $(58.1) million compared to $(9.8) million in Q1 2013, a decrease of 492.9%. Excluding the loss of $6.8 million attributable to the closure of full-line stores announced during Fiscal 2013, and $4.8 million from the sale of shopping centre joint arrangements with The Westcliff Group of Companies during the fourth quarter of Fiscal 2013, Adjusted EBITDA in Q1 2014 decreased by 312.8% compared to the same period last year.
- Basic net loss per common share was $0.74 for Q1 2014 compared to a basic net loss per common share of $0.31 for the same period last year. Excluding transformation expenses and non-recurring items included in net loss, net loss per common share was $0.55 for Q1 2014 compared to a net loss per common share of $0.29 for the same period last year.
- The Company's balance sheet continues to be strong with total cash and cash equivalents of $270.2 million and no cash drawings on the $800.0 million senior secured revolving credit facility as at May 3, 2014. Refer to Note 7 "Long-term obligations and finance costs" in the Q1 2014 financial statements for additional information.

1. Company Performance

a. Business Segments

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

Merchandising Operations

The Company's merchandising segment includes the sale of goods and services through the Company's Retail channels, which includes its Full-line, Sears Home, Hometown Dealer, Outlet, Appliances and Mattresses, Corbeil Electrique Inc. ("Corbeil") stores and its Direct (catalogue/internet) channel. It also includes service revenue related primarily to product repair. Commission revenue includes travel, home improvement services, insurance and performance payments received from JPMorgan Chase under the Company's long-term credit card marketing and servicing alliance with JPMorgan Chase. The Company has a multi-year licensing arrangement with TravelBrands Inc. ("TravelBrands") (formerly known as Thomas Cook Canada Inc.), under which TravelBrands manages the day-to-day operations of all Sears Travel offices and provides commissions to the Company. The Company also entered in a multi-year licensing agreement with SHS Services Management Inc. ("SHS"), under which SHS oversaw the day-to-day operations of all Sears Home Installed Products and Services business ("HIPS"). On December 13, 2013, SHS announced it was in receivership, and all offers of services provided by SHS ceased. Refer to Note 13 "Financial instruments"in the Q1 2014 financial statements for additional information. Licensee fee revenues are comprised of payments received from licensees, including TravelBrands, that operate within the Company's stores.

Real Estate Joint Arrangements

Sears has joint arrangement interests in three shopping centres across Canada and records these interests in the Company's Q1 2014 financial statements. For recent developments with the Company's joint arrangement interests, refer to Section 8 "Events After the Reporting Period". Joint arrangement interests in the shopping centres range from 15% to 20%, and are co-owned with Ivanhoé Cambridge Properties ("Ivanhoé"). Sears is not involved in the day-to-day management of the shopping centres, but the major decisions regarding these joint arrangements require the unanimous consent of Ivanhoé and the Company.

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

b. Strategic Initiatives

Over the past few months, Sears Canada undertook a number of strategic initiatives to continue improving the financial and operational performance of the Company. These initiatives are designed to allow the Company to continue serving customers as a national retailer in stores and through its Direct channel.

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

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

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

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

In the first quarter of Fiscal 2014, the Company undertook the following key initiatives to maximize total value and improve the performance of its operations:

Merchandising Value

- Announced the purchase of the Oracle RMS. This purchase, along with the Company's previous investment in IBM's Sterling Order Management System, and process improvements currently underway are expected to improve our customers' shopping experience. The investment in these systems is being made to provide an improved in-stock position of the Company's most popular items. Sears will also be able to customize promotions, such as pop-up promotions at point-of-sale or tailored offers made on mobile devices, to customers while shopping in the store. Customers will have visibility of store inventory online to enable fulfillment of online orders from stores and vice-versa. These enhancements will provide Sears the long-term capability to meet and exceed the high level of service which today's retail customer is asking for;

- Launched PURE NRG AthleticsTM/MC, a private brand of performance clothing for the active woman who expects high-quality fashionable workout wear without the high prices. The new private label line includes an assortment of stylish tank tops, t-shirts, shorts, pants, hoodies and zip-ups with functional features. The Company believes that PURE NRG AthleticsTM/MC fills a gap in the marketplace for high quality workout apparel at competitive prices;

- Introduced the exclusive Style at HomeTM/MC collection, which was created for décor-savvy Canadians and comprises an assortment of fashionable bedding, bed basics, sheets, bath coordinates, shower curtains and window dressings. The Style at HomeTM/MC collection is the largest Sears home décor brand launch in the past decade, with more than 400 new products. The line, a creative collaboration between the Company and its supplier, was created exclusively for Sears and offers customers a fresh perspective on the latest trends and enduring classics; and

- Launched a new private label menswear brand called Logan HillTM/MC, a casual brand of sportswear separates that pulls together a collection of styles, colours and fabrics. Logan HillTM/MC features a relaxed look and contains this season's most important mix and match basics including cargos, chinos, shorts, sweaters, wovens and knits.

Operating Efficiency Value

- Provided customers an update on the receivership proceedings of SHS. The Company reiterated its commitment to resolve every SHS transaction so that customers receive the work for which they contracted or are refunded for services not rendered. The Company is working diligently with the receiver to see that services are completed or refunds provided to the remaining customers and has resolved many of the cases. In response to instances in which creditors who were not paid by SHS have resorted to putting liens on the properties of customers, the Company has worked with customers who are selling their homes and are impeded from doing so, or are otherwise affected by the presence of the lien; and

- Continued to implement an inventory reduction program that has successfully decreased inventory by $99.0 million since Q1 2013, which includes $41.1 million related to the closure of full-line stores. The Company took advantage of an extended winter season to clear out the store stockrooms and move potentially distressed inventory while it was still in season. Sears is implementing new operating procedures whereby merchandise is received at a store and moved directly to the selling floor, focusing inventory dollars to ensure adequate supply of high-demand products. With the aforementioned investment in the Oracle RMS, Sears will have the appropriate tools and technologies available to manage the Company's inventory in a more automated and integrated fashion.

Network Optimization Value

- Returned three leased full-line stores to The Cadillac Fairview Corporation Limited ("Cadillac Fairview") as part of a previously announced transaction. Sears stores at Toronto Eaton Centre, Sherway Gardens and London-Masonville Place were closed and vacated on February 28, 2014. There were two additional leased stores included in this transaction, which Sears will vacate by February 28, 2015. Prior to that date, Sears will return its store at Markville Shopping Centre to Cadillac Fairview and its store at the Richmond Centre location in British Columbia to Ivanhoé and Cadillac Fairview. The agreement for the return of the five stores, originally announced on October 29, 2013, was for a total consideration received of $400.0 million; and

- Returned two leased full-line stores located at Yorkdale Shopping Centre and Square One Shopping Centre to Oxford Properties Group Inc. and the Alberta Investment Management Corporation on March 9, 2014, as part of a previously announced transaction. The agreement for the return of the two leased stores plus an option for the return of the leased full-line store at Scarborough Town Centre, originally announced on June 14, 2013, was for a total consideration received of $192.0 million.

c. Corporate Social Responsibility

The following is a summary of the results of the Company and its associates' corporate social responsibility efforts during Q1 2014:

- The *Sears Drama Festival* (the "Festival") marked the 68th year of the Ontario festival, and the fourth year of both the British Columbia and Atlantic festival, involving over 12,300 students across 300 high schools. For the first time, the Atlantic Festival operated on a juried format and included representation from all four Atlantic provinces. The Festival promotes a creative process that allows students to gather information, negotiate ideas, implement and execute a plan and create a product, while at the same time developing confidence, important life skills and a strong sense of self;

- Sponsored the 19th annual *Sears Canadian High School Design Competition*, for 800 participants which aims to promote the study and awareness of various design disciplines in schools across Canada. The winning entries will be exhibited at Toronto's Design Exchange in June, and 'on the road' in satellite physical and virtual exhibitions at select Sears stores across Canada;

- The *Sears Great Canadian Chill* took place in Toronto at Yonge-Dundas Square during Family Day Weekend in February 2014, and featured family-friendly activities. 'Chillers' jumped into a pool of icy water in their efforts to raise funds for the Sears Canada Charitable Foundation's drive to support research and programming for the Canadian children's oncology unit and the Sears Cancer Clinic at The Hospital For Sick Children. Previously, a 'Chill' into the icy waters of the Ottawa River at Britannia Beach in Ottawa on New Year's Day, similarly supported the oncology unit of the Children's Hospital of Eastern Ontario. Over $118,000 was raised through both events;

- Supported Opération Enfant Soleil and its efforts to promote the development of quality pediatric care for all children in Québec, through two special 'Round Up Your Bill' fund-raising campaigns in Québec stores, in February and April. Opération Enfant Soleil is a major charity partner of Sears, celebrating its 27th year in Québec;

- Donated over 4,700 Nate™/MC and Cooper™/MC Sears charity plush bears to the Boys and Girls Clubs of Canada ("BGCC"), to distribute to children at local Clubs. This coordinated effort between teams at Sears Regina National Logistics Centre, Sears Headquarters, Manitoulin Transport and the BGCC found new homes for the bears, making thousands of children happy; and

- Began actively recruiting volunteers and participants for both the *Sears Great Canadian Run* and *Sears National Kids Cancer Ride*, to be held at various times between August and October in Calgary, Toronto and Ottawa, to benefit Sears continuing fight against childhood cancer.

"Live Green" Initiatives

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

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

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

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

Sears Canada continued to focus on these three priorities by implementing the following initiatives during Q1 2014:

- Entered into a contract with GreenSpace Waste Solutions to manage the Company's recycling needs and to minimize the potential negative impact waste has on the environment, resources and bottom line. Established waste diversion baselines for retail stores and National Logistics Centres throughout the country, and set an ambitious diversion garbage rate of 90% from landfill by 2016, in an effort to eliminate waste and instill a culture of 'Reduce, Re-use, Recycle' amongst Sears employees. The Company is working towards turning every possible product of its waste stream into a reusable resource. In 2013, the Company recycled 4,398 tonnes, or 60% of total waste produced. In 2016, the Company expects to recycle 9,963 tonnes, or 90% of total expected waste produced;

- Established a partnership with the Take Back the Light program of the Recycling Council of Ontario, the first and only fluorescent lamp recycling program in Canada, and pledged to properly manage all of its spent lighting products, including lamps containing mercury from Ontario and other provinces, ensuring the safe recovery and recycling of these lamps;

- Renewed engagement with provincial utilities companies to promote the sale of the most energy efficient large major appliances such as clothes washers and fridges, implementing price rebates to entice consumers to consider those appliances, and educating them on energy savings practices at home. Trained sales associates on sustainability issues, such as energy and water conservation, so that they can pass that knowledge onto Sears consumers; and

- Grew the Retail Support Centre Live Green Captain Network from sixty-six volunteer ambassadors to seventy-five. This internal community network is vital in our efforts to promote sustainability initiatives by providing associates with leadership and communication skills, opportunities to meet colleagues outside of their business team, and a sense of pride in the Company.

d. Quarterly Performance

There is seasonal variability in the Company's financial performance and in the products and services we offer. Accordingly, merchandise and service revenue, as well as performance payments received from JPMorgan Chase, referred to as commission revenue, will vary by quarter based upon consumer spending behaviour. Historically, the Company's revenue and earnings are higher in the fourth quarter than in any of the other three quarters due to the holiday season. The Company is able to adjust certain variable costs in response to seasonal revenue patterns; however, costs such as occupancy are fixed, causing the Company to report a disproportionate level of earnings in the fourth quarter. This business seasonality results in quarterly performance that is not necessarily indicative of annual performance.

In addition, the Company offers seasonal goods and services. The Company sets inventory levels and promotional activity to be in accordance with its strategic initiatives and expected consumer demands. Businesses that generate revenue from the sale of seasonal merchandise and services are subject to the risk of changes in consumer spending behaviour as a result of unseasonable weather patterns.

Other factors that affect the Company's sales and results of operations include actions by its competitors, timing of its promotional events, and changes in population and other demographics. Accordingly, the Company's results for any one

fiscal quarter are not necessarily indicative of the results to be expected for any other quarter, or the full year, and comparable store sales for any particular period may increase or decrease.

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

	First Quarter		Fourth Quarter		Third Quarter		Second Quarter	
(in CAD millions, except per share amounts)	**2014**	2013	2013	2012	2013	2012	2013	2012
Total revenue	**$ 771.7**	$ 867.1	$1,182.3	$1,307.2	$ 982.3	$1,049.4	$ 960.1	$1,061.9
Net (loss) earnings	**$ (75.2)**	$ (31.2)	$ 373.7	$ 39.9	$ (48.8)	$ (21.9)	$ 152.8	$ (9.8)
Basic net (loss) earnings per share	**$ (0.74)**	$ (0.31)	$ 3.67	$ 0.39	$ (0.48)	$ (0.22)	$ 1.50	$ (0.10)
Diluted net (loss) earnings per share	**$ (0.74)**	$ (0.31)	$ 3.67	$ 0.39	$ (0.48)	$ (0.22)	$ 1.50	$ (0.10)

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

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

Same store sales is a measure of operating performance used by management, the retail industry and investors to compare retail operations, excluding the impact of store openings and closures. The same store sales metric excludes the Direct channel. Same store sales represents merchandise sales generated through operations in the Company's Full-line, Sears Home, Hometown Dealer, Outlet and Corbeil stores that were continuously open during both of the periods being compared. More specifically, the same store sales metric compares the same calendar weeks for each period and represents the 13-week periods ended May 3, 2014 and May 4, 2013. The calculation of same store sales is a performance metric and may be impacted by store space expansion and contraction.

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

	First Quarter	
(in CAD millions)	**2014**	2013
Total merchandising revenue	**$ 770.0**	$ 856.4
Non-comparable store sales	**203.6**	217.0
Same store sales	**566.4**	639.4
Percentage change in same store sales	**(7.6)%**	(2.6)%
Percentage change in same store sales by category		
Apparel & Accessories	**— %**	4.7 %
Home & Hardlines	**(12.3)%**	(6.9)%

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

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

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

(in CAD millions, except per share amounts)	First Quarter **2014**	First Quarter 2013
Net loss	**$ (75.2)**	$ (31.2)
Transformation expense[1]	**7.6**	1.5
Lease exit costs[2]	**3.8**	—
SHS warranty and other costs[3]	**6.6**	—
Costs for future settlement of retirement benefits[4]	**0.8**	—
Depreciation and amortization expense	**23.6**	30.2
Finance costs	**2.5**	2.3
Interest income	**(0.7)**	(0.4)
Income tax recovery	**(27.1)**	(12.2)
Adjusted EBITDA[5]	**(58.1)**	(9.8)
Basic net loss per share	**$ (0.74)**	$ (0.31)

1 *Transformation expense during 2014 and 2013 relates primarily to severance costs incurred during the quarter.*

2 *Lease exit costs relate primarily to costs incurred to exit certain properties during Q1 2014.*

3 *SHS warranty and other costs represent the estimated costs to the Company related to potential claims for work that had been performed prior to SHS announcing it was in receivership as described in Note 13 of the Company's unaudited condensed consolidated financial statements for the 13-week period ended May 3, 2014.*

4 *Costs for future settlement of retirement benefits represent the expenses incurred during the quarter, related to the Company's voluntary offer to settle non-pension retirement benefits, as described in Note 10 of the Company's unaudited condensed consolidated financial statements for the 13-week period ended May 3, 2014.*

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

f. Consolidated Financial Results

(in CAD millions)	First Quarter **2014**	% Chg 2014 vs 2013	2013
Revenue	**$ 771.7**	(11.0)%	$ 867.1
Cost of goods and services sold	**518.5**	(3.6)%	537.7
Selling, administrative and other expenses	**353.7**	(4.6)%	370.9
Operating loss	**(100.5)**	(142.2)%	(41.5)
Finance costs	**2.5**	8.7 %	2.3
Interest income	**0.7**	75.0 %	0.4
Loss before income taxes	**(102.3)**	(135.7)%	(43.4)
Income tax recovery (expense)	**27.1**	122.1 %	12.2
Net loss	**$ (75.2)**	(141.0)%	(31.2)

Total revenue decreased by 11.0% to $771.7 million in Q1 2014 compared to $867.1 million in Q1 2013, with a same store sales decrease of 7.6% for Q1 2014, compared to Q1 2013. The revenue for Q1 2014 relating to Home & Hardlines decreased by $57.3 million compared to Q1 2013, primarily due to sales volume declines in Craftsman, Air & Water Products, electronics, floorcare, sewing, home décor, home furnishings and major appliances, partially offset by an increase in sales of seasonal merchandise. The Q1 2014 revenue relating to Apparel & Accessories decreased by $16.2 million compared to Q1 2013, primarily due to sales volume decreases in men's wear, women's apparel, cosmetics, jewellery and women's intimates. Included in the total revenue decrease for Q1 2014 was the impact of the closure of full-line stores previously announced during Fiscal 2013, which negatively impacted revenue for Q1 2014 by $23.7 million. Also included in the total revenue decrease for Q1 2014 was a decrease in Services and other revenue of $9.4

million compared to Q1 2013, primarily related to certain joint arrangements sold in the fourth quarter of Fiscal 2013, as described in Note 11 "Joint arrangements" of the Consolidated Financial Statements for Fiscal 2013.

In Q1 2014, total revenue recognized from points redemption under the loyalty program was $12.3 million (Q1 2013: $8.0 million) and total revenue deferred related to points issuances in Q1 2014 was $11.9 million (Q1 2013: $7.4 million). Total revenue recognized in Q1 2014 for unredeemed points (by exclusion from deferral in the loyalty point redemption rate) increased to $2.2 million (Q1 2013: $1.2 million) due to an overall increase in points issuance, that started during the second half of Fiscal 2013. The increase in total revenue deferred related to increased points issuance was primarily due to the introduction of a points-based bonus that replaced a discount-based bonus for new customers during Fiscal 2013.

Cost of goods and services sold was 3.6% lower in Q1 2014 compared to Q1 2013. The decrease was primarily attributable to lower sales volumes, which included the impact of the closure of full-line stores announced during Fiscal 2013.

The Company's gross margin rate was 32.8% in Q1 2014 compared to 38.0% in Q1 2013. The decrease was primarily due to reduced margins in seasonal merchandise, toys, jewellery, accessories and footwear resulting from increased clearance activity.

Selling, administrative and other expenses, including depreciation and amortization expenses decreased by $17.2 million or 4.6% to $353.7 million in Q1 2014 compared to Q1 2013. Excluding transformation expenses of $7.6 million in Q1 2014 (Q1 2013: $1.5 million) and non-recurring items such as lease exit costs of $3.8 million (Q1 2013: nil), SHS warranty and other costs of $6.6 million (Q1 2013: nil), as described in Note 13 "Financial instruments" of the Q1 2014 financial statements, and costs for future settlement of retirement benefits of $0.8 million (Q1 2013: nil), selling, administrative and other expenses declined $34.5 million or 9.3% in Q1 2014 compared to Q1 2013. The decrease in expenses, excluding non-recurring items, is attributable to lower spending on advertising and payroll. Advertising expense decreased primarily due to reductions in flyers. Payroll expense decreased primarily due to the reduction in associates, as a result of previously announced transformation actions.

Depreciation and amortization expense in Q1 2014 decreased by $6.6 million compared to Q1 2013, primarily due to the disposal of assets relating to the lease terminations and lease amendments of five full-line stores in Q1 2014, the disposal of assets related to certain joint arrangements sold during the fourth quarter of Fiscal 2013, the impairment of certain assets during the fourth quarter of Fiscal 2013, and the impairment of the assets of one of the Regina logistics centres during the third quarter of Fiscal 2013. The Company regularly monitors the business for indicators of impairment, and assesses the potential impact to the carrying value of our assets on a quarterly basis.

Finance costs in Q1 2014 were comparable to finance costs in Q1 2013.

Interest income in Q1 2014 was comparable to interest income in Q1 2013.

Income tax recovery increased to $27.1 million in Q1 2014 compared to $12.2 million in Q1 2013 due to higher losses in Q1 2014.

Adjusted EBITDA for Q1 2014 was $(58.1) million compared to $(9.8) million in Q1 2013, a decrease of $48.3 million. Adjusted EBITDA for Q1 2014 was negatively impacted by $6.8 million related to the closure of the full-line stores and $4.8 million related to certain joint arrangements sold, both previously announced during Fiscal 2013.

2. Segment Performance

As at the dates noted below, the Company's locations were distributed across the country as follows:

	Atlantic	Québec	Ontario	Prairies	Pacific	As at May 3, 2014 Total	As at February 1, 2014 Total	As at May 4, 2013 Total
Full-line department stores	12	27	40	20	14	**113**	118	118
Sears Home stores	2	12	19	10	5	**48**	48	48
Outlet stores	1	1	6	1	2	**11**	11	11
Specialty type: Appliances and Mattresses stores	—	—	3	1	—	**4**	4	4
Corporate stores	15	40	68	32	21	**176**	181	181
Hometown Dealer stores	47	25	49	63	45	**229**	234	248
Sears Home Services Showrooms	—	2	3	1	2	**8**	8	9
Corbeil Franchise stores	—	14	2	—	—	**16**	16	16
Corbeil Corporate stores	—	12	6	—	—	**18**	18	16
Corbeil	—	26	8	—	—	**34**	34	32
National Logistics Centres[1]	—	1	2	2	1	**6**	6	6
Travel offices	7	22	37	16	14	**96**	97	101
Catalogue merchandise pick-up locations	205	331	397	355	139	**1,427**	1,446	1,490

1 Sears operates six logistics centres strategically located across the country. The logistics centres are comprised of seven owned and three leased warehouse facilities which serve all channels of the business.

Results of Merchandising Operations

(in CAD millions)	First Quarter 2014	% Chg 2014 vs 2013	2013
Total Revenue	$ **770.0**	(10.1)%	$ 856.4
Cost of goods and services sold, operating, administrative and selling expenses[1]	**829.0**	(4.9)%	871.9
Adjusted EBITDA	$ **(59.0)**	(280.6)%	$ (15.5)

1 Excludes depreciation and amortization, transformation expenses and non-recurring items.

Comparative Analysis - Revenue for the Company's merchandise operations decreased by 10.1% in Q1 2014 compared to Q1 2013. Adjusted EBITDA decreased by 280.6% in Q1 2014 compared to Q1 2013. Refer to Section 1f "Consolidated Financial Results" for additional information.

Results from Real Estate Joint Arrangements

(in CAD millions)	First Quarter 2014	% Chg 2014 vs 2013	2013
Total Revenue	$ **1.7**	(84.1)%	$ 10.7
Cost of goods and services sold, operating, administrative and selling expenses[1]	**0.8**	(84.0)%	5.0
Adjusted EBITDA	$ **0.9**	(84.2)%	$ 5.7

1 Excludes depreciation and amortization, transformation expenses and non-recurring items.

Comparative Analysis - Revenue and Adjusted EBITDA for the Company's real estate joint arrangements for Q1 2014 decreased by 84.1% and 84.2% respectively, compared to Q1 2013, primarily related to certain joint arrangements sold during the fourth quarter of Fiscal 2013.

3. Consolidated Financial Position, Liquidity and Capital Resources

Current assets as at May 3, 2014 were $1,212.7 million, which was $204.1 million lower than as at February 1, 2014. The decrease was primarily due to a $243.6 million decrease in cash and cash equivalents, partially offset by a $17.5 million increase in inventories due to normal seasonal purchasing and lower sales in the period, $20.6 million increase in income taxes recoverable and a $13.5 million increase to assets classified as held for sale, compared to February 1, 2014.

Current liabilities as at May 3, 2014 were $731.1 million, which was $118.7 million lower than as at February 1, 2014, primarily due to a reduction in accounts payable and accrued liabilities of $17.2 million due to expense reductions and the timing of inventory receipts during Q1 2014 and a decrease in income taxes payable of $51.9 million and other taxes payable of $31.4 million, compared to February 1, 2014.

Inventories were $792.1 million as at May 3, 2014 compared to $774.6 million as at February 1, 2014. The $17.5 million increase in the inventory balance was primarily due to normal seasonal purchasing, and lower sales in the period.

Total cash and cash equivalents was $270.2 million as at May 3, 2014 compared to $513.8 million as at February 1, 2014. The decrease of $243.6 million was primarily due to $228.4 million cash used for operating activities, including tax payments related to gains from Fiscal 2013 and the purchase of $10.5 million in property, plant and equipment and intangible assets during Q1 2014.

Total assets and liabilities as at the end of Q1 2014, Fiscal 2013, and Q1 2013 were as follows:

(in CAD millions, at period end)	**As at May 3, 2014**	As at February 1, 2014	As at May 4, 2013
Total assets	**$ 2,191.9**	$ 2,392.3	$ 2,417.5
Total liabilities	**1,196.9**	1,318.5	1,372.3

Total assets as at May 3, 2014 decreased by $200.4 million to $2,191.9 million compared to $2,392.3 million at the end of Fiscal 2013, primarily due to lower cash and cash equivalents and depreciation and amortization of property, plant and equipment and intangible assets, partially offset by increases in income taxes recoverable and deferred tax assets.

Total liabilities as at May 3, 2014 decreased by $121.6 million to $1,196.9 million compared to $1,318.5 million at the end of Fiscal 2013, primarily due to lower accounts payable and accrued liabilities as a result of expense reductions and the timing of inventory receipts, and lower income taxes payable and other taxes payable due to payments made in Q1 2014.

Cash flow used for operating activities

Cash flow used for operating activities increased by $108.8 million for Q1 2014 to $228.4 million compared to cash flow used for operating activities of $119.6 million during Q1 2013. The Company's primary source of operating cash flow is the sale of goods and services to customers and the primary use of cash in operating activities is the purchase of merchandise inventories. The increase in cash used for operating activities was primarily attributable to higher net loss, higher purchases of merchandise inventories, tax payments related to the gains from lease terminations and lease amendments, and certain joint arrangements sold, as described in Note 28 "Gain on lease terminations and lease amendments" and Note 11 "Joint arrangements", respectively, of the Consolidated Financial Statements for Fiscal 2013.

Cash flow used for investing activities

Cash flow used for investing activities was $9.9 million for Q1 2014 compared to cash flow used for investing activities of $6.4 million for Q1 2013. The $3.5 million increase in cash used for investing activities was primarily due to higher capital expenditures.

Cash flow used for financing activities

Cash flow used for financing activities increased by $2.0 million to $4.9 million for Q1 2014 compared to $2.9 million for Q1 2013. The increase in cash used for financing activities is primarily due to the repayment of long-term obligations associated with our joint arrangements.

Contractual Obligations

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

		Contractual Cash Flow Maturities				
(in CAD millions)	Carrying Amount	Total	Within 1 year	1 year to 3 years	3 years to 5 years	Beyond 5 years
Accounts payable and accrued liabilities	$ 421.5	$ 421.5	$ 421.5	$ —	$ —	$ —
Finance lease obligations including payments due within one year [1]	31.6	41.1	6.8	11.1	10.0	13.2
Operating lease obligations [2]	n/a	465.9	99.2	150.7	104.6	111.4
Royalties [2]	n/a	3.2	0.5	1.5	1.2	—
Purchase agreements [2,4]	n/a	15.7	8.2	7.5	—	—
Retirement benefit plans obligations [3]	291.9	101.0	22.8	58.7	19.5	—
	$ 745.0	**$ 1,048.4**	**$ 559.0**	**$ 229.5**	**$ 135.3**	**$ 124.6**

1 *Cash flow maturities related to finance lease obligations, including payments due within one year, include annual interest on finance lease obligations at a weighted average rate of 7.6%. The Company had no borrowings on the Credit Facility as at May 3, 2014.*

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

3 *Payments beyond 2013 are subject to a funding valuation as at December 31, 2013 to be completed by September 30, 2014. Until then, the Company is obligated to fund in accordance with the most recent valuation completed as at December 31, 2010.*

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

Retirement Benefit Plans

At the end of Q1 2014, the Company's retirement benefit plan obligations increased by $5.9 million to $291.9 million compared to the end of Fiscal 2013.

In the fourth quarter of Fiscal 2013, the Company amended the early retirement provision of its pension plan to eliminate a benefit for associates who voluntarily resign prior to age of retirement, effective January 1, 2015. In addition, the Company amended its pension plan for improvements that increase portability of associates' benefits, effective March 1, 2014, and implemented fixed indexing at 0.5% per annum for eligible retirees, effective January 1, 2014. The Company also froze the benefits offered under the non-pension retirement plan to benefit levels as at January 1, 2015. In the fourth quarter of Fiscal 2013, the Company recorded a pre-tax gain on amendments to retirement benefits of $42.5 million ($42.8 million net of $0.3 million of expenses). Refer to Note 20 "Retirement benefit plans" of the Consolidated Financial Statements for Fiscal 2013 for more details.

During Q1 2014, the Company offered lump sum settlements to those terminated associates who previously elected to defer the payment of the defined benefit pension until retirement. The Company expects to settle accepted offers by the end of October 2014. In addition, the Company made a voluntary offer to settle health and dental benefits of eligible members covered under the non-pension retirement plan. The Company expects to settle any acceptances from the offer by the end of June 2014, and expects to pay approximately $13.0 million. The Company has incurred $0.8 million in costs during Q1 2014 related to this future settlement. Upon settlement in the second quarter of Fiscal 2014, the Company will remeasure the liability on the non-pension retirement plan and record a settlement gain.

The Company measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at January 31. The most recent actuarial valuation of the pension plan for funding purposes is dated December 31, 2010. The next actuarial valuation assessment as at December 31, 2013, will be filed with regulators by its due date of September 30, 2014. An actuarial valuation of the health and welfare trust is performed at least every three years, with the last valuation completed as of September 1, 2011.

During the 52-week period ended January 28, 2012, the Company changed the target asset allocation to 55-75% fixed income and 25-45% equity for the registered and non-registered pension plans. For the assets in the health and welfare trust, included in Other Benefit Plans, the Company changed the asset allocation to 100% fixed income. As at the end of Fiscal 2013 and 2012, the assets were in line with the target allocation range. The asset allocation may be changed from time to time in terms of weighting between fixed income, equity and other asset classes as well as within the asset classes themselves.

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

Capital Resources

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

The Company's debt consists of a secured credit facility and finance lease obligations and the Company's share of its real estate joint arrangement obligations. In September 2010, the Company entered into an $800.0 million senior secured revolving credit facility (the "Credit Facility") with a syndicate of lenders with a maturity date of September 10, 2015. The Credit Facility is secured with a first lien on inventory and credit card receivables. Availability under the Credit Facility is determined pursuant to a borrowing base formula. Availability under the Credit Facility was $475.2 million as at May 3, 2014 (February 1, 2014: $374.0 million, May 4, 2013: $606.5 million). The current availability may be reduced by reserves currently estimated by the Company to be approximately $197.0 million, which may be applied by the lenders at their discretion pursuant to the Credit Facility agreement. As a result of judicial developments relating to the priorities of pension liability relative to certain secured obligations, the Company has executed an amendment to its Credit Facility agreement which would provide additional security to the lenders by pledging certain real estate assets as collateral, thereby partially reducing the potential reserve amount the lenders could apply by up to $150.0 million. As at May 3, 2014, three properties in Ontario have been registered under the amendment to the Credit Facility agreement. The additional reserve amount may increase or decrease in the future based on changes in estimated net pension deficits in the event of a wind-up, and based on the amount, if any, of real estate assets pledged as additional collateral.

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

As at May 3, 2014, the Company had no borrowings on the Credit Facility and had unamortized transaction costs incurred to establish the Credit Facility of $3.8 million included in "Other long-term assets" in the unaudited Condensed Consolidated Statements of Financial Position (February 1, 2014: no borrowings and unamortized transaction costs of $4.4 million included in "Other long-term assets", May 4, 2013: no borrowings and unamortized transaction costs of $5.7 million included in "Other long-term assets"). In addition, the Company had $24.0 million (February 1, 2014: $24.0 million, May 4, 2013: $24.2 million) of standby letters of credit outstanding against the Credit Facility. These letters of credit cover various payments primarily relating to utility commitments and defined benefit plan deficit funding (see Note 10 "Retirement benefit plans" of the Q1 2014 financial statements for additional information on retirement benefit plans). Interest on drawings under the Credit Facility is determined based on bankers' acceptance rates for one to three month terms or the prime rate plus a spread. Interest amounts on the Credit Facility are due monthly and are added to principal amounts outstanding.

As at May 3, 2014, the Company had outstanding merchandise letters of credit of U.S. $8.5 million (February 1, 2014: U.S. $9.0 million, May 4, 2013: U.S. $9.5 million) used to support the Company's offshore merchandise purchasing program with restricted cash and cash equivalents pledged as collateral.

4. Financial Instruments

The Company is exposed to credit, liquidity and market risk as a result of holding financial instruments. Market risk consists of foreign exchange and interest rate risk. See Note 13 "Financial instruments" in the Q1 2014 financial statements for additional information.

Credit risk

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

Cash and cash equivalents, accounts receivable, derivative instruments and investments included in other long-term assets totaling $344.7 million as at May 3, 2014 (February 1, 2014: $605.8 million, May 4, 2013: $190.4 million) expose the Company to credit risk should the borrower default on maturity of the investment. The Company manages this exposure through policies that require borrowers to have a minimum credit rating of A, and limiting investments with individual borrowers at maximum levels based on credit rating.

The Company is exposed to minimal credit risk from customers as a result of ongoing credit evaluations and review of accounts receivable collectability. As at May 3, 2014, one party represented 13.0% of the Company's accounts receivable (February 1, 2014: one party represented 11.3% of the Company's accounts receivable, May 4, 2013: two parties represented 38.1% of the Company's accounts receivable).

Liquidity risk

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

Market risk

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

From time to time, the Company enters into foreign exchange contracts to reduce the foreign exchange risk with respect to U.S. dollar denominated assets and liabilities and purchases of goods or services. As at May 3, 2014, there were forward contracts outstanding with a notional value of US $64 million (February 1, 2014: US $90 million, May 4, 2013: nil) and a fair value of $2.0 million included in "Derivative financial assets" (February 1, 2014: $7.2 million, May 4, 2013: nil) in the unaudited Condensed Consolidated Statements of Financial Position. These derivative contracts have settlement dates extending to July 2014. The intrinsic value portion of these derivatives has been designated as a cash flow hedge for hedge accounting treatment under International Accounting Standards ("IAS") 39, *Financial Instruments: Recognition and Measurement*. These contracts are intended to reduce the foreign exchange risk with respect to anticipated purchases of U.S. dollar denominated goods and services, including goods purchased for resale ("hedged item"). As at May 3, 2014, the designated portion of these hedges was considered effective.

During the 13-week period ended May 3, 2014, the Company recorded a loss of $0.1 million (2013: loss of $0.8 million) in "Selling, administrative and other expenses", relating to the translation or settlement of U.S. dollar denominated monetary items consisting of cash and cash equivalents, accounts receivable and accounts payable.

The Q1 2014 period end exchange rate was 0.9107 U.S. dollars to one Canadian dollar. A 10% appreciation or depreciation of the U.S. and or the Canadian dollar exchange rate was determined to have an after-tax impact on net loss of $0.6 million for U.S. dollar denominated balances included in cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities.

Interest rate risk

From time to time, the Company enters into interest rate swap contracts with approved financial institutions to manage exposure to interest rate risks. As at May 3, 2014, the Company had no interest rate swap contracts in place (February 1, 2014: nil, May 4, 2013: nil).

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

Cash and cash equivalents and borrowings under the secured revolving credit facility, when applicable, are subject to interest rate risk. The total subject to interest rate risk as at May 3, 2014 was a net asset of $271.5 million (February 1, 2014: net asset of $515.1 million, May 4, 2013: net asset of $111.0 million). An increase or decrease in interest rates of 25 basis points would cause an immaterial after-tax impact on net loss for net assets subject to interest rate risk included in cash and cash equivalents and other long-term assets as at May 3, 2014.

5. Funding Costs

The funding costs for the Company in Q1 2014 and Q1 2013 are outlined in the table below:

	First Quarter	
(in CAD millions)	**2014**	2013
Interest costs		
Total long-term obligations at end of period[1]	**$ 31.6**	$ 57.0
Average long-term obligations for period[2]	**33.8**	58.2
Long-term funding costs[3]	**0.6**	1.0
Average rate of long-term funding	**7.1%**	6.9%

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

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

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

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

6. Related Party Transactions

As at June 2, 2014, ESL Investments, Inc., and investment affiliates including Edward S. Lampert, collectively "ESL", is the beneficial holder of 28,158,368 or 27.6%, of the common shares of the Company. Sears Holdings is the beneficial holder of 51,962,391 common shares, representing approximately 51.0% of the Company's total outstanding common shares.

In the ordinary course of business, the Company and Sears Holdings periodically share selected services, associates, and tangible and intangible assets. Transactions between the Company and Sears Holdings are recorded either at fair market value or the exchange amount, which was established and agreed to by the related parties. See Section 6 "Related Party Transactions" of the 2013 Annual Report and Note 31 "Related party transactions" in the 2013 Annual Consolidated Financial Statements for further information about these transactions.

7. Shareholders' Equity

As at June 2, 2014, the total number of common shares issued and outstanding of the Company were 101,877,662 (February 1, 2014: 101,877,662, May 4, 2013: 101,877,662).

8. Events After the Reporting Period

On May 16, 2014, the Company announced that it had reached a definitive agreement with Ivanhoé to sell its 15% joint arrangement interest in Les Rivières that it owns with Ivanhoé, for cash consideration of approximately $33.5 million. The joint arrangement interest had a net carrying value of approximately $13.5 million as at May 3, 2014. The agreement is subject to customary closing conditions including representations and warranties given on signing of the agreement

continuing to be true on closing. The transaction closed on June 2, 2014, and the ultimate amount of gain to be recognized will be determined during the second quarter of Fiscal 2014. Following the sale, the Company will continue to operate its store in the shopping centre.

On May 28, 2014, the Company announced that it had extended the term of its senior secured revolving credit facility (the "Amended Credit Facility"), held by a syndicate of lenders, to May 28, 2019, and had reduced the total credit limit from $800 million to $300 million. The borrowing base formula used to determine availability under the Amended Credit Facility remained unchanged. All other significant terms and covenants of the Amended Credit Facility remain customary for facilities of this nature. The Amended Credit Facility better reflects the Company's current borrowing base, and is expected to reduce our ongoing financing costs through lower fees.

9. Accounting Policies and Estimates

a. Issued Standards Not Yet Adopted

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

On December 16, 2011, the IASB issued amendments to a previously released standard as follows:

IFRS 9, Financial Instruments ("IFRS 9")

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

b. Critical Accounting Judgments and Key Sources of Estimation Uncertainty

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

Critical judgments that management has made in the process of applying the Company's accounting policies, key assumptions concerning the future and other key sources of estimation uncertainty that have the potential to materially impact the carrying amounts of assets and liabilities within the next financial year are described in Note 2 "Significant accounting policies" and Note 4 "Critical accounting judgments and key sources of estimation uncertainty" of the 2013 Annual Consolidated Financial Statements and are consistent with those used in the preparation of these Financial Statements.

10. Disclosure Controls and Procedures

Disclosure Controls and Procedures

Management of the Company is responsible for establishing and maintaining a system of disclosure controls and procedures ("DC&P") that are designed to provide reasonable assurance that information required to be disclosed by the Company in its public disclosure documents, including its Annual and Interim MD&A, Annual and Interim Financial Statements, and Annual Information Form is recorded, processed, summarized and reported within required time periods and includes controls and procedures designed to ensure that the information required to be disclosed by the Company

in its public disclosure documents is accumulated and communicated to the Company's management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), to allow timely decisions regarding required DC&P.

Management of the Company, including the CEO and CFO, has caused to be evaluated under their supervision, the Company's DC&P, and has concluded that the Company's DC&P was effective for the period ended May 3, 2014.

Internal Control over Financial Reporting

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

Management of the Company, including the CEO and CFO, has caused to be evaluated the internal control over financial reporting and has concluded, based on that evaluation, that the Company's internal control over financial reporting was effective as at May 3, 2014. Additionally, Management of the Company evaluated whether there were changes in the internal control over financial reporting during Q1 2014 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting and has determined that no material changes occurred during this period.

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

11. Risks and Uncertainties

Please also see Section 11 "Risks and Uncertainties" of the Company's 2013 Annual Report for a detailed description of the risks and uncertainties faced by the Company.

TABLE OF CONTENTS

Unaudited Condensed Consolidated Financial Statements

Condensed Consolidated Statements of Financial Position

Condensed Consolidated Statements of Net Loss and Comprehensive Loss

Condensed Consolidated Statements of Changes in Shareholders’ Equity

Condensed Consolidated Statements of Cash Flows

Notes to the Unaudited Condensed Consolidated Financial Statements

Note 1: General information

Note 2: Significant accounting policies

Note 3: Issued standards not yet adopted

Note 4: Critical accounting judgments and key sources of estimation uncertainty

Note 5: Cash and cash equivalents and interest income

Note 6: Inventories

Note 7: Long-term obligations and finance costs

Note 8: Capital stock

Note 9: Revenue

Note 10: Retirement benefit plans

Note 11: Depreciation and amortization expense

Note 12: Assets classified as held for sale

Note 13: Financial instruments

Note 14: Contingent liabilities

Note 15: Net loss per share

Note 16: Income taxes

Note 17: Segmented information

Note 18: Changes in non-cash working capital balances

Note 19: Changes in long-term assets and liabilities

Note 20: Burnaby arrangement

Note 21: Events after the reporting period

Note 22: Approval of unaudited condensed consolidated financial statements

SEARS CANADA INC.
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Unaudited

(in CAD millions)	Notes		**As at May 3, 2014**		As at February 1, 2014		As at May 4, 2013
ASSETS							
Current assets							
Cash and cash equivalents	5	**$**	**270.2**	$	513.8	$	109.7
Accounts receivable, net	13		**71.0**		83.3		79.2
Income taxes recoverable			**21.4**		0.8		10.1
Inventories	6		**792.1**		774.6		891.1
Prepaid expenses			**29.2**		23.8		28.6
Derivative financial assets	13		**2.0**		7.2		—
Assets classified as held for sale	12		**26.8**		13.3		—
Total current assets			**1,212.7**		1,416.8		1,118.7
Non-current assets							
Property, plant and equipment			**762.7**		785.5		1,098.4
Investment property			**19.3**		19.3		21.7
Intangible assets			**26.2**		28.2		26.0
Goodwill			**2.6**		2.6		8.7
Deferred tax assets			**119.1**		88.7		98.2
Other long-term assets	7, 13, 16		**49.3**		51.2		45.8
Total assets		**$**	**2,191.9**	$	2,392.3	$	2,417.5
LIABILITIES							
Current liabilities							
Accounts payable and accrued liabilities	13	**$**	**421.5**	$	438.7	$	463.3
Deferred revenue			**181.6**		187.7		200.1
Provisions			**100.5**		109.4		53.2
Income taxes payable			**0.3**		52.2		—
Other taxes payable			**22.5**		53.9		19.2
Current portion of long-term obligations	7, 13		**4.7**		7.9		9.2
Total current liabilities			**731.1**		849.8		745.0
Non-current liabilities							
Long-term obligations	7, 13		**26.9**		28.0		47.8
Deferred revenue			**81.0**		87.3		86.8
Retirement benefit liability	10		**291.9**		286.0		415.5
Deferred tax liabilities			**4.0**		4.2		5.0
Other long-term liabilities			**62.0**		63.2		72.2
Total liabilities			**1,196.9**		1,318.5		1,372.3
SHAREHOLDERS' EQUITY							
Capital stock	8		**14.9**		14.9		14.9
Retained earnings	8		**1,070.1**		1,145.3		1,177.0
Accumulated other comprehensive loss			**(90.0)**		(86.4)		(146.7)
Total shareholders' equity			**995.0**		1,073.8		1,045.2
Total liabilities and shareholders' equity		**$**	**2,191.9**	$	2,392.3	$	2,417.5

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

SEARS CANADA INC.

CONDENSED CONSOLIDATED STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS
For the 13-week periods ended May 3, 2014 and May 4, 2013

Unaudited

(in CAD millions, except per share amounts)	Notes		**2014**		2013
Revenue	9	**$**	**771.7**	$	867.1
Cost of goods and services sold	6, 13		**518.5**		537.7
Selling, administrative and other expenses	10,11,13		**353.7**		370.9
Operating loss			**(100.5)**		(41.5)
Finance costs	7,16		**2.5**		2.3
Interest income	5		**0.7**		0.4
Loss before income taxes			**(102.3)**		(43.4)
Income tax (expense) recovery					
Current			**(2.2)**		(2.9)
Deferred			**29.3**		15.1
			27.1		12.2
Net loss		**$**	**(75.2)**	$	(31.2)
Basic net loss per share	15	**$**	**(0.74)**	$	(0.31)
Diluted net loss per share	15	**$**	**(0.74)**	$	(0.31)
Net loss		**$**	**(75.2)**	$	(31.2)
Other comprehensive loss, net of taxes:					
Items that may subsequently be reclassified to net income:					
Loss on foreign exchange derivatives	13		**(0.4)**		—
Reclassification to net loss of gain on foreign exchange derivatives			**(3.2)**		—
Total other comprehensive loss			**(3.6)**		—
Comprehensive loss		**$**	**(78.8)**	$	(31.2)

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

SEARS CANADA INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the 13-week periods ended May 3, 2014 and May 4, 2013

Unaudited

				Accumulated other comprehensive (loss) income			
(in CAD millions)	Notes	Capital stock	Retained earnings	*Foreign exchange derivatives designated as cash flow hedges*	*Remeasurement loss*	Total accumulated other comprehensive loss	Shareholders' equity
Balance as at February 1, 2014		**$ 14.9**	**$ 1,145.3**	**$ 6.0**	**$ (92.4)**	**$ (86.4)**	**$ 1,073.8**
Net loss			**(75.2)**	**—**	**—**	**—**	**(75.2)**
Other comprehensive loss							
Loss on foreign exchange derivatives, net of income tax recovery of $0.2	13			**(0.4)**	**—**	**(0.4)**	**(0.4)**
Reclassification of gain on foreign exchange derivatives, net of income tax expense of $1.2				**(3.2)**	**—**	**(3.2)**	**(3.2)**
Total other comprehensive loss		**—**	**—**	**(3.6)**	**—**	**(3.6)**	**(3.6)**
Total comprehensive loss		**—**	**(75.2)**	**(3.6)**	**—**	**(3.6)**	**(78.8)**
Balance as at May 3, 2014		**$ 14.9**	**$ 1,070.1**	**$ 2.4**	**$ (92.4)**	**$ (90.0)**	**$ 995.0**
Balance as at February 2, 2013		$ 14.9	$ 1,208.2	$ —	$ (146.7)	$ (146.7)	$ 1,076.4
Net loss			(31.2)	—	—	—	(31.2)
Total comprehensive loss		—	(31.2)	—	—	—	(31.2)
Balance as at May 4, 2013		$ 14.9	$ 1,177.0	$ —	$ (146.7)	$ (146.7)	$ 1,045.2

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

SEARS CANADA INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the 13-week periods ended May 3, 2014 and May 4, 2013

Unaudited

(in CAD millions)	Notes	**2014**	2013
Cash flow used for operating activities			
Net loss		**$ (75.2)**	$ (31.2)
Adjustments for:			
Depreciation and amortization expense	11	**23.6**	30.2
Gain on disposal of property, plant and equipment		**(0.4)**	(0.2)
Finance costs	7, 16	**2.5**	2.3
Interest income	5	**(0.7)**	(0.4)
Retirement benefit plans expense	10	**5.7**	6.9
Short-term disability expense	10	**2.1**	2.5
Income tax recovery	16	**(27.1)**	(12.2)
Interest received	5	**0.5**	0.5
Interest paid	7	**(1.2)**	(1.5)
Retirement benefit plans contributions	10	**(2.2)**	(9.7)
Income tax payments, net	16	**(64.4)**	(8.0)
Other income tax deposits	16	**(10.3)**	—
Changes in non-cash working capital	18	**(85.5)**	(92.5)
Changes in long-term assets and liabilities	19	**4.2**	(6.3)
		(228.4)	(119.6)
Cash flow used for investing activities			
Purchases of property, plant and equipment and intangible assets		**(10.5)**	(6.7)
Proceeds from sale of property, plant and equipment		**0.6**	0.3
		(9.9)	(6.4)
Cash flow used for financing activities			
Interest paid on finance lease obligations	7	**(0.6)**	(0.6)
Repayment of long-term obligations		**(5.8)**	(3.4)
Proceeds from long-term obligations		**1.5**	1.1
		(4.9)	(2.9)
Effect of exchange rate on cash and cash equivalents at end of period		**(0.4)**	0.1
Decrease in cash and cash equivalents		**(243.6)**	(128.8)
Cash and cash equivalents at beginning of period		**$ 513.8**	$ 238.5
Cash and cash equivalents at end of period		**$ 270.2**	$ 109.7

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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. General information

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

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

2. Significant accounting policies

2.1 Statement of compliance

The unaudited condensed consolidated financial statements of the Company for the 13-week period ended May 3, 2014 (the "Financial Statements") have been prepared in accordance with IAS 34, *Interim Financial Reporting* ("IAS 34") issued by the International Accounting Standards Board ("IASB"), and therefore, do not contain all disclosures required by International Financial Reporting Standards ("IFRS") for annual financial statements. Accordingly, these Financial Statements should be read in conjunction with the Company's most recently prepared annual consolidated financial statements for the 52-week period ended February 1, 2014 (the "2013 Annual Consolidated Financial Statements"), prepared in accordance with IFRS.

2.2 Basis of preparation and presentation

The principal accounting policies of the Company have been applied consistently in the preparation of these Financial Statements for all periods presented. These Financial Statements follow the same accounting policies and methods of application as those used in the preparation of the 2013 Annual Consolidated Financial Statements, except as noted below. The Company's significant accounting policies are described in Note 2 of the 2013 Annual Consolidated Financial Statements.

The Company adopted the following amendments and interpretations which became effective "in" or "for" the 13-week period ended May 3, 2014:

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

  The IASB has amended IAS 32 to provide clarification on the requirements for offsetting financial assets and liabilities. These amendments are effective for annual periods beginning on or after January 1, 2014. Based on the Company's assessment of these amendments, there is no impact on its Financial Statements; and

- *IFRIC 21, Levies ("IFRIC 21")*

  IFRIC 21 provides guidance on when to recognize a liability for a levy imposed by a government, both for levies that are accounted for in accordance with *IAS 37, Provisions, Contingent Liabilities and Contingent Assets* and those where the timing and amount of the levy is certain. This interpretation is applicable for annual periods on or after January 1, 2014. Based on the Company's assessment of this interpretation, there is no impact on its Financial Statements.

2.2.1 Basis of consolidation

The Financial Statements incorporate the financial statements of the Company as well as all of its subsidiaries. Real estate joint arrangements are accounted for by recognizing the Company's share of the joint arrangements' assets, liabilities, revenues and expenses. Subsidiaries include all entities where the Company has the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities. All intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in the preparation of these Financial Statements.

The fiscal year of the Company consists of a 52 or 53-week period ending on the Saturday closest to January 31. The 13-week periods presented in these Financial Statements are for the periods ended May 3, 2014 and May 4, 2013.

These Financial Statements are presented in Canadian dollars, which is the Company's functional currency. The Company is comprised of two reportable segments, Merchandising and Real Estate Joint Arrangements (see Note 17).

2.3 Seasonality

The Company's operations are seasonal in nature. Accordingly, merchandise and service revenues, as well as performance payments received from JPMorgan Chase under the long-term credit card marketing and servicing alliance, will vary by quarter based on consumer spending behaviour. Historically, the Company's revenues and earnings are highest in the fourth quarter due to the holiday season. The Company is able to adjust certain variable costs in response to seasonal revenue patterns; however, costs such as occupancy are fixed, causing the Company to report a disproportionate level of earnings in the fourth quarter. This business seasonality results in quarterly performance that is not necessarily indicative of the year's performance.

3. Issued standards not yet adopted

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

On December 16, 2011, the IASB issued amendments to a previously released standard as follows:

IFRS 9, Financial Instruments ("IFRS 9")

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

4. Critical accounting judgments and key sources of estimation uncertainty

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

Critical judgments that management has made in the process of applying the Company's accounting policies, key assumptions concerning the future and other key sources of estimation uncertainty that have the potential to materially impact the carrying amounts of assets and liabilities within the next financial year are described in Note 4 of the 2013 Annual Consolidated Financial Statements and are consistent with those used in the preparation of these Financial Statements.

5. Cash and cash equivalents and interest income

Cash and cash equivalents

The components of cash and cash equivalents were as follows:

(in CAD millions)		**As at May 3, 2014**		As at February 1, 2014		As at May 4, 2013
Cash	**$**	**145.2**	$	192.4	$	64.4
Cash equivalents						
Government treasury bills		**90.0**		299.9		—
Bank term deposits		**13.0**		—		15.0
Investment accounts		**10.4**		10.4		20.6
Restricted cash and cash equivalents		**11.6**		11.1		9.7
Total cash and cash equivalents	**$**	**270.2**	$	513.8	$	109.7

The components of restricted cash and cash equivalents are further discussed in Note 14.

Interest income

Interest income related primarily to cash and cash equivalents for the 13-week period ended May 3, 2014 totaled $0.7 million (2013: $0.4 million). For the same 13-week period, the Company received $0.5 million (2013: $0.5 million) in cash related to interest income.

6. Inventories

The amount of inventory recognized as an expense during the 13-week period ended May 3, 2014 was $468.8 million (2013: $489.0 million), which includes $28.6 million (2013: $24.4 million) of inventory write-downs. These expenses are included in "Cost of goods and services sold" in the unaudited Condensed Consolidated Statements of Net Loss and Comprehensive Loss. There were no reversals of prior period inventory write-downs for the 13-week period ended May 3, 2014 (2013: $3.5 million).

Inventory is pledged as collateral under the Company's revolving credit facility (see Note 7).

7. Long-term obligations and finance costs

Long-term obligations

Total outstanding long-term obligations were as follows:

(in CAD millions)		**As at May 3, 2014**		As at February 1, 2014		As at May 4, 2013
Real estate joint arrangement obligations - Current	**$**	**—**	$	2.9	$	4.1
Finance lease obligations - Current		**4.7**		5.0		5.1
Total current portion of long-term obligations	**$**	**4.7**	$	7.9	$	9.2
Real estate joint arrangement obligations - Non-current	**$**	**—**	$	—	$	18.2
Finance lease obligations - Non-current		**26.9**		28.0		29.6
Total non-current long-term obligations	**$**	**26.9**	$	28.0	$	47.8

The Company's debt consists of a secured credit facility and finance lease obligations and the Company's share of its real estate joint arrangement obligations. In September 2010, the Company entered into an $800.0 million senior secured revolving credit facility (the "Credit Facility") with a syndicate of lenders with a maturity date of September 10, 2015. The Credit Facility is secured with a first lien on inventory and credit card receivables. Availability under the Credit Facility is determined pursuant to a borrowing base formula. Availability under the Credit Facility was $475.2 million as at May 3, 2014 (February 1, 2014: $374.0 million, May 4, 2013: $606.5 million). The current availability may be reduced by reserves currently estimated by the Company to be approximately $197.0 million, which may be applied by the lenders at their discretion pursuant to the Credit Facility agreement. As a result of judicial developments relating to the priorities of pension liability relative to certain secured obligations, the Company has executed an amendment to its Credit Facility agreement which would provide additional security to the lenders by pledging certain real estate assets as collateral, thereby partially reducing the potential reserve amount the lenders could apply by up to $150.0 million. As at May 3, 2014, three properties in Ontario have been registered under the amendment to the Credit Facility agreement. The additional reserve amount may increase or decrease in the future based on changes in estimated net pension deficits in the event of a wind-up, and based on the amount, if any, of real estate assets pledged as additional collateral.

The Credit Facility contains covenants which are customary for facilities of this nature and the Company was in compliance with all covenants as at May 3, 2014.

As at May 3, 2014, the Company had no borrowings on the Credit Facility and had unamortized transaction costs incurred to establish the Credit Facility of $3.8 million included in "Other long-term assets" in the unaudited Condensed Consolidated Statements of Financial Position (February 1, 2014: no borrowings and unamortized transaction costs of $4.4 million included in "Other long-term assets", May 4, 2013: no borrowings and unamortized transaction costs of $5.7 million included in "Other long-term assets"). In addition, the Company had $24.0 million (February 1, 2014: $24.0 million, May 4, 2013: $24.2 million) of standby letters of credit outstanding against the Credit Facility. These letters of credit cover various payments primarily relating to utility commitments and defined benefit plan deficit funding (see Note 10 for additional information on retirement benefit plans). Interest on drawings under the Credit Facility is determined based on bankers' acceptance rates for one to three month terms or the prime rate plus a spread. Interest amounts on the Credit Facility are due monthly and are added to principal amounts outstanding.

As at May 3, 2014, the Company had outstanding merchandise letters of credit of U.S. $8.5 million (February 1, 2014: U.S. $9.0 million, May 4, 2013: U.S. $9.5 million) used to support the Company's offshore merchandise purchasing program with restricted cash and cash equivalents pledged as collateral.

The Company has entered into a mortgage on land that it owns in Burnaby, British Columbia. In accordance with the Burnaby development project with Concord, the land has been allocated as security for future borrowings (see Note 20).

Finance costs

Interest expense on long-term obligations, including the Company's share of interest on long-term obligations of its real estate joint arrangements, finance lease obligations, the current portion of long-term obligations, amortization of transaction costs and commitment fees on the unused portion of the Credit Facility for the 13-week period ended May 3, 2014 totaled $2.3 million (2013: $2.7 million). Interest expense is included in "Finance costs" in the unaudited Condensed Consolidated Statements of Net Loss and Comprehensive Loss. Also included in "Finance costs" for the 13-week period ended May 3, 2014 was an expense of nil (2013: expense reversal of $0.4 million) for interest on accruals for uncertain tax positions, and an expense of $0.2 million (2013: nil) for interest on the settlement of a sales tax assessment.

The Company's cash payments for interest on long-term obligations, including the Company's share of interest on long-term obligations of its real estate joint arrangements, finance lease obligations, the current portion of long-term obligations and commitment fees on the unused portion of the Credit Facility for the 13-week period ended May 3, 2014 totaled $1.8 million (2013: $2.1 million).

8. Capital stock

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

There were no share purchases during the 13-week period ended May 3, 2014 (2013: no share purchases).

During the 52-week period ended February 1, 2014 ("Fiscal 2013"), the Company distributed $509.4 million to holders of common shares as an extraordinary cash dividend. Payment in the amount of $5.00 per common share was made on December 6, 2013.

ESL Investments, Inc., and investment affiliates including Edward S. Lampert, collectively "ESL", together form the ultimate controlling party of the Company. ESL is the beneficial holder of 28,158,368 or 27.6%, of the common shares of the Company as at May 3, 2014 (February 1, 2014: 28,158,368 or 27.6%, May 4, 2013: 28,158,368 or 27.6%). Sears Holdings, the controlling shareholder of the Company, is the beneficial holder of 51,962,391 or 51.0%, of the common shares of the Company as at May 3, 2014 (February 1, 2014: 51,962,391 or 51.0%, May 4, 2013: 51,962,391 or 51.0%). The issued and outstanding shares are fully paid and have no par value.

The authorized common share capital of the Company consists of an unlimited number of common shares without nominal or par value and an unlimited number of class 1 preferred shares, issuable in one or more series (the "Class 1 Preferred Shares"). As at May 3, 2014, the only shares outstanding were common shares of the Company.

9. Revenue

The components of the Company's revenue were as follows:

(in CAD millions)		**13-Week Period Ended May 3, 2014**		13-Week Period Ended May 4, 2013
Apparel & Accessories [1]	**$**	**264.1**	$	280.3
Home & Hardlines [1]		**356.0**		413.3
Other merchandise revenue		**46.6**		57.1
Services and other		**74.3**		83.7
Commission and licensee revenue		**30.7**		32.7
	$	**771.7**	$	867.1

1 Certain product lines have been reclassified from the Apparel & Accessories category, to the Home & Hardlines category. Also, the Major Appliances category is now included in the Home & Hardlines category. Prior year comparative figures have been restated to reflect these changes.

10. Retirement benefit plans

In July 2008, the Company amended its defined benefit plan by introducing a defined contribution component and closing the defined benefit component to new participants. As such, the defined benefit plan continues to accrue benefits related to future compensation increases but no further service credit is earned, and no contributions are made by employees.

The expense for the defined benefit, defined contribution and other benefit plans for the 13-week period ended May 3, 2014 was $1.4 million (2013: $2.0 million), $1.9 million (2013: $2.2 million) and $2.4 million (2013: $2.7 million), respectively. Not included in total retirement benefit plans expense for the 13-week period are short-term disability expenses of $2.1 million (2013: $2.5 million) that were paid from the other benefit plan. These expenses are included in "Selling, administrative and other expenses" in the unaudited Condensed Consolidated Statements of Net Loss and Comprehensive Loss.

Total cash contributions by the Company to its defined benefit, defined contribution and other benefit plans for the 13-week period ended May 3, 2014 were $2.2 million (2013: $9.7 million).

In the fourth quarter of Fiscal 2013, the Company amended the early retirement provision of its pension plan to eliminate a benefit for associates who voluntarily resign prior to age of retirement, with effect January 1, 2015. In addition, the Company amended its pension plan for improvements that increase portability of associates' benefits, with effect March 1, 2014, and implemented fixed indexing at 0.5% per annum for eligible retirees, with effect January 1, 2014. The Company also froze the benefits offered under the non-pension retirement plan to benefit levels as at January 1, 2015. In the fourth quarter of Fiscal 2013, the Company recorded a pre-tax gain on amendments to retirement benefits of $42.5 million ($42.8 million net of $0.3 million of expenses). Refer to the 2013 Annual Consolidated Financial Statements for more details.

During the 13-week period ended May 3, 2014, the Company offered lump sum settlements to those terminated associates who previously elected to defer the payment of the defined benefit pension until retirement. The Company expects to settle accepted offers by the end of October 2014. In addition, the Company made a voluntary offer to settle health and dental benefits of eligible members covered under the non-pension retirement plan. The Company expects to settle any acceptances from the offer by the end of June 2014, and expects to pay approximately $13.0 million. The Company has incurred $0.8 million in expenses during the 13-week period ended May 3, 2014 related to the settlement. Upon settlement, the Company will remeasure the liability on the non-pension retirement plan and record a settlement gain.

11. Depreciation and amortization expense

The components of the Company's depreciation and amortization expense, included in "Selling, administrative and other expenses", were as follows:

(in CAD millions)		**13-Week Period Ended May 3, 2014**		13-Week Period Ended May 4, 2013
Depreciation of property, plant and equipment	**$**	**20.9**	$	27.4
Amortization of intangible assets		**2.7**		2.8
Total depreciation and amortization expense	**$**	**23.6**	$	30.2

12. Assets classified as held for sale

On October 29, 2013, the Company announced the future closure of one of its Regina Logistics Centres (“RLC”). The RLC including the adjacent vacant property, which are owned by the Company, is being marketed for sale and if a buyer is identified that will purchase the RLC at a price acceptable to the Company, then the RLC will be sold. This process has been approved by senior management of the Company, and based on these factors, the Company has concluded that the sale is highly probable.

On May 16, 2014, the Company announced that it had reached a definitive agreement with Ivanhoé Cambridge II Inc. (“Ivanhoé”) to sell its 15% joint arrangement interest in the Les Rivières Shopping Centre (“Les Rivières”) it owns with Ivanhoé for cash consideration of approximately $33.5 million. The joint arrangement interest had a net carrying value of approximately $13.5 million as at May 3, 2014. The agreement is subject to customary closing conditions including representations and warranties given on signing of the agreement continuing to be true on closing. The transaction is scheduled to close on June 2, 2014, and the ultimate amount of gain to be recognized will be determined during the second quarter of the 52-week period ended January 31, 2015. Following the sale, the Company will continue to operate its store in the shopping centre.

As at May 3, 2014, the assets of RLC and the assets of the property owned with Ivanhoé were separately classified as held for sale on the Company's unaudited Condensed Consolidated Statements of Financial Position. The major classes of assets classified as held for sale were as follows:

(in CAD millions)		**RLC**		**Les Rivières**		**Total**
Accounts receivable, net	$	—	$	0.1	$	0.1
Prepaid expenses		—		0.2		0.2
Current assets classified as held for sale		—		0.3		0.3
Property, plant and equipment		10.9		13.0		23.9
Investment property		2.4		—		2.4
Other long-term assets		—		0.2		0.2
Non-current assets classified as held for sale		13.3		13.2		26.5
Assets classified as held for sale	$	13.3	$	13.5	$	26.8

The major classes of assets classified as held for sale as of February 1, 2014 were as follows:

(in CAD millions)		**RLC**
Property, plant and equipment	$	10.9
Investment property		2.4
Assets classified as held for sale	$	13.3

There were no assets classified as held for sale as at May 4, 2013.

The operations of the RLC and Les Rivières are not presented as discontinued operations on the unaudited Condensed Consolidated Statements of Net Loss and Comprehensive Loss as they do not represent a separate geographical area of operations or a separate major line of business.

13. Financial instruments

In the ordinary course of business, the Company enters into financial agreements with banks and other financial institutions to reduce underlying risks associated with interest rates and foreign currency. The Company does not hold or issue derivative financial instruments for trading or speculative purposes.

Financial instrument risk management

The Company is exposed to credit, liquidity and market risk as a result of holding financial instruments. Market risk consists of foreign exchange and interest rate risk.

13.1 Credit risk

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

Cash and cash equivalents, accounts receivable, derivative instruments and investments included in other long-term assets totaling $344.7 million as at May 3, 2014 (February 1, 2014: $605.8 million, May 4, 2013: $190.4 million) expose the Company to credit risk should the borrower default on maturity of the instruments. The Company manages this exposure through policies that require borrowers to have a minimum credit rating of A, and limiting investments with individual borrowers at maximum levels based on credit rating.

The Company is exposed to minimal credit risk from customers as a result of ongoing credit evaluations and review of accounts receivable collectability. As at May 3, 2014, one party represented 13.0% of the Company's net accounts receivable (February 1, 2014: one party represented 11.3% of the Company's accounts receivable, May 4, 2013: two parties represented 38.1% of the Company's accounts receivable).

13.2 Liquidity risk

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

The following table summarizes the carrying amount and the contractual maturities of both the interest and principal portion of significant financial liabilities as at May 3, 2014:

		Contractual Cash Flow Maturities				
(in CAD millions)	Carrying Amount	Total	Within 1 year	1 year to 3 years	3 years to 5 years	Beyond 5 years
Accounts payable and accrued liabilities	$ 421.5	$ 421.5	$ 421.5	$ —	$ —	$ —
Finance lease obligations including payments due within one year [1]	31.6	41.1	6.8	11.1	10.0	13.2
Operating lease obligations [2]	n/a	465.9	99.2	150.7	104.6	111.4
Royalties [2]	n/a	3.2	0.5	1.5	1.2	—
Purchase agreements [2,4]	n/a	15.7	8.2	7.5	—	—
Retirement benefit plans obligations [3]	291.9	101.0	22.8	58.7	19.5	—
	$ 745.0	**$ 1,048.4**	**$ 559.0**	**$ 229.5**	**$ 135.3**	**$ 124.6**

1 *Cash flow maturities related to finance lease obligations, including payments due within one year, include annual interest on finance lease obligations at a weighted average rate of 7.6%. The Company had no borrowings on the Credit Facility as at May 3, 2014.*

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

3 *Payments beyond 2013 are subject to a funding valuation as at December 31, 2013 to be completed by September 30, 2014. Until then, the Company is obligated to fund in accordance with the most recent valuation completed as at December 31, 2010.*

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

Management believes that cash on hand, future cash flow generated from operations and availability of current and future funding will be adequate to support these financial liabilities. As at May 3, 2014, the Company does not have any significant capital expenditure commitments.

Market risk

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

13.3 Foreign exchange risk

The Company enters into foreign exchange contracts to reduce the foreign exchange risk with respect to U.S. dollar denominated assets and liabilities and purchases of goods or services. As at May 3, 2014, there were forward contracts outstanding with a notional value of US $64 million (February 1, 2014: US $90 million, May 4, 2013: nil) and a fair value of $2.0 million included in "Derivative financial assets" (February 1, 2014: $7.2 million, May 4, 2013: nil) in the unaudited Condensed Consolidated Statements of Financial Position. These derivative contracts have settlement dates extending to July 2014. The intrinsic value portion of these derivatives has been designated as a cash flow hedge for hedge accounting treatment under IAS 39, *Financial Instruments: Recognition and Measurement*. These contracts are intended to reduce the foreign exchange risk with respect to anticipated purchases of U.S. dollar denominated goods and services, including goods purchased for resale ("hedged item"). As at May 3, 2014, the designated portion of these hedges was considered effective.

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

During the 13-week period ended May 3, 2014, the Company recorded a loss of $0.1 million (2013: loss of $0.8 million) in "Selling, administrative and other expenses", relating to the translation or settlement of U.S. dollar denominated monetary items consisting of cash and cash equivalents, accounts receivable and accounts payable.

The period end exchange rate was 0.9107 U.S. dollar to Canadian dollar. A 10% appreciation or depreciation of the U.S. and or the Canadian dollar exchange rate was determined to have an after-tax impact on net loss of $0.6 million for U.S. dollar denominated balances included in cash and cash equivalents, accounts receivable and accounts payable.

13.4 Interest rate risk

From time to time, the Company enters into interest rate swap contracts with approved financial institutions to manage exposure to interest rate risks. As at May 3, 2014, the Company had no interest rate swap contracts in place (February 1, 2014: nil, May 4, 2013: nil).

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

Cash and cash equivalents and borrowings under the secured revolving credit facility, when applicable, are subject to interest rate risk. The total subject to interest rate risk as at May 3, 2014 was a net asset of $271.5 million (February 1, 2014: net asset of $515.1 million, May 4, 2013: net asset of $111.0 million). An increase or decrease in interest rates of 25 basis points would cause an immaterial after-tax impact on net loss for net assets subject to interest rate risk included in cash and cash equivalents and other long-term assets as at May 3, 2014.

13.5 Classification and fair value of financial instruments

The estimated fair values of financial instruments presented are based on relevant market prices and information available at those dates. The following table summarizes the classification and fair value of certain financial instruments as at the specified dates. The Company determines the classification of a financial instrument when it is initially recorded, based on the underlying purpose of the instrument. As a significant number of the Company's assets and liabilities, including inventories and capital assets, do not meet the definition of financial instruments, values in the tables below do not reflect the fair value of the Company as a whole.

The fair value of financial instruments are classified and measured according to the following three levels, based on the fair value hierarchy.

- Level 1: Quoted prices in active markets for identical assets or liabilities
- Level 2: Inputs other than quoted prices in active markets that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: Inputs for the asset or liability that are not based on observable market data

(in CAD millions)

Classification	Balance Sheet Category	Fair Value Hierarchy[2]	**As at May 3, 2014**	As at February 1, 2014	As at May 4, 2013
Available for sale					
Cash equivalents	Cash and cash equivalents[1]	Level 1	**100.4**	310.3	20.6
Fair value through profit or loss					
Long-term investments	Other long-term assets	Level 1	**0.2**	0.2	0.2
U.S. $ derivative contracts	Derivative financial assets	Level 2	**2.0**	7.2	—
Long-term investments	Other long-term assets	Level 3	**1.3**	1.3	1.3

1 *Interest income related to cash and cash equivalents is disclosed in Note 5.*

2 *Classification of fair values relates to 2014*

All other assets that are financial instruments not listed in the chart above have been classified as "Loans and receivables". All other financial instrument liabilities have been classified as "Other liabilities" and are measured at amortized cost in the unaudited Condensed Consolidated Statements of Financial Position. The carrying value of these financial instruments approximate fair value given that they are short-term in nature.

Effective March 3, 2013, the Company finalized an exclusive, multi-year licensing arrangement with SHS, which resulted in SHS overseeing the day-to-day operations of HIPS. The Company provided SHS an interest-bearing loan which allowed SHS to pay the final purchase price of $5.3 million over 6 years. SHS repaid this loan on September 30, 2013, and shortly afterwards, issued the Company an interest-bearing promissory note for $2.0 million, secured by certain assets of SHS, repayable by July 16, 2015. The promissory note asset is included in "Other long-term assets" in the Consolidated Statements of Financial Position as at May 3, 2014.

On December 13, 2013, SHS announced that it was in receivership. All offers of services provided by SHS ceased, and the Company is working with the Receiver, PricewaterhouseCoopers Inc., on options for completing pending orders. As a result of the announcement, the Company recorded a warranty provision of $2.0 million in the fourth quarter of Fiscal 2013 related to potential future claims for work that had been performed by SHS, as well as assuming the warranty obligations with respect to work previously performed by the Company which had been assumed by SHS.

As a result of an announcement made by the Company on March 21, 2014 regarding certain obligations of SHS, the Company recorded an additional provision of $4.4 million for warranty, and a $2.2 million allowance for doubtful accounts against the net receivable (including outstanding commissions receivable) for the 13-week period ended May 3, 2014.

14. Contingent liabilities

14.1 Legal proceedings

The Company is involved in various legal proceedings incidental to the normal course of business. The Company takes into account all available information, including guidance from experts (such as internal and external legal counsel) at the time of reporting to determine if it is probable that a present obligation (legal or constructive) exists, if it is probable that an outflow of resources embodying economic benefit will be required to settle such obligation and whether the Company can reliably measure such obligation at the end of the reporting period. The Company is of the view that, although the outcome of such legal proceedings cannot be predicted with certainty, the final disposition is not expected to have a material adverse effect on the Financial Statements.

14.2 Commitments and guarantees

Commitments

As at May 3, 2014, cash and cash equivalents that are restricted represent cash and investments pledged as collateral for letter of credit obligations issued under the Company's offshore merchandise purchasing program of $11.0 million (February 1, 2014: $11.1 million, May 4, 2013: $9.7 million), which is the Canadian equivalent of U.S. $10.0 million (February 1, 2014: U.S. $10.0 million, May 4, 2013: U.S. $9.6 million).

The Company has certain vendors which require minimum purchase commitment levels over the term of the contract. Refer to Note 13.2 "Liquidity risk".

Guarantees

The Company has provided the following significant guarantees to third parties:

Royalty License Agreements

The Company pays royalties under various merchandise license agreements, which are generally based on the sale of products. Certain license agreements require a minimum guaranteed payment of royalties over the term of the contract, regardless of sales. Total future minimum royalty payments under such agreements were $3.2 million as at May 3, 2014 (February 1, 2014: $3.5 million, May 4, 2013: $1.8 million).

Other Indemnification Agreements

In the ordinary course of business, the Company has provided indemnification commitments to counterparties in transactions such as leasing transactions, royalty agreements, service arrangements, investment banking agreements and director and officer indemnification agreements. The Company has also provided certain indemnification agreements in connection with the sale of the credit and financial services operations in November 2005. The foregoing indemnification agreements require the Company to compensate the counterparties for costs incurred as a result of changes in laws and regulations, or as a result of litigation or statutory claims, or statutory sanctions that may be suffered by a counterparty as a consequence of the transaction. The terms of these indemnification agreements will vary based on the contract and typically do not provide for any limit on the maximum potential liability. Historically, the Company has not made any significant payments under such indemnifications and no amounts have been accrued in the Financial Statements with respect to these indemnification commitments.

15. Net loss per share

A reconciliation of the number of shares used in the net loss per share calculation is as follows:

(Number of shares)	**13-Week Period Ended May 3, 2014**	13-Week Period Ended May 4, 2013
Weighted average number of shares per basic net loss per share calculation	**101,877,662**	101,877,662
Effect of dilutive instruments outstanding	**—**	—
Weighted average number of shares per diluted net loss per share calculation	**101,877,662**	101,877,662

"Net loss" as disclosed in the unaudited Condensed Consolidated Statements of Net Loss and Comprehensive Loss was used as the numerator in calculating the basic and diluted net loss per share. For the 13-week period ended May 3, 2014, there were no outstanding dilutive instruments. For the 13-week period ended May 4, 2013, the Company incurred a net loss and therefore all potential common shares were anti-dilutive.

16. Income taxes

The Company's total net cash payments of income taxes for the 13-week period ended May 3, 2014 were $74.7 million (2013: $8.0 million).

In the ordinary course of business, the Company is subject to ongoing audits by tax authorities. While the Company believes that its tax filing positions are appropriate and supportable, periodically, certain matters are challenged by tax authorities. During the 13-week period ended May 3, 2014, the Company recorded benefits for interest on prior period tax re-assessments and accruals for uncertain tax positions as described in the table below, all included in the unaudited Condensed Consolidated Statements of Net Loss and Comprehensive Loss as follows:

(in CAD millions)	**13-Week Period Ended May 3, 2014**	13-Week Period Ended May 4, 2013
Finance costs recovery	**$ —**	$ 0.4
Income tax recovery (expense):		
Current	**0.1**	0.5
Deferred	**(0.1)**	(0.1)
Net benefits on uncertain tax positions	**$ —**	$ 0.8

The Company routinely evaluates and provides for potentially unfavourable outcomes with respect to any tax audits, and believes that the final disposition of tax audits will not have a material adverse effect on its liquidity.

Included in “Other long-term assets” in the unaudited Condensed Consolidated Statements of Financial Position as at May 3, 2014, were receivables of $32.5 million (February 1, 2014: $32.5 million, May 4, 2013: $14.7 million) related to payments made by the Company for disputed tax assessments.

17. Segmented information

In order to identify the Company's reportable segments, the Company uses the process outlined in IFRS 8, *Operating Segments* which includes the identification of the Chief Operating Decision Maker, the identification of operating segments, which has been done based on Company formats, and the aggregation of operating segments. The Company has aggregated its operating segments into two reportable segments: Merchandising and Real Estate Joint Arrangements. The Merchandising segment includes revenues from the sale of merchandise and related services to customers. The Real Estate Joint Arrangement segment includes income from the Company's joint arrangement interests in shopping centres across Canada, all of which contain a Sears store.

17.1 Segmented statements of (loss) earnings

(in CAD millions)		**13-Week Period Ended May 3, 2014**		13-Week Period Ended May 4, 2013
Total revenue				
Merchandising	**$**	**770.0**	$	856.4
Real Estate Joint Arrangements		**1.7**		10.7
Total revenue	**$**	**771.7**	$	867.1
Segmented operating (loss) income				
Merchandising	**$**	**(100.7)**	$	(44.4)
Real Estate Joint Arrangements		**0.2**		2.9
Total segmented operating loss	**$**	**(100.5)**	$	(41.5)
Finance Costs				
Merchandising	**$**	**2.5**	$	1.9
Real Estate Joint Arrangements		**—**		0.4
Total finance costs	**$**	**2.5**	$	2.3
Interest Income				
Merchandising	**$**	**0.7**	$	0.2
Real Estate Joint Arrangements		**—**		0.2
Total interest income	**$**	**0.7**	$	0.4
Income tax recovery				
Merchandising	**$**	**27.1**	$	12.2
Real Estate Joint Arrangements		**—**		—
Total income tax recovery	**$**	**27.1**	$	12.2
Net loss	**$**	**(75.2)**	$	(31.2)

17.2 Segmented statements of total assets

(in CAD millions)		**As at May 3, 2014**		As at February 1, 2014		As at May 4, 2013
Merchandising	**$**	**2,154.3**	$	2,354.2	$	2,121.7
Real Estate Joint Arrangements		**37.6**		38.1		295.8
Total assets	**$**	**2,191.9**	$	2,392.3	$	2,417.5

17.3 Segmented statements of total liabilities

(in CAD millions)		**As at May 3, 2014**		As at February 1, 2014		As at May 4, 2013
Merchandising	**$**	**1,195.2**	$	1,314.4	$	1,345.5
Real Estate Joint Arrangements		**1.7**		4.1		26.8
Total liabilities	**$**	**1,196.9**	$	1,318.5	$	1,372.3

18. Changes in non-cash working capital balances

Cash used for non-cash working capital balances were comprised of the following:

(in CAD millions)		**13-Week Period Ended May 3, 2014**		13-Week Period Ended May 4, 2013
Accounts receivable, net	**$**	**12.2**	$	(1.5)
Inventories		**(17.5)**		(39.7)
Prepaid expenses		**(5.6)**		0.1
Accounts payable and accrued liabilities		**(18.4)**		(25.9)
Deferred revenue		**(6.1)**		2.3
Provisions		**(8.9)**		(13.5)
Income and other taxes payable and recoverable		**(41.6)**		(14.2)
Effect of foreign exchange rates		**0.4**		(0.1)
Cash used for non-cash working capital balances	**$**	**(85.5)**	$	(92.5)

19. Changes in long-term assets and liabilities

Cash generated from (used for) long-term assets and liabilities were comprised of the following:

(in CAD millions)		**13-Week Period Ended May 3, 2014**		13-Week Period Ended May 4, 2013
Other long-term assets	**$**	**11.5**	$	0.2
Other long-term liabilities		**(7.5)**		(5.9)
Other		**0.2**		(0.6)
Cash generated from (used for) long-term assets and liabilities	**$**	**4.2**	$	(6.3)

20. Burnaby arrangement

On October 11, 2013, the Company announced that it entered into a binding agreement with Concord Pacific Group of Companies ("Concord") to pursue the development of nine acres of the Company's property on and adjacent to the Company's store located at the Metropolis at Metrotown in Burnaby, British Columbia (the "Project"). Closing under the agreement is contingent upon obtaining the approval from the City of Burnaby for the Project, which is expected to occur over an extended period of time.

This agreement contemplates the sale of a 50% interest in the site for a value of approximately $140.0 million subject to adjustments, and the retention of Concord on customary terms to manage the development. $15.0 million of the purchase price is to be paid in cash on closing, with the balance represented by an interest-free long term note secured by Concord's 50% interest in the property, the principal of which is expected to be repaid out of cash flow generated from the Project over time. It is contemplated that this note will be subordinated to other debt financing expected to be raised and used to develop the Project. The note will be guaranteed by a Concord affiliate. Following the sale of the 50% interest, it is contemplated that the parties will enter into a co-ownership arrangement. If third party debt financing cannot be obtained, Concord will be responsible for providing debt financing to develop the Project (which would, with certain exceptions, be subordinated to the long-term note held by the Company). The estimated cost to fully develop and build out the Project as contemplated is currently in excess of $1.0 billion. Completion of the Project as contemplated is subject to strategic considerations, including, but not limited to, potential shifts in the Canadian economy and the condition of the real estate market now and in the future.

In January 2014, in conjunction with Concord obtaining financing to develop the Project, the Company entered into a demand mortgage for $25.0 million, secured by the Project property. Interest on drawings under the mortgage is determined based on the prime rate plus a spread, and is due monthly. As at May 3, 2014, the Company had no borrowings on the mortgage. In January 2014, Concord entered into a demand loan agreement for $20.0 million. The loan is guaranteed by Concord's parent company, One West Holdings Ltd., and the Company's undrawn $25.0 million mortgage has been pledged as collateral. As at May 3, 2014, Concord has borrowed $13.6 million against the available demand loan.

21. Events after the reporting period

On May 16, 2014, the Company announced that it had reached a definitive agreement with Ivanhoé to sell its 15% joint arrangement interest in Les Rivières that it owns with Ivanhoé, for cash consideration of approximately $33.5 million. The joint arrangement interest had a net carrying value of approximately $13.5 million as at May 3, 2014. The agreement is subject to customary closing conditions including representations and warranties given on signing of the agreement continuing to be true on closing. The transaction closed on June 2, 2014, and the ultimate amount of gain to be recognized will be determined during the second quarter of the 52-week period ended January 31, 2015. Following the sale, the Company will continue to operate its store in the shopping centre.

On May 26, 2014, the Company announced to its associates the potential future sale of one of its Montreal logistics centres (the "MLC"). The MLC, which is owned by the Company, is being marketed for sale. This process has been approved by senior management of the Company. The carrying value of property, plant and equipment of the MLC was $90.4 million as at May 3, 2014.

On May 28, 2014, the Company announced that it had extended the term of its senior secured revolving credit facility (the "Amended Credit Facility"), held by a syndicate of lenders, to May 28, 2019, and had reduced the total credit limit from $800 million to $300 million. The borrowing base formula used to determine availability under the Amended Credit Facility remained unchanged. All other significant terms and covenants of the Amended Credit Facility remain customary for facilities of this nature.

22. Approval of unaudited consolidated financial statements

The Financial Statements were approved by the Board of Directors and authorized for issue on June 2, 2014.

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The Company's regulatory filings can be found on the SEDAR website at www.sedar.com and on the U.S. Securities Exchange Commission (SEC) website at www.sec.gov.

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