



SEARS CANADA INC.

SECOND QUARTER REPORT
for the period ended August 1, 2015

Management's Discussion and Analysis

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Management's Discussion and Analysis

"Sears", "Sears Canada", "we", "us", "our" or "the Company" refers to Sears Canada Inc. and its subsidiaries.

This quarterly report to Shareholders, which includes the Management's Discussion and Analysis ("MD&A"), current as at September 1, 2015 unless otherwise stated, and the unaudited condensed consolidated financial statements of the Company for the 13-week period ended August 1, 2015 ("Q2 2015 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 second quarter ("Q2") unaudited results for the 52-week period ending January 30, 2016 ("Fiscal 2015" or "2015") and the 52-week period ended January 31, 2015 ("Fiscal 2014" or "2014") reflect the 13-week periods ended August 1, 2015 ("Q2 2015") and August 2, 2014 ("Q2 2014"), respectively. The first half unaudited results for 2015 and 2014 reflect the 26-week periods ended August 1, 2015 ("first half of Fiscal 2015") and August 2, 2014 ("first half of Fiscal 2014"), respectively. The 2013 fiscal year refers to the 52-week period ended February 1, 2014 ("Fiscal 2013" or "2013").

This Quarterly Report should be read in conjunction with the Consolidated Financial Statements, and Notes to the Consolidated Financial Statements for Fiscal 2014. These items are contained in the Company's 2014 Annual Report. Additional information relating to the Company, including the Company's Annual Information Form ("AIF") dated March 12, 2015 and the Management Proxy Circular dated March 12, 2015, can be obtained by contacting Sears Canada's Corporate Communications department at 416-941-4428. The 2014 Annual Report, together with the AIF and Management Proxy Circular, have been filed 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 to inactive textual references only.

The Q2 2015 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 such additional information in this MD&A so that readers may do the same. See Section 1.d. "Use of Non-IFRS Measures, Measures of Operating Performance and Reconciliation of Net Earnings (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 2 "Consolidated Financial Position, Liquidity and Capital Resources", Section 3 "Financial Instruments", Section 6 "Shareholders' Equity", Section 7 "Accounting Policies and Estimates" and Section 9 "Risks and Uncertainties". Often, but not always, forward-looking information can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "scheduled", "estimates", "intends", "anticipates" or "does not anticipate" or "believes", or variations of such words and phrases, or statements that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. Although the Company believes that the estimates reflected in such forward-looking information are reasonable, such forward-looking information involves known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking information and undue reliance should not be placed on such information.

Factors which could cause actual results to differ materially from current expectations include, but are not limited to: the proposed real estate transactions in this MD&A, which are subject to closing conditions, not closing on the agreed terms or at all; the Company's inability to compete effectively in the highly competitive retail industry; weaker business performance in the fourth quarter; the ability of the Company to successfully implement its strategic initiatives; changes in consumer spending; ability to retain senior management and key personnel; ability of the Company to successfully manage its inventory levels; customer preference toward product offerings; the results achieved pursuant to the Company's credit card marketing and servicing alliance with JPMorgan Chase Bank, N.A. (Toronto Branch); ability to secure an agreement for the management of the credit and financial services operations upon expiry of the current agreement, whether on terms and conditions which are comparable to those under our existing credit card marketing and servicing alliance with JPMorgan Chase or materially less favourable terms and conditions, or to secure any such agreement at all; disruptions to the Company's computer systems; economic, social, and political instability in jurisdictions where suppliers are located; structural integrity and fire safety of foreign factories; increased shipping costs, potential transportation delays and interruptions; damage to the reputations of the brands the Company sells; changes in the Company's relationship with its suppliers; the Company's reliance on third parties in outsourcing arrangements; willingness of the Company's vendors to provide acceptable payment terms; the outcome of product liability claims; any significant security compromise or breach of the Company's customer, associate or Company information; the outcome of pending legal proceedings; compliance costs associated with environmental laws and regulations; maintaining adequate insurance coverage; seasonal weather patterns; ability to make, integrate and maintain acquisitions and investments, and complete dispositions and other transactions; general economic conditions; liquidity risk and failure to fulfill financial obligations; fluctuations in foreign currency exchange rates; the credit worthiness and financial stability of the Company's licensees and business partners; possible limits on our access to capital markets and other financing sources; interest rate fluctuations and other changes in funding costs and investment income; the possibility of negative investment returns in the Company's pension plan or an increase to the defined benefit obligation; the impairment of intangible and other long lived assets; the possible future termination of certain intellectual property rights associated with the "Sears" name and brand names if Sears Holdings Corporation ("Sears Holdings") reduces its interest in the Company to less than 10.0%; possible changes in the Company's ownership by Edward S. Lampert, ESL Investments and other significant shareholders; productivity improvement and cost reduction initiatives and whether such initiatives will yield the expected benefits; competitive conditions in the businesses in which the Company participates; new accounting pronouncements, or changes to existing pronouncements, that impact the methods the Company uses to report our financial position and results from operations; uncertainties associated with critical accounting assumptions and estimates; and changes in laws, rules and regulations applicable to the Company. Information about these factors, other material factors that could cause actual results to differ materially from expectations and about material factors or assumptions applied in preparing forward looking information, may be found in Section 9 "Risks and Uncertainties" of this MD&A as well as under Section 3(k) "Risk Factors" in the Company's most recent AIF, Section 12 "Risks and Uncertainties" in the MD&A in the Company's most recent annual report and elsewhere in the Company's filings with Canadian and U.S. securities regulators. All of the forward looking statements included in this MD&A are qualified by these cautionary statements and those made in the "Risk Factors" section of the Company's most recent AIF, in the "Risks and Uncertainties" section of this MD&A and the Company's most recent annual MD&A and the Company's other filings with Canadian and U.S. securities regulators. These factors are not intended to represent a complete list of the factors that could affect the Company; however, these factors should be considered carefully, and readers should not place undue reliance on forward looking statements made herein or in our other filings with Canadian and U.S. securities regulators. The forward looking information in this MD&A is, unless otherwise indicated, stated as of the date hereof and is presented for the purpose of assisting investors and others in understanding the Company's financial position and results of operations as well as the Company's objectives and strategic priorities, and may not be appropriate for other purposes. The Company does not undertake any obligation to update publicly or to revise any forward looking information, whether as a result of new information, future events or otherwise, except as required by law.

2015 Second Quarter Highlights

For the 13 and 26-week periods ended August 1, 2015 and August 2, 2014
(unaudited)

<i>(in CAD millions, except per share amounts)</i>	Second Quarter			Year-to-Date		
	2015	% Chg 2015 vs 2014	2014	2015	% Chg 2015 vs 2014	2014
Total revenue	\$ 768.8	(9.1)%	\$ 845.8	\$ 1,466.0	(9.4)%	\$1,617.5
Total same store sales (%) ¹	(3.9)%		(6.8)%	(4.1)%		(7.1)%
Adjusted EBITDA ¹	(27.1)	(68.3)%	(16.1)	(77.6)	(4.6)%	(74.2)
Net earnings (loss)	13.5	163.4 %	(21.3)	(45.6)	52.7 %	\$ (96.5)
Basic and diluted net earnings (loss) per share	0.13	161.9 %	(0.21)	(0.45)	52.6 %	(0.95)

<i>(in CAD millions)</i>	As at August 1, 2015	% Chg 2015 vs 2014	As at August 2, 2014	As at August 1, 2015	% Chg 2015 vs 2014	As at January 31, 2015
Cash and cash equivalents	\$ 208.7	(21.6)%	\$ 266.1	\$ 208.7	(19.4)%	\$ 259.0
Inventories	709.1	(3.1)%	732.0	709.1	10.6 %	641.4
Total assets	1,701.7	(19.6)%	2,116.3	1,701.7	(4.1)%	1,774.1
Shareholders' equity	529.8	(45.7)%	976.1	529.8	(7.2)%	570.8

¹ Total same store sales and Adjusted EBITDA are operating performance and non-IFRS measures, respectively. See Section 1.d. "Use of Non-IFRS Measures, Measures of Operating Performance and Reconciliation of Net Earnings (Loss) to Adjusted EBITDA".

Common Share Market Information

(Toronto Stock Exchange - Trading Symbol SCC)

	Second Quarter		Year-to-Date	
	2015	2014	2015	2014
High	\$ 11.32	\$ 16.45	\$ 12.60	\$ 17.12
Low	\$ 7.11	\$ 13.51	\$ 7.11	\$ 12.31
Close	\$ 7.50	\$ 14.02	\$ 7.50	\$ 14.02
Average daily trading volume	12,772	15,501	14,443	17,895

(NASDAQ - Trading Symbol SRSC) - quoted in U.S. dollars

	Second Quarter		Year-to-Date	
	2015	2014 ¹	2015	2014 ¹
High	\$ 9.24	\$ —	\$ 10.00	\$ —
Low	\$ 5.47	\$ —	\$ 5.47	\$ —
Close	\$ 5.77	\$ —	\$ 5.77	\$ —
Average daily trading volume	31,540	—	36,086	—

¹ Began trading on NASDAQ during the 13-week period ended November 1, 2014

- Revenue was \$768.8 million in Q2 2015, a decrease of 9.1%, as compared to Q2 2014. The decrease was primarily attributable to sales declines in home décor, Craftsman[®], Air & Water Products ("CAWP"), electronics, ranges, microwaves, men's wear, women's apparel and footwear, partially offset by increased sales in laundry. Included in the total revenue decrease in Q2 2015 described above, was a decrease in catalogue sales in our Direct channel of \$12.9 million compared to Q2 2014, due to a shift in timing of the distribution of our catalogues and a decrease in the number of pages. Also included in the total revenue decrease in Q2 2015 was the effect of store closures subsequent to the end of Q2 2014, which negatively impacted revenue in Q2 2015 by \$23.9 million. Also included in the total revenue decrease in Q2 2015 was a decrease in Services and other revenue of \$9.6 million compared to Q2 2014, primarily related to a decline in logistics services to commercial customers provided through the Company's wholly-owned subsidiary S.L.H. Transport Inc. ("SLH"), reduced shipping fees on sales to customers through our Direct channel and the loss of rental revenue from the sale of shopping centre joint arrangements in Fiscal 2014.

- Total same store sales for Q2 2015 decreased by 3.9% compared to Q2 2014. Same store sales in our full-line and Sears Home stores combined (“Core Retail” stores) decreased by 1.0% in Q2 2015 compared to Q2 2014.
- The Company made progress on its strategic initiatives, having executed the following in Q2 2015:
 - Continued to implement inventory management initiatives that successfully decreased inventory by \$22.9 million as compared to Q2 2014. This included an \$18.4 million decrease related to store closures;
 - Cost management resulted in selling, administrative and other expenses decreasing by \$46.8 million in Q2 2015, as compared to Q2 2014. This decrease included the impact of non-recurring items included in selling, administrative and other expenses in both periods;
 - Subsequent to the end of Q2 2015, the Company announced further cost management initiatives with the objective of reducing recurring operating expenses by approximately \$100.0 million to \$125.0 million on an annualized basis compared to 2014. The Company expects to implement many of these initiatives during the 13-week period ended October 31, 2015 and the Company expects to incur non-recurring implementation costs of approximately \$15.0 million to \$20.0 million during that period;
 - Launched a revamped sears.ca website on July 22, 2015. The revamped website features an enhanced look and feel and improved navigation. The revamped website also features improved predictive search functionality that allows customers the ability to find items by more general search terms, as well as customizable filtering capabilities. To capture consumers using mobile devices to shop, the revamped website offers a seamless experience regardless of the platform used;
 - Revitalized the Company’s 365 Night Comfort Guarantee for mattresses to emphasize Sears commitment to high quality products and customer satisfaction;
 - Subsequent to the end of Q2 2015, the Company announced that it had partnered with Nygard and other vendors to open vendor-branded shop-in-shop concepts in our stores;
 - Subsequent to the end of Q2 2015, the Company announced that it had partnered with world-renowned designer Debbie Travis to launch a new line of home décor and accessories. The Company expects to launch this line in Spring 2016;
 - Closed the sale and leaseback transactions with the Concord Pacific Group of Companies (“Concord”) previously announced on March 11, 2015, for net proceeds of \$130.0 million, involving the Company’s stores and surrounding area located at the North Hill Shopping Centre in Calgary, Alberta, Metropolis at Metrotown in Burnaby, British Columbia and Cottonwood Mall in Chilliwack, British Columbia. The Company will continue to operate the stores located at these shopping centres under the leases with no impact to customers or employees at these locations; and
 - Appointed Brandon G. Stranzl, Chairman of the Board of the Company, as Executive Chairman upon announcement that Chief Executive Officer Ron Boire would be departing the Company and the Board of the Company on August 28, 2015 to pursue another opportunity in the United States.
- The Company’s gross margin rate was 32.8% in Q2 2015, as compared to 33.3% in Q2 2014. The decrease was primarily due to the weakening Canadian dollar resulting in reduced margins in home décor, CAWP, major appliances and women’s apparel, partially offset by increased margins in children’s wear and men’s wear. Excluding the negative impact of the weakening Canadian dollar in Q2 2015, the gross margin rate would have improved by 240 bps to 35.7% in Q2 2015 compared to 33.3% in Q2 2014. The Company has an active program in place to respond to the effects of the weaker Canadian dollar. This program should help recover a reasonable portion of the current negative impact and mitigate similar risks in the future, and will flow through the financial results during the balance of 2015 and into 2016.
- Adjusted net loss before interest, taxes, depreciation and amortization (“Adjusted EBITDA”) in Q2 2015 was \$27.1 million, as compared to \$16.1 million in Q2 2014, a decrease of \$11.0 million. Adjusted EBITDA in Q2 2015 was negatively impacted by \$24.5 million due to the weakening Canadian dollar, \$2.9 million in restructuring costs and the loss of \$0.7 million in rental income from the sale of shopping centre joint arrangements, partially offset by an increase of \$2.1 million related to the closure of underperforming stores subsequent to the end of Q2 2014. Excluding the impact of these items, Adjusted EBITDA in Q2 2015 improved by \$15.0 million compared to in Q2 2014.

- Basic and diluted net earnings per common share was \$0.13 in Q2 2015, as compared to a basic and diluted net loss per common share of \$0.21 in Q2 2014.
- The Company's balance sheet continues to be strong with total cash and cash equivalents of \$208.7 million and no cash drawings on the \$300.0 million Amended Credit Facility (as defined in Section 2 "Consolidated Financial Position, Liquidity and Capital Resources") as at August 1, 2015. Refer to Note 9 "Long-term obligations and finance costs" in the Q2 2015 financial statements for additional information.

1. Company Performance

a. Merchandising Operations and Business Overview

For Fiscal 2014, the Company was comprised of two reportable segments, Merchandising and Real Estate Joint Arrangements. Prior to Fiscal 2015, the Company disposed of its real estate joint arrangement interests in shopping centres. As a result, the Company is now comprised of one reportable segment, Merchandising. The Company's merchandising operations includes the sale of goods and services through the Company's Retail channels, which includes its Full-Line, Sears Home, Hometown, Outlet, Corbeil Electric Inc. ("Corbeil") stores and its Direct (catalogue/internet) channel. It also includes service revenue related primarily to logistics services provided through SLH and product repair. Commission revenue includes travel, home improvement services, wireless and long distance plans, insurance and performance payments received from JPMorgan Chase under the Company's credit card marketing and servicing alliance with JPMorgan Chase. Licensee fee revenue is comprised of payments received from licensees that operate within the Company's stores (See Note 16 "Financial instruments" in the Q2 2015 financial statements for additional information on our licensees).

As at August 1, 2015, January 31, 2015 and August 2, 2014, the Company's locations were distributed across the country as follows:

	Atlantic	Québec	Ontario	Prairies	Pacific	As at August 1, 2015 Total	As at January 31, 2015 Total	As at August 2, 2014 Total
Full-Line Department stores ¹	10	23	31	18	13	95	113	113
Sears Home stores	2	10	19	9	5	45	47	48
Outlet stores ¹	3	5	13	3	2	26	11	11
Specialty type: Appliances and Mattresses stores	—	—	—	—	—	—	1	4
Corporate stores	15	38	63	30	20	166	172	176
Hometown stores	39	18	36	49	35	177	201	222
Sears Home Services Showrooms²	—	—	—	—	—	—	—	8
Corbeil Franchise stores	—	14	2	—	—	16	16	15
Corbeil Corporate stores	—	13	5	—	—	18	19	19
Corbeil	—	27	7	—	—	34	35	34
National Logistics Centres³	—	1	2	2	1	6	6	6
Travel offices	6	21	35	12	10	84	96	96
Catalogue merchandise pick-up locations	184	303	362	318	113	1,280	1,335	1,393

¹ During Q2 2015, the Company reclassified 16 full-line department stores to Outlet stores based on the nature of their operations.

² During Fiscal 2014, the Company closed all Sears Home Services Showrooms in connection with the SHS Services Management Inc ("SHS") receivership described in Note 16 "Financial instruments" in the Q2 2015 financial statements.

³ Sears operates six logistics centres strategically located across the country, each referred to as a National Logistics Centres ("NLC"). The NLCs are comprised of seven owned and two leased warehouse facilities which serve all channels of the business. See Note 14 "Assets and liabilities classified as held for sale" in the Q2 2015 financial statements for additional information.

Subsequent to the end of Q2 2015, the Company announced it would be closing two leased Outlet stores during the 13-week period ended October 31, 2015.

As at August 1, 2015 and January 31, 2015, the number of selling units leased and owned by the Company was as follows:

	As at August 1, 2015			As at January 31, 2015		
	Leased	Owned	Total	Leased	Owned	Total
Full-Line Department ¹	86	9	95	99	14	113
Sears Home stores	43	2	45	45	2	47
Outlet stores ¹	24	2	26	11	—	11
Specialty type: Appliances and Mattresses stores	—	—	—	1	—	1
Hometown stores ²	21	—	21	22	—	22
Corbeil ²	30	—	30	31	—	31
Total³	204	13	217	209	16	225

1 During Q2 2015, the Company reclassified 16 full-line department stores to Outlet stores based on the nature of their operations.

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

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

As at August 1, 2015, January 31, 2015 and February 1, 2014, the gross square footage for corporate store locations (both owned and leased) and NLCs was as follows:

(in square feet millions)	As at August 1, 2015	As at January 31, 2015	As at February 1, 2014
Full-Line Department ¹	12.4	14.1	15.2
Sears Home stores	2.0	2.1	2.1
Outlet stores ¹	2.4	0.9	0.9
Other ²	0.3	0.3	0.3
NLCs	6.6	6.6	6.5
Total	23.7	24.0	25.0

1 During Q2 2015, the Company reclassified 16 full-line department stores to Outlet stores based on the nature of their operations.

2 Other includes Hometown and Corbeil stores that are not independently owned and operated. Other also included Appliances and Mattresses as at January 31, 2015 and prior.

b. Strategic Initiatives

Sears Canada has developed a set of three strategic initiatives that form the basis of the Company's approach, which are designed to improve financial and operational results, utilize the Company's valuable cross-country footprint and enhance the shopping experience for Canadian consumers in an increasingly competitive retail landscape. A number of actions are being taken to deliver high-quality products that will drive sales, maintain a seamless customer experience across all channels and formats, while continuing to adjust the operating expense base and network to better reflect the size and needs of the current business.

The three strategic initiatives are as follows:

1. **Increase revenue** - Actions that will increase top-line revenue, with the primary focus on building partnerships with vendors that include a commitment to a shop-in-shop concept where the vendors' expertise in product development matched with the Company's extensive distribution capability, will connect great products with Canadian families coast to coast.

2. **Operate profitably** - Actions that continue to reduce the inefficient spend in the Company, which will provide for quarter-over-quarter improvements in EBITDA by keeping costs aligned with the revenue generated by the business.
3. **Maintain a strong balance sheet** - Actions that strengthen the Company's balance sheet with cash to create a runway for improved earnings and financial stability to ensure Sears is able to maintain its financial flexibility and liquidity. Real estate transactions may form a portion of this area of focus, however Sears is committed to maintaining a significant presence across Canada in locations that are important to its retail business.

During Q2 2015 the Company made progress on its strategic initiatives, having executed the following:

Increase revenue

- Launched a revamped sears.ca website on July 22, 2015. The revamped website features an enhanced look and feel and improved navigation. The revamped website also features improved predictive search functionality that allows customers the ability to find items by more general search terms, as well as customizable filtering capabilities. To capture consumers using mobile devices to shop, the revamped website offers a seamless experience regardless of the platform used;
- Revitalized the Company's 365 Night Comfort Guarantee which allows customers to exchange their mattress once after 30 nights and within 365 days of delivery to emphasize Sears commitment to high quality products and customer satisfaction;
- Succeeded in executing the new concierge service with an improved home delivery experience for the customer and improved on time and first time delivery. The new concierge service dedicates a Sears team member as a single point of contact for the customer until the purchased merchandise has been delivered to the customer's home and installed if applicable;
- Subsequent to the end of Q2 2015, the Company announced that it had partnered with Nygard and other vendors to open vendor-branded shop-in-shop concepts in our stores; and
- Subsequent to the end of Q2 2015, the Company announced that it had partnered with world-renowned designer Debbie Travis to launch a new line of home décor and accessories. The Company expects to launch this line in Spring 2016.

Operate profitably

- Cost management resulted in selling, administrative and other expenses decreasing by \$46.8 million in Q2 2015, as compared to Q2 2014. Excluding transformation expenses and impairment charges included in selling, administrative and other expenses in Q2 2014 and other non-recurring items included in selling, administrative and other expenses in both periods, cost management resulted in operating expense reductions of \$26.9 million or 8.4% in Q2 2015, as compared to Q2 2014; and
- Subsequent to the end of Q2 2015, the Company announced further cost management initiatives with the objective of reducing recurring operating expenses by approximately \$100.0 million to \$125.0 million on an annualized basis compared to 2014. The Company expects to implement many of these initiatives during the 13-week period ended October 31, 2015 and the Company expects to incur non-recurring implementation costs of approximately \$15.0 million to \$20.0 million during that period.

Maintain a strong balance sheet

- Continued to implement an inventory management initiative targeted at reducing surpluses and out-of-season content to allow adequate room for in-season merchandise. As of the end of Q2 2015, this initiative had successfully decreased overall inventory by \$22.9 million since Q2 2014. The decrease from Q2 2014 included an \$18.4 million decrease related to store closures;

- Closed the sale and leaseback transactions with the Concord Pacific Group of Companies (“Concord”) previously announced on March 11, 2015, for net proceeds of \$130.0 million. The sale and leaseback transactions included the Company’s stores and surrounding area located at the North Hill Shopping Centre in Calgary, Alberta, Metropolis at Metrotown in Burnaby, British Columbia and Cottonwood Mall in Chilliwack, British Columbia. The Company has leased each property back for a term of 30 years with early termination options available to both the Company and Concord, and the Company will continue to operate the stores located at these shopping centres under the leases with no impact to customers or employees at these locations; and
- Subsequent to the end of Q2 2015, the Company announced that it had reached an agreement to sell a warehouse for \$18.0 million, and had reached an agreement for the sale and leaseback of a non-mall based store property (which the Company will continue to operate post-sale) for an additional \$10.0 million. Both agreements are both subject to closing conditions. The Company's expectation is that these transactions are likely to close in the fourth quarter of Fiscal 2015, but there can be no assurance that either of the transactions will be completed on the agreed or contemplated terms or at all.

During Q2 2015, the Company appointed Brandon G. Stranzl, Chairman of the Board of the Company, as Executive Chairman, upon announcement that Chief Executive Officer (“CEO”) Ron Boire would be departing the Company and the Board of the Company on August 28, 2015 to pursue another opportunity in the United States. Brandon will continue to execute the current strategy with the management team while the Company searches for a new President and CEO.

c. Quarterly Performance

The Company’s operations are seasonal in nature. Accordingly, merchandise and service revenue, as well as performance payments received from JPMorgan Chase, referred to as commission revenue, will vary by quarter based upon consumer spending behaviour. 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 aligned with its strategic initiatives and expected consumer demands. Businesses that generate revenue from the sale of seasonal merchandise and services are subject to the risk of changes in consumer spending behaviour as a result of unseasonable weather patterns.

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 total same store sales for any particular period may increase or decrease.

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

	Second Quarter		First Quarter		Fourth Quarter		Third Quarter	
	2015	2014	2015	2014	2014	2013	2014	2013
<i>(in CAD millions, except per share amounts)</i>								
Total revenue	\$ 768.8	\$ 845.8	\$ 697.2	\$ 771.7	\$ 972.5	\$ 1,182.3	\$ 834.5	\$ 982.3
Net earnings (loss)	\$ 13.5	\$ (21.3)	\$ (59.1)	\$ (75.2)	\$ (123.6)	\$ 373.7	\$ (118.7)	\$ (48.8)
Basic net earnings (loss) per share	\$ 0.13	\$ (0.21)	\$ (0.58)	\$ (0.74)	\$ (1.21)	\$ 3.67	\$ (1.16)	\$ (0.48)
Diluted net earnings (loss) per share	\$ 0.13	\$ (0.21)	\$ (0.58)	\$ (0.74)	\$ (1.21)	\$ 3.67	\$ (1.16)	\$ (0.48)

d. Use of Non-IFRS Measures, Measures of Operating Performance and Reconciliation of Net Earnings (Loss) to Adjusted EBITDA

The Q2 2015 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.

Total same store sales is a measure of operating performance used by management, the retail industry and investors to compare retail operations, excluding the impact of store openings and closures. Total same store sales represents merchandise sales generated through operations in the Company's Full-line, Sears Home, Hometown, Outlet and Corbeil stores that were continuously open during both of the periods being compared. Core Retail same store sales represents merchandise sales generated through operations in the Company's Full-line and Sears Home stores that were continuously open during both of the periods being compared. More specifically, the same store sales metrics compare the same calendar weeks for each period and represents the 13 and 26-week periods ended August 1, 2015 and August 2, 2014. The calculation of same store sales is a performance metric and may be impacted by store space expansion and contraction. The same store sales metrics exclude the Direct channel.

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

<i>(in CAD millions)</i>	Second Quarter		Year-to-Date	
	2015	2014	2015	2014
Total merchandising revenue	\$ 768.8	\$ 844.4	\$ 1,466.0	\$ 1,614.4
Non-comparable sales	167.5	197.7	339.1	401.3
Total same store sales	601.3	646.7	1,126.9	1,213.1
Percentage change in total same store sales	(3.9)%	(6.8)%	(4.1)%	(7.1)%
Percentage change in total same store sales by category				
Apparel & Accessories	(8.3)%	(2.9)%	(9.0)%	(1.5)%
Home & Hardlines	(1.0)%	(9.3)%	(0.8)%	(10.7)%
Percentage change in Core Retail same store sales	(1.0)%	(7.7)%	(2.3)%	(7.8)%
Percentage change in Core Retail same store sales by category				
Apparel & Accessories	(3.5)%	(3.7)%	(6.1)%	(2.4)%
Home & Hardlines	0.9 %	(11.1)%	0.9 %	(12.3)%

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

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

<i>(in CAD millions, except per share amounts)</i>	Second Quarter		Year-to-Date	
	2015	2014	2015	2014
Net earnings (loss)	\$ 13.5	\$ (21.3)	\$ (45.6)	\$ (96.5)
Transformation expense ¹	—	7.9	—	15.5
Gain on sale and leaseback transactions ²	(67.2)	—	(67.2)	—
Gain on sale of interest in joint arrangements ³	—	(20.5)	—	(20.5)
Goodwill impairment ⁴	—	2.6	—	2.6
Other asset impairment ⁵	—	15.7	—	15.7
Lease exit costs ⁶	—	0.1	—	3.9
Gain on settlement of retirement benefits ⁷	—	(11.4)	(5.1)	(10.6)
TBI costs ⁸	6.4	—	6.4	—
SHS warranty and other costs ⁹	—	—	—	6.6
Depreciation and amortization expense	13.6	21.8	26.1	45.4
Finance costs	2.1	1.7	6.0	4.2
Interest income	(0.3)	(0.7)	(0.5)	(1.4)
Income tax expense (recovery)	4.8	(12.0)	2.3	(39.1)
Adjusted EBITDA ¹⁰	(27.1)	(16.1)	(77.6)	(74.2)
Basic net earnings (loss) per share	\$ 0.13	\$ (0.21)	\$ (0.45)	\$ (0.95)

¹ Transformation expense during 2014 relates primarily to severance costs incurred during the period. These costs were included in "Selling, administrative and other expenses" in Q2 2014 and year-to-date 2014 in the unaudited Condensed Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss).

² Gain on sale and leaseback transactions represents the net gain related to selling and leasing back certain properties owned by the Company located in Burnaby, British Columbia, Chilliwack, British Columbia and Calgary, Alberta, described in Note 22 "Gain on sale and leaseback transactions" of the Q2 2015 financial statements.

³ Gain on sale of interest in joint arrangements represents the gain associated with selling the Company's interest in certain properties co-owned with Ivanhoe Cambridge during Q2 2014, described in Note 15 "Gain on sale of interest in joint arrangements" of the Q2 2015 financial statements.

⁴ Goodwill impairment represents the charge related to the write-off of goodwill related to the Corbeil cash generating unit during Q2 2014, described in Note 8 "Goodwill" of the Q2 2015 financial statements.

⁵ Other asset impairment represents the charge related to writing down the carrying value of the property, plant and equipment of certain cash generating units during Q2 2014, described in Note 7 "Property, plant and equipment" of the Q2 2015 financial statements.

⁶ Lease exit costs relate primarily to costs incurred to exit certain properties during 2014. These costs were included in "Selling, administrative and other expenses" in Q2 2014 and year-to-date 2014 in the unaudited Condensed Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss).

⁷ Gain on settlement of retirement benefits relates to the settlement of retirement benefits of eligible members covered under the non-pension retirement plan during Q1 2015 and Q2 2014, described in Note 12 "Retirement benefit plans" of the Q2 2015 financial statements.

⁸ TBI costs represent the estimated costs to the Company related to TravelBrands Inc. (a licensee of the Company) filing for creditor protection, described in Note 16 "Financial instruments" of the Q2 2015 financial statements.

⁹ SHS warranty and other costs represent the estimated costs to the Company related to potential claims for work that had been performed, prior to SHS Services Management Inc. (a former licensee of the Company) announcing it was in receivership, described in Note 16 "Financial instruments" of the Q2 2015 financial statements.

¹⁰ 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.

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

e. Consolidated Financial Results

<i>(in CAD millions)</i>	Second Quarter			Year-to-Date		
	2015	% Chg 2015 vs 2014	2014	2015	% Chg 2015 vs 2014	2014
Revenue	\$ 768.8	(9.1)%	\$ 845.8	\$ 1,466.0	(9.4)%	\$ 1,617.5
Cost of goods and services sold	516.9	(8.4)%	564.2	979.7	(9.5)%	1,082.7
Selling, administrative and other expenses	299.0	(13.5)%	345.8	596.4	(14.6)%	698.7
Operating loss	(47.1)	26.6 %	(64.2)	(110.1)	32.8 %	(163.9)
Gain on sale and leaseback transactions	67.2	100.0 %	—	67.2	100.0 %	—
Gain on sale of interest in joint arrangements	—	(100.0)%	20.5	—	(100.0)%	20.5
Gain on settlement of retirement benefits	—	(100.0)%	11.4	5.1	(51.9)%	10.6
Finance costs	2.1	23.5 %	1.7	6.0	42.9 %	4.2
Interest income	0.3	(57.1)%	0.7	0.5	(64.3)%	1.4
Earnings (loss) before income taxes	18.3	155.0 %	(33.3)	(43.3)	68.1 %	(135.6)
Income tax (expense) recovery	(4.8)	(140.0)%	12.0	(2.3)	(105.9)%	39.1
Net earnings (loss)	\$ 13.5	163.4 %	\$ (21.3)	\$ (45.6)	52.7 %	\$ (96.5)

Total revenue in Q2 2015 decreased by 9.1% to \$768.8 million compared to \$845.8 million in Q2 2014. Total same store sales decreased by 3.9% in Q2 2015 compared to Q2 2014, while same store sales in Core Retail stores decreased by 1.0% in Q2 2015 compared to Q2 2014. The revenue in Q2 2015 relating to Home & Hardlines decreased by \$30.3 million, or 7.5%, compared to Q2 2014, primarily due to sales volume declines in home décor, CAWP, toys, seasonal merchandise, electronics, ranges and microwave, partially offset by increased sales in laundry. Included in the total revenue decrease in Q2 2015 for Home & Hardlines was the effect of store closures subsequent to the end of Q2 2014, which negatively impacted revenue by \$15.9 million. Total same store sales in Home & Hardlines decreased by 1.0%, while same store sales in Home & Hardlines in Core Retail stores increased by 0.9% in Q2 2015 compared to Q2 2014. The revenue in Q2 2015 relating to Apparel & Accessories decreased by \$38.0 million, or 13.2%, compared to Q2 2014, primarily due to sales declines in all product categories. Included in the total revenue decrease in Q2 2015 for Apparel & Accessories was the effect of store closures subsequent to the end of Q2 2014, which negatively impacted revenue by \$8.0 million. Total same store sales in Apparel & Accessories decreased by 8.3%, while same store sales in Apparel & Accessories in Core Retail stores decreased by only 3.5% in Q2 2015 compared to Q2 2014. Also included in the total revenue decrease in Q2 2015 was a decrease in catalogue sales in our Direct channel of \$12.9 million compared to Q2 2014, due to a shift in timing of the distribution of our catalogues and a decrease in the number of pages. Also included in the total revenue decrease in Q2 2015 was a decrease in Services and other revenue of \$9.6 million, or 13.9%, compared to Q2 2014. This decrease was primarily related to reduced revenue from logistics services to commercial customers provided through SLH, reduced shipping fees on sales to customers through our Direct channel and the loss of rental revenue from the sale of shopping centre joint arrangements in Fiscal 2014.

Total revenue decreased by 9.4% to \$1,466.0 million in the first half of Fiscal 2015 compared to the same period in Fiscal 2014. Total same store sales decreased by 4.1% in the first half of Fiscal 2015 compared to the same period in Fiscal 2014, while same store sales in Core Retail stores decreased by only 2.3% in the first half of Fiscal 2015 compared to the same period in Fiscal 2014. The revenue in the first half of Fiscal 2015 relating to Home & Hardlines decreased by \$51.4 million, or 6.8%, compared to the first half of Fiscal 2014, primarily due to sales volume declines in home décor, CAWP, fitness & recreation, toys, seasonal merchandise, electronics, floorcare, sewing, ranges, microwave and refrigerators, partially offset by increased sales in home furnishing and laundry. Included in the total revenue decrease in the first half of Fiscal 2015 for Home & Hardlines was the effect of store closures subsequent to the end of Q2 2014, which negatively impacted revenue by \$26.7 million. Total same store sales in Home & Hardlines decreased by 0.8%, while same store sales in Home & Hardlines in Core Retail stores increased by 0.9% in the first half of Fiscal 2015 compared to the same period in Fiscal 2014. The revenue in the first half of Fiscal 2015 relating to Apparel & Accessories decreased by \$75.1 million, or 13.6%, compared to the first half of Fiscal 2014, primarily due to sales declines in all product categories. Included in the total revenue decrease in the first half of Fiscal 2015 for Apparel & Accessories was the effect of store closures subsequent to the end of Q2 2014, which negatively impacted revenue by \$16.7 million. Total same store sales in Apparel & Accessories decreased by 9.0%, while same store sales in Apparel & Accessories in Core Retail stores decreased by only 6.1% in the first half of Fiscal 2015 compared to the same period in Fiscal 2014. Also included in the total revenue decrease in the first half of Fiscal 2015 was a decrease in catalogue sales in our Direct channel of \$23.8 million compared to the first half of Fiscal 2014, due to a shift in timing of the distribution of our catalogues and a decrease in the number of pages. Also included in the total revenue decrease in the first half of Fiscal 2015 was a decrease in Services and other revenue of \$24.5 million, or 17.1%, compared to the first half of Fiscal 2014. This decrease was primarily related to reduced revenue from logistics services to commercial customers provided through SLH, reduced sales of extended warranty, reduced shipping fees on sales to customers through our Direct channel and the loss of rental revenue from the sale of shopping centre joint arrangements in Fiscal 2014.

In Q2 2015, total revenue recognized from points redemption under the loyalty program was \$12.8 million (Q2 2014: \$11.1 million). Total revenue deferred related to points issuances in Q2 2015 increased to \$11.9 million (Q2 2014: \$11.2 million), primarily due to an increase in points issuance from third-party credit card purchases as well as a higher expected redemption rate. Total revenue recognized in Q2 2015 for unredeemed points (by exclusion from deferral in the loyalty point redemption rate) increased to \$2.9 million (Q2 2014: \$2.4 million), primarily due to an increase in total points outstanding, partially offset by a higher expected redemption rate.

In the first half of the Fiscal 2015, total revenue recognized from points redemption under the loyalty program was \$27.3 million (in the first half of Fiscal 2014: \$23.4 million). Total revenue deferred related to points issuances increased to \$24.9 million (in the first half of Fiscal 2014: \$23.1 million), primarily due to an increase in points issuance from third-party credit card purchases as well as a higher expected redemption rate. Total revenue recognized in the first half of Fiscal 2015 for unredeemed points (by exclusion from deferral in the loyalty point redemption rate) increased to \$5.9 million (in the first half of Fiscal 2014: \$4.6 million) primarily due to an increase in total points outstanding, partially offset by a higher expected redemption rate.

Cost of goods and services sold was 8.4% lower in Q2 2015 and 9.5% lower in the first half of Fiscal 2015 compared to the same period in Fiscal 2014. The decrease was primarily attributable to lower sales volumes, which included the effect of store closures subsequent to the end of Q2 2014, partially offset by the weakening Canadian dollar which negatively impacted Q2 2015 and the first half of Fiscal 2015 by \$22.9 million and \$33.3 million, respectively.

The Company's gross margin rate was 32.8% in Q2 2015 compared to 33.3% in Q2 2014. The decrease in the gross margin rate in Q2 2015 was primarily attributable to reduced margins in home décor, CAWP, major appliances and women's apparel, partially offset by increased margins in children's wear and men's wear. The gross margin rate in the first half of Fiscal 2015 was 33.2% compared to 33.1% for the same period in Fiscal 2014. The increase in the first half of Fiscal 2015 was primarily attributable to increased margins in jewellery, accessories & luggages, footwear, women's intimates, children's wear and men's wear, partially offset by reduced margins in home décor, home furnishing, CAWP and major appliances. Excluding the negative impact of the weakening Canadian dollar in Q2 2015 and the first half of Fiscal 2015, the gross margin rate would have improved by 240 bps (35.7% in Q2 2015 compared to 33.3% in Q2 2014) and 230 bps (35.4% in the first half of Fiscal 2015 compared to 33.1% in the first half of Fiscal 2014), respectively. The Company has an active program in place to respond to the effects of the weaker Canadian dollar. This program should help recover a reasonable portion of the current negative impact and mitigate similar risks in the future, and will flow through the financial results during the balance of 2015 and into 2016.

Selling, administrative and other expenses, including depreciation and amortization expenses decreased by \$46.8 million, or 13.5%, to \$299.0 million in Q2 2015 compared to the same period in Fiscal 2014. Excluding transformation expenses and impairment charges in Q2 2014 and other non-recurring items in both periods as shown in the reconciliation of the Company's net earnings (loss) to Adjusted EBITDA in Section 1.d. "Use of Non-IFRS Measures, Measures of Operating Performance and Reconciliation of Net Earnings (Loss) to Adjusted EBITDA", selling, administrative and other expenses declined by \$26.9 million, or 8.4%, in Q2 2015 compared to Q2 2014. The decrease in expenses, excluding non-recurring items, was primarily attributable to lower spending on advertising and payroll, as well as lower depreciation expenses. Advertising expense decreased primarily due to reductions in retail advertising and catalogue pages. Payroll expense decreased primarily due to a reduced number of employees, as a result of transformation initiatives announced in Fiscal 2014.

Selling administrative and other expenses, including depreciation and amortization expenses decreased by \$102.3 million or 14.6% to \$596.4 million in the first half of Fiscal 2015 compared to the same period in Fiscal 2014. Excluding transformation expenses and impairment charges in the first half of Fiscal 2014 and other non-recurring items in both periods as shown in the reconciliation of the Company's net earnings (loss) to Adjusted EBITDA in Section 1.d. "Use of Non-IFRS Measures, Measures of Operating Performance and Reconciliation of Net Earnings (Loss) to Adjusted EBITDA", selling, administrative and other expenses declined by \$64.4 million, or 9.8%, in the first half of Fiscal 2015 compared to the first half of Fiscal 2014. The decrease in expenses, excluding non-recurring items, was attributable to lower spending on advertising and payroll, as well as lower depreciation expenses. Advertising expense decreased primarily due to reductions in retail advertising and catalogue pages. Payroll expense decreased primarily due to a reduced number of associates, as a result of previously announced transformation actions.

Depreciation and amortization expense in Q2 2015 and in the first half of Fiscal 2015 decreased by \$8.2 million and \$19.3 million, respectively, compared to the same periods in Fiscal 2014, primarily due to the impairment of certain assets in Fiscal 2014, the disposal of assets related to store closures subsequent to the end of Q2 2014 and the completion of the sale and leaseback transactions during Q2 2015, as depreciation would have ceased on the assets being sold once they became held for sale during the 13-week period ended May 2, 2015. 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.

During Q2 2015, the Company completed the sale and leaseback of three properties to Concord as previously announced on March 11, 2015, for net proceeds of \$130.0 million (\$140.0 million of total consideration less \$10.0 million of adjustments), to Concord. The land and building sold for each property had a total net carrying value of approximately \$53.1 million previously included in "Property, plant and equipment" in the unaudited Condensed Consolidated Statements of Financial Position. The total gain on the sale and leaseback transactions was \$76.9 million, \$67.2 million of which was recognized immediately in the unaudited Condensed Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). The remaining \$9.7 million of the gain was deferred and is being amortized between four to seven years as a reduction in rent expense, included in "Selling, administrative and other expenses" in the unaudited Condensed Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). See Note 22 "Gain on sale and leaseback transactions" of the Q2 2015 financial statements for additional information.

Finance costs in Q2 2015 were comparable to Q2 2014. Finance costs in the first half of Fiscal 2015 increased by \$1.8 million compared to the same period in Fiscal 2014, primarily attributable to interest on accruals for uncertain tax positions partially offset by lower commitment fees related to our Amended Credit Facility (as defined in Section 2 "Consolidated Financial Position, Liquidity and Capital Resources").

Interest income in Q2 2015 and in the first half of Fiscal 2015 decreased by \$0.4 million and \$0.9 million, respectively, compared to the same periods in Fiscal 2014, primarily due to lower average cash balances during the first half of Fiscal 2015 compared to the first half of Fiscal 2014.

Income tax expense in Q2 2015 and in the first half of Fiscal 2015 was \$4.8 million and \$2.3 million, respectively, compared to an income tax recovery of \$12.0 million and \$39.1 million for the same periods in Fiscal 2014. The increase in income taxes expense is primarily due to not recognizing the benefit of loss carry forwards described in Note 19 "Income taxes" in the Q2 2015 financial statements.

Adjusted EBITDA in Q2 2015 was a loss of \$27.1 million compared to a loss of \$16.1 million in Q2 2014, a decrease of \$11.0 million. Adjusted EBITDA in the first half of Fiscal 2015 was a loss of \$77.6 million compared to a loss of \$74.2 million in the same period in Fiscal 2014, a decrease of \$3.4 million. Adjusted EBITDA in Q2 2015 was negatively impacted by \$24.5 million due to the weakening Canadian dollar, \$2.9 million in restructuring costs and the loss of \$0.7 million in rental income from the sale of shopping centre joint arrangements, partially offset by an increase of \$2.1 million related to the closure of underperforming stores subsequent to the end of Q2 2014. Adjusted EBITDA in the first half of Fiscal 2015 was negatively impacted by \$34.5 million due to the weakening Canadian dollar, \$4.4 million in restructuring costs and the loss of \$1.6 million in rental income from the sale of shopping centre joint arrangements, partially offset by an increase of \$6.8 million due to the closure of underperforming stores subsequent to the end of Q2 2014. Excluding the impact of these items, Adjusted EBITDA in Q2 2015 and in the first half of Fiscal 2015 improved by \$15.0 million and \$30.3 million, respectively, compared to the same periods in Fiscal 2014.

2. Consolidated Financial Position, Liquidity and Capital Resources

Current assets as at August 1, 2015 were \$1,140.0 million, which was \$9.8 million lower than as at January 31, 2015. The decrease was primarily due to a \$50.3 million decrease in cash and cash equivalents and a \$49.1 million decrease in income taxes recoverable primarily from refunds related to the carry back of losses generated by the Company in Fiscal 2014. The decreases were partially offset by a \$67.7 million increase in inventories due to normal seasonal purchasing, a \$12.6 million increase in assets classified as held for sale due to the announcement of the future closure of the Park Street Logistics Centre described in Note 14 “Assets and liabilities classified as held for sale” in the Q2 2015 financial statements and a \$10.0 million increase in prepaid expenses primarily due to property tax payments.

Current liabilities as at August 1, 2015 were \$617.3 million, which was \$10.5 million lower than as at January 31, 2015, primarily due to a \$22.9 million decrease in other taxes payable due to payment of commodity taxes collected, an \$8.5 million decrease in provisions primarily from severance payments related to previously announced transformation actions and a \$7.6 million decrease in deferred revenue primarily related to reduced sales of gift cards. The decreases were partially offset by a \$26.9 million increase in accounts payable and accrued liabilities due to normal seasonal purchasing.

Inventories were \$709.1 million as at August 1, 2015, as compared to \$641.4 million as at January 31, 2015. The \$67.7 million increase was due to normal seasonal purchasing.

Total cash and cash equivalents was \$208.7 million as at August 1, 2015, as compared to \$259.0 million as at January 31, 2015. The decrease of \$50.3 million was primarily due to use of cash for operating activities, partially offset by the net proceeds received from the sale and leaseback transactions with Concord described in Note 22 “Gain on sale and leaseback transactions” in the Q2 2015 financial statements.

Total assets and liabilities as at the end of Q2 2015, Fiscal 2014, and Q2 2014 were as follows:

<i>(in CAD millions, at period end)</i>	As at August 1, 2015	As at January 31, 2015	As at August 2, 2014
Total assets	\$ 1,701.7	\$ 1,774.1	\$ 2,116.3
Total liabilities	1,171.9	1,203.3	1,140.2

Total assets as at August 1, 2015 decreased by \$72.4 million to \$1,701.7 million, as compared to \$1,774.1 million as at the end of Fiscal 2014, primarily due to decreases in cash and cash equivalents of \$50.3 million, property, plant and equipment of \$76.5 million primarily due to the sale of assets to Concord and depreciation and income taxes recoverable of \$49.1 million, partially offset by increases in inventories of \$67.7 million and intangible assets of \$18.4 million primarily related to expenditures for upgrades to the Company's Information Technology (“IT”) infrastructure.

Total liabilities as at August 1, 2015 decreased by \$31.4 million to \$1,171.9 million, as compared to \$1,203.3 million at the end of Fiscal 2014, primarily due to decreases in other taxes payable of \$22.9 million, retirement benefit liability of \$20.4 million primarily due to the settlement of health and dental benefits described in Note 12 “Retirement benefit plans” in the Q2 2015 financial statements, provisions of \$8.5 million and deferred revenue of \$7.6 million, partially offset by increases in accounts payable and accrued liabilities of \$26.9 million.

Cash flow used for operating activities

Cash flow used for operating activities increased by \$3.6 million in Q2 2015 to \$28.3 million, as compared to cash flow used for operating activities of \$24.7 million in Q2 2014. The Company's primary source of operating cash flow is the sale of goods and services to customers and the primary use of cash in operating activities is the purchase of merchandise inventories. The increase in cash used for operating activities in Q2 2015 was primarily attributable to a higher investment in inventory net of accounts payable and accrued liabilities (see Note 20 "Changes in non-cash working capital balances" in the Q2 2015 financial statements for additional information), partially offset by higher net earnings, as compared to Q2 2014.

Cash flow generated from investing activities

Cash flow generated from investing activities was \$121.0 million in Q2 2015, as compared to \$23.7 million in Q2 2014. The \$97.3 million increase in cash generated from investing activities was primarily due to the net proceeds received from Concord in Q2 2015 of \$130.0 million. Q2 2014 included \$33.5 million of proceeds from the sale of the Company's interest in certain shopping centre arrangements described in Note 15 "Gain on sale of interest in joint arrangements" in the Q2 2015 financial statements.

Cash flow used for financing activities

Cash flow used for financing activities decreased by \$1.6 million to \$1.4 million for Q2 2015, as compared to \$3.0 million for the same period in Fiscal 2014. Q2 2014 included the repayment of long-term obligations associated with the Company's interests in certain shopping centre joint arrangements that were sold during Fiscal 2014.

Contractual Obligations

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

<i>(in CAD millions)</i>	Carrying Amount	Contractual Cash Flow Maturities				
		Total	Within 1 year	1 year to 3 years	3 years to 5 years	Beyond 5 years
Accounts payable and accrued liabilities	\$ 386.3	\$ 386.3	\$ 386.3	\$ —	\$ —	\$ —
Finance lease obligations including payments due within one year ¹	26.1	32.9	5.6	10.3	9.6	7.4
Operating lease obligations ²	n/a	411.9	86.4	140.8	90.7	94.0
Royalties ²	n/a	14.7	0.6	6.1	5.4	2.6
Purchase agreements ^{2,3}	n/a	6.7	6.7	—	—	—
Retirement benefit plans obligations ⁴	387.0	75.7	20.2	40.5	14.8	0.2
	\$ 799.4	\$ 928.2	\$ 505.8	\$ 197.7	\$ 120.5	\$ 104.2

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 Amended Credit Facility as at August 1, 2015.

² Operating lease obligations, royalties and purchase agreements are not reported in the Q2 2015 financial statements.

³ Certain vendors require minimum purchase commitment levels over the term of the contract.

⁴ Payments are based on a funding valuation as at December 31, 2013 which was completed on June 30, 2014. Any obligation beyond 2019 would be based on a funding valuation to be completed as at December 31, 2016.

Retirement Benefit Plans

At the end of Q2 2015, the Company's retirement benefit plan obligations decreased by \$20.4 million to \$387.0 million, as compared to the end of Fiscal 2014.

The Company measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at January 31. The most recent actuarial valuation of the pension plan for funding purposes is dated December 31, 2013, and was completed on June 30, 2014. The Company also maintains a defined benefit non-pension retirement plan which provides life insurance, medical and dental benefits to eligible retired employees as well as short-term disability payments for active employees, through a health and welfare trust ("Other Benefits" plan). An actuarial valuation of the Other Benefits plan is performed at least every three years, with the last valuation completed as of January 31, 2014.

During the 26-week period ended August 1, 2015, the Company made a voluntary offer to settle medical and dental benefits of eligible members covered under the Other Benefits plan. The Company paid \$4.0 million to settle acceptances from the Other Benefits plan offer and recorded a pre-tax gain on settlement of retirement benefits of \$5.1 million (\$5.4 million settlement gain less fees of \$0.3 million) during the 26-week period ended August 1, 2015 related to these offers. This payment is included in “Retirement benefit plans contributions” in the unaudited Condensed Consolidated Statements of Cash Flows. To determine the settlement gain, the Other Benefits plan was remeasured as at the date of settlement, which also resulted in a \$2.0 million increase to “Other comprehensive income (loss)” (“OCI”).

During the 26-week period ended August 2, 2014, the Company’s defined benefit plan offered lump sum settlements to those terminated associates who previously elected to defer the payment of the defined benefit pension until retirement. The accepted offers of \$23.6 million were settled by the end of October 2014. In addition, the Company made a voluntary offer to settle medical and dental benefits of eligible members covered under the Other Benefits plan. The Company incurred expenses of \$0.8 million related to these offers, during the 26-week period ended August 2, 2014 and these expenses were included in “Gain on settlement of retirement benefits” in the unaudited Condensed Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). The Company paid \$13.8 million to settle acceptances from the Other Benefits plan offer and recorded a pre-tax gain on settlement of retirement benefits of \$11.4 million during the 13-week period ended August 2, 2014 related to these offers. This payment is included in “Retirement benefit plans contributions” in the unaudited Condensed Consolidated Statements of Cash Flows. To determine the settlement gain, the Other Benefits plan was remeasured as at the date of settlement, which also resulted in a \$2.0 million increase to OCI.

During Fiscal 2015, the Company’s target asset allocation for the registered and non-registered pension plans is 55-80% fixed income and 20-45% equity for the defined benefit registered pension plan. As at the end of Q2 2015, the assets were in line with the target allocation range. The asset allocation may be changed from time to time in terms of weighting between fixed income, equity and other asset classes as well as within the asset classes themselves.

See Note 12 “Retirement benefit plans” in the Q2 2015 financial statements, for additional information.

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 finance lease obligations. In September 2010, the Company entered into an \$800.0 million senior secured revolving credit facility (the “Credit Facility”) with a syndicate of lenders with a maturity date of September 10, 2015.

On May 28, 2014, the Company announced that it had extended the term of the Credit Facility to May 28, 2019 and reduced the total credit limit to \$300.0 million (the “Amended Credit Facility”). The Amended Credit Facility is secured with a first lien on inventory and credit card receivables. The Company incurred additional transaction costs of \$1.0 million in the 13-week period ended August 2, 2014 related to the Amended Credit Facility.

Availability under the Amended Credit Facility is determined pursuant to a borrowing base formula, up to a maximum availability of \$300.0 million. Availability under the Amended Credit Facility was \$239.0 million as at August 1, 2015 (January 31, 2015: \$260.7 million, August 2, 2014: \$268.3 million). In 2013, as a result of judicial developments relating to the priorities of pension liability relative to certain secured obligations, the Company provided additional security to the lenders by pledging certain real estate assets as collateral, thereby partially reducing the potential reserve amount the lenders could apply. As at August 1, 2015, three properties in Ontario had been registered under the Amended Credit Facility. The reserve amount may increase or decrease in the future based on changes in estimated net pension deficits in the event of a wind-up, and based on the value of real estate assets pledged as additional collateral. The estimated reserves, if applied as at August 1, 2015, would reduce the Company’s borrowing availability by \$103.1 million.

During Fiscal 2015 the Company has received net proceeds of approximately \$130.0 million upon closing of the transaction with Concord described in Note 22 “Gain on sale and leaseback transactions” in the Q2 2015 financial statements, and expects to receive approximately \$78.1 million from tax recoveries, in addition to the \$47.2 million already received during Q2 2015, described in Note 19 “Income taxes” in the Q2 2015 Financial Statements. The proceeds will be used for general corporate purposes, upgrades to the IT infrastructure and other capital expenditures. As at August 1, 2015, the Company did not have any significant capital expenditure commitments. 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 August 1, 2015, the Company had no borrowings on the Amended Credit Facility and had unamortized transaction costs associated with the Amended Credit Facility of \$3.7 million included in “Other long-term assets” in the unaudited Condensed Consolidated Statements of Financial Position (January 31, 2015: no borrowings and unamortized transaction costs of \$4.2 million included in “Other long-term assets”, August 2, 2014: no borrowings and unamortized transaction costs of \$4.6 million included in “Other long-term assets”). In addition, the Company had \$61.0 million (January 31, 2015: \$39.3 million, August 2, 2014: \$31.7 million) of standby letters of credit outstanding against the Amended Credit Facility. These letters of credit cover various payment obligations. Interest on drawings under the Amended Credit Facility is determined based on bankers’ acceptance rates for one to three month terms or the prime rate plus a spread. Interest amounts on the Amended Credit Facility are due monthly and are added to principal amounts outstanding.

As at August 1, 2015, the Company had outstanding merchandise letters of credit of U.S. \$10.8 million (January 31, 2015: U.S. \$6.9 million, August 2, 2014: U.S. \$4.8 million) used to support the Company’s offshore merchandise purchasing program with restricted cash pledged as collateral.

Upon completion of the sale and leaseback transactions with Concord, the Company was released from all previous agreements with Concord, and the demand mortgage, as described in Note 35 “North Hill and Burnaby arrangements” of the 2014 Annual Consolidated Financial Statements, was discharged.

3. Financial Instruments

The Company is exposed to credit, liquidity and market risk as a result of holding financial instruments. Market risk consists of foreign exchange, interest rate, fuel price and natural gas price risk. See Note 16 “Financial instruments” in the Q2 2015 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 \$289.4 million as at August 1, 2015 (January 31, 2015: \$340.5 million, August 2, 2014: \$345.6 million) expose the Company to credit risk should the borrower default on maturity of the instruments. The Company manages this exposure through policies that require borrowers to have a minimum credit rating of A, and limiting investments with individual borrowers at maximum levels based on credit rating.

The Company is exposed to minimal credit risk from third parties as a result of ongoing credit evaluations and review of accounts receivable collectability. An allowance account included in “Accounts receivable, net” in the unaudited Condensed Consolidated Statements of Financial Position totaled \$5.7 million as at August 1, 2015 (January 31, 2015: \$5.9 million, August 2, 2014: \$7.6 million). As at August 1, 2015, one party represented 14.1% of the Company’s net accounts receivable (January 31, 2015: one party represented 11.0% of the Company’s net accounts receivable, August 2, 2014: one party represented 14.7% of the Company’s net accounts receivable).

Liquidity risk

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

Market risk

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

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 August 1, 2015, there were forward contracts outstanding with a notional value of U.S. \$145.0 million (January 31, 2015: U.S. \$40.0 million, August 2, 2014: U.S. \$205.0 million) and a fair value of \$12.6 million included in “Derivative financial assets” (January 31, 2015: \$7.2 million included in “Derivative financial assets”, August 2, 2014: \$3.8 million included in “Derivative financial assets”) in the Q2 2015 financial statements. These derivative contracts have settlement dates extending to January 2016. The intrinsic value portion of these derivatives has been designated as a cash flow hedge for hedge accounting treatment under International Accounting Standards (“IAS”) 39, *Financial Instruments: Recognition and Measurement* (“IAS 39”). These contracts are intended to reduce the foreign exchange risk with respect to anticipated purchases of U.S. dollar denominated goods purchased for resale (“hedged item”). As at August 1, 2015, 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 Earnings (Loss) and Comprehensive Income (Loss). Amounts previously included in OCI are reclassified to “Cost of goods and services sold” in the same period in which the hedged item impacts net earnings (loss).

During the 13 and 26-week period ended August 1, 2015, the Company recorded a loss of \$1.4 million and a loss of \$1.1 million (2014: gain of \$0.2 million and a gain of \$0.1 million), respectively, in “Selling, administrative and other expenses” in the unaudited Condensed Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss), 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 Q2 2015 period end exchange rate was 0.7645 U.S. dollars to one Canadian dollar. A 10% appreciation or depreciation of the U.S. dollar and/or the Canadian dollar exchange rate was determined to have an after-tax impact on net earnings (loss) of \$0.8 million for U.S. dollar denominated balances included in cash and cash equivalents and accounts payable.

Interest rate risk

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

Cash and cash equivalents and borrowings under the Amended Credit Facility, when applicable, are subject to interest rate risk. The total subject to interest rate risk as at August 1, 2015 was a net asset of \$210.0 million (January 31, 2015: net asset of \$260.3 million, August 2, 2014: net asset of \$267.4 million). An increase or decrease in interest rates of 25 basis points would cause an immaterial after-tax impact on net earnings (loss) for net assets subject to interest rate risk included in cash and cash equivalents and other long-term assets as at August 1, 2015.

Fuel and natural gas price risk

The Company entered into fuel and natural gas derivative contracts to manage the exposure to diesel fuel and natural gas prices and help mitigate volatility in cash flow for the transportation service business and utilities expense, respectively. As at August 1, 2015, the fixed to floating rate swap contracts outstanding had a notional volume of 2.4 million litres (January 31, 2015: 4.7 million litres, August 2, 2014: nil) of diesel and 0.1 million gigajoules (“GJ”) (January 31, 2015: 0.3 million GJ, August 2, 2014: nil) of natural gas and a fair value of \$0.1 million combined included in “Derivative financial liabilities” (January 31, 2015: less than \$0.1 million combined, August 2, 2014: nil) in the unaudited Condensed Consolidated Statements of Financial Position. These derivative contracts have settlement dates extending to December 31, 2015 with monthly settlement of maturing contracts.

4. Funding Costs

The funding costs for the Company in Q2 2015 and Q2 2014 are outlined in the table below:

<i>(in CAD millions)</i>	Second Quarter		Year-to-Date	
	2015	2014	2015	2014
Interest costs				
Total long-term obligations at end of period ¹	\$ 26.1	\$ 30.2	\$ 26.1	\$ 30.2
Average long-term obligations for period ²	26.6	30.9	27.1	32.6
Long-term funding costs ³	0.5	0.6	1.0	1.2
Average rate of long-term funding	7.5%	7.8%	7.4%	7.4%

¹ Includes current portion of long-term obligations.

² The average long-term obligations is calculated as an average of the opening and ending balances as at each reporting date throughout the period.

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

See Section 2 “Consolidated Financial Position, Liquidity and Capital Resources” for a description of the Company’s funding sources.

5. Related Party Transactions

As at September 1, 2015, ESL Investments, Inc., and investment affiliates including Edward S. Lampert, collectively “ESL”, was the beneficial holder of 48,858,685 common shares, representing approximately 48.0% of the Company’s total outstanding common shares. Sears Holdings was the beneficial holder of 11,962,391 common shares, representing approximately 11.7% of the Company’s total outstanding common shares.

The Company periodically enters into transactions with Sears Holdings. 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” in the 2014 Annual Report and Note 30 “Related party transactions” in the 2014 Annual Consolidated Financial Statements for further information about these transactions.

The Company and ESL are parties to an agreement where ESL will provide, when requested by the Company, investment, business and real estate consulting services to the Company. There will be no fees, expenses or disbursements payable by the Company to ESL for these services.

6. Shareholders’ Equity

As at September 1, 2015, the total number of common shares issued and outstanding of the Company was 101,877,662 (January 31, 2015: 101,877,662, August 2, 2014: 101,877,662).

7. 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.

In July 2014, the IASB issued the final publication of the following standard:

IFRS 9, Financial Instruments (“IFRS 9”)

IFRS 9 replaces IAS 39. This standard establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity’s future cash flows. This standard also includes a new general hedge accounting standard which will align hedge accounting more closely with risk management. It does not fully change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however, it will permit more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. Adoption of IFRS 9 is mandatory and will be effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Company is currently assessing the impact of adopting this standard on the Company’s consolidated financial statements and related note disclosures.

In May 2014, the IASB issued the following standard:

IFRS 15, Revenue from Contracts with Customers (“IFRS 15”)

IFRS 15 replaces IAS 11, *Construction Contracts*, and IAS 18, *Revenue*, as well as various interpretations regarding revenue. This standard introduces a single model for recognizing revenue that applies to all contracts with customers, except for contracts that are within the scope of standards on leases, insurance and financial instruments. This standard also requires enhanced disclosures. Adoption of IFRS 15 is mandatory for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company is currently assessing the impact of adopting this standard on the Company’s consolidated financial statements and related note disclosures.

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” in the 2014 Annual Consolidated Financial Statements and are consistent with those used in the preparation of the Q2 2015 financial statements.

8. Disclosure Controls and Procedures

Disclosure Controls and Procedures

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

Management of the Company, including the Executive Chairman and CFO, has caused to be evaluated under their supervision, the Company’s DC&P, and has concluded that the Company’s DC&P was effective for the period ended August 1, 2015.

Internal Control over Financial Reporting

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

Management of the Company, including the Executive Chairman and CFO, has caused to be evaluated the internal control over financial reporting and has concluded, based on that evaluation, that the Company's internal control over financial reporting was effective as at August 1, 2015. Additionally, Management of the Company evaluated whether there were changes in the internal control over financial reporting during Q2 2015 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting and has determined that no such changes occurred during this period.

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

9. Risks and Uncertainties

Please see Section 12 "Risks and Uncertainties" in the Company's 2014 Annual Report for a detailed description of the risks and uncertainties faced by the Company.

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SEARS CANADA INC.
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Unaudited

<i>(in CAD millions)</i>	Notes	As at August 1, 2015	As at January 31, 2015	As at August 2, 2014
ASSETS				
Current assets				
Cash and cash equivalents	5	\$ 208.7	\$ 259.0	\$ 266.1
Accounts receivable, net	16	66.9	73.0	74.2
Income taxes recoverable	19	78.1	127.2	20.6
Inventories	6	709.1	641.4	732.0
Prepaid expenses		38.7	28.7	36.2
Derivative financial assets	16	12.6	7.2	3.8
Assets classified as held for sale	14	25.9	13.3	29.4
Total current assets		1,140.0	1,149.8	1,162.3
Non-current assets				
Property, plant and equipment	7, 22	491.1	567.6	725.3
Investment properties		17.0	19.3	19.3
Intangible assets		34.6	16.2	26.5
Deferred tax assets	19	3.1	0.7	132.5
Other long-term assets	9, 16, 19	15.9	20.5	50.4
Total assets		\$ 1,701.7	\$ 1,774.1	\$ 2,116.3
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	16, 22	\$ 386.3	\$ 359.4	\$ 423.5
Deferred revenue		163.6	171.2	166.9
Provisions	16	50.1	58.6	82.3
Income taxes payable		1.6	—	0.3
Other taxes payable		11.7	34.6	24.4
Derivative financial liabilities	16	0.1	—	—
Current portion of long-term obligations	9, 16	3.9	4.0	4.3
Liabilities classified as held for sale	14	—	—	0.5
Total current liabilities		617.3	627.8	702.2
Non-current liabilities				
Long-term obligations	9, 16	22.2	24.1	25.9
Deferred revenue		75.5	76.8	78.7
Retirement benefit liability	12, 16	387.0	407.4	267.5
Deferred tax liabilities	19	3.1	3.4	3.8
Other long-term liabilities	16, 22	66.8	63.8	62.1
Total liabilities		1,171.9	1,203.3	1,140.2
SHAREHOLDERS' EQUITY				
Capital stock	10	14.9	14.9	14.9
Retained earnings		760.9	806.9	1,048.8
Accumulated other comprehensive loss		(246.0)	(251.0)	(87.6)
Total shareholders' equity		529.8	570.8	976.1
Total liabilities and shareholders' equity		\$ 1,701.7	\$ 1,774.1	\$ 2,116.3

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

SEARS CANADA INC.

CONDENSED CONSOLIDATED STATEMENTS OF NET EARNINGS (LOSS) AND COMPREHENSIVE INCOME (LOSS)

For the 13 and 26-week periods ended August 1, 2015 and August 2, 2014

Unaudited

<i>(in CAD millions, except per share amounts)</i>	Notes	13-Week Period		26-Week Period	
		2015	2014	2015	2014
Revenue	11	\$ 768.8	\$ 845.8	\$ 1,466.0	\$ 1,617.5
Cost of goods and services sold	6, 16	516.9	564.2	979.7	1,082.7
Selling, administrative and other expenses	7,8,10,12,13,16,22	299.0	345.8	596.4	698.7
Operating loss		(47.1)	(64.2)	(110.1)	(163.9)
Gain on sale and leaseback transactions	22	67.2	—	67.2	—
Gain on sale of interest in joint arrangements	15	—	20.5	—	20.5
Gain on settlement of retirement benefits	12	—	11.4	5.1	10.6
Finance costs	9, 19	2.1	1.7	6.0	4.2
Interest income	5	0.3	0.7	0.5	1.4
Earnings (loss) before income taxes		18.3	(33.3)	(43.3)	(135.6)
Income tax (expense) recovery					
Current		(8.1)	(2.5)	(5.9)	(4.7)
Deferred		3.3	14.5	3.6	43.8
		(4.8)	12.0	(2.3)	39.1
Net earnings (loss)		\$ 13.5	\$ (21.3)	\$ (45.6)	\$ (96.5)
Basic net earnings (loss) per share	18	\$ 0.13	\$ (0.21)	\$ (0.45)	\$ (0.95)
Diluted net earnings (loss) per share	18	\$ 0.13	\$ (0.21)	\$ (0.45)	\$ (0.95)
Net earnings (loss)		\$ 13.5	\$ (21.3)	\$ (45.6)	\$ (96.5)
Other comprehensive income (loss), net of taxes:					
Items that may subsequently be reclassified to net earnings (loss):					
Gain on foreign exchange derivatives	16	12.3	2.0	9.6	1.6
Reclassification to net earnings (loss) of gain on foreign exchange derivatives	16	(1.2)	(1.6)	(6.6)	(4.8)
Items that will not be subsequently reclassified to net earnings (loss):					
Remeasurement gain on net defined retirement benefit liability	12	—	2.0	2.0	2.0
Total other comprehensive income (loss)		11.1	2.4	5.0	(1.2)
Total comprehensive income (loss)		\$ 24.6	\$ (18.9)	\$ (40.6)	\$ (97.7)

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 and 26-week periods ended August 1, 2015 and August 2, 2014

Unaudited

(in CAD millions)	Notes	Capital stock	Retained earnings	Accumulated other comprehensive loss			Shareholders' equity
				Foreign exchange derivatives designated as cash flow hedges	Remeasurement (loss) gain	Total accumulated other comprehensive loss	
Balance as at May 2, 2015		\$ 14.9	\$ 748.1	\$ (1.4)	\$ (255.7)	\$ (257.1)	\$ 505.9
Net earnings			13.5	—	—	—	13.5
<i>Other comprehensive income (loss)</i>							
Gain on foreign exchange derivatives, net of income tax expense of \$4.6	16			12.3	—	12.3	12.3
Reclassification of gain on foreign exchange derivatives, net of income tax expense of \$0.4	16			(1.2)	—	(1.2)	(1.2)
<i>Total other comprehensive income</i>		—	—	11.1	—	11.1	11.1
<i>Total comprehensive income</i>		—	13.5	11.1	—	11.1	24.6
Share based compensation	10	—	(0.7)	—	—	—	(0.7)
Balance as at August 1, 2015		\$ 14.9	\$ 760.9	\$ 9.7	\$ (255.7)	\$ (246.0)	\$ 529.8
Balance as at May 3, 2014		\$ 14.9	\$ 1,070.1	\$ 2.4	\$ (92.4)	\$ (90.0)	\$ 995.0
Net loss			(21.3)	—	—	—	(21.3)
<i>Other comprehensive income (loss)</i>							
Gain on foreign exchange derivatives, net of income tax expense of \$0.8	16			2.0	—	2.0	2.0
Reclassification of gain on foreign exchange derivatives, net of income tax expense of \$0.5	16			(1.6)	—	(1.6)	(1.6)
Remeasurement gain on net defined retirement benefit liability, net of income tax expense of \$0.7	12			—	2.0	2.0	2.0
<i>Total other comprehensive income</i>		—	—	0.4	2.0	2.4	2.4
<i>Total comprehensive (loss) income</i>		—	(21.3)	0.4	2.0	2.4	(18.9)
Balance as at August 2, 2014		\$ 14.9	\$ 1,048.8	\$ 2.8	\$ (90.4)	\$ (87.6)	\$ 976.1
Balance as at January 31, 2015		\$ 14.9	\$ 806.9	\$ 6.7	\$ (257.7)	\$ (251.0)	\$ 570.8
Net loss			(45.6)	—	—	—	(45.6)
<i>Other comprehensive income (loss)</i>							
Gain on foreign exchange derivatives, net of income tax expense of \$3.6	16			9.6	—	9.6	9.6
Reclassification of gain on foreign exchange derivatives net of income tax expense of \$2.4	16			(6.6)	—	(6.6)	(6.6)
Remeasurement gain on net defined retirement benefit liability	12			—	2.0	2.0	2.0
<i>Total other comprehensive income</i>		—	—	3.0	2.0	5.0	5.0
<i>Total comprehensive (loss) income</i>		—	(45.6)	3.0	2.0	5.0	(40.6)
Share based compensation	10	—	(0.4)	—	—	—	(0.4)
Balance as at August 1, 2015		\$ 14.9	\$ 760.9	\$ 9.7	\$ (255.7)	\$ (246.0)	\$ 529.8
Balance as at February 1, 2014		\$ 14.9	\$ 1,145.3	\$ 6.0	\$ (92.4)	\$ (86.4)	\$ 1,073.8
Net loss			(96.5)	—	—	—	(96.5)
<i>Other comprehensive income (loss)</i>							
Gain on foreign exchange derivatives, net of income tax expense of \$0.6	16			1.6	—	1.6	1.6
Reclassification of gain on foreign exchange derivatives, net of income tax expense of \$1.7	16			(4.8)	—	(4.8)	(4.8)
Remeasurement gain on net defined retirement benefit liability, net of income tax expense of \$0.7	12			—	2.0	2.0	2.0
<i>Total other comprehensive (loss) income</i>		—	—	(3.2)	2.0	(1.2)	(1.2)
<i>Total comprehensive (loss) income</i>		—	(96.5)	(3.2)	2.0	(1.2)	(97.7)
Balance as at August 2, 2014		\$ 14.9	\$ 1,048.8	\$ 2.8	\$ (90.4)	\$ (87.6)	\$ 976.1

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 and 26-week periods ended August 1, 2015 and August 2, 2014

Unaudited

<i>(in CAD millions)</i>	Notes	13-Week Period		26-Week Period	
		2015	2014	2015	2014
Cash flow used for operating activities					
Net earnings (loss)		\$ 13.5	\$ (21.3)	\$ (45.6)	\$ (96.5)
Adjustments for:					
Depreciation and amortization expense	13	13.6	21.8	26.1	45.4
Share based compensation	10	(0.7)	—	(0.4)	—
Loss (gain) on disposal of property, plant and equipment		0.3	(0.1)	0.3	(0.5)
Impairment losses	7, 8	—	18.3	—	18.3
Gain on sale and leaseback transactions	22	(67.2)	—	(67.2)	—
Gain on sale of interest in joint arrangements	15	—	(20.5)	—	(20.5)
Finance costs	9, 19	2.1	1.7	6.0	4.2
Interest income	5	(0.3)	(0.7)	(0.5)	(1.4)
Retirement benefit plans expense	12	4.7	4.6	9.4	10.0
Gain on settlement of retirement benefits	12	—	(11.4)	(5.1)	(10.6)
Short-term disability expense	12	1.2	1.2	2.6	3.3
Income tax expense (recovery)		4.8	(12.0)	2.3	(39.1)
Interest received	5	0.2	0.2	0.4	0.7
Interest paid	9	(0.7)	(0.9)	(1.2)	(2.1)
Retirement benefit plans contributions	12	(12.0)	(16.0)	(25.4)	(18.2)
Income tax refunds (payments), net	19	46.9	(1.7)	46.1	(66.1)
Other income tax deposits	19	—	—	—	(10.3)
Changes in non-cash working capital balances	20	(31.8)	15.1	(108.1)	(70.9)
Changes in non-cash long-term assets and liabilities	21	(2.9)	(3.0)	(4.1)	1.2
		(28.3)	(24.7)	(164.4)	(253.1)
Cash flow generated from investing activities					
Purchases of property, plant and equipment and intangible assets		(9.1)	(10.0)	(14.3)	(20.5)
Proceeds from sale of property, plant and equipment		0.1	0.2	0.2	0.8
Net proceeds from sale and leaseback transactions	22	130.0	—	130.0	—
Proceeds from sale of interest in joint arrangements	15	—	33.5	—	33.5
		121.0	23.7	115.9	13.8
Cash flow used for financing activities					
Interest paid on finance lease obligations	9	(0.5)	(0.5)	(1.0)	(1.1)
Repayment of long-term obligations		(1.6)	(2.4)	(3.3)	(8.2)
Proceeds from long-term obligations		0.7	0.9	1.3	2.4
Transaction fees associated with amended credit facility	9	—	(1.0)	—	(1.0)
		(1.4)	(3.0)	(3.0)	(7.9)
Effect of exchange rate on cash and cash equivalents at end of period					
		1.9	(0.1)	1.2	(0.5)
Increase (decrease) in cash and cash equivalents		93.2	(4.1)	(50.3)	(247.7)
Cash and cash equivalents at beginning of period		\$ 115.5	\$ 270.2	\$ 259.0	\$ 513.8
Cash and cash equivalents at end of period	5	\$ 208.7	\$ 266.1	\$ 208.7	\$ 266.1

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, Outlet, Corbeil Electrique Inc. (“Corbeil”) stores, and its Direct (catalogue/internet) channel. It also includes service revenue related to product repair and logistics. Commission revenue includes travel, home improvement services, insurance, wireless and long distance plans, and performance payments received from JPMorgan Chase Bank, N.A. (Toronto Branch) (“JPMorgan Chase”) under the Company’s credit card marketing and servicing alliance with JPMorgan Chase. Licensee fee revenue is comprised of payments received from licensees that operate within the Company’s stores (see Note 16 for additional information). The Company was a party to a number of real estate joint arrangements which had been classified as joint operations and accounted for by recognizing the Company’s share of joint arrangements’ assets, liabilities, revenues and expenses for financial reporting purposes.

2. Significant accounting policies

2.1 Statement of compliance

The unaudited condensed consolidated financial statements and accompanying notes of the Company for the 13 and 26-week period ended August 1, 2015 (the “Financial Statements”) have been prepared in accordance with IAS 34, *Interim Financial Reporting* 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 January 31, 2015 (the “2014 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 2014 Annual Consolidated Financial Statements, except as noted below. The Company’s significant accounting policies are described in Note 2 of the 2014 Annual Consolidated 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 were 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 and 26-week periods presented in these Financial Statements are for the periods ended August 1, 2015 and August 2, 2014.

These Financial Statements are presented in Canadian dollars, which is the Company’s functional currency. For the 52-week period ended January 31, 2015, the Company was comprised of two reportable segments, Merchandising and Real Estate Joint Arrangements. Prior to the 13 and 26-week period ended August 1, 2015, the Company disposed of its real estate joint arrangement interests in shopping centres. As a result, the Company is now comprised of one reportable segment, Merchandising. Prior year information has been restated to conform to the current year’s presentation.

2.3 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 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.

In July 2014, the IASB issued the final publication of the following standard:

IFRS 9, Financial Instruments (“IFRS 9”)

IFRS 9 replaces IAS 39, *Financial Instruments: Recognition and Measurement* (“IAS 39”). This standard establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity’s future cash flows. This standard also includes a new general hedge accounting standard which will align hedge accounting more closely with risk management. It does not fully change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however, it will permit more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. Adoption of IFRS 9 is mandatory and will be effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Company is currently assessing the impact of adopting this standard on the Company’s consolidated financial statements and related note disclosures.

In May 2014, the IASB issued the following standard:

IFRS 15, Revenue from Contracts with Customers (“IFRS 15”)

IFRS 15 replaces IAS 11, *Construction Contracts*, and IAS 18, *Revenue*, as well as various interpretations regarding revenue. This standard introduces a single model for recognizing revenue that applies to all contracts with customers, except for contracts that are within the scope of standards on leases, insurance and financial instruments. This standard also requires enhanced disclosures. Adoption of IFRS 15 is mandatory for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company is currently assessing the impact of adopting this standard on the Company’s consolidated financial statements and related note disclosures.

4. Critical accounting judgments and key sources of estimation uncertainty

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

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 Notes 2 and 4 of the 2014 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:

<i>(in CAD millions)</i>	As at August 1, 2015	As at January 31, 2015	As at August 2, 2014
Cash	\$ 189.1	\$ 239.9	\$ 194.8
Cash equivalents			
Government treasury bills	—	—	50.0
Investment accounts	—	—	10.4
Restricted cash	19.6	19.1	10.9
Total cash and cash equivalents	\$ 208.7	\$ 259.0	\$ 266.1

The components of restricted cash are further discussed in Note 17.

Interest income

Interest income related primarily to cash and cash equivalents for the 13 and 26-week period ended August 1, 2015 totaled \$0.3 million and \$0.5 million (2014: \$0.7 million and \$1.4 million), respectively. For the same 13 and 26-week period, the Company received \$0.2 million and \$0.4 million (2014: \$0.2 million and \$0.7 million), respectively, in cash related to interest income.

6. Inventories

The amount of inventory recognized as an expense during the 13 and 26-week period ended August 1, 2015 was \$469.0 million (2014: \$519.8 million) and \$883.8 million (2014: \$988.6 million), respectively, which included \$12.6 million (2014: \$21.8 million) and \$31.9 million (2014: \$50.4 million), respectively, of inventory write downs to reduce the carrying amount of inventory to net realizable value. These expenses were included in “Cost of goods and services sold” in the unaudited Condensed Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). Inventory write downs included reversals of prior period inventory write downs for the 13 and 26-week period ended August 1, 2015 of \$1.1 million and \$3.1 million (2014: no reversals of prior period inventory write downs), respectively, due to an increase in net realizable value.

Inventory is pledged as collateral under the Company’s revolving credit facility (see Note 9).

7. Property, plant and equipment

During the 13-week period ended August 2, 2014, the Company recognized an impairment loss of \$12.9 million on a number of Sears Home stores and an impairment loss of \$2.8 million on a number of Hometown stores. The impairment loss was due to indicators (such as a decrease in revenue or decrease in EBITDA) that the recoverable amount was less than the carrying value. The recoverable amounts of the cash generating units (“CGUs”) tested were based on the present value of the estimated cash flow over the lease term for Sears Home stores and five years for Hometown stores. A pre-tax discount rate of 10.2% was based on management’s best estimate of the CGUs’ weighted average cost of capital considering the risks facing the CGUs. There was no significant impact from a one percentage point increase or decrease in the applied discount rate. There was no significant impact from a ten percentage point increase or decrease in estimated cash flows. The impairment loss of \$15.7 million was included in “Selling, administrative and other expenses” in the unaudited Condensed Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss).

8. Goodwill

As at February 1, 2014, goodwill as reported in the unaudited Condensed Consolidated Statements of Financial Position related to the Corbeil CGU. In the assessment of impairment, management used historical data and past experience as the key assumptions in the determination of the recoverable amount of the Corbeil CGU. The Company completed a test for goodwill impairment during the 13-week period ended August 2, 2014.

The recoverable amount of the Corbeil CGU was determined based on its estimated fair value less costs to sell. The fair value was determined based on the present value of the estimated free cash flows over a 10 year period. Cost to sell was estimated to be 2% of the fair value of the business, which reflected management’s best estimate of the potential costs associated with divesting of the business. A pre-tax discount rate of 10.2% per annum was used, based on management’s best estimate of the Company’s weighted average cost of capital adjusted for the risks facing the Corbeil CGU. Annual growth rates of 5% for the first 2 years and 2% for the subsequent 8 years were used for Corbeil given the businesses’ historical growth experience and anticipated growth. The recoverable amount was determined to be less than the carrying value including the goodwill of \$2.6 million related to the Corbeil CGU in the 13-week period ended August 2, 2014, resulting in a goodwill impairment of \$2.6 million. The impairment loss of \$2.6 million was included in “Selling, administrative and other expenses” in the unaudited Condensed Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). This impairment loss was attributable to revenue declines experienced in the Corbeil business.

9. Long-term obligations and finance costs

Long-term obligations

The Company's debt consists of finance lease obligations. In September 2010, the Company entered into an \$800.0 million senior secured revolving credit facility (the "Credit Facility") with a syndicate of lenders with a maturity date of September 10, 2015.

On May 28, 2014, the Company announced that it had extended the term of the Credit Facility (the "Amended Credit Facility") to May 28, 2019 and reduced the total credit limit to \$300.0 million. The Amended Credit Facility is secured with a first lien on inventory and credit card receivables. The Company incurred additional transaction costs of \$1.0 million in the 13-week period ended August 2, 2014 related to the Amended Credit Facility.

Availability under the Amended Credit Facility is determined pursuant to a borrowing base formula, up to a maximum availability of \$300.0 million. Availability under the Amended Credit Facility was \$239.0 million as at August 1, 2015 (January 31, 2015: \$260.7 million, August 2, 2014: \$268.3 million). In 2013, as a result of judicial developments relating to the priorities of pension liability relative to certain secured obligations, the Company provided additional security to the lenders by pledging certain real estate assets as collateral, thereby partially reducing the potential reserve amount the lenders could apply. As at August 1, 2015, three properties in Ontario had been registered under the Amended Credit Facility. The reserve amount may increase or decrease in the future based on changes in estimated net pension deficits in the event of a wind-up, and based on the value of real estate assets pledged as additional collateral. The estimated reserves, if applied as at August 1, 2015, would reduce the Company's borrowing availability by \$103.1 million.

The Amended Credit Facility contains covenants which are customary for facilities of this nature and the Company was in compliance with all covenants as at August 1, 2015.

As at August 1, 2015, the Company had no borrowings on the Amended Credit Facility and had unamortized transaction costs associated with the Amended Credit Facility of \$3.7 million included in "Other long-term assets" in the unaudited Condensed Consolidated Statements of Financial Position (January 31, 2015: no borrowings and unamortized transaction costs of \$4.2 million included in "Other long-term assets", August 2, 2014: no borrowings and unamortized transaction costs of \$4.6 million included in "Other long-term assets"). In addition, the Company had \$61.0 million (January 31, 2015: \$39.3 million, August 2, 2014: \$31.7 million) of standby letters of credit outstanding against the Amended Credit Facility. These letters of credit cover various payment obligations. Interest on drawings under the Amended Credit Facility is determined based on bankers' acceptance rates for one to three month terms or the prime rate plus a spread. Interest amounts on the Amended Credit Facility are due monthly and are added to principal amounts outstanding.

As at August 1, 2015, the Company had outstanding merchandise letters of credit of U.S. \$10.8 million (January 31, 2015: U.S. \$6.9 million, August 2, 2014: U.S. \$4.8 million) used to support the Company's offshore merchandise purchasing program with restricted cash pledged as collateral.

Finance costs

Interest expense on long-term obligations, including finance lease obligations, the current portion of long-term obligations, amortization of transaction costs and commitment fees on the unused portion of the Amended Credit Facility for the 13 and 26-week period ended August 1, 2015 totaled \$1.8 million (2014: \$1.8 million) and \$3.2 million (2014: \$4.1 million), respectively. Interest expense was included in "Finance costs" in the unaudited Condensed Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). Also included in "Finance costs" for the 13 and 26-week period ended August 1, 2015 was an expense of \$0.3 million and \$2.8 million (2014: recovery of \$0.1 million and \$0.1 million), respectively, for interest on accruals for uncertain tax positions, and an expense of nil and nil (2014: expense of nil and \$0.2 million), respectively, for interest on the settlement of a sales tax assessment.

The Company's cash payments for interest on long-term obligations, including finance lease obligations, the current portion of long-term obligations and commitment fees on the unused portion of the Credit Facility for the 13 and 26-week period ended August 1, 2015 totaled \$1.2 million (2014: \$1.4 million) and \$2.2 million (2014: \$3.2 million), respectively.

10. Capital stock and share based compensation

Capital stock

ESL Investments, Inc., and investment affiliates including Edward S. Lampert, collectively "ESL", form the largest shareholder of the Company, both directly through ownership in the Company, and indirectly through shareholdings in Sears Holdings ("Holdings"). Prior to October 16, 2014, Holdings was the controlling shareholder of the Company.

On October 2, 2014, Holdings announced the commencement of a rights offering for 40 million common shares of the Company. Each subscription right entitled the holder to purchase their pro rata portion of the Company's common shares being sold by Holdings in the rights offering at a price of \$10.60 per share (U.S. \$9.50 per share). The rights offering is further described in a prospectus filed with securities regulators in Canada and the United States on October 15, 2014, and can be accessed through the System for Electronic Document Analysis and Retrieval ("SEDAR") website at www.sedar.com, and on the U.S. Securities Exchange Commission ("SEC") website at www.sec.gov. In connection with the rights offering, the Company listed its common shares on the NASDAQ where the rights were also listed. ESL exercised their pro rata portion of the rights in full in Fiscal 2014.

As at August 1, 2015, ESL was the beneficial holder of 48,858,685 or 48.0%, of the common shares of the Company (January 31, 2015: 50,438,809 or 49.5%, August 2, 2014: 28,158,368 or 27.6%). Holdings was the beneficial holder of 11,962,391 or 11.7%, of the common shares of the Company as at August 1, 2015 (January 31, 2015: 11,962,391 or 11.7%, August 2, 2014: 51,962,391 or 51.0%). The issued and outstanding shares are fully paid and have no par value.

The Company has a license from Holdings to use the name "Sears" as part of its corporate name. The Company relies on its right to use the "Sears" name, including as part of the Company's corporate and commercial name. The Company's right to use the "Sears" name and certain other brand names was granted pursuant to the license agreement amendments, which state in the event Holdings' ownership interest in the Company is reduced to less than 10.0%, the license agreement would remain in effect for a period of five years after such reduction in ownership, after which the Company would incur a cost to continue to use the "Sears" name and certain other brand names.

The authorized common share capital of the Company consists of an unlimited number of common shares without nominal or par value and an unlimited number of class 1 preferred shares, issuable in one or more series. As at August 1, 2015, the only shares outstanding were common shares of the Company.

Share based compensation

During the 52-week period ended January 31, 2015, the Company granted 225,000 restricted share units ("RSUs") to an executive under an equity-based compensation plan. For equity-settled awards, the fair value of the grant of RSUs is recognized as compensation expense over the period that the related service is rendered with a corresponding increase in equity. The total amount expensed is recognized over a three-year vesting period on a tranche basis, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, the estimate of the number of equity interests that are expected to vest is reviewed. The impact of any revision to original estimates is recognized in "Selling, administrative and other expenses" in the unaudited Condensed Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss).

These RSUs had a grant-date fair value of \$1.9 million. The fair value of the grant was determined based on the Company's share price at the date of grant, and were entitled to accrue common share dividends equivalent to those declared by the Company, which would have been settled by a grant of additional RSUs to the executive.

During the 13-week period ended August 1, 2015, the RSUs granted to the executive were forfeited. Share based compensation expense, net of the recovery related to this forfeiture for the 13 and 26-week period ended August 1, 2015 was a recovery of \$0.7 million (2014: nil), and \$0.4 million (2014: nil), respectively, included in "Selling, administrative and other expenses" in the unaudited Condensed Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss).

11. Revenue

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

<i>(in CAD millions)</i>	13-Week Period Ended August 1, 2015	13-Week Period Ended August 2, 2014	26-Week Period Ended August 1, 2015	26-Week Period Ended August 2, 2014
Apparel & Accessories	\$ 250.3	\$ 288.3	\$ 477.3	\$ 552.4
Home & Hardlines	374.0	404.3	708.9	760.3
Other merchandise revenue	53.7	53.2	98.4	99.8
Services and other	59.6	69.2	119.0	143.5
Commission and licensee revenue	31.2	30.8	62.4	61.5
	\$ 768.8	\$ 845.8	\$ 1,466.0	\$ 1,617.5

12. Retirement benefit plans

In July 2008, the Company amended its pension plan and introduced a defined contribution component. The defined benefit component continues to accrue benefits related to future compensation increases although no further service credit is earned, and no contributions are made by employees. In addition, the Company no longer provides medical, dental and life insurance benefits at retirement for employees who had not achieved the eligibility criteria for these non-pension retirement benefits as at December 31, 2008.

The Company measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at January 31. The most recent actuarial valuation of the pension plan for funding purposes is dated December 31, 2013, and was completed on June 30, 2014. The Company also maintains a defined benefit non-pension retirement plan which provides life insurance, medical and dental benefits to eligible retired employees as well as short-term disability payments for active employees, through a health and welfare trust ("Other Benefits" plan). An actuarial valuation of the Other Benefits plan is performed at least every three years, with the last valuation completed as of January 31, 2014.

The expense for the defined benefit, defined contribution and Other Benefits plans for the 13-week period ended August 1, 2015 was \$1.4 million (2014: \$0.7 million), \$1.4 million (2014: \$1.7 million) and \$3.1 million (2014: \$3.4 million), respectively. The expense for the defined benefit, defined contribution and Other Benefits plans for the 26-week period ended August 1, 2015 was \$2.8 million (2014: \$1.8 million), \$2.9 million (2014: \$3.6 million), \$6.3 million (2014: \$7.9 million), respectively.

Total cash contributions by the Company to its defined benefit, defined contribution and Other Benefits plans for the 13 and 26-week period ended August 1, 2015 were \$12.0 million and \$25.4 million (2014: \$16.0 million and \$18.2 million), respectively, which included \$1.3 million and \$2.9 million (2014: nil and nil), respectively, related to short-term disability payments and \$4.0 million during the 26-week period ended August 1, 2015 (2014: \$13.8 million during the 13-week period ended August 2, 2014) to settle acceptances from the Other Benefits plan offers mentioned below.

During the 26-week period ended August 1, 2015, the Company made a voluntary offer to settle medical and dental benefits of eligible members covered under the Other Benefits plan. The Company paid \$4.0 million to settle acceptances from the Other Benefits plan offer and recorded a pre-tax gain on settlement of retirement benefits of \$5.1 million (\$5.4 million settlement gain less fees of \$0.3 million) during the 26-week period ended August 1, 2015 related to these offers. This payment is included in "Retirement benefit plans contributions" in the unaudited Condensed Consolidated Statements of Cash Flows. To determine the settlement gain, the Other Benefits plan was remeasured as at the date of settlement, which also resulted in a \$2.0 million increase to "Other comprehensive income (loss)" ("OCI").

During the 26-week period ended August 2, 2014, the Company's defined benefit plan offered lump sum settlements to those terminated associates who previously elected to defer the payment of the defined benefit pension until retirement. The accepted offers of \$23.6 million were settled by the end of October 2014. In addition, the Company made a voluntary offer to settle medical and dental benefits of eligible members covered under the Other Benefits plan. The Company incurred expenses of \$0.8 million related to these offers, during the 26-week period ended August 2, 2014 and these expenses were included in "Gain on settlement of retirement benefits". The Company paid \$13.8 million to settle acceptances from the Other Benefits plan offer and recorded a pre-tax gain on settlement of retirement benefits of \$11.4 million during the 13-week period ended August 2, 2014 related to these offers. This payment is included in "Retirement benefit plans contributions" in the unaudited Condensed Consolidated Statements of Cash Flows. To determine the settlement gain, the Other Benefits plan was remeasured as at the date of settlement, which also resulted in a \$2.0 million increase to OCI.

13. Depreciation and amortization expense

The components of the Company's depreciation and amortization expense, included in "Selling, administrative and other expenses" in the unaudited Condensed Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss), were as follows:

<i>(in CAD millions)</i>	13-Week Period Ended August 1, 2015	13-Week Period Ended August 2, 2014	26-Week Period Ended August 1, 2015	26-Week Period Ended August 2, 2014
Depreciation of property, plant and equipment	\$ 12.6	\$ 19.1	\$ 24.3	\$ 40.0
Amortization of intangible assets	1.0	2.7	1.8	5.4
Total depreciation and amortization expense	\$ 13.6	\$ 21.8	\$ 26.1	\$ 45.4

14. Assets and liabilities classified as held for sale

During the 13-week period ended August 1, 2015, the Company announced the future closure of the Park Street Logistics Centre (“Park Street”) located in Regina. Park Street, including the adjacent vacant property which is owned by the Company, is being marketed for sale and if a buyer is identified that will purchase Park Street at a price acceptable to the Company, it will be sold. This process has been approved by senior management of the Company, and based on these factors, the Company has concluded that the sale is highly probable.

During the 52-week period ended January 31, 2015, the Company closed the Broad Street Logistics Centre (“Broad Street”) located in Regina. Broad Street, including the adjacent vacant property which is owned by the Company, is being marketed for sale and if a buyer is identified that will purchase Broad Street at a price acceptable to the Company, it will be sold. This process has been approved by senior management of the Company, and based on these factors, the Company has concluded that the sale is highly probable.

The Company will continue to assess the recoverable amounts of Park Street and Broad Street at the end of each reporting period and adjust the carrying amounts accordingly. To determine the recoverable amounts of Park Street and Broad Street, the Company will consider factors such as expected future cash flows using appropriate market rental rates, the estimated costs to sell and an appropriate discount rate to calculate the fair value. The carrying amounts of Park Street and Broad Street are not necessarily indicative of the fair value of each property, as each property has been recorded at the lower of its carrying amount and fair value less costs to sell in accordance with IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*.

As at August 1, 2015 the assets of Broad Street and Park Street were separately classified as held for sale in the unaudited Condensed Consolidated Statements of Financial Position. The major classes of assets classified as held for sale were as follows:

<i>(in CAD millions)</i>		Broad Street		Park Street		Total
Property, plant and equipment	\$	10.9	\$	10.3	\$	21.2
Investment property		2.4		2.3		4.7
Assets classified as held for sale	\$	13.3	\$	12.6	\$	25.9

As at January 31, 2015, the assets of Broad Street were separately classified as held for sale in the unaudited Condensed Consolidated Statements of Financial Position. The major classes of assets classified as held for sale were as follows:

<i>(in CAD millions)</i>		Broad Street
Property, plant and equipment	\$	10.9
Investment property		2.4
Assets classified as held for sale	\$	13.3

On August 6, 2014, the Company announced that it had entered into an agreement for the sale of its 20% joint arrangement interest in the Kildonan Place Shopping Centre (“Kildonan”) it owned with Ivanhoé Cambridge II Inc. (“Ivanhoé”) for pre-tax consideration of \$27.7 million. The sale closed on September 17, 2014, at which point the Company recognized a pre-tax gain of \$11.2 million on the sale. Following the sale, the Company continued to operate its store in the shopping centre. The joint arrangement interest had a net carrying value of \$15.6 million as at August 2, 2014. As at August 2, 2014, the assets of Broad Street and the assets and liabilities of Kildonan were separately classified as held for sale in the unaudited Condensed Consolidated Statements of Financial Position. The major classes of assets and liabilities classified as held for sale were as follows:

<i>(in CAD millions)</i>	Broad Street		Kildonan		Total
Accounts receivable, net	\$	—	\$	0.1	\$ 0.1
Prepaid expenses		—		0.9	0.9
<i>Current assets classified as held for sale</i>		—		1.0	1.0
Property, plant and equipment		10.9		14.8	25.7
Investment property		2.4		—	2.4
Other long-term assets		—		0.3	0.3
<i>Non-current assets classified as held for sale</i>		13.3		15.1	28.4
Assets classified as held for sale	\$	13.3	\$	16.1	\$ 29.4
Accounts payable and accrued liabilities	\$	—	\$	0.5	\$ 0.5
Liabilities classified as held for sale	\$	—	\$	0.5	\$ 0.5

The operations of Broad Street, Park Street and Kildonan were not presented as discontinued operations in the unaudited Condensed Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss) as they did not represent a separate geographical area of operations or a separate major line of business.

15. Gain on sale of interest in joint arrangements

During the 13-week period ended August 2, 2014, the Company sold its 15% joint arrangement interest in Les Rivières Shopping Centre that it co-owned with Ivanhoé for total proceeds of \$33.5 million, recognizing a pre-tax gain of \$20.5 million on the sale. The sale closed on June 2, 2014, pursuant to an agreement entered into on May 16, 2014. In connection with this transaction, the Company determined that because it had surrendered substantially all of its rights and obligations and had transferred substantially all of the risks and rewards of ownership related to the property, immediate gain recognition was appropriate.

16. Financial instruments

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

Financial instrument risk management

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

16.1 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 \$289.4 million as at August 1, 2015 (January 31, 2015: \$340.5 million, August 2, 2014: \$345.6 million) expose the Company to credit risk should the borrower default on maturity of the instruments. The Company manages this exposure through policies that require borrowers to have a minimum credit rating of A, and limiting investments with individual borrowers at maximum levels based on credit rating.

The Company is exposed to minimal credit risk from third parties as a result of ongoing credit evaluations and review of accounts receivable collectability. An allowance account included in “Accounts receivable, net” in the unaudited Condensed Consolidated Statements of Financial Position totaled \$5.7 million as at August 1, 2015 (January 31, 2015: \$5.9 million, August 2, 2014: \$7.6 million). As at August 1, 2015, one party represented 14.1% of the Company’s net accounts receivable (January 31, 2015: one party represented 11.0% of the Company’s net accounts receivable, August 2, 2014: one party represented 14.7% of the Company’s net accounts receivable).

16.2 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 August 1, 2015:

(in CAD millions)	Carrying Amount	Contractual Cash Flow Maturities				
		Total	Within 1 year	1 year to 3 years	3 years to 5 years	Beyond 5 years
Accounts payable and accrued liabilities	\$ 386.3	\$ 386.3	\$ 386.3	\$ —	\$ —	\$ —
Finance lease obligations including payments due within one year ¹	26.1	32.9	5.6	10.3	9.6	7.4
Operating lease obligations ²	n/a	411.9	86.4	140.8	90.7	94.0
Royalties ²	n/a	14.7	0.6	6.1	5.4	2.6
Purchase agreements ^{2,3}	n/a	6.7	6.7	—	—	—
Retirement benefit plans obligations ⁴	387.0	75.7	20.2	40.5	14.8	0.2
	\$ 799.4	\$ 928.2	\$ 505.8	\$ 197.7	\$ 120.5	\$ 104.2

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 Amended Credit Facility as at August 1, 2015.

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

³ Certain vendors require minimum purchase commitment levels over the term of the contract.

⁴ Payments are based on a funding valuation as at December 31, 2013 which was completed on June 30, 2014. Any obligation beyond 2019 would be based on a funding valuation to be completed as at December 31, 2016.

Management believes that cash on hand, future cash flow generated from operating activities and availability of current and future funding will be adequate to support these financial liabilities. As at August 1, 2015, the Company did not have any significant capital expenditure commitments.

Market risk

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

16.3 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 August 1, 2015, there were forward contracts outstanding with a notional value of U.S. \$145.0 million (January 31, 2015: U.S. \$40.0 million, August 2, 2014: U.S. \$205.0 million) and a fair value of \$12.6 million included in “Derivative financial assets” (January 31, 2015: \$7.2 million included in “Derivative financial assets”, August 2, 2014: \$3.8 million included in “Derivative financial assets”) in the unaudited Condensed Consolidated Statements of Financial Position. These derivative contracts have settlement dates extending to January 2016. The intrinsic value portion of these derivatives has been designated as a cash flow hedge for hedge accounting treatment under IAS 39. These contracts are intended to reduce the foreign exchange risk with respect to anticipated purchases of U.S. dollar denominated goods purchased for resale (“hedged item”). As at August 1, 2015, 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 Earnings (Loss) and Comprehensive Income (Loss). Amounts

previously included in OCI are reclassified to “Cost of goods and services sold” in the same period in which the hedged item impacts net earnings (loss).

During the 13 and 26-week period ended August 1, 2015, the Company recorded a loss of \$1.4 million and a loss of \$1.1 million (2014: gain of \$0.2 million and a gain of \$0.1 million), respectively, in “Selling, administrative and other expenses” in the unaudited Condensed Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss), 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 0.7645 U.S. dollar to one Canadian dollar. A 10% appreciation or depreciation of the U.S. dollar and/or the Canadian dollar exchange rate was determined to have an after-tax impact on net earnings (loss) of \$0.8 million for U.S. dollar denominated balances included in cash and cash equivalents and accounts payable.

16.4 Interest rate risk

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

Net assets included in cash and cash equivalents and other long-term assets, and borrowings under the Amended Credit Facility, when applicable, are subject to interest rate risk. The total subject to interest rate risk as at August 1, 2015 was a net asset of \$210.0 million (January 31, 2015: net asset of \$260.3 million, August 2, 2014: net asset of \$267.4 million). An increase or decrease in interest rates of 25 basis points would cause an immaterial after-tax impact on net earnings (loss) for net assets subject to interest rate risk included in cash and cash equivalents and other long-term assets as at August 1, 2015.

16.5 Fuel and natural gas price risk

The Company entered into fuel and natural gas derivative contracts to manage the exposure to diesel fuel and natural gas prices and help mitigate volatility in cash flow for the transportation service business and utilities expense, respectively. As at August 1, 2015, the fixed to floating rate swap contracts outstanding had a notional volume of 2.4 million litres (January 31, 2015: 4.7 million litres, August 2, 2014: nil) of diesel and 0.1 million gigajoules (“GJ”) (January 31, 2015: 0.3 million GJ, August 2, 2014: nil) of natural gas and a fair value of \$0.1 million combined included in “Derivative financial liabilities” (January 31, 2015: less than \$0.1 million combined, August 2, 2014: nil) in the unaudited Condensed Consolidated Statements of Financial Position. These derivative contracts have settlement dates extending to December 31, 2015 with monthly settlement of maturing contracts.

16.6 Classification and fair value of financial instruments

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

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

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

(in CAD millions)

Classification	Balance Sheet Category	Fair Value Hierarchy ²	As at August 1, 2015	As at January 31, 2015	As at August 2, 2014
Available for sale					
Cash equivalents	Cash and cash equivalents ¹	Level 1	—	—	60.4
Fair value through profit or loss					
Long-term investments	Other long-term assets	Level 1	—	—	0.2
U.S. \$ derivative contracts	Derivative financial assets	Level 2	12.6	7.2	3.8
Fuel and natural gas derivative contracts	Derivative financial liabilities	Level 2	(0.1)	—	—
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 2015

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.

On May 27, 2015, TravelBrands Inc. (“TravelBrands”), which manages the day-to-day operations of all Sears Travel offices and provides commissions to the Company, announced that it had obtained an Order from the Ontario Superior Court of Justice granting it creditor protection under the Companies’ Creditors Arrangement Act (the “Order”). Under the Order, TravelBrands was granted a stay of creditor claims against TravelBrands and its subsidiaries. As a result of this announcement, during the 13-week period ended August 1, 2015 the Company recorded a charge of \$6.4 million against previous amounts owing from TravelBrands, included in “Selling, administrative and other expenses” in the unaudited Condensed Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). TravelBrands continues to be a licensee of the Company, as the Company signed a new contract with TravelBrands with a revised commission structure during the 13-week period ended August 1, 2015.

On December 13, 2013, SHS Services Management Inc. (“SHS”), which managed the day-to-day operations of all Sears Home Installed Products and Services business, announced that it was in receivership. Prior to the announcement, SHS issued the Company an interest-bearing promissory note for \$2.0 million, secured by certain assets of SHS, repayable by July 16, 2015. The promissory note, net of allowances was included in “Accounts receivable, net” in the unaudited Condensed Consolidated Statements of Financial Position as at August 1, 2015. As a result of the announcement, and a subsequent announcement by the Company on March 21, 2014 regarding certain obligations of SHS, the Company recorded a \$3.0 million charge against receivables from SHS (including a \$1.0 million writeoff of outstanding commissions receivable and a \$2.0 million allowance on the promissory note) during Fiscal 2014. The Company also recorded a charge to warranty provision of \$8.7 million during Fiscal 2013 and Fiscal 2014 related to potential future claims for work that had been performed by SHS, as well as assuming the warranty obligations with respect to work previously performed by the Company which had been assumed by SHS. The warranty provision balance for these items was \$4.8 million as at August 1, 2015, and was included in “Provisions” and “Other long-term liabilities” in the unaudited Condensed Consolidated Statements of Financial Position.

17. Contingent liabilities

17.1 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.

17.2 Commitments and guarantees

Commitments

As at August 1, 2015, cash that was restricted represented cash pledged as collateral for letter of credit obligations issued under the Company’s offshore merchandise purchasing program of \$19.6 million (January 31, 2015: \$19.1 million, August 2, 2014: \$10.9 million), which was equal to U.S. \$15.0 million (January 31, 2015: U.S. \$15.0 million, August 2, 2014: U.S. \$10.0 million).

The Company has certain vendors which require minimum purchase commitment levels over the term of the contract. Refer to Note 16.2 “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 \$14.7 million as at August 1, 2015 (January 31, 2015: \$3.4 million, August 2, 2014: \$3.0 million).

Other Indemnification Agreements

In the ordinary course of business, the Company has provided indemnification commitments to counterparties in transactions such as leasing transactions, royalty agreements, service arrangements, investment banking agreements and director and officer indemnification agreements. The Company has also provided certain indemnification agreements in connection with the sale of the credit and financial services operations in November 2005, which expire in November 2015. The foregoing indemnification agreements require the Company to compensate the counterparties for costs incurred as a result of changes in laws and regulations, or as a result of litigation or statutory claims, or statutory sanctions that may be suffered by a counterparty as a consequence of the transaction. The terms of these indemnification agreements will vary based on the contract and typically do not provide for any limit on the maximum potential liability. Historically, the Company has not made any significant payments under such indemnifications and no amounts have been accrued in the Financial Statements with respect to these indemnification commitments.

18. Net earnings (loss) per share

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

<i>(Number of shares)</i>	13-Week Period Ended August 1, 2015	13-Week Period Ended August 2, 2014	26-Week Period Ended August 1, 2015	26-Week Period Ended August 2, 2014
Weighted average number of shares per basic net earnings (loss) per share calculation	101,877,662	101,877,662	101,877,662	101,877,662
Effect of dilutive instruments outstanding	—	—	—	—
Weighted average number of shares per diluted net earnings (loss) per share calculation	101,877,662	101,877,662	101,877,662	101,877,662

“Net earnings (loss)” as disclosed in the unaudited Condensed Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss) was used as the numerator in calculating the basic and diluted net earnings (loss) per share. For the 13 and 26-week period ended August 1, 2015, there were no outstanding dilutive instruments (2014: no outstanding dilutive instruments).

19. Income taxes

The Company’s total net cash payments of income taxes for the 13 and 26-week period ended August 1, 2015 were a net refund of \$46.9 million and \$46.1 million (2014: net payment of \$1.7 million and \$76.4 million) primarily relating to the carry back of losses generated by the Company during the 52-week period ended January 31, 2015.

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 and 26-week period ended August 1, 2015, the Company recorded an expense of \$0.3 million and \$2.8 million (2014: recovery of \$0.1 million and \$0.1 million), respectively, for interest on prior period tax re-assessments and accruals for uncertain tax positions. This expense was included in “Finance costs” in the unaudited Condensed Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). 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.

“Income taxes recoverable” in the unaudited Condensed Consolidated Statements of Financial Position as at August 1, 2015 of \$78.1 million (January 31, 2015: \$127.2 million, August 2, 2014: \$20.6 million), included \$7.9 million related to the utilization of loss carry back generated by the Company during the 52-week period ended January 31, 2015 with the balance related to payments made by the Company for disputed tax assessments which the Company expects to recover within the next year. Included in “Other long-term assets” in the unaudited Condensed Consolidated Statements of Financial Position as at August 1, 2015, were receivables of \$3.8 million (January 31, 2015: \$6.4 million, August 2, 2014: \$32.5 million) related to payments made by the Company for the remaining disputed tax assessments.

During the 13 and 26-week period ended August 1, 2015, the Company determined that no further recognition of deferred tax assets should be recorded, as it was not probable that sufficient taxable income would be available to allow part of the assets to be recovered. This accounting treatment has no effect on the Company’s ability to utilize deferred tax assets to reduce future cash tax payments.

The Company will continue to assess the likelihood that the deferred tax assets will be realizable at the end of each reporting period and adjust the carrying amount accordingly, by considering factors such as the reversal of deferred income tax liabilities, projected future taxable income, tax planning strategies and changes in tax laws. The Company has not recognized the benefit of approximately \$130.9 million of loss carry forwards on its Financial Statements and approximately \$4.9 million in Ontario minimum tax, which could be used to reduce taxes payable in future periods. The net aggregate amount of deductible temporary differences and loss carry forwards as at August 1, 2015, was approximately \$655.3 million, and the tax benefit associated with these items were approximately \$175.6 million using the statutory rate of 26.8% plus the Ontario minimum tax recoverable of approximately \$4.9 million, for a total tax benefit of \$180.5 million.

20. Changes in non-cash working capital balances

Cash (used for) generated from non-cash working capital balances were comprised of the following:

<i>(in CAD millions)</i>	13-Week Period Ended August 1, 2015	13-Week Period Ended August 2, 2014	26-Week Period Ended August 1, 2015	26-Week Period Ended August 2, 2014
Accounts receivable, net	\$ 11.4	\$ (3.3)	\$ 5.0	\$ 8.9
Inventories	(25.1)	60.1	(67.7)	42.6
Prepaid expenses and other assets	(11.5)	(7.6)	(10.0)	(13.2)
Derivative financial assets and liabilities	(1.0)	—	(1.2)	—
Accounts payable and accrued liabilities	16.1	(3.2)	7.3	(22.1)
Deferred revenue	(11.0)	(14.7)	(7.6)	(20.8)
Provisions	(2.5)	(18.2)	(8.5)	(27.1)
Income and other taxes payable and recoverable	(6.3)	1.9	(24.2)	(39.7)
Effect of foreign exchange rates	(1.9)	0.1	(1.2)	0.5
Cash (used for) generated from non-cash working capital balances	\$ (31.8)	\$ 15.1	\$ (108.1)	\$ (70.9)

21. Changes in non-cash long-term assets and liabilities

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

<i>(in CAD millions)</i>	13-Week Period Ended August 1, 2015	13-Week Period Ended August 2, 2014	26-Week Period Ended August 1, 2015	26-Week Period Ended August 2, 2014
Other long-term assets	\$ 1.2	\$ 0.4	\$ 4.1	\$ 11.9
Other long-term liabilities	(4.6)	(2.2)	(8.0)	(9.7)
Deferred tax assets and deferred tax liabilities	(0.1)	—	(0.3)	—
Other	0.6	(1.2)	0.1	(1.0)
Cash (used for) generated from non-cash long-term assets and liabilities	\$ (2.9)	\$ (3.0)	\$ (4.1)	\$ 1.2

22. Gain on sale and leaseback transactions

During the 13-week period ended August 1, 2015, the Company completed the sale and leaseback of three properties to the Concord Pacific Group of Companies (“Concord”) as previously announced on March 11, 2015, for net proceeds of \$130.0 million (\$140.0 million of total consideration less \$10.0 million of adjustments). The properties in the transactions included the Company’s stores and surrounding area located at the North Hill Shopping Centre in Calgary, Alberta, Metropolis at Metrotown in Burnaby, British Columbia and Cottonwood Mall in Chilliwack, British Columbia. The Company has leased each property back for a term of 30 years with early termination options available to both the Company and Concord, and the Company will continue to operate the stores located at these shopping centres under these leases with no impact to customers or employees at these locations.

The land and building sold for the three properties had a total net carrying value of approximately \$53.1 million previously included in “Property, plant and equipment” in the unaudited Condensed Consolidated Statements of Financial Position.

The total gain on the sale and leaseback transactions was \$76.9 million, \$67.2 million of which was recognized immediately in the unaudited Condensed Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). The remaining \$9.7 million of the gain was deferred and is being amortized between four to seven years as a reduction in rent expense, included in “Selling, administrative and other expenses” in the unaudited Condensed Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). In determining the appropriate amount of gain to defer in accordance with IAS 17, *Leases*, the Company conducted appraisals of each property to determine their fair values, with the assistance of independent qualified third party appraisers. The valuation method used to determine the fair values of each property was the direct sales comparison approach for land. The deferred gain was included in “Other long-term liabilities” and “Accounts payable and accrued liabilities” in the unaudited Condensed Consolidated Statements of Financial Position.

Upon completion of the sale and leaseback transactions, the Company was released from all previous agreements with Concord, and the demand mortgage, as described in Note 35 of the 2014 Annual Consolidated Financial Statements, was discharged.

23. Approval of the unaudited condensed consolidated financial statements

The Financial Statements were approved by the Board of Directors and authorized for issue on September 1, 2015.

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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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Trading symbol: SRSC

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