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SEARS CANADA INC.
INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Unaudited

(in CAD millions)	Notes	As at April 30, 2011	As at January 29, 2011	As at May 1, 2010	As at January 30, 2010
ASSETS					
Current assets					
Cash and cash equivalents	6, 14.1	**$ 198.4**	$ 432.3	$ 230.0	$ 226.9
Short-term investments		**–**	–	1,059.2	1,165.5
Accounts receivable, net	18.1	**131.1**	144.0	134.6	132.9
Income taxes recoverable		**1.2**	4.5	29.4	5.7
Inventories	7	**981.7**	953.2	915.8	852.3
Prepaid expenses	18.2	**39.4**	31.8	34.4	34.8
Derivative financial assets		**–**	–	–	9.9
		1,351.8	1,565.8	2,403.4	2,428.0
Non-current assets					
Property, plant & equipment	18.3	**887.0**	900.7	932.4	961.0
Investment property		**21.7**	21.7	21.7	21.7
Retirement benefit asset	18.12	**193.1**	197.4	205.8	207.4
Intangible assets		**23.6**	23.5	22.9	22.6
Goodwill	18.4	**11.2**	11.2	11.2	11.2
Investment in joint ventures	18.5	**306.3**	309.7	315.6	321.0
Deferred income tax assets	18.13	**0.7**	0.5	0.5	0.6
Other long-term assets	16, 18.6	**55.5**	38.1	41.0	42.2
		$ 2,850.9	$ 3,068.6	$ 3,954.5	$ 4,015.7
LIABILITIES					
Current liabilities					
Accounts payable and accrued liabilities		**$ 644.8**	$ 665.6	$ 681.7	$ 698.3
Deferred revenue	18.7	**230.2**	224.0	246.5	235.9
Provisions	18.8	**61.1**	65.3	66.9	69.4
Income and other taxes payable		**32.6**	66.3	41.3	72.6
Derivative financial liabilities		**17.1**	3.0	4.0	–
Principal payments on long-term obligations due within one year	13, 18.9, 18.11	**5.7**	4.7	305.1	305.4
		991.5	1,028.9	1,345.5	1,381.6
Non-current liabilities					
Long-term obligations	18.9, 18.11	**27.7**	124.4	25.0	26.1
Deferred revenue	18.7	**77.0**	77.4	69.2	67.5
Retirement benefit liability	18.12	**126.9**	120.9	104.4	98.8
Deferred income tax liabilities	18.13	**40.5**	74.8	87.9	97.6
Other long-term liabilities	18.8, 18.10	**91.4**	84.7	90.9	93.5
		1,355.0	1,511.1	1,722.9	1,765.1
SHAREHOLDERS' EQUITY					
Capital stock	9	**15.4**	15.4	15.7	15.7
Retained earnings		**1,494.5**	1,544.9	2,218.9	2,227.7
Accumulated other comprehensive (loss) income		**(14.0)**	(2.8)	(3.0)	7.2
		1,495.9	1,557.5	2,231.6	2,250.6
		$ 2,850.9	$ 3,068.6	$ 3,954.5	$ 4,015.7

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

SEARS CANADA INC.
INTERIM CONSOLIDATED STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS
For the 13-week periods ended April 30, 2011 and May 1, 2010

Unaudited

(in CAD millions, except per share amounts)	Notes	2011	2010
Revenue	10, 18.14	$ **992.5**	$ 1,068.2
Cost of goods and services sold		**625.4**	639.8
Gross profit		**367.1**	428.4
Selling, administrative and other expenses		**421.3**	427.9
Finance costs	8	**6.8**	6.1
Interest income	6	**(0.6)**	(0.7)
Share of (income) loss in joint ventures		**(1.9)**	1.8
Loss before income taxes		**(58.5)**	(6.7)
Income tax expense (recovery)			
Current		**21.2**	6.9
Deferred		**(30.2)**	(4.8)
		(9.0)	2.1
Net loss		$ **(49.5)**	$ (8.8)
Basic net loss per share	15	$ **(0.47)**	$ (0.08)
Diluted net loss per share	15	$ **(0.47)**	$ (0.08)
Net loss		$ **(49.5)**	$ (8.8)
Other comprehensive (loss) income, net of taxes:			
Mark-to-market adjustment related to short-term investments, net of income tax recovery of Nil (2010: $0.1)		–	(0.2)
Loss on foreign exchange derivatives designated as cash flow hedges, net of income tax recovery of $4.6 (2010: $4.0)		**(12.2)**	(8.7)
Reclassification to net earnings of loss (gain) on foreign exchange derivatives designated as cash flow hedges, net of income tax recovery of $0.4 (2010: expense of $0.6)		**1.0**	(1.3)
Other comprehensive loss		**(11.2)**	(10.2)
Comprehensive loss		$ **(60.7)**	$ (19.0)

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the 13-week periods ended April 30, 2011 and May 1, 2010

Unaudited

(in CAD millions)	Notes	Capital stock	Accumulated other comprehensive (loss) income	Retained earnings	Shareholders' equity
Balance as at January 29, 2011	17.4	$ **15.4**	$ **(2.8)**	$ **1,544.9**	$ **1,557.5**
Net loss		**–**	**–**	**(49.5)**	**(49.5)**
Repurchase of common shares	9	**–**	**–**	**(0.9)**	**(0.9)**
Other comprehensive loss		**–**	**(11.2)**	**–**	**(11.2)**
Balance as at April 30, 2011		$ **15.4**	$ **(14.0)**	$ **1,494.5**	$ **1,495.9**
Balance as at January 30, 2010	17.4	$ 15.7	$ 7.2	$ 2,227.7	$ 2,250.6
Net loss		–	–	(8.8)	(8.8)
Other comprehensive loss	17.4	–	(10.2)	–	(10.2)
Balance as at May 1, 2010		$ 15.7	$ (3.0)	$ 2,218.9	$ 2,231.6

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

SEARS CANADA INC.
INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
For the 13-week periods ended April 30, 2011 and May 1, 2010

Unaudited

(in CAD millions, except per share amounts)	Notes	2011	2010
Cash flow generated from (used for) operating activities			
Net loss		$ **(49.5)**	$ (8.8)
Adjustments for:			
Depreciation and amortization	12	**28.6**	34.5
Finance costs		**6.8**	6.1
Interest income		**(0.6)**	(0.7)
Share of (income) loss from joint ventures		**(1.9)**	1.8
Pension expenses	11	**11.0**	9.6
Income tax expense (recovery)		**(9.0)**	2.1
Income and other taxes paid		**(19.7)**	(38.4)
Interest paid		**(0.1)**	(3.8)
Changes in working capital and other items		**(40.5)**	(89.3)
Other non-cash items		**(38.1)**	(6.7)
		(113.0)	(93.6)
Cash flow generated from (used for) investing activities			
Purchase of property, plant & equipment and intangible assets		**(19.3)**	(11.7)
Proceeds from maturation of short-term investments		**–**	106.3
Proceeds from property, plant & equipment		**0.3**	0.2
Dividends received from joint ventures		**6.7**	3.1
		(12.3)	97.9
Cash flow generated from (used for) financing activities			
Interest paid on finance lease obligations		**(0.6)**	(0.6)
Repayment of long-term obligations		**(110.8)**	(1.4)
Issuance of long-term obligations		**5.0**	–
Repurchase of common shares	9	**(0.9)**	–
		(107.3)	(2.0)
Decrease (increase) in cash and cash equivalents		$ **(232.6)**	$ 2.3
Effect of exchange rate on cash and cash equivalents at end of period		**(1.3)**	0.8
Cash and cash equivalents at beginning of period		$ **432.3**	$ 226.9
Cash and cash equivalents at end of period		$ **198.4**	$ 230.0

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

1. General information

Sears Canada Inc. (the "Company") is incorporated in Canada. The addresses of its registered office and principal place of business and the principal activities of the Company and its subsidiaries (the Company) are disclosed in the Management's Discussion and Analysis. The immediate parent of the Company is Sears Holdings Corporation ("Sears Holdings"), incorporated in the U.S. in the state of Delaware. The ultimate controlling party of the Company is ESL Investments, Inc. (incorporated in the U.S. in the state of Delaware) through Sears Holdings Corporation.

2. Significant accounting policies

2.1 Statement of compliance

As these are the first International Financial Reporting Standards ("IFRS") financial statements for the Company, they are prepared in accordance with IAS 34, *Interim Financial Reporting ("IAS 34")* and IFRS 1, *First-time Adoption of International Financial Reporting Standards* ("IFRS 1"). These unaudited interim consolidated financial statements have been prepared in accordance with the accounting policies the Company expects to adopt in its January 28, 2012 financial statements.

The Company's consolidated financial statements for the year ending January 28, 2012 will be the first annual financial statements that comply with IFRS. IFRS 1 requires an entity to include an explicit and unreserved statement of compliance with IFRS in its first annual financial statements prepared in accordance with IFRS. The Company will include this statement of compliance when it issues its 2011 annual financial statements. The unaudited interim consolidated financial statements should be read in conjunction with the Company's 2010 annual financial statements, with consideration given to the explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Company provided in Note 17, including the exemptions and exceptions of IFRS 1.

2.2 Basis of preparation

The principal accounting policies have been applied consistently in the preparation of the unaudited interim consolidated financial statements for all periods presented, including the opening balance sheet (January 30, 2010) except for certain IFRS 1 exemptions and exceptions (see Note 17).

The accounting policies set out below are based on the IFRS standards and International Financial Reporting Interpretations Committee ("IFRIC") interpretations that the Company expects to be applicable for the period ending January 28, 2012.

The fiscal year of the Company consists of a 52 or 53-week period ending on the Saturday closest to January 31. The fiscal years for the selected 2010 annual disclosures (see Note 18) presented in the unaudited interim consolidated financial statements are the 52-week periods ended January 29, 2011 ("Fiscal 2010") and January 30, 2010 ("transition date").

The Company's unaudited interim consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

2.3 Basis of measurement

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

2.4 Basis of consolidation

The unaudited interim consolidated financial statements incorporate the financial statements of the Company as well as all of its subsidiaries. Real estate joint venture investments are accounted for using the equity method of accounting (see Note 2.14).

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 preparing the unaudited interim consolidated financial statements.

2.5 Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured as the aggregate of the fair values (at the date of acquisition) of assets given, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquiree. Acquisition-related costs are recognized as incurred, except for costs incurred to issue debt securities, which are recognized in accordance with the Company's debt issuance transaction cost accounting policy described in Note 2.23.5.

2.6 Cash and cash equivalents

Cash and cash equivalents include highly liquid investments with maturities of 90 days or less from the date of purchase. Cash and cash equivalents are considered to be restricted when they are subject to contingent rights of a 3rd party customer, vendor, or government agency.

2.7 Short-term investments

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

2.8 Inventories

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

2.9 Property, plant & equipment

Property, plant & equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Costs include expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets include site preparation costs, design and engineering fees, freight (only on initial freight costs incurred between the vendor and the Company), installation expense and provincial sales tax (Saskatchewan, Manitoba and PEI), and are net of any vendor subsidies or reimbursements. An allocation of general and specific incremental interest charges for major construction projects is also included in the cost of the related asset.

On transition to IFRS, certain selected property, plant & equipment were measured at their fair values to be used as the deemed cost in accordance with the IFRS 1 election option (see Note 17). The Company engaged qualified 3rd party appraisers to conduct appraisals of its land and buildings.

When parts of an item of property, plant & equipment have different useful lives, they are accounted for as separate items (major components) of property, plant & equipment.

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

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

The gain or loss arising on the disposal or retirement of an item of property, plant & equipment is determined as the difference between the proceeds from sale and the carrying amount of the asset, and is recognized in the unaudited Interim Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). See Note 2.12 for discussion on impairment of tangible assets.

2.10 Investment property

On transition to IFRS the Company measured its investment property at their fair values to be used as the deemed cost in accordance with the IFRS 1 election option (Note 17). Investment property is measured at its cost less accumulated impairment losses. The Company's investment property consists of vacant land, which is not currently being used in its operations.

The fair values of investment properties were estimated using observable data based on the current cost of acquiring comparable properties within the market area, and the capitalization of the property's anticipated revenue. The Company engaged qualified 3rd party appraisers to conduct appraisals of its investment properties.

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

Investment properties are reviewed at the end of each reporting period to determine whether there is any indicator of impairment.

2.11 Intangible assets

2.11.1 Finite intangible assets other than goodwill

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

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

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

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

2.11.2 Goodwill

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

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

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

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

If the recoverable amount of an asset or a CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately. If an impairment for a CGU has been identified, the impairment is allocated to goodwill before other assets held by the CGU. An impairment loss recognized in respect of CGUs, to which goodwill has not been allocated, and is reflected as a reduction in the carrying amount of the assets in the unit or groups of units on a pro-rata basis.

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

2.13 Impairment of goodwill

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

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

2.14 Investment in joint ventures

Joint ventures are those entities over which the Company has joint control, established by contractual agreement. The Company is a party to a number of joint ventures which have been classified as jointly controlled entities for financial reporting purposes. These joint ventures are jointly controlled by the venturers, who are entitled to a share of the joint ventures' income or loss.

Investments in joint ventures are accounted for using the equity method as follows:

- Investments in joint ventures are initially measured at cost.
- From the date that joint control commences, until the date that it ceases, the Company's share of post-acquisition income or losses is recognized in the unaudited Interim Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss) with a corresponding increase or decrease to the carrying amount of the investments.
- The joint venture reporting periods used in the application of the equity method differ from the Company's reporting period end by 1 to 2 months.
- The accounting policies of the joint ventures are aligned with those of the Company for the purposes of applying the equity method.
- Gains on transactions between the Company and its joint ventures are eliminated to the extent of the Company's interest in the joint ventures, and losses are eliminated unless the transaction provides evidence of an impairment of the assets transferred.

The Company presents its investments in joint ventures in "Investment in joint ventures" on the unaudited Interim Consolidated Statements of Financial Position. The Company presents its share of income or losses in joint ventures in "Share of income (loss) in joint ventures" in the unaudited Interim Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss).

2.15 Leasing arrangements

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

2.15.1 The Company as lessor

The Company has entered into a number of agreements to sub-lease premises to 3rd parties. All sub-leases to 3rd parties are classified as operating leases. Rental income from operating leases is recognized on a straight-line basis over the term of the lease.

2.15.2 The Company as lessee

Assets held under finance leases are initially recognized by the Company at the lower of the fair value of the asset and the present value of the minimum lease payments. The corresponding current and non-current liability to the lessor is included in the unaudited Interim Consolidated Statements of Financial Position as a finance lease obligation in "Principal payments on long-term obligations due within one year" and "Long-term obligations" respectively. The assets are depreciated using the same accounting policy as applicable to property, plant & equipment (see Note 2.9).

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

Finance costs are recognized immediately. Assets under operating leases are not recognized by the Company. Operating lease payments are recognized in "Selling, administrative and other expenses" in the unaudited Interim Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss).

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

2.16 Retirement benefits

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

Defined contribution plan

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

Defined benefit plans

The Company's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The Company uses the corridor approach to recognize actuarial gains and losses. Under the corridor approach, actuarial gains and losses that exceed 10% percent of the greater of the present value of the Company's retirement benefit liability and the fair value of plan assets as at the end of the prior year, are amortized over the expected average remaining working lives of the participating employees.

The retirement benefit liability recognized in the unaudited Interim Consolidated Statements of Financial Position represents the present value of the defined benefit obligation adjusted for unrecognized actuarial gains and losses and unrecognized past service cost, and reduced by the fair value of plan assets. The retirement benefit asset recognized in the unaudited Interim Consolidated Statements of Financial Position represents the excess of the fair value of plan assets over the present value of the defined benefit obligation adjusted for unrecognized actuarial gains and losses and unrecognized past service cost. The discount rate applied in arriving at the present value of the defined benefit obligation represents yields on Canadian AA quality corporate bonds in a similar economic environment with lives similar to the maturity of the defined benefit obligation.

Retirement benefit assets are limited to any cumulative unrecognized net actuarial losses and past service costs and the present value of economic benefits available in the form of reductions in future contributions to the plan.

The cost of providing benefits for the defined benefit plan is measured using the Projected Unit Credit Method, with actuarial valuations prepared by qualified actuaries at least every 3 years. Past service costs are recognized immediately to the extent that the benefits are already vested, and otherwise are amortized on a straight-line basis over the average period until the benefits become vested.

The expected return on the defined benefit plan assets reflects the estimate made by management of the long-term yields that will arise from the specific asset classes held within the pension plan.

2.17 Revenue recognition

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

2.17.1 Sale of goods

Revenue from the sale of goods is recognized upon delivery to the customer. Revenue relating to goods sold subject to installation, such as home improvement products, is recognized when the goods have been delivered and the installation is complete.

2.17.2 Rendering of services

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

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

Product repair, handling and installation services: Product repair, handling and installation services revenue is recognized when the services are completed. These services are very short in duration and are usually completed within one day.

2.17.3 Commission and licensee fee revenue

The Company earns commission revenues for selling various products and services that are provided by 3rd parties, such as sales of travel services, home improvement products and insurance programs. As the Company is not the primary obligor in these transactions, these commissions are recognized upon sale of the related product or service.

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

Credit card revenue: Revenue is received from JP Morgan Chase & Co, N.A. (Toronto Branch) ("JP Morgan Chase") relating to credit sales. Revenue is based on a percentage of sales charged on the Sears Card or Sears MasterCard and a percentage of the sales of financial products are included in revenue when the sale occurs.

2.17.4 Interest income

Interest income is recognized when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

2.17.5 Customer loyalty program

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

2.17.6 Cost of goods and services sold

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

2.18 Foreign currency translation

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

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

Exchange differences arising on retranslation are recognized in the unaudited Interim Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss) in the period in which they arise, except for exchange differences on transactions entered into in order to hedge certain foreign currency risks (see Note 2.24.1 below for hedge accounting policies).

2.19 Consideration from a vendor

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

2.20 Taxation

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

2.20.1 Current tax

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

2.20.2 Deferred tax

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

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

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

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

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

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

2.20.3 Current and deferred tax for the period

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

2.21 Provisions

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

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

When some or all of the economic benefits required to settle a provision are expected to be recovered from a 3rd party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

2.21.1 Onerous contract provisions

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

2.21.2 General liability provisions

The Company purchases 3rd party insurance for automobile, damage to a claimant's property or bodily injury from use of a product and general liability claims that exceed a certain dollar level. However, the Company is responsible for the payment of claims under these insured limits. In estimating the obligation associated with incurred losses, the Company utilizes actuarial methodologies which are based on historical data and validated by an independent 3rd party. Loss estimates are adjusted based on actual claims settlements and reported claims.

2.21.3 Warranty provisions

An estimate for warranty provisions is made at the time the merchandise is sold based on historical warranty trends. Please also see Note 18.8.

2.21.4 Returns and allowance provisions

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

2.21.5 Environmental provisions

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

The provision is based on assessments conducted by 3rd parties, as well as historical data.

2.22 Financial assets

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

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

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

2.22.1 Effective interest method

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

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

2.22.2 Financial assets at FVTPL

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

A financial asset is classified as held-for-trading if:

- It has been acquired principally for the purpose of selling it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognized in the unaudited Interim Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss), unless the financial asset is designated and effective as a hedging instrument. The net gain or loss recognized incorporates any interest earned on the financial asset and is included in "Selling, administrative and other expenses" in the unaudited Interim Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss), unless the financial asset is designated and effective as a hedging instrument. Fair value is determined in the manner described in Note 13.

2.22.3 AFS financial assets

The Company's short-term investments and cash equivalents represent investments in highly liquid securities with maturities of less than 6 months. These have been classified as available-for-sale financial assets and are measured at fair value. Gains and losses arising from changes in fair value are recognized in other comprehensive income (loss), with the exception of impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognized in the unaudited Interim Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in other comprehensive income (loss) is reclassified to the unaudited Interim Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss).

2.22.4 Loans and receivables

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

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

2.22.5 Impairment of financial assets

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

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

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

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in the unaudited Interim Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss).

2.22.6 Derecognition of financial assets

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

2.23 Financial liabilities and equity instruments issued by the Company

2.23.1 Classification as debt or equity

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

2.23.2 Equity instruments

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

2.23.3 Financial liabilities

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

2.23.4 Financial liabilities at FVTPL

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

A financial liability is classified as held-for-trading if:

- It has been incurred principally for the purpose of repurchase in the near term; or
- It is a derivative that has not designated and is not effective as a hedging instrument.

Financial liabilities at FVTPL are measured at fair value, with gains or losses arising on remeasurement recognized in the unaudited Interim Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss) unless the financial liability is designated and effective as a hedging instrument. The net gain or loss recognized is included in "Selling, administrative and other expenses" in the unaudited Interim Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). Fair value is determined in the manner described in Note 13.

2.23.5 Other financial liabilities

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

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

2.23.6 Derecognition of financial liabilities

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

2.24 Derivative financial instruments

The Company enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange option contracts and interest rate swaps. Further details on derivative financial instruments are disclosed in Note 13.

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

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

2.24.1 Hedge accounting

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

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

Note 13 sets out details of the fair values of the derivative instruments used for hedging purposes.

2.24.2 Cash flow hedges

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

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

2.25 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are added to the cost of the assets, until they are substantially ready for their intended use or sale. Investment income earned on any temporary investment of these borrowings prior to expenditure is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are expensed in the period in which they are incurred.

2.26 Net earnings (loss) per share

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

3. Issued standards not yet adopted

The Company monitors the standard setting process for new standards 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

Financial Instruments – Disclosures

The IASB has amended IFRS 7, *Financial Instruments: Disclosure*s ("IFRS 7") which requires additional disclosures regarding transfers of financial assets. This amendment is effective for annual periods beginning on or after July 1, 2011. The Company will apply this amendment beginning the first quarter of the 2012 fiscal year and has yet to assess the impact on the Company's disclosures.

Deferred Taxes – Recovery of Underlying Assets

The IASB has amended *IAS 12, Income Taxes* ("IAS 12"), to introduce an exception to the general measurement requirements of IAS 12 in respect of investment properties measured at fair value. This amendment is effective for annual periods beginning on or after January 1, 2012. The Company has assessed this standard and has determined that there is no impact to its unaudited interim consolidated financial statements.

Financial Instruments

In 2009, the IASB issued IFRS 9, *Financial Instruments* ("IFRS 9"), to replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 addresses the classification and measurement of financial assets.

The required date of application of IFRS 9 is for all annual periods beginning on or after January 1, 2013. The initial application of this IFRS is expected to impact the classification of a number of financial assets which will require disclosure in the financial statement notes.

On May 12, 2011, the IASB issued four new standards, all of which are applicable to annual reporting periods beginning on or after January 1, 2013. The Company has yet to assess the impact of these standards on its unaudited interim consolidated financial statements and related note disclosures. The following is a list and description of these standards:

- IFRS 10, *Consolidated Financial Statements* ("IFRS 10")– establishes the standards for the presentation and preparation of consolidated financial statements when an entity controls one or more entities;
- IFRS 11, *Joint Arrangements* ("IFRS 11") – replaces IAS 31, *Interests in Joint Ventures* ("IAS 31") and requires that a party in a joint arrangement assess its rights and obligations to determine the type of joint arrangement and account for those rights and obligations accordingly;

- IFRS 12, *Disclosure of Involvement with Other Entities* ("IFRS 12") – along with IFRS 11 described above, replaces IAS 31. IFRS 12 requires the disclosure of information that enables users of financial statements to evaluate the nature of and the risks associated with, the entity's interests in joint ventures and the impact of those interests on its financial position, financial performance and cash flows; and
- IFRS 13, *Fair Value Measurement* ("IFRS 13") – provides guidance to improve consistency and comparability in fair value measurements and related disclosures through a 'fair value hierarchy.' This standard applies when another IFRS requires or permits fair value measurements or disclosures. IFRS 13 does not apply for share-based payment transactions, leasing transactions and measurements that are similar to, but are not fair value.

4. Critical accounting judgments and key sources of estimation uncertainty

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

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

The critical accounting judgments and key sources of estimation uncertainty are expected to be consistent with those applied in the first annual IFRS financial statements.

4.1 Legal liabilities

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

4.2 Inventory

Obsolescence, Valuation and Inventory Stock Losses

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

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

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

Supplier rebates

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

Freight

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

4.3 Impairment of property, plant & equipment and intangible assets

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

4.4 Impairment of goodwill

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

4.5 Future retirement benefit liability

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

4.6 Loyalty program deferred revenue

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

4.7 Derivative assets and liabilities

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

4.8 Provisions

Provisions are estimated based on historical data, cost estimates provided by specialists and future projections. See Note 18.8 for further details on how these provisions are estimated.

4.9 Leasing arrangements

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

4.10 Taxes

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

5. Seasonality

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

6. Cash and cash equivalents and interest income

Cash and cash equivalents

The components of cash and cash equivalents were as follows:

(in CAD millions)	As at **April 30, 2011**	As at January 29, 2011	As at May 1, 2010	As at January 30, 2010
Cash	$ **64.8**	$ 46.3	$ 55.2	$ 51.3
Cash Equivalents				
Government treasury bills	**60.0**	323.8	99.0	100.0
Bank term deposits	**27.6**	26.9	56.0	59.8
Other	**20.0**	20.0	–	–
Restricted cash and cash equivalents	**26.0**	15.3	19.8	15.8
Total cash and cash equivalents	$ **198.4**	$ 432.3	$ 230.0	$ 226.9

Interest Income

Interest income primarily relating to cash and cash equivalents and short-term investments for the 13-week period ended April 30, 2011 totaled $0.6 million (May 1, 2010: $0.7 million).

7. Inventories

The amount of inventories recognized as an expense during the 13-week period ended April 30, 2011 is $566.8 million (May 1, 2010: $581.5 million), including $27.7 million (May 1, 2010: $21.7 million) related to write-downs. These expenses are included in "Cost of goods and services sold" in the unaudited Interim Consolidated Statements of Net Loss and Comprehensive Loss. Inventory is pledged as collateral under the Company's revolving credit facility. There were no reversals of inventory write-downs during the 13-week period ended April 30, 2011 (May 1, 2010: Nil).

8. Long-term obligations

The Company's corporate credit ratings did not change in the quarter and as at April 30, 2011, were BB, BB- and Ba2 from DBRS, Standard and Poor's and Moody's Investors Service, Inc. respectively. On May 24, 2011, Standard & Poors adjusted the credit rating downwards to B+ from BB-.

The Company's debt consists of a secured credit facility and finance lease obligations. In September 2010, the Company entered into an $800.0 million senior secured revolving credit facility (the "Credit Facility") with a syndicate of lenders with a maturity date of September 10, 2015. The Credit Facility is secured with a first lien on inventory and credit card receivables. Availability under the Credit Facility is determined pursuant to a borrowing base formula. The Credit Facility contains covenants which are customary for facilities of this nature and the Company was in compliance with all covenants as at April 30, 2011. Please see Note 18.9 for disclosures covering the 52-week periods ended January 29, 2011 and January 30, 2010.

As at April 30, 2011, the Company had no borrowings drawn (May 1, 2010: Nil) and had $6.3 million (May 1, 2010: Nil) of standby letters of credit outstanding under the Credit Facility. Availability under the Credit Facility was $741.8 million as at April 30, 2011.

As at April 30, 2011 the Company also had outstanding merchandise letters of credit of U.S. $6.1 million (May 1, 2010: U.S. $8.5 million) used to support the Company's offshore merchandise purchasing program with restricted cash and investments pledged as collateral.

Interest expense on long-term obligations, including the current portion, amortization of transaction costs and commitment fees on the unused portion of the Credit Facility for the 13-week period ended April 30, 2011 totaled $2.8 million (May 1, 2010: $6.1 million).

The Company's cash payments for interest on long-term obligations, including the current portion and commitment fees on the unused portion of the Credit Facility for the 13-week period ended April 30, 2011 totaled $0.6 million (May 1, 2010: $4.1 million).

9. Capital stock

On May 18, 2010, the Company filed a Normal Course Issuer Bid with the Toronto Stock Exchange ("TSX") that permitted the Company to purchase for cancellation up to 5% of its issued and outstanding common shares, representing 5,381,049 of the issued and outstanding common shares ("2010 NCIB"), based on the 107,620,995 common shares issued and outstanding as at May 18, 2010. Under the 2010 NCIB, purchases were allowed to commence on May 25, 2010 and terminated on May 24, 2011 (see Note 19).

During the 13-week period ended April 30, 2011, 45,100 shares (May 1, 2010: Nil) were purchased for $0.9 million (May 1, 2010: Nil), and cancelled under the 2010 NCIB. As at April 30, 2011, 2,249,600 shares were purchased for a total of $43.9 million, and cancelled under the 2010 NCIB.

As at April 30, 2011, 105,371,995 common shares (January 29, 2011: 105,417,095, May 1, 2010: 107,620,995, January 30, 2010: 107,620,995) were issued and outstanding. Sears Holdings, the controlling shareholder of the Company, is the beneficial holder of 97,341,670 or 92.4%, of the common shares of the Company as at April 30, 2011 (January 29, 2011: 97,341,670, or 92.3%, May 1, 2010: 97,341,670, or 90.4%, January 30, 2010: 78,680,790 or 73.1%). The issued and outstanding shares are fully paid and have no par value.

10. Revenue

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

(in CAD millions)	**13-Week Period Ended April 30, 2011**	13-Week Period Ended May 1, 2010
Sale of goods	**$ 873.8**	$ 939.2
Service revenue	**79.3**	79.9
Commission revenue	**27.9**	33.6
Licensee fee revenue	**7.6**	8.5
Other	**3.9**	7.0
Total revenue	**$ 992.5**	$ 1,068.2

11. Retirement benefit plans expense

The expense for the defined benefit, defined contribution and other benefit plans for the 13-week period ended April 30, 2011 was $4.4 million (May 1, 2010: $3.3 million), $2.6 million (May 1, 2010: $2.4 million) and $4.0 million (May 1, 2010: $3.9 million), respectively.

12. Depreciation and amortization expense

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

(in CAD millions)	**13-Week Period Ended April 30, 2011**	13-Week Period Ended May 1, 2010
Property, plant & equipment	**$ 26.7**	$ 32.5
Intangible assets	**1.9**	2.0
Total depreciation and amortization expense	**$ 28.6**	$ 34.5

13. Financial instruments

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

Financial instrument risk management

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

Credit risk

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

Cash and cash equivalents and other long-term assets of $199.7 million (January 29, 2011: $433.6 million, May 1, 2010: $1,290.5 million, January 30, 2010: $1,393.7 million) expose the Company to credit risk should the borrower default on maturity of the investment. The Company manages this exposure through policies that require borrowers to have a minimum credit rating of A, and limiting investments with individual borrowers at maximum levels based on credit rating.

The Company is exposed to minimal credit risk from customers as a result of ongoing credit evaluations and review of accounts receivable collectability. As at April 30, 2011, approximately 31.9% (January 29, 2011: 38.9%, May 1, 2010: 52%, January 30, 2010: 45%) of the Company's accounts receivable is due from one customer (Comparative periods: two customers) who is current on their account.

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 April 30, 2011:

		Contractual Cash Flow Maturities				
(in CAD millions)	Carrying Amount	Total	Within 1 year	1 year to 3 years	3 years to 5 years	Beyond 5 years
Accounts payable and accrued liabilities	$ 644.8	$ 644.8	$ 644.8	$ –	$ –	$ –
Long-term obligations and payments due within one year	33.4	33.4	5.7	9.1	4.9	13.7
Operating lease obligations [1]	n/a	547.6	105.4	168.7	105.2	168.3
	$ 678.2	$ 1,225.8	$ 755.9	$ 177.8	$ 110.1	$ 182.0

[1] *Operating lease obligations are not reported in the unaudited Interim Consolidated Statements of Financial Position.*

Management believes that cash on hand, future cash flows generated from operations and availability of current and future funding will be adequate to support these financial liabilities.

Market risk

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

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 April 30, 2011, there were option contracts with a notional value of U.S. $279.0 million (January 29, 2011: U.S. $372.0 million, May 1, 2010: U.S. $563.0 million, January 30, 2010: U.S. $298.8 million) and a carrying value of $17.1 million included in "Derivative financial liabilities" (January 29, 2011: $3.0 million, May 1, 2010: $4.0 million, January 30, 2010: $9.9 million included in "Derivative financial assets"). The intrinsic value portion of these derivatives has been designated as a cash flow hedge for hedge accounting treatment under IAS 39, *Financial Instruments*. These contracts are intended to reduce the foreign exchange risk with respect to anticipated purchases of U.S. dollar denominated goods and services, including goods purchased for resale ("hedged item"). As at April 30, 2011 the designated portion of these hedges was considered effective.

- As at April 30, 2011, there were swap contracts outstanding with a notional value of U.S. $6.2 million (January 29, 2011: U.S. $6.8 million, May 1, 2010: U.S. $1.6 million, January 30, 2010: U.S. $4.8 million) and a carrying value of less than $0.1 million (January 29, 2011: less than $0.1 million, May 1, 2010: Nil, January 30, 2010: less than

$0.1 million). These contracts are intended to reduce the foreign exchange risk on U.S. dollar denominated short-term investments pledged as collateral for letter of credit obligations issued under the Company's offshore merchandise purchasing program.

While the notional principal of these outstanding financial instruments is not recorded on the unaudited Interim Consolidated Statements of Financial Position, the fair value of the contracts is included in the "Derivative asset" or "Derivative liability" line, depending on fair value, and classified as current or long-term, depending on the maturities of the outstanding contracts. Changes in the fair value of the designated portion of contracts are included in Other comprehensive income ("OCI") for cash flow hedges to the extent the designated portion of the hedges continue to be effective, with the ineffective portion included in "Cost of goods and services" sold in the unaudited Interim Consolidated Statements of Net Loss and Comprehensive Loss. Amounts previously included in OCI are reclassified to Cost of goods and services sold in the same period in which the hedged item impacts net earnings (loss).

For the 13-week period ended April 30, 2011, the Company recorded a gain of $2.6 million (May 1, 2010: loss of $0.1 million), relating to the translation or settlement of U.S. dollar denominated monetary items consisting of cash and cash equivalents, accounts receivable and accounts payable, excluding the reclassification from OCI of the gain on foreign exchange derivatives designated as cash flow hedges.

The period end rate was 1.0566 U.S. dollar to Canadian dollar. A 10% appreciation or depreciation of the U.S. and or Canadian dollar exchange rate was determined to have an impact on net earnings (losses) of $2.1 million for U.S. dollar denominated balances included in cash and cash equivalents (other than those which are hedged under the swap contracts), derivative contracts that have not been designated as cash flow hedges, accounts receivable and the unhedged portion of accounts payable.

Interest rate risk

From time to time, the Company enters into interest rate swap contracts with approved financial institutions to manage exposure to interest rate risks. As at April 30, 2011, the Company had no interest rate swap contracts in place.

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

Cash and cash equivalents and borrowings under the secured Credit Facility are subject to interest rate risk. The total subject to interest rate risk as at April 30, 2011 was $197.2 million (January 29, 2011: $430.5 million, May 1, 2010: $1,286.8 million), January 30, 2010: $1,389.6 million). A movement in interest rate of +/-0.25% would cause an immaterial variance in the unaudited Interim Consolidated Statements of Net Loss and Comprehensive Loss.

Classification and fair value of financial instruments

The estimated fair values of financial instruments as at April 30, 2011, January 29, 2011, May 1, 2010 and January 30, 2010 are based on relevant market prices and information available at those dates. The following tables summarize the classification and fair value of certain financial instruments as at the aforementioned dates. The Company determines the classification of a financial instrument when it is initially recorded, based on the underlying purpose of the instrument. As a significant number of the Company's assets and liabilities, including inventories and capital assets, do not meet the definition of financial instruments, values in the tables below do not reflect the fair value of the Company as a whole.

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

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

(in CAD millions)

Classification	Balance Sheet Category	Fair Value Hierarchy[1]	As at April 30, 2011	As at January 29, 2011	As at May 1, 2010	As at January 30, 2010
Loans and receivables						
Cash equivalents	Cash and cash equivalents[2]	Level 2	$ 80.0	$ 343.8	$ 99.0	$ 100.0
Available for Sale						
Short-term investments	Short-term investments[2]	Level 2	–	–	1,059.2	1,165.5
Fair value through profit or loss						
U.S. $ derivative contracts	Derivative financial assets	Level 2	–	–	–	9.9
U.S. $ derivative contracts	Derivative financial liabilities	Level 2	17.1	3.0	4.0	–
Long-term investments	Other long-term assets	Level 3	1.3	1.3	1.3	1.3

[1] *Classification of fair values relates to 2011.*

[2] *Interest income related to cash and cash equivalents and short-term investments is disclosed in Note 6.*

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

14. Contingent liabilities

In addition to the class action suits described in the annual consolidated financial statements, the Company is involved in various legal proceedings incidental to the normal course of business. The Company is of the view that although the outcome of such legal proceedings cannot be predicted with certainty, the final disposition is not expected to have a material adverse effect on the Company's unaudited Interim Consolidated Statements of Financial Position or results of operations.

14.1 Commitments and guarantees

Commitments

Cash and cash equivalents that are restricted represent cash and investments pledged as collateral for letter of credit obligations issued under the Company's offshore merchandise purchasing program of $6.1 million (January 29, 2011: $7.1 million, May 1, 2010: $1.9 million, January 30, 2010: $5.2 million), the Canadian equivalent of U.S. $6.4 million (January 29, 2011: U.S. $7.0 million, May 1, 2010: U.S. $1.8 million, January 30, 2010: U.S. $4.8 million), current cash deposits pledged as collateral with counterparties relating to outstanding derivative contracts of $17.4 million (January 29, 2011: $5.1 million, May 1, 2010: $14.2 million, January 30, 2010: $6.4 million) and funds held in trust in accordance with regulatory requirements governing advance ticket sales related to Sears Travel of $2.5 million (January 29, 2011: $3.1 million May 1, 2010: $3.7 million, January 30, 2010: $4.2 million).

Guarantees

The Company has provided the following significant guarantees to 3rd 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 are $4.5 million as at April 30, 2011.

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, director and officer indemnification agreements and indemnification of trustees under indentures for outstanding public debt. The Company has also provided certain indemnification agreements in connection with the sale of the credit and financial services operations in November 2005. The foregoing indemnification agreements require the Company to compensate the counterparties for costs incurred as a result of changes in laws and regulations, or as a result of litigation or statutory claims, or statutory sanctions that may be suffered by a counterparty as a consequence of the transaction. The terms of these indemnification agreements will vary based on the contract and typically do not provide for any limit on the maximum potential liability. Historically, the Company has not made any significant payments under such indemnifications and no amount has been accrued in the unaudited interim consolidated financial statements with respect to these indemnification commitments.

15. Net loss per share

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

(Number of shares)	**13-Week Period Ended April 30, 2011**	13-Week Period Ended May 1, 2010
Weighted average number of shares per basic net loss per share calculation	**105,392,253**	107,620,995
Effect of dilutive instruments outstanding	**1,773**	11,690
Weighted average number of shares per diluted net loss per share calculation	**105,394,026**	107,632,685

Net loss as disclosed in the unaudited Interim Consolidated Statements of Net Loss and Comprehensive Loss was used as the numerator in calculating the basic and diluted net loss per share. For the 13-week period ended April 30, 2011, 20,820 options (May 1, 2010: 35,060 options) were included in the calculation of diluted net loss per share as they were dilutive.

16. Income taxes

The Company's total net cash payments of income taxes in the 13-week period ended April 30, 2011 was $19.7 million (May 1, 2010: $38.4 million).

In the ordinary course of business, the Company is subject to ongoing audits by tax authorities. While the Company believes that its tax filing positions are appropriate and supportable, periodically, certain matters are challenged by tax authorities. During the quarter, the Company recorded a charge of $8.5 million for estimated exposure to uncertain tax provisions, comprised of $4.0 million of potential interest in "Finance costs" and $4.5 million of tax exposure in "Income tax expense (recovery) - current" in the unaudited Interim Consolidated Statements of Net Loss and Comprehensive Loss. As the Company routinely evaluates and provides for potentially unfavourable outcomes with respect to any tax audits, the Company believes that, other than as noted above, the final disposition of tax audits will not have a material adverse effect on its liquidity, the unaudited Interim Consolidated Statements of Financial Position or results of operations. Included in other long-term assets, as at April 30, 2011, are receivables of $20.8 million (January 29, 2011; $20.9 million, May 1, 2010: $20.9 million, January 30, 2010: $20.9 million) related to payments made by the Company for tax assessments that are being disputed.

17. IFRS 1 – First time adoption of IFRS

IFRS 1 requires retrospective application of IFRS standards in place as at the reporting date. However, IFRS 1 contains certain optional exemptions and mandatory exceptions from the general requirement for retrospective application.

The Company has elected the following treatment pertaining to optional exemptions from retrospective application of IFRS at the transition date:

a) Fair value or revaluation as deemed cost
An entity may elect to revalue its property, plant & equipment at fair value at the transition date and use this fair value as the deemed transition cost. On transition, the Company has elected to measure its land and buildings, investment property and finance lease buildings at fair value and set the fair value as the deemed cost.

b) Employee benefits
Under IFRS 1, an entity may elect to recognize all cumulative actuarial gains and losses at the date of transition through opening retained earnings. The Company did not make this election as the Company has decided to apply the corridor approach back to the plans' inception dates.

c) Business combinations
An exemption is available within IFRS 1 that allows an entity to carry forward its previous Generally Accepted Accounting Principles ("GAAP") accounting for business combinations prior to the transition date. The Company elected not to apply IFRS 3 – *Business Combinations,* ("IFRS 3") retrospectively to business combinations that occurred before the transition date. No change has been made to the recognition and measurement of business combinations that occurred prior to this date.

d) Borrowing costs
IAS 23 – *Borrowing Costs* ("IAS 23") requires capitalization of borrowing costs that are directly attributable to, and an allocation of borrowing costs on general debt that relate to, the acquisition, construction or redevelopment of an asset that takes a substantial period of time to prepare for its intended use. Such policy is required to be applied retrospectively.

IFRS 1 allows an entity to adopt IAS 23 prospectively to projects for which the capitalization commencement date is after January 30, 2010 or it may elect any date earlier than January 30, 2010 for transition. The Company has elected to apply IAS 23 prospectively to the acquisition, construction or redevelopment of assets that occurred on or after the transition date.

e) *Share-based payment transactions*
IFRS 2 – Share-based payment ("IFRS 2") is applied to all grants of shares, options or other equity instruments made after November 7, 2002. Similarly, IFRS 2 applies to all liabilities arising from share-based (unit-based) payment transactions that exist at the later of the date of transition to IFRS and January 1, 2005.

IFRS 1 allows first-time adopters to exclude application of IFRS 2 to equity instruments that were granted prior to November 7, 2002. It also allows the first-time adopter to not apply IFRS 2 to equity instruments granted after November 7, 2002 that vested before transition to IFRS. Finally, it allows first-time adopters to exclude the application of IFRS 2 to liabilities settled before the transition date. The Company has elected these exemptions on transition date.

f) Arrangements containing leases
IFRS 1 allows entities to determine whether an arrangement contains a lease in accordance with IFRIC 4 – *Determining whether an Arrangement contains a Lease* ("IFRIC 4") based on the facts and circumstances at the transition date rather than at the lease inception date. On transition, the Company has elected not to reapply the criteria for determining whether an arrangement contains a lease on the date of transition, given the same determination was made in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP") in 2004.

IFRS 1 also provides certain mandatory exceptions to the retrospective application requirement. The general premise of the mandatory exceptions is to prevent the use of hindsight in adopting IFRS's retrospectively.

a) Estimates
Estimates made in accordance with IFRS at transition date remained consistent with those determined under Canadian GAAP, except where they were impacted by a difference in accounting policy.

b) Hedge accounting
Hedging relationships recognized under Canadian GAAP must be discontinued unless the entity had documented IFRS compliant hedging documentation prior to February 1, 2010 in which case hedge accounting may continue in accordance with IAS 39 – *Financial Instruments – Recognition and Measurement* ("IAS 39"). The Company's hedge transactions continue to be effective hedges under IFRS.

c) Derecognition of financial assets and liabilities
Financial assets and liabilities derecognized before January 31, 2010 are not rerecognized under IFRS. Management did not choose to apply the IAS 39 derecognition criteria to an earlier date. The application of this exemption has no impact to the Company.

IFRS 1 – Reconciliations

As these are the first Interim IFRS financial statements for the Company, these unaudited interim consolidated financial statements were prepared in accordance with IAS 34 and IFRS 1. IFRS 1 requires that the Company prepare reconciliations between Canadian GAAP and IFRS equity and comprehensive income for the comparative Fiscal 2010 period. Presented below are these reconciliations.

17.1 Reconciliation of Canadian GAAP to IFRS 2010 unaudited Interim Consolidated Statements of Financial Position

As at January 29, 2011

(in CAD millions)	Ref	Canadian GAAP	Reclassifications (j)	Canadian GAAP reclassified	Property, plant & equipment (a)	Investment property (a)	Joint ventures (b)	Leases (c)	Financial instruments (d)	Provisions (e)	Employee benefits (f)	Intangible assets (g)	Loyalty program (h)	Income tax (i)	IFRS
Current asssets		$ 1,634.5	$ (28.1)	$ 1,606.4	$ –	$ –	$ (14.6)	$ (0.1)	$ –	$ –	$ –	$ (25.9)	$ –	$ –	$ 1,565.8
Property, plant & equipment		577.4	–	577.4	375.8	(5.1)	(77.3)	30.0	–	–	–	–	–	–	900.7
Investment property		–	–	–	–	21.7	–	–	–	–	–	–	–	–	21.7
Investment in joint ventures		–	–	–	–	–	309.7	–	–	–	–	–	–	–	309.7
Other long-term assets		297.9	30.8	328.7	–	–	(10.4)	(0.1)	–	–	32.1	(7.8)	–	(71.9)	270.7
		$ 2,509.8	$ 2.7	$ 2,512.5	$ 375.8	$ 16.6	$ 207.4	$ 29.8	$ –	$ –	$ 32.1	$ (33.7)	$ –	$ (71.9)	$ 3,068.8
Current liabilities		$ 1,023.9	$ 2.7	$ 1,026.6	$ –	$ –	$ (19.6)	$ 4.0	$ –	$ 0.6	$ –	$ –	$ 17.1	$ 0.2	$ 1,028.9
Other long-term liabilities		485.4	–	485.4	–	–	(33.4)	26.1	–	–	(65.3)	–	–	69.4	482.2
		1,509.3	2.7	1,512.0	–	–	–	30.1	–	0.6	(65.3)	–	17.1	69.6	15.4
Capital stock		15.4	–	15.4	–	–	–	–	–	–	–	–	–	–	15.4
Retained earnings		987.5	–	987.5	375.8	16.6	260.4	(0.3)	0.7	(0.6)	97.4	(33.7)	(17.1)	(141.8)	1,544.9
Accumulated other comprehensive loss		(2.4)	–	(2.4)	–	–	–	–	(0.7)	–	–	–	–	0.3	(2.8)
		$ 2,509.8	$ 2.7	$ 2,512.5	$ 375.8	$ 16.6	$ 207.4	$ 29.8	$ –	$ –	$ 32.1	$ (33.7)	$ –	$ (71.9)	$ 3,068.6

As at May 1, 2010

(in CAD millions)	Ref	Canadian GAAP	Reclassifications (j)	Canadian GAAP reclassified	Property, plant & equipment (a)	Investment property (a)	Joint ventures (b)	Leases (c)	Financial instruments (d)	Provisions (e)	Employee benefits (f)	Intangible assets (g)	Loyalty program (h)	Income tax (i)	IFRS
Current asssets		$ 2,472.0	$ (30.3)	$ 2,441.7	$ –	$ –	$ (6.4)	$ (0.1)	$ –	$ –	$ –	$ (31.8)	$ –	$ –	$ 2,403.4
Property, plant & equipment		600.7	–	600.7	391.7	(5.1)	(83.6)	28.7	–	–	–	–	–	–	932.4
Investment property		–	–	–	–	21.7	–	–	–	–	–	–	–	–	21.7
Investment in joint ventures		–	–	–	–	–	315.6	–	–	–	–	–	–	–	315.6
Other long-term assets		293.0	32.9	325.9	–	–	(7.8)	(0.1)	–	–	35.7	(7.0)	–	(65.3)	281.4
		$ 3,365.7	$ 2.6	$ 3,368.3	$ 391.7	$ 16.6	$ 217.8	$ 28.5	$ –	$ –	$ 35.7	$ (38.8)	$ –	$ (65.3)	$ 3,954.5
Current liabilities		$ 1,336.3	$ 2.6	$ 1,338.9	$ –	$ –	$ (16.7)	$ 4.3	$ –	$ 0.8	$ –	$ –	$ 18.2	$ –	$ 1,345.5
Other long-term liabilities		375.3	–	375.3	–	–	(37.1)	23.5	–	–	(68.0)	–	–	83.7	377.4
		1,711.6	2.6	1,714.2	–	–	(53.8)	27.8	–	0.8	(68.0)	–	18.2	83.7	1,722.9
Capital stock		15.7	–	15.7	–	–	–	–	–	–	–	–	–	–	15.7
Retained earnings		1,641.0	–	1,641.0	391.7	16.6	271.6	0.7	–	–	103.7	(38.8)	(18.2)	(149.2)	2,218.9
Accumulated other comprehensive loss		(2.6)	–	(2.6)	–	–	–	–	–	–	–	–	–	0.2	(3.0)
		$ 3,365.7	$ 2.6	$ 3,368.3	$ 391.7	$ 16.6	$ 217.8	$ 28.5	$ –	$ –	$ 35.7	$ (38.8)	$ –	$ (65.3)	$ 3,954.5

17.1 Reconciliation of Canadian GAAP to IFRS 2010 unaudited Interim Consolidated Statements of Financial Position

As at January 30, 2010

(in CAD millions)	Ref	Canadian GAAP	Reclassifications (j)	Canadian GAAP reclassified	Property, plant & equipment (a)	Investment property (a)	Joint ventures (b)	Leases (c)	Financial instruments (d)	Provisions (e)	Employee benefits (f)	Intangible assets (g)	Loyalty program (h)	Income tax (i)	IFRS
Current asssets		$ 2,491.4	$ (26.9)	$ 2,464.5	$ –	$ –	$ (9.6)	$ –	$ –	$ –	$ –	$ (26.9)	$ –	$ –	$ 2,428.0
Property, plant & equipment		620.2	–	620.2	400.4	(5.1)	(84.6)	30.1	–	–	–	–	–	–	961.0
Investment property		–	–	–	–	21.7	–	–	–	–	–	–	–	–	21.7
Investment in joint ventures		–	–	–	–	–	321.0	–	–	–	–	–	–	–	321.0
Other long-term assets		293.2	29.7	322.9	–	–	(7.8)	(0.1)	–	–	36.9	(6.8)	–	(61.1)	284.0
		$ 3,404.8	$ 2.8	$ 3,407.6	$ 400.4	$ 16.6	$ 219.0	$ 30.0	$ –	$ –	$ 36.9	$ (33.7)	$ –	$ (61.1)	$ 4,015.7
Current liabilities		$ 1,376.7	$ 2.8	$ 1,379.5	$ –	$ –	$ (23.0)	$ 4.5	$ –	$ 0.9	$ –	$ –	$ 19.7	$ –	$ 1,381.6
Other long-term liabilities		370.6	–	370.6	–	–	(36.3)	24.5	–	–	(68.9)	–	–	93.6	383.5
		1,747.3	2.8	1,750.1	–	–	(59.3)	29.0	–	0.9	(68.9)	–	19.7	93.6	1,765.1
Capital stock		15.7	–	15.7	–	–	–	–	–	–	–	–	–	–	15.7
Retained earnings		1,633.8	–	1,633.8	400.4	16.6	278.3	1.0	–	–	105.8	(33.7)	(19.7)	(155.0)	2,227.7
Accumulated other comprehensive loss		8.0	–	8.0	–	–	–	–	–	–	–	–	–	0.3	7.2
		$ 3,404.8	$ 2.8	$ 3,407.6	$ 400.4	$ 16.6	$ 219.0	$ 30.0	$ –	$ –	$ 36.9	$ (33.7)	$ –	$ (61.1)	$ 4,015.7

17.2 Reconciliation of Canadian GAAP to IFRS 2010 unaudited Interim Consolidated Statements of Earnings (Loss) and Comprehensive Income (Loss)

For the 52-week period ended January 29, 2011

(in CAD millions)	Ref	Canadian GAAP	Reclassifications (j)	Canadian GAAP reclassified	Property, plant & equipment (a)	Joint ventures (b)	Leases (c)	Financial instruments (d)	Provisions (e)	Employee benefits (f)	Intangible assets (g)	Loyalty program (h)	Income tax (i)	IFRS
Revenue		$ 4,957.8	$ 20.1	$ 4,977.9	$ –	$ (46.6)	$ –	$ –	$ –	$ –	$ –	$ 7.2	$ –	$ 4,938.5
Cost of goods and services sold*		4,636.1	(1,676.9)	2,959.2	–	–	–	–	–	–	–	38.5	–	2,997.7
Gross profit		321.7	1,697.0	2,018.7	–	(46.6)	–	–	–	–	–	(31.3)	–	1,940.8
Selling, administrative and other expenses*		–	1,785.7	1,785.7	24.6	(26.2)	(0.9)	0.4	(0.3)	8.4	–	(33.9)	(0.1)	1,757.7
Depreciation and amortization**		104.6	(104.6)	–	–	–	–	–	–	–	–	–	–	–
Finance costs		13.5	3.8	17.3	–	(2.9)	2.2	–	–	–	–	–	–	16.6
Interest income		0	(4.2)	(4.2	–	–	–	–	–	–	–	–	–	(4.2)
Interest income for unusual gains**		(16.2)	16.2	–	–	–	–	–	–	–	–	–	–	–
Share of loss in joint ventures		–	–	–	–	0.4	–	–	–	–	–	–	–	0.4
Earnings (loss) before income taxes		219.8	0.1	219.9	(24.6)	(17.9)	(1.3)	(0.4)	0.3	(8.4)	–	2.6	0.1	170.3
Income tax expense (recovery)														
Current		75.4	–	75.4	–	(0.4)	–	–	–	–	–	–	–	75.0
Deferred		(5.4)	0.1	(5.3)	–	0.1	–	–	–	–	–	–	(12.8)	(18.0)
		70.0	0.1	70.1	–	0.3	–	–	–	–	–	–	(12.8)	37.0
Net earnings (loss)		**$ 149.8**	**$ –**	**$ 149.8**	**$ (24.6)**	**$ (17.6)**	**$ (1.3)**	**$ (0.4)**	**$ 0.3**	**$ (8.4)**	**$ –**	**$ 2.6**	**$ 12.9**	**$ 113.3**
Other comprehensive loss		(10.4)	–	(10.4)	–	–	–	0.4	–	–	–	–	–	(10.0)
Comprehensive income		$ 139.4	$ –	$ 139.4	$ (24.6)	$ (17.6)	$ (1.3)	$ –	$ 0.3	$ (8.4)	$ –	$ 2.6	$ 12.9	$ 103.3

For the 13-week period ended May 1, 2010

(in CAD millions)	Ref	Canadian GAAP	Reclassifications (j)	Canadian GAAP reclassified	Property, plant & equipment (a)	Joint ventures (b)	Leases (c)	Financial instruments (d)	Provisions (e)	Employee benefits (f)	Intangible assets (g)	Loyalty program (h)	Income tax (i)	IFRS
Revenue		$ 1,067.0	$ 7.8	$ 1,074.8	$ –	$ (12.9)	$ –	$ –	$ –	$ –	$ –	$ 6.3	$ –	$ 1,068.2
Cost of goods and services sold*		1,020.4	(392.2)	628.2	–	–	–	–	–	–	–	11.6	–	639.8
Gross profit		46.6	400.0	446.6	–	(12.9)	–	–	–	–	–	(5.3)	–	428.4
Selling, administrative and other expenses*		–	425.6	425.6	8.7	(7.0)	(0.2)	0.5	(0.1)	2.1	5.1	(6.8)	–	427.9
Depreciation and amortization**		25.7	(25.7)	–	–	–	–	–	–	–	–	–	–	–
Finance costs		5.9	0.7	6.6	–	(1.0)	0.5	–	–	–	–	–	–	6.1
Interest income		–	(0.7)	(0.7)	–	–	–	–	–	–	–	–	–	(0.7)
Unusual gains**		–	–	–	–	–	–	–	–	–	–	–	–	–
Share of loss in joint ventures		–	–	–	–	1.8	–	–	–	–	–	–	–	1.8
Earnings (loss) before income taxes		15.0	0.1	15.1	(8.7)	(6.7)	(0.3)	(0.5)	0.1	(2.1)	(5.1)	1.5	–	(6.7)
Income tax expense (recovery)														
Current		6.9	–	6.9	–	–	–	–	–	–	–	–	–	6.9
Deferred		0.9	0.1	1.0	–	–	–	–	–	–	–	–	(5.8)	(4.8)
		7.8	0.1	7.9	–	–	–	–	–	–	–	–	(5.8)	2.1
Net earnings (loss)		**$ 7.2**	**$ –**	**$ 7.2**	**$ (8.7)**	**$ (6.7)**	**$ (0.3)**	**$ (0.5)**	**$ 0.1**	**$ (2.1)**	**$ (5.1)**	**$ 1.5**	**$ 5.8**	**$ (8.8)**
Other comprehensive loss		(10.6)	–	(10.6)	–	–	–	0.5	–	–	–	–	(0.1)	(10.2)
Comprehensive loss		$ (3.4)	$ –	$ (3.4)	$ (8.7)	$ (6.7)	$ (0.3)	$ –	$ 0.1	$ (2.1)	$ (5.1)	$ 1.5	$ 5.7	$ (19.0)

Note: Under Canadian GAAP, "Cost of goods and services sold" and "Selling, administrative and other expenses" were reported in total under "Cost of merchandise sold, operating, administrative and selling expenses."

*** Under IFRS "Deprecation and amortization expense" and "Unusual gains" are included in "Selling, administrative and other exp enses."*

17.3 Reconciliation of Canadian GAAP to IFRS 2010 equity

(in CAD millions)	Ref	As at January 29, 2011	As at May 1, 2010	As at January 30, 2010
Total equity under Canadian GAAP		**$ 1,000.5**	**$ 1,654.1**	**$ 1,657.5**
Property, plant & equipment	a	375.8	391.7	400.4
Investment property	a	16.6	16.6	16.6
Joint ventures	b	260.4	271.6	278.3
Leases	c	(0.3)	0.7	1.0
Provisions	e	(0.6)	(0.8)	(0.9)
Employee benefits	f	97.4	103.7	105.8
Intangible assets	g	(33.7)	(38.8)	(33.7)
Loyalty program	h	(17.1)	(18.2)	(19.7)
Total IFRS adjustments before tax		$ 698.5	$ 726.5	$ 747.8
Income tax	i	(141.5)	(149.0)	(154.7)
Total adjustment to equity		$ 557.0	$ 577.5	$ 593.1
Total equity under IFRS		**$ 1,557.5**	**$ 2,231.6**	**$ 2,250.6**

17.4 Reconciliation of Canadian GAAP to IFRS 2010 comprehensive income (loss)

(in CAD millions)	Ref	52-Week Period Ended January 29, 2011	13-Week Period Ended May 1, 2010
Net earnings under Canadian GAAP		**$ 149.8**	**$ 7.2**
Property, plant & equipment	a	(24.6)	(8.7)
Joint ventures	b	(17.6)	(6.7)
Leases	c	(1.3)	(0.3)
Financial instruments	e	(0.4)	(0.5)
Provisions	e	0.3	0.1
Employee benefits	f	(8.4)	(2.1)
Intangible assets	g	–	(5.1)
Loyalty program	h	2.6	1.5
Total IFRS adjustments before tax		$ (49.4)	$ (21.8)
Income tax	i	12.9	5.8
Net earnings (loss) under IFRS		**$ 113.3**	**$ (8.8)**
Other comprehensive under Canadian GAAP		**$ (10.4)**	**$ (10.6)**
Financial instruments	d	**0.4**	**0.4**
Other comprehensive under IFRS		**$ (10.0)**	**$ (10.2)**
Total comprehensive income (loss) under IFRS		**103.3**	**$ (19.0)**

17.5 Explanation of significant IFRS adjustments to equity and comprehensive income (loss)

The following is an explanation of the adjustments disclosed in the reconciliations in Note 17.1 to 17.4:

(a) **Property, plant & equipment and investment property:** On transition, the Company elected to measure its land and buildings at fair value and set the fair value as the deemed cost at that date in accordance with the IFRS 1 fair value as deemed cost election option. As a result, the cost of the Company's property, plant & equipment and its investment property increased materially on transition. Due to the increased building cost, subsequent building depreciation also increased. The adjustment made to equity represents the increase to the cost of the land and buildings. The adjustment to net earnings (loss) represents the increase in depreciation in the period due to the increased building cost.

Investment property has been recognized at fair value at the date of transition. Under Canadian GAAP, investment property was measured on a depreciated cost basis and classified as property, plant & equipment. For the period ending January 30, 2010, the carrying amount and fair value of investment property was $5.1 million and $21.7 million respectively. The total revaluation of investment property was $16.6 million. The carrying amount of investment property as at January 29, 2011 was $21.7 million. The adjustment to fair value for property, plant & equipment and investment property was based on 3rd party valuations, performed using various valuation methods.

(b) **Joint ventures:** The Company selected the equity method to account for its joint ventures. As such, the difference between the end of the reporting periods of the joint ventures and that of the Company can be no more than three months. As a result, the Company has advanced the joint venture reporting periods used in applying the equity method of accounting. In addition, on transition, the Company elected to measure its investments in the joint venture land and buildings at fair value and set the fair value as deemed cost at that date in accordance with the IFRS 1 fair value as deemed cost election option. The adjustment to equity is the result of the advancement of the joint venture reporting periods and the increase to the cost of the land and buildings is due to the application of the IFRS 1 election. The adjustment to net earnings (loss) represents the increased depreciation in the period due to the increase made to the joint venture buildings cost.

(c) **Leases:** There are minor differences in the criteria used to evaluate whether a lease is a finance lease between IAS 17, Leases ("IAS 17"), and the Canadian GAAP equivalent. Under IFRS, minimum lease payments are allocated between land and building components for leases which contain both. Under IFRS, professional judgment is required to assess the facts and circumstances of a lease to determine if the lease transfers substantially all the risks and rewards incidental to ownership of assets, in which case, the lease would be accounted for as a finance lease. As a result of these differences, a number of leases classified as operating leases under Canadian GAAP were reclassified as finance leases under IFRS. In addition, on transition, the Company elected to measure certain of its finance leased assets at fair value and set the fair value as deemed cost at that date in accordance with the IFRS 1 fair value as deemed cost election option. The adjustment to equity results from the reclassification of these leases to finance leases and the IFRS 1 fair value
as deemed cost election. The adjustment to net earnings (loss) represents the difference between the depreciation and interest expense under IFRS and the rental expense recognized under Canadian GAAP for the leases classified as finance leases under IFRS.

(d) **Financial instruments:** The Company holds foreign exchange option contracts. Under Canadian GAAP, these derivatives were fully designated for hedge accounting. Under IAS 39, *Financial Instruments*, only the intrinsic portion of these contracts can be designated for hedge accounting. As a result, changes in the value of the undesignated component of these derivatives are required to be recognized in the unaudited Interim Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). The adjustment to retained earnings represents the recognition of the value of the undesignated portion of the outstanding derivatives. The adjustment to net earnings (loss) represents the recognition of the change in value of the undesignated portion of the outstanding derivatives in the period.

(e) **Provisions:** IAS 37, *Provisions, contingent liabilities and contingent assets* ("IAS 37"), requires onerous contracts to be recognized as liabilities. The Company has onerous contracts relating to leased space that is not fully occupied by a company store or a subtenant. The adjustment to equity reduces equity by the outstanding onerous contract liabilities. The adjustment to net earnings (loss) represents the unwinding of the onerous contracts liabilities recorded on transition.

(f) **Employee benefits:** The Company has selected the corridor method to recognize actuarial gains and losses on its defined benefit plans under IAS 19, *Employee Benefits* ("IAS 19"). This selection requires the Company to apply the corridor method retrospectively to each plan's inception date. Equity is increased due to adjusted plan asset and obligation values resulting from the retrospective application of IAS 19. The adjustment to net earnings (loss) represents the change required to the pension expense resulting from the application of the corridor approach under IAS 19.

(g) **Intangible assets:** Under IAS 38, *Intangible Assets* ("IAS 38"), costs related to internally generated intangible assets may only be capitalized if they meet specific criteria. The adjustments to equity represent the recognition of expenses that had previously been deferred under Canadian GAAP but do not meet the criteria of intangible assets under IFRS. The adjustment to net earnings (loss) represents the recognition of expenses incurred in the period that were deferred under Canadian GAAP.

(h) **Loyalty program:** Under Canadian GAAP, loyalty points granted under the Sears Club program were expensed at issuance. Under IFRIC 13, *Customer Loyalty Programs* ("IFRIC 13"), the fair value of the consideration received or receivable at the initial sale is allocated between the merchandise sold and the Sears Club points granted. Revenue related to the fair value of the points granted is deferred at the time of the initial sale transaction and is recognized when the points have been redeemed and the Company's obligations have been fulfilled. The adjustment to equity as well as net earnings (loss) reflects the difference between the policy followed under Canadian GAAP and the policy required by IFRIC 13.

(i) **Income tax:** Under Canadian GAAP and IFRS, deferred income tax assets and liabilities are recorded for temporary differences, which are the differences between when an amount is recognized for accounting and for tax purposes. The adjustment to equity as well as net earnings (loss) reflects changes to temporary differences, and thus the deferred income tax assets and liabilities, required by adjustments (a) to (h) listed above.

(j) **Reclassifications:** The following reclassifications have been made for the unaudited Interim Consolidated Statements of Financial Position:

a. Deferred tax balances recorded in current assets under Canadian GAAP were reclassified to non-current, as deferred taxes are not permitted to be classified as current under IFRS; and

b. Reimbursements from manufacturers relating to the warranty liability were reclassified from current liabilities to accounts receivable

The following reclassifications have been made for the unaudited Interim Consolidated Statements of NetEarnings (Loss) and Comprehensive Income (Loss):

c. Revenue offset against "Selling, administrative and other expenses" prior to IFRS were reclassified to "Revenue";

d. "Cost of goods and services sold" were disaggregated from "Selling, administrative and other expenses";

e. "Depreciation and amortization" were aggregated to "Selling, administrative and other expenses", as the Company selected the function classification method;

f. "Interest income" was separately presented from "Finance costs" under IFRS; and

g. "Unusual gains and losses" are not permitted under IFRS and have been reclassified to "Selling, administrative and other expenses."

17.6 Explanation of significant changes to the statement of cash flows

Under Canadian GAAP, the cash flows relating to joint ventures were proportionately consolidated into the Company's unaudited Interim Consolidated Statements of Cash Flows. Under IFRS, given the Company is applying the equity method of accounting for joint ventures, adjustments have been made to eliminate the joint venture cash flows.

18. Selected 2010 annual disclosures

As these interim unaudited consolidated financial statements are the Company's first consolidated financial statements prepared under IFRS, certain disclosures that were not included in the Company's most recent annual financial statements prepared in accordance with Canadian GAAP, have been included for the comparative annual period. See Notes 18.1 to 18.17.2

18.1 Accounts receivable, net

The components of accounts receivable, net are as follows:

(in CAD millions)	**As at January 29, 2011**	As at January 30, 2010
Deferred receivables – trade	**$ 2.3**	$ 2.8
Other receivables	**141.7**	130.1
Accounts receivable, net	**$ 144.0**	$ 132.9

18.2 Prepaid expenses

The components of prepaid expenses are as follows:

(in CAD millions)	As at January 29, 2011	As at January 30, 2010
Rent	**$ 13.8**	$ 14.0
Contracts	**7.3**	11.7
Advertising raw materials	**3.7**	1.5
Supplies	**3.7**	3.5
Insurance	**0.3**	1.6
Miscellaneous	**3.0**	2.5
Prepaid expenses	**$ 31.8**	$ 34.8

18.3 Property, plant & equipment

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

(in CAD millions)	Land	Buildings	Finance lease buildings	Equipment and fixtures	Total
Cost or deemed cost					
Balance at January 30, 2010	$ 231.1	$ 1,192.2	$ 47.3	$ 1,125.9	$ 2,596.5
Additions	–	20.4	5.8	33.2	59.4
Disposals	(0.1)	(0.9)	(15.6)	(7.6)	(24.2)
Balance at January 29, 2011	**$ 231.0**	**$ 1,211.7**	**$ 37.5**	**$ 1,151.5**	**$ 2,631.7**
Accumulated depreciation and impairment					
Balance at January 30, 2010	$ –	$ 683.2	$ 15.8	$ 936.5	$ 1,635.5
Current period depreciation	–	57.9	6.3	51.4	115.6
Disposals	–	(0.9)	(15.6)	(6.9)	(23.4)
Impairments/(reversals of impairment)	–	1.9	–	1.4	3.3
Balance at January 29, 2011	**$ –**	**$ 742.1**	**$ 6.5**	**$ 982.4**	**$ 1,731.0**
Total property, plant & equipment					
Balance at January 30, 2010	$ 231.1	$ 509.0	$ 31.5	$ 189.4	$ 961.0
Balance at January 29, 2011	**$ 231.0**	**$ 469.6**	**$ 31.0**	**$ 169.1**	**$ 900.7**

The Company engaged qualified 3rd party appraisers to conduct appraisals of its land and building properties. The valuation methods used to determine fair value include the Direct Capitalization and Discounted Cash Flows method for buildings and the Direct Sales Comparison method for land.

Impairment loss

During the fiscal year ended January 29, 2011, the Company reviewed its leased store assets for indicators of impairment at the CGU level (individual stores) and determined that a test for impairment was necessary for certain of its store assets.

This resulted in the identification of an impairment charge of $3.3 million. The recoverable amount of this CGU (individual stores) was determined based on its estimated value in use with a pre-tax discount rate of 8.5%.

The Company did not record any reversals of previously recorded impairment charges.

18.4 Allocation of goodwill to cash generating units

Goodwill has been allocated for impairment testing purposes to the following CGUs:

- Cantrex Group Inc. and Corbeil Electrique Inc.
- Home Improvement Product Services

As at January 29, 2011, the carrying amount of goodwill was allocated to CGUs as follows:

Cash generating unit	Goodwill (in CAD millions)
Cantrex Group Inc. and Corbeil Electrique Inc.	$ 2.6
Home Improvement Product Services	$ 8.6
Total	$11.2

In the assessment of impairment, management used historical data and past experience for the key assumptions used in the determination of the recoverable amount. The Company completed a test for goodwill impairment at the date of transition.

Cantrex Group Inc. and Corbeil Electrique Inc.

The recoverable amount of this CGU is determined based on its estimated fair value less cost to sell. The fair value was determined based on the present value of the estimated cash flows over a 10 year period and a terminal value equivalent to the present value of 4 times EBITDA representing the value of the business beyond the 10 year cash flow projection. Cost to sell was estimated to be 2% of the fair value of the respective businesses. This reflects management's best estimate of the potential costs associated with divesting of the businesses considered. A discount rate of 8.5% was applied to the cash flow projections based on management's best estimate of the CGUs' weighted average cost of capital, considering the risks facing the CGU. An annual growth rate of 3.5% was used for Corbeil Electrique Inc. and 1% for Cantrex Group Inc. given the businesses' past growth experience and anticipated growth. The recoverable amount was determined to be greater than the carrying value including the goodwill allocated to the Cantrex Group Inc. and Corbeil Electrique Inc. CGUs, therefore, no impairment was identified.

Home Improvement Product Services

The recoverable amount of this CGU is determined based on its estimated fair value less cost to sell. The fair value was determined based on the present value of the estimated cash flows over a 10 year period and a terminal value equivalent to the present value of 5 times EBITDA representing the value of the business beyond the 10 year cash flow projection. Cost to sell was estimated to be 2% of the fair value of the respective businesses. This reflects management's best estimate of the potential costs associated with divesting of the businesses considered. A discount rate of 8.5% per annum was used, based on management's best estimate of the CGU's weighted average cost of capital considering the risks facing the CGU. The cash flow projection assumes a growth rate of 5% over the 10 year period. The recoverable amount was determined to be greater than the carrying value including the goodwill allocated to the Home Improvement Product Services CGU; therefore, no impairment was identified.

18.5 Investment in joint ventures

The Company's joint ventures include income from joint venture investments in 13 shopping centres across Canada. Joint venture investments range from 15% to 50% and are co-owned with major shopping centre owners.

The Company's joint ventures are in partnership with Westcliff Group, Ivanhoe Cambridge Properties and T&T Properties. The jointly controlled entities and the Company's ownership interest in each are listed below:

Entity name	Properties	Joint Venture Partner	Ownership Interest
Carrefour Richelieu Realties (St-Jerome)	Carrefour Richelieu	Westcliff Group	50%
Carrefour Richelieu Realties (St-Jean)	Carrefour de Nord	Westcliff Group	50%
Carrefour Richelieu Realties (Carrefour Angrignon)	Carrefour Angrignon	Westcliff Group	50%
Carrefour Richelieu Realties (Place Angrignon)	Place Angrignon	Westcliff Group	50%
Carrefour Richelieu Realties (Pierre Caisse)	Place Pierre Caisse	Westcliff Group	50%
Carrefour Richelieu Realties (Drummondville)	Promenades de Drummondville	Westcliff Group	50%
Mega Centre Drummondville	Mega Centre Drummondville	Westcliff Group	50%
Societe de Gestion des Nieges Ville Marie	Various land holdings in Quebec, Canada	Westcliff Group	50%
133562 Canada, Inc.	Various land holdings in Quebec, Canada	Westcliff Group	50%
172098 Canada, Inc.	Drummondville Stripmall	Westcliff Group	50%
Chatham Centre Mall, Ltd.	Chatham Centre Mall	Ivanhoe Cambridge	50%

Kildonan Place	Kildonan Place	Ivanhoe Cambridge	20%
Regionaux (Les Rivieres Shopping Centre)	Les Rivieres Shopping Centre	Ivanhoe Cambridge	15%
Regionaux (Les Galeries de Hull)	Les Galeries de Hull	Ivanhoe Cambridge	15%
Medicine Hat Mall	Medicine Hat Mall	T&T Properties	40%

The following represents the Company's share of investments in the assets and liabilities, revenues and expenses of the joint ventures:

(in CAD millions)	**As at January 29, 2011**	As at January 30, 2010
Interests in joint ventures		
Current assets	**$ 7.5**	$ 6.5
Non-current assets	**348.3**	366.6
Total assets	**$ 355.8**	$ 373.1
Current liabilities	**$ 11.1**	$ 15.7
Non-current liabilities	**33.0**	36.6
Total liabilities	**$ 44.1**	$ 52.3

(in CAD millions)	**52-Week Period Ended January 29 2011**
Revenue	**$ 45.5**
Expenses	
Administrative and other expenses	**20.8**
Finance costs	**2.8**
Tax expense	**0.2**
Depreciation	**22.1**
Net loss	**$ (0.4)**

18.6 Other long-term assets

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

(in CAD millions)	**As at January 29, 2011**	As at January 30, 2010
Income tax recoverable	**$ 20.9**	$ 20.9
Prepaid rent	**13.2**	15.6
Receivables	**2.7**	3.8
Investments	**1.3**	1.3
Deferred charges	**–**	0.6
Other long-term assets	**$ 38.1**	$ 42.2

18.7 Deferred revenue

The components of deferred revenue are as follows:

(in CAD millions)	**As at January 29, 2011**	As at January 30, 2010
Arising from extended warranty service contracts (i)	**$ 135.7**	$ 123.6
Arising from unshipped sales (ii)	**70.1**	74.9
Arising from customer loyalty program (iii)	**53.6**	59.5
Arising from gift card issuances (iv)	**34.9**	37.5
Other (v)	**7.1**	7.9
Total deferred revenue	**$ 301.4**	$ 303.4
Current	**$ 224.0**	$ 235.9
Non-current	**77.4**	67.5
Total deferred revenue	**$ 301.4**	$ 303.4

(i) Deferred revenue arising from the sale of extended warranty service contracts which, provide coverage for product repair services over the terms of the contracts.

(ii) Deferred revenue arising as a result of the sale of merchandise that has not yet been delivered to or picked up by the customer. Once the merchandise is delivered to the customer, the revenue is recognized.

(iii) Deferred revenue arising from the Company's Sears Club points program as described under the significant accounting policy Note 2.17.5.

(iv) Deferred revenue arising from purchases of gift cards by customers that have not yet been redeemed for merchandise. At redemption of the gift card, the revenue is recognized.

(v) Other includes deferred revenue for goods that have not yet been fully delivered or services not yet rendered. The revenue is recognized when the goods have been delivered or by reference to the stage of completion of the service.

18.8 Provisions

The following is a continuity which shows the change in provisions over the 52-week period ended January 29, 2011:

(in CAD millions)	As at January 30, 2010	Additional Provisions	Release of Provisions	Reversed Provisions	**As at January 29, 2011**
Insurance (i)	$ 24.7	2.6	(3.4)	(0.1)	**$ 23.8**
Returns and allowances (ii)	16.0	14.3	(16.0)	–	**14.3**
Warranties (iii)	16.0	18.3	(20.0)	(1.2)	**13.1**
Sales tax (iv)	5.3	–	–	0.1	**5.4**
Severance (v)	2.2	3.6	(2.9)	(0.2)	**2.7**
Environmental (vi)	4.5	3.4	(2.4)	(0.5)	**5.0**
Other provisions (vii)	1.8	1.2	(1.2)	(0.2)	**1.6**
Total	$ 70.5	43.4	(45.9)	(2.1)	**$ 65.9**
Current	$ 69.4	41.7	(44.0)	(1.8)	$ 65.3
Non-current (iii)	1.1	1.7	(1.9)	(0.3)	0.6
Total	$ 70.5	43.4	(45.9)	(2.1)	65.9

(i) The provision for general liability claims represents the Company's best estimate of the future outflow of economic benefits due to automobile, product and general liability claims. Insurance claims relating to this provision are expected to be paid over the next several years; however, as the Company has no unconditional right to defer the settlement for at least 12 months, this provision has been classified as current. In estimating the obligation associated with incurred losses, the Company utilizes actuarial methodologies validated by an independent 3rd party. These actuarial methodologies utilize historical data to project future incurred losses. Loss estimates are adjusted based on actual claims settlements and reported claims.

(ii) The provision for returns and allowances represents the Company's best estimate of the future outflow of economic benefits due to returns and allowances. Returns and allowances relating to this provision are expected to be realized over the next 12 months. Uncertainty exists relating to the amount and timing of merchandise returns and allowances. Therefore, the estimate has been made on the basis of historical returns and allowances.

(iii) The provision for warranty claims represents the Company's best estimate of the future outflow of economic benefits that will be required due to the Company's warranty obligations. Costs incurred to service warranty claims relating to this provision are expected to be paid out over the next 2 years. Uncertainty exists relating to the number of incidents requiring merchandise repair and the related costs. This provision is estimated based on historical warranty trends and costs. The amount of expected reimbursements recorded for the period ending January 30, 2010 and January 29, 2011 was $3.1 million and $2.7 million respectively, and is reflected, in "Accounts receivable, net" in the unaudited Interim Consolidated Statements of Financial Position. The provision for warranty claims is comprised of both a current (claims realized within 12 months) and non-current component (claims realized within 24 months), with the balances respectively reflected in "Provisions" and "Other long-term liabilities" (see Note 18.10) in the unaudited Interim Consolidated Statements of Financial Position.

(iv) The Company maintains provisions for sales tax assessments under active discussion, audit, dispute or appeal with tax authorities. These provisions represent the Company's best estimate of the amount expected to be paid based on qualitative and quantitative assessments. Though uncertainty exists around the timing of settlement of the disputes or appeals with the Canada Revenue Agency, the Company expects that sales tax provisions will be settled within 4 years. However, as the Company has no unconditional right to defer the settlement of these provisions for at least 12 months, these provisions has been classified as current.

(v) The provision for severance represents the Company's best estimate of the future outflow of severance payments to severed employees who have made claims. Uncertainty exists relating to the amount of severance that will be awarded in court proceedings. Severance payments are expected to be paid between 1 month to 10 years; however, as the Company has no unconditional right to defer these payments for at least 12 months, this provision has been classified as current.

(vi) The environmental provision represents the costs to remediate environmental contamination associated with decommissioning auto centres as well as the cost to remove asbestos to meet regulatory requirements. The provision is based on assessments conducted by 3rd parties as well as historical data. Given the timing of payments to remediate is uncertain and that the Company has no unconditional right to defer these payments for at least 12 months, this provision has been classified as current.

(vi) The other provisions represent the Company's best estimate of various reserves relating to the future outflow of economic benefits due to obligations for different claims. The estimate has been made on the basis of information currently available to determine the obligations. This provision has been classified as current.

18.9 Long-term obligations

Outstanding long-term obligations are as follows:

(in CAD millions)		**As at January 29, 2011**		As at January 30, 2010
Secured revolving credit facility	$	**97.4**	$	–
Unsecured medium-term notes				
7.45% due May 10, 2010		–		200.0
7.05% due September 20, 2010		–		100.0
Finance lease obligations		**31.7**		31.5
Total	$	**129.1**	$	331.5
Current	$	**4.7**	$	305.4
Non-current		**124.4**		26.1
Total	$	**129.1**	**$**	**331.5**

The Company's debt consists of a secured credit facility and finance lease obligations. The Company was in compliance with all covenants as at January 29, 2011.

During 2010, the Company repaid in full upon maturity, $300.0 million of its unsecured medium-term notes. As at January 29, 2011, the Company had drawn $107.5 million (January 30, 2010: Nil) of borrowings and had $6.7 million (January 30, 2010: Nil) of standby letters of credit outstanding under the Credit Facility. As at January 29, 2011, the carrying value of the Credit Facility borrowings was $97.4 million, which is net of the unamortized balance of transaction costs incurred to establish the Credit Facility of $10.1 million. The carrying value of the Credit Facility accretes back to its face value over the term of the debt, using the effective interest method.

The availability under the Credit Facility, given total outstanding borrowings and standby letters of credit of $114.2 million, was $510.6 million as at January 29, 2011.

As at January 29, 2011 the Company had outstanding merchandise letters of credit of U.S. $6.6 million (January 30, 2010: U.S. $13.1 million) used to support the Company's offshore merchandise purchasing program with restricted cash and investments pledged as collateral. Interest expense on long-term obligations including the current portion and commitment-fees on the unused portion of the Credit Facility for the 52-week period ended January 29, 2011 totaled $16.6 million.

The Company's cash payments for interest on long-term debt including the current portion of debt and commitment fees on the unused portion of the Credit Facility for the 52-week period ended January 29, 2011 totaled $16.8 million.

18.10 Other long-term liabilities

The components of other long-term liabilities are as follows:

(in CAD millions)	**As at January 29, 2011**	As at January 30, 2010
Construction allowance	**$ 74.5**	$ 81.0
Rent	**7.2**	8.7
Miscellaneous	**3.0**	3.8
Other long-term liabilities	**$ 84.7**	$ 93.5

The non-current portion of the warranties provision (see Note 18.8) is reflected in the miscellaneous component of "Other long-term liabilities."

18.11 Leasing arrangements

Finance lease arrangements - Company as lessee

As at January 29, 2011, the Company had a total of 14 finance lease arrangements (January 30, 2010: 16) which are related to the building components of certain leased properties. The related land components of these properties have been separately classified as operating leases. The buildings held under finance leases are used in the normal course of operations, primarily for the Company's retail store locations. These lease arrangements do not contain unusual or contingent lease terms or restrictions, which the Company considers to be significant.

The Company also leases retail offices and warehouse locations under finance leases. The leases typically run for a period of 1 to 10 years, with some leases providing an option to renew after that date.

Finance lease buildings are included in the unaudited Interim Consolidated Statements of Financial Position under "Property, plant & equipment." Note 18.3, discloses further details on the net carrying value of these assets, which as at January 29, 2011, was $31.0 million (January 30, 2010: $31.5 million).

As at January 29 2011, the corresponding finance lease long-term and short-term liabilities of $27.0 million (January 30, 2010: $26.1 million) and $4.7 million (January 30, 2010: $5.4 million), respectively, are included in the unaudited Interim Consolidated Statements of Financial Position under "Long-term obligations" and the "Principal payments on long-term obligations due within one year." Note 18.9, in addition to the table below, discloses the carrying value of the Company's finance lease obligations. Interest on finance lease obligations is recognized immediately in "Finance costs" in the unaudited Interim Consolidated Statements of Net Loss and Comprehensive Loss. For the 52-week period ended January 29, 2011, $2.3 million of interest was recognized relating to finance lease arrangements.

Future minimum lease payments related to the Company's finance leases are included in the tables below:

(in CAD millions)	**As at January 29, 2011**
2011	**$ 4.7**
2012	**4.2**
2013	**3.4**
2014	**2.9**
2015	**3.2**
Thereafter	**13.3**
Total financing lease obligation	**$ 31.7**

(in CAD millions)	As at January 30, 2010
2011	$ 5.4
2012	4.3
2013	3.8
2014	3.0
2015	3.2
Thereafter	11.8
Total financing lease obligation	$ 31.5

Operating lease arrangements - Company as lessor

The Company has a number of agreements to sub-lease premises to 3rd parties, which are all classified as operating leases. For the 52-week period ended January 29, 2011, total sub-lease income from leased premises was $2.3 million.

Future minimum lease payments which are receivable from 3rd party tenants as at January 29, 2011 is $8.0 million.

Operating lease arrangements - Company as lessee

As at January 29, 2011, the Company had a total of 203 operating lease arrangements (January 30, 2010: 207) which are related to the building and land components of certain leased properties. As at January 29, 2011, the Company was party to a number of operating lease arrangements to lease retail and office properties and other equipment assets. The leases typically run for a period of 1 to 10 years, with some leases providing an option to renew after that date. Some leases provide for additional rent payments that are based on sales and step rent payments which are adjusted by the average rent over the period of the lease. During the 52-week period ending January 29, 2011, contingent rent recognized as an expense in respect of operating leases totaled $1.0 million.

Future minimum lease payments related to the Company's operating leases are included in the tables below:

(in CAD millions)		**As at January 29, 2011**
2011	$	**100.7**
2012		**93.9**
2013		**76.0**
2014		**62.4**
2015		**50.8**
Thereafter		**187.6**
Total operating lease obligation	$	**571.4**

(in CAD millions)		As at January 30, 2010
2011	$	100.1
2012		91.4
2013		82.4
2014		67.9
2015		54.8
Thereafter		214.9
Total operating lease obligation	$	611.5

18.12 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. In addition, the Company no longer provides medical, dental and life insurance benefits at retirement for associates who had not achieved the eligibility criteria for these non-pension post retirement benefits as at December 31, 2008. Effective December 2009, the Company made the decision to change funding for non-pension post retirement benefits from an actuarial basis to a pay-as-you-go basis to allow the surplus in the health and welfare trust ("other benefits plan") to be utilized to make benefit payments. In addition, to further utilize the surplus, short term disability payments of eligible associates are paid on a pay-as-you-go basis from the health and welfare trust and are no longer funded by the Company.

The Company currently maintains a defined benefit registered pension plan and a defined contribution registered pension plan which covers some of its regular full-time associates as well as some of its part-time associates. The defined benefit plan provides pensions based on length of service and final average earnings. In addition to a registered retirement savings plan, the pension plan includes a non-registered supplemental arrangement in respect to the defined benefit plan. The non-registered portion of the plan is maintained to enable certain associates to continue saving for retirement in addition to the registered limit as prescribed by the Canada Revenue Agency. The Company also maintains a defined benefit non-pension post retirement plan which provides life insurance, medical and dental benefits to eligible retired associates through a health and welfare trust. Also provided for under the health and welfare trust are short term disability payments for active associates. The Company's accounting policies are described in Note 2, Significant Accounting Policies.

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, 2007. The next actuarial valuation assessment is required as of December 31, 2010. The most recent actuarial valuation of the health and welfare trust for purposes of funding the other benefits plan was on December 31, 2008. An actuarial valuation of the health and welfare trust is performed at least every 3 years.

Total cash payments for associate future benefits for Fiscal 2010, consisting of cash contributed by the Company to its defined contribution pension plan, defined benefit pension plan and other benefits plan, was $14.0 million (52-week period ended, January 30, 2010: $20.0 million).

Information about the Company's defined benefit plans as at January 29, 2011 and January 30, 2010, is as follows:

	52-Week Period Ended January 29, 2011				52-Week Period Ended January 30, 2010			
(in CAD millions)	**Sears Registered Retirement Plan**	**Non-Registered Pension Plan**	**Other Benefits Plan**	**Total**	Sears Registered Retirement Plan	Non-Registered Pension Plan	Other Benefits Plan	Total
Defined benefit plan assets								
Fair value at beginning of fiscal year	**$ 1,248.7**	**$ 47.5**	**$ 107.5**	**$ 1,403.7**	$ 1,250.3	$ 42.3	$ 114.4	$ 1,407.0
Actual return on plan assets	**100.3**	**1.0**	**3.3**	**104.6**	121.3	1.0	8.7	131.0
Employer contributions	**–**	**2.6**	**–**	**2.6**	(14.0)	9.8	8.9	4.7
Associate contributions	**–**	**–**	**–**	**–**	–	–	–	–
Benefits paid [1]	**(107.3)**	**(3.7)**	**(20.9)**	**(131.9)**	(108.9)	(5.6)	(24.5)	(139.0)
Fair value of plan assets at end of fiscal year	**1,241.7**	**47.4**	**89.9**	**1,379.0**	1,248.7	47.5	107.5	1,403.7
Defined benefit plan obligations								
Accrued benefit obligations at beginning of fiscal year [2]	**$ 1,297.2**	**$ 45.6**	**$ 284.3**	**$ 1,627.1**	$ 1,030.9	$ 35.9	$ 233.0	$ 1,299.8
Total current service cost	**–**	**–**	**0.9**	**0.9**	–	–	0.9	0.9
Interest cost	**75.1**	**2.6**	**16.6**	**94.3**	77.5	2.6	17.5	97.6
Benefits paid	**(107.3)**	**(3.7)**	**(13.8)**	**(124.8)**	(108.9)	(5.6)	(16.3)	(130.8)
Actuarial loss	**89.7**	**3.3**	**14.7**	**107.7**	297.7	12.7	49.2	359.6
Accrued benefit obligation at end of fiscal year	**1,354.7**	**47.8**	**302.7**	**1,705.2**	1,297.2	45.6	284.3	1,627.1
Funded status of plan – (deficit) surplus	**$ (113.0)**	**$ (0.4)**	**$ (212.8)**	**$ (326.2)**	$ (48.5)	$ 1.9	$ (176.8)	$ (223.4)
Unamortized prior service costs	**–**	**–**	**(0.2)**	**(0.2)**			(0.4)	(0.4)
Unamortized net actuarial loss	**289.4**	**21.4**	**92.1**	**402.9**	234.6	19.4	78.4	332.4
Accrued retirement benefit asset (liability) at end of fiscal year, net	**$ 176.4**	**$ 21.0**	**$ (120.9)**	**$ 76.5**	$ 186.1	$ 21.3	$ (98.8)	$ 108.6
The retirement benefit asset (liability) is included in the Company's unaudited Interim Consolidated Statements of Financial Positions as follows:								
Retirement benefit asset	**$ 176.4**	**$ 21.0**	**–**	**$ 197.4**	$ 186.1	$ 21.3	$ –	$ 207.4
Retirement benefit liability	**–**	**–**	**(120.9)**	**(120.9)**	–	–	(98.8)	(98.8)
Accrued retirement benefit asset (liability) at end of year, net	**$ 176.4**	**$ 21.0**	**$ (120.9)**	**$ 76.5**	$ 186.1	$ 21.3	$ (98.8)	$ 108.6

1 Benefits paid from the funded assets include retiree benefits and short-term disability of active associates. Other benefits, consisting of health and dental claims for active associates, are paid directly by the Company.

2 Accrued benefit obligation represents the actuarial present value of benefits attributed to associate service rendered to a particular date.

During Fiscal 2010 the Company changed the overall target asset allocation from 50% fixed income, 30% alternative investments and 20% equity to 60% fixed income and 40% equity. As at January 29, 2011 the transition to the new target asset allocation was not complete. The asset allocation may be changed from time to time in terms of weighting between fixed income, equity and other asset classes as well as within the asset classes themselves.

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

At the end of the fiscal year, plan assets were invested in the following classes of securities:

	As at January 29, 2011			As at January 30, 2010		
	Sears Registered Retirement Plan	Non-Registered Pension Plan	Other Benefits Plan	Sears Registered Retirement Plan	Non-Registered Pension Plan	Other Benefits Plan
Fixed income securities	**63.6%**	**43.5%**	**60.1%**	48.7%	20.1%	49.1%
Alternative investments	**7.5%**	**24.1%**	**23.5%**	31.3%	48.1%	31.3%
Equity securities	**28.9%**	**32.4%**	**16.4%**	20.0%	31.8%	19.6%
Total	**100.0%**	**100.0%**	**100.0%**	100.0%	100.0%	100.0%

18.12.1 Pension assumptions

The significant actuarial assumptions are as follows (weighted average assumptions) as at January 29, 2011:

	As at January 29, 2011		
	Sears Registered Retirement Plan	Non-Registered Pension Plan	Other Benefits Plan
Discount rate used in calculation of			
Accrued benefit obligation	**5.40%**	**5.40%**	**5.40%**
Benefit plan expense	**6.00%**	**6.00%**	**6.00%**
Rate of compensation increase used in calculation of			
Accrued benefit obligation	**3.50%**	**3.50%**	**3.50%**
Benefit plan expense	**3.50%**	**3.50%**	**3.50%**
Expected long-term rate of return on plan assets used in calculation of benefit plan expense	**6.50%**	**6.50%**	**6.50%**
Health care cost trend rates			
Used in calculation of accrued benefit obligation			**6.78%**
Used in calculation of benefit plan expense			**6.90%**
Cost trend rate decline to			**4.48%**
Year that the rate reaches assumed constant			**2030**
Sensitivity analysis for future health care costs		**1% Increase**	**1% Decrease**
Total of service and interest cost *(in CAD millions)*		**$ 1.5**	**$ (1.7)**
Accrued benefit obligation *(in CAD millions)*		**$ 33.4**	**$ (33.7)**

18.13 Income taxes

The average combined federal and provincial statutory income tax rate applicable to the Company was 29.6% for Fiscal 2010 (52-week period ended, January 30, 2010: 31.4%). A reconciliation of income taxes at the average statutory tax rate to the actual income taxes is as follows:

(in CAD millions)	52-Week Period Ended January 29, 2011
Earnings before income taxes	**$ 170.3**
Income taxes at the average statutory tax rate	**$ 50.4**
Increase (decrease) in income taxes resulting from	
Non-taxable portion of capital gain	**(2.4)**
Non-deductible items	**0.9**
Prior year assessments (recovery)	**2.1**
	$ 51.1
Effective tax rate before the following adjustments	**29.9%**
Changes in tax rates or imposition of new taxes	**6.0**
Income taxes (recovery) expense	**$ 57.0**
Effective tax rate	**$ 33.5%**

The tax effects of the significant components of temporary differences giving rise to the Company's net deferred income tax assets and liabilities are as follows:

(in CAD millions)	As at January 29, 2011	As at January 30, 2010
Prepaid expenses	**$ (1.0)**	$ (0.7)
Accrued liabilities and other long-term liabilities	**56.5**	57.8
Deferred pension	**(50.7)**	(53.3)
Other post retirement benefits	**31.0**	25.4
Amounts related to tax losses carried forward	**–**	1.4
Non depreciable property, plant & equipment	**(36.5)**	(36.4)
Depreciable property, plant & equipment	**(78.3)**	(93.2)
Deferred charges	**(0.6)**	(0.6)
Loyalty program	**4.7**	5.5
Other	**(0.6)**	0.8
Subtotal	**$ (75.5)**	$ (93.3)
Amounts related to other comprehensive income (loss)	**1.2**	(3.7)
Total deferred income tax assets (liabilities), net	**$ (74.3)**	$ (97.0)

18.14 Revenue

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

(in CAD millions)	52-Week Period Ended January 29, 2011
Sales of goods	$ 4,404.3
Service revenue	337.5
Commission revenue	144.1
Licensee fee revenue	32.1
Other	20.5
Total revenue	$ 4,938.5

18.15 Retirement benefit plans expense

The net expense for the defined benefit, plans for the 52-week period ended January 29, 2011 are as follows:

	52-Week Period Ended January 29, 2011			
(in CAD millions)	Sears Registered Retirement Plan	Non-Registered Pension Plan	Other Benefits Plan	Total
Current service cost, net of associate contributions	$ –	$ –	$ 0.9	$ 0.9
Interest cost	75.1	2.6	16.6	94.3
Actual (gain) loss on plan assets	(100.3)	(1.0)	(3.3)	(104.6)
Actuarial loss	89.7	3.3	14.7	107.7
Benefit plan expense before below adjustments	$ 64.5	$ 4.9	$ 28.9	$ 98.3
Difference between:				
Actual (gain) loss on plan assets and expected return	$ 22.2	$ (0.4)	$ (2.8)	$ 19.0
Amortization of prior service costs (credits)	–	–	(0.2)	(0.2)
Actuarial gain in the year and actuarial gain amortized	(76.4)	(1.5)	(10.9)	(88.8)
Net defined benefit plan expense recognized	$ 10.3	$ 3.0	$ 15.0	$ 28.3
Net defined contribution expense	$ 11.2	$ –	$ 0.2	$ 11.4
Total pension expense recognized[1]	$ 21.5	$ 3.0	$ 15.2	$ 39.7

[1] Not included in total expense recognized, are short-term disability payments of $7.7 million (2009: $8.9 million) that were paid from the health and welfare trust. Both short-term disability and pension expense are included in "Selling, administrative and other expenses" in the Company's unaudited Interim Consolidated Statements of Net Loss and Comprehensive Loss.

18.16 Depreciation and amortization expense

The components of the Company's depreciation and amortization expense, included in "Selling, administrative and other expenses" for the 52-week period ended January 29, 2011, are as follows:

(in CAD millions)	52-Week Period Ended January 29, 2011
Property, plant & equipment	$ 115.6
Intangible assets	8.0
Total depreciation and amortization expense	$ 123.6

These amounts included a $3.3 million impairment loss for property, plant & equipment.

18.17 Related party transactions

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

The Company also has investments in joint ventures, as described in Note 18.5.

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Company and other related parties are disclosed below.

18.17.1 Trading transactions

During the year, the Company entered into the following trading transactions with related parties:

(in CAD millions)	As at January 29, 2011 Purchase of goods	Services received	Transfer under license agreement
Sears Holdings Corporation	**$ 0.2**	**$ 6.6**	**$ 0.3**
Real estate joint ventures	**–**	**4.9**	**–**
Total	**$ 0.2**	**$ 11.5**	**$ 0.3**

(in CAD millions)	As at January 30, 2010 Purchase of goods	Services received	Transfer under license agreement
Sears Holdings Corporation	$ 0.6	$ 6.5	$ 0.2
Real estate joint ventures	–	–	–
Total	$ 0.6	$ 6.5	$ 0.2

The following balances were outstanding at the end of the reporting period:

(in CAD millions)	Amounts owed by related parties As at January 29, 2011	As at January 30, 2010
Sears Holdings Corporation	**$ 0.5**	$ 1.0
Real estate joint ventures	**–**	–
Total	**$ 0.5**	$ 1.0

(in CAD millions)	Amounts owed by related parties As at January 29, 2011	As at January 30, 2010
Sears Holdings Corporation	**$ 0.8**	$ 0.5
Real estate joint ventures	**–**	–
Total	**$ 0.8**	$ 0.5

The related party transactions with Sears Holdings are in the ordinary course of business for shared merchandise purchasing services. These transactions were recorded either at fair market value or the exchange amount, which was established and agreed to by the related parties. These balances are included in "Accounts payable and accrued liabilities" and "Accounts receivable, net" in the unaudited Interim Consolidated Statements of Financial Position.

The related party transactions with the various real estate joint ventures represent lease payments for the lease of the Company's stores. These transactions were recorded either at fair market value or the exchange amount, which was established and agreed to by the related parties.

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No expense has been recognized in the current or prior periods for bad or doubtful debts in respect of the amounts owed by related parties.

The Company's Audit Committee is responsible for pre-approving all related party transactions that have a value greater than $1.0 million.

18.17.2 Key management personnel compensation

Key management personnel are those individuals having the authority and responsibility for planning, directing and controlling the activities of the Company. The Company considers the following members of the Board of Directors to be key management personnel:

President & Chief Executive Officer;
Current and former Senior Vice-President and Chief Financial Officer;
Senior Vice-President, Financial and Home Services;
Senior Vice-President and General Counsel; and
Senior Vice-President, Business Capability and Human Resources.

Key management personnel compensation is as follows:

(in CAD millions)	52-Week Period Ended January 29, 2011
Salaries and perquisites	2.8
Annual incentive plans	0.5
Pensions	0.1
Total	3.4

19. Events after the reporting period

The Company renewed the Normal Course Issuer Bid with the TSX for the period of May 25, 2011 to May 24, 2012 ("2011 NCIB"). Pursuant to the 2011 NCIB, the Company is permitted to purchase for cancellation up to 5% of its issued and outstanding common shares, equivalent to 5,268,599 common shares based on the common shares issued and outstanding as at May 9, 2011. Similar to the 2010 NCIB, the Company may not purchase common shares under the 2011 NCIB if such shares cannot be purchased at prices that the Company considers attractive. Decisions regarding the timing of purchases are based on market conditions and other factors.

20. Approval of unaudited interim consolidated financial statements

The unaudited interim consolidated financial statements were approved by the board of directors and authorized for issue on June 2, 2011.