

Report of Independent Registered Chartered Accountants

To the Shareholders and Board of Directors of
Sears Canada Inc.

We have audited the accompanying consolidated financial statements of Sears Canada Inc. and subsidiaries, which comprise the consolidated statements of financial position as at January 28, 2012, January 29, 2011 and January 31, 2010 and the consolidated statements of net (loss) earnings and comprehensive (loss) income, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the 52 week periods ended January 28, 2012 and January 29, 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Sears Canada Inc. and subsidiaries as at January 28, 2012, January 29, 2011 and January 31, 2010 and their financial performance and cash flows for the 52 week periods ended January 28, 2012 and January 29, 2011 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Deloitte & Touche LLP

Independent Registered Chartered Accountants
Licensed Public Accountants
May 31, 2012
Toronto, Canada

TABLE OF CONTENTS

Consolidated Financial Statements

- Consolidated Statements of Financial Position
- Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Earnings
- Consolidated Statements of Changes in Shareholders' Equity
- Consolidated Statements of Cash Flows

Notes to the Consolidated Financial Statements

- Note 1: General information
- Note 2: Significant accounting policies
- Note 3: Issued standards not yet adopted
- Note 4: Critical accounting judgments and key sources of estimation uncertainty
- Note 5: Cash and cash equivalents and interest income
- Note 6: Accounts receivable, net
- Note 7: Inventories
- Note 8: Prepaid expenses
- Note 9: Property, plant and equipment and investment property
- Note 10: Goodwill and intangible assets
- Note 11: Investment in joint ventures

- Note 12: Other long-term assets
- Note 13: Deferred revenue
- Note 14: Financial instruments
- Note 15: Accounts payable and accrued liabilities
- Note 16: Provisions
- Note 17: Long-term obligations and finance costs
- Note 18: Other long-term liabilities
- Note 19: Leasing arrangements
- Note 20: Retirement benefit plans
- Note 21: Contingent liabilities
- Note 22: Income taxes
- Note 23: Capital stock
- Note 24: Capital disclosures
- Note 25: Revenue
- Note 26: Employee benefits expense
- Note 27: Related party transactions
- Note 28: Key management personnel compensation

Note 29: Net (loss) earnings per share

Note 30: Changes in non-cash working capital balances

Note 31: Events after the reporting period

Note 32: IFRS 1 – first time adoption of IFRS

Note 33: Approval of consolidated financial statements

SEARS CANADA INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

<i>(in CAD millions)</i>	Notes	As at January 28, 2012 (Recast - Note 2)	As at January 29, 2011 (Recast - Note 2)	As at January 31, 2010 (Recast - Note 2)
ASSETS				
Current assets				
Cash and cash equivalents	5,14,21.2	\$ 397.4	\$ 432.3	\$ 226.9
Short-term investments	14	-	-	1,165.5
Accounts receivable, net	6,14	116.2	144.0	132.9
Income taxes recoverable		4.1	4.5	5.7
Inventories		823.9	953.2	852.3
Prepaid expenses	8	27.9	31.8	34.8
Derivative financial assets	14	-	-	9.9
Total current assets		1,369.5	1,565.8	2,428.0
Non-current assets				
Property, plant and equipment	9,19	872.0	900.7	961.0
Investment property	9	21.7	21.7	21.7
Intangible assets	10.2	23.6	23.5	22.6
Goodwill	10.1	8.7	11.2	11.2
Investment in joint ventures	11	301.4	313.3	321.0
Deferred tax assets	22	84.6	33.2	0.6
Other long-term assets	12,14,16,22	49.2	38.1	42.2
Total assets		\$ 2,730.7	\$ 2,907.5	\$ 3,808.3
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	15	\$ 576.8	\$ 665.6	\$ 698.3
Deferred revenue	13	208.0	224.0	235.9
Provisions	16	64.8	65.3	69.4
Income taxes payable		1.0	1.0	8.0
Other taxes payable		42.8	65.3	64.6
Derivative financial liabilities	14	-	3.0	-
Principal payments on long-term obligations due within one year	14,17,19,24	5.1	4.7	305.4
Total current liabilities		898.5	1,028.9	1,381.6
Non-current liabilities				
Long-term obligations	14,17,19,24	117.6	124.4	26.1
Deferred revenue	13	89.2	77.4	67.5
Retirement benefit liability	20.1	452.3	326.2	222.9
Deferred tax liabilities	22	5.3	5.5	12.3
Other long-term liabilities	16,18	75.8	84.7	93.5
Total liabilities		1,638.7	1,647.1	1,803.9
SHAREHOLDERS' EQUITY				
Capital stock	23	15.0	15.4	15.7
Retained earnings	23,24,32	1,218.5	1,310.4	1,981.5
Accumulated other comprehensive (loss) gain		(141.5)	(65.4)	7.2
Total shareholders' equity		1,092.0	1,260.4	2,004.4
Total liabilities and shareholders' equity		\$ 2,730.7	\$ 2,907.5	\$ 3,808.3

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

SEARS CANADA INC.
CONSOLIDATED STATEMENTS OF NET (LOSS) EARNINGS AND COMPREHENSIVE (LOSS) INCOME
For the 52-week periods ended January 28, 2012 and January 29, 2011

<i>(in CAD millions, except per share amounts)</i>	Notes	2011 (Recast - Note 2)	2010 (Recast - Note 2)
Revenue	25	\$ 4,619.3	\$ 4,938.5
Cost of goods and services sold	7,14	2,932.3	2,997.7
Selling, administrative and other expenses	9,10,20.4,26	1,737.9	1,744.5
Operating (loss) earnings		(50.9)	196.3
Finance costs	17,22	16.0	16.6
Interest income	5	(1.7)	(4.2)
Share of income from joint ventures	11	(8.3)	(3.2)
(Loss) earnings before income taxes		(56.9)	187.1
Income tax (recovery) expense			
Current	22	18.7	75.4
Deferred	22	(25.3)	(13.3)
	22	(6.6)	62.1
Net (loss) earnings		\$ (50.3)	\$ 125.0
Basic net (loss) earnings per share	29	\$ (0.48)	\$ 1.16
Diluted net (loss) earnings per share	29	\$ (0.48)	\$ 1.16
Net (loss) earnings		\$ (50.3)	\$ 125.0
Other comprehensive (loss) earnings, net of taxes:			
Mark-to-market adjustment on cash and cash equivalents		-	(0.2)
Loss on foreign exchange derivatives, net of income tax recovery of \$1.7 (2010: recovery of \$3.4)		(4.1)	(7.5)
Reclassification to net (loss) earnings of loss (gain) on foreign exchange derivatives, net of income tax recovery of \$2.8 (2010: expense of \$1.1)		7.1	(2.3)
Remeasurement loss on net defined retirement benefit liability, net of income tax recovery of \$27.4 (2010: recovery of \$21.7)		(79.1)	(62.6)
Other comprehensive loss		(76.1)	(72.6)
Comprehensive (loss) income		\$ (126.4)	\$ 52.4

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

SEARS CANADA INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the 52-week periods ended January 28, 2012 and January 29, 2011

<i>(in CAD millions) (Recast - Note 2)</i>	Notes	Capital stock	Retained earnings	Mark-to-market on short-term investments within cash and cash equivalents	Foreign exchange derivatives designated as cash flow hedges	Remeasurement losses	Accumulated other comprehensive loss	Shareholders' equity
Balance as at January 29, 2011		\$ 15.4	\$ 1,310.4	\$ -	\$ (2.8)	\$ (62.6)	\$ (65.4)	\$ 1,260.4
<i>Comprehensive (loss) income</i>								
Net loss			(50.3)				-	(50.3)
<i>Other comprehensive (loss) income</i>								
Loss on foreign exchange derivatives, net of income tax recovery of \$1.7					(4.1)		(4.1)	(4.1)
Reclassification of loss on foreign exchange derivatives, net of income tax recovery of \$2.8					7.1		7.1	7.1
Remeasurement losses on retirement benefit liability, net of income tax recovery of \$27.4						(79.1)	(79.1)	(79.1)
Total other comprehensive income (loss)					3.0	(79.1)	(76.1)	(76.1)
Total comprehensive (loss) income			(50.3)		3.0	(79.1)	(76.1)	(126.4)
Repurchases of common shares	23	(0.4)	(41.6)					(42.0)
Balance as at January 28, 2012		\$ 15.0	\$ 1,218.5	\$ -	\$ 0.2	\$ (141.7)	\$ (141.5)	\$ 1,092.0

<i>(in CAD millions) (Recast - Note 2)</i>	Notes	Capital stock	Retained earnings	Mark-to-market on short-term investments within cash and cash equivalents	Foreign exchange derivatives designated as cash flow hedges	Remeasurement gains (losses)	Accumulated other comprehensive loss	Shareholders' equity
Balance at January 31, 2010		\$ 15.7	\$ 2,227.7	\$ 0.2	\$ 7.0	\$ -	\$ 7.2	\$ 2,250.6
<i>Adjustment to retained earnings</i>								
Adjustment to opening retained earnings resulting from the early adoption of IAS 19, Revised, net of income tax recovery of \$85.3			(246.2)					(246.2)
Adjusted balance at January 31, 2010		\$ 15.7	\$ 1,981.5	\$ 0.2	\$ 7.0	\$ -	\$ 7.2	\$ 2,004.4
<i>Comprehensive (loss) income</i>								
Net earnings			125.0				-	125.0
<i>Other comprehensive loss</i>								
Mark-to-market loss				(0.2)			(0.2)	(0.2)
Loss on foreign exchange derivatives, net of income tax recovery of \$3.4					(7.5)		(7.5)	(7.5)
Reclassification of gain on foreign exchange derivatives, net of income tax expense of \$1.1					(2.3)		(2.3)	(2.3)
Remeasurement losses on retirement benefit liability, net of income tax recovery of \$21.7						(62.6)	(62.6)	(62.6)
Total other comprehensive loss				(0.2)	(9.8)	(62.6)	(72.6)	(72.6)
Total comprehensive income (loss)			125.0	(0.2)	(9.8)	(62.6)	(72.6)	52.4
Repurchases of common shares	23	(0.3)	(42.7)					(43.0)
Dividends declared			(753.4)					(753.4)
Balance as at January 29, 2011		\$ 15.4	\$ 1,310.4	\$ -	\$ (2.8)	\$ (62.6)	\$ (65.4)	\$ 1,260.4

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

SEARS CANADA INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the 52-week periods ended January 28, 2012 and January 29, 2011

<i>(in CAD millions)</i>	Notes	2011 (Recast - Note 2)	2010 (Recast - Note 2)
Cash flow generated from operating activities			
Net (loss) earnings		\$ (50.3)	\$ 125.0
Adjustments for:			
Depreciation and amortization expense	9,10.2	114.9	123.6
Impairment losses	9,10.1	2.5	3.3
Gain (loss) on disposal of property, plant and equipment		1.1	(13.7)
Finance costs	17	16.0	16.6
Interest income	5	(1.7)	(4.2)
Share of income from joint ventures	11	(8.3)	(3.2)
Retirement benefit plans expense	20.4	30.2	26.6
Short-term disability expense	20.4	8.4	7.7
Income tax (recovery) expense	22	(6.6)	62.1
Interest received	5	1.6	3.0
Interest paid	17	(4.6)	(14.5)
Retirement benefit plans contributions	20.4	(17.9)	(13.8)
Income tax refunds (payments), net	22	(21.6)	(79.8)
Changes in non-cash working capital	30	29.6	(156.6)
Changes in long-term assets and liabilities		(8.3)	(10.8)
		85.0	71.3
Cash flow (used for) generated from investing activities			
Purchases of property, plant and equipment and intangible assets	9,10.2	(84.3)	(60.0)
Changes in short-term investments		-	1,165.5
Interest received from notes receivable from parent	5	-	1.2
Proceeds from sale of property, plant and equipment		0.7	14.6
Dividends received from joint ventures		20.1	16.6
		(63.5)	1,137.9
Cash flow used for financing activities			
Interest paid on finance lease obligations	17	(2.2)	(2.2)
Repayment of long-term obligations		(117.1)	(687.0)
Proceeds from long-term obligations		105.0	482.8
Dividend payments		-	(753.4)
Repurchases of common shares	23	(42.0)	(43.0)
		(56.3)	(1,002.8)
(Decrease) Increase in cash and cash equivalents		\$ (34.8)	\$ 206.4
Effect of exchange rate on cash and cash equivalents at end of period		(0.1)	(1.0)
Cash and cash equivalents at beginning of period		\$ 432.3	\$ 226.9
Cash and cash equivalents at end of period		\$ 397.4	\$ 432.3

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General information

Sears Canada Inc. is incorporated in Canada. The address of its registered office and principal place of business is 290 Yonge Street, Suite 700, Toronto, Ontario, Canada M5B 2C3. The principal activities of Sears Canada Inc. and its subsidiaries (the "Company") include the sale of goods and services through the Company's Retail channel, which includes its Full-line, Sears Home, Hometown Dealer, Outlet, Appliances and Mattresses, Corbeil Electric Inc. ("Corbeil") stores, and its Direct (catalogue/internet) channel. It also includes service revenue related to product repair, home improvement, Cantrex Group Inc. ("Cantrex") and logistics. Commission revenues include travel, insurance, and performance payments received from JPMorgan Chase under the Company's long-term credit card marketing and servicing alliance with JPMorgan Chase. The Company has partnered with Thomas Cook Canada Inc. ("Thomas Cook") in a multi-year licensing arrangement, under which Thomas Cook manages the day-to-day operations of all Sears Travel offices. Licensee fee revenues are comprised of payments received from licensees that operate within the Company's stores. 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. 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.

2. Significant accounting policies

2.1 Statement of compliance

The consolidated financial statements of the Company have been prepared in accordance with the standards and interpretations issued by the International Accounting Standards Board ("IASB"). These include International Financial Reporting Standards ("IFRS"), International Accounting Standards ("IAS"), the interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") and the Standing Interpretations Committee ("SIC"), which are effective and applicable to the Company as at the end of its current fiscal year.

2.2 Basis of preparation and presentation

The principal accounting policies of the Company have been applied consistently in the preparation of its consolidated financial statements for all periods presented, including the fiscal 2010 opening Consolidated Statement of Financial Position as at January 31, 2010, except for certain exemptions and exceptions as allowed under IFRS 1, *First-time Adoption of International Financial Reporting Standards* ("IFRS 1"). The Company's significant accounting policies are detailed in Note 2.

The impact of transition to IFRS on the Company's opening fiscal 2010 and opening fiscal 2011 statements of financial position, and the impact on the Company's financial performance and cash flow for the 52-weeks ended January 29, 2011, are described and reconciled in Note 32. The optional exemptions and mandatory exceptions of IFRS 1 applied by the Company at transition are also described in Note 32.

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 2011 and 2010 consolidated financial statements represent the 52-week periods ended January 28, 2012 ("Fiscal 2011" or "2011") and January 29, 2011 ("Fiscal 2010" or "2010"), respectively. Figures relating to the opening Consolidated Statement of Financial Position in these consolidated financial statements represent balances as at January 31, 2010 ("2009").

The Company has made certain minor revisions to the presentation of the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income to provide a more informative presentation to users. The Company's consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. The Company operates as one business segment, with operations focused on the merchandising of products and services.

2.3 Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, with the exception of certain financial instruments that are measured at fair value and the retirement benefit asset, which is the net total of plan assets, plus unamortized prior service cost and unamortized actuarial losses, less unamortized actuarial gains and the present value of the retirement benefit liability. On transition to IFRS, the Company elected to measure certain of its property, plant and equipment, including the property, plant and equipment of its real estate joint ventures, and its investment property, at fair value. The fair value was set as the deemed cost, in accordance with IFRS 1, as at that date, and represents the historical cost basis for measurement. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

2.4 Basis of consolidation

The 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 (described further in Note 2.13).

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, including any unrealized income and expenses arising from intercompany transactions, are eliminated in the preparation of the consolidated financial statements.

2.5 Cash and cash equivalents

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

2.6 Short-term investments

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

2.7 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 inventory to its present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs to sell. 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.

2.8 Property, plant and equipment

Property, plant and equipment are measured at cost or deemed 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 expenses and provincial sales tax (Saskatchewan, Manitoba and Prince Edward Island), 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 related assets.

On transition to IFRS, certain selected property, plant and equipment were measured at their fair values to be used as the deemed cost in accordance with the IFRS 1 election option (see Note 32). The Company engaged independent qualified third parties to conduct appraisals of its land and buildings.

When the significant parts of an item of property, plant and equipment have varying useful lives, they are accounted for as separate components of property, plant and equipment. Depreciation is calculated based on the depreciable amount of the asset or significant component thereof, if applicable, which is the cost of the asset or significant component less its residual value. Depreciation is recognized using the straight-line method for each significant component of an item of property, plant and equipment and is recorded in "Selling, administrative and other expenses" in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income. The estimated useful lives are 2 to 13 years for equipment and fixtures and 10 to 50 years for buildings and building improvements. The estimated useful lives, residual values and depreciation methods for property, plant and equipment 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 and equipment is determined as the difference between the proceeds from sale or the cost of retirement and the carrying amount of the asset, and is recognized in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income. For a discussion on the impairment of tangible assets refer to Note 2.11.

Property, plant and equipment are reviewed at the end of each reporting period to determine whether there is an indicator of impairment.

2.9 Investment property

The Company's investment property consists of vacant land which is not currently used in its operations. 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 (see Note 32). Investment property is measured at its deemed cost less accumulated impairment losses.

The fair values of investment properties are 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 engages independent qualified third parties 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 or the cost of retirement, and the carrying amount of the asset, and is recognized in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income.

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

2.10 Intangible assets

2.10.1 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 other than goodwill are finite. Amortization expense is included in "Selling, administrative and other expenses" in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income. The estimated useful lives and amortization methods for

intangible assets other than goodwill 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.

2.10.2 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 fair value of identifiable assets acquired less liabilities assumed as of the acquisition date.

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

At the end of each reporting period, the Company reviews property, plant and equipment, investment property 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 then grouped together into the smallest group of assets that generate independent cash flow 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 asset or CGU will be reduced to its recoverable amount and an impairment loss is recognized immediately. If an impairment for a CGU has been identified, the impairment is first allocated to goodwill before other assets held by the CGU. Where goodwill is not part of a CGU, an impairment loss is recognized as a reduction in the carrying amount of the assets included in the CGU on a pro rata basis.

Where an impairment loss subsequently reverses (not applicable to goodwill), the carrying amount of the asset or CGU is revised to an 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.

2.12 Impairment of goodwill

Goodwill is not amortized but is reviewed for impairment at least annually. For the purposes 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 CGU, 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.

2.13 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 from joint ventures is recognized in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income, 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 joint venture investments in "Investment in joint ventures" on the Consolidated Statements of Financial Position. The Company presents its share of income or losses from joint ventures in "Share of income from joint ventures" in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income.

2.14 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.

2.14.1 The Company as lessor

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

2.14.2 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 liabilities to the lessor are included in the 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 and equipment (see Note 2.8).

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 Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income.

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.

2.15 Retirement benefit plans

The Company currently maintains a defined contribution and a defined benefit registered pension plan, which covers eligible 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.

2.15.1 Defined contribution plan

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

2.15.2 Defined benefit plans

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations prepared by independent qualified actuaries at least every 3 years. Remeasurements comprising of actuarial gains and losses, the effect of the asset ceiling (if applicable) and the return on plan assets (excluding interest) are recognized immediately in the statement of financial position with a charge or credit to other comprehensive income in the period in which they occur. Remeasurements recorded in other comprehensive income are not recycled into profit or loss. However, the entity may transfer those amounts recognized in other comprehensive income within equity. Past service cost is recognized in profit or loss in the period of plan amendment. Net-interest is calculated by applying the discount rate to the net defined benefit liability or asset. Defined benefit costs are split into three categories:

- service cost, past-service cost, gains and losses on curtailments and settlements;
- net interest expense or income;
- remeasurements.

The Company presents the first two components of defined benefit costs in “Selling, administrative and other expenses” in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income.

Remeasurements are recorded in other comprehensive income

The retirement benefit obligation recognized in the Consolidated Statements of Financial Position represents the actual deficit or surplus in the Company's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

2.15.3 Termination benefits

A liability for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognizes any related restructuring costs.

2.16 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.

2.16.1 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.

2.16.2 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 once the services are complete. These services are performed within a short timeframe which is typically one day.

2.16.3 Commission and licensee fee revenue

Commission revenue

The Company earns commission revenues by selling various products and services that are provided by third 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 relating to credit sales. Revenue is based on a percentage of sales charged on the Sears Card or Sears MasterCard and is included in revenue when the sale occurs.

2.16.4 Interest income

Interest income is recognized when it is probable that the economic benefits will flow to the Company and the amount of income can be reliably measured. Interest income is accrued on a periodic basis by reference to the principal outstanding and the applicable interest rate.

2.16.5 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 are adjusted based upon expected future activity.

2.16.6 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.

2.17 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 Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income in the period in which they arise, except for exchange differences on certain foreign currency hedging transactions (see Note 2.23.1 for hedge accounting policies).

2.18 Consideration from a vendor

The Company has arrangements with its vendors that provide for rebates subject to binding contractual 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 rebates 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.

2.19 Taxation

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

2.19.1 Current tax

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

2.19.2 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 income will be available, against which deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary differences arise 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 net earnings or loss nor the accounting income 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 income 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 be applicable 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.

2.19.3 Current and deferred tax for the period

Current and deferred tax are recognized as a tax expense or recovery in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income, except when they relate to items that are recognized outside of earnings or loss (whether in other comprehensive income (loss), "OCI", 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.

2.20 Provisions

Provisions are recognized when the Company has a present obligation, legal or constructive, as a result of a past event, 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 flow estimated to settle the present obligation, its carrying amount is the present value of those cash flow.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third 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.

2.20.1 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. The provision is measured at the present value of the lower of the expected cost of terminating the contract or the expected cost of continuing with the contract. Before a provision is established, the Company recognizes any impairment loss on the assets associated with that contract.

2.20.2 General liability provisions

The Company purchases third 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 third party. Loss estimates are adjusted based on actual claims settlements and reported claims.

2.20.3 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 16.

2.20.4 Returns and allowances provisions

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

2.20.5 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 third parties, as well as historical data.

2.21 *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 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 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.

2.21.1 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 flow (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.

2.21.2 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 Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income, 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 Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income, unless the financial asset is designated and effective as a hedging instrument. Fair value is determined in the manner described in Note 14.

2.21.3 AFS financial assets

The Company's short-term investments and cash equivalents have been classified as AFS financial assets and are measured at fair value. Gains and losses arising from changes in fair value are recognized in OCI, 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 "Selling, administrative and other expenses" or "Interest Income" in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously included in accumulated other comprehensive income (loss) ("AOCI") is reclassified to "Selling, administrative and other expenses" in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income.

2.21.4 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 also 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.

2.21.5 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 the estimated future cash flow of the financial asset have been negatively affected as a result of events that have occurred after its initial recognition.

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 any impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flow discounted at the financial asset's initial effective interest rate. When a subsequent event causes the amount of any impairment loss to decrease, the decrease in impairment loss is reversed through the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income.

The carrying amount of the financial asset is reduced by any 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 its carrying amount is written off including any amounts previously recorded in the allowance account. Subsequent recoveries of amounts previously written off are credited to "Selling, administrative and other expenses" in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss)

Income. Changes in the carrying amount of the allowance account are also recognized in "Selling, administrative and other expenses."

2.21.6 Derecognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to the cash flow 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.

2.22 *Financial liabilities and equity instruments*

2.22.1 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.

2.22.2 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.

2.22.3 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'.

2.22.4 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 been 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 "Selling, administrative and other expenses" in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income, unless the financial liability is designated and effective as a hedging instrument (see Note 2.23). Fair value is determined in the manner described in Note 14.

2.22.5 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.

2.22.6 Derecognition of financial liabilities

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

2.23 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 14.

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 in "Selling, administrative and other expenses" 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, whereas 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.

2.23.1 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 Company 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 flow of the hedged item.

Note 14 sets out details of the fair values of the derivative instruments used for hedging purposes.

2.23.2 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 OCI. The gain or loss relating to the ineffective portion is recognized immediately in "Selling, administrative and other expenses" in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income. Amounts previously recognized in OCI and accumulated in AOCI within equity are reclassified in the periods when the hedged items are recognized (i.e. to "Cost of goods and services sold" in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income).

Hedge accounting is discontinued when the Company revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gains or losses accumulated in AOCI within equity at the time of discontinuation remain in equity and are transferred to "Cost of goods and services sold" in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income 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.

2.24 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.

2.25 Net (loss) earnings per share

Net (loss) earnings per share is calculated using the weighted average number of shares outstanding during the reporting period. Diluted net (loss) earnings 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.

2.26 Changes in Accounting Policy

IAS 19 (Revised), Employee Benefits ("IAS 19")

The Company has elected to early adopt IAS 19 (Revised). On June 16, 2011, the IASB issued amendments to IAS 19 which included the elimination of the "corridor approach," which is the option to defer and amortize the recognition of actuarial gains and losses. The significant amendments to IAS 19 are as follows:

- The "corridor approach" is to be replaced with full and immediate recognition of actuarial gain and loss remeasurements in "Other comprehensive (loss) income" ("OCI");
- Retirement benefit costs are to consist of service costs, net interest and remeasurements, with remeasurements being recorded in OCI;
- Past service costs are to be recognized immediately in the Consolidated Statements of Net Earnings (Loss);
- Expected returns on plan assets will no longer be recognized in profit or loss. Instead, interest income on plan assets, calculated using the discount rate used to measure the pension obligation, will be recognized in the Consolidated Statements of Net Earnings (Loss);
- Plan administration costs are to be expensed as incurred; and
- Disclosures relating to retirement benefit plans will be enhanced and will include discussions on risk associated with each plan, an explanation of items recognized in the consolidated financial statements and descriptions of the amount, timing and uncertainty on the Company's future cash flow.

The amendments to IAS 19 are effective for annual periods beginning on or after January 1, 2013 with early adoption permitted.

The amendments are required to be applied retrospectively in accordance with IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*. In connection with the partial spin-off announced by Sears Holdings Corporation in Q2 2012, the Company was required to file Form 20-F for foreign private issuers with the United States Securities Exchange Commission ("SEC"). As the Company adopted the amendments to IAS 19 in Q1 2012, the Company was required to retrospectively recast the adoption to its annual Consolidated Financial Statements within the Form 20-F with the effect of recasting extended to the transition date of January 31, 2010. Refer to note 32. The Company has recast the assets and liabilities as at January 28, 2012, January 29, 2011 and January 31, 2010 and income, expenses and cash flow for the 52-week periods ended January 28, 2012 and January 29, 2011.

Recast of financial statement captions

A summary of the impact arising from the application of the change in accounting policy is as follows:

Consolidated Statements of Financial Position

<i>(Increase (decrease) in CAD millions)</i>	As at January 28, 2012	As at January 29, 2011	As at January 31, 2010
Retirement benefit asset	\$ (187.7)	\$ (197.4)	\$ (207.4)
Retirement benefit liability	308.2	205.3	124.1
Net change to retirement benefit asset and liability	(495.9)	(402.7)	(331.5)
Deferred tax assets	84.0	32.7	-
Deferred tax liabilities	(43.6)	(71.0)	(85.3)
Net change to deferred tax assets and liabilities	127.6	103.7	85.3
Accumulated other comprehensive loss	(141.7)	(62.6)	-
Retained earnings	(226.6)	(236.4)	(246.2)

Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss)

<i>(Increase (decrease) in CAD millions, except per share amounts)</i>	52-Week Period Ended January 28, 2012	52-Week Period Ended January 29, 2011
Selling, administrative and other expenses	\$ (13.2)	\$ (13.2)
Earnings before income taxes	13.2	13.2
Deferred income tax expense	3.4	3.4
Net earnings	\$ 9.8	\$ 9.8
Basic net earnings per share	\$ 0.09	\$ 0.09
Diluted net earnings per share	\$ 0.09	\$ 0.09
Other comprehensive loss	(79.1)	(62.6)
Comprehensive loss	(69.3)	(52.8)

Consolidated Statements of Cash Flows

<i>(Increase (decrease) in CAD millions)</i>	52-Week Period Ended January 28, 2012	52-Week Period Ended January 29, 2011
Net earnings	\$ 9.8	\$ 9.8
Retirement benefit plans expense	(13.2)	(13.2)
Income tax expense	3.4	3.4

Please refer to Note 20 for fully recast prior year comparative figures.

3. Issued standards not yet adopted

The Company monitors the standard setting process for new standards and interpretations issued by the IASB that the Company may be required to adopt in the future. Since the impact of a proposed

standard may change during the review period, the Company does not comment publicly until the standard has been finalized and the effects have been determined.

On December 16, 2011, the IASB issued amendments to three previously released standards. They are as follows:

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

The IASB amended IAS 32 to address inconsistencies in current practice in the application of offsetting criteria. The amendments provide clarification with respect to the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. These amendments are effective for annual periods beginning on or after January 1, 2014. The Company is currently assessing the impact of these amendments on the Company's consolidated financial statements and related note disclosures.

IFRS 7, Financial Instruments: Disclosures ("IFRS 7")

The IASB first amended IFRS 7 on October 7, 2010, to require additional disclosures regarding transfers of financial assets. These amendments are effective for annual periods beginning on or after July 1, 2011. The Company will apply these amendments beginning the first quarter of its 2012 fiscal year and is currently assessing the impact on the Company's disclosures.

On December 16, 2011, the IASB approved amendments to IFRS 7, which establishes disclosure requirements to help users better assess the effect or potential effect of offsetting arrangements on a company's financial position. These amendments are effective for annual periods beginning on or after January 1, 2013. The Company will apply these amendments beginning the first quarter of its 2013 fiscal year and is currently assessing the impact on the Company's disclosures.

IFRS 9, Financial Instruments ("IFRS 9")

The IASB issued IFRS 9 on November 12, 2009, which will ultimately replace IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39"). The replacement of IAS 39 is a three-phase project with the objective of improving and simplifying the reporting for financial instruments.

The first phase of the project provides guidance on the classification and measurement of financial assets. IFRS 9 was subsequently reissued on October 28, 2010, incorporating new requirements on accounting for financial liabilities. On December 16, 2011, the IASB amended the mandatory effective date of IFRS 9 to fiscal years beginning on or after January 1, 2015. The amendment also provides relief from the requirement to restate comparative financial statements for the effect of applying IFRS 9. The Company is monitoring the impact of amendments to this standard and 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 June 16, 2011, the IASB issued amendments to the following standard:

IAS 1, Presentation of Financial Statements ("IAS 1")

The IASB has amended IAS 1 to require additional disclosures for items presented in OCI on a before-tax basis and requires items to be grouped and presented in OCI based on whether they are potentially reclassifiable to earnings or loss subsequently (i.e. items that may be reclassified and those that will not be reclassified to earnings or loss). These amendments are effective for annual periods beginning on or after July 1, 2012 and require full retrospective application. The Company will apply these amendments beginning the first quarter of its 2013 fiscal year and is currently assessing the impact to its consolidated financial statements.

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 is currently assessing the

impact of these standards on its consolidated financial statements and related note disclosures. The following is a list and description of these standards:

IFRS 10, Consolidated Financial Statements (“IFRS 10”)

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”)

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”)

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 flow; and

IFRS 13, Fair Value Measurement (“IFRS 13”)

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

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 fiscal year.

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.

Changes in estimates or assumptions could cause changes to “Provisions” on the Consolidated Statements of Financial Position and a charge or credit to “Selling, administrative and other expenses” in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income. For additional information, see Note 16.

4.2 Inventory

4.2.1 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 estimated inventory stock losses incurred in the year based on recent historical inventory count data.

4.2.2 Vendor rebates

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

4.2.3 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.

Changes in estimates may result in changes to "Inventories" on the Consolidated Statements of Financial Position and a charge or credit to "Cost of goods and services sold" in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income. For additional information, see Note 7.

4.3 *Impairment of property, plant and equipment and intangible assets*

The Company's property, plant and 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 determine the recoverable amount of the CGU, management is required to estimate its fair value by evaluating the expected future cash flow using an appropriate growth rate, the estimated costs to sell and a suitable discount rate to calculate the value in use.

Changes in estimates may result in changes to "Property, plant and equipment" and "Intangible assets" on the Consolidated Statements of Financial Position and a charge or credit to "Selling, administrative and other expenses" in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income. For additional information, see Note 9 and Note 10.2.

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 flow using an appropriate growth rate, the estimated costs to sell and a suitable discount rate to calculate the value in use.

Changes in estimates may result in changes to "Goodwill" on the Consolidated Statements of Financial Position and a charge to "Selling, administrative and other expenses" in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income. For additional information, see Note 10.1.

4.5 *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.

Changes in estimates may result in changes to the "Retirement benefit liability" on the Consolidated Statements of Financial Position and a charge or credit to "Selling, administrative and other expenses" in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income. For additional information, see Note 20.

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.

Changes in estimates may result in changes to “Deferred revenue” (current and non-current) on the Consolidated Statements of Financial Position and an increase or decrease to “Revenue” and/or “Cost of goods and services sold” in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income. For additional information, see Note 13 “.

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 upon 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.

Changes in estimates may result in changes to “Derivative financial assets” and “Derivative financial liabilities” on the Consolidated Statements of Financial Position and a charge or credit to “Cost of goods and services sold”, “Selling, administrative and other expenses” or “Other comprehensive income (loss)” in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income. For additional information, see Note 14.

4.8 Provisions

Provisions are estimated based on historical data, cost estimates provided by specialists and future projections.

Changes in estimates or assumptions could cause changes to “Provisions” on the Consolidated Statements of Financial Position and a charge or credit to “Cost of goods and services sold” or “Selling, administrative and other expenses” in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income. For additional information, see Note 16.

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.

Changes in estimates or assumptions could cause changes to “Property, plant and equipment”, “Principal payments on long-term obligations due within one year” and “Long-term obligations” on the Consolidated Statements of Financial Position and a charge or credit to “Selling, administrative and other expenses” and “Finance costs” in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income. For additional information, see Note 19.

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 (loss) earnings will be affected positively or negatively.

Changes in estimates or assumptions could cause changes to “Income taxes recoverable”, “Deferred tax assets”, “Income and other taxes payable” and “Deferred tax liabilities” on the Consolidated Statements of Financial Position and a charge or credit to “Income tax (recovery) expense” in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income. For additional information, see Note 22.

5. Cash and cash equivalents and interest income

Cash and cash equivalents

The components of cash and cash equivalents were as follows:

<i>(in CAD millions)</i>	As at January 28, 2012	As at January 29, 2011	As at January 31, 2010
Cash	\$ 49.0	\$ 46.3	\$ 51.3
Cash equivalents			
Government treasury bills	199.9	323.8	100.0
Bank term deposits	121.0	26.9	59.8
Investment accounts	20.3	20.0	-
Restricted cash and cash equivalents	7.2	15.3	15.8
Total cash and cash equivalents	\$ 397.4	\$ 432.3	\$ 226.9

The components of restricted cash and cash equivalents are further discussed in Note 21.

Interest income

Interest income related primarily to cash and cash equivalents and short-term investments for the fiscal year ended January 28, 2012 totaled \$1.7 million (2010: \$4.2 million). During Fiscal 2011, the Company received \$1.6 million (2010: \$4.2 million) in cash related to interest income.

6. Accounts receivable, net

The components of accounts receivable, net were as follows:

<i>(in CAD millions)</i>	As at January 28, 2012	As at January 29, 2011	As at January 31, 2010
Deferred receivables	\$ 1.3	\$ 2.3	\$ 2.8
Other receivables	114.9	141.7	130.1
Total accounts receivable, net	\$ 116.2	\$ 144.0	\$ 132.9

Included in the accounts receivable balances above are amounts that are past due but are not provided for, as the Company considers the balances to be collectible. These past due accounts receivable balances are listed below:

<i>(in CAD millions)</i>	As at January 28, 2012	As at January 29, 2011	As at January 31, 2010
Greater than 30 days	\$ 3.2	\$ 2.7	\$ 2.3
Greater than 60 days	3.5	2.3	2.4
Greater than 90 days	6.4	6.8	5.1
Total	\$ 13.1	\$ 11.8	\$ 9.8

7. Inventories

The amount of inventory recognized as an expense during Fiscal 2011 was \$2,703.5 million (2010: \$2,754.3 million), which includes \$115.4 million (2010: \$74.1 million) of inventory write-downs. These expenses are included in "Cost of goods and services sold" in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income.

Inventory is pledged as collateral under the Company's revolving credit facility.

8. Prepaid expenses

The components of prepaid expenses were as follows:

<i>(in CAD millions)</i>	As at January 28, 2012	As at January 29, 2011	As at January 31, 2010
Rent	\$ 14.2	\$ 13.8	\$ 14.0
Contracts	5.2	7.3	11.7
Advertising raw materials	1.5	3.7	1.5
Supplies	3.6	3.7	3.5
Insurance	0.3	0.3	1.6
Miscellaneous	3.1	3.0	2.5
Total prepaid expenses	\$ 27.9	\$ 31.8	\$ 34.8

9. Property, plant and equipment and investment property

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

<i>(in CAD millions)</i>	Land	Buildings	Finance Lease Buildings	Finance Lease Equipment	Equipment and Fixtures	Total
Cost or deemed cost						
Balance at January 31, 2010	\$ 231.1	\$ 1,106.4	\$ 47.3	\$ -	\$ 1,125.9	\$ 2,510.7
Additions	-	20.4	5.8	-	33.2	59.4
Disposals	(0.1)	(1.0)	(15.6)	-	(7.6)	(24.3)
Balance at January 29, 2011	\$ 231.0	\$ 1,125.8	\$ 37.5	\$ -	\$ 1,151.5	\$ 2,545.8
Additions	-	31.1	-	3.5	45.1	79.7
Disposals	-	(4.8)	-	-	(17.8)	(22.6)
Balance at January 28, 2012	\$ 231.0	\$ 1,152.1	\$ 37.5	\$ 3.5	\$ 1,178.8	\$ 2,602.9
Accumulated depreciation and impairment						
Balance at January 31, 2010	\$ -	\$ 597.4	\$ 15.8	\$ -	\$ 936.5	\$ 1,549.7
Depreciation expense ¹	-	57.7	6.3	-	51.4	115.4
Disposals	-	(0.6)	(15.6)	-	(7.1)	(23.3)
Impairment losses (reversals) ¹	-	1.9	-	-	1.4	3.3
Balance at January 29, 2011	\$ -	\$ 656.4	\$ 6.5	\$ -	\$ 982.2	\$ 1,645.1
Depreciation expense ¹	-	51.0	5.5	1.0	49.3	106.8
Disposals	-	(3.8)	-	-	(17.2)	(21.0)
Balance at January 28, 2012	\$ -	\$ 703.6	\$ 12.0	\$ 1.0	\$ 1,014.3	\$ 1,730.9
Total property, plant and equipment						
Balance at January 28, 2012	\$ 231.0	\$ 448.5	\$ 25.5	\$ 2.5	\$ 164.5	\$ 872.0
Balance at January 29, 2011	\$ 231.0	\$ 469.4	\$ 31.0	\$ -	\$ 169.3	\$ 900.7
Balance at January 31, 2010	\$ 231.1	\$ 509.0	\$ 31.5	\$ -	\$ 189.4	\$ 961.0

¹ Depreciation expense and impairment losses are included in "Selling, administrative and other expenses" in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income.

The Company engaged independent qualified third party appraisers to conduct appraisals of its land and building properties at transition to IFRS (see Note 32). The valuation methods used to determine fair value include the direct capitalization and discounted cash flow methods for buildings and the direct sales comparison for land.

Impairment loss

During Fiscal 2011, the Company reviewed its CGUs for impairment and did not identify an impairment loss. During Fiscal 2010, the Company recognized an impairment loss of \$3.3 million on leased store assets relating to the Deerfoot Full-line store and the Calgary and Kitchener West Appliances and Mattresses stores. The recoverable amount of these assets was determined based on their estimated value in use and a pre-tax discount rate of 8.5%. The impairment loss was attributable to low revenue levels at these stores.

The Company did not record any reversals of previously recorded impairment losses during Fiscal 2011 (2010: Nil).

Investment property

Investment property owned by the Company represents vacant land with no operating activity. During Fiscal 2011, there were no investment property additions, disposals or impairment losses. As at January 28, 2012, the carrying value and fair value of investment property were \$21.7 million and

\$23.2 million, respectively (January 29, 2011: \$21.7 million and \$21.7 million, January 31, 2010: \$21.7 million and \$21.7 million).

10. Goodwill and intangible assets

10.1 Allocation of goodwill to cash generating units

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

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

The following is a continuity of goodwill, as allocated by CGU:

<i>(in CAD millions)</i>	2011		2010	
<i>Cantrex Group Inc. and Corbeil Electricque Inc.</i>				
Balance, beginning of fiscal year	\$	2.6	\$	2.6
Impairment losses		-		-
Balance, end of fiscal year	\$	2.6	\$	2.6
<i>Home Improvement Product Services</i>				
Balance, beginning of fiscal year	\$	8.6	\$	8.6
Impairment losses		(2.5)		-
Balance, end of fiscal year	\$	6.1	\$	8.6
Total goodwill	\$	8.7	\$	11.2

In the assessment of impairment, management used historical data and past experience as the key assumptions used in the determination of the recoverable amount. The Company completed a test for goodwill impairment at the date of transition and on an annual basis in Fiscal 2011 and Fiscal 2010.

- Cantrex Group Inc. and Corbeil Electricque Inc.

The recoverable amount of this CGU is determined based on its estimated fair value less costs to sell. The fair value was determined based on the present value of the estimated cash flow over a 10 year period and a terminal value equivalent to the present value of 5 times after-tax cash flow 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, which reflects management's best estimate of the potential costs associated with divesting of the businesses considered. A discount rate of 8.4% was applied to the cash flow projections based on management's best estimate of the CGU's weighted average cost of capital considering the risks facing the CGU. Annual growth rates of 5% for the first 5 years and 2% for the subsequent 5 years were used for Corbeil Electricque Inc. and 0% for all 10 years was used for Cantrex Group Inc. given the businesses' historical 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 Electricque Inc. CGU, therefore, no impairment was identified in Fiscal 2011 (2010: Nil).

- Home Improvement Product Services

The recoverable amount of this CGU is determined based on its estimated fair value less costs to sell. The fair value was determined based on the present value of the estimated cash flow over a 10 year period and a terminal value equivalent to the present value of 5 times after-tax cash flow, 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 business. This reflects management's best estimate of the potential costs associated with divesting of the business. A discount rate of 12.2% 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 for the first 3 years was based on annual revenue growth rates of 10% for the first year and 5% for the second and third years. The cash flow projection subsequent to the third year assumed an annual revenue growth rate of 2%. The recoverable amount was determined to be less than the carrying value including the goodwill

allocated to the Home Improvement Product Services CGU in Fiscal 2011 resulting in an impairment loss to goodwill of \$2.5 million (2010: Nil). This impairment loss is attributable to experienced revenue declines in the Home Improvement Products Services business.

10.2 Intangible assets

The following is a continuity of intangible assets:

<i>(in CAD millions)</i>	Application Software		Information System Software		Total
Cost or deemed cost					
Balance at January 31, 2010	\$	14.2	\$	121.3	\$ 135.5
Additions		5.8		3.3	9.1
Disposals		-		-	-
Balance at January 29, 2011	\$	20.0	\$	124.6	\$ 144.6
Additions		6.8		1.5	8.3
Disposals		-		(0.1)	(0.1)
Balance at January 28, 2012	\$	26.8	\$	126.0	\$ 152.8
Accumulated amortization					
Balance at January 31, 2010	\$	7.3	\$	105.6	\$ 112.9
Amortization expense ¹		2.9		5.3	8.2
Disposals		-		-	-
Balance at January 29, 2011	\$	10.2	\$	110.9	\$ 121.1
Amortization expense ¹		3.7		4.4	8.1
Disposals		-		-	-
Balance at January 28, 2012	\$	13.9	\$	115.3	\$ 129.2
Total intangible assets					
Balance at January 28, 2012	\$	12.9	\$	10.7	\$ 23.6
Balance at January 29, 2011	\$	9.8	\$	13.7	\$ 23.5
Balance at January 31, 2010	\$	6.9	\$	15.7	\$ 22.6

¹ Amortization expense and impairment losses are included in "Selling, administrative and other expenses" in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income. No impairment losses were recognized on intangible assets for both Fiscal 2011 and Fiscal 2010.

11. Investment in joint ventures

The Company's investment in joint ventures includes its share of income or losses from its joint venture interests in 12 shopping centres across Canada, most of which contain a Sears store. 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 Sears ownership interest in each as at January 28, 2012 are listed below:

Entity Name	Properties	Joint Venture Partner	Ownership Interest
Carrefour Richelieu Realities (St-Jérôme)	Carrefour Richelieu	Westcliff Group	50%
Carrefour Richelieu Realities (St-Jean)	Carrefour de Nord	Westcliff Group	50%
Carrefour Richelieu Realities (Carrefour Angrignon)	Carrefour Angrignon	Westcliff Group	50%
Carrefour Richelieu Realities (Place Angrignon)	Place Angrignon	Westcliff Group	50%
Carrefour Richelieu Realities (Pierre Caisse)	Place Pierre Caisse	Westcliff Group	50%
Carrefour Richelieu Realities (Drummondville)	Promenades de Drummondville	Westcliff Group	50%
Méga-Centre Drummondville	Méga 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%
Kildonan Place	Kildonan Place	Ivanhoe Cambridge	20%
Regionaux (Les Rivières Shopping Centre)	Les Rivières 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%

During Q3 2011, the Company sold its share of assets in Chatham Centre for net proceeds of \$1.6 million, recognizing a gain of \$0.1 million on the sale. During Fiscal 2010, the Company sold its share of land in the Lachenaie joint venture for net proceeds of \$4.0 million and realized a gain of \$2.8 million.

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

<i>(in CAD millions)</i>	As at January 28, 2012	As at January 29, 2011	As at January 31, 2010
Current assets	\$ 6.4	\$ 10.4	\$ 6.5
Non-current assets	333.5	349.0	366.8
Total assets	\$ 339.9	\$ 359.4	\$ 373.3
Current liabilities	\$ 7.9	\$ 11.1	\$ 15.7
Non-current liabilities	30.6	35.0	36.6
Total liabilities	\$ 38.5	\$ 46.1	\$ 52.3
Investment in joint ventures	\$ 301.4	\$ 313.3	\$ 321.0

<i>(in CAD millions)</i>	2011	2010
Revenue	\$ 48.0	\$ 47.7
Expenses		
Administrative and other expenses	23.4	21.8
Gain on sale of joint venture assets	(0.1)	(2.8)
Finance costs	2.0	3.3
Tax expense	0.1	0.2
Depreciation expense	14.3	22.0
Share of income from joint ventures	\$ 8.3	\$ 3.2

12. Other long-term assets

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

<i>(in CAD millions)</i>	As at January 28, 2012	As at January 29, 2011	As at January 31, 2010
Income taxes recoverable	\$ 30.3	\$ 20.9	\$ 20.9
Prepaid rent	11.0	13.2	15.6
Receivables	6.6	2.7	3.8
Investments	1.3	1.3	1.3
Deferred charges	-	-	0.6
Other long-term assets	\$ 49.2	\$ 38.1	\$ 42.2

13. Deferred revenue

The components of deferred revenue were as follows:

<i>(in CAD millions)</i>	As at January 28, 2012	As at January 29, 2011	As at January 31, 2010
Arising from extended warranty service contracts (i)	\$ 144.6	\$ 135.7	\$ 123.6
Arising from unshipped sales (ii)	65.7	70.1	74.9
Arising from customer loyalty program (iii)	41.3	53.6	59.5
Arising from gift card issuances (iv)	29.1	34.9	37.5
Arising from vendor partnership agreements (v)	9.7	-	-
Other (vi)	6.8	7.1	7.9
Total deferred revenue	\$ 297.2	\$ 301.4	\$ 303.4
Current	\$ 208.0	\$ 224.0	\$ 235.9
Non-current	89.2	77.4	67.5
Total deferred revenue	\$ 297.2	\$ 301.4	\$ 303.4

The following explanations describe the Company's deferred revenue:

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

- (ii) Deferred revenue arising from the sale of merchandise which has not yet been delivered to or picked up by the customer. The revenue is recognized once the merchandise is delivered to the customer.
- (iii) Deferred revenue arising from the Company's Sears Club points program as described in Note 2.16.5.
- (iv) Deferred revenue arising from the purchase of gift cards by customers that have not yet been redeemed for merchandise. At redemption of the gift card, the revenue is recognized.
- (v) Deferred revenue arising from multi-element partnership agreements with vendors. The revenue is recognized in accordance with the terms of the agreements.
- (vi) 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.

14. 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.

14.1 Credit risk

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

Cash and cash equivalents, short-term investments, accounts receivable, derivative financial assets and other long-term assets of \$514.9 million as at January 28, 2012 (January 29, 2011: \$577.6 million, January 31, 2010: \$1,536.5 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 January 28, 2012, approximately 26.5% (January 29, 2011: 38.7%, January 31, 2010: 44.0%) of the Company's accounts receivable was due from one customer who was current on their account (January 29, 2011 and January 31, 2010: two customers who were current on their accounts).

14.2 Liquidity risk

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

The following table summarizes the carrying amount and the contractual maturities of both the interest and principal portion of significant financial liabilities as at January 28, 2012:

<i>(in CAD millions)</i>	Contractual Cash Flow Maturities					
	Carrying Amount	Total	Within 1 year	1 year to 3 years	3 years to 5 years	Beyond 5 years
Accounts payable and accrued liabilities	\$ 576.8	\$ 576.8	\$ 576.8	\$ -	\$ -	\$ -
Long-term obligations including payments due within one year ¹	122.7	153.2	10.7	18.3	110.0	14.2
Operating lease obligations ²	n/a	510.1	102.7	153.0	98.0	156.4
Royalties ²	n/a	3.1	1.6	1.5	-	-
Retirement benefit plans obligations ^{2,3}	n/a	75.7	29.3	46.4	-	-
	\$ 699.5	\$ 1,318.9	\$ 721.1	\$ 219.2	\$ 208.0	\$ 170.6

¹ Cash flow maturities related to long-term obligations, including payments due within one year, include annual interest on finance lease obligations at an average rate of 6.7% and on secured credit facility borrowings at a rate of 3.7%.

² Operating lease obligations, royalties and retirement benefit plans funding obligations are not reported on the Consolidated Statements of Financial Position.

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

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

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.

14.3 Foreign exchange risk

The Company enters into foreign exchange contracts to reduce the foreign exchange risk with respect to U.S. dollar denominated assets and liabilities and purchases of goods or services.

- As at January 28, 2012, there were no option contracts outstanding (notional value of option contract outstanding as at January 29, 2011: U.S. \$372.0 million, as at January 31, 2010: U.S. \$298.8 million) and therefore, no derivative financial assets nor derivative financial liabilities were recognized in the Consolidated Statements of Financial Position (January 29, 2011: \$3.0 million included in "Derivative financial liabilities", January 31, 2010: \$9.9 million included in "Derivative financial assets"). The intrinsic value portion of derivatives is designated as a cash flow hedge for hedge accounting treatment under IAS 39. Option 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 January 28, 2012, there were also no swap contracts outstanding (notional value of option contract outstanding as at January 29, 2011: U.S. \$6.8 million, as at January 31, 2010: U.S. \$4.8 million) and therefore, no derivative financial assets nor derivative financial liabilities were recognized in the Consolidated Statements of Financial Position (January 29, 2011: less than \$0.1 million, January 31, 2010: less than \$0.1 million, both included in "Derivative financial liabilities"). Swap 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 outstanding derivative financial instruments are not recorded on the Consolidated Statements of Financial Position, the fair value of any outstanding contracts is included in "Derivative financial assets" or "Derivative financial liabilities", depending on the fair value, and classified as current or long-term, depending on the maturities of the outstanding contracts. Changes in the fair value of the designated portion of contracts are included in OCI for cash flow hedges, to the extent the designated portion of the hedges continue to be effective, with the ineffective portion included in "Selling, Administrative and other expenses" in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income. 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 (loss) earnings.

During Fiscal 2011, the Company recorded a gain of \$0.9 million (2010: loss of \$0.7 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 loss on foreign exchange derivatives designated as cash flow hedges.

The period end exchange rate was 0.9993 U.S. dollar to Canadian dollar. A 10% appreciation or depreciation of the U.S. and or the Canadian dollar exchange rate was determined to have an after-tax impact on net (loss) earnings of \$7.9 million for U.S. dollar denominated balances included in cash and cash equivalents, accounts receivable and accounts payable.

14.4 Interest rate risk

From time to time, the Company enters into interest rate swap contracts with approved financial institutions to manage exposure to interest rate risks. As at January 28, 2012, 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 revolving credit facility are subject to interest rate risk. The total subject to interest rate risk as at January 28, 2012 was a net asset of \$297.7 million (January 29, 2011: net asset of \$322.9 million, January 31, 2010: net asset of \$1,389.6 million). An increase or decrease in interest rates of 0.25% would cause an immaterial after-tax impact on net (loss) earnings.

14.5 Classification and fair value of financial instruments

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

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

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

(in CAD millions)

Classification	Balance Sheet Category	Fair Value Hierarchy ¹	As at		As at	
			January 28, 2012	January 29, 2011	January 31, 2010	As at
Loans and receivables						
Cash and cash equivalents and restricted cash and cash equivalents	Cash and cash equivalents ²	Level 1	\$ 177.2	\$ 88.5	\$ 126.9	
Available for sale						
Cash equivalents	Cash and cash equivalents ²	Level 2	220.2	343.8	100.0	
Short-term investments	Short-term investments ²	Level 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	-	3.0	-	
Long-term investments	Other long-term assets	Level 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 5.

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

15. Accounts payable and accrued liabilities

The components of "Accounts payable and accrued liabilities" as included in the Consolidated Statements of Financial Position were as follows:

(in CAD millions)	As at	As at	As at
	January 28, 2012	January 29, 2011	January 31, 2010
Total accounts payable	\$ 401.9	\$ 439.3	\$ 492.3
Payroll and employee benefits	28.7	28.7	33.5
Merchandise accruals	45.3	89.2	54.6
Short-term leasehold inducements	8.4	8.4	8.3
Advertising accruals	12.7	14.1	14.9
Other accrued liabilities	78.5	83.9	92.5
Miscellaneous accruals	1.3	2.0	2.2
Total accrued liabilities	\$ 174.9	\$ 226.3	\$ 206.0
Total accounts payable and accrued liabilities	\$ 576.8	\$ 665.6	\$ 698.3

16. Provisions

The following is a continuity which shows the change in provisions over Fiscal 2011 and Fiscal 2010:

<i>(in CAD millions)</i>	As at January 29, 2011	Additional Provisions	Release of Provisions	Reversed Provisions	As at January 28, 2012
Insurance (i)	\$ 23.8	\$ 1.4	\$ (5.8)	\$ -	\$ 19.4
Returns and allowances (ii)	14.3	12.2	(14.3)	-	12.2
Warranties (iii)	13.1	-	(2.1)	-	11.0
Sales tax (iv)	5.4	-	(3.8)	-	1.6
Severance (v)	2.7	12.9	(2.1)	-	13.5
Environmental (vi)	5.0	2.9	(2.0)	(1.3)	4.6
Other provisions (vii)	1.6	2.7	(1.3)	-	3.0
Total provisions	\$ 65.9	\$ 32.1	\$ (31.4)	\$ (1.3)	\$ 65.3
Current	\$ 65.3	\$ 32.1	\$ (31.3)	\$ (1.3)	\$ 64.8
Non-current (iii)	0.6	-	(0.1)	-	0.5
Total provisions	\$ 65.9	\$ 32.1	\$ (31.4)	\$ (1.3)	\$ 65.3

<i>(in CAD millions)</i>	As at January 31, 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 provisions	\$ 70.5	\$ 43.5	\$ (45.9)	\$ (2.2)	\$ 65.9
Current	\$ 69.4	\$ 41.8	\$ (44.0)	\$ (1.9)	\$ 65.3
Non-current (iii)	1.1	1.7	(1.9)	(0.3)	0.6
Total provisions	\$ 70.5	\$ 43.5	\$ (45.9)	\$ (2.2)	\$ 65.9

The following explanations describe the Company's provisions:

- (i) The provision for insurance, or general liability claims, represents the Company's best estimate of the future outflow of economic benefits due to automobile, product and other 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 past at least 12 months, this provision is considered to be current. In estimating the obligation associated with incurred losses, the Company utilizes actuarial methodologies validated by an independent third party. These actuarial methodologies utilize historical data to project future incurred losses. Loss estimates are adjusted based on reported claims and actual settlements.
- (ii) The provision for returns and allowances represents the Company's best estimate of the future outflow of economic benefits due to merchandise 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 returns and allowances, therefore, historical data has been used to arrive at this estimate.
- (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 as at January 28, 2012 was \$2.3 million (January 29, 2011: \$2.7 million, January 31, 2010: \$3.1 million) and is reflected in "Accounts receivable, net" and "Other long-term assets" in the 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 between 13 and 24 months), with the balances respectively reflected in "Provisions" and "Other long-term liabilities" (see Note 18) in the 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 tax authorities, 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 past at least 12 months, these provisions are classified as current.
- (v) The provision for severance represents the Company's best estimate of the future outflow of payments to terminated 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 past at least 12 months, this provision is 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 third 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 past at least 12 months, this provision is classified as current.
- (vii) The provisions for other represent the Company's best estimate of various reserves relating to the future outflow of economic benefits due to obligations for miscellaneous claims. The estimates for these provisions have been made on the basis of information currently available to determine the obligations. These provisions are classified as current.

17. Long-term obligations and finance costs

Long-term obligations

Total outstanding long-term obligations were as follows:

<i>(in CAD millions)</i>	As at January 28, 2012	As at January 29, 2011	As at January 31, 2010
Unsecured medium-term notes			
7.45% due May 10, 2010	\$ -	\$ -	\$ 200.0
7.05% due September 20, 2010	-	-	100.0
Finance lease obligations - Current	5.1	4.7	5.4
Total principal payments on long-term obligations due within one year	\$ 5.1	\$ 4.7	\$ 305.4
Secured revolving credit facility, net	\$ 93.1	\$ 97.4	-
Finance lease obligations - Non-current	24.5	27.0	26.1
Total long-term obligations	\$ 117.6	\$ 124.4	\$ 26.1

During Fiscal 2010, the Company repaid in full upon maturity, \$300.0 million of its unsecured medium-term notes. 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 January 28, 2012.

As at January 28, 2012, the Company had drawn \$101.1 million (January 29, 2011: \$107.5 million, January 31, 2010: Nil) of borrowings and had \$6.3 million (January 29, 2011: \$6.7 million, January 31, 2010: Nil) of standby letters of credit outstanding under the Credit Facility. Interest on drawings under the Credit Facility is determined based on bankers' acceptance rates for one to three month terms or the prime rate plus a spread. Interest amounts on the Credit Facility are due monthly and have been added to the principal amount outstanding. As at January 28, 2012, the carrying value of the Credit

Facility borrowings included in “Long-term obligations” in the Consolidated Statements of Financial Position is \$93.1 million, which is net of the unamortized balance of transaction costs incurred to establish the Credit Facility of \$8.0 million (January 29, 2011: borrowings of \$97.4 million, net of transaction costs of \$10.1 million, January 31, 2010: Nil). Availability under the Credit Facility was \$415.1 million as at the end of Fiscal 2011 (January 29, 2011: \$510.6 million). This availability may be reduced by reserves which may be applied by the lenders pursuant to the agreement.

As at January 28, 2012, the Company had outstanding merchandise letters of credit of U.S. \$5.5 million (January 29, 2011: U.S. \$6.6 million, January 31, 2010: U.S. \$13.1 million) used to support the Company’s offshore merchandise purchasing program with restricted cash and cash equivalents pledged as collateral.

Finance costs

Interest expense on long-term obligations, including finance lease obligations, the current portion of long-term obligations, amortization of transaction costs and commitment fees on the unused portion of the Credit Facility for Fiscal 2011 totaled \$9.3 million (2010: \$16.6 million). Interest expense is included in “Finance costs” in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income. Also included in “Finance Costs” for Fiscal 2011, were \$5.2 million (2010: Nil) of interest on accruals for uncertain tax positions and \$1.5 million (2010: Nil) related to interest on a sales tax assessment.

The Company’s cash payments for interest on long-term obligations, including finance lease obligations, the current portion of long-term obligations and commitment fees on the unused portion of the Credit Facility for Fiscal 2011 totaled \$6.8 million (2010: \$16.7 million).

18. Other long-term liabilities

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

<i>(in CAD millions)</i>	As at January 28, 2012	As at January 29, 2011	As at January 31, 2010
Leasehold inducements	\$ 66.8	\$ 74.5	\$ 81.0
Straight-line rent liability	6.4	7.2	8.7
Miscellaneous	2.6	3.0	3.8
Total other long-term liabilities	\$ 75.8	\$ 84.7	\$ 93.5

The non-current portion of the warranties provision (see Note 16) is reflected in the miscellaneous component of “Other long-term liabilities” in the Consolidated Statements of Financial Position.

19. Leasing arrangements

19.1 Finance lease arrangements - Company as lessee

As at January 28, 2012, the Company had finance lease arrangements related to the building and equipment components of certain leased properties, which include retail, office and warehouse locations. The related land components of these properties have been separately classified as operating leases. The buildings and equipment held under finance leases are used in the normal course of operations and do not contain significant unusual or contingent lease terms or restrictions. Building leases typically run for a period of 1 to 10 years, with some leases providing an option to renew after that date. Equipment leases typically run for a period of 1 to 5 years, with some leases providing an option to renew after that date.

Finance lease buildings and equipment are included in the Consolidated Statements of Financial Position under “Property, plant and equipment.” Note 9 provides further details on the net carrying value of these assets, which as at January 28, 2012 was \$28.0 million (January 29, 2011: \$31.0 million, January 31, 2010: \$31.5 million).

As at January 28, 2012, the corresponding finance lease obligations, current and non-current, were \$5.1 million (January 29, 2011: \$4.7 million, January 31, 2010: \$5.4 million) and \$24.5 million

(January 29, 2011: \$27.0 million, January 31, 2010: \$26.1 million), included in the Consolidated Statements of Financial Position under “Principal payments on long-term obligations due within one year” and “Long-term obligations,” respectively (see Note 17).

The table below presents the future minimum lease payments of the Company’s finance lease obligations:

	As at January 28, 2012			As at January 29, 2011			As at January 31, 2010		
	Finance lease payments	Future finance costs	Present value of minimum lease payments	Finance lease payments	Future finance costs	Present value of minimum lease payments	Finance lease payments	Future finance costs	Present value of minimum lease payments
<i>(in CAD millions)</i>									
Within 1 year	\$ 7.0	\$ 1.9	\$ 5.1	\$ 6.7	\$ 2.0	\$ 4.7	\$ 7.7	\$ 2.3	\$ 5.4
2 years	6.0	1.5	4.5	5.9	1.7	4.2	6.0	1.7	4.3
3 years	4.8	1.2	3.6	4.9	1.5	3.4	5.2	1.4	3.8
4 years	3.3	1.1	2.2	4.2	1.3	2.9	4.2	1.2	3.0
5 years	3.1	0.9	2.2	4.2	1.0	3.2	4.2	1.0	3.2
Thereafter	14.2	2.2	12.0	16.5	3.2	13.3	15.2	3.4	11.8
Total minimum payments	\$ 38.4	\$ 8.8	\$ 29.6	\$ 42.4	\$ 10.7	\$ 31.7	\$ 42.5	\$ 11.0	\$ 31.5

Interest on finance lease obligations is recognized immediately in “Finance costs” in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income (see Note 17). Included in total “Finance Costs” in Fiscal 2011, was \$2.2 million (2010: \$2.3 million) of interest related to finance lease obligations.

19.2 Operating lease arrangements - Company as lessor

The Company has a number of agreements to sub-lease premises to third parties, which are all classified as operating leases. During Fiscal 2011, total sub-lease income from leased premises was \$2.8 million (2010: \$2.3 million).

As at January 28, 2012, total future minimum lease payments receivable from third party tenants were \$3.1 million (2010: \$4.2 million).

19.3 Operating lease arrangements - Company as lessee

As at January 28, 2012, the Company had operating lease arrangements related to leased retail and office properties as well as 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 include additional or contingent rent payments that are based on sales and step rent payments which are recognized on a straight-line basis over the term of the lease. During Fiscal 2011, contingent rent recognized as an expense in respect of operating leases totaled \$0.9 million (2010: \$1.0 million). Rental expense for all operating leases totaled \$103.4 million in Fiscal 2011 (2010: \$106.1 million). These expenses are included in “Selling, administrative and other expenses” in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income.

The table below presents the contractual maturities of future minimum lease payments for the Company’s operating leases:

	As at January 28, 2012	As at January 29, 2011	As at January 31, 2010
<i>(in CAD millions)</i>			
Within 1 year	\$ 102.7	\$ 100.7	\$ 100.1
2 years	86.2	93.9	91.4
3 years	66.8	76.0	82.4
4 years	55.9	62.4	67.9
5 years	42.1	50.8	54.8
Thereafter	156.4	187.6	214.9
Total operating lease obligations ¹	\$ 510.1	\$ 571.4	\$ 611.5

¹ Operating lease obligations are not reported in the Consolidated Statements of Financial Position

20. 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 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 eligible, 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 ("other benefits plan"). Also provided for under the health and welfare trust are short-term disability payments for active associates. The Company's accounting policies related to retirement benefit plans are described in Note 2.

The Company has elected to early adopt the amendments to IAS 19 beginning January 29, 2012, with retrospective application to prior reporting periods. A description of the nature of the change in accounting policy and a summary of its impact to the Company's consolidated financial statements are included in Note 2. This note has been revised to align with the amendments to IAS 19 for all periods disclosed.

Risks associated with retirement benefit plans

There is no assurance that the Company's retirement benefit plans will be able to earn the assumed rate of return. New regulations and market driven changes may result in changes in the discount rates and other variables which would result in the Company being required to make contributions in the future that differ significantly from the estimates. Management is required to use assumptions to account for the plans in conformity with IFRS. However, actual future experience will differ from these assumptions giving rise to actuarial gains or losses. In any year, actual experience differing from the assumptions may be material.

Plan assets consist primarily of cash, alternative investments and marketable equity and fixed income securities. The value of the marketable equity and fixed income investments will fluctuate due to changes in market prices. Plan obligations and annual pension expense are determined by independent actuaries and through the use of a number of assumptions. Although the Company believes that the assumptions used in the actuarial valuation process are reasonable, there remains a degree of risk and uncertainty which may cause results to differ from expectations. Significant assumptions in measuring the benefit obligations and pension plan costs include the discount rate and the rate of compensation increase.

Asset-liability matching strategies

Beginning in Fiscal 2011, the Company adopted an asset-liability matching strategy in the Other Benefits Plan wherein assets are invested in accordance with a short-term fixed income mandate, primarily bonds with maturities not exceeding four years. This investment strategy is aligned with the expected use of the assets, which is to fund the Company's retiree health benefits and short-term disability payments within the next four to five years.

Plan amendments, curtailments and settlements

There were no significant plan amendments, curtailments or settlements during the 52-week periods ended January 28, 2012 and January 29, 2011.

Maturity profile of retirement benefit plan obligations

The weighted average durations of the Registered Retirement Plans, Non-registered Pension Plan and Other Benefit Plan are approximately 11, 10 and 11.5 years, respectively.

The Company's contractual cash flow maturity relating to retirement benefit plan obligation payments is included under "Liquidity Risk" in Note 14.

20.1 Retirement benefit asset and liability

The Company measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at January 31. The most recent actuarial valuation of the pension plan for funding purposes is dated December 31, 2010. The next actuarial valuation assessment is required as of December 31, 2013. An actuarial valuation of the health and welfare trust is performed at least every 3 years, with the last valuation completed as of September 1, 2011.

The following annual disclosures have been recast to comply with the amendments to IAS 19.

	2011 (Recast- Note 2)				2010 (Recast - Note 2)			
	Registered Retirement Plans	Registered Pension Plan	Other Benefits Plan	Total	Registered Retirement Plans	Registered Pension Plan	Other Benefits Plan	Total
<i>(in CAD millions)</i>								
Defined benefit plan assets								
Fair value, beginning balance	\$ 1,241.7	\$ 47.4	\$ 89.9	\$ 1,379.0	\$ 1,249.3	\$ 47.5	\$ 107.4	\$ 1,404.2
Actual return on plan assets	50.0	1.0	3.1	54.1	100.3	1.0	3.3	104.6
Employer contributions	0.9	6.4	0.7	8.0	-	2.6	0.7	3.3
Administrative expenses	(0.5)	-	(0.1)	(0.6)	(0.6)	-	-	(0.6)
Benefits paid ¹	(113.2)	(5.5)	(24.9)	(143.6)	(107.3)	(3.7)	(21.5)	(132.5)
Fair value of plan assets, ending balance	\$ 1,178.9	\$ 49.3	\$ 68.7	\$ 1,296.9	\$ 1,241.7	\$ 47.4	\$ 89.9	\$ 1,379.0
Defined benefit plan obligations								
Accrued obligations, beginning balance	\$ 1,354.7	\$ 47.8	\$ 302.7	\$ 1,705.2	\$ 1,297.2	\$ 45.6	\$ 284.3	\$ 1,627.1
Total current service cost	0.9	-	-	0.9	-	-	0.9	0.9
Interest cost	70.9	2.5	15.8	89.2	75.1	2.6	16.6	94.3
Benefits paid	(113.2)	(5.5)	(16.4)	(135.1)	(107.3)	(3.7)	(13.8)	(124.8)
Actuarial losses	64.4	5.3	19.3	89.0	89.7	3.3	14.7	107.7
Accrued plan obligations, ending balance	\$ 1,377.7	\$ 50.1	\$ 321.4	\$ 1,749.2	\$ 1,354.7	\$ 47.8	\$ 302.7	\$ 1,705.2
Funded status of plan - (deficit) surplus	(198.8)	(0.8)	(252.7)	(452.3)	(113.0)	(0.4)	(212.8)	(326.2)
Retirement benefit liability at end of fiscal year	\$ (198.8)	\$ (0.8)	\$ (252.7)	\$ (452.3)	\$ (113.0)	\$ (0.4)	\$ (212.8)	\$ (326.2)

The retirement benefit liability is included in the Company's Consolidated Statements of Financial Position as follows:

Retirement benefit liability	\$ (198.8)	\$ (0.8)	\$ (252.7)	\$ (452.3)	\$ (113.0)	\$ (0.4)	\$ (212.8)	\$ (326.2)
Retirement benefit liability at end of fiscal year	\$ (198.8)	\$ (0.8)	\$ (252.7)	\$ (452.3)	\$ (113.0)	\$ (0.4)	\$ (212.8)	\$ (326.2)

¹ Benefits paid from the funded assets include retiree benefits and short-term disability of active employees. Other benefits, consisting of health and dental claims.

20.2 Fair value of plan assets

The fair value of plan assets disaggregated by asset class and fair value hierarchy level as at January 28, 2012 January 29, 2011, and January 31, 2010 was as follows:

	As at January 28, 2012 (Recast - Note 2)				As at January 29, 2011 (Recast - Note 2)				As at January 31, 2010 (Recast - Note 2)			
	Registered Retirement Plans	Non- Registered Pension Plan	Other Benefits Plan	Total	Registered Retirement Plans	Non- Registered Pension Plan	Other Benefits Plan	Total	Registered Retirement Plans	Non- Registered Pension Plan	Other Benefits Plan	Total
<i>Cash and cash equivalents</i>												
Level 1	\$ 25.5	\$ 26.3	\$ -	\$ 51.8	\$ 114.6	\$ 25.7	\$ 0.2	\$ 140.5	\$ 5.3	\$ 25.2	\$ -	\$ 30.5
Subtotal	25.5	26.3	-	51.8	114.6	25.7	0.2	140.5	5.3	25.2	-	30.5
<i>Corporate bonds and notes</i>												
Level 1	-	-	-	-	40.0	1.5	8.2	49.7	60.9	0.7	7.8	69.4
Level 2	550.8	-	18.6	569.4	320.1	-	-	320.1	99.4	-	-	99.4
Level 3	63.1	-	0.9	64.0	70.5	-	1.1	71.6	73.9	-	1.1	75.0
Subtotal	613.9	-	19.5	633.4	430.6	1.5	9.3	441.4	234.2	0.7	8.9	243.8
<i>U.S. Government bonds and securities</i>												
Level 1	0.1	-	-	0.1	-	-	-	-	-	-	-	-
Level 2	1.8	-	-	1.8	0.8	-	-	0.8	1.6	-	-	1.6
Subtotal	1.9	-	-	1.9	0.8	-	-	0.8	1.6	-	-	1.6
<i>Common stock, preferred stock and REITs</i>												
Level 1	219.6	-	-	219.6	185.5	-	-	185.5	0.2	-	-	0.2
Level 2	0.9	-	-	0.9	-	-	-	-	-	-	-	-
Subtotal	220.5	-	-	220.5	185.5	-	-	185.5	0.2	-	-	0.2
<i>Common or collective trusts</i>												
Level 1	-	-	-	-	164.2	7.4	21.1	192.7	249.6	7.2	21.0	277.8
Level 2	282.9	23.0	-	305.9	-	-	-	-	-	-	-	-
Level 3	-	-	-	-	-	-	-	-	-	-	-	-
Subtotal	282.9	23.0	-	305.9	164.2	7.4	21.1	192.7	249.6	7.2	21.0	277.8
<i>Short-term collective investment funds</i>												
Level 1	-	-	-	-	13.9	-	2.0	15.9	6.3	-	1.4	7.7
Level 2	6.4	-	0.9	7.3	-	-	-	-	-	-	-	-
Subtotal	6.4	-	0.9	7.3	13.9	-	2.0	15.9	6.3	-	1.4	7.7
<i>Hedge funds, options and futures</i>												
Level 2	-	-	-	-	0.2	-	-	0.2	24.9	-	0.1	25.0
Level 3	15.4	-	0.2	15.6	93.0	5.5	14.7	113.2	366.1	10.9	33.6	410.6
Subtotal	15.4	-	0.2	15.6	93.2	5.5	14.7	113.4	391.0	10.9	33.7	435.6
<i>Receivables</i>												
Level 1	9.7	-	0.7	10.4	5.8	-	-	5.8	1.6	-	-	1.6
Level 2	(7.1)	-	-	(7.1)	(2.9)	-	-	(2.9)	1.3	-	-	1.3
Subtotal	2.6	-	0.7	3.3	2.9	-	-	2.9	2.9	-	-	2.9
<i>Miscellaneous other assets</i>												
Level 1	-	-	-	-	199.8	7.3	42.6	249.7	323.0	3.5	42.5	369.0
Level 2	9.8	-	47.4	57.2	36.1	-	-	36.1	34.6	-	-	34.6
Level 3	-	-	-	-	0.1	-	-	0.1	-	-	-	-
Subtotal	9.8	-	47.4	57.2	236.0	7.3	42.6	285.9	357.6	3.5	42.5	403.6
Total fair value of plan assets	\$ 1,178.9	\$ 49.3	\$ 68.7	\$ 1,296.9	\$ 1,241.7	\$ 47.4	\$ 89.9	\$ 1,379.0	\$ 1,248.7	\$ 47.5	\$ 107.5	\$ 1,403.7

The three levels of the fair value hierarchy referenced above are discussed in Note 14.5.

20.3 Plan assets investment allocation

During Fiscal 2011, the Company changed the target asset allocation to 55-75% fixed income and 25-45% equity for the registered and non-registered pension plans. For the assets in the health and welfare trust, included in Other Benefit Plans, the Company changed the asset allocation to 100% fixed income. As at the end of Fiscal 2011, the assets were in line with the target allocation, with the transitioning of assets from alternative investments near completion. As at the end of Fiscal 2010, the Company was in the process of transitioning to the 2010 target allocation of 60% fixed income and 40% equity, from the 2009 target allocation of 50% fixed income, 30% alternative investments and 20% equity. 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 as the end of the current and prior fiscal years, plan assets were invested in the following classes of securities:

	As at January 28, 2012			As at January 29, 2011			As at January 31, 2010		
	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan
Fixed income securities	69.8%	69.5%	99.7%	63.6%	43.5%	60.1%	48.7%	20.1%	49.1%
Alternative investments	1.3%	0.4%	0.3%	7.5%	24.1%	23.5%	31.3%	48.1%	31.3%
Equity securities	28.9%	30.1%	0.0%	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%	100.0%	100.0%	100.0%

20.4 Pension assumptions

The significant actuarial assumptions were as follows (weighted average assumptions) as at January 28, 2012, January 29, 2011 and January 31, 2010:

	As at January 28, 2012 (Recast - Note 2)			As at January 29, 2011 (Recast - Note 2)			As at January 31, 2010 (Recast - Note 2)		
	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan
Discount rate used in calculation of									
Accrued benefit plan obligations	4.70%	4.70%	4.60%	5.40%	5.40%	5.40%	6.00%	6.00%	6.00%
Benefit plans expense	4.70%	4.70%	4.60%	5.40%	5.40%	5.40%	6.00%	6.00%	6.00%
Rate of compensation increase used in calculation of									
Accrued benefit plan obligations	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%
Benefit plans expense	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%
Expected long-term rate of return on plan assets used									
in calculation of benefit plans expense	4.70%	4.70%	4.60%	5.40%	5.40%	5.40%	6.00%	6.00%	6.00%
Health care cost trend rates									
Used in calculation of accrued benefit plan obligations			6.23%			6.78%			6.90%
Used in calculation of benefit plans expense			6.78%			6.90%			7.05%
Cost trend rate declines to			3.82%			4.48%			4.48%
Year that the rate reaches assumed constant			2030			2030			2030

20.5 Sensitivity of significant actuarial assumptions

The following table summarizes the sensitivity of significant actuarial assumptions on the Company's defined benefit obligation:

	2011 (Recast - Note 2)			2010 (Recast - Note 2)		
	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan
(in CAD millions)						
1% increase in discount rate	\$ (150.2)	\$ (5.0)	\$ (31.0)	\$ (143.6)	\$ (4.4)	\$ (31.2)
1% decrease in discount rate	187.7	6.0	37.0	164.1	4.9	37.7
0.5% decrease in compensation increase rate	(19.4)	(0.6)	n/a	(22.5)	(0.4)	n/a

The methods and assumptions used in determining the above sensitivity are consistent with the methods and assumptions used to determine the pension plan obligations and with the methods and assumptions used in fiscal 2010.

20.6 Retirement benefit plans expense and contributions

The expense for the defined benefit, defined contribution and other benefit plans for Fiscal 2011 and Fiscal 2010, was as follows:

	2011 (Recast - Note 2)				2010 (Recast - Note 2)			
	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan	Total	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan	Total
	<i>(in CAD millions)</i>							
Current service cost, net of employee contributions	\$ 0.9	\$ -	\$ -	\$ 0.9	\$ -	\$ -	\$ 0.9	\$ 0.9
Interest cost	70.9	2.5	15.8	89.2	75.1	2.6	16.5	94.2
Interest income on plan assets	(64.8)	(2.6)	(4.1)	(71.5)	(72.2)	(2.7)	(5.6)	(80.5)
Administrative expenses	0.5	-	0.1	0.6	0.5	-	-	0.5
Net defined benefit plans expenses (income)	\$ 7.5	\$ (0.1)	\$ 11.8	\$ 19.2	\$ 3.4	\$ (0.1)	\$ 11.8	\$ 15.1
Net defined contribution plan expense	10.7	-	0.3	11.0	11.2	-	0.3	11.5
Total retirement benefit plans expense (income) ¹	\$ 18.2	\$ (0.1)	\$ 12.1	\$ 30.2	\$ 14.6	\$ (0.1)	\$ 12.1	\$ 26.6

¹ Not included in total expense recognized are short-term disability payments of \$8.4 million (2010: \$7.7 million) that were paid from the health and welfare trust.

Both short-term disability and the retirement benefit plans expense are included in "Selling, administrative and other expenses" in the Company's Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income.

Total payments relating to cash contributed by the Company to its defined benefit, defined contribution and other benefit plans for the fiscal year ended January 28, 2012 were \$17.9 million (2010: \$13.8 million). For fiscal 2012, it is estimated that the Company will make contributions of approximately \$49.1 million to its defined benefit, defined contribution and other benefit plans, which include funding obligations as described in Note 14.2.

20.7 Remeasurements of the net defined retirement benefit liability

	2011 (Recast - Note 2)				2010 (Recast - Note 2)			
	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan	Total	Registered Retirement Plans	Non-Registered Pension Plan	Other Benefits Plan	Total
	<i>(in CAD millions)</i>							
Actuarial loss on difference between interest income and actual return on plan assets	\$ (14.8)	\$ (1.6)	\$ (1.0)	\$ (17.4)	\$ 27.6	\$ (1.8)	\$ (2.3)	\$ 23.5
Actuarial gain (loss) due to change in demographic assumptions	19.0	0.3	(0.6)	18.7	-	-	-	-
Actuarial loss due to change in economic assumptions	(108.6)	(3.6)	(27.0)	(139.2)	(74.2)	(2.8)	(19.3)	(96.3)
Actuarial gain (loss) due to all other experiences	25.2	(2.0)	8.2	31.4	(15.6)	(0.5)	4.6	(11.5)
Total pre-tax remeasurement losses	\$ (79.2)	\$ (6.9)	\$ (20.4)	\$ (106.5)	\$ (62.2)	\$ (5.1)	\$ (17.0)	\$ (84.3)
Income tax recovery on remeasurement losses				27.4				21.7
Total remeasurement losses, net of income taxes ¹				\$ (79.1)				\$ (62.6)

¹ Total remeasurement losses, net of income taxes, are included in "Other comprehensive loss" for the 52-Week Period Ended January 28, 2012 in the Company's Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss).

The actuarial losses associated with changes in economic assumptions are due to changes in the discount rate. The discount rate as at January 28, 2012 decreased 0.7% for the Registered Retirement Plans and the Non-registered Pension Plan (2010: a decrease of 0.6%), and 0.8% for the Other Benefits Plan (2010: a decrease of 0.6%).

21. Contingent liabilities

21.1 Legal Proceedings

Three class actions in the provinces of Quebec, Saskatchewan and Ontario were commenced against the Company in 2005 arising out of the Company's pricing of tires. The plaintiffs allege that the Company inflated the regular retail price of certain brands of tires sold by the Company in order to then claim that the same brands were on sale for up to 45% off the regular retail price so as to induce potential customers into believing that substantial savings were being offered. The plaintiffs seek general damages, special damages, and punitive damages, as well as costs, pre-judgment and post-judgment interest. No dollar amounts are specified. The plaintiffs intend to proceed with the Quebec action and seek certification as a class action on a national basis. The outcome of this action is indeterminable, and the monetary damages, if any, cannot be reliably estimated. Therefore, the Company has not provided for any potential liability.

In addition, 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 Consolidated Statements of Financial Position or Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income.

21.2 Commitments and guarantees

Commitments

As at January 28, 2012, 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 \$7.2 million (January 29, 2011: \$7.1 million, January 31, 2010: \$5.2 million), the Canadian equivalent of U.S. \$7.2 million (January 29, 2011: U.S. \$7.0 million, January 31, 2010: U.S. \$4.8 million), current cash deposits pledged as collateral with counterparties relating to outstanding derivative contracts of Nil (January 29, 2011: \$5.1 million, January 31, 2010: \$6.4 million) and funds held in trust in accordance with regulatory requirements governing advance ticket sales related to Sears Travel of Nil (January 29, 2011: \$3.1 million, January 31, 2010: \$4.2 million).

Guarantees

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

Royalty License Agreements

The Company pays royalties under various merchandise license agreements, which are generally based on the sale of products. Certain license agreements require a minimum guaranteed payment of royalties over the term of the contract, regardless of sales. Total future minimum royalty payments under such agreements were \$3.1 million as at January 28, 2012 (January 29, 2011: \$2.4 million, January 31, 2010: \$4.8 million).

Other Indemnification Agreements

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

22. Income taxes

The average combined federal and provincial statutory income tax rate applicable to the Company was 28.5% for Fiscal 2011 (2010: 29.6%) due to lower legislated statutory tax rates in the current year. A reconciliation of income taxes at the average statutory tax rate to actual income taxes for Fiscal 2011 and Fiscal 2010 is as follows:

<i>(in CAD millions)</i>	2011	2010
	(Recast - Note 2)	(Recast - Note 2)
(Loss) earnings before income taxes	\$ (56.9)	\$ 187.1
Income taxes at the average statutory tax rate	\$ (16.2)	\$ 55.4
Increase (decrease) in income taxes resulting from		
Non-taxable portion of capital gain	-	(2.5)
Non-deductible items	2.1	0.9
Prior year assessments	5.1	2.3
Prior year true-up	(0.1)	(0.3)
	(9.1)	55.8
Effective tax rate before the following adjustments	16.0%	29.8%
Changes in tax rates or imposition of new taxes	2.5	6.3
Total income tax (recovery) expense	\$ (6.6)	\$ 62.1
Effective tax rate	11.6%	33.2%

The Company's total net cash refunds or payments of income and other taxes for the current year were a net payment of \$21.6 million (2010: net payment of \$79.8 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 Fiscal 2011, the Company recorded a charge of \$10.3 million for estimated exposure to uncertain tax provisions, comprised of \$5.2 million of interest in "Finance costs" and \$5.1 million related to income tax exposure, consisting of a charge of \$17.9 million to "Income tax (recovery) expense - Current" and a recovery of \$12.8 million to "Income tax (recovery) expense - Deferred," all included in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income. 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 Consolidated Statements of Financial Position or results of operations. Included in "Other long-term assets" in the Consolidated Statements of Financial Position, as at January 28, 2012, were receivables of \$30.3 million (January 29, 2011: \$20.9 million, January 31, 2010: \$20.9 million) related to payments made by the Company for tax assessments that are being disputed (see Note 12). During Fiscal 2011, the Company made \$11.3 million in related payments.

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

<i>(in CAD millions)</i>	As at	As at	As at
	January 28, 2012	January 29, 2011	January 31, 2010
	(Recast - Note 2)	(Recast - Note 2)	(Recast - Note 2)
Prepaid expenses	\$ (0.4)	\$ (1.0)	\$ (0.7)
Accrued liabilities and other long-term liabilities	57.2	56.5	57.8
Deferred retirement benefit plans	51.4	29.2	11.9
Other post-retirement benefits	65.0	54.8	45.5
Amounts related to tax losses carried forward	0.2	-	1.4
Non-depreciable property, plant and equipment	(36.6)	(36.5)	(36.4)
Depreciable property, plant and equipment	(56.6)	(79.1)	(93.2)
Deferred charges	(0.3)	(1.0)	(0.6)
Loyalty program	-	4.8	5.5
Other	(0.7)	(1.2)	0.8
Subtotal	\$ 79.2	\$ 26.5	\$ (8.0)
Amounts related to other comprehensive income (loss)	0.1	1.2	(3.7)
Total deferred tax asset (liabilities), net	\$ 79.3	\$ 27.7	\$ (11.7)
Deferred tax assets	\$ 84.6	\$ 33.2	\$ 0.6
Deferred tax liabilities	(5.3)	(5.5)	(12.3)
Total deferred tax asset (liabilities), net	\$ 79.3	\$ 27.7	\$ (11.7)

23. 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 ("2010 NCIB"). Under the 2010 NCIB, purchases were allowed to commence on May 25, 2010 and terminated on May 24, 2011. On May 24, 2011, 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. 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.

During Fiscal 2011, 2,668,800 shares were purchased for \$42.0 million (2010: 2,204,500 shares were purchased for \$43.0 million) and cancelled. The impact of the share repurchases was a decrease to "Capital stock" and "Retained earnings" in the Consolidated Statements of Financial Position of \$0.4 million and \$41.6 million (2010: \$0.3 million and \$42.7 million), respectively. As at January 28, 2012, a total of 4,873,300 shares had been purchased for \$85.0 million and cancelled under the 2010 and 2011 NCIB resulting in a total decrease to date of \$0.7 million in "Capital stock" and \$84.3 million in "Retained earnings."

As at the end of January 28, 2012, the only shares outstanding were common shares of the Company. The following table presents a continuity of capital stock for the fiscal years ended January 28, 2012 and January 29, 2011:

	2011		2010	
	Number of Common Shares	Stated Value	Number of Common Shares	Stated Value
<i>(in CAD millions, except number of shares)</i>				
Balance, beginning of fiscal year	105,417,095	\$ 15.4	107,620,995	\$ 15.7
Exercised stock options	-	-	600	-
Repurchases of common shares	(2,668,800)	(0.4)	(2,204,500)	(0.3)
Balance, end of fiscal year	102,748,295	\$ 15.0	105,417,095	\$ 15.4

Sears Holdings, the controlling shareholder of the Company, is the beneficial holder of 97,341,670 or 94.7%, of the common shares of the Company as at January 28, 2012 (January 29, 2011: 97,341,670 or 92.3%, January 31, 2010: 78,680,790 or 73.1%). The issued and outstanding shares are fully paid and have no par value.

24. Capital disclosures

The Company's objectives when managing capital are:

- Maintain financial flexibility thus allowing the Company to preserve its ability to meet financial objectives and continue as a going concern;
- Provide an appropriate return to shareholders; and
- Maintain a capital structure that allows the Company to obtain financing should the need arise.

The Company manages and makes adjustments to its capital structure, when necessary, in light of changes in economic conditions, the objectives of its shareholders, the cash requirements of the business and the condition of capital markets. In order to maintain or adjust the capital structure, the Company may pay a dividend or return capital to shareholders, modify debt levels or sell assets.

The Company defines capital as follows:

- Long-term obligations, including the current portion of long-term obligations ("Total long-term obligations"); and
- Shareholders' equity.

The following table presents summary quantitative data with respect to the Company's capital resources:

<i>(in CAD millions)</i>	As at January 28, 2012 (Recast - Note 2)	As at January 29, 2011 (Recast - Note 2)	As at January 31, 2010 (Recast - Note 2)
Total long-term obligations	\$ 122.7	\$ 129.1	\$ 331.5
Shareholders' equity	1,092.0	1,260.4	2,004.4
Total	\$ 1,214.7	\$ 1,389.5	\$ 2,335.9

25. Revenue

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

<i>(in CAD millions)</i>	2011	2010
Sale of goods	\$ 4,125.7	\$ 4,404.3
Service revenue	331.4	337.5
Commission revenue	116.7	144.1
Licensee fee revenue	29.5	32.1
Other	16.0	20.5
Total revenue	\$ 4,619.3	\$ 4,938.5

26. Employee benefits expense

The components of the Company's employee benefits expense for the current and prior fiscal year were as follows:

<i>(in CAD millions)</i>	2011 (Recast - Note 2)	2010 (Recast - Note 2)
Wages and salaries	\$ 685.0	\$ 693.6
Paid absences ¹	67.1	69.4
Benefits		
Provincial healthcare costs	15.4	16.3
Flex benefits	16.2	11.4
Retirement benefit plans expense	30.2	26.6
Statutory deductions ²	46.0	46.9
Severance ³	25.3	5.5
Other employer paid benefits	2.1	2.1
Total benefits expense	\$ 887.3	\$ 871.8

¹ Paid absences are expenses related to vacation, statutory holidays and sick days.

² Statutory deductions consist of payments to the Canada Pension Plan and Employment Insurance.

³ Included in Severance for Fiscal 2011 were \$19.3 million of costs related to transformation.

These expenses are included in "Cost of goods and services sold" and "Selling, administrative and other expenses" in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income.

27. 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 11.

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.

27.1 Trading transactions

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

<i>(in CAD millions)</i>	2011				2010			
	Purchase of goods	Services received	Other	Total	Purchase of goods	Services received	Other	Total
Sears Holdings Corporation	\$ 0.3	\$ 4.8	\$ 0.5	\$ 5.6	\$ 0.2	\$ 6.6	\$ 0.3	\$ 7.1
Real estate joint ventures	-	4.4	-	4.4	-	4.9	-	4.9
Total related party transactions	\$ 0.3	\$ 9.2	\$ 0.5	\$ 10.0	\$ 0.2	\$ 11.5	\$ 0.3	\$ 12.0

The following balances were outstanding as at the end of the fiscal year:

<i>(in CAD millions)</i>	Amounts receivable from related parties		
	As at January 28, 2012	As at January 29, 2011	As at January 31, 2010
Sears Holdings Corporation	\$ 0.1	\$ 0.5	\$ 1.0
Real estate joint ventures	-	-	-
Total	\$ 0.1	\$ 0.5	\$ 1.0

<i>(in CAD millions)</i>	Amounts payable to related parties		
	As at January 28, 2012	As at January 29, 2011	As at January 31, 2010
Sears Holdings Corporation	\$ 0.6	\$ 0.8	\$ 0.5
Real estate joint ventures	-	-	-
Total	\$ 0.6	\$ 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 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 fiscal 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.

28. 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 Board of Directors and the following members of senior management to be key management personnel:

- Current and former President and Chief Executive Officer;
- Senior Vice-President and Chief Financial Officer;
- Executive Vice-President and Chief Administrative Officer;
- Executive Vice-President, Merchandising, Apparel and Accessories;
- Former Executive Vice-President, Home and Hardlines;
- Senior Vice-President, Major Appliances;
- Current and former Senior Vice-President, Marketing;
- Senior Vice-President, Financial and Home Services;
- Senior Vice-President and General Counsel;
- Former Senior Vice-President, Retail Stores; and
- Senior Vice-President, Business Capability and Human Resources.

Key management personnel compensation was as follows:

<i>(in CAD millions)</i>		2011		2010
Salaries and perquisites	\$	5.2	\$	4.0
Annual incentive plans		2.2		0.5
Pensions		-		0.4
Termination benefits		1.2		-
Total key management personnel compensation	\$	8.6	\$	4.9

29. Net (loss) earnings per share

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

<i>(Number of shares)</i>		2011		2010
Weighted average number of shares per basic net (loss) earnings per share calculation		104,275,192		107,344,264
Effect of dilutive instruments outstanding		-		5,538
Weighted average number of shares per diluted net (loss) earnings per share calculation		104,275,192		107,349,802

“Net (loss) earnings” as disclosed in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income was used as the numerator in calculating the basic and diluted net (loss) earnings per share. For the fiscal year ended January 28, 2012, the Company incurred a net loss and therefore, all potential common shares were anti-dilutive. For the fiscal year ended January 29, 2011, 22,980 outstanding options were considered in the calculation of diluted net earnings per share as they were dilutive.

30. Changes in non-cash working capital balances

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

<i>(in CAD millions)</i>		2011		2010
Accounts receivable, net	\$	27.8	\$	(11.1)
Inventories		129.3		(100.9)
Prepaid expenses		3.9		3.0
Accounts payable and accrued liabilities		(95.8)		(34.8)
Deferred revenue		(16.0)		(11.9)
Provisions		(0.5)		(4.1)
Income and other taxes payable and recoverable		(19.2)		(0.7)
Derivative financial assets and liabilities		-		2.9
Effect of foreign exchange rates		0.1		1.0
Cash generated from (used for) non-cash working capital balances	\$	29.6	\$	(156.6)

31. Events after the reporting period

On March 2, 2012, the Company entered an agreement to surrender and terminate early the operating leases on three properties. On the closing date, April 20, 2012, the Company received cash proceeds of \$170.0 million for the surrender of the three leases, resulting in a pre-tax gain of \$164.3 million for the 13-week period ended April 28, 2012, net of transaction costs of \$5.7 million, including the derecognition of leasehold improvements. The Company plans to exit all three properties by October 31, 2012.

32. IFRS 1 – First time adoption of IFRS

The consolidated financial statements were prepared in accordance with IFRS 1. IFRS 1 requires retrospective application of IFRS standards as at the reporting date, but contains certain optional exemptions and mandatory exceptions from this requirement.

32.1 IFRS 1 optional exemptions and mandatory exceptions

IFRS 1 optional exemptions allow companies to elect non-retrospective or other treatments at transition where retrospective application is deemed to be overly burdensome or impracticable. The voluntary exemptions which were elected by the Company at transition are as follows:

Fair value or revaluation as deemed cost:

An entity may elect to revalue its property, plant and equipment at fair value at the transition date and use this fair value as the deemed transition cost. On transition, the Company elected to measure certain of its land and buildings, investment property and finance lease buildings at fair value and set the fair value as the deemed cost. The election resulted in a material increase in the net carrying value of property, plant and equipment and retained earnings on the transition date of January 31, 2010, with a corresponding increase in depreciation expense for the 52-week periods ended January 29, 2011 and January 28, 2012. Had this election not been taken, the net carrying value of property plant and equipment and retained earnings would be materially lower on the transition date of January 31, 2010, with a significantly lower depreciation expense for the 52-week periods ended January 29, 2011 and January 28, 2012.

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 has elected to not apply IFRS 3 – *Business Combinations* 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.

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. IAS 23 requires retrospective application.

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 31, 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.

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 had 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.

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 GAAP in 2004.

IFRS 1 also provides certain mandatory exceptions to the retrospective application requirement. The general premise of IFRS 1 mandatory exceptions is to prevent companies from using hindsight in adopting IFRS's retrospectively. The mandatory exceptions applicable to the Company are as follows:

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.

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. The Company's hedge transactions continue to be effective hedges under IFRS.

Derecognition of financial assets and liabilities

Financial assets and liabilities derecognized before January 31, 2010 are not re-recognized 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.

32.2 IFRS 1 reconciliations

As these are the first annual IFRS financial statements for the Company, IFRS 1 requires a reconciliation between Canadian GAAP and IFRS equity and comprehensive income, for the comparative reporting period of Fiscal 2010, including the Fiscal 2010 opening Consolidated Statements of Financial Position.

Presented below are these reconciliations:

32.2.1 Reconciliation of Canadian GAAP to IFRS 2010 Consolidated Statements of Financial Position

As at January 29, 2011

	Canadian GAAP	Reclassifications	Canadian GAAP Reclassified	Property, Plant & Equipment	Investment Property	Joint Ventures	Leases	Financial Instruments	Provisions	Employee Benefits	Intangible Assets	Loyalty Program	Income Taxes	Early adoption of IAS 19 (Revised), net of taxes	IFRS
(in millions)	Ref	(j)		(a)	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(f)	
Current assets	\$ 1,634.5	\$ (28.1)	\$ 1,606.4	\$ -	\$ -	\$ (14.6)	\$ (0.1)	\$ -	\$ -	\$ -	\$ (25.9)	\$ -	\$ -	\$ -	\$ 1,565.8
Property, plant and equipment	577.4	(0.1)	577.3	375.8	(5.1)	(77.3)	30.0	-	-	-	-	-	-	-	900.7
Investment property	-	-	-	-	21.7	-	-	-	-	-	-	-	-	-	21.7
Investment in joint ventures	-	-	-	-	-	313.3	-	-	-	-	-	-	-	-	313.3
Other non-current assets	297.9	30.9	328.8	-	-	(10.4)	(0.1)	-	-	32.1	(7.8)	-	(71.9)	(164.7)	106.0
	\$ 2,509.8	\$ 2.7	\$ 2,512.5	\$ 375.8	\$ 16.6	\$ 211.0	\$ 29.8	\$ -	\$ -	\$ 32.1	\$ (33.7)	\$ -	\$ (71.9)	\$ (164.7)	\$ 2,907.5
Current liabilities	\$ 1,023.9	\$ 2.7	\$ 1,026.6	\$ -	\$ -	\$ (19.6)	\$ 4.0	\$ -	\$ 0.6	\$ -	\$ -	\$ 17.1	\$ 0.2	\$ -	\$ 1,028.9
Other non-current liabilities	485.4	-	485.4	-	-	(33.4)	26.1	-	(65.3)	-	-	71.1	134.3	618.2	
	1,509.3	2.7	1,512.0	-	-	(53.0)	30.1	-	0.6	(65.3)	-	17.1	71.3	134.3	1,647.1
Capital stock	15.4	-	15.4	-	-	-	-	-	-	-	-	-	-	-	15.4
Retained earnings	987.5	-	987.5	375.8	16.6	264.0	(0.3)	0.7	(0.6)	97.4	(33.7)	(17.1)	(143.5)	(236.4)	1,310.4
Accumulated other comprehensive loss	(2.4)	-	(2.4)	-	-	-	-	(0.7)	-	-	-	-	0.3	(62.6)	(65.4)
	1,000.5	-	1,000.5	375.8	16.6	264.0	(0.3)	-	(0.6)	97.4	(33.7)	(17.1)	(143.2)	(299.0)	1,260.4
	\$ 2,509.8	\$ 2.7	\$ 2,512.5	\$ 375.8	\$ 16.6	\$ 211.0	\$ 29.8	\$ -	\$ -	\$ 32.1	\$ (33.7)	\$ -	\$ (71.9)	\$ (164.7)	\$ 2,907.5

As at January 31, 2010

	Canadian GAAP	Reclassifications	Canadian GAAP Reclassified	Property, Plant & Equipment	Investment Property	Joint Ventures	Leases	Financial Instruments	Provisions	Employee Benefits	Intangible Assets	Loyalty Program	Income Taxes	Early adoption of IAS 19 (Revised), net of taxes	IFRS
(in millions)	Ref	(j)		(a)	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(f)	
Current assets	\$ 2,491.4	\$ (26.9)	\$ 2,464.5	\$ -	\$ -	\$ (9.6)	\$ -	\$ -	\$ -	\$ -	\$ (26.9)	\$ -	\$ -	\$ -	\$ 2,428.0
Property, plant and 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 non-current assets	293.2	29.7	322.9	-	-	(7.8)	(0.1)	-	-	36.9	(6.8)	-	(61.1)	(207.4)	76.6
	\$ 3,404.8	\$ 2.8	\$ 3,407.6	\$ 400.4	\$ 16.6	\$ 219.0	\$ 30.0	\$ -	\$ -	\$ 36.9	\$ (33.7)	\$ -	\$ (61.1)	\$ (207.4)	\$ 3,808.3
Current liabilities	\$ 1,376.7	\$ 2.8	\$ 1,379.5	\$ -	\$ -	\$ (23.0)	\$ 4.5	\$ -	\$ 0.9	\$ -	\$ -	\$ 19.7	\$ -	\$ -	\$ 1,381.6
Other non-current liabilities	370.6	-	370.6	-	-	(36.3)	24.5	-	(68.9)	-	-	-	93.6	38.8	422.3
	1,747.3	2.8	1,750.1	-	-	(59.3)	29.0	-	0.9	(68.9)	-	19.7	93.6	38.8	1,803.9
Capital stock	15.7	-	15.7	-	-	-	-	-	-	-	-	-	-	-	15.7
Retained earnings	1,633.8	-	1,633.8	400.4	16.6	278.3	1.0	1.1	(0.9)	105.8	(33.7)	(19.7)	(155.0)	(246.2)	1,981.5
Accumulated other comprehensive income	8.0	-	8.0	-	-	-	-	(1.1)	-	-	-	-	0.3	-	7.2
	1,657.5	-	1,657.5	400.4	16.6	278.3	1.0	-	(0.9)	105.8	(33.7)	(19.7)	(154.7)	(246.2)	2,004.4
	\$ 3,404.8	\$ 2.8	\$ 3,407.6	\$ 400.4	\$ 16.6	\$ 219.0	\$ 30.0	\$ -	\$ -	\$ 36.9	\$ (33.7)	\$ -	\$ (61.1)	\$ (207.4)	\$ 3,808.3

32.2.2 Reconciliation of Canadian GAAP to IFRS 2010 Consolidated Statements of Net Earnings and Comprehensive Income

For the 52-week period ended January 29, 2011

(in CAD millions)	Ref	Canadian GAAP	Reclassifications (j)	Canadian GAAP Reclassified	Property, Plant and Equipment (a)	Joint Ventures (b)	Leases (c)	Financial Instruments (d)	Provisions (e)	Employee Benefits (f)	Intangible Assets (g)	Loyalty Program (h)	Income Taxes (i)	Early adoption of IAS 19 (Revised), net of taxes (f)	IFRS
Revenue	\$	4,957.8	\$ 20.1	\$ 4,977.9	\$ -	\$ (46.6)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7.2	\$ -	\$ -	4938.5
Cost of goods and services sold *		4,636.1	(1,676.9)	2,959.2	-	-	-	-	-	-	-	38.5	-	-	2997.7
Gross profit		321.7	1,697.0	2,018.7	-	(46.6)	-	-	-	-	-	(31.3)	-	-	1940.8
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)	(13.2)	1744.5
Depreciation and amortization expense**		104.6	(104.6)	-	-	-	-	-	-	-	-	-	-	-	0.0
Finance costs		13.5	3.8	17.3	-	(2.9)	2.2	-	-	-	-	-	-	-	16.6
Interest income		-	(4.2)	(4.2)	-	-	-	-	-	-	-	-	-	-	(4.2)
Unusual gains**		(16.2)	16.2	-	-	-	-	-	-	-	-	-	-	-	0.0
Share of income from joint ventures		-	-	-	-	(3.2)	-	-	-	-	-	-	-	-	(3.2)
Expenses before income taxes		101.9	1,696.9	1,798.8	24.6	(32.3)	1.3	0.4	(0.3)	8.4	-	(33.9)	(0.1)	(13.2)	1753.7
Earnings before income taxes		219.8	0.1	219.9	(24.6)	(14.3)	(1.3)	(0.4)	0.3	(8.4)	-	2.6	0.1	(13.2)	187.1
Income tax expense (recovery)															
Current		75.4	-	75.4	-	-	-	-	-	-	-	-	-	-	75.4
Deferred		(5.4)	0.1	(5.3)	-	(0.3)	-	-	-	-	-	-	(11.1)	3.4	(13.3)
		70.0	0.1	70.1	-	(0.3)	-	-	-	-	-	-	(11.1)	3.4	62.1
Net earnings	\$	149.8	\$ -	\$ 149.8	\$ (24.6)	\$ (14.0)	\$ (1.3)	\$ (0.4)	\$ 0.3	\$ (8.4)	\$ -	\$ 2.6	\$ 11.2	\$ 9.8	125.0
Other comprehensive loss		(10.4)	-	(10.4)	-	-	-	0.4	-	-	-	-	-	(62.6)	(72.6)
Comprehensive income	\$	139.4	\$ -	\$ 139.4	\$ (24.6)	\$ (14.0)	\$ (1.3)	\$ -	\$ 0.3	\$ (8.4)	\$ -	\$ 2.6	\$ 11.2	\$ (52.8)	52.4

* 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."

32.2.3 Reconciliation of Canadian GAAP to IFRS 2010 equity

<i>(in CAD millions)</i>	Ref	As at January 29, 2011	As at January 31, 2010
Total equity under Canadian GAAP		\$ 1,000.5	\$ 1,657.5
Property, plant and equipment	a	375.8	400.4
Investment property	a	16.6	16.6
Joint ventures	b	264.0	278.3
Leases	c	(0.3)	1.0
Provisions	e	(0.6)	(0.9)
Employee benefits	f	97.4	105.8
Intangible assets	g	(33.7)	(33.7)
Loyalty program	h	(17.1)	(19.7)
Early adoption of IAS 19 (Revised), net of taxes	f	(299.0)	(246.2)
Total IFRS adjustments before taxes		403.1	501.6
Income taxes	i	(143.2)	(154.7)
Total adjustment to equity		259.9	346.9
Total equity under IFRS		\$ 1,260.4	\$ 2,004.4

32.2.4 Reconciliation of Canadian GAAP to IFRS 2010 comprehensive income

<i>(in CAD millions)</i>	Ref	2010
Net earnings under Canadian GAAP		\$ 149.8
Property, plant and equipment	a	(24.6)
Joint ventures	b	(14.0)
Leases	c	(1.3)
Financial instruments	d	(0.4)
Provisions	e	0.3
Employee benefits	f	(8.4)
Intangible assets	g	-
Loyalty program	h	2.6
Early adoption of IAS 19 (Revised), net of taxes	f	9.8
Total IFRS adjustments before taxes		(36.0)
Income taxes	i	11.2
Net earnings under IFRS		\$ 125.0
Other comprehensive loss under Canadian GAAP		(10.4)
Financial instruments, net of taxes	d	0.4
Early adoption of IAS 19 (Revised), net of taxes	f	(62.6)
Total IFRS adjustments before taxes		(62.2)
Other comprehensive loss under IFRS		\$ (72.6)
Comprehensive income under IFRS		\$ 52.4

32.2.5 Explanation of significant IFRS adjustments to equity and comprehensive income

The following is an explanation of the adjustments disclosed in the reconciliations in Note 32.2.1 to 32.2.4:

- (a) **Property, plant and equipment and investment property:** On transition, the Company elected to measure certain of 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 and 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 represents the increase in depreciation in the period due to the increased building cost and the impact of componentization.

Investment property has been recognized at fair value at the date of transition. Under Canadian GAAP, investment property was previously measured on a depreciated cost basis and classified as property, plant and equipment. The adjustment to fair value for property, plant and equipment and investment property was based on third 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 due to the application of the IFRS 1 election. The adjustment to net earnings represents the increased depreciation in the period due to the increase made to the joint venture building 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 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: Recognition and Measurement* ("IAS 39"), 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 Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income. The adjustment to retained earnings represents the recognition of the value of the undesignated portion of the outstanding derivatives which were previously recognized in AOCI under Canadian GAAP. The adjustment to retained earnings is therefore offset by the adjustment to AOCI, and the net impact to equity is Nil. The adjustment to net earnings 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 which are not fully occupied or sub-leased space which generate less rental income than the costs associated with carrying on the lease. The adjustment to equity reduces equity by the outstanding onerous contract liabilities. The adjustment to net earnings represents the impact of new onerous contract liabilities and the amortization of existing onerous contract liabilities recorded on transition.
- (f) **Employee benefits:** As described in note 2, the Company recast their financial statements for the adoption of the revised standard on employee benefits, IAS 19 Revised. The Company had previously prepared an opening Consolidated Statement of

Financial Position in accordance with a previous version of this standard. Following the recasting of the financial statements, the Company determined the incremental transitional entry required to adjust equity for the full retrospective application of this revised standard. This entry included consideration of the previous transitional entry to equity and is presented separately in the reconciliations presented in 32.2.1 through 32.2.4 above as this appropriately highlights the impact on IFRS transition of the recasting. The impact of IAS 19 Revised on the Company is significant since it incorporates the requirement to recognize the full deficit (or surplus) attached to the defined benefits plans of an entity on the Consolidated Statement of Financial Position. This is in contrast to the former standard under which a policy choice was available to defer and amortize certain amounts over an extended future period. In order to understand the impact of transition from Canadian GAAP to IAS 19 Revised, the transitional entries related to each of the employee benefits standards should be considered in aggregate.

- (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 represents the change in timing of 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 reflects the difference between the policy followed under Canadian GAAP and the policy required by IFRIC 13.
- (i) **Income taxes:** Under Canadian GAAP and IFRS, deferred tax assets and liabilities are recorded for temporary differences, which are the differences between when an amount is recognized for accounting and tax purposes. The adjustment to equity as well as net earnings reflects changes to temporary differences, and thus the deferred tax assets and liabilities, required by adjustments (a) to (h) listed above.
- (j) **Reclassifications:** The following reclassifications have been made to the Consolidated Statements of Financial Position:
- 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
 - Reimbursements from manufacturers relating to the warranty liability were reclassified from current liabilities to accounts receivable.

The following reclassifications have been made to the Consolidated Statements of Net Earnings and Comprehensive Income:

- Revenue offset against "Selling, administrative and other expenses" prior to IFRS were reclassified to "Revenue";
- "Cost of goods and services sold" were disaggregated from "Selling, administrative and other expenses";
- "Depreciation and amortization expense" were aggregated with "Selling, administrative and other expenses", as the Company has selected the function classification method;
- "Interest income" was separately presented from "Finance costs" under IFRS; and

- “Unusual gains and losses,” not permitted under IFRS, have been reclassified to “Selling, administrative and other expenses.”

32.3 Explanation of significant changes to the consolidated statements of cash flow

Under Canadian GAAP, the cash flow relating to joint ventures were proportionately consolidated into the Company's 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 proportionate consolidation of any joint venture cash flow.

33. Approval of consolidated financial statements

The consolidated financial statements were approved by the Board of Directors and authorized for issue on May 31, 2012.