

TABLE OF CONTENTS

Unaudited Condensed Consolidated Financial Statements

Condensed Consolidated Statements of Financial Position

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

Condensed Consolidated Statements of Changes in Shareholders' Equity

Condensed Consolidated Statements of Cash Flows

Notes to the Unaudited Condensed Consolidated Financial Statements

- Note 1: General information
- Note 2: Significant accounting policies
- Note 3: Issued standards not yet adopted
- Note 4: Critical accounting judgments and key sources of estimation uncertainty
- Note 5: Cash and cash equivalents and interest income
- Note 6: Inventories
- Note 7: Goodwill
- Note 8: Long-term obligations and finance costs
- Note 9: Capital stock
- Note 10: Revenue
- Note 11: Retirement benefit plans
- Note 12: Depreciation and amortization expense
- Note 13: Gain on lease terminations and lease amendments
- Note 14: Assets and liabilities classified as held for sale
- Note 15: Sale of Cantrex Group Inc. ("Cantrex")
- Note 16: Financial instruments
- Note 17: Contingent liabilities
- Note 18: Net (loss) earnings per share
- Note 19: Income taxes
- Note 20: Segmented information
- Note 21: Changes in non-cash working capital balances
- Note 22: Changes in long-term assets and liabilities
- Note 23: Burnaby arrangement
- Note 24: Events after the reporting period
- Note 25: Approval of unaudited condensed consolidated financial statements

SEARS CANADA INC.
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Unaudited

<i>(in CAD millions)</i>	Notes	As at November 2, 2013	As at February 2, 2013 (Note 2.4)	As at October 27, 2012 (Note 2.4)
ASSETS				
Current assets				
Cash and cash equivalents	5	\$ 238.2	\$ 238.5	\$ 230.1
Accounts receivable, net	16	73.7	77.7	95.1
Income taxes recoverable		12.5	5.5	21.8
Inventories	6	1,041.8	851.4	1,006.2
Prepaid expenses		33.1	28.6	32.0
Derivative financial assets	16	2.4	—	—
Assets classified as held for sale	14	259.0	—	—
Total current assets		1,660.7	1,201.7	1,385.2
Non-current assets				
Property, plant and equipment		806.1	1,118.5	1,161.6
Investment property		19.3	21.7	21.7
Intangible assets		23.1	27.2	24.5
Goodwill	7	2.6	8.7	8.7
Deferred tax assets		94.2	83.8	93.3
Other long-term assets	8, 16, 19	47.3	43.1	45.3
Total assets		\$ 2,653.3	\$ 2,504.7	\$ 2,740.3
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities	16	\$ 590.9	\$ 483.7	\$ 641.8
Deferred revenue		193.4	197.8	192.8
Provisions		68.8	66.3	56.2
Income taxes payable		0.9	—	0.2
Other taxes payable		21.7	34.0	18.5
Current portion of long-term obligations	8, 16	7.9	9.2	9.7
Liabilities classified as held for sale	14	21.2	—	—
Total current liabilities		904.8	791.0	919.2
Non-current liabilities				
Long-term obligations	8, 16	27.8	50.2	55.9
Deferred revenue		87.7	90.7	88.9
Retirement benefit liability	11	412.4	415.7	450.8
Deferred tax liabilities		4.1	6.0	5.7
Other long-term liabilities		65.4	74.7	74.9
Total liabilities		1,502.2	1,428.3	1,595.4
SHAREHOLDERS' EQUITY				
Capital stock	9	14.9	14.9	14.9
Retained earnings	9	1,281.0	1,208.2	1,270.2
Accumulated other comprehensive loss		(144.8)	(146.7)	(140.2)
Total shareholders' equity		1,151.1	1,076.4	1,144.9
Total liabilities and shareholders' equity		\$ 2,653.3	\$ 2,504.7	\$ 2,740.3

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

SEARS CANADA INC.

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

For the 13 and 39-week periods ended November 2, 2013 and October 27, 2012

Unaudited

<i>(in CAD millions, except per share amounts)</i>	Notes	13-Week Period		39-Week Period	
		2013	2012 (Note 2.4)	2013	2012 (Note 2.4)
Revenue	10	\$ 982.3	\$ 1,049.4	\$ 2,809.5	\$ 3,039.3
Cost of goods and services sold	6, 16	616.9	657.5	1,755.9	1,900.5
Selling, administrative and other expenses	7,11,12,14,16	428.7	422.3	1,163.7	1,230.8
Operating loss		(63.3)	(30.4)	(110.1)	(92.0)
Gain on lease terminations and lease amendments	13	—	2.8	185.7	167.1
Finance costs	8,19	3.0	3.1	8.1	12.2
Interest income	5	0.8	0.5	1.6	3.4
(Loss) earnings before income taxes		(65.5)	(30.2)	69.1	66.3
Income tax (expense) recovery					
Current	19	(0.8)	(1.1)	(8.1)	(12.1)
Deferred	19	17.5	9.4	11.8	7.1
		16.7	8.3	3.7	(5.0)
Net (loss) earnings		\$ (48.8)	\$ (21.9)	\$ 72.8	\$ 61.3
Basic net (loss) earnings per share	18	\$ (0.48)	\$ (0.22)	\$ 0.71	\$ 0.60
Diluted net (loss) earnings per share	18	\$ (0.48)	\$ (0.22)	\$ 0.71	\$ 0.60
Net (loss) earnings		\$ (48.8)	\$ (21.9)	\$ 72.8	\$ 61.3
Other comprehensive income, net of taxes:					
Items that may subsequently be reclassified to net income:					
Mark-to-market adjustment on cash equivalents		—	—	—	—
Gain on foreign exchange derivatives	16	1.2	—	2.3	—
Reclassification to net (loss) earnings of gain on foreign exchange derivatives		(0.4)	—	(0.4)	—
Items that will not be subsequently reclassified to net income:					
Tax rate adjustment on pension remeasurement losses		—	—	—	1.3
Total other comprehensive income		0.8	—	1.9	1.3
Comprehensive (loss) income		\$ (48.0)	\$ (21.9)	\$ 74.7	\$ 62.6

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

SEARS CANADA INC.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the 13 and 39-week periods ended November 2, 2013 and October 27, 2012

Unaudited

				<u>Accumulated other comprehensive (loss) income</u>			
<i>(in CAD millions)</i>	Notes	Capital stock	Retained earnings	<i>Foreign exchange derivatives designated as cash flow hedges</i>	<i>Remeasurement loss</i>	Total accumulated other comprehensive (loss) income	Shareholders' equity
Balance as at August 3, 2013		\$ 14.9	\$ 1,329.8	\$ 1.1	\$ (146.7)	\$ (145.6)	\$ 1,199.1
Net loss			(48.8)	—	—	—	(48.8)
<i>Other comprehensive income (loss)</i>							
Gain on foreign exchange derivatives, net of income tax expense of \$0.4	16			1.2	—	1.2	1.2
Reclassification of gain on foreign exchange derivatives, net of income tax expense of \$0.1				(0.4)	—	(0.4)	(0.4)
<i>Total other comprehensive income</i>		—	—	0.8	—	0.8	0.8
<i>Total comprehensive (loss) income</i>		—	(48.8)	0.8	—	0.8	(48.0)
Balance as at November 2, 2013		\$ 14.9	\$ 1,281.0	\$ 1.9	\$ (146.7)	\$ (144.8)	\$ 1,151.1
Balance as at July 28, 2012		\$ 14.9	\$ 1,292.1	\$ 0.2	\$ (140.4)	\$ (140.2)	\$ 1,166.8
Net loss			(21.9)	—	—	—	(21.9)
<i>Total comprehensive loss</i>		—	(21.9)	—	—	—	\$ (21.9)
Balance as at October 27, 2012		\$ 14.9	\$ 1,270.2	\$ 0.2	\$ (140.4)	\$ (140.2)	\$ 1,144.9
Balance as at February 2, 2013		\$ 14.9	\$ 1,208.2	\$ —	\$ (146.7)	\$ (146.7)	\$ 1,076.4
Net earnings			72.8	—	—	—	72.8
<i>Other comprehensive income (loss)</i>							
Gain on foreign exchange derivatives, net of income tax expense of \$0.8	16			2.3	—	2.3	2.3
Reclassification of gain on foreign exchange derivatives, net of income tax expense of \$0.1				(0.4)	—	(0.4)	(0.4)
<i>Total other comprehensive income</i>		—	—	1.9	—	1.9	1.9
<i>Total comprehensive income</i>		—	72.8	1.9	—	1.9	74.7
Balance as at November 2, 2013		\$ 14.9	\$ 1,281.0	\$ 1.9	\$ (146.7)	\$ (144.8)	\$ 1,151.1
Balance as at January 28, 2012		\$ 15.0	\$ 1,218.5	\$ 0.2	\$ (141.7)	\$ (141.5)	\$ 1,092.0
Net earnings			61.3	—	—	—	61.3
<i>Other comprehensive income</i>							
Tax rate adjustment on pension remeasurement losses				—	1.3	1.3	1.3
<i>Total other comprehensive income</i>		—	—	—	1.3	1.3	1.3
<i>Total comprehensive income</i>		—	61.3	—	1.3	1.3	62.6
Repurchases of common shares	9	(0.1)	(9.6)	—	—	—	(9.7)
Balance as at October 27, 2012		\$ 14.9	\$ 1,270.2	\$ 0.2	\$ (140.4)	\$ (140.2)	\$ 1,144.9

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

SEARS CANADA INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the 13 and 39-week periods ended November 2, 2013 and October 27, 2012

Unaudited

<i>(in CAD millions)</i>	Notes	13-Week Period		39-Week Period	
		2013	2012 (Note 2.4)	2013	2012 (Note 2.4)
Cash flow used for operating activities					
Net (loss) earnings		\$ (48.8)	\$ (21.9)	\$ 72.8	\$ 61.3
Adjustments for:					
Depreciation and amortization expense	12	27.6	31.7	87.8	96.0
Gain on disposal of property, plant and equipment		(0.1)	1.2	(1.6)	0.9
Impairment losses (reversals)	7, 14	22.6	—	22.6	(2.1)
Gain on lease terminations and lease amendments	13	—	(2.8)	(185.7)	(167.1)
Finance costs	8, 19	3.0	3.1	8.1	12.2
Interest income	5	(0.8)	(0.5)	(1.6)	(3.4)
Retirement benefit plans expense	11	6.8	8.0	20.6	23.8
Short-term disability expense	11	1.5	1.6	5.8	5.9
Income tax (recovery) expense	19	(16.7)	(8.3)	(3.7)	5.0
Interest received	5	0.6	0.5	1.7	1.6
Interest paid	8	(1.8)	(1.7)	(4.8)	(5.1)
Retirement benefit plans contributions	11	(10.6)	(11.1)	(30.0)	(31.1)
Income tax (payments) refunds	19	(2.9)	(3.5)	(11.8)	0.7
Other income tax deposits	19	(9.1)	(15.2)	(15.2)	(15.2)
Changes in non-cash working capital	21	(39.7)	(67.5)	(112.5)	(188.4)
Changes in long-term assets and liabilities	22	3.9	(2.4)	(4.8)	29.6
		(64.5)	(88.8)	(152.3)	(175.4)
Cash flow (used for) generated from investing activities					
Purchases of property, plant and equipment and intangible assets		(13.4)	(20.7)	(31.5)	(55.6)
Proceeds from sale of property, plant and equipment		0.1	0.9	1.5	1.8
Proceeds from lease terminations and lease amendments	13	—	5.0	190.5	175.0
Proceeds from sale of Cantrex operations	15	—	—	—	3.5
		(13.3)	(14.8)	160.5	124.7
Cash flow used for financing activities					
Interest paid on finance lease obligations	8	(0.6)	(0.8)	(1.9)	(1.7)
Repayment of long-term obligations		(3.9)	(3.6)	(10.8)	(142.3)
Proceeds from long-term obligations		1.4	1.3	3.7	34.3
Repurchases of common shares	9	—	—	—	(9.7)
		(3.1)	(3.1)	(9.0)	(119.4)
Effect of exchange rate on cash and cash equivalents at end of period					
		—	0.2	0.5	—
Decrease in cash and cash equivalents		(80.9)	(106.5)	(0.3)	(170.1)
Cash and cash equivalents at beginning of period		\$ 319.1	\$ 336.6	\$ 238.5	\$ 400.2
Cash and cash equivalents at end of period		\$ 238.2	\$ 230.1	\$ 238.2	\$ 230.1

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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. General information

Sears Canada Inc. is incorporated in Canada. The address of its registered office and principal place of business is 290 Yonge Street, Suite 700, Toronto, Ontario, Canada M5B 2C3. The principal activities of Sears Canada Inc. and its subsidiaries (the "Company") include the sale of goods and services through the Company's Retail channel, which includes its Full-line, Sears Home, Hometown Dealer, Outlet, Appliances and Mattresses, Corbeil Electric Inc. stores, and its Direct (catalogue/internet) channel. It also includes service revenue related to product repair and logistics. Commission revenue includes travel, home improvement services, insurance, and performance payments received from JPMorgan Chase Bank, N.A. (Toronto Branch) ("JPMorgan Chase") under the Company's long-term credit card marketing and servicing alliance with JPMorgan Chase. The Company has entered into a multi-year licensing arrangement with Thomas Cook Canada Inc. ("Thomas Cook"), under which Thomas Cook manages the day-to-day operations of all Sears Travel offices and provides commissions to the Company. The Company has also entered into a multi-year licensing arrangement with SHS Services Management Inc. ("SHS"), under which SHS oversees the day-to-day operations of all Sears Home Installed Products and Services business ("HIPS"). Licensee fee revenues are comprised of payments received from licensees, including Thomas Cook and SHS, that operate within the Company's stores. The Company is a party to a number of real estate joint arrangements which have been classified as joint operations and accounted for by recognizing the Company's share of the joint arrangements' assets, liabilities, revenues and expenses for financial reporting purposes (see Note 14).

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

2. Significant accounting policies

2.1 Statement of compliance

The unaudited condensed consolidated financial statements of the Company for the 13 and 39-week periods ended November 2, 2013 (the "Financial Statements") have been prepared in accordance with IAS 34, *Interim Financial Reporting* ("IAS 34") issued by the International Accounting Standards Board ("IASB"), and therefore, do not contain all disclosures required by International Financial Reporting Standards ("IFRS") for annual financial statements. Accordingly, these Financial Statements should be read in conjunction with the Company's most recently prepared annual consolidated financial statements for the 53-week period ended February 2, 2013 (the "2012 Annual Consolidated Financial Statements"), prepared in accordance with IFRS.

2.2 Basis of preparation and presentation

The principal accounting policies of the Company have been applied consistently in the preparation of these Financial Statements for all periods presented. These Financial Statements follow the same accounting policies and methods of application as those used in the preparation of the 2012 Annual Consolidated Financial Statements, except as noted below. The Company's significant accounting policies are described in Note 2 of the 2012 Annual Consolidated Financial Statements.

The Company adopted the following new standards and amendments which became effective "in" or "for" the 39-week period ended November 2, 2013:

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

The IASB has amended IAS 1 to require additional disclosures for items presented in Other Comprehensive Income ("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. As a result of the adoption of the IAS 1 amendment, the Company modified its presentation of OCI in these Financial Statements;

- *IAS 28, Investments in Associates and Joint Ventures ("IAS 28")*

IAS 28 (as amended in 2011) supersedes IAS 28 (2003), *Investments in Associates* and outlines how to apply, with certain limited exceptions, the equity method to investments in associates and joint ventures. The standard also defines an associate by reference to the concept of "significant influence", which requires power to participate in financial and operating policy decisions of an investee (but not joint control or control of those policies). Based on the Company's assessment of this amendment, there is no impact on its Financial Statements;

- *IFRS 7, Financial Instruments: Disclosures (“IFRS 7”)*

The IASB has amended IFRS 7. The amendment 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 and must be applied retrospectively. The Company is currently assessing the impact of these amendments on the Company’s annual consolidated financial statements and related note disclosures;

- *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. Based on the Company’s assessment of this amendment, there is no impact on its Financial Statements;

- *IFRS 11, Joint Arrangements (“IFRS 11”)*

IFRS 11, along with IFRS 12 described below, 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. The adoption of this standard has impacted the Company as described in Note 2.4;

- *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 arrangements and the impact of those interests on its financial position, financial performance and cash flows. These amendments are effective for annual periods beginning on or after January 1, 2013 and must be applied retrospectively. The adoption of these amendments did not have an impact on the Financial Statements. The Company is currently assessing the impact of these amendments on the Company’s annual consolidated financial statements and related note disclosures; 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. Disclosures required under IFRS 13 for Financial Statements have been included in Note 16.5.

2.2.1 Basis of consolidation

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

The fiscal year of the Company consists of a 52 or 53-week period ending on the Saturday closest to January 31. The 13 and 39-week periods presented in these Financial Statements are for the periods ended November 2, 2013 and October 27, 2012.

These Financial Statements are presented in Canadian dollars, which is the Company’s functional currency. The Company is comprised of two reportable segments, Merchandising and Real Estate Joint Arrangements (see Note 20).

2.3 Seasonality

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

2.4 Changes in accounting policy

IFRS 11, Joint Arrangements

The Company adopted IFRS 11 in the 13-week period ended May 4, 2013 (“Q1 2013”). On May 12, 2011 the IASB issued IFRS 11 and required 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. The Company has real estate joint arrangements related to 11 shopping centers, for which decisions regarding relevant activities require unanimous consent of the parties sharing control. In the event of a dispute between the parties sharing control of the joint arrangements, settlement occurs through unbiased arbitration, legal action, or a sale of the party’s interest in the joint arrangement to the other party. The Company examined the legal structure, contractual arrangements and other relevant facts and circumstances of each joint arrangement, and the Company determined that it had rights to the assets and obligations to the liabilities of each joint arrangement. Therefore, the Company has determined that its real estate joint arrangements are joint operations and have been recognized in accordance with the Company’s interest in the assets and liabilities of these arrangements.

IFRS 11 is 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*.

As the Company implemented IFRS 11 in Q1 2013, the Company has retrospectively adjusted the assets and liabilities as at February 2, 2013 and January 28, 2012 and the income, expenses and cash flows for the 53-week period ended February 2, 2013.

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 February 2, 2013	As at October 27, 2012	As at January 28, 2012
Cash and cash equivalents	\$ 1.5	\$ 3.3	\$ 2.8
Accounts receivable, net	1.5	1.0	1.4
Prepaid expenses	(1.5)	0.1	—
Net change to current assets	1.5	4.4	4.2
Property, plant and equipment	278.5	316.1	324.1
Investment in joint arrangements	(263.4)	(294.6)	(301.4)
Other long-term assets	9.0	9.7	9.8
Net change to total assets	25.6	35.6	36.7
Accounts payable and accrued liabilities	1.7	6.0	4.0
Deferred revenue	0.3	0.2	—
Other taxes payable	0.1	0.1	0.1
Current portion of long term obligations	4.0	4.4	4.1
Net change to current liabilities	6.1	10.7	8.2
Long-term obligations	19.3	23.8	27.2
Deferred tax liabilities	0.2	0.2	0.3
Other long-term liabilities	—	0.9	1.0
Net change to total liabilities	25.6	35.6	36.7

Consolidated Statements of Net (Loss) Earnings

<i>(Increase (decrease) in CAD millions)</i>	13-Week Period Ended October 27, 2012	39-Week Period Ended October 27, 2012	53-Week Period Ended February 2, 2013
Revenue	\$ 11.9	\$ 36.6	\$ 45.8
Selling, administrative and other expenses	8.5	26.0	34.7
Finance costs	0.4	1.3	1.8
Interest income	—	0.1	0.2
Share of income from joint arrangements	(3.0)	(9.4)	(9.5)

Consolidated Statements of Cash Flows

<i>(Increase (decrease) in cash flow arising from items noted below in CAD millions)</i>	13-Week Period Ended October 27, 2012	39-Week Period Ended October 27, 2012	53-Week Period Ended February 2, 2013
Depreciation and amortization	\$ 3.5	\$ 10.8	\$ 13.2
Impairment loss	—	—	2.2
Share of income from joint arrangements	3.0	9.4	9.5
Finance costs	0.4	1.3	1.8
Interest income	—	(0.1)	(0.2)
Interest paid	(0.4)	(1.3)	(1.8)
Changes in non-cash working capital	0.4	2.0	0.7
Changes in long-term assets and liabilities	0.8	1.4	(1.2)
Additions of property, plant & equipment and intangible assets	(0.6)	(3.2)	(4.1)
Repayment on long-term obligations	(1.1)	(3.0)	(4.0)
Dividends received from joint arrangements	(5.8)	(16.8)	(18.4)

As a result of the adoption of IFRS 11 in Q1 2013, the Company has two reportable segments: Merchandising and Real Estate Joint Arrangement operations. Refer to Note 20 for segmented information disclosure.

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 two 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 9, Financial Instruments (“IFRS 9”)

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

4. Critical accounting judgments and key sources of estimation uncertainty

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

Critical judgments that management has made in the process of applying the Company's accounting policies, key assumptions concerning the future and other key sources of estimation uncertainty that have the potential to materially impact the carrying amounts of assets and liabilities within the next financial year are described in Note 4 of the 2012 Annual Consolidated Financial Statements and are consistent with those used in the preparation of these Financial Statements.

5. Cash and cash equivalents and interest income

Cash and cash equivalents

The components of cash and cash equivalents were as follows:

<i>(in CAD millions)</i>	As at November 2, 2013	As at February 2, 2013 (Note 2.4)	As at October 27, 2012 (Note 2.4)
Cash	\$ 144.6	\$ 49.1	\$ 60.0
Cash equivalents			
Government treasury bills	—	159.9	119.9
Bank term deposits	75.0	—	19.0
Investment accounts	10.3	20.5	20.4
Restricted cash and cash equivalents	8.3	9.0	10.8
Total cash and cash equivalents	\$ 238.2	\$ 238.5	\$ 230.1

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

Interest income

Interest income related primarily to cash and cash equivalents for the 13 and 39-week period ended November 2, 2013 totaled \$0.8 million and \$1.6 million (2012: \$0.5 million and \$3.4 million), respectively. For the same 13 and 39-week periods, the Company received \$0.6 million and \$1.7 million (2012: \$0.5 million and \$1.6 million), respectively, in cash related to interest income.

6. Inventories

The amount of inventory recognized as an expense during the 13 and 39-week period ended November 2, 2013 was \$565.4 million (2012: \$605.1 million) and \$1,604.9 million (2012: \$1,747.9 million), respectively, which includes \$16.7 million (2012: \$24.9 million) and \$60.2 million (2012: \$67.3 million) of inventory write-downs. These expenses are included in "Cost of goods and services sold" in the unaudited Condensed Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income. Reversals of prior period inventory write-downs for the 13 and 39-week period ended November 2, 2013 were \$1.0 million (2012: nil) and \$4.9 million (2012: nil), respectively.

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

7. Goodwill

Goodwill has been allocated for impairment testing purposes to the HIPS cash generating unit ("CGU"). 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 during the quarter.

The recoverable amount of this HIPS 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 free cash flows over a 10 year period. Cost to sell was estimated to be 2% of the fair value of the business, which reflects management's best estimate of the potential costs associated with divesting of the

business. A pre-tax discount rate of 40% per annum was used, based on management's best estimate of the Company's weighted average cost of capital adjusted for the risks facing the HIPS CGU. The cash flow projection was based on 2013 actual year-to-date and forecast revenue and minimum commission guarantees over a 10 year period as stated in the agreement with SHS, and 2013 actual year-to-date and forecast operating expenses and 2014 forecasted operating expenses and overhead allocations with a 3% inflation factor for future years. The recoverable amount was determined to be less than the carrying value including the goodwill of \$6.1 million allocated to the HIPS CGU in the 13 and 39-week period ended November 2, 2013, resulting in a goodwill impairment of \$6.1 million (2012: Nil). Impairment losses are included in "Selling, administrative and other expenses" in the Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income. This impairment loss is attributable to experienced and potential revenue declines in the HIPS business (see Note 16.5).

8. Long-term obligations and finance costs

Long-term obligations

Total outstanding long-term obligations were as follows:

<i>(in CAD millions)</i>	As at November 2, 2013	As at February 2, 2013 (Note 2.4)	As at October 27, 2012 (Note 2.4)
Real estate joint arrangement obligations - Current ¹	\$ 3.0	\$ 4.0	\$ 4.4
Finance lease obligations - Current	4.9	5.2	5.3
Total current portion of long-term obligations	\$ 7.9	\$ 9.2	\$ 9.7
Real estate joint arrangement obligations - Non-current ¹	\$ —	\$ 19.3	\$ 23.8
Finance lease obligations - Non-current	27.8	30.9	32.1
Total non-current long-term obligations	\$ 27.8	\$ 50.2	\$ 55.9

¹ This balance does not include the Westcliff Group of Companies ("Westcliff") real estate joint arrangement obligations. The Westcliff real estate joint arrangement obligations are classified as liabilities held for sale and disclosed in Note 14.

The Company's debt consists of a secured credit facility, finance lease obligations and the Company's share of its real estate joint arrangements obligations. In September 2010, the Company entered into an \$800.0 million senior secured revolving credit facility with a syndicate of lenders with a maturity date of September 10, 2015 (the "Credit Facility"). The Credit Facility is secured with a first lien on inventory and credit card receivables. Availability under the Credit Facility is determined pursuant to a borrowing base formula. Availability under the Credit Facility was \$759.8 million as at November 2, 2013 (February 2, 2013: \$501.5 million, October 27, 2012: \$732.5 million). The current availability may be reduced by reserves currently estimated by the Company to be approximately \$262.0 million, which may be applied by the lenders at their discretion pursuant to the Credit Facility agreement. As a result of judicial developments relating to the priorities of pension liability relative to certain secured obligations, the Company has executed an amendment to its Credit Facility agreement which would provide additional security to the lenders by pledging certain real estate assets as collateral, thereby partially reducing the potential reserve amount the lenders could apply by up to \$150.0 million. The additional reserve amount may increase or decrease in the future based on changes in estimated net pension deficits in the event of a wind-up, and based on the amounts, if any, of real estate assets pledged as additional collateral.

The Credit Facility contains covenants which are customary for facilities of this nature and the Company was in compliance with all covenants as at November 2, 2013.

As at November 2, 2013, the Company had no borrowings on the Credit Facility and had unamortized transaction costs incurred to establish the Credit Facility of \$4.8 million included in "Other long-term assets" in the unaudited Condensed Consolidated Statements of Financial Position (February 2, 2013: no borrowings and unamortized transaction costs of \$6.2 million included in "Other long-term assets", October 27, 2012: no borrowings and unamortized transaction costs of \$6.7 million included in "Other long-term assets"). In addition, the Company had \$24.2 million (February 2, 2013: \$19.7 million, October 27, 2012: \$15.1 million) of standby letters of credit outstanding against the Credit Facility. These letters of credit cover various payments including vendor payments, utility commitments and defined benefit plan deficit funding. Interest on drawings under the Credit Facility is determined based on bankers' acceptance rates for one to three month terms or the prime rate plus a spread. Interest amounts on the Credit Facility are due monthly and are added to principal amounts outstanding.

As at November 2, 2013, the Company had outstanding merchandise letters of credit of U.S. \$6.7 million (February 2, 2013: U.S. \$7.9 million, October 27, 2012: U.S. \$9.8 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 the Company's share of interest on long-term obligations of its real estate joint arrangements, finance lease obligations, the current portion of long-term obligations, amortization of transaction costs and commitment fees on the unused portion of the Credit Facility for the 13 and 39-week period ended November 2, 2013 totaled \$2.9 million (2012: \$3.0 million) and \$8.3 million (2012: \$8.4 million), respectively. Interest expense is included in "Finance costs" in the unaudited Condensed Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income. Also included in "Finance costs" for the 13 and 39-week period ended November 2, 2013 was an expense of \$0.1 million and a recovery of \$0.2 million (2012: expense of \$0.1 million and \$3.8 million), respectively, for interest on accruals for uncertain tax positions.

The Company's cash payments for interest on long-term obligations, including the Company's share of interest on long-term obligations of its real estate joint arrangements, finance lease obligations, the current portion of long-term obligations and commitment fees on the unused portion of the Credit Facility for the 13 and 39-week period ended November 2, 2013 totaled \$2.4 million (2012: \$2.5 million) and \$6.7 million (2012: \$6.8 million), respectively.

9. Capital stock

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

There were no share purchases during the 13 and 39-week period ended November 2, 2013 (2012: nil shares and 870,633 shares were purchased for nil and \$9.7 million, respectively, as part of a normal course issuer bid in place for the period of May 25, 2011 to May 24, 2012, and cancelled). The impact of the share repurchases in the 13 and 39-week period ended October 27, 2012 was a decrease to "Capital stock" of nil and \$0.1 million, respectively, and a decrease to "Retained earnings" of nil and \$9.6 million in the unaudited Condensed Consolidated Statements of Financial Position, respectively.

During the fourth quarter of the 53-week period ended February 2, 2013, the Company distributed \$101.9 million to holders of common shares as an extraordinary cash dividend. Payment in the amount of \$1.00 per common share was made on December 31, 2012 to shareholders of record as at the close of business on December 24, 2012.

In 2012, Sears Holdings distributed on a pro rata basis to its shareholders, a portion of its holdings in the Company such that, immediately following the distribution, Sears Holdings retained approximately 51% of the issued and outstanding shares of the Company. The distribution was made on November 13, 2012 to Sears Holdings' shareholders of record as of the close of business on November 1, 2012, the record date for the distribution. Every share of Sears Holdings common stock held as of the close of business on the record date entitled the holder to a distribution of 0.4283 of the Company's common shares. In connection with the distribution, the Company filed documents with the United States Securities and Exchange Commission.

ESL Investments, Inc., and investment affiliates including Edward S. Lampert, collectively "ESL", together form the ultimate controlling party of the Company. ESL is the beneficial holder of 28,158,368 or 27.6%, of the common shares of the Company as at November 2, 2013 (February 2, 2013: 28,158,368 or 27.6%, October 27, 2012: nil). Sears Holdings, the controlling shareholder of the Company, is the beneficial holder of 51,962,391 or 51.0%, of the common shares of the Company as at November 2, 2013 (February 2, 2013: 51,962,391 or 51.0%, October 27, 2012: 97,341,670 or 95.5%). The issued and outstanding shares are fully paid and have no par value.

The authorized common share capital of the Company consists of an unlimited number of common shares without nominal or par value and an unlimited number of class 1 preferred shares, issuable in one or more series (the "Class 1 Preferred Shares"). As at November 2, 2013, the only shares outstanding were common shares of the Company.

10. Revenue

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

<i>(in CAD millions)</i>	13-Week Period Ended November 2, 2013	13-Week Period Ended October 27, 2012 (Note 2.4)	39-Week Period Ended November 2, 2013	39-Week Period Ended October 27, 2012 (Note 2.4)
Apparel and Accessories	\$ 344.0	\$ 339.8	\$ 952.0	\$ 959.8
Home and Hardlines	242.0	258.8	705.2	779.1
Major Appliances	214.0	224.8	618.6	639.6
Other merchandise revenue	63.0	101.7	176.6	283.6
Services and other	87.0	90.2	259.1	277.2
Commission and licensee revenue	32.3	34.1	98.0	100.0
	\$ 982.3	\$ 1,049.4	\$ 2,809.5	\$ 3,039.3

11. Retirement benefit plans

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

The expense for the defined benefit, defined contribution and other benefit plans for the 13-week period ended November 2, 2013 was \$2.0 million (2012: \$2.5 million), \$2.1 million (2012: \$2.5 million) and \$2.7 million (2012: \$3.0 million), respectively. The expense for the defined benefit, defined contribution and other benefit plans for the 39-week period ended November 2, 2013 was \$6.0 million (2012: \$7.5 million), \$6.4 million (2012: \$7.2 million), \$8.2 million (2012: \$9.1 million), respectively. Not included in total retirement benefit plans expense for the 13 and 39-week period are short-term disability expenses of \$1.5 million and \$5.8 million (2012: \$1.6 million and \$5.9 million), respectively, that were paid from the other benefit plan. These expenses are included in "Selling, administrative and other expenses" in the unaudited Condensed Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income.

Total cash contributions by the Company to its defined benefit, defined contribution and other benefit plans for the 13 and 39-week period ended November 2, 2013 were \$10.6 million and \$30.0 million (2012: \$11.1 million and \$31.1 million), respectively.

In the fourth quarter of 2012, the Company made a voluntary offer to settle health and dental benefits of eligible members covered under the non-pension post-retirement plan. Based on the accepted offers, the Company paid \$18.1 million and recorded a pre-tax settlement gain of \$21.1 million (\$21.9 million, net of \$0.8 million of expenses). Refer to the 2012 Annual Consolidated Financial Statements for more details.

12. Depreciation and amortization expense

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

<i>(in CAD millions)</i>	13-Week Period Ended November 2, 2013	13-Week Period Ended October 27, 2012 (Note 2.4)	39-Week Period Ended November 2, 2013	39-Week Period Ended October 27, 2012 (Note 2.4)
Depreciation of property, plant and equipment	\$ 24.9	\$ 29.2	\$ 79.8	\$ 88.8
Amortization of intangible assets	2.7	2.5	8.0	7.2
Total depreciation and amortization expense	\$ 27.6	\$ 31.7	\$ 87.8	\$ 96.0

13. Gain on lease terminations and lease amendments

On June 14, 2013, the Company announced its intention to enter into a series of transactions related to its leases on two properties: Yorkdale Shopping Centre (Toronto) and Square One Shopping Centre (Mississauga). The landlords approached the Company with a proposal to enter into a series of lease amendments for a total consideration of \$191.0 million, being the amount the landlords were willing to pay for the right to require the Company to vacate the two locations.

On June 24, 2013, the Company received proceeds of \$191.0 million upon closing of the transaction which gave the landlords the right to require the Company to vacate the two locations by March 31, 2014. The landlords exercised such right on July 25, 2013. The transaction resulted in a pre-tax gain of \$185.7 million, net of the de-recognition of leasehold improvements of \$5.1 million.

The Company also granted the owners of the Scarborough Town Centre (Toronto) property an option to enter into certain lease amendments in exchange for \$1.0 million, which was paid on June 24, 2013. The option may be exercised at any time up to and including June 20, 2018, and would require the Company to complete such lease amendments in exchange for \$53.0 million. Such lease amendments would allow the owners to require the Company to close its store.

On March 2, 2012, the Company entered into an agreement to surrender and terminate early the operating leases on three properties: Vancouver Pacific Centre, Chinook Centre (Calgary) and Rideau Centre (Ottawa). The Company was a long-term and important anchor tenant in the three properties, and the landlord approached the Company with a proposal to terminate early the three leases and vacate the premises in exchange for \$170.0 million. The payment represented the amount the landlord was willing to pay for the right to redevelop the property based upon their analysis of the potential returns from redevelopment.

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, net of the de-recognition of leasehold improvements of \$5.7 million. The Company exited all three properties on October 31, 2012 and has no further financial obligation related to the transaction.

On June 20, 2012, the Company entered an agreement to surrender and terminate early the operating lease on its Deerfoot (Calgary) property. The landlord approached the Company with a proposal to terminate early the lease in exchange for cash proceeds of \$5.0 million, subject to certain closing conditions, on the closing date of October 26, 2012. In Fiscal 2010, the Company incurred an impairment loss of \$2.9 million relating to the property, plant and equipment at its Deerfoot property. As a result of the agreement and expected proceeds, the Company recorded an impairment loss reversal (net of accumulated amortization) of \$2.1 million in "Selling, administrative and other expenses". On the closing date of October 26, 2012, the Company vacated the property and received cash proceeds of \$5.0 million, resulting in a pre-tax gain of \$2.8 million, net of the de-recognition of leasehold improvements and furniture and fixtures of \$2.2 million. The Company has no further financial obligation related to the transaction.

14. Assets and liabilities classified as held for sale

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

On November 11, 2013, the Company announced that it had reached a definitive agreement with Montez Income Properties Corporation ("Montez") to sell its 50% joint arrangement interest in the eight properties it owned with Westcliff for cash consideration of approximately \$315.0 million. The joint arrangement interest had a net carrying value of approximately \$229.8 million as at November 2, 2013 (total assets of \$251.0 million less total liabilities of \$21.2 million). The agreement is subject to customary closing conditions including, site investigations and financing as well as a possible upward adjustment in final proceeds following completion of vendor due diligence. The transaction is scheduled to close on January 8, 2014, and the ultimate amount and timing of gain recognition will be determined during the fourth quarter of the 52-week period ended February 1, 2014. Following the sale, the Company will continue to operate its stores as a lessee of Montez and Westcliff. As at November 2, 2013, the assets of RLC and the assets and liabilities of the eight properties the Company owned with Westcliff were separately classified as held for sale on the Company's unaudited Condensed Consolidated Statements of Financial Position. The major classes of assets and liabilities classified as held for sale were as follows:

<i>(in CAD millions)</i>		RLC		Westcliff		Total
Accounts receivable, net	\$	—	\$	0.2	\$	0.2
Income tax recoverable		—		0.1		0.1
Prepaid expenses		—		1.5		1.5
<i>Current assets classified as held for sale</i>		—		1.8		1.8
Property, plant and equipment		10.9		237.8		248.7
Investment property		2.4		—		2.4
Other long-term assets		—		6.1		6.1
<i>Non-current assets classified as held for sale</i>		13.3		243.9		257.2
Assets classified as held for sale	\$	13.3	\$	245.7	\$	259.0
Accounts payable and accrued liabilities	\$	—	\$	2.5	\$	2.5
Deferred revenue		—		0.1		0.1
Other taxes payable		—		0.4		0.4
Current portion of long-term obligations		—		4.0		4.0
<i>Current liabilities classified as held for sale</i>		—		7.0		7.0
Long-term obligations		—		13.3		13.3
Deferred tax liabilities		—		0.9		0.9
<i>Non-current liabilities classified as held for sale</i>		—		14.2		14.2
Liabilities classified as held for sale	\$	—	\$	21.2	\$	21.2

The carrying value of property, plant and equipment and investment property of the RLC held for sale was higher than the estimated fair value less costs to sell and, as a result, the Company recognized an impairment loss of \$16.5 million. The Company determined fair value by engaging an independent qualified third party appraiser to conduct an appraisal of its RLC land and building properties. The valuation method used to determine fair value was the direct sales comparison approach. Impairment losses are included in “Selling, administrative and other expenses” in the unaudited Condensed Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income.

The operations of the RLC and Westcliff properties are not presented as discontinued operations on the unaudited Condensed Consolidated Statement of Net (Loss) Earnings and Comprehensive (Loss) Income as they do not represent a separate geographical area of operations or a separate major line of business.

15. Sale of Cantrex Group Inc. (“Cantrex”)

On April 24, 2012, the Company entered into an agreement to sell the operations of its subsidiary, Cantrex, to Nationwide Marketing Group, LLC for \$3.5 million, equal to the net carrying amount of specified Cantrex assets and liabilities. On April 29, 2012, the Company received the proceeds on the sale, de-recognized the assets and liabilities sold and recorded a gain on sale of nil.

16. Financial instruments

In the ordinary course of business, the Company enters into financial agreements with banks and other financial institutions to reduce underlying risks associated with interest rates 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.

16.1 Credit risk

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

Cash and cash equivalents, accounts receivable, derivative instruments and investments included in other long-term assets totaling \$315.6 million as at November 2, 2013 (February 2, 2013: \$317.7 million, October 27, 2012: \$326.7 million) expose the Company to credit risk should the borrower default on maturity of the investment. The Company manages this exposure through policies that require borrowers to have a minimum credit rating of A, and limiting investments with individual borrowers at maximum levels based on credit rating.

The Company is exposed to minimal credit risk from customers as a result of ongoing credit evaluations and review of accounts receivable collectability. As at November 2, 2013, one customer represented 12.3% of the Company's accounts receivable (February 2, 2013: no customer represented greater than 10.0% of the Company's accounts receivable, October 27, 2012: one customer represented 18.9% of the Company's accounts receivable).

16.2 Liquidity risk

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

The following table summarizes the carrying amount and the contractual maturities of both the interest and principal portion of significant financial liabilities as at November 2, 2013:

(in CAD millions)	Carrying Amount	Contractual Cash Flow Maturities				
		Total	Within 1 year	1 year to 3 years	3 years to 5 years	Beyond 5 years
Accounts payable and accrued liabilities	\$ 593.4	\$ 593.4	\$ 593.4	\$ —	\$ —	\$ —
Finance lease obligations including payments due within one year ¹	32.7	43.3	7.1	10.4	10.0	15.8
Real estate joint arrangement obligations including payments due within one year ²	20.3	24.1	9.2	9.5	3.4	2.0
Operating lease obligations ³	n/a	495.1	97.7	160.9	110.3	126.2
Royalties ³	n/a	1.0	0.5	0.5	—	—
Purchase agreements ^{3,5}	n/a	18.0	7.5	10.5	—	—
Retirement benefit plans obligations ⁴	412.4	94.0	30.4	58.7	4.9	—
	\$ 1,058.8	\$ 1,268.9	\$ 745.8	\$ 250.5	\$ 128.6	\$ 144.0

¹ Cash flow maturities related to finance lease obligations, including payments due within one year, include annual interest on finance lease obligations at a weighted average rate of 7.6%. The Company had no borrowings on the Credit Facility at November 2, 2013.

² Cash flow maturities related to real estate joint arrangement obligations, including payments due within one year, include annual interest on mortgage obligations at a weighted average rate of 7.9%.

³ Purchase agreements, operating lease obligations, and royalties are not reported in the unaudited Condensed Consolidated Statements of Financial Position.

⁴ 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.

⁵ Certain vendors require minimum purchase commitment levels over the term of the contract.

Of the \$495.1 million of operating lease commitments disclosed in the table above, \$6.6 million relates to the Company's share of the commitments of its real estate joint arrangements, of which \$2.0 million relates to Westcliff (see Note 14).

Management believes that cash on hand, future cash flow generated from operations and availability of current and future funding will be adequate to support these financial liabilities. As at November 2, 2013, the Company does not have any significant capital expenditure commitments.

Market risk

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

16.3 Foreign exchange risk

The Company enters into foreign exchange contracts to reduce the foreign exchange risk with respect to U.S. dollar denominated assets and liabilities and purchases of goods or services. As at November 2, 2013, there were forward contracts outstanding with a notional value of US \$195 million (February 2, 2013: nil, October 27, 2012: nil) and a fair value of \$2.4 million included in “Derivative financial assets” (February 2, 2013: nil, October 27, 2012: nil) in the unaudited Condensed Consolidated Statements of Financial Position. These derivative contracts have settlement dates extending to July 2014. The intrinsic value portion of these derivatives has been designated as a cash flow hedge for hedge accounting treatment under IAS 39, *Financial Instruments: Recognition and Measurement*. These contracts are intended to reduce the foreign exchange risk with respect to anticipated purchases of U.S. dollar denominated goods and services, including goods purchased for resale (“hedged item”). As at November 2, 2013, the designated portion of these hedges was considered effective.

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

During the 13 and 39-week periods ended November 2, 2013, the Company recorded a loss of \$0.5 million and a loss of \$3.6 million (2012: gain of \$0.3 million and loss of \$0.7 million), respectively, in “Selling, administrative and other expenses”, relating to the translation or settlement of U.S. dollar denominated monetary items consisting of cash and cash equivalents, accounts receivable and accounts payable.

The period end exchange rate was 0.9590 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 \$7.3 million for U.S. dollar denominated balances included in cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities.

16.4 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 November 2, 2013, 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 November 2, 2013 was a net asset of \$239.5 million (February 2, 2013: net asset of \$239.8 million, October 27, 2012: net asset of \$231.4 million). An increase or decrease in interest rates of 0.25% would cause an immaterial after-tax impact on net (loss) earnings.

16.5 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 November 2, 2013	As at February 2, 2013	As at October 27, 2012
Available for sale					
Cash equivalents	Cash and cash equivalents ¹	Level 1	—	159.9	119.9
Cash equivalents	Cash and cash equivalents ¹	Level 2	10.3	20.5	20.4
Fair value through profit or loss					
Long-term investments	Other long-term assets	Level 1	—	0.2	0.2
U.S. \$ derivative contracts	Derivative financial assets	Level 2	2.4	—	—
Long-term investments	Other long-term assets	Level 3	1.3	1.3	1.3

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

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

Effective March 3, 2013, the Company finalized an exclusive, multi-year licensing arrangement with SHS, which resulted in SHS overseeing the day-to-day operations of HIPS. The Company provided SHS an interest-bearing loan which allowed SHS to pay the final purchase price of \$5.3 million over 6 years. SHS repaid this loan on September 30, 2013, and shortly afterwards, issued the Company an interest-bearing promissory note for \$2.0 million repayable by July 16, 2015. The promissory note asset is included in “Other long-term assets” in the unaudited Condensed Consolidated Statements of Financial Position. As part of the transaction, SHS granted the Company a call option which, if exercised would require SHS to sell the Company a 20% share in SHS in exchange for a nominal amount. The call option can be exercised beginning March 3, 2013 until March 2, 2023. The Company believes the call option currently has no value, and has therefore recorded the option at a value of nil. The Company will reassess the value of the call option at each reporting period, and any changes in the carrying amount of the call option would be recognized within profit or loss, and included in “Derivative financial assets” or “Derivative financial liabilities” accordingly (see Note 7).

17. Contingent liabilities

17.1 Legal proceedings

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

17.2 Commitments and guarantees

Commitments

As at November 2, 2013, 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 \$8.3 million (February 2, 2013: \$9.0 million, October 27, 2012: \$10.8 million), which is the Canadian equivalent of U.S. \$8.0 million (February 2, 2013: U.S. \$9.0 million, October 27, 2012: U.S. \$10.8 million).

The Company has certain vendors which require minimum purchase commitment levels over the term of the contract. Refer to Note 16.2 “Liquidity risk”.

Guarantees

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

Royalty License Agreements

The Company pays royalties under various merchandise license agreements, which are generally based on the sale of products. Certain license agreements require a minimum guaranteed payment of royalties over the term of the contract, regardless of sales.

Total future minimum royalty payments under such agreements were \$1.0 million as at November 2, 2013 (February 2, 2013: \$2.3 million, October 27, 2012: \$2.9 million).

Other Indemnification Agreements

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

18. 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>	13-Week Period Ended November 2, 2013	13-Week Period Ended October 27, 2012	39-Week Period Ended November 2, 2013	39-Week Period Ended October 27, 2012
Weighted average number of shares per basic net (loss) earnings per share calculation	101,877,662	101,877,662	101,877,662	102,150,564
Effect of dilutive instruments outstanding	—	—	—	—
Weighted average number of shares per diluted net (loss) earnings per share calculation	101,877,662	101,877,662	101,877,662	102,150,564

“Net (loss) earnings” as disclosed in the unaudited Condensed 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 13-week period ended November 2, 2013, the Company incurred a net loss and therefore all potential common shares were anti-dilutive. For the 39-week period ended November 2, 2013, 5,080 outstanding options were excluded from the calculation of diluted net (loss) earnings per share as they were anti-dilutive. For both the 13 and 39-week period ended October 27, 2012, 8,560 outstanding options were excluded from the calculation of diluted net (loss) earnings per share as they were anti-dilutive.

19. Income taxes

The Company’s total net cash payments of income taxes for the 13 and 39-week period ended November 2, 2013 were \$12.0 million (2012: \$18.7 million) and \$27.0 million (2012: \$14.5 million), respectively.

In the ordinary course of business, the Company is subject to ongoing audits by tax authorities. While the Company believes that its tax filing positions are appropriate and supportable, periodically, certain matters are challenged by tax authorities. During the 13 and 39-week period ended November 2, 2013, the Company recorded benefits for interest on prior period tax re-assessments and accruals for uncertain tax positions as described in the table below, all included in the unaudited Condensed Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income as follows:

<i>(in CAD millions)</i>	13-Week Period Ended November 2, 2013	13-Week Period Ended October 27, 2012	39-Week Period Ended November 2, 2013	39-Week Period Ended October 27, 2012
Finance costs (increase) recovery	\$ (0.1)	\$ (0.1)	\$ 0.2	\$ (3.8)
Income tax (expense) recovery:				
Current	—	—	0.5	(5.5)
Deferred	—	—	(0.1)	2.3
Net (charges) benefits on uncertain tax positions	\$ (0.1)	\$ (0.1)	\$ 0.6	\$ (7.0)

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

Included in “Other long-term assets” in the unaudited Condensed Consolidated Statements of Financial Position as at November 2, 2013, were receivables of \$27.5 million (February 2, 2013: \$13.9 million, October 27, 2012: \$13 million) related to deposits made with tax authorities by the Company for disputed tax assessments.

20. Segmented information

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

20.1 Segmented statements of (loss) earnings

<i>(in CAD millions)</i>	13-Week Period Ended November 2, 2013	13-Week Period Ended October 27, 2012 (Note 2.4)	39-Week Period Ended November 2, 2013	39-Week Period Ended October 27, 2012 (Note 2.4)
Total revenue				
Merchandising	\$ 971.2	\$ 1,037.5	\$ 2,776.6	\$ 3,002.7
Real Estate Joint Arrangements ¹	11.1	11.9	32.9	36.6
Total revenues	\$ 982.3	\$ 1,049.4	\$ 2,809.5	\$ 3,039.3
Segmented operating loss				
Merchandising	\$ (66.5)	\$ (33.5)	\$ (119.7)	\$ (101.7)
Real Estate Joint Arrangements ²	3.2	3.1	9.6	9.7
Total segmented operating loss	\$ (63.3)	\$ (30.4)	\$ (110.1)	\$ (92.0)
Finance Costs				
Merchandising	\$ 2.6	\$ 2.7	\$ 7.0	\$ 10.9
Real Estate Joint Arrangements	0.4	0.4	1.1	1.3
Total finance costs	\$ 3.0	\$ 3.1	\$ 8.1	\$ 12.2
Interest Income				
Merchandising	\$ 0.8	\$ 0.5	\$ 1.5	\$ 3.3
Real Estate Joint Arrangements	—	—	0.1	0.1
Total interest income	\$ 0.8	\$ 0.5	\$ 1.6	\$ 3.4
Gain on lease terminations and lease amendments				
Merchandising	\$ —	\$ 2.8	\$ 185.7	\$ 167.1
Real Estate Joint Arrangements	—	—	—	—
Total gain on lease terminations and lease amendments	\$ —	\$ 2.8	\$ 185.7	\$ 167.1
Income taxes				
Merchandising	\$ 16.7	\$ 8.3	\$ 3.7	\$ (5.0)
Real Estate Joint Arrangements	—	—	—	—
Total income tax (expense) recovery	\$ 16.7	\$ 8.3	\$ 3.7	\$ (5.0)
Net (loss) earnings	\$ (48.8)	\$ (21.9)	\$ 72.8	\$ 61.3

¹ Included in total revenue for real estate joint arrangements was \$9.5 million and \$28.0 million related to Westcliff for the 13 and 39-week periods ended November 2, 2013, respectively, and \$9.2 million and \$28.4 million related to Westcliff for the 13 and 39-week periods ended October 27, 2012, respectively.

² Included in total segment operating income for real estate joint arrangements was \$3.1 million and \$9.1 million related to Westcliff for the 13 and 39-week periods ended November 2, 2013, respectively, and \$3.0 million and \$9.4 million related to Westcliff for the 13 and 39-week periods ended October 27, 2012, respectively.

20.2 Segmented statements of total assets

<i>(in CAD millions)</i>	As at November 2, 2013	As at February 2, 2013 (Note 2.4)	As at October 27, 2012 (Note 2.4)
Merchandising	\$ 2,361.7	\$ 2,210.8	\$ 2,405.7
Real Estate Joint Arrangements	291.6	293.9	334.6
Total assets	\$ 2,653.3	\$ 2,504.7	\$ 2,740.3

20.3 Segmented statements of total liabilities

<i>(in CAD millions)</i>	As at November 2, 2013	As at February 2, 2013 (Note 2.4)	As at October 27, 2012 (Note 2.4)
Merchandising	\$ 1,476.2	\$ 1,402.3	\$ 1,559.5
Real Estate Joint Arrangements	26.0	26.0	35.9
Total liabilities	\$ 1,502.2	\$ 1,428.3	\$ 1,595.4

21. Changes in non-cash working capital balances

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

<i>(in CAD millions)</i>	13-Week Period Ended November 2, 2013	13-Week Period Ended October 27, 2012 (Note 2.4)	39-Week Period Ended November 2, 2013	39-Week Period Ended October 27, 2012 (Note 2.4)
Accounts receivable, net	\$ 3.3	\$ (5.0)	\$ 4.3	\$ 18.6
Inventories	(126.5)	(158.9)	(190.4)	(182.3)
Prepaid expenses	2.4	8.3	(6.0)	(4.1)
Accounts payable and accrued liabilities	82.5	106.1	96.3	54.6
Deferred revenue	11.2	—	(4.3)	(15.2)
Provisions	18.0	4.0	2.5	(8.6)
Income and other taxes payable and recoverable	(30.6)	(21.5)	(14.4)	(51.4)
Effect of foreign exchange rates	—	(0.5)	(0.5)	—
Cash used for non-cash working capital balances	\$ (39.7)	\$ (67.5)	\$ (112.5)	\$ (188.4)

22. Changes in long-term assets and liabilities

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

<i>(in CAD millions)</i>	13-Week Period Ended November 2, 2013	13-Week Period Ended October 27, 2012 (Note 2.4)	39-Week Period Ended November 2, 2013	39-Week Period Ended October 27, 2012 (Note 2.4)
Other long-term assets	\$ 4.4	\$ (11.3)	\$ 7.4	\$ 20.3
Other long-term liabilities	(0.7)	(1.7)	(12.2)	(2.2)
Other	0.2	10.6	—	11.5
Cash generated from (used for) long-term assets and liabilities	\$ 3.9	\$ (2.4)	\$ (4.8)	\$ 29.6

23. Burnaby arrangement

On October 11, 2013, the Company announced that it entered into a binding agreement with Concord Pacific Group of Companies (“Concord”) to pursue the development of nine acres of the Company’s property on and adjacent to the Company’s store located at the Metropolis at Metrotown in Burnaby, British Columbia (the “Project”). Closing under the agreement is contingent upon satisfaction of conditions such as site investigations, strategic considerations relating to the Project, including, but not limited to, potential shifts in the Canadian economy and the condition of the real estate market now or in the future, and obtaining the approval from the City of Burnaby for the Project, which is expected to occur over an extended period of time.

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

24. Events after the reporting period

On October 29, 2013, the Company announced that it will terminate its leases in respect of five stores for a total consideration of \$400 million. Four of the five stores are owned by The Cadillac Fairview Corporation Limited (Cadillac Fairview) and are located in Ontario: Toronto Eaton Centre, Sherway Gardens, Markville Shopping Centre and London-Masonville Place. The fifth store is located at Richmond Shopping Centre in British Columbia and is co-owned by Ivanhoe Cambridge II Inc. and Cadillac Fairview. The transaction requires Sears to vacate the Toronto Eaton Centre, Sherway Gardens and London-Masonville Place by February 28, 2014 and Markville and Richmond Shopping Centres by February 28, 2015. The Company has approximately \$6.6 million of leasehold improvements and equipment related to these five stores included in “Property, plant and equipment”.

This transaction closed on November 12, 2013, at which time the Company received the proceeds of \$400.0 million. The ultimate amount and timing of gain recognition will be determined during the fourth quarter of the 52-week period ended February 1, 2014.

On November 11, 2013, the Company announced that it had reached a definitive agreement with Montez to sell its 50% joint arrangement interest in the eight properties it owned with Westcliff for cash consideration of approximately \$315.0 million. The joint arrangement interest had a net carrying value of approximately \$229.8 million as at November 2, 2013 (total assets of \$251.0 million less total liabilities of \$21.2 million). The agreement is subject to customary closing conditions including, site investigations and financing as well as a possible upward adjustment in final proceeds following completion of vendor due diligence. The transaction is scheduled to close on January 8, 2014, and the ultimate amount and timing of gain recognition will be determined during the fourth quarter of the 52-week period ended February 1, 2014.

On November 19, 2013, the Company announced that it would distribute \$509.4 million to holders of common shares as an extraordinary cash dividend. Payment in the amount of \$5.00 per common share will be made on December 6, 2013, to shareholders of record as at the close of business on December 2, 2013.

On November 26, 2013, the Company announced the reduction of 791 associates, primarily related to the reorganization of the Company’s product repair services and parts businesses. The Company will record a charge in the range of \$12.0 million to \$15.0 million in the 13-week period ended February 1, 2014 as a result thereof.

25. Approval of unaudited condensed consolidated financial statements

The Financial Statements were approved by the Board of Directors and authorized for issue on December 2, 2013.