SEARS CANADA INC.

SECOND QUARTER REPORT
for the period ended July 30, 2016

Management's Discussion and Analysis

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Management's Discussion and Analysis

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

This quarterly report to Shareholders, which includes the Management's Discussion and Analysis ("MD&A"), current as at September 6, 2016 unless otherwise stated, and the unaudited condensed consolidated financial statements of the Company for the 13-week period ended July 30, 2016 ("Q2 2016 financial statements") (together, the "Quarterly Report"), contains commentary from the Company's management regarding strategy, operating results and financial position. Management is responsible for its accuracy, integrity and objectivity, and develops, maintains and supports the necessary systems and controls to provide reasonable assurance as to the accuracy of the comments contained herein.

The second quarter ("Q2") unaudited results for the 52-week period ending January 28, 2017 ("Fiscal 2016" or "2016") and the 52-week period ended January 30, 2016 ("Fiscal 2015" or "2015") reflect the 13-week periods ended July 30, 2016 ("Q2 2016") and August 1, 2015 ("Q2 2015"), respectively. The first half unaudited results for 2016 and 2015 reflect the 26-week periods ended July 30, 2016 ("first half of 2016") and August 1, 2015 ("first half of 2015"), respectively. The 2014 fiscal year refers to the 52-week period ended January 31, 2015 ("Fiscal 2014" or "2014").

This Quarterly Report should be read in conjunction with the Consolidated Financial Statements, and Notes to the Consolidated Financial Statements, for Fiscal 2015. These items are contained in the Company's 2015 Annual Report. Additional information relating to the Company, including the Company's Annual Information Form ("AIF") and the Management Proxy Circular, both dated March 17, 2016, can be obtained by contacting Sears Canada's Corporate Communications department at 416-941-4428. The 2015 Annual Report, together with the AIF and Management Proxy Circular, have been filed with securities regulators in Canada through the System for Electronic Document Analysis and Retrieval ("SEDAR") and can be accessed on the SEDAR website at www.sedar.com. Additional information relating to the Company is also available online at www.sedar.com and on the U.S. Securities Exchange Commission website at www.sec.gov. Information contained in, or otherwise accessible through, websites mentioned in this Quarterly Report do not form a part of this document. All references in this Quarterly Report to websites are to inactive textual references only.

The Q2 2016 financial statements are prepared in accordance with IAS 34, *Interim Financial Reporting* issued by the International Accounting Standards Board ("IASB"), and therefore do not contain all disclosures required by International Financial Reporting Standards ("IFRS") for annual financial statements. Management uses IFRS, non-IFRS and operating performance measures as key performance indicators to better assess the Company's underlying performance and provides such additional information in this MD&A so that readers may do the same. See Section 1.d. "Use of Non-IFRS Measures, Measures of Operating Performance and Reconciliation of Net (Loss) Earnings to Adjusted EBITDA" for additional information.

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

Cautionary Statement Regarding Forward-Looking Information

Certain information in the Quarterly Report is forward-looking and is subject to important risks and uncertainties. Forward-looking information concerns, among other things, the Company's future financial performance, business strategy, plans, expectations, goals and objectives, and includes statements concerning possible or assumed future results set out under "2016 Second Quarter Highlights", Section 1 "Company Performance", Section 2 "Consolidated Financial Position, Liquidity and Capital Resources", Section 3 "Financial Instruments", Section 7 "Accounting Policies and Estimates" and Section 9 "Risks and Uncertainties". Often, but not always, forward-looking information can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "scheduled", "estimates", "intends", "anticipates" or "does not anticipate" or "believes", or variations of such words and phrases, or statements that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. Although the Company believes that the estimates reflected in such forward-looking information are reasonable, such forward-looking information involves known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking information and undue reliance should not be placed on such information.

Factors which could cause actual results to differ materially from current expectations include, but are not limited to: the Company's inability to compete effectively in the highly competitive retail industry; weaker business performance in the fourth quarter, traditionally the Company's strongest quarter; the ability of the Company to successfully implement its strategic initiatives; changes in consumer spending; the proposed real estate transactions described in this Quarterly Report, which are subject to closing conditions, not closing on the agreed terms, or at all; ability to retain senior management and key personnel; ability of the Company to successfully manage its inventory levels; customer preference toward product offerings; ability to secure an agreement with a financial institution for a credit card and other financial services; ability of the Company's new loyalty program to attract and retain customers; the ability of the Company to migrate sufficient catalogue customers and business to online; disruptions to the Company's computer systems; economic, social, and political instability in jurisdictions where suppliers are located; fire damage to, structural integrity and safety of, foreign factories; increased shipping costs, potential transportation delays and interruptions; damage to the reputations of the brands the Company sells; changes in the Company's relationship with its suppliers; the Company's reliance on third parties in outsourcing arrangements, and their ability to perform the arrangements for which they have been engaged; willingness of the Company's vendors to provide acceptable payment terms; the outcome of product liability claims; any significant security compromise or breach of the Company's customer, associate or Company information; the outcome of pending legal proceedings; compliance costs associated with environmental laws and regulations; maintaining adequate insurance coverage; seasonal weather patterns; ability to make, integrate and maintain acquisitions and investments; general economic conditions; liquidity risk and failure to fulfill financial obligations; fluctuations in foreign currency exchange rates; the credit worthiness and financial stability of the Company's licensees and business partners; possible limits on our access to capital markets and other financing sources; interest rate fluctuations and other changes in funding costs and investment income; the possibility of negative investment returns in the Company's pension plan or an increase to the defined benefit obligation including the potentially restrictive impact such an increase might have on credit availability; the impairment of intangible and other long-lived assets; the possible future termination of certain intellectual property rights associated with the "Sears" name and brand names if Sears Holdings Corporation ("Sears Holdings") reduces its interest in the Company to less than 10%; potential conflict of interest of some of the directors and executive officers of the Company owing to their ownership of Sears Holdings' common stock; possible changes in the Company's ownership by Edward S. Lampert, ESL Investments and other significant shareholders; productivity improvement and cost reduction initiatives and whether such initiatives will yield the expected benefits; competitive conditions in the businesses in which the Company participates; new accounting pronouncements, or changes to existing pronouncements, that impact the methods the Company uses to report our financial position and results from operations; uncertainties associated with critical accounting assumptions and estimates; and changes in laws, rules and regulations applicable to the Company. Information about these factors, other material factors that could cause actual results to differ materially from expectations and about material factors or assumptions applied in preparing forward-looking information, may be found in Section 9 "Risks and Uncertainties" of this MD&A as well as under Section 3(k) "Risk Factors" in the Company's most recent AIF, Section 10 "Risks and Uncertainties" in the MD&A in the Company's most recent annual report and elsewhere in the Company's filings with Canadian and U.S. securities regulators. All of the forward-looking statements included in this MD&A are qualified by these cautionary statements and those made in the "Risk Factors" section of the Company's most recent AIF, in the "Risks and Uncertainties" section of this MD&A and the Company's most recent annual MD&A and the Company's other filings with Canadian and U.S. securities regulators. These factors are not intended to represent a complete list of the factors that could affect the Company; however, these factors should be considered carefully, and readers should not place undue reliance on forward-looking statements made herein or in our other filings with Canadian and U.S. securities regulators. The forward-looking information in this MD&A is, unless otherwise indicated, stated as of the date hereof and is presented for the purpose of assisting investors and others in understanding the Company's financial position and results of operations as well as the Company's objectives and strategic priorities, and may not be appropriate for other purposes. The Company does not undertake any obligation to update publicly or to revise any forward-looking information, whether as a result of new information, future events or otherwise, except as required by law.

2016 Second Quarter Highlights

For the 13 and 26-week periods ended July 30, 2016 and August 1, 2015
(unaudited)

	Second Quarter			Year-to-Date		
(in CAD millions, except per share amounts)	**2016**	% Chg 2016 vs 2015	2015	**2016**	% Chg 2016 vs 2015	2015
Total revenue	**$ 648.5**	(15.6)%	$ 768.8	**$1,244.4**	(15.1)%	$1,466.0
Total same store sales (%)[1]	**(5.5)%**		(3.9)%	**(6.4)%**		(4.1)%
Total Core Retail same store sales (%)[1]	**(6.2)%**		(1.0)%	**(6.5)%**		(2.3)%
Adjusted EBITDA[1]	**(66.1)**	(143.9)%	(27.1)	**(141.5)**	(82.3)%	(77.6)
Net (loss) earnings	**(91.6)**	(778.5)%	13.5	**(155.2)**	(240.4)%	(45.6)
Basic and diluted net (loss) earnings per share	**(0.90)**	(792.3)%	0.13	**(1.52)**	(237.8)%	(0.45)
(in CAD millions)	**As at July 30, 2016**	% Chg 2016 vs 2015	As at August 1, 2015	**As at July 30, 2016**	% Chg 2016 vs 2015	As at January 30, 2016
Cash	**$ 301.9**	44.7 %	$ 208.7	**$ 301.9**	(3.8)%	$ 313.9
Inventories	**621.3**	(12.4)%	709.1	**621.3**	(6.5)%	664.8
Total assets	**1,424.1**	(16.3)%	1,701.7	**1,424.1**	(12.8)%	1,633.2
Shareholders’ equity	**390.5**	(26.3)%	529.8	**390.5**	(29.5)%	554.2

1 Total same store sales and Core Retail same stores sales are operating performance measures. Adjusted EBITDA is a non-IFRS measure. See Section 1.d. “Use of Non-IFRS Measures, Measures of Operating Performance and Reconciliation of Net (Loss) Earnings to Adjusted EBITDA”.

Common Share Market Information

(Toronto Stock Exchange - Trading Symbol SCC)

	Second Quarter		Year-to-Date	
	2016	2015	**2016**	2015
High	**$ 4.85**	$ 11.32	**$ 5.98**	$ 12.60
Low	**$ 3.44**	$ 7.11	**$ 3.07**	$ 7.11
Close	**$ 3.50**	$ 7.50	**$ 3.50**	$ 7.50
Average daily trading volume	**23,131**	12,772	**27,073**	14,443

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

	Second Quarter		Year-to-Date	
	2016	2015	**2016**	2015
High	**$ 3.76**	$ 9.24	**$ 4.27**	$ 10.00
Low	**$ 2.64**	$ 5.47	**$ 2.36**	$ 5.47
Close	**$ 2.76**	$ 5.77	**$ 2.76**	$ 5.77
Average daily trading volume	**25,616**	31,540	**48,174**	36,086

- Revenue was $648.5 million in Q2 2016, a decrease of 15.6%, as compared to Q2 2015. The decrease was primarily attributable to sales declines in home décor, Craftsman®, Air & Water Products (“CAWP”), home furnishings, major appliances, children’s wear, women’s apparel and cosmetics & personal care. Included in the total revenue decrease in Q2 2016 described above, was a decrease in our Direct channel of $27.0 million compared to Q2 2015 due to a reduction in catalogue pages and online transactions. In addition, the total revenue decrease in Q2 2016 includes a decrease in Commission and licensee revenue primarily due to reduced revenues of $22.4 million after the termination of the credit card marketing and servicing agreement with JPMorgan Chase in November 2015, and the effect of store closures subsequent to the end of Q2 2015, which reduced revenues in Q2 2016 by $31.6 million.
- Total same store sales for Q2 2016 declined by 5.5% compared to Q2 2015. Same store sales in our full-line and Sears Home stores combined (“Core Retail” stores) decreased by 6.2% in Q2 2016 compared to Q2 2015.

- The Company made progress on its strategic initiatives, having executed the following in Q2 2016:
    - Began construction on two stores, Promenade Mall in Thornhill, Ontario and Mapleview Centre in Burlington, Ontario, which will undergo significant changes in their layout and offerings and become prototypes for the new Sears 2.0 store concept;
    - Reduced selling, administrative and other expenses by $24.6 million in Q2 2016, as compared to Q2 2015, which included the impact of non-recurring items included in selling, administrative and other expenses in Q2 2016. As of the end of Q2 2016, the Company achieved annualized cost reductions at the lower range of the targeted goal of $127 million to $155 million, and will continue to identify opportunities for cost savings;
    - Subsequent to Q2 2016, the Company completed a real estate transaction with 855 Park Street Properties Limited Partnership for the previously announced sale of the Park Street Logistics Centre located in Regina, Saskatchewan, for proceeds of $18.1 million, of which $0.5 million is being held in escrow pending completion of environmental remediation of the property; and
    - Subsequent to Q2 2016, the Company entered into a letter of intent for a real estate transaction with consideration of $70.0 million. This transaction is subject to completion of definitive documentation and customary due diligence and, if completed, would be expected to close in Q3 2016.
- The Company's gross margin rate was 28.2% in Q2 2016 compared to 32.8% in Q2 2015. The decrease in the gross margin rate in Q2 2016 was impacted by the weakening of the Canadian dollar, which negatively impacted Q2 2016 margins by $19.1 million primarily in home décor, home furnishings, CAWP, seasonal merchandise, women's apparel, men's wear, children's wear, footwear and jewellery, accessories & luggage. The gross margin rate for Q2 2016 was also impacted by the termination of the credit card marketing and servicing agreement with JPMorgan Chase which reduced the gross margin by $22.4 million. Excluding the negative impact of the weaker Canadian dollar and the termination of the marketing and servicing agreement with JPMorgan Chase, the gross margin rate would have increased by 60 basis points to 33.4% in Q2 2016 compared to 32.8% in Q2 2015. The Company continues to maintain its foreign exchange hedging programs and operating processes to manage the impact of future volatility in the exchange rate. These programs and processes are expected to continue to partially mitigate foreign exchange risk in 2016.
- Adjusted net loss before interest, taxes, depreciation and amortization ("Adjusted EBITDA") in Q2 2016 was $66.1 million, as compared to $27.1 million in Q2 2015, an increase in the loss of $39.0 million. Adjusted EBITDA in Q2 2016 was negatively impacted by $27.6 million from the termination of the credit card marketing and servicing agreement with JPMorgan Chase, $17.9 million due to the weakening of the Canadian dollar, $2.1 million from the closure of underperforming stores subsequent to the end of Q2 2015, and $5.1 million from expenses incurred for the Initium initiative. The negative impacts were partially offset by a reduction of $3.7 million in severance costs which were not included in transformation expense. Excluding the impact of these items, Adjusted EBITDA in Q2 2016 improved by $10.0 million compared to Q2 2015.
- Basic and diluted net loss per common share was $0.90 for Q2 2016, as compared to a basic and diluted net earnings per common share of $0.13 for the same period last year.
- The Company ended Q2 2016 with total cash of $301.9 million and no cash drawings on the $300.0 million Amended Credit Facility (as defined in Section 2 "Consolidated Financial Position, Liquidity and Capital Resources"). Refer to Note 8 "Long-term obligations and finance costs" in the Q2 2016 financial statements for additional information.

1. Company Performance

a. Merchandising Operations and Business Overview

The Company is comprised of one reportable segment, Merchandising. The Company's merchandising operations include the sale of goods and services through the Company's Retail channels, which include its Full-Line, Sears Home, Hometown, Outlet, Corbeil Electrique Inc. ("Corbeil") stores and its Direct (catalogue/internet) channel. It also includes service revenue related primarily to logistics services provided through the Company's wholly-owned subsidiary, S.L.H. Transport Inc. ("SLH"), and product repair. Commission revenue includes travel, home improvement services, wireless and long distance plans and insurance. Licensee fee revenue is comprised of payments received from licensees that operate within the Company's stores (See Note 14 "Financial instruments" in the Q2 2016 financial statements for additional information on our licensees).

As at July 30, 2016, January 30, 2016 and August 1, 2015, the Company's locations were distributed across the country as follows:

	Atlantic	Québec	Ontario	Prairies	Pacific	**As at July 30, 2016 Total**	As at January 30, 2016 Total	As at August 1, 2015 Total
Full-Line Department stores[1]	10	23	31	18	13	**95**	95	95
Sears Home stores	—	8	15	5	2	**30**	41	45
Outlet stores[1]	3	4	9	3	1	**20**	23	26
Corporate stores	13	35	55	26	16	**145**	159	166
Hometown stores	16	6	11	24	19	**76**	125	177
Corbeil Franchise stores	—	14	2	—	—	**16**	16	16
Corbeil Corporate stores	—	12	4	—	—	**16**	17	18
Corbeil	—	26	6	—	—	**32**	33	34
National Logistics Centres[2]	—	1	2	2	1	**6**	6	6
Travel offices	7	21	33	9	10	**80**	84	84
Catalogue merchandise pick-up locations	153	219	300	249	89	**1,010**	1,213	1,280

1 During 2015, the Company reclassified 16 Full-Line Department stores to the Outlet channel based on changes to their merchandise mix.

2 Sears operates four logistics centres strategically located across the country, each referred to as a National Logistics Centres ("NLC"). The NLCs are comprised of five owned and three leased warehouse facilities which serve all channels of the business. See Note 13 "Assets classified as held for sale" in the Q2 2016 financial statements for additional information.

As at July 30, 2016 and January 30, 2016, the number of selling units leased and owned by the Company was as follows:

	As at July 30, 2016			As at January 30, 2016		
	Leased	**Owned**	**Total**	**Leased**	**Owned**	**Total**
Full-Line Department[1]	86	9	95	86	9	95
Sears Home stores	28	2	30	39	2	41
Outlet stores[1]	18	2	20	21	2	23
Hometown stores[2]	4	—	4	7	—	7
Corbeil[2]	28	—	28	29	—	29
Total[3]	**164**	**13**	**177**	**182**	**13**	**195**

1 During 2015, the Company reclassified 16 Full-Line Department stores to the Outlet channel based on changes to their merchandise mix.

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

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

As at July 30, 2016, January 30, 2016 and January 31, 2015, the gross square footage for corporate store locations (both owned and leased) and NLCs was as follows:

(in square feet millions)	**As at July 30, 2016**	As at January 30, 2016	As at January 31, 2015
Full-Line Department[1]	**12.4**	12.4	14.1
Sears Home stores	**1.3**	1.8	2.1
Outlet stores[1]	**2.0**	2.2	0.9
Other[2]	**0.2**	0.2	0.3
NLCs	**6.5**	6.5	6.6
Total	**22.4**	23.1	24.0

1 During 2015, the Company reclassified 16 Full-Line Department stores to the Outlet channel based on changes to their merchandise mix.

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

b. Strategic Initiatives

During the second quarter of Fiscal 2016, Sears Canada continued to build on re-engineering the business. The re-engineering initiatives are organized under four primary workstreams, which are designed to drive the Company's business goals of increasing revenue, operating profitably, and maintaining a strong balance sheet.

The four primary workstreams are as follows:

1. **Project Sears 2.0** - Focuses on moving Sears physical retail stores to a more productive model, with a customer-focused and relevant assortment, faster inventory turns, and an assessment of the required square footage per store. Initiatives that drive Sears Canada's in-store business fall into this category.

2. **Initium** - Focuses on building a new technology architecture to run Sears Canada, an upgraded commerce experience and logistics capabilities. The platform will structure Sears Canada as a digital commerce company with a network of stores attached, as opposed to a network of stores and legacy technology with a separate e-commerce business.

3. **Real Estate** - Focuses on appropriately matching and innovating the Company's real estate portfolio to better suit its needs for a profitable store-based retail business.

4. **SG&A** - Focuses on bringing the Company's Selling, General and Administrative expense structure in line with its revenue.

During Q2 2016, the Company made progress on its strategic initiatives, having executed the following:

- Began construction on two stores, Promenade Mall in Thornhill, Ontario and Mapleview Centre in Burlington, Ontario, which will undergo significant changes in their layout and offerings and become prototypes for the new Sears 2.0 store concept. Construction of the two stores is expected to be completed in Fall 2016, followed by an integrated marketing program to drive foot traffic and sales;

- Subsequent to Q2 2016, the Company completed a real estate transaction with 855 Park Street Properties Limited Partnership for the previously announced sale of the Park Street Logistics Centre located in Regina for proceeds of $18.1 million, of which $0.5 million is being held in escrow pending completion of environmental remediation of the property;

- Subsequent to Q2 2016, the Company entered into a letter of intent for a real estate transaction with consideration of $70.0 million. This transaction is subject to completion of definitive documentation and customary due diligence and, if completed, would be expected to close in Q3 2016;

- Reduced selling, administrative and other expenses by $24.6 million in Q2 2016, as compared to Q2 2015, which included the impact of non-recurring items included in selling, administrative and other expenses in Q2 2016. As of the end of Q2 2016, the Company achieved annualized cost reductions at the lower range of the targeted goal of $127 million to $155 million, and will continue to identify opportunities for cost savings; and

- Named Heywood Wilansky, a retail executive with over 45 years of retail experience and 20 years of board experience, as a Director of Sears Canada with an expanded role as a Senior Advisor for Merchandising, Marketing and Retail. In such capacity, Mr. Wilansky will provide strategic and operational guidance to the leaders of the Company.

c. Quarterly Performance

The Company's operations are seasonal in nature. Accordingly, merchandise and service revenue will vary by quarter based upon consumer spending behaviour. Historically, the Company's revenue and operating results are higher in the fourth quarter than in any of the other three quarters due to the holiday season. The Company is able to adjust certain variable costs in response to seasonal revenue patterns. However, costs such as occupancy are fixed, causing the Company to report a disproportionate level of earnings in the fourth quarter. This business seasonality results in quarterly performance that is not necessarily indicative of annual performance.

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

Other factors that affect the Company's sales and results of operations include actions by its competitors, timing of its promotional events, and changes in population and other demographics. Accordingly, the Company's results for any one fiscal quarter are not necessarily indicative of the results to be expected for any other quarter, or the full year, and total same store sales for any particular period may increase or decrease.

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

	Second Quarter		**First Quarter**		**Fourth Quarter**		**Third Quarter**	
(in CAD millions, except per share amounts)	**2016**	2015	2016	2015	2015	2014	2015	2014
Total revenue	**$ 648.5**	$ 768.8	$ 595.9	$ 697.2	$ 887.6	$ 972.5	$ 792.1	$ 834.5
Net (loss) earnings	**$ (91.6)**	$ 13.5	$ (63.6)	$ (59.1)	$ 30.9	$ (123.6)	$ (53.2)	$ (118.7)
Basic and diluted net (loss) earnings per share	**$ (0.90)**	$ 0.13	$ (0.62)	$ (0.58)	$ 0.30	$ (1.21)	$ (0.52)	$ (1.16)

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

The Q2 2016 financial statements are prepared in accordance with IFRS. Management uses IFRS, non-IFRS and operating performance measures as key performance indicators to better assess the Company's underlying performance and provides this additional information in this MD&A.

Total same store sales is a measure of operating performance used by management, the retail industry and investors to compare retail operations, excluding the impact of store openings and closures. Total same store sales represents merchandise sales generated through operations in the Company's Full-Line, Sears Home, Hometown, Outlet and Corbeil stores that were continuously open during both of the periods being compared. Core Retail same store sales represents merchandise sales generated through operations in the Company's Full-Line and Sears Home stores (and exclude Hometown, Outlet and Corbeil, which are considered non-Core), that were continuously open during both of the periods being compared. More specifically, the same store sales metrics compare the same calendar weeks for each period and represents the 13 and 26-week periods ended July 30, 2016 and August 1, 2015. The calculation of same store sales is a performance metric and may be impacted by store space expansion and contraction. The same store sales metrics exclude the Direct channel.

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

	Second Quarter		**Year-to-Date**	
(in CAD millions)	**2016**	2015	**2016**	2015
Total merchandising revenue	**$ 648.5**	$ 768.8	**$ 1,244.4**	$ 1,466.0
Non-comparable sales	148.6	167.5	301.0	339.1
Total same store sales	**499.9**	601.3	**943.4**	1,126.9
Percentage change in total same store sales	**(5.5)%**	(3.9)%	**(6.4)%**	(4.1)%
Percentage change in total same store sales by category				
Apparel & Accessories	**(7.5)%**	(8.3)%	**(8.1)%**	(9.0)%
Home & Hardlines	**(4.2)%**	(1.0)%	**(5.5)%**	(0.8)%
Percentage change in Core Retail same store sales	**(6.2)%**	(1.0)%	**(6.5)%**	(2.3)%
Percentage change in Core Retail same store sales by category				
Apparel & Accessories	**(6.2)%**	(3.5)%	**(6.4)%**	(6.1)%
Home & Hardlines	**(6.4)%**	0.9 %	**(7.0)%**	0.9 %

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

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

	Second Quarter		Year-to-Date	
(in CAD millions, except per share amounts)	**2016**	2015	**2016**	2015
Net (loss) earnings	**$ (91.6)**	$ 13.5	**$ (155.2)**	$ (45.6)
Transformation expense[1]	**14.4**	—	**24.2**	—
Gain on sale and leaseback transactions[2]	**—**	(67.2)	**(40.6)**	(67.2)
Assets held for sale impairment[3]	**—**	—	**1.0**	—
Other asset impairment[4]	**3.9**	—	**3.9**	—
Lease exit costs[5]	**—**	—	**7.9**	—
Gain on settlement of retirement benefits[6]	**—**	—	**—**	(5.1)
TBI costs[7]	**—**	6.4	**—**	6.4
Environmental remediation costs for assets held for sale[8]	**0.5**	—	**0.5**	—
Depreciation and amortization expense	**6.6**	13.6	**16.4**	26.1
Finance costs	**2.0**	2.1	**3.6**	6.0
Interest income	**(0.5)**	(0.3)	**(4.1)**	(0.5)
Income tax (recovery) expense	**(1.4)**	4.8	**0.9**	2.3
Adjusted EBITDA[9]	**(66.1)**	(27.1)	**(141.5)**	(77.6)
Basic net (loss) earnings per share	**$ (0.90)**	$ 0.13	**$ (1.52)**	$ (0.45)

1 *Transformation expense during 2016 relates primarily to severance incurred during the period. These costs were included in "Selling, administrative and other expenses" in the Q2 2016 financial statements.*

2 *Gain on sale and leaseback transactions represents the net gain related to selling and leasing back of the Company's logistics centres in Calgary, Alberta and Vaughan, Ontario, described in Note 20 "Gain on sale and leaseback transactions" in the Q2 2016 financial statements.*

3 *Assets held for sale impairment represents the charge related to writing down the carrying value of the property, plant and equipment of the Broad Street investment property in Q1 2016 to fair value less costs to sell, described in Note 13 "Assets classified as held for sale" in the Q2 2016 financial statements.*

4 *Other asset impairment represents the charge related to writing down the carrying value of the property, plant and equipment and intangibles of certain cash generating units during Q2 2016, described in Note 7 "Property, plant and equipment" in the Q2 2016 financial statements.*

5 *Lease exit costs relate primarily to costs incurred to exit certain properties. These costs were included in "Selling, administrative and other expenses" in the Q2 2016 financial statements.*

6 *Gain on settlement of retirement benefits relates to the settlement of retirement benefits of eligible members covered under the non-pension retirement plan during Q1 2015, described in Note 11 "Retirement benefit plans" in the Q2 2016 financial statements.*

7 *TBI costs represent the estimated costs to the Company related to TravelBrands Inc. (a licensee of the Company) filing for creditor protection, described in Note 14 "Financial instruments" of the Q2 2016 financial statements.*

8 *Environmental remediation costs for assets held for sale relate to estimated costs required to restore the Broad Street Logistics Centre located in Regina, in order to sell the asset. These costs are included in "Selling, administrative and other expenses" in the Q2 2016 financial statements.*

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

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

e. Consolidated Financial Results

	Second Quarter			Year-to-Date		
(in CAD millions)	**2016**	% Chg 2016 vs 2015	2015	**2016**	% Chg 2016 vs 2015	2015
Revenue	$ **648.5**	(15.6)%	$ 768.8	**$ 1,244.4**	(15.1)%	$ 1,466.0
Cost of goods and services sold	**465.6**	(9.9)%	516.9	**893.5**	(8.8)%	979.7
Selling, administrative and other expenses	**274.4**	(8.2)%	299.0	**546.3**	(8.4)%	596.4
Operating loss	**(91.5)**	(94.3)%	(47.1)	**(195.4)**	(77.5)%	(110.1)
Gain on sale and leaseback transactions	**—**	(100.0)%	67.2	**40.6**	(39.6)%	67.2
Gain on settlement of retirement benefits	**—**	— %	—	**—**	(100.0)%	5.1
Finance costs	**2.0**	(4.8)%	2.1	**3.6**	(40.0)%	6.0
Interest income	**0.5**	66.7 %	0.3	**4.1**	720.0 %	0.5
(Loss) earnings before income taxes	**(93.0)**	(608.2)%	18.3	**(154.3)**	(256.4)%	(43.3)
Income tax (recovery) expense	**(1.4)**	129.2 %	4.8	**0.9**	60.9 %	2.3
Net (loss) earnings	$ **(91.6)**	(778.5)%	$ 13.5	**$ (155.2)**	(240.4)%	$ (45.6)

Total revenue in Q2 2016 decreased by 15.6% to $648.5 million compared to $768.8 million in Q2 2015. Total same store sales declined by 5.5% and same store sales in Core Retail stores decreased by 6.2% in Q2 2016 compared to Q2 2015. The revenue in Q2 2016 relating to Home & Hardlines decreased by $75.9 million, or 20.3%, compared to Q2 2015, primarily due to sales declines in all product categories. Included in the total revenue decrease in Q2 2016 for Home & Hardlines was a $19.0 million decrease in Direct channel sales due to the reduction in catalogue pages and online transactions, and a $29.3 million decrease in retail store sales due to store closures subsequent to the end of Q2 2015. Total same store sales in Home & Hardlines decreased by 4.2% and same store sales in Home & Hardlines in Core Retail stores decreased by 6.4% in Q2 2016 compared to Q2 2015. The revenue in Q2 2016 relating to Apparel & Accessories decreased by $19.9 million, or 8.0%, compared to Q2 2015, due to sales declines in all product categories. Included in the total revenue decrease in Q2 2016 for Apparel & Accessories was an $8.0 million decrease in Direct channel sales due to the reduction in catalogue pages and online transactions, and a $2.3 million decrease in retail store sales due to store closures subsequent to the end of Q2 2015. Total same store sales in Apparel & Accessories decreased by 7.5%, while same store sales in Apparel & Accessories in Core Retail stores decreased by 6.2% in Q2 2016 compared to Q2 2015. The total revenue decrease in Q2 2016 included a decrease in Commission and licensee revenue, primarily due to reduced revenues of $22.4 million after the termination of the credit card marketing and servicing agreement with JPMorgan Chase in November 2015.

Total revenue decreased by 15.1% to $1,244.4 million in the first half of Fiscal 2016 compared to the same period in Fiscal 2015. Total same store sales decreased by 6.4% in the first half of Fiscal 2016 compared to the same period in Fiscal 2015, while same store sales in Core Retail stores decreased by 6.5% in the first half of Fiscal 2016 compared to the same period in Fiscal 2015. The revenue in the first half of Fiscal 2016 relating to Home & Hardlines decreased by $131.3 million, or 18.5%, compared to the first half of Fiscal 2015, primarily due to sales declines in all product categories. Included in the total revenue decrease in the first half of Fiscal 2016 for Home & Hardlines was a $38.5 million decrease in Direct channel sales due to the reduction in catalogue pages and online transactions, and a $32.3 million decrease in retail store sales due to store closures subsequent to the end of Q2 2015. Total same store sales in Home & Hardlines decreased by 5.5%, while same store sales in Home & Hardlines in Core Retail stores decreased by 7.0% in the first half of Fiscal 2016 compared to the same period in Fiscal 2015. The revenue in the first half of Fiscal 2016 relating to Apparel & Accessories decreased by $43.1 million, or 9.0%, compared to the first half of Fiscal 2015, primarily due to sales declines in all product categories. Included in the total revenue decrease in the first half of Fiscal 2016 for Apparel & Accessories was a $16.9 million decrease in Direct channel sales due to the reduction in catalogues pages and online transactions, and a $2.5 million decrease in retail store sales due to store closures subsequent to the end of Q2 2015. Total same store sales in Apparel & Accessories decreased by 8.1%, while same store sales in Apparel & Accessories in Core Retail stores decreased by only 6.4% in the first half of Fiscal 2016 compared to the same period in Fiscal 2015. The total revenue decrease in the first half of Fiscal 2016 included a decrease in Commission and licensee revenue, primarily due to reduced revenues of $43.0 million from the termination of the credit card marketing and servicing agreement with JPMorgan Chase in November 2015.

In Q2 2016, total revenue recognized from points redemption under the loyalty program was $5.0 million (Q2 2015: $12.8 million). Total revenue deferred related to points issuances in Q2 2016 was $3.4 million (Q2 2015: $11.9 million), resulting in a net increase of $0.7 million as compared to Q2 2015, primarily due to lower point issuances offset by partially lower point redemptions. Total revenue recognized in Q2 2016 for unredeemed points (by exclusion from deferral in the loyalty point redemption rate) decreased to $0.5 million (Q2 2015: $2.9 million), primarily due to a decrease in total points outstanding.

In the first half of the Fiscal 2016, total revenue recognized from points redemption under the loyalty program was $15.9 million (in the first half of Fiscal 2015: $27.3 million). Total revenue deferred related to points issuances increased to $12.5 million (in the first half of Fiscal 2015: $24.9 million), resulting in a net increase of $1.0 million as compared to first half of Fiscal 2015, primarily due to lower point issuances, offset by partially lower point redemptions. Total revenue recognized in the first half of Fiscal 2016 for unredeemed points (by exclusion from deferral in the loyalty point redemption rate) decreased to $1.5 million (in the first half of Fiscal 2015: $5.9 million), primarily due to a decrease in total points outstanding.

Cost of goods and services sold was 9.9% lower in Q2 2016 compared to Q2 2015 and 8.8% lower in the first half of Fiscal 2016 compared to the same period in Fiscal 2015. The decrease was primarily attributable to lower sales volumes, which included the effect of store closures subsequent to the end of Q2 2015, partially offset by the weakening Canadian dollar compared to the U.S. dollar, which negatively impacted Q2 2016 and the first half of fiscal 2016 by $19.1 million and $36.4 million, respectively.

The Company's gross margin rate was 28.2% in Q2 2016 compared to 32.8% in Q2 2015. The decrease in the gross margin rate in Q2 2016 was impacted by the weakening of the Canadian dollar, which negatively impacted Q2 2016 margins by $19.1 million primarily in home décor, home furnishings, CAWP, seasonal merchandise, women's apparel, men's wear, children's wear, footwear and jewellery, accessories & luggage. The gross margin rate for Q2 2016 was also impacted by the termination of the credit card marketing and servicing agreement with JPMorgan Chase, which reduced the gross margin by $22.4 million. The gross margin rate in the first half of Fiscal 2016 was 28.2% compared to 33.2% for the same period in Fiscal 2015. Excluding the negative impact of the weakening Canadian dollar and the termination of the marketing and servicing agreement with JPMorgan Chase in Q2 2016 and the first half of Fiscal 2016, the gross margin rate would have increased by 60 basis points (33.4% in Q2 2016 compared to 32.8% in Q2 2015) and 20 basis points (33.4% in the first half of Fiscal 2016 compared to 33.2% in the first half of Fiscal 2015), respectively. The Company continues to maintain its foreign exchange hedging programs and operating processes to manage the impact of future volatility in the exchange rate. These programs and processes are expected to continue to partially mitigate foreign exchange risk in 2016.

Selling, administrative and other expenses, including depreciation and amortization expenses, decreased by $24.6 million, or 8.2%, to $274.4 million in Q2 2016 compared to Q2 2015. Excluding transformation expenses, impairment charges and other non-recurring items in Q2 2016, as shown in the reconciliation of the Company's net (loss) earnings to Adjusted EBITDA in Section 1.d. "Use of Non-IFRS Measures, Measures of Operating Performance and Reconciliation of Net (Loss) Earnings to Adjusted EBITDA", selling, administrative and other expenses declined by $37.0 million, or 12.6%, in Q2 2016 compared to Q2 2015. The decrease in expenses, excluding non-recurring items, was primarily attributable to lower depreciation expense, decreased spending on advertising and payroll expenses. Advertising expense decreased primarily due to reductions in retail advertising and catalogue pages and circulation. Payroll expense decreased primarily due to a reduced number of associates, as a result of transformation initiatives announced in Fiscal 2015.

Selling administrative and other expenses, including depreciation and amortization expenses, decreased by $50.1 million, or 8.4%, to $546.3 million in the first half of Fiscal 2016 compared to the same period in Fiscal 2015. Excluding transformation expenses and impairment charges in the first half of Fiscal 2016 and other non-recurring items in both periods as shown in the reconciliation of the Company's net (loss) earnings to Adjusted EBITDA in Section 1.d. "Use of Non-IFRS Measures, Measures of Operating Performance and Reconciliation of Net (Loss) Earnings to Adjusted EBITDA", selling, administrative and other expenses declined by $81.2 million, or 13.8%, in the first half of Fiscal 2016 compared to the first half of Fiscal 2015. The decrease in expenses, excluding non-recurring items, was attributable to lower depreciation expense, decreased spending on advertising and payroll expenses. Advertising expense decreased primarily due to reductions in retail advertising and catalogue pages. Payroll expense decreased primarily due to a reduced number of associates, as a result of previously announced transformation initiatives.

Depreciation and amortization expense in Q2 2016 and in the first half of Fiscal 2016 decreased by $7.0 million and decreased by $9.7 million, respectively, compared to the same periods in Fiscal 2015, primarily due to the impairment of certain assets in Fiscal 2015, and the disposal of assets related to store closures subsequent to the end of Q2 2015. The Company regularly monitors the business for indicators of impairment and assesses the potential impact to the carrying value of our assets on a quarterly basis.

Finance costs decreased in Q2 2016 and the first half of Fiscal 2016 by $0.1 million and $2.4 million, respectively, as compared to the same periods in Fiscal 2015, primarily related to non-comparable interest on accruals for uncertain tax positions of $0.3 million and $2.8 million during Q2 2015 and first half of Fiscal 2015, respectively.

Interest income in Q2 2016 and in the first half of Fiscal 2016 increased by $0.2 million and $3.6 million, respectively, compared to the same periods in Fiscal 2015, primarily due to interest earned from tax settlement for fiscal years 2005 to 2008.

Income tax expense in Q2 2016 and in the first half of Fiscal 2016 was a recovery of $1.4 million and expense of $0.9 million, respectively, compared to an income tax expense of $4.8 million and $2.3 million for the same periods in Fiscal 2015. The decrease in income taxes expense is primarily due to an implementation of a loss monetization plan at the beginning of Fiscal 2016.

Adjusted EBITDA in Q2 2016 was a loss of $66.1 million compared to a loss of $27.1 million in Q2 2015, an increase in the loss of $39.0 million. Adjusted EBITDA in the first half of Fiscal 2016 was a loss of $141.5 million compared to a loss of $77.6 million in the same period in Fiscal 2015, an increase in the loss of $63.9 million. Adjusted EBITDA in Q2 2016 was negatively impacted by $27.6 million from the termination of the credit card marketing and servicing agreement with JPMorgan Chase, $17.9 million due to the weakening of the Canadian dollar, $2.1 million from the closure of underperforming stores subsequent to the end of Q2 2015, and $5.1 million from expenses incurred for the Initium initiative. The negative impacts were partially offset by a reduction of $3.7 million in severance costs which were not included in transformation expense in Q2 2016. Adjusted EBITDA in the first half of Fiscal 2016 was negatively impacted by $52.5 million from the termination of the credit card marketing and servicing agreement with JPMorgan Chase, $34.0 million due to the weakening of the Canadian dollar, $5.2 million from the closures of underperforming stores, and $6.0 million from expenses incurred for the Initium initiative, partially offset by a reduction of $5.8 million in severance costs not included in transformation expense in the first half of Fiscal 2016. Excluding the impact of these items, Adjusted EBITDA in Q2 2016 improved by $10.0 million and in Fiscal 2016 improved by $28.0 million compared to the same periods in Fiscal 2015.

2. Consolidated Financial Position, Liquidity and Capital Resources

Current assets as at July 30, 2016 were $1,074.7 million, which was $59.0 million lower than as at January 30, 2016. The decrease was primarily due to a $43.5 million decrease in inventories from store closures and improved inventory purchase management, a $19.9 million decrease in income taxes recoverable primarily due to refunds received related to carry back of losses generated by the Company from fiscal year 2014 and a settlement with tax authorities for fiscal years 2005 to 2008, and a $12.2 million decrease in accounts receivable primarily due to improved collections. The decreases were partially offset by a $23.3 million increase in prepaid expenses related to IT infrastructure services and property tax payments.

Current liabilities as at July 30, 2016 were $538.8 million, which was $51.9 million lower than as at January 30, 2016, primarily due to a $38.7 million decrease in accounts payable and accrued liabilities from timing of payments for inventory receipts and a $21.5 million decrease in deferred revenue primarily related to reduced sales of gift cards, and the decrease in points issuances under the loyalty program.

Inventories were $621.3 million as at July 30, 2016, as compared to $664.8 million as at January 30, 2016. The $43.5 million decrease was due to store closures and improved inventory purchase management.

Total cash was $301.9 million as at July 30, 2016, as compared to $313.9 million as at January 30, 2016. The decrease of $12.0 million was primarily due to cash used for operating activities of $184.3 million, mostly offset by cash generated from investing activities of $175.8 million, which included net proceeds of $183.9 million from the sale and leaseback transactions described in Note 20 “Gain on sale and leaseback transactions” in the Q2 2016 financial statements.

Total assets and liabilities as at the end of Q2 2016, Fiscal 2015, and Q2 2015 were as follows:

(in CAD millions, at period end)		**As at July 30, 2016**		As at January 30, 2016		As at August 1, 2015
Total assets	**$**	**1,424.1**	$	1,633.2	$	1,701.7
Total liabilities		**1,033.6**		1,079.0		1,171.9

Total assets as at July 30, 2016 decreased by $209.1 million to $1,424.1 million, as compared to $1,633.2 million as at the end of Fiscal 2015, primarily due to decreases in property, plant and equipment and investment properties of $128.8 million and $14.9 million, respectively, primarily due to sale and leaseback transactions described in Note 20 “Gain on sale and leaseback transactions” and reclassification of capital assets to assets held for sale described in Note 13 “Assets classified as held for sale” of the Q2 2016 financial statements. Furthermore, inventories decreased by $43.5 million and income taxes recoverable decreased by $19.9 million compared to Q2 2015.

Total liabilities as at July 30, 2016 decreased by $45.4 million to $1,033.6 million, as compared to $1,079.0 million at the end of Fiscal 2015, primarily due to decreases in accounts payable and accrued liabilities of $38.7 million, deferred revenue of $24.6 million due to lower sales of gift cards and decrease in points issuance under the loyalty program, and retirement benefit liability of $12.9 million due to higher contributions compared to retirement benefits plan expense in Q2 2016. These decreases were partially offset by an increase in other long-term liabilities of $24.3 million related to the deferred gain on sale and leaseback of the Calgary distribution centre.

Cash flow used for operating activities

Cash flow used for operating activities increased by $16.9 million in Q2 2016 to $45.2 million, as compared to cash flow used for operating activities of $28.3 million in Q2 2015. The Company’s primary source of operating cash flow is the sale of goods and services to customers and the primary use of cash in operating activities is the purchase of merchandise inventories. The increase in cash used for operating activities in Q2 2016 was primarily attributable to a higher net loss, and partially offset by improved inventory purchase management net of deferred revenue and prepaid expenses (see Note 18 “Changes in non-cash working capital balances” in Q2 2016 financial statements for additional information).

Cash flow (used for) generated from investing activities

Cash flow used for investing activities was $2.4 million in Q2 2016, as compared to cash flow generated from investing activities of $121.0 million in Q2 2015, a decrease in cash generated from investing activities of $123.4 million. The decrease in Q2 2016 compared to Q2 2015 is primarily due to $130.0 million of proceeds received from Concord Pacific Group of Companies in the Q2 2015 financial statements.

Cash flow used for financing activities

Cash flow used for financing activities of $1.4 million in Q2 2016 was comparable to Q2 2015.

Contractual Obligations

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

(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	$ 294.0	$ 294.0	$ 294.0	$ —	$ —	$ —
Finance lease obligations including payments due within one year [1]	22.2	27.3	5.2	10.1	7.7	4.3
Operating lease obligations [2]	n/a	369.3	81.7	130.5	89.2	67.9
Royalties [2]	n/a	14.1	2.0	7.0	5.1	—
Purchase agreements [2,4]	n/a	18.2	11.9	5.8	0.5	—
Retirement benefit plans obligations[3]	314.0	55.5	20.2	32.4	2.7	0.2
	$ 630.2	**$ 778.4**	**$ 415.0**	**$ 185.8**	**$ 105.2**	**$ 72.4**

1 *Cash flow maturities related to finance lease obligations, including payments due within one year, include annual interest on finance lease obligations at a weighted average rate of 7.6%. The Company had no borrowings on the Amended Credit Facility as at July 30, 2016.*

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

3 *Payments are based on a funding valuation as at December 31, 2013 which was completed on June 30, 2014. Any obligation beyond 2019 would be based on a funding valuation to be completed as at December 31, 2016 or earlier at the Company's discretion.*

4 *Certain vendors require minimum purchase commitment levels over the term of the contract. A portion of these obligations are included in "Other long-term liabilities" in the unaudited Condensed Consolidated Statements of Financial Position.*

Retirement Benefit Plans

At the end of Q2 2016, the Company's retirement benefit plan obligations decreased by $12.9 million to $314.0 million, as compared to the end of Fiscal 2015.

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

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

During Fiscal 2016, the Company changed the target asset allocation to 50-70% fixed income and 30-50% equity for the defined benefit registered pension plan. As at the end of Q2 2016, the assets were in line with the target allocation range. The asset allocation may be changed from time to time in terms of weighting between fixed income, equity and other asset classes as well as within the asset classes themselves.

See Note 11 "Retirement benefit plans" in the Q2 2016 financial statements, for additional information.

Capital Resources

The Company's capital expenditures, working capital needs, debt repayment and other financing needs are funded primarily through cash generated from operations and existing cash on hand. In selecting appropriate funding choices, the Company's objective is to manage its capital structure in such a way as to diversify its funding sources, while minimizing its funding costs and risks. Sears expects to be able to satisfy all of its financing requirements through cash on hand and, if necessary, availability under the Company's credit facility as described below. The Company's cost of

funding is affected by general economic conditions, including the overall interest rate environment, as well as the Company's financial performance, credit ratings and fluctuations of its credit spread over applicable reference rates.

The Company's debt consists of finance lease obligations. In September 2010, the Company entered into an $800.0 million senior secured revolving credit facility (the "Credit Facility") with a syndicate of lenders with a maturity date of September 10, 2015. On May 28, 2014, the Company announced that it had extended the term of the Credit Facility (the "Amended Credit Facility") to May 28, 2019 and reduced the total credit limit to $300.0 million. The Amended Credit Facility is secured with a first lien on inventory and credit card receivables.

Availability under the Amended Credit Facility is determined pursuant to a borrowing base formula, up to a maximum availability of $300.0 million. Availability under the Amended Credit Facility was $30.9 million as at July 30, 2016 after the application of the pension deficit reserve (January 30, 2016: $120.1 million, August 1, 2015: $239.0 million). In 2013, as a result of judicial developments relating to the priorities of pension liability relative to certain secured obligations, the Company provided additional security to the lenders by pledging certain real estate assets as collateral, thereby partially reducing the potential reserve amount the lenders could apply. As at July 30, 2016, four properties in Canada had been pledged under the Amended Credit Facility. The reserve amount may increase or decrease in the future based on changes in estimated net pension deficits in the event of a wind-up of the Company's retirement benefit plan, and based on the value of real estate assets pledged as additional collateral. The Company is in discussions with its lenders to contribute additional real estate assets into the Amended Credit Facility, with a view to reducing the net pension reserve and thereby increasing availability under the facility. The Amended Credit Facility contains covenants which are customary for facilities of this nature and the Company was in compliance with all covenants as at July 30, 2016.

Due primarily to the pension reserve in the Amended Credit Facility, the current structure is not optimal nor an efficient way for the Company to access capital. The Company has substantial collateral value in inventory (of $621.3 million as at the end of Q2 2016) and owned real estate assets (of greater than $300.0 million in value based on the most recent appraised valuations) available with which to structure a financing solution that should provide more flexibility than under the current Amended Credit Facility. Based on the above factors, and the fact that there are no funded borrowings against this collateral, the Company is also actively seeking alternative financing structures that provide more availability relative to the collateral available.

As at July 30, 2016, the Company had no borrowings under the Amended Credit Facility. The Company had unamortized transaction costs associated with the Amended Credit Facility of $2.7 million included in "Other long-term assets" in the unaudited Condensed Consolidated Statements of Financial Position (January 30, 2016: no borrowings and unamortized transaction costs of $3.2 million included in "Other long-term assets", August 1, 2015: no borrowings and unamortized transaction costs of $3.7 million included in "Other long-term assets"). In addition, the Company had $81.3 million (January 30, 2016: $63.3 million, August 1, 2015: $61.0 million) of letters of credit outstanding against the Amended Credit Facility. These letters of credit cover various payment obligations. Interest on drawings under the Amended Credit Facility is determined based on bankers' acceptance rates for one to three month terms or the prime rate plus a spread. Interest amounts on the Amended Credit Facility are due monthly and are added to principal amounts outstanding.

As at July 30, 2016, the Company had outstanding merchandise letters of credit of less than U.S. $0.1 million (January 30, 2016: U.S. $4.8 million, August 1, 2015: U.S. $10.8 million) used to support the Company's offshore merchandise purchasing program with restricted cash pledged as collateral.

During the first half of Fiscal 2016, the Company received net proceeds of $183.9 million upon closing of the sale and leaseback transactions described in Note 20 "Gain on sale and leaseback transactions" in the Q2 2016 financial statements, and $23.4 million from tax recoveries, described in Note 17 "Income taxes" in the Q2 2016 financial statements. The proceeds will be used for general corporate purposes. The Company regularly monitors its sources and uses of cash and its level of cash on hand, and considers the most effective use of cash on hand, including stock purchases and dividends.

3. Financial Instruments

The Company is exposed to credit, liquidity and market risk as a result of holding financial instruments. Market risk consists of foreign exchange, interest rate, fuel price and natural gas price risk. See Note 14 "Financial instruments" in the Q2 2016 financial statements for additional information.

Credit risk

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

Cash, accounts receivable, derivative instruments and investments included in other long-term assets totaling $350.5 million as at July 30, 2016 (January 30, 2016: $381.2 million, August 1, 2015: $289.4 million) expose the Company to credit risk if a counterparty to a financial instrument fails to meet its contractual obligations. The Company manages this exposure through policies that require borrowers to have a minimum credit rating of A, and limiting investments with individual borrowers at maximum levels based on credit rating.

The Company is exposed to minimal credit risk from third parties as a result of ongoing credit evaluations and review of accounts receivable collectability. An allowance account included in "Accounts receivable, net" in the unaudited Condensed Consolidated Statements of Financial Position totaled $6.0 million as at July 30, 2016 (January 30, 2016: $6.0 million, August 1, 2015: $5.7 million). As at July 30, 2016, no individual party represented 10% or more of the Company's net accounts receivable (January 30, 2016: no individual party represented 10% or more the Company's net accounts receivable, August 1, 2015: one party represented 14.1% of the Company's net accounts receivable).

Liquidity risk

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

Market risk

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

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 July 30, 2016, there were forward contracts outstanding with a notional value of U.S. $114.5 million (January 30, 2016: U.S. $168.0 million, August 1, 2015: U.S. $145.0 million) and a fair value of $2.1 million included in "Derivative financial liabilities" (January 30, 2016: $6.6 million included in "Derivative financial assets", August 1, 2015: $12.6 million included in "Derivative financial assets") in the Q2 2016 financial statements. These derivative contracts have settlement dates extending to February 2017. The intrinsic value portion of these derivatives has been designated as a cash flow hedge for hedge accounting treatment under International Accounting Standards ("IAS") 39*, Financial Instruments: Recognition and Measurement* ("IAS 39"). These contracts are intended to reduce the foreign exchange risk with respect to anticipated purchases of U.S. dollar denominated goods purchased for resale ("hedged item"). As at July 30, 2016, 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 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 the 13 and 26-week period ended July 30, 2016, the Company recorded a loss of $0.2 million and gain of $1.3 million (2015: loss of $1.4 million and loss of $1.1 million), respectively, in "Selling, administrative and other expenses" in the unaudited Condensed Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income, relating to the translation or settlement of U.S. dollar denominated monetary items consisting of cash and accounts payable.

The period end exchange rate was 0.7659 U.S. dollar to one Canadian dollar. A 10% appreciation or depreciation of the U.S. dollar and/or the Canadian dollar exchange rate was determined to have an after-tax impact on net (loss) earnings of $2.2 million for U.S. dollar denominated balances included in cash and accounts payable.

Interest rate risk

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

Net assets included in cash and other long-term assets, and borrowings under the Amended Credit Facility, when applicable, are subject to interest rate risk. The total subject to interest rate risk as at July 30, 2016 was a net asset of $303.2 million (January 30, 2016: net asset of $315.2 million, August 1, 2015: net asset of $210.0 million). An increase or decrease in interest rates of 25 basis points would cause an after-tax impact on net (loss) earnings of $0.6 million for net assets subject to interest rate risk included in cash and other long-term assets as at July 30, 2016.

Fuel and natural gas price risk

The Company entered into fuel and natural gas derivative contracts to manage the exposure to diesel fuel and natural gas prices and help mitigate volatility in cash flow for the transportation service business and utilities expense, respectively. As at July 30, 2016, the fixed to floating rate swap contracts outstanding had a notional volume of 2.8 million litres (January 30, 2016: 2.4 million litres, August 1, 2015: 2.4 million litres) of diesel and nil gigajoules ("GJ") (January 30, 2016: nil, August 1, 2015: 0.1 million GJ) of natural gas and a fair value of $0.1 million included in "Derivative financial assets" (January 30, 2016: less than $0.1 million included in "Derivative financial assets", August 1, 2015: $0.1 million included in "Derivative financial liabilities") in the unaudited Condensed Consolidated Statements of Financial Position. These derivative contracts have settlement dates extending to January 31, 2017 with monthly settlement of maturing contracts.

4. Funding Costs

The funding costs for the Company in Q2 2016 and Q2 2015 are outlined in the table below:

	Second Quarter		Year-to-Date	
(in CAD millions)	**2016**	2015	**2016**	2015
Interest costs				
Total long-term obligations at end of period[1]	**$ 22.2**	$ 26.1	**$ 22.2**	$ 26.1
Average long-term obligations for period[2]	**22.7**	26.6	**23.2**	27.1
Long-term funding costs[3]	**0.5**	0.5	**0.9**	1.0
Average rate of long-term funding	**8.8%**	7.5%	**7.8%**	7.4%

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

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

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

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

5. Related Party Transactions

As at September 6, 2016, ESL Investments, Inc., and investment affiliates including Edward S. Lampert, collectively "ESL", was the beneficial holder of 46,162,515 common shares, representing approximately 45.3% of the Company's total outstanding common shares. Sears Holdings was the beneficial holder of 11,962,391 common shares, representing approximately 11.7% of the Company's total outstanding common shares.

The Company periodically enters into transactions with Sears Holdings. Transactions between the Company and Sears Holdings are recorded either at fair market value or the exchange amount which was established and agreed to by the related parties. See Section 5 "Related Party Transactions" in the 2015 Annual Report and Note 30 "Related party transactions" in the 2015 Annual Consolidated Financial Statements for further information about these transactions.

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

6. Shareholders' Equity

As at September 6, 2016, the total number of common shares issued and outstanding of the Company was 101,877,662 (January 30, 2016: 101,877,662, August 1, 2015: 101,877,662), the total number of restricted share units outstanding was 500,000, and the total number of options granted to acquire common shares outstanding was 67,000.

7. Accounting Policies and Estimates

a. Issued Standards Not Yet Adopted

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

In January 2016, the IASB issued the following new standard:

IFRS 16, Leases ("IFRS 16")

IFRS 16 replaces IAS 17, *Leases*. This standard will bring most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and financing leases. Lessor accounting remains largely unchanged and the distinction between operating and finance leases is retained. Adoption of IFRS 16 is mandatory and will be effective for annual periods beginning on or after January 1, 2019 with earlier adoption permitted. The Company is currently assessing the impact of adopting this standard on the Company's consolidated financial statements and related note disclosures.

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

IFRS 9, Financial Instruments ("IFRS 9")

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

In May 2014, the IASB issued the following standard:

IFRS 15, Revenue from Contracts with Customers ("IFRS 15")

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

b. Critical Accounting Judgments and Key Sources of Estimation Uncertainty

In the application of the Company's accounting policies, management is required to make judgments, estimates and assumptions with regards to the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an

ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

Critical judgments that management has made in the process of applying the Company's accounting policies, key assumptions concerning the future and other key sources of estimation uncertainty that have the potential to materially impact the carrying amounts of assets and liabilities within the next financial year are described in Note 2 "Significant accounting policies" and Note 4 "Critical accounting judgments and key sources of estimation uncertainty" in the 2015 Annual Consolidated Financial Statements and are consistent with those used in the preparation of the Q2 2016 financial statements.

8. Disclosure Controls and Procedures

Disclosure Controls and Procedures

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

Management of the Company, including the Executive Chairman and interim CFO, has caused to be evaluated under their supervision, the Company's DC&P, and has concluded that the Company's DC&P was effective for the period ended July 30, 2016.

Internal Control over Financial Reporting

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

Management of the Company, including the Executive Chairman and interim CFO, has caused to be evaluated the internal control over financial reporting and has concluded, based on that evaluation, that the Company's internal control over financial reporting was effective as at July 30, 2016. Additionally, management of the Company evaluated whether there were changes in the internal control over financial reporting during Q2 2016 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting and has determined that no such changes occurred during this period.

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

9. Risks and Uncertainties

Please see Section 10 "Risks and Uncertainties" in the Company's 2015 Annual Report for a detailed description of the risks and uncertainties faced by the Company.

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SEARS CANADA INC.
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Unaudited

(in CAD millions)	Notes		**As at July 30, 2016**		As at January 30, 2016		As at August 1, 2015
ASSETS							
Current assets							
Cash	5	**$**	**301.9**	$	313.9	$	208.7
Accounts receivable, net	14		**47.2**		59.4		66.9
Income taxes recoverable	17		**16.0**		35.9		78.1
Inventories	6		**621.3**		664.8		709.1
Prepaid expenses			**54.3**		31.0		38.7
Derivative financial assets	14		**0.1**		6.6		12.6
Assets classified as held for sale	13		**33.9**		22.1		25.9
Total current assets			**1,074.7**		1,133.7		1,140.0
Non-current assets							
Property, plant and equipment	7, 20		**315.3**		444.1		491.1
Investment properties			**2.1**		17.0		17.0
Intangible assets			**21.4**		22.5		34.6
Deferred tax assets	17		**0.6**		0.6		3.1
Other long-term assets	8, 14, 17		**10.0**		15.3		15.9
Total assets		**$**	**1,424.1**	$	1,633.2	$	1,701.7
LIABILITIES							
Current liabilities							
Accounts payable and accrued liabilities	14, 20	**$**	**294.0**	$	332.7	$	386.3
Deferred revenue			**136.8**		158.3		163.6
Provisions			**79.7**		75.8		50.1
Income taxes payable			**0.5**		2.6		1.6
Other taxes payable			**21.9**		17.3		11.7
Derivative financial liabilities	14		**2.1**		—		0.1
Current portion of long-term obligations	8, 14		**3.8**		4.0		3.9
Total current liabilities			**538.8**		590.7		617.3
Non-current liabilities							
Long-term obligations	8, 14		**18.4**		20.2		22.2
Deferred revenue			**71.1**		74.2		75.5
Retirement benefit liability	11, 14		**314.0**		326.9		387.0
Deferred tax liabilities	17		**—**		—		3.1
Other long-term liabilities	14, 20		**91.3**		67.0		66.8
Total liabilities			**1,033.6**		1,079.0		1,171.9
SHAREHOLDERS' EQUITY							
Capital stock	9		**14.9**		14.9		14.9
Share-based compensation reserve	9		**2.4**		—		—
Retained earnings			**583.8**		739.0		760.9
Accumulated other comprehensive loss			**(210.6)**		(199.7)		(246.0)
Total shareholders' equity			**390.5**		554.2		529.8
Total liabilities and shareholders' equity		**$**	**1,424.1**	$	1,633.2	$	1,701.7

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 26-week periods ended July 30, 2016 and August 1, 2015

Unaudited

(in CAD millions, except per share amounts)	Notes	13-Week Period **2016**	13-Week Period 2015	26-Week Period **2016**	26-Week Period 2015
Revenue	10	**$ 648.5**	$ 768.8	**$ 1,244.4**	$ 1,466.0
Cost of goods and services sold	6, 14	**465.6**	516.9	**893.5**	979.7
Selling, administrative and other expenses	7, 9, 11, 12, 14, 20	**274.4**	299.0	**546.3**	596.4
Operating loss		**(91.5)**	(47.1)	**(195.4)**	(110.1)
Gain on sale and leaseback transactions	20	**—**	67.2	**40.6**	67.2
Gain on settlement of retirement benefits	11	**—**	—	**—**	5.1
Finance costs	8, 17	**2.0**	2.1	**3.6**	6.0
Interest income	5	**0.5**	0.3	**4.1**	0.5
(Loss) earnings before income taxes		**(93.0)**	18.3	**(154.3)**	(43.3)
Income tax (recovery) expense					
Current		**(1.3)**	8.1	**(1.7)**	5.9
Deferred		**(0.1)**	(3.3)	**2.6**	(3.6)
		(1.4)	4.8	**0.9**	2.3
Net (loss) earnings		**$ (91.6)**	$ 13.5	**$ (155.2)**	$ (45.6)
Basic and diluted net (loss) earnings per share	16	**$ (0.90)**	$ 0.13	**$ (1.52)**	$ (0.45)
Net (loss) earnings		**$ (91.6)**	$ 13.5	**$ (155.2)**	$ (45.6)
Other comprehensive income (loss), net of taxes:					
Items that may subsequently be reclassified to net (loss) earnings:					
Gain (loss) on foreign exchange derivatives	14	**8.2**	12.3	**(14.7)**	9.6
Reclassification to net (loss) earnings of loss (gain) on foreign exchange derivatives	14	**5.8**	(1.2)	**3.8**	(6.6)
Items that will not be subsequently reclassified to net (loss) earnings:					
Remeasurement gain on net defined retirement benefit liability	11	**—**	—	**—**	2.0
Total other comprehensive income (loss)		**14.0**	11.1	**(10.9)**	5.0
Total comprehensive (loss) income		**$ (77.6)**	$ 24.6	**$ (166.1)**	$ (40.6)

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 26-week periods ended July 30, 2016 and August 1, 2015

Unaudited

					Accumulated other comprehensive loss			
(in CAD millions)	Notes	Capital stock	Share-based compensation reserve	Retained earnings	*Foreign exchange derivatives designated as cash flow hedges*	*Remeasurement (loss) gain*	Total accumulated other comprehensive loss	Shareholders' equity
Balance as at April 30, 2016		**$ 14.9**	**$ 1.7**	**$ 675.4**	**$ (17.7)**	**$ (206.9)**	**$ (224.6)**	**$ 467.4**
Net loss				**(91.6)**	—	—	—	**(91.6)**
Other comprehensive income								
Gain on foreign exchange derivatives, net of income tax expense of nil	14				**8.2**	—	**8.2**	**8.2**
Reclassification of loss on foreign exchange derivatives, net of income tax recovery of nil	14				**5.8**	—	**5.8**	**5.8**
Total other comprehensive income		—	—	—	**14.0**	—	**14.0**	**14.0**
Total comprehensive (loss) income		—	—	**(91.6)**	**14.0**	—	**14.0**	**(77.6)**
Share-based compensation	9	—	**0.7**	—	—	—	—	**0.7**
Balance as at July 30, 2016		**$ 14.9**	**$ 2.4**	**$ 583.8**	**$ (3.7)**	**$ (206.9)**	**$ (210.6)**	**$ 390.5**
Balance as at May 2, 2015		$ 14.9	$ —	$ 748.1	$ (1.4)	$ (255.7)	$ (257.1)	$ 505.9
Net earnings				13.5	—	—	—	13.5
Other comprehensive income (loss)								
Gain on foreign exchange derivatives, net of income tax expense of $4.6	14				12.3	—	12.3	12.3
Reclassification of gain on foreign exchange derivatives, net of income tax expense of $0.4	14				(1.2)	—	(1.2)	(1.2)
Total other comprehensive income		—	—	—	11.1	—	11.1	11.1
Total comprehensive income		—	—	13.5	11.1	—	11.1	24.6
Share-based compensation	9	—	—	(0.7)	—	—	—	(0.7)
Balance as at August 1, 2015		$ 14.9	$ —	$ 760.9	$ 9.7	$ (255.7)	$ (246.0)	$ 529.8
Balance as at January 30, 2016		**$ 14.9**	**$ —**	**$ 739.0**	**$ 7.2**	**$ (206.9)**	**$ (199.7)**	**$ 554.2**
Net loss				**(155.2)**	—	—	—	**(155.2)**
Other comprehensive income (loss)								
Loss on foreign exchange derivatives, net of income tax recovery of $1.9	14				**(14.7)**	—	**(14.7)**	**(14.7)**
Reclassification of net loss on foreign exchange derivatives, net of income tax expense of $0.7	14				**3.8**	—	**3.8**	**3.8**
Total other comprehensive loss		—	—	—	**(10.9)**	—	**(10.9)**	**(10.9)**
Total comprehensive loss		—	—	**(155.2)**	**(10.9)**	—	**(10.9)**	**(166.1)**
Share-based compensation	9	—	**2.4**	—	—	—	—	**2.4**
Balance as at July 30, 2016		**$ 14.9**	**$ 2.4**	**$ 583.8**	**$ (3.7)**	**$ (206.9)**	**$ (210.6)**	**$ 390.5**
Balance as at January 31, 2015		$ 14.9	$ —	$ 806.9	$ 6.7	$ (257.7)	$ (251.0)	$ 570.8
Net loss				(45.6)	—	—	—	(45.6)
Other comprehensive income (loss)								
Gain on foreign exchange derivatives, net of income tax expense of $3.6	14				9.6	—	9.6	9.6
Reclassification of gain on foreign exchange derivatives, net of income tax expense of $2.4	14				(6.6)	—	(6.6)	(6.6)
Remeasurement gain on net defined retirement benefit liability	11				—	2.0	2.0	2.0
Total other comprehensive income		—	—	—	3.0	2.0	5.0	5.0
Total comprehensive (loss) income		—	—	(45.6)	3.0	2.0	5.0	(40.6)
Share-based compensation	9	—	—	(0.4)	—	—	—	(0.4)
Balance as at August 1, 2015		$ 14.9	$ —	$ 760.9	$ 9.7	$ (255.7)	$ (246.0)	$ 529.8

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

SEARS CANADA INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the 13 and 26-week periods ended July 30, 2016 and August 1, 2015

Unaudited

(in CAD millions)	Notes	13-Week Period **2016**	13-Week Period 2015	26-Week Period **2016**	26-Week Period 2015
Cash flow used for operating activities					
Net (loss) earnings		**$ (91.6)**	$ 13.5	**$ (155.2)**	$ (45.6)
Adjustments for:					
Depreciation and amortization expense	12	**6.6**	13.6	**16.4**	26.1
Share-based compensation	9	**0.7**	(0.7)	**2.4**	(0.4)
(Gain) loss on disposal of property, plant and equipment		**(0.9)**	0.3	**(1.3)**	0.3
Impairment losses	7, 13	**3.9**	—	**4.9**	—
Gain on sale and leaseback transactions	20	**—**	(67.2)	**(40.6)**	(67.2)
Gain on settlement of retirement benefits	11	**—**	—	**—**	(5.1)
Finance costs	8, 17	**2.0**	2.1	**3.6**	6.0
Interest income	5	**(0.5)**	(0.3)	**(4.1)**	(0.5)
Retirement benefit plans expense	11	**3.6**	4.7	**7.3**	9.4
Short-term disability expense	11	**1.1**	1.2	**2.5**	2.6
Income tax (recovery) expense	17	**(1.4)**	4.8	**0.9**	2.3
Interest received	5	**0.5**	0.2	**4.1**	0.4
Interest paid	8	**(1.0)**	(0.7)	**(1.6)**	(1.2)
Retirement benefit plans contributions	11	**(11.3)**	(12.0)	**(22.8)**	(25.4)
Income tax refunds, net	17	**0.3**	46.9	**23.4**	46.1
Changes in non-cash working capital balances	18	**40.1**	(31.8)	**(25.4)**	(108.1)
Changes in non-cash long-term assets and liabilities	19	**2.7**	(2.9)	**1.2**	(4.1)
		(45.2)	(28.3)	**(184.3)**	(164.4)
Cash flow (used for) generated from investing activities					
Purchases of property, plant and equipment and intangible assets		**(3.5)**	(9.1)	**(9.7)**	(14.3)
Proceeds from sale of property, plant and equipment		**1.1**	0.1	**1.6**	0.2
Net proceeds from sale and leaseback transactions	20	**—**	130.0	**183.9**	130.0
		(2.4)	121.0	**175.8**	115.9
Cash flow used for financing activities					
Interest paid on finance lease obligations	8	**(0.5)**	(0.5)	**(0.9)**	(1.0)
Repayment of long-term obligations		**(0.9)**	(1.6)	**(1.9)**	(3.3)
Proceeds from long-term obligations		**—**	0.7	**—**	1.3
		(1.4)	(1.4)	**(2.8)**	(3.0)
Effect of exchange rate on cash at end of period		**1.1**	1.9	**(0.7)**	1.2
(Decrease) increase in cash		**(47.9)**	93.2	**(12.0)**	(50.3)
Cash at beginning of period		**$ 349.8**	$ 115.5	**$ 313.9**	$ 259.0
Cash at end of period	5	**$ 301.9**	$ 208.7	**$ 301.9**	$ 208.7

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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. General information

Sears Canada Inc. is incorporated in Canada. The address of its registered office and principal place of business is 290 Yonge Street, Suite 700, Toronto, Ontario, Canada M5B 2C3. The principal activities of Sears Canada Inc. and its subsidiaries (the "Company") include the sale of goods and services through the Company's Retail channels, which include its full-line, Sears Home, Hometown, Outlet, Corbeil Electrique Inc. ("Corbeil") stores, and its Direct (catalogue/internet) channel. It also includes service revenue related to product repair and logistics. Commission revenue includes travel, home improvement services, insurance, wireless and long distance plans. Licensee fee revenue is comprised of payments received from licensees that operate within the Company's stores (see Note 14 for additional information).

2. Significant accounting policies

2.1 Statement of compliance

The unaudited condensed consolidated financial statements and accompanying notes of the Company for the 13 and 26-week period ended July 30, 2016 (the "Financial Statements") have been prepared in accordance with IAS 34, *Interim Financial Reporting* issued by the International Accounting Standards Board ("IASB"), and therefore do not contain all disclosures required by International Financial Reporting Standards ("IFRS") for annual financial statements. Accordingly, these Financial Statements should be read in conjunction with the Company's most recently prepared annual consolidated financial statements for the 52-week period ended January 30, 2016 (the "2015 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 2015 Annual Consolidated Financial Statements, except as noted below. The Company's significant accounting policies are described in Note 2 of the 2015 Annual Consolidated Financial Statements.

2.2.1 Basis of consolidation

The Financial Statements incorporate the financial statements of the Company as well as all of its subsidiaries. Subsidiaries include all entities where the Company has the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities. All intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in the preparation of these Financial Statements.

The fiscal year of the Company consists of a 52 or 53-week period ending on the Saturday closest to January 31. The 13 and 26-week periods presented in these Financial Statements are for the periods ended July 30, 2016 and August 1, 2015.

These Financial Statements are presented in Canadian dollars, which is the Company's functional currency. For the 52-week period ended January 30, 2016, the Company was comprised of one reportable segment, Merchandising.

2.3 Seasonality

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

3. Issued standards not yet adopted

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

In January 2016, the IASB issued the following new standard:

IFRS 16, Leases ("IFRS 16")

IFRS 16 replaces IAS 17, *Leases* ("IAS 17"). This standard will bring most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and financing leases. Lessor accounting remains largely unchanged and the distinction between operating and finance leases is retained. Adoption of IFRS 16 is mandatory and

will be effective for annual periods beginning on or after January 1, 2019 with earlier adoption permitted. The Company is currently assessing the impact of adopting this standard on the Company's consolidated financial statements and related note disclosures.

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

IFRS 9, Financial Instruments ("IFRS 9")

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

In May 2014, the IASB issued the following new standard:

IFRS 15, Revenue from Contracts with Customers ("IFRS 15")

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

4. Critical accounting judgments and key sources of estimation uncertainty

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

Critical judgments that management has made in the process of applying the Company's accounting policies, key assumptions concerning the future and other key sources of estimation uncertainty that have the potential to materially impact the carrying amounts of assets and liabilities within the next financial year are described in Notes 2 and 4 of the 2015 Annual Consolidated Financial Statements and are consistent with those used in the preparation of these Financial Statements.

5. Cash and interest income

Cash

The components of cash were as follows:

(in CAD millions)	**As at July 30, 2016**	As at January 30, 2016	As at August 1, 2015
Cash	**$ 301.3**	$ 306.9	$ 189.1
Restricted cash	**0.6**	7.0	19.6
Total cash	**$ 301.9**	$ 313.9	$ 208.7

The components of restricted cash are further discussed in Note 15.

Interest income

Interest income for the 13 and 26-week period ended July 30, 2016 totaled $0.5 million and $4.1 million (2015: $0.3 million and $0.5 million), respectively, including nil and $3.0 million (2015: nil and nil) related to refund interest on net cash income tax receipts (see Note 17 for additional information), respectively. For the same 13 and 26-week period, the Company received $0.5 million and $4.1 million (2015: $0.2 million and $0.4 million), respectively, in cash related to interest income.

6. Inventories

The amount of inventory recognized as an expense during the 13 and 26-week period ended July 30, 2016 was $418.5 million (2015: $469.0 million) and $799.8 million (2015: $883.8 million), respectively, which included $5.0 million (2015: $12.6 million) and $23.7 million (2015: $31.9 million), respectively, of inventory write-downs to reduce the carrying amount of inventory to net realizable value. These expenses were included in "Cost of goods and services sold" in the unaudited Condensed Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income. Inventory write-downs included reversals of prior period inventory write-downs for the 13 and 26-week period ended July 30, 2016 of nil (2015: nil) and $1.1 million (2015: $0.4 million), respectively, due to an increase in net realizable value.

Inventory is pledged as collateral under the Company's revolving credit facility (see Note 8).

7. Property, plant and equipment and Intangible assets

7.1 Property, plant and equipment

During the 13 and 26-week period ended July 30, 2016, the Company recognized an impairment loss of $2.7 million (2015: nil) on a number of Sears full-line department stores and an impairment loss of $0.3 million (2015: nil) on a number of Sears Home stores. The impairment loss was due to indicators (in particular a decrease in revenue or decrease in cash flows) that the recoverable amount was less than the carrying value. During the 13 and 26-week period ended July 30, 2016, the impairment loss of $3.0 million (2015: nil) was included in "Selling, administrative and other expenses" in the unaudited Condensed Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income.

7.2 Intangible assets

During the 13 and 26-week period ended July 30, 2016, the Company recognized an impairment loss of $0.9 million (2015: nil) on intangible assets allocated to a number of Sears full-line department stores and Sears Home stores. The impairment loss was due to indicators (in particular a decrease in revenue or decrease in cash flows) that the recoverable amount was less than the carrying value. During the 13 and 26-week period ended July 30, 2016, the impairment loss of $0.9 million (2015: nil) was included in "Selling, administrative and other expenses" in the unaudited Condensed Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income.

8. Long-term obligations and finance costs

Long-term obligations

The Company's debt consists of finance lease obligations. In September 2010, the Company entered into an $800.0 million senior secured revolving credit facility (the "Credit Facility") with a syndicate of lenders with a maturity date of September 10, 2015. On May 28, 2014, the Company announced that it had extended the term of the Credit Facility (the "Amended Credit Facility") to May 28, 2019 and reduced the total credit limit to $300.0 million. The Amended Credit Facility is secured with a first lien on inventory and credit card receivables.

Availability under the Amended Credit Facility is determined pursuant to a borrowing base formula, up to a maximum availability of $300.0 million. Availability under the Amended Credit Facility was $30.9 million as at July 30, 2016 after the application of the pension deficit reserve (January 30, 2016: $120.1 million, August 1, 2015: $239.0 million). In 2013, as a result of judicial developments relating to the priorities of pension liability relative to certain secured obligations, the Company provided additional security to the lenders by pledging certain real estate assets as collateral, thereby partially reducing the potential reserve amount the lenders could apply. As at July 30, 2016, four properties in Canada had been pledged under the Amended Credit Facility. The reserve amount may increase or decrease in the future based on changes in estimated net pension deficits in the event of a wind-up, and based on the value of real estate assets pledged as additional collateral.

The Amended Credit Facility contains covenants which are customary for facilities of this nature and the Company was in compliance with all covenants as at July 30, 2016.

As at July 30, 2016, the Company had no borrowings under the Amended Credit Facility. The Company had unamortized transaction costs associated with the Amended Credit Facility of $2.7 million included in "Other long-term assets" in the unaudited Condensed Consolidated Statements of Financial Position (January 30, 2016: no borrowings and unamortized transaction costs of $3.2 million included in "Other long-term assets", August 1, 2015: no borrowings and unamortized transaction costs of $3.7 million included in "Other long-term assets"). In addition, the Company had $81.3 million (January 30, 2016: $63.3 million, August 1, 2015: $61.0 million) of letters of credit outstanding against the Amended Credit Facility. These letters of credit cover various payment obligations. Interest on drawings under the Amended Credit Facility is determined based on bankers' acceptance rates for one to

three month terms or the prime rate plus a spread. Interest amounts on the Amended Credit Facility are due monthly and are added to principal amounts outstanding.

As at July 30, 2016, the Company had outstanding merchandise letters of credit of less than U.S. $0.1 million (January 30, 2016: U.S. $4.8 million, August 1, 2015: U.S. $10.8 million) used to support the Company's offshore merchandise purchasing program with restricted cash pledged as collateral.

Finance costs

Interest expense on long-term obligations, including finance lease obligations, the current portion of long-term obligations, amortization of transaction costs, accretion on the long-term portion of provisions and commitment fees on the unused portion of the Amended Credit Facility for the 13 and 26-week period ended July 30, 2016 totaled $2.0 million (2015: $1.8 million) and $3.6 million (2015: $3.2 million). Interest expense was 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 26-week period ended July 30, 2016 was an expense of nil (2015: $0.3 million) and nil (2015: $2.8 million), respectively, for interest on accruals for uncertain tax positions.

The Company's cash payments for interest on long-term obligations, including finance lease obligations, the current portion of long-term obligations and commitment fees on the unused portion of the Credit Facility for the 13 and 26-week period ended July 30, 2016 totaled $1.5 million (2015: $1.2 million) and $2.5 million (2015: $2.2 million), respectively.

9. Capital stock and share-based compensation

Capital stock

ESL Investments, Inc., and investment affiliates, including Edward S. Lampert, collectively "ESL", form the largest shareholder of the Company, both directly through ownership in the Company, and indirectly through shareholdings in Sears Holdings Corporation ("Sears Holdings").

As at July 30, 2016, ESL was the beneficial holder of 46,162,515, or 45.3%, of the common shares of the Company (January 30, 2016: 46,162,515 or 45.3%, August 1, 2015: 48,858,685 or 48.0%) and Sears Holdings was the beneficial holder of 11,962,391, or 11.7%, of the common shares of the Company (unchanged from January 30, 2016 and August 1, 2015). The issued and outstanding shares are fully paid and have no par value.

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

The authorized common share capital of the Company consists of an unlimited number of common shares without nominal or par value and an unlimited number of class 1 preferred shares, issuable in one or more series. As at July 30, 2016, the only shares outstanding were common shares of the Company.

Share-based compensation

During the 52-week period ended January 30, 2016, the Company granted 500,000 restricted share units ("RSUs") to an executive under an equity-based compensation plan. For the equity-settled awards, the fair value of the grant of RSUs is recognized as compensation expense over the period that the related service is rendered with a corresponding increase in equity. The total amount expensed is recognized over a three-year vesting period on a tranche basis, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, the estimate of the number of equity interests that are expected to vest is reviewed. The impact of any revision to original estimates is recognized in "Selling, administrative and other expenses" in the unaudited Condensed Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income.

These RSUs had a grant-date fair value of $4.2 million. The fair value of the grant was determined based on the Company's share price at the date of grant. The RSUs are entitled to accrue common share dividends equivalent to those declared by the Company, which would be settled by a grant of additional RSUs to the executive.

During the 52-week period ended January 31, 2015, the Company granted 225,000 RSUs to an executive under an equity-based compensation plan. These RSUs had a grant-date fair value of $1.9 million. The fair value of the grant was determined based on the Company's share price at the date of grant, and was entitled to accrue common share dividends equivalent to those declared by the Company, which would be settled by a grant of additional RSUs to the executive. During the 13-week period ended August 1, 2015, the RSUs granted to the executive were forfeited.

Compensation expense related to RSUs included in "Selling, administrative and other expenses" for the 13 and 26-week period ended July 30, 2016 was $0.7 million and $2.4 million (2015: recovery of $0.7 million and $0.4 million), respectively.

10. Revenue

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

(in CAD millions)		**13-Week Period Ended July 30, 2016**		13-Week Period Ended August 1, 2015		**26-Week Period Ended July 30, 2016**		26-Week Period Ended August 1, 2015
Apparel & Accessories	**$**	**230.4**	$	250.3	**$**	**434.2**	$	477.3
Home & Hardlines		**298.1**		374.0		**577.6**		708.9
Other merchandise revenue		**54.3**		53.7		**101.4**		98.4
Services and other		**58.8**		59.6		**115.5**		119.0
Commission and licensee revenue		**6.9**		31.2		**15.7**		62.4
	$	**648.5**	$	768.8	**$**	**1,244.4**	$	1,466.0

11. Retirement benefit plans

The Company's pension plan includes both defined benefit and defined contribution components. The defined benefit component continues to accrue benefits related to future compensation increases although no further service credit is earned, and no contributions are made by employees. The Company measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at January 31. The most recent actuarial valuation of the pension plan for funding purposes is dated December 31, 2013, and was completed on June 30, 2014.

The Company also maintains a defined benefit non-pension retirement plan which provides life insurance, medical and dental benefits to eligible retired employees as well as short-term disability payments for active employees, through a health and welfare trust ("Other Benefits" plan). The Company no longer provides medical, dental and life insurance benefits at retirement for employees who had not achieved the eligibility criteria for these non-pension retirement benefits as at December 31, 2008. An actuarial valuation of the Other Benefits plan is performed at least every three years, with the last valuation completed as of January 31, 2014.

The expense for the defined benefit, defined contribution and Other Benefits plans for the 13-week period ended July 30, 2016 was $0.8 million (2015: $1.4 million), $1.4 million (2015: $1.4 million) and $2.5 million (2015: $3.1 million), respectively. The expense for the defined benefit, defined contribution and Other Benefits plans for the 26-week period ended July 30, 2016 was $1.7 million (2015: $2.8 million), $2.7 million (2015: $2.9 million) and $5.4 million (2015: $6.3 million), respectively. These expenses were 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 Benefits plans for the 13 and 26-week period ended July 30, 2016 were $11.3 million and $22.8 million (2015: $12.0 million and $25.4 million), respectively, which included $1.1 million and $2.5 million (2015: $1.2 million and $2.6 million), respectively, related to short-term disability payments and nil during the 26-week period ended July 30, 2016 (2015: $4.0 million) to settle acceptances from the Other Benefits plan offers mentioned below.

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

12. Depreciation and amortization expense

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

(in CAD millions)		**13-Week Period Ended July 30, 2016**		13-Week Period Ended August 1, 2015		**26-Week Period Ended July 30, 2016**		26-Week Period Ended August 1, 2015
Depreciation of property, plant and equipment	**$**	**4.7**	$	12.6	**$**	**13.5**	$	24.3
Amortization of intangible assets		**1.9**		1.0		**2.9**		1.8
Total depreciation and amortization expense	**$**	**6.6**	$	13.6	**$**	**16.4**	$	26.1

13. Assets classified as held for sale

During the 13-week period ended July 30, 2016, the Company entered into an agreement to sell and lease back its Vancouver National Logistics Centre ("Port Coquitlam") located in Port Coquitlam. The transaction is expected to close during the 13-week period ending October 29, 2016. Upon closing, the Company will continue to operate the logistics centre and there is not expected to be any impact to employees at the logistics centre. This transaction has been approved by senior management of the Company, and based on these factors, the Company has concluded that the sale is highly probable.

During the 52-week period ended January 30, 2016, the Company announced the future closure of Park Street Logistics Centre ("Park Street") located in Regina. Park Street, including the adjacent vacant property which is owned by the Company, is being marketed for sale and if a buyer is identified that will purchase Park Street at a price acceptable to the Company, it will be sold. This process has been approved by senior management of the Company, and based on these factors, the Company has concluded that the sale is highly probable.

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

As at July 30, 2016, the assets of Broad Street, Park Street and Port Coquitlam were separately classified as held for sale in the unaudited Condensed Consolidated Statements of Financial Position. The major classes of assets classified as held for sale were as follows:

(in CAD millions)		**Broad Street**		**Park Street**		**Port Coquitlam**		**Total**
Property, plant and equipment	$	6.1	$	10.3	$	10.8	$	27.2
Investment property		2.4		2.3		2.0		6.7
Assets classified as held for sale	$	8.5	$	12.6	$	12.8	$	33.9

As at January 30, 2016, the assets of Broad Street and Park Street were separately classified as held for sale in the unaudited Condensed Consolidated Statements of Financial Position. The major classes of assets classified as held for sale were as follows:

(in CAD millions)		**Broad Street**		**Park Street**		**Total**
Property, plant and equipment	$	7.1	$	10.3	$	17.4
Investment property		2.4		2.3		4.7
Assets classified as held for sale	$	9.5	$	12.6	$	22.1

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

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

Impairment Loss

During the 26-week period ended July 30, 2016, the Company recognized an impairment loss of $1.0 million (2015: nil) on Broad Street. The impairment loss was due to the carrying value of the property, plant and equipment and investment property of Broad Street being higher than the estimated fair value less costs to sell. The impairment loss was included in the "Selling, administrative

and other expenses" in the unaudited Condensed Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income.

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

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

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, foreign currency and commodity prices. The Company does not hold or issue derivative financial instruments for trading or speculative purposes.

Financial instrument risk management

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

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, accounts receivable and other long-term assets.

Cash, accounts receivable, derivative instruments and investments included in other long-term assets totaling $350.5 million as at July 30, 2016 (January 30, 2016: $381.2 million, August 1, 2015: $289.4 million) expose the Company to credit risk if a counterparty to a financial instrument fails to meet its contractual obligations. The Company manages this exposure through policies that require borrowers to have a minimum credit rating of A, and limiting investments with individual borrowers at maximum levels based on credit rating.

The Company is exposed to minimal credit risk from third parties as a result of ongoing credit evaluations and review of accounts receivable collectability. An allowance account included in "Accounts receivable, net" in the unaudited Condensed Consolidated Statements of Financial Position totaled $6.0 million as at July 30, 2016 (January 30, 2016: $6.0 million, August 1, 2015: $5.7 million). As at July 30, 2016, no individual party represented 10% or more of the Company's net accounts receivable (January 30, 2016: no individual party represented 10% or more the Company's net accounts receivable, August 1, 2015: one party represented 14.1% of the Company's net accounts receivable).

14.2 Liquidity risk

Liquidity risk is the risk that the Company may not have cash available to satisfy its 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 July 30, 2016:

(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	$ 294.0	$ 294.0	$ 294.0	$ —	$ —	$ —
Finance lease obligations including payments due within one year [1]	22.2	27.3	5.2	10.1	7.7	4.3
Operating lease obligations [2]	n/a	369.3	81.7	130.5	89.2	67.9
Royalties [2]	n/a	14.1	2.0	7.0	5.1	—
Purchase agreements [2,4]	n/a	18.2	11.9	5.8	0.5	—
Retirement benefit plans obligations [3]	314.0	55.5	20.2	32.4	2.7	0.2
	$ 630.2	**$ 778.4**	**$ 415.0**	**$ 185.8**	**$ 105.2**	**$ 72.4**

1 *Cash flow maturities related to finance lease obligations, including payments due within one year, include annual interest on finance lease obligations at a weighted average rate of 7.6%. The Company had no borrowings on the Amended Credit Facility as at July 30, 2016.*

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

3 *Payments are based on a funding valuation as at December 31, 2013 which was completed on June 30, 2014. Any obligation beyond 2019 would be based on a funding valuation to be completed as at December 31, 2016 or earlier at the Company's discretion.*

4 *Certain vendors require minimum purchase commitment levels over the term of the contract. A portion of these obligations are included in "Other long-term liabilities" in the unaudited Condensed Consolidated Statements of Financial Position.*

Management believes that cash on hand and availability of current and future funding will be adequate to support these financial liabilities in the next year. As at July 30, 2016, the Company did not have any significant capital expenditure commitments.

Market risk

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

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 July 30, 2016, there were forward contracts outstanding with a notional value of U.S. $114.5 million (January 30, 2016: U.S. $168.0 million, August 1, 2015: U.S. $145.0 million) and a fair value of $2.1 million included in "Derivative financial liabilities" (January 30, 2016: $6.6 million included in "Derivative financial assets", August 1, 2015: $12.6 million included in "Derivative financial assets") in the unaudited Condensed Consolidated Statements of Financial Position. These derivative contracts have settlement dates extending to February 2017. The intrinsic value portion of these derivatives has been designated as a cash flow hedge for hedge accounting treatment under IAS 39. These contracts are intended to reduce the foreign exchange risk with respect to anticipated purchases of U.S. dollar denominated goods purchased for resale ("hedged item"). As at July 30, 2016, 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 impacts net (loss) earnings.

During the 13 and 26-week period ended July 30, 2016, the Company recorded a loss of $0.2 million and gain of $1.3 million (2015: loss of $1.4 million and loss of $1.1 million), respectively, in "Selling, administrative and other expenses" in the unaudited Condensed Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income, relating to the translation or settlement of U.S. dollar denominated monetary items consisting of cash and accounts payable.

The period end exchange rate was 0.7659 U.S. dollar to one Canadian dollar. A 10% appreciation or depreciation of the U.S. dollar and/or the Canadian dollar exchange rate was determined to have an after-tax impact on net (loss) earnings of $2.2 million for U.S. dollar denominated balances included in cash and accounts payable.

14.4 Interest rate risk

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

Net assets included in cash and other long-term assets, and borrowings under the Amended Credit Facility, when applicable, are subject to interest rate risk. The total subject to interest rate risk as at July 30, 2016 was a net asset of $303.2 million (January 30, 2016: net asset of $315.2 million, August 1, 2015: net asset of $210.0 million). An increase or decrease in interest rates of 25 basis points would cause an after-tax impact on net (loss) earnings of $0.6 million for net assets subject to interest rate risk included in cash and other long-term assets as at July 30, 2016.

14.5 Fuel and natural gas price risk

The Company entered into fuel and natural gas derivative contracts to manage the exposure to diesel fuel and natural gas prices and help mitigate volatility in cash flow for the transportation service business and utilities expense, respectively. As at July 30, 2016, the fixed to floating rate swap contracts outstanding had a notional volume of 2.8 million litres (January 30, 2016: 2.4 million litres, August 1, 2015: 2.4 million litres) of diesel and nil gigajoules ("GJ") (January 30, 2016: nil, August 1, 2015: 0.1 million GJ) of natural gas and a fair value of $0.1 million included in "Derivative financial assets" (January 30, 2016: less than $0.1 million included in "Derivative financial assets", August 1, 2015: $0.1 million included in "Derivative financial liabilities") in the unaudited Condensed Consolidated Statements of Financial Position. These derivative contracts have settlement dates extending to January 31, 2017 with monthly settlement of maturing contracts.

14.6 Classification and fair value of financial instruments

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

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

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

(in CAD millions)

Classification	Balance Sheet Category	Fair Value Hierarchy	**As at July 30, 2016**	As at January 30, 2016	As at August 1, 2015
Fair value through profit or loss					
U.S. $ derivative contracts	Derivative financial (liabilities) assets	Level 2	**(2.1)**	6.6	12.6
Fuel and natural gas derivative contracts	Derivative financial assets (liabilities)	Level 2	**0.1**	—	(0.1)
Long-term investments	Other long-term assets	Level 3	**1.3**	1.3	1.3

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 primarily short-term in nature.

15. Contingent liabilities

15.1 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.

15.2 Commitments and guarantees

Commitments

As at July 30, 2016, cash that was restricted represented cash pledged as collateral for letter of credit obligations issued under the Company's offshore merchandise purchasing program of less than $0.1 million (January 30, 2016: $7.0 million, August 1, 2015:

$19.6 million), which was equal to less than U.S. $0.1 million (January 30, 2016: U.S. $5.0 million, August 1, 2015: U.S. $15.0 million), and cash pledged as collateral with a counterparty related to outstanding derivative contracts of $0.6 million (January 30, 2016: nil, August 1, 2015: nil) which was equal to U.S. $0.5 million (January 30, 2016: nil, August 1, 2015: nil).

The Company has certain vendors which require minimum purchase commitment levels over the term of the contract. Refer to Note 14.2 “Liquidity risk”.

Guarantees

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

Royalty License Agreements

The Company pays royalties under various merchandise license agreements, which are generally based on the sale of products. Certain license agreements require a minimum guaranteed payment of royalties over the term of the contract, regardless of sales. Total future minimum royalty payments under such agreements were $14.1 million as at July 30, 2016 (January 30, 2016: $15.9 million, August 1, 2015: $14.7 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 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.

16. Net (loss) earnings per share

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

(Number of shares)	**13-Week Period Ended July 30, 2016**	13-Week Period Ended August 1, 2015	**26-Week Period Ended July 30, 2016**	26-Week Period Ended August 1, 2015
Weighted average number of shares per basic net (loss) earnings per share calculation	**101,877,662**	101,877,662	**101,877,662**	101,877,662
Effect of dilutive instruments outstanding	**—**	—	**—**	—
Weighted average number of shares per diluted net (loss) earnings per share calculation	**101,877,662**	101,877,662	**101,877,662**	101,877,662

“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 and 26-week period ended July 30, 2016, there were no outstanding dilutive instruments (2015: no outstanding dilutive instruments).

17. Income taxes

The Company’s total net cash payments of income taxes for the 13 and 26-week period ended July 30, 2016 was a net refund of $0.3 million and $23.4 million (2015: net refund of $46.9 million and $46.1 million), respectively, primarily relating to settlement for fiscal years 2005 to 2008.

In the ordinary course of business, the Company is subject to ongoing audits by tax authorities. While the Company believes that its tax filing positions are appropriate and supportable, periodically, certain matters are challenged by tax authorities. During the 13 and 26-week period ended July 30, 2016, the Company recorded an expense of $0.1 million and $0.1 million (2015: $0.3 million and $2.8 million), respectively, for interest on prior period tax re-assessments and accruals for uncertain tax positions. This expense was included in “Finance costs” in the unaudited Condensed Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income. 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.

A receivable of $3.8 million related to payments made by the Company for disputed tax assessments is now included in “Income taxes recoverable” (January 30, 2016: $3.8 million included in “Other long-term assets”, August 1, 2015: $3.8 million included in “Other long-term assets”) in the unaudited Condensed Consolidated Statements of Financial Position as at July 30, 2016.

The Company assesses the likelihood that the deferred tax assets will be realizable at the end of each reporting period and adjusts the carrying amount accordingly, by considering factors such as the reversal of deferred income tax liabilities, projected future taxable income, tax planning strategies and changes in tax laws. The Company has determined that it was not appropriate to recognize all of its deferred tax assets as it was not probable that sufficient taxable income would be available to allow part of the assets to be recovered. This accounting treatment has no effect on the Company's ability to utilize deferred tax assets to reduce future cash tax payments. The Company has not recognized the benefit of approximately $344.9 million of loss carry forwards on its Financial Statements (which expire in the taxation years of 2035 to 2037) and approximately $4.9 million in Ontario minimum tax, which could be used to reduce taxes payable in future periods. The aggregate amount of net deductible temporary differences and loss carry forwards as at July 30, 2016 was approximately $917.8 million. The unrecognized tax benefit associated with these items and the Ontario minimum tax totaled approximately $252.7 million using the statutory tax rate of 27.0%.

18. Changes in non-cash working capital balances

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

(in CAD millions)	**13-Week Period Ended July 30, 2016**	13-Week Period Ended August 1, 2015	**26-Week Period Ended July 30, 2016**	26-Week Period Ended August 1, 2015
Accounts receivable, net	**$ 8.5**	$ 11.4	**$ 12.2**	$ 5.0
Inventories	**74.5**	(25.1)	**43.5**	(67.7)
Prepaid expenses and other assets	**(16.3)**	(11.5)	**(23.3)**	(10.0)
Derivative financial assets and liabilities	**(0.8)**	(1.0)	**(4.9)**	(1.2)
Accounts payable and accrued liabilities	**(5.4)**	16.1	**(36.7)**	7.3
Deferred revenue	**(19.5)**	(11.0)	**(21.5)**	(7.6)
Provisions	**0.9**	(2.5)	**3.9**	(8.5)
Income and other taxes payable and recoverable	**(0.7)**	(6.3)	**0.7**	(24.2)
Effect of foreign exchange rates	**(1.1)**	(1.9)	**0.7**	(1.2)
Cash generated from (used for) non-cash working capital balances	**$ 40.1**	$ (31.8)	**$ (25.4)**	$ (108.1)

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

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

(in CAD millions)	**13-Week Period Ended July 30, 2016**	13-Week Period Ended August 1, 2015	**26-Week Period Ended July 30, 2016**	26-Week Period Ended August 1, 2015
Other long-term assets	**$ 3.8**	$ 1.2	**$ 4.8**	$ 4.1
Other long-term liabilities	**(1.4)**	(4.6)	**(3.7)**	(8.0)
Deferred tax assets and deferred tax liabilities	**—**	(0.1)	**—**	(0.3)
Other	**0.3**	0.6	**0.1**	0.1
Cash generated from (used for) non-cash long-term assets and liabilities	**$ 2.7**	$ (2.9)	**$ 1.2**	$ (4.1)

20. Gain on sale and leaseback transactions

During the 13-week period ended April 30, 2016, the Company completed the sale and leaseback of its logistics centre located in Calgary, Alberta, as previously announced on March 18, 2016, for a total consideration of $83.9 million. The Company has leased the property back and will continue to operate the logistics centre with no impact to the employees at the logistics centre.

The total gain on the sale and leaseback transactions was $40.1 million, $15.2 million of which was recognized immediately in the unaudited Condensed Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income. The remaining $24.9 million of the gain was deferred and is being amortized over the term of the lease as a reduction in rent expense, included in "Selling, administrative and other expenses" in the unaudited Condensed Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income. In determining the appropriate amount of gain to defer in accordance with IAS 17, the Company conducted an appraisal of the property to determine its fair value, with the assistance of independent qualified third party appraisers.

The valuation method used to determine the fair value of the property was the direct sales comparison approach for land. The deferred gain was included in “Other long-term liabilities” and “Accounts payable and accrued liabilities” in the unaudited Condensed Consolidated Statements of Financial Position.

During the 13-week period ended April 30, 2016, the Company completed the sale and leaseback of its logistics centre located in Vaughan, Ontario, as previously announced on November 13, 2015, for a total consideration of $100.0 million. The Company has leased the property back and will continue to operate the logistics centre with no impact to the employees at the logistics centre.

The total gain on the sale and leaseback transactions was $25.4 million which was recognized immediately in the unaudited Condensed Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income.

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

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

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

Upon completion of the sale and leaseback transactions, the Company was released from all previous agreements with Concord, and the demand mortgage for $25.0 million previously secured by the property in Burnaby, British Columbia, was discharged.

21. Events after the reporting period

Subsequent to the 26-week period ended July 30, 2016, the Company completed the sale of Park Street to 855 Park Street Properties Limited Partnership for proceeds of $18.1 million, of which $0.5 million is being held in escrow pending completion of environmental remediation. This property including land, building and equipment had a net carrying value of $12.6 million included in “Property, plant and equipment” and “Investment properties” in the unaudited Condensed Consolidated Statement of Financial Position as at July 30, 2016. The ultimate amount of gain recognition will be determined during the 13-week period ending October 29, 2016.

Subsequent to the 26-week period ended July 30, 2016, Sears Canada has entered into a letter of intent for a real estate transaction with consideration of $70.0 million. The real estate transaction is subject to completion of definitive documentation and customary due diligence and, if completed, would be expected to close during the 13-week period ending October 29, 2016.

22. Approval of the unaudited condensed consolidated financial statements

The Financial Statements were approved by the Board of Directors and authorized for issue on September 6, 2016.

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

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