

Frequently Asked Questions

Proposed Joint Plan of Compromise and Arrangement of the Sears Canada Entities

Prepared March 2019 by Ursel Phillips Fellows Hopkinson LLP

INTRODUCTION

What is a Plan of Compromise or Arrangement?

When a company is insolvent and obtains protection from its creditors under the *Companies' Creditors Arrangement Act* (the "**CCAA**"), as the Sears Canada Entities ("**Sears Canada**") have, one of the goals of the process is to come up with an agreement for determining how debts will be paid. Such an agreement is referred to as a plan of compromise or plan of arrangement, and sets out how the debtor company will pay its debts to creditors (including former employees). A plan of compromise or arrangement must be approved by a vote of creditors, as is outlined in more detail below.

In this FAQ, we will refer to the Proposed Plan of Compromise or Arrangement as "the **Plan**".

What are creditors?

The Plan makes frequent reference to creditors. Creditors are simply individuals, corporations, or other entities that are owed money by the debtor company, Sears Canada.

Former employees of Sears Canada who are owed money by the company are unsecured creditors. As such, former employees have a right to vote on the Plan. However, as outlined below, Ursel Phillips Fellows Hopkinson LLP is the court-appointed representative counsel for employees ("**Employee Representative Counsel**" or "**ERC**"), and will be voting on the Plan for all employees. As such, **no action is required from individual employees, as you do not need to vote on the Plan individually.**

THE PLAN OF COMPROMISE OR ARRANGEMENT

Can I see the Plan?

If you wish to review the plan in full, it is available online on the Monitor's website: <http://cfcanada.fticonsulting.com/searscanada/>

How was the Plan developed?

In developing the Plan, the Monitor worked closely with our firm, as well as, the Court-appointed Pension Representative Counsel, the Ontario Superintendent of Financial Services (the Ontario pension regulator) and Morneau Shepell Ltd., as the administrator of the Sears Canada Inc. Pension Plan.

Employee Representative Counsel believes the Plan is appropriate and in the best

interests of ERC Employees, and will therefore be voting the proxy of all ERC Employees FOR approval of the Plan.

What is in the Plan?

The contents of the Plan are set out in the Plan itself as well as in our letter to employees sent out earlier this month.

As almost all of the assets of Sears Canada, including real estate, have been sold, the Plan's goal is to distribute the funds from the sale of those assets to creditors. The amount that goes to each creditor depends on the creditor's legal entitlements.

What does the Plan provide to former employees?

We do not know the dollar amount that former employees will receive from Sears Canada under the Plan, but it will not be the full amount of the claim you have against Sears Canada. The Monitor estimates it will be between 6-8% of the amount former employees are owed by Sears Canada.

When will the distribution happen?

The Monitor's goal is to make an initial distribution on or before August 31, 2019. There may be further distributions of funds in the future, but we do not know at this point when further distributions could occur or how much they will be for.

I've received money from the Wage Earner Protection Program. How will that impact the distribution I receive from Sears Canada?

In the majority of cases, it is anticipated that former Sears Canada employees will be eligible to receive a greater recovery from the WEPP than they will receive in respect of their termination claim from the Sears Canada Entities.

If there is a distribution from the Sears Canada estate to former employees, the distribution will first go to the Federal Government to repay any amounts paid to that employee from WEPP (up to the amount paid by WEPP).

For example, if you have a termination claim of \$10,000, you will receive \$7,148.15 (less \$487.50 for a net payment of \$6,660.65) from the WEPP. You will then have an outstanding claim of \$2,851.85 against the Sears Canada estate. Assuming that distribution to unsecured creditors will be 10% (as an example), Sears Canada would owe the employee \$285.18. However, WEPP would get any amount up to \$7148.15 owed to that employee and is therefore entitled to receive that \$285.18 distribution from the estate.

What happens if the Plan is not approved?

It is important to understand that if the Plan is not approved, a bankruptcy is the most likely outcome. A bankruptcy is likely to lead to uncertainty and delay of distributions to unsecured creditors, including employees.

For more information, please see the Monitor's Report on the Plan (a copy of which is available on the Monitor's website: <http://cfcanada.fticonsulting.com/searscanada>).

VOTING ON THE PLAN

Who can vote on the plan?

Ursel Phillips Fellows Hopkinson, LLP, as Employee Representative Counsel, has been appointed as proxy holder for you, along with all other employees that we represent (collectively, the **“ERC Employees”**). This means that Employee Representative Counsel has authority to vote on your behalf and **you do not need to complete a proxy** or take any further steps.

In order for the Plan to be approved, it must be voted on and approved by a majority in number of the unsecured creditors that the Plan affects (referred to in the Plan as **“Affected Unsecured Creditors”**), in each unsecured creditor class. The majority of creditors that vote in favour of the Plan in each class must also hold at least two-thirds of the value of the total claims of the unsecured creditors. Voting is done either in person or by proxy at a Meeting held for the purpose of voting on the Plan.

When is the meeting?

The Meeting to vote on the Plan will be held on March 28, 2019 in Toronto, Ontario. Details of the Meeting and the Sanction Hearing are contained in the Notice of Meetings and Sanction Hearing enclosed in this package. Remember, Employee Representative Counsel will be voting on your behalf in favour of the Plan. **You are not required to attend the Meeting.**

Is there anything I need to do?

No. As outlined above, Employee Representative Counsel will vote on your behalf, so no further action is needed.