

FREQUENTLY ASKED QUESTIONS

Distributions to Former Employee Creditors of the Sears Canada Entities

Prepared April 2021 by Ursel Phillips Fellows Hopkinson LLP

1. I KNOW OTHER EMPLOYEES ARE RECEIVING A PLAN DISTRIBUTION, BUT I HAVE NOT HEARD ANYTHING ABOUT MINE, WILL I GET ONE?

As discussed in more detail below, most former employees of the Sears Canada Entities received a greater amount through the Wage Earner Protection Program (“WEPP”) than they would have received through a Plan Distribution on account of their Termination Claim.

If you applied and received money under the WEPP, your WEPP payment must be repaid to the Government of Canada dollar for dollar from your Plan Distribution on account of your Termination Claim, as mandated by the WEPP program.

If you received a greater amount through WEPP than the value of your Plan Distribution on account of your Termination Claim, then you will not receive a Plan Distribution with respect to your Termination Claim from the Sears Canada Entities.

For more information about WEPP, please see the response to question 5, below.

2. HOW WAS MY TERMINATION CLAIM CALCULATED?

In 2017 and 2018, the Sears Canada Entities, Employee Representative Counsel (“ERC”) and the Monitor (FTI Consulting Canada Inc.) reached an agreement on how employee claims would be processed and calculated. The negotiations produced the common law severance formula, which resulted in employee claims being significantly higher than what employees would have received under the Employment Standards legislation in their province.

This formula, which formed part of the overall process for determining the claims of employees was approved when the Court issued the Employee and Retiree Claims Procedure Order on February 22, 2018

Pursuant to the Employee and Retiree Claims Procedure Order, in the spring of 2018, each employee received a Termination Claim Statement which outlined their claim against the Sears Canada Entities. This claim is the total amount that each employee is owed by the Sears Canada Entities.

3. HOW IS THE PLAN DISTRIBUTION CALCULATED?

The Monitor calculated the Plan Distribution that unsecured creditors, including employees, would receive by dividing the total funds available for distribution to unsecured creditors by the total proven claims of unsecured creditors.

This resulted in the following Plan Distribution percentages:

- Sears Canada Creditors are entitled to 10.38% of their claim
- SLH Creditors (former employees of SLH) are entitled to 23.06% of their claim

The total amount of your Plan Distribution before adjustments and taxes is calculated by taking your total claim and multiplying it by 10.38% for creditors of Sears Canada and by 23.06% for creditors of SLH.

For example, if you are a former employee of Sears Canada Inc. with a Termination Claim of \$80,000, and no other claims, your total proven claims have a value of \$80,000.

Your plan distribution before adjustments and taxes (discussed further below) is equal to:

$$\mathbf{\$80,000 \times 10.38\% = \$8,304.00}$$

Prior to receiving your Plan Distribution, **the Monitor will issue you a letter with information to help you understand how your Plan Distribution amount was calculated.** In that letter, the Monitor will include a table, similar to the one below, showing how your Plan Distribution was calculated and indicating what, if any, amounts were adjusted from your Plan Distribution as a result of WEPP payments, Employment Insurance overpayments, and/or withholding taxes. All of these adjustments are discussed in further detail below.

	Your Termination Claim	Your Other Employee Claim or Other Retiree Claim	Your Retiree Benefit Claim	Your Lifetime Discount Claim	Your Supplemental Plan Claim	Total
Claim Amount	\$80,000.00	\$0.00	\$0.00	\$0.00	\$0.00	\$80,000.00
<i>Plan Distribution as a % of Total Proven Claims</i>						<i>10.38%</i>
Your Plan Distribution before adjustments and applicable taxes [1]						\$8,304.00
Adjustments (where applicable):						
(-) Repayment of Wage Earner Protection Program amount received [2]						(\$6,660.55)
(-) Recovery of Employment Insurance benefits overpayment [3]						(\$200.00)
Your Plan Distribution after adjustments, <u>before</u> applicable taxes						\$1,443.45
(-) Withholding taxes [4]						(\$144.35)
Your Plan Distribution <u>after</u> applicable taxes						\$1,299.10

4. I RECEIVED EMPLOYMENT INSURANCE, WILL THIS EFFECT MY PLAN DISTRIBUTION?

If you applied for and received EI benefits following your termination from the Sears Canada Entities, the payment of your Plan Distribution may result in an EI overpayment. Service Canada is entitled under legislation to recover the EI overpayment amount from your Plan Distribution.

The Monitor is required to advise Service Canada of your Plan Distribution, and to withhold and remit directly to Service Canada a portion of your Plan Distribution to compensate Service Canada for the EI overpayment. This means that any overpayment will be paid by the Monitor directly to Service Canada, and the remainder of your Plan Distribution after adjusting for WEPP, EI, and withholding taxes will be sent to you.

You may have received a letter from Service Canada that indicates that all or a part of your Plan Distribution will be applied against EI received during a period following your termination from the Sears Canada Entities. If you think that Service Canada has made an error in calculating your overpayment, you have 30 days from when they communicate their decision to you to request reconsideration. If you request a reconsideration, we kindly ask that you let ERC know so that we can identify any issues that may affect or impact the Plan Distributions of other employees.

If you would like more information on filing a request for reconsideration regarding an EI decision, you can visit the Service Canada website at:

<https://www.canada.ca/en/services/benefits/ei/ei-reconsideration.html>

If you have any questions or need advice about filing a request for reconsideration, please contact ERC.

5. I RECEIVED MONEY THROUGH THE WAGE EARNER PROTECTION PROGRAM (“WEPP”) WILL THIS EFFECT MY PLAN DISTRIBUTION?

The Wage Earner Protection Plan, or “WEPP” is a program enacted by the Federal Government to provide relief to, and compensate former employees for the loss of wages or other eligible amounts, including termination and severance pay, owed to them by an employer that files for bankruptcy.

Almost all former employees with a Termination Claim were eligible to apply to the Wage Earners Protection Program (“WEPP”) and they could receive **up to a maximum of \$6,660.55** after legislated WEPP deduction, depending on the size of their Termination Claim.

If you applied and received money under the WEPP, your WEPP payment must be repaid to the Government of Canada dollar for dollar from your Plan Distribution on account of your Termination Claim, as mandated by the WEPP program.

For most former employees who received WEPP, the amount they received from WEPP was greater than their Plan Distribution on account of their Termination Claim, so they will not actually receive any further money from Sears Canada Entities on account of their Termination Claim.

On the other hand, former employees whose Plan Distribution on account of their Termination Claim is greater than the amount they received under the WEPP; their Plan Distribution on account of Termination Claim will be reduced by the WEPP amount they received and they will receive the difference after EI overpayment adjustment and applicable withholding taxes are applied.

6. IS A WITHHOLDING TAX APPLIED?

The Sears Canada Entities have reached agreements with the Canada Revenue Agency and Provincial tax authorities (where applicable) regarding the amount of your Plan Distribution that is subject to withholding taxes. These are similar to the taxes withheld from a paycheque you would receive from your employer. These taxes will be remitted and reported to the CRA and provincial tax authorities (where applicable) on your behalf.

The amount of taxes withheld from your Plan Distribution payment may not be equal to your actual tax liability. Your actual tax liability will be determined when you file your 2021 taxes. When you file your 2021 taxes, you may receive a partial refund, or be required to pay an additional amount, depending on your personal financial services.

Where required by taxing authorities, T4 slips with respect to the Plan Distribution will be issued and sent by mail by the end of February 2022.

It is important that you inform the Monitor and the ERC if your mailing address changes. Contact information will be provided at the end of the presentation.

7. HOW WILL I RECEIVE THE DISTRIBUTION?

Prior to receiving your Plan Distribution payment, the Monitor will issue you a letter with information to help you understand how your Plan Distribution amount was calculated.

Your Plan Distribution payment will be sent to you via **direct deposit** based on payroll records of Sears Canada Entities. If the Sears Canada Entities do not have your direct deposit banking information, a **cheque** will be issued to you based on mailing address information maintained by the Sears Canada Entities or based on information directly provided to the Monitor.

If your banking or mailing information has changed recently please contact the Monitor as soon as possible.

8. CONTACT INFORMATION

If you have further questions, please contact Employee Representative Counsel or the Monitor:

Ursel Phillips Fellows Hopkinson LLP

Email: SearsCanadaEmployees@upfhlaw.ca

Phone: 1 844 855 8352

The Monitor / FTI Consulting Canada Inc.

Email: SearsEmployeeClaimSite@fticonsulting.com

Phone: 1 855 649 8113

If you have pension entitlements and have further questions regarding your pension-related claims, please contact Koskie Minsky LLP, Pension Representative Counsel:

Koskie Minsky LLP (Pension Representative Counsel):

Email: SearsRepCounsel@kmlaw.ca

Phone: 1 800 244 7120