SEARS CANADA INC.

NOTICE OF ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS

NOTICE IS HEREBY GIVEN

That the annual and special meeting (the “Meeting”) of holders (the “Shareholders”) of common shares in the capital of Sears Canada Inc. (the “Corporation”) will be held in Room 5B1 (Fifth Floor), 290 Yonge Street, Suite 700, Toronto, Ontario, on Thursday, April 21, 2011 at 8:00 a.m., Eastern time, for the following purposes:

1. to receive the audited consolidated financial statements of the Corporation for the financial year ended January 29, 2011 and the auditors' report thereon;

2. to elect directors;

3. to appoint auditors and to authorize the directors to fix the auditors’ remuneration;

4. to consider and if advisable, confirm as amended, By-Law No. 1 of the Corporation; and

5. to transact such other business as may properly come before the Meeting or any adjournment or postponement thereof.

Toronto, Ontario
March 22, 2011

By order of the Board of Directors.

Franco Perugini
Associate General Counsel and
Corporate Secretary

Shareholders who are unable to be present at the Meeting are requested to complete the enclosed form of proxy. Completed proxies must be returned to CIBC Mellon Trust Company, the Corporation’s transfer agent, by 5:00 p.m. (Eastern time) on April 20, 2011, or delivered to the registration table on the day of the Meeting prior to the commencement of the Meeting.

SEARS CANADA INC.

MANAGEMENT PROXY CIRCULAR

TABLE OF CONTENTS

1. INFORMATION ON VOTING AND PROXIES

1.1 Solicitation of Proxies

This management proxy circular (the "Circular") and the information contained herein are furnished in connection with a solicitation of proxies by or on behalf of the management of Sears Canada Inc. (the "Corporation" or "Sears Canada") for use at the annual and special meeting of shareholders (the "Meeting") called for Thursday, April 21, 2011 at 8:00 a.m., Eastern time, and any adjournment or postponement thereof. The solicitation of proxies will be primarily by mail. Proxies may also be solicited personally or by telephone by executive officers or employees of the Corporation. The cost of the solicitation will be paid by the Corporation.

Unless otherwise stated, the information contained in the Circular is current as of March 22, 2011 and all dollar amounts are in Canadian dollars.

1.2 Record Date

The board of directors of the Corporation (the "Board") has fixed March 21, 2011 as the record date (the "Record Date") for determining the holders (the "Shareholders") of common shares in the capital of the Corporation (the "Shares") who are entitled to receive notice of, and vote at, the Meeting. The failure of any Shareholder to receive notice of the Meeting does not deprive the Shareholder of the right to vote at the Meeting.

1.3 Appointment of Proxies

If a registered Shareholder does not plan to attend the Meeting, he or she may:

(1) authorize the persons named in the proxy to vote his or her Shares by completing, signing and dating the enclosed proxy form and returning it in the envelope provided; or

(2) **appoint some other person to attend and act on the Shareholder's behalf at the Meeting, including to vote the Shares on his or her behalf, by writing the name of that person in the space provided on the enclosed proxy form, signing and dating the proxy and returning it in the envelope provided.**

Completed proxies, for registered Shareholders, must be returned to CIBC Mellon Trust Company, the Corporation's transfer agent, by 5:00 p.m., Eastern time, on April 20, 2011 or, if the Meeting is adjourned or postponed, not later than 5:00 p.m., Eastern time on the business day prior to the date of the adjourned or postponed Meeting, or delivered to the registration table on the day of the Meeting prior to the commencement of the Meeting or any adjournment or postponement thereof.

CIBC Mellon Trust Company independently counts and tabulates proxies to preserve the confidentiality of individual votes. Proxies are referred to the Corporation only in cases where a Shareholder clearly intends to communicate with management, in the event of questions as to the validity of a proxy, or where it is necessary to meet applicable legal requirements.

Only registered Shareholders, or the persons they appoint as their proxies, are permitted to vote at the Meeting. However, in many cases, Shares of the Corporation beneficially owned by a holder (a "Non-Registered Holder") are registered either:

(a) in the name of an intermediary (an "Intermediary"), such as a broker, custodian, nominee or fiduciary, that the Non-Registered Holder deals with in respect of the Shares; or

(b) in the name of a depository (such as CDS Clearing and Depository Services Inc. or the Depository Trust & Clearing Corporation).

The Corporation has distributed copies of the Notice of Meeting, the Circular and the enclosed proxy form (collectively, the "Meeting Materials") to the Intermediaries for onward distribution to Non-Registered Holders. Intermediaries are required to forward the Meeting Materials to Non-Registered Holders unless a Non-Registered Holder has waived the right to receive them. Typically, Intermediaries will use a service company (such as Broadridge Investor Communications Solutions, Canada) to forward the Meeting Materials to Non-Registered Holders.

Generally, Non-Registered Holders who have not waived the right to receive the Meeting Materials will either:

(i) receive a voting instruction form; or

(ii) be given a proxy which has already been signed by the Intermediary (typically by a facsimile, stamped signature) which is restricted to the number of Shares beneficially owned by the Non-Registered Holder but which is otherwise not completed.

Non-Registered Holders should carefully follow the instructions that accompany the voting instruction form or the proxy, including those indicating when and where the voting instruction form or the proxy is to be delivered. Voting instruction forms, in some cases, may permit the completion of the voting instruction form by telephone or through the internet. A Non-Registered Holder wishing to attend and vote at the Meeting in person should follow the corresponding instructions on the voting instruction form or, in the case of a proxy, strike out the names of the persons named in the proxy and insert the Non-Registered Holder's name in the space provided.

1.4 Revocation of Proxies

A registered Shareholder who has given a proxy may revoke the proxy at any time by:

(a) completing and signing a proxy bearing a later date and delivering it to CIBC Mellon Trust Company as described above; or

(b) delivering a written statement, signed by the Shareholder or the Shareholder's attorney, to:

i. the Office of the Secretary of the Corporation at 290 Yonge Street, Suite 700, Toronto, Ontario, M5B 2C3 at any time up to and including 5:00 p.m., Eastern time, on April 20, 2011 or, if the Meeting is adjourned or postponed, not later than 5:00 p.m., Eastern time, on the business day preceding the day of the adjourned or postponed Meeting; or

ii. the Chair of the Meeting on the day of the Meeting, prior to the commencement of the Meeting or any adjournment or postponement thereof; or

(c) in any other manner permitted by law.

A Non-Registered Holder may revoke voting instructions or a waiver of the right to receive the Meeting Materials and to vote given to an Intermediary at any time by written notice to the Intermediary, except that an Intermediary may not be able to act on a revocation of a voting instruction form or a waiver of the right to receive Meeting Materials and to vote that is not received by the Intermediary at least seven days prior to the Meeting.

1.5 Voting of Proxies

All Shares represented by a properly executed proxy will be voted, or withheld from voting, in accordance with the instructions of the Shareholder specified on the proxy and on any ballot that may be called for at the Meeting. If the Shareholder does not specify how he or she wishes the votes cast, the person named on the proxy will vote the Shares **for** the election of the proposed director nominees listed in this Circular, **for** the appointment of auditors and the authorization of the directors to fix the auditors' remuneration and **for** the amendment to By-law No. 1. The proxyholder has discretionary authority with respect to amendments or variations to the matters identified in the notice of Meeting and other matters which may properly come before the Meeting or any adjournment or postponement thereof. As at the date of the Circular, the management of the Corporation is not aware of any such amendments, variations or other matters.

1.6 Majority Voting

In May 2008, the Board adopted the practice of majority voting. Shareholders have the option of voting for or withholding votes from a director that has been nominated for election. The majority voting practice dictates that if the majority of the votes received by a director are withheld votes, those votes would count as "No" votes and the director would be required to tender his/her resignation to the Board. The Board would then consider the resignation prior to making a decision on accepting the resignation.

1.7 Share Capital and Principal Shareholders

The authorized share capital of the Corporation consists of an unlimited number of Shares and an unlimited number of preferred shares, issuable in one or more series (the "Class 1 Preferred Shares"). There are currently no Class 1 Preferred Shares outstanding. As at March 22, 2011, the issued and outstanding share capital of the Corporation consists of 105,375,995 Shares, listed for trading on the Toronto Stock Exchange (the "TSX") under the symbol "SCC".

Each Share registered is entitled to one vote at the Meeting or any adjournment or postponement thereof. Each matter to be voted on at the Meeting must be approved by a majority of the votes cast.

To the knowledge of the directors and executive officers of the Corporation, the only person or company that beneficially owns, or controls or directs, directly or indirectly, more than 10% of the Shares, according to the insider reports filed on the System for Electronic Disclosure by Insiders ("SEDI") is Sears Holdings Corporation ("Sears Holdings"), the beneficial owner of 97,341,670 Shares, representing approximately 92% of the outstanding Shares (according to the most recent insider report filed on May 4, 2010).

2. BUSINESS OF THE ANNUAL AND SPECIAL MEETING

2.1 Financial Statements

The audited consolidated financial statements of the Corporation for the 52-week period ended January 29, 2011 ("Fiscal 2010") and the auditors' report thereon will be placed before the Meeting. They are included in the 2010 Annual Financial Statements which are available on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com.

2.2 Election of Directors

The Corporation's articles of incorporation provide for the Board to consist of a minimum of seven and a maximum of 20 directors, with the number of directors within such limits to be determined by the Board. The current size of the Board has been fixed at eight directors. Four of the current eight directors, namely William C. Crowley, William R. Harker, Deidra C. Merriwether and Dene L. Rogers, are "Non-Independent Directors" (as such term is defined under Section 2.2.1 – "Definition of Independent Director") and the other four current directors, namely E. J. Bird, R. Raja Khanna, James McBurney and Debi E. Rosati, are "Independent Directors" (as such term is defined under Section 2.2.1 – "Definition of Independent Director"). The Nominating and Corporate Governance Committee of the Board (the "Governance Committee") is responsible for considering and recommending for approval by the Board qualified candidates to be nominated for election or appointment as directors. The Governance Committee bases its review of Board candidates on skill sets as outlined in the Governance Committee charter.

During the first quarter of Fiscal 2010, Jon Lukomnik informed the Board that he would not be standing for re-election to the Board at the Shareholder's meeting held on April 23, 2010. Management of the Corporation assisted the Governance Committee in identifying a list of prospective candidates for a new Independent Director. The Governance Committee, having carefully reviewed the credentials of the prospective candidate, James McBurney, recommended to the Board that he be nominated as a director and on April 23, 2010, Mr. McBurney was elected a member of the Board.

For further discussion regarding the process followed by the Governance Committee in identifying new candidates for nomination to the Board, see Section 5.8.3 – "Governance Committee".

Having approved the recommendation of the Governance Committee, the Board proposes that the eight persons listed in the table under Section 2.2.2 – "Background Information on Proposed Directors" be nominated for election or re-election to the Board (the "Proposed Directors"). **The persons named in the enclosed form of proxy intend to vote for the election of the persons indicated as nominees.** The persons proposed for nomination will hold office until the Corporation's next annual meeting of shareholders or until their successors are duly elected or appointed. The Proposed Directors are, in the opinion of the Board, well qualified to act as directors. The Board does not contemplate that any of the Proposed Directors will be unable to serve as a director but, if that should occur for any reason prior to the Meeting, the persons named in the enclosed form of proxy reserve the right to vote for another properly qualified nominee at their discretion. The Corporation's director retirement policy provides that a director may not stand for election or be appointed to fill a vacancy on the Board after his/her 70th birthday, unless the Board makes an exception to this policy by means of a special resolution.

2.2.1 Definition of Independent Director

The definition of "Independent Director" is derived from National Instrument 52-110 – Audit Committees, as amended, of the Canadian Securities Administrators ("NI 52-110"). For the purpose of determining independence, a director is an "Independent Director" if he or she has no direct or indirect material relationship with the Corporation or any of its affiliates, including Sears Holdings. A "material relationship" is a relationship which could, in the view of the Board, be reasonably expected to interfere with the exercise of a member's independent judgment. A "Non-Independent Director" is a director who is not an Independent Director. For additional information on the Independent and Non-Independent Directors, refer to Section 5.2.1 – "Composition".

2.2.2 Background Information on Proposed Directors

The following table sets forth the names and background information of the Proposed Directors, including, as applicable, their principal occupations, the election date of the Proposed Director, their current Board committee memberships, their Board and committee attendance record and the number of Shares and common shares of Sears Holdings which are beneficially owned, or controlled or directed, directly or indirectly, by each of the Proposed Directors. As at the date of the Circular and to the knowledge of the Corporation, there are no interlocking directorships between any of the Proposed Directors. Interlocking directorships arise when directors of one public issuer sit together on the boards of other public issuers.

E. J. BIRD

Lead Director
Private Investor

Age: 48

Independent Director
(residing in South Carolina, USA)

Director since: May 2006

Sears Canada Shareholdings
2010: 500 Shares
2009: 3,500 Shares
2008: 4,500 Shares
Sears Holdings Shareholdings
2010: 900

Dollar Amount of Sears Canada Shares[1]:
$9,840

[1] Dollar amount calculated using the Corporation's share price on the Toronto Stock Exchange as at the close of trading on the last business day of the Corporation's financial year end, being $19.68, and multiplying that price by the number of Shares held by each individual director.

E. J. Bird is a private investor. Mr. Bird is also the President of Overflow Ministries, a not-for-profit organization, and has held this position since 2003. Mr. Bird served as an analyst for Levine Investments from 2002 to 2010 and as Chief Financial Officer of ESL Investments, Inc., a private investment firm, from 1991 to 2002. Mr. Bird is a director of GWR Global Water Resources Corp.

Board and Committee Attendance:

Board Meetings Attended		Committee Meetings Attended		
# of Meetings	Attendance Rate (%)	Committee Membership	# of Meetings	Attendance Rate (%)
9 of 9	100%	AUD (Chair)	5 of 5	100%
		HRC	1 of 1	100%
		INV	6 of 6	100%

AUD: Audit Committee

HRC: Human Resources and Compensation Committee (member until April 2010)

INV: Investment Committee

DIRECTOR EXPERTISE

Mr. Bird brings a wealth of financial knowledge to the Board and has extensive expertise with respect to financial matters. Mr. Bird holds a Bachelor's degree in Business Administration (Accounting) from Baylor University and a Master in Business Administration degree from Stanford Graduate School of Business. Mr. Bird is licensed as a Certified Public Accountant.

WILLIAM C. CROWLEY

Chairman of the Board
President and Chief Operating Officer
ESL Investments, Inc.
(investment firm)

Age: 53

Non-Independent Director
(residing in New York, USA)

Director since: March 2005

Sears Canada Shareholdings
2010: Nil
2009: Nil
2008: Nil
Sears Holdings Shareholdings
2010: 73,185

Dollar Amount of Sears Canada Shares: Nil

William C. Crowley is currently the President and Chief Operating Officer of ESL Investments, Inc. and has served in this capacity since January 1999. From March 2005 to January 2011, Mr. Crowley held the position of Executive Vice President and Chief Administrative Officer at Sears Holdings. Mr. Crowley is a member of the board of directors of AutoNation, Inc. and AutoZone Inc.

Board and Committee Attendance:

Board Meetings Attended		Committee Meetings Attended		
# of Meetings	Attendance Rate (%)	Committee Membership	# of Meetings	Attendance Rate (%)
8 of 8	100%	HRC (Chair)	4 of 4	100%
		INV	5 of 5	100%

HRC: Human Resources and Compensation Committee

INV: Investment Committee (member since April 2010)

DIRECTOR EXPERTISE

Mr. Crowley is the Chairman of the Board and has considerable experience with the management of retail organizations, having held senior positions with both Sears Holdings and Kmart Holding Corporation. Mr. Crowley completed his undergraduate and law degree at Yale University and holds a Master's Degree from the University of Oxford.

WILLIAM R. HARKER

Senior Vice President
Sears Holdings Corporation
(retail business)

Age: 38

Non-Independent Director
(residing in New York, USA)

Director since: November 2008

Sears Canada Shareholdings
2010: Nil
2009: Nil
2008: Nil
Sears Holdings Shareholdings
2010: 12,746

Dollar Amount of Sears Canada Shares: Nil

William R. Harker is Senior Vice President at Sears Holdings. From September 2005 until 2010, Mr. Harker held various positions within Sears Holdings, including Senior Vice President, General Counsel and Corporate Secretary, Senior Vice President, Human Resources, General Counsel and Corporate Secretary, and Vice President, Acting General Counsel and Corporate Secretary. Prior to Sears Holdings, Mr. Harker served as an Associate with the law firm of Wachtell, Lipton, Rosen and Katz from September 2000 to August 2005. Mr. Harker sits on the board of directors of the Sears Roebuck Foundation and is a Trustee on the national Board of Trustees of the March of Dimes Foundation.

Board and Committee Attendance:

Board Meetings Attended		Committee Meetings Attended		
# of Meetings	Attendance Rate (%)	Committee Membership	# of Meetings	Attendance Rate (%)
8 of 8	100%	HRC INV (Chair)	4 of 4 6 of 6	100% 100%

HRC: Human Resources and Compensation Committee (member since April 2010)

INV: Investment Committee

DIRECTOR EXPERTISE

Mr. Harker brings a wealth of legal knowledge to the Board having held numerous senior legal roles at Sears Holdings. Mr. Harker holds a law degree from the University of Pennsylvania law school and a business administration degree from West Virginia University

R. RAJA KHANNA

Co-Chief Executive Officer
GlassBOX Television
(media-related company)

Age: 38

Independent Director
(residing in Ontario, Canada)

Director since: October 2007

Sears Canada Shareholdings
2010: 2,620 Shares
2009: 1,850 Shares
2008: 1,850 Shares
Sears Holdings Shareholdings
2010: Nil

Dollar Amount of Sears Canada Shares[1]: $51,561

[1] Dollar amount calculated using the Corporation's share price on the Toronto Stock Exchange as at the close of trading on the last business day of the Corporation's financial year end, being $19.68, and multiplying that price by the number of Shares held by each individual director.

R. Raja Khanna is currently the Co-Chief Executive Officer of GlassBOX Television and assumed this position in February 2008. Mr. Khanna co-founded QuickPlay Media Inc., a mobile video company, and served as its Chief Marketing Officer from 2004 until 2007. Previous to that position, Mr. Khanna founded Snap Media Corp., a dot com start-up company, and held the office of Chief Executive Officer from 1995 to 2004. Mr. Khanna is a member of the board of directors of QuickPlay Media Inc., GlassBOX Television Inc. and the National Screen Institute.

Board and Committee Attendance:

Board Meetings Attended		Committee Meetings Attended		
# of Meetings	Attendance Rate (%)	Committee Membership	# of Meetings	Attendance Rate (%)
9 of 9	100%	AUD GOV	5 of 5 3 of 3	100% 100%

AUD: Audit Committee

GOV: Nominating and Corporate Governance Committee

DIRECTOR EXPERTISE

Mr. Khanna's experience with digital media technologies and his entrepreneurial expertise make him an asset to the Board. Mr. Khanna holds a Bachelor of Laws degree from Osgoode Hall Law School and a Bachelor of Science degree in Philosophy and Genetics from the University of Toronto.

JAMES McBURNEY

Chief Executive Officer

HCF International Advisers Limited
(investment banking firm)

Age: 52

Independent Director
(residing in London, United Kingdom)

Director since: April 2010

Sears Canada Shareholdings
2010: 1,525 Shares
Sears Holdings Shareholdings
2010: Nil

Dollar Amount of Sears Canada Shares[1]:
$30,012

[1] Dollar amount calculated using the Corporation's share price on the Toronto Stock Exchange as at the close of trading on the last business day of the Corporation's financial year end, being $19.68 and multiplying that price by the number of Shares held by each individual director.

James McBurney is the Chief Executive Officer of HCF International Advisers Limited and assumed this position in September 2010. Prior to holding this position, Mr. McBurney was a private investor who was focused on the metals and mining sector. From 2005 to 2008, Mr. McBurney was the Chief Executive Officer of JNR (UK) Limited. Mr. McBurney also held the role of Managing Director and Head of the Natural Resources Group for Europe, Middle East, and Africa (EMEA) at Bank of America Securities from 2002 to 2005. Mr. McBurney is currently a director of Atlantic Sea Island Group LLC.

Board and Committee Attendance:

Board Meetings Attended		Committee Meetings Attended		
# of Meetings	Attendance Rate (%)	Committee Membership	# of Meetings	Attendance Rate (%)
8 of 8	100%	AUD GOV	3 of 3 2 of 2	100% 100%

AUD: Audit Committee (member since April 2010)

GOV: Nominating and Corporate Governance Committee (member since April 2010)

DIRECTOR EXPERTISE

Mr. McBurney's vast knowledge of the business, finance and investment sectors makes him an asset to the Board. Mr. McBurney holds a Master in Business Administration degree from Harvard Business School and a Bachelor of Arts degree *cum laude* from Yale College.

DEIDRA C. MERRIWETHER

Senior Vice President and President – Retail Services
Sears Holdings Corporation
(retail business)

Age: 42

Non-Independent Director
(residing in Illinois, USA)

Director since: April 2007

Sears Canada Shareholdings
2010: Nil
2009: Nil
2008: Nil
Sears Holdings Shareholdings
2010: Nil

Dollar Amount of Sears Canada Shares: Nil

Deidra C. Merriwether is the Senior Vice President and President – Retail Services of Sears Holdings and assumed this position in January 2011. Ms. Merriwether held the position of Senior Vice President, Procurement and Finance at Sears Holdings from March 2008 to December 2010 and was the Vice President, Finance, Retail Store, Supply Chain at Sears Holdings from October 2007 to February 2008. Previous to this position, Ms. Merriwether was the Vice President, Procurement and Purchasing of Sears Holdings from April 2005 until October 2007. Prior to this, Ms. Merriwether held various positions with Kmart Holding Corporation, including Vice President of Procurement from 2004 to 2005 and Divisional Vice President, Real Estate from 2002 to 2004.

Board and Committee Attendance:

Board Meetings Attended		Committee Meetings Attended		
# of Meetings	Attendance Rate (%)	Committee Membership	# of Meetings	Attendance Rate (%)
8 of 8	100%	HRC INV GOV	3 of 3 6 of 6 1 of 1	100% 100% 100%

HRC: Human Resources and Corporate Governance Committee (member since April 2010)

INV: Investment Committee

GOV: Nominating and Corporate Governance Committee (member until April 2010)

DIRECTOR EXPERTISE

Ms. Merriwether has been involved in the retail industry for several years and brings a deep understanding of the workings of the retail business to the Board. Ms. Merriwether has the ability to enable the Corporation to leverage its relationship with Sears Holdings for the benefit of the Corporation. Ms. Merriwether holds a Bachelor of Science degree in Chemical Engineering and a dual Master in Business Administration degree in finance and operations management.

DENE L. ROGERS

President and Chief Executive Officer
of the Corporation

Age: 50

Non-Independent Director
(residing in Ontario, Canada)

Director since: October 2005

Sears Canada Shareholdings
2010: Nil
2009: Nil
2008: Nil
Sears Holdings Shareholdings
2010: Nil

Dollar Amount of Sears Canada Shares: Nil

Dene L. Rogers was appointed as the President and Chief Executive Officer of the Corporation in December 2006. Prior to this appointment, Mr. Rogers held the position of Acting President since May 2006. From October 2005 until December 2006, Mr. Rogers served as the Executive Vice President, Restructuring and Business Development of Sears Holdings. Previous to this position, Mr. Rogers served as the Executive Vice President and General Manager of Kmart Holding Corporation from October 2003 until October 2005.

Board and Committee Attendance:

Board Meetings Attended		Committee Meetings Attended		
# of Meetings	Attendance Rate (%)	Committee Membership	# of Meetings	Attendance Rate (%)
8 of 8	100%	NA	NA	NA

Note: Mr. Rogers is not a member of any of the Committees, but attends the meetings of all Committees

DIRECTOR EXPERTISE

Mr. Rogers has extensive experience with corporate businesses such as Sears Holdings, Kmart Holding Corporation and Starwood Hotels and Resorts, holding executive positions with all companies. Mr. Rogers is a graduate of Yale University.

DEBI E. ROSATI

President
RosatiNet, Inc.
(management consulting firm)

Age: 49

Independent Director
(residing in Ontario, Canada)

Director since: April 2007

Sears Canada Shareholdings
2010: 2,600 Shares
2009: 2,600 Shares
2008: 2,600 Shares
Sears Holdings Shareholdings
2010: Nil

Dollar Amount of Sears Canada Shares[1]:
$51,168

[1] Dollar amount calculated using the Corporation's share price on the Toronto Stock Exchange as at the close of trading on the last business day of the Corporation's financial year end, being $19.68, and multiplying that price by the number of Shares held by each individual director.

Debi E. Rosati, FCA, ICD.D is currently the President of RosatiNet, Inc., a management consulting firm which she founded in 2001, and is a corporate director focused on corporate governance and corporate strategy for emerging technology companies. Ms. Rosati has over twenty years experience in financial, operational and strategic management in the technology sector with senior finance roles in both public and private corporations, as well as a general partner with a national venture capital firm. Ms. Rosati is currently a member of the Board of Directors of the CICA Risk Oversight Governance Board.

Board and Committee Attendance:

Board Meetings Attended		Committee Meetings Attended		
# of Meetings	Attendance Rate (%)	Committee Membership	# of Meetings	Attendance Rate (%)
9 of 9	100%	AUD HRC GOV	5 of 5 4 of 4 3 of 3	100% 100% 100%

AUD: Audit Committee

HRC: Human Resources and Compensation Committee

GOV: Nominating and Corporate Governance Committee

DIRECTOR EXPERTISE

Ms. Rosati's experience in financial, operational and strategic management roles in the Canadian market makes her a valuable member of the Board. Ms. Rosati holds a Honours Bachelor's degree in Business Administration from Brock University and is a Fellow Chartered Accountant and certified Director, ICD.D (2008).

Jon Lukomnik ceased to be a director of the Board effective April 23, 2010. Mr. Lukomnik's Board and Committee attendance is summarized below:

JON LUKOMNIK (former director)

Board and Committee Attendance:

Board(1) Meetings Attended		Committee Meetings Attended		
# of Meetings	Attendance Rate (%)	Committee Membership(2)	# of Meetings	Attendance Rate (%)
1 of 1	100%	AUD GOV (Chair) INV (Chair)	2 of 2 1 of 1 1 of 1	100% 100% 100%

Notes:

(1) Director until April 23, 2010
(2) Member until April 23, 2010

AUD: Audit Committee
GOV: Nominating and Corporate Governance Committee
INV: Investment Committee

2.2.3 Cease Trade Orders and Bankruptcies

To the knowledge of the Corporation, except as hereinafter described, no Proposed Director of the Corporation is, has or has been, within ten years before the date hereof, (a) a director, chief executive officer or chief financial officer of any company, including Sears Canada or any personal holding company, that (i) was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days, and which was issued while that person was acting in that capacity, or (ii) was subject to an order that was issued after the Proposed Director ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer; or (b) a director or executive officer of any company, including Sears Canada or any personal holding company, that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or (c) become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager, or trustee appointed to hold the assets of the Proposed Director.

In 2009, the shareholders of JNR (UK) Limited, a company of which James McBurney was chief executive officer, voluntarily liquidated the company with enough assets to pay all creditors in full.

On August 8, 2006, a cease trade order (the "Order") was issued by the Ontario Securities Commission against SHLD Acquisition Corp. ("SHLD"), a wholly-owned indirect subsidiary of Sears Holdings, in connection with its offer to purchase any and all of the outstanding Shares of the Corporation, other than Shares already held by SHLD and its affiliates, for $18.00 per Share pursuant to an Offer to Purchase dated February 9, 2006 and accompanying circular, as amended (the "Offer"). The Order prohibited SHLD from taking up and paying for Shares deposited under the Offer until certain disclosure with respect to the Offer was made, including disclosure regarding certain Shares being excluded from the calculation of the majority of the minority approval required in connection with a proposed subsequent acquisition transaction. Pursuant to a Notice of Variation and Change in Information dated November 16, 2006, SHLD amended the Offer to comply with the terms of the Order. The Offer expired on November 27, 2006. The Order applies to any other offer that may be made for Shares of the Corporation by Sears Holdings, or any affiliate thereof, with respect to the Shares held by certain Shareholders. William R. Harker is a director of SHLD. William C. Crowley, Chairman of the Board, is a former director of SHLD and Dene L. Rogers, President and Chief Executive Officer of the Corporation, is a former President of SHLD.

2.3 Appointment of Auditors

The persons named in the enclosed form of proxy intend to vote for the appointment of Deloitte & Touche LLP, Chartered Accountants, as auditors of the Corporation, at a remuneration to be fixed by the directors, to hold office until the next annual meeting of Shareholders. Deloitte & Touche LLP have served as auditors of the Corporation since 1984. In accordance with its mandate, the Audit Committee of the Board (the "Audit Committee") regularly examines the scope of all services provided by the auditors to the Corporation. In order to enhance such examination and assess the independence of the auditors, the Board has adopted a policy which establishes the scope of the auditors' services and requires the Audit Committee to pre-approve all services provided by Deloitte & Touche LLP. This policy outlines the services which are audit and audit-related, non-audit related and prohibited. Under this policy, the aggregate fees for non-audit related services rendered by the auditors cannot exceed 50% of the total audit and audit-related fees per annum without the pre-approval of the Audit Committee.

Fees paid or accrued, with the approval of the Board, in connection with the services rendered by Deloitte & Touche LLP in fiscal 2009 and Fiscal 2010 were as follows:

External Auditor Service Fees	Fiscal 2010	Fiscal 2009
Audit Fees(1)	$1,394,960	$1,394,960
Audit-Related Fees(2)	$525,777	$246,402
Tax Fees(3)	$19,000	$2,544
All Other Fees(4)	$102,840	$123,974
Total	**$2,042,577(5)**	**$1,767,880(6)**

(1) Includes fees for professional services provided in conjunction with the audit of the Company's financial statements, review of the Company's quarterly financial statements and attestation services normally provided in connection with statutory and regulatory filings and engagements.
(2) Includes fees for assurance and related professional services primarily related to the audit of associate benefit plans, statutory financial audits, services related to business acquisitions or divestitures, and services provided to ensure compliance with new regulatory requirements.
(3) Includes fees for professional services provided related to tax compliance, tax planning, and other tax advice.
(4) All other fees, if any, consist of permissible work performed by Deloitte & Touche LLP which is not included in the categories above.
(5) Included in this figure are fees in the amount of approximately $147,926 which relate to audit and audit-related services performed in respect of fiscal 2009.
(6) Included in this figure are fees in the amount of approximately $37,100 which relate to audit and audit-related services performed in respect of fiscal 2008.

2.4 Amendment to By-Law No. 1

By-Law No. 1 relates generally to the transaction of business of the Corporation and was approved by the Shareholders of the Corporation on May 15, 1985. Specifically, By-Law No. 1 addresses the procedural requirements for: (i) Directors, Officers and Shareholders; and (ii) the declaration and payment of dividends and the execution of the Corporation's instruments. The proposed amendments to By-Law No. 1, attached as Appendix "A" to this Management Proxy Circular, would come into force if and when confirmed by the Shareholders at the Meeting. The purpose of the amendment to By-Law No. 1 is to facilitate the administration of the Corporation's Board meetings and Shareholder meetings in the event the Chairman does not act as Chair of a meeting and to ensure that either the President of the Corporation or another director is able to perform in that capacity as Chair of a Board or a Shareholder meeting.

2.5 Shareholder Proposals

Pursuant to the *Canada Business Corporations Act*, proposals by Shareholders to be considered for inclusion in the management proxy circular for the 2012 annual meeting of Shareholders must be received by the Office of the Secretary of the Corporation by December 23, 2011.

3. EXECUTIVE COMPENSATION

3.1 Compensation Discussion and Analysis

The Corporation's commitment to improving the lives of its customers by providing quality services, products and solutions that earn their trust and build lifetime relationships is contingent upon the Corporation's ability to successfully attract, motivate and retain highly talented executive officers who are committed to the Corporation's vision, mission and values. The Corporation firmly believes that its executive compensation strategy is in line with attracting and retaining executive officers who successfully contribute to the Corporation's accomplishments.

This Compensation Discussion and Analysis ("CD&A") describes and explains the significant elements of compensation awarded to, earned by, paid to or payable to the Corporation's named executive officers, as defined in Form 51-102F6 under National Instrument 51-102 – Continuous Disclosure Obligations (the "Executive Compensation Rules") for Fiscal 2010. The Executive Compensation Rules require the Corporation to provide specific disclosure on the Chief Executive Officer, the Chief Financial Officer and the three other most highly compensated executive officers of the Corporation who served as executive officers during Fiscal 2010 and whose total compensation, individually, was more than $150,000 ("Named Executive Officer" or "NEO").

This CD&A discusses the Corporation's compensation philosophy, program design, objectives, and the Human Resources and Compensation Committee's (the "HRCC") decisions for the following Named Executive Officers:

Dene L. Rogers, President and Chief Executive Officer
Sharon R. Driscoll, Senior Vice-President and Chief Financial Officer
Allen R. Ravas, former Senior Vice-President and Chief Financial Officer (until December 2010)
Peter Kalen, Senior Vice-President, Financial and Home Services
Klaudio Leshnjani, Senior Vice-President and General Counsel
Ismat Mirza, Senior Vice-President, Business Capability and Human Resources

3.1.1 Compensation Philosophy

The HRCC's compensation philosophy is principled on the Corporation's executive compensation being:

- Aligned with the goals of the Corporation;
- Aligned with the goals and interests of the Shareholders; and
- Able to attract, motivate and retain qualified, experienced executives for the Corporation.

The Corporation's executive compensation programs are established and designed to:

- Provide a competitive total rewards package;
- Reward executives for corporate performance; and
- Support business objectives.

The compensation program for the executive officers is pay for performance based, with a direct line of sight to corporate and individual performance.

Executive Peer Group

The Corporation's target level of total compensation is a median position in the market of twenty Canadian companies of comparable size, revenue, and business. This group of comparator companies in retail and general industry, as listed immediately below, was reviewed to ensure that employment positions within both industries are comparable to the positions available at the Corporation. The comparable compensation components were base salary, target annual incentives, target long-term incentives, and target total compensation. In fiscal 2009, comparator companies, as well as other companies with which the Corporation competes for talent, were reviewed.

Executive Peer Group			
Retail Organizations		**General Industry Organizations**	
Alimentation Couche-Tard Inc.	RONA Inc.	AbitibiBowater-Inc.	McDonald's Restaurants of Canada Limited
Canadian Tire Corporation, Limited	Shoppers Drug Mart Corporation	Canada Post Corporation	Rogers Communications Inc.
The Home Depot Canada Inc.	Sobeys Inc.	Canadian National Railway Company	TELUS Corporation
The Hudson's Bay Company	Staples Canada Inc./ The Business Depot Limited	Finning International Inc.	Tim Hortons Inc.
Metro Inc.	Wal-Mart Canada	Maple Leaf Foods Inc.	Transcontinental Inc.

The comparability of each executive officer position is assessed by an independent executive compensation consulting firm, AON Hewitt, formerly Hewitt Associates, which is retained by the Corporation. The mandate of AON Hewitt is to serve the Corporation and, at the request of the HRCC, to provide assistance and guidance to the HRCC in its review of executive compensation, including the competitiveness of pay levels, executive compensation design issues, market trends, and technical considerations as required. AON Hewitt may perform services for the HRCC, provided that such services are not in conflict with its mandate to serve the Corporation.

The fees paid to AON Hewitt for services performed during Fiscal 2010, relating to executive compensation totaled approximately $8,096. The services performed were in relation to the review of the Corporation's fiscal 2009 Management Proxy Circular. For Fiscal 2010, AON Hewitt did not perform any services for the HRCC.

3.1.2 Human Resources and Compensation Committee

The HRCC is responsible for overseeing the development of the Corporation's overall human resources strategy, policies and practices, which includes a strategy for fair and competitive compensation of executive officers in support of the achievement of the Corporation's business strategy, as well as the development of other compensation programs for the benefit of all associates. The HRCC oversees:

- The development of the Chief Executive Officer's goals and objectives and evaluates the Chief Executive Officer's performance based on the achievement of these goals;
- The compensation and performance of the executive officers of the Corporation and receives periodic performance reports and compensation recommendations from the Chief Executive Officer, as necessary, with respect to the executive officers; and
- The development of an appropriate succession plan for the executive officers. See Section 5.8.2 – "Human Resources and Compensation Committee".

The Chief Executive Officer's performance is evaluated by the HRCC on a regular basis and is directly tied to the achievement of corporate goals and positive corporate results. The HRCC is kept apprised of the Corporation's performance through frequent communication with the Chief Executive Officer.

3.1.3 Composition of HRCC

During Fiscal 2010, the HRCC was, for the period of January 31, 2010 to April 23, 2010, comprised of William C. Crowley, E. J. Bird, William. R. Harker and Debi E. Rosati. From April 23, 2010 and onwards, the HRCC was comprised of Debi E. Rosati, William C. Crowley, William R. Harker and Deidra C. Merriwether.

Two members of the HRCC, being W. R. Harker and D. C. Merriwether are executive officers of Sears Holdings. W. C. Crowley is an executive officer of ESL Investments, Inc., an entity affiliated with Sears Holdings. None of the members of the HRCC are eligible to participate in the Corporation's executive compensation programs.

The accomplishments of the HRCC in Fiscal 2010 are highlighted below:

- Reviewed and approved changes to the Annual Incentive Program design and Long-Term Incentive Plan design;
- Reviewed and approved the Long-Term Incentive Plan for executive officers and designated salaried associates of the Corporation for the 2010-2012 Long-Term Incentive Plan period;
- Reviewed the Corporation's disclosure of its executive compensation;
- Reviewed and approved changes to the perquisite programs for executive officers and other senior management to be in-line with benchmark companies;
- Reviewed the executive organization structure and succession plans;
- Reviewed and identified high potential associates and assessed the capability of current talent; and
- Reviewed investment of and contributions to the Corporation's pension plan.

3.1.4 Compensation Structure and Mix

The Corporation's executive compensation program focuses on a total rewards structure, which is comprised of two components of compensation provided to the executive officers: (i) fixed compensation comprised of base salary, benefits, pension and perquisites; and (ii) performance-based compensation at risk comprised of an annual incentive program and long term incentive plan. The fixed elements provide a competitive base of secure compensation necessary to attract and retain executive talent. The performance-based elements are at risk, reward performance, and are designed to balance decisions regarding short term gains with the longer term interests of the Corporation.

The main components of the total rewards structure are:

- Base salary
- At-Risk Incentive Compensation Programs:
    - Annual Incentive Program ("AIP")
    - Long-Term Incentive Plan ("LTIP")
- Perquisites and Benefits
- Retirement Benefits

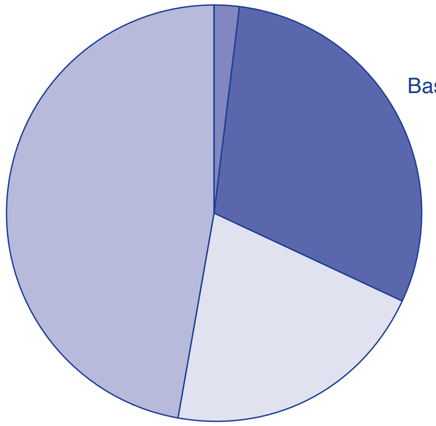
The following chart provides a summary of how each element of compensation is intended to reward the executive officers.

Compensation Element	Objective	Intended Rewards and Why It Is Used
Base Salary	To provide a portion of compensation as a fixed cash amount.	• To pay for competence in the role and for scope of responsibilities. • Market practice.
AIP	To provide a component of compensation that rewards near term performance results of the Corporation as a whole.	• Focuses attention on the achievement of annual profitability with lesser emphasis on revenue. • Market practice.
LTIP	A performance and employment retention-based compensation component designed to encourage long term sustainable performance results.	• Focuses attention on the achievement of profitability over a three-year period. • Attract, retain, engage and reward associates of the Corporation. • Market practice.
Perquisites and Benefits	To provide an added incentive to executive officers other than cash compensation, such as health coverage, vehicle allowances, club memberships, and financial planning allowances.	• To ensure that associates have access to health services to manage personal wellness. • Reinforces individual accountability for personal financial planning. • Market practice
Retirement Benefits	To provide a retirement savings vehicle for the associates of the Corporation.	• To provide associates with a retirement benefit through service earnings. The retirement plans manage associate and employer contributions to ensure ownership of each associate's retirement income. • Market practice.

The Corporation provides a significant proportion of compensation to its executive officers through AIP and LTIP. The actual compensation mix varies by executive level, reflecting the impact executive officers have on the Corporation's results.

**Aggregate Weighting of Compensation Components
for all Active Named Executive Officers**

The following chart shows the weighting of the various components of executive compensation based on actual base salary and target levels of incentive compensation for Fiscal 2010 for all active NEOs.



3.1.5 Base Salaries

Base salary reflects annual compensation received by an associate for the position they hold and the role they perform within the Corporation. Base salaries are normally set at median market values and balanced with relative roles and responsibilities and equity within the Corporation. The relative base salary of executive officers reflects experience and accountabilities of the role and the incumbent's performance in that role. Base salaries are normally benchmarked externally against comparable roles in peer companies and internally against similar roles. Salaries are then adjusted depending on the NEOs' past performance, experience, individual qualifications, promotion or other change in responsibilities, expected future contributions to the Corporation and current market competitiveness.

3.1.6 At-Risk Incentive Compensation Programs

The Corporation's at-risk incentive compensation programs are designed to reinforce the Corporation's business strategy approved by the Board. The incentive programs provide executives with the opportunity to earn cash incentives based on the achievement of pre-established performance objectives. Awards vary as a percentage of base salary, and incentive targets for all levels are reviewed periodically to ensure ongoing market competitiveness. Performance objectives are based on the Corporation's business plan for the fiscal year and are intended to be challenging but achievable.

For Fiscal 2010, there were two at-risk incentive compensation programs for the NEOs:

(a) AIP; and

(b) LTIP

In the past, the Corporation also provided for an Employees Stock Plan, which expired in April 2008. For additional information on the Employees Stock Plan, refer to Section 3.1.6 (c) – "Employees Stock Plan".

(a) AIP

The AIP is designed to reward the achievement of a targeted level of corporate performance measures and business objectives approved by the HRCC. The AIP is an important component of the total compensation offer designed to provide an annual financial reward based on the achievement of specific corporate and team goals.

The AIP is designed to achieve three important objectives:

- Motivate and reward eligible associates who contribute to successfully achieving team goals that support the Corporation's goals;
- Provide associates with a competitive total compensation package; and
- Attract and retain talented associates.

Associates must be actively employed on the date of AIP payment to be eligible to receive the payout (associates who retire or terminate their employment, voluntarily or involuntarily, before the date of payout are not eligible for the payment). As well, associates must be in good performance standing and not undergoing disciplinary action or in a performance improvement program in order to receive their AIP payment. Associates who are on an approved leave of absence (other than LTD) will receive their AIP payment upon their return to active employment. In the event of a Long-term disability ("LTD") or death during the year, the AIP payout will be pro-rated based on the date of LTD or death.

For the NEOs, the target bonus amount is a percentage of base salary, 100% of which relates to the achievement of two corporate performance objectives established in each financial year. For Fiscal 2010, corporate performance was measured by:

(i) Corporate Revenue; and

(ii) Operating Profit (total revenue less total expenses, except for those expenses which are interest, income tax, depreciation and amortization (the "Adjusted EBITDA"))

The weighting of the performance measures, in Fiscal 2010, was 10% for Corporate Revenue and 90% for Adjusted EBITDA. The Adjusted EBITDA threshold must be achieved for payout.

For each corporate performance measure, the threshold goal is set at 90% of target, and the maximum goal is set at 125% of target.

- If the threshold performance level of the corporate performance objective is achieved, then 60% of the target award is payable;
- If the target performance level of the corporate performance objective is achieved, then 100% of the target award is payable;
- If the maximum performance level of the corporate performance objective is achieved, then 200% of the target award is payable to recognize the achievement of superior corporate performance; and
- If the actual result of the corporate performance objective is between these performance levels, the award payable is adjusted on a straight-line basis.

For NEOs, the award levels and applicable payouts are described below:

Position[1]	**Threshold** *(60% payout of target)*[2]	**Target** *(100% payout of target)*[2]	**Maximum** *(200% payout of target)*[2]
President and Chief Executive Officer	54%	90%	180%
Senior Vice President and Chief Financial Officer	36%	60%	120%
Senior Vice-President	36%	60%	120%
Vice-President	24%	40%	80%

(1) Plan descriptions for current active NEOs
(2) Payouts are determined based on percentage of base salary

For Fiscal 2010, the Corporation did not meet the threshold level of Adjusted EBITDA; as a result, there will be no AIP payout for the NEOs. The table immediately below provides a summary of the results of the corporate performance objectives.

Performance Measure	Weighting of the Performance Measure	Results	AIP Performance Score
Corporate Revenue	10%	Revenue of $4,978.0 million	0%
Adjusted EBITDA	90%	Adjusted EBITDA of $319.7 million	0%

(b) LTIP

The Corporation's LTIP provides a cash incentive for executive officers and designated salaried associates to promote superior return on investment for Shareholders. The plan is a performance and employment retention based incentive program designed to measure and reward long-term corporate performance, as measured by total earnings determined before interest, income taxes, depreciation and amortization, and excluding certain items (the "LTIP EBITDA"), over a three-year cycle. It is designed to align participants' financial incentives with the financial goals of the Corporation and assist in attracting, retaining, engaging and rewarding executive officers and participating salaried associates. The award payout is paid to the LTIP participant in cash after the end of the three-year plan cycle.

Awards are designed to vary commensurately with achievement of corporate financial goals for the performance period. Under the LTIP, a cash award amount as a percentage of base salary is established by the HRCC for participants and correlates with the threshold, target and maximum levels of achievement of the corporate performance objective.

Upon the HRCC's approval, a new LTIP will continue to be introduced on an annual basis, recognizing three-year corporate performance. This "rolling" design for awards will result in annual payouts which began in 2009. The "rolling" design (as demonstrated in the chart below) is intended to serve as a retention tool and maintain the executive officers' or participating salaried associates' focus on achieving long term sustainable performance results.

Award Period	Fiscal Years					
	2008 *Feb 2008 to Jan 2009*	2009 *Feb 2009 to Jan 2010*	2010 *Feb 2010 to Jan 2011*	2011 *Feb 2011 to Jan 2012*	2012 *Feb 2012 to Jan 2013*	2013 *Feb 2013 to Jan 2014*
2008-2010	3-year Performance Period			Payout		
2009-2011		3-year Performance Period			Payout	
2010-2012			3-year Performance Period			Payout

For Fiscal 2010, the three-year plan cycle which began on January 31, 2010 will mature on February 2, 2013 (the "2010-2012 LTIP") and will recognize performance results from the 2010 to 2012 fiscal years.

For the 2010-2012 LTIP, corporate performance is measured in its entirety by LTIP EBITDA. The threshold level for the performance measure is 80% of target corporate performance; and the maximum level is 125% of target corporate performance. These achievement levels are established to align with the corporate incentive strategy and to be challenging but achievable:

- Meeting the threshold corporate performance objective results in a payout of 60% of the target award amount;
- Meeting the target corporate performance objective results in a payout of 100% of the target award amount; and
- Meeting the maximum corporate performance objective results in a payout of 250% of the target award amount.

For NEOs, the award levels and applicable payouts are described below:

Position(1)	**Threshold** *(60% payout of target)*(2)	**Target** *(100% payout of target)*(2)	**Maximum** *(250% payout of target)*(2)
President and Chief Executive Officer	180%	300%	750%
Senior Vice President and Chief Financial Officer	54%	90%	225%
Senior Vice-President	54%	90%	225%
Vice-President	24%	40%	100%

(1) Plan descriptions for current active NEOs
(2) Payouts are determined based on percentage of base salary

Participation in the LTIP, and eligibility for payment, is subject to the participant being actively employed at the end of the three-year plan cycle and on the date the award payment is made, and having been employed, without interruption, from the grant date to the end of that three-year plan cycle. In the event the LTIP participant's employment is terminated, voluntarily or involuntarily, or the participant retires before the end of the LTIP cycle, then such participant is not entitled to the award. In the event the LTIP participant dies before the end of the LTIP cycle, or is on an authorized leave of absence, then such participant, or his or her estate, as the case may be, is entitled to a pro-rata award payment.

The LTIP for the three year plan cycle which began on February 3, 2008 and matured on January 29, 2011 (the "2008-2010 LTIP") did not achieve the threshold level of LTIP EBITDA and as a result, will not result in a payout.

(c) Employees Stock Plan

The Corporation's Employees Stock Plan expired on April 19, 2008. Following the last grant in 2004, the Corporation discontinued equity compensation grants under the Employees Stock Plan to reinforce the Corporation's business strategy by providing compensation tied to corporate performance.

The Employees Stock Plan, originally established in 1984, provided for the award of stock options, special incentive awards of Shares, and share appreciation rights ("SARs") to executive officers and designated associates of the Corporation who demonstrated effective service and high levels of performance. The HRCC would determine the conditions of these awards. Unless specified otherwise, options granted under the Employees Stock Plan would vest in equal installments on each of the first three anniversaries of the date of the grant and expire ten years from the date of the grant. The exercise price for any options could not be less than the "Market Price" pursuant to the Employees Stock Plan, being the weighted average price at which the Shares traded on the TSX on the five trading days preceding the date of the grant. The value of SARs payments was calculated by the amount by which the Market Price of the Shares on the date of exercise of the SARs exceeded the price per Share payable on the exercise price of the option granted. In the case of an award of Shares by way of special incentive, all or part of the awarded Shares which vested could be received on a current basis, or deferred and taken as deferred share units ("DSUs"). The maximum number of Shares reserved for issuance to any one participant under the Employees Stock Plan was five percent (5%) of the Shares outstanding at the time of the grant or award (on a non-diluted basis). No such number of Shares was ever reserved for issuance to any one participant.

The entitlements of participants cease immediately upon termination of employment by the Corporation, with cause, or in the event that the participant terminated his/her employment with the Corporation. Upon termination of employment of the participant by the Corporation, without cause, all rights cease regarding Shares. All rights to exercise stock options granted to participants cease six months after the termination date.

Stock options, Shares or rights in respect thereof cannot be transferred or assigned other than by will or pursuant to the laws of succession or descent and distribution.

Notwithstanding the expiry of the Employees Stock Plan on April 19, 2008, all outstanding stock options may be exercised or allowed to expire in accordance with the terms of their grants. None of the NEOs have any outstanding stock options.

Employees Stock Plan (as at January 29, 2011)	# of Shares	% of outstanding capital
Shares issued under Plan (includes deferred Shares)	0	0.00%
Shares issuable under Plan	0	0.00%
Shares issuable under grants made	22,980	0.02%

(d) Outstanding Share-based and Option-based Awards

There are currently no outstanding share-based or option-based awards outstanding for any of the NEOs

3.1.7 Equity Compensation Plan Information

Aggregated Securities Issuable upon Exercise of Outstanding Options, Warrants and Rights to Employees and Directors as at January 29, 2011

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by securityholders	22,980 (Options)[(1)] 0 (restricted Shares) 0 (Deferred Share Units)	$18.02 N/A N/A	3,862,251 [(2)]
Equity compensation plans not approved by securityholders	N/A	N/A	N/A
Total	22,980	$18.02[(3)]	3,862,251

Notes:

(1) There are no outstanding options under the Stock Option Plan for Directors.
(2) A total of 3,647,501 Shares are available for future issuance under the Employees Stock Plan and a total of 214,750 Shares are available for future issuance under the Stock Option Plan for Directors as at January 29, 2011. Following the last grant in 2004, the Corporation discontinued equity compensation grants under the Employees Stock Plan. The Corporation also discontinued the granting of stock options under the Stock Option Plan for Directors following the last grant in 2003.
(3) Applies to outstanding options only.

3.1.8 Perquisites and Benefits

The Corporation provides executive officers and designated salaried associates with competitive perquisites and benefits that allow them to focus on their daily responsibilities and the achievement of the Corporation's objectives. Certain NEOs, other than the Chief Executive Officer, are provided with a company vehicle or vehicle allowance, club membership allowance, executive medical, and reimbursement for optional life insurance ("Officer Life") and long-term disability ("LTD") insurance premiums along with higher life insurance and LTD plan maximums. The Vice-Presidents receive the previously described benefits and perquisites with the exception of reimbursement for Officer Life and LTD insurance premiums and are subject to lower life insurance and LTD insurance maximums. Each member of the Corporation's senior leadership team, which includes Senior Vice-Presidents and Vice-Presidents ("Senior Leadership Team"), is provided with an annual financial planning allowance to reinforce individual accountability for personal financial planning.

3.1.9 Retirement Benefits

The Corporation provides post-retirement benefits through the Sears Canada Inc. Health and Welfare Plan (the "Health and Welfare Plan") to all associates who satisfied the eligibility requirements on or before December 31, 2008.

The Sears Registered Retirement Plan (the "SRRP") has two components: (i) a defined benefit ("DB") component for service up to and including June 30, 2008, which also includes a Supplementary Retirement Plan (the "SRP"); and (ii) a defined contribution ("DC") component effective July 1, 2008, which does not include a supplementary retirement plan.

For further detailed information, refer to Section 3.4 – "Pension Plans".

3.2 Report on President and Chief Executive Officer Compensation

Dene L. Rogers was appointed President and Chief Executive Officer of the Corporation on December 21, 2006. Prior to this appointment, Mr. Rogers served as the Corporation's Acting President since May 9, 2006 and was also an executive officer of Sears Holdings. Concurrent with his appointment as President and Chief Executive Officer, Mr. Rogers became an associate of the Corporation and ceased to be an employee of Sears Holdings.

3.2.1 Philosophy and Governance

The compensation of the Chief Executive Officer is generally designed by the Corporation to be aligned with the performance of the Corporation, consistent with the approach for other executive officers of the Corporation, as described under Section 3.1.1 – "Compensation Philosophy". In determining compensation for the Chief Executive Officer, the Corporation takes into account the responsibilities and accountability of the position. The relative weight assigned to the pay-at-risk components of the Chief Executive Officer's compensation is greater than to the weight assigned to the pay-at-risk components of other executive officers' compensation.

3.2.2 Compensation

The employment agreement between Mr. Rogers and the Corporation was revised in fiscal 2008 and became effective on October 1, 2008 (the "Rogers Employment Agreement"). The agreement has a term of three years (October 1, 2008 to October 1, 2011) with an option to extend the agreement for an additional twelve (12) month period by the mutual agreement of the Corporation and Mr. Rogers.

Under the Rogers Employment Agreement, Mr. Rogers is entitled to a base salary of $700,000 U.S. per annum, which will be reviewed periodically. This base salary is at or about the 28th percentile when compared to other chief executive officer positions at comparator companies.

Mr. Rogers' target bonus amount under the AIP for Fiscal 2010 is 90% of his annual base salary. The Corporation did not meet the threshold level of Adjusted EBITDA; as a result, there will be no AIP payout to Mr. Rogers for Fiscal 2010.

Under the 2010-2012 LTIP, if the specified performance targets are achieved during the performance period, Mr. Rogers will receive a payment equal to his target award if employed at the end of the three-year plan cycle and on the date the award payment is made (subject to certain termination-related exceptions), payable as soon as practicable after performance results are available. Mr. Rogers' target LTIP amount is 300% of base salary. The 2010-2012 LTIP also provides for minimum and maximum payment amounts that are dependent on the achievement of threshold and maximum levels of the performance goals. The Corporation did not meet the EBITDA threshold level for the 2007-2009 LTIP cycle; as a result, there will be no LTIP payout to Mr. Rogers for Fiscal 2010.

Mr. Rogers and his family are entitled to enroll in the Corporation's benefits program consisting of health, dental, life insurance, and disability benefits, as extended to other executive officers. Mr. Rogers will continue to participate in the Corporation's pension plans. With exception of the associate discount, executive medical, Officer Life and LTD insurance premium reimbursements, Mr. Rogers is not eligible for all other corporate perquisite programs, such as corporate vehicle, and club membership allowance.

3.3 Compensation of Named Executive Officers

Compensation of executive officers of the Corporation is comprised of salary, benefits and perquisites, and at-risk incentive compensation programs consisting of the AIP and LTIP. Since the last grant in 2004, the Corporation has discontinued equity compensation grants under the Employees Stock Plan. There are currently no outstanding stock awards for any of the NEOs.

The following table provides a summary of compensation information for the Named Executive Officers during Fiscal 2010.

Summary Compensation Table
For Fiscal 2010

NEO Name and Principal Position	Year	Salary ($)	Non-Equity Incentive Plan Compensation		Pension Value ($)	All Other Compensation ($)[3]	Total Compensation ($)
			Annual Incentive Plans 2010 ($)[1]	Long-Term Incentive Plans 2008-2010 ($)[2]			
D. L. Rogers [4] [5] [6] President and Chief Executive Officer	2010 2009 2008	715,388 710,217 641,863	Nil 402,570 501,595	Nil Nil 2,094,830	(8,447) 23,800 69,865	9,375 (5,280) 183,287	716,316 1,131,307 3,491,440
S.R. Driscoll [5] Senior Vice-President and Chief Financial Officer	2010 2009 2008	305,776 249,792 66,987	50,000 99,000 Nil	– – –	9,662 8,055 Nil	36,671 37,299 231,620	402,109 394,146 298,607
A. R. Ravas [4] [5] [6] Former Senior Vice-President and Chief Financial Officer	2010 2009 2008	416,310 448,063 145,686	Nil 203,681 74,020	– – –	Nil – –	315,508 103,786 36,099	731,818 755,530 255,805
P. Kalen [5] Senior Vice-President, Financial and Home Services	2010 2009 2008	303,750 182,180 –	120,000 Nil –	– – –	7,702 4,287 –	34,867 91,836 –	466,319 278,303 –
K. Leshnjani [5] Senior Vice-President and General Counsel	2010 2009 2008	260,000 244,167 220,833	200,000 Nil 65,487	Nil – –	44,483 18,765 65,143	18,122 19,225 15,531	522,605 282,157 366,994
I. Mirza [5] Senior Vice-President, Business Capability and Human Resources	2010 2009 2008	297,500 173,333 –	120,000 Nil –	– – –	8,055 Nil –	42,927 38,895 –	468,482 212,228 –

Notes:

(1) Includes annual non-equity incentive plan compensation, such as discretionary cash awards, including the AIP. For Fiscal 2010, the Corporation did not meet the threshold level of Adjusted EBITDA; as a result, there will be no AIP payout for the NEOs. See Section 3.1.6 (a) for additional information on AIP measurements.

(2) For the 2008-2010 LTIP, the corporate performance measure of LTIP EBITDA did not meet the threshold level and will not result in a payout.

(3) For Fiscal 2010, the amounts in this column include perquisites and other personal benefits for each Named Executive Officer. The perquisites and other personal benefits which individually exceed 25% of the total perquisites and other personal benefits for the Named Executive Officer, plus certain other amounts are set out below:

D. L. Rogers	2010:	Officer Life and LTD premium reimbursement ($7,680)
S. R. Driscoll	2010	Vehicle allowance ($18,779), Perquisite allowance ($12,897)
A. R. Ravas	2010:	Tax Equalization (estimated at $204,000), Travel Expenses ($111,508)
P. Kalen	2010:	Vehicle allowance ($18,000), Perquisite allowance ($12,897)
K. Leshnjani	2010:	Vehicle value ($13,132), Club & Financial ($4,990)
I. Mirza	2010:	Vehicle allowance ($24,718), Perquisite allowance ($12,897)

(4) Dene L. Rogers' annual compensation is based on U.S. currency, as per the Rogers Employment Agreement. Allen R. Ravas' annual compensation was also based on U.S. currency as per his employment agreement. The Rogers Employment Agreement allows for a conversion of Mr. Rogers' salary and other elements of compensation from U.S. funds into Canadian funds. Each compensation element, including Mr. Rogers' base salary, AIP, LTIP payments, benefits and perquisites were converted using the respective Bank of Canada rate during Fiscal 2010. Similar to Mr. Rogers, Mr. Ravas' salary and other elements of compensation, including AIP and benefits and perquisites, were also converted from U.S. funds into Canadian funds for each relevant period using the Bank of Canada rate during Fiscal 2010.

(5) Dene L. Rogers was appointed as the President and Chief Executive Officer of the Corporation in December 2006. Prior to this appointment, Mr. Rogers held the position of Acting President since May 2006. From October 2005 until December 2006, Mr. Rogers served as the Executive Vice President, Restructuring and Business Development of Sears Holdings. Previous to this position, Mr. Rogers served as the Executive Vice President and General Manager of Kmart Holding Corporation from October 2003 until October 2005.

Sharon R. Driscoll was appointed Senior Vice-President and Chief Financial Officer of Sears Canada in December 2010. Previously, Ms. Driscoll held the position of Senior Vice-President, Finance from November 2008 to November 2010. Before joining Sears Canada, Ms. Driscoll was employed with Loblaw Companies Limited, most recently holding the positions of Senior Vice-President, Corporate Development from April 2008 to October 2008, Senior Vice-President, Finance National Merchandising from January 2007 to April 2008 and Senior Vice-President, Finance Retail Ontario Region from August 2003 to January 2007 for Loblaws Supermarkets Limited. Ms. Driscoll began her employment with Loblaw Companies Limited in 1987.

Allen R. Ravas was the Senior Vice-President and Chief Financial Officer of Sears Canada from October 2008 to December 2010. Prior to Mr. Ravas' appointment as Senior Vice-President and Chief Financial Officer, Mr. Ravas held various finance positions with Sears Holdings, including Senior Vice-President, Finance, which position he held from 2005 until 2008. Mr. Ravas also held the positions of Senior Vice-President, Treasurer, Financial Planning and Analysis from 2005 to 2007 and Vice-President, Merchandise Finance from 2001 to 2005, both with Sears Holdings.

Peter Kalen is the Senior Vice-President, Financial and Home Services of Sears Canada and assumed this position in May 2010. Prior to this role, Mr. Kalen served as the Vice-President, Financial Services from May 2009 to April 2010. Before joining Sears Canada, Mr. Kalen was the Senior Vice-President for President's Choice Financial and held this position from December 2006 to June 2008. From December 2004 to December 2006, Mr. Kalen was employed with Citi Cards Canada as Senior Vice-President.

Klaudio Leshnjani is the Senior Vice-President and General Counsel of the Company and assumed this role in March 2011. Mr. Leshnjani was the Vice-President and General Counsel of the Company from February 2008 to February 2011. Prior to this role, Mr. Leshnjani held the position of Interim General Counsel from August 2007 to January 2008 and Senior Corporate Counsel from June 2005 to August 2007. Mr. Leshnjani joined the Company in June 2002 as Legal Counsel.

Ismat Mirza was appointed to the position of Senior Vice-President, Business Capability and Human Resources in August 2010. Prior to this position, Ms. Mirza was the Vice-President, Business Capability and Human Resources from June 2009 to July 2010. From April 2007 to June 2009, Ms. Mirza was the Vice-President, Human Resources for MDS Pharmaceuticals and Vice-President, Global Shared Services for MDS Canada Inc.. Ms. Mirza also held the position of Vice-President, Human Resources and Chief Privacy Officer with Corby Distilleries from October 2002 to February 2007.

(6) Dene L. Rogers' and Allen Ravas' salary adjusted from USD to Canadian dollars.

3.4 Pension Plans

The SRRP has two components: (i) a DB component for service up to and including June 30, 2008, which also includes a SRP; and (ii) a DC component effective July 1, 2008, which does not include a supplementary retirement plan.

3.4.1 Amendments to the Pension Plans

The Corporation amended the SRRP effective July 1, 2008 by introducing the DC component. Contributions by members towards defined benefits were discontinued and members will keep all pension benefits accrued up to and including June 30, 2008 in the existing DB component of the SRRP. After this date, compensation growth in future years will continue to be included in the calculation of the DB component of the pension although no further service credit will be earned.

Under the DC component of the SRRP, members are able to contribute a percentage of their eligible earnings subject to statutory limits. Employees who became eligible to join the SRRP on and after July 1, 2008 have the option to enroll in the DC portion of the SRRP, except where enrollment is mandatory due to provincial legislation. Contributions are determined based on member contributions using a matching formula. Currently, the Corporation's contributions equal to a maximum of 3.5% of an associate's earnings, which was reduced effective April 1, 2009 from a maximum of 5.5% of an associate's earnings.

In addition, the eligibility criteria for post-retirement benefits provided under the Health and Welfare Plan were revised. Each associate who did not satisfy certain eligibility requirements pursuant to the Health and Welfare Plan on or before December 31, 2008, is not eligible, upon retirement, for post-retirement benefits under the plan.

The pension plan ensures that a competitive plan exists for the member, which is consistent with the Canadian retail industry practice. The plan design allows members to have control over their retirement savings through variable contribution levels and a range of investment options.

3.4.2 Entitlements under the SRRP and the SRP

All eligible associates participate in the DB component of the SRRP. Under the SRRP pension accrual formula, the annual pension payable at age 65 is calculated as follows:

> *For Credited Years of Service prior to January 1, 1987*
>
> Years of credited service multiplied by 1.75% of average annual remuneration in the best five of the last ten years of employment. This amount is then reduced by a government benefits offset which estimates benefits from the Canada Pension Plan (the "CPP") and federal Old Age Security, and further reduced by the annuity value of the associate's Profit Sharing Retirement Fund balance; and
>
> *For Credited Years of Service after January 1, 1987*
>
> Years of credited service multiplied by 1% of "Pensionable Earnings" between 20% and 100% of the CPP covered earnings limit, plus 1.75% of "Pensionable Earnings" above this CPP limit. "Pensionable Earnings" are the average annual remuneration in the best three consecutive years of the last ten years of employment.

Annual remuneration includes salary and actual AIP bonus amount paid.

Registered DB plans, such as the SRRP, are subject to a maximum annual benefit under the *Income Tax Act* (Canada). In 2010, the maximum was $2,494 for each pensionable year of service. Associates with final average earnings of approximately $165,000 per year may be eligible for a pension from the SRRP.

Named Executive Officers and certain other members of the SRRP are entitled to receive, upon retirement, additional pension benefits from the unregistered SRP which provides a benefit based on the SRRP formula representing the difference between the pension benefits determined in accordance with the SRRP and the maximum annual benefit under the *Income Tax Act* (Canada). In the past, pensions payable under the SRP were not funded or otherwise secured but simply paid through the general revenues of the Corporation. In October 2005, the Board authorized the Corporation to fund the actuarial liability corresponding with the SRP for all current retirees and other members of the SRP as they retire or otherwise become eligible for funding. The estimated SRP assets were $48 million as at December 31, 2010.

The form of pension is as follows:

(a) for a member who has no spouse at the date of pension commencement, monthly installments for the member's lifetime, but if the member dies before receiving 120 monthly payments, the commuted value of the balance of such 120 monthly payments is paid to the member's beneficiary; and

(b) for a member who has a spouse at the date of pension commencement, monthly installments for the greater of the member's lifetime and 120 months, and continuing thereafter, reduced by $33^1/_3$%, to the surviving spouse, if any, for the spouse's lifetime. The monthly amount is reduced so that the actuarial value of this pension is equal to the actuarial value of the pension in (a) above.

Under the DB component of the SRRP, normal retirement is the last day of the month in which a member turns age 65. Members may take early retirement at any time after reaching age 55. However, since pension will be spread out over a longer period of time, depending on a member's pensionable service, reductions may apply to the monthly pension. Service for this purpose includes any service that is not credited, as well as credited service.

Pensions to retirees are adjusted annually for inflation after age 65 by 75% of increases in the Consumer Price Index above 2% but will not exceed the lesser of the estimated average base pay increase for active associates in the prior year or 12%.

Defined Benefit Component

The following table provides a summary of the DB component obligations for the Named Executive Officers during Fiscal 2010.

Name (a)	**Number of years credited service** (b)	**Annual Benefits Payable**		**Accrued obligation at start of year** (d)	**Compensatory change** (e)	**Non-compensatory change** (f)	**Accrued obligation at year end** (g)
		At year end (c1)	At age 65 (c2)				
D. L. Rogers	1.5	–	$29,000	$249,000	($16,000)	$43,000	$276,000
S. Driscoll*	–	–	–	–	–	–	–
A. R. Ravas*	–	–	–	–	–	–	–
P. Kalen*	–	–	–	–	–	–	–
K. Leshnjani	5	–	$27,000	$150,000	$37,000	$41,000	$228,000
I. Mirza*	–	–	–	–	–	–	–

Notes:

* There is no DB plan obligation for Ms. Driscoll, Mr. Ravas, Mr. Kalen and Ms. Mirza as they joined the Corporation after June 30, 2008.

(c1) The immediate retirement pension payable at January 29, 2011, reduced for early retirement if applicable. If the member is not eligible to retire, it is nil.

(c2) This amount represents the pension payable at age 65.

(d) The total SRP and SRRP obligations at January 29, 2011 using assumptions applicable for year-end disclosure at that date.

(e) Compensatory change refers to a change in the pension obligation resulting from a change in the associate's compensation.

(f) Non-compensatory change refers to a change in the pension obligation that is not related to the associate's compensation, including changes resulting from other factors such as changes in assumptions, changes to discount rate at year end and interest cost.

(g) The total SRP and SRRP obligations at January 29, 2011 using assumptions expected to be applicable for year-end disclosure at that date.

Defined Contribution Component

The following table provides a summary of the DC component value for the Named Executive Officers during Fiscal 2010.

Name	Accumulated value at start of years ($)	Compensatory ($)(1)	Non-Compensatory ($)(2)	Accumulated value at year end ($)
D. L. Rogers	39,188	7,553	15,106	68,677
S. Driscoll	25,400	9,662	19,323	61,672
A. R. Ravas	–	–	–	–
P. Kalen	6,434	7,702	15,404	34,284
K. Leshnjani	39,533	7,483	14,967	67,875
I. Mirza	Nil	8,055	16,110	27,305

Notes:

(1) Compensatory change refers to the component of the pension value that is based on the associate's compensation and includes employer contributions

(2) Non-compensatory change refers to the component of the pension value that is not considered associate compensation and includes associate contributions and investment earnings

3.5 Termination and Change of Control Benefits

The following Named Executive Officers have entered into employment contracts which provide for incremental payments in connection with a termination of employment from the Corporation. The Corporation does not have any supplementary contracts, agreements, plans or arrangements that would provide for incremental payments or benefits to the Named Executive Officers, including incremental payments or benefits to be provided upon retirement or with respect to change of control scenarios.

DENE L. ROGERS
President and Chief Executive Officer

The employment agreement between Mr. Rogers and the Corporation was amended in October 2008 and provides for termination payments to Mr. Rogers in the event his employment with the Corporation is terminated. The term of Mr. Rogers' employment agreement commenced on October 1, 2008 and will expire on October 1, 2011. Any incremental payments that would be triggered under various termination circumstances for Mr. Rogers are presented below:

Lapse of Term

If the Rogers Employment Agreement expires without any extension by either the Corporation or Mr. Rogers, the following would be payable to Mr. Rogers:

Salary

Salary, for a period of twelve (12) months following the expiry of the term, using the salary in effect immediately prior to the expiry of the term;

AIP

If the Corporation elects not to extend the term: (i) an amount equivalent to Mr. Rogers' AIP target incentive award for the Corporation's 2011 fiscal year; and (ii) a pro-rata amount equivalent to Mr. Rogers' AIP target incentive award for the Corporation's 2012 fiscal year, based on the ratio of the number of days in the 2012 AIP performance period during the twelve (12) month severance period to the number of days in the 2012 AIP plan year. If Mr. Rogers elects not to extend the term, a pro-rata amount equivalent to Mr. Rogers' AIP target incentive award for the Corporation's 2011 fiscal year, based on the ratio of the number of days in the 2011 AIP performance period that are completed by Mr. Rogers as of the expiry of the term to the number of days in the 2011 AIP plan year;

LTIP

A pro-rata amount of the 2009-2011 LTIP target incentive award, based on the active months of employment during the performance period of the 2009-2011 LTIP, which amount is to be paid in 2012, provided that the achievement of financial performance metrics as of the end of the fiscal quarter immediately preceding October 1, 2011 is equal to or greater than the established financial performance metrics as of the end of such fiscal quarter; and

Pension Plans

Any rights, entitlements, benefits, and payments, arising or accruing to Mr. Rogers during his employment or after the termination of his employment, pursuant to the express applicable provisions of any pension plans.

Termination by the Corporation for Just Cause

If the Corporation terminates Mr. Rogers' employment for just cause, Mr. Rogers is entitled only to the rights, if any, arising as a result of or after the termination for just cause pursuant to the express applicable provisions of the pension plans.

Termination by the Corporation Without Just Cause

If the Corporation terminates Mr. Rogers' employment without just cause, then Mr. Rogers would receive:

Salary

The salary he would have earned for the twelve (12) month period following the termination date, using the salary in effect immediately prior to the termination date;

AIP

An amount equivalent to his annual target under the AIP for the entire plan year in which the termination occurs. Mr. Rogers would also receive a pro-rata amount equivalent to his annual target under the AIP for the plan year immediately following the year in which the termination occurs, based on the ratio of the number of days in the AIP performance period completed during the twelve (12) month severance period, but excluding any part of the twelve (12) month period already taken into account under the preceding AIP plan year;

Pension Plan

A lump sum payment comprised of the cost to the Corporation of the contributions to the Corporation's pension plans on Mr. Rogers' behalf for the remainder of Mr. Rogers' term of employment using the normal contribution levels in effect immediately prior to the termination date;

Any rights, entitlements, benefits and payments arising or accruing to Mr. Rogers during his employment or after the termination of his employment, pursuant to the express applicable provisions of the Corporation's pension plans; and

LTIP

A pro-rata share of Mr. Rogers' 2009-2011 LTIP target incentive award (based on Mr. Rogers' active whole months of employment during the performance period of the 2009-2011 LTIP), provided that such termination occurs after September 30, 2010 and provided that Mr. Rogers' achievement of financial performance metrics as of the end of the fiscal quarter immediately preceding resignation is equal to or greater than the established financial performance targets as of the end of the fiscal quarter.

Termination Voluntarily Effected by Dene Rogers

The Corporation's obligation to Mr. Rogers if he voluntarily terminates his employment with the Corporation, is to pay a pro-rata share of the 2009-2011 LTIP target incentive award (based on the active whole months of employment during the performance period of the 2009-2011 LTIP), provided that the achievement of financial performance metrics as of the end of the fiscal quarter immediately preceding his resignation is equal to or greater than the established financial performance targets as of the end of that fiscal quarter. Mr. Rogers will also receive any rights, entitlements, benefits, and payments arising or accruing to Mr. Rogers during his employment after the termination of the employment pursuant to the express applicable provisions of any pension plans.

The below chart provides for the estimated incremental payments to be made to Mr. Rogers assuming that each of the triggering events occurred on the last business day of Fiscal 2010, being January 29, 2011.

Compensation Element	Triggering Event: Lapse of Term (if Corporation opts not to extend the term)	Triggering Event: Lapse of Term (if D. Rogers opts not to extend the term)	Triggering Event: Termination by the Corporation for Just Cause	Triggering Event: Termination by the Corporation without Just Cause	Triggering Event: Termination Voluntarily Effected by Dene Rogers
Cash Compensation					
Base Salary	$700,771 (1)	$700,771 (1)	NIL	$700,771 (1)	NIL
AIP (90% at target award level)	$630,694 (2) $420,463 (3)	$420,463 (5)	NIL	$1,261,388 (7)	NIL
Total Cash Compensation	**$1,751,928**	**$1,121,234**	**NIL**	**$1,962,159**	**NIL**
Long Term Incentive Plan Payments					
LTIP (300%)	$1,868,722 (4)	$1,868,722 (4)	NIL	$1,868,722 (8)	$1,868,722 (8)
Total Long Term Incentive Plan	**$1,868,722**	**$1,868,722**	**NIL**	**$1,868,722**	**$1,868,722**
Pension Plans Payments					
Pension	NIL	NIL	NIL	$4,672 (6)	NIL
Total Pension Plans	**NIL**	**NIL**	**NIL**	**$4,672**	**NIL**
TOTAL	**$3,620,650**	**$2,989,956**	**NIL**	**$3,835,553**	**$1,868,722**

Notes:

The Corporation cannot accurately determine the actual incremental payments that would be made in connection with the AIP or LTIP payments, however, the Corporation has, in order to comply with the Executive Compensation Rules, attempted to estimate these payments based on compensation information available for Fiscal 2010. The Corporation would like to stress that these estimates are not indicative of actual payments that will be made to the Named Executive Officer at a future date. For the purposes of the above chart, the Corporation has assumed that the triggering event occurred on the last business day of Fiscal 2010, being January 29, 2011. All amounts have been converted from US dollars to Canadian dollars at the Bank of Canada rate of $0.9990 on January 29, 2011.

(1) This amount is based on Mr. Rogers' base salary as at the last business day of Fiscal 2010 continued for a period of twelve (12) months. Pursuant to the Rogers Employment Agreement, Mr. Rogers' annual base compensation is set at $700,000 U.S. For the purposes of this chart, this amount was converted from US dollars to Canadian dollars at the Bank of Canada rate of $0.9990 on January 29, 2011.

(2) This amount represents payment for the 2011 AIP performance period derived from target Fiscal 2010 AIP figures.

(3) This amount represents a pro-rata payment for the 2012 AIP performance period derived from target Fiscal 2010 AIP figures.

(4) This amount represents a pro-rata payment for the 2009-2011 LTIP that Mr. Rogers would be entitled to pursuant to the Rogers Employment Agreement. The pro-rata amounts include payments for the 2009 fiscal year, Fiscal 2010 and payment until October 1, 2011 of the 2011 fiscal year.

(5) This amount represents a pro-rata payment for the 2011 AIP performance period based on the number of days that Mr. Rogers was employed during the 2011 fiscal year. This estimate was derived using the target Fiscal 2010 AIP figures.

(6) This amount represents a lump sum payment to Mr. Rogers and is comprised of the amount payable by the Corporation for its contributions to the DC component of the pension plan for a period of eight (8) months until October 1, 2011, representing the shorter period between the lapse of term or twelve (12) months. The amount of DB pension accrued for the period of eight (8) months cannot be determined and is not represented in the value above.

(7) This amount represents payment for a twenty-four (24) month AIP performance period. These estimates have been derived from target Fiscal 2010 AIP figures.

(8) This amount represents the maximum pro-rata payment, for a thirty-two (32) month period, for the 2009-2011 LTIP. The estimate was derived assuming Mr. Rogers remains employed with the Corporation for thirty-two (32) months prior to the triggering event taking place. The pro-rata amount includes payments for fiscal 2009 and Fiscal 2010.

ALLEN R. RAVAS
Former Senior Vice-President and Chief Financial Officer

Mr. Ravas resigned from the Corporation in December 2010 to assume a new role as Chief Administrative Officer of Orchard Supply Hardware, a majority-owned subsidiary of Sears Holdings. There were no incremental payments that were paid by the Corporation as a result of his resignation.

SHARON DRISCOLL
Senior Vice-President and Chief Financial Officer

The termination provisions of Ms. Driscoll's employment agreement specify that in the event the Corporation terminates Ms. Driscoll's employment on a without just cause basis, Ms. Driscoll will be entitled to the greater of:

(i) twelve (12) months of base salary, or

(ii) such base pay in lieu of notice and severance pay, if applicable, as required under the applicable employment standards legislation, as may be amended; or

(iii) two (2) weeks' base pay for each completed year of service to a maximum of seventy-eight (78) weeks of base pay (which is inclusive of all termination and severance pay to which Ms. Driscoll may be entitled in accordance with the applicable employment standards legislation).

(the "Severance Period")

In the absence of just cause, Ms. Driscoll's employment agreement provides for the continuance of all benefits (including perquisites) during the Severance Period.

The below chart provides for the estimated incremental payments to be made to Ms. Driscoll assuming that the triggering event occurred on the last business day of Fiscal 2010, being January 29, 2011.

Compensation Element	**Triggering Event:** **Termination by the Corporation Without Just Cause**
Cash Compensation	
Base Salary	$375,000 (1)
AIP (60% at target award level)	NIL
Total Cash Compensation	**$375,000**
Pension Plan Payments and Benefits Accrual	
Pension Plan and Benefits Accrual	$17,284 (2)
Perquisites	$37,597 (3)
Total Pension and Benefits Plans	**$54,881**
TOTAL	**$429,881**

Notes:

The Corporation cannot accurately determine the actual incremental payments that would be made to the Named Executive Officer, however the Corporation has, in order to comply with the Executive Compensation Rules, attempted to estimate these payments based on compensation information available for Fiscal 2010. The Corporation would like to stress that these estimates are not indicative of actual payments that will be made to the NEO at a future date. For the purposes of this chart, the Corporation has assumed that the triggering event occurred on the last business day of Fiscal 2010, being January 29, 2011.

(1) This amount represents payment to Ms. Driscoll based on her receiving twelve (12) months base salary in lieu of notice. Ms. Driscoll's salary as at January 29, 2011 was $375,000.

(2) This amount represents benefits and pension plan payments that Ms. Driscoll would be entitled to as per her employment agreement. Ms. Driscoll would receive these payments for a period of twelve (12) months.

(3) This amount represents perquisites program payments that Ms. Driscoll would be entitled to as per her employment agreement. Ms. Driscoll would receive these payments for a period of twelve (12) months.

PETER KALEN
Senior Vice-President, Financial and Home Services

The termination provisions of Mr. Kalen's employment agreement specify that in the event the Corporation terminates Mr. Kalen's employment on a without just cause basis, Mr. Kalen will be entitled to the greater of:

(i) twelve (12) months' base salary (or base pay in lieu of notice or a combination thereof); or

(ii) two (2) weeks' notice (or base pay in lieu of notice or a combination thereof) for each completed year of service to a maximum of seventy-eight (78) weeks of base pay; or

(iii) such notice of termination (or base pay in lieu of notice), and severance pay, if applicable, as required under the applicable employment standards legislation, as may be amended.

If the Corporation terminates Mr. Kalen's employment without just cause, Mr. Kalen would be entitled to continue in the Corporation's benefits plan and pension plan following termination, in accordance with the applicable employment standards legislation.

The below chart provides for the estimated incremental payments to be made to Mr. Kalen assuming that the triggering event occurred on the last business day of Fiscal 2010, being January 29, 2011.

Compensation Element	**Triggering Event:** **Termination by the Corporation Without Just Cause**
Cash Compensation	
Base Salary	$320,000 (1)
AIP (60% at target award level)	NIL
Total Cash Compensation	**$320,000**
Pension Plan Payments and Benefits Accrual	
Pension Plan and Benefits Accrual	$1,683 (2)
Perquisites	$1,287 (3)
Total Pension and Benefits Plans	**$2,970**
TOTAL	**$322,970**

Notes:

The Corporation cannot accurately determine the actual incremental payments that would be made to the Named Executive Officer, however the Corporation has, in order to comply with the Executive Compensation Rules, attempted to estimate these payments based on compensation information available for Fiscal 2010. The Corporation would like to stress that these estimates are not indicative of actual payments that will be made to the NEO at a future date. For the purposes of this chart, the Corporation has assumed that the triggering event occurred on the last business day of Fiscal 2010, being January 29, 2011.

(1) This amount represents payment to Mr. Kalen based on his receiving twelve (12) months' base salary in lieu of notice. Mr. Kalen's salary as at January 29, 2011 was $320,000.

(2) This amount represents benefits and pension plan payments that Mr. Kalen would be entitled to as per his employment agreement. Mr. Kalen would receive these payments for a period of two (2) weeks, according to the statutory notice period under the Ontario employment standards legislation.

(3) This amount represents perquisite program payments that Mr. Kalen would be entitled to as per his employment agreement. Mr. Kalen would receive these payments for a period of two (2) weeks, according to the statutory notice period under the Ontario employment standards legislation.

KLAUDIO LESHNJANI
Senior Vice-President and General Counsel

The termination provisions of Mr. Leshnjani's employment agreement specify that in the event the Corporation terminates Mr. Leshnjani's employment on a without just cause basis, Mr. Leshnjani will be entitled to the greater of:

(i) twelve (12) months base pay; or

(ii) such notice of termination (or base pay in lieu of notice), and severance pay, if applicable, as required under the applicable employment standards legislation, as may be amended; or

(iii) two (2) weeks' notice (or base pay in lieu of notice or a combination thereof) for each completed year of service to a maximum of seventy-eight (78) weeks of base pay (which is inclusive of all termination and severance pay to which Mr. Leshnjani may be entitled in accordance with the applicable employment standards legislation).

If the Corporation terminates Mr. Leshnjani's employment without just cause, Mr. Leshnjani would be entitled to continue in the Corporation's benefits plan and pension plan following termination, for his statutory notice period, in accordance with the applicable employment standards legislation.

The below chart provides for the estimated incremental payments to be made to Mr. Leshnjani assuming that the triggering event occurred on the last business day of Fiscal 2010, being January 29, 2011.

Compensation Element	Triggering Event: Termination by the Corporation Without Just Cause
Cash Compensation	
Base Salary	$260,000 (1)
AIP (60% at target award level)	NIL
Total Cash Compensation	**$260,000**
Pension Plan Payments and Benefits Accrual	
Pension Plan and Benefits Accrual	$2,964 (2)
Perquisites	$2,500 (3)
Total Pension and Benefits Plans	**$5,464**
TOTAL	**$265,464**

Notes:

The Corporation cannot accurately determine the actual incremental payments that would be made to the Named Executive Officer, however the Corporation has, in order to comply with the Executive Compensation Rules, attempted to estimate these payments based on compensation information available for Fiscal 2010. The Corporation would like to stress that these estimates are not indicative of actual payments that will be made to the NEO at a future date. For the purposes of this chart, the Corporation has assumed that the triggering event occurred on the last business day of Fiscal 2010, being January 29, 2011.

(1) This amount represents payment to Mr. Leshnjani based on his receiving twelve (12) months' base salary. Mr. Leshnjani's salary as at January 29, 2011 was $260,000.

(2) This amount represents benefits and pension plan payments that Mr. Leshnjani would be entitled to as per his employment agreement. Mr. Leshnjani would receive these payments for a period of eight (8) weeks, being the maximum statutory notice period permitted by Ontario employment standards legislation. The amount of DB pension accrued for the period of eight (8) weeks cannot be determined and is not represented in the value above.

(3) This amount represents perquisite program payments that Mr. Leshnjani would be entitled to as per his employment agreement. Mr. Leshnjani would receive these payments for a period of eight (8) weeks, according to the statutory notice period under the Ontario employment standards legislation.

ISMAT MIRZA
Senior Vice-President, Business Capability and Human Resources

The termination provisions of Ms. Mirza's employment agreement specify that in the event the Corporation terminates Ms. Mirza's employment on a without just cause basis, Ms. Mirza will be entitled to the greater of:

(i) twelve (12) months of base salary; or

(ii) such base pay in lieu of notice and severance pay, if applicable, as required under the applicable employment standards legislation, as may be amended; or

(iii) two (2) weeks' notice (or base pay in lieu of notice or a combination thereof) for each completed year of service to a maximum of seventy-eight (78) weeks of base pay (which is inclusive of all termination and severance pay to which Ms. Mirza may be entitled in accordance with the applicable employment standards legislation).

(the "Severance Period")

In the absence of just cause, Ms. Mirza's employment agreement provides for the continuance of all benefits (including perquisites) during the Severance Period.

The below chart provides for the estimated incremental payments to be made to Ms. Mirza assuming that the triggering event occurred on the last business day of Fiscal 2010, being January 29, 2011.

Compensation Element	Triggering Event: Termination by the Corporation Without Just Cause
Cash Compensation	
Base Salary	$335,000 (1)
AIP (60% at target award level)	NIL
Total Cash Compensation	**$335,000**
Pension Plan Payments and Benefits Accrual	
Pension Plan and Benefits Accrual	$15,687 (2)
Perquisites	$37,597 (3)
Total Pension and Benefits Plans	**$53,284**
TOTAL	**$388,284**

Notes:

The Corporation cannot accurately determine the actual incremental payments that would be made to the Named Exectuive Officer, however the Corporation has, in order to comply with the Executive Compensation Rules, attempted to estimate these payments based on compensation information available for Fiscal 2010. The Corporation would like to stress that these estimates are not indicative of actual payments that will be made to the NEO at a future date. For the purposes of this chart, the Corporation has assumed that the triggering event occurred on the last business day of Fiscal 2010, being January 29, 2011.

(1) This amount represents payment to Ms. Mirza based on her receiving twelve (12) months base salary. Ms. Mirza's salary as at January 29, 2011 was $335,000.

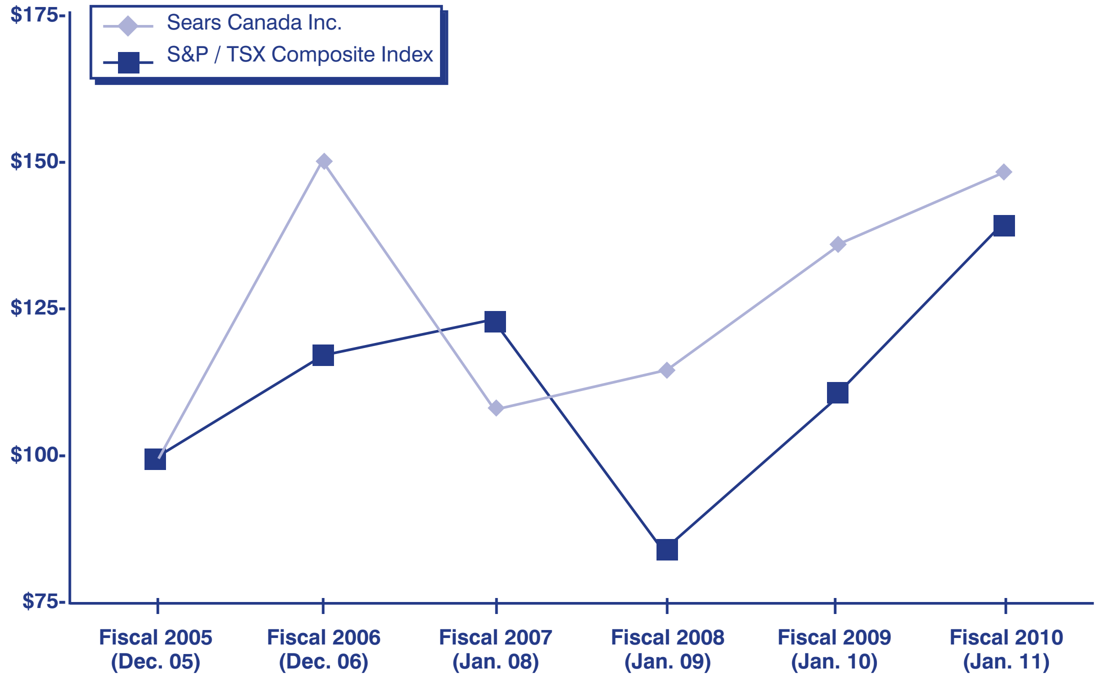
(2) This amount represents benefits and pension plan payments that Ms. Mirza would be entitled to as per her employment agreement. Ms. Mirza would receive these payments for a period of twelve (12) months.

(3) This amount represents perquisites program payments that Ms. Mirza would be entitled to as per her employment agreement. Ms. Mirza would receive these payments for a period of twelve (12) months.

3.6 Performance Graph

The following graph compares the cumulative total shareholder return on the Shares of the Corporation over the last five (5) fiscal years with the cumulative total shareholder return of the S&P/TSX Composite Index over the same period, based on an investment of $100.00. In each case, the total shareholder return shown in the graph includes the reinvestment of all dividends paid.

Comparison of Five-Year Cumulative Total Return



	Fiscal 2005	Fiscal 2006	Fiscal 2007[1]	Fiscal 2008	Fiscal 2009	Fiscal 2010
Sears Canada Inc.	100.00	149.81	107.77	114.15	134.81	147.83
S&P/TSX Composite Index	100.00	117.22	123.18	84.22	110.80	138.97

(1) Fiscal 2007 was a transition year comprised of the 57-week period ended February 2, 2008, due to change in fiscal year end.

The indicator used by the Corporation to measure its performance was changed from Earnings Per Share (EPS) to EBITDA in the 2006 fiscal year. The Corporation's compensation philosophy is intended to establish a relationship between executive compensation and corporate results. The total NEO compensation increased during the 2006, 2008, 2009 and 2010 fiscal years corresponding to an improvement in the Corporation's total shareholder return ("TSR") value. Similarly the NEO compensation decreased during the 2007 fiscal year corresponding with the downward trend of the Corporation's TSR value. The Corporation's TSR value graphed above reflects: (i) an extraordinary cash dividend of $18.64 per Share paid to Shareholders in the 2005 fiscal year; and (ii) two extraordinary cash dividends, each of $3.50 per Share, paid to Shareholders in Fiscal 2010.

Between May 25, 2010 and May 24, 2011, pursuant to its Normal Course Issuer Bid (the "NCIB") through the facilities of the TSX, the Corporation was permitted to purchase for cancellation up to 5% of its outstanding Shares, representing approximately 5.3 million Shares.

3.7 Director Compensation

The Corporation's compensation philosophy surrounding Independent Director compensation is principled on taking a non-risk based approach in order to encourage suitable governance through unbiased decision-making. The Independent Directors' compensation is reviewed by the Governance Committee generally every two to three years. The most recent review of Independent Director compensation was performed in Fiscal 2010 and resulted in a change to the compensation of the Lead Director. The previous evaluation performed in the 2006 fiscal year, resulted in changes that became effective January 1, 2007. Directors who are employees of the Corporation or its affiliates, including Sears Holdings, do not receive compensation as directors. In February 2011, the Board made a decision to reimburse William C. Crowley for travel expenses associated with attending Shareholder, Board and Committee meetings.

The Governance Committee may, if appropriate and timely, engage an independent consulting firm to conduct a comprehensive survey of prevailing market trends and practices in director compensation and obtain a report on its findings and recommendations. The Governance Committee may then evaluate the report received and make appropriate recommendations to the Board with respect to the compensation of the Independent Directors based on the findings and recommendations of such report. Management of the Corporation may also assist the Governance Committee in determining market trends and practices with respect to director compensation.

3.7.1 Compensation Earned

In Fiscal 2010, the compensation of the Independent Directors was discussed by the Governance Committee and resulted in an increase in the compensation of the Lead Director. For Fiscal 2010, the Independent Directors' compensation was based on the following categories:

Annual Retainer	$60,000
Committee Retainer	$5,000
Chair Retainer (HRCC, Governance Committee, Investment Committee)	$5,000
Chair Retainer (Audit Committee)	$15,000
Lead Director Retainer	$25,000
Meeting Fee	$1,500
Travel Fee	$2,000 (1)
Administration Expense Allowance	$500

(1) Independent Directors receive a travel fee of $2,000 when attending an annual or special meeting of shareholders, board or committee meetings, which require air travel.

3.7.2 Director Compensation Table

The following table provides a summary of compensation paid to the directors of the Corporation in Fiscal 2010.

Name (a)	Fees earned [1] ($) (b)	All other compensation [2] ($) (g)	Total ($) (h)
William C. Crowley [3]	–	–	–
E. J. Bird	150,500	5,058	155,558
William R. Harker [4]	–	–	–
R. Raja Khanna	102,750	0	102,750
Jon Lukomnik [5]	28,750	66	28,816
James McBurney [6]	79,500	24,341	103,841
Deidra C. Merriwether [7]	–	–	–
Dene L. Rogers [8]	–	–	–
Debi Rosati	116,000	1,712	117,712

Notes:

(1) Includes all fees earned and paid in cash to the directors of the Corporation, including the annual retainers for Board Committee, and chair, meeting fees, travel fees, and annual administration allowance, as well as an additional fee paid to the lead director.

(2) Includes payment for expenses, such as airfare, accommodation and transportation, incurred by the director in order to attend a Shareholder, Board or Committee meeting.

(3) Mr. Crowley is a Non-Independent Director and does not receive any compensation for his service on the Board. In February 2011, the Board made a decision to reimburse Mr. Crowley for all future travel expenses associated with attending Shareholder, Board and Committee meetings.

(4) Mr. Harker is a Non-Independent Director and does not receive any compensation for his service on the Board.

(5) Represents compensation paid during Fiscal 2010 up to Mr. Lukomnik's resignation from the Board effective April 23, 2010.

(6) Represents compensation paid during Fiscal 2010 upon Mr. McBurney's appointment to the Board effective April 23. 2010.

(7) Ms. Merriwether is a Non-Independent Director and does not receive any compensation for her service on the Board.

(8) Mr. Rogers is the President and Chief Executive Officer of the Corporation and is a Non-Independent Director. Mr. Rogers does not receive compensation for his service on the Board. Mr. Rogers' compensation as a Named Executive Officer is reflected in the Summary Compensation Table in Section 3.3 – "Compensation of Named Executive Officers".

3.7.3 Equity-Based Compensation Programs

(a) Directors' Share Purchase Plan

A Directors' Share Purchase Plan (the "Share Purchase Plan") was established in 1995 to link a portion of the compensation paid to the Independent Directors with the performance of the Corporation and the return to Shareholders. Since the last grant in 2005, the Corporation discontinued the granting of Shares under the Share Purchase Plan.

(b) Stock Option Plan for Directors

In 1998, the Corporation established the Stock Option Plan for Directors of Sears Canada Inc. (the "Stock Option Plan for Directors") to provide for the grant of stock options and SARs to the Independent Directors. Following the last grant in 2003, the Corporation discontinued the granting of stock options to the Independent Directors. There are currently no vested or unvested stock options outstanding pursuant to the Stock Option Plan for Directors.

Aggregated Option/SARs Exercises During Fiscal 2010 for Independent Directors

The following table sets forth the number of shares issued and issuable under the Stock Option Plan for Directors for Fiscal 2010.

Stock Option Plan for Directors (for the year ended January 29, 2011)	# of Shares	% of outstanding capital
Shares issued under Plan	0	0.00%
Shares issuable under Plan	250,000	0.24%
Shares issuable under grants made	0	0.00%

The Independent Directors do not hold any stock options.

(c) Director Share Ownership Policy

Since April 2004, each Independent Director of the Corporation was expected to acquire and own Shares equal in value to five times his or her annual cash retainer within five years of being elected or appointed to the Board. Effective January 1, 2007, and reflective of the fact that Independent Directors must now purchase Shares in the open market rather than be granted Shares by the Corporation, the Share Ownership Policy was amended such that Independent Directors are now expected to acquire and hold Shares equal in value to their annual cash retainer (currently $60,000 as of January 1, 2007) within three years of being elected or appointed to the Board.

3.8 Indebtedness of Directors, Executive Officers and Employees

As at March 22, 2011, the aggregate indebtedness of all employees and former employees of the Corporation to the Corporation and its subsidiaries was approximately $25,496 for loans made to employees under the Corporation's housing relocation assistance program. In January 1997, the Corporation ceased advancing any loans under the housing relocation assistance program. During Fiscal 2010, there was no indebtedness of directors, proposed director nominee or executive officers, or former directors or executive officers of the Corporation to the Corporation or any of its subsidiaries.

4. INTEREST OF INFORMED PERSONS IN MATERIAL TRANSACTIONS

To the knowledge of the Corporation, no director or executive officer of the Corporation, any Proposed Director or Sears Holdings or any of their respective associates or affiliates, has or had any material interest, directly or indirectly, in any transaction or proposed transaction since the commencement of the Corporation's most recently completed financial year that has materially affected or will materially affect Sears Canada or any of its subsidiaries.

5. CORPORATE GOVERNANCE

5.1 Overview

The Board believes that strong corporate governance practices are essential to the success of the Corporation, effective corporate performance and the best interests of Shareholders. The Governance Committee oversees corporate governance, on behalf of the Board, including the methods and processes for evaluating Board effectiveness and performance. The Governance Committee is responsible for reviewing the corporate governance guidelines, policies and requirements adopted from time to time by applicable securities regulatory authorities, and guiding the Corporation in its approach and practices with respect to such matters.

5.2 Board of Directors

5.2.1 Composition

The size of the Board has been fixed at eight. Four of the current eight directors, namely, E. J. Bird, R. Raja Khanna, James McBurney and Debi E. Rosati, are Independent Directors while the other four, namely, William C. Crowley, William R. Harker, Deidra C. Merriwether and Dene L. Rogers, are Non-Independent Directors. Mr. Crowley is an executive officer of ESL Investments, Inc. an entity affiliated with Sears Holdings. Mr. Harker and Ms. Merriwether are executive officers of Sears Holdings and Mr. Rogers is an executive officer of the Corporation. The preceding directors are considered to be Non-Independent Directors as a result of their relationship with Sears Holdings, its affiliated entities, and the Corporation. Mr. Crowley is also Chairman of the Board. For other directorships held by the directors, see the table under Section 2.2.2 – "Background Information on Proposed Directors".

The Board takes various measures to facilitate the exercise of independent judgment by its directors in carrying out their responsibilities, including:

- The holding of an *in camera* session following each Board and Committee meeting without management present;
- The holding of separate meetings of Independent Directors after each regularly scheduled Board and Committee meeting;
- The appointment of a Lead Director (see Section 5.2.2 – "Chairman of the Board and Lead Director");
- Engaging in frequent discussions with the management of the Corporation; and
- Retaining external advisors.

5.2.2 Chairman of the Board and Lead Director

In view of the fact that Mr. Crowley, Chairman of the Board, is a Non-Independent Director, the Board has appointed E. J. Bird, an Independent Director, to serve as the Lead Director of the Board. The Lead Director serves to provide the Board with an independent perspective pertaining to its oversight activities and enhances the Corporation's ability to identify and resolve conflicts of interest. In addition, the Lead Director acts as a liaison between the Chairman of the Board and the Independent Directors on sensitive issues and collaborates with the Chairman to provide guidance so as to ensure the Board successfully carries out its duties.

5.2.3 Meetings of the Independent Directors

Independent Directors meet separately at each regularly scheduled Board or Committee meeting, following an *in camera* session in which the directors meet without the presence of management. The Independent Directors are also encouraged to meet from time to time as may be necessary. The Board encourages the Independent Directors to engage in open and candid discussion as they see fit.

5.2.4 Attendance at Board and Committee Meetings

The Board has five regularly scheduled meetings each year. Additional meetings of the Board are held as required. Nine meetings of the Board, with one meeting exclusively for the Independent Directors, were held in Fiscal 2010. The Corporation does not have an executive committee of its Board. The number of meetings held by the Committees of the Board in Fiscal 2010 is set out below:

Board Committee	Meetings held in Fiscal 2010
Audit Committee	5
Governance Committee	3
HRCC	4
Investment Committee	6

Directors are expected to maintain a 100% attendance record with respect to all Board and Committee meetings. If a director's attendance falls below 75% for either a Board or Committee meeting, the director's attendance record will be reviewed by the Governance Committee. For more detail on the attendance record of the Proposed Directors, please refer to Section 2.2.2 – "Background Information on Proposed Directors".

5.3 Board Mandate

The mandate of the Board is to oversee the business and affairs of the Corporation and provide guidance and direction to the management of the Corporation in order to attain corporate objectives and maximize shareholder value. The full text of the Mandate of the Board can be found at Appendix "B".

5.4 Position Descriptions

Written position descriptions for the chair of each Board Committee have been developed and are set out in the charters of each Committee. In addition, position descriptions have been developed for the Chairman of the Board and the Chief Executive Officer and are set out in the Mandate of the Chairman of the Board and the Mandate of the Chief Executive Officer, respectively, which are available on www.sears.ca.

5.5 Orientation and Continuing Education

Management provides an orientation and ongoing education program for directors during which information regarding the role of the Board, its Committees and directors is provided. The directors receive regular updates on emerging trends in business and corporate governance. The Corporation periodically reviews its orientation and education program to enhance its currency and effectiveness. During the first quarter of Fiscal 2010, an education session, open to all directors, was held on the key businesses of Sears Canada in order to better acquaint newly appointed director, James McBurney with the Corporation. This education session included a tour of select retail locations and presentations reviewing the strategic plans of various business channels. Regular updates are provided to the directors on the operation of the Corporation and its strategic business plan in addition to industry-related information on business developments and the competitive landscape. On an annual basis, the Corporation hosts a special session with the directors to have an in-depth discussion regarding the Corporation's strategic plan. The most recent strategic session was held in November 2010. Furthermore, in January 2010, the directors received an e-learning program prepared by a major international accounting firm about upcoming accounting changes due to the implementation of International Financial Reporting Standards. In addition, management may engage independent advisors, from time to time, to address specific compliance-related issues.

5.6 Code of Business Conduct

Honesty and integrity are essential to good corporate governance and, to that end, the Corporation has adopted a Code of Business Conduct (the "Code of Conduct"). The Code of Conduct applies to every director, executive officer and employee. It provides guidelines and sets out expectations regarding interactions with customers, investors, governmental authorities and suppliers of merchandise and services, and among, employees. The Code of Conduct also sets out the ethical values and standards of behaviour that apply to all of the Corporation's business activities, including such matters as fair dealing, conduct in the workplace, conflicts of interest, corporate property and records, and compliance with the laws of all jurisdictions in which the Corporation conducts business.

Management reports regularly to the Audit Committee on compliance with the Code of Conduct. Directors, executive officers and employees are required to acknowledge annually, in writing, their understanding of, and compliance with, the Code of Conduct. Directors are also required to confirm their material interests and complete related party questionnaires annually. Directors are required to abstain from any discussions or meetings regarding any matters in which they have a material interest.

The Corporation has established the Sears Canada Ethics Hotline which provides a confidential and anonymous communication channel for employees and other stakeholders to report suspected breaches of the Code of Conduct and accounting, internal accounting controls, and auditing matters.

The Code of Conduct and information pertaining to the Sears Canada Ethics Hotline can be found on the Corporation's website at www.sears.ca or by contacting the Corporation's Corporate Communications Department at (416) 941-4425.

5.7 Disclosure, Confidentiality and Insider Trading Policy

The Corporation has adopted a Disclosure, Confidentiality and Insider Trading Policy (the "Disclosure Policy") which reflects its commitment to providing timely and accurate corporate information to the capital markets, including its Shareholders, and to the general public. The Disclosure Policy provides direction and guidance to directors, executive officers and employees regarding confidentiality and disclosure of corporate information, insider trading obligations and sanctions for non-compliance. The Disclosure Policy requires prompt general disclosure of any material information. It also sets out the procedures to be followed in communicating with investors, analysts and the media. A Disclosure Policy committee, comprised of senior management representatives, which meets on an ad hoc basis, has been established by the Corporation to administer the Disclosure Policy.

5.8 Board Committees

The Board has four Committees: the Audit Committee, the HRCC, the Governance Committee and the Investment Committee. Each Committee has a written charter and has the authority to engage, independent from management and at the expense of the Corporation, external advisors, including legal counsel and other expert advisors, as it deems appropriate, to assist it in the performance of its duties. The members of each Committee are designated in the table set out under Section 2.2.2 – "Background Information on Proposed Directors".

For a discussion regarding the assessment of the Board, its Committees and each director, see Section 5.8.3 – "Governance Committee".

5.8.1 Audit Committee

During Fiscal 2010, the Audit Committee was comprised of four Independent Directors. As of the date hereof, the Audit Committee members are as follows: E. J. Bird, R. Raja Khanna, James McBurney and Debi E. Rosati, all of whom are Independent Directors and financially literate. The purpose of the Audit Committee is to assist the Board in its oversight of:

- The integrity of the Corporation's financial reporting;
- The independence, qualifications, appointment and performance of the Corporation's external auditors;
- The mandate and performance of the Corporation's internal audit department according to the Internal Audit Department Charter, which was implemented in 2009;
- The operation of Sears Canada Ethics Hotline;
- The functioning of the Corporation's risk oversight subcommittee ("ROC") and its processes; and
- Management's responsibility for reporting on internal controls.

The Audit Committee meets approximately five times a year and holds an *in camera* session after each regularly scheduled meeting without the presence of management. The Independent Directors also meet separately after each regularly scheduled meeting.

The ROC is responsible for identifying, assessing and monitoring the principal risks of the Corporation and ensuring that management has a structured process in place for managing, mitigating and controlling those risks as set out in its charter. The ROC reports directly to the Audit Committee on a quarterly basis. The ROC meets at least four (4) times a year and the Senior Vice-President and Chief Financial Officer serves as chair for these meetings. The ROC has the authority to engage external experts, if necessary.

For more information on the background of the Audit Committee members and their duties and responsibilities, see Section 13 – "Audit Committee Information" of the Corporation's 2011 Annual Information Form ("AIF") and the Audit Committee Charter attached as Appendix "B" to the AIF, which is available on SEDAR at www.sedar.com.

5.8.2 Human Resources and Compensation Committee

For Fiscal 2010, the membership of the HRCC was, for the period of January 31, 2010 to April 23, 2010, comprised of two Independent Directors and two Non-Independent Directors. As of the date hereof, the HRCC is comprised of one Independent Director, being Debi E. Rosati and three Non-Independent Directors, being William C. Crowley, William R. Harker and Deidra C. Merriwether.

The Board delegates the responsibility of determining the compensation of the officers to the HRCC. To ensure that an objective process is established and followed for determining executive compensation, the HRCC (i) engages independent external advisors, when necessary, and (ii) considers market competitive and industry specific compensation practices.

The purpose of the HRCC is to assist the Board in its oversight responsibilities relating to:

- The development of the Corporation's overall human resources strategy for fair and competitive compensation of the Senior Leadership Team in support of the achievement of the Corporation's business strategy, as well as the development of other significant compensation programs for the benefit of all employees;
- The development of the Chief Executive Officer's goals and objectives and the evaluation of his or her performance against these goals; and
- The succession plan for, and the compensation of, the Senior Leadership Team.

The responsibilities of the HRCC include the following:

- Approve the Corporation's compensation and human resources strategy to ensure it is aligned with the goals and objectives of the Corporation and assess the competitiveness, appropriateness and internal equity of the Senior Leadership Team's compensation;
- Review and approve, at least annually, the Corporation's compensation policies and practices, Senior Leadership Team base salaries and all employee-related short and long-term incentive plans and equity-based plans together with performance targets in support of the Corporation's business strategy, achievement of performance goals at the end of each plan cycle, and any payments pursuant to such incentive plans to the Senior Leadership Team and, in summary form, to other eligible plan participants;
- Review and approve the Corporation's pension and benefit plans and any material changes thereto;
- Establish performance targets and corporate goals and objectives relevant to the Chief Executive Officer's compensation and evaluate the Chief Executive Officer's performance in light of such targets;
- Determine and recommend annually the Chief Executive Officer's compensation based on the HRCC's evaluation of the Chief Executive Officer's performance;
- Review and recommend for approval by the Board, any employment agreements relating to the Chief Executive Officer and approve any employment agreements relating to Senior Vice-Presidents;

- Make recommendations on the proposed appointment or reassignment of Senior Vice-Presidents;
- Review the annual performance assessments and succession plans for the Senior Leadership Team; and
- Review and approve the Committee's executive compensation report in the annual management proxy circular.

The HRCC meets at least three times per year and holds an *in camera* session after each regularly scheduled meeting without the presence of management. The Independent Directors also meet separately after each regularly scheduled meeting.

5.8.3 Governance Committee

During Fiscal 2010, the membership of the Governance Committee was, for the period of January 31, 2010 to April 23, 2010, comprised of four members, three of whom were Independent Directors and one of whom was a Non-Independent Director. As of the date hereof, the Governance Committee is comprised of three Independent Directors, being R. Raja Khanna, James McBurney and Debi E. Rosati.

The Board delegates the responsibility of determining the compensation of the Independent Directors to the Governance Committee.

The purpose of the Governance Committee is to assist the Board to:

- Develop, implement and oversee compliance with the Board's corporate governance policies, practices and procedures;
- Identify candidates to be nominated for election or appointment to the Board;
- Determine the compensation of the Independent Directors for their service to the Board and its committees; and
- Assess the performance and effectiveness of the Board and its Committees.

The responsibilities of the Governance Committee include the following:

- Review the size and composition of the Board;
- Develop a policy setting out the appropriate criteria for the selection of directors;
- Recommend qualified candidates to be nominated for election or appointment to the Board;
- If appropriate, engage an independent consulting firm to assist in identifying qualified candidates;
- Review Independent Directors' compensation and recommend appropriate changes;
- Conduct a board effectiveness survey, which also includes a director evaluation component and director peer review to evaluate the performance and effectiveness of the Board and the Chairman of the Board, the Board's Committees and their respective chairs;
- Review the adequacy of the orientation and education program for new directors and the ongoing educational presentations to incumbent directors;
- Review the corporate governance statements in the Corporation's annual report and management proxy circular; and
- Assess Shareholder proposals and make appropriate recommendations to the Board with respect thereto.

In connection with its responsibility for considering and recommending for approval by the Board qualified candidates to be nominated for election or appointment as directors, the Governance Committee has developed a policy which sets out the appropriate criteria for the selection of directors (the "Director Selection Policy"). Pursuant to the Director Selection Policy, when there is a vacancy on the Board, the Chair of the

Governance Committee, in consultation with other Governance Committee members, prepares a skills profile for that position consistent with the selection criteria contained in the Director Selection Policy. As well, the Governance Committee requires that prospective nominees fully understand the role of the Board and its committees, and the contribution that individual directors are expected to make including, in particular, the commitment of time and energy.

In pursuance of its responsibility regarding assessments of Board effectiveness, the Governance Committee conducts a board effectiveness survey and Director peer review survey (the "Surveys") every two years. The Surveys are prepared by the Corporation and administered by the legal department. The Corporation may obtain assistance from external advisors with respect to the preparation of the Surveys, as necessary. The results are reported and reviewed by the Chair of the Governance Committee who reports the results to the Board for discussion. The last Board effectiveness survey was conducted in Fiscal 2010.

The Governance Committee meets at least three times per year and holds an *in camera* session after each regularly scheduled meeting without the presence of management. The Independent Directors also meet separately after each regularly scheduled meeting.

5.8.4 Investment Committee

During Fiscal 2010, the membership of the Investment Committee of the Board was, for the period of January 31, 2010 to April 23, 2010, five members, two of whom were Independent Directors and three of whom were Non-Independent Directors, one of which was an executive officer of the Corporation. As of the date hereof, the Investment Committee is comprised of one Independent Director, being E. J. Bird, and three Non-Independent Directors, being William C. Crowley, William R. Harker and Deidra C. Merriwether.

The purpose of the Investment Committee is to assist the Board in its oversight responsibilities relating to the investment of the funds established pursuant to the Corporation's pension and benefit plans. The Investment Committee is responsible for the establishment of strategy and policies and for the selection and appointment of external investment managers.

The Investment Committee meets at least three times per year and holds an *in camera* session after each regularly scheduled meeting without the presence of management. The Independent Directors also meet separately after each regularly scheduled meeting.

5.9 Normal Course Issuer Bid

Between May 25, 2010 and May 24, 2011, and pursuant to its NCIB through the facilities of the TSX, the Corporation is permitted to purchase for cancellation up to 5% of its issued and outstanding Shares, representing approximately 5.3 million Shares. From time to time, when the Corporation does not possess material undisclosed information about itself or its securities, it may enter into a pre-defined plan with a designated broker to allow for the repurchase of Shares at times when the Corporation ordinarily would not be active in the market due to its own internal trading blackout periods, insider trading rules, or otherwise. Any such plans entered into with the Corporation's designated broker will be adopted in accordance with the requirements of applicable Canadian securities laws.

5.10 Directors' and Officers' Liability Insurance

The Corporation has entered into an indemnification agreement with each of the Independent Directors and officers of the Corporation. Pursuant to an undertaking by Sears Holdings, which forms part of the indemnification agreement, Sears Holdings maintains a directors' and officers' liability insurance policy for the directors and officers of the Corporation to the same extent that directors and officers and former directors and officers of Sears Holdings have the benefit of such insurance. The coverage applies so long as Sears Holdings owns more than 50% of the Shares of the Corporation. The policy applies where the Corporation is not able to indemnify its directors and/or officers. Pursuant to the policy, the Corporation is required to indemnify its directors and officers to the fullest extent permitted by law. The coverage limit is U.S. $150 million. The premium for the policy is paid by Sears Holdings. Neither the Corporation nor any of its directors or officers are required to reimburse Sears Holdings for any portion of the premium expense incurred by Sears Holdings. There is no deductible for this coverage.

6. ADDITIONAL INFORMATION

Financial information about the Corporation is contained in its audited comparative consolidated financial statements and Management's Discussion and Analysis for Fiscal 2010. Copies of these documents, the Circular, the Annual Information Form dated March 22, 2011 and additional information relating to the Corporation are available on SEDAR at www.sedar.com, or may be obtained upon request from the Office of the Secretary at 290 Yonge Street, Suite 700, Toronto, Ontario, M5B 2C3 (fax: (416) 941-2321 or by telephone at (416) 941-4425), without charge to the Shareholders.

7. DIRECTORS' APPROVAL

The contents and the sending of the Circular have been approved by the Board of the Corporation.

Toronto, Ontario
March 22, 2011

Franco Perugini
Associate General Counsel
and
Corporate Secretary

APPENDIX “A”

BY-LAW NO. 1 (as amended) of
SEARS CANADA INC. (the “Corporation”)

I INTERPRETATION

1.01 Expressions used in this By-Law shall have the same meanings as corresponding expressions in the Canada Business Corporations Act (the "Act").

II CORPORATE SEAL

2.01 Until changed by the directors, the corporate seal of the Corporation shall be in the form impressed in the margin hereof.

III FINANCIAL YEAR

3.01 Until changed by the directors, the financial year of the Corporation shall end on the Saturday falling closest to January 31 in each year.

IV DIRECTORS

4.01 Number

The number of directors shall be not fewer than the minimum and not more than the maximum provided in the articles. At each election of directors the number elected shall be the number of directors then in office unless the directors or the shareholders otherwise determine.

4.02 Quorum

A quorum for a meeting of directors shall be three or such greater or lesser number as the directors may from time to time determine provided that at least two of the directors present are not officers or employees of the Corporation or of its holding body corporate.

4.03 Calling of Meetings

Meetings of the directors shall be held at such time and place as the Chairman of the Board, the President or any two directors may determine.

4.04 Notice of Meetings

Notice of the time and place of each meeting of directors shall be given to each director by telephone not less than 24 hours before the time of the meeting or by written notice not less than 48 hours before the time of the meeting, provided that the first meeting immediately following a meeting of shareholders at which directors are elected may be held without notice if a quorum is present. Meetings may be held without notice if the directors waive or are deemed to waive notice.

4.05 Chairman

The Chairman of the Board shall be appointed from among the directors and when present shall be the chair of meetings of directors and shall have such other powers and duties as the directors may determine. If the Chairman is absent for a meeting, the President if a director, or in his absence a director chosen by the directors at the meeting, shall be the chair of any meeting of directors.

4.06 Voting at Meetings

At meetings of directors each director shall have one vote and questions shall be decided by a majority of votes. In case of an equality of votes the Chairman of the meeting shall have a second or casting vote.

V OFFICERS

5.01 General

The directors may from time to time appoint a Chairman of the Board, a President, one or more Vice-Presidents, a Secretary, a Treasurer, a Corporate Comptroller and such other officers as the directors may determine.

5.02 President

Unless the directors otherwise determine the President shall be appointed from among the directors of the Corporation and shall have general supervision of its business and affairs and in the absence of the Chairman of the Board shall be chairman of meetings of directors and shareholders when present.

5.03 Vice-President

A Vice-President shall have such powers and duties as the directors or the chief executive officer may determine.

5.04 Secretary

The Secretary shall give required notices to shareholders, directors, auditors and members of committees, act as secretary of meetings of directors and shareholders when present, keep and enter minutes of such meetings, maintain the corporate records of the Corporation, have custody of the corporate seal and have such other powers and duties as the directors or the chief executive officer may determine.

5.05 Treasurer

The Treasurer shall keep proper accounting records in accordance with the Act, have supervision over the safekeeping of securities and the deposit and disbursement of funds of the Corporation, report as required by the chief executive officer on the financial position of the Corporation, and have such other powers and duties as the directors or the chief executive officer may determine.

5.06 Corporate Comptroller

The Corporate Comptroller shall have such powers and duties as the directors or the chief executive officer may determine.

5.07 Assistants

Any of the powers and duties of an officer to whom an assistant has been appointed by the directors may be exercised and performed by such assistant unless the directors or the chief executive officer otherwise direct.

5.08 Term of Office

Each officer shall hold office until his successor is elected or appointed, provided that the directors may at any time remove any officer from office but such removal shall not affect the rights of such officer under any contract of employment with the Corporation.

VI SHAREHOLDERS

6.01 Quorum

A quorum for the transaction of business at a meeting of shareholders shall be two persons present and each entitled to vote at the meeting.

6.02 Casting Vote

In case of an equality of votes at a meeting of shareholders the Chairman of the meeting shall have a second or casting vote.

6.03 Scrutineers

The Chairman at any meeting of shareholders may appoint one or more persons (who need not be shareholders) to act as scrutineer or scrutineers at the meeting.

6.04 Chairman

The Chairman of the Board may act as chair of any meeting of shareholders or may delegate the responsibility of chairing a meeting of shareholders to any other director or officer present at such meeting. If the Chairman is absent for a meeting of shareholders, and has not so delegated to another director or officer present at the meeting, then the President, or in his absence a director or officer chosen by those directors present at the meeting (failing which, by the shareholders at the meeting), shall be the chair of any meeting of shareholders.

VII DIVIDENDS AND RIGHTS

7.01 Declaration of dividends

Subject to the Act the directors may from time to time declare dividends payable to the shareholders according to their respective rights and interest in the Corporation.

7.02 Payment

A dividend payable in money shall be paid to each registered holder of shares of the class or series in respect of which it has been declared and transmitted to such registered holder at the address of such holder in the Corporation's securities register, unless such holder otherwise directs. In the case of joint holders the payment shall be made, unless such joint holders otherwise direct, to such joint holders. Payment as aforesaid shall satisfy and discharge the liability for the dividend to the extent of the sum represented thereby plus the amount of any tax which the Corporation is required to and does withhold.

7.03 Unclaimed Dividends

Any dividend unclaimed after a period of six years from the date on which the same has been declared to be payable shall be forfeited and shall revert to the Corporation.

VIII EXECUTION OF INSTRUMENTS

8.01 Deeds, transfers, assignments, agreements, proxies and other instruments may be signed on behalf of the Corporation by any two directors or by a director and an officer or by one of the Chairman of the Board, the President, a Vice-President or an Assistant Vice-President together with one of the Secretary, an Assistant Secretary, the Treasurer, an Assistant Treasurer, the Corporate Comptroller or an Assistant Corporate Comptroller or in such other manner as the directors may determine.

IX NOTICE

9.01 A Notice mailed to a shareholder, director, auditor or member of a committee shall be deemed to have been given when deposited in a post office or public letter box.

9.02 Accidental omission to give any notice to any shareholder, director, auditor or member of a committee or non-receipt of any notice or any error in a notice not affecting the substance thereof shall not invalidate any action taken at any meeting held pursuant to such notice.

X REPEAL

10.01 By-Law No. A-1 be and it is hereby repealed without prejudice to any action or actions heretofore taken thereunder.

APPENDIX "B"

MANDATE OF THE BOARD OF DIRECTORS
SEARS CANADA INC.
(as of August 2008)

The Board of Directors is responsible for overseeing the management of the business and the affairs of the Corporation and providing guidance and direction to the management of the Corporation in order to attain corporate objectives and to maximize shareholder value. Directors must, individually, in connection with the powers and duties of their office, act honestly and in good faith with a view to the best interests of the Corporation and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. In fulfilling its mandate, the objectives of the Board include:

(a) adopting a strategic planning process and approving a comprehensive strategic plan which takes into account the opportunities and risks of the business, and monitoring management's success in implementing the strategy;

(b) assessing and monitoring operational performance against the business plan;

(c) adopting a risk management process to identify the principal risks of all aspects of the business of the Corporation and ensuring that there are appropriate systems in place which effectively monitor and manage these risks;

(d) appointing of Officers, assessing the performance of the Chief Executive Officer and ensuring that programs are in place for training and assessing Officers and for an orderly succession process for Officers;

(e) a leadership role in the development of reviewing and approving an effective two-way communication policy for the Corporation which requires that all inquiries from shareholders, other stakeholders and the public generally receive a prompt response from the Corporate Communications Department, the Office of the Secretary or another appropriate Officer of the Corporation;

(f) developing the Corporation's approach to corporate governance;

(g) effecting the Corporation's expectation that directors attend all requisite board and committee meetings and review meeting materials in advance of such meetings;

(h) assessing the integrity of the Corporation's internal control and management information systems;

(i) satisfying itself, that the Chief Executive Officer and other senior management personally exhibit and create a culture of integrity throughout the Corporation; and

(j) appointing the appropriate Committees and delegating to them certain responsibilities to assist the Board of Directors in giving effect to the foregoing.