



SEARS CANADA INC.
ANNUAL INFORMATION FORM

March 15, 2012

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ANNUAL INFORMATION FORM

SEARS CANADA INC.

References in this Annual Information Form (“AIF”) to “Sears”, “Sears Canada” or “the Company” are to Sears Canada Inc. and its subsidiaries, unless the context requires otherwise.

Unless otherwise indicated herein, the information set out in this AIF is current to January 28, 2012 (“Fiscal 2011”), being the end of the Company’s most recently completed financial year.

Certain sections of the Company’s 2011 Annual Management’s Discussion and Analysis (“2011 MD&A”) and the Company’s Management Proxy Circular dated March 15, 2012 (the “MPC”) are incorporated by reference in this AIF. The Company’s 2011 MD&A and MPC are available on the System for Electronic Document Analysis and Retrieval (“SEDAR”) at www.sedar.com.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

Certain information in this AIF is forward-looking and is subject to important risks and uncertainties. Forward-looking information concerns, among other things, the Company’s future financial performance, business strategy, plans, expectations, goals and objectives, and includes statements concerning possible or assumed future results set out under Section 2 – “General Development of the Business”. Often, but not always, forward-looking information can be identified by the use of words such as “plans”, “expects” or “does not expect”, “is expected”, “budget”, “scheduled”, “estimates”, “forecasts”, “intends”, “anticipates” or “does not anticipate”, or “believes”, or variations of such words and phrases, or statements that certain “endeavoured” actions, events or results “may”, “could”, “would”, “might” or “will” be taken, occur or be achieved. Although the Company believes that the estimates reflected in such forward-looking information are reasonable, such forward-looking information involves known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking information and undue reliance should not be placed on such information.

Factors which could cause actual results to differ materially from current expectations include, but are not limited to: the ability of the Company to successfully implement its strategic initiatives, productivity improvement and cost reduction initiatives and whether such initiatives will yield the expected benefits; the results achieved pursuant to the Company’s long-term credit card marketing and servicing alliance with JPMorgan Chase Bank, N.A. (Toronto Branch) (“JPMorgan Chase”); general economic conditions; competitive conditions in the businesses in which the Company participates; changes in consumer spending; seasonal weather patterns; customer preference toward product offerings; the credit worthiness and financial stability of tenants and partners, with respect to the Company’s real estate joint venture interests; changes in the Company’s relationship with its suppliers; changes in the Company’s ownership by Sears Holdings Corporation (“Sears Holdings”), the controlling shareholder of the Company; interest rate fluctuations and other changes in funding costs and investment income; fluctuations in foreign currency exchange rates; the possibility of negative investment returns in the Company’s pension plan or an expected increase to the defined benefit obligation; new accounting pronouncements, or changes to existing pronouncements, that impact the methods the Company uses to report its financial condition and results from operations; uncertainties associated with critical accounting assumptions and estimates; the outcome of pending legal proceedings; and changes in laws, rules and regulations applicable to the Company. Information about these factors, other material factors that could cause actual results to differ materially from expectations and about material factors or assumptions

applied in preparing forward-looking information, may be found under Section 3 – “Description of the Business” and elsewhere in the Company’s filings with Canadian securities regulators. The Company does not undertake any obligation to update publicly or to revise any forward-looking information, whether as a result of new information, future events or otherwise, except as required by law.

1. CORPORATE STRUCTURE

(a) Incorporation and Head Office

The registered and head office address of the Company is 290 Yonge Street, Suite 700, Toronto, Ontario, Canada, M5B 2C3.

Sears Canada was incorporated under the laws of Canada by letters patent dated September 17, 1952 and was continued under the *Canada Business Corporations Act* by articles of continuance effective May 15, 1980. By articles of amendment effective May 31, 1984, the Company changed its name from Simpsons-Sears Limited to Sears Canada Inc. By articles of amalgamation dated January 1, 1994, December 29, 1996 and December 30, 1999, Sears Canada was amalgamated with various wholly-owned subsidiaries.

(b) Intercorporate Relationships

The Company has numerous subsidiaries:

- (i) none of which has total assets exceeding 10 percent of the consolidated assets of the Company, or sales and operating revenues in excess of 10 percent of the consolidated sales and operating revenues of the Company; and
- (ii) which taken together, do not have assets exceeding 20 percent of the consolidated assets of the Company, or sales and operating revenues exceeding 20 percent of the consolidated sales and operating revenues of the Company.

2. GENERAL DEVELOPMENT OF THE BUSINESS

Set out below is a discussion of the general development of the business of the Company over the last three years up until the date of the AIF.

(a) Organizational Capability Initiative

Throughout Fiscal 2011, the Company recruited executive talent, which resulted in the appointment of a new President and Chief Executive Officer, Calvin McDonald and the appointment of four senior leaders, including the Executive Vice-President and Chief Administrative Officer, the Senior Vice-President, Merchandising, Home and Hardlines, the Executive Vice-President, Merchandising, Apparel and Accessories and the Senior Vice-President, Marketing.

The Company also held National Hiring Day on October 20, 2011 to hire approximately 1,500 part-time sales associates for the holiday season.

(b) Sustainability Efforts

The Company is continuing its sustainability efforts that encompass all areas of its business. In Fiscal 2011, the Company launched numerous initiatives to help Canadians choose more environmentally sustainable options, including the Million Dollar Energy Challenge to help Canadians save money with ENERGY STAR appliances. In 2010, it introduced its Cost & Carbon Savings Calculator to demonstrate the financial and environmental benefits of

switching to ENERGY STAR qualified products. During the second quarter of Fiscal 2011, the Company won the Retail Sustainability Award at the Excellence in Retailing Awards celebration dinner held by the Retail Council of Canada. The Company received the award for its "*Live Green at Sears: Reducing Our Footprint...Helping Canadians Reduce Theirs*" program that aims to reduce the Company's environmental footprint and help customers do the same.

The award coincided with announcements about Sears Canada's sustainability initiatives which took place during Canadian Environment Week, including one of the largest replacements of inefficient lighting ever undertaken. There were also announcements about the recognition of the Company's Calgary National Logistics Centre as an ISO 14001 facility. Sears was also named by the Government of Canada as the Natural Resources Canada 2011 ENERGY STAR® Retailer of the Year.

(c) Credit Facility

In September 2010, the Company entered into an \$800.0 million senior secured revolving credit facility (the "Credit Facility") with a syndicate of lenders with a maturity date of September 10, 2015. As at January 28, 2012, the Company had drawn \$101.1 million on the Credit Facility and had \$6.3 million of standby letters of credit outstanding. Availability under the Credit Facility was \$415.1 million as at January 28, 2012. The Credit Facility is secured with a first lien on inventory and credit card receivables. Availability under the Credit Facility is determined pursuant to a borrowing base formula. The Credit Facility contains covenants which are customary for facilities of this nature and the Company was in compliance with all covenants as at January 28, 2012.

(d) Sears Travel

Sears Travel service operates within 108 Sears locations across Canada, an online travel service at www.searstravel.ca and 1-866-FLY-SEARS, which connects customers to the nearest geographical branch. As of January 30, 2011, Thomas Cook manages the day-to-day operations of all Sears Travel offices and the Sears Travel website pursuant to an exclusive, multi-year licensing arrangement.

(e) Response to Challenging Economic Environment

In order to position the Company to continue operating efficiently during the challenging economic environment, the Company disposed of excess inventory in Fiscal 2011. The Company also implemented internal restructuring.

The Company carried out expense management measures in the 52-week period ended on January 30, 2010 ("Fiscal 2009"), which included associate wage freezes, up to 15% in salary reductions for associates at the Vice-President level and above, pension contribution reductions, strategic reductions to the Company's associates and call centre expenses. The staffing reduction affected approximately 300 associates and had no impact on customer service at the store level as reductions were initiated at the Company's head office in Toronto and in the repair services business. To continue to provide efficient support to customers and the Company's businesses, especially during peak seasonal times, and to remain competitive, certain call centre functions were outsourced to an experienced external service provider that the Company has used for several years.

(f) Benefits, Pension and Post-Retirement Program

During Fiscal 2009, the Human Resources and Compensation Committee of the Board (“HRCC”) approved changes to the Company’s benefits portfolio. The health and dental benefits were changed from a menu of options to a simpler two-tiered design and the vacation benefit provided for a maximum of four weeks vacation time (or equivalent for part-time associates) per year. In addition, the short-term disability and long-term disability benefits were updated to offer the same coverage for all full-time hourly and salaried associates. The Company’s current benefits are designed to reflect a broader and more consistent offering for the majority of associates and a fairer, simpler and more equitable design across the Company. For the 52-week period ended January 29, 2011 (“Fiscal 2010”) and Fiscal 2011, these updates reduced the Company’s benefit expenditures.

Sears Canada introduced new programs in Fiscal 2009, Fiscal 2010 and Fiscal 2011 designed to enhance the health, wellness and quality of life for its associates. The programs included discounts on fitness facilities across Canada, spa facilities, weight loss services, home and auto insurance, tax preparation services, basic household and personal care items through a network of pharmacies, transportation and vehicle discounts as well as discounts on a wide range of entertainment and attractions, sporting events, magazine subscriptions and more.

In the first quarter of Fiscal 2009, the HRCC approved a change to the Company’s pension plan. Previously the Company had matched a certain percentage of an associate’s contribution to the defined contribution component of his/her pension plan in accordance with a matching schedule. Pursuant to the approval of the change by the HRCC, the amount matched by the Company was reduced by two percent.

(g) Strategic Initiatives

Sears is committed to its mission of building customer relationships, increasing profitability and improving every day. The Company aimed to achieve this mission by focusing on several key strategic initiatives geared towards growing profitable sales. Over the last three years, the Company has undertaken several strategic initiatives to achieve these objectives, including:

(i) Relevant and Current Product Assortment

The Company endeavours to produce profitable sales by increasing sales and volumes of product assortments that are relevant to its existing customers, while attracting new customers through innovative products and brands, including the Sears brand, private label brands and non-proprietary brands exclusive to Sears. On a regular basis, the Company undertakes “recharges” to improve product selection, promotion, customer service and staff product knowledge. These initiatives also permit Sears to introduce new brands and substitute or discontinue existing brands.

During Fiscal 2011, the Company announced Jay Manuel as Creative Director of ATTITUDE®. Jay Manuel and launched the inaugural collection at the LG® Fashion Week Beauty in Toronto.

The Company also focused on winning market share in the mattress category through initiatives that include the promotion of brands such as Stearns & Foster® and Simmons® Beautyrest®, as well as the launch of luxury mattresses under the private label Sears-O-Pedic®.

The Company expanded its furniture selection including the innovative Paula Deen and prestigious Thomasville TM Brands.

In Fiscal 2011, the Company created the Kids Room Program to improve the shopping experience in the areas of kids fashion, toys and home accessories and restructured its merchandising operations and introduced integrated teams to better coordinate planning, marketing, buying, allocation and finance functions.

During Fiscal 2010, the Company recharged the private label Jessica[®] brand, and expanded the national brand portfolio to include brands such as Kensie[®], Mac & Jac[®], Liz Claiborne[®], and Kenneth Cole Unlisted[®]. During Fiscal 2010, the Company introduced new brands such as Italsofa The Italian Touch[®], a Natuzzi[®] sub-brand and Paula Deen Home into its furniture business, and Stearns & Foster[®] and Simmons[®] Beautyrest[®] into its mattresses business.

During Fiscal 2009, the Company commenced recharges in: women's wear, men's wear, children's wear, and cosmetics - including the launch of Oasis, a new beauty department concept, in two Full-line stores.

(ii) Private and National Brand Growth

One of the Company's most important strengths is the recognition and reputation of its private-label brands, some of which include:

Jessica[®], Nevada[®], Attitude[®], Distinction[®], Boulevard Club[®], Tradition[®], Protocol[®], Retreat[®], Alpinetek[®], Pure NRG Athletics[®], Trendzone[®], Baby Boots[®], Whole Home[®] and Sears-O-Pedic[®].

The Company also has licenses from Sears, Roebuck and Co. ("Sears Roebuck") to use the following brands:

- Kenmore[®], Craftsman[®] and DieHard[®]

In addition, the Company has exclusivity relationships with many non-proprietary national brands. By leveraging and building upon its portfolio of brands, the Company strives to deliver relevant products that resonate with its customers and gives them additional reasons to continue to shop at Sears.

During the third quarter of Fiscal 2011, the Company launched the Attitude[®] Jay Manuel line, as introduced at LG Fashion Week in Toronto, and also launched the private label Sears-O-Pedic luxury mattresses line in Fiscal 2011.

During Fiscal 2010, the Company expanded and improved its private and national brand portfolio, which included the recharge of the private-label brand Jessica[®] and the launch of national brands such as Kensie[®], Liz Claiborne[®] and Kenneth Cole Unlisted[®], to provide customers with product assortments that are exciting and relevant to their needs. In the third quarter of Fiscal 2010, Attitude[®] was showcased at LG[®] Fashion Week in Toronto, Ontario.

In Fiscal 2009, the Company expanded and improved its private and national brand portfolio, which included the launch of Liz & Co[®] and the re-launch of Attitude[®] and Distinction[®].

(iii) Pricing Strategy

The Company's pricing strategy is anchored to its Value Strategy, which offers everyday value with an active promotional program. Sears Value Strategy focuses on solutions for the customer, from coordinating a particular look to providing easy-to-understand product benefits and features. This strategy is intended to increase the average transaction value and improve profitability.

The Company recently enhanced its value proposition by lowering the price on over 5,000 items including items in every store and in every department. This was announced on February 16, 2012 and was the first significant change customers saw as a result of the transformation being undertaken by the Company. The Company also introduced weekly specially-priced must-have WOW items concurrent with the price reductions.

In Fiscal 2010, the appreciation of the Canadian dollar versus the U.S. dollar encouraged cross-border shopping by Canadians in the U.S. The Company responded by increasing promotional and clearance activity and undertook various initiatives to mitigate the impacts of this challenging environment, including merchandise, customer financing and internet initiatives. One of these initiatives included expanding the Company's price match guarantee and matching prices on most products in its retail stores with those available in U.S. retail stores. In addition, the Company improved its financing options by introducing no interest, no back-dated interest deferred or equal billing financing with respect to merchandise purchased with the Sears Card or Sears MasterCard.

(iv) Product and Service Innovation

The Company strives to provide an innovative and exciting product assortment and service selection that leverages the Company's multi-channel capability.

During Fiscal 2011, the Company continued to enhance its national presence by growing its Dealer network through the conversion of catalogue agents into full Dealer stores.

The Company restructured store operations by consolidating regional operations and introducing two new roles - District Managers who are responsible for store operations and execution, and Category Specialists who seek to ensure collaboration between merchandising and in-store teams. There are eight District Managers and twenty-four Category Specialists.

The Company also distributed the 2011 Wish Book to more than 3 million Canadian homes.

In Fiscal 2010, Sears Canada undertook several initiatives to introduce new businesses and products targeted to specific customer segments and local markets. These included the expansion of the gift registry across 15 Full-line stores, 41 Home stores, and all hometown Dealer locations, as well as the roll out of the Modern Shop in 43 stores to offer a shopping experience appealing to the younger-minded customer. The Modern Shop is a contemporary shop set up in high-traffic areas of the store, focusing on modern brands.

Additionally, the Company continued its focus on providing sustainable, energy efficient green products and services, including:

- Introducing Cost and Carbon Savings Calculators in stores and online, to help customers estimate the dollar savings associated with replacing old appliances with new, energy efficient ones;

- Increasing eco-product offerings such as organic cotton apparel and bedding; and
- Launching the first Sears eco-catalogue in the first quarter of Fiscal 2010 featuring only environmentally-friendly products and services, including the debut of the “Live Green” brand.

In recognition of the Company’s excellence and commitment to promoting ENERGY STAR® products to help Canadians become more energy efficient, the Company received the 2011 ENERGY STAR® Retailer of the Year award for the fourth consecutive year. Since the ENERGY STAR® Market Transformation Awards were first presented in 2003, the Company has won the “Retailer of the Year” award five times. Sears was also presented with the award for Sustained Excellence by the federal government’s Office of Energy Efficiency (Natural Resources Canada).

In Fiscal 2009, Sears Canada focused on its gift registry business, which was expanded to a total of 107 stores, and launched Oasis in two Full-line stores. Oasis is a beauty department concept offering a ‘one-stop’, ‘head-to-toe’ shopping destination featuring an exceptional assortment of beauty brands and personal care tools.

In addition, during Fiscal 2009, Sears Canada expanded the products and services offered throughout its various channels, including: (i) launched “Sears Certified Real Estate Services”, designed to help make real estate transactions professional, easy and rewarding for customers who are buying or selling a home in the Greater Toronto Area; (ii) secured commercial agreements with a provincial electric utility company to supply energy efficient appliances for its major appliance replacement program as well as with reputable home builders to supply major appliances to new home buyers; (iii) expanded its diverse product and services offerings to include a new residential painting service in select markets; and (iv) launched the Sears Water Appliance Program (SWAP), a national program that encourages homeowners to upgrade their inefficient or non-functional water softeners to an ENERGY STAR®-compliant unit, providing Canadians with more energy efficient solutions and another way to reduce emissions of greenhouse gases into the environment.

(v) Customer Segmentation

During Fiscal 2011, the Company focused on becoming more customer driven and marketing led by distributing product-specific flyers designed to offer more relevant apparel and accessories merchandise and developing analytical models leveraging customer segmentation research to drive a more targeted catalogue distribution.

To grow profitable sales, the Company must provide the right products to the right customers at the right time and the right price. During Fiscal 2010, the Company continued to use customer insights to further develop strategies for key categories and channels in order to drive sales and grow market share. These initiatives included:

- Implementing strategies to improve customers’ in-store experience. For example, the Company rolled out Modern Shops in 43 stores during Fiscal 2010 to offer a shopping experience appealing to the younger-minded customer;
- Optimized flyer distribution to a revised distribution footprint focusing on the current Sears shopper and high potential neighbourhoods; and
- Used customer segmentation to develop unique strategies for each of the Company’s categories and channels to drive sales and market share growth.

The Company also issues special, targeted catalogues that are geared toward specific product and lifestyle themes (“Specialogues”) and leverage exclusive catalogue partnerships to increase the assortment of new product offerings. In Fiscal 2010, 11 Specialogues were produced.

(vi) Direct Channel Business

One of the Company’s strengths is its multi-channel operations that permit an enhanced merchandise selection and a wide offering of services to consumers.

The Company’s Direct Channel is comprised of its catalogue business, which is Canada’s largest general merchandise catalogue business, and sears.ca, one of Canada’s leading online shopping destinations.

In Fiscal 2011, Sears.ca had over 81 million visits. In addition, during Fiscal 2011, the Company continued to invest in its online capabilities to improve the current users’ experience and engage new customers and demographics. Sears is committed to maintaining its reputation as a trusted Canadian retailer by focusing on customer privacy, security and satisfaction when shopping on Sears.ca

In Fiscal 2011, 20 different catalogues were distributed throughout Canada reaching up to approximately 3.2 million households. In addition, during Fiscal 2011, Sears distributed 17 Specialogues designed to offer more seasonally relevant merchandise to specific customers.

In Fiscal 2010, the Company increased leverage of social media to build customer engagement and increase traffic, supported new brand launches to encourage customer shopping across all channels via multi-channel marketing, and invested in infrastructure to improve product information and website features to enhance the users’ experience.

In Fiscal 2009, in an effort to further improve the online shopping experience, the Company launched the first phase of the new Sears.ca website with an increased selection of products and categories available to engage new customers and demographics. Sears.ca was rebuilt on a more robust, technologically advanced platform, featuring improved search capability, easier navigation, more detailed product information, as well as enhanced speed and reliability.

(vii) Loyalty Rewards Program

During Fiscal 2009, the Company, in conjunction with JPMorgan Chase, introduced modifications to the Sears Club Loyalty program, one of the highest value reward programs in Canada. The Company revised certain assumptions used to calculate the Sears Club Loyalty program based on new information regarding redemption rates and the costs associated with this program, resulting in a net decrease to the reserve and a pre-tax gain of \$7.0 million. The Company simplified the earn rates and redemption values to allow for more effective communication and promotion of the program, which resulted in an additional decrease to the reserve and a pre-tax gain of \$2.9 million. The redemption options for Sears Club Points were expanded to allow customers to instantly redeem for travel purchases through Sears Travel, making the Sears MasterCard one of the fastest ways for Canadians to earn travel rewards with a no fee credit card. Further enhancements and simplifications were introduced to allow customers to redeem more frequently and in smaller increments.

(viii) Productivity Improvement Initiatives

For the upcoming year, Sears will continue its mission of building customer relationships, increasing profitability and improving every day and remains confident in its strategy geared towards productivity improvement and growing profitable sales by better meeting the needs of its target customers. Some of the priorities for the 2012 Fiscal Year include: (i) focusing on lean inventory management and implementing further reductions in inventory shrinkage and product returns; and (ii) continuing to focus on expense management and recovering costs while improving customer service.

In Fiscal 2009, the Company completed the relocation of head office operations to the vacant space above the Toronto Eaton Centre to reduce costs and improve efficiencies. The Company also reduced inventory levels by \$116.0 million through promotional events and improved inventory management practices through initiatives such as integrating return-to-vendor provisions into agreements as well as selling products on consignment. Furthermore, the Company improved its replenishment and direct importing practices to increase margins, enhance its competitive pricing capabilities and ensure customers have a broad and relevant selection of quality products to choose from in order to grow sales.

(ix) Conversion of Catalogue Agents to Hometown Dealer Stores

The Company's 1,734 catalogue agents represent a competitive advantage as they reinforce the Company's national presence and place it in close proximity to its customers. Throughout Fiscal 2011, Sears Canada has continued to enhance its national presence by growing its Hometown Dealer network through the conversion of catalogue agents into full Hometown Dealer stores with an expanded assortment of products and services, including gift registry, home improvement services, and an expanded selection of big ticket appliances and electronics. The Company currently has 285 Hometown Dealer stores throughout Canada. The Company converted 20 catalogue agent locations to Hometown Dealer stores in Fiscal 2011. In 2010, the Company converted 79 catalogue agent locations to Hometown Dealer stores.

(h) Real Estate

(i) Real Estate Joint Venture Operations

As at January 28, 2012, Sears had joint venture interests in 12 shopping centres across Canada and carries the proportionate share of these interests in the Company's consolidated financial statements. Joint venture interests range from 15% to 50% and are co-owned with major shopping centre owners and institutional investors. Sears is not involved in the day-to-day management of the shopping centres, but is involved in major decisions regarding the joint venture interests.

During Fiscal 2011, the Company sold its interests in the Chatham Centre.

During Fiscal 2010, Sears sold land in Lachenaie, Québec, which was held by one of the Company's real estate joint ventures. The Company's proportionate share of net proceeds on the sale of land was \$4.0 million. A pre-tax gain of \$2.8 million, net of closing and other costs, was recognized on the sale.

In December 2009, Sears sold its 50% joint venture interest in Promenades de Sorel in Sorel, Québec which resulted in a \$1.9 million pre-tax gain.

(ii) Real Estate Holdings

In Fiscal 2011, the Company opened 20 Hometown Dealer stores and 3 Catalogue merchandise pick-up locations. The Company also closed 3 Hometown Dealer stores, 3 Floor Covering centres and 91 Catalogue merchandise pick-up locations.

During Fiscal 2010, the Company opened 83 new Hometown Dealer stores and four Floor Covering Centres. The Company also closed 1 Hometown Dealer store, 1 Outlet store and 2 Floor Covering Centres.

In addition, the Company finalized an agreement to sell real estate property in Burnaby, B.C., for net proceeds of \$13.9 million. A pre-tax gain of \$13.4 million, net of closing costs, was recognized on the sale of the property in the fourth quarter of Fiscal 2010.

During Fiscal 2009, Sears Canada opened 15 new Dealer stores and one new Outlet store. The Company also closed nine Floor Covering Centres, one Appliance and Mattresses store and one Lands' End store. In 2007, the Company sold its head office building and adjacent land at 222 Jarvis Street in Toronto, Ontario, and relocated to unoccupied space above the Toronto Eaton Centre Full-Line store. The relocation was completed in the first quarter of Fiscal 2009, and resulted in improved efficiencies and an enhanced office environment.

3. DESCRIPTION OF THE BUSINESS

(a) Company Overview

Sears is a multi-channel retailer and as of March 15, 2012, had a network that included 196 corporate stores, 285 Hometown Dealer stores, 30 home improvement showrooms, over 1,700 catalogue merchandise pick-up locations, 108 Sears Travel offices and a nationwide home maintenance, repair, and installation network. The Company also publishes Canada's most extensive general merchandise catalogue and offers shopping online at Sears.ca. Sears is committed to creating lifelong relationships built on trust.

(b) Business Overview

The Company's operations are centered around merchandising and include sale of goods and services through the Company's Retail channel, which includes its Full-line, Sears Home, Hometown Dealer, Outlet, Appliances and Mattresses, and Corbeil Electrique Inc. ("Corbeil") stores, and its Direct (catalogue/internet) Channel. It also includes service revenue related to product repair, home improvement, Cantrex Group Inc. ("Cantrex"), travel and logistics, and performance payments received from JPMorgan Chase under the Company's long-term credit card marketing and servicing alliance with JPMorgan Chase.

For a more detailed description of the Company's business operations and performance, see Section 2 - "Company Performance" of the Company's 2011 MD&A. Please also refer to Section 11 - "Risks and Uncertainties" of the Company's 2011 MD&A for a discussion of certain of the risks and uncertainties inherent in the Company's business.

(c) Competitive Conditions

The Canadian retail market remains highly competitive as key players and new entrants compete for market share. International retailers continue to expand into Canada while existing competitors enhance their product offerings and become direct competitors. The Company's competitors include traditional Full-line department stores, discount department

stores, wholesale clubs, “big box” retailers, internet retailers and specialty stores offering alternative retail formats.

Furthermore, the increase in the Canadian dollar over the last two years has presented an additional challenge for Canadian retailers as customers are motivated to cross-border shop.

The majority of the performance payments earned pursuant to the credit card marketing and servicing alliance with JPMorgan Chase are related to customers’ purchases using the Sears Card and Sears MasterCard. The credit card industry is highly competitive as credit card issuers continue to expand their product offerings to distinguish their cards.

For a discussion of the other competitive conditions faced by the Company, see Section 11 - “Risks and Uncertainties” of the Company’s 2011 MD&A.

(d) Intangible Properties

The Company has a license from Sears Roebuck to use the name “Sears” as part of its corporate name, as well as a license to use other brand names, such as Kenmore[®], Craftsman[®], and DieHard[®]. The Company has established procedures to register and otherwise vigorously protect its intellectual property, including the protection of the Sears Roebuck trademarks used by the Company in Canada.

One of the Company’s most important strengths is the recognition and reputation of the Company’s private brands and exclusive relationships with many non-proprietary national brands. The Company’s private brands, which are available in Canada, include Jessica[®], Nevada[®], Whole Home[®], Boulevard Club[®], Tradition[®], Protocol[®], Retreat[®], Alpinetek[®], Pure NRG Athletics[®], Trendzone[®], Baby Boots[®], Attitude[®], Distinction[®] and Sears-O-Pedic[®]. The Company believes that the trademarks owned or licensed to it enjoy considerable brand awareness in the Canadian market. The Company also owns a number of domain names which are used in its online business.

(e) Cycles – Seasonality of Business

The Company’s operations are seasonal in nature with respect to operating results and in products and services offered. Merchandise and service revenues, as well as performance payments received from JPMorgan Chase, will vary by quarter based upon consumer spending behaviour. Historically, the Company’s revenues and earnings are higher in the fourth quarter than in any of the other three quarters due to the holiday season. The Company is able to adjust certain variable costs in response to seasonal revenue patterns; however, costs such as occupancy are fixed, causing the Company to report a disproportionate level of earnings in the fourth quarter. This business seasonality results in quarterly performance that is not necessarily indicative of annual performance.

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

(f) Economic Dependence

The Company relies on its right to use the “Sears” name, referred to in Section 3(d) – “Intangible Properties” of this AIF. This right is subject to termination by Sears Roebuck

following a transitional period, determined by the Company, of up to seven years should Sears Roebuck reduce its indirect ownership interest in the Company to less than 25 percent.

(g) Environmental Protection

The Company is currently remediating various locations throughout Canada where it operated gas bars, auto centres and a logistics facility. The extent of this remediation and the cost thereof has not yet been determined, but Sears continues to monitor the cost of remediation and appropriately provides for this cost in its reserves.

For a discussion of the effects of environmental protection requirements on the Company, see Section 11 – “Risks and Uncertainties” of the Company’s 2011 MD&A.

(h) Associates

Sears associates are a critical asset to the Company. Sears works to inspire its associates to be committed to improving customers’ lives by providing quality services, products and solutions that earn their trust and build lifetime relationships, so that Sears can become Canada’s #1 retailer.

Sears had an average of 11,468 full-time and 18,304 part-time associates for a total average of 29,972 associates in Fiscal 2011.

(i) Social or Environmental Policies

The Company has established the following policies and procedures for the well-being of its associates, customers, visitors and contractors.

(i) Health and Safety Policy

The Company has established its Health and Safety Policy (“H&S Policy”) which sets out the guiding principles that all leaders, associates, contractors and vendors are required to follow in order to provide leaders, associates, contractors, vendors and customers with a safe and healthy work and shopping environment. Specifically, the H&S Policy states that leaders, associates, contractors and vendors must adhere to the applicable laws and regulations that apply to their work and that health and safety is everyone’s responsibility under the Internal Responsibility System. The Company reviews the H&S Policy on an annual basis.

(ii) Employment Equity and Non-Discrimination

The Company’s Employment Equity and Non-Discrimination policy is designed to ensure that the Company’s employment policies, practices and procedures support its commitment to employment equity, non-discrimination and an inclusive work environment. Sears Canada’s commitment to employment equity aligns with its commitment to quality and is built into the Company’s recruitment, hiring and advancement practices. The Company believes that having the best candidate in every position, regardless of race, gender, ethnic or national origin, sexual orientation, religion, marital or family status, or other factors unrelated to a candidate’s ability to carry out his/her responsibilities, allows the Company to attract and retain the best associates from all segments of the population.

The Company has developed a number of policies and programs which are designed to identify and address hazards in the workplace thereby creating a safer environment for associates and customers. The Company’s zero tolerance approach and Respect in the

Workplace and Violence Prevention policies are embedded in the Sears Canada Code of Business Conduct (the “Code”) and are examples of its commitment to maintaining a safe working and shopping environment for its customers and its associates.

(iii) Code of Business Conduct

The Code applies to every officer and associate. The Code provides guidelines and sets out expectations regarding interactions with: customers, investors, governmental authorities, and suppliers of merchandise and services, and among associates. It also sets out the ethical values and standards of behaviour that apply to all of the Company’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 Company conducts business.

(iv) Global Compliance Program Requirements

Sears is committed to conducting its business in Canada and abroad with a high standard of business ethics, in compliance with all applicable laws, and with regard for human rights and workplace standards. Sears expects its vendors to do the same, and has developed the Global Compliance Program Requirements (the “Compliance Program”), contractual requirements, and social compliance procedures to maximize vendor compliance with Sears requirements. The Compliance Program is in accordance with the Retail Council of Canada’s “Responsible Trading Guidelines” which focus on sourcing products and services in a fair and equitable manner both locally and internationally. The Compliance Program outlines the standards to which all Sears vendors, both domestic and foreign, as well as the subcontractors employed by those vendors, are required to adhere as a condition of doing business with Sears. The Compliance Program is printed in 26 languages and must be posted in the factories of the Company’s vendors, ensuring that the individuals it protects are able to read and understand it.

(v) Ethics Hotline

The Sears Canada Ethics Hotline (the “Hotline”) was established to facilitate the confidential and anonymous reporting of suspected breaches of internal accounting controls, or other financial reporting matters, as well as actual or suspected violations of the Code. The Hotline, which is managed by an independent service provider, enables individuals to make reports anonymously, by telephone using the toll-free number 1-877-987-3277 or by reporting a concern electronically at www.clearviewconnects.com, in English or French, 24 hours a day, seven days a week. The Audit Committee of the Board is provided with a summary of the reports submitted to the Hotline on a quarterly basis.

(vi) Environmental Awareness

Sears recognizes that minimizing the adverse effects on the environment is both a corporate and business responsibility. Sears is committed to identifying opportunities for improvement with respect to the environment throughout all of its business channels. The Environmental Compliance department assists all areas of the business to evaluate, create and modify business practices and assists Sears in maintaining compliance with Federal and Provincial regulatory standards. The Company’s National Health, Safety and Environment Committee has representation from all of its business channels and works to create awareness of health, safety and environmental issues which impact the business of Sears.

(vii) Sears in the Community – Charitable Activities

Being a responsible member of the communities in which the Company does business is important to Sears Canada. Working with its customers and associates across Canada, the Company raises funds and invests in partnerships with local and national charitable organizations that help better Canadian communities.

For almost sixty years, the Company has been supporting both national and local community-based initiatives through its investment in non-profit organizations. The Company has two main mandates for which it raises funds: children's education (with an emphasis on after-school programs) and children's health (with an emphasis on the fight against childhood cancer).

After-School Programs

After-school programs include relationships with organizations that have a positive impact on children outside of school hours. Sears Canada has partnerships with organizations such as the Boys and Girls Clubs of Canada, 4-H, Scouts Canada, Girl Guides of Canada and Sears I CAN SWIM! which help children develop and reach their full potential. In addition, initiatives such as the Sears Drama Festival and the Sears Canadian High School Design Competition also lead to the healthy development of Canadian Youth.

Childhood Cancer

Children's cancer fundraising provides for much needed research, support for families and community awareness about the primary cause of non-accidental death among children in Canada. Sears works with children's hospitals across the country and helps to raise funds to provide the special care required for children living with cancer as well as much needed research in the field of pediatric oncology. As an example, the Sears Canada Charitable Foundation provides funding for the Sears Cancer Clinic at the Hospital for Sick Children in Toronto. Since 2008, the Company has sponsored the Sears National Kids Cancer Ride where cyclists travel over 7,000 km from Vancouver to Halifax, being welcomed by Canadians as they stop at Sears Canada locations along the way. The ride is conducted by the Coast to Coast Against Cancer Foundation. In 2011, Sears held two additional inaugural regional events to help raise funds and awareness for the childhood cancer cause: the Sears Great Canadian Chill polar bear dips and the Sears Great Canadian Run relays. In Québec, the Company enjoys a special relationship with Operation Enfant Soleil, an organization which raises funds for the province's four pediatric hospitals.

(j) *Purchasing and Distribution*

(i) Purchase of Merchandise

The sourcing and purchase of goods sold by the Company is conducted at its head office in Toronto, Ontario by the merchandise buying and corporate procurement teams. The Company purchases its merchandise from approximately 2,300 domestic and international suppliers, many of which have long-standing relationships with the Company. Sears works closely with its suppliers in marketing, research, design and development, production standards and production planning.

For the majority of its merchandise purchased on a direct import basis, Sears Canada utilizes the international merchandise purchasing services of Sears Holdings. Sears Holdings may

provide assistance to the Company with respect to monitoring and facilitating the production and inspection of imported goods, as well as the co-ordination of shipments and the payment to suppliers.

Although the Company's business is not substantially dependant on any one supplier, its relationship with certain suppliers is of significance to the Company's merchandising strategy, including attracting customers to its locations, cross segment sales and image. The Company is dependent upon a significant amount of products that originate from non-Canadian markets.

The majority of the Company's merchandise bought on a direct import basis is purchased in U.S. currency. As a result, exchange rate fluctuations between the Canadian and U.S. dollars may pose a risk to the Company's expected Canadian equivalent cost of U.S. dollars. In order to minimize the cost of its U.S. dollar requirements, the Company may use foreign currency forward or option contracts to hedge the exchange rate risk.

(ii) Distribution

Sears operates five distribution centres and one cross dock facility strategically located across the country. The total area of these facilities is approximately 6.3 million square feet.

All merchandise sold through the Corporate Store (Full-line, Sears Home, Hometown Dealer, Outlet, Appliances and Mattresses stores) and Direct Channels (Catalogue and Internet) are distributed from the Company's five distribution centres and one cross dock facility. The Company's distribution centres are located in Montreal, Québec, Vaughan and Belleville, Ontario, Regina, Saskatchewan and Calgary, Alberta and the Company's cross dock facility is located in Port Coquitlam, British Columbia.

The Company's wholly-owned subsidiary, S.L.H. Transport Inc. ("SLH"), transports merchandise to stores, catalogue merchandise pick-up locations and direct to customers. SLH is responsible for providing logistics services for the Company's merchandising operations by operating a fleet of tractors and trailers to provide carrier services for Sears and contract carrier services to commercial customers who are unrelated to Sears.

(iii) Services

Sears Home Services provides a broad range of home services, including Home Improvements, Product Repair Services and Protection Agreements.

Home Improvements – Home Improvements includes installation businesses such as flooring, heating, ventilation and air conditioning (HVAC), windows and doors, window coverings, roofing, kitchens and countertops, as well as home maintenance services (carpet and upholstery cleaning, duct cleaning and painting).

Product Repair Services – Product Repair Services includes servicing of In Warranty Kenmore appliances and National Brands and Cash Calls (paid labour for any appliance).

Protection Agreements – Protection Agreements includes three and five year coverage on major appliances, electronics, vacuums, lawn and garden, fitness as well as accident protection for furniture and mattresses.

(iv) Risks

The Company's performance may be adversely impacted by the risks that are associated with the sourcing and delivery of merchandise including potential economic, social and political instability in jurisdictions where suppliers are located, increased shipping costs, potential transportation delays and interruptions, adverse foreign currency fluctuations, changes in international laws, rules and regulations pertaining to the importation of products, quotas, and the imposition and collection of taxes and duties.

(k) Risk Factors

For a discussion of certain of the risks relating to the Company, see Section 11 - "Risks and Uncertainties" of the Company's 2011 MD&A.

Sears Canada has a risk oversight subcommittee ("ROC") which reports to the Audit Committee on a quarterly basis and is responsible for identifying, assessing and monitoring the principal risks of the Company 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 meets at least four (4) times a year and the Senior Vice-President and Chief Financial Officer serves as the chair of these meetings. The ROC has the authority to engage experts, if necessary.

4. DIVIDENDS

There were no dividends declared or paid to holders of common shares in Fiscal 2011.

During Fiscal 2010, the Company distributed approximately \$753.4 million to holders of common shares as extraordinary cash dividends. Payments in the amounts of \$3.50 per common share were made to shareholders on: (i) June 4, 2010; and (ii) September 24, 2010.

In 2006, Sears Canada announced that it would discontinue the practice of paying quarterly dividends.

The Company regularly monitors its sources and uses of cash and its level of cash on hand, and considers the most effective use of cash on hand including, among other options, the payment of dividends.

5. GENERAL DESCRIPTION OF CAPITAL STRUCTURE

(a) Authorized Capital

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

(b) Common Shares

As at March 15, 2012, Sears had 102,536,132 common shares issued and outstanding, which are listed for trading on the Toronto Stock Exchange ("TSX").

The holders of common shares are entitled to vote at all meetings of the shareholders of the Company, except meetings at which only holders of a specified class or series of shares are entitled to vote. The holders of common shares are entitled to receive dividends as and when declared by the Board, subject to the dividend entitlements of the holders of the Class 1

Preferred Shares of the Company, if any. After payment to the holders of the Class 1 Preferred Shares of the Company of the amount to which they may be entitled, and after payment of all outstanding debts, the holders of common shares are entitled to receive the remaining property of the Company upon the liquidation, dissolution or winding-up thereof.

(c) Class 1 Preferred Shares

There are currently no Class 1 Preferred Shares outstanding.

For a detailed description of the rights, privileges, restrictions and conditions of the Class 1 Preferred Shares, please refer to the Articles of Amalgamation of the Company dated December 30, 1999, which are filed on SEDAR at www.sedar.com.

(d) Ratings

The Company's corporate credit rating is influenced by the financial position of Sears Holdings, the Company's controlling shareholder, and may not reflect the independent credit risk profile of Sears Canada. On August 17, 2011, DBRS Limited discontinued its rating of Sears Canada at the request of the Company. On January 4, 2012, Moody's Investors Services, Inc. adjusted the Sears Holdings corporate family credit rating downward to B3 from Ba3. On January 5, 2012, Standard & Poor's adjusted Sears Holdings credit rating downward to CCC+ from B. These non-investment grade credit ratings may limit the Company's future access to capital markets or adversely affect the Company's cost of borrowing.

6. MARKET FOR SECURITIES

(a) Trading Price and Volume

The outstanding common shares of the Company are listed on the TSX under the trading symbol "SCC". The following table sets forth, for the periods indicated, the high and low closing prices of the common shares on the TSX and the number of shares traded on the TSX for Fiscal 2011:

Calendar Month	High(\$)	Low(\$)	Volume traded
February 2011	20.35	19.61	549,829
March 2011	20.03	19.11	246,307
April 2011	20.11	19.58	297,718
May 2011	19.78	18.73	1,605,425
June 2011	18.68	17.12	490,219
July 2011	17.42	15.27	786,617
August 2011	15.51	12.51	324,744
September 2011	14.92	12.90	291,393
October 2011	15.47	13.50	58,307
November 2011	15.33	12.37	429,034
December 2011	12.49	10.12	351,278
January 2012	12.49	11.00	924,257

7. DIRECTORS AND EXECUTIVE OFFICERS

(a) Board of Directors

Directors are elected at each annual meeting of shareholders and hold office until the Company's next annual meeting of shareholders or until their successors are duly elected or appointed. The Board has four Committees: Audit, Human Resources and Compensation, Nominating and Corporate Governance, and Investment. The names, province or state and country of residence of the directors of Sears, their respective principal occupations and the year in which they were each elected as directors are set out in the following table.

DIRECTORS

Name, Province or State, and Country of Residence	Principal Occupation	Director Since
William C. Crowley ^{2,3} New York, U.S.A. <i>Chairman of the Board</i>	President and Chief Operating Officer ESL Investments, Inc. (investment firm)	March 2005
E. J. Bird ^{1,3} South Carolina, U.S.A. <i>Lead Director of the Board</i>	Private Investor	May 2006
William R. Harker ^{2,3} New Jersey, U.S.A.	Executive Vice-President and General Counsel ESL Investments, Inc. (investment firm) and Senior Vice-President, Sears Holdings Corporation (company in the retail business)	November 2008
R. Raja Khanna ^{1,4} Ontario, Canada	Chief Executive Officer GlassBOX Television (media-related company)	October 2007
James McBurney ^{1,4} London, United Kingdom	Chief Executive Officer HCF International Advisers Limited (investment banking firm)	April 2010
Calvin McDonald Ontario, Canada	President and Chief Executive Officer Sears Canada Inc. (company in the retail business)	June 2011
Deidra C. Merriwether ^{2,3} Illinois, U.S.A.	Senior Vice-President and President – Retail Services Sears Holdings Corporation (company in the retail business)	April 2007
Deborah E. Rosati ^{1,2,4} Ontario, Canada	President RosatiNet, Inc. (management consulting firm)	April 2007

¹ Member of the Audit Committee

² Member of the Human Resources and Compensation Committee

³ Member of the Investment Committee

⁴ Member of the Nominating and Corporate Governance Committee

The following is a summary of the principal occupations, for at least the last five years, of the directors of the Company:

1. 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.
2. 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.
3. William R. Harker is the Executive Vice-President and General Counsel of ESL Investments, Inc. and was appointed to this position in February 2011. Mr. Harker is also a Senior Vice-President at Sears Holdings and has held this position since April 2006. 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.
4. R. Raja Khanna is currently the 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., the National Screen Institute and Blue Ant Media Inc.
5. James McBurney is the Chief Executive Officer at 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 Ruspetro PLC and Atlantic Sea Island Group LLC.
6. Calvin McDonald was appointed President and Chief Executive Officer of the Company in June 2011. Prior to this appointment, Mr. McDonald held the position of Executive Vice-President, Conventional Division of Loblaw Companies Limited since

January 2011 and was the Executive Vice-President, Marketing, CRM – Brands and Corporate Strategy of Loblaw Companies Limited, from January 2010 to December 2010. From April 2007 to January 2010, Mr. McDonald held the position of Senior Vice-President, Grocery Business Unit of Loblaw Companies Limited. Mr. McDonald also held the position of Vice-President, Merchandising & Marketing, No Frills Division of Loblaw Companies Limited from February 2005 to April 2007.

7. 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.
8. Deborah 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 and the National Ballet School of Canada.

(b) Executive Officers

The names, province or state and country of residence of the senior leaders of the Company, and their respective principal occupations are set out in the following table. The individuals identified below with an asterisk are officers of the Company.

Name, Province or State, and Country of Residence	Title
Calvin McDonald * Ontario, Canada	President and Chief Executive Officer
Sharon R. Driscoll * Ontario, Canada	Senior Vice-President and Chief Financial Officer
Christopher Brockbank Ontario, Canada	Senior Vice-President, Marketing
Doug Campbell Ontario, Canada	Senior Vice-President, Major Appliances
Thomas Fitzgerald* Ontario, Canada	Executive Vice-President and Chief Administrative Officer
Steven Goldsmith* Ontario, Canada	Executive Vice-President, Merchandising, Apparel and Accessories

Name, Province or State, and Country of Residence	Title
Peter Kalen * Ontario, Canada	Senior Vice-President, Financial and Home Services
Klaudio Leshnjani * Ontario, Canada	Senior Vice-President and General Counsel
Ismat Mirza * Ontario, Canada	Senior Vice-President, Business Capability and Human Resources

The following is a summary of the principal occupations, for at least the last five years, of the senior leaders of the Company.

1. Calvin McDonald was appointed President and Chief Executive Officer of the Company in June 2011. Prior to this appointment, Mr. McDonald held the position of Executive Vice-President, Conventional Division of Loblaw Companies Limited since January 2011 and was the Executive Vice-President, Marketing, CRM – Brands and Corporate Strategy of Loblaw Companies Limited, from January 2010 to December 2010. From April 2007 to January 2010, Mr. McDonald held the position of Senior Vice-President, Grocery Business Unit of Loblaw Companies Limited. Mr. McDonald also held the position of Vice-President, Merchandising & Marketing, No Frills Division of Loblaw Companies Limited from February 2005 to April 2007.
2. 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.
3. Christopher Brockbank was appointed Senior Vice-President, Marketing of Sears Canada in December 2011. Previously, Mr. Brockbank was a Marketing Consultant from April 2011 to November 2011. From August 2010 to March 2011, Mr. Brockbank was the Chief Marketing Officer of Just Energy Group Inc. and from 2008 to 2010, Mr. Brockbank was the Executive Vice-President, Marketing at Sun Media Corporation. From December 2005 to April 2008, Mr. Brockbank held the position of Vice-President, Marketing at Sirius Canada Inc.
4. Douglas Campbell was appointed Senior Vice-President, Major Appliances of Sears Canada in December 2011. Prior to this role, Mr. Campbell served as the Vice-President, Major Appliances and Electronics of the Company from May 2011 to December 2011. Before joining Sears Canada, Mr. Campbell was a Principal at Boston Consulting Group from 2005 to May 2011.
5. Thomas Fitzgerald was appointed to the position of Executive Vice-President and Chief Administrative Officer of Sears Canada in May 2011. Prior to this position, Mr. Fitzgerald was the Chief Executive Officer of Lucky Brand Jeans from June 2009 to December 2009. From October 2008 to June 2009, Mr. Fitzgerald was the Interim

Chief Executive Officer of Mexx, Amsterdam. Mr. Fitzgerald also held the positions of Senior Vice-President, Direct Brand Services for Liz Claiborne Inc. from March 2008 to October 2008 and Chief Operating Officer, Direct Brands for Liz Claiborne Inc. from September 2007 to March 2008. From September 2006 to September 2007, Mr. Fitzgerald was the Executive Vice-President and Chief Financial Officer for Burlington Coat Factory.

6. Stephen Goldsmith was appointed as the Executive Vice-President, Merchandising, Apparel and Accessories of Sears Canada in July 2011. Before this position, Mr. Goldsmith was the Executive Vice-President, Limited Brands Direct of Limited Brands, Inc. from July 2007 to June 2011 and from May 2005 to July 2007 Mr. Goldsmith held the position of Vice-President, Merchandising of Amazon.com, Inc.
7. 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.
8. Klaudio Leshnjani is the Senior Vice-President and General Counsel of Sears Canada and assumed this position 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.
9. 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.

(c) Ownership of Common Shares by Directors and Executive Officers

As at March 15, 2012, the directors and executive officers of Sears, as a group, beneficially owned, directly or indirectly, or exercised control or direction over 6,754 common shares, representing less than 1% of the Company's issued and outstanding common shares.

(d) Cease Trade Orders, Bankruptcies, Penalties or Sanctions

To the knowledge of the Company, except as hereinafter described, no director or executive officer of the Company 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, that was issued while that person was acting in that capacity, or (ii) 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, that was issued after the director or executive officer 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 director or executive officer.

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 common shares of the Company, other than common shares already held by SHLD and its affiliates, for \$18.00 per share (the "Offer"). The Order prohibited SHLD from taking up and paying for common shares deposited under the Offer until certain disclosure with respect to the Offer was made, including disclosure regarding certain common 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 common shares of the Company by Sears Holdings, or any affiliate thereof, with respect to the common shares held by certain shareholders of the Company. William R. Harker is a director of SHLD and William C. Crowley, Chairman of the Board, is a former director of SHLD.

(e) Conflicts of Interest

To the knowledge of Sears, no director or executive officer of the Company has an existing or potential material conflict of interest with Sears or any of its subsidiaries.

8. LEGAL PROCEEDINGS

For a description of the legal proceedings to which Sears is a party, see Section 11 - "Risks and Uncertainties" of the Company's 2011 MD&A.

9. INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

To the knowledge of Sears, (i) no director or executive officer of the Company, (ii) Sears Holdings or any other person or company that beneficially owns, or controls or directs, directly or indirectly, more than 10% of any class or series of the outstanding voting securities of the Company and, (iii) any of their respective associates or affiliates has or had any material interest, directly or indirectly, in any transaction within the three most recently completed

financial years, or during the current financial year, or in any proposed transaction, that has materially affected or will or would materially affect Sears.

10. TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for Sears is CIBC Mellon Trust Company, with offices in Toronto, Ontario and Montreal, Québec.

Answerline: (416) 643-5500
1-800-387-0825

Website: www.cibcmellon.com
E-mail: inquiries@cibcmellon.com

11. MATERIAL CONTRACTS

The following contracts are considered to be material to the Company. Those contracts that were entered into in the ordinary course of business and which do not satisfy the requirements for disclosure have not been included below. Contracts that were entered into by the Company before January 1, 2002 are not disclosed:

- (a) the Program Agreement, dated November 15, 2005, made between Sears Canada and Sears Canada Bank and JPMorgan Chase which governs the long-term marketing and servicing alliance relating to the Sears Card and Sears MasterCard credit cards. Under the alliance, the Company receives performance payments from JPMorgan Chase based on a percentage of sales charged to the Sears Card and Sears MasterCard, new account generation, processing of account payments and a percentage of sales of additional financial products by JPMorgan Chase to Sears Card and Sears MasterCard holders.
- (b) the Credit Agreement, dated September 10, 2010, made between Sears Canada and a syndicate of lenders, as discussed in more detail in Section 2(a).

The above agreements are available on SEDAR at www.sedar.com.

12. EXPERTS

The Company's consolidated financial statements for the years ended January 28, 2012 and January 29, 2011 have been audited by Deloitte & Touche LLP, Suite 1400, Brookfield Place, 181 Bay Street, Toronto, Ontario, M5J 2V1, Canada. Deloitte & Touche LLP is independent of the Company as required by the Canadian Institute of Chartered Accountants and the respective provincial institutes.

13. AUDIT COMMITTEE INFORMATION

(a) *Audit Committee Charter*

Please see Appendix A for the complete text of the Audit Committee Charter.

(b) *Composition of the Audit Committee*

The Audit Committee of Sears is composed of the following four members: E. J. Bird (Chair), R. Raja Khanna, James McBurney and Deborah E. Rosati.

Each member of the Audit Committee is independent and financially literate as required by *National Instrument 52-110 - Audit Committees*, as amended, of the Canadian Securities Administrators ("NI 52-110"). In assessing financial literacy, the Board refers to the definition contained in NI 52-110.

The Board believes that the composition of the Audit Committee reflects a high level of financial literacy. The following is a description of the education and experience of each member of the Audit Committee that is relevant to the performance of his or her responsibilities as a member of the Committee.

E. J. Bird holds a Master in Business Administration degree from Stanford Graduate School of Business and a Bachelor's degree in Business Administration (Accounting) *summa cum laude* from Baylor University. Mr. Bird is licensed as a Certified Public Accountant. Mr. Bird is currently a private investor and also serves as the President of Overflow Ministries, a not-for-profit organization. Prior to serving in these positions, Mr. Bird served as an analyst for Levine Investments and as Chief Financial Officer of ESL Investments, Inc.

R. Raja 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. Mr. Khanna is the co-founder of QuickPlay Media Inc., a mobile video company, of which he served as 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.

James McBurney holds a Master in Business Administration degree from Harvard Business School and a Bachelor of Arts degree *cum laude* from Yale College. Mr. McBurney is currently 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.

Deborah E. Rosati holds an Honours Bachelor's degree in Business Administration from Brock University and is a Fellow Chartered Accountant and certified Director, ICD.D (2008). Ms. Rosati has over 20 years experience in financial, operational and strategic management in the technology sector with senior finance roles in both public and private corporations. Ms. Rosati is a corporate director and previously founded her own venture catalyst firm from 2001 to 2007. Prior to this position, Ms. Rosati was a general partner of the venture capital firm Celthic House. Ms. Rosati was also the Chief Financial Officer of TimeStep Corporation. Ms. Rosati is a member of the Canadian Institute of Chartered Accountants, the Institute of Chartered Accountants of Ontario and the Institute of Corporate Directors.

(c) Pre-Approval Policies and Procedures

The Audit Committee has adopted a policy for the approval of all services rendered by the external auditors of the Company. As part of its mandate, the Audit Committee regularly examines the scope of all of the 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 external auditors shall not exceed 50% of the total audit and audit related fees per annum without the pre-approval of the Audit Committee.

(d) Auditors' Service Fees

Fees paid to Deloitte & Touche LLP in Fiscal 2011 and Fiscal 2010 were as follows:

External Auditor Service Fees	Fiscal 2011	Fiscal 2010
Audit Fees ¹	\$1,564,860	\$1,394,960
Audit-Related Fees ²	\$ 572,963	\$525,777
Tax Fees ³	Nil	\$19,000
All Other Fees ⁴	\$24,072	\$102,840
Total	\$2,161,895	\$2,042,577

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.

14. ADDITIONAL INFORMATION

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Company's securities and securities authorized for issuance under the Company's equity compensation plans, are contained in the Company's MPC. Additional financial information is provided in the Company's Consolidated Financial Statements and 2011 MD&A for the year ended January 28, 2012.

Copies of these documents are available upon request from the Office of the Secretary of the Company and may be found on SEDAR at www.sedar.com.

APPENDIX A
AUDIT COMMITTEE
OF THE
BOARD OF DIRECTORS
OF
SEARS CANADA INC.

CHARTER
(amended and restated as of November 14, 2011)

1. **DEFINITIONS**

In this Charter the following terms have the meaning set out below:

“Affiliate” means the relationship of bodies corporate where one body corporate is the subsidiary of the other or each of them is a subsidiary of the same body corporate or is controlled by the same person;

“Board” means the Board of Directors of the Corporation;

“Chair” means the chair of the Committee;

“Chief Executive Officer” or **“CEO”** means the Chief Executive Officer and/or the President of the Corporation or the individual holding the highest executive function of the Corporation appointed by the Board;

“CFO” means the Chief Financial Officer of the Corporation appointed by the Board;

“Committee” means the Audit Committee established by the Board;

“Corporation” means Sears Canada Inc.;

“Director” means an individual elected to the Board by shareholders of the Corporation, or appointed to and by the Board;

“External Audit Services Policy” means the policy, attached hereto and forming part of the Charter of the Committee, regarding the services provided by the External Auditor;

“External Auditor” means the external auditor appointed by the shareholders of the Corporation;

“Financially Literate” means the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues comparable to those that can reasonably be expected to be raised by the Corporation’s financial statements;

“Independent Director” means a Director who meets the requirements of independence as defined in Multilateral Instrument 52-110 *Audit Committees*, as amended, and includes, without limitation, a Director who has no direct or indirect material relationship with the Corporation or any of its Affiliates, that is, a relationship which could, in the view of the Board, reasonably interfere with the exercise of the Director’s independent judgement;

“Member” means an Independent Director appointed to the Committee by the Board;
and

“ROC” means the Risk Oversight Committee of the Corporation, whose purpose is to identify, assess and monitor the principal risks of the Corporation and ensure that management has a structured process in place for managing, mitigating and controlling those risks.

2. **PURPOSE**

The purpose of the Committee is to assist the Board in its oversight of:

- (a) the integrity of the Corporation’s financial reporting;
- (b) the independence, qualifications, appointment and performance of the External Auditor;
- (c) the mandate and performance of the Corporation’s internal audit department;
and
- (d) management responsibility for reporting on internal controls.

3. **STRUCTURE**

- (a) The Committee shall be composed of three or more Members.
- (b) Members shall hold office from the time of their appointment until the earlier of their removal or resignation from the Committee and the conclusion of the next annual general meeting of shareholders of the Corporation.
- (c) One of the Members shall be appointed by the Board as the Chair.
- (d) Unless otherwise determined by resolution of the Board, the Secretary of the Board shall be the Secretary of the Committee. The Secretary of the Committee shall maintain the records of the Committee.
- (e) Every Member shall be Financially Literate.
- (f) No Member may accept directly or indirectly any fees from the Corporation or any of its affiliates other than remuneration for acting as a Member, Director or a member of any other committee of the Board. For greater certainty, no Member or the organization of which he or she is an employee, owner or partner shall accept any consulting, advisory or other compensatory fee from the Corporation.¹
- (g) The Committee shall establish its own procedures, including the timing and place of meetings, as it considers necessary or advisable.

¹ For greater certainty, the indirect acceptance by a Member of any fee includes acceptance of a fee by an immediate family member or a partner, member or executive officer, or a person who occupies a similar position with an entity that provides accounting, consulting, legal, investment banking or financial advisory services to the Corporation or any of its Affiliates.

4. **ROLE OF THE CHAIR**

The main responsibilities of the Chair are as follows:

- (a) Call and chair all meetings of the Committee. If the Chair is unavailable or unable to attend a meeting of the Committee, then the Chair shall request another Member to chair the meeting, failing which, the acting Chair shall be designated by the Members present at the meeting to chair the meeting;
- (b) Develop the agenda for meetings of the Committee with or without consulting management;
- (c) Hold the right to cast a vote to resolve any ties on matters that require Committee approval;
- (d) Act as the primary contact between the Committee and the External Auditor and management;
- (e) If required, pre-approve the services of the External Auditor services in accordance with the External Audit Services Policy;
- (f) Report to the Board on all meetings and activities of the Committee; and
- (g) Assume other responsibilities as this Charter, the Committee or the Board may specify from time to time.

5. **RESPONSIBILITIES**

The Committee shall have the following duties and responsibilities:

A. *Financial Reporting*

- (1) Review with management and the External Auditor, and approve and/or recommend for approval by, and report to, the Board, as the case may be, with respect to:
 - (i) the annual and quarterly financial statements and the annual and interim CEO and CFO certificates and press releases related thereto, as well as accounting policies, accounting judgements, accruals, estimates, material related party transactions (and in addition, will now pre-approve all related party transactions having a value greater than \$1 million) and other relevant matters;
 - (ii) the annual and interim Management's Discussion & Analysis;
 - (iii) the Annual Information Form;

- (iv) all financial information which is to be included in any public disclosure documents, including the Annual Report, prospectuses, and offering memoranda;
- (v) the annual certificate provided by the CEO, the CFO and the Secretary of the Board confirming, among other things, compliance with the Code of Business Conduct and the personal benefits policy and that the Corporation is current with respect to all withholdings and remittances; and
- (vi) the status of any material pending litigation.

B. External Auditor

- (1) Appointment and Review of External Auditor
 - (i) Recommend to the Board the appointment of the External Auditor by the shareholders of the Corporation.
 - (ii) Obtain annually from the External Auditor a letter of engagement, audit scope presentation and confidentiality letter addressed to the Committee.
 - (iii) Obtain annually from the External Auditor confirmation that it is in good standing with the Canadian Public Accountability Board.
 - (iv) Pre-approve all services to be provided to the Corporation or its Affiliates by the External Auditor, the estimated cost thereof and any change in scope pertaining to an approved service. This responsibility may be exercised by the Chair and, in his or her absence, by any Member, in circumstances where urgent approval is necessary, provided, however, that all such approvals granted outside the regularly scheduled meetings of the Committee shall be ratified by the Committee as soon as practicable.
 - (v) Oversee the services rendered by the External Auditor.
 - (vi) Oversee and assist in the reconciliation of differing opinions and practices between management and the External Auditor regarding financial and other public disclosure reporting.
 - (vii) Assess compliance by the External Auditor and management with the External Audit Services Policy.
 - (viii) Recommend to the Board for its approval the fees and disbursements for services rendered by the External Auditor.
 - (ix) Review and approve the Corporation's hiring policies regarding partners, employees and former partners and employees of the External Auditor and any former external auditor of the Corporation.

- (2) Independence of External Auditor
 - (i) Obtain annually from the External Auditor a formal written independence affirmation disclosing all relationships between the External Auditor and its related entities and the Corporation and its Affiliates and engage in a dialogue with the External Auditor if any disclosed relationship or service may impact its objectivity and independence.

C. *Internal Audit*

The head of the internal audit department shall report directly to the Committee and the Committee shall:

- (1) Review with the head of the internal audit department, the External Auditor and management, the mandate and adequacy of resources of the internal audit department, as well as the internal audit department's unfettered access to the Committee and the records of the Corporation that are relevant to the matters being audited;
- (2) Discuss with the head of the internal audit department whether there are any restrictions or limitations in the discharge of his/her responsibilities and, if required, mediate and resolve any outstanding dispute between the internal audit department and management;
- (3) Review, at least quarterly, progress reports of the internal audit department with respect to its activities;
- (4) Review with the External Auditor and management the performance of the internal audit department; and
- (5) Approve any change in the appointment of the head of the internal audit department and any change in the reporting structure of the head of the internal audit department with respect to where the position reports.

D. *Accounting Systems and Internal Controls*

Following consultation with the External Auditor and management, determine and report to the Board on the adequacy of the existing internal control framework and ensure that adequate procedures are in place for the review of the Corporation's public disclosure of financial information and periodically assess the adequacy of those procedures.

E. *Other*

- (1) Review compliance with required tax remittances and other deductions required by applicable law.
- (2) Establish procedures for the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls, or auditing matters, and the confidential and anonymous submission of concerns by employees regarding questionable accounting or auditing matters. In connection with this

responsibility, management will report regularly to the Committee regarding the operation of the Corporation's Ethics Hotline.

- (3) Oversee the functioning of the Corporation's ROC and its processes. Notwithstanding the foregoing, the responsibility of establishing and assessing the principal risks of the Corporation and their parameters remains with the Board. A senior manager of the Corporation is responsible for the ROC and provides a presentation, periodically, to the Committee.
- (4) Monitor, and make recommendations to the Board in connection with, emerging trends and regulatory initiatives regarding the Committee's role and responsibilities.

6. **MEETINGS**

- (a) The Committee shall meet at least three times per year and may meet more often if required.
- (b) The Chair of the Board, the CEO, the CFO and the Chief Financial Officer of Sears Holdings Corporation shall be entitled to attend all meetings of the Committee unless they are requested by the Committee not to do so.
- (c) The quorum necessary for the transaction of business at Committee meetings shall be three Members.
- (d) The Committee may meet in person or by telephone and may pass resolutions in lieu of a meeting, provided such resolutions are signed by every Member.
- (e) The Committee shall hold an *in camera* session following each meeting with:
 - (i) the head of the internal audit department (without management);
 - (ii) the External Auditor (without management);
 - (iii) management (without the External Auditor), if deemed appropriate; and
 - (iv) Members only.

7. **GENERAL**

- (a) The Committee shall have unrestricted access to management and pertinent information and shall be provided with the necessary resources for that purpose.
- (b) The Committee shall have the authority to engage external advisors, as it deems appropriate, to assist the Committee in the performance of its duties. The Corporation shall cover the costs of such advisors.
- (c) The Committee shall have the authority to delegate, as appropriate, certain of its responsibilities and activities to one or more Members or to a subcommittee of the Committee.
- (d) The Committee shall review and assess the currency and adequacy of this Charter and the External Audit Services Policy on an annual basis and

recommend any appropriate changes thereto for approval by the Board. Notwithstanding the foregoing, the Board has the inherent jurisdiction to initiate and approve changes to this Charter and the External Audit Services Policy at any time.

- (e) In conjunction with the regular assessment of Board effectiveness, review and evaluate the Committee's performance.

SCHEDULE

External Audit Services Policy forming part of the Charter of the Audit Committee of the Board of Directors of Sears Canada Inc. (amended and restated as of November, 2011)

DEFINITIONS

“**Capitalized**” terms used herein shall have the meaning set forth in the Charter unless otherwise defined herein.

PURPOSE AND APPLICABILITY

The External Auditor provides annual audit and audit-related services and certain non-audit related services to the Corporation.

Sears recognizes the importance of maintaining the independence of its External Auditor and believes that the independence of the External Auditor, both in appearance and in fact, is a shared responsibility involving management, the Audit Committee (the “Committee”) and the External Auditor.

This policy sets out the guidelines and procedures that have been approved by the Committee.

POLICY STATEMENT

Pre-approval

All services provided by the External Auditor, both audit and non-audit, must be pre-approved by the Committee, including the cost thereof and any change in scope pertaining to an approved service. Such pre-approval may be given at any time up to one year in advance of the commencement of the specified services. The authority to pre-approve any such service is vested in the Committee and may also be exercised by the Chair and, in his or her absence, by any independent Member of the Committee in accordance with Section B(1)(iv) of the Charter.

Audit and Audit-Related Services

The following audit and audit-related services are provided to the Corporation by the External Auditor:

- Audit of the Corporation’s financial statements
- Audit of the Sears Registered Retirement Plan
- Audit of the Sears Plan for Sharing Profits with Employees
- Review of the Annual Information Form
- Review of the Management Proxy Circular
- Review of the Annual Reports of the Corporation
- Quarterly Reviews
- Accounting consultations and support related to generally accepted accounting principles (including new accounting standards, and non-recurring transactions)
- Consent letters, comfort letters, reviews of securities filings and similar services that incorporate or include the audited financial statements of the Corporation

- Audit of controls in information technology implementations and audit of systems conversions

Non-Audit Related Services

A high proportion of fees for non-audit related services in relation to the External Auditor's total annual fees could impair or be perceived to impair the External Auditor independence as the Corporation External Auditor. Fees for the non-audit related services listed below, shall not, in the aggregate, exceed fifty percent (50%) of the External Auditor's total audit and audit-related fees to the Corporation per annum without the pre-approval of the Committee. Moreover, management is responsible to monitor and report to the Committee periodically regarding the non-audit related services rendered by the External Auditor and the costs thereof.

- Tax compliance and representation
- Litigation support services
- Control assurance services
- E-Business application security and controls
- Operational audits (including assessments of system security and controls and operational and process risks)
- Strategic assessments of internal audit functions
- Employee benefit tax consulting
- International assignment services
- Acquisition due diligence (excluding business valuation)
- Loan staff arrangements in certain circumstances
- Translation Services

Prohibited Services

The provision by the External Auditor to the Corporation of the non-audit services listed below could impair or be perceived to impair the External Auditor's independence as the Corporation's External Auditor. Therefore, these services are prohibited. However, in exceptional circumstances, these services may be permitted with the pre-approval of the Committee provided that the Corporation receives from the External Auditor written assurances that all safeguards will be implemented to ensure that the External Auditor's independence is not in any way impaired or compromised by the provision of such services and, furthermore, that the Canadian Public Accountability Board does not object to the provision of such services. Notwithstanding the foregoing, in no event may the External Auditor provide services on a contingent fee basis.

- Accounting, Finance and Legal
 - Preparation of the financial statements and other supplemental information included in regulatory filings
 - Bookkeeping services (preparation or entering journal entries, creation of source documents)
 - Appraisal or valuation services
 - Business process outsourcing
 - Corporate legal services
 - Corporate re-structuring advice (e.g. Special Purpose Entities, tax, or finance structures)
 - Actuarial services

- ❑ Internal Control and Information Technology
 - Internal audit outsourcing
 - ERP implementation
 - Information systems strategy
 - Information systems outsourcing
 - Approving or determining the scope of the Internal Audit function
 - Determining which internal audit improvements should be implemented
 - System implementation services

- ❑ Strategy and Planning
 - Business planning and strategy
 - Business process design
 - E-Business strategy services
 - Forecasting and planning systems and methodology

- ❑ Human Resources
 - Human resource strategy and services
 - Executive search
 - Performance management and compensation
 - Payroll services
 - Management functions (authorizing or approving transactions or payments)

- ❑ Supply Chain
 - Procurement strategy and design
 - Supply chain design/selection
 - Logistics/warehouse strategy
 - E-Procurement selections

- ❑ Sales and Distribution
 - Web site implementation and design
 - Customer relationship management (CRM) design/selection

COMMITTEE REVIEW OF SERVICES

Reporting

The Corporation will periodically prepare and the Committee shall review the following:

- A report summarizing the services, or grouping of related services, including invoices for fees, provided by the External Auditor during the current fiscal year, on a year to date basis with comparatives for the prior year;
- A listing of newly pre-approved services since the last regularly scheduled meeting; and
- An updated projection for the current fiscal year of the estimated annual fees to be paid to the External Auditor, including a listing of anticipated non-audit related services, if the cost thereof is likely to exceed fifty percent (50%) of the total audit and audit-related services fees to the Corporation per annum.

In each year, the following documents shall be delivered by the External Auditor to the Committee:

1. Engagement Letter (addressed jointly to the Committee and the Chief Financial Officer);
2. Audit Scope Presentations (addressed to the Committee);
3. Independence Letter (addressed to the Committee); and
4. Confidentiality Letter issued by the Corporation and accepted by the External Auditor.

Disclosure

All fees paid to the External Auditor shall be disclosed in the Corporation's annual proxy statement in accordance with applicable Securities laws .

EFFECTIVE DATE

This policy first came into force on April 12, 2002.