SEARS CANADA INC.

MANAGEMENT PROXY CIRCULAR

TABLE OF CONTENTS

Page

1. INFORMATION ON VOTING AND PROXIES

1.1 Solicitation of Proxies

This management proxy circular (the ''Circular'') and the information contained herein are furnished in connection with a solicitation of proxies by or on behalf of the management of Sears Canada Inc. (the ''Corporation'' or ''Sears Canada'') for use at the annual meeting of shareholders (the ''Meeting'') called for Tuesday, April 17, 2012 at 8:00 a.m., Eastern time, and any adjournment or postponement thereof. The solicitation of proxies will be primarily by mail. Proxies may also be solicited personally or by telephone by executive officers or employees of the Corporation. The cost of the solicitation will be paid by the Corporation.

Unless otherwise stated, the information contained in the Circular is current as of March 15, 2012 and all dollar amounts are in Canadian dollars.

1.2 Record Date

The board of directors of the Corporation (the ''Board'') has fixed March 15, 2012 as the record date (the ''Record Date'') for determining the holders (the ''Shareholders'') of common shares in the capital of the Corporation (the ''Shares'') who are entitled to receive notice of, and vote at, the Meeting. The failure of any Shareholder to receive notice of the Meeting does not deprive the Shareholder of the right to vote at the Meeting.

1.3 Appointment of Proxies

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

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

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

Completed proxies, for registered Shareholders, must be returned to CIBC Mellon Trust, the Corporation's transfer agent, by 5:00 p.m., Eastern time, on April 16, 2012 or, if the Meeting is adjourned or postponed, not later than 5:00 p.m., Eastern time on the business day prior to the date of the adjourned or postponed Meeting, or delivered to the registration table on the day of the Meeting prior to the commencement of the Meeting or any adjournment or postponement thereof.

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

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

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

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

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

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

(i) receive a voting instruction form; or

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

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

1.4 Revocation of Proxies

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

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

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

   i. the Office of the Secretary of the Corporation at 290 Yonge Street, Suite 700, Toronto, Ontario, M5B 2C3 at any time up to and including 5:00 p.m., Eastern time, on April 16, 2012 or, if the Meeting is adjourned or postponed, not later than 5:00 p.m., Eastern time, on the business day preceding the day of the adjourned or postponed Meeting; or

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

(c) in any other manner permitted by law.

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

1.5 Voting of Proxies

All Shares represented by a properly executed proxy will be voted, or withheld from voting, in accordance with the instructions of the Shareholder specified on the proxy and on any ballot that may be called for at the Meeting. If the Shareholder does not specify how he or she wishes the votes cast, the person named on the proxy will vote the Shares **for** the election of the proposed director nominees listed in this Circular and **for** the appointment of auditors and the authorization of the directors to fix the auditors' remuneration. The proxyholder has discretionary authority with respect to amendments or variations to the matters identified in the notice of Meeting and other matters which may properly come before the Meeting or any adjournment or postponement thereof. As at the date of the Circular, the management of the Corporation is not aware of any such amendments, variations or other matters.

1.6 Majority Voting

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

1.7 Share Capital and Principal Shareholders

The authorized share capital of the Corporation consists of an unlimited number of Shares and an unlimited number of preferred shares, issuable in one or more series (the ''Class 1 Preferred Shares''). As at March 13, 2012, there are currently no Class 1 Preferred Shares outstanding. As at March 13, 2012, the issued and outstanding share capital of the Corporation consists of 102,536,132 Shares, listed for trading on the Toronto Stock Exchange (the ''TSX'') under the symbol ''SCC''.

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

To the knowledge of the directors and executive officers of the Corporation, the only person or company that beneficially owns, or controls or directs, directly or indirectly, more than 10% of the Shares, according to the insider reports filed on the System for Electronic Disclosure by Insiders (''SEDI'') is Sears Holdings Corporation (''Sears Holdings''), the beneficial owner of 97,341,670 Shares, representing approximately 94.93% of the outstanding Shares.

2. BUSINESS OF THE ANNUAL MEETING

2.1 Financial Statements

The audited consolidated financial statements of the Corporation for the 52-week period ended January 28, 2012 (''Fiscal 2011'') and the auditors' report thereon will be placed before the Meeting. They are included in the 2011 Annual Financial Statements which are available on the System for Electronic Document Analysis and Retrieval (''SEDAR'') at www.sedar.com.

2.2 Election of Directors

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

On June 22, 2011, the Corporation announced the appointment of Calvin McDonald as the new President and Chief Executive Officer. Mr. McDonald is an Officer, and a member of the Board of

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

2.2.1 Definition of Independent Director

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

2.2.2 Background Information on Proposed Directors

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

E. J. BIRD

Lead Director
Private Investor

Age: 49

Independent Director
(residing in South Carolina, USA)

Director since: May 2006

Sears Canada Shareholdings
2011: Nil
2010: 500 Shares
2009: 3,500 Shares
Sears Holdings Shareholdings
2011: Nil

Dollar Amount of Sears Canada Shares:
Nil

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

Board and Committee Attendance:

Board Meetings Attended		Committee Meetings Attended		
# of Meetings	**Attendance Rate (%)**	Committee Membership	**# of Meetings**	**Attendance Rate (%)**
4 of 4	100%	AUD (Chair) INV	7 of 7 5 of 5	100% 100%

AUD: Audit Committee
INV: Investment Committee

DIRECTOR EXPERTISE

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

WILLIAM C. CROWLEY

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

Age: 54

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

Director since: March 2005

Sears Canada Shareholdings
2011: Nil
2010: Nil
2009: Nil
Sears Holdings Shareholdings
2011: 164,732

Dollar Amount of Sears Canada Shares:
Nil

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

Board and Committee Attendance:

Board Meetings Attended		Committee Meetings Attended		
# of Meetings	**Attendance Rate (%)**	Committee Membership	**# of Meetings**	**Attendance Rate (%)**
4 of 4	100%	HRC (Chair) INV	3 of 3 4 of 5	100% 80%

HRC: Human Resources and Compensation Committee
INV: Investment Committee

DIRECTOR EXPERTISE

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

WILLIAM R. HARKER

Executive Vice President and General Counsel
ESL Investments, Inc.
(investment firm)

Age: 39

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

Director since: November 2008

Sears Canada Shareholdings
2011: Nil
2010: Nil
2009: Nil
Sears Holdings Shareholdings
2011: 18,218

Dollar Amount of Sears Canada Shares: Nil

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 August 2009, Mr. Harker held various positions within Sears Holdings, including Senior Vice President, Human Resources, General Counsel and Corporate Secretary, Vice President, Acting General Counsel and Corporate Secretary and Vice President, Chief Counsel. Prior to Sears Holdings, Mr. Harker served as an Associate with the law firm of Wachtell, Lipton, Rosen and Katz from September 2000 to August 2005. Mr. Harker sits on the board of directors of the Sears Roebuck Foundation and is a Trustee on the national Board of Trustees of the March of Dimes Foundation.

Board and Committee Attendance:

Board Meetings Attended		**Committee Meetings Attended**		
# of Meetings	**Attendance Rate (%)**	Committee Membership	**# of Meetings**	**Attendance Rate (%)**
4 of 4	100%	HRC INV (Chair)	3 of 3 5 of 5	100% 100%

HRC: Human Resources and Compensation Committee
INV: Investment Committee

DIRECTOR EXPERTISE

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

R. RAJA KHANNA

Chief Executive Officer
GlassBOX Television
(media-related company)

Age: 39

Independent Director
(residing in Ontario, Canada)

Director since: October 2007

Sears Canada Shareholdings
2011: 2,620 Shares
2010: 2,620 Shares
2009: 1,850 Shares
Sears Holdings Shareholdings
2011: Nil

Dollar Amount of Sears Canada Shares[1]: $30,470.60

[1] Dollar amount calculated using the Corporation's share price on the Toronto Stock Exchange as at the close of trading on the last business day of the Corporation's financial year end (January 27, 2012), being $11.630, and multiplying that price by the number of Shares held by each individual director.

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.

Board and Committee Attendance:

Board Meetings Attended		**Committee Meetings Attended**		
# of Meetings	**Attendance Rate (%)**	Committee Membership	**# of Meetings**	**Attendance Rate (%)**
4 of 4	100%	AUD GOV	7 of 7 2 of 2	100% 100%

AUD: Audit Committee
GOV: Nominating and Corporate Governance Committee

DIRECTOR EXPERTISE

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

JAMES MCBURNEY

Chief Executive Officer
HCF International Advisers Limited
(investment banking firm)

Age: 53

Independent Director
(residing in London, United Kingdom)

Director since: April 2010

Sears Canada Shareholdings
2011: 1,525 Shares
2010: 1,525 Shares
Sears Holdings Shareholdings
2011: Nil

Dollar Amount of Sears Canada Shares[1]:
$17,735.75

[1] Dollar amount calculated using the Corporation's share price on the Toronto Stock Exchange as at the close of trading on the last business day of the Corporation's financial year end (January 27, 2012), being $11.630 and multiplying that price by the number of Shares held by each individual director.

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

Board and Committee Attendance:

Board Meetings Attended		**Committee Meetings Attended**		
# of Meetings	**Attendance Rate (%)**	Committee Membership	**# of Meetings**	**Attendance Rate (%)**
4 of 4	100%	AUD GOV	7 of 7 2 of 2	100% 100%

AUD: Audit Committee
GOV: Nominating and Corporate Governance Committee

DIRECTOR EXPERTISE

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

DEIDRA C. MERRIWETHER

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

Age: 43

Non-Independent Director
(residing in Illinois, USA)

Director since: April 2007

Sears Canada Shareholdings
2011: Nil
2010: Nil
2009: Nil
Sears Holdings Shareholdings
2011: Nil

Dollar Amount of Sears Canada Shares:
Nil

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

Board and Committee Attendance:

Board Meetings Attended		**Committee Meetings Attended**		
# of Meetings	**Attendance Rate (%)**	Committee Membership	**# of Meetings**	**Attendance Rate (%)**
4 of 4	100%	HRC INV	3 of 3 5 of 5	100% 100%

HRC: Human Resources and Compensation Committee
INV: Investment Committee

DIRECTOR EXPERTISE

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

CALVIN MCDONALD

President and Chief Executive Officer
of the Corporation

Age: 40

Non-Independent Director
(residing in Ontario, Canada)

Director since: June 2011

Sears Canada Shareholdings
2011: Nil
Sears Holdings Shareholdings
2011: Nil

Dollar Amount of Sears Canada Shares: Nil

Calvin McDonald was appointed as the President and Chief Executive Officer of the Corporation 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.

Board and Committee Attendance:

Board Meetings Attended		**Committee Meetings Attended**		
# of Meetings	**Attendance Rate (%)**	Committee Membership	**# of Meetings**	**Attendance Rate (%)**
1 of 1	100%	N/A	N/A	N/A

Note: Mr. McDonald is not a member of any of the Committees.

DIRECTOR EXPERTISE

Mr. McDonald has been in the retail business for over 18 years. In his previous roles with Loblaw Companies Limited, Mr. McDonald oversaw $10 billion in revenue and achieved a number of operational successes. Mr. McDonald's extensive knowledge of the retail industry makes him an asset to the Board and the Corporation. Mr. McDonald holds a Bachelor of Science degree from the University of Western Ontario and a Master of Business Administration degree from the University of Toronto.

DEBORAH E. ROSATI

President
RosatiNet, Inc.
(management consulting firm)

Age: 50

Independent Director
(residing in Ontario, Canada)

Director since: April 2007

Sears Canada Shareholdings
2011: 2,600 Shares
2010: 2,600 Shares
2009: 2,600 Shares
Sears Holdings Shareholdings
2010: Nil

Dollar Amount of Sears Canada Shares[1]: $30,238

[1] Dollar amount calculated using the Corporation's share price on the Toronto Stock Exchange as at the close of trading on the last business day of the Corporation's financial year end (January 27, 2012), being $11.630, and multiplying that price by the number of Shares held by each individual director.

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.

Board and Committee Attendance:

Board Meetings Attended		**Committee Meetings Attended**		
# of Meetings	**Attendance Rate (%)**	Committee Membership	**# of Meetings**	**Attendance Rate (%)**
4 of 4	100%	AUD HRC GOV	7 of 7 3 of 3 2 of 2	100% 100% 100%

AUD: Audit Committee
HRC: Human Resources and Compensation Committee
GOV: Nominating and Corporate Governance Committee

DIRECTOR EXPERTISE

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

Dene Rogers ceased to be a director of the Board effective June 22, 2011. Mr. Rogers attended all Board meetings up until June 22, 2011, with an attendance record of 100%.

2.2.3 Cease Trade Orders and Bankruptcies

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

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

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

2.3 Appointment of Auditors

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

Fees paid or accrued, with the approval of the Board, in connection with the services rendered by Deloitte & Touche LLP in Fiscal 2010 (being the 52-week period ended January 29, 2011) and Fiscal 2011 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.

2.4 Shareholder Proposals

Pursuant to the *Canada Business Corporations Act (''CBCA'')*, proposals by Shareholders to be considered for inclusion in the management proxy circular for the 2013 annual meeting of Shareholders must be received by the Office of the Secretary of the Corporation by December 19, 2012.

3. EXECUTIVE COMPENSATION

3.1 Compensation Discussion and Analysis

The Corporation's commitment to improving the lives of its customers by providing quality services, products and solutions that earn their trust and build lifetime relationships is contingent upon the Corporation's ability to successfully attract, motivate and retain highly talented executive officers who are committed to the Corporation's Vision, Mission and Values. The Corporation firmly believes that its executive compensation strategy is in-line with attracting and retaining executive officers who successfully contribute to the Corporation's accomplishments. During Fiscal 2011, the Corporation sought out top talent, including the appointment of a new President and Chief Executive Officer and the appointment of several senior executives.

This Compensation Discussion and Analysis (''CD&A'') describes and explains the significant elements of compensation awarded to, earned by, paid to or made payable to the Corporation's named executive officers, as defined in Form 51-102F6 under National Instrument 51-102 — *Continuous Disclosure Obligations* (the ''Executive Compensation Rules'') for Fiscal 2011. The Executive Compensation Rules require the Corporation to provide specific disclosure on the Chief Executive Officer, the Chief Financial Officer and the three other most highly compensated executive officers of the Corporation who served as executive officers during Fiscal 2011 and whose total compensation, individually, was more than $150,000 and any individual satisfying any of the foregoing criteria but for the fact that the individual was neither an executive officer of the Corporation or its subsidiaries, nor acting in a similar capacity, at the end of that financial year (''Named Executive Officer'' or ''NEO'').

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

Calvin McDonald, President and Chief Executive Officer (since June 2011)
Dene L. Rogers, *former* President and Chief Executive Officer (until June 2011)
Sharon R. Driscoll, Senior Vice-President and Chief Financial Officer
Douglas Campbell, Senior Vice-President, Major Appliances
Thomas Fitzgerald, Executive Vice-President and Chief Administrative Officer (since May 2011)
Steven Goldsmith, Executive Vice-President, Merchandising, Apparel and Accessories (since July 2011)
Scott Silver, *former* Executive Vice-President, Merchandising, Home and Hardlines (until November 2011)

3.1.1 Compensation Philosophy

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

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

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

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

The compensation programs for the executive officers are pay-for-performance based, with direct-line-of-sight to corporate and individual performance.

Executive Peer Group

The Corporation's target level of total compensation is a median position in the market of twenty Canadian companies of comparable size, revenue, and business. This group of comparator companies in retail and general industry, as listed immediately below, was reviewed to ensure that employment positions within both industries are comparable to the positions available at the Corporation. The comparable compensation components are base salary, target annual incentives, target long-term incentives, and target total compensation. In Fiscal 2009 (being the 52 week period ended on January 30, 2010), a review was conducted by Aon Hewitt with the comparator companies, as well as other companies with which the Corporation competes for talent. No reviews were conducted during Fiscal 2011 for the NEOs.

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

Compensation Consulting Firm

An independent executive compensation consulting firm, Meridian Compensation Partners (''Meridian''), formerly Aon Hewitt, is retained by the Corporation. Meridian was originally retained in Fiscal 2011. Meridian was created to be a truly independent executive compensation consulting firm from Aon Hewitt, to ensure no conflict of interests with Aon Hewitt's other consulting businesses. The mandate of Meridian is to serve the Corporation and, at the request of the HRCC, to provide assistance and guidance to the HRCC in its review of executive compensation, including the competitiveness of pay levels, executive compensation design issues, market trends, and technical considerations as required. Meridian does not perform any non-executive compensation or other related services for the HRCC or the Corporation. Meridian may perform services for the HRCC, provided that such services are not in conflict with its mandate to serve the Corporation.

For Fiscal 2011, Meridian reviewed and commented on the Fiscal 2010 management proxy circular. No other executive compensation related services were performed for the HRCC or the Corporation in Fiscal 2011. The fees paid to Meridian for services performed during Fiscal 2011 and Fiscal 2010 totaled approximately $5,156 and $nil, respectively.

All Other Fees

Meridian does not perform any other services for the Corporation.

3.1.2 Human Resources and Compensation Committee

The HRCC is responsible for overseeing the development of the Corporation's overall human resources strategy, policies and practices, which includes a strategy for fair and competitive compensation of executive officers in support of the achievement of the Corporation's business strategy, as well as the development of other compensation programs for the benefit of all associates. The HRCC partakes in an annual review of all compensation programs and practices, as presented by the management of the Corporation, to consider the implications of risks including reviewing program design and financial liability of existing plans. The HRCC also approves the introduction of all new annual plans and proposed design changes, as recommended by the management of the Corporation, after assessing the risk and financial liability of each program to the Corporation and the competitive position in the market. Decisions are approved on the basis of pay-for-performance without exposing the Corporation to inappropriate risk. Where such potential exists to influence the behaviour of an NEO, appropriate action is taken to discourage such behaviour. At the end of Fiscal 2011, no such risks were identified that would likely cause a material adverse affect on the Corporation. The HRCC oversees:

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

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

3.1.3 Composition of HRCC

During Fiscal 2011, the HRCC was comprised of three Non-Independent Directors, William C. Crowley, William R. Harker, Deidra C. Merriwether and one Independent Director, Deborah E. Rosati.

One member of the HRCC, D. C. Merriwether, is an executive officer of Sears Holdings. W. C. Crowley and W. R. Harker are executive officers of ESL Investments, Inc., an entity affiliated with Sears Holdings. Each of these members brings their own individual expertise to the Committee, including financial, human resources, investment and retail knowledge which is utilized in assessing and approving implementation of compensation policies and practices for the Corporation. One member, W. R. Harker, held a senior position with Sears Holdings with responsibility for the Human Resource department. None of the members of the HRCC are eligible to participate in the Corporation's executive compensation programs.

The accomplishments of the HRCC in Fiscal 2011 are highlighted below:

- Reviewed and approved changes to the Annual Incentive Program design;
- Reviewed and approved the Long-Term Incentive Plan for executive officers and designated salaried associates of the Corporation for the 2011-2013 Long-Term Incentive Plan period;
- Reviewed and recommended the Corporation's disclosure of its executive compensation;
- Reviewed the executive organization structure and succession plans;
- Reviewed and identified high potential associates and assessed the capability of current talent; and
- Reviewed investment of and contributions to the Corporation's pension plan.

3.1.4 Compensation Structure and Mix

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

The main components of the total rewards structure are:

- Fixed Compensation:
  - Base salary

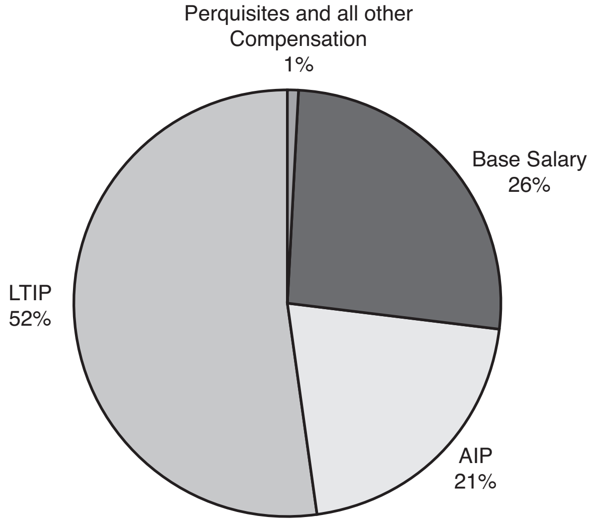
    - Benefits and Perquisites
    - Pension
- At-Risk Incentive Compensation:
    - Annual Incentive Program (''AIP'')
    - Long-Term Incentive Plan (''LTIP'')

The following chart provides a summary of how each element of compensation is intended to reward certain executive officers and salaried associates.

Compensation Element	Objective	Intended Rewards and Why It is Used
FIXED COMPENSATION		
Base Salary	To provide a portion of compensation as a fixed cash amount.	• To pay for competence in the role and for scope of responsibilities. • Market practice.
Benefits and Perquisites	To provide an added incentive to certain executive officers other than cash compensation, such as health coverage, vehicle allowance, and perquisite allowance for club memberships, and financial planning.	• To ensure that associates have access to health services to manage personal wellness. • Reinforces individual accountability for personal financial planning. • Market practice.
Pension	To provide a retirement savings vehicle for the associates of the Corporation.	• To provide associates with a pension at retirement. The retirement plans manage associate and employer contributions to ensure ownership of each associate's retirement income. • Market practice.
AT-RISK COMPENSATION		
AIP	To provide an opportunity for an annual incentive award based on the achievement of near-term corporate and business objectives.	• Focuses attention on the achievement of annual profitability with lesser emphasis on revenue. • To provide a competitive total compensation package. • Market practice.
LTIP	A performance and employment retention based compensation component designed to encourage long-term sustainable performance results.	• Focuses attention on the achievement of profitability over a three-year period. • To provide a competitive total compensation package. • Market practice.

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

Aggregate Weighting of Compensation Components for Active Named Executive Officers



The chart above shows the weighting of the various components that executives may receive as compensation based on actual base salary, target levels of incentive compensation and perquisites, and other compensation for Fiscal 2011 for all active NEOs. The chart does not include any one-time payments made to any NEO during Fiscal 2011.

3.1.5 Fixed Compensation

Fixed compensation is inclusive of base salary, benefits and perquisites (for certain NEOs), and pension to provide executive talent with earnings that are competitive in the market and consistent with the Corporation's compensation philosophy. The Corporation's fixed compensation programs are designed to provide a competitive base of secure compensation necessary to attract and retain executive talent while ensuring a level of secure earnings that are sufficient to meet living standards and discourage undue, high-risk decision making to the Corporation.

(a) Base Salaries

Base salary reflects annual compensation received by an associate for the position they hold and the role they perform within the Corporation. Base salaries are normally set at median market values and balanced with relative roles and responsibilities and equity within the Corporation. The relative base salary of executive officers reflects experience and accountabilities of the role and the incumbent's performance in that role. Base salaries are normally benchmarked externally against comparable roles in peer companies and internally against similar roles. Salaries are then adjusted depending on the NEOs' past performance, experience, individual qualifications, promotion or other change in responsibilities, expected future contributions to the Corporation and current market competitiveness. During Fiscal 2011, one NEO received a base salary increase, which was approved by the HRCC, reflective of a promotion with increased responsibility to the Corporation and recognition of contributions to the Corporation.

(b) Benefits and Perquisites

The Corporation provides select executive officers and designated salaried associates with competitive perquisites and benefits that allow them to focus on their daily responsibilities and the achievement of the Corporation's objectives. Certain NEOs, other than the Chief Executive Officer and the Executive Vice-Presidents, are provided with a company vehicle or vehicle allowance, and an annual perquisite allowance to cover club memberships and financial planning, to reinforce individual accountability for personal financial planning. All NEOs are provided with an annual executive comprehensive medical. All Officers of the Corporation are provided with reimbursement for premiums on optional life insurance (''Officer Life'') and long-term disability (''LTD'') insurance (''Officer LTD''), along with higher life insurance and LTD plan maximums.

(c) Retirement Benefits and Pension

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

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

For further detailed information, refer to Section 3.4 — ''Pension Plans''.

3.1.6 At-Risk Incentive Compensation

The Corporation's at-risk incentive compensation programs are designed to reinforce the Corporation's business strategy approved by the Board. The incentive programs provide executives with the opportunity to earn cash incentives based on the achievement of corporate and team performance objectives. Awards vary as a percentage of base salary, and incentive targets for all levels are reviewed periodically to ensure ongoing market competitiveness. Performance objectives are based on the Corporation's business plan for the fiscal year and are intended to be challenging but achievable. The Corporation converted from using Generally Accepted Accoutning Principals (GAAP) to using International Financial Reporting Standards (IFRS) during Fiscal 2011, all corporate financial measures on all financial statements are stated in IFRS.

For Fiscal 2011, there were two at-risk incentive compensation programs for the NEOs:

a) AIP; and

b) LTIP.

(a) AIP

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

The AIP is designed to achieve three important objectives:

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

Associates must be actively employed on the date of AIP payment to be eligible to receive the payout (associates who retire or terminate their employment, voluntarily or involuntarily, before the date of payout are not eligible for the payment). As well, associates must be in good performance standing and not undergoing disciplinary action or in a performance improvement program in order to receive their AIP payment. Associates who are on an approved leave of absence (other than LTD) will receive their AIP payment upon their return to active employment. In the event of a LTD or death during the year, then such participant, or his or her estate, as the case may be, is entitled to a pro-rata AIP award payment based on the date of LTD or death.

For the NEOs, the incentive award (target bonus amount as a percentage of base salary) is 100% based on the achievement of two corporate performance objectives established in each financial year. For Fiscal 2011, corporate performance was measured under International Financial Reporting Standards (IFRS) by:

(i) Corporate Revenue; and

(ii) Operating Profit (total revenue less total expenses, except for those expenses which are interest, income tax, depreciation, amortization and other non-recurring, unusual and one-time in nature expenses (the ''Adjusted EBITDA'')).

In Fiscal 2011, the weighting of the performance measures was 90% for Adjusted EBITDA and 10% for Corporate Revenue for the President and Chief Executive Officer and other NEOs. The Adjusted AIP EBITDA threshold must be achieved for payout.

For each corporate performance measure, the threshold goal is set at 90% of target, and the maximum goal is set at 125% of target. Compensation awards are determined according to the following criteria:

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

For NEOs, the award levels and applicable payouts, as a percentage of base salary, are described below:

Position(1)	**Threshold** (60% payout of target)(2)	**Target** (100% payout of target)(2)	**Maximum** (200% payout of target)(2)
President and Chief Executive Officer	60%	100%	200%
Executive Vice-Presidents	45%	75%	150%
Senior Vice-President and Chief Financial Officer	36%	60%	120%
Senior Vice-Presidents	36%	60%	120%

(1) Plan descriptions for current active NEOs.

(2) Payouts are determined based on percentage of base salary.

Performance Measure	Weighting of the Performance Measure	Target[1]	Results	AIP Performance Score
Corporate Revenue	10%	Revenue of $5,029.9 Million	Revenue of $4,619.0 Million	0%
Adjusted EBITDA	90%	Adjusted EBITDA of $402.0 Million	Adjusted EBITDA of $120.0 Million	0%

(1) Measures are in accordance with IFRS.

(b) LTIP

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

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

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

Award Period	Fiscal Years					
	2009 *Feb 2009 to Jan 2010*	2010 *Feb 2010 to Jan 2011*	2011 *Feb 2011 to Jan 2012*	2012 *Feb 2012 to Jan 2013*	2013 *Feb 2013 to Jan 2014*	2014 *Feb 2014 to Jan 2015*
2009-2011	3-year Performance Period			Payout		
2010-2012		3-year Performance Period			Payout	
2011-2013			3-year Performance Period			Payout

For Fiscal 2011, the three-year plan cycle which began on January 30, 2011 will mature on February 1, 2014 (the ''2011-2013 LTIP'') and will recognize performance results from the 2011 to 2013 fiscal years.

For the 2011-2013 LTIP, corporate performance is measured in its entirety by LTIP EBITDA. The threshold level for the performance measure is 80% of target corporate performance; and the maximum level is

125% of target corporate performance. These achievement levels are established to align with the corporate incentive strategy and to be challenging but achievable:

- Meeting the threshold corporate performance objective results in a payout of 60% of the target award amount;
- Meeting the target corporate performance objective results in a payout of 100% of the target award amount;
- Meeting the maximum corporate performance objective results in a payout of 250% of the target award amount; and
- If the actual result of the corporate performance objective is between these performance levels, the award payable is adjusted on a straight-line basis between threshold and target or target and maximum.

For NEOs, the award levels and applicable payouts, as a percentage of base salary, are described below:

Position(1)	**Threshold** (60% payout of target)(2)	**Target** (100% payout of target)(2)	**Maximum** (250% payout of target)(2)
President and Chief Executive Officer	180%	300%	750%
Executive Vice-Presidents	120%	200%	500%
Senior Vice-President and Chief Financial Officer	54%	90%	225%
Senior Vice-Presidents	54%	90%	225%

(1) Plan descriptions for current active NEOs

(2) Payouts are determined based on percentage of base salary

Participation in the LTIP, and eligibility for payment, is subject to the participant being actively employed in an eligible position at the beginning of or within the first two fiscal quarters of the three-year plan cycle and on the date the award payment is made, and having been employed, without interruption, from the grant date to the end of that three-year plan cycle. In the event the LTIP participant's employment is terminated, voluntarily or involuntarily, or the participant retires before the end of the LTIP cycle, then such participant is not entitled to the award. In the event the LTIP participant dies or sustains a LTD before the end of the LTIP cycle, or is on an authorized leave of absence, then such participant, or his or her estate, as the case may be, is entitled to a pro-rata award payment based on the number of completed months the participant was in the LTIP until the date of such leave or death.

The LTIP for the three-year plan cycle which began on February 1, 2009 and matured on January 28, 2012 (the ''2009-2011 LTIP'') had a corporate LTIP EBITDA goal at 100% weighting for most eligible participants. Senior Vice-Presidents participating in the 2009-2011 LTIP had two independent goals:

LTIP EBITDA at 75% weighting and Cash goal at 25% weighting. The Corporation did not achieve the threshold for LTIP EBITDA or Cash goal and as a result, will not result in a payout for any participant.

Performance Measure(1)	Weighting of the Performance Measure	Target(2)	Results	LTIP Performance Score
LTIP EBITDA	75%	3-year cumulative Adjusted EBITDA of $1,647.2 Million	3-year Adjusted EBITDA of $946.5 Million	0%
Cash Goal	25%	3-year cumulative Cash performance of $155.0 Million	3-year Cash performance of $15.1 Million	0%

(1) Describes 2009-2011 LTIP Corporate Target performance for Senior Vice-Presidents. All other participants were measured on 100% LTIP EBITDA weighting.

(2) Measures are in accordance with IFRS.

3.1.7 Equity Compensation Plan Information

Aggregated Securities Issuable upon Exercise of Outstanding Options, Warrants and Rights to Employees and Directors as at January 28, 2012

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by securityholders	10,760 (Options)(1) 0 (Restricted Shares) 0 (Deferred Share Units)	$17.81 N/A N/A	3,670,001(2)
Equity compensation plans not approved by securityholders	N/A	N/A	N/A
Total	10,760	$17.81(3)	3,670,001

Notes:

(1) There are no outstanding options under the Stock Option Plan for Directors.

(2) A total of 3,455,251 Shares are available for future issuance under the Employees Stock Plan and a total of 214,750 Shares are available for future issuance under the Stock Option Plan for Directors as at January 28, 2012. Following the last grant in 2004, the Corporation discontinued equity compensation grants under the Employees Stock Plan. The Corporation also discontinued the granting of stock options under the Stock Option Plan for Directors following the last grant in 2003.

(3) Applies to outstanding options only.

Closed Plans

In the past, the Corporation also provided for an Employees Stock Plan, which expired on April 19, 2008. Following the last grant in 2004, the Corporation discontinued equity compensation grants under the Employees Stock Plan.

The Employees Stock Plan, originally established in 1984, provided for the award of stock options, special incentive awards of Shares, and share appreciation rights (''SARs'') to executive officers and designated associates of the Corporation who demonstrated effective service and high levels of performance.

Unless specified otherwise, options granted under the Employees Stock Plan would vest in equal installments on each of the first three anniversaries of the date of the grant and expire ten years from the date of the grant. The exercise price for any options could not be less than the ''Market Price'' pursuant to the Employees Stock Plan, being the weighted average price at which the Shares traded on the TSX on the five trading days preceding the date of the grant. The value of SARs payments was calculated by the amount by which the Market Price of the Shares on the date of exercise of the SARs exceeded the price per Share payable on the exercise price of the option granted. In the case of an award of Shares by way of special incentive, all or part of the awarded Shares which vested could be received on a current basis, or deferred and taken as Deferred Share Units (''DSUs''). The maximum number of Shares reserved for issuance to any one participant under the Employees Stock Plan was five percent (5%) of the Shares outstanding at the time of the grant or award (on a non-diluted basis). No such number of Shares was ever reserved for issuance to any one participant.

The entitlements of participants cease immediately upon termination of employment by the Corporation, with cause, or in the event that the participant terminated his/her employment with the Corporation. Upon termination of employment of the participant by the Corporation, without cause, all rights cease regarding Shares. All rights to exercise stock options granted to participants cease six (6) months after the termination date.

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

Notwithstanding the expiry of the Employees Stock Plan on April 19, 2008, all outstanding stock options may be exercised or allowed to expire in accordance with the terms of their grants. There are currently no outstanding share-based or option-based awards outstanding for any of the NEOs or Director of the Corporation. The Corporation does not permit the use of hedging strategies to monetize and/or reduce market risk associated with equity compensation granted by the Corporation held directly or indirectly.

Employees Stock Plan (as at January 28, 2012)	**# of Shares**	**% of Outstanding Capital**
Shares issued under Plan (includes Deferred Shares)	0	0.00%
Shares issuable under Plan	0	0.00%
Shares issuable under grants made	10,760	0.00%

3.1.8 Discretionary Compensation

The Board may exercise its discretion to award compensation payments to NEOs and certain other salaried associates, if performance goals for at-risk compensation have not met thresholds required for payouts. The Board may also exercise its discretion to reduce or increase any awards or payouts to NEOs and certain other salaried associates based on achievement of performance goals and individual contributions to business results. The Board may also exercise its discretion to offer other one-time awards to NEOs and other salaried associates to attract, retain and recognize associates for their contributions to the Corporation. For Fiscal 2011, the Board did exercise its discretion to award compensation to certain NEOs and other salaried associates.

The Board will partake in a review of the AIP at-risk compensation program during Fiscal 2012 for NEOs and certain salaried associates. The Company does not anticipate any other significant changes to its compensation policies or practices for the NEOs during Fiscal 2012.

3.2 Report on President and Chief Executive Officer Compensation

Calvin McDonald was appointed President and Chief Executive Officer of the Corporation on June 22, 2011. Prior to this appointment, Mr. McDonald served as the Executive Vice-President, Conventional Business of Loblaw Companies Limited from January 2011 to June 2011.

3.2.1 Philosophy and Governance

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

3.2.2 Compensation

The Corporation and Mr. McDonald entered into an employment agreement in June 2011 (the ''McDonald Employment Agreement''). The McDonald Employment Agreement specifies Mr. McDonald's compensation with respect to his base salary, his AIP and LTIP, and includes information on his signing bonus and cash retention award. Under the McDonald Employment Agreement, Mr. McDonald is entitled to a base salary of $800,000 (CDN) per annum. Mr. McDonald was entitled to a one-time signing bonus of $200,000 paid within 30 days of employment beginning; this payment was made in June 2011 in accordance with the terms. With respect to the retention award, Mr. McDonald will receive a Cash Retention Award of $1,000,000, which is to be paid in four equal installments as soon as practicable after January 31, 2012, January 31, 2013, January 31, 2014 and January 15, 2015 (''Cash Retention Award''). The first Cash Retention Award payment to Mr. McDonald was made, in accordance with the recommendation of management of the Corporation and with the approval of the HRCC, on January 28, 2012. To be eligible for the remaining Cash Retention Award payments Mr McDonald must be actively employed on the date of payment of each installment payment.

Mr. McDonald's target bonus amount under the AIP for Fiscal 2011 is 100% of his annual base salary. For the 2011 AIP, Mr. McDonald will not receive a payout as the Corporation did not achieve the threshold Adjusted EBITDA required for payout.

Mr. McDonald is also eligible to participate in the 2011-2013 LTIP cycle. Mr. McDonald's target bonus amount under the LTIP is 300% of his annual base salary. If the specified performance targets are achieved during the performance period, Mr. McDonald will receive a payment equal to his target award if employed at the end of the three-year plan cycle and on the date the award payment is made (subject to certain termination-related exceptions).

3.3 Compensation of Named Executive Officers

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

The following table provides a summary of compensation information for the Named Executive Officers during Fiscal 2011.

Summary Compensation Table
For Fiscal 2011

NEO Name and Principal Position	Year	Salary ($)(1)	Non-Equity Incentive Plan Compensation (f)		Pension Benefit Value ($)	All Other Compensation ($)(4)	Total Compensation ($)
			Annual Incentive Plans 2011 ($)(2)	Long-Term Incentive Plans 2009-2011 ($)(3)			
(a)	(b)	(c)	(f1)	(f2)	(g)	(h)	(i)
C. McDonald(6)	2011	487,879	450,000	—	Nil	5,037	942,916
President and	2010	—	—	—	—	—	—
Chief Executive Officer	2009	—	—	—	—	—	—
D. L. Rogers(4)(5)(6)	2011	276,084	Nil	Nil	(29,926)	873,363	1,119,521
Former President and	2010	715,388	Nil	Nil	(8,447)	9,375	716,316
Chief Executive Officer	2009	710,217	402,570	Nil	23,800	(5,280)	1,131,307
S. R. Driscoll(4)(6)	2011	375,000	Nil	Nil	5,850	46,877	427,727
Senior Vice-President and	2010	305,776	50,000	—	9,662	36,671	402,109
Chief Financial Officer	2009	249,792	99,000	—	8,055	37,299	394,146
T. Fitzgerald(6)	2011	463,333	776,227	—	Nil	2,761	1,242,321
Executive Vice-President and	2010	—	—	—	—	—	—
Chief Administrative Officer	2009	—	—	—	—	—	—
S. Goldsmith(6)	2011	324,901	549,576	—	Nil	4,789	879,266
Executive Vice-President,	2010	—	—	—	—	—	—
Merchandising, Apparel and Accessories	2009	—	—	—	—	—	—
S. Silver(6)	2011	246,251	479,901	—	Nil	107,841	833,993
Former Executive Vice-President,	2010	—	—	—	—	—	—
Merchandising, Home and Hardlines	2009	—	—	—	—	—	—
D. Campbell(6)	2011	288,853	210,993	—	Nil	28,222	528,068
Senior Vice-President,	2010	—	—	—	—	—	—
Major Appliances	2009	—	—	—	—	—	—

Notes:

(1) Base salary represents actual salary earnings received in each fiscal year.

(2) Includes annual non-equity incentive plan compensation, such as discretionary cash awards, signing, relocation, and retention bonuses. For Fiscal 2011, the Corporation did not meet the threshold level of Adjusted AIP EBITDA; as a result, there will be no AIP payout for the NEOs. See Section 3.1.6 (a) for additional information on AIP measurements.

(3) For the 2009-2011 LTIP, the corporate performance measure of LTIP EBITDA did not meet the threshold level. As well, the independent Cash Goal for the SVPs did not meet the threshold. As a result there will be no 2009-2011 LTIP payout.

(4) For Fiscal 2011, the amounts in this column include perquisites and other compensation (inclusive of termination payments) for each NEO. The aggregate value of perquisites and benefits for each NEO with the exception of Mr. Rogers and Ms. Driscoll is less than the lesser of $50,000 or 10% of the NEO's total annual salary and bonus for Fiscal 2011. The perquisites and other personal benefits which individually exceed 25% of the total perquisites and other personal benefits for Mr. Rogers and Ms. Driscoll are set out below:

D. L. Rogers	2011:	Tax Equalization ($427,700)
S. R. Driscoll	2011:	Vehicle allowance ($24,718), Perquisite allowance ($12,897)

(5) Dene L. Rogers' annual compensation was based on U.S. currency, as per his employment agreement. Mr. Rogers' employment agreement allowed for a conversion of Mr. Rogers' salary and other elements of compensation from U.S. funds into Canadian funds. Each compensation element, including Mr. Rogers' base salary, AIP, LTIP payments, benefits and perquisites were converted using the respective Bank of Canada rate during Fiscal 2011.

(6) Calvin McDonald was appointed as President and Chief Executive Officer of the Corporation 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, 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, Loblaw Companies Limited. Mr. McDonald also held the position of Vice-President, Merchandising & Marketing, No Frills Division, Loblaw Companies Limited from February 2005 to April 2007.

Dene L. Rogers is the former President and Chief Executive Officer of the Corporation. Mr. Rogers' employment with the Corporation ceased in June 2011. Mr. Rogers was appointed to this position in December 2006. Prior to this appointment, Mr. Rogers held the position of Acting President since May 2006. From October 2005 until December 2006, Mr. Rogers served as the Executive Vice-President, Restructuring and Business Development, Sears Holdings. Previous to this position, Mr. Rogers served as the Executive Vice-President and General Manager of Kmart Holding Corporation from October 2003 to October 2005.

Sharon R. Driscoll was appointed Senior Vice-President and Chief Financial Officer of the Corporation 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.

Thomas Fitzgerald was appointed as the Executive Vice-President and Chief Administrative Officer of the Corporation and assumed this position in May 2011. Prior to this appointment, 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.

Steven Goldsmith was appointed as the Executive Vice-President, Merchandising, Apparel and Accessories of the Corporation and assumed this position in July 2011. Prior to this position, Mr. Goldsmith was the Executive Vice-President, Limited Brands Direct, Limited Brands, Inc. from July 2007 to June 2011 and from June 2005 to July 2007 Mr. Goldsmith held the position of Vice-President, Merchandising, Amazon.com, Inc.

Scott Silver, the former Executive Vice-President, Merchandising, Home and Hardlines of the Corporation assumed the position in June 2011. Mr. Silver's employment with the Corporation ceased in November 2011. Mr. Silver's previous positions include Chief Executive Officer, President, Silver Lining Holdings from 2009 to 2011. Mr. Silver also held positions with Linens 'N Things including Executive Vice-President, Chief Merchandising Officer from March 2008 to December 2008, Executive Vice-President, Merchandising from 2007 to 2008, Senior Vice-President, General Merchandise Manager, Housewares, Bath Specialty Food and Electronics Divisions from 2006 to 2007 and Divisional Vice-President, General Merchandise Manager, Housewares, Bath, Food and Electronics Divisions from 2005 to 2006.

Douglas Campbell is the Senior Vice-President, Major Appliances of the Corporation and assumed this position in December 2011. Prior to this role, Mr. Campbell served as the Vice-President, Major Appliances and Electronics of the Corporation from May 2011 to December 2011. Before joining Sears Canada, Mr. Campbell was a Principal at Boston Consulting Group from 2005 to 2011.

3.4 Pension Plans

The SRRP has two components: (i) a DB component for service up to and including June 30, 2008, which also includes a SRP; and (ii) a DC component effective July 1, 2008, which does not include a SRP. None of the NEOs have a pension under the DB component or SRP.

3.4.1 Amendments to the Pension Plans

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

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

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

3.4.2 Entitlements under the SRRP and the SRP

Certain NEOs participated in the DB component of the SRRP. Under the SRRP pension accrual formula, the annual pension payable at age 65 for the participating NEOs is calculated as follows:

For Credited Years of Service after January 1, 1987

Years of credited service multiplied by 1% of ''Pensionable Earnings'' between 20% and 100% of the Canada Pension Plan (CPP) covered earnings limit, plus 1.75% of ''Pensionable Earnings'' above this Canada Pension Plan/Quebec Pension Plan (CPP/QPP) limit. ''Pensionable Earnings'' are the average annual remuneration in the best three consecutive years of the last ten years of employment.

Annual remuneration includes salary and actual AIP bonus amount paid.

Registered DB plans, such as the SRRP, are subject to a maximum annual benefit under the *Income Tax Act* (Canada). In 2011, the maximum was $2,552.22 for each pensionable year of service. Associates with final average earnings of approximately $172,100 per year may be eligible for a pension from the SRP.

NEOs and certain other members of the SRRP were entitled to receive, upon retirement, an additional pension from the unregistered SRP which provides a benefit based on the SRRP formula representing the difference between the pension determined in accordance with the SRRP and the maximum annual benefit under the *Income Tax Act* (Canada). In the past, pensions payable under the SRP were not funded or otherwise secured but simply paid through the general revenues of the Corporation. In October 2005, the Board authorized the Corporation to fund the actuarial liability corresponding with the SRP for all current retirees and other members of the SRP as they retire or otherwise become eligible for funding. Effective January 2010, the funding method for all eligible associates retiring on or after January 1, 2010 changed to be funded on a pay-as-you-go basis from general revenues of the Corporation. Those who retire prior to January 1, 2010 will continue to receive SRP payments from the actuarial fund. The estimated SRP assets were $49 million as at December 31, 2011.

The form of pension is as follows:

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

(b) for a member who has a spouse at the date of pension commencement, monthly installments for the greater of the member's lifetime and 120 months, and continuing thereafter, reduced by 33⅓%, to the surviving spouse, if any, for the spouse's lifetime. The monthly amount is reduced so that the actuarial value of this pension is equal to the actuarial value of the pension in (a) above.

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

Pensions to retirees are adjusted annually for inflation after age 65, if the Consumer Price Index (CPI) increases by more than 2% within the year. The pension will be adjusted by three-quarters of the CPI increase, provided that the adjustment cannot exceed the lesser of 12% and the average base pay increase provided to active associates of the Corporation in the prior year.

Defined Benefit Component

The following table provides a summary of the DB component obligations for the NEOs during Fiscal 2011.

Name (a)	**Number of years credited service** (b)	**Annual Benefits Payable**		**Accrued obligation at start of year ($)** (d)	**Compensatory change ($)** (e)	**Non-compensatory change ($)** (f)	**Accrued obligation at year end ($)** (g)
		At year end (c1)	**At age 65** (c2)				
C. McDonald*	—	—	—	—	—	—	—
D. L. Rogers**	1.5	—	29,000	276,000	(37,000)	70,000	0
S. Driscoll*	—	—	—	—	—	—	—
T. Fitzgerald*	—	—	—	—	—	—	—
S. Goldsmith*	—	—	—	—	—	—	—
S. Silver*	—	—	—	—	—	—	—
D. Campbell*	—	—	—	—	—	—	—

Notes:

* There is no DB plan obligation for Mr. McDonald, Ms. Driscoll, Mr. Fitzgerald, Mr. Goldsmith, Mr. Silver and Mr. Campbell as they joined the Corporation after June 30, 2008.

** Mr. Rogers' employment with the Corporation ceased on June 22, 2011 and was paid a total lump-sum of $309,000 on December 30, 2011 representing his commuted value from the DB Component of the SRRP. Mr. Rogers has no further benefit obligation remaining in the plan as of January 29, 2012.

(c1) The immediate retirement pension benefit payable at January 29, 2012, reduced for early retirement if applicable. If the member is not eligible to retire, it is nil.

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

(d) The total SRP and SRRP obligations at January 29, 2012 using assumptions applicable for year-end disclosure at that date.

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

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

(g) The total SRP and SRRP obligations at January 29, 2012 using assumptions expected to be applicable for year-end disclosure at that date.

Defined Contribution Component

The following table provides a summary of the DC component value for the NEOs during Fiscal 2011.

Name	Accumulated value at start of year ($)	Compensatory ($)[1]	Accumulated value at year end ($)
C. McDonald	Nil	—	—
D. L. Rogers	68,677	7,074	77,670
S. Driscoll	61,672	5,850	76,219
T. Fitzgerald	Nil	—	—
S. Goldsmith	Nil	—	—
S. Silver	Nil	—	—
D. Campbell	Nil	—	—

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

3.5 Termination and Change of Control Benefits

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

CALVIN MCDONALD

President and Chief Executive Officer (since June 2011)

The effective date of the McDonald Employment Agreement is June 22, 2011. The termination provisions of the McDonald Employment Agreement provide for the following incremental payments to be made in the event of Mr. McDonald's termination from the Corporation on a without cause basis, or if Mr. McDonald leaves the Corporation, with Good Reason (''Good Reason'' meaning any of the following: (i) a material reduction in Mr. McDonald's base salary; or (ii) Mr. McDonald's removal from the board of directors of the Corporation):

(1) If Mr. McDonald's employment is terminated within twelve (12) months from the effective date of the McDonald Employment Agreement, then, he is entitled to twelve (12) months of salary continuation equal to his base salary, provided that, after the first anniversary of the effective date, the salary continuation period will be extended by one (1) month for each complete month worked beyond the first anniversary, up to a maximum of twenty-four (24) months;

(2) Provided that Mr. McDonald is actively employed for the first twelve (12) months of the performance period relating to a LTIP, he would be entitled to a pro-rata share of any LTIP target incentive awards (based on his active months of employment during the related performance period), provided that Mr. McDonald's achievement of the financial performance metrics relating to such LTIP at the end of the fiscal month immediately preceeding termination is equal to or greater than the established fiscal performance targets as of the end of such fiscal month, and provided that at the end of the full performance period, the financial performance metrics relating to such LTIP have also been achieved; and

(3) The next installment of the Cash Retention Award.

In addition, if Mr. McDonald is terminated without cause, he will be entitled to continue in the Corporation's benefits plan and pension plan, if applicable, during the statutory notice period under the *Employment Standards Act* (Ontario).

The below chart provides for estimated incremental payments to be made to Mr. McDonald assuming that the trigger occurred on the last business day of Fiscal 2011, being January 28, 2012, and during the first twelve (12) months of employment as well as estimated incremental payments to be made to Mr. McDonald assuming the trigger occurred after the first twelve (12) months of employment.

Compensation Element	Termination by the Corporation Without Just Cause during first 12 months	Termination by the Corporation Without Just Cause after first 12 months
Cash Compensation Payments		
Base Salary	$ 800,000(1)	$ 1,600,000(2)
AIP (100% at target award level)	Nil	Nil
Cash Retention Award	$ 250,000(3)	$ 250,000(3)
Total Cash Compensation	**$1,050,000**	**$1,850,000**
Long-Term Incentive Plan Payments		
LTIP (300% at target award level)	Nil(4)	$ 1,133,333(5)
Total Long-Term Incentive Plan	**Nil**	**$1,133,333**
Pension Plan Payments and Benefits Accrual		
Pension Plan and Benefits Accrual	$ 459(6)	$ 917(7)
Total Pension Plan and Benefit Accrual	**$ 459**	**$ 917**
TOTAL	**$1,050,459**	**$2,984,250**

Notes:

The Corporation cannot accurately determine the actual incremental payments that would be made to the NEO, however, the Corporation has, in order to comply with the Executive Compensation Rules, attempted to estimate this payment based on compensation information available for Fiscal 2011. The Corporation would like to stress that these estimates are not indicative of actual payments that will be made to the Named Executive Officer at a future date. For the purposes of this chart, the Corporation has assumed that the triggering event occurred on the last business day of Fiscal 2011, being January 28, 2012.

(1) This amount is based on Mr. McDonald's base salary in effect as of the last day of Fiscal 2011 continued for a period of twelve (12) months. Pursuant to the McDonald Employment Agreement, Mr. McDonald's annual base salary is set at $800,000.

(2) This amount is based on Mr. McDonald's base salary in effect as of the last day of Fiscal 2011 continued for a period of twenty-four (24) months. This represents the maximum period of salary continuation, if termination occurs after the first twelve (12) months and granting one (1) additional month for each completed month of employment beyond the first twelve (12) months up to the 24-month maximum, being on June 2013. Pursuant to the McDonald Employment Agreement, Mr. McDonald's annual base salary is set at $800,000.

(3) This amount represents the next installment in the Cash Retention Award pursuant to the McDonald Employment Agreement.

(4) Mr. McDonald would not be entitled to a pro-rata payment for the 2011-2013 LTIP as the condition of being Actively Employed for the first twelve (12) months of the performance period, relating to the 2011-2013 LTIP, would not be satisfied.

(5) This amount represents a pro-rata payment for seventeen (17) out of thirty-six (36) months of the 2012-2014 LTIP that Mr. McDonald would be entitled to pursuant to the McDonald Employment Agreement assuming termination occurs in June 2013 coinciding with the achievement of the maximum salary continuation period, see (2). Mr. McDonald's financial performance metrics as at the end of the fiscal quarter immediately preceding termination being the first quarter ending

April 2013 cannot be accurately determined and is assumed to be equal to the established fiscal performance targets triggering payment. Mr. McDonald would not be entitled to a pro-rata payment for the 2011-2013 LTIP as the condition of being Actively Employed for the first twelve (12) months of the performance period, relating to the 2011-2013 LTIP, would not be satisfied.

(6) This amount represents the cost to the Corporation for Mr. McDonald's continued participation in the Corporations benefit and pension programs, based on his coverage in effect as of last day of Fiscal 2011, for a period of one (1) week, representing the statutory notice period under the *Employment Standards Act* (Ontario).

(7) This amount represents the cost to the Corporation for Mr. McDonald's continued participation in the Corporations benefit and pension programs, based on his coverage in effect as of last day of Fiscal 2011, for a period of two (2) weeks, assuming termination occurs in June 2013 coinciding with the achievement of the maximum salary continuation period, see (2), representing the statutory notice period under the *Employment Standards Act* (Ontario).

DENE L. ROGERS

Former President and Chief Executive Officer (until June 2011)

Mr. Rogers' employment with the Corporation ceased on June 22, 2011. Under the relevant provisions of Mr. Rogers' employment agreement, Mr. Rogers was entitled to the following payments upon termination:

Termination by the Corporation Without Just Cause

Salary

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

AIP

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

Pension Plan

A lump sum payment comprised of the cost to the Corporation of the contributions to the Corporation's pension plans on Mr. Rogers' behalf over the shorter of the remainder of the Term or Notice Period using the normal contribution levels in effect immediately prior to the termination date;

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

LTIP

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

The below chart provides for the termination-related payments made to or to be made to Mr. Rogers as a result of the cessation of his employment with the Corporation on June 22, 2011:

Compensation Element	Termination by the Corporation Without Just Cause
Cash Compensation Payments	
Base Salary	$ 700,910(1)
2011 AIP (90% at target award level)	$ 630,819(2)
2012 AIP (90% at target award level)	$ 251,288(3)
Total Cash Compensation	**$1,583,017**
Long-Term Incentive Plan Payments	
2009-2011 LTIP (300% at target award level)	$ 507,842(4)
Total Long-Term Incentive Plan	**$ 507,842**
Pension Plan Payments and Benefits Accrual	
Benefits Accrual	$ 993(5)
Pension Plan	$ 15,652(6)
Total Pension Plans and Benefit Accrual	**$ 16,645**
TOTAL	**$2,107,504**

Notes:

The Corporation cannot accurately determine the actual incremental payments that will be made at time of payment for 2011 AIP and 2012 AIP, as amounts will be converted from US dollars to Canadian dollars at time of payment however, the Corporation has, in order to comply with the Executive Compensation Rules, attempted to estimate these payments. All amounts have been converted from US dollars to Canadian dollars at the Bank of Canada closing rate of $1.0013 on January 27, 2012 being the last day of trading during Fiscal 2011.

(1) This amount is based on Mr. Rogers' base salary in effect immediately prior to the termination date of June 22, 2011 continued for a period of twelve (12) months from the date employment ceased. Pursuant to Mr. Rogers' employment agreement, Mr. Rogers' annual base salary was set at $700,000 U.S. For the purposes of this chart, this amount was converted from US dollars to Canadian dollars at the Bank of Canada rate of $1.0013 on January 27, 2012.

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

(3) This amount represents an equivalent pro-rata payment for the 2012 AIP performance period derived from target Fiscal 2011 AIP figures, based on the ratio of number of completed days, being 145 days, during Mr. Rogers twelve (12) month Notice Period not already accounted for under the 2011 AIP performance period.

(4) This amount represents a pro-rata payment for the 2009-2011 LTIP that Mr. Rogers would be entitled to pursuant to Mr. Rogers' employment agreement, based on twenty-eight (28) months of Active Employment during 2009-2011 LTIP. Mr. Rogers financial performance metrics as at the end of the fiscal quarter immediately preceding termination, being first quarter 2011 ending April 2, 2011, for the AIP EBITDA goal was below the established targets however the Cash Goal was above the established financial performance targets and therefore Mr. Rogers will receive an LTIP payment for 2009-2011 LTIP for the Cash goal component.

(5) This amount represents a lump sum payment to Mr. Rogers and is comprised of the amount payable by the Corporation for its contributions to the DC component of the pension plan for a period of three (3) months until October 1, 2011, representing the shorter period between the lapse of term or twelve (12) months. The amount of DB pension accrued for the period of three (3) months cannot be determined and is not represented in the value above. This payment was made to Mr. Rogers during Fiscal 2011.

(6) This amount represents the cost to the Corporation for Mr. Rogers' continued participation in the Corporation's benefit programs, based on his coverage in effect as of June 22, 2011, for a period of five (5) weeks, representing the statutory notice period under the *Employment Standards Act* (Ontario).

SHARON R. DRISCOLL

Senior Vice-President and Chief Financial Officer

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

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

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

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

(the ''Severance Period'')

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

The below chart provides for the estimated incremental payments to be made to Ms. Driscoll assuming that the triggering event occurred on the last business day of Fiscal 2011, being January 28, 2012.

Compensation Element	Triggering Event: Termination by the Corporation Without Just Cause
Cash Compensation Payments	
Base Salary	$375,000(1)
Total Cash Compensation	**$375,000**
Pension Plan Payments, Benefits Accrual and Perquisites	
Pension Plan and Benefits Accrual	$ 25,033(2)
Perquisites	$ 37,597(3)
Total Pension, Benefits and Perquisite Plans	**$ 62,630**
TOTAL	**$437,630**

Notes:

The Corporation cannot accurately determine the actual incremental payments that would be made to the NEO, however the Corporation has, in order to comply with the Executive Compensation Rules, attempted to estimate these payments based on compensation information available for Fiscal 2011. The Corporation would like to stress that these estimates are not indicative of actual payments that will be made to the NEO at a future date. For the purposes of this chart, the Corporation has assumed that the triggering event occurred on the last business day of Fiscal 2011, being January 28, 2012.

(1) This amount represents payment to Ms. Driscoll based on her receiving twelve (12) months' base salary in lieu of notice. Ms. Driscoll's salary as at January 28, 2012 was $375,000.

(2) This amount represents benefits accrual and pension plan payments that Ms. Driscoll would be entitled to as per her employment agreement. Ms. Driscoll would receive these payments, based on her coverage in effect as of last day of Fiscal 2011, for a period of twelve (12) months.

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

THOMAS FITZGERALD

Executive Vice-President and Chief Administrative Officer

The Corporation and Mr. Fitzgerald entered into an employment agreement in May 2011 (the ''Fitzgerald Employment Agreement''). The Fitzgerald Employment Agreement provides for termination payments to Mr. Fitzgerald in the event Mr. Fitzgerald's employment is terminated following his relocation to Toronto, Ontario, Canada. If the Corporation changes Mr. Fitzgerald's reporting relationship, Mr. Fitzgerald can make a claim for terminating his employment on a without cause basis. Any termination on a without cause basis would trigger the following incremental payment:

If Terminated Following Relocation to Toronto, Ontario, Canada

Mr. Fitzgerald will be provided with the greater of:

(i) twelve (12) months of base pay and 75% of his targeted AIP; or

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

If the Corporation terminates Mr. Fitzgerald's employment without cause, Mr. Fitzgerald would be entitled to continue in the Corporation's benefits plan and pension plan during the severance period in accordance with the applicable employment standards legislation.

The below chart provides for the estimated incremental payments to be made to Mr. Fitzgerald assuming that the triggering event occurred on the last business day of Fiscal 2011, being January 28, 2012.

Compensation Element	Triggering Event: Termination by the Corporation Without Just Cause Following Relocation to Toronto, Ontario, Canada
Cash Compensation Payments	
Base Salary	$ 650,000(1)
AIP (75% at target award level)	$ 487,500(2)
Total Cash Compensation	**$1,137,500**
Pension Plan Payments and Benefits Accrual	
Pension Plan and Benefits Accrual	$ 400(3)
Total Pension and Benefits Plans	**$ 400**
TOTAL	**$1,137,900**

Notes:

The Corporation cannot accurately determine the actual incremental payments that would be made to the NEO, however the Corporation has, in order to comply with the Executive Compensation Rules, attempted to estimate these payments based on compensation information available for Fiscal 2011. The Corporation would like to stress that these estimates are not indicative of actual payments that will be made to the NEO at a future date. For the purposes of this chart, the Corporation has assumed that the triggering event occurred on the last business day of Fiscal 2011, being January 28, 2012.

(1) This amount represents payment to Mr. Fitzgerald based on his receiving twelve (12) months' base salary in lieu of notice. Mr. Fitzgerald's salary as at January 28, 2012 was $650,000.

(2) This amount represents payment to Mr. Fitzgerald based on his receiving an equivalent payment for 75% of his AIP target award derived from target Fiscal 2011 AIP figures.

(3) This amount represents benefits accrual and pension plan payments that Mr. Fitzgerald would be entitled to as per his employment agreement. Mr. Fitzgerald would receive these payments, based on his coverage in effect as of last day of Fiscal 2011, for a period of one (1) week, representing the statutory notice period under the *Employment Standards Act* (Ontario).

STEVEN GOLDSMITH

Executive Vice-President, Merchandising, Apparel and Accessories

The Corporation and Mr. Goldsmith entered into an employment agreement in July 2011 (the ''Goldsmith Employment Agreement''). The Goldsmith Employment Agreement provides for termination payments to Mr. Goldsmith in the event Mr. Goldsmith's employment is terminated prior to or following his relocation to Toronto, Ontario, Canada. If the Corporation changes Mr. Goldsmith's reporting relationship, Mr. Goldsmith can make a claim for terminating his employment on a without cause basis. Any termination on a without cause basis would trigger the following incremental payments:

If Terminated 12 Months Following the Effective Date or Prior to Relocation to Toronto, Ontario, Canada

Mr. Goldsmith will receive six (6) months of his base salary as severance, which will be subject to standard deductions.

If Terminated Following Relocation to Toronto, Ontario, Canada

Mr. Goldsmith will be provided with the greater of:

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

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

The below chart provides for the estimated incremental payments to be made to Mr. Goldsmith assuming that the triggering event occurred on the last business day of Fiscal 2011, being January 28, 2012.

If the Corporation terminates Mr. Goldsmith's employment without cause, Mr. Goldsmith would be entitled to continue in the Corporation's benefits plan and pension plan during the severance period in accordance with the applicable employment standards legislation.

Compensation Element	Triggering Event: Termination by the Corporation Without Just Cause	
	Terminated within 12 months of the effective date of employment or prior to relocation to Toronto, Ontario, Canada	Termination following relocation to Toronto, Ontario, Canada.
Cash Compensation Payments		
Base Salary	$312,500(1)	$625,000(2)
AIP (75% at target award level)	Nil	Nil
Total Cash Compensation	**$312,500**	**$625,000**
Pension Plan Payments and Benefits Accrual		
Pension Plan and Benefits Accrual	$ 445(3)	$ 445(3)
Total Pension and Benefits Plans	**$ 445**	**$ 445**
TOTAL	**$312,945**	**$625,445**

Notes:

The Corporation cannot accurately determine the actual incremental payments that would be made to the NEO, however the Corporation has, in order to comply with the Executive Compensation Rules, attempted to estimate these payments based on compensation information available for Fiscal 2011. The Corporation would like to stress that these estimates are not indicative of actual payments that will be made to the NEO at a future date. For the purposes of this chart, the Corporation has assumed that the triggering event occurred on the last business day of Fiscal 2011, being January 28, 2012.

(1) This amount represents payment to Mr. Goldsmith based on his receiving six (6) months' base salary. Mr. Goldsmith's salary as at January 28, 2012 was $625,000.

(2) This amount represents payment to Mr. Goldsmith based on his receiving twelve (12) months' base salary. Mr. Goldsmith's salary as at January 28, 2012 was $625,000.

(3) This amount represents benefits accrual and pension plan payments that Mr. Goldsmith would be entitled to, based on his coverage in effect as of last day of Fiscal 2011, for a period of one (1) week, representing the statutory notice period under the *Employment Standards Act* (Ontario).

SCOTT SILVER

Former Executive Vice-President, Merchandising, Home and Hardlines (until November 2011)

Mr. Silver's employment with the Corporation ceased on November 29, 2011. Under the relevant provisions of Mr. Silver's employment agreement, Mr. Silver was entitled to the following payments upon termination:

Termination by the Corporation Without Just Cause Following Relocation to Toronto, Ontario, Canada

Mr. Silver will be provided with the greater of:

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

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

The below chart provides for the termination-related payments made to or to be made to Mr. Silver as a result of the cessation of his employment with the Corporation on November 29, 2011:

Compensation Element	Triggering Event: Termination by the Corporation Without Just Cause Termination following relocation to Toronto, Ontario, Canada.
Cash Compensation Payments	
Base Salary	$575,000(1)
Total Cash Compensation	**$575,000**
Pension Plan Payments and Benefits Accrual	
Pension Plan and Benefits Accrual	$ 372(2)
Total Pension and Benefits Plans	**$ 372**
TOTAL	**$575,372**

Notes:

The Corporation would like to stress that in order to comply with the Executive Compensation Rules, the Corporation has attempted to estimate these payments, the amounts stated above represent estimates that are not indicative of actual payments that will be made to the NEO at a future date.

(1) This amount represents payment to Mr. Silver based on his receiving twelve (12) months' base salary from the effective date his employment ceased. Mr. Silver's salary as at November 29, 2011 was $575,000.

(2) This amount represents the cost to the Corporation for the continuation of participation in the Corporation's benefits and pension plan for Mr. Silver for a period of one (1) week, representing the statutory notice period under the *Employment Standards Act* (Ontario).

DOUGLAS CAMPBELL

Senior Vice-President, Major Appliances

The termination provisions of Mr. Campbell's employment agreement specify that in the event the Corporation terminates Mr. Campbell's employment on a without just cause basis after 12 months from the effective date of March 7, 2011, Mr. Campbell will be entitled to the greater of:

(i) twenty-two (22) weeks of base salary, or

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

If the Corporation terminates Mr. Campbell's employment without cause, Mr. Campbell would be entitled to continue in the Corporation's benefits plan and pension plan during the severance period in accordance with the applicable employment standards legislation.

Compensation Element	Triggering Event: Termination by the Corporation Without Just Cause
Cash Compensation Payments	
Base Salary	$139,057(1)
Total Cash Compensation	**$139,057**
Pension Plan Payments and Benefits Accrual	
Pension Plan and Benefits Accrual	Nil(2)
Perquisites	$ 13,699(3)
Total Pension, Benefits and Perquisite Plans	**$ 13,699**
TOTAL	**$152,756**

Notes:

The Corporation cannot accurately determine the actual incremental payments that would be made to the NEO, however the Corporation has, in order to comply with the Executive Compensation Rules, attempted to estimate these payments based on compensation information available for Fiscal 2011. The Corporation would like to stress that these estimates are not indicative of actual payments that will be made to the NEO at a future date. For the purposes of this chart, the Corporation has assumed that the triggering event occurred on the last business day of Fiscal 2011, being January 28, 2012.

(1) This amount represents payment to Mr. Campbell based on his receiving twenty-two (22) weeks base salary in lieu of notice. Mr. Campbell's salary as at January 28, 2012 was $335,000.

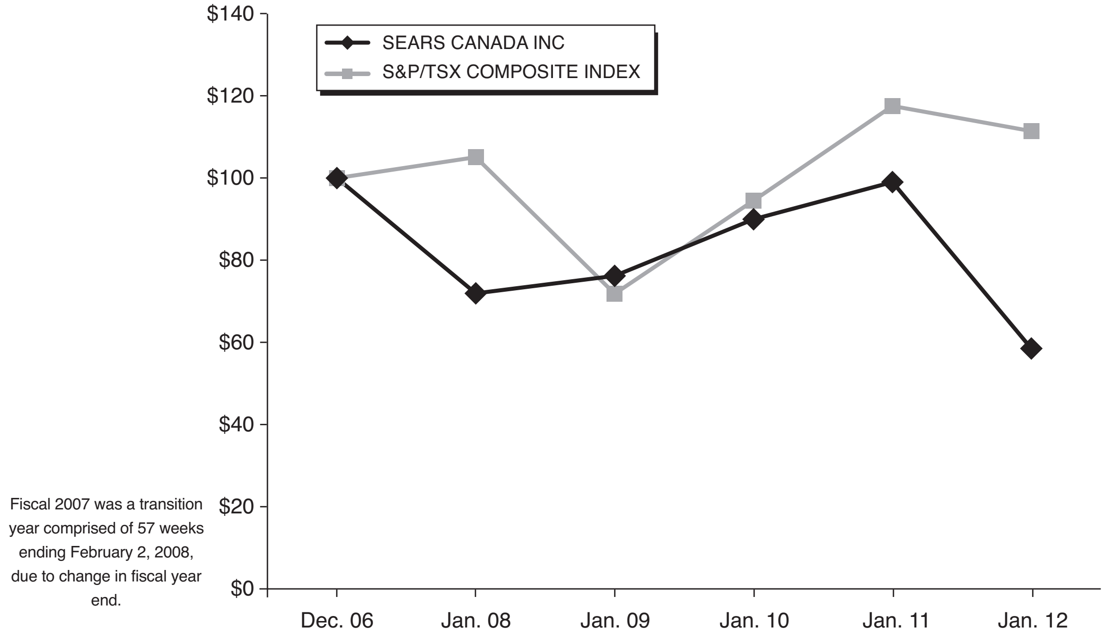
(2) As of January 28, 2012, Mr. Campbell was not a participant in the Corporation's benefits and pension programs.

(3) This amount represents perquisites program payments that Mr. Campbell would be entitled to. Mr. Campbell would receive these payments for a period of two (2) weeks, representing the statutory notice under the *Employment Standards Act* (Ontario).

3.6 Performance Graph

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

Five-Year Cumulative Total Return



	Fiscal 2006	Fiscal 2007	Fiscal 2008	Fiscal 2009	Fiscal 2010	Fiscal 2011
Sears Canada Inc.	100.00	71.94	76.20	89.98	99.03	58.52
S&P/TSX Composite Index	100.00	105.09	71.85	94.52	117.55	111.44

The indicator used by the Corporation to measure its performance was changed from Earnings Per Share (EPS) to EBITDA in the 2006 fiscal year. The Corporation's compensation philosophy is intended to establish a relationship between executive compensation and corporate results. The total NEO compensation increased during the 2006, 2008, 2009, and 2010 fiscal years corresponding to an improvement in the Corporation's total shareholder return (''TSR'') value. Similarly, the NEO compensation decreased during Fiscal 2007 (being the 52 week period ended Feburay 2, 2008) and Fiscal 2011 corresponding with the downward trend of the Corporation's TSR value. The Corporation's TSR value graphed above reflects two extraordinary cash dividends, each of $3.50 per Share, paid to Shareholders in Fiscal 2010.

Between May 25, 2011 and May 24, 2012, pursuant to its Normal Course Issuer Bid (the ''NCIB'') through the facilities of the TSX, the Corporation was permitted to purchase for cancellation up to 5% of its outstanding Shares, representing approximately 5.2 million Shares. See Section 5.9 — ''Normal Course Issuer Bid'' for further discussion of the NCIB.

3.7 Director Compensation

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

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

3.7.1 Compensation Earned

In Fiscal 2010, the compensation of the Independent Directors was discussed by the Governance Committee and resulted in an increase in the compensation of the Lead Director. For Fiscal 2011, the Independent Directors' compensation was based on the following categories:

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

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

3.7.2 Director Compensation Table

The following table provides a summary of compensation paid to the directors of the Corporation in Fiscal 2011.

Name (a)	Fees earned[1] ($) (b)	All other compensation[2] ($) (g)	Total ($) (h)
William C. Crowley[3]	—	—	—
E. J. Bird	142,500	5,929.18	148,429.18
William R. Harker[4]	—	—	—
R. Raja Khanna	97,000	994.61	97,994.61
James McBurney	96,000	12,867.26	108,867.26
Calvin McDonald[5]	—	—	—
Deidra C. Merriwether[6]	—	—	—
Dene L. Rogers[7]	—	—	—
Deborah E. Rosati	105,000	2,722.32	108,222.32

Notes:

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

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

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

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

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

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

(7) Mr. Rogers served as the President and Chief Executive Officer of the Corporation until June 22, 2011. Mr. Rogers did not receive compensation for his service on the Board. Mr. Rogers' compensation as a Named Executive Officer is reflected in the Summary Compensation Table in Section 3.3 — ''Compensation of Named Executive Officers''.

3.7.3 Equity-Based Compensation Programs

(a) Directors' Share Purchase Plan

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

(b) Stock Option Plan for Directors

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

Aggregated Option/SARs Exercises During Fiscal 2011 for Independent Directors

The following table sets forth the number of shares issued and issuable under the Stock Option Plan for Directors for Fiscal 2011.

Stock Option Plan for Directors (for the year ended January 28, 2012)	# of Shares	% of outstanding capital
Shares issued under Plan	0	0.00%
Shares issuable under Plan	250,000	0.24%
Shares issuable under grants made	0	0.00%

The Independent Directors do not hold any stock options.

(c) Director Share Ownership Policy

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

3.8 Indebtedness of Directors, Executive Officers and Employees

As at March 15, 2012, the aggregate indebtedness of all employees and former employees of the Corporation to the Corporation and its subsidiaries was approximately $19,318.88 for loans made to employees under the Corporation's housing relocation assistance program. In January 1997, the Corporation ceased advancing any loans under the housing relocation assistance program. During Fiscal 2011, there was no indebtedness of directors, proposed director nominees or executive officers, or former directors or executive officers of the Corporation to the Corporation or any of its subsidiaries.

4. INTEREST OF INFORMED PERSONS IN MATERIAL TRANSACTIONS

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

Directors and executive officers are required to disclose to the Corporation any interest he or she has in a matieral contract or material transaction with the Corporation and complete related party questionnaires on an annual basis. In addition, Directors are required to abstain from any discussions or meetings regarding any matters in which they have a material interest.

5. CORPORATE GOVERNANCE

5.1 Overview

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

5.2 Board of Directors

5.2.1 Composition

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

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

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

5.2.2 Chairman of the Board and Lead Director

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

5.2.3 Meetings of the Independent Directors

Independent Directors meet separately at each regularly scheduled Board or Committee meeting, following an *in camera* session in which the directors meet without the presence of management. The

Independent Directors are also encouraged to meet from time to time as may be necessary. The Board encourages the Independent Directors to engage in open and candid discussion as they see fit.

5.2.4 Attendance at Board and Committee Meetings

The Board has five regularly scheduled meetings each year. Additional meetings of the Board are held as required. Four meetings of the Board were held in Fiscal 2011. The Corporation does not have an executive committee of its Board. The number of meetings held by the Committees of the Board in Fiscal 2011 is set out below:

Board Committee	Meetings held in Fiscal 2011
Audit Committee	7
Governance Committee	2
HRCC	3
Investment Committee	5

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

5.3 Board Mandate

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

5.4 Position Descriptions

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

5.5 Orientation and Continuing Education

Management provides an orientation and ongoing education program for directors during which information regarding the role of the Board, its Committees and directors is provided. The directors receive updates on emerging trends in business and corporate governance. The Corporation periodically reviews its orientation and education program to enhance its currency and effectiveness. On an annual basis, the Corporation hosts a special session with the directors to have an in-depth discussion regarding the Corporation's strategic plan. The most recent strategic session was held in September 2011, which included a review of its key businesses and a presentation on the Corporation's three-year transformation plan to build for tomorrow. Regular updates are provided to the directors on the operation of the Corporation and its strategic business plan in addition to industry-related information on business developments and the competitive landscape.

5.6 Ethical Business Conduct

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

Management reports regularly to the Audit Committee on compliance with the Code of Conduct. Executive officers and employees are required to acknowledge annually, in writing, their understanding of, and compliance with, the Code of Conduct.

Although the Code of Conduct does not apply to the Directors, a culture of ethical business conduct among directors is promoted by the mandate of the Board. The mandate of the Board requires that directors observe two standards of conduct: a fiduciary standard which requires directors to act honestly and in good faith with a view to the best interests of the Corporation, and a performance related standard which requires directors to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. The mandate of the Baord also requires that the Board satisfy itself that the Chief Executive Officer and other senior management personally exhibit and create a culture of integrity throughout the Corporation. The full text of the mandate of the Board can be found at Appendix ''A''. The CBCA establishes similar standards of conduct for directors.

As required under the CBCA, directors and executive officers are also required to disclose to the Corporation any interest that he or she has in a material contract or a material transaction, or by requesting to have it entered in the minutes of meetings of directors in writing. A director in a conflict of interest may not, subject to certain exceptions under the CBCA, vote on a matter in respect of which a director has an interest. It is the Board's practice that directors are required to abstain from any discussions or meetings regarding any matters in which they have a material interest. In addition, the mandate of the Lead Director requires the Lead Director to review conflict of interest issues with respect to the Board as they arise.

The Corporation's Disclosure, Confidentiality and Insider Trading Policy is also applicable to directors, executive officers and employees. See Section 5.7 — ''Disclosure, Confidentiality and Insider Trading Policy''.

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

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

5.7 Disclosure, Confidentiality and Insider Trading Policy

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

5.8 Board Committees

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

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

5.8.1 Audit Committee

During Fiscal 2011, the Audit Committee was comprised of four Independent Directors. As of the date hereof, the Audit Committee members are as follows: E. J. Bird, R. Raja Khanna, James McBurney and Deborah E. Rosati, all of whom are Independent Directors and financially literate. The purpose of the Audit Committee is to assist the Board in its oversight of:

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

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

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

For more information on the background of the Audit Committee members and their duties and responsibilities, see Section 13 — ''Audit Committee Information'' of the Corporation's 2012 Annual Information Form (''AIF'') and the Audit Committee Charter attached as Appendix ''B'' to the AIF, which is available on SEDAR at www.sedar.com.

5.8.2 Human Resources and Compensation Committee

For Fiscal 2011 and as of the date hereof, the membership of the HRCC was comprised of one Independent Director, being Deborah E. Rosati and three Non-Independent Directors, being William C. Crowley, William R. Harker and Deidra C. Merriwether.

The Board believes that the composition of the HRCC reflects a high level of ''compensation'' literacy. Each member brings their own individual expertise to the Committee, including financial, human resources, investment and retail knowledge, and is able to utilize that knowledge to assess and implement the compensation policies and practices of the Company. Three of the Committee members have held senior positions with Sears Holdings for several years, one of which was responsible for the Human Resources department of Sears Holdings. In addition, the Chair of the Committee has held this position since 2007 and is well versed in the compensation policies of the Company.

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

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

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

The responsibilities of the HRCC include the following:

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

Vice-Presidents and Senior Vice-Presidents who are Officers of the Corporation, and report its conclusions to the Board;

- Make recommendations on the proposed appointment or reassignment of Executive Vice-Presidents and Senior Vice-Presidents who are Officers of the Corporation;
- Review and approve, at least annually, all compensation, any changes to compensation and the compensation of newly appionted Executive Vice-Presidents and Senior Vice-Presidents;
- Review and approve, the aggregate amounts allocated to management, other than the Senior Leadership Team, pursuant to short and long-term incentive plans;
- Review the annual performance assessments, the executive organizational structure and succession plans for the Senior Leadership Team, only the Board may approve the succession plan for the CEO and appoint Executive Vice-Presidents and Senior Vice-Presidents; and
- Review and approve the Committee's executive compensation report in the annual management proxy circular.

The HRCC considers the implications of risks including reviewing program design and financial liability of all existing plans at least annually. The HRCC also approves the introduction of all new annual plans and proposed design changes, as recommended by the Corporation, after assessing the risk and financial liability of each program to the Corporation and the competitive position in the market. Decisions are approved on the basis of pay-for-performance without exposing the Company to inappropriate risk. Where such potential exists to influence the behaviour of an NEO, appropriate action is taken to discourage such behaviour.

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

5.8.3 Governance Committee

During Fiscal 2011 and as of the date hereof, the Governance Committee was comprised of three Independent Directors, being R. Raja Khanna, James McBurney and Deborah E. Rosati.

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

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

The responsibilities of the Governance Committee include the following:

- Review the size and composition of the Board;
- Develop a policy setting out the appropriate criteria for the selection of directors;
- Recommend qualified candidates to be nominated for election or appointment to the Board;
- If appropriate, engage an independent consulting firm to assist in identifying qualified candidates;
- Review Independent Directors' compensation and recommend appropriate changes;

- Conduct a board effectiveness survey, which also includes a director evaluation component and director peer review to evaluate the performance and effectiveness of the Board and the Chairman of the Board, the Board's Committees and their respective chairs;
- Review the adequacy of the orientation and education program for new directors and the ongoing educational presentations to incumbent directors;
- Review the corporate governance statements in the Corporation's annual report and management proxy circular; and
- Assess Shareholder proposals and make appropriate recommendations to the Board with respect thereto.

In connection with its responsibility for considering and recommending for approval by the Board qualified candidates to be nominated for election or appointment as directors, the Governance Committee has developed a policy which sets out the appropriate criteria for the selection of directors (the ''Director Selection Policy''). Pursuant to the Director Selection Policy, when there is a vacancy on the Board, the Chair of the Governance Committee, in consultation with other Governance Committee members, prepares a skills profile for that position consistent with the selection criteria contained in the Director Selection Policy. As well, the Governance Committee requires that prospective nominees fully understand the role of the Board and its committees, and the contribution that individual directors are expected to make including, in particular, the commitment of time and energy.

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

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

5.8.4 Investment Committee

During Fiscal 2011 and as at the date hereof, the membership of the Investment Committee of the Board was comprised of one Independent Director, being E. J. Bird, and three Non-Independent Directors, being William C. Crowley, William R. Harker and Deidra C. Merriwether.

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

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

5.9 Normal Course Issuer Bid

Between May 25, 2011 and May 24, 2012, and pursuant to its NCIB through the facilities of the TSX, the Corporation is permitted to purchase for cancellation up to 5% of its issued and outstanding Shares, representing approximately 5.2 million Shares. From time to time, when the Corporation does not possess material undisclosed information about itself or its securities, it may enter into a pre-defined plan with a designated broker to allow for the repurchase of Shares at times when the Corporation ordinarily would not be active in the market due to its own internal trading blackout periods, insider trading rules, or otherwise. Any such plans entered into with the Corporation's designated broker will be adopted in accordance with the requirements of applicable Canadian securities laws.

5.10 Directors' and Officers' Liability Insurance

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

6. ADDITIONAL INFORMATION

Financial information about the Corporation is contained in its audited comparative consolidated financial statements and Management's Discussion and Analysis for Fiscal 2011. Copies of these documents, the Circular, the Annual Information Form dated March 15, 2012 and additional information relating to the Corporation are available on SEDAR at www.sedar.com, or may be obtained upon request from the Office of the Secretary at 290 Yonge Street, Suite 700, Toronto, Ontario, M5B 2C3 (fax: (416) 941-2321 or by telephone at (416) 941-4425), without charge to the Shareholders.

7. DIRECTORS' APPROVAL

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

Toronto, Ontario
March 15, 2012

Franco Perugini
Associate General Counsel
and
Corporate Secretary

APPENDIX "A"

MANDATE OF THE BOARD OF DIRECTORS
SEARS CANADA INC.

(as of August 2008)

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

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

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

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

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

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

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

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

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

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

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