

**AUDIT COMMITTEE
OF THE
BOARD OF DIRECTORS
OF
SEARS CANADA INC.**

CHARTER
(amended and restated as of November 17, 2009)

1. **DEFINITIONS**

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

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

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

“Chair” means the chair of the Committee;

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

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

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

“Corporation” means Sears Canada Inc.;

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

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

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

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

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

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

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

2. **PURPOSE**

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

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

3. **STRUCTURE**

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

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

4. **ROLE OF THE CHAIR**

The main responsibilities of the Chair are as follows:

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

5. **RESPONSIBILITIES**

The Committee shall have the following duties and responsibilities:

A. *Financial Reporting*

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

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

B. *External Auditor*

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

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

C. *Internal Audit*

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

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

D. *Accounting Systems and Internal Controls*

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

E. *Other*

- (1) Review compliance with required tax remittances and other deductions required by applicable law.
- (2) Establish procedures for the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls, or auditing matters, and the confidential and anonymous submission of concerns by employees regarding questionable accounting or auditing matters. In connection with this responsibility, management will report regularly to the Committee regarding the operation of the Corporation's Ethics Hotline.

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

6. **MEETINGS**

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

7. **GENERAL**

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

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

SCHEDULE

External Audit Services Policy forming part of the Charter of the Audit Committee of the Board of Directors of Sears Canada Inc. *(amended and restated as of April, 2005)*

DEFINITIONS

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

PURPOSE AND APPLICABILITY

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

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

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

POLICY STATEMENT

Pre-approval

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

Audit and Audit-Related Services

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

- Audit of the Corporation’s financial statements
- Audit of the Trusts
 - Health and Welfare Trusts
- Review of Travel trust accounts
- Audit of the Sears Registered Retirement Plan
- Audit of the Sears Plan for Sharing Profits with Employees
- Audit of the Sears Charitable Foundation
- Review of the Annual Information Form
- Review of the Management Proxy Circular
- Review of the Annual Reports of the Corporation
- Quarterly Reviews

- Accounting consultations and support related to generally accepted accounting principles (including new accounting standards, emerging issues (EIC's), non-recurring transactions)
- Consent letters, comfort letters, reviews of securities filings and similar services that incorporate or include the audited financial statements of the Corporation
- Audit of controls in information technology implementations and audit of systems conversions

Non-Audit Related Services

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

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

Prohibited Services

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

- Accounting, Finance and Legal
 - Bookkeeping services
 - Appraisal or valuation services
 - Business process outsourcing
 - Corporate legal services
 - Corporate re-structuring advice (e.g. Special Purpose Entities, tax, or finance structures)
 - Actuarial services

- Internal Control and Information Technology
 - Internal audit outsourcing
 - ERP implementation
 - Information systems strategy

- Information systems outsourcing
- Strategy and Planning
 - Business planning and strategy
 - Business process design
 - E-Business strategy services
 - Forecasting and planning systems and methodology
- Human Resources
 - Human resource strategy and services
 - Executive search
 - Performance management and compensation
 - Payroll services
 - Management functions
- Supply Chain
 - Procurement strategy and design
 - Supply chain design/selection
 - Logistics/warehouse strategy
 - E-Procurement selections
- Sales and Distribution
 - Web site implementation and design
 - Customer relationship management (CRM) design/selection

COMMITTEE REVIEW OF SERVICES

Reporting

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

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

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

1. Engagement Letter (addressed jointly to the Committee and the Chief Financial Officer);
2. Audit Scope Presentations (addressed to the Committee);
3. Independence Letter (addressed to the Committee); and

4. Confidentiality Letter issued by the Corporation and accepted by the External Auditor.

Disclosure

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

EFFECTIVE DATE

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