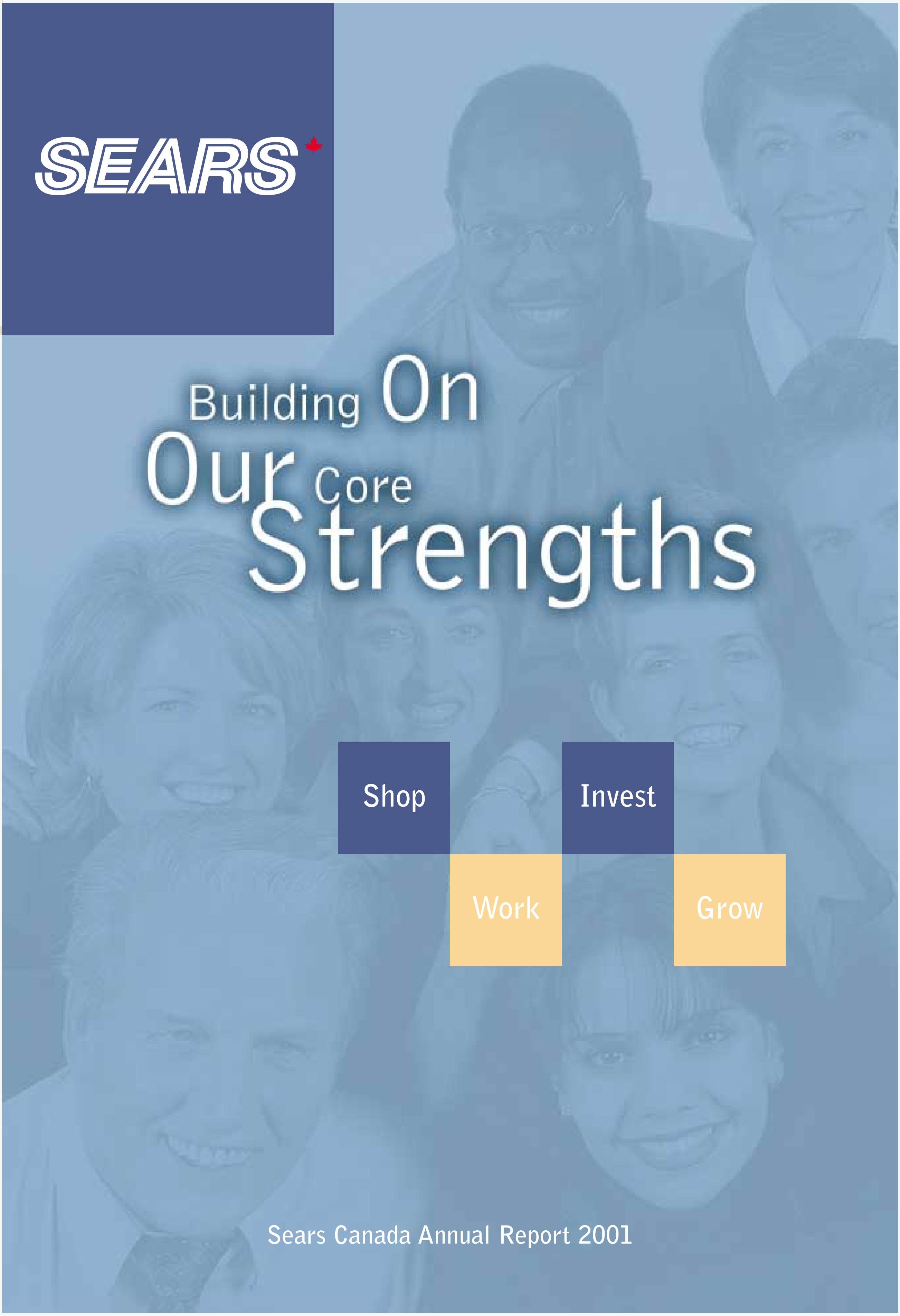


SEARS

Building On Our Core Strengths

Shop

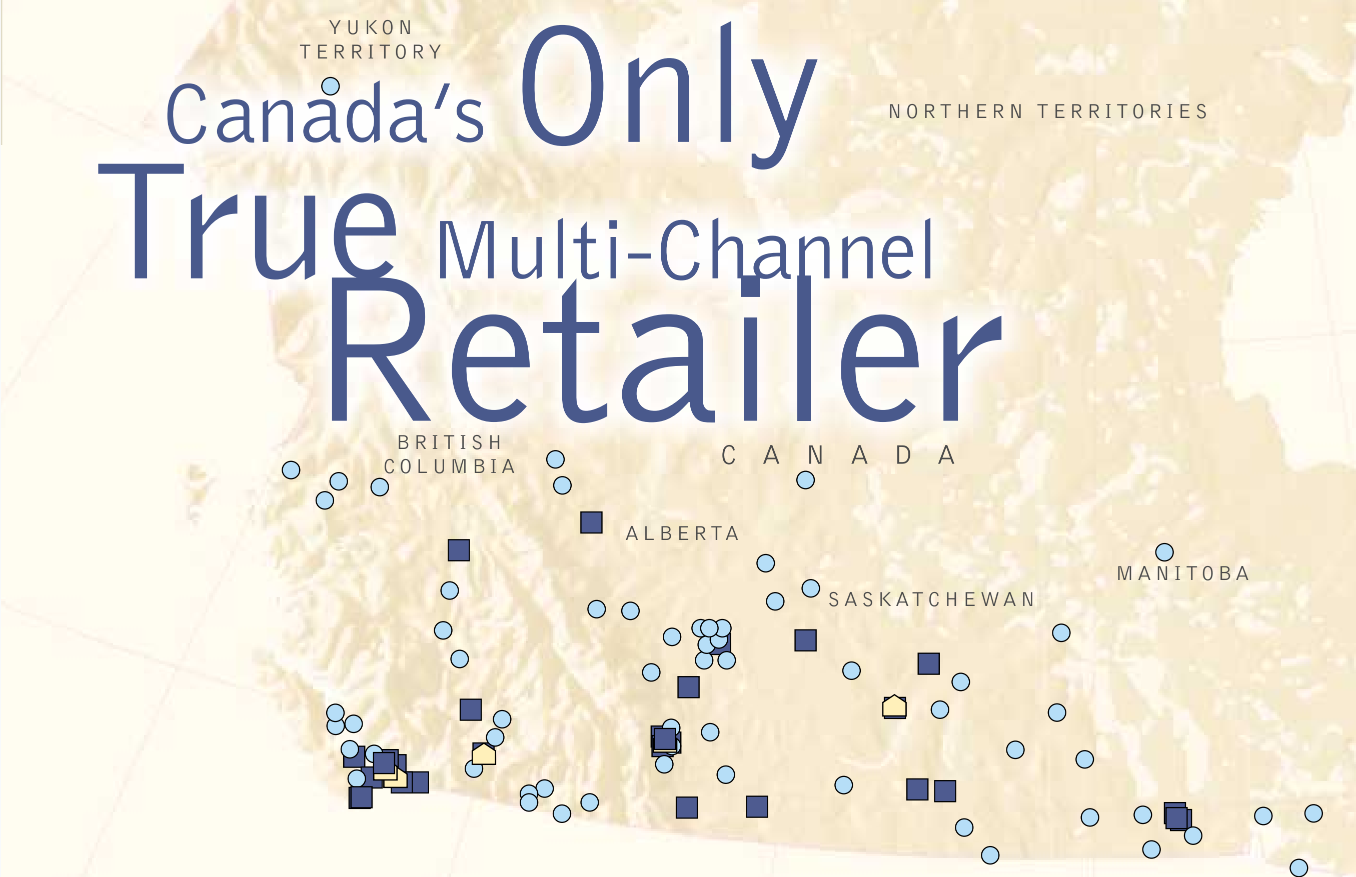
Invest

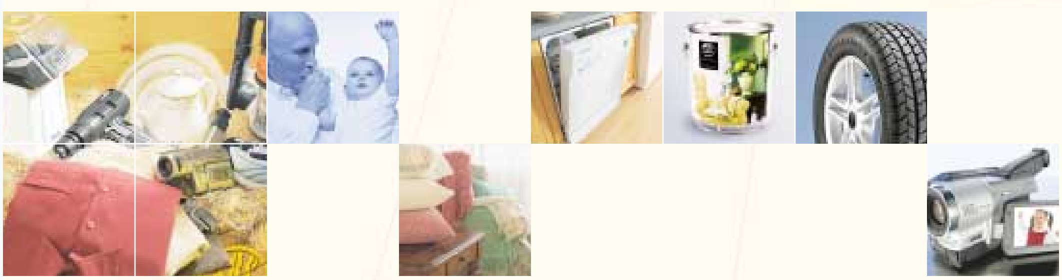
Work

Grow

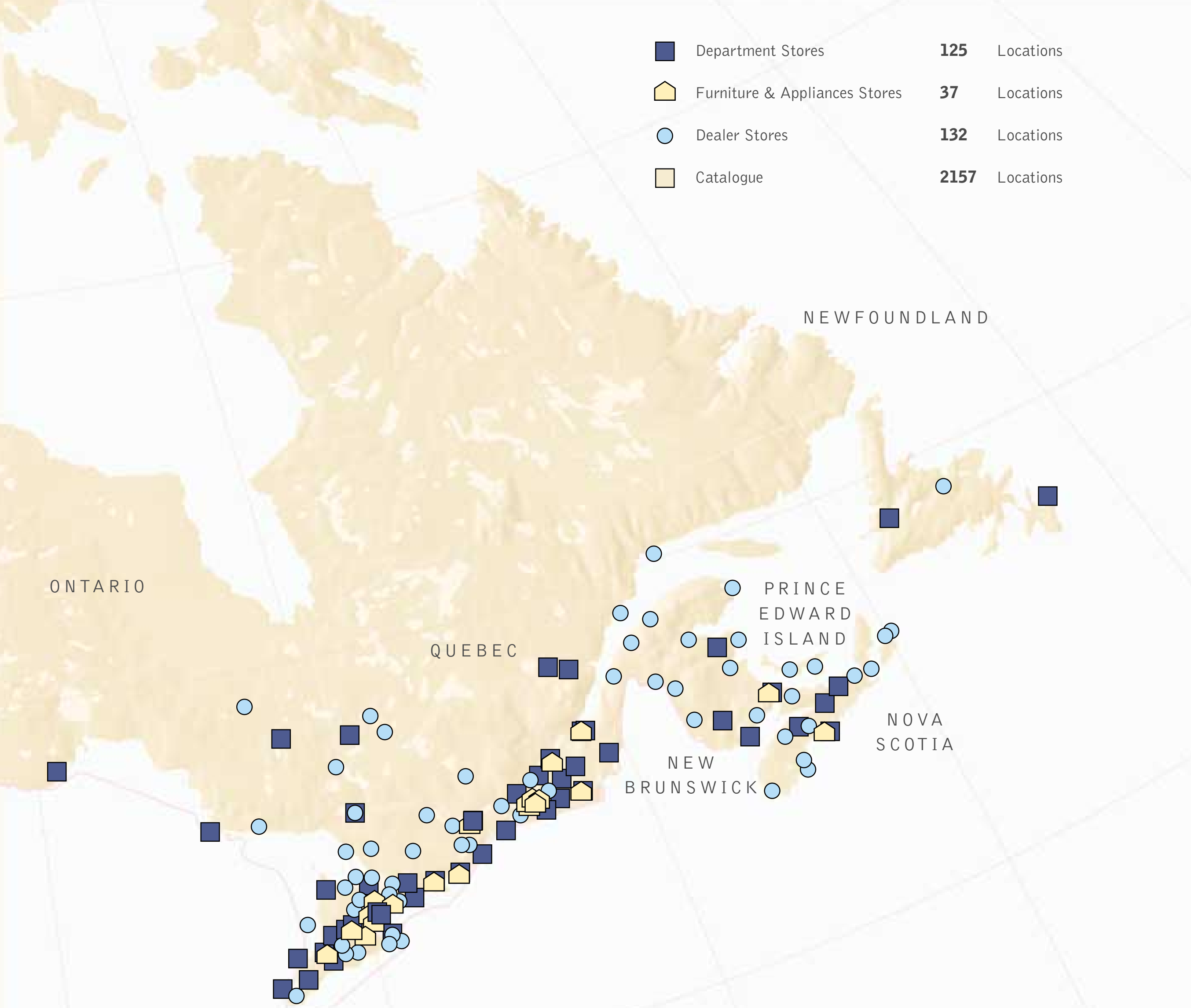
Sears Canada Annual Report 2001

Canada's Only True Multi-Channel Retailer





Sears has a network that encompasses **125** department stores, **37** furniture and appliances stores, **132** dealer stores, **17** outlet stores, **38** floor covering centers, **52** auto centers and **110** travel offices. Sears publishes Canada's largest general merchandise catalogue, offers online shopping at www.sears.ca and has over **2,157** catalogue/online order pick-up locations.



Building On Our Core Strengths

In a very challenging year for the retail sector, our core values were our greatest asset. Throughout 2001, across the Company, across Canada, we continued to strive to be **"A Great Place to Shop,"** **"A Great Place to Work,"** **"A Great Place to Invest"** and a **"Great Place to Grow".** These goals are the driving force behind our business. They are the "Calls to Action" that shape all of our behaviours.

Building on Our Core Strengths

Canada's economy slowed throughout 2001. Further, the effects of a broad economic downturn were heightened by the tragic events of September 11th in the United States. All sectors of the economy were affected including the retail sector we occupy.

However, despite the weakness in consumer spending, Sears core strengths remained our most important focus.

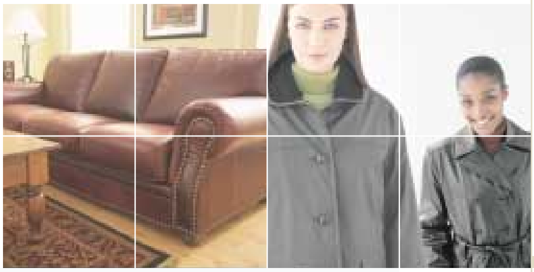
We are Canada's only true multi-channel retailer. More than 93 per cent of Canadians live within a 10 minute drive of a Sears location. More fashion dollars are spent at Sears than at any other Canadian retailer, yet we also sell more furniture and appliances than any competitor. We publish the largest general merchandise catalogue in Canada and our web site, www.sears.ca, is Canada's preferred online retail destination.

Our core strengths and operating disciplines enabled the Company to respond quickly to decelerating market conditions. We moved aggressively to tighten merchandise assortments, bring inventory levels into line with consumer demand and reduced and reallocated expenses so as to be more efficient and strategically sound.

Despite a difficult year, Sears made considerable progress in positioning itself for the future. We continued to invest in our successful off mall formats, developed important new systems applications and continued to build on our unique capabilities with regard to e-commerce.

Contents Sears Canada Annual Report 2001

Financial Highlights



For the 52 week periods ended December 29, 2001 and December 30, 2000	**2001**	2000
Results for the year *(in millions)*		
Total revenues	**$ 6,726**	$ 6,356
Interest expense	**64**	66
Earnings before unusual items and income taxes	**172**	321
Unusual items gain	**5**	13
Income tax expense	**83**	108
Net earnings	**94**	226
Year end position *(in millions)*		
Working capital	**$ 955**	$ 687
Total assets	**3,880**	3,955
Shareholders' equity	**1,620**	1,549
Per share of capital stock *(in dollars)*		
Net earnings	**$ 0.88**	$ 2.12
Dividends declared	**0.24**	0.24
Shareholders' equity	**15.18**	14.55

Letter to Our Shareholders

"2001 was a challenging year for both the Company and the industry at large; a year characterized by a declining economy, considerable uncertainty and intense competition. While consumer confidence appears to be recovering from the impact of the tragic terrorist attacks of September 11th, it is still below the levels of the prior two years."

Mark A. Cohen, *Chairman and Chief Executive Officer*

Throughout the year, my first at the helm of the Company, we sought to re-assess our goals, tighten our merchandise assortments and more rigorously control our spending – efforts pointed at strengthening the fundamentals of our business. Growth remains imperative at Sears Canada, but growth that is profitable and sustainable over the longer-term.

I am pleased to report that, while we continue to face considerable challenges in this ever-changing, highly competitive retail environment, we have made substantial progress throughout 2001 in improving our underlying opportunity for success.

The Company recognized the adverse market conditions early in 2001 and began taking appropriate measures by focusing on inventory management as well as by reducing expenses and capital expenditures. For the year, we reduced expenses by almost $200 million from our original plan. Our inventory levels at the end of the year were $150 million less than the previous year. We also reduced capital expenditures by $57 million from plan and our total debt, net of cash, was down $88 million from last year.

We could not have made such important strides without the commitment of our 51,000 associates. They have been supportive of new leadership and have stood behind our vision of building for the future with a renewed commitment to profitable growth, service excellence and expense management.

In keeping with our focus on business fundamentals and after careful consideration of all strategic alternatives, in mid-February we announced our decision to convert our Eatons department stores to the Sears banner by the end of July 2002. The Yorkdale Shopping Centre in Toronto and the Polo Park Shopping Centre in Winnipeg have both an Eatons and a Sears department store. The Company will determine which one of the two stores will be retained as a Sears store at each of these locations. We will continue to provide many of the top brands that our customers have favoured, while adding an assortment of Sears merchandise categories including major appliances, hardware, electronics and sporting goods.

Our strongest asset is our people. Their dedication, combined with their product knowledge and customer service orientation is unparalleled. They also have big hearts as evidenced when associates, customers and suppliers from across the country joined with the Company to raise money for the Canadian Red Cross appeal in support of families whose loved ones senselessly perished on September 11th. Sears contribution of $200,000 was met with an outpouring of support of $800,000 totalling $1 million.

Sears has been an integral part of the fabric of the Canadian business community and Canadian society for almost 50 years.

We will continue to grow by building on our core strengths and remaining focused on sustainable, profitable growth to provide our shareholders with the return on their investment that they expect and deserve.

As we continue to leverage the unique strengths of Sears Canada, we intend on retaining our hard-won industry leadership position as a Great Place to Shop, Work, Invest and Grow.

In closing, I would like to express our gratitude to an important member of our Board of Directors, Alf Powis, who retired from the Board after 22 years of distinguished service and dedication to the Corporation. We will miss his wise counsel and tireless dedication to the Company.

On a sadder note, I would like to extend our condolences to the family of Mr. James W. Button, who passed away in December 2001. Mr. Button was former President of Sears Canada, an active member of the Board for 17 years, and an honorary director of Sears Canada for 22 years.

Both Alf and Jim will remain an important part of Sears history.

Mark A. Cohen
Chairman & Chief Executive Officer

A Great Place to Shop

Customer service, convenience, quality and value are the building blocks that make Sears the country's preferred choice for shopping. Customers choose Sears whether they shop in our department stores, catalogues, furniture and appliances stores, dealer stores, outlet stores, Sears Auto Centres, Sears Travel or online at www.sears.ca.

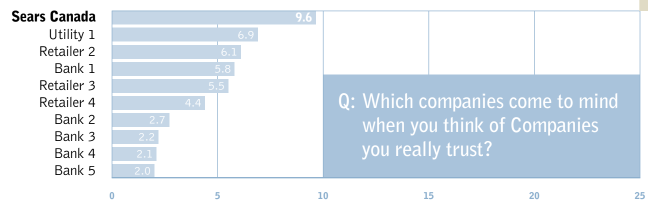
Our 1-800-26SEARS number for catalogue orders is Canada's most frequently dialled telephone number. Canadians spend more on fashion at Sears than at any other store. We also sell more furniture and appliances than anyone else in Canada. And Sears retail web site, www.sears.ca, is the most popular retail Internet destination in Canada with over a million orders placed online in 2001.

By a number of measures, Sears is the primary shopping destination for Canadian consumers. Sears associates' dedication to quality, service and customer care make the Sears shopping experience exemplary.

For the third year in a row, Sears placed number one in an independent survey of Canadians who were asked to identify the top tier companies – retail and others – that offer good quality products and services. We more than doubled the rating of the number two ranked company in this survey. We also topped the 2001 survey of companies Canadians really trust – again by a very wide margin[1].

1. See next page "Companies Canadians Really Trust" chart.

Companies Canadians Really Trust



NFO CF group multifacts study 7/01 - 1016 Canadians 18+, nationally representative

Over 93 percent of Canadians are within a 10 minute drive of a Sears location. Sears exclusive brands – Kenmore, Craftsman, Nevada, Jessica and Diehard to name a few – enjoy national brand status among Canadians. Customer loyalty to these brands is an enduring competitive edge for Sears.

In 2001, Sears made several significant decisions to enhance the shopping experience for our customers. We introduced a Segmented Service program that addresses customers' needs for varying levels of service based on the products they want. Segmented Service adds more sales associates in customer areas that tend to require more knowledgeable and intensive customer service. At the same time, we relocated point-of-sale terminals to service multiple areas. This ensures faster and more efficient checkout for customers.

In 2001, we introduced better in-store information technology. This technology offers richer product information for customers and gives associates much better information to encourage better cross selling across product categories and business channels.

In our catalogue channel in 2001, Sears reduced the number of catalogues and redesigned them to make them easier to shop. Sears has 2,157 pick-up locations across the country and can deliver a catalogue order to almost all of them within 48 hours.

During the year, Sears announced new alliances with Pharmasave, Via Rail, Ticketking and Admission, a ticket agent in Quebec.

We also teamed up with Petro-Canada to offer customers the option of exchanging Petro-Points for Sears Club points and vice versa. Starting in March 2002, Sears Card holders can begin using their Sears Card as another payment option at more than 1,700 Petro-Canada stations nationwide.

These relationships enable Sears Card holders to earn Sears Club points on purchases of goods and services. Sears strategic partners also include Choice Hotels Canada, Roots Canada, Bell World, Bell Mobility, Bell Sympatico, AMJ Campbell Van Lines, Ticketmaster Canada, Medieval Times (Toronto, Ontario), and IBM Canada.

In this fiercely competitive retail environment, the quality and dedication of our associates gives Sears an important edge. As our customers' expectations grow, our associates must be increasingly professional and knowledgeable.

To give associates the tools they need to create a great shopping experience, we introduced a new associate development program in 2001 entitled Creating Customer Enthusiasm.

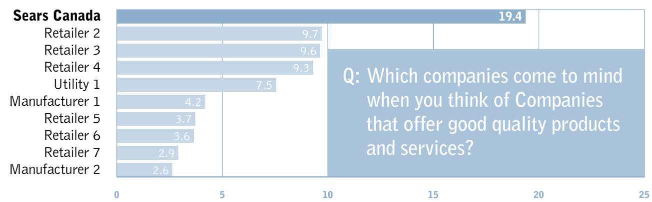
In 2001, more than 18,000 associates received training to build their leadership and customer service skills.

A Great Place to Work

Associate initiative that's above and beyond

Elaine Mason, a catalogue associate in Dartmouth, Nova Scotia, knew that Canadian military men and women who were suddenly being shipped out to the Arabian Sea would not have a chance to arrange their Christmas shopping. She delivered Sears Canada Wish Books to a number of HMCS ships along with her Sears email address and offered to personally wrap and gift tag each parcel with any message requested. One ship alone, the HMCS Iroquois, placed $46,000 in orders. Elaine enlisted the aid of many volunteers to help wrap all the orders prior to delivery to the military families. Elaine was named "Maritimer of the Week" by the local TV station. In addition, she won the grand prize in our "Customer Service Pays Off" contest. Associates like Elaine make Sears a Great Place to Work.

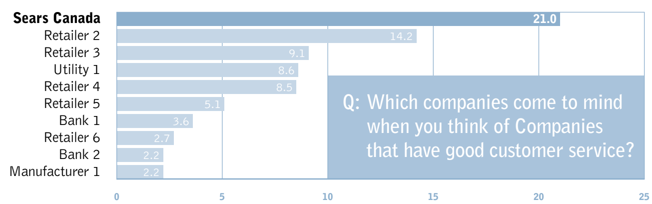
Companies Canadians Perceive as Offering Good Quality Products or Services



NFO CF group multifacts study 7/01 - 1016 Canadians 18+, nationally representative

The value and connection of associate engagement to business success is well understood throughout Sears. Staying on top of what makes Sears a Great Place to Work is an ongoing priority. We know that just as customer expectations change, so do our associates' expectations of us. Our extensive survey process allows associates to assess their work environment and communicate with their manager and the Company so that we can respond quickly to their needs.

Companies Canadians Perceive as Having Good Customer Service



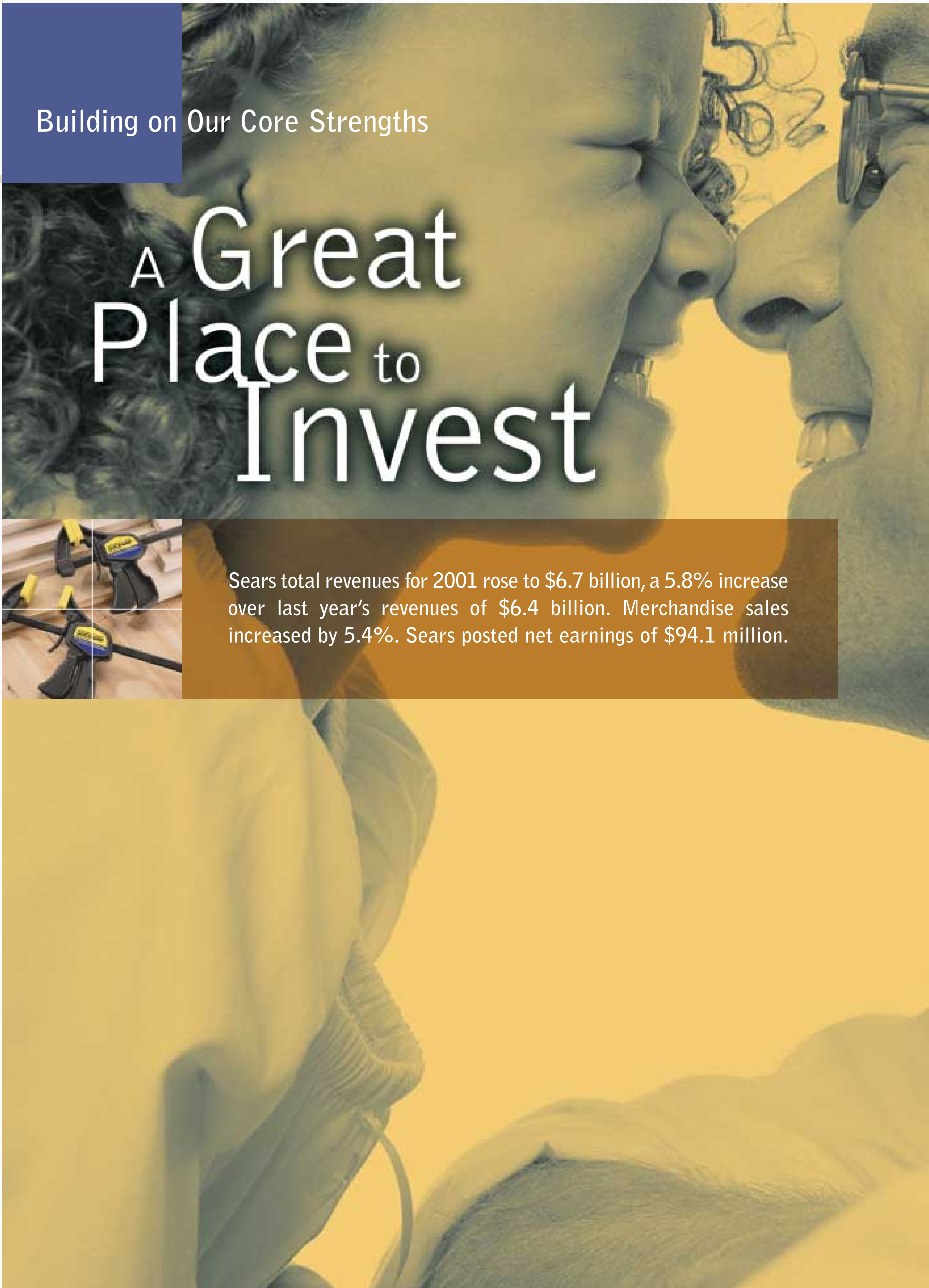
NFO CF group multifacts study 7/01 - 1016 Canadians 18+, nationally representative

One example of the teamwork that helps make Sears a Great Place to Work was the way our associates rallied behind the organization during the 2001 holiday season. Our part-time associates enthusiastically agreed to increase their hours, which meant we were able to dramatically reduce the number of seasonal associates Sears normally hires. As a result of this dedication, we had our most experienced associates on the sales floor during peak demand periods, which translated into higher levels of service for our customers.

The Company also has a number of programs that award service excellence, including the Gold Badge program. This is a prestigious award based on customer ratings on dimensions of customer attention, knowledge of associates, handling of out of stocks and the checkout process. Ratings are accumulated at the store level and recognize excellent levels of customer service throughout the entire store.

Building on Our Core Strengths

A Great Place to Invest



Sears total revenues for 2001 rose to $6.7 billion, a 5.8% increase over last year's revenues of $6.4 billion. Merchandise sales increased by 5.4%. Sears posted net earnings of $94.1 million.

The Company has invested resources to become more productive and efficient by finding ways to take costs out of our system, while constantly increasing our customer satisfaction levels. We took aim at inventory, one of our largest manageable assets, and by year-end had brought overall inventories down by $150 million. New technology now enables us to report on the profitability of every sales transaction. We believe this will provide significant added performance improvement.

We developed an ambitious department store remodeling program that will be launched in 2002. It will create a regular cycle of sales floor refreshment, with opportunities for enhanced revenues. This program, once underway, will enable us to refresh or remodel every one of our stores at reasonable cost every seven years. As well, we continued fine-tuning our two state-of-the-art distribution facilities in Vaughan, Ontario and in Calgary, Alberta.

We continued to leverage our existing assets, encouraging greater cross-channel shopping activity by increasing our associates' awareness of our multi-channel capabilities. This has proven to be a highly effective strategy, with the number of customers who purchase across all channels increasing from 99,000 in 1999 to 270,000 in 2001.

Technological improvements are helping us achieve incremental sales, support cost reduction in various areas of our business and improve customer service. For example, in 2001, we successfully transformed our call centre operations from an order-taking approach to a selling mode. This gives our call centre associates greater up sell and cross sell ability. Sears expects this initiative to result in $30 million of incremental sales annually.

Sears Canada has over 70% of Canadian homes in its databases, a considerable competitive advantage. More than 38% of all Canadian households receive Sears catalogues and the Sears Card is Canada's number one, single-issue proprietary credit card. More than 60% of our sales are charged to the Sears Card.

Because of these capabilities, Sears Canada is well positioned to respond as the economy and consumer confidence rebound.

Building on Our Core Strengths

A Great Place to Grow

While the retail sector across North America decelerated sharply in 2001, Sears commitment to strategic growth, solid financial performance and growing our associates' leadership capabilities were key factors in our performance. Growth based on profitability and sustainability is both an imperative and a core value for Sears.

In 2001, the Company opened its 125th department store in North Bay, Ontario. We relocated stores in Kamloops, British Columbia and Pointe Claire, Quebec, and we completed our first full year operating 12 former Eaton's locations as Sears stores.

Altogether we operated almost 18 million square feet of floor space in our department stores in 2001.

We finalized expansion plans for our large distribution centres in Vaughan, Ontario and Calgary, Alberta. Operations at these centres, designed to enhance our ability to serve customers more quickly, were optimized in 2001. At the same time, we began construction of a terminal facility in Port Coquitlam, British Columbia to consolidate a number of secondary facilities in that province.

Sears off mall channel was a strong performer in 2001, including furniture and appliances stores, dealer stores and outlet stores. The Company opened four new Sears Furniture and Appliances Stores, in Saskatoon, Windsor, Moncton and Victoria. We expanded six furniture stores to include our Sears Brand Central selection of major appliances. We will convert our last furniture-only store in Whitby, Ontario to add major appliances when it is moved to a larger location in 2002. The Company plans to open six new furniture and appliances stores in 2002.

We opened eight new dealer stores in 2001. We also opened four new outlet stores to strengthen our ability to offer more customers a broad assortment of value-priced retail and catalogue surplus goods.

We closed 14 poorly performing auto centres in 2001 in order to focus efforts on improving profitability for the 52 remaining auto centres across the country.

We opened a new Sears HomeCentral showroom in 2001 and added service and repair programs for major appliances sold by other retailers.

Our travel business was considerably affected by the decline in the travel industry following September 11th. By the end of the year, however, bookings began to recover.

We also acquired a state-of-the-art web site, Tripeze.com. Our customers can now book travel via the Internet, by phone, or by visiting one of our Sears stores.

Sears online channel, www.sears.ca, was a bright spot, receiving over a million online orders in 2001.

We also grew our leadership capabilities internally. Over 70% of our managers completed leadership programs, while our associates grew their capabilities by participating in continuous learning programs offered by the Company.

Showing We Care

Whether it be a crippling ice storm, a raging flood or the tragic terrorist attacks of September 11th, Sears and its associates have been there to help in a meaningful way.
We also have ongoing programs that contribute significantly to Canadian communities.

Sears Young Futures Program is a multifaceted program focused on promoting the positive development of children and youth. Sears worked with local charity partners to contribute over $3 million in cash and in kind to support the efforts of this program in 2001. Included in the total sum donated to children's charities was the more than $500,000 raised from Sears fourth annual plush toy program.

In addition to the above, Sears associates have the opportunity to give to charities of their choice through the Sears Employees Charitable Fund (SECF).The SECF raised over $1 million in 2001 through lump sum donations or payroll deductions.

2001 Financial Information

MD&A and Financial Highlights

2001 was a challenging year for Sears Canada, but the Company responded proactively to a slowing economy by reducing inventory and expense levels. Investments were made in new systems that will lead to greater inventory productivity, and enable the Company to respond quickly to an economic recovery.

The decision made in February 2002 to convert the Eatons department stores to the Sears banner reflects the Company's response to changing customer demand and the weaker than anticipated financial performance of these seven stores. This conversion is expected to improve future earnings and enable the Company to focus on long-term profitable growth through leveraging the strength and marketing reach of the Sears brand.

The Company's renovation and upgrade plan for its department stores, the continued growth of Sears off-mall channels, the Company's national network of catalogue selling locations and distribution capabilities, and the value, trust, and quality associated with Sears products and services positions the Company to continue to capture additional market share, and increase shareholder value in the future.

John T. Butcher
Executive Vice-President and Chief Financial Officer

Eleven Year Summary[1]

Fiscal Year	**2001**	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991
Results for the Year *(in millions)*											
Total revenues[2]	**$ 6,726**	$ 6,356	$ 5,777	$ 5,132	$ 4,752	$ 4,120	$ 4,027	$ 4,168	$ 4,138	$ 4,147	$ 4,259
Depreciation and amortization	**169**	130	113	96	78	78	74	67	69	70	56
Earnings (loss) before unusual items and income taxes	**172**	321	345	269	215	70	43	88	15	(101)	(31)
Unusual items gain (loss)	**5**	13	–	–	–	(45)	(21)	(5)	(5)	(46)	(8)
Earnings (loss) before income taxes	**177**	334	345	269	215	25	22	83	10	(147)	(39)
Income taxes (recovery)	**83**	108	145	123	99	16	10	38	6	(56)	(10)
Net earnings (loss)	**94**	226	200	146	116	9	12	45	4	(91)	(29)
Dividends declared	**26**	26	26	25	25	23	23	23	23	21	20
Capital expenditures	**143**	447	231	142	160	63	76	60	37	55	235
Year End Position *(in millions)*[3]											
Accounts receivable	**$ 872**	$ 942	$ 1,070	$ 1,100	$ 1,225	$ 1,033	$ 926	$ 1,324	$ 1,101	$ 909	$ 1,090
Inventories	**865**	1,015	814	716	624	476	492	541	545	611	676
Capital assets	**1,189**	1,199	984	868	825	744	763	800	813	941	997
Total assets	**3,880**	3,955	3,767	3,198	3,007	2,734	2,554	2,949	2,746	2,796	3,069
Working capital	**955**	687	516	898	971	741	661	1,016	888	885	1,112
Debt	**813**	699	686	844	848	817	789	1,253	947	1,063	1,245
Shareholders' equity	**1,620**	1,549	1,346	1,164	1,042	949	856	867	845	863	900
Per Share of Capital Stock *(in dollars)*											
Net earnings	**$ 0.88**	$ 2.12	$ 1.88	$ 1.38	$ 1.10	$ 0.09	$ 0.13	$ 0.47	$ 0.05	$ (1.04)	$ (0.34)
Dividends declared	**0.24**	0.24	0.24	0.24	0.24	0.24	0.24	0.24	0.24	0.24	0.24
Shareholders' equity	**15.18**	14.55	12.67	10.98	9.84	8.98	9.02	9.13	8.90	9.10	10.67
Financial Ratios[2,3]											
Return on average shareholders' equity (%)	**5.9**	15.6	15.9	13.3	11.7	1.0	1.4	5.3	0.5	(10.3)	(3.1)
Current ratio	**1.7**	1.4	1.3	1.7	1.9	1.7	1.7	2.0	2.0	2.1	2.4
Return on total revenues (%)	**1.4**	3.6	3.5	2.8	2.4	0.2	0.3	1.1	0.1	(2.2)	(0.7)
Debt/Equity ratio	**33/67**	31/69	34/66	42/58	45/55	46/54	48/52	59/41	53/47	55/45	58/42
Pre-tax margin (%)	**2.6**	5.3	6.0	5.2	4.5	0.6	0.5	2.0	0.2	(3.5)	(0.9)
Number of Selling Units											
Department stores	**125**	125	110	109	110	110	110	110	110	109	106
Furniture stores	**37**	33	25	20	8	4	1	0	0	0	0
Outlet stores	**17**	15	12	12	8	9	10	11	12	13	15
Dealer stores	**132**	128	110	93	79	60	19	4	0	0	0
Catalogue selling locations	**2,157**	2,103	2,005	1,898	1,752	1,746	1,623	1,542	1,483	1,579	1,701

1 Certain amounts have been restated to reflect accounting changes related to the consolidation of the Company's proportionate share of the assets, liabilities, revenues and expenses of real estate joint ventures as recommended by the Canadian Institute of Chartered Accountants. The change in policy, effective in 1995, has been applied retroactively.

2 Total revenues and cost of merchandise sold have been restated to reflect new guidance on recording of revenues. Revenues relating to the travel business and licensed department businesses are now recorded in revenues net of cost of sales. The restatement had no impact on net earnings. The change in policy, effective in 2000, has been applied retroactively.

3 The 1999 balance sheet has been restated to reflect the finalization of the accounting for the acquisition of Eaton's.

Management's Discussion & Analysis

Sears offers Canadian consumers a diverse array of shopping options, with department and specialty stores, Canada's largest general merchandise catalogue, a comprehensive website, and a broad range of home-related services. The Company emphasizes quality, value, and service in appealing to a broad cross-section of Canadian consumers.

The Company's vision is to be Canada's most successful retailer by providing customers with total shopping satisfaction, associates with opportunities for career advancement and personal growth, and shareholders with superior returns on their investment.

Overview of Consolidated Results

For purposes of this discussion, "Sears" or the "Company" refers to Sears Canada Inc. and its subsidiaries, together with the Company's proportionate share of the assets, liabilities, revenues and expenses of joint venture interests in shopping centres.

The 2001 fiscal year refers to the 52 week period ended December 29, 2001 and, comparatively, the 2000 fiscal year refers to the 52 week period ended December 30, 2000.

The following table summarizes the Company's operating results for 2001 and 2000.

(in millions, except per share amounts)	**2001**	2000
Total revenues	**$ 6,726.4**	$ 6,355.8
Earnings before interest, unusual items and income taxes	**236.2**	388.0
Interest expense	**64.2**	66.4
Unusual items (gain)	**(5.5)**	(12.5)
Earnings before income taxes	**177.5**	334.1
Income taxes	**83.4**	108.3
Net earnings	**$ 94.1**	$ 225.8
Earnings per share	**$ 0.88**	$ 2.12

The Company reported earnings before interest, income taxes and unusual items of $236.2 million, a decrease of 39.1% from 2000. Included in this year's results is a pre-tax gain of $54.0 million from the sale of charge account receivables under the Company's securitization program.

Effective July 1, 2001, the Company adopted prospectively the new recommendations of the Canadian Institute of Chartered Accountants for recording the sale of securitized receivables. These recommendations require that gains or losses on the transfer of receivables be recognized at the time of sale. Additional information is found in Note 3 to the Financial Statements.

The 17 new department store locations opened in 2000 completed their first year of operations in 2001, and the Company's results reflect the additional fixed costs associated with the increased square footage. Merchandise sales were weaker than expected, and gross margins were under pressure throughout the year as a result of intense competition in the Canadian retail environment.

Over the course of 2001, a number of economic factors affected the Canadian retail environment. The economic slowdown that started late in 2000 continued into 2001, with the economy exhibiting recessionary characteristics. In 2001, growth in GDP and consumer spending was at a five-year low, unemployment rose, and demand for Canadian exports weakened. However, the year ended on a positive note, with interest rates at record low levels, continuing strength in housing starts and re-sales, and healthy gains in personal disposable income. Consumer confidence, although below 1999 and 2000 levels, appeared to recover from the impact of September 11.

The Company recognized the adverse market conditions early, and focused on productivity by reducing inventory, operating expenses, and capital expenditures throughout 2001. Ending inventory levels were $150.7 million lower than in 2000, operating expenses were more than $180.0 million below originally anticipated levels, and capital expenditures were $57.0 million below the 2001 plan. The Company believes that its early recognition of, and response to, the adverse market conditions will better enable it to benefit from any improvement in the economy.

Unusual Items

The Company realized a gain of $8.3 million on the sale of its Underhill distribution facility in Vancouver, British Columbia, and incurred a charge of $2.8 million related to the closing of 14 of its 66 auto centres in the fourth quarter.

(in millions)	2001	2000
Gain on sale of distribution facility	$ 8.3	$ –
Cost of closing 14 auto centres	(2.8)	–
Gain on sale of shopping centre investments	–	25.3
Cost of exiting gas bar operations	–	(7.6)
Costs related to the restructuring of distribution operations	–	(3.4)
Other restructuring initiatives	–	(1.8)
Unusual gain	$ 5.5	$ 12.5

Number of Associates

	2001	2000
Full-time associates	13,363	13,906
Part-time associates	37,189	42,433
Total associates	50,552	56,339

In light of the uncertain economic environment, the Company offered more hours of work to its associates rather than hiring a large seasonal component as is customary. The reduction in full-time associates was largely due to attrition. These changes are reflected in a 10.3% reduction in the size of the workforce from last year.

Segmented Business Analysis

The Company's operations are classified into three major businesses: merchandising, credit, and real estate joint venture operations.

Merchandising Operations

(in millions)	2001	2000
Revenues	$ 6,290.5	$ 5,971.4
Earnings before interest, unusual items, and income taxes	$ 87.9	$ 280.9
Average capital employed	$ 1,333.4	$ 1,038.3

The merchandising segment includes the Company's department stores, catalogue operations, furniture and appliances stores, dealer stores, and outlet stores, as well as the products and services offered under the Sears HomeCentral banner and on the website, www.sears.ca.

Merchandising revenues were $6.3 billion in 2001, an increase of 5.3% over 2000. Most of the growth was related to the increase in new merchandise selling space added late in the year 2000. Same store sales decreased by 0.4%. During the year, several merchandise categories exhibited strong performance, including jewellery, cosmetics, major appliances, and women's wear. Weak sales were experienced in children's wear, and bed and bath.

Merchandising earnings before interest, unusual items, and income taxes were $87.9 million, compared to $280.9 million in 2000. Higher costs associated with additional selling space, surplus inventory at the beginning of the year, and weaker than expected sales and gross margins contributed to the decline in merchandising earnings.

The Canadian retailing environment remains highly competitive. The trend of lower gross margins started to abate late in the third quarter, but remained below expectations. The Company also reduced the level of inventory over the course of the year, and expects to improve inventory productivity further in 2002.

On February 18, 2002, the Company announced that it had made a decision to convert its Eatons department stores to the Sears banner by the end of July 2002. The seven Eatons department stores are located in Toronto and Ottawa, Ontario; Vancouver and Victoria, British Columbia; Winnipeg, Manitoba; and Calgary, Alberta. The Yorkdale Shopping Centre in Toronto, Ontario, and the Polo Park Shopping Centre in Winnipeg, Manitoba have both an Eatons and a Sears department store. The Company will determine which store will be retained as a Sears store at each of these locations.

The decision to convert the stores was made after careful consideration of strategic alternatives and was based on current conditions in the Canadian retail environment and changes in consumer spending, as well as a customer base and financial performance that were below expectations.

The conversion is expected to have a positive impact on future earnings through the reduction of corporate overhead, advertising costs, and improved margins. A one-time, pre-tax charge will be recorded in the first quarter of 2002 for an estimated amount of $180 million, consisting of $30 million in cash for severance payments, third party commitments, and closing costs, and a $150 million non-cash write-down of fixtures and leasehold improvements. Also refer to "Note 18 – Subsequent Event" on page 48.

Operating these seven locations under the Sears banner will better leverage the Company's buying and advertising efforts, and will take advantage of the equity of the Sears brand. By focusing on the Sears brand, the Company believes it will be better able to meet its long-term business goal of sustained and profitable growth.

Merchandising Revenues by Region

(in millions)	**2001**	% of Total	% of Total Households[1]	2000	% of Total	% of Total Households[1]
Atlantic	**$ 551.3**	9%	7.5%	$ 576.0	10%	7.6%
Quebec	**1,177.1**	19%	25.4%	1,153.9	19%	25.6%
Ontario	**2,648.9**	42%	36.7%	2,540.7	43%	36.6%
Prairies	**1,151.9**	18%	16.6%	1,034.8	17%	16.6%
BC/Territories[2]	**761.3**	12%	13.8%	666.0	11%	13.6%
Total	**$ 6,290.5**	100%	100%	$ 5,971.4	100%	100%

1 MapInfo Compusearch Estimates, based on Statistics Canada data.
2 Territories include the Yukon, Northwest and Nunavut.

The regional distribution of merchandising revenues for 2001 was similar to that in 2000. Growth was greatest in western Canada, while there was some reduction in eastern Canada. The addition of new merchandise selling space late in 2000 and the regional differences in the strength of the Canadian economy influenced the different rates of growth.

Number of Selling Units

As at December 29, 2001

	Atlantic	Quebec	Ontario	Prairies	BC and Territories	**2001 Total**	2000 Total
Department Stores	11	27	52	18	17	**125**	125
Furniture & Appliances	2	9	19	3	4	**37**	33
Dealer	18	17	32	49	16	**132**	128
Outlet	1	1	12	2	1	**17**	15
Catalogue	327	542	594	495	199	**2,157**	2,103

Department Stores – 125 department stores ranging in size from 25,757 to 702,629 square feet. In 2001, the Company opened one new Sears department store in North Bay, Ontario and closed a Sears department store in Edmonton, Alberta. Two Sears department stores were relocated in 2001: one in Pointe Claire, Quebec, and the other in Kamloops, British Columbia. In 2002, the Company plans to open a new Sears department store in Cambridge, Ontario, and in Montreal (Rosemere), Quebec. The Company also plans to relocate its Sears department store in Sarnia, Ontario, in 2002.

Furniture and Appliances Stores – 37 stores ranging in size from 34,244 to 61,253 square feet and featuring an expanded selection of furniture, decorator rugs, and major appliances. Four new stores were opened 2001: Saskatoon, Saskatchewan; Windsor, Ontario; Moncton, New Brunswick; and Victoria, British Columbia. Appliances were added to six furniture stores that previously did not carry them. Appliances will be added to the Whitby, Ontario location when it moves to larger premises in 2002. Appliances will be featured in all furniture stores after this move. The Company plans to open six new furniture and appliances stores in 2002.

Dealer Stores – 132 independent, locally operated stores serving smaller population centres, selling home appliances and electronics, as well as lawn and garden furniture, garden and snow removal equipment, and in 18 locations, furniture. Eight new dealer stores were opened in 2001: High River, Drumheller, Olds, Canmore, and Athabasca, Alberta; Winkler, Manitoba; Digby, Nova Scotia; and Perth, Ontario. Three dealer stores were closed in Ontario in 2001: North Bay, Fort Frances, and Bowmanville, and one dealer store was closed in Fort McMurray, Alberta. The Company plans to open eight new dealer stores in 2002.

Outlet Stores – 17 stores ranging in size from 31,934 to 195,000 square feet, selling returned and surplus merchandise.

Catalogue Selling Locations – consist of 1,839 independent catalogue agent locations, plus catalogue selling locations within 118 Sears department stores, and selected outlet stores, dealer stores, and furniture and appliances stores.

Early in 2002, the Company announced that it will not be renewing the leases on its Sears department stores located in Welland and St. Thomas, Ontario, and Rouyn-Noranda, Quebec. The Welland and St. Thomas stores will be closed by the end of 2002, while the Rouyn-Noranda store will be closed early in 2003. It is the Company's intention to maintain a presence in these markets by opening a dealer store in each of these communities. The Company also announced that it plans to convert its Sears department store in Surrey, British Columbia to an outlet store in May 2002.

Merchandising Gross Floor Area

(square feet - in millions)	**2001**	2000
Sears Department Stores	**15.4**	15.4
Eatons Department Stores	**2.4**	2.4
Furniture	**1.7**	1.5
Outlet	**1.6**	1.4
Total	**21.1**	20.7
Merchandise service centres:		
Active	**7.8**	8.3
Subleased or dormant	**0.8**	1.4
Total merchandise service centres	**8.6**	9.7

Recent Merchandising Initiatives

- In 2001, the Company implemented new merchandise productivity software that provides detailed information about merchandise sales and gross profit performance at the item level. Traditionally, retail applications tend to aggregate information into general product categories. The new system provides greater detail in a timely fashion, will indicate which products are in high demand and the locations in which they are needed, and will lead to a more profitable merchandising mix. The Company believes that this is leading-edge technology for the retail sector.
- The Company implemented its Segmented Service program, which involved a re-definition of roles and responsibilities of its retail sales associates, as well as the relocation of the point of sale terminals within the department stores. This program is based on the customer's need for different levels of service across departments, and is designed to increase customer satisfaction with service levels.
- Working with Ryerson University in Toronto, Ontario, the Company enhanced its comprehensive training program for furniture and appliances store managers and associates. This program was used as the foundation to create a similar program to provide training across the dealer store network.

- The Company focused on delivering a more streamlined catalogue to its customers. The catalogue offerings in 2002 will have fewer pages, an improved layout and presentation, and a more focused selection of goods.
- New software was installed in the Company's call centres to facilitate the customer order process and to provide sales associates the opportunity to offer the customer additional products that complement the customer's order.
- The Company developed a renovation and upgrade plan for its department stores, with each store planned to be renovated over the course of a seven year cycle. Each store falls into one of four different upgrade categories, with improvements ranging from simple re-touching to a complete re-design. Ten stores are expected to be renovated in 2002 under this new plan.
- In July 2001, Sears opened a new Sears HomeCentral showroom in Windsor, Ontario. At the end of 2001, there were six Sears HomeCentral showroom locations, and the Company plans to open four more in 2002. These showrooms feature home products and services including windows, window coverings, doors and floor coverings, gas fireplaces, and kitchen and bath vignettes, and complement the wide assortment of Sears HomeCentral services such as appliance repairs, parts, heating and cooling services, and carpet cleaning.
- The Company opened five new Sears Floor Covering Centres in 2001, bringing the total number of locations to 38. In 2002, the Company plans to open 15 locations. The concept of combining the expertise of the independent, local floor covering merchant with the trust and convenience associated with shopping at Sears has been well received by customers.
- In September 2001, after evaluating the profitability of its auto centres, the Company decided to close 14 auto centres and focus on the remaining 52 auto centres to improve the performance of the automotive channel.
- In 2002, the Company plans to implement a program which will provide detailed information on the effectiveness of marketing expenditures.

Credit Operations

(in millions)	**2001**	2000
Service charge revenue before gain on sale of receivables	**$ 325.8**	$ 308.3
Gain on sale of receivables	**54.0**	–
Revenues	**$ 379.8**	$ 308.3
Earnings before interest, unusual items, and income taxes	**$ 118.9**	$ 70.0
Average capital employed	**$ 850.1**	$ 893.0

Sears credit operations finance and manage customer charge account receivables generated from the sale of goods and services charged on the Sears Card and on the Eatons Card.

Through its securitization program, the Company securitizes customer charge account receivables in order to obtain a more favourable overall cost of funding. The cost of the funding related to the securitization program is deducted from the total service charge revenues earned on the portfolio. (Refer to the section entitled "Securitization of Charge Account Receivables" on page 24).

Net service charge revenues earned on customer charge account receivables increased by $71.5 million or 23.2% in 2001, and includes a gain of $54.0 million on the sale of customer charge account receivables as a result of adopting prospectively the new recommendations of the Canadian Institute of Chartered Accountants for the sale of securitized receivables.

Credit operations contributed $118.9 million to the Company's 2001 consolidated earnings before interest, unusual items, and income taxes, compared to $70.0 million in 2000. The increase in earnings is primarily attributed to the above-mentioned gain on the sale of charge account receivables.

Net write-offs as a percentage of the average amounts outstanding were 4.1% in 2001 compared to 4.0% in 2000 and 3.2% in 1999. This write-off rate continues to be at the low end of industry norms. The Company maintains a low write-off rate through continued innovation of its portfolio management strategies.

Charge Account Receivables Analysis

(in millions - except average outstanding account balance per customer)	2001	2000
Active customer accounts	**4.3**	4.3
Average outstanding balance per customer account at year end	**$ 445**	$ 459
Charge account receivables written-off during the year (net of recoveries)	**$ 74.2**	$ 70.2

Sears continues to have the largest single-issuer proprietary card in Canada. Sears accepts third party credit cards in addition to the Sears Card and Eatons Card. Debit cards are accepted in all of the Company's department stores, furniture and appliances stores, dealer stores, and outlet stores. The chart below reflects the trend in method of payment.

	2001	2000
Sears Card & Eatons Card	**60.5%**	61.5%
Third Party Credit Cards	**15.6%**	14.3%
Debit Cards	**8.5%**	7.9%
Cash	**15.4%**	16.3%
Total	**100.0%**	100.0%

Recent Credit Initiatives

The following initiatives have been directed at increasing usage of the Sears Card:

- Sears continues to form strategic alliances with other companies to enhance the benefits offered by the Sears Card and Sears Club to cardholders. In 2001, Sears announced new alliances with Via Rail, Pharmasave, TicketKing, and Admission, a ticketing agent in Quebec. These relationships enable Sears Card holders to earn Sears Club points on purchases of goods and services. Sears strategic partners also include Choice Hotels Canada, Bell World, Bell Mobility, Bell Sympatico, AMJ Campbell Van Lines, Ticketmaster Canada, Medieval Times (Toronto, Ontario), Roots Canada, and IBM Canada.
- In August 2001, the Company announced an initiative that offers Sears Club and Petro-Points members the value-added option to exchange their points between the two loyalty programs. In March 2002, the Company plans to add Petro Canada to its list of strategic partners so that in addition to points exchange, customers will be able to use their Sears Card to pay for purchases at Petro Canada, and earn valuable Sears Club points.
- In 2001, SearsConnect launched paging and cellular services in response to customer demand for wireless offerings. SearsConnect was created in 1998 through the combination of Sears PhonePlan and Sears EasyTalk, which provide flat rate long distance calling services. All services provided by SearsConnect earn Sears Club points.
- Sears continues to invest in technology in order to increase customer convenience. In 2001, Sears completed the preliminary phases of a new customer data warehouse. In addition, Sears will be developing a new credit platform in 2002 for implementation in early 2003. These initiatives will enable the Company to better tailor its products and services to meet the needs of its customers.
- In January 2002, the Company announced that it is formulating a strategic plan to enable the issuance of a general purpose credit card in addition to the Sears Card.
- The Eatons Card will be accepted at Sears and Eatons locations both during and after the conversion of the Eatons department stores to the Sears banner. Refer to the section "Merchandising Operations" on pages 18 and 19 for information relating to the Company's decision to convert the Eatons department stores.

Real Estate Joint Venture Operations

(in millions)	2001	2000
Revenues[3]	$ 56.1	$ 76.1
Earnings before interest, unusual items, and income taxes	$ 29.4	$ 37.1
Average capital employed	$ 156.9	$ 208.6

3 Excluded from revenues is the Company's proportionate share of rental revenues earned from department stores of Sears Canada Inc. of $3.0 million (2000 - $3.8 million).

As at December 29, 2001, the Company held joint venture interests in 16 shopping centres, 14 of which contain a Sears store. The Company has 15% to 50% interests in these joint ventures. Accordingly, the Company carries its proportionate share of the assets, liabilities, revenues and expenses of these joint ventures on its books.

The Company sold its interests in three properties in 2000. The sale of its interests in Shops on Steeles, Markham, Ontario; Northumberland Mall, Cobourg, Ontario; and St. Laurent Shopping Centre in Ottawa, Ontario, was completed on March 31, 2000, December 1, 2000, and December 11, 2000, respectively. The Sears department stores at these shopping centres continue to operate as leased locations. No significant transactions took place in 2001.

The market value of Sears interest in its real estate joint venture properties is estimated to be approximately $324 million (2000 - $320 million). It is the Company's policy to have one-third of the properties independently appraised each year, while the appraisals of the remaining two-thirds are reviewed and updated by management. Sears portion of the debt of these properties is $145.3 million (2000 - $158.8 million).

Overview of the Consolidated Statements of Financial Position

Assets

(in millions)	2001	2000
Cash	$ 329.3	$ 135.5
Accounts receivable	871.9	942.0
Inventories	864.5	1,015.2
Capital assets	1,188.7	1,199.2
Other assets	625.6	663.1
Total assets	$ 3,880.0	$ 3,955.0

Accounts Receivable

(in millions)	2001	2000
Charge account receivables - current	$ 1,885.9	$ 1,949.3
Charge account receivables - deferred	755.7	737.9
Managed accounts	2,641.6	2,687.2
Less: co-ownership interest held by third parties	(1,804.2)	(1,813.7)
Co-ownership retained by the Company	837.4	873.5
Interest-only strip receivable	36.1	–
Miscellaneous receivables	(1.6)	68.5
Total	$ 871.9	$ 942.0

Total assets decreased by $75.0 million or 1.9% in 2001.

Cash increased by $193.8 million primarily due to proceeds of $276.6 million received from the securitization of charge account receivables on November 1, 2001.

Current receivables decreased by $63.4 million, or 3.3% while deferred receivables increased by $17.8 million or 2.4%. Deferred receivables represent credit sales not yet billed to customer accounts. Deferred credit sales are billed to customer accounts at the end of an interest-free deferral period.

Year-end inventories decreased by $150.7 million, or 14.8% as a result of the Company's efforts to improve inventory productivity.

Liabilities

(in millions)	2001	2000
Accounts payable	$ 769.9	$ 974.6
Accrued liabilities	422.1	440.3
Long-term obligations due within one year	10.1	152.5
Long-term obligations	802.7	546.1
Other liabilities	255.3	292.2
Total liabilities	$ 2,260.1	$ 2,405.7

Total liabilities decreased by $145.6 million or 6.1% in 2001.

Accounts payable decreased by $204.7 million in 2001 as a result of the reduction in merchandise purchased by the Company in the latter part of the year.

Including amounts due within one year, long-term obligations increased by $114.2 million due to the issuance of $200.0 million in medium-term notes on March 15, 2001, upon maturity of $100.0 million of unsecured debentures.

The decrease in other liabilities is related to the recognition of a portion of the deferred credit arising from the acquisition of The T. Eaton Company Limited (Eaton's). Please refer to the section "Acquisition of Tax Loss – Eaton's" on page 27 for a detailed explanation.

Liquidity

As at December 29, 2001, the ratio of current assets to current liabilities was 1.7:1 compared to 1.4:1 at the end of 2000. Working capital was $955.6 million as at December 29, 2001, compared to $686.8 million as at December 30, 2000.

Financing Activities

The Company has the flexibility to raise funds through bank borrowings, by issuing equity and corporate debt securities, and through the securitization of charge account receivables.

In 2001, the Company carried out the following significant financing activities:

- On March 1, 2001, the outstanding 7.8% unsecured debentures of Sears Canada Inc. in the amount of $100 million matured and were repaid.
- On March 15, 2001, Sears Canada Inc. issued $200 million of 6.75% medium term notes due March 15, 2006 under the shelf prospectus filed on February 9, 2001 that qualified the issuance of up to $500 million in medium term notes (debt with a term to maturity in excess of one year) over the subsequent two years.
- On April 1, 2001, a 4.95% interest rate swap in the principal amount of $150 million matured.
- On August 16, 2001, a new securitization vehicle, SCORE Trust, was established. (See SCORE Trust in the section titled "Securitization of Charge Account Receivables".)
- On September 5, 2001, SCORE Trust completed its initial financing by issuing $504.5 million in commercial paper and $44.7 million in subordinated notes.
- On November 1, 2001, SCORE Trust issued $260 million in senior notes and $16.6 million in subordinated notes.
- During 2001, $53.7 million of joint venture debt matured, of which $40.1 million was refinanced.

Securitization of Charge Account Receivables

Securitization is an important financing vehicle which enables the Company to obtain favourable interest rates because of its structure and the high quality of the portfolio of charge account receivables backing its debt. Securitization provides the Company with a diversified source of funds for the operation of its business.

Under the Company's securitization programs, undivided co-ownership interests in the charge account receivables (excluding deferred receivables) are sold to Sears Canada Receivables Trust (Trust 1) and Sears Canada Receivables Trust - 1992 (Trust 2), and undivided co-ownership interests in its portfolio of charge account receivables (including deferred receivables) are sold to Sears Canada Receivables Trust - 1996 (Trust 3), (collectively referred to as SCRT) and to SCORE Trust.

The assets and liabilities of these trusts are not reflected in the Company's consolidated financial statements. The cost to the Company of the securitization program is reflected as a reduction in the Company's share of Sears Card and Eatons Card service charge revenues. Since July 1, 2001, as a result of prospectively adopting new recommendations of the Canadian Institute of Chartered Accountants, a gain or loss is recognized on the transfer of receivables at the date of transfer. For balances transferred prior to July 1, 2001, and subsequent transfers committed to before that date, the Company will continue to follow the previous accounting guidance, and will not recognize any gains or losses at the date of transfer. As at December 29, 2001, $852.0 million of the securitized receivables were subject to these new rules.

Trust 1 – Trust 1, which was established in 1991, issued short-term commercial paper and subordinated debentures to finance the purchase of undivided co-ownership interests in charge account receivables (excluding deferred receivables). As a result of the creation of SCORE Trust, Trust 1 was terminated on December 31, 2001.

Trust 2 – Trust 2, which was established in 1993, issued long-term senior and subordinated debentures to finance the purchase of undivided co-ownership interests in charge account receivables (excluding deferred receivables). As a result of the creation of SCORE Trust, it is expected that new debt will no longer be issued by Trust 2.

Trust 3 – Trust 3, which was established in 1996, finances the purchase of undivided co-ownership interests in charge account receivables (including deferred receivables) through drawdowns under revolving senior and subordinated note facilities. There may be further drawdowns under these facilities.

SCORE Trust – On August 16, 2001, SCORE Trust, a new securitization vehicle, was established. This new vehicle will expand the Company's ability to finance both current and deferred charge account receivables. SCORE Trust will issue both short and long-term senior and subordinated debt backed by undivided co-ownership interests in a designated pool of charge account receivables (including deferred receivables). On September 5, 2001, SCORE Trust launched its initial financing through the issuance of $504.5 million in commercial paper and $44.7 million in subordinated notes, the proceeds of which were used to purchase an undivided co-ownership interest in receivables. On November 1, 2001, SCORE Trust issued $260.0 million in senior notes and $16.6 million in subordinated notes.

Summary of Securitized Obligations

(in millions)	**2001**	2000
Commercial paper	**$ 393.1**	$ 385.3
Senior debt:		
Floating rate, due April 1, 2001	**–**	150.0
5.34%, due December 16, 2003	**150.0**	150.0
8.95%, due June 1, 2004	**175.0**	175.0
5.42%, due December 15, 2004	**200.0**	200.0
6.681%, due June 15, 2005	**250.0**	250.0
Floating rate, due June 30, 2006	**243.0**	390.1
5.035%, due November 15, 2006	**260.0**	–
	1,278.0	1,315.1
Subordinated debt:		
9.18%, due June 1, 2004	**3.9**	3.9
Floating rate, due 2001 to 2005	**74.7**	50.5
Floating rate, due June 30, 2006	**2.5**	4.0
6.235%, due November 15, 2006	**16.6**	–
	97.7	58.4
Accrued liabilities	**0.6**	5.1
Trust units (floating rate, due 2003 to 2006)	**34.8**	49.8
Total obligations	**$ 1,804.2**	$ 1,813.7

Debt Ratings

On February 20, 2001, Standard and Poor's (S&P) announced its A- harmonized corporate credit and senior unsecured debt rating for the Company. On November 16, 2001, S&P downgraded this debt rating to BBB+.

Dominion Bond Rating Service Limited (DBRS) has assigned a BBB (High) rating for the Company's senior unsecured debt.

Analysis of Funding Costs

The following table summarizes the Company's total funding costs, including the cost of the securitization program:

(in millions)	2001	2000
Interest costs		
Total debt at end of year	**$ 812.8**	$ 698.6
Average debt for year	**771.0**	786.0
Interest expense	**64.2**	66.4
Average rate of debt	**8.3%**	8.4%
Securitization costs		
Amount securitized at end of year	**$ 1,804.2**	$ 1,813.7
Average amount securitized for year	**1,805.8**	1,576.3
Cost of funding[4]	**101.9**	99.7
Average rate of securitized funding	**5.6%**	6.3%
Total funding		
Total funding at the end of year	**$ 2,617.0**	$ 2,512.3
Total average funding for year	**2,576.8**	2,362.3
Total funding costs for year	**166.1**	166.1
Average rate of total funding	**6.4%**	7.0%

4 Reported as a reduction of credit revenues.

Average total funding increased by $214.5 million in 2001, but total funding costs remained at 2000 levels as a result of lower short-term interest rates.

Capital Structure

(in millions)	2001	% of Total	2000	% of Total
Long-term debt due within one year	**$ 10.1**	**0.4**	$ 152.5	6.8
Long-term debt	**802.7**	**33.0**	546.1	24.3
Total debt	**812.8**	**33.4**	698.6	31.1
Shareholders' equity	**1,619.9**	**66.6**	1,549.3	68.9
Total capital	**$ 2,432.7**	**100.0**	$ 2,247.9	100.0

The Company's debt to equity ratio increased in 2001, but remained within the Company's target levels.

Normal Course Issuer Bid

On October 31, 2001, the Company announced its intention to purchase for cancellation up to 5% of its issued and outstanding common shares, representing up to 5,336,681 of the issued and outstanding common shares. The purchases were eligible to commence on November 2, 2001 and must terminate by November 1, 2002 pursuant to the Notice of Intention filed with The Toronto Stock Exchange. The price which the Company will pay for any such shares will be the market price at the time of acquisition.

By purchasing common shares under this Normal Course Issuer Bid, the Company intends to offset the dilutive effect of common shares issued as equity-based compensation of employees and directors and may purchase additional common shares if, in the opinion of management, the additional purchases can be made on terms that enhance the value of the remaining common shares.

As at February 27, 2002, the Company has not purchased any shares under the Normal Course Issuer Bid. Shareholders may obtain a copy of the Notice of Intention, without charge, by contacting the Secretary.

Capital Expenditures

The Company expects to commit approximately $200.0 million for capital expenditures in 2002, compared to actual capital expenditures of $143.4 million in 2001 and $447.3 million in 2000. Throughout 2001, the Company focused on containing capital expenditures. Capital expenditures in 2000 were higher than customary levels due to the significant expansion of merchandise space resulting from the launching of the Eatons banner and the opening of new store locations.

Analysis of Total Taxes

Total taxes decreased by $8.8 million in 2001. Income taxes decreased by $24.9 million primarily as a result of lower operating income and corporate tax rates.

(in millions)	2001	2000
Provincial capital tax	$ 8.5	$ 8.6
Property tax	65.0	53.5
Payroll taxes[5]	95.1	90.4
Total taxes expensed in cost of merchandise sold, operating administrative and selling expenses	168.6	152.5
Corporate income taxes	83.4	108.3
Total taxes	$ 252.0	$ 260.8

5 Represents contributions to the Canada and Quebec Pension Plans, Employment Insurance, health care levies and workplace insurance premiums.

Acquisition of Tax Loss - Eaton's

On December 30, 1999, the Company acquired all of the outstanding common shares of Eaton's. The acquisition included 19 Eaton's store locations and selected other assets, including intellectual property and future income tax assets.

The future income tax assets acquired were valued at $310.0 million, which exceeded the total acquisition cost by $130.0 million. This amount was recorded as a deferred credit and is recognized proportionally as a reduction to income taxes as the future income tax asset is drawn down. Income taxes for the year 2001 included a charge of $20.9 million related to a reduction in the valuation of future income tax assets due to lower income in the current period and lower statutory rates of tax for future years. This is net of recognition of $15.1 million of the deferred credit relating to the acquisition of Eaton's. In addition, income taxes were reduced by the recognition of $16.8 million of the deferred credit.

Included in the acquisition cost is $20.0 million, which is payable to former Eaton's shareholders, contingent upon realization of the Eaton's tax losses. This amount was deposited into an escrow account in July 2001.

Risks and Uncertainties

Eaton's Tax Losses

Management believes the Company will be entitled to realize the Eaton's tax losses. In the event that the utilization of Eaton's tax losses is disallowed, tax reductions claimed in prior periods, plus applicable interest, would become payable. These amounts, and any related amounts remaining in the future income tax asset, would be recorded as tax expense in the then current year.

Interest Rates

Through the Company's securitization vehicles (SCRT, SCORE Trust) purchases of undivided co-ownership interests in the portfolio of charge account receivables are financed with the issuance of short-term commercial paper, long-term debt, and trust units, some of which are subject to floating interest rates. To reduce the risk associated with fluctuating interest rates, floating-to-fixed interest rate swap transactions in the notional amount of $100 million (2000 - $250 million) have been utilized. This brings the Company's fixed-to-floating funding ratio, including securitized funding, to 71/29, which is within the Company's target ratios.

Foreign Exchange

The Company's foreign exchange risk is limited to currency fluctuations between the Canadian and U.S. dollar. The Company's forecast for its total requirement of foreign funds in 2002 is approximately U.S. $500 million. From time to time the Company uses forward contracts to fix the exchange rate on a portion of its expected requirement for U.S. dollars. As at December 29, 2001, there were no foreign exchange contracts outstanding.

Concentration of Credit Risk

The Company's exposure to credit risk relates mainly to customer charge account receivables. Sears Card customers are a large and diverse group. The average balance per customer account at year-end was $445.

Leases

The Company owns 19 Sears department store locations, one Eatons store location, and one furniture and appliances store location. The Company expects that store rental expense will remain stable since most of its remaining locations are held under long-term leases.

Merchandise Sources

A major aim of the merchandise procurement process is to ensure that Sears, together with its merchandise sources, fulfills its promises and obligations to its customers. Sears will continue to work with its merchandise sources to ensure that they share this commitment.

Sears is confident in its ability to continue providing consumers with high quality merchandise at competitive prices. While the Company purchases most of its consumer goods through Canadian companies, Sears shops the world to provide its customers with the best value for their dollar.

Competitive and Economic Environment

Retail sales are influenced by changes in economic variables and consumer confidence. There are a number of external factors which affect economic variables and consumer confidence over which the Company exerts no influence, including interest rates, personal debt levels, unemployment rates, and levels of personal disposable income.

The past year has been a challenging one, not only for the Company, but also for the economy in general. Consumer confidence appears to have recovered from the impact of September 11, but still remains below the level of the prior two years. Consumers are expected to continue to be cautious in their spending. The Company believes that the economy will continue to be difficult during 2002, with some recovery anticipated in the latter half of the year.

The Canadian retail market remains highly competitive. The Company's competitors include traditional Canadian department stores, discount department stores, "big box" retailers, and specialty stores that offer alternative retail formats to traditional department stores.

Outlook

Sears continues to position itself to capture a larger share of consumer spending through its program of store renovations and expansions, by offering an enhanced merchandise assortment and presentation, and through its adoption of emerging trends in retailing.

Sears strengths include an extensive customer reach and one of the strongest brands in Canada. Through the conversion of its Eatons store locations to the Sears banner, the Company expects to broaden its customer appeal in these seven urban locations through leveraging the Sears brand and the Company's strengths as a multi-channel retailer.

By meeting the needs of customers in terms of merchandise selection, pricing, store environment, and service, Sears anticipates growth in revenues and profits into the future.

Forward Looking Statements

A number of matters discussed in this Management's Discussion and Analysis and elsewhere in this Annual Report that are not historical or current facts deal with potential future circumstances and developments. Discussion of such matters is qualified by the inherent risks and uncertainties surrounding future expectations generally, which discussion also may materially differ from the Company's actual future experience involving any one or more of such matters.

Quarterly Results (Unaudited)

(in millions except per share amounts)	First Quarter 2001	First Quarter 2000	Second Quarter 2001	Second Quarter 2000	Third Quarter 2001	Third Quarter 2000	Fourth Quarter 2001	Fourth Quarter 2000
Total revenues	**$ 1,427.3**	$ 1,329.0	**$ 1,584.6**	$ 1,462.0	**$ 1,581.7**	$ 1,456.0	**$ 2,132.8**	$ 2,108.8
Earnings (loss) before income taxes	**$ (17.2)**	$ 41.3	**$ 17.5**	$ 65.8	**$ 33.1**	$ 61.5	**$ 144.1**	$ 165.5
Net earnings (loss)	**$ (11.2)**	$ 23.5	**$ 8.8**	$ 45.9	**$ 17.9**	$ 36.2	**$ 78.6**	$ 120.2
Earnings (loss) per share	**$ (0.10)**	$ 0.22	**$ 0.08**	$ 0.43	**$ 0.17**	$ 0.34	**$ 0.73**	$ 1.13

Common Share Market Information*

	First Quarter 2001	First Quarter 2000	Second Quarter 2001	Second Quarter 2000	Third Quarter 2001	Third Quarter 2000	Fourth Quarter 2001	Fourth Quarter 2000
High	**$ 26.95**	$ 42.50	**$ 25.00**	$ 37.50	**$ 24.09**	$ 36.00	**$ 19.15**	$ 34.00
Low	**$ 19.92**	$ 33.00	**$ 18.55**	$ 32.80	**$ 12.50**	$ 32.00	**$ 13.03**	$ 19.60
Close	**$ 20.00**	$ 34.05	**$ 21.80**	$ 34.25	**$ 13.85**	$ 34.00	**$ 18.75**	$ 21.55
Avg. daily trading volume	**227,635**	136,898	**86,177**	155,500	**162,651**	90,833	**265,786**	201,959

* The Toronto Stock Exchange

Statement of Management Responsibility

The accompanying consolidated financial statements of Sears Canada Inc. and all information in this Annual Report are the responsibility of management. The consolidated financial statements and the information contained in this Management's Discussion and Analysis have been approved by the Board of Directors. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include certain amounts that are based on estimates and judgments. Financial information used elsewhere in the Annual Report is consistent with that contained in the consolidated financial statements.

Management is responsible for the accuracy, integrity, and objectivity of the financial statements and has developed, maintains, and supports an extensive program of internal controls and audits that provide reasonable assurance that financial records are reliable and that assets are safeguarded.

The Board of Directors carries out its responsibility for the financial statements in this Annual Report principally through the activities of its Audit Committee, all of whom are outside Directors. In monitoring the fulfillment by management of its responsibilities for financial reporting and internal control, the Audit Committee meets periodically with senior officers, finance management, and internal and external auditors to discuss audit activities, internal accounting controls, and financial reporting matters. The Audit Committee has reviewed these consolidated financial statements and has recommended their approval by the Board of Directors.

The Company's external auditors, Deloitte & Touche LLP, have conducted audits of the financial records of the Company in accordance with Canadian generally accepted auditing standards.
Their report is as follows.

Executive Vice-President and
Chief Financial Officer

Chairman of the Board and
Chief Executive Officer

Auditors' Report to the Shareholders of Sears Canada Inc.

We have audited the consolidated statements of financial position of Sears Canada Inc. as at December 29, 2001 and December 30, 2000 and the consolidated statements of earnings, retained earnings and cash flows for the 52 week periods then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 29, 2001 and December 30, 2000 and the results of its operations and its cash flows for the 52 week periods then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP
Chartered Accountants

Toronto, Ontario
February 4, 2002,
except as to Note 18
which is as of
February 27, 2002

Consolidated Statements of Financial Position

As at December 29, 2001 and December 30, 2000 (in millions)	**2001**	2000
Assets		
Current Assets		
Cash and short-term investments	**$ 329.3**	$ 135.5
Accounts receivable (Note 2)	**871.9**	942.0
Inventories	**864.5**	1,015.2
Prepaid expenses and other assets	**123.3**	117.2
Current portion of future income tax assets (Note 4)	**110.3**	206.9
	2,299.3	2,416.8
Investments and Other Assets (Note 5)	**81.5**	71.3
Capital Assets (Note 6)	**1,188.7**	1,199.2
Deferred Charges (Note 7)	**157.8**	138.0
Future Income Tax Assets (Note 4)	**152.7**	129.7
	$ 3,880.0	$ 3,955.0
Liabilities		
Current Liabilities		
Accounts payable	**$ 769.9**	$ 974.6
Accrued liabilities	**422.1**	440.3
Income and other taxes payable	**127.9**	109.3
Principal payments on long-term obligations due within one year (Note 9)	**10.1**	152.5
Current portion of deferred credit (Note 4)	**13.7**	53.3
	1,343.7	1,730.0
Long-term Obligations (Note 9)	**802.7**	546.1
Deferred Credit (Note 4)	**61.7**	54.0
Future Income Tax Liabilities (Note 4)	**52.0**	75.6
	2,260.1	2,405.7
Shareholders' Equity		
Capital Stock (Note 10)	**457.7**	455.6
Retained Earnings	**1,162.2**	1,093.7
	1,619.9	1,549.3
	$ 3,880.0	$ 3,955.0

Approved by the Board:	M.A. Cohen *Director*	J.H. Bennett *Director*

Consolidated Statements of Earnings

For the 52 week periods ended December 29, 2001 and December 30, 2000

(in millions, except per share amounts)	2001	2000
Total revenues	**$ 6,726.4**	$ 6,355.8
Cost of merchandise sold, operating, administrative and selling expenses	**6,320.9**	5,838.0
Depreciation and amortization	**169.3**	129.8
Interest	**64.2**	66.4
Unusual items (gain) (Note 11)	**(5.5)**	(12.5)
	6,548.9	6,021.7
Earnings before income taxes	**177.5**	334.1
Income taxes (Note 4)		
Current	**62.0**	15.9
Future	**21.4**	92.4
	83.4	108.3
Net earnings	**$ 94.1**	$ 225.8
Earnings per share (Note 17)	**$ 0.88**	$ 2.12
Diluted earnings per share (Note 17)	**$ 0.88**	$ 2.11

Consolidated Statements of Retained Earnings

For the 52 week periods ended December 29, 2001 and December 30, 2000

(in millions)	2001	2000
Opening balance	**$ 1,093.7**	$ 893.5
Net earnings	**94.1**	225.8
	1,187.8	1,119.3
Dividends declared and paid	**(25.6)**	(25.6)
Closing balance	**$ 1,162.2**	$ 1,093.7

Consolidated Statements of Cash Flows

For the 52 week periods ended December 29, 2001 and December 30, 2000

(in millions)	**2001**	2000
Cash Flows Generated From (Used for) Operations		
Net earnings	**$ 94.1**	$ 225.8
Non-cash items included in net earnings, principally depreciation,amortization, gain on sale of receivables and future income taxes	**118.8**	166.6
Changes in non-cash working capital balances related to operations (Note 12)	**28.8**	(82.0)
	241.7	310.4
Cash Flow Generated From (Used for) Investment Activities		
Purchases of capital assets	**(143.4)**	(447.3)
Proceeds from sale of capital assets	**17.7**	84.5
Charge account receivables	**56.1**	132.3
Deferred charges	**(13.4)**	(2.2)
Acquisition of Eaton's	**(23.5)**	(141.0)
Investments and other assets	**(7.3)**	(10.3)
	(113.8)	(384.0)
Cash Flow Generated From (Used for) Financing Activities		
Issue of long-term obligations	**200.0**	320.5
Repayment of long-term obligations	**(110.6)**	(236.7)
Net proceeds from issue of capital stock	**2.1**	2.8
Dividends paid	**(25.6)**	(25.6)
	65.9	61.0
Increase (decrease) in cash and short-term investments	**193.8**	(12.6)
Cash and short-term investments at beginning of year	**135.5**	148.1
Cash and short-term investments at end of year	**$ 329.3**	$ 135.5

Notes to the Financial Statements

1. Summary of Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Sears Canada Inc. and its subsidiaries together with its proportionate share of the assets, liabilities, revenues and expenses of real estate joint ventures (the "Company").

Fiscal Year

The fiscal year of the Company consists of a 52 or 53 week period ending on the Saturday closest to December 31. The fiscal years for the consolidated statements presented for 2001 and 2000 are the 52 week periods ended December 29, 2001 and December 30, 2000, respectively.

Cash & Short Term Investments

Cash and short term investments include all highly liquid investments with maturities of three months or less at the date of purchase.

Inventories

Inventories are valued at the lower of cost and net realizable value. Effective December 31, 2000, the Company changed its method of determining cost for retail store inventories from the retail inventory method to the average cost method, based on individual items. This change, applied retroactively, resulted in no material changes to the consolidated statements of financial position, results of operations, or cash flows in the current or preceding periods. Catalogue order and miscellaneous inventories are valued by the average cost method, based on individual items.

Prepaid Advertising Expense

Catalogue production costs are deferred and amortized over the life of each catalogue on the basis of the estimated sales from that catalogue.

Transfer of Receivables

Effective July 1, 2001, the Company adopted, on a prospective basis, the new accounting guideline, Accounting Guideline - 12 Transfers of Receivables, issued by The Canadian Institute of Chartered Accountants. For balances transferred prior to July 1, 2001, and subsequent transfers committed to before that date, the Company will continue to follow the previous accounting guidance, and will not recognize any gains or losses at the date of transfer. Under the new policy, the Company recognizes gains or losses on transfers of receivables that qualify as sales and recognizes certain financial components that are created as a result of such sales, which consist primarily of the retained interest in the form of a cash reserve account and the retained rights to future excess yield from the transferred receivables (interest-only strip). A gain or loss on sale of the receivables depends in part on the previous carrying amount of the receivables involved in the transfer, allocated between the assets sold and the retained interests based on their relative fair value at the date of transfer. Retained interests are initially recorded at fair value, which is estimated based upon the present value of the expected future cash flows and discount rates. Any subsequent decline in the value of the retained interest, other than a temporary decline, will be recorded as a reduction to income. The impact of the change in 2001 was an increase in net earnings of $32.4 million.

Deferred Receivables

Deferred receivables represent credit sales not yet billed to customer accounts. Service charges are not accrued on these accounts over the deferral period which generally ranges from 6 to 24 months.

Capital Assets

Capital assets are stated at cost. Depreciation and amortization provisions are generally computed by the straight-line method based on estimated useful lives of 2 to 10 years for equipment and fixtures, and of 10 to 40 years for buildings and improvements.

The Company's proportionate share of buildings held in joint ventures is generally depreciated by the sinking fund method over 20 to 40 years.

The Company capitalizes interest charges for major construction projects and depreciates these charges over the life of the related assets.

Associate Future Benefits

The Company maintains a defined benefit, final average pension plan which covers substantially all of its regular full-time associates as well as some of its part-time associates. The plan provides pensions based on length of service and final average earnings. The Company provides life insurance, medical and dental benefits to eligible retired associates. The Company has adopted the following accounting policies:

- The cost of pensions and other retirement benefits earned by associates is actuarially determined using the projected benefit method pro-rated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages of associates and expected health care costs.
- For the purpose of calculating the expected return on plan assets, those assets are valued at market value.
- Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of associates active at the date of amendment.
- The excess of the net actuarial gain (loss) over 10% of the greater of the accrued benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active associates. The average remaining service period of the active associates covered by the pension plan is eight years. The average remaining service period of the active associates covered by the other retirement benefits plan is 13 years.

Deferred Charges

The cumulative excess of contributions to the Company's pension plan over the amounts expensed is included in deferred charges.

Debt issuance costs are deferred and amortized by the straight-line method to the due dates of the respective debt issues. Securitization set up costs are amortized on a straight-line basis over a maximum of five years.

Other costs are deferred and amortized by the straight-line method over the remaining life of the related asset.

Foreign Currency Translation

Obligations payable in U.S. dollars are translated at the exchange rate in effect at the balance sheet date or at the rates fixed by forward exchange contracts.

Transactions in foreign currencies are translated into Canadian dollars at the rate in effect on the date of the transaction.

Estimates

The preparation of the Company's financial statements, in accordance with Canadian generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Earnings per Share

Effective December 31, 2000, the Company elected early adoption, on a retroactive basis, of the new recommendations issued by The Canadian Institute of Chartered Accountants relating to the calculation of earnings per share. Earnings per share is calculated using the weighted average number of shares outstanding during the period. Under the new standard, the diluted earnings per share calculation increases the number of shares used in the calculation, determined using the treasury stock method. The impact of the adoption of the new accounting standard, resulted in no change to the calculation of diluted earnings per share for the 52 week period ended December 30, 2000.

Revenue Recognition

Revenues from merchandise sales and services are net of estimated returns and allowances, exclude sales taxes and are recorded upon delivery to the customer. Revenues relating to the travel business and licensed department businesses are recorded in revenues net of cost of sales.

Finance charge revenues are recorded on an accrual basis, including unbilled finance charges based on actual finance charges on the most recent billing cycles.

Joint venture revenues are recorded based on monthly rentals.

The Company sells extended service contracts with terms of coverage generally between 12 and 36 months. Revenues from the sale of these contracts are deferred and amortized in proportion to the anticipated expenses.

Comparative Figures

Certain of last year's figures have been reclassified to conform with the current year's presentation.

2. Accounts Receivable

(in millions)	**2001**	2000
Charge account receivables - current	**$ 1,885.9**	$ 1,949.3
Charge account receivables - deferred	**755.7**	737.9
Managed accounts	**2,641.6**	2,687.2
Less: co-ownership interest held by third parties (Note 3)	**(1,804.2)**	(1,813.7)
Co-ownership retained by the Company	**837.4**	873.5
Interest-only strip receivable (Note 3)	**36.1**	–
Miscellaneous receivables	**(1.6)**	68.5
Total	**$ 871.9**	$ 942.0

The total credit losses for the year on managed accounts, net of recoveries, were $74.2 million (2000 - $70.2 million). Of the current charge account receivables 72.9% (2000 - 70.7%) have a payment status that is current.

3. Transfer of Receivables

The Company sells an undivided co-ownership interest in a pool of current and deferred charge account receivables on a fully serviced basis in securitization transactions and receives no fee for ongoing servicing responsibilities. The Company receives proceeds equal to fair value for the assets sold and retained rights to future cash flows arising after the investors in the securitization trusts have received the return for which they contracted. The co-owners have no recourse to the Company's retained interest in the receivables sold other than in respect of amounts in the cash reserve account (Note 5) and the interest-only strip receivable. The co-owners have no recourse to the Company's other assets.

During the year ended December 29, 2001, the Company recognized a pre-tax gain of $54.0 million on the securitization of charge account receivables. As at December 29, 2001, the interest-only strip was recorded at $36.1 million. The following table shows the key economic assumptions used in measuring the interest-only strip and securitization gains. The table also displays the sensitivity of the current fair value of residual cash flows to immediate 10% and 20% adverse changes in yield, payment rate, net charge-off rate and discount rate assumptions.

Effects of Adverse Changes

(in millions)

	Assumptions	10%	20%
Yield (annual rate)	24.14%	$ 5.7	$ 11.3
Principal payment rate (monthly)	24.07%	4.8	8.9
Net change-off rate (annual rate)	4.06%	0.9	1.8
Discount rate (annual rate)	12.00%	–	–

The table below summarizes certain cash flows related to the transfer of receivables during 2001, which have been accounted for under the provisions of Accounting Guideline – 12:

(in millions)	
Proceeds from new transfers	$ 1,022.0
Proceeds from collections	259.4
Other cash flows relating to retained interests	30.6

4. Future Income Taxes

The tax effects of the significant components of temporary differences giving rise to the Company's net income tax assets and liabilities are as follows:

	2001		2000	
(in millions)	**Current**	**Long-Term**	Current	Long-Term
Future income tax assets:				
Items not deducted for tax purposes	**$ 94.5**	**$ –**	$ 71.2	$ –
Amounts related to tax losses carried forward	**32.7**	**152.7**	127.0	129.7
Deductible acquisition costs	**4.7**	**–**	8.7	–
(Gain) on securitization	**(21.6)**	**–**	–	–
Total	**$ 110.3**	**$ 152.7**	$ 206.9	$ 129.7
Future income tax liabilities:				
Depreciable capital assets	**$ –**	**$ 10.5**	$ –	$ 27.6
Deductible deferred charges	**–**	**40.1**	–	46.3
Other	**–**	**1.4**	–	1.7
Total	**$ –**	**$ 52.0**	$ –	$ 75.6

The average combined federal and provincial statutory income tax rate, excluding Large Corporations Tax, applicable to the Company was 41.9% for 2001 (2000 - 43.4%).

A reconciliation of income taxes at the average statutory tax rate to the actual income taxes is as follows:

(in millions)	**2001**	2000
Earnings before income taxes	**$ 177.5**	$ 334.1
Income taxes at average statutory tax rate	**$ 74.4**	$ 144.9
Increase (decrease) in income taxes resulting from:		
Prior year recovery	**–**	(5.6)
Non-taxable portion of capital gains	**(0.8)**	(13.6)
Non-deductible items	**1.1**	1.3
Reduction in value of future income tax assets	**20.9**	–
Deferred credit drawdown	**(16.8)**	(22.9)
Large Corporations Tax	**4.6**	4.2
Income taxes	**$ 83.4**	$ 108.3
Effective tax rate	**47.0%**	32.4%

Income taxes for the year included a charge of $20.9 million relating to a reduction in the valuation of future income tax assets due to lower income in the current period and lower statutory rates of tax for future years. This is net of recognition of $15.1 million of the deferred credit relating to the acquisition of Eaton's. The future income tax assets acquired were valued at $310.0 million, which exceeded the total acquisition cost by $130.0 million. This amount was recorded as a deferred credit and is recognized proportionally as a reduction to income taxes as the future income tax asset is drawn down. In addition, income taxes were reduced by the recognition of deferred credit in the amount of $16.8 million (2000 - $22.9 million) for the year.

The Company's total cash payments for income taxes in 2001 were $34.1 million (2000 - $101.4 million).

5. Investments and Other Assets

(in millions)	2001	2000
Unsecured debentures	$ 34.6	$ 49.7
Subordinated loans	13.4	21.6
Retained interest in transferred receivables - cash reserve account	33.5	–
Total	$ 81.5	$ 71.3

Unsecured debentures, which represent investments made by the Company in the independent trusts referred to in Note 16, in the amounts of $14.2 million, $5.9 million, $3.0 million, and $11.5 million, are due in 2010, 2011, 2013 and 2014 respectively. Subordinated loans, which represent loans to one of the independent trusts, are due in 2006. All bear interest at floating rates.

6. Capital Assets

(in millions)	2001	2000
Land	$ 68.6	$ 62.4
Buildings and improvements	877.1	861.1
- held by joint ventures	175.4	181.3
Equipment and fixtures	1,237.4	1,108.4
Gross capital assets	2,358.5	2,213.2
Accumulated depreciation		
Buildings and improvements	370.3	322.1
- held by joint ventures	38.3	34.6
Equipment and fixtures	761.2	657.3
Total accumulated depreciation	1,169.8	1,014.0
Capital assets	$ 1,188.7	$ 1,199.2

The carrying values of land and buildings are evaluated by management on an on-going basis as to their net recoverable amounts. This is a function of their average remaining useful lives, market valuations, cash flows, and capitalization rate models. Situations giving rise to a shortfall in the net recoverable amounts are assessed as either temporary or permanent declines in the carrying values; permanent declines are adjusted.

7. Deferred Charges

(in millions)	2001	2000
Excess of contributions to associate future benefits over amounts expensed	$ 109.6	$ 107.1
Tenant allowances for proportionate interests in joint ventures	6.5	6.6
Debt issuance and securitization set up costs	14.0	5.9
Other deferred charges	27.7	18.4
Total deferred charges	$ 157.8	$ 138.0

8. Associate Future Benefits

Information about the Company's defined benefit plans in aggregate, is as follows:

(in millions)	**2001** Pension Plans	**2001** Other Benefit Plans	2000 Pension Plans	2000 Other Benefit Plans
Plan Assets				
Market value at beginning of year	**$ 1,387.6**	**$ 91.7**	$ 1,318.6	$ 93.7
Actual return on plan assets	**(28.7)**	**(2.0)**	100.2	7.1
Employer contributions	**1.5**	**1.2**	1.5	0.6
Associate contributions	**19.3**	**–**	16.5	–
Benefits paid[1]	**(58.2)**	**(10.9)**	(49.2)	(9.7)
Market value at end of year[2]	**1,321.5**	**80.0**	1,387.6	91.7
Plan Obligation				
Accrued benefit obligation at beginning of year[3]	**$ 969.4**	**$ 201.5**	$ 885.0	$ 173.2
Total current service cost	**45.2**	**3.7**	37.9	2.9
Interest cost	**65.0**	**14.0**	63.3	13.1
Benefits paid[1]	**(58.2)**	**(11.3)**	(49.2)	(10.3)
Actuarial losses	**30.0**	**9.7**	32.4	22.6
Accrued benefit obligation at end of year	**1,051.4**	**217.6**	969.4	201.5
Accrued Benefit Asset (Liability)				
End of year market value less accrued benefit obligation	**$ 270.1**	**$ (137.6)**	$ 418.2	$ (109.8)
Unamortized net actuarial (gain) loss	**(26.6)**	**3.7**	(188.1)	(13.1)
Unamortized past service costs	**–**	**–**	–	–
Accrued benefit asset (liability)	**243.5**	**(133.9)**	230.1	(122.9)
Valuation allowance[4]	**–**	**–**	–	–
Accrued benefit asset (liability), net of valuation allowance[5]	**$ 243.5**	**$ (133.9)**	$ 230.1	$ (122.9)

1 Benefits paid include amounts paid from funded assets. Other benefits are paid directly by the Company.

2 There are no plan assets invested in parties related to the plan.

3 Accrued benefit obligation represents the actuarial present value of benefits attributed to associate service rendered to a particular date.

4 The valuation allowance represents the amount of surplus not recognized on the Company's balance sheet.

5 The accrued benefit asset (liability), net of valuation allowance, represents the amount of the asset (liability) recognized on the Company's balance sheet.

Benefit Plan Expense

(in millions)	2001 Pension Plans	2001 Other Benefit Plans	2000 Pension Plans	2000 Other Benefit Plans
Company current service cost	**$ 25.9**	**$ 3.7**	$ 21.4	$ 2.9
Interest cost	**65.0**	**14.0**	63.2	13.1
Expected return on plan assets	**(95.9)**	**(6.2)**	(91.2)	(6.2)
Amortization of net actuarial (gain) loss	**(6.6)**	**–**	(10.8)	(0.6)
Net benefit plan expense	**$ (11.6)**	**$ 11.5**	$ (17.4)	$ 9.2

The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligations are as follows (weighted-average assumptions as at year end):

	2001 Pension Plans	2001 Other Benefit Plans	2000 Pension Plans	2000 Other Benefit Plans
Discount rate	**6.50%**	**6.75%**	6.75%	6.75%
Expected long-term rate of return on plan assets	**7.00%**	**N/A**	7.00%	N/A
Rate of compensation increase	**3.5%+ merit**	**3.5%+ merit**	3.5%+ merit	3.5%+ merit

For measurement purposes a 6.6% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2002. The rate of increase was assumed to decrease gradually to 4.0% for 2010 and remain at that level thereafter.

9. Long-Term Obligations

(in millions)	2001	2000
Unsecured debentures:		
7.80% due March 1, 2001	**$ –**	$ 100.0
6.55% due November 5, 2007	**125.0**	125.0
Unsecured medium term notes:		
7.45% due May 10, 2010	**200.0**	200.0
7.05% due September 20, 2010	**100.0**	100.0
6.75% due March 15, 2006	**200.0**	–
Proportionate share of long-term debt of joint ventures with a weighted average interest rate of 9.4% due 2002 to 2016	**145.3**	158.8
Capital lease obligations:		
Interest rates from 7% to 14%	**42.5**	14.8
	812.8	698.6
Less principal payments due within one year included in current liabilities	**10.1**	152.5
Total long-term obligations	**$ 802.7**	$ 546.1

The Company's proportionate share of the long-term debt of joint ventures is secured by the shopping malls owned by the joint ventures. The Company's total principal payments due within one year include $6.0 million (2000 - $51.5 million) of the proportionate share of the current debt obligations of joint ventures.

Interest on long-term debt amounted to $63.2 million (2000 - $67.7 million).

The Company's total cash payments for interest in 2001 were $56.6 million (2000 - $67.2 million)

Principal Payments

For fiscal years subsequent to the fiscal year ended December 29, 2001, principal payments required on the Company's total long-term obligations are as follows:

(in millions)	
2002	$ 10.1
2003	8.9
2004	10.8
2005	25.2
2006	210.8
Subsequent years	547.0
Total debt outstanding	$ 812.8

Significant Financing Transactions

During 2000, long-term financing for new capital projects of real estate joint ventures was obtained in the amount of $20.5 million. Due to the sale of two joint ventures, $70.7 million was released from the Company's obligations. In addition, $6.0 million of joint venture debt matured and was repaid.

The Company completed two issues of notes totaling $300 million in 2000, under the shelf prospectus filed on December 23,1998 that qualified the issuance of up to $500 million in medium term notes (debt with a term to maturity in excess of one year) over the subsequent two years.

- On May 10, 2000, $200 million of 7.45% medium term notes due May 10, 2010 were issued.
- On September 18, 2000, $100 million of 7.05% medium term notes due September 20, 2010 were issued.

On July 10, 2000, the outstanding 11.7% unsecured debentures of Sears Canada Inc. in the amount of $100 million matured and were repaid.

On December 11, 2000, the outstanding 8.25% unsecured debentures of Sears Canada Inc. in the amount of $125 million matured and were repaid.

On February 9, 2001, the Company filed a new shelf prospectus with securities commissions in Canada that qualifies the issuance of up to $500 million in medium term notes (debt with a term to maturity in excess of one year) over the next two years.

- On March 15, 2001, $200 million of 6.75% medium term notes due March 15, 2006 were issued.

On March 1, 2001, the outstanding unsecured 7.80% debentures of Sears Canada Inc. in the amount of $100 million matured and were repaid.

During 2001, $53.7 million of joint venture debt matured, of which $40.1 million was refinanced.

10. Capital Stock

The Company is authorized to issue an unlimited number of common shares and an unlimited number of non-voting, redeemable and retractable Class 1 Preferred Shares in one or more series. On December 22, 2000, a total of 25,633,934 Class 1 Preferred Shares, Series B were issued and immediately redeemed as part of a real estate joint-venture restructuring. As at December 29, 2001, the only shares outstanding were the common shares of the Company. Changes in the number of outstanding common shares and their stated values since January 1, 2000 are as follows:

	2001		**2000**	
	Number of Shares	**Stated Value (millions)**	Number of Shares	Stated Value (millions)
Beginning balance	**106,469,652**	**$ 455.6**	106,258,828	$ 452.8
Issued pursuant to Special Incentive Awards	**75,000**	**–**	–	–
Issued pursuant to stock options	**188,966**	**2.1**	210,824	2.8
Ending balance	**106,733,618**	**$ 457.7**	106,469,652	$ 455.6

During 2001, the Company announced its intention to purchase for cancellation up to 5% of its issued and outstanding common shares, representing up to 5,336,681 of the issued and outstanding common shares. The purchases were eligible to commence on November 2, 2001 and must terminate by November 1, 2002 pursuant to the Notice of Intention filed with The Toronto Stock Exchange. The price which the Company will pay for any such shares will be the market price at the time of acquisition. No shares had been purchased as at December 29, 2001.

Details of stock option transactions under the Company's Employees Stock Plan, including Special Incentive Awards, as at December 29, 2001, are set out below.

Special Incentive Awards of options and shares are awarded to Officers of the Company on a conditional basis, subject to achievement of specified performance criteria and specified vesting periods in the case of options. In 2001, 120,000 shares were awarded as Special Incentive Awards. In addition, 75,000 Special Incentive Award shares were issued during 2001.

Options granted and accepted	Option price	Expiry date	Options exercised	Options outstanding
232,301	$ 5.58	Feb. 2001	228,151	–
276,440	$ 5.58	Feb. 2006	165,985	110,455
60,000	$ 9.72	Nov. 2006	60,000	–
286,870	$ 10.65	Jan. 2007	151,456	135,414
30,000	$ 10.82	Feb. 2007	30,000	–
306,870	$ 19.63	Jan. 2008	66,702	240,168
26,000	$ 24.73	Apr. 2008	17,000	9,000
316,830	$ 21.19	Jan. 2009	36,911	279,919
324,740	$ 40.68	Jan. 2010	–	324,740
540,150	$ 21.72	Jan. 2011	–	540,150
3,000	$ 21.51	Mar. 2011	–	3,000
Special Incentive Award Options				
170,000	$ 22.75	Feb. 2008	–	170,000
825,000	$ 28.75	Jul. 2008	–	825,000

As at December 29, 2001, 2,637,846 options were outstanding of which 777,592 are exercisable under the Employees Stock Plan, and 190,000 Special Incentive Awards shares were granted but unearned under the Employees Stock Plan.

Options to purchase 516,520 common shares have been authorized to be granted under the Employees Stock Plan in 2002.

Under the Directors' Stock Option Plan, stock options are granted to Directors who are not employees of the Company or Sears, Roebuck and Co.

Directors' Stock Option Plan:

Granted and accepted	Option price	Expiry date	Options exercised	Options cancelled	Options outstanding
9,000	$ 25.98	Apr. 2008	2,000	4,000	3,000
10,500	$ 29.96	Apr. 2009	500	4,000	6,000
9,000	$ 36.23	Apr. 2010	–	3,000	6,000
9,750	$ 21.32	Jul. 2011	–	–	9,750

As at December 29, 2001, 24,750 options were outstanding of which 9,000 are exercisable under the plan.

11. Unusual Items

The Company recorded a pre-tax gain of $5.5 million in 2001 (2000 - $12.5 million) comprised of the following unusual items:

(in millions)		**2001**		2000
Gain on sale of distribution facility	**$**	**8.3**	$	–
Cost of closing 14 auto centres		**(2.8)**		–
Gain on sale of shopping centre investments		**–**		25.3
Cost of exiting gas bar operations		**–**		(7.6)
Costs related to the restructuring of distribution operations		**–**		(3.4)
Other restructuring initiatives		**–**		(1.8)
Unusual gain	**$**	**5.5**	$	12.5

During 2001, the Company recorded the following:

- A gain of $8.3 million on the sale of the Underhill distribution terminal.
- An expense of $2.8 million in relation to the closure of 14 auto centres, which includes severance and site restoration.

During 2000, the Company recorded the following:

- A gain of $25.3 million on the disposition of interests in three shopping centres.
- An expense of $7.6 million for the cost of exiting gas bar operations which includes site restoration.
- A loss of $3.4 million for the restructuring of distribution operations.
- An expense of $1.8 million, including severance, for the restructuring of business processes.

12. Changes in Non-Cash Working Capital

The cash generated from (used for) non-cash working capital is made up of changes related to operations in the following accounts:

(in millions)	**2001**	2000
Accounts receivable	**$ 70.2**	$ (4.4)
Inventories	**150.7**	(200.9)
Prepaid expenses and other assets	**(6.1)**	(18.4)
Accounts payable	**(204.7)**	164.7
Accrued liabilities	**0.1**	38.3
Income and other taxes payable	**18.6**	(61.3)
Cash generated from (used for) working capital	**$ 28.8**	$ (82.0)

13. Commitments and Contingencies

Minimum capital and operating lease payments, exclusive of property taxes, insurance and other expenses payable directly by the Company, having an initial term of more than one year as at December 29, 2001 are as follows:

(in millions)	Capital Leases	Operating Leases
2002	$ 7.5	$ 99.5
2003	7.5	91.7
2004	7.5	87.5
2005	7.5	82.2
2006	7.5	76.7
Subsequent years	23.5	658.1
Minimum lease payments	61.0	$ 1,095.7
Less imputed weighted average interest of 8.4%	18.5	
Total capital lease obligations	$ 42.5	

Total rentals charged to earnings under all operating leases for the year ended December 29, 2001 amounted to $125.2 million (2000 - $108.7 million).

The Company is party to a number of legal proceedings. The Company believes that each such proceeding constitutes routine litigation incidental to the business conducted by the Company and that the ultimate disposition of these matters will not have a material adverse effect on its consolidated earnings, cash flows or financial position.

14. Segmented Information

The Company has three reportable operating segments: merchandising, credit, and real estate joint venture operations.

- The merchandising segment includes the Company's department stores, catalogue operations, furniture and appliances stores, dealer stores, and outlet stores, as well as the products and services offered under the Sears HomeCentral banner and on its website, www.sears.ca.
- The credit segment finances and manages customer charge account receivables generated from the sale of goods and services charged on the Sears Card and Eatons Card.
- The real estate joint venture segment consists of the Company's joint venture interests in shopping centres, most of which contain a Sears store.

The reportable segments have been determined on the basis on which management measures performance and makes decisions on allocations of resources. The accounting policies of the segments are the same as those described in the Summary of Accounting Policies. During the preparation of the consolidated financial statements the revenues and expenses between segments are eliminated. The Company evaluates the performance of each segment based on earnings before interest expense and income taxes, as well as capital employed. The Company does not allocate interest expense or income taxes to segments.

Segmented Statements of Earnings for the 52 week periods ended December 29, 2001 and December 30, 2000

				2001				2000
(in millions)	**Mdse.**	**Credit**	**Real Estate Joint Ventures**[7]	**Total**	Mdse.	Credit	Real Estate Joint Ventures[7]	Total
Total Revenues[6]	**$ 6,290.5**	**$ 379.8**	**$ 56.1**	**$ 6,726.4**	$ 5,971.4	$ 308.3	$ 76.1	$ 6,355.8
Segment operating profit	**87.9**	**118.9**	**29.4**	**236.2**	280.9	70.0	37.1	388.0
Interest expense				**64.2**				66.4
Unusual items (gains)				**(5.5)**				(12.5)
Income taxes				**83.4**				108.3
Net earnings				**$ 94.1**				$ 225.8

6 The real estate joint venture revenues are net of $3.0 million (2000 - $3.8 million) representing the elimination of rental revenues earned from Sears department stores. Rental expense of the real estate joint venture segment has been decreased by the same amount having no effect on overall segment operating profit.

7 The real estate joint ventures had cash generated from operations of $15.3 million (2000 - $2.1 million), cash used for investments activities of $0.3 million (2000 - cash generated from investment activities of $84.6 million), and cash used for financing activities of $15.3 million (2000 - $85.8 million).

Segmented Statements of Financial Position as at December 29, 2001 and December 30, 2000

	2001				2000			
(in millions)	**Mdse.**	**Credit**	**Real Estate Joint Ventures**	**Total**	Mdse.	Credit	Real Estate Joint Ventures	Total
Assets								
Cash and short-term investments	**$ 325.4**	**$ –**	**$ 3.9**	**$ 329.3**	$ 131.3	$ –	$ 4.2	$ 135.5
Accounts receivable	**8.1**	**859.3**	**4.5**	**871.9**	116.9	821.2	3.9	942.0
Inventories	**864.5**	**–**	**–**	**864.5**	1,015.2	–	–	1,015.2
Capital assets	**1,022.4**	**–**	**166.3**	**1,188.7**	1,022.6	–	176.6	1,199.2
Other	**570.6**	**50.9**	**4.1**	**625.6**	643.4	15.3	4.4	663.1
Total assets	**$ 2,791.0**	**$ 910.2**	**$ 178.8**	**$ 3,880.0**	$ 2,929.4	$ 836.5	$ 189.1	$ 3,955.0
Liabilities								
Accounts payable	**$ 765.6**	**$ 0.4**	**$ 3.9**	**$ 769.9**	$ 968.6	$ 1.0	$ 5.0	$ 974.6
Accrued liabilities	**386.4**	**28.1**	**7.6**	**422.1**	411.3	22.3	6.7	440.3
Other	**232.8**	**7.6**	**14.9**	**255.3**	289.0	(12.9)	16.1	292.2
Total liabilities excluding debt	**$ 1,384.8**	**$ 36.1**	**$ 26.4**	**$ 1,447.3**	$ 1,668.9	$ 10.4	$ 27.8	$ 1,707.1
Capital employed	**$ 1,406.2**	**$ 874.1**	**$ 152.4**	**$ 2,432.7**	$ 1,260.5	$ 826.1	$ 161.3	$ 2,247.9
Average capital employed	**$ 1,333.4**	**$ 850.1**	**$ 156.9**	**$ 2,340.4**	$ 1,038.3	$ 893.0	$ 208.6	$ 2,139.9
Capital expenditures	**$ 141.7**	**$ –**	**$ 1.7**	**$ 143.4**	$ 437.5	$ –	$ 9.8	$ 447.3
Depreciation and amortization	**$ 165.6**	**$ –**	**$ 3.7**	**$ 169.3**	$ 124.3	$ –	$ 5.5	$ 129.8

15. Related Party Transactions

Sears, Roebuck and Co. is the beneficial holder of the majority of the outstanding common shares of Sears Canada Inc., holding approximately 54% of the common shares of the Company.

During 2001, Sears, Roebuck and Co. charged the Company $14.8 million (2000 - $13.0 million) in the ordinary course of business for shared merchandise purchasing services. These amounts are included in the cost of merchandise sold, operating, administrative, and selling expenses.

Sears, Roebuck and Co. charged the Company $11.1 million (2000 - $19.4 million) and the Company charged Sears, Roebuck and Co. $4.6 million (2000 - $5.0 million) for other reimbursements. These reimbursements were primarily in respect of customer cross-border purchases made on the Sears Card, and the Sears, Roebuck and Co. charge card, as well as software and support services.

During 2001, the Company purchased an aircraft from Sears, Roebuck and Co. for $12.5 million. This transaction was recorded at fair market value.

There were no significant commitments, receivables or payables between the companies at the end of 2001 or 2000.

16. Financial Instruments

In the ordinary course of business, the Company enters into financial agreements with banks and other financial institutions to reduce underlying risks associated with interest rates and foreign currency. The Company does not hold or issue derivative financial instruments for trading or speculative purposes and controls are in place to prevent and detect these activities. The financial instruments do not require the payment of premiums or cash margins prior to settlement. These financial instruments can be summarized as follows:

Foreign Exchange Risk

From time to time the Company enters into foreign exchange contracts to reduce the foreign exchange risk with respect to U.S. dollar denominated goods purchased for resale. There were no such contracts outstanding at the end of 2001 or 2000.

Securitization of Charge Account Receivables

Securitization is an important financial vehicle which provides the Company with access to funds at a low cost. The Company sells undivided co-ownership interests in its portfolio of current and deferred charge account receivables to independent trusts and retains the income generated by the undivided co-ownership interests sold to the trusts in excess of the trusts' stipulated share of service charge revenues (refer to Notes 2 and 3).

Interest Rate Risk

To manage the Company's exposure to interest rate risks, the Company has entered into interest rate swap contracts with Schedule "A" Banks. Neither the notional principal amounts nor the current replacement value of these financial instruments are carried on the consolidated statements of financial position.

As at December 29, 2001, the Company had one interest rate swap contract in place to reduce the risk associated with variable interest rates associated with the floating rate debt issued by the trusts. For the year ended December 29, 2001, a net interest differential of $4.8 million (2000 - $3.0 million) was paid on the floating-to-fixed interest rate swap contracts and was recorded as an increase in interest expense of the Company.

Credit Risk

The Company's exposure to concentration of credit risk is limited. Accounts receivable are primarily from Sears Card and Eatons Card customers, a large and diverse group.

Interest Rate Sensitivity Position

Interest rate risk reflects the sensitivity of the Company's financial condition to movements in interest rates.

The table below identifies the Company's financial assets and liabilities which are sensitive to interest rate movements and those which are non-interest rate sensitive. Financial assets and liabilities which do not bear interest or which bear interest at fixed rates are classified as non-interest rate sensitive.

	2001		2000	
(in millions)	**Interest Sensitive**	**Non-Interest Sensitive**	Interest Sensitive	Non-Interest Sensitive
Cash and short-term investments	**$ 329.3**	**$ –**	$ 135.5	$ –
Investments and other assets	**81.5**	**–**	71.3	–
Accounts receivable[8]	**36.1**	**835.8**	–	942.0
Long-term obligations (including current portion)[9]	**(1.9)**	**(810.9)**	(148.8)	(549.8)
Net balance sheet interest rate sensitivity position	**$ 445.0**	**$ 24.9**	$ 58.0	$ 392.2

8 Interest sensitive portion relates to the interest-only- strip receivable described in Note 3 – Transfer of receivables

9 Interest sensitive portion includes long-term prime-rate based debt and current portion of long-term debt due to be renegotiated.

In addition to the net balance sheet interest rate sensitivity position, the Company is also affected by interest rate sensitive debt outstanding in the independent securitization trusts, where transfers are not subject to Accounting Guideline-12 (see Note 1, Summary of Accounting Policies). Any change in short-term interest rates will impact floating rate debt and debt with maturities of less than one year held by the trusts, which totaled $748.7 million at December 29, 2001 (2000 - $1,034.8 million). An increase in the cost of this off-balance sheet debt will result in a decrease in the Company's share of service charge revenues. This interest rate exposure is offset, in part, by interest rate swap contracts held by the Company in the notional amount of $100 million (2000 - $250 million).

Fair Value of Financial Instruments

The estimated fair values of financial instruments as at December 29, 2001 and December 30, 2000 are based on relevant market prices and information available at that time. As a significant number of the Company's assets and liabilities, including inventory and capital assets, do not meet the definition of financial instruments, the fair value estimates below do not reflect the fair value of the Company as a whole.

Carrying value approximates fair value for financial instruments which are short-term in nature. These include cash and short-term investments, accounts receivable, prepaid expenses and other assets, accounts payable, accrued liabilities, income and other taxes payable, and principal payments on long-term obligations due within one year. For financial instruments which are long-term in nature, fair value estimates are as follows:

	2001		2000	
(in millions)	**Carrying or Notional Amount**	**Fair Value**	Carrying or Notional Amount	Fair Value
Financial Assets and Liabilities				
Investments and other assets	**$ 81.5**	**$ 81.5**	$ 71.3	$ 71.3
Long-term obligations	**$ 802.7**	**$ 803.3**	$ 546.1	$ 557.6

	2001		2000	
(in millions)	**Carrying or Notional Amount**	**Fair Value Premium/ (Discount)**	Carrying or Notional Amount	Fair Value Premium/ (Discount)
Off-Balance Sheet Interest Rate Swaps				
4.95%, expiring April 2001	$ –	$ –	$ 150.0	$ 0.6
9.54%, expiring April 2002	**100.0**	**(3.4)**	100.0	(5.9)
	$ 100.0	**$ (3.4)**	$ 250.0	$ (5.3)

The fair value of investments and other assets and long-term obligations was estimated based on quoted market prices, when available, or discounted cash flows using discount rates based on market interest rates and the Company's credit rating. As long-term debt coupon rates are higher than current market interest rates, the fair value of the Company's long-term debt exceeds its carrying value.

The fair value of the interest rate swap contracts was estimated by referring to the appropriate yield curves with matching terms of maturity. A fair value discount reflects the estimated amount that the Company would pay to terminate the contracts at the reporting date.

17. Earnings Per Share

A reconciliation of the number of shares used in the earnings per share calculation is as follows:

	2001	2000
	Number of shares	
Average number of shares per basic earnings per share calculation	**106,690,685**	106,397,789
Effect of dilutive options outstanding	**185,298**	759,842
Average number of shares per diluted earnings per share calculation	**106,875,983**	107,157,631

18. Subsequent Event

On February 18, 2002, after careful consideration of strategic alternatives, the Company announced that it had made a decision to convert its seven Eatons department stores to the Sears banner by the end of July 2002.

A one-time, pre-tax charge will be recorded in the first quarter of 2002 for an estimated amount of $180 million, consisting of $30 million in cash for severance payments, third party commitments, and closing costs, and a $150 million non-cash write-down of fixtures and leasehold improvements.

Interest Coverage Exhibit to the Financial Statements

The Company's earnings before interest and income taxes for the 52 week period ended December 29, 2001 were $240.7 million, which is 3.8 times the Company's long-term interest requirements of $63.2 million for this period.

Interest coverage on long-term debt is equal to net income before interest expense on long-term debt and income taxes, divided by annual interest requirements on long-term debt.

Corporate Governance

The Corporation, the Board of Directors and management are committed to maintaining high standards of corporate governance. The Board believes that strong corporate governance practices are essential to the success of the Corporation, to effective corporate performance and to the best interests of shareholders.

The Board of Directors is responsible for overseeing the business and affairs of the Corporation, acting with a view to the best interests of the Corporation, providing guidance and direction to the management of the Corporation in order to attain corporate objectives and maximize shareholder value. The Board carries out its stewardship functions directly and through its Committees.

The Board of Directors has five regularly scheduled meetings each year with additional meetings held as required. The Board has the opportunity to meet in camera (without management present) at each meeting. In 2001, there were six meetings of the Board, five meetings of the Audit Committee, four meetings of the Compensation Committee, four meetings of the Investment Committee and six meetings of the Nominating and Corporate Governance Committee. Attendance of the Directors at these meetings averaged approximately 90%. The Board has assigned the responsibility for corporate governance to the Nominating and Corporate Governance Committee (the "Nominating Committee").

The Board of Directors and the Audit, Compensation and Nominating Committees of the Board are each responsible for certain corporate governance functions in accordance with their respective mandates. The Nominating Committee is responsible for monitoring and guiding the corporate governance approach and practices of the Corporation. This Committee is satisfied that the Corporation is in conformance with the recommended practices of The Toronto Stock Exchange.

The Directors are elected annually by the shareholders. The Board is currently composed of eleven Directors. The Corporation's significant shareholder, Sears, Roebuck and Co., beneficially holds approximately 54% of the common shares of the Corporation. Three Directors are executive officers of Sears, Roebuck and Co., and seven Directors (or 64% of the total number of Directors) are independent of the Corporation and its affiliates ("Independent Directors"). The Board's composition fairly reflects the investment in the Corporation by minority shareholders and the independence of the Board from management.

The Corporation has designed the Directors' compensation to align the Directors' interest with corporate performance and the return to shareholders. Independent Directors receive an annual equity grant of common shares and stock options under plans established by the Corporation. In addition to equity compensation, Independent Directors receive cash compensation and an administration and expense allowance, as more particularly set out in the Management Proxy Circular of the Corporation dated March 4, 2002, a copy of which may be obtained from the Secretary.

The Corporation has adopted a Corporate Disclosure, Confidentiality and Insider Trading Policy ("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 Policy provides direction and guidance to its directors, officers and employees regarding confidentiality and disclosure of company information and insider trading obligations. The 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, including press conferences and media debriefings via webcast.

The Board of Directors believes that the Policy reflects the Corporation's commitment to timely disclosure, to maintaining a best practices approach to corporate governance and to compliance with continuous disclosure requirements.

A more detailed Statement of Corporate Governance Practices is contained in the Management Proxy Circular of the Corporation dated March 4, 2002. The Directors of the Corporation, their principal occupations and Committee appointments are listed on page 51 of this Report.

Corporate Information

Head Office

Sears Canada Inc.
222 Jarvis Street
Toronto, Ontario
Canada M5B 2B8

Transfer Agent and Registrar

CIBC Mellon Trust Company
Toronto, Ontario
Montreal, Quebec

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

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

Stock Exchange Listing

The Toronto Stock Exchange

Trading Symbol

SCC

Annual and Special Meeting

The Annual and Special Meeting of Shareholders of Sears Canada Inc. will be held on Monday, April 15, 2002 at 10:00 a.m. in the
Burton-Wood Auditorium
Main Floor
222 Jarvis Street
Toronto, Ontario, Canada

Édition française du Rapport annuel

On peut se procurer l'édition française de ce rapport en écrivant au:
S/728, Relations Publiques
Sears Canada Inc.
222 Jarvis Street
Toronto, Ontario
Canada M5B 2B8

Pour de plus amples renseignements au sujet de la Société, veuillez écrire au Service des relations publiques, ou composer le (416) 941-4425

For More Information

Additional copies of the Annual Report can be obtained through the Public Affairs Department at the Head Office of Sears Canada Inc.

For more information about the Company, write to Public Affairs, or call (416) 941-4425

Website: www.sears.ca
E-mail: home@sears.ca

Produced by Sears Canada Inc.
Public Affairs

Design by Compendium Design International Inc.

Printed in Canada by Kempenfelt Graphics Group

Directors and Officers *(as at February 4, 2002)*

Board of Directors

Jalynn H. Bennett ◆ ■ ▲
President, Jalynn H. Bennett and Associates Ltd.

Micheline Bouchard ◆
Corporate Vice President and General Manager, Enterprise Services Organization, Motorola Inc.

Mark A. Cohen ■ ●
Chairman of the Board and Chief Executive Officer of the Corporation

Alan J. Lacy ■
Chairman of the Board, President and Chief Executive Officer, Sears, Roebuck and Co.

Greg A. Lee
Senior Vice President, Human Resources, Sears, Roebuck and Co.

Paul J. Liska ◆
Executive Vice President and Chief Financial Officer, Sears, Roebuck and Co.

Brian F. MacNeill ■
Chairman of the Board, Petro-Canada

Mary Mogford ◆ ■ ▲ ●
Corporate Director

James W. Moir, Jr. ◆ ▲ ●
Corporate Director

C. Wesley M. Scott ● ▲
Corporate Director

Carol M. Stephenson ●
President and Chief Executive Officer, Lucent Technologies Canada Corp.

Committees

■ Compensation ◆ Audit ▲ Investment
● Nominating and Corporate Governance

Mark A. Cohen is an ex officio member of the Nominating and Corporate Governance Committee.

Honorary Director

C. Richard Sharpe
Former Chairman of the Board and Chief Executive Officer, Sears Canada Inc.

Officers

Mark A. Cohen
Chairman of the Board and Chief Executive Officer

Richard A. Brown
Senior Vice-President, Strategic Initiatives

John T. Butcher
Executive Vice-President and Chief Financial Officer

G. Bruce Clark
Senior Vice-President, Credit

Barbara L. Duffy
Senior Vice-President, Human Resources

Brent V. Hollister
President, Sales, Service and Store Planning

John D. Smith
Senior Vice-President and Chief Information Officer

William R. Turner
President, Merchandising, Marketing and Logistics

Rudolph R. Vezér
Senior Vice-President, Secretary and General Counsel

SEARS