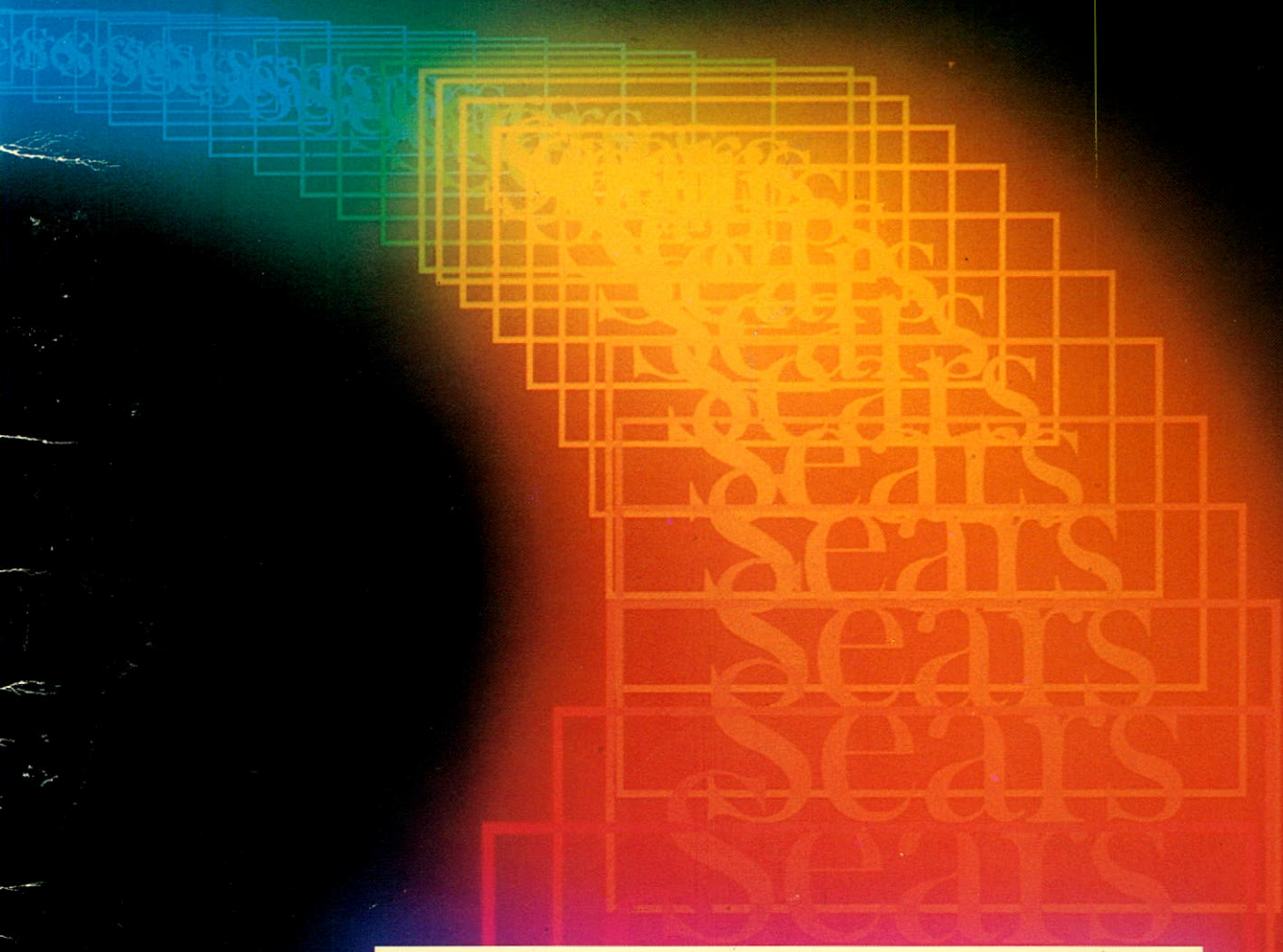


SEARS CANADA INC. ANNUAL REPORT 1984



Sears

Net earnings were \$37,316,000, equivalent to 43¢ per share compared with \$34,586,000 or 40¢ per share the previous year.

Associated companies contributed 11¢ per share to the earnings of the Company compared with 15¢ in 1983.

Expansion

We opened a new retail store in Halifax, Nova Scotia in 1984. This expansion along with our on-going renovation of existing facilities required a capital investment of \$34,301,000. At year end the Company operated 74 retail stores and 1,384 catalogue sales units. Plans have been announced for a new store in London, Ontario in 1985 and new stores in north-west Toronto, Ontario and in La Salle, Quebec in 1986.

Corporate Changes

On May 31, 1984, the name of the Company was changed to Sears Canada Inc. to signal the final phase in our separation from Simpsons Limited. At the same time the Company's Class A non-voting shares, Class B and Class C shares were reclassified as a single class of Common Shares.

Three Officers retired in 1984 all of whom have served more than 30 years with the Company. Mr. Edward R. Adolph, Vice-President, Marketing;

Mr. James B. McCann, Vice-President, Catalogue Sales Operations and Mr. James E. Copland, Vice-President and Corporate Comptroller. Each has devoted a working lifetime to Sears and each has contributed in great measure to the growth of the Company. They leave us with our warmest wishes for continued health and happiness.

Mr. K. A. McCartney, Vice-President, Marketing left the Company in 1984 after 31 years of distinguished service. We wish him well in his future endeavors.

Mr. Thomas E. Morris was appointed Vice-President, Merchandising April 1, 1984. Effective January 1, 1985, Mr. F. R. Hammond Vice-President, Retail Sales Operations was appointed Vice-President, Field Sales Operations; Mr. L. E. Ginther Vice-President and Treasurer was appointed Vice-President, Finance and Treasurer and Mr. Bruce W. McLaren formerly Assistant to the Vice-President and Corporate Comptroller was appointed Corporate Comptroller.

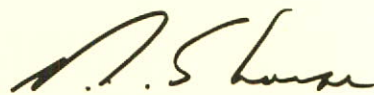
In October Mr. Edward A. Brennan, President and Chief Operating Officer of Sears, Roebuck and Co. retired from our Board.

We express to Mr. Brennan our appreciation for his counsel during his time on our Board and wish him well in his new appointment as President and Chief Operating Officer of Sears, Roebuck and Co.

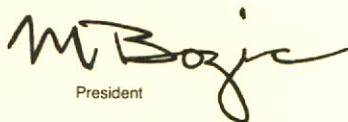
We welcome Mr. J. Patrick Galloway, Senior Executive Vice President-Field, Sears, Roebuck and Co., Merchandise Group, to our Board. We look forward to drawing upon his knowledge and judgement earned through 35 years of retailing experience.

The Outlook

The economic forecasts for Canada in 1985 reflect steady but unspectacular growth with minimal inflation. It is an economic environment in which prudent management and dedicated employees will permit us to give better customer service and at the same time improve earnings.



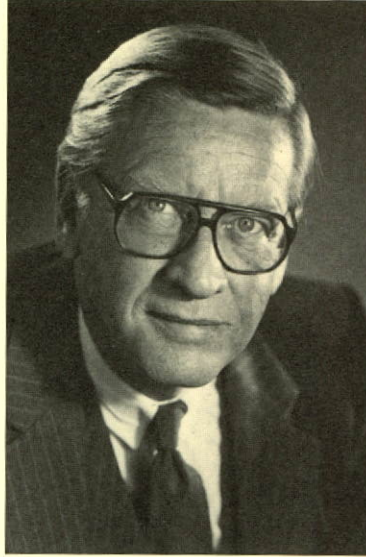
Chairman of the Board



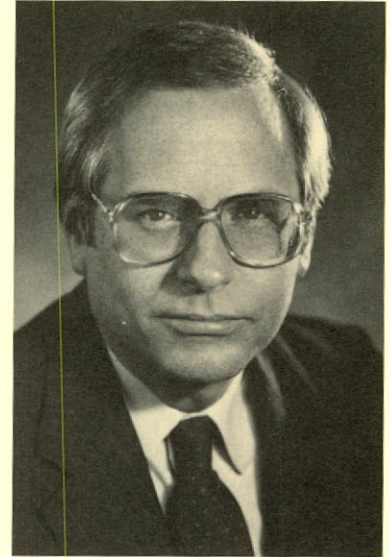
President

April 22, 1985

Report to Shareholders



C. Richard Sharpe
Chairman of the Board and Chief Executive Officer



Michael Bozic
President and Chief Operating Officer

Sales increased only marginally during the year and we expect that large sales increases will be difficult to attain in the foreseeable future.

As part of this new reality, two major changes have taken place:

- productivity has been improved so that reasonable profits can be achieved even with very modest sales increases;
- our entire marketing structure has been analyzed and restructured to improve our ability to sell more to our present customers and to attract new customers at the same time.

We have a good business, in fact we have a great business and because of our strong base our potential for improved performance through innovation and discipline is excellent. Our catalogue service is the only national service of its kind offering unequalled shopping convenience; our retail stores are well located and well staffed. About every second household in Canada buys from Sears on a regular basis. The Company's credit system has over 4.4 million accounts.

The changes taking place at Sears are intended to capitalize on these strengths.

Every piece of merchandise in every line is being examined by our buyers to ensure that function, quality, price and packaging meet customer expectations. We are weeding out slow-moving items so that they can be replaced with items that more closely meet the needs and wants of our customers.

Implemented by a special merchandising team, new approaches to merchandise alignments, display and appearance are being tested in our store in the Square One shopping centre, Mississauga, Ontario. The benefits of this testing will be made available to other stores as definitive results are accumulated. We want to give customers on their way into our stores and on their way out of our stores, an opportunity to appreciate all of the quality merchandise available to them.

Where possible, we are adjusting our merchandising techniques so that customers can serve themselves where self-service is appropriate. Staff resources are being realigned so that more customer service will be available in those areas where a high degree of customer service is beneficial. One of our major moves during the year was one of emphasis. More emphasis is being given to having goods in stock in

both our retail stores and in our catalogue distribution centres when the customer wants them.

To complement our new marketing strategies, our buying groups have been reorganized in number from nine to four. This new group structure focuses on our major merchandising groupings and will concentrate our merchandising and marketing efforts.

Our employees are in step with our Corporate Philosophy which says in part "we believe in the need to excel in every facet of our business." Their understanding of the changes taking place in society and in our industry is the driving force in making our philosophy achievable. Proof of their understanding and consistent effort is in our increased earnings at a time of very modest growth.

Financial

The financial statements detail the results for 1984. In summary, consolidated net sales for the year ended December 31, 1984, were \$3,433,686,000 an increase of 3.6% over the reported figure of \$3,314,113,000 for the year ended December 31, 1983.

Changing times require innovative new concepts to sell more products

As part of our ongoing challenge to make Sears the Place to Shop, Sears merchandising professionals in 1984 developed some of the most dynamic selling ideas in our history. Striking new displays clearly present complete selections that encourage customers to browse and invite them to buy. These displays tell our customers they have come to the right store.

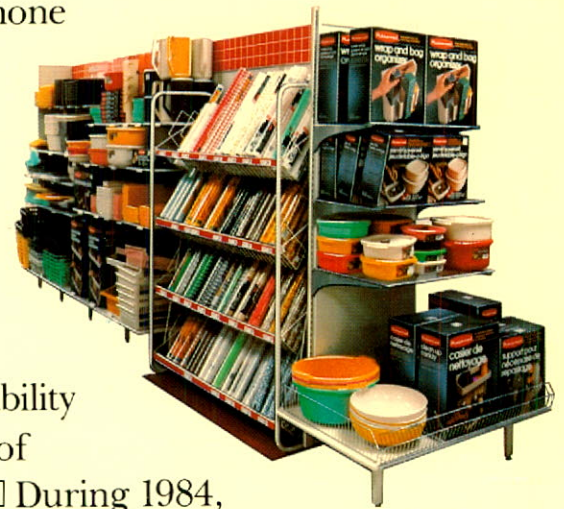


□ Catalogue Order Entry Units...the very latest in phone order taking are now available in London, Ontario, Sydney, Nova Scotia, Vancouver, B.C., and will soon be implemented across the country.



Customers are supplied with instant information about merchandise availability and shipment at the time of

ordering, thus avoiding disappointment and delay. □ During 1984, our "Year of the Customer", Sears friendly, helpful staff tried even harder



to satisfy customers. It is their resourcefulness and teamwork, so much a part of Sears people, that will continue to win the loyalty of shoppers all across Canada.



Sears

Sears Canada Inc.

Head Office,
222 Jarvis Street,
Toronto, Ontario, Canada M5B 2B8

Transfer Agent and Registrar

The Royal Trust Company,
Toronto, Ontario;
Montreal, P.Q.;
Calgary, Alberta

Annual Meeting

The Annual and Special Meeting
of Shareholders of
Sears Canada Inc.
will be held in the
Burton-Wood Auditorium
Sears Canada Inc.
Main floor, 222 Jarvis Street
on Wednesday, May 15, 1985
at 10:00 a.m.

**Edition française du
rapport annuel**

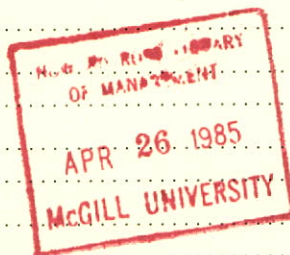
On peut se procurer l'édition
française de ce rapport en
écrivant au Vice-président,
finances.

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

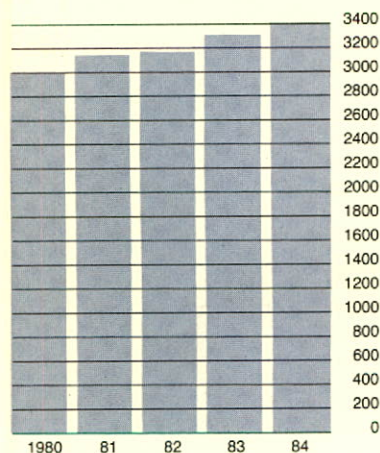


Financial Highlights

	52 Weeks ended December 31, stated in thousands	
	1984	1983 unaudited
Net sales	\$3,433,686	\$3,314,113
Net earnings	37,316	34,586
Per share	.43	.40
Dividends declared	17,461	17,461
Per share	.20	.20
Shareholders' equity	633,458	613,603
Per share	7.26	7.03
Federal and provincial income taxes	8,448	4,000
Interest costs	128,896	106,317
Contribution to Sears Canada Plan for Sharing Profits	1,645	1,893
Contributions to Company and Government Pension Plans	32,558	31,078
Return on capital employed*	10.1%	9.0%
Return on equity	6.0%	5.7%
Working capital	899,144	849,913
Total assets	2,125,644	2,024,153



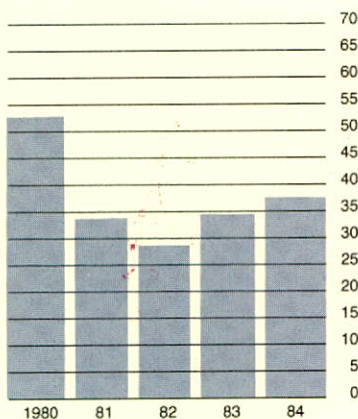
* Pretax earnings plus interest and earnings of associated companies as a percent of average total debt plus deferred tax and shareholders' equity.



Sales

Consolidated net sales of \$3,433,686,000 in 1984 showed an increase of 3.6% over 1983. The compounded average increase for the five-year period 1980 to 1984 was 5.6% per year.

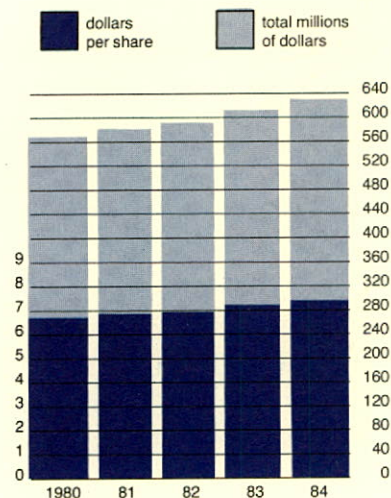
The year 1980 includes 53 weeks



Earnings

Consolidated net earnings, after taxes, amounted to \$37,316,000 in 1984.

Earnings per share, based on the weighted average number of shares outstanding during the year, were 43¢ in 1984.



Shareholders' Equity

Total shareholders' equity increased from \$550,519,000 at the end of 1979 to \$633,458,000 at December 31, 1984 and shows a compounded annual growth of 2.8% over the five-year period. Equity per share which was equivalent to \$6.32 at the end of 1979 increased to \$7.26 at the end of 1984.

Management is responsible for the accuracy, integrity and objectivity of the financial information contained in this Annual Report. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include certain amounts that are based on best estimates and judgements. Financial information used elsewhere in the Annual Report is consistent with that in the financial statements.

Management has developed, maintains and supports an extensive program of internal audits that provides reasonable assurance that financial records are reliable and that assets are safeguarded.

The Board of Directors, through the activities of the Audit Committee, ensures that management fulfills its responsibilities for financial reporting and internal control. The Audit Committee, the majority of whom are outside directors, meets periodically with the financial officers of the Company, the internal auditors and external auditors to discuss audit activities, internal accounting controls and financial reporting matters. The Board of Directors, on the recommendation of the Audit Committee, has approved all of the information contained in the Annual Report.

The Company's external auditors, Touche Ross & Co., have conducted an examination of the financial records of the Company in accordance with generally accepted auditing standards. Their report is shown below.

Auditors' Report

To the Shareholders of Sears Canada Inc.:

We have examined the consolidated statement of financial position of Sears Canada Inc. as at December 31, 1984 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1984 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

The consolidated financial statements for the preceding period were examined by another firm of Chartered Accountants.

Toronto, February 1, 1985


Chartered Accountants

Consolidated Statements of Earnings and Retained Earnings

Sears Canada Inc.

	52 Weeks ended December 31, 1984	52 Weeks ended December 31, 1983 unaudited
	Stated in thousands	
Consolidated Earnings		
Net sales, including service charges on instalment sales	\$3,433,686	\$3,314,113
Rentals and other income	7,058	8,668
	<u>3,440,744</u>	<u>3,322,781</u>
Deduct:		
Cost of merchandise sold and selling, operating and administrative expenses	3,205,167	3,121,591
Depreciation	33,622	33,754
Interest on long-term obligations	83,063	82,419
Other interest	45,833	23,898
Municipal realty and business taxes	37,252	36,058
	<u>3,404,937</u>	<u>3,297,720</u>
Earnings from operations before income taxes	35,807	25,061
Income taxes (Note 10):		
Current	16,628	11,424
Deferred	(8,180)	(7,424)
	<u>8,448</u>	<u>4,000</u>
Earnings from operations	27,359	21,061
Equity in earnings of associated companies	9,957	13,525
Net earnings for the period	<u>\$ 37,316</u>	<u>\$ 34,586</u>
Net earnings per share	<u>\$.43</u>	<u>\$.40</u>

	52 Weeks ended December 31, 1984	52 Weeks ended December 31, 1983 unaudited
	Stated in thousands	
Consolidated Retained Earnings		
Balance at beginning of the period	\$ 342,378	\$ 325,253
Net earnings for the period	37,316	34,586
	<u>379,694</u>	<u>359,839</u>
Dividends declared	17,461	17,461
Balance at end of the period	<u>\$ 362,233</u>	<u>\$ 342,378</u>

Consolidated Statement of Changes in Financial Position

Sears Canada Inc.

	52 Weeks ended December 31, 1984	52 Weeks ended December 31, 1983 unaudited
	Stated in thousands	
Sources of Operating Funds		
Net earnings for the period	\$ 37,316	\$ 34,586
Non-cash charges deducted in arriving at net earnings, principally depreciation and deferred income taxes	36,929	29,786
Equity in earnings of associated companies	(9,957)	(13,525)
Funds from operations	64,288	50,847
Amounts received from associated companies	8,809	7,662
Decrease (increase) in inventories	16,730	(91,223)
Decrease in investments	4,098	8,754
Total available operating funds	93,925	(23,960)
 Uses of Operating Funds		
Increase in accounts receivable	97,658	93,073
Decrease (increase) in accounts payable and other liabilities	14,901	(55,435)
Increase in investments	4,247	4,646
Net additions to fixed assets	33,327	30,085
Increase in other assets	23,322	19,459
Total operating funds used	173,455	91,828
Net funds used in operations before dividends and financing transactions	79,530	115,788
 Dividends and Financing Transactions		
Repayment of long-term obligations	(46,254)	(34,863)
Proceeds from long-term obligations	57,309	1,587
Proceeds from note payable	115,770	—
Dividends paid to shareholders	(17,461)	(17,461)
	109,364	(50,737)
Decrease (increase) in short-term indebtedness	\$ 29,834	\$(166,525)
Short-term indebtedness at end of period	\$ 306,522	\$ 336,356

Consolidated Statement of Financial Position

Sears Canada Inc.

Assets

Current Assets

	December 31, 1984	December 31, 1983
	Stated in thousands	
Cash	\$ 9,611	\$ 7,353
Accounts receivable (Note 3)	978,492	880,834
Inventories	613,982	630,712
Prepaid advertising and other charges	83,596	65,666
	<u>1,685,681</u>	<u>1,584,565</u>

Investments and Other Assets (Note 4)	66,044	64,747
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Fixed Assets (Note 5)

Land	30,408	30,399
Buildings and improvements	340,698	329,989
Equipment and fixtures	272,283	256,069
	<u>643,389</u>	<u>616,457</u>
Less accumulated depreciation	286,017	258,789
	<u>357,372</u>	<u>357,668</u>

Deferred Charges	16,547	17,173
	<u>\$2,125,644</u>	<u>\$2,024,153</u>

Liabilities

Current Liabilities


Bank advances and short-term notes (Note 6)	\$ 306,522	\$ 336,356
Accounts payable	134,598	151,270
Accrued liabilities	138,279	124,748
Income and other taxes	62,211	73,971
Principal payments on long-term obligations due within one year (Note 7)	28,530	48,307
Note payable (Note 8)	116,397	—
	<u>786,537</u>	<u>734,652</u>

Long-Term Obligations (Note 7)	689,316	657,294
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Deferred Income Taxes	16,333	18,604
	<u>1,492,186</u>	<u>1,410,550</u>

Shareholders' Equity

Capital Stock (Note 9)	271,225	271,225
Retained Earnings	362,233	342,378
	<u>633,458</u>	<u>613,603</u>
	<u>\$2,125,644</u>	<u>\$2,024,153</u>

Approved by the Board:

C.R. Sharpe Director

M. Bozic Director

Notes to Consolidated Financial Statements

1. SUMMARY OF ACCOUNTING POLICIES:

Principles of Consolidation:

The consolidated financial statements include the accounts of Sears Canada Inc. and all subsidiaries.

Inventories:

Inventories are valued at the lower of approximate cost and net realizable value. Cost is determined for retail store inventories by the retail inventory method and for catalogue order and miscellaneous inventories on a first-in, first-out or average cost basis applied by individual items.

Prepaid Advertising:

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

Investments:

Investments in associated companies are carried at cost plus equity in undistributed earnings since dates of acquisition. Other investments are carried at cost.

Fixed Assets:

Fixed assets are stated at cost. Depreciation and amortization provisions are generally computed by the straight-line method based on the estimated useful lives of 4 to 10 years for equipment and fixtures and of 30 to 50 years for buildings and improvements.

Deferred Charges:

Bond and debenture discount and expense are amortized by the reducing balance method or by the straight-line method, as applicable, to the due dates of the respective bonds and debentures.

Costs of developing major data processing systems are deferred and amortized over 3 years from the date each system is put into operation.

Foreign Currency Translation:

Long-term 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.

Unrealized foreign exchange gains and losses and the cost of forward exchange contracts are deferred and amortized over the remaining terms of the obligations.

Profits on Instalment Sales:

Profits on instalment sales, but not the service charges on such sales, are taken into earnings at the time of sale. The service charges are taken into earnings as billed.

Pensions:

Current service costs under the Company's Guaranteed Retirement Income Plan are charged to operations as they accrue. Prior service costs are charged to operations as they are funded.

Net Earnings per Share:

Net earnings per share are calculated based on the weighted average number of shares outstanding during the fiscal year.

2. CHANGE IN FISCAL YEAR END:

In 1983 the Company's fiscal year end was changed from the fifth Wednesday following the first day of January to December 31st to coincide with the year end of the parent company, Sears, Roebuck and Co. As a consequence of this change, unaudited amounts are shown for the consolidated statements of earnings, retained earnings and changes in financial position for the 52 weeks ended December 31, 1983 for comparative purposes.

3. ACCOUNTS RECEIVABLE:	December 31, 1984 (in thousands)	December 31, 1983 (in thousands)
Customer instalment accounts	\$930,437	\$831,309
Miscellaneous accounts	64,378	66,195
	<u>994,815</u>	<u>897,504</u>
Less allowance for doubtful accounts	<u>16,323</u>	<u>16,670</u>
	<u>\$978,492</u>	<u>\$880,834</u>

In accordance with recognized trade practices, customer instalment accounts include amounts which will not become due within one year.

4. INVESTMENTS AND OTHER ASSETS:

	December 31, 1984 (in thousands)	December 31, 1983 (in thousands)
Investments in associated companies	\$ 60,121	\$ 58,920
Other investments	4,401	3,832
Notes receivable on Common Shares of Sears Canada Inc. issued under the Employees' Stock Purchase Plan	<u>1,522</u>	<u>1,995</u>
	<u>\$ 66,044</u>	<u>\$ 64,747</u>

The Company's equity in the net assets of the associated companies, as shown in their financial statements, approximates the carrying value thereof. The investments in associated companies include a 25% share interest in Allstate Insurance Company of Canada, a 45% share interest in Photo Engravers & Electrotypers Limited, a 20% share interest in Inglis Limited, interests in several companies which supply merchandise to the Company and interests in shopping centres in which the Company's stores are located. Pursuant to a long-term agreement, Photo Engravers produces catalogues for the Company. Inglis is a major supplier of large home appliances. Merchandise purchases from associated companies amounted to approximately \$160 million for the 52 weeks ended December 31, 1984, and there were no significant amounts receivable or payable on that date.

5. FIXED ASSETS:

	December 31, 1984 (in thousands)	December 31, 1983 (in thousands)
Fixed assets include the following capitalized leased assets:		
Buildings	\$ 26,979	\$ 26,979
Equipment	5,010	3,821
	<u>31,989</u>	<u>30,800</u>
Less accumulated amortization	8,774	5,952
	<u>\$ 23,215</u>	<u>\$ 24,848</u>

6. BANK ADVANCES AND SHORT-TERM NOTES:

Bank advances include demand notes of \$6,000,000 at December 31, 1984 and at December 31, 1983 secured by the pledge of Secured Debentures Series A, of Sears Acceptance Company Inc.

Under the terms of an agreement the Company may, in certain circumstances, be requested to give its bankers a charge on inventories to secure its short-term bank advances which were outstanding in the amount of \$60,157,000 at December 31, 1984.

7. LONG-TERM OBLIGATIONS:

	December 31, 1984 (in thousands)	December 31, 1983 (in thousands)
Sears Canada Inc.:		
First Mortgage Bonds:		
5 $\frac{7}{8}$ % Series C due August 15, 1985	\$ 1,500	\$ 1,580
7 $\frac{3}{4}$ % Series D due February 15, 1991	16,500	17,995
8 $\frac{1}{4}$ % Series E due May 1, 1993	16,250	17,750
Fixed Rate Debentures:		
4 $\frac{1}{2}$ % due October 15, 1988	1,234	1,321
11% Series B due August 15, 1994	24,556	26,250
11 $\frac{1}{4}$ % Series D due June 15, 1995	26,212	27,743
Floating Rate Debentures:		
Series E due December 31, 1987	25,000	25,000
Series F due February 3, 1987	52,000	52,000
Series G due June 15, 1987	35,000	35,000
Capital lease obligations, interest rates from 8% to 17%	27,408	28,495
	<u>225,660</u>	<u>233,134</u>
Sears Acceptance Company Inc.:		
Secured Debentures:		
5 $\frac{1}{2}$ % Series E due March 1, 1985	10,000	10,000
6 $\frac{1}{4}$ % Series F due March 1, 1986	10,000	10,000
7% Series G due November 1, 1986	12,200	12,200
7 $\frac{1}{4}$ % Series H due August 15, 1987	12,400	12,400
8 $\frac{3}{4}$ % Series I due June 15, 1989	8,700	8,700
9 $\frac{1}{2}$ % Series J due February 1, 1990	6,670	6,670
8 $\frac{3}{4}$ % Series K due May 15, 1992	25,000	25,000
9 $\frac{1}{4}$ % Series L due March 15, 1994	20,475	21,425
11 $\frac{1}{2}$ % Series M due November 15, 1994	14,308	14,759
11 $\frac{1}{2}$ % Series N due November 15, 1994	4,250	4,675
10 $\frac{3}{8}$ % Series P due November 15, 1996	28,420	30,165
10 $\frac{3}{8}$ % Series Q due November 15, 1988	8,000	10,000
9 $\frac{1}{4}$ % Series R due March 15, 1984	—	30,000
10% Series S due July 15, 1998	28,032	30,016
12 $\frac{3}{4}$ % Series T due June 15, 2000	40,000	40,000
Floating Rate Series U due October 31, 1990	25,000	25,000
14 $\frac{3}{4}$ % Series V due April 1, 1996	66,390	66,390
17 $\frac{1}{2}$ % Series W due November 1, 1988 (U.S. \$40,000,000)	51,752	51,752
16 $\frac{3}{4}$ % Series X due April 28, 1989	40,000	40,000
14% Series Y due August 15, 1991	50,000	—
	<u>461,597</u>	<u>449,152</u>

	December 31, 1984 (in thousands)	December 31, 1983 (in thousands)
Simpsons-Sears Properties Limited:		
Mortgage and bond indebtedness, 5 $\frac{1}{4}$ % to 14 $\frac{1}{2}$ %	3,382	3,711
St. Laurent Shopping Centre Limited:		
Mortgage Bonds maturing from 1990 to 1995, 8% to 14 $\frac{1}{4}$ %	27,207	19,604
	<u>717,846</u>	<u>705,601</u>
Less principal payments due within one year included in current liabilities	28,530	48,307
	<u>\$689,316</u>	<u>\$657,294</u>

The First Mortgage Bonds of Sears Canada Inc., the mortgage and bond indebtedness of Simpsons-Sears Properties Limited, and the First Mortgage Sinking Fund Bonds of St. Laurent Shopping Centre Limited are primarily secured by first charges on the fixed assets of those companies. The General Mortgage Bonds, the Third Mortgage Bonds and the Fourth Mortgage Bonds of St. Laurent Shopping Centre Limited are secured primarily by second, third and fourth charges, respectively, on the fixed assets of that company. The Debentures of Sears Canada Inc. are secured, subject to the security given on its First Mortgage Bonds, by a floating charge on all the assets of the Company. The Secured Debentures of Sears Acceptance Company Inc. are secured by an assignment of the customer instalment accounts receivable referred to in Note 3.

The Series E, Series F and Series G Debentures of the Company, which are redeemable at the option of the Company, bear interest for each interest period at a rate equal to the average daily prime lending rates of the Company's two principal bankers for the interest period, plus $\frac{1}{2}$ % in the case of Series E and less $\frac{1}{4}$ % in the case of Series F.

The Series U Secured Debentures of Sears Acceptance Company Inc. bear interest at a rate equal to the average daily prime lending rates of the Company's two principal bankers for the interest period less $\frac{1}{2}$ % ($\frac{1}{4}$ % after 1987).

Sears Acceptance Company Inc. has entered into forward exchange contracts to purchase U.S. dollars for payment of the principal of and each interest payment on the Series W Secured Debentures.

continued on next page

Subsequent to December 31, 1985, principal payments required on long-term obligations for the fiscal years ending on the dates shown are as follows:

December 31, 1986 —	\$ 45,564,000
December 31, 1987 —	\$147,553,000
December 31, 1988 —	\$ 76,269,000
December 31, 1989 —	\$ 70,401,000

The mortgage and bond indebtedness of Simpsons-Sears Properties Limited, maturing at various dates from 1985 to 1998, includes \$1,572,000 (U.S \$1,189,000) at December 31, 1984 and \$1,609,000 (U.S \$1,293,000) at December 31, 1983 payable in U.S. funds.

8. NOTE PAYABLE:

The Company has borrowed \$U.S. 90,000,000 from Sears, Roebuck and Co. on a floating rate note. Through a swap transaction the Company has been able to obtain both a currency and a rate swap agreement fixing the principal repayment at a Canadian dollar amount of \$116,397,000 and the interest rate at 14.73%.

9. CAPITAL STOCK:

By articles of amendment issued May 31, 1984 the shares of the Company were consolidated into a single class of common shares. There is an unlimited number of shares authorized and as at December 31, 1984 and December 31, 1983 87,306,983 shares were issued and outstanding.

The payment of dividends by the Company is subject to restrictions contained in the trust indenture securing its outstanding Debentures. Under the most restrictive of these tests, the Company may not pay any dividends if, immediately after paying such dividends, the aggregate amount of dividends declared or paid after February 3, 1982, would exceed net income (as defined) earned after February 3, 1982, plus \$30 million. As at December 31, 1984, \$76 million was available for the payment of dividends.

10. INCOME TAXES:

A reconciliation of the income tax expense at the statutory tax rates with the actual income tax expense is as follows:

For the 52 Weeks ended	December 31, 1984 (in thousands)
Earnings before income taxes	<u>\$35,807</u>
Statutory tax rate	<u>48.5%</u>
Income taxes at statutory tax rate	\$17,366
Increase (decrease) in income taxes resulting from:	
Miscellaneous non-deductible items	1,086
Inventory tax credit	(9,177)
Non-taxable portion of capital gains	(626)
Miscellaneous non-taxable items	(201)
Income tax expense	<u>\$ 8,448</u>
Effective tax rate	<u>23.6%</u>

As at December 31, 1984, the Company had losses for income tax purposes of approximately \$30 million available to reduce taxable income over the next seven fiscal years.

11. COMMITMENTS:

The charge against earnings for the Company's Guaranteed Retirement Income Plan was \$21,019,000 for the 52 weeks ended December 31, 1984 (\$20,784,000 for the 52 weeks ended December 31, 1983). The unfunded obligation for past service under this plan, estimated by independent actuaries to be approximately \$77 million at December 31, 1984 (\$68 million at December 31, 1983), is to be funded and charged to earnings by annual payments to 1998.

Minimum lease payments, exclusive of property taxes, insurance and other expenses payable directly by the Company, under capital leases and operating leases that have an initial term of more than one year as at December 31, 1984 are as follows:

	Capital leases (in thousands)	Operating leases (in thousands)
1985	\$ 3,998	\$ 52,554
1986	3,488	49,587
1987	3,130	42,010
1988	2,906	33,863
1989	2,906	30,334
Subsequent years	<u>53,769</u>	<u>372,856</u>
Minimum lease payments	\$70,197	<u>\$581,204</u>
Less imputed interest	<u>42,789</u>	
Capital lease obligations	<u>\$27,408</u>	

Total rentals charged to earnings under all operating leases for the 52 weeks ended December 31, 1984 amounted to \$60,242,000 (\$54,665,000 for the 52 weeks ended December 31, 1983).

12. CAPITAL EXPENDITURES:

Capital expenditures planned for the fiscal year ending December 31, 1985 are estimated at approximately \$70 million.

13. SUBSEQUENT EVENT:

On February 1, 1985 the Company ceased operating its catalogue distribution facility in Burnaby B.C. The Company terminated the employment of all employees at this site and provided a generous separation package. After the announcement of the closure an agreement was reached to sell the facility for an amount in excess of all costs of closure. The closure should result in significantly lower operating costs in the future.

Reporting the Effects of Changing Prices

Unaudited Supplementary Information

Sears Canada Inc.

To assist the Financial Statement readers in understanding the impact of inflation, the Canadian Institute of Chartered Accountants (CICA) has recommended that large public companies provide supplementary information about the effects of changing prices.

The primary focus of the current cost accounting data presented below is an adjustment to reflect the current costs to be paid to replace inventories and to acquire the same service potential as embodied in the fixed assets presently owned by the Company. The related impact on cost of sales and depreciation is then calculated under the same accounting policies as those utilized in the historical cost statements. Other financial statement items have not been adjusted as the effects are not material.

The Company has ascertained that the inventory values as shown on the historical cost statements approximate their current replacement cost. Land has been valued based on current market values. Building and improvement values have been determined based on current construction experience. Equipment and fixtures values have been determined by indexing, using the relevant Industry Selling Price Index published by Statistics Canada.

Selected Data Adjusted for Changing Prices As At December 31, 1984

	Historical Cost (in thousands)	Current Cost (in thousands)
Inventories	\$613,982	\$613,982
Fixed assets (net)	357,372	668,925
Shareholders' equity	633,458	945,011

Depreciation has been restated by depreciating the current cost values of buildings and improvements in the same proportion that the historical costs have been depreciated. This has resulted in an additional charge for depreciation of \$16.2 million.

The cost of merchandise sold adjustment of \$12.6 million provides for the additional cost of replacing goods at the date of sale rather than at their historical costs.

During periods of inflation, monetary assets lose purchasing power. There is an opposite effect for monetary liabilities. During 1984 the Company's monetary obligations exceeded its cash and accounts receivable, resulting in a net gain in purchasing power of \$18.4 million.

The CICA guidelines require disclosure of information which will enable the reader to determine income attributable to common shareholders under an operating capability concept of capital and under a financial concept of capital. Under the operating capability concept, the intent is to allow an assessment as to the extent to which the shareholders' proportionate interest in the operating capability of the Company has been maintained. Under the financial concept, the intent is to allow an assessment as to the extent to which the general purchasing power of the shareholders' capital has been maintained.

Under the Operating Capability Concept of Capital a financial adjustment based on the increases in current cost must be incorporated. It is intended to represent the amount of the current cost increases which are absorbed by the providers of debt financing. The use of debt to finance assets reduces the amount of the increase in their current cost that must be charged against the income statement (ultimately, against the shareholders' equity) because the cost of debt is fixed.

The CICA permits an alternative calculation of the financing adjustment which is restricted to the current cost adjustment to cost of merchandise sold and depreciation.

Reconciliation of Historical Cost Earnings to Current Cost Earnings under an Operating Capability Concept of Capital for the 52 Weeks Ended December 31

	1984 (in thousands)	1983 (in thousands)
Historical earnings from operations before taxes	\$ 35,807	\$ 26,151
Current cost adjustments		
Cost of merchandise sold	(12,591)	(20,814)
Depreciation	(16,204)	(14,894)
Current cost earnings before taxes	7,012	(9,557)
Taxes on historical cost basis		
Current	16,628	11,921
Deferred	(8,180)	(7,747)
	8,448	4,174
Current cost earnings from operations	(1,436)	(13,731)
Equity in associated companies on historical cost basis	9,957	14,114
Current cost earnings for the period	8,521	383
Financing adjustment	7,573	12,720
Income attributable to common shareholders	\$ 16,094	\$ 13,103

Other Supplementary Information

Increase in current cost of fixed assets and inventory	\$ 21,909	\$ 36,241
Less effect of general inflation	47,768	57,991
	\$ (25,859)	\$ (21,750)
Financing adjustment based on current cost adjustments to cost of merchandise sold and depreciation	\$ 9,953	\$ 12,463

To facilitate the year-to-year comparison, the 1983 figures have been restated in 1984 dollars using the Canadian Consumer Price Index.

While the information on the effects of changing prices was prepared using valid assumptions, it must be recognized that the CICA recommendations provide for considerable flexibility and that equally valid alternative current cost assumptions could have produced materially different results. Comparisons of disclosures between companies may therefore not be meaningful.

Ten Year Summary

	1984 52 weeks December 31, 1984	1983 52 weeks December 31, 1983 unaudited	1982 52 weeks December 31, 1982 unaudited	1981 52 weeks February 3, 1982	1980 53 weeks February 4, 1981
Results for the year (in thousands)*					
Net sales	\$3,433,686	\$3,314,113	\$3,126,186	\$3,129,625	\$2,954,606
Depreciation	33,622	33,754	33,166	34,485	36,218
Income taxes	8,448	4,000	(591)	8,783	31,473
Net earnings	37,316	34,586	26,667	31,937	50,289
Dividends declared	17,461	17,461	17,461	27,938	31,430
Fixed asset additions:					
Owned	34,301	27,763	30,275	37,125	40,475
Leased under capital leases	—	1,159	535	—	6,064
Year-end position (in thousands)*					
Inventories	613,982	630,712	539,489	532,180	532,906
Fixed assets (net)	357,372	357,668	361,328	364,796	362,923
Total assets	2,125,644	2,024,153	1,826,524	1,741,258	1,700,331
Working capital	899,144	849,913	901,935	838,311	711,612
Long-term obligations	689,316	657,294	713,020	671,430	543,442
Shareholders' equity	633,458	613,603	596,478	574,783	570,784
Per share of capital stock (in dollars)*					
Net earnings43	.40	.31	.37	.58
Dividends declared20	.20	.20	.32	.36
Shareholders' equity	7.26	7.03	6.83	6.58	6.54
Financial ratios					
Return on average equity (%)	5.98	5.72	4.55	5.58	8.97
Current ratio	2.14	2.16	2.84	2.79	2.27
Return on sales (%)	1.09	1.04	0.85	1.02	1.70
Debt/Equity ratio	64/36	63/37	60/40	61/39	59/41
Return on capital employed (%)	10.08	9.04	9.54	10.98	12.46
Pretax margin (%)	1.04	0.75	0.55	1.07	2.59

*Certain amounts have been restated to reflect accounting changes applied retroactively in 1981 and 1979 and for the prior period adjustment recorded in 1981.

Sears Canada Inc.

1979 52 weeks January 30, 1980	1978 52 weeks January 31, 1979 unaudited	1977 52 weeks January 4, 1978	1976 52 weeks January 5, 1977	1975 52 weeks January 7, 1976
\$2,618,213	\$2,390,651	\$2,093,378	\$1,890,827	\$1,548,600
32,500	30,508	28,992	26,566	23,795
44,259	37,465	27,700	26,906	28,993
67,719	57,271	45,367	33,174	32,118
29,416	20,526	18,077	18,037	17,159
37,282	33,841	42,046	40,305	69,664
1,548	16,255	—	—	—
472,144	433,621	402,398	381,653	279,503
353,234	347,156	323,106	310,333	298,389
1,580,814	1,433,731	1,341,837	1,238,070	1,050,597
665,479	601,473	557,591	486,673	431,586
500,955	533,652	512,176	457,407	402,573
550,519	436,638	392,371	362,597	345,066
.85	.76	.60	.44	.47
.36	.27	.24	.24	.24
6.32	5.72	5.21	4.82	4.60
13.72	13.82	12.02	9.38	10.45
2.32	2.37	2.34	2.22	2.52
2.59	2.40	2.17	1.75	2.07
56/44	63/37	64/36	65/35	59/41
14.99	14.07	12.47	11.96	12.80
3.92	3.71	3.27	3.01	3.76

Corporate Profile

Sears Canada Inc., founded September 18, 1952, is one of Canada's largest merchandising operations with sales in 1984 of 3.4 billion dollars. The Company is committed to satisfying customers by providing products and services of superior value through both personal shopping and catalogue ordering from coast to coast.

Today Sears operates 74 department stores, most of which are located in suburban centres. Catalogue orders are received by mail and telephone as well as through over 1,300 catalogue sales units, and through facilities provided in all Sears department stores. Catalogues are distributed to approximately 4.0 million families throughout Canada.

Sears extends credit to over 4.0 million Canadians for the purchase of all types of merchandise and services sold through its department stores and catalogue sales offices. These credit accounts are transferred to a wholly owned subsidiary, Sears Acceptance Company Inc.

The retail operations of the Company are organized into 3 regions:

- Eastern Region . . . consisting of the Atlantic provinces and Ontario with headquarters in Toronto, Ontario;
- Quebec Region . . . consisting of the province of Quebec with headquarters in Montreal, Quebec;
- Western Region . . . consisting of the Western provinces with headquarters in Edmonton, Alberta.

The catalogue operations of the Company are organized into 2 regions:

- Quebec and Atlantic provinces . . . with headquarters in Montreal, Quebec;
- Ontario and Western provinces . . . with headquarters in Toronto, Ontario.

Central administration for the Company is located in Toronto at 222 Jarvis Street. Buying for the Company is centralized in the headquarters building with the exception of women's fashion buying which is located in Montreal.

Sears has a 25% share interest in Allstate Insurance Company of Canada. Allstate has locations in most Sears department stores. Sears also has a 45% share interest in Photo Engravers & Electrotypers Limited, which produces Sears catalogues, plus a 20% interest in Inglis Limited, a major supplier to Sears of large home appliances. In addition the Company has extensive holdings, either directly or through joint ventures, in regional and suburban shopping centres.

Board of Directors, Officers and Committees

Board of Directors

Jack C. Barrow	Former Chairman of the Board, Sears Canada Inc.
William I. Bass	Chairman and Chief Executive Officer, Sears, Roebuck and Co., Merchandise Group
Joseph H. Batogowski	Senior Executive Vice President-Merchandising, Sears, Roebuck and Co., Merchandise Group
Michel F. Bélanger	Chairman of the Board and Chief Executive Officer, National Bank of Canada
Michael Bozic	President and Chief Operating Officer, Sears Canada Inc.
Robert J. Collins-Wright	Chairman of the Board, President and Chief Executive Officer, Inglis Limited
Harold Corrigan	Vice-President, Corporate Relations, Alcan Aluminium Limited
William A. Dimma	President and Chief Executive Officer, Royal LePage Limited
J. Patrick Galloway	Senior Executive Vice President-Field, Sears, Roebuck and Co., Merchandise Group
Macleon E. Jones, Q.C.	Partner, Bennett Jones, Barristers and Solicitors
Arthur H. Mingay	Chairman of the Board and the Executive Committee, The Canada Trust Company
Alfred Powis	Chairman and Chief Executive Officer, Noranda Inc.
Philip J. Purcell	President, Dean Witter Financial Services Inc. and Vice Chairman, Dean Witter Reynolds Inc.
C. Richard Sharpe	Chairman of the Board and Chief Executive Officer, Sears Canada Inc.
James M. Tory, Q.C.	Partner, Tory, Tory, DesLauriers and Binnington, Barristers and Solicitors
William P. Wilder	Chairman of the Board, The Consumers' Gas Company Ltd.
James W. Button	Honorary Director, former Special Assistant to the Chairman, Sears, Roebuck and Co.

Officers

C. Richard Sharpe	Chairman of the Board and Chief Executive Officer
Michael Bozic	President and Chief Operating Officer
Maurice F. Anderson	Vice-President, Information Systems
David S. Chapman	Vice-President, Distribution
J.J. Michael Eagan	Vice-President, Secretary and Corporate Counsel
Larry E. Ginther	Vice-President, Finance and Treasurer
Frank R. Hammond	Vice-President, Field Sales Operations
Robert J. Knox	Vice-President, Public Affairs
Harold J. Mandel	Vice-President, Real Estate and Facilities
Thomas E. Morris	Vice-President, Merchandising
Walter G. Pridham	Vice-President, Corporate Planning
Leslie Visosky	Vice-President, Personnel
Bruce W. McLaren	Corporate Comptroller

Committees of the Board

Finance

J.C. Barrow, Chairman
W.I. Bass
M. Bozic
L.E. Ginther
B.W. McLaren
A.H. Mingay
A. Powis
P.J. Purcell
C.R. Sharpe
J.M. Tory
W.P. Wilder

Compensation

W.I. Bass, Chairman
J.C. Barrow
A. Powis
W.P. Wilder

Audit

J.M. Tory, Chairman
J.C. Barrow
R.J. Collins-Wright
H. Corrigan
M.E. Jones
P.J. Purcell

Investment

W.P. Wilder, Chairman
J.C. Barrow
M. Bozic
W.A. Dimma
L.E. Ginther
C.R. Sharpe

In step with the times in a changing world

Sears success in maintaining the product edge through the years

was put to the test in 1984 with the overwhelming increase in

computerized electronics. Working closely with suppliers, Sears buyers intensified their efforts to offer the latest technology to our customers through creative product development and the search for excellence. It is this ability to respond to the growing needs of the market that continues to keep Sears in the forefront of Canadian merchandising.

