More than meets the ey

Canadian Tire Annual Report 2006

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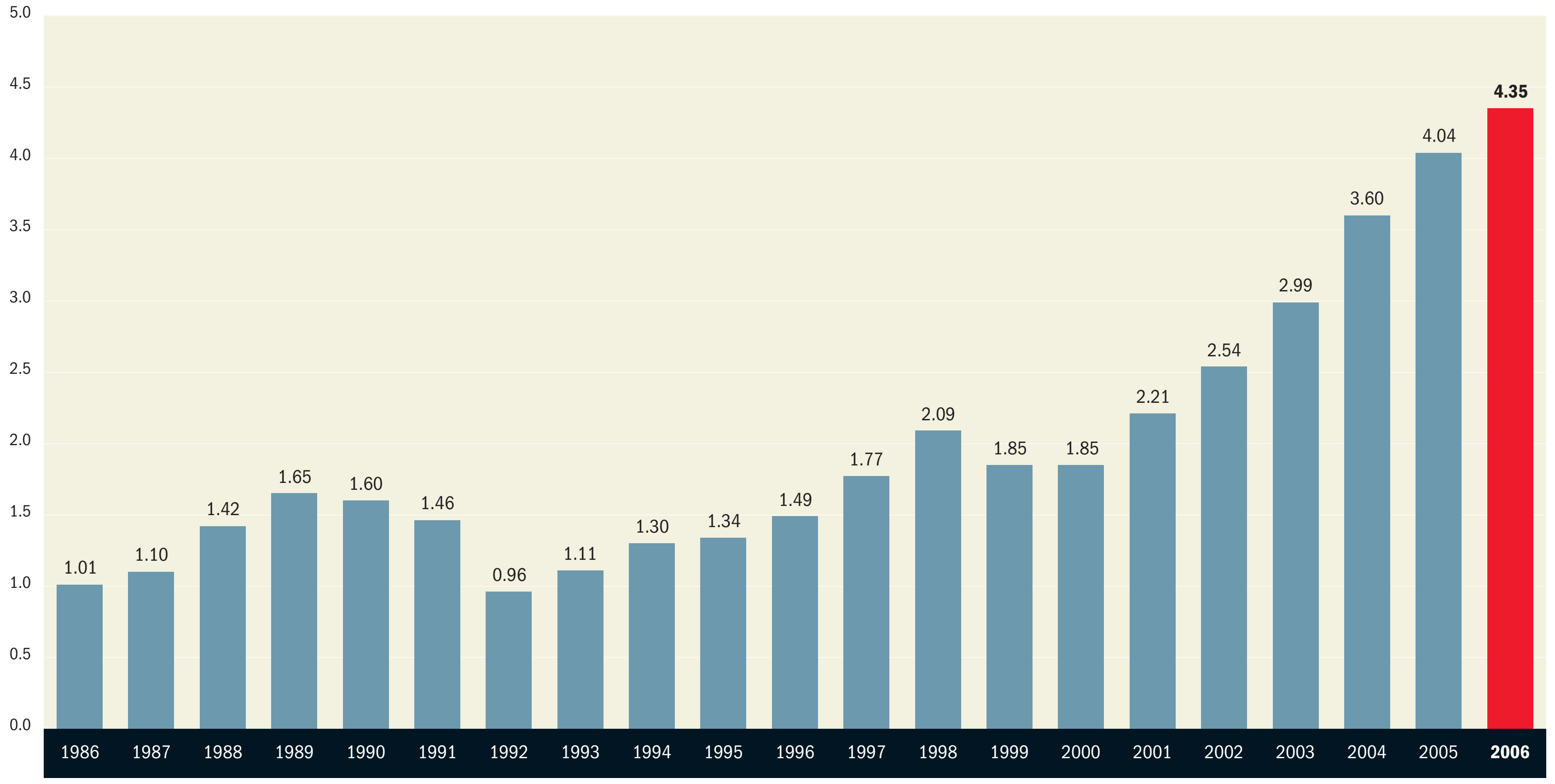
2006 Highlights

($ in millions except for per share amounts)	2006	2005	% Change
Consolidated			
Gross operating revenue[1]	**$ 8,269.1**	$ 7,721.6	7.1%
Earnings before income taxes and minority interest	**557.8**	527.7	5.7%
Income taxes	**200.8**	190.0	5.7%
Net earnings	**354.6**	330.1	7.4%
Cash generated from operating activities before changes in other working capital components	**697.3**	700.7	(0.5)%
Cash generated from operating activities	**682.5**	413.5	65.0%
Dividends paid	**52.2**	45.7	14.0%
Per share			
Net earnings	**$ 4.35**	$ 4.04	7.7%
Diluted earnings	**4.31**	3.98	8.3%
Cash generated from operating activities before changes in other working capital components	**8.55**	8.57	(0.3)%
Cash generated from operating activities	**8.37**	5.06	65.4%
Dividends declared	**0.66**	0.58	13.8%
Shareholders' equity	**34.19**	30.83	10.9%
Number of shares outstanding – weighted average (thousands)	**81,576**	81,764	
Ratios[2]			
Current ratio	**1.5**	1.6	
Canadian Tire Retail inventory turnover	**9.8**	10.7	
Long-term debt to total capitalization (%)	**28.3**	31.7	
Interest coverage	**8.4**	7.3	
Return on equity (%)	**13.4**	13.9	

[1] Gross operating revenue for 2005 has been restated for the impact of EIC-156 as required by the Canadian Institute of Chartered Accountants.
[2] Formulae for ratios and metrics can be found in the glossary of our 2006 Financial Report.

Canadian Tire has generated consistent earnings growth over our 85-year history. The last 20 years have been revolutionary for the Canadian retail market. Canadian Tire has demonstrated its resilience amid increasing competition and economic cycles.

Basic earnings per share (1986–2006, in dollars)[1]



[1] Basic earnings per share for the years 1996 and onwards have been restated for the impact of applicable accounting changes.

The power of 5

Canadian Tire's competitive advantage is created through trust in our brand, market leadership, deep-rooted customer relationships and our integrated business model. The synergies between our five businesses enhance our customer value proposition while increasing our overall operating effectiveness. These unique characteristics differentiate our company and allow us to deliver value for our shareholders through long-term, sustainable earnings growth.

Canadian Tire offers a ran that meet life's everyday n merchandise and clothing services. Our business mo

yet interrelated, business

Canadian Tire Retail (CTR) is Canada's most shopped general merchandise retailer with 468 stores across the country. CTR serves three million customers every week.

CTR is a leader in each of its three core product categories: automotive, sports and leisure and home products. CTR stores are operated by Associate Dealers who are independent business owners.

Did you know:

> CTR stores are conveniently located to serve more than 90% of the population

> More than 80% of the population shops in CTR stores every year, 50%–60% every month and 40% every week

> 1 in 3 bikes sold in Canada are purchased from CTR stores

> CTR is a market leader in 56% of its product categories

PartSource is a chain of 63 specialty automotive stores offering nationally branded automotive parts at competitive prices.

PartSource stores are staffed by automotive experts, catering to serious do-it-yourselfers and professional installers. The PartSource network includes 46 franchise stores and 17 corporate stores.

Did you know:

> PartSource has up to 16,000 parts in stock; 60,000 parts available same-day

> Commercial installer customer segment comprises approximately 38% of PartSource sales

> The average size of a PartSource store is 7,200 retail square feet

Mark's Work Wearhouse (Mark's) is one of Canada's leading clothing and footwear retailers with 339 stores across Canada.

Mark's stores offer work and casual clothing for men and women, focusing on quality and functionality at reasonable prices. Mark's also sells uniforms and other industrial work wear through its "Imagewear" business. Mark's operates 287 corporate stores and 52 franchise stores under the "Mark's Work Wearhouse" banner, as well as the "L'Équipeur" name in Quebec.

Did you know:

> Mark's is the largest Canadian casual pant and jean retailer, and the second largest outerwear retailer in Canada*

> Over 75% of Mark's products are private-label

* Source: Trendex 2006, based on total sales in dollars.

ge of goods and services
eeds, including general
, petroleum, and financial
del consists of 5 distinct,
es:

Canadian Tire Petroleum (Petroleum) is one of Canada's largest independent gasoline retailers with 260 agent-operated gas bars, 251 convenience stores and kiosks, 74 car washes, 13 Pit Stops and 82 sites with propane stations.

Petroleum's primary role is to build customer loyalty by offering customers Canadian Tire 'Money' to use in CTR stores and to support the growth of Financial Services credit cards.

Did you know:

- > Canadian Tire pumps double the industry average in gasoline per pump
- > Shopping frequency at CTR stores increases more than 25% with customers who also fill up at our gas stations
- > Approximately 30% of purchases at Canadian Tire gas stations are made on Canadian Tire credit cards

Canadian Tire Financial Services (Financial Services) markets credit cards, personal loans, insurance and warranty products, and an emergency roadside assistance service.

Canadian Tire's credit card portfolio is the second largest MasterCard franchise in Canada, as measured by credit sales and the number of active accounts. Canadian Tire recently launched a two-market retail banking pilot including high interest savings accounts, guaranteed investment certificates and residential mortgages.

Did you know:

- > One in five Canadian households has a Canadian Tire credit card
- > 5.3 million Canadian Tire MasterCards are in circulation
- > Over $9 billion in credit sales in 2006

Core strengths

Each of our businesses contributes to, and benefits from, Canadian Tire's core strengths.

Canadian Tire's core strengths are the foundation of our growth. Leveraged by each business, our core strengths allow us to adapt to changes in the market and to achieve our goal of delivering sustainable, long-term earnings growth.

Brand recognition and trust

Canadian Tire is one of the most recognized and trusted companies in Canadian business. CTR, Financial Services and Petroleum all share our brand, leveraging the loyalty, trust and emotional appeal embedded in the Canadian Tire name. In addition, CTR and Mark's have developed high-quality, private-label brands that have earned a level of credibility that is on par with national brands.

Canadian Tire 'Money' loyalty program

Canadian Tire 'Money' is one of Canada's most popular loyalty programs, offering greater value to our customers for shopping at our stores, filling up at our gas bars and using our credit cards. The Canadian Tire 'Money' reward program was one of the first in Canada, launched 49 years ago as a customer traffic builder in our gas stations. The redemption rate on Canadian Tire 'Money' is very high, proving that our customers appreciate the value of the program.

National reach and scale

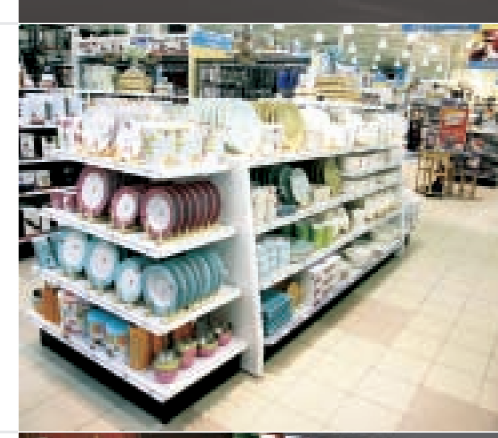
Canadian Tire's national reach and scale is a competitive advantage. In fact, CTR is Canada's most shopped general merchandise retailer. Financial Services operates the second largest MasterCard franchise in Canada – one out of every five households has a Canadian Tire MasterCard. Petroleum has also sustained its leadership position as one of the country's largest independent gasoline networks. CTR's reach and scale is leveraged across our enterprise. Financial Services, for example, uses the store network as a low-cost card acquisition channel and Petroleum distributes discount offers and loyalty reward coupons at the check-out in CTR stores.

Real estate management

Canadian Tire has one of the largest commercial real estate portfolios in Canada, with an unencumbered book value of more than $2 billion. Our expertise in real estate enables us to secure high-traffic, sought-after locations for our stores. We own more than 70 percent of CTR store properties. Over the last 10 years, the consideration received from the sale of excess store properties and distribution centres was approximately $660 million, with a total of approximately $200 million in gains recorded.

Innovative store formats, products and services

We strive to innovate across all of our retail businesses by continuously refreshing our store designs and introducing new and exclusive products and services. Cordless lawn mowers and solar-lit tents at CTR and body-shaping clothing for women at Mark's are just a few examples of our innovative products. Our CTR and Mark's store networks are currently undergoing transformational store renewal programs, to ensure that we continue to offer a dynamic in-store experience.

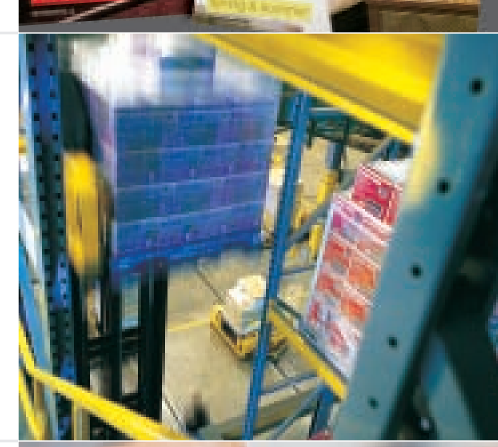


Marketing and advertising

Canadian Tire has multi-faceted marketing and advertising programs. As one of Canada's largest advertisers, we leverage virtually every form of media including a weekly flyer and seasonal catalogues, as well as television, radio and online advertising. CTR's weekly flyers are distributed to more than 10 million homes across Canada. We also include coupons for Petroleum and Mark's in CTR flyers during certain promotional weeks, leveraging CTR's national advertising channels to increase customer traffic and sales.

Supply chain

Canadian Tire has built a strong supply chain to support our growth and efficiently manage the increasing number of products that we source overseas. Recently, we completed a large-scale supply chain upgrade, including a regional distribution centre in Calgary, and the successful deployment of new order management technology that enables multi-channel operations and improves regional replenishment capabilities. In 2006, we began the construction of a distribution centre in Quebec to support our growing store network in Eastern Canada.



Credit risk capabilities

Canadian Tire has been in the financial services business for 40 years. We have an experienced team of professional analysts, statisticians and data modelers who use sophisticated industry-standard and proprietary credit scoring models to predict credit risk. Our capabilities in credit risk enable us to predict the credit quality of a customer account and tailor our products accordingly to ensure that we achieve an appropriate balance of risk and reward.

Our integrated business model allows us to continue to grow our company by leveraging operational and marketing synergies between our businesses. We share our platforms, knowledge and external relationships across the enterprise to reduce costs and to enhance our competitiveness.

Value of the business model

We are leveraging each of our customer relationships to firmly entrench our brand in the everyday lives of Canadians.

All of our businesses benefit from strategic and operational synergies including real estate management, supply chain, merchandising, marketing and advertising. Meaningful cost savings are also derived through Canadian Tire's collective buying power and economies of scale.

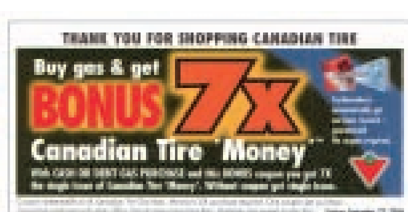
Enterprise marketing and operational synergies

	Brand equity	National reach and scale	Real estate	Supply chain	Marketing & advertising	Merchandising
Canadian Tire Retail	✓	✓	✓	✓	✓	✓
Mark's Work Wearhouse		✓	✓	✓	✓	✓
Petroleum	✓	✓	✓		✓	✓
Financial Services	✓	✓			✓	
PartSource			✓	✓	✓	✓

We are also enhancing our customer value proposition by creating promotions and reward programs to increase customer loyalty. The following examples illustrate these efforts.

Canadian Tire 'Money'

Customers receive Canadian Tire 'Money' on cash purchases in CTR stores and Petroleum's gas stations, and whenever they use their Canadian Tire Options® MasterCard. Canadian Tire 'Money' can only be redeemed in Canadian Tire stores.



Multiplier coupons

Multiplier coupons offer customers higher Canadian Tire 'Money' rewards when they fill up at our gas stations. When customers pay for gas with their Canadian Tire Options MasterCard, they automatically receive Canadian Tire 'Money' at the best Multiplier rate.

Merchandise cross-promotions

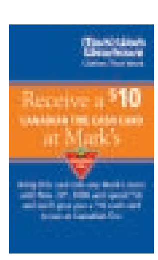
Cross-promotions between CTR stores and Petroleum's gas stations enable customers to receive up to 70 percent off selected products when they fill up with gas at our stations.

Gas Advantage MasterCard

Customers earn immediate discounts on the price they pay for gas when they make purchases on their Canadian Tire Gas Advantage MasterCard. The Gas Advantage MasterCard is driving incremental credit card receivables and gasoline volume.

Advertising distribution synergies

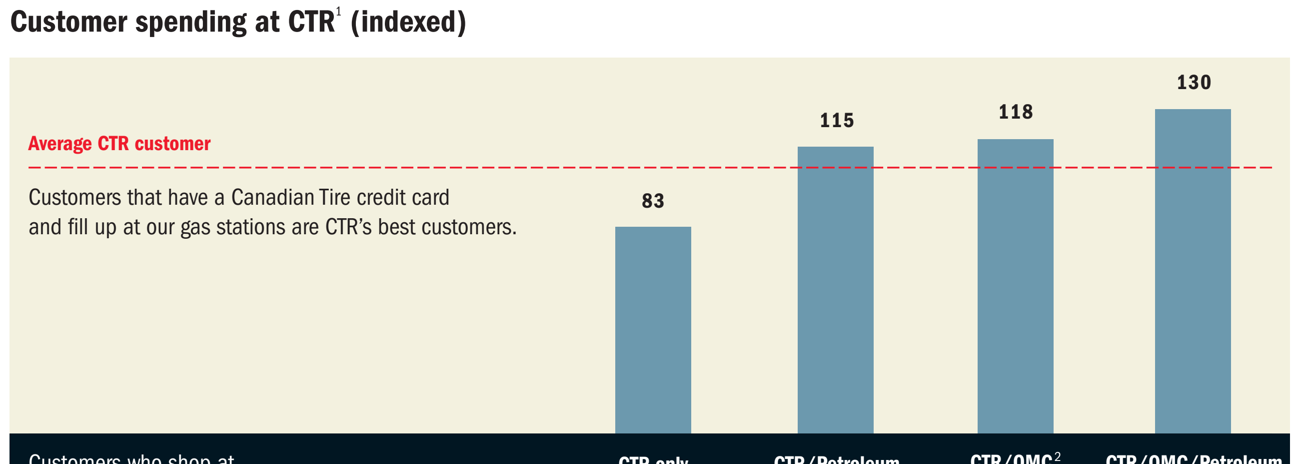
We began inserting Mark's flyer into Canadian Tire's catalogue and innovation guide distributions throughout the year. Sales increased significantly at Mark's during the promotional weeks.



"Spend and Save" coupons

"Spend and Save" coupons offer customers discounts at CTR stores when they buy merchandise at Mark's Work Wearhouse. "Spend and Save" coupons are generating higher sales and increases in average transaction value during the promotional period.

Customer spending at CTR[1] (indexed)



[1] Universe of all CTR customers (based on customer survey data).
[2] Canadian Tire Options MasterCard.

Over the short- to mid-term, we will continue to execute our core growth initiatives. We will also begin development of our next retail store concept and test new products and services that will provide new avenues for long-term growth.

Canadian Tire Retail and PartSource

Concept 20/20 stores

Concept 20/20 is the cornerstone of CTR's growth agenda. Concept 20/20 stores are experiencing strong first-, second- and third-year sales, as well as increases in customer traffic and average transaction value, compared to previous store formats. The attractive store design, product displays and open plan layout encourages customers to browse the store – spending on average 40 percent more time browsing – and increases the likelihood of incremental purchases. The strong sales performance of Concept 20/20 stores led to the decision to accelerate the store rollout in 2006, which will continue in 2007.

Concept 20/20 stores	
*Year 1 sales growth**	
New/Replacement	71%
Retrofit	13%
Retrofit Expansion	22%

*2006 same store sales growth**	
Concept 20/20 stores	8.0%
New-format stores	2.3%
Traditional stores	0.8%

We plan to open approximately 70 Concept 20/20 stores in 2007, including 19 new and replacement stores and 51 store expansions and retrofits. In total, the Plan includes approximately 270 store projects between 2005 and 2009.

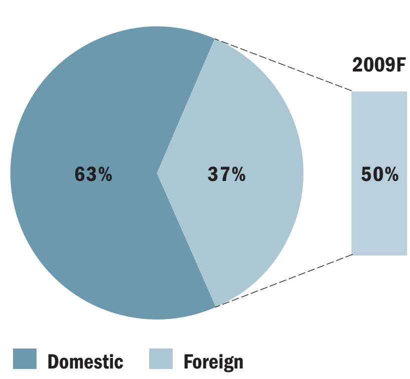
Exciting, new and exclusive products (ENE)

CTR has built a reputation as a destination for exciting, new and exclusive products. Our objective is to introduce new products into the market that are exclusive to CTR. Some familiar examples of our ENE products include cordless lawn mowers, solar-panelled tents that light up at night and remote-controlled sprinklers. CTR plans to continue to grow sales of exciting, new and exclusive products in 2007.

Global sourcing

We plan to increase the percentage of CTR's foreign-sourced products from 37 percent in 2006 to 50 percent by the end of 2009. The benefits of global sourcing are threefold: access to innovative, quality products; margin protection and pricing flexibility.

2006 Percentage of foreign-sourced products[1]



[1] Note: Increased from 35% in 2005.

Enhancing productivity

We are making targeted investments in three key initiatives to enhance the long-term competitiveness and productivity of CTR's operations. We plan to: 1) upgrade and simplify CTR's information technology (IT) and applications to reduce operating costs and enhance the productivity of the workforce; 2) improve Associate Dealer ordering and shipping processes to better align the flow of product to CTR stores and customer purchasing patterns, thereby reducing corporate and store inventory levels and operational complexity; and, 3) enhance CTR's automotive parts supply chain capabilities to support PartSource expansion and continued growth in CTR.

PartSource

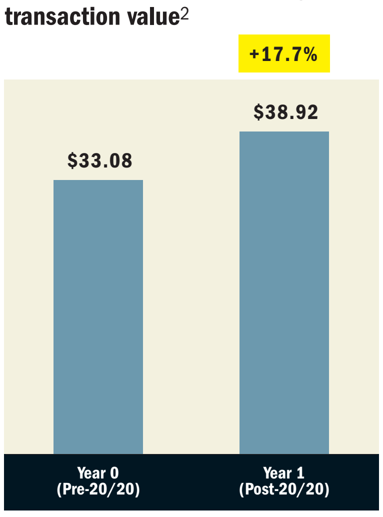
Network expansion

We will continue to expand PartSource into new markets, primarily through small-scale acquisitions. Our strategy to buy up small local businesses and convert them to the PartSource banner has proven very successful, with high rates of customer retention after conversion. We are preparing for a more aggressive expansion of the PartSource store network in the future.

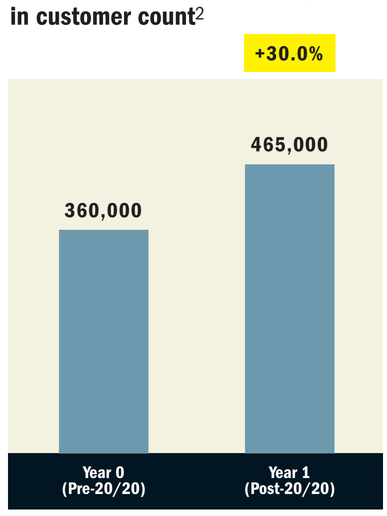
Corporate stores

In 2005, we began testing a PartSource corporate store model, which has proven to deliver higher performance than the franchise model. Due to the success of the pilot, we will be opening mostly corporate PartSource stores in the future.

Year 1 Concept 20/20 average transaction value[2]



Year 1 Concept 20/20 average increase in customer count[2]



[2] Includes first year sales from all Concept 20/20 stores that have been open more than 53 weeks.

Mark's Work Wearhouse

Clothes that Work

We are building awareness and customer loyalty to Mark's Work Wearhouse through the "Clothes that Work" marketing strategy. "Clothes that Work" refers to work and casual clothing that offers value, versatility and endurance to meet the needs of our customers.

Mark's Work Wearhouse
Clothes That Work.

Network expansion

We are focused on achieving Superbrand status for Mark's Work Wearhouse, with the objective of capturing a larger share of overall clothing sales in each geographic market and in each category. To increase our presence, we are expanding our network of Mark's stores, focusing on underserved markets. We also plan to expand, renovate and relocate many existing Mark's stores to the latest format. In 2007, Mark's plans to open 29 new stores and expand, relocate or renovate up to 26 stores.

Category expansion

We also plan to grow through continued expansion of Mark's three core categories: men's and women's casual wear and industrial wear. The expansion of our women's wear category, for example, has enabled us to leverage the large volume of females who shop in Mark's stores. We are also leveraging Mark's reputation for quality industrial wear by selling innovative, specialty work clothing such as metal-free safety boots and work gloves with a protective gel-filled palm.

Strategies driving growth

We believe that successful execution of our strategic initiatives will enable us to create shareholder value through long-term, sustainable earnings growth.

Canadian Tire Petroleum

Site renewal and expansion

We are focusing on modernizing older petroleum sites and adding targeted new sites in high-potential markets. On an opportunistic basis, we will also continue our re-branding initiative to convert competitor sites to the Canadian Tire brand. In 2007, we plan to invest in the modernization of approximately 25 existing sites and the addition of five new sites in strategic locations.

Enhancing interrelatedness

Petroleum plays a strategic role in our interrelated network of businesses. Our objective is to utilize Petroleum's industry-leading gasoline volume to increase sales at CTR stores and generate even higher credit card receivables, while striving to optimize earnings in a challenging market. We plan to achieve this objective by focusing on proven tactical marketing initiatives to increase sales and earnings in CTR and Financial Services.

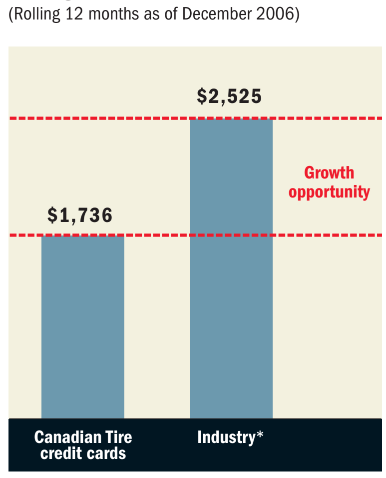
Canadian Tire Financial Services

Credit card portfolio

We plan to increase credit card receivables through higher average balances, new account acquisition and the introduction of new credit cards. We are leveraging our low-cost, high-volume in-store acquisition program to modestly grow the base of Options MasterCard customer accounts. We also believe there are further opportunities to grow our customer base by introducing premium and specialty credit cards with unique bonus features, aside from Canadian Tire 'Money'. Our Gas Advantage MasterCard, for example, provides a compelling customer discount offer, while increasing credit card receivables and gasoline volume at Petroleum. We plan to grow the number of accounts with balances by three to four percent annually.

The average balances on our customer accounts have lots of room to grow. At year-end, the average balance on Canadian Tire credit card accounts was $1,736; still well below the industry average of over $2,500, which translates into a strong growth opportunity. The average balance on our accounts is increasing as Canadian Tire credit cards become the primary card in our customers' wallets, aided by tactical strategies like low-rate balance transfer promotions.

Canadian Tire credit card average balances
(Rolling 12 months as of December 2006)



* Notes:
> Source: Canadian Banking Association (CBA) November 2006
> Industry cards include gold, platinum, low rate and standard cards.

Insurance and warranty products

We plan to continue to enhance our offering of insurance and warranty products to credit card customers. Revenues from insurance and warranty products have increased significantly in the last four years through direct marketing to Canadian Tire's growing base of Options MasterCard customers. Over the next three years, we plan to increase revenues from insurance and warranty products by approximately six percent on a compound annual basis.

In 2006, we launched a new membership service called "Identity Watch," which provides customers with services to help protect them against identity theft if their wallet is lost or stolen and notify them if their credit history has been altered.

Retail banking

In October 2006, we launched our retail banking initiative in two pilot markets, including high interest savings accounts, guaranteed investment certificates and residential mortgages. The launch of the new products leverage the trust we have earned over our 40-year history offering financial services, and the propensity of Canadians to use financial services from non-traditional banks. We are supporting the launch with a multi-faceted marketing program including flyer inserts, direct mail, television and radio advertisements, billboards and in-store advertising to increase customer awareness. Customers can sign up for Canadian Tire's retail banking products online or in-store in the pilot markets.

90%

of Canadians think it is important that they are not limited to traditional financial institutions.[1]

70%

would be interested in obtaining financial services from a non-traditional bank.[1]

[1] Proprietary Ipsos Reid study in target markets

Chief Executive Officer's letter to shareholders

Our strength comes from our diverse and innovative mix of businesses, products and financial services. Each of our businesses, in various ways, benefits from the operational or marketing strengths of the other businesses, making the whole of Canadian Tire greater than the sum of its parts. Our spirit of innovation and our passion for exceeding the ever-changing expectations of our customers have enabled us to deliver attractive long-term earnings growth for our shareholders.

Since my appointment as CEO in April 2006, I have had the opportunity to reflect extensively on Canadian Tire's future. I have reviewed our business plans, confirmed in my mind the correctness of our core strategies, and noted some aspects of our business where improvement is required. From this process I have fashioned a vision that is founded upon building our strengths, confidently pursuing growth and enhancing our productivity.

Canadian Tire is one of the most recognized and trusted companies in Canada. Each year over 90% of Canadian adults shop in our stores or use our financial services. We have earned this reputation, over 85 years, by meeting the needs of both our customers and our shareholders.

Our strength comes from our diverse and innovative mix of businesses, products and financial services. Each of our businesses, in various ways, benefits from the operational or marketing strengths of the other businesses, making the whole of Canadian Tire greater than the sum of its parts. Our spirit of innovation and our passion for exceeding the ever-changing expectations of our customers have enabled us to deliver attractive long-term earnings growth for our shareholders.

As I look to the future I am excited by the opportunities that we have to build on our sales momentum. I also believe we can do much to bolster productivity and rates of return to secure our long-term competitiveness and success.

The core strategies in each of our interrelated businesses have been proven and will sustain growth while new and exciting strategies for the longer-term future are developed and tested.

Canadian Tire Retail's sales growth will be fuelled by the continued expansion of the highly successful Concept 20/20 store. The new stores are larger, brighter and more customer-friendly than any of our earlier formats. Traffic is higher and customers are spending more at each visit. Over the next three years we will aggressively expand the number of Concept 20/20 stores while at the same time continually improving on the format. We will also be developing and testing exciting new formats including a Concept 20/20 store with a complete Mark's Work Wearhouse inside.

The future for Mark's Work Wearhouse is equally promising as we expand both the size of our new stores and the number of stores in the network. Cross–promotions and co-locating with, or even inside, Canadian Tire stores will introduce new customers to Mark's unique "clothes that work" concept. Opportunities also exist to grow through the expansion of assortments and product categories that are consistent with the brand image.

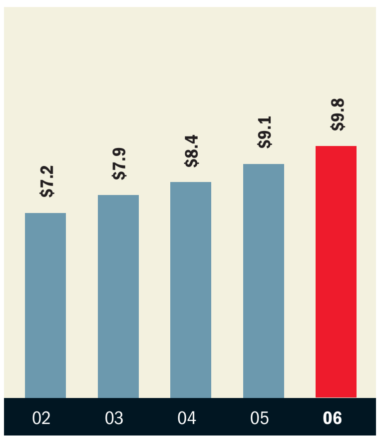
Financial Services will continue to expand through the development, testing and rollout of innovative new credit cards that appeal to different customer segments. We also believe there is significant long-term potential for retail banking products such as high interest savings accounts, guaranteed investment certificates and residential mortgages, a belief which the current test in Kitchener-Waterloo and Calgary is designed to validate.

The PartSource chain, currently comprised of 63 stores, has the potential to grow to over 200 outlets. With the continued acquisition of small independent distributors and the conversion to corporate stores, this business will play an important part in our strategy to profitably build our enterprise market share in the automotive parts aftermarket.

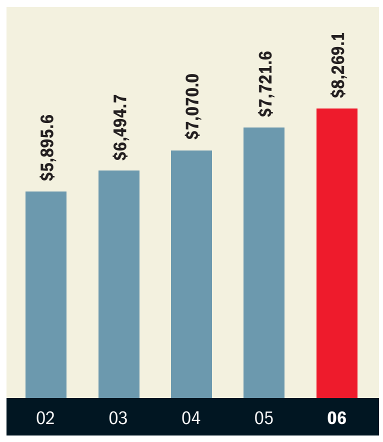
The Petroleum business is an important part of our interrelated network of businesses. As Petroleum customer traffic grows, so does our ability to distribute Canadian Tire 'Money' and reward Gas Advantage credit card customers with savings on their gas purchases. These programs enhance loyalty to the brand and encourage shopping across the network. We will continue to prudently invest in upgrading older gas stations to ensure a positive customer experience while selectively adding new gas stations adjacent to Concept 20/20 stores.

Growing our revenues and customer franchise is critical, but we have an equally important need to enhance earnings and the rates of return on investments, particularly within our core Canadian Tire Retail business. Over the next three years we will be focused on improving the productivity of operations through a number of important initiatives that have been identified and are now in the early stages of development.

Consolidated annual retail sales
(in billions)

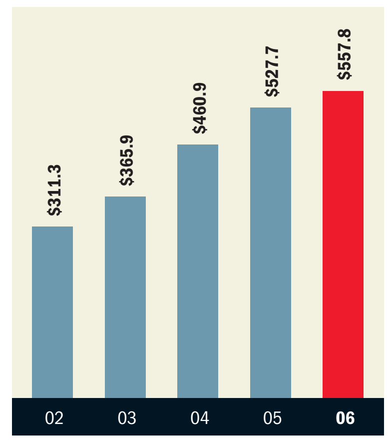


Consolidated gross operating revenue[1]
(in millions)



[1] Gross operating revenue has been restated for the impact of EIC-156 as required by the CICA.

Consolidated earnings before income taxes and minority interest
(in millions)



Beginning in 2007, we will increase investments in Canadian Tire Retail to upgrade the technology and applications that provide the tools and information employees need to be productive, agile and responsive to the needs of customers. This will, over the longer term, reduce technology and payroll costs while enhancing controls and decision making in key areas of the Company.

We will begin to modify and test new merchandise ordering processes that will create a smoother, more predictable flow of products from vendors to stores. Improved processes and practices, supported by enhanced information systems, will enable us to forecast more accurately, enhance service levels, increase inventory turns and reduce future warehousing needs and costs.

To support the expansion of PartSource and the continued growth of Canadian Tire Retail's automotive business, we are planning upgrades to the supply chain that will improve costs and enhance in-store service.

These projects, plus a number of other initiatives, will help to sharpen our focus on operating expenses and, in turn, improve returns and ensure sustainable earnings growth.

At Canadian Tire, we are blessed with a talented and highly committed workforce, most of whom are also customers and shareholders. We are all aligned in our commitment to better serve customers and build upon our reputation as one of Canada's most recognized and trusted corporations.

In closing, I would like to recognize and thank all of our employees, Associate Dealers, franchisees, Petroleum agents and their employees for the contributions and commitments they make every day to serve our customers. They are an important part of our Company and our success.

Finally, I want to acknowledge the contribution of Gil Bennett who, after ten years as our Chairman, has decided to retire from the Board of Directors. Gil's stewardship during his tenure has been invaluable. He has served our shareholders exceptionally well.

I look forward to working with our newly appointed chairman, Maureen Sabia. Maureen has contributed much to Canadian Tire over many years, including her nine years as Chairman of our Audit Committee. Her broad Board experience, hard work and commitment to Canadian Tire are widely known.

I am proud to lead this great company. Together with my management team and our Board of Directors, I look forward to the future with confidence and enthusiasm.

Tom Gauld
President and Chief Executive Officer

Performance scorecard

Canadian Tire Retail

	2006 (year-over-year % change)
Retail sales	5.4
Same store sales	3.5
Net shipments	4.9
Gross operating revenue	5.1
Earnings before income taxes and minority interest	5.5
Adjusted earnings before income taxes and minority interest*	(1.6)

Mark's Work Wearhouse

	2006 (year-over-year % change)
Retail sales	14.2
Same store sales	13.0
Gross operating revenue	14.7
Earnings before income taxes	38.8
Adjusted earnings before income taxes*	41.7

Petroleum

	2006 (year-over-year % change)
Retail sales	13.2
Gasoline sales volume (litres)	6.8
Gross operating revenue	13.5
Loss before income taxes	(172.9)
Adjusted loss before income taxes*	(165.7)

Financial Services

	2006 (year-over-year % change)
Gross operating revenue	5.2
Earnings before income taxes	1.2
Adjusted earnings before income taxes*	23.1
Net managed portfolio (end of period)	7.1
Average number of accounts with a balance	3.5
Average balance per account	8.2
Return on average total managed portfolio	5.2

* See section 12.0, Non-GAAP Measures, in Management's Discussion and Analysis in our 2006 Financial Report.

2006 Goal:

Build 20 new stores and retrofit/expand 60 stores. Target was revised to 73 C20/20 projects in the second quarter of 2006.

2006 Results:

73

Concept 20/20 projects completed, including 19 new stores and 54 retrofit/expansion projects.

2007 Goal: Complete 70 Concept 20/20 store projects, adding 10% retail square footage.

2006 Goal:

Increase percentage of foreign-sourced from 35% in 2005 to 36% in 2006.[1] Based on value of inventory purchased

2006 Results:

37%

of products sourced outside of Canada.[1] Based on value of inventory purchased

Goal: Increase percentage of products sourced globally from 37% in 2006 to 50% in 2009.

2006 Goal:

Increase sales of ENE products by 11.8% in 2006.

2006 Results:

4%

increase in ENE product sales in 2006 compared to 2005.

2007 Goal: Increase sales of ENE products by 10% in 2007.

2006 Goal:

Open 8 new PartSource stores.

2006 Results:

9

PartSource stores opened, including 3 acquired stores that were converted to the PartSource banner.

2007 Goal: Add up to 8 new PartSource stores through new store openings and small-scale acquisitions.

Mark's Work Wearhouse

2006 Goal:
Increase total same store sales by 5.8%.

2006 Results:
13%
increase in total same store sales.

2007 Goal: Increase total same store sales by 8%.

2006 Goal:
Open 15–21 new stores and renovate/expand/relocate up to 24 stores, increasing retail square footage to 2.8 million.

2006 Results:
45
store projects completed, including 18 new stores and 27 renovated/expanded/relocated stores. Retail square footage increased to 2.7 million.

2007 Goal: Open 29 new stores and renovate/expand/relocate up to 26 stores, increasing retail square footage by 14%.

2006 Goal:
Launch 8 new products, 2 incremental flyers, 4 new gift cards in flyer distributions and 1 additional special event.

2006 Results:
Completed
Launched 8 new products, 3 incremental flyers, 6 new gift cards in flyer distributions, 1 special event night, and created a new cross-promotion cash card with CTR.

2007 Goal: Launch 3 incremental flyers, 5 additional "Spend and Save" promotions and 8 extended product innovation promotions.

Canadian Tire Petroleum

2006 Goal:
Open 3 new gas bars and re-brand 10 additional gas bars.

2006 Results:
10
gas bars added to the network, including 3 new and 7 re-branded.

2007 Goal: Open 9 new sites and modernize approximately 25 sites. On an opportunistic basis, continue to re-brand competitor sites.

2006 Goal:
Increase gasoline volume by 5%.

2006 Results:
6.8%
increase in gasoline volume.

2007 Goal: Increase gasoline volume by approximately 3%.

2006 Goal:
Open 5–10 new car washes and increase sales by 20%.

2006 Results:
7
new car washes opened, including 4 new and 3 re-branded. Car wash sales increased 2.6%.

2007 Goal: Increase car wash sales by 12%.

2006 Goal:
Open 3 new convenience stores and increase sales by 10%.

2006 Results:
8
convenience stores opened, including 3 new and 5 re-branded. Convenience sales increased by 14.8%. Excluding re-branded sites.

2007 Goal: Open 9 convenience stores and increase sales by more than 10%.

Canadian Tire Financial Services

2006 Goal:
Grow total managed portfolio of loans receivable to $3.6 billion.

2006 Results:
$3.6 billion
in total managed portfolio of loan receivables at the end of 2006.

2007 Goal: Increase total managed portfolio of loans receivable to $3.9 billion.

2006 Goal:
Target operating expense ratio of 8%–9%.

2006 Results:
7.8%
operating expense ratio; a 54 basis point improvement versus 8.37% in 2005.

2007 Goal: Maintain operating expense ratio of 8% to 9%.

2006 Goal:
Target 4.5%–5.0% return on average total managed portfolio, excluding gains on sales of loans receivable.

2006 Results:
5.23%
return on average total managed portfolio. Excluding gains on sales of loans receivable, share redemption and modification of stock option agreements.

2007 Goal: Maintain return on average total managed portfolio of 4.5%–5.0%.

Leadership team

Thomas K. Gauld[1]
President and Chief Executive Officer

Tom Gauld was appointed President and Chief Executive Officer of Canadian Tire in April 2006 following 13 years in senior executive positions at Canadian Tire, including 10 years as President of Canadian Tire Financial Services. Tom transformed Financial Services into Canada's second largest MasterCard issuer and a significant contributor to Canadian Tire's earnings. Prior to joining Canadian Tire, Tom held executive positions in Canada, Europe, South America and the United States. He has been actively involved in community and business organizations.

J. Huw Thomas[2]
Executive Vice-President, Finance and Administration and Chief Financial Officer

Huw Thomas is Executive Vice-President Finance and Administration and Chief Financial Officer with corporate financial accountability across all business units, including corporate planning and reporting, financial reporting and systems, retail analysis, real estate and construction, treasury, taxation, internal audit, investor relations and corporate affairs. Huw has nearly 30 years of finance and accounting experience and has been Chief Financial Officer for over six years.

Mike Arnett[3]
President, Canadian Tire Retail

As President of Canadian Tire Retail, Mike's accountabilities include CTR's Marketing, Merchandising and Supply Chain. He has also held senior executive positions in Canadian Tire Retail Marketing and most recently in corporate New Business Development, where he played a key role in the integration of Mark's and in the development of our strategic agenda. Mike's 25 years of retailing experience also includes the development of CTR's Next Generation store concept, its online business and the revitalization of CTR's private label brands.

Laura Dunne[4]
Senior Vice-President, Human Resources

Laura Dunne is Senior Vice-President of Human Resources with accountability for leadership development, succession planning, compensation, benefits, capital accumulation, learning, staffing, and organization development programs. In addition, Laura is accountable for the people and change strategies that support key business initiatives and for aligning HR approaches across the enterprise. Laura has more than 15 years of experience in the many disciplines of human resources.

Marco Marrone[5]
President, Canadian Tire Financial Services

Marco joined Financial Services in 1986 and has held key executive positions in finance, credit risk management, information technology, marketing and operations. In 1996, Marco was appointed Vice-President of Customer Development with responsibility for the conversion of the Company's proprietary credit card portfolio to Options® MasterCard. Marco has been instrumental in many of Financial Services' most significant strategies, including the creation of Canadian Tire Bank, where he served as Chief Operating Officer, and the transformation of Canadian Tire Financial Services into one of the country's largest bankcard issuers.

Michael B. Medline[6]
President, Dealer Relations and Diversified Businesses

Mike Medline is President, Dealer Relations and Diversified Businesses. In this role, he is accountable for the development of sustainable long-term growth strategies as well as the motivation, alignment and career development of Canadian Tire Associate Dealers. He is also responsible for Canadian Tire Petroleum and PartSource. Previously Senior Vice-President, Strategy and Corporate Development for an international forest products company, Mike has significant senior level experience in strategic planning, mergers and acquisitions, investor relations, logistics, marketing and law.

Stanley W. Pasternak[7]
Senior Vice-President and Treasurer

Stan Pasternak is Senior Vice-President and Treasurer, with management responsibilities for Treasury and Taxation. Stan has more than 30 years of financial and banking experience including progressively senior positions in corporate banking and planning, finance and retail banking with one of Canada's top banking institutions.

Ken Silver[8]
Senior Vice-President, Real Estate and Construction

Ken is Senior Vice-President, Real Estate and Construction with responsibility for the real estate portfolio including acquisition of land and construction of stores and gas bars for Canadian Tire Retail, Mark's Work Wearhouse, PartSource and Canadian Tire Petroleum. Ken has more than 20 years of real estate experience in the development and retail industries in Canada and the United States.

Patrick R. Sinnott[9]
Senior Vice-President, Supply Chain

Pat Sinnott is Senior Vice-President, Supply Chain, with accountability for the quality and governance of Canadian Tire's supply chain. Pat has more than 25 years of logistics experience and holds masters degrees in both Mathematics and Business Administration. Prior to joining Canadian Tire, Pat was a partner in the logistics practice of a major consulting firm.

Cameron D. Stewart[10]
Senior Vice-President, Secretary and General Counsel

Cameron Stewart is Senior Vice-President, Secretary and General Counsel with responsibility for the provision of legal services to the Company and its subsidiaries, and for Enterprise Risk Management and Compliance. In this capacity, he provides advice to senior executives and the Board of Directors and manages legal risk. Cam joined Canadian Tire in 1999 after practising corporate and commercial law with a major Canadian law firm. He is a member of the Canadian Bar Association and the Corporate Executive Board's General Counsel Roundtable.

Paul Wilson[11]
President, Mark's Work Wearhouse

Paul Wilson is President of Mark's Work Wearhouse. He has significant retail marketing and merchandising experience and has been a substantial contributor to Mark's strong sales performance. Paul was a key architect in the development of Mark's strategic business plan and branding strategy, and has been a driving force behind Mark's growth into the largest retailer in its segment.

Andrew T. Wnek[12]
Senior Vice-President, Information Technology and Chief Information Officer

Andy Wnek is Senior Vice-President, Information Technology and Chief Information Officer, with responsibility for the Company's technological infrastructure and for aligning information technology strategies with the requirements of the business. A chartered accountant, Andy has held a number of executive positions since joining Canadian Tire in 1987, including his previous position as Vice-President, Finance and Administration, Canadian Tire Retail.

Chairman's letter to shareholders

Over the ten and one half years from September 1996 to March 2007, I was privileged to serve as the Chairman of the Board of Canadian Tire. I use the term "privileged" advisedly and sincerely; the chairmanship of the Canadian Tire Board afforded me a number of unique opportunities, including the following:

> I was wonderfully positioned to observe, to participate in (and, perhaps, to modestly influence Canadian Tire's adoption of) the most profound changes in the oversight and management of commercial corporate enterprises that have occurred since the concept of limited liability companies was developed;

> I worked closely with a changing complement of outstanding Canadian Tire Board members; those directors, too numerous to name here, consistently demonstrated by their thoughts, words and actions a commitment to the highest standards and best practices of what has come to be known as "corporate governance";

> From a front-row seat, I watched a superb management team transform Canadian Tire from a good company by Canadian standards into a great company by any standard; and

> I had day-to-day contact with three marvellous Chief Executive Officers, each of whom was, in his own way, "the right person at the right time" to lead the Canadian Tire management team; I refer, of course, to Steve Bachand, (1993 to 2000), Wayne Sales (2000 to 2006) and Tom Gauld (2006 to date).

During the course of the last decade, most of the enhancements to Canadian Tire's governance have resulted from a strengthened company-wide emphasis on existing beneficial practices, rather than from the adoption of new or radically changed processes. One such re-emphasized practice (and the one which provides me with the most satisfaction) is Canadian Tire's insistence on timely, transparent and forthright public disclosure. Strongly supported by the Board and spearheaded by Wayne Sales and his management team throughout Wayne's highly successful tenure as CEO, "full, true and plain disclosure" was confirmed as standard operating procedure at Canadian Tire, and remains so today. In my view, the Company's resolute commitment to open, factual communication with its many stakeholders goes a long way to explaining and justifying the Company's reputation as one of Canada's most trusted brands.

At the annual and special meeting of shareholders of the Company to be held on May 10 of this year, two other directors and I will not be standing for re-election. The two other directors, Gordon Cheesbrough and James Fisher, are completing their ninth years of membership on the Canadian Tire Board. Both have served lengthy terms on the Board's Audit Committee (the most demanding of Board committees), as well as on several other committees. Gord Cheesbrough has been the Chairman of Canadian Tire Bank since the Bank's formation in 2003; Jim Fisher has chaired the Board's Management Resources and Compensation Committee for the last four years. Gordon and Jim have been respected, major contributors to the Board's deliberations; they will be missed.

Finally, I want to close by acknowledging the passing of Earl Joudrie on November 20, 2006. Earl was a director of Canadian Tire from 1990 to 2005, and he served as Chairman of the Board in 1995 and 1996. Earl's wisdom, pragmatism and unfailing humour enlightened everyone who was fortunate enough to associate with him.

Gilbert S. Bennett
Chairman of the Board

Board of Directors

Gilbert S. Bennett, 68
Guelph, Ontario, Canada

Current Activities:
Mr. Bennett is a director of Samuel, Son & Co., Limited and a director and Chairman of Fortis Ontario Inc.

Past Activities:
Mr. Bennett practised corporate and commercial law in Toronto for 15 years, and has business experience in the investment, construction, oil and gas, aerospace and retail sectors. He is past Chairman of Canadian Tire, Bracknell Corporation, Encal Energy Ltd. and the Ontario Casino Corporation. Mr. Bennett has been a director of Air Nova Inc., Algoma Steel Inc., Cablecasting Limited, de Havilland Inc., Eldorado Nuclear Limited, Enbridge Inc., Fortis Inc., NAV CANADA and The Consumers' Gas Company.

Martha G. Billes, 66
Calgary, Alberta, Canada

Member of:
- Governance Committee
- Social Responsibility and Risk Governance Committee

Current Activities:
Ms. Billes is President and a director of Albikin Management Inc., an investment holding company. She is Chairman of the Canadian Tire Foundation for Families and a director of Canadian Tire Bank. Ms. Billes is the daughter of Canadian Tire co-founder A.J. Billes and has beneficially owned or controlled a majority of the Common Shares since 1997. She is also a director of Marlore Enterprises Ltd. and Tire 'N' Me Pty. Ltd., and a member of the Board of Trustees of the Calgary Women's Emergency Shelter – Endowment Fund Trust.

Past Activities:
Ms. Billes has served on the boards of several public companies. She received an Honorary Doctorate of Commerce degree from Ryerson University in 2002. Ms. Billes is also Honourary Consul Emeritus for the Republic of Chile, Southern Alberta Region and past member of the Board of Trustees of the Sunnybrook Medical Centre Foundation.

Owen G. Billes, 37
St. Catharines, Ontario, Canada

Member of:
- Social Responsibility and Risk Governance Committee

Current Activities:
Mr. Billes is Manager, New Business Development, Canadian Tire. Mr. Billes is the son of Martha G. Billes and grandson of Canadian Tire co-founder A.J. Billes.

Past Activities:
Mr. Billes joined Canadian Tire in 1992 as Changeover Consultant, Dealer Changeover. He has also worked at Canadian Tire in the Operations Planning Centre, Dealer Operations, Logistics and Automotive Marketing, Petroleum, Customer Service Strategic Development, and at Canadian Tire Financial Services Limited and four Associate Dealer stores.

Gordon F. Cheesbrough, 54
Toronto, Ontario, Canada

Member of:
- Audit Committee
- Social Responsibility and Risk Governance Committee

Current Activities:
Mr. Cheesbrough is Managing Partner, Blair Franklin Capital Partners Inc., an investment bank and asset management company. He is also Chairman of Canadian Tire Bank. Mr. Cheesbrough is Chairman of the Board of Governors of North York General Hospital, a governor of the Canadian Council of Christians and Jews and a director of Canadian Trading & Quotation Systems Inc.

Past Activities:
Mr. Cheesbrough has more than 30 years of experience in the Canadian and international capital markets. He is a former President and CEO of Altamira Investment Services Inc., Chairman and CEO of Scotia Capital Markets and Chairman of the Board of Upper Canada College. He has been a director of Canadian Air Transport & Security Authority, Canadian Olympic Foundation, Orion Capital Corporation, The Toronto Community Foundation and a trustee of CML Healthcare Income Fund.

Keith E. Gostlin, 63
Kelowna, British Columbia, Canada

Member of:
- Social Responsibility and Risk Governance Committee

Current Activities:
Mr. Gostlin is President, K.E. Gostlin Enterprises Ltd., which operates a Canadian Tire Associate store in Kelowna, British Columbia.

Past Activities:
Mr. Gostlin became an Associate Dealer in 1967. He was president of the Canadian Tire Dealers' Association from 1990 to 1993, and remained on its board as past president until 1995. Mr. Gostlin has also served as chairman for three Associate Dealer groups and on numerous Canadian Tire Dealers' Association committees. In addition, he has chaired various committees for the Associate Dealers working together with the Company in connection with e-business, PartSource and the new Dealer contract. Mr. Gostlin is a recipient of the Canadian Tire Award of Excellence. He has also served on the board of the Kelowna General Hospital and the Kelowna Economic Development Commission.

James R. Neale, 64
Calgary, Alberta, Canada

Member of:
- Governance Committee
- Management Resources and Compensation Committee

Current Activities:
Mr. Neale is President, Neale Management Consultants Ltd., a consulting firm specializing in accounting, finance and tax services. He is also active in oil and gas exploration and development through his private holding company, Adventure Petroleums Ltd.

Past Activities:
Mr Neale, a Certified Management Accountant, has served as a director of the Small Explorers and Producers Association of Canada and as an officer and director of several public resource companies. He also co-founded North Eastern Drilling Ltd., owner and operator of the first slant hole drilling rig in Canada.

Suzanne R. Perles, 53
Manhattan Beach, California, U.S.A.

Member of:
- Governance Committee
- Social Responsibility and Risk Governance Committee (Chairman)

Current Activities:
Ms. Perles is Managing Director, The Corporate Development Company, a corporate advisory firm specializing in mergers and acquisitions. She is also a member of the Board of Directors and Treasurer of America's Health Together and a director of the Southern California Speed Skating Association.

Past Activities:
Ms. Perles was previously Vice President Global Head Consumer Products Mergers and Acquisitions, Citicorp Mergers and Acquisitions and an engagement manager at the consulting firm of McKinsey and Company. She was elected to the Board of Trustees of Princeton University and served as vice president of the American Association of Rhodes Scholars. Ms. Perles was a member of the Board of Directors of Belae Brands, Inc., Chief Operating Officer of Anchor Audio, Senior Advisor to Enell, Inc., and a founding member of the Women's Equity Fund Advisory Board. She was formerly Director, National Issues Program, University of Maryland, Academy of Leadership, Co-Chair of the Business Development Task Force, Rebuild Los Angeles and an economics instructor at St. Anne's College, Oxford University. Ms. Perles was an undergraduate at Princeton University, earned her MBA from the Harvard Business School and her Doctorate in economics from Oxford University where she was a Rhodes Scholar.

Frank Potter, 70
Toronto, Ontario, Canada

Member of:
- Management Resources and Compensation Committee (Chairman)
- Social Responsibility and Risk Governance Committee

Current Activities:
Mr. Potter is Chairman, Emerging Market Advisors, Inc., a consulting firm dealing with international direct investment and a director of Canadian Tire Bank. He is also a director of Golden China Resources Corporation, Penn West Energy Trust, Rockwater Capital Corporation, Softchoice Corporation, Sentry Select Capital Corporation, a private company that manages a number of exchange-traded investment trusts, and each of the trusts and funds in the Sentry Select family.

Past Activities:
Mr. Potter is a former international banker, executive director of The World Bank and a senior advisor at the Department of Finance.

Austin E. Curtin, 65
Medicine Hat, Alberta, Canada

Member of:
· Social Responsibility and Risk Governance Committee

Current Activities:
Mr. Curtin is President, Austin Curtin Sales Ltd., which operates two Canadian Tire Associate stores and a Petroleum outlet in Alberta.

Past Activities:
Mr. Curtin became an Associate Dealer in 1975. He also previously held numerous management positions with Zellers Ltd. Mr. Curtin has been an active member of the Canadian Tire Dealers' Association and its committees and served as its National Director of Marketing. He is a recipient of the Canadian Tire Award of Excellence.

James D. Fisher, 64
Toronto, Ontario, Canada

Member of:
· Audit Committee
· Management Resources and Compensation Committee

Current Activities:
Mr. Fisher is Vice Dean, Rotman School of Management, University of Toronto and holds the Canadian Credit Management Foundation Chair in Entrepreneurship. He is a director of Ace Bakeries Ltd., ICD Corporate Governance College, Lallemand Inc., Parmalat Canada and National Bedding Limited.

Past Activities:
Mr. Fisher was formerly with McKinsey and Company and was a founding partner of The Canada Consulting Group. He has held a number of senior positions in the food industry, including many years with George Weston Limited. He has also served on the boards of many public and private companies, including Atlas Cold Storage and Trimark Financial Corporation.

Daniel E. Fournier, 52
Outremont, Quebec, Canada

Member of:
· Governance Committee
· Management Resources and Compensation Committee

Current Activities:
Mr. Fournier is President, ACNG Capital Inc., a real estate value creation and strategic planning firm. He is the Lead Director of the Genivar Income Fund and Vice Chairman of CB Richard Ellis Canada. Mr. Fournier is the founding Chairman of NF (Neurofibromatosis) Canada.

Past Activities:
Mr. Fournier was formerly Chairman and the majority shareholder of Jas. A. Ogilvy Inc., and Chairman of Ritz-Carlton Canada. Mr. Fournier has served as a member of the Board of Directors of the Brick, Standard Life Canada, Standard Life Trust Company, Hartco Corporation, and as a trustee and member of the Independent Committee of Summit Reit. Mr. Fournier has also served as Chairman of the McCord Museum of Canadian history, Vice Chairman of the Fondation Jean Lapointe, and as a member of the Board of Directors of Festival de Lanaudière, and the YMCA and YWCA Foundations.

Thomas K. Gauld, 57
St. Catharines, Ontario, Canada

Current Activities:
Mr. Gauld is President and CEO of Canadian Tire and a director of Canadian Tire Financial Services Limited and Mark's Work Wearhouse Ltd.

Past Activities:
Mr. Gauld previously led Canadian Tire Financial Services Limited as President from 1996 to 2006. He joined Canadian Tire Financial Services Limited in 1993 as Vice-President of Marketing.

Prior to joining Canadian Tire, Mr. Gauld held a variety of management positions in Canada and internationally. He was Managing Director of Spalding Sports in Europe, President of Spalding Sports in Canada and RoadMaster Leisure Canada. He also worked in a variety of marketing roles with SmithKline Beecham in Canada and South America, Bristol Myers in Canada and the United States and Unilever in South Africa. He has served as a director of MasterCard Canada. Mr. Gauld has also been Chairman of the Niagara College Board of Governors and a member of the Board of Trustees of Brock University, the Advisory Board of Equifax Canada and the Shaw Festival Board of Governors.

James A. Riley, 54
Toronto, Ontario, Canada

Member of:
· Governance Committee (Chairman)
· Management Resources and Compensation Committee

Current Activities:
Mr. Riley is a Partner of Goodmans LLP, a law firm.

Past Activities:
Mr. Riley was a founding partner of the Toronto office of Ogilvy Renault LLP, a law firm, and has more than 25 years of experience practicing law in the areas of banking, financial intermediary regulation and mergers and acquisitions. Mr. Riley has been recognized as one of Canada's leading lawyers in these and other practice areas by legal ranking guides. He has served as a director or equivalent of several organizations including Appleby College, St. George's on-the-Hill and Mellon Bank Canada and its affiliates.

Maureen J. Sabia, 65
Toronto, Ontario, Canada

Non-Executive Chairman of the Board since March 8, 2007.

Current Activities:
Miss Sabia is President, Maureen Sabia International, a consulting firm, and a director of Canadian Tire Bank. She co-authored "Integrity in the Spotlight – Opportunities for Audit Committees" published in 2002 and "Integrity in the Spotlight – Audit Committees in a High Risk World" published in 2005.

Miss Sabia is a member of the Public Accountants Council for the Province of Ontario, a body mandated by the *Public Accounting Act, 2004* (Ontario) to oversee, in the public interest, the regulation of public accounting.

Past Activities:
Miss Sabia, a lawyer, has had careers in the public and private sectors and served as Chairman of the Export Development Corporation. She is past Chairman of the Audit Committee of Canadian Tire. Miss Sabia was formerly a director of Gulf Canada Resources Limited, Hollinger Inc., Laurentian General Insurance Company Inc., O & Y Properties Corporation, O & Y FPT Inc. and Skyjack Inc. She has been a member of the Board of Governors of the University of Guelph, Chairman of the Sunnybrook Medical Centre Foundation and a member of the Board of Trustees for Sunnybrook Medical Centre.

Graham W. Savage, 57
Toronto, Ontario, Canada

Member of:
· Audit Committee (Chairman)
· Governance Committee

Current Activities:
Mr. Savage is Chairman of Callisto Capital LP, a merchant banking partnership. He is a director of Canadian Tire Bank and Sun Times Media Group, Inc.

Past Activities:
Mr. Savage was previously Chief Financial Officer and a director of Rogers Communications Inc. He has also been a director of AT&T Long Distance Co., Alias Corp., FMC Financial Models Limited, Leitch Technology Corp., Lions Gate Entertainment Corp., MDC Corp., Microcell Inc., Royal Group Technologies Limited, Sun Media Corp. and Vitran Corporation among others.

Stephen G. Wetmore, 54
Mississauga, Ontario, Canada

Member of:
· Audit Committee
· Management Resources and Compensation Committee

Current Activities:
Mr. Wetmore is President and CEO, Bell Aliant Regional Communications Income Fund, a communications service provider. He is a chartered accountant and a member of the Canadian Institute of Chartered Accountants. Mr. Wetmore is a director of Stratos Global Corporation and the C.D. Howe Institute, and a member of the Financial Executives Institute.

Past Activities:
Mr. Wetmore was previously Group President, Corporate Performance and National Markets, Bell Canada and Executive Vice-President, BCE Inc., President and CEO of Aliant Inc., President and CEO of NewTel Enterprises Ltd., President of Air Atlantic, and Managing Director of Scotia Holding PLC. He was Chair of the Atlantic Provinces' Economic Council and Nova Scotia Council on Higher Education and has actively promoted education through his leadership affiliations with Dalhousie University, Memorial University, University College of Cape Breton, the Shad Valley Institute, RCS Netherwood and the Canadian Youth Business Fundraising Committee.

Further information on Canadian Tire's corporate governance is provided in the Company's Management Information Circular which is available on the System for Electronic Document Analysis and Retrieval at www.sedar.com, or in the investor relations section of Canadian Tire's web site at **http://investor.relations.canadiantire.ca**.

Corporate responsibility

Canadian Tire has become one of Canada's largest and most successful retailers through the relationships we have fostered with all of our stakeholders. To be able to achieve our vision of being Canada's most trusted company, we work to meet our responsibilities to all of our stakeholders – a broad constituency that includes our investors, employees, customers, suppliers and communities. At Canadian Tire, we define corporate responsibility broadly as responsible practices and behaviours related to: governance and corporate reporting; day-to-day business practices, risk management, stewardship of the environment, health and safety; the workplace, and community involvement. On an ongoing basis, we review and augment our policies and practices to ensure that we maintain a high standard of corporate behaviour.

Corporate governance

Our Board of Directors ensures that we meet our mandated, regulatory governance obligations to shareholders and that we also act in a manner befitting our role as one of Canada's most recognized and trusted companies. We regularly review our corporate governance policies and practices to ensure they remain comprehensive, relevant and effective, and that our disclosures are transparent and full. In addition, Canadian Tire has achieved award-winning standards for proactive, comprehensive disclosure, as recognized by external organizations such as the Canadian Institute of Chartered Accountants.

Highlights of our key governance policies and practices include:

> Separation of the roles of Chairman and Chief Executive Officer;
> Independence of the Chairman of the Board and the majority of the Directors;
> Regular assessment of the effectiveness of the Board and its Directors;
> Active engagement of the Board with management in the development of strategic plans and review and approval of the Company's strategic, business and financial plans;
> Orientation and educational programs for Directors, including participation in conferences, courses or other educational experiences at the Company's expense;
> Annual Board evaluation of the performance and objectives of all Officers of the Company;
> Regular organizational and succession planning reviews; and
> Board approval of disclosure and insider trading policies.

For a complete description of our corporate governance practices, including a summary of how we are meeting the guidelines adopted by the Canadian Securities Administrators, please refer to Canadian Tire's Management Information Circular.

Responsible business practices

In 2005, Canadian Tire adopted a Code of Business Conduct to ensure a clear understanding by employees and Directors of our standards for ethical business practices. Employees and Directors are required to sign the Code on an annual basis. Canadian Tire also implemented a Supplier Code of Business Conduct, which sets out specific expectations regarding supplier workplace standards and business practices including unlawful payments, working hours, human rights, discrimination and forced labour, safe and healthy work environments and environmental protection.

In conjunction with the adoption of our Codes, Canadian Tire established a Business Conduct Compliance Program. The Business Conduct Compliance Office oversees compliance with our Code of Business Conduct and provides measures for any stakeholder to voice concerns or raise issues anonymously or confidentially, through:

> The Business Conduct Compliance Office;
> The Business Conduct Hotline or Web Reporting (third party); and
> Direct contact with the Chairman of the Board, Audit Committee and Social Responsibility and Risk Governance Committee.

Corporate responsibility reporting tools:

Business Conduct Compliance Office
Canadian Tire Corporation, Limited
2180 Yonge Street
Toronto, Ontario M4P 2V8
Attention: Director of Risk Management & Compliance Services

Business Conduct Hotline
From Canada and the USA, call toll free 1-800-620-6943
From other countries, call collect 678-250-7521

Business Conduct Web Reporting
https://www.tnwinc.com/webreport

Our Board of Directors ensures that we meet our mandated, regulatory governance obligations to shareholders and that we also act in a manner befitting our role as one of Canada's most recognized and trusted companies.

Our unique culture at Canadian Tire permeates everything that we do. We believe in a positive, healthy, safe and respectful working environment for our employees – one that is reflective of our leadership position in the market.

Risk management

Canadian Tire employs an enterprise risk management (ERM) framework that sets out principles, processes and tools for evaluating, prioritizing and managing risk effectively and consistently across the organization. The Board of Directors has oversight of the ERM process and has delegated to the Social Responsibility and Risk Governance Committee – and in certain instances, the Audit Committee – the task of gaining and maintaining reasonable assurance that we appropriately identify, assess, monitor and manage risks, including our most significant or principal risks, and develop, implement and maintain a policy which accurately sets out our risk philosophy and tolerance and the related expectations and accountabilities. For more information on our approach to ERM and the risks that have the most potential to affect our business, please refer to section 9.0 of Management's Discussion and Analysis in our 2006 Financial Report.

Environment, health and safety (EHS) stewardship

Responsible management of environment, health and safety (EHS) matters is a fundamental obligation to the health and well-being of our employees and communities. We have an established EHS policy in place and have undertaken a broad range of activities in support of that policy.

Environment

In 2006, our environmental programs focused on waste diversion, energy conservation and recycling. Our distribution centres diverted a variety of waste materials from landfill including more than 2,525 tonnes of cardboard. We also recycled more than 22 million pounds of scrap lead-acid batteries from Associate Dealer stores that would otherwise have ended up in landfills. In 2005, we retrofitted lights in our distribution centres, lowering energy consumption by approximately 5.2 million kilowatt-hours per year.

In our Petroleum business, we continued our program to replace underground steel storage tanks with fiberglass tanks in order to reduce the risk of tank leaks. As a result of the replacement program and systematic site inspections, gasoline inventory loss for Petroleum continues to trend well below government standards.

Health and Safety

Our workplace health and safety performance substantially exceeds that of comparable firms, according to data from the Ontario Workers' Safety Insurance Board on the frequency of lost-time injuries.

At Canadian Tire, we believe that a safe and healthy working environment is in the best interest of all stakeholders. In 2006, we instituted improvements in workplace safety through a number of important initiatives in our businesses.

- The A.J. Billes Wellness Centre officially opened in April 2006 providing a broad range of health programs and services for employees, including educational seminars and lunch and learn sessions on health and wellness topics such as sleep, nutrition and fitness. Other on-site services include: individual nutritional assessments by a registered dietician that focus on preventing and dealing with obesity; a stress reduction room equipped with an electronic massage chair; and a library of health and wellness books and videos for employee use.
- Introduced an enhanced safety glass program under which the Company subsidizes the purchase of prescription safety glasses for employees who need them. The program is intended to improve the overall quality of prescription safety glasses worn in the workplace.
- Implemented a formal Muscular Skeletal Disorder (MSD) prevention program in CTR's distribution centres. This initiative was designed in response to draft guidelines released by the Occupational Health and Safety Council of Ontario (OHSCO).
- Developed a new Health & Safety Awareness program for Mark's Work Wearhouse in 2006. The objective of the program is to teach employees about safety in the workplace and how to prevent injuries. The program will be implemented in the second quarter of 2007.
- In compliance with Provincial Safety Statues, we developed a Corporate Store Initiative (CSI Project) for PartSource in 2006, which is designed to promote a safe and healthy work environment for our store employees. The CSI Project includes:
    - Disability Management and Occupational Health and Safety training for all PartSource managers
    - Creation of Health and Safety Committees at all PartSource locations
    - WHMIS training for all PartSource store employees through PartSource's district managers
- Provided hazardous chemical product safety information to employees and customers through access to Material Safety Data Sheets (MSDS) posted on the Canadian Tire web site. In 2006 nearly 29,000 MSDS files were accessed.

Corporate responsibility

Workplace

Our unique culture at Canadian Tire permeates everything that we do. We believe in a positive, healthy, safe and respectful working environment for our employees – one that is reflective of our leadership position in the market. We were one of the pioneers of profit-sharing programs in Canada, and remain firmly committed to the principle of aligning employees' interests as owners of the Company. Our culture fosters innovation, accountability and balanced risk-taking.

It has become a business imperative in today's work environment to focus on providing employees with opportunities to learn and develop new skills. Knowledge is essential to business success and personal performance. Some of the initiatives that we have developed include:

- eLearning – an innovative tool that helps CTR store employees learn about the products we sell and how to help customers. There are currently 340 courses available in English and French. eLearning has led to an overall improvement in product knowledge and customer satisfaction ratings in our stores.
- Canadian Tire University-Niagara – launched in 1996, it supports Financial Services' focus on increasing organizational capability and developing skills, leadership competencies and relationships.
- Canadian Tire University – launched in 2005, it's an award-winning program recognized for its progressive approach to meeting the specific learning needs of Canadian Tire Retail's front- and back-line team members.

Canadian Tire continues to be widely recognized in external studies and employee surveys for the exceptional pride and loyalty of our workforce and for the inspiring work environment we have created. In 2006, Canadian Tire was named one of "Canada's Ten Most Admired Cultures" by Waterstone Human Capital.

Involvement in the community

Good corporate citizenship through community support is core to the culture of Canadian Tire. We give our time and financial resources to a variety of social causes, but the largest single beneficiary is the Canadian Tire Foundation for Families. Through the generosity of our employees, Associate Dealers, vendors, customers and partners in the community, the Foundation for Families has donated more than $26 million in the last eight years.

Launched in 1999, the Canadian Tire Foundation for Families strengthens communities through three programs. Canadian Tire JumpStart™ helps kids in financial need participate in organized sports and recreational activities. The Foundation's other two programs – Community Programs and Regional Disaster Recovery – reach out to families when they need a helping hand.

The Canadian Tire JumpStart program, launched in February 2005, has delivered significant benefits for kids in terms of health, confidence and social development. Since inception, Canadian Tire JumpStart's 236 community chapters across Canada have given more than 65,000 kids in financial need the chance to play. Together with Canadian Tire Associate Dealers, Petroleum Agents and community partners, the local chapters identify children who might benefit from the program and ensure successful delivery.

Our community programs provide financial support to people facing difficult circumstances by ensuring life's basic needs – food, shelter, clothing and essential goods – are met. Last year, we were able to help families across the country with more than 180,000 warm meals and 25,000 nights of shelter.

With an emergency response network prepared for times of crisis, the Foundation donated more than $69,000 last year through the Regional Disaster Recovery program. In October 2006, we were there to help with needed supplies when the water system of North Hatley, Quebec was contaminated. A month later, we sent badly needed drinking water to residents of Vancouver and Port Alberni in response to severe flooding and contamination of local reservoirs. In total, the Foundation responded to 23 community emergencies during 2006.

The Canadian Tire Foundation for Families will continue its good work in 2007, aiming to enrich the lives of children in our communities and support families in times of need.

Shareholder and corporate information

Home Office

Canadian Tire Corporation, Limited

2180 Yonge Street
P.O. Box 770, Station K
Toronto, Ontario M4P 2V8
Telephone (416) 480-3000
Fax (416) 544-7715
Web site: www.canadiantire.ca

Shareholder and Corporate Information

Scott Bonikowsky
Vice-President,
Corporate Affairs and Investor Relations

Michelle Dodokin
Director, Investor Relations

Investor Relations E-mail:
investor.relations@cantire.com

Annual and Special Meeting of Shareholders

Metro Toronto Convention Centre
Room 701, South Building
222 Bremner Boulevard
Toronto, Ontario
Thursday May 10, 2007
10:00 a.m. (E.S.T.)

Exchange Listings

The Toronto Stock Exchange:
Common Shares (CTC)
Class A Non-Voting Shares (CTC.A)

Auditors

Deloitte & Touche LLP
Chartered Accountants

Bankers

Canadian Imperial Bank of Commerce
Bank of Montreal
Royal Bank of Canada
The Bank of Nova Scotia
TD Canada Trust
Citibank Canada
National Bank Financial

Registrar and Transfer Agent

Computershare Trust Company of Canada

100 University Avenue
Toronto, Ontario M5J 2Y1
Telephone 1 (800) 564-6253
(toll free in Canada and the United States)
(514) 982-7555
Fax 1 (866) 249-7775
(toll free in Canada and the United States)
(416) 263-9524
Email: service@computershare.com

To change your address, eliminate multiple mailings, transfer Canadian Tire shares, inquire about our Dividend Reinvestment Program or for other shareholder account inquiries, please contact the principal offices of Computershare Trust Company of Canada in Halifax, Montreal, Toronto, Winnipeg, Calgary or Vancouver.

Disclosure Documents

Corporate governance disclosure and other investor information is available online from the investor relations pages of the Company's web site at http://investor.relations.canadiantire.ca. Additional copies of this Annual Report and other disclosure documents such as the Company's Management Information Circular, the Annual Information Form and quarterly reports can be downloaded or requested in print form from the same web site.

Version française du rapport

Pour obtenir la version française du rapport annuel de Canadian Tire, veuillez vous adresser au Service des relations extérieures en composant le 1-800-564-6253 ou écrire à :

La Société Canadian Tire
C.P. 770, succursale K
Toronto (Ontario) M4P 2V8

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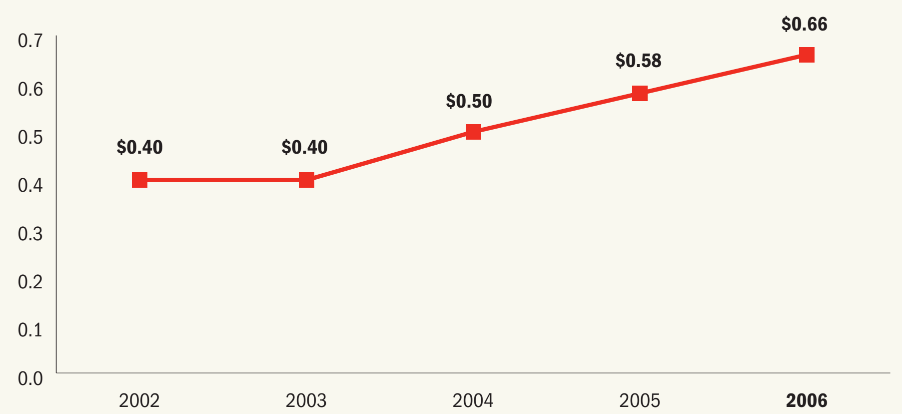
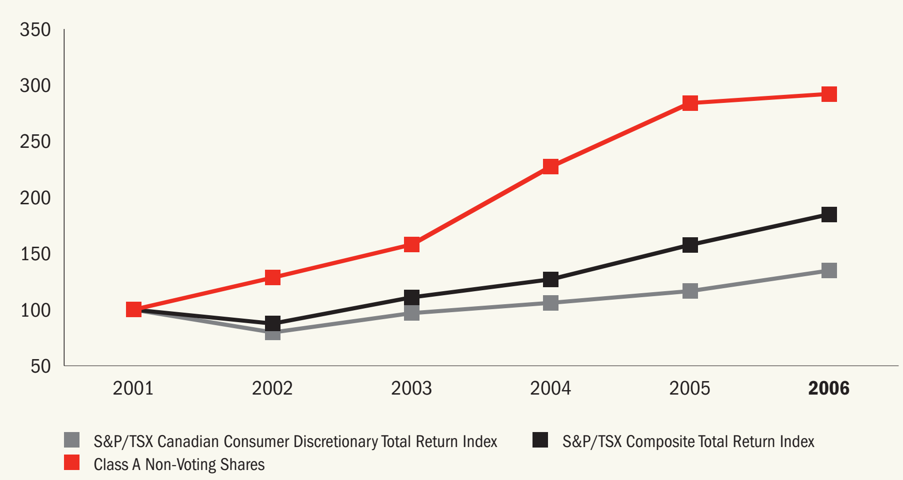
Printed in Canada.

DESIGN: BRYAN MILLS IRADESSO WWW.BRYANMILLS.COM, TORONTO

Annual dividend payable per share



Total return to shareholders (2002 to 2006) Class A Non-Voting shares (CTC.A)



2006 Dividends declared

Declaration Date	Record Date	Date Payable	Amount Payable per Share
07-Dec-2006	31-Jan-2007	1-Mar-2007	$0.165
10-Aug-2006	31-Oct-2006	1-Dec-2006	$0.165
11-May-2006	31-Jul-2006	1-Sept-2006	$0.165
09-Mar-2006	28-Apr-2006	1-Jun-2006	$0.165

Dividends paid by the Corporation in 2006 and subsequent years are considered "eligible dividends" for tax purposes.

Visit our website at
www.canadiantire.ca
Investor Relations
http://investor.relations.canadiantire.ca

Note to customer:

Coupon required at time of purchase. Only one bonus reward per transaction or coupon. Customer must surrender coupon at time of purchase.

Note to cashier:

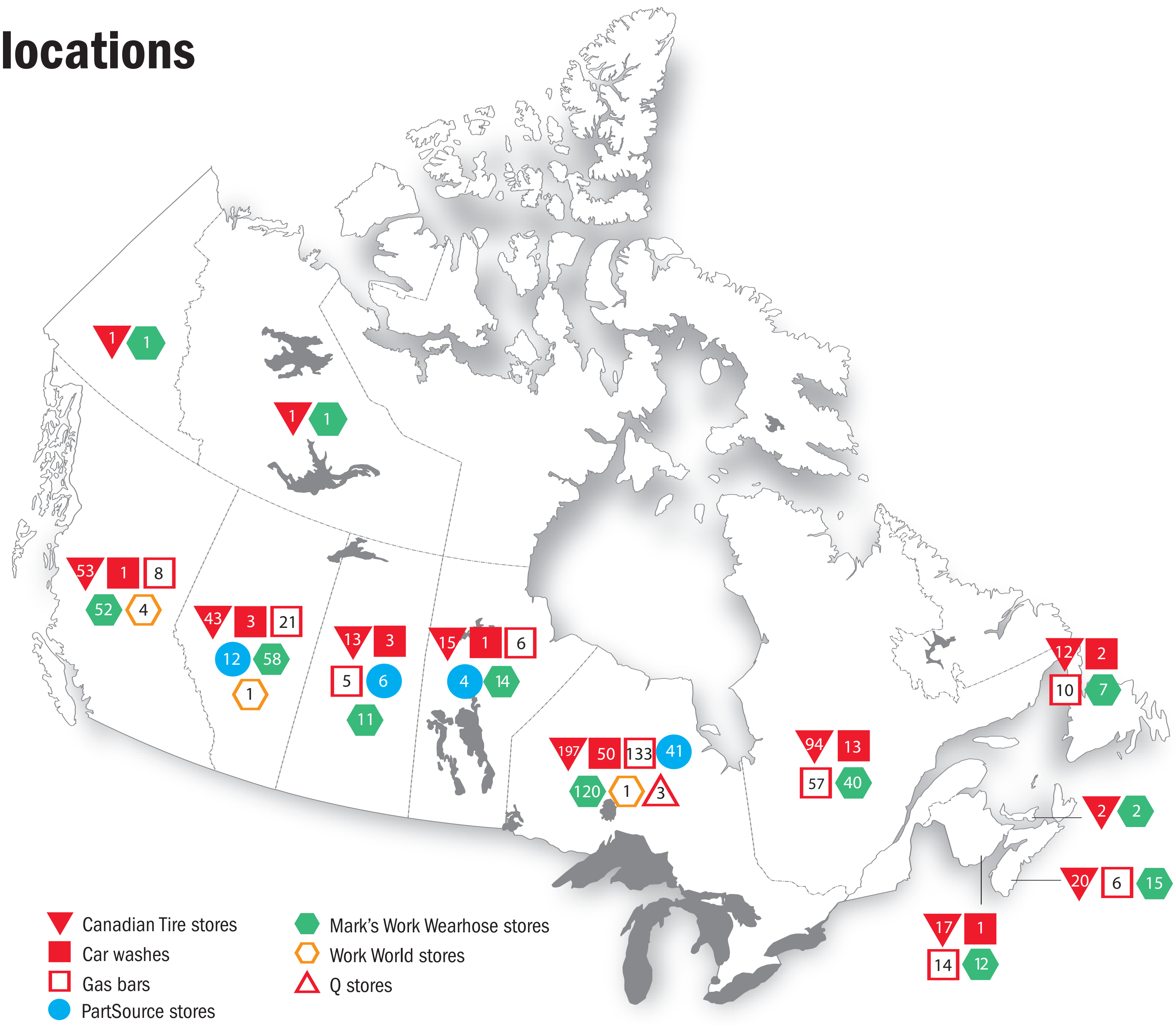
- Ring in all items for purchase. Sub-total must be $50 or higher to receive bonus.
- Customer must use cash, debit card, gift card, Options® Mastercard® card, Canadian Tire retail card, Canadian Tire 'Money'™, or Canadian Tire 'Money' on the Card™ in order to qualify.
- Key in SKU # 099-6044-6
- The $5 bonus CTM/CTMOTC will automatically be added onto the customer's receipt.
- Coupon must be slip-printed and retained by store for corporate auditing purposes.

Offer in effect April 1 through June 30, 2007.

Canadian Tire Gas Bar customers in Manitoba, Saskatchewan, Alberta and British Columbia get up to 7.5¢ per litre in Canadian Tire 'Money' instantly with cash or debit gas purchase, or get Canadian Tire 'Money' On The Card™ with the Options® MasterCard® card. Applicable rate posted at participating gas bars.

Canadian Tire Gas Bar customers in Manitoba, Saskatchewan, Alberta and British Columbia get up to 7.5¢ per litre in Canadian Tire 'Money' instantly with cash or debit gas purchase, or get Canadian Tire 'Money' On The Card™ with the Options® MasterCard® card. Applicable rate posted at participating gas bars.

Store locations



Province	Canadian Tire stores	Mark's stores	PartSource stores	Gas bars	Car washes
Alberta	43	59	12	21	3
British Columbia	53	56	–	8	1
Manitoba	15	14	4	6	1
New Brunswick	17	12	–	14	1
Newfoundland and Labrador	12	7	–	10	2
Northwest Territories	1	1	–	–	–
Nova Scotia	20	15	–	6	–
Nunavut	–	–	–	–	–
Ontario	197	121	41	133	50
Prince Edward Island	2	2	–	–	–
Quebec	94	40	–	57	13
Saskatchewan	13	11	6	5	3
Yukon	1	1	–	–	–
Store count at end of the year	468	339	63	260	74

Canadian Tire's innovative marketing programs are an integral part of the Company's market differention strategy, adding value for customers and building customer loyalty.

Coupon redeemable at participating Canadian Tire Gas Bars in Ontario, Quebec and Atlantic Canada. See reverse for offers in other regions. Minimum purchase required. One coupon per purchase. Cannot be combined with other offers. Applicable multiplier rate and chart posted at Gas Bar. Offer expires June 30th, 2007.

Canadian Tire Corporation, Limited 2006 Financial Report

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Chief Financial Officer's Letter to Shareholders

Continued financial strength and enhanced financial flexibility are crucial to our long-term success and are key to our plan for future growth. We've maintained a healthy balance sheet and cash flow as well as stable short- and long-term debt ratings, which over time, have reduced our overall cost of capital and facilitated our growth agenda.

Our financial strength has enabled us to execute our proven growth initiatives like our Concept 20/20 store program, which is delivering superior returns and same store sales growth, and invest in high potential opportunities such as retail banking. We ended 2006 in a strong financial position: $741 million in cash and cash equivalents; $645 million in unused lines of credit and the lowest long-term debt-to-equity ratio in several years.

While enhancing our financial flexibility, we continued to unlock opportunities to create shareholder value. Over the last 10 years, we have generated more than $200 million in gains on the sale of our non-core real estate assets as we sold redundant and excess properties. In 2006 alone, we completed a sale and leaseback of two of our distribution centres and also sold a large property in a high value area of Toronto, Ontario, for total consideration of $379 million. Going forward, we will continue to optimize the value of our real estate portfolio through targeted sale and sale and leaseback transactions of non-core assets.

In the future, we expect the Canadian Institute of Chartered Accountants (CICA) to adopt international financial reporting standards (IFRS) in Canada. At the beginning of fiscal 2007, three new accounting standards were introduced by the CICA to more closely align Canadian accounting standards to IFRS. This will add some complexity to our financial statements, so we will make every effort to clearly communicate the impact of these changes to our shareholders. Section 11.4 of the MD&A provides information on the three new accounting standards that came into effect in the first quarter of fiscal 2007.

We continually strive for full and balanced disclosure in all of our investor communications, supported by meticulously documented internal processes that provide reasonable assurance of the integrity of our financial reports. Our efforts have been honoured by the CICA with an award in each of the last six years for excellence in corporate reporting. We continually look for ways to provide deeper insight on our Company to enable investors to make informed investment decisions. In this report, for example, we have expanded our discussion of risks and risk management and continued to increase the depth of our business segment reporting. We are also planning to enhance the content and functionality of our investor relations web site in recognition of the growing importance of the Internet as an investment research tool.

In all of our communications, our objective is to provide investors and potential investors with a clear and balanced picture of our operational and financial performance – a commitment that is consistent with our stature as one of Canada's most trusted companies.

Huw Thomas
Executive Vice-President, Finance and Administration and Chief Financial Officer

Management's Discussion and Analysis

March 8, 2007

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Management's Discussion and Analysis

Introduction

This Management's Discussion and Analysis (MD&A) provides Management's perspective on our Company, our performance and our strategy for the future.

We, us, our, Company and Canadian Tire

In this document, the terms "we", "us", "our", "Company" and "Canadian Tire" refer to Canadian Tire Corporation, Limited and its business units and subsidiaries.

Review and approval by the Board of Directors

The Board of Directors, on the recommendation of its Audit Committee, approved the contents of this MD&A on March 8, 2007.

Quarterly and annual comparisons in this MD&A

Unless otherwise indicated, all comparisons of results for the fourth quarter (13 weeks ended December 30, 2006) are against results for the fourth quarter of 2005 (13 weeks ended December 31, 2005) and all comparisons of results for the full year of 2006 are against results for the full year of 2005.

Restated figures

Some figures in this MD&A were restated as required by EIC-156, "Accounting by a Vendor for Consideration Given to a Customer (Including a Reseller of the Vendor's Products)", which was issued by the Canadian Institute of Chartered Accountants (CICA) and implemented by us in Q1 2006. See section 11.3 of this MD&A for a further explanation of these restatements.

Certain of the prior period's figures have been reclassified to conform to the current year presentation.

Accounting estimates and assumptions

The preparation of consolidated financial statements that conform with Canadian generally accepted accounting principles (GAAP) requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the Consolidated Financial Statements and the reported amounts of revenue and expenses during the reporting period. We calculate our estimates using detailed financial models that are based on historical experience, current trends and other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from those estimates. In our judgement, none of the estimates detailed in Note 1 of our annual Consolidated Financial Statements for the year ended December 30, 2006 requires us to make assumptions about matters that are highly uncertain. For these reasons, none of the estimates is considered a "critical accounting estimate" as defined in Form 51-102F1 published by the Ontario Securities Commission.

Forward-looking statements

This MD&A contains statements that are forward-looking. Actual results or events may differ materially from those forecasted in this disclosure because of the risks and uncertainties associated with Canadian Tire's business and the general economic environment. In addition to the principal risks identified and discussed in detail in section 9.0 of this MD&A, there are other external factors that could affect our results. These include, but are not limited to: changes in interest rates, currency exchange rates and tax rates; the ability of Canadian Tire to attract and retain quality employees, Associate Dealers, Petroleum agents and PartSource and Mark's store operators and franchisees; and the willingness of customers to shop at our stores or acquire our financial products and services.

Other specific risk factors that may cause actual results or events to differ materially from those forecasted in this MD&A include:

> expansion activity planned for Mark's Work Wearhouse (Mark's), PartSource, Canadian Tire Petroleum (Petroleum) and Canadian Tire Retail (CTR), as well as the associated supply chain infrastructure, could be affected by the Company's ability to acquire and develop real estate properties, obtain municipal and other required government approvals, access construction labour, lease suitable properties, and weather conditions that could impact the timing of construction;
> unseasonable weather patterns could affect the sales of seasonal merchandise at CTR and Mark's, particularly in the second and fourth quarters which historically are these divisions' largest selling periods;
> adverse environmental occurrences could damage the Company's reputation or threaten its licences to operate, particularly in the Petroleum division;
> changes in commodity prices could affect the profitability of Petroleum, CTR and Mark's;
> disruptions in the supply of gasoline could affect Petroleum's revenue and earnings;
> the earnings of Canadian Tire Financial Services (Financial Services) could be affected by customers' inability to repay their Canadian Tire credit card or loan balances or by an unsatisfactory response to the retail banking pilot initiative; and
> failure to comply with applicable laws and regulations could result in sanctions and financial penalties by regulatory bodies that could impact our earnings and reputation. Areas of compliance include environmental, health and safety, competition law, transportation of dangerous goods, customs and excise tax and regulations governing financial institutions.

We cannot provide any assurance that forecasted financial or operational performance will actually be achieved, or if it is, that it will result in an increase in the price of Canadian Tire shares.

1.0 Our Company

1.1 Overview of the business

Canadian Tire has been in business for 85 years, offering everyday products and services to Canadians through its growing network of interrelated businesses. Canadian Tire, our Associate Dealers, franchisees and Petroleum agents operate more than 1,100 general merchandise and apparel retail stores, gas stations and car washes. The Company also provides a variety of financial services to Canadians, primarily its proprietary Options MasterCard™ and Canadian Tire-branded credit cards, personal loans, insurance and warranty products. In October 2006, Financial Services began offering high interest savings accounts, guaranteed investment certificates and residential mortgages in two pilot markets.

Canadian Tire's model of interrelated businesses provides market differentiation and competitive advantage. Canadian Tire's businesses benefit from the Company's key capabilities in merchandising, marketing and advertising, supply chain and real estate, which enable us to achieve a greater level of efficiency. Canadian Tire's primary loyalty program, Canadian Tire 'Money'—shared by CTR, Financial Services and Petroleum—is an example of how interrelationships between the businesses create a strong competitive advantage for the Company.

The success of the loyalty program has proven—through high customer acceptance and redemption—to be a key element of Canadian Tire's total customer value proposition and is designed to drive higher total sales across CTR, Financial Services and Petroleum. For example, a customer who fills up with gas at Petroleum's gas stations and uses Canadian Tire credit cards spends considerably more at Canadian Tire stores, on average, than a customer who only shops at Canadian Tire stores.

Mark's has already derived meaningful cost and operating synergies from Canadian Tire's strengths in real estate and supply chain since its acquisition by the Company in 2002. Canadian Tire co-locates Mark's and Canadian Tire stores in certain locations and, increasingly, is extending its national marketing and advertising channels to boost customer traffic and loyalty to Mark's and increase its brand penetration.

Canadian Tire's four main businesses are described below:

CTR is Canada's most shopped general merchandise retailer with a network of 468 Canadian Tire stores that are operated by Associate Dealers, who are independent business owners. Associate Dealers buy merchandise from the Company and sell it to consumers in Canadian Tire stores. CTR also includes our online shopping channel and PartSource. PartSource is a chain of 63 specialty automotive hard parts stores that cater to serious "do-it-yourselfers" and professional installers of automotive parts. The PartSource network consists of 46 franchise stores and 17 corporate stores.

Mark's is one of Canada's leading clothing and footwear retailers, operating 339 stores nationwide, including 287 corporate and 52 franchise stores that offer men's wear, women's wear and industrial apparel. Mark's operates under the banner "Mark's", and in Quebec, "L'Équipeur". Mark's also conducts a business-to-business operation under the "Imagewear by Mark's Work Wearhouse" brand.

Petroleum is Canada's largest independent retailer of gasoline with a network of 260 gas stations, 251 convenience stores and kiosks, 74 car washes, 13 Pit Stops and 82 propane stations. The majority of Petroleum's sites are co-located with Canadian Tire stores as a deliberate strategy to attract customers to Canadian Tire stores. Substantially all of Petroleum's sites are operated by agents.

Financial Services markets a range of Canadian Tire-branded credit cards, including the Canadian Tire Options MasterCard, Commercial Link MasterCard and Gas Advantage MasterCard. Financial Services also offers personal loans, insurance and warranty products and an emergency roadside assistance service called "Canadian Tire Roadside Assistance". Canadian Tire Bank, a wholly-owned subsidiary of Financial Services, is a federally regulated bank that manages and finances Canadian Tire's MasterCard and retail credit card portfolios, as well as the personal loan portfolio. In October 2006, Canadian Tire Bank began offering high interest savings accounts, guaranteed investment certificates and residential mortgages in two pilot markets.

2.0 Core capabilities

2.1 Brand equity

Canadian Tire is one of the most recognized and trusted names in Canadian business. Canadian Tire Retail, Financial Services and Petroleum all share our logo, leveraging the loyalty, trust and emotional appeal embedded in the Canadian Tire name. In addition, Canadian Tire Retail and Mark's Work Wearhouse have developed high-quality, private-label brands; such as Mastercraft and Denver Hayes, respectively, that have earned a level of credibility that is on a par with national brands. Financial Services has developed into a thriving financial services business on the strength of the Canadian Tire brand and loyalty program and its own customer-focused culture. By leveraging the brand, and building a best-in-class call centre, Financial Services has extended the business into new growth areas. PartSource is a high-potential business that is winning customer loyalty by offering professional service and quality parts at competitive prices.

2.2 Loyalty program

Canadian Tire 'Money' is one of Canada's most popular loyalty programs, offering greater value to customers who shop at our stores and fill up at our gas stations when they pay with cash or use their Canadian Tire credit cards. Customers earn Canadian Tire 'Money' when they buy gas at Petroleum and on any purchase made on their Canadian Tire Options MasterCard.

Forty-nine years ago, Canadian Tire's 'Money' loyalty program was launched as a customer traffic-builder for Canadian Tire's gas stations. Today, Canadian Tire 'Money' remains at the heart of Petroleum's customer value proposition. In addition, CTR offers 'Multiplier' coupons that provide higher Canadian Tire 'Money' rewards when customers buy gas at our gas stations. Customers automatically receive the current 'Multiplier' rate of Canadian Tire 'Money' rewards on gas purchases paid for with their Canadian Tire Options MasterCard.

2.3 National reach and scale

Canadian Tire Retail continues to attract more shoppers than any other general merchandise retailer in Canada and its stores are conveniently located to serve more than 90 percent of the population. With a distribution to more than 10 million homes, our weekly flyer is the most widely read advertising in Canada. Financial Services and Petroleum leverage Canadian Tire's national customer reach to encourage cross-shopping and build loyalty. Increasingly, Mark's is leveraging the pervasiveness of the Canadian Tire brand through advertising and marketing channels to drive sales.

2.4 Innovative store formats, products and services

Canadian Tire has demonstrated expertise in the art of retailing—delivering innovative store designs and products that customers need and want. We intend to refresh our store network and product offering continuously to enhance the shopping experience for our customers through modern store designs and expanded category assortments.

Canadian Tire has built a reputation as an innovator by introducing new products and services into the market that address the needs of customers. CTR searches globally for "exciting, new and exclusive" products to offer in Canadian Tire stores. The objective is to launch new products with innovative features at compelling prices, which are not sold by any other retailer. Cordless lawn mowers, solar-paneled tents that light up at night and flexible wiper blades are all examples of exciting, new and exclusive products launched by Canadian Tire.

Mark's is also providing innovative apparel and footwear products, such as metal-free safety boots, gel-filled work gloves, wrinkle-resistant casual and work clothes, body-shaping clothing for women and "comfort-fit" clothing for men. The combination of quality, style and functionality of these products is unique to Mark's.

2.5 Real estate management

Canadian Tire owns and manages more than $2 billion (book value) in unencumbered real estate associated with our Canadian Tire, PartSource and Mark's stores and Petroleum sites. Our expertise in real estate enables us to expand quickly and efficiently, securing high-traffic, sought-after locations for our stores. We own more than 70 percent of our CTR store properties.

Since 1994, CTR has opened 363 new or replacement stores, and has sold many of the properties that became redundant. Over the last 10 years, the consideration received from the sale of excess store properties and distribution centres has been approximately $660 million, with a total of approximately $200 million in gains recorded. The cash realized from these sales was reinvested in our growth initiatives.

2.6 Supply chain

CTR's supply chain facilitates the efficient flow of goods between our domestic and overseas suppliers, CTR's distribution centres and Canadian Tire stores. CTR has distribution centres in Alberta and Ontario and a multi-channel replenishment distribution model. In support of the Concept 20/20 expansion, we began construction of a new distribution centre in Quebec in 2006 which is planned to be fully operational in 2009. The new distribution centre will serve our store network in Eastern Canada, replacing an existing third party facility in Quebec.

Canadian Tire has been sourcing high-quality products outside North America since the 1970s and has built strong relationships with overseas suppliers. Approximately 37 percent of the value of CTR's inventory purchases are foreign-sourced, with plans to increase the percentage to approximately 50 percent by the end of 2009. Our global sourcing initiative is intended to provide access to innovative products and to support pricing flexibility in the future.

2.7 Credit risk management

Canadian Tire has more than 25 years of experience managing credit card risk. We have an experienced team of professional financial and data managers, analysts, and statisticians using sophisticated industry-standard and proprietary credit scoring models to predict credit risk. As a result, our team is able to make informed predictions on the credit quality of each customer account, and tailor our products to ensure that we achieve an appropriate balance of risk and return.

2.8 Call centres

Financial Services' commitment to creating lifelong relationships with our customers is reflected in the success of our customer call centres. Financial Services' call centres were recognized in five of the last seven years as the best in North America by an independent research company, Service Quality Measurement Group Inc., which measures over 200 call centres across North America on both cost and quality. In credit industry studies, credit card holders cited customer service as one of the primary reasons for deciding which credit card they use.

3.0 Our strategy

3.1 Five-year Strategic Plan

Canadian Tire has a five-year Strategic Plan to guide the Company's growth from 2005 to 2009. The Plan has five strategic imperatives outlined below. Each of these imperatives is supported by specific initiatives, outlined in section 4.2, on business segment performance.

1 – grow sales and revenues
2 – improve our earnings performance
3 – embed a *Customers for Life* culture across our entire organization
4 – extend growth and performance beyond 2009
5 – enhance value creation through financial flexibility and maximization of the value of real estate assets

3.2 Financial aspirations

As part of our initial strategic planning process, we developed five financial aspirations that we believe are important and logical metrics for both the Company and its shareholders to track progress against the Plan. These metrics are not to be construed as guidance or forecasts for any individual year within the Plan, but rather as long-term targets that we aspire to achieve over the life of the Plan, based on the successful execution of our various initiatives.

Financial aspirations	2005–2009 Strategic Plan	2005–2006 performance	2006 performance	2006 adjusted[1]
Same store sales (see note below) (simple average of annual percentage growth, CTR stores only)	3% to 4%	3.4%	3.4%	3.4%
Gross operating revenue[2] (compound annual growth rate)	7% to 9%	8.1%	7.1%	7.1%
EBITDA[3] and minority interest (compound annual growth rate)	10% to 15%	7.8%	3.6%	6.3%
Basic earnings per share (compound annual growth rate)	12% to 15%	9.9%	7.7%	11.0%
After-tax return on invested capital (annual simple average)	10%	9.6%	9.6%	9.4%

[1] Excludes non-operating items.
[2] Gross operating revenue for 2005 has been restated for the impact of EIC-156 as required by the CICA.
[3] Earnings before interest, income taxes, depreciation and amortization. See section 12.0 on non-GAAP measures.

Same store sales Previously, we reported on CTR's comparable store sales growth as part of our overall financial aspirations. We will now report solely on CTR's same store sales growth and accordingly, we have changed our financial aspirations to reflect our new practice. There are three key reasons for the change in reporting: same store sales growth is the metric used by management and most commonly used in the retail industry; and, the same store sales calculation will include the large number of store expansions included in the Concept 20/20 store rollout.

3.3 2007 Strategic Plan outlook

Canadian Tire will continue to invest in existing growth initiatives with a renewed focus on enhancing productivity. Our growth initiatives for 2007 include:

> continued rollout of approximately 70 CTR Concept 20/20 projects, including the addition of nine stores in new markets. Total retail square feet will increase approximately 10 percent by the end of the year
> addition of eight new PartSource stores and continued acquisitions of regional competitors
> continued expansion of Mark's retail space through approximately 55 projects, including adding 29 new stores to the network, increasing retail square footage by 14 percent
> developing and testing at least one new store format integrating the complete Mark's concept with a larger Canadian Tire store
> addition of nine new Petroleum sites and additional re-branded sites, in line with the interrelated marketing objective to enhance traffic and customer loyalty for CTR and Financial Services credit cards
> further regional expansion of the Gas Advantage MasterCard business and the testing of at least one additional new card product
> continued testing of the new high interest savings accounts, guaranteed investment certificates and residential mortgages in the two pilot regions

In addition, a number of new initiatives will be launched within CTR to enhance the long-term competitiveness and productivity of its operations, including:

> the upgrade and simplification of information technology (IT) infrastructure and applications to reduce IT operating costs and enhance the productivity of Canadian Tire's workforce
> improvements to Associate Dealer ordering and shipping processes to better align the flow of product to CTR stores with customer purchasing patterns, thereby reducing corporate and store inventory levels and operational complexity
> enhancements to automotive parts supply chain capabilities to support the expansion of PartSource and continued growth and efficiencies at CTR

Total projected capital spending for 2007 will be in the range of $580 to $620 million, the majority of which will support store and network expansions and the completion of the new Eastern Canada distribution centre, which is planned to open in 2008 and be fully operational in 2009. The Company will incur approximately $25 million in expenses, or $0.20 per share, for the retail banking initiative. In addition, the Company plans to make modest incremental investments to support the productivity and technology initiatives noted above.

4.0 Our performance in 2006

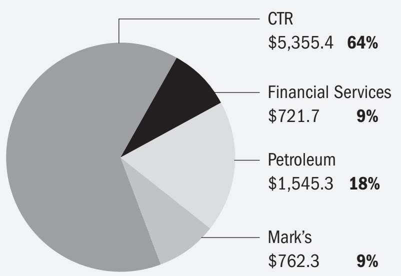
4.1 Consolidated results

Consolidated financial results

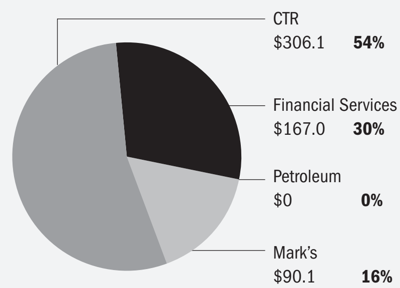
($ in millions except per share amounts)	Q4 2006	Q4 2005	Change	2006	2005	Change
Retail sales[1]	**$ 2,923.7**	$ 2,759.6	**5.9%**	**$ 9,765.2**	$ 9,090.5	**7.4%**
Gross operating revenue[2]	**2,426.1**	2,304.3	**5.3%**	**8,269.1**	7,721.6	**7.1%**
EBITDA[3] and minority interest	**238.8**	260.1	**(8.2)%**	**825.2**	796.8	**3.6%**
Earnings before income taxes and minority interest	**169.2**	187.9	**(10.0)%**	**557.8**	527.7	**5.7%**
Effective tax rate	**36.0%**	36.0%	**–**	**36.0%**	36.0%	**–**
Net earnings	**108.3**	118.2	**(8.4)%**	**354.6**	330.1	**7.4%**
Basic earnings per share	**$ 1.33**	$ 1.44	**(8.1)%**	**$ 4.35**	$ 4.04	**7.7%**
Adjusted basic earnings per share[3]	**1.21**	1.30	**(6.5)%**	**4.26**	3.84	**11.0%**

1 Represents retail sales at CTR (which includes PartSource), Mark's corporate and franchise stores and Petroleum's sites.
2 Gross operating revenue for 2005 has been restated for the impact of EIC-156 as described in section 11.3 below.
3 See section 12.0 for non-GAAP measures.

Gross operating revenue by business segment
($ millions)



Earnings before income taxes and minority interest by business segment[1]
($ millions)



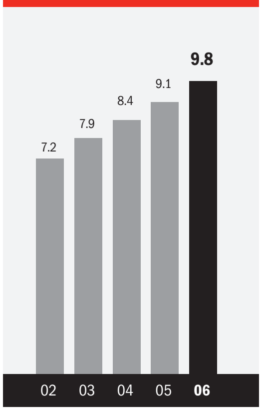
1 Petroleum generated a loss in 2006.

Highlights of top-line performance by business

(year-over-year percentage change)	Q4 2006	2006
CTR retail sales[1]	**4.4%**	**5.4%**
CTR net shipments	**3.8%**	**4.9%**
Mark's retail sales	**12.4%**	**14.2%**
Petroleum retail sales	**8.8%**	**13.2%**
Petroleum gasoline volume	**15.4%**	**6.8%**
Financial Services' credit card sales	**10.8%**	**12.4%**
Financial Services' gross average receivables	**7.4%**	**12.1%**

1 Includes sales from Canadian Tire stores, PartSource stores, and CTR's online web store and the labour portion of CTR's auto service sales.

Consolidated annual retail sales
($ billions)



Fourth quarter Consolidated gross operating revenue increased in the fourth quarter due to strong sales at Mark's, increases in loans receivable at Financial Services, and higher sales at Petroleum. Consolidated gross operating revenue was negatively impacted by lower shipments of weather-related products by CTR in the fourth quarter caused by the unseasonably warm weather throughout December in Ontario and Quebec. Consolidated results were also adversely impacted by a substantial reduction in store-level inventory by Associate Dealers, which negatively impacted CTR's shipments of weather-related and non-weather related merchandise. The reduction was higher than anticipated in December but did not negatively affect retail sales of non-weather related merchandise, and reflects a positive and ongoing initiative by Associate Dealers to better manage inventory across all categories.

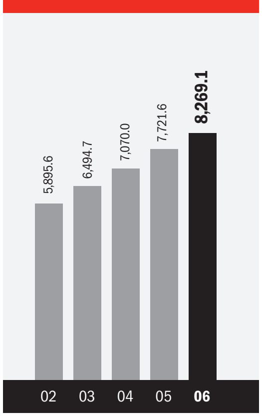
Strong earnings from Mark's were offset by a decline in earnings in CTR and Financial Services, and a loss in the Petroleum business in the fourth quarter. Earnings were affected by a margin decline in CTR due to lower shipments of weather-related products in December, which are usually sold at regular prices in that month, combined with the previously mentioned drawdown of store-level inventory. These two factors negatively impacted the mix of regular- versus promotionally priced products that were sold to Associate Dealers, which resulted in a decline in CTR's margin rate. Despite growth in Financial Services' total managed portfolio and reductions in the segment's operating expense rate, earnings were down in the fourth quarter due to non-operating factors described in the business segment performance section 4.2. In addition, continued margin pressure in the Petroleum business, particularly in the very competitive markets of Ontario and Quebec, resulted in a loss in Petroleum in the fourth quarter.

Our consolidated earnings were favourably impacted by a gain on the sale of a high value property in Toronto, Ontario that closed in the fourth quarter, a gain on the sale of loans receivable and partially offset by the negative impact of amendments to the Company's existing stock option agreements as outlined in the section below, titled "Impact of non-operating items". The expense related to the amendments to the existing stock option agreements was incurred by CTR, Financial Services and Mark's.

Full year 2006 Increased revenues across all of the businesses resulted in strong overall top-line performance.

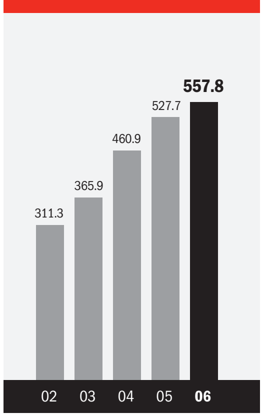
See section 4.2 for more information on the factors that impacted business segment results.

Consolidated gross operating revenue[1]
($ millions)



[1] Gross operating revenue has been restated for the impact of EIC-156 as required by the CICA.

Consolidated earnings before income taxes and minority interest
($ millions)



Full year consolidated earnings increased as a result of higher revenues in all businesses, partly offset by soft margins at CTR in the fourth quarter due to the factors previously described, and margin weakness in Petroleum throughout the year. Earnings were also impacted by certain non-operating items that occurred throughout the year, which are outlined in the following section.

Impact of non-operating items The following tables show our consolidated earnings on a pre-tax and after-tax basis, excluding all of the following non-operating gains and losses in 2006 (shown on a pre-tax basis):

> $57.4 million gain on dispositions of property and equipment (see Consolidated Statements of Cash Flows)

> $40.5 million expense related to previously disclosed amendments to our existing stock option agreements (see Note 10 of the Notes to the Consolidated Financial Statements), $32.2 million of which was absorbed by CTR and the balance by Mark's and Financial Services

> $12.7 million loss on the sale of loans receivable (see Note 2 of the Notes to the Consolidated Financial Statements)

> $6.9 million gain on the redemption of an investment in MasterCard shares

Adjusted consolidated earnings before income taxes and minority interest[4]

($ in millions)	Q4 2006	Q4 2005	Change	2006	2005	Change
Earnings before income taxes and minority interest	**$ 169.2**	$ 187.9	(10.0)%	**$ 557.8**	$ 527.7	5.7%
Less pre-tax adjustment for:						
Gain on redemption of investment[1]	**–**	–		**6.9**	–	
Impact of stock option modification	**(40.5)**	–		**(40.5)**	–	
Gain (loss) on sales of loans receivable[1]	**8.2**	13.0		**(12.7)**	19.9	
Gain on disposals of property and equipment[2]	**47.0**	5.9		**57.4**	10.9	
Loss on medium term notes redemption[3]	**–**	–		**–**	(5.3)	
Adjusted earnings before income taxes and minority interest[4]	**$ 154.5**	$ 169.0	(8.6)%	**$ 546.7**	$ 502.2	8.8%

1 See section 4.2.4 on Financial Services' performance.
2 See section 4.2.1 for CTR's performance, section 4.2.2 for Mark's performance, section 4.2.3 for Petroleum's performance and section 4.2.4 for Financial Services' performance.
3 See section 4.2.1 for CTR's performance.
4 See section 12.0 on non-GAAP measures.

Adjusted consolidated net earnings[1]

($ in millions except per share amounts)	Q4 2006	Q4 2005	Change	2006	2005	Change
Net earnings	**$ 108.3**	$ 118.2	(8.4)%	**$ 354.6**	$ 330.1	7.4%
Less after-tax adjustment for:						
Gain on redemption of investment	**–**	–		**4.4**	–	
Impact of stock option modification	**(25.9)**	–		**(25.9)**	–	
Gain (loss) on sales of loans receivable	**5.3**	8.3		**(8.1)**	12.7	
Gain on disposals of property and equipment	**30.1**	3.8		**36.7**	7.0	
Loss on medium term notes redemption	**–**	–		**–**	(3.4)	
Adjusted net earnings[1]	**$ 98.8**	$ 106.1	(6.8)%	**$ 347.5**	$ 313.8	10.7%
Basic earnings per share	**$ 1.33**	$ 1.44	(8.1)%	**$ 4.35**	$ 4.04	7.7%
Adjusted basic earnings per share[1]	**$ 1.21**	$ 1.30	(6.5)%	**$ 4.26**	$ 3.84	11.0%

1 See section 12.0 on non-GAAP measures.

Selected annual consolidated financial information

($ in millions except per share amounts)	2006	2005	2004
Gross operating revenue[1]	**$ 8,269.1**	$ 7,721.6	$ 7,070.0
Net earnings	**354.6**	330.1	291.5
Basic earnings per share	**4.35**	4.04	3.60
Fully diluted earnings per share	**4.31**	3.98	3.53
Cash dividends declared per share (annualized basis)	**0.66**	0.58	0.50
Total assets	**5,804.6**	5,955.6	5,243.2
Long-term debt (excluding current portion)	**1,168.4**	1,171.3	1,081.8

1 Gross operating revenue for 2005 and 2004 has been restated for the impact of EIC-156 as required by the CICA. See section 11.3 for additional information.

Seasonal impact We usually experience stronger revenues and earnings in the second and fourth quarters of each year because of the seasonal nature of some merchandise at CTR and Mark's and the timing of marketing programs. The following table shows our financial performance by quarter for the last two years.

Consolidated quarterly results

($ in millions except per share amounts)	**Q4 2006**	**Q3 2006**	**Q2 2006**	**Q1 2006**	Q4 2005	Q3 2005	Q2 2005	Q1 2005
Gross operating revenue[1]	**$ 2,426.1**	**$ 2,023.3**	**$ 2,247.6**	**$ 1,572.1**	$ 2,304.3	$ 1,888.6	$ 2,020.6	$ 1,508.1
Net earnings	**108.3**	**95.4**	**103.3**	**47.6**	118.2	84.4	92.2	35.3
Basic earnings per share	**1.33**	**1.17**	**1.27**	**0.58**	1.44	1.03	1.13	0.43
Fully diluted earnings per share	**1.32**	**1.16**	**1.25**	**0.58**	1.43	1.02	1.11	0.43

[1] Quarterly gross operating revenue for 2005 has been restated for the impact of EIC-156 as required by the CICA. See section 11.3 for additional information.

CTR sales in the fourth quarter were adversely affected by unseasonably warm weather in December in Ontario and Quebec. See section 4.2.1.2 for more information on the factors that affected CTR's retail sales performance.

4.2 Business segment performance

4.2.1 Canadian Tire Retail

4.2.1.1 Strategic Plan update and outlook

The following outlines CTR's performance in 2006 in the context of the 2005–2009 Strategic Plan, and provides an outlook for 2007 and for the full Plan period.

Strategic Plan update and outlook

Concept 20/20 store program

Concept 20/20 is the cornerstone of Canadian Tire Retail's current growth agenda. Concept 20/20 stores are experiencing strong first-, second- and third-year sales, caused by increases in customer traffic and average transaction value, thereby providing the potential for a more attractive return on investment than previous store formats. Concept 20/20 same store sales were very strong in 2006, up 8.0 percent year-over-year. On average, customers spend 40 percent more time in Concept 20/20 stores than in other store formats, demonstrating that the attractive Concept 20/20 store design, product displays and open-plan layout encourage customers to browse the stores, increasing the likelihood of incremental purchases. The strong sales performance of Concept 20/20 led to the decision to accelerate the store rollout in 2006 and 2007.

2006 Performance

Fourth quarter
CTR opened 15 new stores in the quarter, 11 of which are replacement stores and four of which are new to the network. Eleven of the 15 stores opened in the quarter are Concept 20/20–Mark's Work Wearhouse combination stores.

CTR also expanded and retrofitted 18 new-format stores to the Concept 20/20 format.

Full year 2006
CTR completed a total of 73 Concept 20/20 projects in 2006, opening 19 new stores and expanding and retrofitting 54 existing stores to the Concept 20/20 format. Seven of the new Concept 20/20 stores are additions to the network.

At the end of 2006, CTR had 468 stores, including 126 Concept 20/20 stores (20 Concept 20/20 Canadian Tire–Mark's Work Wearhouse combination stores). CTR added approximately 1.3 million retail square feet to the network for a total of 16.2 million retail square feet at the end of the year.

2005–2009 Plan

CTR plans to open approximately 270 Concept 20/20 stores between 2005 and 2009.

2007 Outlook
CTR plans to open approximately 70 new Concept 20/20 stores, adding 1.6 million retail square feet as follows:

- 19 new Concept 20/20 stores, including 10 replacement stores
- 51 expansions and retrofits

Strategic Plan update and outlook *(cont'd)*

Exciting, new and exclusive (ENE) products

Canadian Tire has built a reputation for offering innovative products. CTR's objective is to introduce new products into the market that are only available at Canadian Tire. Examples of ENE products include cordless lawn mowers, solar-paneled tents that light up at night and flexible wiper blades.

2006 Performance

In the fourth quarter, retail sales of ENE products decreased by eight percent compared to the fourth quarter of 2005, but were up by four percent year-over-year in 2006. The decline in the fourth quarter was due to the timing of new product launches and a very strong comparable fourth quarter in 2005.

2005–2009 Plan

CTR plans to continue to increase sales of ENE products by approximately 10 percent in 2007.

Global sourcing

Canadian Tire is increasing the percentage of foreign-sourced products carried in its stores. The benefits of global sourcing are three-fold: access to innovative products; margin protection; and the ability to offer compelling price points.

2006 Performance

In 2006, approximately 37 percent of products were purchased from suppliers outside North America.

In the fourth quarter, approximately 40 percent of products were purchased from suppliers outside North America.

2005–2009 Plan

CTR plans to increase the percentage of products sourced from suppliers outside of North America to approximately 50 percent by the end of 2009.

PartSource network expansion

PartSource will continue its expansion into new markets through a combination of new stores and small-scale acquisitions. PartSource's strategy to buy small local businesses and convert them to the PartSource banner has proven successful, with high rates of customer retention after conversion. PartSource began testing corporate stores in 2005, and due to the initial success of the pilot, will continue to roll out corporate stores.

2006 Performance

Fourth quarter

> opened two new corporate stores
> converted four franchise stores to corporate stores

Full year 2006

> opened six new stores, including four corporate stores
> converted 10 franchise stores to corporate stores
> converted three acquired stores to the PartSource banner

PartSource had a total of 63 stores at the end of 2006, including 17 corporate stores and 46 franchise stores.

2005–2009 Plan

PartSource plans to increase its network to at least 100 stores by the end of 2009.

2007 Outlook

In 2007, PartSource plans to add eight new stores through a combination of new store openings and small-scale acquisitions.

PartSource and CTR will also undertake enhancements to the automotive parts supply chain to support continued growth and efficiency in PartSource and CTR.

Strategic Plan update and outlook *(cont'd)*

Inventory practices program

CTR's long-term objective is to ship more than 90 percent of products to stores on-time. In addition, CTR is working with Associate Dealers to improve ordering and shipping processes to better align the flow of product to customer purchasing patterns, thereby reducing corporate and store inventory levels and operational complexity, and increasing inventory turns.

2006 Performance

In 2006, the percentage of products shipped on-time to stores increased to 90.4 percent, compared to 89.5 percent in 2005.

Inventory turns based on cubic volume were 9.8, down from 10.7 in 2005, due to the impact of our global sourcing initiative.

Though the benefits of global sourcing are significant, the practice puts some pressure on the supply chain because these foreign-sourced products require longer lead times. In addition, certain seasonal product orders are placed before an indication of consumer demand for the season is known.

2005–2009 Plan

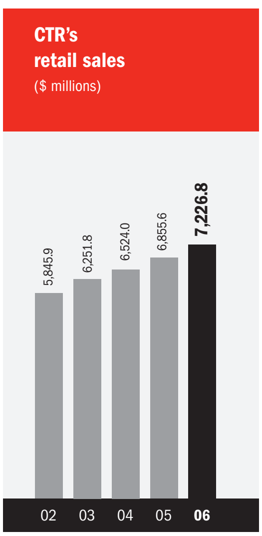
CTR plans to increase inventory turns to 13 times by the end of 2009 through improved inventory management and ordering practices.

In 2007, CTR will begin making improvements to Associate Dealer ordering and shipping processes, as previously described.

4.2.1.2 Key performance indicators

The following are key measures of CTR's sales productivity:

> total retail and same store sales growth
> average retail sales per store
> average sales per square foot of retail space
> average transaction value



CTR total retail and same store sales

(year-over-year percentage change)	**Q4 2006**	Q4 2005	**2006**	2005
Total retail sales[1]	**4.4%**	7.1%	**5.4%**	5.1%
Same store sales	**2.2%**	5.4%	**3.5%**	3.4%

[1] Includes sales from Canadian Tire stores, PartSource stores, and CTR's online web store and the labour portion of CTR's auto service sales.

CTR's retail sales
Retail sales represent total merchandise sold at retail prices and the labour portion of automotive sales to consumers across CTR's network of stores, including CTR's online web store and PartSource.

CTR same store sales by store format

(year-over-year percentage change)	**2006**
Concept 20/20 stores	**8.0%**
New-format stores	**2.3%**
Traditional stores	**0.8%**

CTR's same store sales
Same store sales include sales from all stores that have been open for more than 53 weeks.

Historically, Concept 20/20 stores were classified as "new-format" stores in our financial disclosures. From now on, we will report three separate classes of stores, defined as follows:

Concept 20/20 store format (mid 2003 to 2006) Average retail square footage: 51,000	**New-format store format (1994 to mid 2003) Average retail square footage: 34,000**	**Traditional store format (1994 and prior) Average retail square footage: 16,000**
Larger format launched in September 2003, ranging in size from 25,000 to 84,000 square feet. Concept 20/20 stores make up approximately 40 percent of the retail square footage of the network. See section 4.2.1.1, Strategic Plan update and outlook, for more information on the Concept 20/20 rollout.	Large format, including "Class Of" and "Next Generation" stores, ranging in size from 15,000 to 65,000 square feet, most of which were opened between 1994 and mid 2003. New-format stores make up approximately half of the retail square footage in the network. This format immediately preceded the Concept 20/20 format.	Smaller than either the new-format or Concept 20/20 stores on average. Traditional stores are characterized by varied sizes and layouts. Traditional stores make up approximately 10 percent of the retail square footage in the network.

Concept 20/20 stores represented over 40 percent of CTR's retail square footage and more than 30 percent of total retail sales in 2006. Approximately two-thirds of the 170 Concept 20/20 store projects planned between 2007 and 2009 are expansions and/or retrofit projects and the remainder are new or replacement stores.

CTR store count

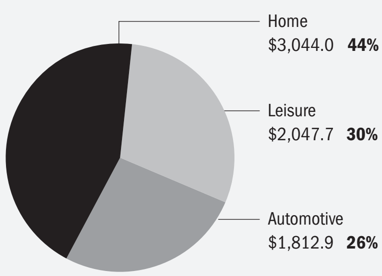
	2006	2005	2004	2003	2002
Concept 20/20 stores	**126**	53	25	4	–
New-format stores	**237**	292	302	305	290
Traditional stores	**105**	117	130	143	161
Total new-format, traditional and Concept 20/20 stores	**468**	462	457	452	451
PartSource stores	**63**	57	47	39	33

Retail sales by broad product category[1]

($ in millions)	**2006**	2005	2004
Home	**$ 3,044.0**	$ 2,826.5	$ 2,671.3
Leisure	**2,047.7**	1,930.5	1,835.7
Automotive	**1,812.9**	1,781.4	1,706.2
Total	**$ 6,904.6**	$ 6,538.4	$ 6,213.2

[1] Retail sales are shown on a 52-week basis in each year and include sales from Canadian Tire and PartSource stores, and exclude sales from CTR's online web store and the labour portion of CTR's auto service sales.

CTR's retail sales by product division[1]
($ millions)



[1] Excludes sales from CTR's online web store and the labour portion of CTR's auto service sales.

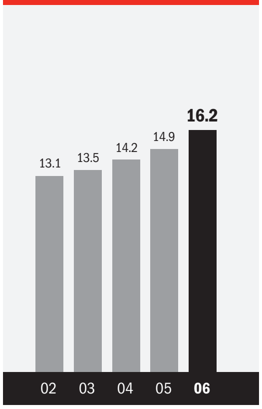
The home products category demonstrated the strongest growth in 2006. The increase was driven by strong sales in kitchen and home appliances and home organization due to an increase in marketing and allocation of flyer space.

Average retail sales per Canadian Tire store[1,2]

($ in millions)	**2006**	2005
Concept 20/20 stores	**$ 22.1**	$ 21.6
New-format stores	**15.7**	15.2
Traditional stores	**8.1**	8.0

[1] Retail sales are shown on a 52-week basis in each year and exclude sales from PartSource stores, CTR's online web store and the labour portion of CTR's auto service sales.
[2] Only includes stores that have been open for a minimum of two years as at the end of the quarter.

Retail square footage
(millions of square feet)



Average sales per square foot of Canadian Tire retail space[1,2]

	2006	2005
Retail square footage[1] (millions of square feet)	**16.2**	14.9
Concept 20/20 stores[2,3] ($)	**$ 402**	$ 392
New-format stores[2,3]	**459**	445
Traditional stores[2,3]	**514**	509

1 Retail square footage is based on the total retail square footage including stores that have not been open for a minimum of two years as at the end of the quarter.
2 Retail sales are shown on a 52-week basis in each year for those stores that have been open for a minimum of two years as at the end of the quarter. Sales from PartSource stores, CTR's online web store and the labour portion of CTR's auto service sales are excluded.
3 Retail space does not include warehouse, garden centre and auto service areas.

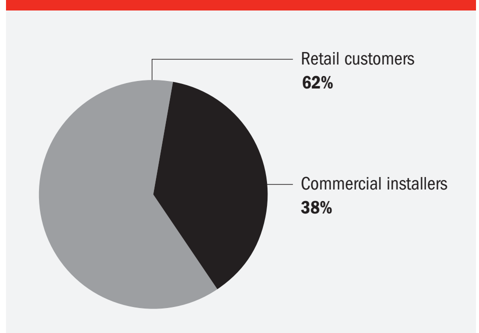
Average sales per square foot of retail space in the larger store formats are lower than in traditional stores, because the additional space is utilized to display more merchandise, accommodate wider aisles and include more appealing product displays. The larger store formats generate higher sales overall and offer a more compelling shopping experience.

Fourth quarter Strong sales in the kitchen and home appliances, Christmas seasonal décor and sports categories were offset by a decline in sales of weather-related products in December, which generally make up about 20 percent of CTR's sales in that month, due to unseasonably warm weather in Ontario and Quebec. Excluding weather-related products, retail sales were up 7.3 percent in the fourth quarter.

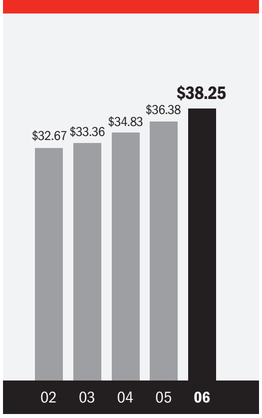
PartSource generated double-digit sales growth in the fourth quarter, driven by the continued expansion of the network and growth in the commercial and retail customer segments.

Full year 2006 Retail sales in 2006 were driven by the ongoing rollout of CTR's newest store format, Concept 20/20, and the execution of compelling marketing and advertising programs. Concept 20/20 stores experience higher customer traffic and increases in average transaction value compared to previous store formats as customers spend more time browsing in these stores. Sales were strongest in the kitchen and home appliances, home organization, and sports categories in 2006. Weaker sales performance was experienced in automotive parts due to weakness in the automotive parts market for the average "do-it-yourself" customer.

PartSource 2006 sales mix

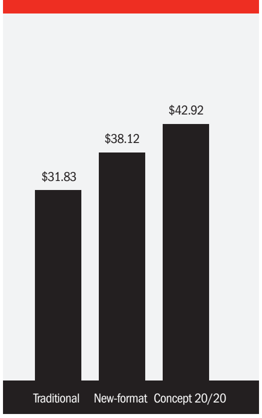


Average transaction value – all stores[1]



1 Based on comparable stores.

Average transaction value – by store format (2006)[1]



1 Based on comparable stores.

Temporary impact of stores being converted to the Concept 20/20 format During the construction and remerchandising of stores undergoing conversion to the Concept 20/20 format, sales are negatively impacted. Excluding the impact of the stores undergoing conversion, same store sales were up 2.8 percent in the fourth quarter and 4.1 percent in 2006.

4.2.1.3 CTR's financial results

($ millions)	**Q4 2006**	Q4 2005	Change	**2006**	2005	Change
Retail sales	**$ 2,156.7**	$ 2,065.5	4.4%	**$ 7,226.8**	$ 6,855.6	5.4%
Net shipments[1] (year-over-year % change)	**3.8%**	8.6%		**4.9%**	5.0%	
Gross operating revenue[2]	**$ 1,576.8**	$ 1,516.9	3.9%	**$ 5,355.4**	$ 5,093.9	5.1%
EBITDA[3] and minority interest	**135.1**	151.1	(10.7)%	**551.7**	530.2	4.1%
Earnings before income taxes and minority interest	**71.5**	86.9	(17.8)%	**306.1**	290.2	5.5%
Less adjustment for:						
Gain on disposals of property and equipment	**48.1**	7.0		**59.8**	12.4	
Impact of stock option modification	**(32.2)**	–		**(32.2)**	–	
Loss on medium term notes redemption	**–**	–		**–**	(5.3)	
Adjusted earnings before income taxes and minority interest[3]	**$ 55.6**	$ 79.9	(30.4)%	**$ 278.5**	$ 283.1	(1.6)%

1 The net shipments year-over-year percentage change for 2005 has been restated for the impact of EIC-156 as required by the CICA. See section 11.3 for additional information.
2 Gross operating revenue for 2005 has been restated for the impact of EIC-156 as required by the CICA. See section 11.3 for additional information.
3 See section 12.0 on non-GAAP measures.

CTR's net shipments
CTR's net shipments are the total value of merchandise shipped to Canadian Tire and PartSource stores, and through our online web store, less discounts and net of returns, recorded at the wholesale price that we charge to our Associate Dealers and PartSource franchisees.

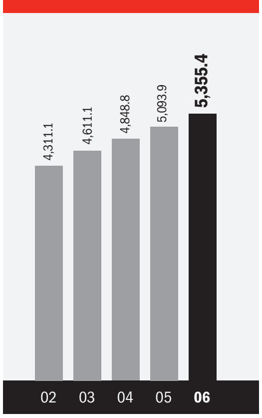
Explanation of CTR's financial results

Fourth quarter Gross operating revenue was up in CTR due to higher net shipments, which were, however, negatively affected by warm weather in December as well as a considerable drawdown of store inventory of non-weather related merchandise, which was higher than expected. Net shipments in October and November were up 8.8 percent and 4.4 percent, respectively, while December shipments were down 1.4 percent compared to 2005. Rental income paid by Associate Dealers increased due to higher retail sales.

Pre-tax earnings in CTR were down in the fourth quarter due to lower margins, resulting from a decline in shipments in December and a substantial drawdown of inventory in stores of non-weather related merchandise. In combination, these two factors caused an adverse shift in the mix of higher margin regular- versus promotional-priced products that were sold to Associate Dealers, which negatively impacted CTR's margin rate in the period.

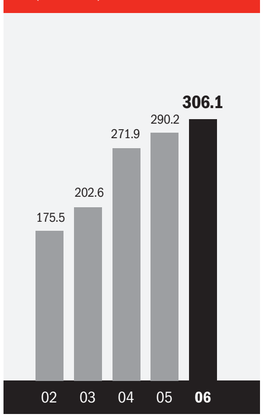
CTR also recorded a $49.2 million pre-tax gain on the sale of a surplus Toronto property for consideration of approximately $149.7 million. The transaction closed on December 7, 2006. In addition, CTR incurred a $32.2 million pre-tax expense related to the previously disclosed amendments to existing stock option agreements. Overall, the net benefit to CTR's earnings from gains on disposals of property and equipment less the impact of the stock option modification was $15.9 million in the fourth quarter, as shown in the previous table.

CTR's gross operating revenue[1]
($ millions)



1 Gross operating revenue has been restated for the impact of EIC-156 as required by the CICA.

CTR's earnings before income taxes and minority interest
($ millions)



Full year 2006 The increase in gross operating revenue was due to higher net shipments, driven by new Concept 20/20 store openings, retrofits and expansions, as well as strong marketing and advertising programs. Higher rental income from Associate Dealers also contributed to the rise in gross operating revenue.

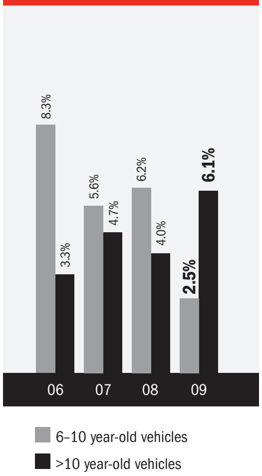
CTR's pre-tax earnings were up in 2006 due to increases in net shipments in the first three quarters. The substantial impact of soft margins in the fourth quarter related to shipments and product mix, as described previously, had an adverse effect on CTR's overall earnings performance for the year. In addition, the following non-operating factors had a net positive year-over-year impact of $20.5 million on CTR's pre-tax earnings in 2006:

> $59.8 million gain on the disposals of property and equipment compared to $12.4 million in 2005
> $32.2 million expense related to amendments to existing stock option agreements
> $5.3 million cost incurred in 2005 on the redemption of medium term notes in that year

CTR's pre-tax earnings excluding the factors noted above were down 1.6 percent in 2006.

In 2006, we completed a note repayment and equity redemption related to a real estate partnership in which Canadian Tire was the general partner. This transaction had a positive impact on consolidated earnings through the elimination of minority interest, but had a $9.4 million negative effect on CTR's earnings.

2006 Forecasted growth of automotive aftermarket[1]



[1] Source: DesRosiers Automotive Consultants Inc.

4.2.1.4 Business trends

Canada's retail industry has experienced significant change over the past 10 years. Competition in the retail market generally and in individual sectors has intensified with domestic retailers expanding and international retailers entering Canada. The industry has also experienced consolidation as department stores and other retailers have either gone out of business or have been acquired.

Retail formats have continually increased in terms of store size and merchandise breadth, creating a situation where retailers are competing both within a specific industry segment (e.g. automotive and specialty) and across sectors (e.g. general merchandise and grocery).

In order to grow in this increasingly competitive market, retailers must have a clear and unique value proposition and be able to respond to the changing demographics and lifestyles of Canadian consumers, who demand an optimum combination of choice, convenience, quality, value and service. Price competitiveness and promotional effectiveness are increasingly important factors in retail success.

The Home and Leisure markets are expected to grow in line with the population and increases in consumers' disposable incomes resulting from a particularly robust economy in Western Canada and the wealth effect from increasing property values.

After several years of flat performance, industry experts are forecasting the Canadian automotive parts market to expand because automobiles purchased during the late 1990s – which was a high point in the automotive sales cycle – are now entering their prime repair years.

4.2.1.5 Business risks

CTR is exposed to a number of risks in the normal course of its business that have the potential to affect its operating performance. The following are some of the business risks specific to CTR's retail and other operations. Please also refer to section 9.0 of this MD&A for a discussion of some other industry-wide and company-wide risks affecting the business.

Supply chain disruption risk An increasing portion of CTR's product assortment is being sourced from foreign suppliers, lengthening the supply chain and extending the time between order and delivery to CTR's warehouses. Accordingly, CTR is exposed to potential supply chain disruptions due to foreign supplier failures, geopolitical risk, labour disruption or insufficient capacity at ports, and risks of delays or loss of inventory in transit. The Company mitigates this risk through effective supplier selection and procurement practices, strong relationships with transportation companies, port and other shipping authorities, supplemented by marine insurance coverage. CTR has demonstrated its ability to mitigate this risk in the past.

Seasonality risk CTR derives a significant amount of its revenues from the sale of seasonal merchandise and accordingly bears a degree of risk from unseasonable weather patterns. CTR mitigates this risk, to the extent possible, through the breadth of our product mix as well as effective procurement and inventory management practices.

Environmental risk Environmental risk within CTR is primarily associated with the handling and recycling of certain materials, such as tires, paint, oil and lawn chemicals, sold in Canadian Tire and PartSource stores. The Company has established and follows comprehensive environmental policies and practices to avoid a negative impact on the environment, protect CTR's reputation, and comply with environmental laws.

4.2.2 Mark's Work Wearhouse

4.2.2.1 Strategic Plan update and outlook

The following outlines Mark's performance in 2006 in the context of the 2005–2009 Strategic Plan, and provides an outlook for 2007 and for the full Plan period.

Strategic Plan update and outlook

Network expansion

Mark's is focused on achieving "Superbrand" status for the Mark's name, with the objective of capturing an increasingly significant share of overall apparel sales in each geographic market and in each category in which Mark's competes. To increase Mark's market presence, the Company has an aggressive plan of continuing to expand the network of Mark's stores. Mark's also plans to expand, renovate and relocate some existing stores to the latest Mark's format.

2006 Performance

Fourth quarter

> opened 15 new stores, including nine Concept 20/20 combination stores, and closed four stores
> relocated six stores, two of which were Concept 20/20 combination stores
> expanded/renovated three stores

Full year 2006

> opened 18 new stores, including 10 combination stores, and closed 13 stores
> relocated 14 stores, including two Concept 20/20 combination stores
> expanded/renovated 13 stores
> converted one Work World store to the Mark's format.

Mark's total retail square footage at the end of the year was 2.7 million square feet, slightly lower than planned.

2005–2009 Plan

Mark's plans to expand the network to 400 stores by the end of 2009.

2007 Outlook

In 2007, Mark's plans to open 29 new stores, and expand, relocate or renovate 26 stores. In total, Mark's plans to add approximately 400,000 retail square feet in 2007.

Category expansion

Mark's plans to grow through continued expansion of its three major categories: men's casual and dress wear; women's wear; and industrial wear. The expansion of the women's wear category has enabled Mark's to leverage female customer traffic in the stores. Mark's is also leveraging its reputation for quality industrial wear by selling innovative, specialty work clothing.

2006 Performance

Fourth quarter

> sales of health care apparel increased by 31.1 percent
> women's wear sales increased by 24.1 percent
> sales of business-to-business wear increased by 21.0 percent

Full year 2006

> sales of health care apparel increased by 26.6 percent
> women's wear sales increased by 24.2 percent
> sales of business-to-business wear increased by 22.4 percent

2005–2009 Plan

Mark's will continue to develop and expand high-potential product categories.

4.2.2.2 Key performance indicators

The following are key performance indicators for Mark's:

> retail and same store sales growth
> average sales per corporate store
> average sales per square foot of retail space

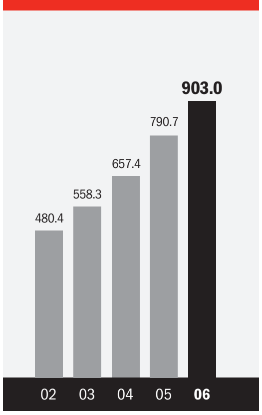
Mark's retail and same store sales growth

(year-over-year percentage change)	**Q4 2006**	Q4 2005	**2006**	2005
Total retail sales	**12.4%**	19.3%	**14.2%**	20.3%
Same store sales[1]	**10.0%**	17.4%	**13.0%**	17.4%

[1] Mark's same store sales excludes new stores, stores not open for the full period in each year and store closures.

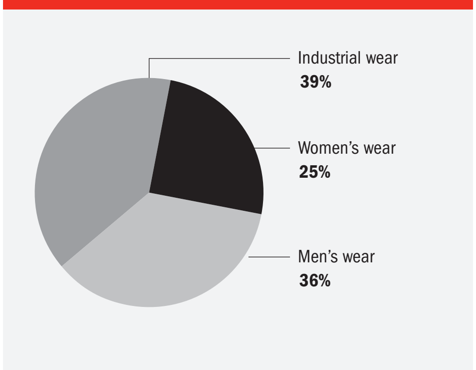
Mark's retail sales
Mark's retail sales represent total merchandise sales to consumers, net of returns across Mark's entire network of stores, recorded at retail prices.

Mark's retail sales[1]
($ millions)



[1] Mark's was acquired in February 2002. Sales prior to that date have been excluded.

Mark's 2006 gross operating revenue mix



Fourth quarter Mark's same store sales growth was particularly strong in British Columbia and the Prairie and Atlantic regions in the fourth quarter. Sales in Ontario and Quebec were softer than in other regions due to the unseasonably warm weather in December, which had a negative impact on sales of winter apparel and footwear. Women's knits, sweaters and woven shirts demonstrated the largest sales percentage increases in corporate stores in the fourth quarter.

Full year 2006 Mark's retail sales were strong in most regions in 2006, with particular strength in British Columbia and the Prairie region. Same store sales year-over-year growth was double-digit for the eleventh consecutive quarter. Women's shirts, sweaters and knits demonstrated the largest sales percentage increases in 2006.

Sales were driven by expansion in Mark's three major categories of men's wear, women's wear and industrial apparel, new store openings, retrofits and expansions, increased flyer distribution and several successful marketing and special event promotions.

Mark's is also testing the potential to leverage CTR's national advertising channels to drive sales growth. For example, during certain weeks, Mark's included its flyer in the distributions for CTR's regular catalogue and catalogue of innovative products. During those offer periods, Mark's experienced significantly higher sales volume, demonstrating the potential of further cross-marketing programs. Mark's also tested "spend and save" coupons with CTR, which offer customers discounts on merchandise at Canadian Tire stores when they spend money at Mark's.

Average corporate store sales[1]

	2006	2005	2004
Average retail sales per store ($ thousands)[2]	**$ 2,739**	$ 2,406	$ 2,061
Average sales per square foot ($)[3]	**342**	313	276

[1] Calculated on a rolling 12-month basis.
[2] Average retail sales per corporate store include corporate stores that have been open for 12 months or more.
[3] Average sales per square foot is based on sales from corporate stores. We have prorated square footage for corporate stores that have been open for less than 12 months.

Mark's continues to improve the productivity of its stores, as demonstrated by a nine percent increase in sales per square foot in 2006, following a 13 percent year-over-year increase in 2005. The increases in sales productivity are related to the factors driving sales performance described in the previous paragraphs.

4.2.2.3 Mark's financial results

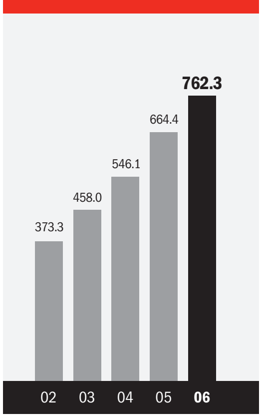
($ millions)	Q4 2006	Q4 2005	Change	2006	2005	Change
Retail sales[1]	**$ 367.2**	$ 326.6	12.4%	**$ 903.0**	$ 790.7	14.2%
Gross operating revenue[2]	**309.5**	275.0	12.6%	**762.3**	664.4	14.7%
EBITDA[3]	**54.9**	47.2	16.7%	**108.9**	82.2	32.7%
Earnings before income taxes	**50.0**	42.2	18.7%	**90.1**	65.0	38.8%
Less adjustment for:						
Loss on disposals of property and equipment[4]	**(0.5)**	(0.9)		**(1.2)**	(1.3)	
Impact of stock option modification	**(2.7)**	–		**(2.7)**	–	
Adjusted earnings before income taxes[3]	**$ 53.2**	$ 43.1	23.6%	**$ 94.0**	$ 66.3	41.7%

[1] Includes retail sales from corporate and franchise stores.
[2] Gross operating revenue includes retail sales at corporate stores only.
[3] See section 12.0 on non-GAAP measures.
[4] Prior to the third quarter of 2006, Mark's had not broken out gains or losses on disposals of property and equipment to calculate adjusted earnings before income taxes. 2005 amounts in this table have been restated to show that break out.

Explanation of Mark's financial results

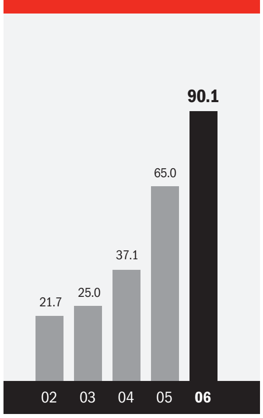
Fourth quarter and full year 2006 Mark's pre-tax earnings increased significantly in all four quarters due to double-digit same store sales growth and a higher gross margin rate. The increase in earnings can also be attributed to a lower total expense rate as a percentage of sales in three of the year's four quarters. Mark's gross margin rate increased by 210 basis points in the fourth quarter and 100 basis points in 2006 year-over-year, primarily due to higher margins from our product sourcing strategy. In addition, Mark's full-year total expense rate continued to decline, demonstrating strong operating efficiency while Mark's continued investing in store growth and maintaining high customer satisfaction levels. Mark's pre-tax earnings were affected by a $2.7 million expense recorded in the fourth quarter related to previously disclosed amendments to the existing stock option agreements. Mark's pre-tax adjusted earnings, excluding the expense and a small loss on the disposals of property and equipment, are shown in the previous table.

Mark's gross operating revenue[1]
($ millions)



[1] Mark's was acquired in February 2002. Gross operating revenue prior to that date has been excluded.

Mark's earnings before income taxes[1]
($ millions)



[1] Mark's was acquired in February 2002. Earnings before income taxes prior to that date have been excluded.

4.2.2.4 Business trends

Two long-term trends that have impacted Canada's approximately $20 billion apparel market are the move from traditional business attire to business casual clothing in the workplace and the increasing number of Canadians who are leading more active lifestyles.

The market for traditional retailers has experienced price deflation due to intensifying competition, increasing global sourcing and a softening in consumer spending on apparel. Winning retailers are inspiring customers with strong brands and a destination-store strategy, targeting specific customer needs.

4.2.2.5 Business risks

Mark's is exposed to a number of risks in the normal course of its business that have the potential to affect its operating performance. The following are some of the business risks specific to Mark's. Please also refer to section 9.0 for a discussion of some other industry and company-wide risks affecting the business.

Seasonality risk Mark's business remains very seasonal, with the fourth quarter typically producing the largest share of sales and earnings. In 2006, for example, the fourth quarter produced about 40 percent of total annual retail sales and over 55 percent of pre-tax earnings resulting from the general increase in consumer spending for winter clothing and Christmas related purchases. Detailed sales reporting and merchandise planning modules assist Mark's in mitigating the risk and uncertainties associated with unseasonable weather and consumer behaviour during the important Christmas selling season, but cannot remove risks completely because inventory orders, especially for a significant portion of merchandise purchased off-shore, must be placed well ahead of the season.

Market obsolescence risk All clothing retailers are exposed, to varying degrees, to the vagaries of consumers' fashion preferences. Mark's mitigates this risk through its brand positioning, consumer preference monitoring, demand forecasting and merchandise selection efforts. Mark's specifically targets consumers of durable everyday wear and is less exposed to changing fashions than apparel retailers offering high-fashion apparel and accessories.

4.2.3 Canadian Tire Petroleum

4.2.3.1 Strategic Plan update and outlook

Petroleum plays a strategic role in increasing customer loyalty and driving revenue and earnings for CTR and Financial Services. Petroleum increases Canadian Tire's total value proposition by offering Canadian Tire 'Money' loyalty rewards on gas purchases paid for in cash or by Canadian Tire's Options MasterCard. Petroleum also supports other cross-marketing promotions and joint product launches, such as Canadian Tire's Gas Advantage MasterCard, which has gained wide popularity since its introduction in Ontario in mid 2006. Customers who have a Canadian Tire MasterCard and purchase gas at Petroleum are Canadian Tire's most loyal and profitable customers.

The following outlines Petroleum's performance in 2006 in the context of the 2005–2009 Strategic Plan, and provides an outlook for 2007 and for the full Plan period.

Strategic Plan update and outlook

Site renewal and expansion

Petroleum is focusing on modernizing existing sites and adding new sites in high-potential markets. On an opportunistic basis, Petroleum will also continue its re-branding initiative to convert competitor sites to the Canadian Tire brand.

2006 Performance

Fourth quarter
In the fourth quarter, Petroleum opened one re-branded gas station.

Full year 2006
In 2006, Petroleum opened three new gas stations and re-branded seven gas stations. Petroleum also closed nine gas stations, including five re-branded stations. Petroleum also opened eight new convenience stores and seven car washes. One existing location was rebuilt.

At the end of the year, Petroleum had 260 gas stations, including 41 re-branded sites, and 251 convenience stores.

2005–2009 Plan

Management will continue to evaluate the appropriate level of investment in Petroleum on an annual basis.

2007 Outlook
In 2007, Petroleum plans to open nine new petroleum sites in strategic locations and invest in the modernization of approximately 25 existing sites.

Enhancing interrelatedness

Petroleum's business is integrated with CTR and Financial Services through Canadian Tire 'Money' and various cross-marketing programs designed to build customer loyalty. Petroleum is also exploring the potential of cross-marketing programs with Mark's to extend Petroleum's marketing leverage across the Company.

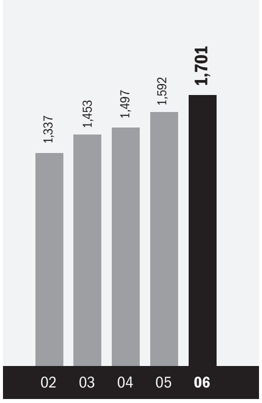
2006 Performance

Petroleum's cross-marketing programs include:

> 'Multiplier' coupons that increase the Canadian Tire 'Money' offered on gas purchases paid for in cash or by Canadian Tire Options MasterCard
> coupons offering discounts on Canadian Tire merchandise with the purchase of gas
> Gas Advantage MasterCard rolled out in Ontario in mid 2006
> test of a "spend and save" coupon with selected purchases at Mark's

2005–2009 Plan

In 2007, Petroleum will aggressively seek out additional cross-marketing opportunities to leverage its customer loyalty to drive sales and earnings across the enterprise.



4.2.3.2 Key performance indicators

Gasoline sales volume is a key top-line performance indicator for Petroleum, as measured by the number of gasoline litres sold. Fluctuations in the wholesale and retail price of gasoline may result in fluctuations in Petroleum's margin and profitability.

Gasoline sales volume

	Q4 2006	Q4 2005	Change	**2006**	2005	Change
Sales volume (millions of litres)	**457.4**	396.3	15.4%	**1,701.2**	1,592.3	6.8%

The Canadian Tire 'Money' program, 'Multiplier' discount coupons and the introduction of the Gas Advantage MasterCard continued to drive gasoline volume in the fourth quarter and over the full year of 2006. On a comparable site basis, gasoline volume increased by 12.8 percent in the quarter and 3.7 percent in 2006.

Petroleum's convenience and car wash sales

(year-over-year percentage change)	**Q4 2006**	Q4 2005	**2006**	2005
Total retail sales				
Convenience store sales	**16.5%**	14.7%	**14.8%**	12.7%
Car wash sales	**19.2%**	27.9%	**2.6%**	26.3%
Comparable sales				
Convenience[1]	**10.9%**	9.8%	**8.9%**	5.6%
Car wash	**9.0%**	11.8%	**(9.6)%**	9.4%

1 Comparable convenience sales excludes three "Q" convenience stores.

The increase in customer traffic at our gas stations drove higher convenience sales in the fourth quarter and in 2006. The increase in the number of sites during the year drove higher total car wash sales. Management believes that, over the year, relatively high gasoline pump prices may have had a dampening effect on consumer spending on discretionary items, such as car washes.

4.2.3.3 Petroleum's financial results

($ in millions)	**Q4 2006**	Q4 2005	Change	**2006**	2005	Change
Retail sales	**$ 399.8**	$ 367.5	8.8%	**$ 1,635.4**	$ 1,444.2	13.2%
Gross operating revenue[1]	**375.1**	346.9	8.1%	**1,545.3**	1,361.3	13.5%
EBITDA[2]	**(1.9)**	7.0	(128.8)%	**9.8**	21.9	(55.7)%
Earnings (loss) before income taxes	**(6.0)**	3.0	(299.4)%	**(5.4)**	7.5	(172.9)%
Less adjustment for:						
Gain (loss) on disposals of property and equipment	**(0.3)**	(0.2)		**(0.6)**	0.1	
Adjusted earnings (loss) before income taxes[2]	**$ (5.7)**	$ 3.2	(279.9)%	**$ (4.8)**	$ 7.4	(165.7)%

1 Gross operating revenue for 2005 has been restated for the impact of EIC-156 as required by the CICA. See section 11.3 for additional information.
2 See section 12.0 on non-GAAP measures.

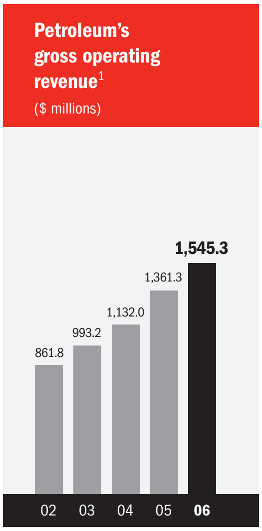
Petroleum's retail sales

Retail sales include the sales of gasoline at Petroleum's entire network of petroleum sites recorded at retail pump prices, including re-branded sites, and excluding goods and services taxes and provincial sales taxes, where applicable. Retail sales also include sales of products sold at our convenience stores, car wash sales, propane and PitStop sales, all of which we record at retail selling prices.

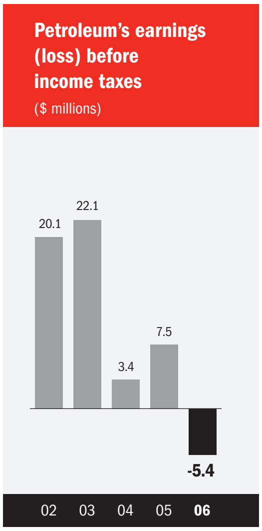
Gasoline pricing

Petroleum buys gasoline at wholesale cost, which varies by geographic region, and sells it at market prices. Petroleum has a multi-year contract with a major supplier to purchase gasoline at competitive rates.

Explanation of Petroleum's financial results



[1] Gross operating revenue has been restated for the impact of EIC-156 as required by the CICA.



Fourth quarter and full year 2006 Double-digit growth in gasoline volume and increases in convenience and car wash sales contributed to Petroleum's revenue growth in the fourth quarter. The 15.4 percent increase in gasoline volume more than made up for lower average gasoline pump prices in the fourth quarter in driving increased revenue.

Over the full year, revenues were also up due to increased gasoline volume, higher year-over-year pump prices, and increases in convenience and car wash sales. Annual average gasoline pump prices increased about six percent in 2006.

Lower gasoline margins negatively impacted Petroleum's earnings performance in all four quarters during the year. Higher total convenience and car wash sales partially offset gasoline margin volatility in the fourth quarter and in 2006. Petroleum also incurred $1.4 million in environmental expenses in the fourth quarter related to clean-up costs associated with certain site closures. Over the full year, Petroleum's environmental costs were flat compared to 2005. Petroleum also experienced lower tobacco margins in 2006 caused by intense price competition, stemming from changes in government regulation described in the business trends section below.

4.2.3.4 Business trends

Canada's petroleum market is mature, exhibiting only modest growth. Within this market, gasoline retailers are evolving in response to changing lifestyles: Canadians are increasingly looking for convenience and value. Key drivers of success in this market are perceptions of value, convenience and trust, providing an advantage to chains with well-known brands and strong rewards programs. Growth prospects within the market are being shaped by the development of other services that generate higher margins and take advantage of Petroleum's real estate, such as car washes and convenience stores. With higher customer traffic, Petroleum has the ability to drive further growth with an expanded menu of products and services.

Overall, the market for independent gasoline retailers is very challenging. Independent retailers buy gasoline, which is a "finished product", from integrated oil companies that make a profit on their refinery (upstream) and retail marketing (downstream) businesses. More recently, integrated oil companies have been making a substantial portion of their profits on the upstream business, providing them the flexibility to price very aggressively in the retail market. In comparison, as price-followers, independent retailers are more vulnerable to pump price wars due to the absence of upstream revenues to offset tighter retail margins.

Changes in Ontario provincial regulation introduced in May 2006 prohibiting the exterior and interior marketing and display of tobacco products intensified price competition as competitors vied for market share, ultimately squeezing tobacco margins in the market. In addition, more customers are purchasing value-priced tobacco products versus premium products, a trend which further compressed tobacco margins across the industry. Tobacco sales typically make up a large percentage of convenience store sales.

4.2.3.5 Business risks

Petroleum is exposed to a number of risks in the normal course of its business that have the potential to affect its operating performance. The following are some of the business risks specific to Petroleum's operations. Please also refer to section 9.0 for a discussion of some other industry-wide and company-wide risks.

Commodity price risk The operating performance of petroleum retailers can be affected by fluctuations in the commodity cost of oil. The wholesale price of gasoline is subject to global oil price supply and demand conditions, which are increasingly a function of rising demand from fast developing countries such as India and China, political instability in the Middle East, potential supply chain disruptions from natural and human-caused disasters, as well as commodity speculation. To mitigate this risk to profitability, Petroleum tightly controls its operating costs and enters into long-term gasoline purchase arrangements with integrated gasoline wholesalers. In 2005, Petroleum signed a multi-year contract with a major supplier to secure its supply of gasoline at competitive rates.

Environmental risk Environmental risk within Petroleum is primarily associated with the handling of gasoline, oil and propane. Environmental contamination, if not prevented or remediated, can result in fines and sanctions and be damaging to our reputation. Petroleum mitigates its environmental risks through a comprehensive regulatory compliance program, which involves environmental investigations, as required, and the remediation of any contaminated sites in a timely manner. Petroleum has environmental insurance coverage.

4.2.4 Canadian Tire Financial Services

4.2.4.1 Strategic Plan update and outlook

The following outlines Financial Services' performance in 2006 in the context of the 2005–2009 Strategic Plan, and provides an outlook for 2007 and for the full Plan period.

Strategic Plan update and outlook

Total managed portfolio of loans receivable (credit card loans, personal loans and residential mortgage loans)

Financial Services plans to grow its portfolio through increases in average balances, new account acquisition, the introduction of new credit cards and continued testing of the personal loan portfolio. Financial Services is leveraging its low-cost in-store acquisition program as a high-volume channel to grow the base of customer accounts. The average balance on customer accounts is gradually increasing through initiatives such as low-rate balance transfer offers. In addition, Management believes that there are further opportunities to grow the customer base by introducing premium and specialty credit cards with different bonus features. The Gas Advantage MasterCard, for example, offers a compelling customer value proposition which drives credit card balances while increasing gasoline volume at Petroleum. The average balance on Financial Services' credit card accounts is $1,736, well below the industry average of over $2,500, which translates into a substantial long-term growth opportunity.

2006 Performance

Fourth quarter
Gross average loans receivable were $3.5 billion in the fourth quarter, up 7.4 percent from the fourth quarter of 2005. The growth reflects a 3.2 percent increase in customer accounts with a balance and a 4.1 percent increase in the average account balance.

Full year 2006
In 2006, gross average loans receivable were $3.4 billion, up 12.1 percent. Customer accounts with a balance increased 3.5 percent in 2006 and average account balances increased 8.2 percent.

Financial Services' new Gas Advantage MasterCard was successfully introduced in Ontario in the second quarter.

2005–2009 Plan

Over the 2005–2009 Plan period, Financial Services plans to increase the number of accounts with balances by three to four percent annually.

2007 Outlook
Financial Services plans to increase total portfolio gross average loans receivable to $3.7 billion in 2007.

Financial Services also plans to introduce at least one new credit card product and expand the Gas Advantage MasterCard into other regions of the country.

Insurance and other ancillary products

Financial Services plans to enhance its insurance and warranty product offering to credit card customers. Revenues from insurance and warranty products have increased significantly in the last four years through direct marketing to Canadian Tire's growing base of customers.

2006 Performance

Revenues from insurance and warranty products increased 10.1 percent in the fourth quarter and 11.9 percent in 2006 year-over-year.

In 2006, Financial Services launched a new membership service called "Identity Watch", which provides customers with services to protect them against identity theft if their wallets are lost or stolen.

2005–2009 Plan

Financial Services plans to increase revenues from insurance and warranty products by approximately six percent on a compound annual basis over the 2005–2009 Plan period.

2007 Outlook
Financial Services plans to increase revenues from insurance and warranty products by approximately nine percent in 2007.

Strategic Plan update and outlook *(cont'd)*

Retail banking

Financial Services began offering retail banking products in two pilot markets in October 2006, including high interest savings accounts, guaranteed investment certificates and residential mortgages. The retail banking business leverages the trust and credibility Canadian Tire has earned over the last 40 years providing financial services to millions of customers.

2006 Performance

Financial Services launched its retail banking products in two pilot markets. Financial Services is supporting the launch with a multi-faceted marketing program including flyer inserts, direct mail, television and radio advertisements, billboards and in-store advertising to increase customer awareness. Customers can sign up for Canadian Tire's retail banking products online, by phone or in-store in the pilot markets.

2005–2009 Plan

The retail banking pilot will run for approximately 24 months, at which time its future potential will be assessed.

2007 Outlook

Financial Services plans to introduce additional retail banking products in 2007.

Financial Services will incur approximately $25 million in expenses associated with the marketing and operations of the retail banking initiative in 2007.

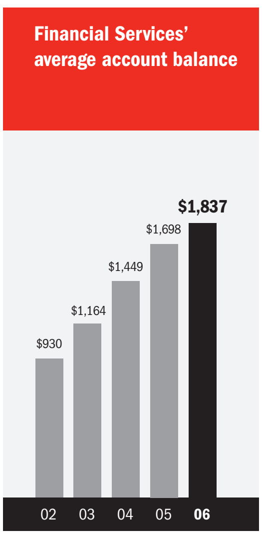
4.2.4.2 Key performance indicators

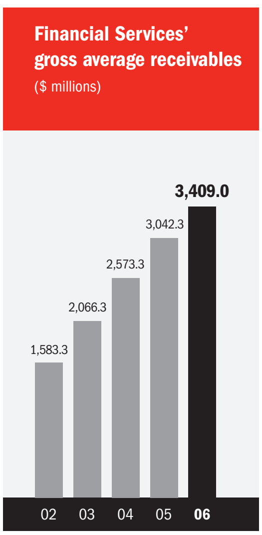
The following are key indicators of Financial Services' performance:

- size of the total managed portfolio
- profitability of the portfolio
- quality of the portfolio

Financial Services' total managed portfolio of loans receivable

($ in millions, except where noted)	Q4 2006	Q4 2005	Change	2006	2005	Change
Average number of accounts with a balance (thousands)	**1,885**	1,827	3.2%	**1,855**	1,792	3.5%
Average account balance ($)	**$ 1,849**	$ 1,776	4.1%	**$ 1,837**	$ 1,698	8.2%
Gross average receivables (GAR)	**3,485.1**	3,244.2	7.4%	**3,409.0**	3,042.3	12.1%
Total managed portfolio (end of period)				**3,632.5**	3,395.1	7.0%
Net managed portfolio (end of period)				**3,599.2**	3,359.2	7.1%





Net managed portfolio

Financial Services' net managed portfolio is the total value, after allowances, of loans receivable including credit card loans, personal loans and residential mortgage loans.

Financial Services' gross average receivables were up in the fourth quarter and year-to-date, due to increases in the number of accounts with a balance and in average account balances. The successful rollout of the Gas Advantage MasterCard in Ontario in the second quarter also contributed to growth in the number of accounts with a balance.

Financial Services experienced a period of accelerated growth during the conversion of its existing proprietary card portfolio to a MasterCard portfolio. Now that the conversion is complete, Financial Services' growth will be driven by increases in average account balances, modest increases in new accounts and the introduction of new credit card and insurance products. Management regards new retail banking products as another high-potential channel for growth in the longer term.

Gross average receivables (GAR)
GAR is the monthly average of Financial Services' loans receivable averaged over a specified period of time.

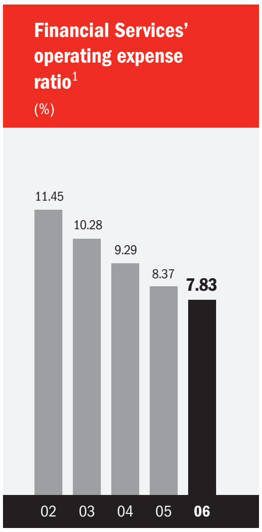
Financial Services' profitability

Financial Services' profitability measures are tracked as a percentage of GAR, shown in the table below.

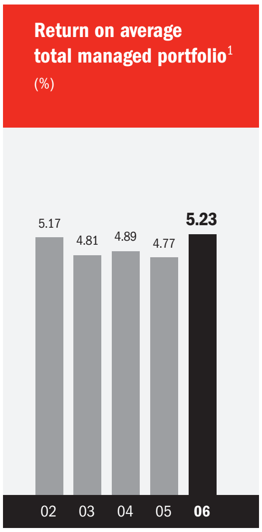
Profitability of total managed portfolio[1]

	2006	2005	2004
Total revenue as a % of GAR[2]	**24.98%**	25.47%	26.76%
Gross margin as a % of GAR[2]	**13.07%**	13.14%	14.18%
Operating expenses as a % of GAR[3]	**7.83%**	8.37%	9.29%
Return on average total managed portfolio[2,3,4]	**5.23%**	4.77%	4.89%

1 Figures are calculated on a rolling 12-month basis and comprise the total managed portfolio of loans receivable.
2 Excludes gains (losses) on sales of loans receivable and gain on redemption of investment.
3 Excludes the impact of the modification to the stock option agreements in the fourth quarter of 2006.
4 Return is calculated as earnings before taxes as a percentage of GAR.



1 Excludes the impact of the modification to the stock option agreements in the fourth quarter of 2006.



1 Excludes gains (losses) on the sale of loans receivable, redemption of MasterCard investment and stock option modification.

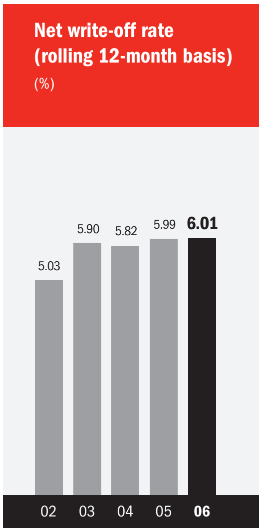
Gross margin
Gross margin is Financial Services' total revenue less direct expenses associated with credit card, personal and mortgage loans, insurance and warranty products. The most significant direct expenses are the provision for credit losses associated with the credit card and personal loan portfolios, the loyalty program and interest expense.

The transformation of Financial Services' portfolio a few years ago from a proprietary store credit card portfolio to a MasterCard portfolio has created new opportunities for growth that will enhance profitability in the future. Though Financial Services' MasterCard accounts carry a lower interest rate compared to the proprietary accounts, the average balance is substantially higher, with increased earnings potential through cross-selling of balance-based insurance products. Management expects that continued growth in loans receivable, higher sales of insurance and warranty products and ongoing improvements in the operating expense ratio will offset the reduction in revenue and gross margin as a percentage of gross average receivables, as reflected in the table above.

As part of the strategic planning process, Management set a long-term goal of managing Financial Services' pre-tax return on the total managed portfolio in the target range of 4.5 to 5.0 percent. As shown in the table above, Financial Services exceeded this target in 2006.

Portfolio quality

	2006	2005	2004
Net write-off rate (rolling 12-month basis)	**6.01%**	5.99%	5.82%
Account balances less than 30 days overdue at end of period	**96.44%**	96.31%	96.46%
Allowance rate	**2.42%**	2.52%	2.34%



Net write-offs
Net write-offs is the sum of account balances that are written off, less monies collected against account balances that were previously written off. Net write-off rate is the net write-offs, expressed as a percentage of gross average receivables in a given period.

Financial Services' net write-off rate was six percent in 2006, at the high end of the target range of 5.0 to 6.0 percent. The lower portfolio allowance rate reflects an improvement in aging on the total managed portfolio, which should lead to a reduction in the write-off rate in the future.

Allowance
The allowance is determined using historical loss experience of account balances based on the aging and arrears status, with certain adjustments for other relevant circumstances influencing the recoverability of the loans.

Periodic fluctuations in write-offs, aging and allowances occur as a result of a variety of economic influences such as job growth or losses, personal debt levels and personal bankruptcy rates.

4.2.4.3 Financial Services' financial results

($ in millions)	**Q4 2006**	Q4 2005	Change	**2006**	2005	Change
Gross operating revenue	**$ 198.0**	$ 190.6	3.9%	**$ 721.7**	$ 685.8	5.2%
EBITDA[1]	**62.5**	62.9	(0.8)%	**200.3**	191.0	4.8%
Earnings before income taxes	**53.7**	55.8	(3.7)%	**167.0**	165.0	1.2%
Less adjustment for:						
Gain on redemption of investment	**–**	–		**6.9**	–	
Loss on disposals of property and equipment	**(0.3)**	–		**(0.6)**	(0.3)	
Gain (loss) on sales of loans receivable	**8.2**	13.0		**(12.7)**	19.9	
Impact of stock option modification	**(5.6)**	–		**(5.6)**	–	
Adjusted earnings before income taxes[1]	**$ 51.4**	$ 42.8	20.1%	**$ 179.0**	$ 145.4	23.1%

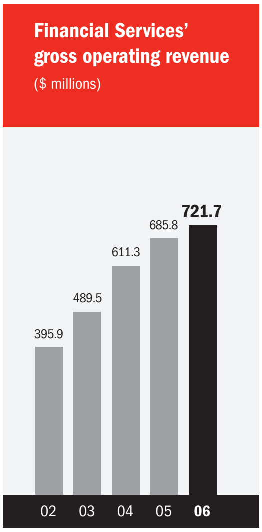
[1] See section 12.0 on non-GAAP measures.

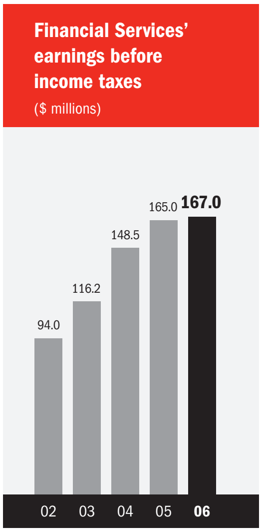
Explanation of Financial Services' financial results

Fourth quarter Increases in the number of accounts with a balance and average account balances were the key drivers of gross operating revenue in the fourth quarter. The introduction of the Gas Advantage MasterCard had a substantial impact on new account growth in the fourth quarter. Revenue growth lagged receivables growth due to the changing mix of the portfolio toward lower rate credit card and personal loans. Revenues from balance-based insurance products, warranties and other ancillary products were higher in the quarter.

Securitization of loans receivable
Securitization is the process by which interests in financial assets are sold to a third party. Financial Services routinely securitizes both credit card and personal loans receivable by selling an interest in those assets to trusts involved in the business of handling receivables portfolios. In the case of credit card loans, a co-ownership interest is sold to Glacier Credit Card Trust (GCCT). Personal loans are sold to a third party trust for consideration that includes cash and a retained interest in the assets. We record these transactions as a sale, and as a result, these assets are not included on our Consolidated Balance Sheets. Financial Services securitizes between 70 percent and 80 percent of loans receivable on an ongoing basis.

Growth in loans receivable and a reduction in the operating expense ratio, driven by Financial Services' growing portfolio, improved portfolio aging, a lower allowance rate and rigorous expense management, were offset by a lower year-over-year gain on the sales of loans receivable in the fourth quarter, expenses related to the previously disclosed amendments to existing stock option agreements, and continued expenses related to the retail banking initiative. The lower year-over-year gain on the sales of loans receivable primarily reflects the changing mix of the portfolio toward lower rate credit card and personal loans, resulting in the decrease in the gross margin of the portfolio. Excluding the impact





of the gain on the sales of loans receivable, the expense related to the amendments to existing stock option agreements, and a small loss on the disposals of property and equipment, Financial Services' earnings in the fourth quarter were up approximately 20 percent.

Full year 2006 Financial Services' gross operating revenue increased in 2006 due to account growth and higher average balances over the full year. The introduction of the Gas Advantage MasterCard had a positive impact on new account growth in the last half of the year. Higher sales of balance-based insurance products, warranties and other ancillary products also drove the increase in gross operating revenue over the full year of 2006.

Strong performance resulting from growth in the portfolio and continued reduction in the operating expense ratio was impacted by the following factors:

> $6.9 million gain on the redemption of a share interest in MasterCard International

> $12.7 million loss on the sale of loans receivable, compared to a $19.9 million gain in 2005

> $5.6 million expense related to the amendments to existing stock option agreements

Financial Services' pre-tax earnings excluding these factors, as well as a marginal loss on the disposals of property and equipment, were up approximately 23 percent in 2006, as shown in the previous table.

4.2.4.4 Business trends

The total Canadian bank card market now represents over $65 billion in outstanding loans and has grown consistently over the past four years, offering an attractive growth opportunity despite intense competition. While Canada's major banks are the market leaders, U.S. based credit card issuers are gaining market share and are redefining customer expectations. With the increasing number of credit cards available, consumers are looking for relationships with organizations that offer good value, exceptional service and programs that reward them for their loyalty.

4.2.4.5 Business risks

Financial Services is exposed to a number of risks in the normal course of its business that have the potential to affect its operating performance. The following are some of the business risks specific to Financial Services' operations. Please also refer to section 9.0 for a discussion of some other industry-wide and company-wide risks affecting the business.

Consumer credit risk Financial Services grants credit to its customers on Canadian Tire MasterCards, retail credit cards, personal loans and residential mortgages. With the granting of credit, Financial Services assumes certain risks such as the failure to accurately predict the creditworthiness of its customers or their ability to repay debt. Financial Services minimizes credit risks to maintain and improve the quality of its consumer lending portfolio by:

> employing sophisticated credit-scoring models to constantly monitor the creditworthiness of customers;

> using the latest technology to make informed credit decisions for each customer account to limit credit risk exposure;

> adopting technology to improve the effectiveness of the collection process; and

> monitoring the macro-economic environment, especially with respect to consumer debt levels, interest rates, employment levels and income levels.

Securitization funding risk Securitization is an important source of funding for Canadian Tire, involving the sale of credit card loans to GCCT and the sale of personal loans to another third party trust. Securitization enables Financial Services to diversify funding sources, and manage risks and capital requirements. Financial Services' securitization program relies on the marketability of the asset-backed commercial paper and notes issued by GCCT as described in section 6.2.4. A decline in the marketability of the commercial paper and notes would require the Company to find a new source of funding.

Interest rate risk The Company's sensitivity to movements in interest rates is substantially limited to its cash and short-term investments. A one percent change in interest rates would not materially affect its earnings, cash flow or financial position.

Most of Financial Services' revenue is not interest rate sensitive as it is generated primarily from Canadian Tire MasterCards, which carry a fixed interest rate appropriate to customer segments with common credit ratings. Financial Services' funding requirements were reduced during 2006 primarily by the sale of loans receivable through the securitization program described in section 6.2.4 of this MD&A. Canadian Tire constantly monitors the potential impact of interest rate fluctuations on its fixed versus floating rate exposure and manages its overall balance to reduce the magnitude of this exposure.

As the success of Financial Services is dependent upon its ability to access capital markets at favourable rates, and given the rapid growth of the total managed portfolio, maintaining the quality of the securitized loans receivable is a key priority of Financial Services.

5.0 New business development

Canadian Tire will continue to identify and evaluate opportunities to enhance our growth and profitability beyond our current Strategic Plan period of 2005–2009. Our business development team is focused on identifying potential retail and retail-related business opportunities that leverage our core capabilities and fit within our existing network of businesses. Canadian Tire's pilot launch of retail banking products in 2006 is an example of a potential new channel for growth that leverages Canadian Tire's brand, reputation and credit management capabilities to drive incremental growth beyond 2009.

6.0 Capital structure and financing

6.1 Capital structure

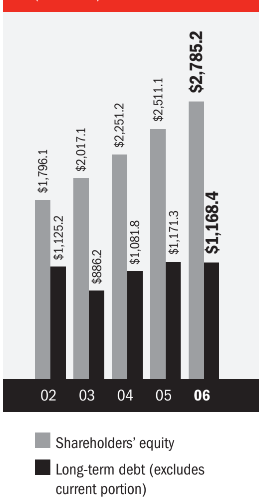
Improving our financial flexibility is one of our long-term goals and one of the imperatives of our 2005–2009 Strategic Plan.

We regularly review our funding plan and capital structure to ensure that we have sufficient funding options to provide us with the financial flexibility to implement our growth initiatives and meet the targets of our 2005–2009 Strategic Plan.

We ended 2006 in a strong financial position, with:

- $741 million of cash and cash equivalents
- no short-term debt
- long-term debt at less than 30 percent of capitalization
- $645 million in committed and unused lines of credit
- over $2 billion in book value of unencumbered real estate

Shareholders' equity and long-term debt
($ millions)



As at the dates indicated, our capital structure was as follows:

(composition of total structure)	**At December 30, 2006**	At December 31, 2005
Shareholders' equity	**67.2%**	57.8%
Minority interest[1]	**–**	6.9%
Long-term debt[2]	**28.3%**	31.7%
Other long-term liabilities	**2.7%**	1.5%
Future income taxes	**1.8%**	2.1%
	100.0%	100.0%

1 Refer to Note 17 of the Notes to the Consolidated Financial Statements.
2 Includes the current portion of long-term debt.

Equity The book value of Common and Class A Non-Voting Shares at the end of 2006 was $34.19 per share compared to $30.83 at the end of 2005.

We have a policy of repurchasing Class A Non-Voting Shares to offset the dilutive effect of shares issued to fulfill the Company's obligations under various employee profit sharing, stock option and share purchase plans and the dividend reinvestment plan. In the long term, these repurchases are expected to offset the issuance of new Class A Non-Voting Shares.

On February 8, 2007, we announced our intention to initiate a normal course issuer bid (NCIB) to purchase up to 1.4 million of the issued and outstanding Class A Non-Voting Shares over the 12-month period ending February 18, 2008.

A NCIB is a bid by a listed company to buy back its shares, up to a prescribed number, on a stock exchange, subject to certain rules that protect investors. A total of approximately 1.2 million Class A Non-Voting Shares were purchased in 2006 under the previous NCIB.

In November 2001, the Company formed a limited partnership for the purpose of raising $300 million of capital in relation to a portfolio of its retail properties. The Company was the general partner in this partnership. A third party investor group invested $300 million for a limited partnership interest with preferential rights to distribution of income and capital. On April 3, 2006, the limited partnership repaid the limited partners. Accordingly, the minority interest ceased to be reflected on the Consolidated Balance Sheets after April 3, 2006, and no further charge has been reflected in the Consolidated Statements of Earnings after April 3, 2006.

Shares outstanding

	2006	2005
Class A Non-Voting Shares (CTC.A)		
Shares outstanding at beginning of year	**78,032,724**	77,699,631
Shares issued under plans[1]	**1,222,032**	1,617,593
Shares purchased under NCIB	**(1,207,300)**	(1,284,500)
Shares outstanding at end of year	**78,047,456**	78,032,724
Common Shares (CTC)		
Shares outstanding at beginning and end of the year	**3,423,366**	3,423,366

[1] We issue shares under various employee profit sharing, stock option and share purchase plans, and the dividend reinvestment plan.

Dividends Dividends of $53.8 million were declared on Common and Class A Non-Voting Shares in 2006 compared to dividends of $47.4 million in 2005. The increase in dividends declared reflected the Board of Directors' decision in February 2006 to increase the annual dividend rate by 14 percent from $0.58 per share to $0.66 per share. The fourth quarterly dividend at the 2006 rate was declared on December 7, 2006 in the amount of $0.165 per share payable on March 1, 2007 to shareholders of record as of January 31, 2007.

In February 2007, the Board of Directors approved a 12 percent increase in the annual dividend per share for 2007 to $0.74, or $0.185 per quarter.

Dividend policy

Canadian Tire's policy is to maintain dividend payments equal to approximately 15 to 20 percent of the prior year's normalized basic net earnings per share, after giving consideration to the period-end cash position, future cash requirements and investment opportunities. Normalized earnings per share for this purpose exclude gains and losses on the ordinary course disposition of property and equipment.

Short-term debt We have a program in place that allows us to issue commercial paper up to an authorized limit of $800 million. We had no commercial paper outstanding at December 30, 2006 or December 31, 2005.

Credit ratings for the Company's commercial paper are R-1(low) from Dominion Bond Rating Service Limited (DBRS) and A-1(low) from Standard & Poor's (S&P).

At December 30, 2006, we had $645 million in committed lines of credit, compared to $570 million at December 31, 2005. The committed lines were not drawn upon at the end of either of these periods.

Long-term debt On January 16, 2006, we repaid $200 million of medium term notes (MTNs) that had matured.

To allow for timely access to debt markets, we plan to file a shelf prospectus with provincial and territorial securities commissions on March 9, 2007 for the issuance of up to $750 million of MTNs over a 25-month period.

As of the end of the fourth quarter of 2006, long-term debt included $2.3 million of capital leases.

Like most borrowers, we provide covenants to our lenders. We are in compliance with all of our debt covenants.

The Company's long-term debt is currently rated A(low) by DBRS and BBB+ by S&P.

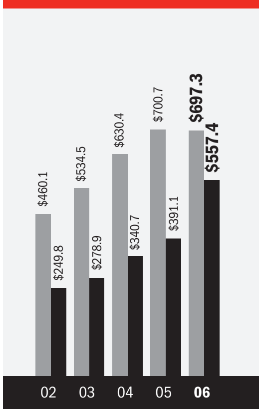
6.2 Funding program

6.2.1 Funding requirements

We fund our capital expenditures, working capital needs, dividend payments and other financing needs, such as debt repayments and Class A Non-Voting Share purchases under the NCIB, from a combination of sources. In the fourth quarter of 2006, the primary sources of funding were:

> $141 million of cash generated from operating activities before changes in other working capital components
> $348 million of cash generated from the sale of Associate Dealer receivables
> $311 million of cash generated from the securitization of loans receivable

Cash flow versus capital expenditures[1]
($ millions)



Cash generated from operating activities before changes in other working capital components

Additions to property and equipment

[1] Capital expenditures are on an accrual basis. For cash-basis expenditures, refer to Note 12 in the Notes to the Consolidated Financial Statements.

6.2.2 2006 Capital program

Canadian Tire's capital expenditures totaled $557 million in 2006 ($529 million on a cash-basis as disclosed in the Consolidated Statements of Cash Flows, see Note 12), a 43 percent increase from the $391 million spent in 2005. Those 2006 capital expenditures were comprised of:

> $361 million for real estate projects, including $304 million associated with the rollout of CTR's Concept 20/20 stores
> $56 million for the Eastern Canada distribution centre in the province of Quebec
> $69 million for information technology
> $71 million for other purposes

Overall, capital investments for real estate projects were up significantly year-over-year in 2006, primarily due to the acceleration of the Concept 20/20 store rollout, investment in the construction of an Eastern Canada distribution centre and other capital required for certain larger urban store developments.

6.2.3 2007 Capital plan

The 2007 capital plan is for expenditures in the range of $580 million to $620 million. The 2007 capital plan is comprised of the following, which totals $600 million:

> $352 million for real estate projects, including $269 million associated with the rollout of CTR's Concept 20/20 stores
> $110 million for the Eastern Canada distribution centre in the province of Quebec
> $75 million for information technology
> $63 million for other purposes

6.2.4 Working capital

Reducing our working capital requirements continues to be a long-term priority. The table below shows the change in the value of our working capital components at the end of 2006 and 2005.

Comparable working capital components

($ in millions)	**2006**	2005	Increase/ (decrease) in working capital
Accounts receivable	$ **340.5**	$ 652.8	$ (312.3)
Merchandise inventories	**667.3**	675.5	(8.2)
Prepaid expenses and deposits	**46.2**	42.4	3.8
Income taxes payable	**(81.1)**	(71.2)	(9.9)
Accounts payable and other	**(1,579.5)**	(1,545.5)	(34.0)
			$ (360.6)

Accounts receivable decreased significantly in 2006 due to a $350 million sale of Associate Dealer receivables in the fourth quarter, compared to $48 million in the fourth quarter of 2005. To a much lesser degree, lower shipments in December 2006 also lowered accounts receivable year-over-year. Corporate inventory of weather-related merchandise was up at the end of December, but Management expects that more seasonable weather patterns in the first quarter of 2007 will help draw down weather-related inventory carryover. Overall, merchandise inventory at CTR was down by $30 million year-over-year at the end of 2006 due to effective inventory management. Inventory at Mark's was up year-over-year, but in line with its plan to support the double-digit sales growth achieved in 2006.

6.2.5 Cash and cash equivalents

At December 30, 2006, the Company held $741 million in cash and cash equivalents compared to $838 million at December 31, 2005. This change reflects seasonal fluctuations in cash balances, particularly near year-end when cash balances are high, as well as the repayment of maturing long-term debt early in 2006, which was not refinanced. During the fourth quarter of 2006, we used cash primarily for the following:

> $225 million to fund further growth in loans receivable
> $224 million for the addition of property and equipment
> $113 million for the repayment of commercial paper

6.2.6 Loans receivable

Our loans receivable securitization program is designed to provide a cost-effective source of funding for Financial Services. Loans receivable were as follows at the indicated dates:

($ in millions)	**December 30, 2006**	December 31, 2005
Securitized	**$ 2,827.4**	$ 2,599.1
Unsecuritized	**771.8**	760.1
Net managed loans receivable	**$ 3,599.2**	$ 3,359.2

Net managed loans receivable continued to increase over the last twelve months as customers' use of the Canadian Tire MasterCard grew and new personal loans were granted. At the end of the fourth quarter of 2006, net managed loans receivable were 7.1 percent higher than at the end of the fourth quarter of 2005.

Canadian Tire Bank (CTB) sells co-ownership interests in credit card loans to GCCT. The Company does not have a controlling interest in GCCT, so we do not include financial results of GCCT in our Consolidated Financial Statements.

We record the sale of loans receivable in accordance with CICAs Accounting Guideline 12 "Transfers of Receivables". Please see Note 2 to the Consolidated Financial Statements found in this Financial Report.

For the 13 weeks ended December 30, 2006, we recognized a pre-tax gain of $8.2 million (2005 – $13.0 million pre-tax gain) on securitization transactions. For the 52 weeks ended December 30, 2006, we recognized a pre-tax loss of $12.7 million (2005 – $19.9 million pre-tax gain) on securitized transactions.

Cash flows from loan securitizations

($ in millions)	**Q4 2006**	Q4 2005	**2006**	2005
Proceeds from new securitizations	**$ 570.0**	$ 541.1	**$ 570.0**	$ 541.1
Proceeds from collections reinvested in previous securitizations	**1,966.3**	1,754.1	**7,394.6**	6,723.0
Other cash flows received on retained Interest	**448.8**	424.1	**1,624.5**	1,286.7

In 2007, Financial Services expects to securitize approximately $700 million of loans receivable through its securitization program.

We expect the growth in the number and average balances of Canadian Tire MasterCard credit card accounts to lead to an increase in total loans receivable in 2007. Financial Services expects to continue to fund most of this increase from the sale of co-ownership interests in credit card loans to GCCT. GCCT is a third party trust that was formed to buy our credit card loans and also issues debt to third party investors to fund its credit card loans purchases. See section 8.1 below for further information. The success of the securitization program is mainly due to GCCT's ability to obtain funds from third parties by issuing debt instruments with high credit ratings. As of December 30, 2006, GCCT had the following ratings:

> a rating of R-1(high) from DBRS for the asset-backed commercial paper program
> ratings of AAA from DBRS and S&P for the asset-backed senior notes
> ratings of A from DBRS and S&P for the asset-backed subordinated notes

The trustee and custodian for GCCT, The Canada Trust Company, manages the co-ownership interest and acts as agent for, and on behalf of, Canadian Tire Bank and GCCT, as the owners of the co-ownership interests. BNY Trust Company of Canada acts as indenture trustee with respect to GCCT and manages the security interests of the holders of the senior and subordinated notes issued by GCCT. We are currently not aware of any events, commitments, trends or uncertainties that may have a negative impact on our arrangement with GCCT.

The table below lists the details of the outstanding asset-based notes issued by GCCT.

Glacier Credit Card Trust asset-backed notes outstanding

($ in millions)	**At December 30, 2006**	At December 31, 2005	Repayment of principal begins	Estimated final dates for payment
Series 1997-1 Commercial Paper Notes[1]	**$ 100**	$ 75		
6.163% Series 2001-1 Senior Notes[2]	**–**	300	Fully repaid	Fully repaid
4.82% Series 2002-1 Senior Notes[2]	**450**	450	Sep. 1, 2007	Dec. 20, 2007
4.444% Series 2003-1 Senior Notes[2]	**542**	542	Aug. 1, 2008	Nov. 20, 2008
4.274% Series 2004-1 Senior Notes[2]	**591**	591	Aug. 1, 2009	Nov. 20, 2009
4.19% Series 2005-1 Senior Notes[2]	**345**	345	Aug. 1, 2010	Nov. 19, 2010
4.271% Series 2006-1 Senior Notes[2]	**300**	–	Aug. 1, 2011	Nov. 18, 2011
4.405% Series 2006-2 Senior Notes[2]	**239**	–	Feb. 3, 2014	May 20, 2014
7.203% Series 2001-1 Subordinated Notes[3]	**–**	15		
5.88% Series 2002-1 Subordinated Notes[3]	**23**	23		
5.034% Series 2003-1 Subordinated Notes[3]	**28**	28		
4.674% Series 2004-1 Subordinated Notes[3]	**34**	34		
4.51% Series 2005-1 Subordinated Notes[3]	**20**	20		
4.571% Series 2006-1 Subordinated Notes[3]	**17**	–		
4.765% Series 2006-2 Subordinated Notes[3]	**14**	–		
Total	**$ 2,703**	$ 2,423		

1 Commercial Paper Notes mature on a business day within one year of the date of issue.
2 Repayment of principal begins from allocations to GCCT in the previous month. In some instances, earlier prepayment may be required. Final payment dates are estimated based on assumptions about the performance of the credit card loans and other factors.
3 Repayment of principal for Subordinated Notes begins after all principal owing under the related series of Senior Notes has been repaid in full.

6.3 Financial ratios

We have ready access to funding from the financial markets because of our relatively strong balance sheet and healthy financial ratios. We have a long-standing policy of keeping our ratio of long-term debt to total capitalization below 50 percent.

The following table shows the changes in financial ratios over the past year.

	At December 30, 2006	At December 31, 2005
Ratio of long-term debt to total capitalization[1]	**28.3%**	31.7%
Ratio of current assets to current liabilities	**1.5:1**	1.6:1
Interest coverage[2]	**8.4 times**	7.3 times

1 Long-term debt includes current portion.
2 We calculate interest coverage on a rolling 12-month basis using earnings before interest, income taxes and minority interest.

6.4 Funding costs

The table below shows total funding costs, not including those of GCCT. The figures include the impact of interest rate swaps, which are part of our interest rate risk management program.

Interest expense[1]

($ in millions)	**2006**	2005
Long-term interest expense	**$ 71.2**	$ 79.5
Short-term interest expense	**4.5**	4.6
Total	**$ 75.7**	$ 84.1
Effective blended cost of debt	**6.61%**	6.75%

1 Interest expense is increased or decreased by the interest rate differentials paid or received on interest rate swap contracts.

The effective average blended cost of debt was lower in 2006 due to the net redemption premium of $5.3 million paid in 2005 on the early redemption of $225 million, 7.05 percent May 2006 MTNs.

6.5 Foreign operations

Since the late 1970s, the Company has established operations outside Canada for a variety of business purposes. This has resulted in a portion of the Company's capital and accumulated earnings being in wholly owned foreign subsidiaries. As there are currently no plans to repatriate the capital and earnings, Canadian and foreign taxes that might arise upon such repatriation have not been provided for. These funds have been accumulated in the following international operations:

a) U.S. based subsidiaries hold highly rated short-term securities and loans to the Company and its wholly owned Canadian subsidiaries. The capital and earnings of these U.S. based subsidiaries arose from investments made to offset net operating losses incurred by U.S. retail operations closed in the 1980s and 1990s and from the reinsurance of risks relating to certain insurance products marketed to customers of Financial Services and other reinsurance activities.

b) subsidiaries operating in the Far East have provided the Company with a variety of important services related to product sourcing, logistics and vendor management. These subsidiaries have earned commissions for such services for over 20 years.

c) a Bermuda-based reinsurance company was established in 2004 to reinsure the risk of certain insurance products marketed to customers of Financial Services. In addition to its reinsurance activities, this company invests in highly rated short-term securities and makes loans to the Company.

7.0 Tax matters

In the ordinary course of business, the Company is subject to ongoing audits by tax authorities. While the Company believes that its tax filing positions are appropriate and supportable, from time to time certain matters are reviewed and challenged by the tax authorities.

The Canada Revenue Agency (CRA) has reassessed and is also expected to issue further reassessments regarding the tax treatments of commissions paid to foreign subsidiaries of the Company (covering periods from 1995 onwards), and dividends received on an investment made by a wholly-owned subsidiary of the Company related to reinsurance (covering periods from 1999 to 2003). The applicable provincial tax authorities are expected to reassess for the corresponding periods. The Company does not have a significant exposure on these matters subsequent to the 2003 taxation year. The reassessments and expected reassessments in these matters are based on multiple grounds, some of which are highly unusual, and the Company will appeal these reassessments as and when they are received.

If the CRA (and applicable provincial tax authorities) were entirely successful in their reassessments – an outcome that the Company and its tax advisors believe to be very unlikely – it is estimated that the total liability of the Company for additional taxes, interest and penalties could be approximately $258 million. Although the Company will appeal these reassessments, current tax legislation requires the Company to remit to the CRA and its provincial counterparts approximately $161 million, of which $69 million has already been remitted. The timing of future remittances will be determined by the receipt of the reassessments. In the event that the Company is successful in its appeal, in whole or in part, some or all of the funds remitted to the various tax authorities will be refunded to the Company.

The Company regularly reviews the potential for adverse outcomes in respect of tax matters. The Company believes that the ultimate disposition of these reassessments will not have a material adverse effect on its liquidity, consolidated financial position or results of operations because the Company believes that it has adequate provision for these tax matters. Should the ultimate tax liability materially differ from the provisions, the Company's effective tax rate and its earnings could be affected positively or negatively in the period in which the matters are resolved.

8.0 Off-balance sheet arrangements

8.1 Glacier Credit Card Trust

As noted earlier, GCCT was formed to buy our credit card loans and issues debt to third party investors to fund its credit card loans purchases. Refer to section 6.2.4 for additional information on GCCT.

8.2 Personal loan securitization

As previously discussed in section 6.2.4 of this MD&A, we sold a portion of our personal loan receivables to a third party trust.

8.3 Trust financing for Associate Dealers

A financing program has been established to provide an efficient and cost-effective way for Associate Dealers to access the majority of the financing they require for their store operations, with specified support from us as described below.

Trust In 1995, a major Canadian bank set up a trust (the Trust) to provide financing to retail franchisees, and in 1997, began providing loans to Associate Dealers (Dealer Trust Loans) to finance a portion of their purchases of inventory and fixed assets. Each of these Dealer Trust Loans is secured by the store assets of the Associate Dealer. The amount of Dealer Trust Loans was $880 million at December 30, 2006, compared to $784 million at December 31, 2005, reflecting Associate Dealers' investment in Concept 20/20 store projects in 2006. In addition, Associate Dealers use subordinated operating lines of credit from Canadian banks to finance seasonal fluctuations in inventory levels and meet other regular business needs. The Company does not normally lend money directly to Associate Dealers, but we have done so on rare occasions in prior years.

Co-owner Trusts In 2004, the Trust sold all of its rights in the Dealer Trust Loans to independent trusts (the Co-owner Trusts) that were set up by major Canadian banks. The Trust continues to advance new Dealer Trust Loans to Associate Dealers that are immediately sold to the Co-owner Trusts. The Co-owner Trusts raise funds in the capital markets to fund their initial and ongoing purchases of Dealer Trust Loans from the Trust. The Trust continues to act as servicer of the Dealer Trust Loans.

Each bank administers its Co-owner Trust, provides it with a liquidity line and, in one case, is a counterparty to the Co-owner Trusts in interest rate swaps. The interest rate swaps are used to convert fixed rate interest payments received on some Dealer Trust Loans into variable interest payments to offset the Co-owner Trusts' variable rate debt raised in the capital markets.

Major Canadian trust companies are the trustees of the Co-owner Trusts and, as such, are accountable for the interests of the Co-owner Trusts' third party beneficiaries.

Most of our Associate Dealers participate in this program, and have individual loan obligations that are ultimately owed to the Co-owner Trusts.

Program support We provide program support, ultimately to the Co-owner Trusts, in the following ways:

> we provide credit enhancement in the form of guarantees of standby letters of credit provided to the Co-owner Trusts by several Canadian banks with acceptable credit ratings;

> we have agreed to indemnify the Co-owner Trusts and certain other parties against shortfalls in payments owed by the Co-owner Trusts resulting from certain events such as changes in laws and regulations (including tax legislation). The terms of these indemnification agreements do not put a limit on our total potential liability. To date, we have made only a nominal payment under these indemnifications, and we have not accrued any amount for these indemnifications in our 2006 Consolidated Financial Statements;

> we have provided a waiver, ultimately to the Co-owner Trusts, of certain statutory rights that we have with respect to the Associate Dealers as their landlord and merchandise supplier; and

> we have agreed to indemnify the interest rate swap counterparty for amounts owing in the event that the Trust, as servicer, cannot collect amounts owing to the Co-owners from an Associate Dealer who has fixed an interest rate on his/her Dealer Trust Loan.

As consideration for our program support, the Trust, as servicer, pays us an amount after it has paid all of the Co-owner Trusts' expenses relating to Dealer Trust Loans, but before any distribution to their beneficiaries. The amount received depends on the average amount of Dealer Trust Loans outstanding and prevailing market interest rates.

We also pay fees to the banks that provide the letters of credit to the Co-owner Trusts. The following table summarizes the consideration amounts received and letters of credit fees paid by us.

($ in millions)	**Q4 2006**	Q4 2005	**2006**	2005
Consideration amount received (net)	**$ 2.7**	$ 2.6	**$ 10.4**	$ 9.8
Letters of credit fees paid	**0.2**	0.2	**0.6**	0.6

The amount of our guarantees of the standby letters of credit provided by banks to the Co-owner Trusts was $165 million at December 30, 2006 compared to $117 million at December 31, 2005, reflecting growth in Dealer Trust Loans. The letters of credit benefit the Co-owner Trusts by helping them achieve a high credit rating on the debt they issue to fund their initial and ongoing purchases of Dealer Trust Loans.

The amount of credit enhancement required is based on a defined formula that considers the value of the inventory and fixed assets of the participating Associate Dealers, and will increase if the value of the participating Associate Dealers' inventory and fixed assets goes down or the Associate Dealers increase the amount of their Dealer Trust Loans.

No amount has ever been drawn on the letters of credit. The Co-owner Trusts can, however, draw on the letters of credit in various situations, including the following:

- if an Associate Dealer defaults on a Dealer Trust Loan and if we choose not to buy such loan, the Co-owner Trusts can draw on the letter(s) of credit for the amount of the Dealer Trust Loan (including any unpaid interest and costs) and then must assign the Dealer Trust Loan obligation and related security documentation to us;
- to cover shortfalls in related fees and expenses owing to them;
- if we do not provide sufficient credit enhancement, the Co-owner Trusts can fully draw on the letters of credit, and realize on the Dealer Trust Loans' underlying security; and
- upon termination of the program.

We must reimburse the banks for any amounts the Co-owner Trusts draw under the letters of credit.

Terminating the arrangement None of the Company, the Trust and the Co-owner Trusts can unilaterally terminate the financing program before November 2009, and, after that date, any party deciding to terminate participation in the program must provide six months' written notice to the other parties.

The arrangement will automatically be terminated if:

- we become insolvent or default on a covenant;
- we do not meet our obligations to provide sufficient credit enhancement or indemnify the Co-owner Trusts in certain events;
- at least one of the Co-owner Trusts' credit ratings goes down significantly (and such Co-owner Trust(s) is not immediately replaced by us); or
- at least one of the banks which administers a Co-owner Trust no longer provides such Co-owner Trust with a liquidity line (and such Co-owner Trust(s) is not immediately replaced by us).

If the arrangement is terminated, the Associate Dealers will need to replace the Dealer Trust Loans with alternative financing. We are under no contractual obligation to provide financial support for this arrangement.

We are not currently aware of any events, commitments, trends or uncertainties that are expected to have a negative impact on this arrangement.

8.4 Bank financing for Associate Dealers and PartSource franchisees

We have guaranteed the bank debt of some Associate Dealers and some PartSource franchisees. If an Associate Dealer or PartSource franchisee fails to make scheduled debt payments on bank loans we have guaranteed, we may be required to pay the amount guaranteed to the bank. The majority of the credit guarantees expire in 2007, and can be extended upon expiry at our option.

As of December 30, 2006, the maximum amount we may be required to pay under these guarantees is $19.7 million, compared to $8.5 million at December 31, 2005. We have not accrued any specific amount for these guarantees in our Consolidated Financial Statements.

8.5 Derivative financial instruments

We use derivative financial instruments to manage our exposure to changes in interest rates and foreign currency exchange rates. We also use equity derivative contracts to hedge certain future stock-based compensation expenses. We do not use hedging to speculate, but rather as a risk management tool.

To manage the credit and market risks associated with derivative financial instruments, we:

- deal only with counterparties that are highly rated financial institutions; and
- restrict the amount of hedging we can transact with any one counterparty.

If we sell or terminate a hedged item, or it matures before the related hedging instrument is terminated, we recognize in income any realized or unrealized gain or loss on the derivative instrument.

Our credit exposure to hedges and other derivatives is the current replacement value of contracts that are in a gain position. As at December 30, 2006, our credit exposure from interest rate swap, foreign exchange and equity derivative contracts was $55.9 million, compared to $25.4 million as at December 31, 2005.

9.0 Enterprise risk management

To preserve and enhance shareholder value, the Company approaches the management of risk strategically through its Enterprise Risk Management (ERM) framework. Introduced in 2003, the ERM framework sets out principles and tools for identifying, evaluating, prioritizing and managing risk effectively and consistently across the Company.

The intent of introducing our ERM framework was to establish an integrated approach to managing risks to assist in achieving our strategic objectives. Our ERM framework is:

> designed to provide an understanding of risks across the Company, and the potential impacts of risks on every part of the organization;
> cross-functional in its perspective to provide a consistent discipline for managing risk;
> designed to allow for improved capital allocation decisions to optimize risk and reward; and
> designed to incorporate a number of tools for managing risk, including avoidance, mitigation, insurance and acceptance.

Our first steps were to develop a process for identifying our Principal Risks and to carry out an initial risk assessment, which we completed in 2004. We define a Principal Risk (Principal Risks) as one that can have a significant adverse impact on Canadian Tire's performance, reputation or ability to service its customers, and has, in the absence of controls, a reasonable possibility of occurring.

Based on our experience since 2004, we are now enhancing the processes and procedures that support the ERM framework, including performance metrics and Board reporting. We are also reviewing and enhancing policies relating to the management of our Principal Risks.

The officer in charge of each business and support unit is accountable for ensuring that risks are managed effectively within his or her business area.

A management Enterprise Risk Committee was formed in 2006 to enhance the sustainability of the ERM framework. The Enterprise Risk Committee was created to oversee the management of Principal Risks and other enterprise-wide risks under the leadership of the Chief Executive Officer (CEO) and has the responsibility for reviewing and approving for recommendation to the Board of Directors, the ERM policy and framework.

The Company's Internal Audit Services (IAS) division also supports the Company's overall risk management program. The primary role of IAS is to assist the Audit Committee and the Social Responsibility and Risk Governance Committee (SRRG) in the discharge of their responsibilities relating to risk and uncertainty, financial controls and control deviations, compliance with laws and regulations and compliance with the Company's Code of Business Conduct for Employees and Directors. To this end, IAS is responsible for conducting independent assessments of the effectiveness of risk management and control processes across the Company.

9.1 Board accountability

The mandate of the Board of Directors includes overseeing the development of an ERM process, for which the Board has delegated initial responsibility to the SRRG. The SRRG, and in certain instances the Audit Committee, is responsible for gaining and maintaining reasonable assurance that management:

> appropriately identifies and manages risks;
> develops a policy that accurately sets out our risk philosophy, risk tolerance and the expectations and accountabilities for identifying, assessing, monitoring and managing risk (the ERM Policy);
> fully implements and sustains the ERM process in compliance with the ERM Policy and that the ERM Policy continues to accurately state our risk philosophy and risk tolerance, as well as our expectations and accountabilities for managing risks;
> identifies Principal Risks in a timely manner, including those risks relating to or arising from any weaknesses or threats to our business and our assumptions underlying our Strategic Plan; and
> effectively assesses, monitors and manages Principal Risks in compliance with the ERM Policy.

9.2 Principal risks

Canadian Tire has policies and practices mandated by the Board of Directors to manage the Company's Principal Risks. The following commentary provides a high level perspective on the nature of each identified Principal Risk and describes the main practices that we have in place to mitigate the potential impacts of Principal Risks on our business activities.

9.2.1 Information management

The integrity, reliability and security of information in all its forms are critical to the Company's daily and strategic operations. Inaccurate, incomplete or unavailable information and/or inappropriate access to information could lead to incorrect financial and/or operational reporting, poor decisions, privacy breaches and/or inappropriate disclosure or leaks of sensitive information.

Information management risk was recently identified as a Principal Risk in its own right, separate from the technology risk described below. Canadian Tire recognizes that information is a critical enterprise asset. Currently, the information management risk is being managed at the individual business unit level through the development of policies and procedures pertaining to security access, system development, change management and problem and incident management. With a view to enhancing and standardizing the controls to manage the information management risk, the Company is developing corporate operating policies which establish minimum standards for the usage, security and appropriate destruction of information. Furthermore, enterprise metrics are being identified to assist in monitoring significant information management risks.

9.2.2 Technology

Technology is critical to Canadian Tire's operations and is a key enabler of the Strategic Plan. Any system inefficiency or failure could negatively affect our performance, reputation and/or our ability to service customers. Monitoring the availability of Canadian Tire's information technology and assessing the efficiency, stability and scalability of our systems is key to managing this risk. Canadian Tire's technology must also be sufficiently current to ensure that we are able to service our customers and that our business units remain competitive in the marketplace.

Numerous controls are in place to manage the technology risk, including system and disaster recovery procedures and monitoring of system availability, capacity and inappropriate external access attempts. Since the beginning of 2003, our Information Technology group has been planning and implementing a simpler technical environment with the appropriate standardized processes to minimize the risks associated with operating on a number of differing technology platforms.

9.2.3 Product safety

The Company's brand equity and reputation are integrally linked to the safety of its products and services. Unsafe products and services or products that do not meet regulatory requirements could pose a risk to the health and safety of customers, employees, and other members of the public or to the environment. This risk, should it materialize, could negatively impact the Company's relationship with its customers, or the Canadian Tire, Mark's Work Wearhouse, and PartSource brands, and result in lost sales due to product re-work and recalls.

We are committed to mitigating the risks associated with our products and services. To this end, we employ quality assurance processes that test products for durability, safety and functionality. These processes are periodically reviewed and enhanced. We also analyze product returns, review consumer reports and use the resulting information to include quality provisions in supplier contract negotiations. Further, all of our vendors are required to carry insurance to cover product liability and indemnify us.

9.2.4 Consumer credit

With a growing portfolio of consumer lending products, our Financial Services business assumes certain risks that include our failure or inability to accurately predict the creditworthiness of our customers. Financial Services manages credit risks to maintain and improve the quality and profitability of its consumer lending portfolio by:

- employing sophisticated credit-scoring models to constantly monitor the creditworthiness of customers;
- using the latest technology to make informed credit decisions for each customer account to limit credit risk exposure;
- adopting technology to improve the effectiveness of the loan collection process; and,
- monitoring the macro-economic environment, especially with respect to interest rates, employment levels and income levels.

9.2.5 Competitive

We compete for customers, employees, products and services against international, national and regional retailers (department stores, mass merchandisers, home-improvement stores and warehouses, petroleum retailers and specialty marketers), banks and other financial services institutions which currently operate in one or more of our business segments. Material changes in the strategic direction and positioning or other practices of those competitors could create material competitive risk to the Company.

We actively monitor and analyze competitive activity as part of our strategic planning process, collecting competitive information, identifying material changes in the competitive environment, identifying material competitive risks and developing strategies to mitigate these risks. Each of our businesses has core strengths and initiatives that provide differentiation in the marketplace and enhance our competitive position, reducing our overall competitive risk. The unique strengths and strategies of our businesses are described in more detail in sections 2.0 and 4.2 of this MD&A.

9.2.6 Economic

Shifts in the fundamentals of the economic environment in which we operate – such as economic growth, inflation, exchange rates, levels of taxation and interest rates – could affect consumer confidence and spending and impact our ability to source products at a competitive cost. We constantly monitor economic developments in the markets where we operate and where we source our products. We use this information in our continuous strategic and operational reviews to adjust our initiatives as economic conditions dictate and to facilitate ongoing innovation in stores, merchandising concepts and products and Financial Services.

9.2.7 Hazards, disasters and business interruptions

Natural disasters, war, or random occurrences or acts could result in a material change to economic and market performance, consumer behaviour and business conditions or operations. We have established emergency response protocols and business continuity plans that are currently being reviewed and enhanced. Our emergency response teams have been trained to respond to situations as they arise. Our business continuity management team monitors business continuity plans to ensure that they are adequately prepared and tested, particularly with respect to our critical processes and systems. We also maintain insurance coverage to offset physical loss and loss of profits to mitigate the financial impact of an unusual event. The recovery under any insurance claim is subject to limitations set by the insurer.

9.2.8 Geopolitical

Changes in the domestic and international political environment could impact the Company’s strategic and operational capabilities. The Company’s ability to source products and services could be compromised. These risks can arise from domestic and foreign trade agreements, policies, laws and regulations and other political events and could result in significant material losses or damage to our reputation.

The Company mitigates this risk by monitoring the geopolitical environment of the countries in which we do business. When we contemplate a new vendor relationship, we undertake a risk assessment to evaluate the vendor’s fit as well as the vendor country’s political environment. We monitor for political changes that could impact our ability to remain competitive.

9.2.9 Legislative compliance

In operating our business, we must comply with a variety of laws and regulations to meet our corporate and social responsibilities and to avoid the risk of financial penalties and/or criminal and civil liability for our officers and directors. Areas of principal risk are environment, health and safety, competition law, privacy, disclosure, insider trading and laws and regulations which govern financial institutions. Failure to comply with applicable regulations could result in sanctions and financial penalties by regulatory bodies that could impact our earnings and reputation. At the corporate level, we have established a Risk Management and Compliance Services Department to provide, among other things, a framework for compliance oversight with laws and regulations applicable to our businesses.

Environment, health and safety We are required to comply with various environmental, health and safety (EHS) laws and regulations which govern how the Company must manage and monitor its EHS activities. Effective and safe management of the EHS aspects of the business mitigates the risk of financial penalties and criminal or civil liability for officers and directors, and at the same time allows the Company to achieve its committed objective of protecting the environment and the health and safety of employees, customers, and the communities in which we do business. In order to ensure that we meet our obligations and mitigate EHS risks, we have in place an EHS policy and management system to guide compliance across the enterprise.

We also recognize that a healthy and safe workplace minimizes injuries and other risks employees face in carrying out their duties. A healthy, safe workplace also improves productivity and avoids penalties or other liabilities for our officers and directors. To this end, we have a number of practices in place to ensure a quality workplace, including guidelines for physical and ergonomic workspaces and shared facilities. Our EHS policies and management systems are designed to ensure that appropriate procedures are followed to minimize workplace injuries. We also offer programs which are designed to promote healthy lifestyles. The incidence of workplace injuries is monitored and reports are reviewed by the SRRG on a quarterly basis.

Competition law The retail operations of CTR, PartSource, Mark’s and Petroleum and certain aspects of Financial Services’ businesses are required to comply with the federal *Competition Act* which regulates: (a) certain advertising activities such as ordinary price claims and claims concerning the attributes and performance of our products and services, and (b) other practices related to the lessening of competition in the marketplace. Failure to comply with the requirements of the *Competition Act* could lead to substantial civil and criminal liabilities, administrative penalties and damage to the Company’s reputation.

The primary manner in which the Company mitigates the risks associated with failure to comply with the *Competition Act* is to provide ongoing, periodic training to personnel involved in marketing and advertising our products and services. The Company also employs legal personnel with expertise in competition law who regularly review the format and content of our various advertising vehicles and provide ongoing advice to our marketing and advertising staff in respect of other competition law matters.

Privacy In accordance with the *Personal Information Protection and Electronic Documents Act* (PIPEDA) and similar provincial legislation, we introduced a set of privacy policies in 2003. These policies address the privacy issues surrounding the collection, use, disclosure and retention of personal information used in our workplaces and identify guiding principles for ensuring that our practices protect the privacy and security of all personal information. In order to reinforce the understanding of these policies and promote compliance, a privacy training lesson was developed in 2006 which will be completed by employees in 2007.

Disclosure We are required to comply with securities reporting legislation and accounting standards that are intended to ensure the full, accurate and timely communication of financial and other material information to the public. To ensure that we meet our obligations and mitigate risks associated with either the disclosure of inaccurate or incomplete information or a failure to disclose required information, we have in place a Disclosure Policy and a management Disclosure Committee to guide compliance:

> The Disclosure Policy sets out our accountabilities, authorized spokespersons and our approach to the identification and dissemination of material information. The policy also defines restrictions on insider trading and the handling of confidential information.

> The Disclosure Committee reviews all financial information prepared for communication to the public to ensure that it meets regulatory requirements. The Committee is also responsible for raising all potentially material issues to the Audit Committee prior to making any disclosure recommendations.

> The CEO, Chief Financial Officer (CFO), Senior Vice-President, Secretary and General Counsel, Chairman of the Board and Chairman of the Audit Committee review all financial disclosures prior to submission to the Audit Committee for the Audit Committee's review and recommendation to the Board.

The Disclosure Policy was reviewed and amended in 2006 in order to reflect recent changes to the Ontario *Securities Act.*

Insider trading As a publicly traded issuer, Canadian Tire is subject to the insider trading provisions of the securities legislation in each province and territory of Canada. These laws prohibit directors and officers and significant shareholders from trading in the Company's securities when in possession of undisclosed material information about the Company. The legislation also prohibits the Company and its insiders from "tipping" undisclosed material information to third parties except in the necessary course of business. Insiders are required to publicly report any trades in the Company's securities in accordance with the insider trading laws. Failure to abide by the insider trading laws could undermine public confidence in the integrity of the Company's management and its systems of compliance which could, in turn, damage the Company's reputation. Any such failure could also result in fines and imprisonment to the offending individuals.

The Company mitigates the risks of illegal insider trading by adopting a policy on insider trading which requires insiders to comply with the laws applicable thereto. In addition, the policy requires each member of the Board of Directors, senior management and certain other designated employees to pre-clear any trades with the General Counsel of the Company in order to ensure that no trades are made while such individuals possess undisclosed material information during predetermined quarterly blackout periods established pursuant to the policy. The Company also has a robust Disclosure Policy and associated procedures in order to ensure that material information about the Company is properly disclosed to the public in a timely manner.

Financial Services Our Financial Services division relies on its Compliance Department to assist Canadian Tire Bank in meeting all applicable financial services legislative and regulatory requirements.

9.2.10 Accounting, valuation and reporting

In any organization, there is a risk of incorrect application of the rules or standards governing accounting. We employ numerous professionally accredited accountants throughout our finance group, and all of our divisional financial officers have a dotted line reporting relationship to our CFO. Senior finance representatives are assigned to all significant projects. Policies are in place to ensure the completeness and accuracy of reported transactions. Key transaction controls are in place, there is a segregation of duties between transaction initiation, processing and cash disbursement, and there is restricted physical access to the Treasury and cash settlements area. Accounting, measurement, valuation and reporting of accounts which involve estimates and/or valuations are reviewed quarterly by the CFO, the external auditor and the Audit Committee. Significant accounting and financial topics and issues are presented to and discussed with the Audit Committee, and a presentation of quarterly scorecards on operational results is made to the Audit Committee and Board of Directors.

9.2.11 Capital

We must maintain sufficient capital to operate our business and absorb the potential impact of unexpected losses. We maintain adequate access to debt markets to meet our funding requirements. Our Treasurer is responsible for the effective management of capital within the target limits approved by the Board. To monitor our adherence to established policies, a Financial Risk Management Report – which sets out targets and performance on debt to capital ratios, liquidity ratios and foreign exchange management – is provided to the Audit Committee on a quarterly basis. Our Financial Risk Management group approves financial risk management policies for recommendation to the Audit Committee and monitors compliance with those policies. The Funding Plan for the Company is prepared by our Treasury department and approved by the Board.

9.2.12 Financial instruments

The use of derivative financial products to manage currency, interest rates and equity exposures and the use of other complex financial instruments pose certain risks. To reduce our risk, our Treasury department does not operate as a profit centre. Controls are in place to detect and prevent speculative activity.

It is our policy to identify and manage currency and interest-rate risk proactively and conservatively. To attempt to ensure that any counterparty to our financial transactions has the ability to meet its financial commitments, we deal only with highly rated financial institutions. We also ensure that there is no undue concentration with any single counterparty. Our Treasury department also monitors activity against policy limits and reports to the Financial Risk Management group and Audit Committee.

9.2.13 Effective management

Lack of effective recruitment programs, succession planning and compensation structures, as well as performance management and development would present risks to our ability to implement our strategic initiatives and to attract, motivate and retain talented people. We have well-established recruitment and performance management practices that are facilitated and monitored by our Human Resources group.

Our compensation structure emphasizes employee share ownership and profit sharing, and is reviewed regularly to ensure it is competitive with the marketplace. Twice annually, the executive team undertakes a Leadership Review Process to identify high-potential individuals for development and to identify viable successors for all key management positions.

9.2.14 Ethical business practices

Any violation of law, breach of corporate policy or unethical behaviour poses significant risk to our reputation, our brand name and our ability to operate. Commitment to ethical business practices is core to our values and is reflected in a number of policies and practices which are reviewed and strengthened on an ongoing basis to ensure that our employees and directors uphold the highest standard of ethical behaviour.

In order to oversee implementation and compliance with the Code of Business Conduct for Employees and Directors (the Code), the Business Conduct Compliance Office (BCCO) was established and became fully operational in 2005. The BCCO is structured so as to provide multiple channels through which individuals can report (confidentially and anonymously) breaches of the Code for investigation and follow-up. The office also provides assistance and support to employees and directors with respect to interpreting the application of the Code. In late 2006, a review of the Code was commenced in order to ensure that we continue to strengthen our commitment to ethical business practices and remain current with recent developments in the field of ethical business management.

In order to ensure that our suppliers and vendors also abide by the same high standards of ethical business conduct, the Supplier Code of Conduct was introduced in 2005.

10.0 Contractual obligations

Contractual obligations due by period

($ in millions)	Total	2007	In years 2008–2009	In years 2010–2011	After 2011
Long-term debt	$ 1,169.1	$ 1.7	$ 152.9	$ 164.2	$ 850.3
Capital lease obligations	2.3	1.3	1.0	–	–
Operating leases	1,779.4	182.5	341.1	286.7	969.1
Purchase obligations	860.6	725.5	118.7	11.1	5.3
Other obligations	25.8	5.0	11.5	3.1	6.2
Total contractual obligations	$ 3,837.2	$ 916.0	$ 625.2	$ 465.1	$ 1,830.9

11.0 Changes in accounting policies

11.1 Consolidation of variable interest entities

In June 2003, the CICA issued Accounting Guideline 15, "Consolidation of Variable Interest Entities" (AcG-15). This guideline was amended in September 2004 to harmonize with the related U.S. accounting standard, which had been revised in December 2003. AcG-15 requires companies to include certain variable interest entities in their annual or interim consolidated financial statements beginning on or after November 1, 2004.

In the fourth quarter of 2004, we made structural changes to the arrangements involving the independent trusts described in sections 8.1, 8.2 and 8.3. Consequently, we were not required to include the financial results of the trusts in our Consolidated Financial Statements for the period ended December 30, 2006.

A number of the corporations owned and operated by independent Associate Dealers and by Mark's and PartSource franchisees are variable interest entities. Although a few of these corporations required some subordinated financial support from us during the year, none of these corporations have been included in our Consolidated Financial Statements as the impact of consolidating these corporations was not material.

11.2 Foreign currency translation of foreign subsidiaries

Due to a change in the nature and extent of certain foreign subsidiaries' operations, the Company determined in 2005 that these subsidiaries are now considered to be integrated operations under the definition provided in Section 1650 of the CICA Handbook. Accordingly, effective from the fourth quarter of 2005, the accounts of those affected subsidiaries, previously translated using the current rate method, are now translated using the temporal method. This method requires exchange gains or losses resulting from translating the foreign currency denominated financial statements to Canadian dollars to be included in income during the period instead of being treated as a separate component of shareholders' equity. The financial impact of the change in the method of translation, which was accounted for prospectively, was not material.

11.3 EIC-156 Consideration to customers

Effective January 1, 2006, the Company implemented, on a retroactive basis, the Emerging Issues Committee of the CICA's Abstract 156 (EIC-156) "Accounting by a Vendor for Consideration Given to a Customer (Including a Reseller of the Vendor's Products)". The Abstract requires a vendor such as the Company to generally record cash consideration given to a customer as a reduction to the selling price of the vendor's products or services and reflect it as a reduction of revenue when recognized in the income statement. Certain exceptions apply where the vendor receives an identifiable benefit in exchange for the consideration and the vendor can reasonably estimate the fair value of the identifiable benefit. The Abstract must be applied retroactively to annual and interim financial statements beginning on or after January 1, 2006.

As a result of the retroactive implementation of this new standard, the impact on the Consolidated Statement of Earnings for the 13 weeks ended December 30, 2006 was to decrease both "gross operating revenue" and "cost of merchandise sold and all other operating expenses except for the undernoted items" by $15.1 million (2005 – $14.9 million). For the year ended December 30, 2006, both "gross operating revenue" and "cost of merchandise sold and all other operating expenses except for the undernoted items" were decreased by $57.1 million (2005 – $53.0 million). There was no impact on net earnings or earnings per share.

11.4 Financial instruments, hedging and comprehensive income

As part of Canada's current move toward harmonization with International Accounting Standards (currently expected to be completed by 2011), the CICA issued three new accounting standards that will apply to the Company as of the first day of our 2007 fiscal year. These are: a) CICA Handbook Section 3855 – Financial Instruments, Recognition and Measurement b) CICA Handbook Section 3865 – Hedges and c) CICA Handbook Section 1530 – Comprehensive Income.

Collectively, these new standards will require us to revalue certain financial assets and liabilities, including derivatives designated in qualifying hedging relationships, at fair value on the initial date of implementation.

The new standards will also require us to classify these financial assets and liabilities according to their characteristics and management's choices and intentions related thereto for the purposes of subsequent accounting. Classification choices for financial assets include: a) Held for Trading; b) Held to Maturity; c) Available for Sale and d) Loans and Receivables. Classification choices for financial liabilities include: a) Held for Trading and b) Other. Subsequent accounting for these assets and liabilities will be based on either fair value or amortized cost using the effective interest method, depending upon their classification.

Finally, under the new standards, we will be required to report in a new financial statement entitled "Statement of Comprehensive Income" changes in the fair values of certain of these financial assets and liabilities (e.g. the effective portion of changes in the fair value of a derivative designated in a cash flow hedging relationship). The "Accumulated Other Comprehensive Income" (i.e. the portion of Comprehensive Income not already included in traditionally defined net earnings) will be presented as a separate line in shareholders' equity.

The new standards will be adopted by the Company prospectively on December 31, 2006 (the first day of our 2007 fiscal year), and thus prior periods presented will not be restated to conform to the new standards. Rather, the opening balance of retained earnings, net of income taxes, will be adjusted by the following:

- the difference between the previous carrying amount and the fair value of financial assets and liabilities designated as held for trading under the fair value option
- the ineffective portion of the gain or loss on the hedging items in designated cash flow hedging relationships and the total gain or loss on the hedging items in designated fair value hedging relationships
- the difference between the carrying amount and the fair value of derivatives or non-derivatives that no longer meet the hedging criteria
- unamortized deferred transaction costs (e.g. debt issuance costs) and
- the fair value of "embedded derivatives" (i.e. clauses in contracts that are in essence derivatives)

The opening balance of "Accumulated other comprehensive income", net of income taxes, will similarly be adjusted by the following:

- the difference between the previous carrying amount and the fair value of assets classified as available for sale
- the effective portion of the gain or loss on the hedging items that are included in designated cash flow hedging relationships and
- the accumulated foreign currency translation adjustment on the translation of certain subsidiaries historically accounted for using the current rate method

Management is in the process of determining the transitional impact on the 2007 Consolidated Financial Statements. While the future impact of the new standards on the Company's results of operations, financial position and cash flows cannot be determined at present, as they are partially contingent upon future events, the new standards are not expected to have a material impact on business strategy or business risks.

12.0 Non-GAAP measures

The following measures included in this MD&A do not have a standardized meaning under Canadian generally accepted accounting principles (GAAP):

- EBITDA (earnings before interest, income taxes, depreciation and amortization) and minority interest
- adjusted earnings
- same store sales and comparable sales

EBITDA and minority interest With the exception of Financial Services, we consider EBITDA and minority interest to be an effective measure of the contribution of each of our businesses to our profitability on an operational basis, before allocating the cost of income taxes and capital investments. EBITDA and minority interest is also commonly regarded as an indirect measure of operating cash flow, a significant indicator of success for many businesses.

A reconciliation of EBITDA and minority interest to the most comparable GAAP measure (earnings before income taxes and minority interest) is provided as follows:

Reconciliation of EBITDA to GAAP measures[1]

($ in millions)	**Q4 2006**	Q4 2005	**2006**	2005
EBITDA and minority interest				
CTR	**$ 135.1**	$ 151.1	**$ 551.7**	$ 530.2
Financial Services	**62.5**	62.9	**200.3**	191.0
Petroleum	**(1.9)**	7.0	**9.8**	21.9
Mark's	**54.9**	47.2	**108.9**	82.2
Eliminations	**(11.8)**	(8.1)	**(45.5)**	(28.5)
Total EBITDA and minority interest	**$ 238.8**	$ 260.1	**$ 825.2**	$ 796.8
Less: Depreciation and amortization expense				
CTR	**$ 38.7**	$ 38.1	**$ 147.7**	$ 143.5
Financial Services	**3.9**	3.1	**13.0**	12.5
Petroleum	**4.1**	4.0	**15.2**	14.4
Mark's	**4.3**	4.0	**15.8**	14.6
Total depreciation and amortization expense	**$ 51.0**	$ 49.2	**$ 191.7**	$ 185.0
Interest expense				
CTR	**$ 24.9**	$ 26.1	**$ 97.9**	$ 96.5
Financial Services	**4.9**	4.0	**20.3**	13.5
Mark's	**0.6**	1.0	**3.0**	2.6
Eliminations	**(11.8)**	(8.1)	**(45.5)**	(28.5)
Total interest expense	**$ 18.6**	$ 23.0	**$ 75.7**	$ 84.1
Earnings (loss) before income taxes and minority interest				
CTR	**$ 71.5**	$ 86.9	**$ 306.1**	$ 290.2
Financial Services	**53.7**	55.8	**167.0**	165.0
Petroleum	**(6.0)**	3.0	**(5.4)**	7.5
Mark's	**50.0**	42.2	**90.1**	65.0
Total earnings before income taxes and minority interest	**$ 169.2**	$ 187.9	**$ 557.8**	$ 527.7

[1] Differences may occur due to rounding.

References to adjusted earnings In several places in this MD&A, we refer to adjusted pre-tax and after-tax earnings before the impact of non-operating items. Historically, non-operating items have included gains and losses on the sales of loans receivable and dispositions of surplus property and equipment. The timing and amount of gains and losses from these items are not consistent from quarter to quarter. We believe the adjusted figures allow for a clearer assessment of earnings for each of our businesses, and provide a more meaningful measure of our consolidated and segmented operating results.

13.0 Controls and procedures

Disclosure controls and procedures Management is responsible for establishing and maintaining a system of controls and procedures over the public disclosure of financial and non-financial information regarding the Company. Such controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported, on a timely basis, to senior management, including the CEO and the CFO, so that appropriate decisions can be made by them regarding public disclosure.

Our system of disclosure controls and procedures includes, but is not limited to, our Disclosure Policy, our Code of Business Conduct, the effective functioning of our Disclosure Committee, procedures in place to systematically identify matters warranting consideration of disclosure by the Disclosure Committee, verification processes for individual financial and non-financial metrics and information contained in annual and interim filings, including the financial statements, MD&As, Annual Information Forms and other documents and external communications.

As required by CSA Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings, an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures was conducted, under the supervision of management, including the CEO and CFO, as of December 30, 2006. The evaluation included documentation review, enquiries and other procedures considered by management to be appropriate in the circumstances. Based on that evaluation, the CEO and the CFO have concluded that the design and operation of the system of disclosure controls and procedures was effective as of December 30, 2006.

Internal control over financial reporting Management is also responsible for establishing and maintaining appropriate internal controls over financial reporting. Our internal controls over financial reporting includes, but is not limited to, detailed policies and procedures related to financial accounting and reporting, and controls over systems that process and summarize transactions. Our procedures for financial reporting also include the active involvement of qualified financial professionals, senior management and our Audit Committee.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

As required by CSA Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings, an evaluation of the design of our internal controls over financial reporting was conducted, under the supervision of management, including the CEO and CFO, as of December 30, 2006. Based on that evaluation, the CEO and the CFO have concluded that the design of internal controls over financial reporting provides reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP as of December 30, 2006.

Management has evaluated whether there were changes in our internal controls over financial reporting during the interim period ended December 30, 2006 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting. Management has determined that no material changes occurred in the fourth quarter.

Commitment to disclosure and investor communication Canadian Tire strives to maintain a high standard of disclosure and investor communication and has been recognized as a leader in financial reporting practices. In many cases, the Company's disclosure practices exceed the requirements of current legislation. Reflecting our commitment to full and transparent disclosure, the Investor Relations section of the Company's web site includes the following documents and information of interest to investors:

- Annual Information Form
- Management Information Circular
- Quarterly reports
- Quarterly fact sheets
- Conference call webcasts (archived for one year)

The Company's Annual Information Form, Management Information Circular and quarterly reports are also available on the SEDAR (System for Electronic Disclosure and Retrieval) web site at www.sedar.com.

If you would like to contact the Investor Relations department directly, call (416) 480-3070 or email investor.relations@cantire.com.

Management's Responsibility for Financial Statements

The Management of Canadian Tire Corporation, Limited is responsible for the accompanying Consolidated Financial Statements and all other information in the Annual Report. The financial statements have been prepared by Management in accordance with Canadian generally accepted accounting principles, which recognize the necessity of relying on some best estimates and informed judgements. All financial information in the Annual Report is consistent with the Consolidated Financial Statements.

To discharge its responsibilities for financial reporting and safeguarding of assets, Management depends on the Company's systems of internal accounting control. These systems are designed to provide reasonable assurance that the financial records are reliable and form a proper basis for the timely and accurate preparation of financial statements. Management meets the objectives of internal accounting control on a cost-effective basis through the prudent selection and training of personnel, adoption and communication of appropriate policies, and employment of an internal audit program.

The Board of Directors oversees Management's responsibilities for the Consolidated Financial Statements primarily through the activities of its Audit Committee, which is composed solely of directors who are neither officers nor employees of the Company. This Committee meets with Management and the Company's independent auditors, Deloitte & Touche LLP, to review the Consolidated Financial Statements and recommend approval by the Board of Directors. The Audit Committee is also responsible for making recommendations with respect to the appointment of and for approving remuneration and the terms of engagement of the Company's auditors. The Audit Committee also meets with the auditors, without the presence of Management, to discuss the results of their audit, their opinion on internal accounting controls, and the quality of financial reporting.

The Consolidated Financial Statements have been audited by Deloitte & Touche LLP, who were appointed by shareholder vote at the annual shareholders' meeting. Their report is presented below.

Thomas K. Gauld
President and
Chief Executive Officer
March 8, 2007

Huw Thomas

J. Huw Thomas
Executive Vice-President, Finance and Administration and
Chief Financial Officer

Auditors' Report

To the Shareholders, Canadian Tire Corporation, Limited

We have audited the consolidated balance sheets of Canadian Tire Corporation, Limited as at December 30, 2006 and December 31, 2005 and the consolidated statements of earnings and retained earnings and of cash flows for the years 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 30, 2006 and December 31, 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Toronto, Ontario
March 8, 2007

Consolidated Statements of Earnings and Retained Earnings

For the years ended (Dollars in millions except per share amounts)		**December 30, 2006**		December 31, 2005
				(Restated – Note 1)
Gross operating revenue	**$**	**8,269.1**	$	7,721.6
Operating expenses				
Cost of merchandise sold and all other operating expenses except for the undernoted items		**7,415.7**		6,896.1
Interest				
Long-term debt		**71.2**		79.5
Short-term debt		**4.5**		4.6
Depreciation and amortization		**191.7**		185.0
Employee Profit Sharing Plan (Note 10)		**28.2**		28.7
Total operating expenses		**7,711.3**		7,193.9
Earnings before income taxes and minority interest		**557.8**		527.7
Income taxes (Note 11)				
Current		**222.7**		187.2
Future		**(21.9)**		2.8
Total income taxes		**200.8**		190.0
Net earnings before minority interest		**357.0**		337.7
Minority interest (Note 17)		**2.4**		7.6
Net earnings	**$**	**354.6**	$	330.1
Basic earnings per share	**$**	**4.35**	$	4.04
Diluted earnings per share (Note 9)	**$**	**4.31**	$	3.98
Weighted average number of Common and Class A Non-Voting Shares outstanding		**81,575,556**		81,764,082
Retained earnings, beginning of year	**$**	**1,812.6**	$	1,546.9
Net earnings		**354.6**		330.1
Dividends		**(53.8)**		(47.4)
Repurchase of Class A Non-Voting Shares (Note 9)		**(25.3)**		(17.0)
Retained earnings, end of year	**$**	**2,088.1**	$	1,812.6

Consolidated Statements of Cash Flows

For the years ended (Dollars in millions)	December 30, 2006	December 31, 2005
Cash generated from (used for):		
Operating activities		
Net earnings	**$ 354.6**	$ 330.1
Items not affecting cash		
Net provision for loans receivable	**207.4**	199.9
Depreciation and amortization of property and equipment	**189.1**	182.0
Loss (gain) on sales of loans receivable (Note 2)	**12.7**	(19.9)
Employee future benefits expense (Note 8)	**7.2**	6.2
Amortization of other assets	**4.7**	5.8
Loss on sale of Associate Dealer receivables (Note 12)	**2.5**	0.1
Other	**(1.6)**	4.6
Future income taxes	**(21.9)**	2.8
Gain on disposals of property and equipment	**(57.4)**	(10.9)
	697.3	700.7
Changes in other working capital components (Note 12)	**(14.8)**	(287.2)
Cash generated from operating activities	**682.5**	413.5
Investing activities		
Additions to property and equipment	**(529.2)**	(387.0)
Investment in loans receivable	**(442.4)**	(695.4)
Long-term receivables and other assets	**(73.5)**	(24.7)
Purchases of stores	**(7.8)**	(4.9)
Asset retirement obligations	**(2.1)**	(1.3)
Employee future benefits	**(1.9)**	(1.7)
Securitization of loans receivable	**171.8**	395.2
Proceeds on disposition of property and equipment	**340.1**	78.2
Sale of Associate Dealer receivables (Note 12)	**347.5**	47.8
Cash used for investing activities	**(197.5)**	(593.8)
Financing activities		
Issuance of long-term debt	**1.2**	516.4
Class A Non-Voting Share transactions (Note 9)	**(25.3)**	(23.3)
Dividends	**(52.2)**	(45.7)
Repayment of long-term debt (Note 6)	**(205.4)**	(231.3)
Repayment of limited partnership interest (Note 17)	**(300.0)**	–
Cash generated from (used for) financing activities	**(581.7)**	216.1
Cash generated (used) in the year	**(96.7)**	35.8
Cash and cash equivalents, beginning of year	**838.0**	802.2
Cash and cash equivalents, end of year (Note 12)	**$ 741.3**	$ 838.0

Consolidated Balance Sheets

As at (Dollars in millions)		**December 30, 2006**		December 31, 2005
ASSETS				
Current assets				
Cash and cash equivalents (Note 12)	**$**	**741.3**	$	838.0
Accounts receivable (Note 12)		**340.5**		652.8
Loans receivable (Note 2)		**694.2**		720.8
Merchandise inventories		**667.3**		675.5
Prepaid expenses and deposits		**46.2**		42.4
Future income taxes (Note 11)		**51.5**		43.6
Total current assets		**2,541.0**		2,973.1
Long-term receivables and other assets (Note 3)		**283.5**		140.0
Goodwill (Note 4)		**46.4**		46.2
Intangible assets (Note 4)		**52.4**		52.4
Property and equipment (Note 5)		**2,881.3**		2,743.9
Total assets	**$**	**5,804.6**	$	5,955.6
LIABILITIES				
Current liabilities				
Accounts payable and other	**$**	**1,579.5**	$	1,545.5
Income taxes payable		**81.1**		71.2
Current portion of long-term debt (Note 6)		**3.0**		204.3
Total current liabilities		**1,663.6**		1,821.0
Long-term debt (Note 6)		**1,168.4**		1,171.3
Future income taxes (Note 11)		**75.0**		89.0
Other long-term liabilities (Note 7)		**112.4**		63.2
Total liabilities		**3,019.4**		3,144.5
Minority interest (Note 17)		**–**		300.0
SHAREHOLDERS' EQUITY				
Share capital (Note 9)		**702.7**		702.7
Contributed surplus		**0.1**		1.5
Accumulated foreign currency translation adjustment		**(5.7)**		(5.7)
Retained earnings		**2,088.1**		1,812.6
Total shareholders' equity		**2,785.2**		2,511.1
Total liabilities, minority interest and shareholders' equity	**$**	**5,804.6**	$	5,955.6

Gilbert S. Bennett
Director

Maureen J. Sabia
Director

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation The Consolidated Financial Statements include the accounts of Canadian Tire Corporation, Limited and its subsidiaries and partnership (up until April 3, 2006 – see Note 17), collectively referred to as 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 Financial Statements and Notes presented for 2006 and 2005 are the 52-week periods ended December 30, 2006 and December 31, 2005, respectively.

The results of certain subsidiaries which have different year ends from the Company have been included in the Consolidated Financial Statements for the 12 months ended December 31.

Consolidation of variable interest entities Effective January 2, 2005, the Company implemented the Canadian Institute of Chartered Accountants (CICA) Accounting Guideline 15 (AcG-15) "Consolidation of Variable Interest Entities", which is effective for years beginning on or after November 1, 2004. A variable interest entity (VIE) is any type of legal structure not controlled by voting equity, but rather by contractual or other financial arrangements. AcG-15 requires a VIE to be consolidated by the primary beneficiary, who is the party that will absorb the majority of the VIE's expected losses, receive a majority of the VIE's expected residual returns, or both.

In accordance with AcG-15, the Company reviews all legal structures in which the Company has a potential financial interest including Associate Dealer corporations, Petroleum Agent corporations, PartSource and Mark's Work Wearhouse (Mark's) franchisee corporations, financing trusts referred to in Notes 2 and 14 and external suppliers. The Company has identified that some of the corporations owned and operated by Associate Dealers and Mark's and PartSource franchisees are VIEs.

The Company enters into various forms of agreements with independent owner-operators of Canadian Tire Associate Stores (Associate Dealers) and franchisees of Mark's and PartSource stores.

The Company's agreement with each Associate Dealer generally permits the Associate Dealer to own and operate the retail business of a Canadian Tire Associate Store under the Canadian Tire trademark. The Company has a policy to offer new Associate Dealers smaller Canadian Tire Associate Stores and, based upon successful operation of their Canadian Tire Associate Stores, to offer Associate Dealers larger locations from time to time pursuant to the Associate Dealer mobility system. When eligible, Associate Dealers may obtain financing through a structure involving independent trusts to facilitate the purchase of core-level inventory and fixed assets. These trusts are administered by independent major Canadian banks. Associate Dealers may also obtain financing through traditional financial institutions. The Company monitors the financial condition of its Associate Dealers and provides for estimated losses when appropriate.

The Company's agreements with each Mark's and PartSource franchisee also permit the franchisees to own and operate retail businesses under their respective trademarks. Franchisees obtain financing through traditional financial institutions. The Company monitors the financial condition of its franchisees and provides for estimated losses when appropriate.

The Company is the primary beneficiary of a small number of these corporations. These VIEs have not been consolidated in these financial statements, as the impact was not material.

Translation of foreign currencies Transactions in foreign currencies are translated into Canadian dollars at rates in effect at the date of the transaction. Assets and liabilities denominated in foreign currencies are translated at the exchange rates in effect at each accounting period end date. Exchange gains or losses are included in income.

For foreign subsidiaries that are considered self-sustaining, the current rate method of translating foreign currencies has been used. Under this method, assets and liabilities are translated into Canadian dollars at the exchange rates in effect at each accounting period end date and revenues and expenses are translated at average exchange rates during the period. Gains or losses arising from the translation of the financial statements of these foreign subsidiaries are included in a separate component of shareholders' equity.

For foreign subsidiaries that are considered integrated, the temporal method of translating foreign currencies has been used. Under this method, monetary items are translated into Canadian dollars at the exchange rates in effect at each accounting period end date. Non-monetary items and their related amortization are translated at their historical exchange rates. Revenues and expenses are translated at average exchange rates during the period. Gains or losses arising from the translation of the financial statements of these foreign subsidiaries are included in income.

Revenue recognition The Company's shipments of merchandise to Canadian Tire Retail's (CTR) Associate Dealers and PartSource franchisees (retail store owner-operators) are recorded as revenue when delivered and are net of returns. Revenue on the sale of gasoline by Canadian Tire Petroleum (Petroleum) is recorded upon sale to the customer. Revenue for Mark's is recognized at the time goods are sold by its corporate-owned stores to its customers and is net of returns. Royalties, based on sales by Mark's franchisees, are recorded in income as they are earned. Interest income and service charges on loans receivable are accrued each month according to the contractual provisions of the loan agreements. Merchant fees on credit card transactions are taken into revenue at the time transactions are recorded. Revenue from separately priced extended warranty contracts is recorded on a straight-line basis over the term of the contracts.

1. Significant Accounting Policies (continued)

Cash consideration given to a customer Effective January 1, 2006, the Company implemented, on a retroactive basis, the Emerging Issues Committee of the Canadian Institute of Chartered Accountants' Abstract 156 (EIC-156) "Accounting by a Vendor for Consideration Given to a Customer (Including a Reseller of the Vendor's Products)". This Abstract requires a vendor to generally record cash consideration given to a customer as a reduction to the selling price of the vendor's products or services and reflect it as a reduction of revenue when recognized in the income statement. Certain exceptions apply where the vendor receives an identifiable benefit in exchange for the consideration and the vendor can reasonably estimate the fair value of the identifiable benefit. The Abstract had to be applied retroactively to annual and interim financial statements beginning on or after January 1, 2006.

As a result of the retroactive implementation of this new standard, the impact on the Consolidated Statements of Earnings for the 52 weeks ended December 30, 2006, was to decrease both "gross operating revenue" and "cost of merchandise sold and all other operating expenses except for the undernoted items" by $57.1 million (2005 – $53.0 million). There was no impact on net earnings or earnings per share.

Stock-based compensation plans Stock-based awards are measured and recognized using a fair value-based method. Stock options granted after December 28, 2002 and up to December 31, 2005, were measured on grant date using a fair value-based method and expensed over the vesting period. The counterpart was recorded as contributed surplus. When employees exercised their stock options, share capital was increased by the sum of the consideration paid by employees together with the related portion previously added to contributed surplus when compensation costs were charged against income. For stock options granted to employees prior to December 29, 2002, the Company recorded no compensation cost. Accordingly, the Company previously disclosed pro forma net earnings and earnings per share as if the fair value-based method had been used for stock options granted between December 30, 2001 and December 28, 2002.

Stock options (referred to as "stock options with tandem stock appreciation rights") were granted in 2006, with a feature that enables the employee to exercise the stock option or receive a cash payment equal to the difference between the market price of a Class A Non-Voting Share at the exercise date and the exercise price of the stock option. As the employee can request settlement in cash and the Company is obligated to pay cash upon demand, compensation expense is accrued over the vesting period of the stock options based on the expected total compensation to be paid upon the stock options being exercised.

On November 9, 2006, the Board of Directors approved an amendment to the Company's stock option agreements dated prior to 2006, providing employees holding such stock options the right to elect to surrender options and receive a direct cash payment in lieu of exercising the options in the traditional fashion. The cash payment is calculated as the difference between the exercise price of the stock option and the market price of the Company's Class A Non-Voting Shares as calculated on the date of surrender, multiplied by the number of Class A Non-Voting Shares covered by the stock options surrendered. Upon amendment to the stock option agreements, the Company was required to recognize an obligation and corresponding expense for the current intrinsic value of stock options subject to vesting. The obligation is revalued at each reporting period based on the changes in the market price of the Company's Class A Non-Voting Shares for the unexercised stock options subject to vesting.

Compensation expense is recognized for the Company's contributions under the Employee Profit Sharing Plan and the Employee Stock Purchase Plan. Compensation expense is also recorded for the Deferred Share Unit Plan, the Performance Share Unit Plan, the Performance Conditioned Share Unit Plan, the Performance Driven Share Unit Plans and the Deferred Share Unit Plan for Executives (see Note 10 and Note 15).

Earnings per share Basic earnings per share is calculated using the weighted average number of shares outstanding during the accounting period. The diluted earnings per share calculation uses an increased number of shares, determined using the treasury stock method.

Cash and cash equivalents Cash and cash equivalents is defined as cash and short-term investments less bank indebtedness. Short-term investments held include Canadian and United States government securities, notes of other creditworthy parties due within three months and highly rated money market funds.

Loans receivable Loans receivable include credit card, personal and residential mortgage loans. Loans receivable are recorded at cost net of unearned interest income and of allowances established for credit losses. Interest income is recorded on an accrual basis, except for impaired loans, the treatment of which is described below.

An allowance for credit losses is calculated using the historical loss experience of account balances based on aging and arrears status, with certain adjustments for other relevant circumstances influencing the recoverability of the loans. Personal loans are considered impaired when principal or interest payments are over 90 days past due and are written off when they are one year past due. Revenue on personal loans which are over 90 days past due and classified as impaired is not recognized. Credit card loans are written off when they are in arrears for over 180 days. Payments received on loans that have been written off are recorded first against any previous write-offs or allowances, and then as revenue.

When a personal loan has been identified as impaired, the carrying amount of the loan is reduced to its estimated realizable amount, measured by discounting the expected future cash flows at the effective interest rate inherent in the loan. In subsequent periods, recoveries of amounts previously written off and any increase in the estimated realizable value of the loan are credited to the provision for credit losses. Where a portion of a loan is written off and the remaining balance is restructured, the new loan is carried on an accrual basis when there is no longer any reasonable doubt regarding the collectibility of principal or interest, and payments are not 90 days past due.

Effective July 1, 2001, the Company adopted the CICA Accounting Guideline 12 (AcG-12), "Transfers of Receivables". Under this policy, the Company is required to recognize gains or losses on its loans receivable securitizations subsequent to June 30, 2001 that qualify as sales. The gain or loss on the sale of the loans receivable depends in part on the previous carrying amount of the loans involved in the sale. The carrying amount is allocated between the assets sold and the retained interests based on their relative fair values at the date of sale. The Company estimates fair value based on the present value of future expected cash flows using management's estimates of the key assumptions (see Note 2).

1. Significant Accounting Policies (continued)

Merchandise inventories Merchandise inventories are valued at the lower of cost and estimated net realizable value, with cost being determined using the average cost method, except for the merchandise inventories of Mark's, which are accounted for by the retail method and are carried at the lower of the anticipated selling price (less an expected average gross margin) and the estimated cost.

Vendor rebates The Company records cash consideration received from vendors as a reduction in the price of vendors' products and reflects it as a reduction to cost of goods sold and related inventory when recognized in the Consolidated Statements of Earnings and Consolidated Balance Sheets. Certain exceptions apply where the cash consideration received is either a reimbursement of incremental selling costs incurred by the reseller or a payment for assets or services delivered to the vendor.

In January 2005, the CICA Emerging Issues Committee Abstract 144 "Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor" (EIC-144) was amended to clarify when and how to recognize those vendor rebates that are payable only if the customer completes a specified cumulative level of purchases or remains a customer for a specified period of time. EIC-144 requires companies to recognize those rebates that are at the vendor's discretion when the vendor either pays the rebates or agrees to pay them. For binding agreements, EIC-144 requires that vendor rebates be recognized to the extent that they are probable and reasonably estimable.

Effective April 3, 2005, the Company retroactively implemented the amended EIC-144. As there was no material impact from implementing the amendment, no restatements were made to the Consolidated Financial Statements for prior periods.

Income taxes Income taxes are accounted for using the asset and liability method. Under this method, future income tax assets and liabilities are recognized for temporary differences between financial statement carrying amounts of assets and liabilities and their respective income tax bases. A future income tax asset or liability is estimated for each temporary difference using income tax rates and laws expected to be in effect when the asset is realized or the liability is settled. A valuation allowance is established, if necessary, to reduce any future income tax asset to an amount that is more likely than not to be realized.

Interest-only strip The interest-only strip represents the present value of the Company's share of the spread to be earned over the collection period on the loans receivable sold (see Note 2). The spread is equal to the yield earned, less the net write-offs and interest expense on the loans receivable sold. The interest-only strip is amortized into income over the collection period based on the projected collection rate.

Debt discount and other issue expenses Debt discount and other issue expenses are included in "Long-term receivables and other assets" on the Consolidated Balance Sheets and are amortized over the term of the respective debt issues.

Deferred expenses The Company capitalizes both direct and indirect costs with respect to certain ventures which are in the development stage. Capitalization of costs continues until formal operations have commenced, at which time the deferred costs are amortized over a three-year period. Should a venture be abandoned during the development stage, all capitalized costs are immediately expensed. The Company also defers acquisition expenses related to non-retail services and amortizes them into income over the terms of the related contracts. All of the above costs are included in "Long-term receivables and other assets" on the Consolidated Balance Sheets.

Goodwill and intangible assets Goodwill represents the excess of the purchase price over the fair value of net assets of acquired businesses. Goodwill is not amortized and is tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. When the carrying amount of a reporting unit's goodwill exceeds the estimated fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess, if any.

Intangible assets which have indefinite lives are not amortized, and are tested for impairment annually, or more frequently if events or changes in circumstances indicate that the assets might be impaired. The impairment test compares the carrying amount of the intangible assets with their fair value, and an impairment loss is recognized in an amount equal to the excess, if any. Intangible assets with finite useful lives are amortized over their useful lives and are also subjected to an assessment for impairment.

Property and equipment Property and equipment are stated at cost. The cost of real estate includes all direct costs, financing costs on specific and general corporate debt relating to major projects until project completion and certain pre-development costs. Depreciation is provided for using the declining balance method commencing in the month that the equipment or facilities are placed into service.

Amortization of leasehold improvements and lease inducements, and lease expense are recognized on a straight-line basis over the terms of the respective leases. Purchased computer software, including direct implementation costs, is amortized on a straight-line basis over a period of up to five years. Depreciation relating to each capital lease for fixtures and equipment and computer software is provided for on a straight-line basis over the term of the lease.

Property and equipment are subjected to an assessment for impairment. Property and equipment assets are grouped with other assets and liabilities to form an asset group at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. An impairment loss is recognized when the carrying amount of property and equipment is not recoverable and exceeds its fair value.

Asset retirement obligations Legal obligations associated with site restoration costs on the retirement of property and equipment are recognized in the period in which they are incurred if a reasonable estimate of fair value can be made. The obligations are initially measured at fair value and discounted to present value. A corresponding amount equal to that of the initial obligation is added to the capitalized costs of the related asset. Over time, the discounted asset retirement obligation amount accretes due to the increase in the fair value resulting from the passage of time. This accretion amount is charged to income for the period. The initial costs are depreciated over the useful lives of the related property and equipment.

1. Significant Accounting Policies (continued)

Actuarial liabilities Actuarial liabilities for reinsurance of coverages provided to the Company's credit card holders include an amount determined from loss reports and individual cases and an amount, based on past experience, for losses incurred but not reported. These estimates are continually reviewed and are necessarily subject to the impact of future changes in such factors as claim severity and frequency. While management believes that the amount is adequate, the ultimate liability may be in excess of, or less than, the amounts provided and any adjustments will be reflected in the periods in which they become known. These amounts are included in "Accounts payable and other" in the Consolidated Balance Sheets.

Employee future benefits The Company provides certain health care, dental care, life insurance and other benefits, but not pensions, for certain retired employees pursuant to Company policy. The Company accrues the cost of these employee future benefits over the periods in which the employees earn the benefits. The cost of employee future benefits earned by employees is actuarially determined using the projected benefit method prorated on length of service and management's best estimate of salary escalation, retirement ages of employees, employee turnover and expected health and dental care costs. The discount rate used is based on market rates as at the measurement date. The net actuarial gains and losses that exceed 10 percent of the accrued benefit obligation are amortized on a straight-line basis over the expected average remaining service life of employees.

Derivative financial instruments Derivative financial instruments are utilized by the Company in the management of its foreign currency and interest rate exposures. The Company also enters into equity derivative contracts to hedge certain future stock-based compensation expenses.

The Company assesses all existing derivative financial instruments and designates those that are effective economic hedges of identified risk exposures as hedges. Any gains or losses on these instruments are offset against the item being hedged. The Company documents the relationships between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the Consolidated Balance Sheets or to forecasted transactions. The Company also assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are effective in offsetting changes in fair values or cash flows of hedged items.

All derivative financial instruments that do not meet the criteria for hedge accounting are marked to market. The related gains and losses are included in earnings for the period, with an offsetting asset or liability being recorded.

The Company enters into foreign exchange contracts, primarily in U.S. dollars, to hedge future purchases of foreign currency denominated goods and services. Foreign exchange translation gains and losses on foreign currency denominated derivative financial instruments used to hedge future purchases are recognized as an adjustment of cost when the purchase is recorded.

Interest rate swap agreements are used as part of the Company's program to manage the fixed and floating interest rate mix of the Company's total debt portfolio and related overall cost of borrowing. The interest rate swap agreements involve the periodic exchange of payments without the exchange of the notional principal amount upon which the payments are based, and are recorded as an adjustment of interest expense on the hedged debt instrument. The related amount payable to or receivable from counterparties is included as an adjustment to accrued interest. Interest to be paid or received under such swap contracts is recognized over the life of the contracts as adjustments to interest expense. Unrealized gains or losses resulting from market movements are not recognized.

Equity derivative contracts are used to hedge the anticipated exposure relating to certain stock-based compensation plans. With respect to equity forwards, the amount to be paid at the expiration of the performance period is included in compensation expense over the life of the hedge period. Unrealized gains or losses resulting from market movement are not recognized.

Realized and unrealized gains or losses associated with derivative instruments, which have been terminated or cease to be effective prior to maturity, are deferred under other current or non-current assets or liabilities on the Consolidated Balance Sheets and are recognized in income in the period in which the underlying hedged transaction is recognized. In the event a designated hedged item is sold, extinguished or matures prior to the termination of the related derivative instrument, any realized or unrealized gain or loss on such derivative instrument is recognized in income immediately.

Use of estimates The preparation of the Consolidated Financial Statements in conformity with 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 Consolidated Financial Statements and the reported amount of revenue and expenses during the reporting period. Actual results could differ from these estimates. Estimates are used when accounting for items such as income taxes, impairment of assets, employee benefits, product warranties, inventory provisions, amortization, uncollectible loans receivable, environmental reserves, asset retirement obligations and the liability for the Company's loyalty programs.

2. LOANS RECEIVABLE

The Company sells pools of loans receivable (the Loans) to third party trusts (the Trusts) in transactions known as securitizations. Loans include both credit card and personal loans receivable. The transactions are accounted for as sales in accordance with Accounting Guideline 12, "Transfers of Receivables" (AcG-12), and the Loans are removed from the Consolidated Balance Sheets. The Company retains the interest-only strip, and for the personal loan securitization, a subordinated interest in the loans sold (the "seller's interest") and cash deposited with one of the Trusts (the "securitization reserve"), all of which are retained interests. The seller's interest and securitization reserve provide that Trust with a source of funds in the event that the interest and principal collected on the Loans is not sufficient to pay the Trust's creditors. The Trusts' recourse to the Company is limited to the retained interests. The Company also assumes responsibility for servicing the Loans, for which it does not receive any direct compensation.

The proceeds of the sale are deemed to be the cash received, interest-only strip and securitization reserve, less any servicing obligation assumed. The proceeds are allocated between the Loans, interest-only strip, seller's interest and securitization reserve based on their relative fair value at the date of sale, with any excess or deficiency recorded as a gain or loss on sale, respectively. The Company estimates fair values by discounting future cash flows or comparing the appropriate yield curves to matching maturity terms. Retained interests are measured at fair value and are reviewed for impairment on a quarterly basis. For the year ended December 30, 2006, the Company recognized a pre-tax loss of $12.7 million (2005 – $19.9 million pre-tax gain) on the securitization of the Loans.

As the Company does not control the Trusts, they have not been consolidated in these financial statements.

Quantitative information about loans receivable managed and securitized by the Company is as follows:

	Total principal amount of receivables[1]		Average balances[1]	
(Dollars in millions)	**2006**	2005	**2006**	2005
Total net managed credit card loans	**$ 3,372.3**	$ 3,143.4	**$ 3,115.8**	$ 2,818.2
Credit card loans sold	**(2,702.9)**	(2,422.8)	**(2,413.7)**	(2,224.2)
Credit card loans held	**669.4**	720.6	**702.1**	594.0
Net managed personal and mortgage loans[2]	**226.9**	216.5	**256.7**	190.0
Loans sold	**(124.5)**	(206.1)	**(164.6)**	(8.6)
Loans held	**102.4**	10.4	**92.1**	181.4
Total loans receivable	**771.8**	731.0	**$ 794.2**	$ 775.4
Less: long-term portion[3]	**77.6**	10.2		
Current portion of loans receivable	**$ 694.2**	$ 720.8		

1 Amounts shown are net of allowance for credit losses.
2 Personal loans are unsecured loans that are provided to qualified existing credit cardholders for terms of three to five years. Personal loans have fixed monthly payments of principal and interest; however, the personal loans can be repaid at any time without penalty. Mortgage loans are issued for terms of up to ten years, have fixed or variable interest rates and are secured.
3 The long-term portion of loans receivable is included in "Long-term receivables and other assets".

Net credit losses for the year ended December 30, 2006, were $204.8 million (2005 – $182.1 million). Net credit losses are charge-offs net of recoveries and are based on the total managed portfolio of loans receivable.

The book value and fair value of the retained interests based on future cash flows are as follows:

	2006		2005	
(Dollars in millions)	**Book value**	**Fair value**	Book value	Fair value
Credit card loans	**$ 92.3**	**$ 93.1**	$ 91.7	$ 92.6
Personal loans	**48.6**	**48.8**	47.4	50.2
Total value of retained interests	**$ 140.9**	**$ 141.9**	$ 139.1	$ 142.8

For both the credit card and personal loans, the retained interests include the allowance on securitized receivables and the interest-only strip. For the personal loan securitization, retained interests also include the seller's interest and the securitization reserve.

The following tables show the key economic assumptions used in measuring the fair value of retained interests at the date of securitization. The tables also display the sensitivity of the current fair value of residual cash flows to immediate 10 percent and 20 percent adverse changes in those assumptions at year end.

2. Loans Receivable (continued)

Credit card loans

(Dollars in millions)	**Assumptions 2006**	Impact of adverse changes on fair value of retained interest[1] 10%	20%	Assumptions 2005
Yield[2]	**16.10%**	$ (13.0)	$ (25.8)	16.55%
Liquidation rate[3]	**25.71%**	(10.4)	(19.1)	24.05%
Expected credit losses[2]	**5.80%**	(0.1)	(0.3)	6.01%
Discount rate[2]	**12.00%**	(0.1)	(0.2)	12.00%
Servicing rate[2,4]	**2.00%**	(1.6)	(3.2)	2.00%

Personal loans

(Dollars in millions)	**Assumptions 2006**	Impact of adverse changes on fair value of retained interest[1] 10%	20%	Assumptions 2005
Yield[2]	**12.48%**	$ (1.5)	$ (3.1)	12.53%
Payment rate[3]	**87.38%**	(0.5)	(1.0)	55.48%
Expected credit losses[2]	**10.68%**	(1.3)	(2.7)	3.60%
Discount rate[2]	**8.00%**	(0.4)	(0.8)	8.00%
Servicing rate[2,4]	**1.00%**	(0.2)	(0.3)	1.00%

1 These sensitivities are hypothetical and should be used with caution. As the figures indicate, changes in fair value based on a 10 percent or 20 percent variation in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, in these tables, the effect of a variation in a particular assumption on the fair value of the retained interest is calculated without changing any other assumption; in reality, changes in one factor may result in changes in another (for example, increases in market interest rates may result in lower payments and increased credit losses), which might magnify or counteract the sensitivities.

2 Yield, expected credit losses and discount and servicing rates are based on historical patterns.

3 Based on historical patterns, credit card loans are estimated to be collected in 12 months. Personal loans are collected over terms of three to five years.

4 The servicing liability as at December 31, 2006 was $17.7 million (2005 – $18.2 million).

Details of cash flows from securitizations:

(Dollars in millions)	**2006**	2005
Proceeds from new securitizations	**$ 570.0**	$ 541.1
Proceeds from collections reinvested in previous securitizations	**7,394.7**	6,723.0
Other cash flows received on retained interests	**1,624.5**	1,286.7

3. LONG-TERM RECEIVABLES AND OTHER ASSETS

(Dollars in millions)	**2006**	2005
Loans receivable (Note 2)	**$ 77.6**	$ 10.2
Mortgages receivable (Note 18)	**64.9**	1.7
Interest-only strip	**43.4**	55.6
Seller’s interest	**39.4**	29.1
Other assets	**25.7**	24.0
Pledged collateral (Note 6)	**16.2**	–
Other receivables	**11.0**	11.9
Long-term debt issue costs	**5.3**	7.5
	$ 283.5	$ 140.0

4. GOODWILL AND INTANGIBLE ASSETS

The change in the carrying amount of goodwill is as follows:

(Dollars in millions)		CTR		Mark's		Total
Balance, December 31, 2005	$	9.6	$	36.6	$	46.2
Goodwill acquired		–		0.2		0.2
Balance, December 30, 2006	**$**	**9.6**	**$**	**36.8**	**$**	**46.4**

Intangible assets were acquired in February 2002 and March 2005:

(Dollars in millions)		**2006**		2005
Mark's Work Wearhouse/L'Équipeur store banner	**$**	**46.0**	$	46.0
Mark's private label brands		**4.4**		4.4
Mark's Franchise Agreements		**2.0**		2.0
	$	**52.4**	$	52.4

These intangible assets are considered to have indefinite lives because they are expected to generate cash flows in perpetuity. There were no writedowns of goodwill or intangible assets due to impairment during 2006 and 2005.

5. PROPERTY AND EQUIPMENT

		2006						2005					
(Dollars in millions)		**Cost**		**Accumulated depreciation and amortization**		**Net book value**		Cost		Accumulated depreciation and amortization		Net book value	Depreciation amortization rate/term
Land	**$**	**717.1**	**$**	**–**	**$**	**717.1**	$	700.5	$	–	$	700.5	
Buildings		**2,006.0**		**666.4**		**1,339.6**		2,094.4		704.4		1,390.0	4%–10%
Fixtures and equipment		**581.2**		**381.0**		**200.2**		528.4		347.5		180.9	10%–33%
Leasehold improvements		**323.5**		**105.3**		**218.2**		265.6		91.3		174.3	Term of lease
Computer software		**384.7**		**262.5**		**122.2**		353.4		209.3		144.1	Up to 5 years
Assets under capital lease		**8.3**		**6.0**		**2.3**		30.3		26.4		3.9	Term of lease
Construction in progress		**281.7**		**–**		**281.7**		150.2		–		150.2	
	$	**4,302.5**	**$**	**1,421.2**	**$**	**2,881.3**	$	4,122.8	$	1,378.9	$	2,743.9	

Included in property and equipment are land and buildings held for sale with a cost of $9.2 million (2005 – $21.8 million) and accumulated depreciation of $4.6 million (2005 – $9.6 million). The Company capitalized interest of $7.8 million (2005 – $4.6 million) on indebtedness related to property and equipment under construction.

6. LONG-TERM DEBT

(Dollars in millions)	**2006**	2005
Medium term notes		
5.65% due January 16, 2006	**$ –**	$ 200.0
5.70% due June 9, 2008	**150.0**	150.0
4.95% due June 1, 2015	**300.0**	300.0
6.25% due April 13, 2028	**150.0**	150.0
6.32% due February 24, 2034	**200.0**	200.0
5.61% due September 4, 2035	**200.0**	200.0
Debentures, 12.10% maturing May 10, 2010	**150.0**	150.0
Promissory note	**14.1**	14.4
Capital lease obligations	**2.3**	4.8
Other	**5.0**	6.4
Total long-term debt	**1,171.4**	1,375.6
Less: amounts due within one year	**3.0**	204.3
Total – net of current portion	**$ 1,168.4**	$ 1,171.3

Medium term notes The medium term notes are redeemable by the Company, in whole or in part, at any time, at the greater of par and a formula price based upon interest rates at the time of redemption.

Debentures The debentures are redeemable by the Company, in whole or in part, at any time, at the greater of par and a formula price based upon interest rates at the time of redemption. Commencing with the quarter ended October 1, 1994 and for each subsequent quarter, the Company may (subject to availability and pricing) be required to purchase up to 1.15 percent of the debentures outstanding at the beginning of such quarter. To date, no such purchases have been made.

Promissory note On March 31, 2006, a mortgage payable on a shopping centre in Kitchener, Ontario, with a maturity date of October 2011 and an interest rate of 7.6 percent that was assumed in 2005, was refinanced with a promissory note with the same terms and conditions. The promissory note is secured by a portfolio of bonds and cash totaling $16.2 million (see Note 3), which is included in long-term receivables and other assets.

Capital lease obligations The fixtures and equipment and computer software under capital leases are the security for the respective obligations. The leases have an average interest rate of 6.46 percent and an average remaining term of 21 months.

Debt covenants The Company has provided covenants to certain of its lenders. All of the covenants were complied with during 2006 and 2005.

Repayment requirements

(Dollars in millions)	2007	2008	2009	2010	2011	Thereafter	Total
Medium term notes	$ –	$ 150.0	$ –	$ –	$ –	$ 850.0	$ 1,000.0
Debentures	–	–	–	150.0	–	–	150.0
Promissory note	0.3	0.3	0.4	0.4	12.7	–	14.1
Capital lease obligations	1.3	0.9	0.1	–	–	–	2.3
Other	1.4	1.3	0.9	0.7	0.4	0.3	5.0
	$ 3.0	**$ 152.5**	**$ 1.4**	**$ 151.1**	**$ 13.1**	**$ 850.3**	**$ 1,171.4**

On January 16, 2006, medium term notes totaling $200.0 million matured and were repaid.

7. OTHER LONG-TERM LIABILITIES

(Dollars in millions)	**2006**	2005
Deferred gains (Note 18)	**$ 51.5**	$ 9.0
Employee future benefits (Note 8)	**47.4**	42.1
Asset retirement obligations	**13.5**	12.1
	$ 112.4	$ 63.2

8. EMPLOYEE FUTURE BENEFITS

The Company provides certain health care, dental care, life insurance and other benefits for certain retired employees pursuant to Company policy. The Company does not have a pension plan. Information about the Company's defined benefit plan is as follows:

(Dollars in millions)	**2006**	2005
Accrued benefit obligation, beginning of year	**$ 71.0**	$ 50.1
Current service cost	**2.2**	1.8
Interest cost	**3.6**	3.5
Benefits paid	**(1.9)**	(1.7)
Actuarial losses (gains)	**(0.2)**	17.3
Plan amendments	**(3.4)**	–
Accrued benefit obligation, end of year[1]	**71.3**	71.0
Unamortized past service costs	**3.4**	–
Unamortized net actuarial losses	**(27.3)**	(28.9)
Accrued benefit liability	**$ 47.4**	$ 42.1
Elements of benefit plan costs recognized		
Current service cost	**$ 2.2**	$ 1.8
Interest cost	**3.6**	3.5
Plan amendments	**(3.4)**	–
Actuarial losses (gains)	**(0.2)**	17.3
Elements of employee future benefit costs before adjustments to recognize the long-term nature of employee future benefit costs	**$ 2.2**	$ 22.6
Differences between costs arising in the period and costs recognized in the period in respect of:		
Actuarial gains (losses)	**1.6**	(16.4)
Plan amendments	**3.4**	–
Benefit costs recognized	**$ 7.2**	$ 6.2

[1] The accrued benefit obligation is not funded as funding is provided when benefits are paid. Accordingly, there are no plan assets.

Significant actuarial assumptions used:

	2006	2005
Accrued benefit obligation		
Discount rate	**5.25%**	5.00%
Benefit costs recognized		
Discount rate	**5.00%**	5.75%

For measurement purposes, a 9.3 percent annual rate of increase in the per capita cost of covered health care benefits was assumed for 2006 (2005 – 10.0 percent). The rate was assumed to decrease gradually to 4.5 percent for 2014 (2005 – decrease gradually to 4.5 percent for 2014) and remain at that level thereafter. A 4.5 percent annual rate of increase in the per capita cost of covered dental costs was assumed for 2006 and thereafter (2005 – 4.5 percent and thereafter). The expected average remaining service period of the active employees covered by the benefit plan is 16 years (2005 – 16 years).

The most recent actuarial valuation of the obligation was performed as of December 31, 2006. The next required valuation will be as of January 1, 2009.

Sensitivity analysis:

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects for 2006:

(Dollars in millions)	Increase	Decrease
Total of service and interest cost	$ 1.3	$ (1.0)
Accrued benefit obligation	13.6	(10.7)

9. SHARE CAPITAL

(Dollars in millions)		2006	2005
Authorized			
3,423,366	Common Shares		
100,000,000	Class A Non-Voting Shares		
Issued			
3,423,366	Common Shares (2005 – 3,423,366)	$ 0.2	$ 0.2
78,047,456	Class A Non-Voting Shares (2005 – 78,032,724)	702.5	702.5
		$ 702.7	$ 702.7

During 2006 and 2005, the Company issued and repurchased Class A Non-Voting Shares. The net excess of the repurchase price over the issue price is allocated to retained earnings.

The following transactions occurred with respect to Class A Non-Voting Shares during 2006 and 2005:

	2006		2005	
(Dollars in millions)	Number	$	Number	$
Shares outstanding at the beginning of the year	78,032,724	$ 702.5	77,699,631	$ 708.8
Issued				
Dividend reinvestment plan	32,976	2.2	33,910	2.0
Stock option plan	660,798	19.9	1,032,445	25.9
Employee Stock Purchase Plan	370,091	24.9	386,119	22.7
Employee Profit Sharing Plan	58,084	3.6	52,900	3.2
Associate Dealer profit sharing plans	100,083	6.8	112,219	6.6
Repurchased	(1,207,300)	(82.7)	(1,284,500)	(83.7)
Excess of repurchase price over issue price	–	25.3	–	17.0
Shares outstanding at the end of the year	78,047,456	$ 702.5	78,032,724	$ 702.5

Since 1988 the Company has followed an anti-dilution policy. The Company repurchases shares to substantially offset the dilutive effects of issuing Class A Non-Voting Shares pursuant to various corporate programs.

Subsequent to the end of the fiscal year, from December 31, 2006 to March 8, 2007, the Company issued 90,765 Class A Non-Voting Shares for proceeds of $6.5 million.

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

	2006	2005
Average number of shares for basic earnings per share calculations	81,575,556	81,764,082
Dilutive options	640,953	1,132,320
Average number of shares for diluted earnings per share calculations	82,216,509	82,896,402

Conditions of Class A Non-Voting Shares and Common Shares The holders of Class A Non-Voting Shares are entitled to receive a preferential cumulative dividend at the rate of $0.01 per share per annum. After payment of a dividend on each of the Common Shares at the same rate, the holders of the Class A Non-Voting Shares and the Common Shares are entitled to further dividends declared and paid in each year in equal amounts per share. In the event of liquidation, dissolution or winding-up of the Company, the Class A Non-Voting Shares and Common Shares rank equally with each other on a share-for-share basis.

The holders of Class A Non-Voting Shares are entitled to receive notice of and to attend all meetings of the shareholders but, except as provided by the *Business Corporations Act* (Ontario) and as hereinafter noted, are not entitled to vote thereat. Holders of Class A Non-Voting Shares, voting separately as a class, are entitled to elect the greater of (i) three Directors or (ii) one-fifth of the total number of the Company's Directors.

Common Shares can be converted, at any time, into Class A Non-Voting Shares on a share-for-share basis. The authorized number of shares of either class cannot be increased without the approval of the holders of the other class. Neither the Class A Non-Voting Shares nor the Common Shares can be changed by way of subdivision, consolidation, reclassification, exchange or otherwise unless at the same time the other class of shares is also changed in the same manner and in the same proportion.

Should an offer to purchase Common Shares be made to all or substantially all of the holders of Common Shares (other than an offer to purchase both Class A Non-Voting Shares and Common Shares at the same price and on the same terms and conditions) and should a majority of the Common Shares then issued and outstanding be tendered and taken up pursuant to such offer, the Class A Non-Voting Shares shall thereupon be entitled to one vote per share at all meetings of the shareholders.

The foregoing is a summary of certain of the conditions attached to the Class A Non-Voting Shares of the Company and reference should be made to the Company's articles for a full statement of such conditions.

As at December 30, 2006, the Company had dividends payable to holders of Class A Non-Voting Shares and Common Shares of $13.4 million (2005 – $11.8 million).

10. STOCK-BASED COMPENSATION PLANS

The following describes the Company's stock-based compensation plans.

Employee Profit Sharing Plan The Company offers its employees a Deferred Profit Sharing Plan (DPSP). The amount of the award is contingent on the Company's profitability. The maximum contribution is 6.75 percent of earnings before income taxes and minority interest, after certain adjustments. The maximum amount of the Company's contribution to the DPSP per employee per year is subject to limits set by the Canada Revenue Agency. The DPSP is required to invest and maintain 10 percent of its holdings in the Company's Class A Non-Voting Shares. The Company's contributions to the DPSP vest 20 percent after one year of continuous service and 100 percent after two years of continuous service.

In 2006, of the Employee Profit Sharing Plan expense for the prior year, the Company contributed $16.7 million (2005 – $15.6 million) under terms of the DPSP, towards the Trustee-managed investment portfolio. As of December 30, 2006, the DPSP held 419,280 Common Shares (2005 – 419,280) and 1,063,926 Class A Non-Voting Shares (2005 – 1,031,090) of the Company.

Employee Stock Purchase Plan The Company offers an Employee Stock Purchase Plan (ESPP) to its employees, whereby employees can choose to have up to 10 percent of their annual base earnings withheld to purchase Class A Non-Voting Shares of the Company. The purchase price of the shares is calculated monthly and is equal to the weighted average share price at which Class A Non-Voting Shares of the Company trade on the Toronto Stock Exchange for a given month. The Company may elect to match up to 50 percent of employee contributions to the ESPP. The Company's matching contribution vests in increments of 10 percent for every year of an employee's service.

In return for employee contributions, the Company issued to employees 370,091 Class A Non-Voting Shares in 2006 (2005 – 386,119). The Company's matching contribution of $10.8 million in 2006 (2005 – $10.1 million) was used to purchase Class A Non-Voting Shares on the Toronto Stock Exchange. In addition, the Company recorded as compensation expense $6.3 million (2005 – $5.8 million) for reimbursement of employee income tax liabilities relating to the ESPP.

Deferred Share Unit Plan The Company offers a Deferred Share Unit Plan (DSUP) for members of the Board of Directors. Under the DSUP, each Director may elect to receive all or a percentage of his or her annual compensation in the form of notional Class A Non-Voting Shares of the Company called deferred share units (DSUs). The issue price of each DSU is equal to the weighted average share price at which Class A Non-Voting Shares of the Company trade on the Toronto Stock Exchange during the 10-day period prior to the last day of the quarter in which the DSU is issued. A Director must elect to participate or change his or her participation in the DSUP prior to the beginning of a fiscal quarter. The DSU account of each Director includes the value of dividends, if any, as if reinvested in additional DSUs. The Director is not permitted to convert DSUs into cash until retirement from the Board. The value of the DSUs, when converted to cash, will be equivalent to the market value of the Class A Non-Voting Shares at the time the conversion takes place. The value of the outstanding DSUs as at December 30, 2006, was $4.0 million (2005 – $5.5 million).

Performance Share Unit Plan The Company had granted performance share units (PSUs) to certain employees. Each PSU entitled the participant to receive a cash payment in an amount equal to the weighted average closing price of Class A Non-Voting Shares traded on the Toronto Stock Exchange for the 20-day period prior to and including the last day of the performance period, multiplied by an applicable multiplier determined by specific performance-based criteria. The performance period was a maximum of three years less 45 days from the date of grant. Compensation expense related to the PSUs was accrued over the term of the performance period based on the expected total compensation paid out at the end of the performance period, factoring in the probability of any performance-based criteria met during that period. As the end of the performance period was January 27, 2006, all PSUs have been settled. The compensation expense recorded for the year ended December 30, 2006 in respect of this plan was $0.6 million (2005 – $6.4 million).

Performance Conditioned Share Unit Plan The Company has granted performance conditioned share units (PCSUs) to certain employees. Each PCSU entitles the participant to receive a cash payment in an amount equal to the weighted average closing price of Class A Non-Voting Shares traded on the Toronto Stock Exchange for the 20-day period prior to and including the last day of the performance period, multiplied by applicable multipliers determined by specific performance-based criteria. Compensation expense related to PCSUs is accrued over the term of the performance period based on the expected total compensation to be paid out at the end of the performance period, factoring in the probability of any performance-based criteria being met during that period. Compensation expense for PCSUs for the year ended December 30, 2006 was $3.2 million (2005 – $6.4 million).

Performance Driven Share Unit Plans The Company has granted performance driven share units (PDSUs) to certain employees. Each PDSU entitles the participant to receive a cash payment in an amount equal to the weighted average share price of Class A Non-Voting Shares traded on the Toronto Stock Exchange for the 20-day period prior to and including the last day of the performance period. Compensation expense related to PDSUs is accrued over the term of the respective performance period based on the expected total compensation to be paid out at the end of the respective performance period. The compensation expense recorded for PDSUs for the year ended December 30, 2006 was $9.0 million (2005 – $4.5 million).

10. Stock-based Compensation Plans (continued)

Deferred Share Unit Plan for executives The Company has granted deferred share units (DSUs) to executives. The DSU account for each executive includes the value of dividends, if any, as if reinvested in additional DSUs. Each DSU entitles the executive to receive a cash payment in an amount equal to the weighted average share price of Class A Non-Voting Shares traded on the Toronto Stock Exchange on the tenth business day prior to the settlement date. Compensation expense related to these DSUs for the year ended December 30, 2006 was $1.9 million (2005 – $1.6 million).

Stock options The Company has granted options to certain employees for the purchase of Class A Non-Voting Shares, with vesting occurring on a graduated basis over a four-year period. The exercise price of each option equals the weighted average closing price of Class A Non-Voting Shares on the Toronto Stock Exchange for the 10-day period preceding the date of grant. Options are exercisable over a term of 10 years, except for options granted during 2006 which have a term of seven years. At December 30, 2006, approximately four million Class A Non-Voting Shares were issuable under the stock option plan.

Stock options (referred to as "stock options with tandem stock appreciation rights") were granted in 2006, with a feature that enables the employee to exercise the stock option or receive a cash payment equal to the difference between the market price of a Class A Non-Voting Share at the exercise date and the exercise price of the stock option. As the employee can request settlement in cash and the Company is obligated to pay cash upon demand, compensation expense is accrued over the vesting period of the stock options based on the expected total compensation to be paid upon the stock options being exercised.

On November 9, 2006, the Board of Directors approved an amendment to the Company's stock option agreements dated prior to 2006, providing employees holding such stock options the right to elect to surrender options and receive a direct cash payment in lieu of exercising the options in the traditional fashion. The cash payment is calculated as the difference between the exercise price of the stock option and the market price of the Company's Class A Non-Voting Shares as calculated on the date of surrender, multiplied by the number of Class A Non-Voting Shares covered by the stock options surrendered. Upon amendment to the stock option agreements, the Company was required to recognize an obligation and corresponding expense for the current intrinsic value of stock options subject to vesting. The obligation is revalued at each reporting period based on the changes in the market price of the Company's Class A Non-Voting Shares for the unexercised stock options subject to vesting. The Company recorded a pre-tax expense for these stock options of $40.5 million in the fourth quarter of 2006.

The compensation expense recorded for stock options for the year ended December 30, 2006 was $41.6 million (2005 – $0.7 million).

The outstanding options as at December 30, 2006 were granted at prices between $16.47 and $72.95 and expire between March 2007 and December 2013.

Stock option transactions during 2006 and 2005 were as follows:

	2006		2005	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Outstanding at beginning of year	**1,649,977**	**$ 28.43**	2,733,588	$ 26.95
Granted	**432,799**	**64.78**	–	–
Exercised	**(879,055)**	**28.32**	(1,032,446)	24.53
Forfeited and expired	**(79,555)**	**54.74**	(51,165)	28.02
Outstanding at end of year	**1,124,166**	**$ 40.61**	1,649,977	$ 28.43
Stock options exercisable at end of year	**657,232**		1,280,801	

The following table summarizes information about stock options outstanding at December 30, 2006:

	Options outstanding			Options exercisable	
Range of exercise prices	Number of outstanding options	Weighted average remaining contractual life[1]	Weighted average exercise price	Number exercisable at December 30, 2006	Weighted average exercise price
$ 62.96 to 72.95	**375,319**	**6.22**	**$ 64.77**	**–**	**$ –**
31.61 to 41.47	**198,700**	**2.76**	**36.77**	**190,525**	**36.85**
26.07 to 31.38	**272,750**	**5.41**	**29.08**	**189,310**	**28.84**
16.47 to 25.42	**277,397**	**4.56**	**22.01**	**277,397**	**22.01**
$ 16.47 to 72.95	**1,124,166**	**5.00**	**$ 40.61**	**657,232**	**$ 28.28**

[1] Weighted average remaining contractual life is expressed in years.

Pro forma stock option disclosure With the amendments to the Company's stock options effective November 9, 2006, the Company now expenses the intrinsic value of stock options over their respective vesting periods. Consequently, there is no longer a requirement to provide proforma stock option disclosure.

11. INCOME TAXES

Income taxes in the Consolidated Statements of Earnings vary from amounts that would be computed by applying the statutory income tax rate for the following reasons:

(Dollars in millions)	2006	2005
Income taxes based on a combined Canadian federal and provincial income tax rate of 35.26% (2005 – 35.51%)	$ 196.6	$ 187.4
Adjustment to income taxes resulting from:		
Increase in tax reserve	20.2	9.2
Non-taxable portion of gain on real estate dispositions	(10.7)	(4.8)
Lower income tax rate on earnings of foreign subsidiaries	(6.0)	(4.1)
Other	0.7	0.7
Large corporations tax	–	1.6
Income tax expense	$ 200.8	$ 190.0

The following are the components of the income tax provision:

(Dollars in millions)	2006	2005
Current tax expense	$ 222.7	$ 187.2
Future income tax expense relating to the origination and reversal of temporary differences	(18.1)	2.5
Future income tax expense (benefit) resulting from change in tax rate	(3.8)	0.3
Income tax expense	$ 200.8	$ 190.0

The tax-effected temporary differences which result in future income tax assets and (liabilities) are as follows:

(Dollars in millions)	2006	2005
Current		
Reserves and deferred income	$ 55.7	$ 52.2
Deferred items	(10.6)	(11.8)
Other	6.4	3.2
Current future income taxes	$ 51.5	$ 43.6
Long-term		
Property and equipment	$ (78.0)	$ (75.1)
Deferred items	(18.6)	(23.5)
Employee future benefits	15.4	15.1
Reserves and deferred income	11.1	2.6
Intangible assets	(8.4)	(9.5)
Other	3.5	1.4
Long-term future income taxes	$ (75.0)	$ (89.0)

In the ordinary course of business, the Company is subject to ongoing audits by tax authorities. While the Company believes that its tax filing positions are appropriate and supportable, from time to time certain matters are reviewed and challenged by the tax authorities.

The Canada Revenue Agency (CRA) has reassessed and is also expected to issue further reassessments regarding the tax treatments of commissions paid to foreign subsidiaries of the Company (covering periods from 1995 onwards), and dividends received on an investment made by a wholly-owned subsidiary of the Company related to reinsurance (covering periods from 1999 to 2003). The applicable provincial tax authorities are expected to reassess for the corresponding periods. The Company does not have a significant exposure on these matters subsequent to the 2003 taxation year. The reassessments and expected reassessments in these matters are based on multiple grounds, some of which are highly unusual, and the Company will appeal these reassessments as and when they are received.

If the CRA (and applicable provincial tax authorities) were entirely successful in their reassessments – an outcome that the Company and its tax advisors believe to be very unlikely – it is estimated that the total liability of the Company for additional taxes, interest and penalties could be approximately $258 million. Although the Company will appeal these reassessments, current tax legislation requires the Company to remit to the CRA and its provincial counterparts approximately $161 million, of which $69 million has already been remitted. The timing of future remittances will be determined by the receipt of the reassessments. In the event that the Company is successful in its appeal, in whole or in part, some or all of the funds remitted to the various tax authorities will be refunded to the Company.

11. Incomes Taxes (continued)

The Company regularly reviews the potential for adverse outcomes in respect of tax matters. The Company believes that the ultimate disposition of these reassessments will not have a material adverse effect on its liquidity, consolidated financial position or results of operations because the Company believes that it has adequate provision for these tax matters. Should the ultimate outcome materially differ from the provisions, the Company's effective tax rate and its earnings could be affected positively or negatively in the period in which the matters are resolved.

12. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

Working capital components

(Dollars in millions)	**2006**	2005
Cash generated from (used for):		
Accounts receivable	**$ (37.1)**	$ (329.3)
Merchandise inventories	**13.6**	(50.9)
Prepaid expenses and deposits	**(3.8)**	(18.3)
Accounts payable and other	**2.6**	84.0
Income taxes payable	**9.9**	27.0
Other	**–**	0.3
Change in other working capital components	**$ (14.8)**	$ (287.2)

Cash and cash equivalents
The components of cash and cash equivalents are:

(Dollars in millions)	**2006**	2005
Cash	**$ (47.4)**	$ (70.5)
Short-term investments	**788.7**	908.5
Cash and cash equivalents	**$ 741.3**	$ 838.0

Supplementary information For the year ended December 30, 2006, the Company paid income taxes amounting to $212.5 million (2005 – $155.8 million) and interest payments of $87.3 million (2005 – $83.5 million). For the year ended December 30, 2006, property and equipment acquired totaled $557.4 million, of which $529.2 million had been paid for by the end of the year (2005 – $391.1 million, of which $387.0 million had been paid for by the end of the year).

Sale of Associate Dealer receivables During 2006 and 2005, the Company sold certain Associate Dealer receivables to an independent investor. According to the terms of the sale, the Company retained full servicing responsibility for which it received no compensation. For the year ended December 30, 2006, the Company recognized a loss of $2.5 million (2005 – $0.1 million) on the sale of Associate Dealer receivables, which assumes no expected credit losses and a servicing liability of 1.0 percent. Quantitative information about accounts receivable managed by the Company is as follows:

	Total principal amount of receivables	
(Dollars in millions)	**2006**	2005
Associate Dealer receivables	**$ 579.9**	$ 570.2
Associate Dealer receivables sold	**(350.0)**	(47.9)
Other accounts receivable	**110.6**	130.5
Accounts receivable	**$ 340.5**	$ 652.8

13. OPERATING LEASES

The Company is committed to minimum annual rentals (exclusive of taxes, insurance, and other occupancy charges) for equipment and properties under leases with termination dates extending to 2043. Under sublease arrangements with Associate Dealers, the majority of the properties are income producing.

The minimum annual rental payments for equipment and property are as follows:

(Dollars in millions)

2007	$ 182.5
2008	178.2
2009	162.9
2010	150.8
2011	135.9
2012–2043	969.1
	$ 1,779.4

14. GUARANTEES, COMMITMENTS AND CONTINGENCIES

Guarantees In the normal course of business, the Company enters into numerous agreements that may contain features that meet the definition of a guarantee. A guarantee is defined to be a contract (including an indemnity) that contingently requires the Company to make payments to the guaranteed party based on (i) changes in an underlying interest rate, foreign exchange rate, equity or commodity instrument, index or other variable that is related to an asset, a liability or an equity security of the counterparty, (ii) failure of another party to perform under an obligating agreement, or (iii) failure of a third party to pay its indebtedness when due.

The Company has provided the following significant guarantees to third parties:

Standby letters of credit and performance guarantees The Company has arranged for several major Canadian banks to provide standby letters of credit (the "LCs") to an independent trust (the "Independent Trust"), which provides loans to Associate Dealers for their purchase of inventory and fixed assets (the "Associate Dealer Loans"). During 2004, the Independent Trust sold all of its rights in the LCs and the then outstanding Associate Dealer Loans to other independent trusts set up by major Canadian banks (the "Co-owner Trusts") that raise funds in the capital markets to finance their purchase of these undivided co-ownership interests. As a result, the Independent Trust's only remaining role is that of originator, seller and servicer of the Associate Dealer Loans. Total Associate Dealer Loans as at December 30, 2006 were $880.1 million (2005 – $784.4 million).

In the event that an Associate Dealer defaults on a loan, the Company has the right to purchase such loan from the Co-owner Trusts, at which time the Co-owner Trusts will assign such Associate Dealer's debt instrument and related security documentation to the Company. The assignment of this documentation provides the Company with first priority security rights over all of such Associate Dealer's assets, subject to certain prior ranking statutory claims. In most cases, the Company would expect to recover any payments made to purchase a defaulted loan, including any associated expenses. In the event the Company does not elect to purchase a defaulted Associate Dealer Loan, the Co-owner Trusts may draw against the LCs.

The Co-owner Trusts may also draw against the LCs to cover any shortfalls in certain related fees owing to them. In any case where a draw is made against the LCs, the Company has agreed to reimburse the bank issuing the LCs for the amount so drawn. In the unlikely event that all the LCs had been fully drawn simultaneously, the maximum payment by the Company under this reimbursement obligation would have been $165.2 million at December 30, 2006 (2005 – $117.0 million). The Company has not recorded any liability for these amounts, due to the credit quality of the Associate Dealer Loans and to the nature of the underlying collateral, represented by the inventory and fixed assets of the borrowing Associate Dealers.

Business and property dispositions In connection with agreements for the sale of all or a part of a business and in addition to indemnifications relating to failure to perform covenants and breach of representations and warranties, the Company has agreed to indemnify the purchasers against claims from its past conduct of the business, including environmental remediation. Typically, the term and amount of such indemnification will be determined by the agreement. The nature of these indemnification agreements prevents the Company from estimating the maximum potential liability it would be required to pay to counterparties. Historically, the Company has not made any significant indemnification payments under such agreements and no amount has been accrued in the Consolidated Financial Statements with respect to these indemnification agreements.

Lease agreements The Company has entered into agreements with certain of its lessors that guarantee the lease payments of certain sub-lessees of its facilities to lessors. Generally, these lease agreements relate to facilities the Company has vacated prior to the end of the term of its lease. These lease agreements require the Company to make lease payments throughout the lease term if the sub-lessee fails to make the scheduled payments. These lease agreements have expiration dates through July 2010. The Company has also guaranteed leases on certain franchise stores in the event the franchisees are unable to meet their remaining lease commitments. These lease agreements have expiration dates through September 2016. The maximum amount that the Company may be required to pay under both of these types of agreements is $11.0 million (2005 – $9.7 million), except for one lease agreement for which the maximum amount cannot be reasonably estimated. In addition, the Company could be required to make payments for percentage rents, realty taxes and common area costs. No amount has been accrued in the Consolidated Financial Statements with respect to these lease agreements.

14. Guarantees, Commitments and Contingences (continued)

Third party debt agreements The Company has guaranteed the debt of certain PartSource franchisees and Associate Dealers. These third party debt agreements require the Company to make payments if the franchisee or Associate Dealer fails to make scheduled debt payments. The majority of these third party debt agreements have expiration dates extending to January 31, 2007. The maximum amount that the Company may be required to pay under these types of debt agreements is $19.7 million (2005 – $8.5 million). No amount has been accrued in the Consolidated Financial Statements with respect to these debt agreements.

Indemnification of lenders and agents under credit facilities In the ordinary course of business, the Company has agreed to indemnify its lenders under various credit facilities against costs or losses resulting from changes in laws and regulations which would increase the lenders' costs and from any legal action brought against the lenders related to the use of the loan proceeds. These indemnifications generally extend for the term of the credit facilities and do not provide any limit on the maximum potential liability. Historically, the Company has not made any significant indemnification payments under such agreements and no amount has been accrued in the Consolidated Financial Statements with respect to these indemnification agreements.

Other indemnification commitments In the ordinary course of business, the Company provides other additional indemnification commitments to counterparties in transactions such as leasing transactions, service arrangements, investment banking agreements, securitization agreements, indemnification of trustees under indentures for outstanding public debt, director and officer indemnification agreements, escrow agreements, price escalation clauses, sales of assets (other than dispositions of businesses discussed above) and the arrangements with the Independent Trust and Co-owner Trusts discussed above. These additional indemnification agreements require the Company to compensate the counterparties for certain amounts and costs incurred, including costs resulting from changes in laws and regulations (including tax legislation) or as a result of litigation claims or statutory sanctions that may be suffered by a counterparty as a consequence of the transaction. The terms of these additional indemnification agreements will vary based on the contract and do not provide any limit on the maximum potential liability. Historically, the Company has not made any significant payments under such additional indemnifications and no amount has been accrued in the Consolidated Financial Statements with respect to these additional indemnification commitments.

Other commitments and contingencies As at December 30, 2006, the Company had the following other commitments and contingencies. In accordance with Canadian generally accepted accounting principles, the Company has not recognized a liability relating to these commitments and contingencies except for a provision for legal proceedings:

The Company has obtained documentary and standby letters of credit aggregating $40.8 million (2005 – $34.9 million) relating to the importation of merchandise inventories and to facilitate various real estate activities for the Company's merchandise operations.

The Company has commitments of approximately $257.2 million (2005 – $48.8 million) for the acquisition of property and equipment and the expansion of retail store facilities and the eastern distribution centre in Quebec.

The Company has committed to pay a minimum of $72.1 million (2005 – $39.7 million) in total to third parties for credit card processing and information technology services in support of the company's credit card and retail banking services for periods up to 2013.

The Company has committed to pay a minimum of $20.0 million (2005 – $16.5 million) for various commitments and contingent liabilities including merchandise inventory buy-back agreements, a customs bond, the guarantee of a franchisee's total indebtedness, and the obligation to buy back two franchise stores.

The Company and certain of its subsidiaries are 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 the proceedings will not have a material adverse effect on its consolidated earnings, cash flow or financial position.

15. FINANCIAL INSTRUMENTS

The purpose of this Note is to disclose the Company's exposure related to financial instruments.

The Company enters into interest rate swap contracts with approved creditworthy counterparties to manage the Company's current and anticipated exposure to interest rate risks. The Company also enters into foreign exchange contracts, primarily in U.S. dollars, to hedge future purchases of foreign currency denominated goods and services with an emphasis on those purchases that are expected to be completed within a six-month period. Neither the notional principal amounts nor the current replacement value of these outstanding financial instruments is carried on the Consolidated Balance Sheets. The Company has also entered into interest rate swap contracts ("Trust Swaps") with an independent trust to manage the interest rate exposure of the trust during the period in advance of repayment by the trust of fixed rate debt used to finance the purchase of the Company's loans receivable.

The Company also enters into equity derivative contracts to hedge certain future stock-based compensation expenses. The Company does not hold or issue derivative financial instruments for trading or speculative purposes, and controls are in place to detect and prevent these activities.

During 2004, the Company entered into an equity derivative contract to hedge a portion of the PCSUs (Note 10). The premium paid of $6.9 million is being amortized over the term of the contract. As at December 30, 2006, the unamortized portion of the premium was $0.6 million (2005 – $3.1 million) and is included in "Long-term receivables and other assets". The contract terminates on March 9, 2007, at which time the Company will be entitled to receive an amount based on the share price of the Class A Non-Voting Shares of the Company. Since the contract is considered a hedge for accounting purposes, as at December 30, 2006, a derivative asset in the amount of $12.9 million (2005 – $6.6 million) was included in "Long-term receivables and other assets". This asset offsets the accrued compensation liability that was recorded for PCSUs.

15. Financial Instruments (continued)

As at December 30, 2006, outstanding off-balance sheet financial instruments of the Company are summarized as follows:

	Notional amounts maturing					
(Dollars in millions)	Within 1 year	Over 1 to 5 years	Over 5 to 10 years	Over 10 years	**2006 Total**	2005 Total
Interest rate swap contracts	$ –	$ 200.0	$ –	$ 100.0	**$ 300.0**	$ 300.0
Foreign exchange contracts[1]	1,558.7	–	–	–	**1,558.7**	1,728.7

[1] May include both forward contracts and options.

For the year ended December 30, 2006, interest expense included a net payment of approximately $0.7 million (2005 – $6.5 million net receipt) relating to interest rate swaps. Any unsettled interest differentials outstanding at year end were accrued for and included in "Accounts payable and other". For the year ended December 30, 2006, the Company recorded a net gain of $0.9 million (2005 – $0.4 million) in gross operating revenue relating to the Trust Swaps.

The estimated fair values of financial instruments as at December 30, 2006 and December 31, 2005 were based on relevant market prices and information available at that time. The fair value estimates below are not necessarily indicative of the amounts that the Company might receive or pay in actual market transactions. For financial instruments which are short-term in nature, carrying value approximates fair value.

The fair values of other financial instruments are as follows:

	2006		2005	
(Dollars in millions)	**Book value**	**Fair value**	Book value	Fair value
Financial assets and liabilities				
Long-term personal loans, mortgages and other receivables	**$ 192.8**	**$ 198.2**	$ 52.9	$ 58.4
Interest-only strip	**43.4**	**44.2**	55.6	60.1
Pledged collateral	**16.2**	**16.5**	–	–
Equity derivative contracts	**15.8**	**20.4**	11.8	20.6
Securitization reserve	**3.5**	**3.8**	4.1	3.4
Interest rate swap contracts	**(0.2)**	**(0.2)**	(2.2)	(2.2)
Long-term debt (excluding current portion)	**(1,168.4)**	**(1,232.6)**	(1,171.3)	(1,257.4)
Off-balance sheet financial instruments				
Foreign exchange contracts[1]	**$ –**	**$ 34.8**	$ –	$ (29.6)
Interest rate swap contracts	**–**	**(12.9)**	–	(13.3)

[1] The average effective rate of Canadian to U.S. dollars at December 30, 2006 was $1.1262 (2005 – $1.1871).

The fair values of the interest-only strip, long-term personal loans, mortgages and other receivables, securitization reserve, pledged collateral, long-term debt (excluding current portion) and interest rate swap contracts were estimated based on quoted market prices (when available); discounted cash flows, using discount rates based on prevailing market interest rates and the Company's credit rating; or by comparing the appropriate yield curves to matching maturity terms as at year end. The foreign exchange contracts were valued based on the differential between contract rates and year-end spot rates, and reflect the time value of money. The equity derivative contracts were valued by the counterparties based on year-end market interest rates, implied Company volatility values and the year-end closing share price of the Class A Non-Voting Shares of the Company on the Toronto Stock Exchange. For interest rate swap, foreign exchange and equity derivative contracts, the fair values reflect the estimated amounts that the Company would receive or pay if it were to unwind the contracts at the reporting date.

Interest rate risk The following table identifies the Company's financial assets and liabilities which are sensitive to interest rate movements and those which are non-interest rate sensitive as they are either non-interest bearing or bear interest at fixed rates.

	2006		2005	
(Dollars in millions)	**Interest sensitive**	**Non-interest sensitive**	Interest sensitive	Non-interest sensitive
Cash and cash equivalents	**$ 741.3**	**$ –**	$ 838.0	$ –
Loans receivable	**–**	**694.2**	–	720.8
Long-term personal loans, mortgages and other receivables	**–**	**192.8**	–	52.9
Interest-only strip	**–**	**43.4**	–	55.6
Pledged collateral	**–**	**16.2**	–	–
Long-term debt (including current portion)	**–**	**(1,171.4)**	–	(1,375.6)
	$ 741.3	**$ (224.8)**	$ 838.0	$ (546.3)

15. Financial Instruments (continued)

The Company enters into interest rate swap contracts to manage its exposure to interest rate risk. As at December 30, 2006, the Company had entered into contracts that exchanged a net notional amount of $274.9 million from floating to fixed rate exposure (2005 – $591.4 million exchanged from floating to fixed). These contracts hedge the Company's net balance sheet interest rate sensitivity position. A one percent change in interest rates would not materially affect the Company's earnings, cash flow or financial position.

Credit risk The Company's exposure to concentrations of credit risk is limited. Accounts receivable are primarily from Associate Dealers who individually generally comprise less than one percent of the total balance outstanding and are spread across Canada. Similarly, loans receivable are generated by credit card, personal loan and mortgage customers, a large and geographically dispersed group. Maximum credit risk exposure represents the loss that would be incurred if all of the Company's counterparties were to default at the same time.

The credit exposure with respect to hedges and similar financial instruments is the current replacement value of only those contracts which are in a gain position. As at December 30, 2006, the credit exposure due to interest rate swap, foreign exchange contracts and equity derivative contracts was $55.9 million (2005 – $25.4 million). The Company believes that its exposure to credit and market risks for these instruments is negligible.

16. SEGMENTED INFORMATION

The Company's reportable operating segments are strategic business units that offer different products and services. The Company has four reportable operating segments: Canadian Tire Retail (CTR), Canadian Tire Financial Services (Financial Services), Canadian Tire Petroleum (Petroleum) and Mark's Work Wearhouse (Mark's). CTR derives its revenue primarily from shipments of merchandise to Associate Dealers and PartSource franchisees. Financial Services is primarily engaged in financing and managing customer credit accounts that arise from customers' use of their Canadian Tire credit cards and also derives revenue from a personal loan portfolio and from ancillary products such as extended warranty contracts. Petroleum revenue arises primarily from the sale of petroleum products through its agents. Mark's revenue arises from the sale of merchandise to customers from its corporate-owned stores.

The accounting policies of the segments are the same as those described in the significant accounting policies in Note 1. The Company evaluates each segment's performance based on earnings before income taxes and minority interest. The only significant non-cash item included in segment earnings before income taxes and minority interest is depreciation and amortization.

	CTR		Financial Services		Petroleum		Mark's		Eliminations		Total	
(Dollars in millions)	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
Gross operating revenue[1]	**$ 5,355.4**	$ 5,093.9	**$ 721.7**	$ 685.8	**$ 1,545.3**	$ 1,361.3	**$ 762.3**	$ 664.4	**$ (115.6)**	$ (83.8)	**$ 8,269.1**	$ 7,721.6
Earnings (loss) before income taxes and minority interest	**306.1**	290.2	**167.0**	165.0	**(5.4)**	7.5	**90.1**	65.0	**–**	–	**557.8**	527.7
Income taxes											**(200.8)**	(190.0)
Minority interest											**(2.4)**	(7.6)
Net earnings											**$ 354.6**	$ 330.1
Interest revenue[2]	**$ 40.4**	$ 24.6	**$ 23.0**	$ 13.6	**$ –**	$ –	**$ –**	$ –	**$ (45.5)**	$ (28.5)	**$ 17.9**	$ 9.7
Interest expense[2]	**97.9**	96.5	**20.3**	13.5	**–**	–	**3.0**	2.6	**(45.5)**	(28.5)	**75.7**	84.1
Depreciation and amortization	**147.7**	143.5	**13.0**	12.5	**15.2**	14.4	**15.8**	14.6	**–**	–	**191.7**	185.0
Total assets	**4,502.5**	4,604.7	**1,476.0**	1,350.9	**477.9**	494.5	**406.7**	342.9	**(1,058.5)**	(837.4)	**5,804.6**	5,955.6
Capital expenditures[3]	**481.2**	315.1	**16.9**	14.8	**24.1**	28.6	**35.2**	32.6	**–**	–	**557.4**	391.1

1 Gross operating revenue includes dividend and interest revenue. Figures for 2005 have been restated for the impact of EIC-156.
2 Interest revenue and expense are not allocated to Petroleum.
3 Capital expenditures are presented on an accrual basis (see Note 12).

17. MINORITY INTEREST

In November 2001, the Company formed a limited partnership for the purpose of raising $300 million of capital in relation to a portfolio of its retail properties. The Company was the general partner in this partnership. A third party investor group invested $300 million in the partnership for a limited partnership interest with preferential rights to distribution of income and capital.

The limited partnership interest was entitled to a cumulative, quarterly preferred distribution on its capital account (approximately 4.89% annualized year to date up to the date of note repayment (2005 – 3.98%)) and the partnership followed a full distribution policy. The partnership invested in the retail properties by way of a note and equity in an entity that owns the portfolio of properties. The partnership had an indefinite life, but could be liquidated in certain circumstances including shortfalls in cash flows generated by the retail properties and repayment of the note. The assets and liabilities, results of operations and cash flows of the partnership were included in the financial statements of the Company. The preferred interest was treated as minority interest on the Consolidated Balance Sheets and in the Consolidated Statements of Earnings.

On April 3, 2006, the note was repaid and the equity was redeemed. The limited partnership repaid the limited partners. Accordingly, the minority interest ceased to be reflected on the Consolidated Balance Sheets after April 3, 2006, and no further charge has been reflected in the Consolidated Statements of Earnings after April 3, 2006.

18. DISPOSITION OF PROPERTIES

On November 29, 2005, the Company announced its agreement to sell and leaseback two distribution centres to a third party. On January 31, 2006, the Company and the third party completed the sale and leaseback agreements for the two distribution centres. The proceeds from the sale of the two distribution centres totaled $229.1 million, resulting in a net pre-tax gain of approximately $46.3 million. As the Company entered into long-term leasebacks of the two distribution centres from the third party, the gain is being amortized over the lease terms. The unamortized gain is included in other long-term liabilities (see Note 7).

On October 30, 2006, the Company announced an agreement to sell surplus land at one of its locations in Toronto, Ontario. On December 7, 2006, the Company completed the sale of this surplus land for total consideration of $149.7 million, of which $134.7 million took the form of an interest-free mortgage in favour of the Company. A gain of $119.6 million will be recorded on the transaction, with $49.2 million recognized on closing. The balance will be reflected as imputed interest income on the interest-free mortgage (see Note 3), the principal amount of which is payable over 10 years, or earlier, at the option of the purchaser.

19. COMPARATIVE FIGURES

Certain of the prior period's figures have been reclassified to conform to the current year presentation.

Supplementary Information: Interest Coverage

The Company's long-term interest requirements for the 52 weeks ended December 30, 2006, after annualizing interest on long-term debt issued and retired during this period, amounted to $76.5 million. The Company's earnings before interest on long-term debt, income taxes and minority interest for the 52 weeks then ended were $626.8 million, which is 8.2 times the Company's long-term interest requirements for this period.

2006 Quarterly Information

(Dollars in millions, except per share amounts) (Store numbers are cumulative at end of period)	First Quarter (January 1, 2006 to April 1, 2006)	Second Quarter (April 2, 2006 to July 1, 2006)	Third Quarter (July 2, 2006 to September 30, 2006)	Fourth Quarter (October 1, 2006 to December 30, 2006)	Total
Canadian Tire Retail					
Gross operating revenue	$ 969.2	$ 1,518.8	$ 1,290.6	$ 1,576.8	$ 5,355.4
Earnings before income taxes and minority interest	38.5	97.9	98.2	71.5	306.1
Canadian Tire Petroleum					
Gross operating revenue	335.1	408.1	427.0	375.1	1,545.3
Earnings (loss) before income taxes	1.7	(1.2)	0.1	(6.0)	(5.4)
Mark's Work Wearhouse					
Gross operating revenue	128.7	170.1	154.0	309.5	762.3
Earnings before income taxes	8.4	20.3	11.4	50.0	90.1
Canadian Tire Financial Services					
Gross operating revenue	161.7	179.6	182.4	198.0	721.7
Earnings before income taxes	29.4	44.5	39.4	53.7	167.0
Total					
Gross operating revenue	$ 1,572.1	$ 2,247.6	$ 2,023.3	$ 2,426.1	$ 8,269.1
Cost of merchandise sold and all expenses except for the undernoted items	1,424.5	2,008.5	1,802.2	2,180.5	7,415.7
Interest					
Long-term debt	18.7	19.5	16.8	16.2	71.2
Short-term debt	0.4	1.6	0.1	2.4	4.5
Depreciation and amortization	46.6	47.2	46.9	51.0	191.7
Employee profit sharing plan	3.9	9.3	8.2	6.8	28.2
Earnings before income taxes and minority interest	78.0	161.5	149.1	169.2	557.8
Income taxes	28.1	58.1	53.7	60.9	200.8
Minority interest	2.3	0.1	–	–	2.4
Net earnings	47.6	103.3	95.4	108.3	354.6
Basic earnings per share[1]	0.58	1.27	1.17	1.33	4.35
Diluted earnings per share[2]	0.58	1.25	1.16	1.32	4.31
Canadian Tire Retail					
Retail sales growth	4.7%	5.3%	7.3%	4.4%	5.4%
Same store sales growth	2.8%	3.3%	5.6%	2.2%	3.5%
Net shipments growth (year-over-year)	(0.1%)	10.0%	4.2%	3.8%	4.9%
Number of Concept 20/20 stores	55	91	93	126	
Number of new-format stores	292	258	257	237	
Number of traditional stores	117	115	115	105	
Number of Canadian Tire Retail stores	464	464	465	468	
Number of PartSource stores	58	59	61	63	
Canadian Tire Petroleum					
Gasoline sales volume (millions of litres)	384.8	418.0	441.0	457.4	1,701.2
Number of gas stations	264	262	262	260	
Number of car washes	73	73	73	74	
Number of convenience stores	250	248	250	251	
Mark's Work Wearhouse					
Retail sales growth	11.4%	16.0%	18.4%	12.4%	14.2%
Same store sales growth	10.0%	15.2%	18.1%	10.0%	13.0%
Number of Mark's Work Wearhouse stores	334	330	328	339	
Canadian Tire Financial Services[3]					
Gross average receivables ($)	3,313.3	3,376.6	3,460.8	3,485.1	3,409.0
Average number of accounts with a balance (thousands)	1,808	1,846	1,882	1,885	1,885
Average account balance ($)	1,832	1,829	1,839	1,849	1,837
Class A Non-Voting Shares					
High	$ 70.00	$ 71.71	$ 72.00	$ 75.22	$ 75.22
Low	61.77	61.70	61.25	68.71	61.25
Close	62.60	66.18	70.17	70.88	70.88
Volume (thousands of shares)	17,347	19,141	13,058	11,889	61,435
Common Shares					
High	$ 135.00	$ 134.90	$ 120.00	$ 110.00	$ 135.00
Low	113.50	95.00	101.90	99.99	95.00
Close	132.50	115.00	107.50	102.00	102.00
Volume (thousands of shares)	35	33	16	33	117

1 Quarterly basic earnings per share are calculated using the weighted average number of Common and Class A Non-Voting Shares outstanding for the quarter, while annual basic earnings per share are calculated using the weighted average number of Common and Class A Non-Voting Shares outstanding for the full year.

2 Quarterly diluted earnings per share are calculated using the diluted weighted average number of Common and Class A Non-Voting Shares outstanding for the quarter, while annual diluted earnings per share are calculated using the average of the quarterly weighted average numbers of diluted Common and Class A Non-Voting Shares outstanding.

3 Total portfolio of loans receivable.

2005 Quarterly Information

(Dollars in millions, except per share amounts) (Store numbers are cumulative at end of period)	First Quarter (January 2, 2005 to April 2, 2005)	Second Quarter (April 3, 2005 to July 2, 2005)	Third Quarter (July 3, 2005 to October 1, 2005)	Fourth Quarter (October 2, 2005 to December 31, 2005)	Total
Canadian Tire Retail					
Gross operating revenue[1]	$ 965.9	$ 1,384.3	$ 1,226.8	$ 1,516.9	$ 5,093.9
Earnings before income taxes and minority interest	25.0	92.2	86.1	86.9	290.2
Canadian Tire Petroleum					
Gross operating revenue[1]	293.8	341.5	379.1	346.9	1,361.3
Earnings before income taxes	1.6	0.1	2.8	3.0	7.5
Mark's Work Wearhouse					
Gross operating revenue	114.8	145.3	129.3	275.0	664.4
Earnings before income taxes	4.2	12.7	5.9	42.2	65.0
Canadian Tire Financial Services					
Gross operating revenue	151.2	170.2	173.8	190.6	685.8
Earnings before income taxes	25.8	43.4	40.0	55.8	165.0
Total					
Gross operating revenue[1]	$ 1,508.1	$ 2,020.6	$ 1,888.6	$ 2,304.3	$ 7,721.6
Cost of merchandise sold and all expenses except for the undernoted items[2]	1,380.0	1,801.7	1,679.3	2,035.1	6,896.1
Interest					
Long-term debt	23.5	15.7	19.0	21.3	79.5
Short-term debt	1.0	1.7	0.2	1.7	4.6
Depreciation and amortization	44.0	44.8	47.0	49.2	185.0
Employee profit sharing plan	3.0	8.3	8.3	9.1	28.7
Earnings before income taxes and minority interest	56.6	148.4	134.8	187.9	527.7
Income taxes	19.4	54.4	48.5	67.7	190.0
Minority interest	1.9	1.8	1.9	2.0	7.6
Net earnings	35.3	92.2	84.4	118.2	330.1
Basic earnings per share[3]	0.43	1.13	1.03	1.44	4.04
Diluted earnings per share[4]	0.43	1.11	1.02	1.43	3.98
Canadian Tire Retail					
Retail sales growth	4.8%	4.2%	3.9%	7.1%	5.1%
Same store sales growth	3.1%	2.5%	2.2%	5.4%	3.4%
Net shipments growth[5]	1.5%	1.9%	6.2%	8.6%	5.0%
Number of Concept 20/20 stores	29	34	35	53	
Number of new-format stores	303	302	302	292	
Number of traditional stores	126	122	122	117	
Number of Canadian Tire Retail stores	458	458	459	462	
Number of PartSource stores	47	48	51	57[6]	
Canadian Tire Petroleum					
Gasoline sales volume (millions of litres)	382.8	411.6	401.6	396.3	1,592.3
Number of gas stations	254	253	253	259	
Number of car washes	62	62	65	67	
Number of convenience stores	242	242	242	247	
Mark's Work Wearhouse					
Retail sales growth	26.9%	20.1%	17.0%	19.3%	20.3%
Same store sales growth	23.5%	16.4%	13.9%	17.4%	17.4%
Number of Mark's Work Wearhouse stores	332	333	335	334	
Canadian Tire Financial Services[7]					
Gross average receivables ($)	2,817.1	2,957.3	3,150.7	3,244.2	3,042.3
Average number of accounts with a balance (thousands)	1,751	1,780	1,809	1,827	1,792
Average account balance ($)	1,609	1,661	1,741	1,776	1,698
Class A Non-Voting Shares					
High	$ 57.99	$ 62.24	$ 64.00	$ 70.60	$ 70.60
Low	50.81	56.00	55.75	56.34	50.81
Close	57.00	56.62	62.89	69.54	69.54
Volume (thousands of shares)	13,234	9,983	10,771	12,652	46,640
Common Shares					
High	$ 86.01	$ 104.00	$ 97.25	$ 118.00	$ 118.00
Low	66.34	87.00	89.01	91.50	66.34
Close	86.01	94.00	92.00	118.00	118.00
Volume (thousands of shares)	61	60	39	45	205

1 Gross operating revenue has been restated for the impact of EIC-156 as required by the Canadian Institute of Chartered Accountants.
2 Cost of merchandise sold has been restated for the impact of EIC-156 as required by the Canadian Institute of Chartered Accountants.
3 Quarterly basic earnings per share are calculated using the weighted average number of Common and Class A Non-Voting Shares outstanding for the quarter, while annual basic earnings per share are calculated using the weighted average number of Common and Class A Non-Voting Shares outstanding for the full year.
4 Quarterly diluted earnings per share are calculated using the diluted weighted average number of Common and Class A Non-Voting Shares outstanding for the quarter, while annual diluted earnings per share are calculated using the average of the quarterly weighted average numbers of diluted Common and Class A Non-Voting Shares outstanding for the full year.
5 Net shipments have been re-stated for the impact of EIC-156 as required by the Canadian Institute of Chartered Accountants.
6 Includes three acquired stores that will be re-branded to the PartSource banner in 2006.
7 Total portfolio of loans receivable.

Ten-Year Financial Review

(Dollars in millions except per share amounts)	2006	2005	2004
Consolidated Statements of Earnings			
Gross operating revenue [2]	$ 8,269.1	$ 7,721.6	$ 7,153.6
Earnings before interest, income taxes, depreciation & amortization and minority interest	825.2	796.8	709.9
Earnings before income taxes and minority interest	557.8	527.7	460.9
Income taxes	200.8	190.0	162.5
Net earnings before minority interest	357.0	337.7	298.4
Minority interest	2.4	7.6	6.9
Net earnings	354.6	330.1	291.5
Cash generated from operations	697.3	700.7	630.4
Cash generated from operating activities	682.5	413.5	413.1
Earnings retained and reinvested	300.8	282.7	251.0
Capital expenditures [3]	557.4	391.1	340.7
Consolidated Balance Sheets			
Current assets	$ 2,541.0	$ 2,973.1	$ 2,434.6
Long-term receivables and other assets [4]	382.3	238.6	223.4
Property and equipment	2,881.3	2,743.9	2,585.2
Total assets	5,804.6	5,955.6	5,243.2
Current liabilities	1,663.6	1,821.0	1,487.4
Long-term debt (excludes current portion)	1,168.4	1,171.3	1,081.8
Other long-term liabilities	112.4	63.2	55.6
Future income taxes	75.0	89.0	67.2
Minority interest	–	300.0	300.0
Shareholders' equity	2,785.2	2,511.1	2,251.2
Consolidated per Share			
Basic earnings per share	$ 4.35	$ 4.04	$ 3.60
Diluted earnings per share [5]	4.31	3.98	3.53
Cash generated from operations	8.55	8.57	7.78
Cash generated from operating activities	8.37	5.06	5.10
Dividends declared	0.66	0.58	0.50
Shareholders' equity	34.19	30.83	27.75
Statistics at Year End			
Number of Canadian Tire stores	468	462	457
Number of PartSource stores [6]	63	57	47
Number of gas stations	260	259	253
Number of car washes	74	67	58
Number of Mark's Work Wearhouse stores [7]	339	334	333

1 53-week period.
2 Gross operating revenue has been re-stated for the impact of EIC-156 as required by the Canadian Institute of Chartered Accountants.
3 Capital expenditures are on an accrual basis.
4 Includes goodwill and intangible assets.
5 Data required to calculate diluted earnings per share prior to 1998 is not available.
6 Total in 2005 includes three unbranded PartSource stores purchased in December 2005 which were branded in 2006.
7 Mark's Work Wearhouse was acquired on February 1, 2002.

	2003[1]	2002	2001	2000	1999	1998	1997[1]
	$ 6,552.8	$ 5,944.5	$ 5,374.7	$ 5,207.6	$ 4,728.3	$ 4,347.3	$ 4,087.8
	605.0	553.0	496.6	457.8	447.3	410.2	350.6
	365.9	311.3	272.1	236.0	222.2	248.8	207.0
	116.0	103.0	98.0	90.9	79.4	82.4	60.2
	249.9	208.3	174.1	145.1	142.8	166.4	146.8
	8.7	7.4	0.6	–	–	–	–
	241.2	200.9	173.5	145.1	142.8	166.4	146.8
	534.5	460.1	362.4	350.0	323.6	315.6	306.8
	520.1	442.0	189.4	504.1	326.1	364.9	274.8
	208.7	169.3	142.0	113.8	112.0	135.1	113.5
	278.9	249.8	358.4	382.3	377.7	303.2	253.5
	$ 2,291.5	$ 2,303.1	$ 1,985.0	$ 1,519.6	$ 1,896.1	$ 1,504.9	$ 1,433.8
	156.7	211.5	134.4	122.9	105.4	36.0	33.3
	2,444.9	2,351.1	2,245.0	2,098.4	1,865.5	1,619.7	1,404.6
	4,893.1	4,865.7	4,364.4	3,740.9	3,867.0	3,160.6	2,871.7
	1,612.0	1,577.0	1,106.5	1,119.6	1,434.0	1,042.0	1,155.6
	886.2	1,125.2	1,310.0	1,115.0	1,050.3	815.0	380.4
	46.9	43.7	38.6	34.2	15.9	6.3	5.9
	30.9	23.7	15.0	18.9	25.4	36.0	30.8
	300.0	300.0	300.0	–	–	–	–
	2,017.1	1,796.1	1,594.3	1,453.2	1,341.4	1,261.3	1,299.0
	$ 2.99	$ 2.54	$ 2.21	$ 1.85	$ 1.85	$ 2.09	$ 1.77
	2.95	2.51	2.19	1.85	1.82	2.04	–
	6.63	5.82	4.61	4.47	4.19	3.96	3.69
	6.45	5.59	2.41	6.43	4.22	4.57	3.31
	0.40	0.40	0.40	0.40	0.40	0.40	0.40
	24.98	22.49	20.29	18.50	17.17	16.19	15.80
	452	451	450	441	432	430	430
	39	33	30	28	8	5	–
	232	212	203	206	202	195	193
	47	33	20	16	10	8	3
	322	306	–	–	–	–	–

Directors

Maureen J. Sabia
Chairman of the Board of the Company, President, Maureen Sabia International, a consulting firm, and Corporate Director

Gilbert S. Bennett
Consultant and Corporate Director

Martha G. Billes[2,4]
President, Albikin Management Inc., an investment holding company

Owen G. Billes[4]
Manager, New Business Development, Canadian Tire Corporation, Limited

Gordon F. Cheesbrough[1,4]
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Daniel E. Fournier[2,3]
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Thomas K. Gauld
President and Chief Executive Officer of the Company

Keith E. Gostlin[4]
President, K.E. Gostlin Enterprises Ltd., which operates a Canadian Tire Associate store

James R. Neale[2,3]
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Frank Potter[3,4]
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Graham W. Savage[1,2]
Chairman, Callisto Capital LP, a merchant banking partnership, and Corporate Director

Stephen G. Wetmore[1,3]
President & CEO, Bell Aliant Regional Communications Income Fund, a communications service provider

[1] **Audit Committee**
Chairman, Graham W. Savage

[2] **Governance Committee**
Chairman, James R. Riley

[3] **Management Resources and Compensation Committee**
Chairman, Frank Potter

[4] **Social Responsibility and Risk Governance Committee**
Chairman, Suzanne R. Perles

Further information on Canadian Tire's corporate governance is provided in the Company's Management Information Circular which is available on the System for Electronic Document Analysis and Retrieval at www.sedar.com, or in the investor relations section of Canadian Tire's web site at **http://investor.relations.canadiantire.ca**.

Officers

Maureen J. Sabia
Chairman of the Board

Thomas K. Gauld
President and Chief Executive Officer

J. Huw Thomas
Executive Vice-President, Finance and Administration and Chief Financial Officer

Mike Arnett
President, Canadian Tire Retail

Laura Dunne
Senior Vice-President, Human Resources

Marco Marrone
President, Canadian Tire Financial Services

Michael B. Medline
President, Dealer Relations and Diversified Businesses

Stanley W. Pasternak
Senior Vice-President and Treasurer

Ken Silver
Senior Vice-President, Real Estate and Construction

Patrick R. Sinnott
Senior Vice-President, Supply Chain

Cameron D. Stewart
Senior Vice-President, Secretary and General Counsel

Paul Wilson
President, Mark's Work Wearhouse

Andrew T. Wnek
Senior Vice-President, Information Technology and Chief Information Officer

Robyn Collver
Vice-President, Regulatory Affairs and General Counsel, Canadian Tire Financial Services and Assistant Secretary, Canadian Tire Corporation, Limited

Candace A. MacLean
Vice-President and Assistant Treasurer

Glossary of Terms

Bank card
A credit card offered by, or with, Visa or MasterCard.

Basis point
One hundredth of a percentage point.

Concept 20/20 store
A Canadian Tire store that was opened between 2003 and 2006 and represents the Company's current newest store format. These stores are bigger, brighter and have, among other features, wider aisles and displays that draw attention to featured merchandise than our previous store formats.

Comparable store sales
Include sales from stores that have been open for more than 53 weeks and that have not been expanded by more than 25 percent in the last year.

Credit risk
The potential for loss due to the failure of a borrower to meet their financial obligation.

Current ratio
Current assets divided by current liabilities.

Debentures
Long-term corporate debt that is not secured by the pledge of specific assets.

Debt covenants
Restrictions on the activities of a debtor written into bank loan agreements or bond indenture agreements that prohibit the debtor from taking actions that might hurt the interests of the lenders or bondholders.

Debt discount
The amount by which the price for a security is less than its par or face value. The discount or difference between such a reduced value purchase price and the redemption (par) value comprises all or part of the investor's compensation for owning the security.

Derivative
A financial instrument whose value depends upon the values of underlying assets, interest rates, currency exchange rates, or indices.

Derivative equity contract
A financial instrument used to hedge the anticipated exposure relating to certain stock-based compensation plans.

Diluted earnings per share
The amount of earnings for the period available to each share outstanding during the period including the potential impact of dilutive share options using the Treasury Stock Method.

Discount rate
An interest rate applied to a single cash flow that will not be paid or received until a future date in order to calculate the present value of that future cash flow.

Documentary letter of credit
A financial instrument issued by a bank on behalf of a customer whereby the issuing bank has guaranteed payment of a financial obligation to a third party upon presentation of specified documents. The customer in turn reimburses the bank.

Fair value
The amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

Foreign exchange contract
An agreement between parties to exchange stipulated amounts of one currency for another currency at one or more future dates.

Hedge
A risk management technique used to manage interest rate, foreign currency exchange or other exposures arising from regular business transactions.

Interest coverage
Earnings before interest and income taxes divided by interest expense.

Interest rate risk
The potential impact on the Company's earnings and economic value due to changes in interest rates.

Interest rate swap
A contractual agreement between two parties to exchange fixed and floating rate interest payments based on a notional value in a single currency.

Interest-only strip
Represents the present value of the Company's share of the spread to be earned over the collection period on the loan receivables sold.

Inventory turnover
Cost of goods sold divided by average inventory for the main CTR distribution centres.

Liquidation rate
The rate at which receivables held by the lender are paid down by the debtor.

Loans receivable
The aggregate amount of outstanding balances owed to the Company by Canadian Tire credit card holders, personal loan and mortgage loan customers.

Long-term debt to total capitalization
Long-term debt divided by the sum of short-term debt, long-term debt, future income taxes, other long-term liabilities, minority interest and shareholders' equity.

Marked to market
The valuation of financial instruments using prevailing market prices or fair value as of the balance sheet date.

Medium term notes
Debt instruments with maturities ranging from nine months to 30 years that are offered on a continuous basis, which means that they are issued and sold as buyers request them rather than on a single issue date.

Minority interest
A reference to shareholders – individuals, corporations or partnerships – that own less than 50 percent of a subsidiary's outstanding voting common stock. The minority shareholders hold an interest in the subsidiary's net assets and share earnings with the majority shareholder.

Net managed portfolio
The total value, after allowances, of the loans receivable portfolio which includes credit card receivables, personal loans and mortgage loans. A significant portion of the managed loan portfolio has been securitized.

Glossary of Terms

New-format store
A Canadian Tire store that was opened between 1994 and 2003 in one of the Company's newer store formats, and incorporating, among other features, a larger, more convenient layout and expanded merchandising offering.

Notional amount
The amount considered as principal when calculating interest and other payments for derivative contracts.

Off-balance sheet financial instrument
An asset or liability that is not recorded on the balance sheet, but has the potential to produce positive or negative cash flows in the future.

Projected benefit method
An actuarial valuation method whereby a distinct unit of future benefit is attributed to each year of credited service with equal portions of the total estimated future benefit attributed to each year of service in the attribution period. The actuarial present value of that unit of benefit is computed separately for the period during which it is presumed to have accrued.

Re-branding
In the context of Canadian Tire Petroleum's strategy, re-branding is the conversion of a competitor's gas bar and kiosk (in most cases) to the Canadian Tire brand. Generally, Petroleum incurs relatively low costs to convert the site. In exchange for the conversion, the re-branding partner participates in the profits of the converted site or is paid a fixed rent depending upon the agreement.

Retail method
An inventory valuation method used primarily by retailers under which the inventory is carried at the lower of the estimated cost and anticipated selling price, less an expected average gross margin.

Retained interest
A beneficial interest in the assets transferred over which a seller has not relinquished control, including servicing assets, residual interest, cash or securitization reserve accounts and securities backed by the transferred assets.

Return on equity
Net earnings divided by average shareholders' equity.

Return on invested capital
After-tax earnings before interest, income taxes and minority interest divided by average invested capital. Invested capital is the sum of current assets, current portion of long-term debt, property and equipment, goodwill, intangible assets, long-term receivables and certain other assets less current liabilities.

Same store sales
Include sales from all stores that have been open for more than a year.

Securitization of receivables
Securitization is a term that refers to the process by which financial assets are sold to a third party. At Financial Services, both credit card and personal loan receivables are routinely financed by selling an interest in the assets to trusts involved in the business of handing receivables portfolios. In the case of credit card receivables, a co-ownership interest is sold to Glacier Credit Card Trust. For personal loans, the loans are sold to a third party trust for consideration that includes cash and a retained interest in the assets. We record these transactions as a sale, and as a result, these assets are not included on our Consolidated Balance Sheets.

Servicing
The collection of principal and interest from borrowers, accounting for the cash flows due and the cash flows received, and remitting the cash flows to the entitled recipients.

Servicing liability
A contract to service receivables under which the estimated future revenues from contractually specified servicing fees, late charges, and other ancillary revenues are not expected to adequately compensate the company that is servicing the receivables.

Standby letter of credit
A financial instrument issued by a bank on behalf of a customer whereby the issuing bank has guaranteed payment of a financial obligation to a third party should the customer fail to meet its obligation to the third party.

Superbranding
A Mark's Work Wearhouse initiative to expand the distribution and strength of the brand across Canada.

Total managed portfolio
The total value, before allowances, of the loans receivable portfolio which includes credit card receivables, personal loans and mortgage loans. A significant portion of the managed loan portfolio has been securitized.

Traditional store
A Canadian Tire store that has not been replaced by a new-format or Concept 20/20 store or has not been expanded to incorporate new-format store features.

Treasury stock method
A method of recognizing the use of proceeds that could be obtained upon exercise of options and warrants in computing diluted earnings per share. It assumes that any proceeds would be used to purchase common shares at the average market price during the period.

Undivided co-ownership interest
A partial legal or beneficial ownership of account assets.

Variable interest entity (VIE)
An entity that by design does not have sufficient equity at risk to permit it to finance its activities without additional subordinated financial support, or in which equity investors do not have the characteristics of a controlling financial interest.

Weighted average number of shares
The number of shares determined by relating the portion of time within the reporting period the shares have been outstanding to the total time in that period.

Shareholder and Corporate Information

Home Office

Canadian Tire Corporation, Limited

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P.O. Box 770, Station K
Toronto, Ontario M4P 2V8
Telephone (416) 480-3000
Fax (416) 544-7715
Web site: www.canadiantire.ca

Shareholder and Corporate Information

Scott Bonikowsky
Vice-President
Corporate Affairs and Investor Relations

Michelle Dodokin
Director, Investor Relations

Investor Relations E-mail:
investor.relations@cantire.com

Annual and Special Meeting of Shareholders

Metro Toronto Convention Centre
Room 701, South Building
222 Bremner Boulevard
Toronto, Ontario
Thursday May 10, 2007
10:00 a.m. (E.S.T.)

Exchange Listings

The Toronto Stock Exchange:
Common Shares (CTC)
Class A Non-Voting Shares (CTC.A)

Auditors

Deloitte & Touche LLP
Chartered Accountants

Bankers

Canadian Imperial Bank of Commerce
Bank of Montreal
Royal Bank of Canada
The Bank of Nova Scotia
TD Canada Trust
Citibank Canada
National Bank Financial

Registrar and Transfer Agent

Computershare Trust Company of Canada

100 University Avenue
Toronto, Ontario M5J 2Y1
Telephone 1 (800) 564-6253
(toll free in Canada and the United States)
(514) 982-7555
Fax 1 (866) 249-7775
(toll free in Canada and the United States)
(416) 263-9524
Email: service@computershare.com

To change your address, eliminate multiple mailings, transfer Canadian Tire shares, inquire about our Dividend Reinvestment Program or for other shareholder account inquiries, please contact the principal offices of Computershare Trust Company of Canada in Halifax, Montreal, Toronto, Winnipeg, Calgary or Vancouver.

Disclosure Documents

Corporate governance disclosure and other investor information is available online from the investor relations pages of the Company's web site at http://investor.relations.canadiantire.ca. Additional copies of this Annual Report and other disclosure documents such as the Company's Management Information Circular, the Annual Information Form and quarterly reports can be downloaded or requested in print form from the same web site.

Version française du rapport

Pour obtenir la version française du rapport annuel de Canadian Tire, veuillez vous adresser au Service des relations extérieures en composant le 1-800-564-6253 ou écrire à :

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C.P. 770, succursale K
Toronto (Ontario) M4P 2V8

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Visit our website at
www.canadiantire.ca

Investor Relations
http://investor.relations.canadiantire.ca

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