



For days like today
and tomorrow

2008 Highlights

(Dollars in millions, except per share amounts)

	2008 ¹	2007 ^{2,5}	% change
Consolidated			
Retail sales	\$ 10,614.4	\$ 10,084.5	5.3%
Gross operating revenue	9,121.3	8,606.1	6.0%
Earnings before income taxes	541.2	611.2	(11.4)%
Income taxes	167.0	199.5	(16.3)%
Net earnings	374.2	411.7	(9.1)%
Cash generated from operating activities before changes in other working capital components	589.3	528.7	11.5%
Cash generated from operating activities	182.4	61.6	196.1%
Dividends paid	66.4	58.8	12.9%
Per share			
Net earnings	\$ 4.59	\$ 5.05	(9.1)%
Diluted earnings	4.59	5.05	(9.1)%
Cash generated from operating activities before changes in other working capital components	7.22	6.49	11.3%
Cash generated from operating activities	2.24	0.76	195.7%
Dividends declared	0.84	0.74	13.5%
Shareholders' equity	43.73	38.15	14.6%
Weighted average number of shares outstanding (thousands)	81,518	81,502	
Ratios			
Adjusted earnings before income taxes as a percentage of gross operating revenue (%)	6.3%	7.0%	
Long-term debt to total capitalization (%)	34.2%	31.2%	
Financial Services return on average total managed portfolio ³ (%)	4.9%	5.1%	
Return on invested capital ⁴ (%)	8.9%	10.2%	

¹ Results reflect a 53 week period for the year compared to 52 weeks for the year in 2007.

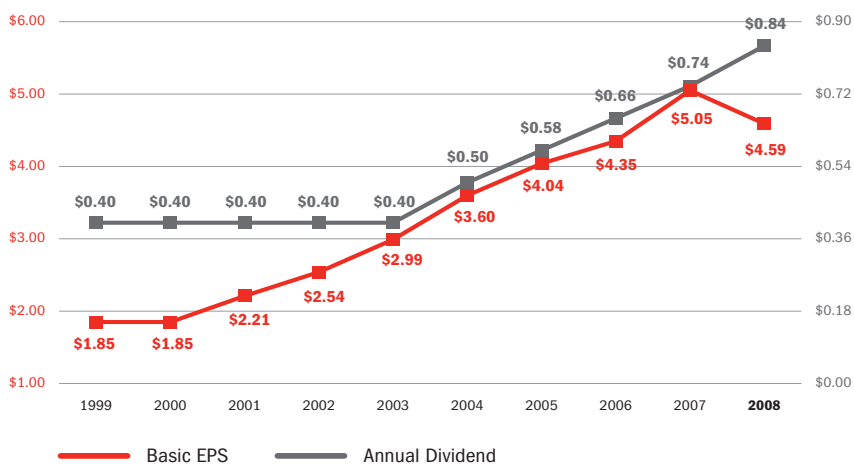
² 2007 results have been restated for the implementation, on a retrospective basis, of Canadian Institute of Chartered Accountants (CICA) Handbook (HB) 3031 – Inventories.

³ Calculated as earnings before income taxes as a percentage of Gross Average Receivables and excludes securitization activities, gain on disposal of investment and gain (loss) on disposal of assets.

⁴ Return on invested capital has been calculated using adjusted earnings which excludes the impact of various non-operating items.

⁵ Gross operating revenue has been restated for the reclassification of passive interest income to short-term interest expense.

Earnings per share (EPS) and annual dividend payable per share



10-year EPS CAGR¹

8.2%

10-year dividends
paid CAGR¹

7.7%

Canadian Tire has created value for investors through successive dividend increases and earnings per share growth over the past 10 years.

¹ Compounded annual growth rate

Canadian Tire's policy is to maintain dividend payments equal to approximately 15 to 20 per cent of the prior year's normalized basic net earnings per share, after giving consideration to the period-end cash position, future cash requirements, capital market conditions and investment opportunities. Normalized net earnings per share for this purpose exclude gains and losses on the sale of credit card and loans receivable and non-recurring items but include gains and losses on the ordinary course disposition of property and equipment.



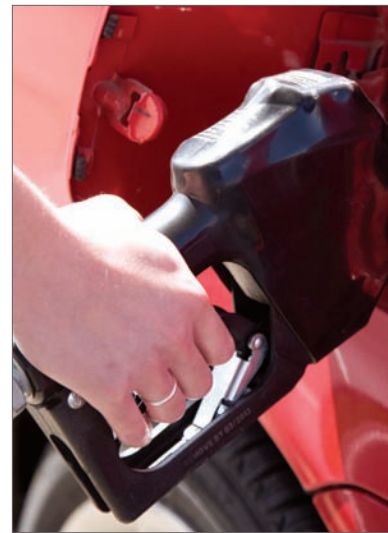
Repaint the living room

1



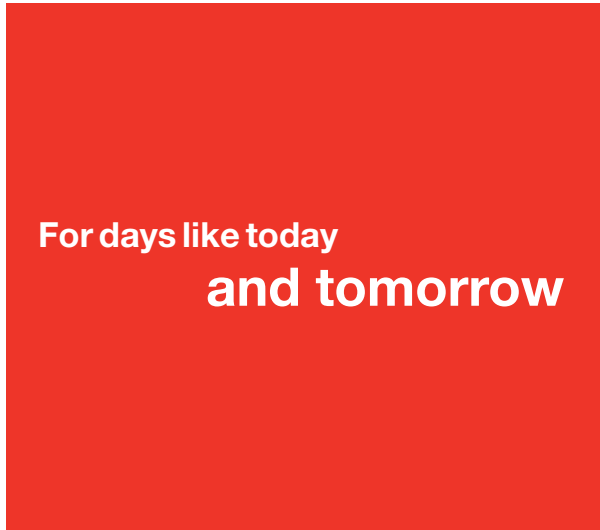
Buy a new bike at Canadian Tire Retail

3

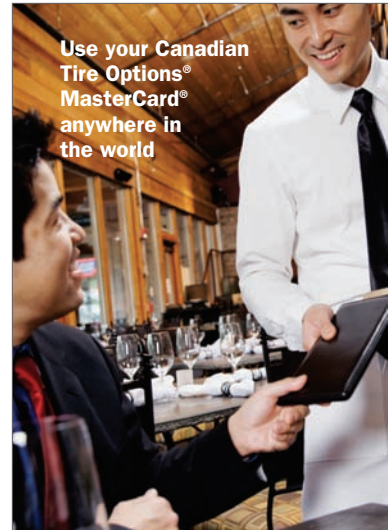


Mix and match at Mark's

10



For days like today and tomorrow



Use your Canadian Tire Options® MasterCard® anywhere in the world



Do it yourself with PartSource auto parts

18



Bake cookies with the kids

19



Fall clean-up



Help kids play with Canadian Tire Jumpstart®

27



Spring gardening

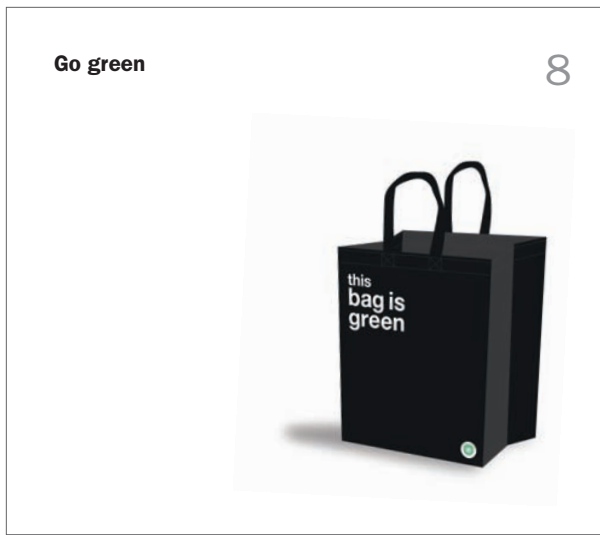
29



Enjoy the outdoors



Fill the tank at Petroleum



Go green



11

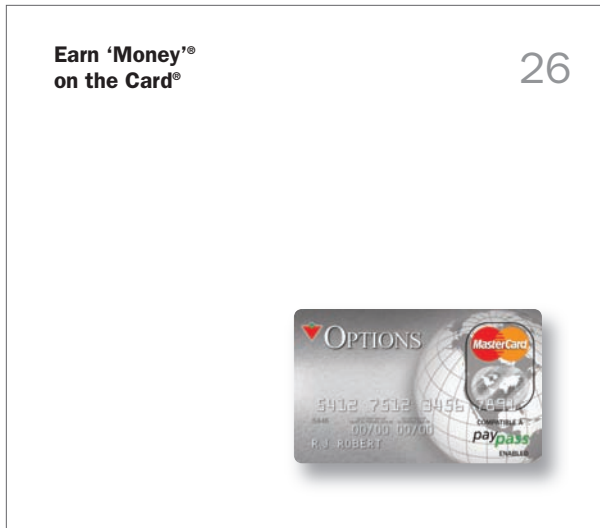


Grow your garden

14



23



Earn 'Money' on the Card®

26



30



Get grilling

31



About us

Canadian Tire Corporation, Limited is a growing, interrelated network of retail and financial services businesses offering goods and services that meet life's everyday needs. We are a proud Canadian family of over 57,000 people strengthened by one of the nation's longest-standing and most-trusted brands. Together, we strive to create customers for life and grow long-term shareholder value.



Canadian Tire Retail

Canadian Tire Retail is Canada's most-shopped general merchandise retailer, with 475 stores offering customers a unique mix of products and services through three specialty categories – automotive, sports and leisure, and home.



PartSource

Reinforcing our strength in automotive retail, PartSource® is an 86-store strong specialty retail network, as well as a supplier for Canadian Tire Retail's cornerstone automotive business. Its expert staff sells competitively priced auto parts, catering to the needs of professional automotive installers and serious do-it-yourselfers.



Canadian Tire Petroleum

Canadian Tire Petroleum™ (Petroleum) builds customer loyalty by distributing Canadian Tire 'Money' and promotes the growth of Canadian Tire-branded MasterCards through one of Canada's largest independent gasoline retail networks of 273 gas bars, 266 convenience stores and kiosks, and 74 car washes.



Mark's Work Wearhouse

Mark's Work Wearhouse (Mark's), known as L'Équipier® in Quebec, is a leading apparel retailer with 372 stores. Under the Clothes That Work® banner, Mark's sells apparel and footwear in work, work-related, casual- and active-wear categories, as well as health care and business-to-business apparel.



Canadian Tire Financial Services

With over five million credit cards in circulation, Canadian Tire Financial Services (Financial Services) manages Canada's second-largest MasterCard franchise. Other products and services include personal loans, lines of credit, insurance and warranty products, and the Canadian Tire Roadside Assistance program.



In 2008, Canadian Tire delivered a year of solid performance and continued to invest in focused, long-term productivity and growth initiatives.

We will continue to focus on meeting the changing needs of our customers; offering products and services for Canadian families' everyday lives. Whatever the day brings, we'll be there – today and tomorrow.

Message from the Chairman

For days when you seek a company to trust

Canadian Tire has a charming advertisement depicting two very young children playing hide and seek.

But the problem they have is that every room in the house, including the garage, is so well organized (thanks to some wonderful new organization products purchased at Canadian Tire) there is no place to hide. So the one who is supposed to hide has to resort to hiding virtually in plain sight and is easily found by the seeker. The tag line reads: “for days when you find what you seek”. Not only was I charmed by the ad, it caused me to think. It became the inspiration for this message.

I began to think about some of the things you, as shareholders, seek from the companies you invest in and about what you will find at Canadian Tire. And I concluded that at Canadian Tire you will find what you seek.

For tumultuous days like these, when the economy is uncertain and confidence is being eroded, shareholders seek reassurance. I hope this message will give you some. There will be winners, losers and survivors when these uncertain days are but a memory, and Canadian Tire is determined to be a winner. Days like today provide many opportunities for healthy companies and we intend to take advantage of each and every one.

We agree with those who maintain that economic downturns offer companies a chance to do things better, to rid themselves of ingrained thinking and habits that inhibit productivity and impede quick decision making.

On November 6, 2008, the Board of Directors named Stephen Wetmore as Canadian Tire’s new CEO. With his track record of leading large, complex companies, his knowledge of Canadian Tire, his record of building brands, creating market changing organizations, getting the very best out of his people, managing complex relationships and distribution channels, and his commitment to customer service and productivity, his appointment provides us with a huge opportunity. The Board of Directors found the CEO it sought.

All of us at the Tire are looking forward to the culture of creativity that Stephen will create. Creativity and innovation will help us win. As will a focus on accountability, productivity, relationships, rewarding excellence, being more organizationally effective, and having the courage to try new ways of doing things.

Shareholders of Canadian Tire are entitled to seek and to find a committed, knowledgeable, hard-working Board of Directors. There

is no question that, in our Board, you have found what you seek. But you are entitled to ask about the relationship the Board will have with our new CEO. You are entitled to ask how the Board will work with the CEO to accomplish his, our and your objectives.

In his new leadership role, Stephen has indicated that he wishes to consult the Board and its members frequently and all of us welcome that and stand ready to offer any guidance he may require or request. Both Stephen and the Board are committed to working closely together to make things better, to paraphrase our founder, A.J. Billes.

Last year I told you about having initiated Board Dinners the evening before each Board Meeting. Beginning in late 2007 and continuing into 2008, we used the occasion of these dinners to get to know the decision makers in our Company. In 2009 we are shifting our focus. In the first months of this year we used our time together on those evenings to talk with Stephen about his broad goals and objectives, how both the Board and management can do things better, how we can all think more creatively and how the Board can assist the CEO to accomplish his objectives. For the remainder of the year, we intend to draw on the expertise of both internal and external people to assist us to look at more innovative ways of serving our customers, expanding our customer base and building on our iconic brand.

The Board of Directors will continue its quest to learn as much as it can about the business of Canadian Tire, and the ever-changing issues confronting it. We believe that this is essential to good decision making.

Moreover, in 2009, the Board will begin to hold one or two meetings a year outside Toronto. We are convinced of the need to reach out to our customers in the major cities in which we carry on our business.

Shareholders seek excellence in governance and you will find that your Board continues its commitment to the highest governance standards. Our record on that is clear and well recognized. I invite you to read all about that in our current Information Circular.

In 2008 the Board, its Audit Committee, each individual Director and the Chairman underwent a rigorous evaluation process. While I am delighted to report that the Board, its Committees and its members are performing at a very high standard, there were

“**Days like today provide many opportunities for healthy companies and we intend to take advantage of each and every one.**”

“ **There will be winners, losers and survivors when these uncertain days are but a memory, and Canadian Tire is determined to be a winner.** ”

lessons for all of us. We took those lessons seriously, and we have learned from them.

Shareholders today seek to invest in companies that have a commitment to their communities. In Canadian Tire’s signature charitable programme, Jumpstart, you will find that commitment. I urge you to turn to page 18 of this Annual Report to learn just how committed this Company is to the well-being of the communities in which it does business and to the children of those communities.

I would be remiss if I did not say a few words about Tom Gauld. I can give him no higher accolade than to say that he caused us all to look at things with fresh eyes and to challenge the accepted. We respect his decision to retire. He can do that now with pride in the successful transition he worked so diligently to achieve.

With the approval of the shareholders, the Board will welcome Iain Aitchison to the Board. His thoughtful insights acquired throughout a highly respected international career in distribution and logistics will serve all of us and you, our shareholders, very well indeed.

It remains for me to thank my colleagues on the Board for their wisdom and hard work during the year and Canadian Tire’s talented management for their skill and hard work.

For days when you seek a Company with a real determination to make things better; when you seek informed, hard-working directors; when you seek a CEO who will bring his expertise to bear to improve customer service, and enhance the power of our formidable brand, who will focus on productivity, strategy and creating a culture of innovation; when you seek a Company committed to its communities and committed to the highest governance standards; when you seek a Company to trust; and when you seek integrity and transparency in all a Company does, I suggest you will find what you seek at Canadian Tire.



Maureen J. Sabia
Chairman of the Board

Message from the Chief Executive Officer

Facing our future with confidence

“For days like today and tomorrow.” I think these words sum up the essence of Canadian Tire. They reflect our ability to meet the changing needs of our customers.

They convey our proven capacity to renew ourselves and to compete in the face of many different kinds of challenges. And they attest to the underlying strengths that have made Canadian Tire the iconic Company that it is, truly a part of the fabric of Canadian life since 1922.

Our results in 2008 reflected this. In the face of a very challenging Canadian economy, we delivered results that while slightly below those of the previous year, compared favourably to market expectations and the performance of our peers. The strength of our businesses and the operational focus of our teams allowed us to deliver solid performance in 2008.

Ongoing renewal

Canadian Tire has a history of renewing itself successfully. Our ability to evolve and to change is particularly important now, during the most challenging economic conditions in many decades.

I was honoured to assume the role of President and Chief Executive Officer in January 2009. Since then, we have been looking at everything we do through fresh eyes. The goal of this process is to achieve the most efficient use of our resources, the most effective execution of our strategies, and the highest level of performance in and across our interrelated businesses.

While strategy and execution are important to the success of our ongoing renewal, the key lies in our greatest resource – our people. We have talented men and women throughout our businesses. We have a proven and able executive team. And we have a dedicated and engaged Board of Directors that enjoys a constructive relationship with management.

Creating a more effective organization

We have now initiated measures designed to make our organization even more focused and effective. These changes will accelerate decision-making, improve collaboration and drive alignment across the Company.

Focusing on strategy, execution and culture

These initiatives and other organizational renewal measures will centre on three key drivers of future growth and success: our strategy, our execution and our culture.

As we move through 2009, we will continue to evolve as we build upon the interrelatedness of our businesses, the strength of our brands and our current strategies. Over the past decade, we have invested strategically in growing and renewing our retail networks, in particular Canadian Tire Retail, expanding Financial Services, establishing PartSource, acquiring Mark's and investing in state-of-the-art distribution capacity. In 2009, we will continue with these investments but with a heightened focus on maximizing our return to serve the long-term interests of the Company.

We will work to execute those strategies in a way that increases our productivity, creativity, innovation, efficiency and cost-effectiveness. We will pursue business sustainability in all its forms – environmental, social and economic. And we will maintain our strong financial position through a solid balance sheet, strong liquidity and appropriate credit facilities.

Our strategy and execution will be driven by the culture that has long marked Canadian Tire. We will continue to focus on offering our tremendously loyal customers the best possible level of service. We will provide the products and pricing that consumers want “for days like today and tomorrow.” And we will build upon and communicate the strengths associated with one of Canada's most trusted and respected brands.

Working with our partners

Our renewed organization and focus will only achieve the intended results if everyone involved recognizes their shared accountability and works together. Each manager, employee, dealer, franchisee, petroleum agent and vendor has a role to play. We are all Canadian Tire. Our relationships must continue to evolve within a changing business and consumer environment if we are to meet our shared goals.

“We will continue to provide the products and pricing that consumers want “for days like today and tomorrow.””

“**In 2009, we will have a heightened focus on maximizing our return on our investments to serve the long-term interests of the Company.**”

Facing the future with confidence

Canadian Tire Corporation faces its future from a position of strength and with confidence. I strongly believe we are the best in Canada at what we do, and that we can and will remain so. We have very loyal customers, a strong brand, a unique business model, products and prices that evolve with the marketplace and, perhaps most importantly, the committed men and women who work in and with the organization. Our success today and tomorrow is dependent on continuing to meet and exceed the expectations of our customers – they have a choice and the choice must be Canadian Tire.

As we pursue our goals and the creation of value for all our shareholders, I want to thank our 57,000 team members and all of our partners for their contribution to this great Company.

And finally, before closing, I want to commend Tom Gauld, my predecessor who retired at the end of 2008, for leaving the Company so well-positioned for the future. I thank him for his valuable contribution to Canadian Tire and wish him well in his retirement.



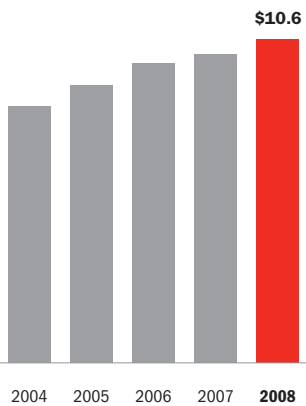
Stephen G. Wetmore
President and CEO
(as of Jan. 1, 2009)

Our balanced portfolio of businesses continues to deliver strong growth.

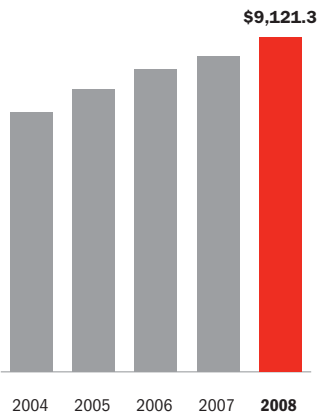
“In 2008, we performed well overall, remained focused on executing the core elements of our strategic plan, and delivered a good result in a softening economy. My focus in 2009 will be on continuing to strengthen our balance sheet and driving out expenses, wherever possible, from our operations.”

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

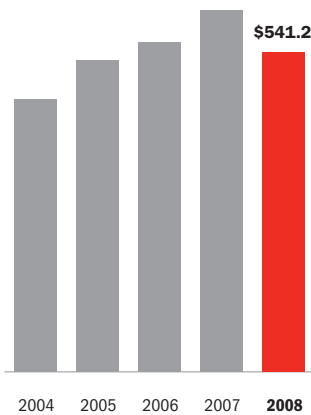
Consolidated retail sales
(in billions)



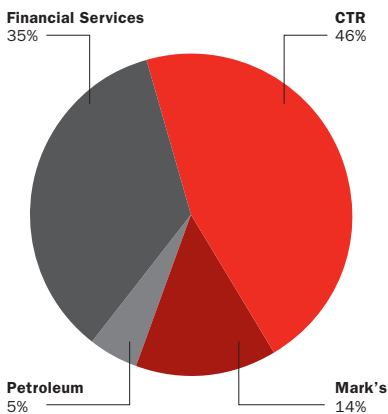
Gross operating revenue¹
(in millions)



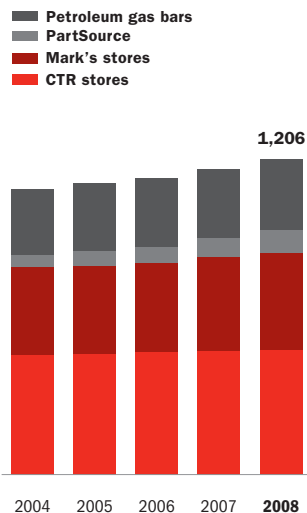
Consolidated earnings before income taxes and minority interest²
(in millions)



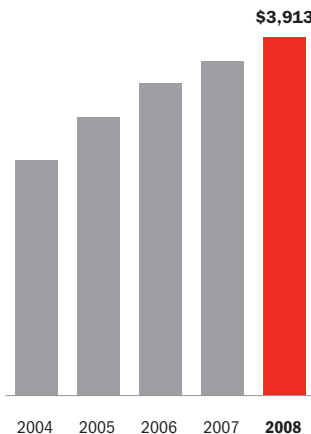
Segmented earnings before income taxes
(in millions)



Consolidated store network growth³



Gross average receivables (GAR) – total portfolio
(in millions)



¹ Gross operating revenue numbers for the years 2004–2007 have been restated for the reclassification of passive interest income to short-term interest expense.

² 2007 figures have been restated for the implementation, on a retrospective basis, of CICA HB 3031 – Inventories.

³ Store count numbers reflect individual selling locations; therefore, Canadian Tire Retail and Mark's totals each include stores that are integrated.

Leadership Team

A deeply experienced and long-tenured team of professionals, each with significant functional and leadership expertise



Stephen G. Wetmore, President and Chief Executive Officer
(as of Jan. 1, 2009)

Stephen is an internationally experienced Chief Executive Officer who has successfully led a number of public companies and managed complex businesses in different industries, including telecommunications, information technology and transportation. In addition to being an independent member of the Canadian Tire Board of Directors since 2003, he has also served as a Director on numerous public company boards and educational and charitable organizations.



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

Huw has overall corporate financial accountability for planning and budgeting, financial reporting and systems, treasury, taxation and internal audit. He has over 30 years of international finance and accounting experience and has been CFO for eight years.

G. Michael Arnett, President, Canadian Tire Retail

Bringing more than 25 years of retailing expertise to his current role, Mike is responsible for the retail chain's marketing, merchandising, technology and supply chain, as well as the development and implementation of new store formats. Previously, Mike has held executive positions in Canadian Tire Retail marketing and in corporate strategy and new business development.

Marco Marrone, President, Canadian Tire Financial Services Limited

During his 22 years with Financial Services, Marco served in finance, credit risk management, IT, marketing and operations before becoming President in 2006. Marco was involved in developing strategic growth strategies, including the creation of Canadian Tire Bank and developing the country's second largest MasterCard franchise.

Michael B. Medline, Chief Corporate Officer and President, Diversified Businesses

Michael is responsible for human resources, real estate and strategy, legal, corporate communications and investor relations, risk, dealer relations, Petroleum, and PartSource. Michael joined Canadian Tire in 2001 and has extensive experience in strategic planning, mergers and acquisitions, investor relations, marketing and law.

Paul D. Wilson, President, Mark's Work Warehouse Ltd.

Paul joined Mark's in 1992 as General Manager, Western Canada, and served in progressively senior roles until being appointed President, Mark's Work Warehouse, and an officer of Canadian Tire Corporation in 2006. Paul was instrumental in building the Mark's Clothes That Work® brand positioning and the Mark's network expansion. Paul has more than 25 years of retail management experience.

Robyn A. Colver, Senior Vice-President, Secretary and General Counsel

Robyn oversees the provision of legal and corporate secretary services to Canadian Tire, its subsidiaries and its Board of Directors. Robyn has over 18 years of experience practising law, including 11 years at a major Canadian law firm, almost four years as Associate General Counsel of Canadian Tire, and four years as Vice-President of Regulatory Affairs and General Counsel of Canadian Tire Financial Services and Canadian Tire Bank.



Stanley W. Pasternak, Senior Vice-President and Treasurer

Stan has leadership accountability 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.

Kristine Freudenthaler, Senior Vice-President, Information Technology and Chief Information Officer

Kristine joined Canadian Tire in 1994. In 2009, she was appointed to her current position with accountability for developing enterprise-wide technology governance and strategies. Kristine is an accomplished business leader with 20 years experience in technology applications, supply chain and general management in Canada and the United States.

Kenneth Silver, Senior Vice-President, Real Estate and Strategy

Ken is responsible for the Corporation's real estate portfolio, corporate strategy development, mergers and acquisitions, and sustainability initiatives. He joined Canadian Tire in 1995 and has more than 20 years of development and retail real estate experience in Canada and the United States.



Sharon J. Patterson, Senior Vice-President, Human Resources

Sharon has accountability for leadership development, succession planning, compensation, benefits, capital accumulation, learning, staffing, organizational development, change strategies and enterprise-wide alignment of HR approaches. With more than 20 years of HR experience, Sharon has a proven track record of leading high-impact HR programs and systems.

Patrick R. Sinnott, Executive Vice-President, Technology and Supply Chain

Pat has accountability for timely and cost-effective flow of product and information, as well as the company's information technology. Before joining Canadian Tire in 1993, Pat had 13 years of logistics experience, including four years as a partner in Ernst & Young's logistics practice. Pat holds Master's Degrees in both Mathematics and Business Administration and is an internationally recognized expert and speaker in logistics and distribution.



Performance scorecard

Our 2008 results

Canadian Tire Retail		2008	
		year-over-year % change (53 weeks to 52 weeks)	
	Retail sales ¹	3.8%	
	Retail sales ¹ (52 weeks to 52 weeks)	2.3%	
	Same store sales ¹	1.8%	
	Same store sales ¹ (52 weeks to 52 weeks)	0.3%	
	Gross operating revenue	3.6%	
	Earnings before income taxes	(17.6)%	
	Adjusted earnings before income taxes ²	(5.3)%	
Mark's Work Wearhouse		2008	
		year-over-year % change (53 weeks to 52 weeks)	
	Retail sales	3.5%	
	Retail sales (52 weeks to 52 weeks)	1.8%	
	Same store sales	0.3%	
	Same store sales (52 weeks to 52 weeks)	(1.4)%	
	Gross operating revenue	5.7%	
	Earnings before income taxes	(22.5)%	
	Adjusted earnings before income taxes ²	(22.4)%	
Petroleum		2008	
		year-over-year % change (53 weeks to 52 weeks)	
	Retail sales	12.2%	
	Gasoline sales volume (litres)	(0.6)%	
	Gasoline sales volume (litres) (52 weeks to 52 weeks)	(2.3)%	
	Gross operating revenue	12.3%	
	Earnings before income taxes	30.4%	
	Adjusted earnings before income taxes ²	17.1%	
Financial Services		2008	
		year-over-year % change	
	Gross average receivables	7.2%	
	Net managed portfolio (end of period)	4.3%	
	Gross operating revenue	10.0%	
	Earnings before income taxes	(0.4)%	
	Adjusted earnings before income taxes ²	3.4%	
	Average number of accounts with a balance	0.1%	
	Average balance per account	7.1%	

Performance on 2008 strategic goals

Growth initiatives

2008 Goals

1. Expand our retail network by adding the following incremental outlets

- 3 Canadian Tire Retail stores
- 14 PartSource stores
- 17 Mark's stores
- 8 Petroleum sites

2. Update retail sites

- 35 Canadian Tire Retail stores
- 24 Mark's stores
- 25+ Petroleum sites

3. Market test two new Canadian Tire Retail store concepts

- 4 stores in the Small Market format
- 2 stores in the Smart store format

4. Expand the number of Canadian Tire Retail stores incorporating a Mark's store

- 14 new stores

5. Improve the automotive parts supply chain

- Double the number of parts available
- Bring more parts inventory closer to customers by building 6 of the 14 new PartSource stores as larger hub stores

6. Expand the Financial Services business

- Increase credit card receivables
- Relaunch the Options MasterCard with additional features to stimulate growth
- Continue testing and refining the retail banking pilot

¹ Includes PartSource

² See section 18.0, Non-GAAP measures, in Management's Discussion and Analysis in our 2008 Financial Report

2008 Results

- 3 Canadian Tire Retail stores
- 15 PartSource stores
- 18 Mark's stores
- 9 Petroleum sites (and 2 rebranded sites)

- 33 Canadian Tire Retail stores
- 18 Mark's stores
- 24 Petroleum sites

- 4 Small Market stores (1 new and 3 replacement)
- 2 replacement Smart stores

- 14 Mark's stores integrated with Canadian Tire Retail stores

- Retrofitted an auto parts Distribution Centre to accommodate a larger SKU product assortment
- Implemented a new warehouse management system in auto parts Distribution Centre
- Increased automotive hard parts assortment by more than 25%
- 5 of the 15 new PartSource stores are larger hub stores

- 7.1% credit card gross average receivables growth
- Options MasterCard relaunch completed
- Continued to test and refine retail banking in 3 pilot markets

Productivity initiatives

2008 Goals

1. Strengthen enterprise-wide focus on customer service

- Common measurements, tracking and reporting across all businesses to enable and direct continuous improvement processes
- Prioritize store-level customer service training
- Programs designed to improve accountability and rewards
- New self-serve checkouts at Canadian Tire Retail
- Expand pay-at-the-pump technology to 19 more Petroleum sites

2. Advance the multi-year IT renewal initiative

- New merchandising software and related process improvements for better data, decisions and productivity
- New system to improve information quality and management of our human resources and related costs
- New automotive parts and service and warehouse management systems to improve productivity and customer service at Canadian Tire Retail and PartSource stores
- Rationalize older technology to reduce risks and operating costs

3. Improve the productivity and engagement of our people

- Improve and align organizational structure
- Improve and align compensation systems and leadership programs across the enterprise

4. Improve our financial flexibility to position the Company for future growth and ensure financial strength through changing economic conditions

- Maintain adequate lines of credit
- Explore new sources of funding to increase flexibility and access to capital

2008 Results

- 80% of CTC customers very satisfied, according to 2008 Customer Service Index results
- Self-serve checkouts installed in 109 Canadian Tire Retail stores
- More store-level service training
- Petroleum pay-at-the-pump expanded to 20 sites

- Canadian Tire Retail merchandising software pricing module deployed
- Implemented new human resources information system
- Automotive management system design completed and software contracts in progress
- Retired a number of legacy IT systems

- Organization structure and job accountabilities for senior leadership completed, and cascade to other levels continuing

- \$1.22 billion in committed lines of credit at year-end
- \$1 billion-plus in total deposits outstanding at year-end, providing a cost-effective capital source and increased financial flexibility

Investing in tomorrow's Canadian Tire

While our goal is to pursue a balanced agenda of growth and productivity, in these market conditions, we will also be focused on cash management. As a result, we will reduce capital expenditures in 2009 to approximately \$390 million (down from \$472 million in 2008).

Growth

1. Expand the retail network at Canadian Tire Retail, Mark's, Petroleum and PartSource¹

- 39 incremental outlets
 - 6 Canadian Tire Retail stores
 - 4 Petroleum sites
 - 14 Mark's stores
 - 15 PartSource stores
- 74 retail outlets replaced, retrofitted or expanded
 - 34 Canadian Tire Retail stores
 - 20 Petroleum sites
 - 13 Mark's stores
 - 7 PartSource stores
- Square footage growth at Canadian Tire Retail and Mark's of approximately 2% and 5%, respectively

¹ Store count numbers reflect individual selling locations; therefore, Canadian Tire Retail and Mark's totals each include stores that are integrated.

Productivity

1. Advance the Automotive Infrastructure program

- Improve technology and supply chain capability at Canadian Tire Retail's core automotive business
- Bring more auto parts assortments closer to customers by building 8 additional PartSource hub stores

2. Advance the Canadian Tire Retail Change Program

- Simplify pricing, promotional planning, and vendor management
- Integrate merchandising planning, and streamline organizational structures



3. Advance the multi-year technology infrastructure initiative

- Upgrade the technology infrastructure that supports Canadian Tire Retail, PartSource, and Petroleum to increase functionality, reduce risk, lower operating costs, and simplify overall architecture

4. Drive operating efficiencies across CTC businesses

- Continue operational efficiency reviews at Financial Services
- Improve effectiveness of Canadian Tire Retail store renewal in Smart store retrofits

5. Advance organizational effectiveness

- Improve and align organizational structures



For days of growing



- Building new Smart stores
- Growing in smaller communities with Small Market stores
- Improving and expanding the Petroleum, Mark's and PartSource networks
- Offering new and improved credit cards

Hockey sales at our new Smart store in Welland, Ont., more than doubled in its first four months of business, compared to the previous Canadian Tire store in Welland.

New stores & products

Growing the top line

We will focus on growing customer traffic and receivables by meeting customers' everyday needs through our expanded store network, enhanced product assortments and store formats, as well as new credit cards and services.

Getting smarter

The Concept 20/20 store format, which has been the foundation of **Canadian Tire Retail**'s growth agenda since 2003, concentrated on expanding the overall store footprint, ensuring that we had the right sized stores in the right markets. With that rollout now complete, Canadian Tire Retail stores are now 30–35 per cent larger, on average, than five years ago.

The next wave of Canadian Tire Retail store renewal shifts the focus from expansion to productivity for higher returns. The first two Smart stores opened in Welland and Orleans, Ontario, in 2008. In all, 35 new or retrofitted Smart stores are planned for 2009.

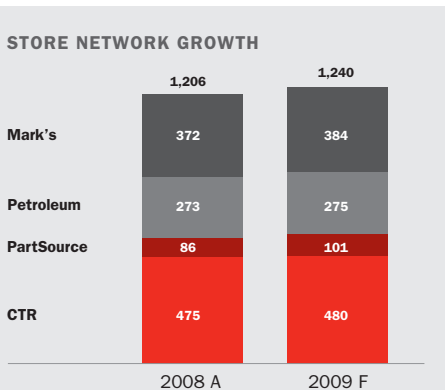
In parallel with the Smart store renewal, we also introduced the Small Market store in 2008, providing a long-term opportunity for growth in 100-plus smaller communities underserved by Canadian Tire Retail today.

The first four Small Market stores in Hearst, Deep River and Cochrane, Ontario, and Athabasca, Alberta, opened during the year and we plan to open five Small Market stores in 2009.

Other retail store expansion

The **PartSource** store network expanded by approximately 21 per cent in 2008, including five larger distribution locations, called hub stores, and five franchise-to-corporate store conversions.

Our **Petroleum** business strengthened its primary role as a driver of Canadian Tire Retail customer traffic and Financial Services receivables growth by opening nine new locations and executing 24 projects to update facilities and branding. Petroleum pumps more than twice the average volume of gas compared to industry competitors,



¹ Store count numbers are net of closures and reflect individual selling locations, therefore both CTR and Mark's totals include stores that are integrated.

We plan to open more than 35 incremental outlets in 2009.

Pick one of our card options

Canadians' trust in the Canadian Tire brand is the force behind the success of Financial Services' core credit card business. In 2008, we continued to expand the reach and capabilities of our card offering.



	Options [®] MasterCard [®]	Gas Advantage [®] MasterCard [®]	Cash Advantage [®] MasterCard [®] (pilot mode)	Vacation Advantage [®] MasterCard [®] (pilot mode)
Customer benefits	<ul style="list-style-type: none"> • Canadian Tire 'Money' on the Card earned with every purchase • PayPass functionality 	<ul style="list-style-type: none"> • Customers can save up to \$0.10 per litre at Petroleum gas bars 	<ul style="list-style-type: none"> • Cash back on every purchase • Double cash back on Canadian Tire Retail and Mark's purchases 	<ul style="list-style-type: none"> • Vacation savings • Other customer benefits to come in 2009



Mark's continues to focus on innovation by introducing products that are better designed and engineered into its Clothes That Work assortment, such as the perfectly pressed never-iron casual shirt.

thanks to the power of the Canadian Tire brand and loyalty program.

At **Mark's**, growing the network is no longer limited to building a typical 12,000 sq. ft. store. By building new locations that are integrated with a Canadian Tire Retail store, we can bring together two great brands to reach new customers cross-shopping the two stores. During the year, Mark's opened 14 stores integrated with a Canadian Tire Retail store, complemented by 24 standalone store openings, expansions or retrofits.

In addition, Mark's continues to introduce products that are better designed and engineered into its Clothes That Work[®] assortments. Popular innovations such as women's Curvetech[™], men's Flextech[®] stretch fabrics and Quad Comfort[®] footwear have been integrated into more designs and the never-iron shirt is now available in every Mark's store. New innovations in 2008 include ladies Denver Hayes Soft[™] shape-retention sweaters

and water-repellent denim jeans, DRI-WEAR[™], and Anti-Slip[™] footwear.

New Options at Financial Services

Canadians' trust in the Canadian Tire brand is the force behind the success of **Financial Services'** credit card business. We continued to expand the reach and capabilities of our card offering in 2008, contributing to a 7.2 per cent increase in gross average receivables in the total managed portfolio.

In 2008, Financial Services relaunched the Canadian Tire Options MasterCard complete with PayPass contactless payment capability on the card and became the largest issuer of PayPass in Canada. The Options MasterCard continues to award 'Money' on the Card, which is earned worldwide but redeemable only in Canadian Tire Retail stores to help drive traffic back into our core business. In addition, the Gas Advantage MasterCard, which gives cardmembers instant savings at Canadian Tire Petroleum of up to ten cents off a litre based on card usage, was rolled out across Canada.

In 2009, Financial Services will continue to drive managed growth of receivables through benefits from PayPass capability, the introduction of new test cards, and targeted balance transfer offers.



For days of focusing on our customers

- Tracking customer opinions
- Improving online customer features at www.ctfs.com
- Offering customer pick-up and self-serve checkouts
- Adding easy-to-navigate signage and walkways in Canadian Tire Retail stores
- Piloting new store formats at PartSource

We will increase our commitment to customer service across all of our businesses in 2009, including establishing a new Customer Service Committee that will be chaired by CEO Stephen Wetmore, to ensure we deliver the best possible level of service.

Improving customer service

Thank you. Come again.

Improving customer service is an essential part of building customer trust and forms the foundation of our pursuit of creating customers for life.

Our CEO's commitment to customer service

Our new President and CEO, Stephen Wetmore, is committed to offering our customers the best possible level of service. He is personally overseeing all of our customer service initiatives across the Company in his new role as Chairman of our cross-functional Customer Service Committee. In Stephen's words, "Our success today and tomorrow is dependent on continuing to meet and exceed the expectations of our customers. They have a choice and the choice must be Canadian Tire."

Customer service index

Canadian Tire uses a measurement tool, called the Customer Satisfaction Index (CSI), to track elements of customer opinion that gauge their loyalty. It is used by all our businesses, complemented by other metrics, to track customer service level progress and develop action plans for improvement.

At **Canadian Tire Retail**, 80 per cent of customers say they would "definitely recommend" Canadian Tire Retail to others.

Service improvements at Financial Services

Financial Services implemented several customer service improvements in 2008, including extra self-serve functionality online at www.ctfs.com. Today, Financial Services customers can apply for a credit card online and soon they will be able to request credit limit changes and set account alerts online.

Customers think it's Smart, too

Store design renewal is the lifeblood of retail and Canadian Tire Retail has been engaging customers with new formats for over 15 years. The new Smart stores' emphasis on inspiring layouts, refreshed assortments and more environmentally responsible options all add up to a major improvement in customer experience.

The Smart stores build on our cornerstone automotive, tools and hardware, and sports and recreation categories, while investing in growth areas such as pet care, fitness, and storage and organization. This combination ensures an everyday shopping experience that moves with the times while retaining Canadian Tire's renowned comfort and familiarity.



Building customer loyalty at Petroleum

Petroleum's primary role is to build customer loyalty by distributing approximately \$35 million annually in Canadian Tire 'Money' redeemable only at Canadian Tire Retail.

Features of the new Smart stores include:

- More space for high-volume categories, such as sporting goods, outdoor recreation and fitness
- Department-specific customer assistance desks, how-to guides, price look-ups, customer pick-up area and self-serve checkouts
- Expanded household essentials area; testing a 1,000 sq. ft.-plus convenience food offering
- More inspiring merchandising and displays, particularly in growth categories such as home/garage storage and organization
- Simpler navigation with easy-to-read signage, high walls and ceilings, and a return to the intuitive "racetrack" floor plan



The new Smart stores offer an improved customer experience with department-specific customer assistance desks, price look-ups and customer pick-up area.

Great things come in small packages

The new Small Market stores, tailored to communities of 4,000 to 10,000 households, include an exterior with updated branding, generously sized outdoor areas and fenced-in compounds that 'expand' the store in peak periods such as the summer cottage season. The concept also makes use of our interrelated network of businesses by incorporating a Mark's Work Wearhouse and Petroleum wherever appropriate. The store interior feels comfortable, with easy-to-navigate signage and walkways, and prominent heritage departments, such as tools and hardware.

Bolstering the brand with PartSource and Petroleum

We are proud of the excellent customer feedback our **PartSource** staff receive, including from Canadian Tire Retail, PartSource's largest commercial customer. In 2009, PartSource will draw upon Canadian Tire's concept renewal expertise to pilot its own first store format change.

Petroleum scores well on both the internal customer satisfaction index and relative to its market competitors — a considerable achievement in a competitive industry. To support our Agents, we introduced an operational standards program in 2008, with guidelines to help further improve the customer experience.



For days of
doing things
better

- Building capital-light stores
- Improving technology and supply chain
- Enhancing automotive infrastructure
- Ongoing cost reductions

Canadian Tire Retail plans to open 35 Smart stores and 5 Small Market stores in 2009 that are capital-light and focused on productivity.

Improved productivity & efficiency

As a long-standing leader in the Canadian marketplace, we know that sustainable earnings growth requires improving the productivity of everything we do.

Benefiting customers and the bottom line

Canadian Tire Retail made substantial moves in 2008 aimed at greater productivity:

- More efficient Smart store format
- Better product flow systems for improved in-stock position
- New IT infrastructure and pricing application for competitive benchmarking and better everyday pricing
- Reorganized and streamlined home office merchandising team for greater effectiveness and efficiency
- More store operations best practice sharing than ever before

At **Petroleum**, pay-at-the-pump technology is bringing more gas bars up-to-date and a new operations toolkit is helping Agents grow their businesses profitably and productively.



The improved Canadian Tire Retail flyer will help generate more sales by featuring 10% fewer, but more aggressively-priced products in the weekly flyer.

Back in the driver's seat: automotive

Our automotive business provides both growth and efficiency opportunities, and we are enhancing customer-facing processes, upgrading technology and deploying more auto parts closer to customers. This is supported by investments in new larger **PartSource** distribution hub locations. Hub stores allow customer delivery service, including to Canadian Tire Retail, seven days a week within a 150-kilometre radius.

Sustaining growth at Mark's

The growth of **Mark's** in recent years sharpens the need for smooth product flows, and Mark's is investing in IT and supply chain infrastructure by taking advantage of Canadian Tire Retail's know-how to improve forecasting and



Expanding auto assortments

In 2009, we will build 8 larger PartSource hub stores, which will improve efficiencies by bringing more parts inventory closer to customers at both Canadian Tire Retail and PartSource.

replenishment, and to reduce inventory per square foot.

Smart also means more efficient

Thanks to the larger Concept 20/20 stores, the average Canadian Tire Retail store can now accommodate numerous future internal format changes. Smart store retrofits will take just six weeks to complete — down from 14 — and cost less than 25 per cent of previous formats.

The Smart store also brings forward experience from previous formats' assortments, performance, space productivity and customer research. This information is underpinning investment decisions to grow or downsize products and categories as required.

A little store goes a long way

The Canadian Tire Retail Small Market store shares the Smart store's priority on efficiency and it incorporates the magic ingredients of operational best practices, training and tools to complement the new design.

Return on investment will also be higher owing to the Small Market store's lower-cost design and construction, dense merchandising and removal of other costly features and fixtures.

More value for less money

Financial Services applies the simple philosophy of doing more with less. Business processes are being reorganized to remove low-value activity and to improve productivity and customer service.

Here are some results:

- Processing time for select credit card account applications reduced from 20 days to five — a 10 per cent cost saving
- Credit card fraud investigation process shortened from two weeks down to one day
- New collection management technology that puts more information at collectors' fingertips to improve collections performance overall



Our core automotive business is an important differentiator for Canadian Tire Retail and there is substantial opportunity for increased growth and efficiency.

Improving the productivity of our people

Engaged employees equipped with the right tools are key to achieving our goals of creating customers for life and increasing shareholder value. This belief forms the basis for our organizational structure review, which will help determine clear accountabilities and authorities for every corporate employee.



For days of giving back

- Being economically responsible
- Maintaining the future health of our environment
- Reporting on our efforts
- Donating to families in need

Launched in 2005, Canadian Tire Jumpstart is a charitable program designed to help kids in financial need participate in organized sports and recreation, such as hockey, dance, swimming and basketball.

Corporate social responsibility

Building a sustainable future

We are proud to be consistently recognized as one of Canada's most trusted companies. Our business sustainability strategy is about improving the profitability of our business while also advancing our contribution to society and maintaining the future health of our environment.

We have developed a business sustainability strategy that will act as a framework for innovation, growth and organizational enhancement to reduce costs, enhance revenues and address environmental and social issues facing our business. It will focus on energy, climate, waste and products.

This approach is also reflected in our corporate social responsibility (CSR) guiding principles which incorporate economic, social and environmental responsibilities into our values, operations and business strategy. These guiding principles form the basis for our approach to CSR.

Economic Principles

- Focus on innovation, productivity and efficiency to drive strong shareholder returns and socio-economic benefits
- Ethical business practices and a commitment to transparency
- Responsible operations across our supply chain

Social Principles

- An employee culture of engagement, health and well-being, as well as competitive compensation and benefits, and training and development
- Responsible product sourcing from suppliers with legal and decent working conditions
- Canadian Tire Jumpstart as our primary community initiative along with sustainable community contributions and employee volunteerism and philanthropy

Environmental Principles

- Pollution prevention, waste minimization and resource conservation incorporated into business planning
- Advancing work on environmental issues and providing environmentally preferable product options

Canadian Tire's first report on corporate social responsibility

In 2009, we will formally report on our CSR performance for the first time. Our objective is to continually improve our overall performance in this area and affirm our reputation as one of Canada's most recognized and trusted companies.

We plan to use the Global Reporting Initiative (GRI) as a reporting reference tool. It is an internationally accepted reporting framework facilitating transparency and accountability by organizations of all types, sizes and sectors.



Giving 150,000 kids a sporting chance

Canadian Tire Jumpstart has helped 150,000 kids get active since its formation in 2005.

The report will cover energy and climate change, waste, product and service innovation, paper sourcing and usage, community involvement, ethical sourcing, employment practices, governance, ethics, trust and reputation.



Canadian Tire recently introduced our new Blue Planet line of products to help consumers reduce their impact on the environment without sacrificing performance.

Giving kids a sporting chance

Canadian Tire's signature charitable program is **Canadian Tire Jumpstart**, a community-based program that helps kids in financial need participate in organized sports and recreation so they can develop important life skills, self-esteem and confidence. National in scope but local in focus, Canadian Tire Jumpstart delivers support to children through a Canadian-wide network of local chapters, Canadian Tire Dealers, and Petroleum Agents who identify children who would benefit from our program.

Good corporate citizenship is core to our culture. Our employees, Dealers, suppliers and other associates give their time and financial resources to a variety of social causes, and together have raised more than \$30 million for their local communities across Canada in the last nine years. Canadian Tire Jumpstart is now the single largest beneficiary of their generosity.

What makes us different

We have chosen a very targeted and strategic approach to improving the sustainability of our business. While Canadian Tire has long been recognized for our contributions to the economy and society, our new sustainability strategy will enable us to broaden that recognition to include our environmental performance.

We are establishing employee innovation networks that will bring experts from across Canada together to share best practices and resources as we drive sustainability initiatives across our businesses. Our first network is up and running – it focuses on reducing excessive product packaging while enhancing product protection. A product innovation network will get underway shortly, and we expect to introduce others throughout the year.

Complete

- Company-wide energy and carbon assessment
- 70 of 86 PartSource stores now using low-energy lighting
- Established packaging sustainability network
- Established a building sustainability network to reduce the environmental footprint and increase energy efficiency of new and existing buildings

Underway

- All Canadian Tire Retail stores will be converted to low-energy lighting (more than 25% complete) and will participate in the Central Energy Management initiative
- Mark's pilot of electronic central energy management, which will lead to 15–30% increased energy efficiency
- Sustainability networks concentrating on the areas of products and climate change mitigation
- Zero-waste initiative at Home Office
- Company-wide waste assessment



Conservative financial management

Despite the tumultuous international capital market environment, we maintain a strong liquidity position at Canadian Tire through an array of funding alternatives. This is underpinned by conservative financial management policies and practices, including a successful U.S. currency hedging program, which helps to shelter margins from currency fluctuations in offshore product sourcing.

Financing sources

Source	Amount Available	Description
Committed bank lines of credit	\$1.22 billion	From 11 domestic and international financial institutions (no balance drawn on the bank lines at year-end 2008)
Commercial paper program	\$800 million	No commercial paper outstanding at year-end 2008
Medium-term notes program	\$750 million	\$300 million issued to date under the current base shelf prospectus
Credit card receivables securitization	Transaction-specific	Glacier Credit Card Trust (Glacier), a single purpose trust containing only Financial Services' credit card receivables \$635 million of credit card receivables securitized in 2008
Broker GIC deposits (fixed-term guaranteed investment certificates)	No specified limit (market size is \$66 billion)	Funds readily available through broker networks \$927 million in broker GIC deposits at Financial Services at year-end 2008
Company-owned property sale/leasebacks	Transaction-specific	Completed 2 sale/leaseback transactions in 2008 for \$214 million in proceeds

Real estate monetization

In addition to pursuing additional committed bank lines, we also intend to continue to optimize our highly valued property assets through selected monetization transactions, focusing on our larger urban store developments and our Montreal Distribution Centre over the next two years. In 2008, we completed 2 sale/leaseback transactions involving 13 properties resulting in proceeds of \$214 million.

Securitization through Glacier

Glacier, a well-established securitization vehicle, is a single-purpose entity through which Canadian Tire Bank's credit card receivable interests are purchased by issuing debt to the public markets. Our latest transaction took place in February 2008, when Glacier issued \$635 million five-year notes at the weighted average interest rate of 5.08 per cent, resulting in net proceeds of approximately \$630 million. As the securitization market re-opens, we will continue to evaluate this funding source in the context of our overall funding strategy.

Message from the Chief Financial Officer

In conversation with Huw Thomas

Canadian Tire CFO since 2001

Chief Financial Officer, Huw Thomas, explains how Canadian Tire is funding growth and managing expenses in a challenging economic environment.



Huw Thomas
Chief Financial Officer

Q: You've noted recently that you remain confident in Canadian Tire's ability to fund its growth over the next 12–18 months. Why?

A: Despite the recent disruption in the capital markets, we have a range of stable financing alternatives available to us. In addition to operating cash flow, we have a medium-term note program with capacity of \$750 million, a commercial paper program with capacity of \$800 million, \$1.1 billion in deposit accounts, more than a billion dollars in committed bank lines, as well as selected sale/leaseback opportunities from our property portfolio, which is worth more than \$2 billion in book value.

Our 2009 funding needs will be significantly reduced as a result of lower planned capital expenditures, lower expected receivables growth and improved working capital due to lower inventory demands at Canadian Tire Retail.

Q: Explain why you remain comfortable with your overall liquidity?

A: Securitization has been an important program for us, and it will continue to be in the future, but despite access to this funding source being currently limited, we are very comfortable with our present overall liquidity. Broker deposits in particular have become an excellent funding source at competitive rates. We'll also continue to assess and pursue further bank lines of credit and selected sale/leaseback real estate transactions, depending on our needs and market conditions.

Q: Why do you feel broker deposits are a viable long-term source of funding?

A: Since late 2007, Canadian Tire Bank has been offering guaranteed investment certificates (GICs) to our retail banking customers. In 2008, we accessed new channels to offer these GICs through brokers and by the end of the year had grown the portfolio of broker deposits to \$927 million. Given that the total broker GIC market is worth approximately \$66 billion, there is ample room for growth here for us.

Our use of broker deposits in the future depends on what happens in the capital markets; our funding requirements, which will be directed in large part by the rate of credit card receivables growth; and our capital expenditure programs. In the meantime, we'll continue to assess changing market conditions to decide on the most effective funding solutions.

Q: You've indicated previously that you are optimistic about Canadian Tire's prospects in an economic downturn. Why?

A: We have several strategic advantages in this current situation. The products and services we offer satisfy everyday needs, and Canadian Tire Retail's high customer traffic rates, combined with a relatively low average transaction value, offer some protection during an economic decline. In times like these, we have the ability to shift down our product mix to entry price products for a more cost-conscious consumer. We have also increased our focus on pricing and promotional strategy during 2008 and this impact was reflected in our fourth quarter sales performance at Canadian Tire Retail. Financial Services had already been working in 2008 to reduce their exposure to higher-risk accounts, and this work will continue in 2009.

Our strategic plan includes a number of activities to improve our operational productivity and effectively manage our working capital. This is not only important in the context of the current economic slowdown but also vital to supporting our future growth plans.

We plan to reduce our capital expenditures to approximately \$390 million in 2009 and will continue to manage expenses conservatively, which is critical in an economic downturn.

Above all, we are fortunate to have one of Canada's most trusted brands, which can be relied on by customers during uncertain times.

Board of Directors

Maureen J. Sabia,
Toronto, Ontario, Canada



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

Current Activities:

Miss Sabia is Non-Executive Chairman of the Board of the Company and President, Maureen Sabia International, a consulting firm. She is also a director of Canadian Tire Bank. Miss Sabia 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 Chairman of the Foreign Affairs and International Trade Canada Audit Committee. She is also Vice-Chairman 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 FPT Inc., O & Y Properties Corporation 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.

Robert M. Franklin,
Toronto, Ontario, Canada



Member of:
· Audit Committee
· Social Responsibility
Committee

Current Activities:

Mr. Franklin is President of Signalta Capital Corporation, a private investment holding company. He is a director of Barrick Gold Corporation, First Uranium Corporation, Resolve Business Outsourcing Income Fund and Toromont Industries Ltd. Mr. Franklin is also a trustee for Stratos Global Corporation.

Past Activities:

Mr. Franklin was Chairman of Placer Dome Inc. from 1993 until it was taken over by Barrick Gold Corporation in 2006. He has also served as Chairman of Clublink Corporation, ELI Eco Logic Inc., Glenayre Electronics Inc. and Photowatt Technologies Inc., and as a director of Algonquin Mercantile Corporation, Barrington Petroleum Ltd., Call-Net Enterprises Inc., Great Lakes Carbon Income Trust, Royster-Clark Ltd. and Serica Energy Corporation.

Martha G. Billes,
Calgary, Alberta, Canada



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

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 Honorary Consul Emeritus for the Republic of Chile, Southern Alberta Region and past member of the Board of Trustees of the Sunnybrook Medical Centre Foundation and the Calgary Women's Emergency Shelter - Endowment Fund Trust. Ms. Billes has also served as a director of Canadian Tire Bank.

Keith E. Gostlin,
Kelowna, British Columbia,
Canada



Member of:
· Social Responsibility
Committee

Current Activities:

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

Past Activities:

Mr. Gostlin became a Canadian Tire 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 Dealer groups, as a director for C.T.C. Dealer Holdings Limited and on numerous Canadian Tire Dealers' Association committees. In addition, he has chaired various committees for the 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.

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



Member of:
· Social Responsibility
Committee

Current Activities:

Mr. Billes is President, Sandy McIlyre Retail Ltd., which operates a Canadian Tire store in Welland, Ontario. He is the son of Martha G. Billes and grandson of Canadian Tire co-founder A.J. Billes. Mr. Billes is also a director of the Canadian Tire Foundation for Families and Canadian Tire Bank.

Past Activities:

Mr. Billes joined Canadian Tire in 1992 as Changeover Consultant, Dealer Changeover. He has worked at Canadian Tire in the Operations Planning Centre, Dealer Operations, Logistics and Automotive Marketing, New Business Development and Petroleum, in Customer Service Strategic Development at Canadian Tire Financial Services Limited and at four Canadian Tire stores. Mr. Billes has also served as a member of the Board of Governors for Niagara College.

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



Member of:
· Governance Committee
· Social Responsibility
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 director of the Canadian Tire Foundation for Families.

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., a founding member of the Women's Equity Fund Advisory Board and a member of the Board of Directors and Treasurer of America's Health Together. 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.

Stephen G. Wetmore,
Mississauga, Ontario,
Canada



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

Past Activities:

Mr. Wetmore was previously President and CEO, Bell Aliant Regional Communications Income Fund, 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 also served as a director of Aliant Inc., Axia NetMedia Corporation, Manitoba Telecom Services Inc. and Stratos Global Corporation. Mr. Wetmore 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. He has also been a director of the C.D. Howe Institute, and a member of the Financial Executives Institute.

Frank Potter,
Toronto, Ontario, Canada



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

Current Activities:

Mr. Potter is Chairman, Emerging Market Advisors, Inc., a consulting firm dealing with international direct investment, and Chairman of Canadian Tire Bank. He is a director of Penn West Energy Trust, Softchoice Corporation, Strategic Energy Corp., Sentry Select Capital Corp., a private company that manages a number of exchange-traded investment trusts, and each of the trusts and funds in the Sentry Select family. Mr. Potter is also Chairman of Imagine Group Holdings Limited, a private Bermuda reinsurance company.

Past Activities:

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

Peter W. Currie,
Belleville, Ontario, Canada



Member of:
· Audit Committee
· Governance Committee

Current Activities:

Mr. Currie is a member of the Board of Governors and Chairman of the Finance and Audit Committee, York University. He is also a director of the York University Development Corporation, Affinion Group Inc., Atomic Energy of Canada Limited and ARISE Technologies Inc. Mr. Currie is a member of the Board of Directors and Chairman of the Audit Committee for Intelius Inc. He is a member of the Financial Executive Institute.

Past Activities:

Mr. Currie was previously Executive Vice-President and Chief Financial Officer, Nortel Networks Corporation, Vice Chairman and Chief Financial Officer, Royal Bank of Canada, Senior Vice-President and Chief Financial Officer, Nortel Networks Corporation (Northern Telecom Limited) and Executive Vice-President and Chief Financial Officer, North American Life Assurance Company. He also served as Chairman of the Board and Chairman of the Audit Committee, Symcor Inc. Mr. Currie was also a member of the Board of Directors and Chairman of the Audit Committee for C.D. Howe Research Institute and Toronto East General Hospital.

Timothy R. Price,
Toronto, Ontario, Canada



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

Current Activities:

Mr. Price is Chairman, Brookfield Funds, Brookfield Asset Management Inc., an asset management company. He is Chairman of the York University Foundation, the lead director of Astral Media Inc., and a director of Brookfield Homes Corporation, HSBC Bank Canada and St. Michael's Hospital Foundation.

Past Activities:

Mr. Price was previously President and CEO of Hees Enterprises Limited and Chairman of Trilon Financial Corporation, which were companies that merged into Brookfield Asset Management Inc. He was formerly Chairman of Q9 Networks Inc., a trustee of Morguard REIT and a governor of York University.

Brian G. Domelle,
Toronto, Ontario, Canada



Member of:
· Social Responsibility Committee

Current Activities:

Mr. Domelle is President, Brian Domelle Enterprises Limited, which operates a Canadian Tire store.

Past Activities:

Mr. Domelle became a Canadian Tire Dealer in 1976. Prior to becoming a Canadian Tire Dealer, he was a chartered accountant with Ernst and Young (formerly Clarkson Gordon). Mr. Domelle was President of C.T.C. Dealer Holdings Limited, and has also served as Chairman of the Metro Toronto Associate Dealers group, as a director and Secretary-Treasurer of the Canadian Tire Dealers' Association and as Secretary of the Ottawa Valley Dealers' Association. He has been actively involved with Upper Canada College as a member of its Association Council and Fundraising Committee.

James A. Riley,
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. He is also a director of The Canadian Stage Company.

Past Activities:

Mr. Riley 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 other for-profit and not-for-profit organizations.

H. Garfield Emerson, Q.C.,
Toronto, Ontario, Canada



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

Current Activities:

Mr. Emerson is Principal, Emerson Advisory, an independent business and financial advisory firm, and a Corporate Director. He is a director of CAE Inc., Open Text Corporation, Sentry Select Capital Corp. and Wittington Investments, Limited.

Past Activities:

Mr. Emerson is the past National Chair of Fasken Martineau DuMoulin LLP (2001-2006). Mr. Emerson was previously President and Chief Executive Officer of NM Rothschild & Sons Canada Limited (1990-2001), investment bankers, non-executive Chairman of the Board of Rogers Communications Inc. (1993-2006) and a senior partner of Davies, Ward & Beck. He has also served as a director of Canada Deposit Insurance Corporation, University of Toronto Asset Management Corporation, NM Rothschild & Sons Limited, Marathon Realty Company Limited, Genstar Capital Corporation, Rogers Wireless Communications Inc. and Sunnybrook and Women's College Health Sciences Centre.

Graham W. Savage,
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, Cott Corporation 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.

Daniel E. Fournier,
Outremont, Quebec, Canada



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

Current Activities:

Mr. Fournier is Executive Vice-President and Chief Investment Officer of SITQ Inc., a real estate subsidiary of Caisse de dépôt et placement du Québec. He is the Chairman of the Genivar Income Fund. Mr. Fournier is the founding Chairman of NF (Neurofibromatosis) Canada.

Past Activities:

Mr. Fournier is formerly President, ACNG Capital Inc., a real estate value creation and strategic planning firm. He 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 Warehouse Corporation, Standard Life Canada, Standard Life Trust Company, Hartco Corporation, Canadian Tire Bank, and as a trustee and member of the Independent Committee of Summit REIT.

“Shareholders of Canadian Tire are entitled to seek and to find a committed, knowledgeable, hard-working Board of Directors. There is no question that, in our Board, you have found what you seek.”

Maureen Sabia, Chairman of the Board

Shareholder and Corporate Information

Home Office

Canadian Tire Corporation, Limited
2180 Yonge Street
P.O. Box 770, Station K
Toronto, Ont. M4P 2V8
Canada
Telephone 416-480-3000
Fax 416-544-7715
Website <http://corp.canadiantire.ca>

Shareholder Contacts

Sharon Mathers

Vice-President, Corporate Communications
and Investor Relations
416-480-8570

Karen Meagher

Associate Vice-President, Investor Relations
416-480-8058

Investor Relations Email

investor.relations@cantire.com

Annual Meeting of Shareholders

MaRS Collaboration Centre
101 College Street
Toronto, Ont.
Thursday, May 14, 2009
10:00 a.m. (EDT)

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
The Toronto-Dominion Bank
National Bank of Canada
HSBC Bank Canada
BNP Paribas (Canada)
RBS ABN Amro Bank

Registrar and Transfer Agent

Computershare Trust Company of Canada
100 University Avenue
Toronto, Ont. M5J 2Y1
Canada
Telephone 514-982-7555
Toll-free 1-800-564-6253
Fax 1-866-249-7775
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 are available online from the investor relations pages of the Company's website at <http://corp.canadiantire.ca/en/investors>.

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 website.

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

2008 Dividends Declared

Declaration Date	Record Date	Payable Date	Amount Payable per Share
Mar 6, 2008	Apr 30, 2008	Jun 2, 2008	\$0.21
May 8, 2008	Jul 31, 2008	Sep 1, 2008	\$0.21
Aug 7, 2008	Oct 31, 2008	Dec 1, 2008	\$0.21
Dec 4, 2008	Jan 30, 2009	Mar 2, 2009	\$0.21

Dividends paid by the Corporation in 2008 and subsequent years are considered "eligible dividends" for tax purposes.

Canadian Tire Corporation, Limited
2008 Financial Report



For days like today
and tomorrow

Table of Contents

- 1** Message from the Chief Financial Officer
- 3** Management's Discussion and Analysis
- 57** Management's Responsibility for Financial Statements
- 57** Auditors' Report
- 58** Consolidated Financial Statements and Notes
- 88** 2008 Quarterly Information
- 89** 2007 Quarterly Information
- 90** Ten-Year Financial Review
- 92** Directors and Officers
- 93** Glossary of Terms
- 96** Shareholder and Corporate Information

Message from the Chief Financial Officer



Canadian Tire performed well in 2008 against a backdrop of economic and consumer challenges. Fourth quarter retail sales in particular were very strong, with CTR and Mark's recording positive year-over-year same store sales performance – an exceptional achievement, particularly for the soft goods sector.

Throughout the year, we continued with our investments in strategic projects to build the tools and platforms for future growth and productivity. These included over a hundred retail projects, continued testing of retail banking, the relaunch of the Options MasterCard, a new human resources information system, infrastructure improvements for our automotive business and enterprise-wide technology renewal.

As a retailer with seasonal business peaks, detailed planning and forecasting is always a challenge, with even small improvements in timelines, accuracy and simplicity offering the potential to yield significant results. We are currently undertaking a program to streamline and align our planning and forecasting processes and implement technologies to support best practices. For only a modest incremental investment, we expect a new system to be in place by the end of 2010, which will result in greater agility in contingency planning, more accurate forecasts and enhanced information to be shared across our business units.

We are also evolving our risk management processes to ensure the economic, social and environmental sustainability of our business and to reinforce our obligation to corporate social responsibility. By optimizing existing expert resources within the business, we are sharpening our focus in the area of business sustainability. We view this simply as the right business decision and believe that it has the potential for substantial long term economic benefits to the Corporation as well as our business partners.

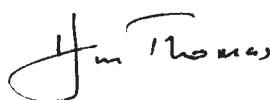
Message from the Chief Financial Officer

While our goal is to pursue a balanced agenda of growth and productivity, in these market conditions, we will also be focused on cash management. As a result, we will reduce capital expenditure in 2009 to approximately \$390 million from \$470 million in 2008, lower working capital needs by reducing inventory at CTR and review overall cash management across the Company.

We remain committed to maintaining the highest standards of financial communication and work hard to build the understanding and trust of the investment community. In 2008, we were honoured once again with a Canadian Institute for Chartered Accountants' award for corporate reporting and early this year we relaunched our corporate website, including a much-improved investor site, which can be found at <http://corp.canadiantire.ca/en/investors>.

Preparations are on track for the significant accounting changes expected to result from the upcoming adoption of International Financial Reporting Standards (IFRS) at the beginning of 2011. We have bolstered our project team with IFRS-experienced professionals, from countries that have already adopted IFRS, who are helping plan and execute the various work streams through which we are evaluating the detailed process and financial implications of IFRS.

Over the past year or so, investor perspectives on the unprecedented economic and consumer state of affairs have affected our stock price. With a successful 87 years in business behind us, Canadian Tire is not a company that will run and hide during difficult market cycles. By way of context, let me underscore the facts: we are a business with sound fundamentals and a strong balance sheet; we have good growth prospects across all of our businesses; we are maintaining our dividend and we have no doubt that the stock price will right itself as economic conditions improve. In the meantime, we are optimistic about the future and confident that our strategy of a balanced approach to growth and productivity will take us to where we want to be.



Huw Thomas

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

Management's Discussion and Analysis

March 12, 2009

Table of Contents

INTRODUCTION	4	8.0 FINANCING	38
1.0 OUR COMPANY	6	8.1 Funding program	39
1.1 Overview of the business	6	8.1.1 Funding requirements	39
		8.1.2 Cash and cash equivalents	39
2.0 CORE CAPABILITIES	6	8.1.3 Working capital	40
2.1 Brand equity	6	8.1.4 Asset-backed commercial paper	40
2.2 Loyalty program	6	8.1.5 Loans receivable	41
2.3 National reach and scale	6	8.2 Funding costs	42
2.4 Innovative store formats, products and services	7	9.0 EQUITY	42
2.5 Store network at a glance	7	10.0 INVESTING ACTIVITIES	43
2.6 Real estate management	7	10.1 2008 capital expenditures program	43
2.7 Supply chain	7	11.0 FOREIGN OPERATIONS	43
2.8 Credit risk management	8	12.0 TAX MATTERS	44
2.9 Call centres	8	13.0 OFF-BALANCE SHEET ARRANGEMENTS	44
3.0 ECONOMIC OUTLOOK AND COMPANY STRATEGY	8	13.1 Glacier Credit Card Trust	44
3.1 Earnings guidance	8	13.2 Trust financing for Dealers	44
3.2 Economic outlook and Company strategy	8	13.3 Bank financing for Dealers and PartSource franchisees	46
4.0 OUR STRATEGIC PLAN	9	13.4 Derivative financial instruments	46
4.1 Rolling five-year Strategic Plan to 2013	9	14.0 ENTERPRISE RISK MANAGEMENT	47
4.2 Financial aspirations	9	14.1 Board accountability	47
4.3 2009 priorities	9	14.2 Principal Risks	48
5.0 OUR PERFORMANCE IN 2008	10	14.3 Financial instruments	50
5.1 Consolidated results	10	14.4 Other risks	51
5.2 Business unit 2008 performance overview	14	15.0 CRITICAL ACCOUNTING ESTIMATES	51
5.3 Business segment performance	15	16.0 CONTRACTUAL OBLIGATIONS	52
5.3.1 Canadian Tire Retail	15	17.0 CHANGES IN ACCOUNTING POLICIES	52
5.3.2 Mark's Work Wearhouse	22	17.1 Merchandise inventories	52
5.3.3 Canadian Tire Petroleum	26	17.2 Capital management disclosures	53
5.3.4 Canadian Tire Financial Services	29	17.3 Financial instruments	53
6.0 NEW BUSINESS DEVELOPMENT	35	17.4 International Financial Reporting Standards	53
7.0 CAPITAL MANAGEMENT	35	17.5 Goodwill and intangible assets	54
7.1 Capital management objectives	35	18.0 NON-GAAP MEASURES	55
7.2 Definition and management of capital	36	19.0 CONTROLS AND PROCEDURES	56
7.3 Constraints on managing capital	36		
7.4 CTB's regulatory environment	37		
7.5 Key performance measures	37		

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 12, 2009.

Quarterly and annual comparisons in this MD&A

Unless otherwise indicated, all comparisons of results for the fourth quarter (14 weeks ended January 3, 2009) are against results for the fourth quarter of 2007 (13 weeks ended December 29, 2007) and all comparisons of results for the full year of 2008 (53 weeks ended January 3, 2009) are against results for the full year of 2007 (52 weeks ended December 29, 2007).

Restated figures

Certain of the prior periods' figures have been reclassified to conform to the current year's presentation or to be in accordance with the adoption of the Canadian Institute of Chartered Accountants' (CICA) new accounting standards. Please refer to Notes 1 and 22 in the Notes to the Consolidated Financial Statements for further information.

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. The Company calculates its 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 judgment, the accounting policies and estimates detailed in Note 1 of the Notes to the Consolidated Financial Statements for the year ended January 3, 2009 do not require us to make assumptions about matters that are highly uncertain and accordingly none of the estimates is considered a "critical accounting estimate" as defined in Form 51-102F1 published by the Ontario Securities Commission, except as noted in section 15.0.

Caution regarding forward-looking information

This MD&A contains forward-looking information that reflects management's expectations related to expected future events, financial performance and operating results of the Company. All statements other than statements of historical facts included in this MD&A, including statements regarding the prospects of the industries in which the Company operates, future plans, expected financial position and business strategy of the Company, may constitute forward-looking information. Forward-looking information and statements include, but are not limited to, statements concerning possible or assumed future results set out herein, our strategic goals and our priorities, and the economic and business outlook for us, for each of our business segments and for the Canadian economy. Often, but not always, forward-looking information can be identified by the use of forward-looking terminology such as "may", "will", "expect", "believe", "estimate", "plan", "could", "should", "would", "outlook", "forecast", "anticipate", "foresee", "continue" or the negative of these terms or variations of them or similar terminology. Forward-looking information is based on the reasonable assumptions, estimates, analysis and opinions of management made in light of its experience and perception of trends, current conditions and expected developments, as well as other factors that management believes to be relevant and reasonable at the date that such statements are made. The forward-looking information contained in this MD&A is presented for the purpose of assisting the Company's security holders in understanding its financial position and results of operation as at and for the periods ended on the dates presented and the Company's strategic priorities and objectives and may not be appropriate for other purposes. By its very nature, forward-looking information requires the Company to make assumptions and is subject to inherent risks and uncertainties, which give rise to the possibility that the Company's predictions, forecasts, projections, expectations or conclusions will not prove to be accurate, that the Company's assumptions may not be correct and that the Company's objectives, strategic goals and priorities will not be achieved. Although the Company believes that the predictions, forecasts, projections, expectations or conclusions reflected in the forward-looking information are reasonable, it can give no assurance that such matters will prove to have been correct. Such forward-looking information is not fact but only reflections of management's estimates and expectations. Although the Company believes that this forward-looking information is based on information and assumptions which are current, reasonable and complete, this information is necessarily subject to a number of factors that could cause actual results to differ materially from management's predictions, forecasts, projections, expectations or conclusions as set forth in such forward-looking information for a variety of reasons. These factors include (a) credit, market, operational, liquidity and funding risks, including changes in interest rates or tax rates; (b) the ability of Canadian Tire to attract and retain quality employees, Dealers, Canadian Tire Petroleum™ (Petroleum) agents and PartSource® and Mark's Work Wearhouse® (Mark's) store operators and franchisees; (c) the willingness of customers to shop at our stores or acquire our financial products and services; (d) risks and uncertainties relating to information management, technology, product safety, competition, seasonality, commodity price and business disruption, consumer credit, securitization funding, and foreign currency; and (e) the risks and uncertainties that could cause actual results or the material factors and assumptions applied in preparing forward-looking information to differ materially from predictions, forecasts, projections, expectations or conclusions, which risks and uncertainties are discussed in section 14.0 (Enterprise risk management) for the year-ended January 3, 2009. Additional risks related to specific business segments can be found in section 5.3.1.6 (Business Risks - CTR), section 5.3.2.5 (Business Risks - Mark's), section 5.3.3.5 (Business Risks - Petroleum) and section 5.3.4.8 (Business Risks - Financial Services).

For more information on the risks, uncertainties and assumptions that could cause the Company's actual results to differ from current expectations, please also refer to the Company's public filings available at www.sedar.com and at corp.canadiantire.ca/en/investors.

We caution that the foregoing list of important factors is not exhaustive and other factors could also adversely affect our results. Investors and other readers are urged to consider the foregoing risks, uncertainties and assumptions carefully in evaluating the forward-looking information and are cautioned not to place undue reliance on such forward-looking information. Statements that include forward-looking statements do not take into account the effect that transactions or non-recurring or other special items announced or occurring after the statements are made have on the Company's business. For example, they do not include the effect of dispositions, acquisitions, other business transactions, asset write-downs or other charges announced or occurring after such statements are made. The forward-looking information in this MD&A reflects the Company's expectations as of March 12, 2009, and is subject to change after this date. The Company does not undertake to update any forward-looking information, whether written or oral, that may be made from time to time by or on its behalf, to reflect new information, future events or otherwise, unless required by applicable securities laws.

Information contained in or otherwise accessible through the websites referenced above does not form part of this MD&A. All references in this MD&A to websites are inactive textual references and are for your information only.

Management's Discussion and Analysis

1.0 OUR COMPANY

1.1 Overview of the business

Canadian Tire has been in business for over 85 years, offering everyday products and services to Canadians through its growing network of interrelated businesses. Canadian Tire, our Dealers, franchisees and Petroleum agents operate more than 1,200 general merchandise and apparel retail stores and gas bars. The Canadian Tire Financial Services® (Financial Services) division of the Company also markets a variety of financial services to Canadians.

Canadian Tire's four main businesses are described below.

CTR is one of Canada's most shopped general merchandise retailers with a network of 475 Canadian Tire stores that are operated by Dealers, who are independent business owners. Dealers buy merchandise from the Company and sell it to consumers in Canadian Tire stores. CTR also includes our online channel and PartSource. PartSource is a chain of 86 specialty automotive hard parts stores that cater to serious do-it-yourselfers and professional installers of automotive parts. The PartSource network consists of 33 franchise stores and 53 corporate stores.

Mark's is one of Canada's leading clothing and footwear retailers, operating 372 stores nationwide, including 329 corporate and 43 franchise stores that offer men's wear, women's wear and industrial wear. Mark's operates under the banner "Mark's", and in Quebec, "L'Équipeur". Mark's also conducts a business-to-business operation under the name "Imagewear, a division of Mark's Work Wearhouse™".

Petroleum is Canada's largest independent retailer of gasoline with a network of 273 gas bars, 266 convenience stores and kiosks, 74 car washes, 13 Pit Stops and 86 propane stations. The majority of Petroleum's sites are co-located with Canadian Tire stores as a strategy to attract customers to Canadian Tire stores. Substantially all of Petroleum's sites are operated by independent agents.

Financial Services markets a range of Canadian Tire-branded credit cards, including the Canadian Tire Options® MasterCard® and Gas Advantage® MasterCard®. Financial Services also markets personal loans, lines of credit, insurance and warranty products and an emergency roadside assistance service called Canadian Tire Roadside Assistance®. Canadian Tire Bank® (CTB), a wholly-owned subsidiary, is a federally regulated bank that manages and finances Canadian Tire's consumer MasterCard and retail credit card portfolios, as well as the personal loan and line of credit portfolios. CTB also offers high-interest savings accounts, GICs and residential mortgages as well as the Canadian Tire One-and-Only™ account, which consolidates customers' chequing, savings, loans and mortgage loan balances into one account, in three pilot markets and offers guaranteed investment certificates (GICs) through third-party brokers.

2.0 CORE CAPABILITIES

2.1 Brand equity

Canadian Tire is one of the most recognized and trusted names in Canadian business. CTR, Financial Services and Petroleum all share our logo, 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, such as Mastercraft® and Denver Hayes®, respectively, that have earned a level of credibility that is on 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 operating best-in-class call centres, Financial Services has extended its 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

Over 50 years ago, Canadian Tire's 'Money' loyalty program was launched as a customer traffic-builder for Canadian Tire's gas bars. Today, 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 bars when they pay with cash or use their Canadian Tire Options MasterCard.

2.3 National reach and scale

CTR's stores are conveniently located to serve more than 90 per cent of the population and, with a distribution to more than 11 million homes, our weekly flyer is one of the most widely read advertising vehicles in Canada. Financial Services and Petroleum leverage Canadian Tire's national customer reach to encourage cross-shopping and build loyalty.

2.4 Innovative store formats, products and services

CTR has demonstrated expertise in the art of retailing — delivering innovative store designs and a merchandise selection that customers need and want. We continually refresh our store network and have built a reputation as an innovator by introducing new products, programs and services into the market that address the needs of customers. The objective is to launch new products with innovative features, at compelling prices, that encompass our unique mix of automotive, home and leisure products that are not sold by any other retailer in this combination. Mastercraft 3-in-1 nailers; carbon-fibre, long-handle outdoor tools; and Blue Planet lightbulbs are all examples of new products recently introduced by CTR.

Mark's is also providing innovative apparel and footwear products, such as FRESHTEC™ anti-microbial apparel, anti-slip footwear and never-iron shirts for men and women. The combination of quality, style and functionality of these products is unique to Mark's.

2.5 Store network at a glance

Number of stores and retail square footage	January 3, 2009	December 29, 2007
Consolidated store count		
CTR retail stores ¹	475	473
PartSource stores	86	71
Mark's retail stores ¹	372	358
Petroleum gas bar locations	273	266
Total stores	1,206	1,168
Consolidated retail square footage (in millions)		
CTR retail square footage	18.7	17.7
PartSource retail square footage	0.3	0.3
Mark's retail square footage	3.2	3.0
Total retail square footage²	22.2	21.0

¹ Store count numbers reflect individual selling locations; therefore, both CTR and Mark's totals include stores that are co-located.

² The average retail square footage for Petroleum's convenience stores was 455 square feet per store in 2008 and was approximately 400 square feet per store in 2007, and it has not been included in the retail square footage total above.

2.6 Real estate management

Canadian Tire owns and manages more than \$2 billion (book value) in unencumbered real estate associated with our CTR, 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 per cent of our CTR store properties. Since 1994, CTR has added, expanded or replaced over 400 stores and has sold many of the properties that became redundant. The cash realized from these sales was reinvested in our growth initiatives.

2.7 Supply chain

CTR's supply chain is responsible for managing the flow of goods and information among our suppliers, CTR's supply chain partners and CTR stores. Supply chain partners include common carrier trucking companies, third-party logistics companies, ocean carriers and railways. Supply chain involves most aspects of product replenishment and product information flow at Canadian Tire.

Most of CTR's products are distributed to stores from the A.J. Billes Distribution Centre, the Brampton Distribution Centre or the Calgary Distribution Centre. The A.J. Billes and Brampton Distribution Centres are operated by CTR and are staffed primarily by CTR employees. The Calgary Distribution Centre is operated by a third-party logistics company. CTR also engages third-party logistics companies to provide distribution capability in Montreal, Toronto, Calgary, Halifax and Vancouver. In addition, CTR from time to time utilizes additional distribution centre space that it owns or leases.

To support growth in automotive hard parts sales and service, three Express Auto Parts distribution centres, which are situated in Calgary, Toronto and Montreal, provide overnight order processing six nights per week for nearly all CTR and PartSource stores and provide order delivery to most store locations between 24 and 48 hours from receipt of an order. During 2007, CTR signed a three-and-a-half-year agreement with Uni-Select Inc., which took effect in January 2008, to supply CTR stores and PartSource stores with emergency auto parts not stocked within CTR's overall product assortment.

Management's Discussion and Analysis

In support of CTR's growth, CTR began construction of a new distribution centre in Quebec in 2006. The facility, which was operating in pilot phase in November and December 2008, was commissioned and became operational in January 2009. The new distribution centre will be operated by a third party and will serve stores east of Manitoba which will allow for the closure of two smaller, third-party-operated distribution centres in Montreal and Brampton.

Canadian Tire has been sourcing products outside North America since the 1970s and has built strong relationships with overseas suppliers and supply chain partners. Approximately 40 per cent of the value of CTR's inventory purchases was foreign-sourced as of the end of 2008.

2.8 Credit risk management

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

2.9 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 six of the last nine years as the best in North America by an independent research company, Service Quality Measurement Group Inc., which measures over 300 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 ECONOMIC OUTLOOK AND COMPANY STRATEGY

3.1 Earnings guidance

During the second quarter of 2008, management revised its earnings guidance based on a number of factors that had affected earnings results to date and were expected to affect results during the rest of the year. The revised annual earnings estimate was in the range of \$4.75 to \$5.05 per share excluding non-operating items.

2008 actual earnings per share, excluding non-operating items, was \$4.85 per share, within the range indicated.

Given the unprecedented volatility in the Canadian economy and the difficulty in assessing the potential magnitude of the impact of the global economic slowdown and declining consumer confidence on the Company's business, management will not be providing specific earnings per share guidance for the 2009 fiscal year.

3.2 Economic outlook and Company strategy

The year ahead is projected to be very challenging for all retailers due to the economic slowdown, credit market constraints and declining consumer confidence. If the Canadian economy and employment continue to be weak, the Company could, potentially, experience declining same store sales and margins in its retail businesses, lower growth in receivables at Financial Services as consumers reduce their credit card usage, higher bankruptcies and write-offs and further increases in funding costs across its businesses.

The Company is well-positioned, however, in that:

- > CTR has extremely strong consumer brands, a loyal customer base and a wide range of everyday products that are competitively priced and relevant to a cost-conscious consumer;
- > Mark's emphasis on private-label products, many of which have added features and benefits to improve customer satisfaction and provide a compelling value proposition, has in the recent past allowed Mark's to continue to grow its business, despite adverse business conditions; and
- > over the last year, Financial Services has taken numerous steps to reduce its exposure to accounts with higher credit risk.

In 2009 the Company will take a balanced approach, maximizing earnings through focused growth initiatives, strong expense management and ongoing improvements in financial flexibility, while continuing to invest in long-term growth and productivity initiatives, positioning the Company to accelerate growth in a subsequent business cycle upturn.

4.0 OUR STRATEGIC PLAN

4.1 *Rolling five-year Strategic Plan to 2013 (2013 Plan)*

The 2013 Plan outlines our strategy to build Canadian Tire through a continued focus on growth and productivity throughout the Plan period. The key growth initiatives of the 2013 Plan include network expansion across all of our retail businesses (CTR and PartSource, Petroleum and Mark's), store concept renewals and the continued evolution of products and services at Financial Services. Key productivity initiatives include upgrading our automotive supply chain, renewing our technology infrastructure and streamlining our organizational design.

Specific objectives related to these programs are included in sections 5.2 and 5.3 of this MD&A and elsewhere in the 2008 Annual Report.

4.2 *Financial aspirations*

The 2013 Plan includes financial aspirations for the Company for the five-year period ending in 2013. In light of the credit market disruption experienced since August 2007 and the subsequent economic downturn, management is currently re-assessing its long-term financial aspirations. Once management is able to more clearly quantify the economic impact on our future financial performance, the Company will provide an update to our financial aspirations.

4.3 *2009 priorities*

Canadian Tire will continue to invest in existing growth initiatives together with a renewed focus on enhancing productivity. Management has prioritized the 2009 initiatives to include:

Growth initiatives

- > continued growth of the CTR, Mark's, Petroleum and PartSource networks, including ongoing store expansions and upgrades, with contemplated development of up to 40 projects for CTR, of which approximately six projects will be new to market;
- > square footage growth of approximately 2 per cent for CTR, which will be focused on further testing and expansion of the two new Smart and Small Market store concepts, and square footage growth of approximately 5 per cent for Mark's;
- > continued growth of the CTR/PartSource automotive business through investment in new technology and supply chain infrastructure and the further development of PartSource stores with expanded warehouses (hub stores) across Canada. In total, 16 hub stores are expected to be open by the end of 2009;
- > Financial Services' selected investment in balance transfer offers, leveraging the Options MasterCard with PayPass capability, which was enabled in 2008, that provides added convenience and security features and the launch of new credit cards to drive managed growth of accounts receivable.

Management's Discussion and Analysis

Productivity initiatives

CTC plans to continue with its long-term productivity and efficiency investments. These projects are expected to cost approximately \$44.0 million (net of the first year's benefits) in 2009. They include:

- > Automotive Infrastructure program designed to support CTC's automotive business as well as the PartSource chain of stores. The program, which will be fully implemented by 2011, will make auto parts more accessible to the customer, broaden and optimize the automotive parts assortment, and improve the customer experience through improvements of in-store technology and processes. The program will provide significant top- and bottom-line benefits for CTC, PartSource and Dealers as the various phases are deployed over the next several years;
- > CTC Change Program which represents a significant investment in new systems. Together with changes in processes and organizational structures, the program will streamline merchandising and marketing capabilities; for example, price management, promotional planning, vendor relationship management, assortment and markdown management;
- > IT renewal represented by a multi-year program designed to upgrade the technology infrastructure which supports the businesses. Renewal will provide increased functionality, reduced risk, lower operating costs and a simplified overall architecture; and
- > a variety of smaller projects, all designed to promote continued legislative compliance or to lower operating costs and provide business units with enhanced functionality for improved decision-making.

5.0 OUR PERFORMANCE IN 2008

Unless otherwise indicated, all comparisons of results for the fourth quarter (14 weeks ended January 3, 2009) are against results for the fourth quarter of 2007 (13 weeks ended December 29, 2007) and all comparisons of results for the full year of 2008 (53 weeks ended January 3, 2009) are against results for the full year of 2007 (52 weeks ended December 29, 2007).

Throughout this document, we refer to adjusted pre-tax and after-tax earnings before the impact of non-operating items. Non-operating items are generally the net gains and losses from transactions that are not consistent from quarter to quarter, such as securitization activities and dispositions of surplus property and equipment. In addition, we occasionally include unusual and/or non-recurring items, which are identified and explained at the time. 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 operating results. Please refer to section 18.0 for more information on these and other non-GAAP measures that we use in this MD&A.

5.1 Consolidated results

Consolidated financial results

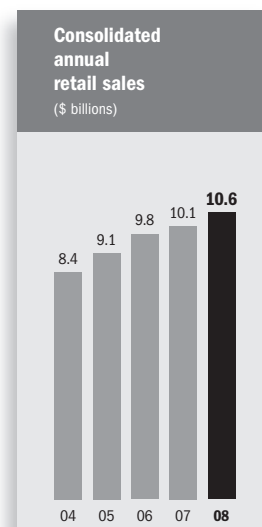
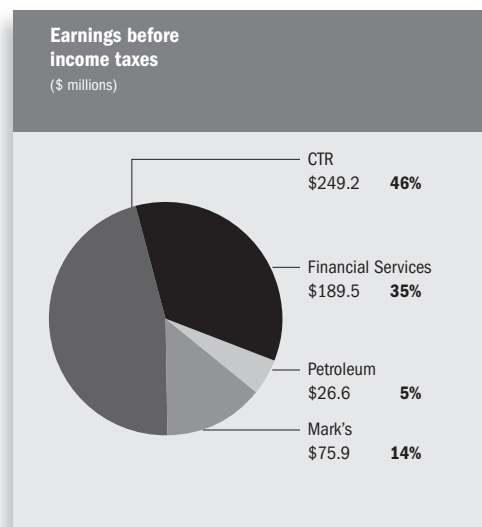
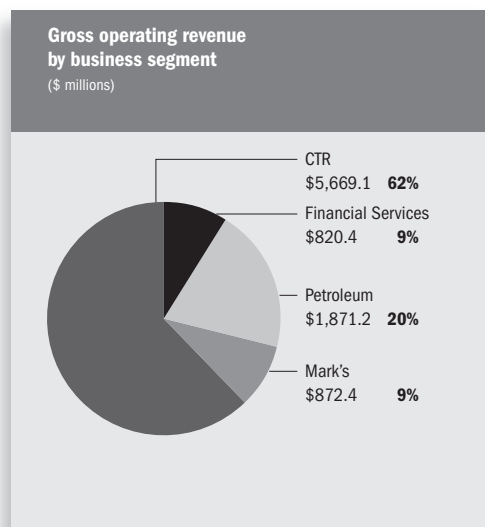
(\$ in millions except per share amounts)	Q4 2008	Q4 2007 ¹	Change	2008	2007 ¹	Change
Retail sales ²	\$ 3,219.6	\$ 3,015.0	6.8%	\$ 10,614.4	\$ 10,084.5	5.3%
Gross operating revenue ³	2,587.8	2,505.1	3.3%	9,121.3	8,606.1	6.0%
EBITDA ^{3,4}	277.3	266.3	4.1%	892.7	881.2	1.3%
Earnings before income taxes	149.5	184.3	(18.8)%	541.2	611.2	(11.4)%
Effective tax rate	32.3%	28.7%		30.9%	32.6%	
Net earnings	\$ 101.2	\$ 131.3	(22.9)%	\$ 374.2	\$ 411.7	(9.1)%
Basic earnings per share	1.24	1.61	(22.9)%	4.59	5.05	(9.1)%
Adjusted basic earnings per share ⁴	1.59	1.64	(3.0)%	4.85	4.96	(2.2)%

¹ 2007 results have been restated for the implementation, on a retrospective basis, of CICA Handbook (HB) 3031 - Inventories. See section 17.1 for additional information.

² Represents retail sales at CTC (which includes PartSource), Mark's corporate and franchise stores and Petroleum's sites.

³ 2007 gross operating revenue and EBITDA have been restated for the reclassification of passive interest income to short-term interest expense.

⁴ See section 18.0 for non-GAAP measures.



Highlights of top-line performance by business

(year-over-year percentage change)	Q4 2008	2008
CTR retail sales ¹	9.1%	3.8%
CTR gross operating revenue	3.3%	3.6%
CTR net shipments	3.0%	3.5%
Mark's retail sales	5.9%	3.5%
Petroleum retail sales	(3.5)%	12.2%
Petroleum gasoline volume	4.1%	(0.6)%
Financial Services' credit card sales	1.4%	6.7%
Financial Services' gross average receivables	6.6%	7.2%

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.

Fourth quarter

Gross operating revenue In spite of the more challenging economic and retail environments, consolidated gross operating revenue increased by 3.3 per cent in the fourth quarter due to higher sales at Mark's, an increase in CTR shipments to Dealers and growth in receivables at Financial Services. Year-over-year results were also favourably affected in the quarter by the additional week of trading.

Mark's growth was led by the industrial wear category and posted the greatest increases in the Prairies, Quebec and Ontario, largely due to favourable winter weather in Canada during the last three weeks of the quarter. CTR's growth was also positively affected by the winter weather during the latter part of the fourth quarter, which led to increases in winter-related and tools categories.

Net earnings Despite the increase in consolidated gross operating revenue during the quarter, consolidated net earnings decreased by 22.9 per cent year-over-year during the fourth quarter due to lower operating margins and the ongoing investment in growth and productivity initiatives at CTR. This was partially offset by higher earnings at Financial Services as a result of strong receivables growth due to strong credit sales over the first three quarters of the year as well as tight expense management. Improved operating margins at Petroleum also contributed to the results.

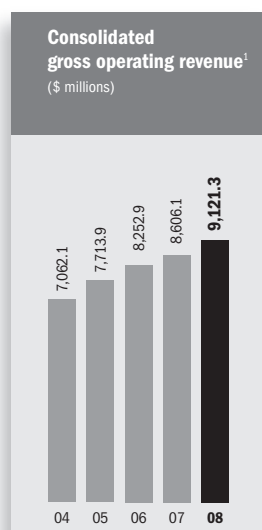
Earnings were adversely affected during the fourth quarter by executive retirement obligations and by non-cash mark-to-market adjustments on our interest rate swap agreements discussed in section 13.4.

Full year 2008

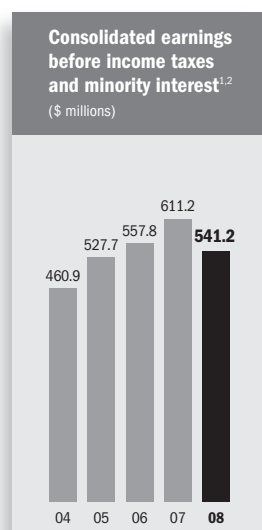
Gross operating revenue Solid increases in revenues across all businesses were led by a 12.3 per cent year-over-year increase in gross operating revenue at Petroleum, largely attributable to increased pump prices experienced throughout the year, and an increase of 5.7 per cent at Mark's, led by increased industrial wear sales, compared to the same period of 2007.

Management's Discussion and Analysis

Net earnings Despite higher revenues, net earnings decreased compared to the same period of 2007 largely due to ongoing investments in retail banking and productivity initiatives, the relaunch of the Options MasterCard in the second quarter, as well as non-operating items described below.



¹ Gross operating revenue from 2004 to 2007 has been restated for the reclassification of passive interest income to short-term interest expense.



¹ 2007 results have been restated for the implementation, on a retrospective basis, of CICA HB 3031 – Inventories. See section 17.1 for additional information. Data required to reclassify the information prior to 2007 is not available.

² The Company had minority interest up to 2006.

Impact of non-operating items The following tables show our consolidated earnings on a pre-tax basis, excluding the following non-operating gains and losses in 2008 (shown on a pre-tax basis):

- > \$28.7 million expense related to delayed-start interest rate swap mark-to-market adjustments;
- > \$5.4 million gain on dispositions of property and equipment;
- > \$5.1 million expense related to executive retirement obligations; and
- > \$2.9 million loss from the net effect of securitization activities.

Adjusted consolidated earnings before income taxes^{1,6}

(\$ in millions except per share amounts)	Q4 2008	Q4 2007 ²	Change	2008	2007 ²	Change
Earnings before income taxes	\$ 149.5	\$ 184.3	(18.8)%	\$ 541.2	\$ 611.2	(11.4)%
Less pre-tax adjustment for:						
Gain on redemption of investment ³	-	-		-	18.4	
Executive retirement obligation ⁴	(6.2)	0.3		(5.1)	(6.2)	
Net effect of securitization activities ⁵	(10.6)	(10.6)		(2.9)	(14.4)	
Delayed-start interest rate swap	(28.7)	-		(28.7)	-	
Gain on disposals of property and equipment	3.0	6.3		5.4	13.5	
Adjusted earnings before income taxes ¹	\$ 192.0	\$ 188.3	2.0%	\$ 572.5	\$ 599.9	(4.5)%
Basic earnings per share	\$ 1.24	\$ 1.61	(22.9)%	\$ 4.59	\$ 5.05	(9.1)%
Adjusted basic earnings per share ¹	\$ 1.59	\$ 1.64	(3.0)%	\$ 4.85	\$ 4.96	(2.2)%

¹ See section 18.0 on non-GAAP measures.

² 2007 results have been restated for the implementation, on a retrospective basis, of CICA HB 3031 – Inventories. See section 17.1 for additional information.

³ See section 5.3.4 on Financial Services' performance.

⁴ See section 5.3.1 for CTR's performance.

⁵ Includes initial gain/loss on the sale of loans receivable, amortization of servicing liability, change in securitization reserve and gain/loss on reinvestment.

⁶ See section 5.3.1 for CTR's performance, section 5.3.2 for Mark's performance, section 5.3.3 for Petroleum's performance and section 5.3.4 for Financial Services' performance.

Selected annual consolidated financial information and trend analysis

(\$ in millions except per share amounts)	2008	2007 ¹	2006 ²	2005 ²	2004 ²
Gross operating revenue ³	\$ 9,121.3	\$ 8,606.1	\$ 8,252.9	\$ 7,713.9	\$ 7,062.1
Net earnings	374.2	411.7	354.6	330.1	291.5
Basic earnings per share	4.59	5.05	4.35	4.04	3.60
Fully diluted earnings per share	4.59	5.05	4.31	3.98	3.53
Cash dividends declared per share (annualized basis)	0.84	0.74	0.66	0.58	0.50
Total assets	7,788.1	6,764.8	5,804.6	5,955.6	5,243.2
Long-term debt (excluding current portion)	1,373.5	1,341.8	1,168.4	1,171.3	1,081.8
Gross average receivables (total portfolio)	3,913.0	3,650.4	3,409.0	3,042.3	2,573.3
Number of retail locations	1,206	1,168	1,130	1,112	1,090

¹ 2007 results have been restated for the implementation, on a retrospective basis, of CICA HB 3031 – Inventories. See section 17.1 for additional information.

² 2004, 2005 and 2006 results have not been restated for the implementation, on a retrospective basis, of CICA HB 3031 – Inventories. Data is not available.

³ Gross operating revenue from 2004 to 2007 has been restated for the reclassification of passive interest income to short-term interest expense.

Despite challenging economic conditions in 2007 and 2008, gross operating revenue has increased steadily over the past five years across all of our business units due to:

- > higher shipments to CTR Dealers as our store network has grown and the layout in our newer store concepts has improved;
- > increased sales at Mark's due to enhancements to product assortment and a strategy that focuses on the Clothes That Work campaign;
- > higher sales at Petroleum due to rising gas prices over the period, with an increased focus on ancillary services such as convenience store offerings; and
- > increased revenue at Financial Services due to growth in the portfolio of loans receivable, the introduction of the retail banking pilot and continued growth from the insurance and warranty services offered.

Long-term debt trends show a small increase each year largely due to continued investment in the growth of our retail businesses and expanded distribution capacity. Long-term debt as a percentage of total assets over the period has declined due to the proportion of financing that is being supported by Financial Services' deposit balances.

Gross average receivables have increased each year over the five-year period. This is due to efforts by Financial Services to grow the total portfolio through increasing the number of accounts with a balance and increasing the average balance per account. In addition, a large majority of Canadian Tire retail credit cards were converted to the Options MasterCard in 2003, and in 2008, the Options MasterCard was relaunched.

For our retail networks, the total number of locations continues to grow, partly due to the 20/20 initiative that began to roll out in CTR in 2003, and continued through to 2008. This initiative focused on adding new stores to the network and retrofitting many of our older format stores by increasing their square footage to allow for a broader assortment and a better shopping experience for the consumer. In addition, the Mark's store network continued to expand and PartSource also consistently added to the number of stores being operated.

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. Q2 2008 was negatively impacted by a \$12.0 million pre-tax book-to-physical inventory adjustment at Mark's and Q4 2008 was negatively impacted by a \$28.7 million pre-tax expense related to the delay-start interest rate swap adjustment.

The following table shows our consolidated financial performance by quarter for the last two years.

Consolidated quarterly results¹

(\$ in millions except per share amounts)	Q4 2008	Q3 2008	Q2 2008	Q1 2008	Q4 2007	Q3 2007	Q2 2007	Q1 2007
Gross operating revenue ²	\$ 2,587.8	\$ 2,257.5	\$ 2,450.7	\$ 1,825.3	\$ 2,505.1	\$ 2,049.2	\$ 2,314.1	\$ 1,737.7
Net earnings	101.2	108.6	97.7	66.7	131.3	102.2	122.5	55.7
Basic earnings per share	1.24	1.33	1.20	0.82	1.61	1.25	1.50	0.68
Fully diluted earnings per share	1.24	1.33	1.20	0.82	1.61	1.25	1.50	0.68

¹ 2007 quarterly results have been restated for the implementation, on a retrospective basis, of CICA HB 3031 – Inventories. See section 17.1 for additional information.

² 2007 gross operating revenue has been restated for the reclassification of passive interest income to short-term interest expense.

Management's Discussion and Analysis

5.2 Business unit 2008 performance overview

Canadian Tire Retail

2008 Performance highlights

- > grew network to 475 stores;
- > increased total retail space by 5.9 per cent; and
- > continued development of new store formats by opening four Small Market stores and two Smart stores in pilot phase.

PartSource 2008 performance highlights

- > grew network to 86 stores including five new hub stores; and
- > grew sales through strong commercial sales.

Mark's Work Wearhouse

2008 Performance highlights

- > grew network to 372 locations and increased total retail space by 6.4 per cent;
- > increased total retail sales by 3.5 per cent over the previous year; and
- > continued to grow Mark's sales in two of its three key product categories.

Canadian Tire Financial Services

2008 Performance highlights

- > completed the Options MasterCard relaunch;
- > continued testing the retail banking initiative with a dramatic increase in broker deposits; and
- > increased total managed portfolio of loans receivable to \$4.1 billion, up 4.3 per cent from 2007.

Petroleum

2008 Performance highlights

- > grew network to 273 gas bars and 266 convenience stores;
- > refurbished 21 gas bars as part of the initiative to improve the overall customer experience at Petroleum's sites;
- > rebuilt three gas bars; and
- > improved earnings over the prior year, reflecting higher gasoline prices and stabilized margins during 2008 as well as effective expense management.

The following sections outlining the Company's business segment performance highlight the respective segments' achievements to date against key initiatives identified in the 2013 Strategic Plan. The initiatives have been divided into those contributing to growth and those contributing to productivity enhancement at Canadian Tire.

In this context, "growth" is intended to convey the objective of achieving increased sales and market share primarily through network growth, new stores and new products. "Productivity" is intended to convey the objective of improved productivity, cost-effectiveness, service levels and rates of return.

5.3 Business segment performance

5.3.1 Canadian Tire Retail

5.3.1.1 2008 Strategic Plan performance

The following outlines CTR's performance in the fourth quarter and full year 2008 in the context of our 2013 Strategic Plan.

Growth initiatives

New store program

20/20 stores have been the cornerstone of CTR's growth agenda since 2003. This program is now complete and CTR is developing new store concepts which are designed to build on the successes of the 20/20 store with a greater focus on improving sales and productivity at a lower capital cost. Plans for 2009 include opening 35 of the new Smart stores that will have the same focus of improving sales and productivity, as well as providing a more exciting customer experience, and five Small Market stores with the further goal of expanding our presence in smaller markets.

2008 Key initiatives

CTR completed the 20/20 store build program in 2008, and towards the end of the year, CTR's strategy involved testing the next versions of the CTR store network. This included the goal of completing four new Small Market stores and two new Smart stores, which is an important aspect of the 2013 Plan.

In addition, CTR planned to open 38 20/20 stores, including eight with a Mark's component.

2008 Performance

Fourth quarter

During the fourth quarter, CTR:

- > opened two Small Market stores, replacing one existing store and adding one which was new to the network;
- > opened two Smart stores both of which replaced existing stores; and
- > opened five standard stores (see section 5.3.1.3 for store definitions), of which one was new to the network and the remaining four replaced or expanded existing stores to a newer format.

Full year 2008

CTR completed a total of 42 store projects in 2008, including 36 standard stores, eight of which included a Mark's component, four Small Market stores and two Smart stores, which opened in the pilot phase.

The store network now totals 475 stores, including 46 with a Mark's component, of which two stores are satellite locations.

Customers for Life

Canadian Tire is committed to building customer loyalty through fostering a positive, consistent and memorable customer experience. In 2008, CTR continued working on a new strategic model for the organization that will lead to a stronger focus on customer service and improvements in generating Customers for Life and will continue this work through 2009.

2008 Key initiatives

CTR planned to undertake a comprehensive survey of customer satisfaction and perception of CTR.

2008 Performance

Fourth quarter

The collecting of data for 2008 continued and, as planned, all customer satisfaction surveys were completed by year-end.

Full year 2008

CTR survey results show a 4.4 per cent improvement in overall satisfaction when compared to 2007 results. The Dealer relations team continued working with the Canadian Tire Dealers Association to address issues that will improve the overall process and future survey results.

Management's Discussion and Analysis

PartSource network expansion

PartSource continued its expansion into new markets in 2008 through a combination of new stores and small-scale acquisitions. This expansion activity will continue through 2009. 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.

2008 Key initiatives

During 2008, PartSource focused on building CTR as a new commercial account for emergency shipments, updating the organizational structure, evaluating a new store operating system, and creating a new auto parts catalogue.

2008 Performance

Fourth quarter

During the quarter, PartSource continued working to build the CTR commercial account and is now used by an average of 170 Canadian Tire stores for emergency auto parts. This initiative will continue in 2009.

Full year

PartSource acquired 11 new corporate stores (of which three had been rebranded to the PartSource banner by the end of the year), opened two new hub stores, relocated and/or retrofitted three existing stores into hub stores and converted five franchise stores to corporate stores during the year. This brings the network total to 86 stores, including eight hub stores.

Productivity initiatives

Automotive Infrastructure initiative

Revitalizing the cornerstone automotive business is a key priority over the 2013 Plan period and CTR continued to roll out phase one of this project in 2008 through opening eight PartSource hub stores. Regional hub stores are larger than traditional PartSource stores and are designed to provide a broader assortment of automotive parts to service both CTR and PartSource customers on an as-needed basis. In 2009, CTR plans to open an additional eight hub stores. In addition, the Company is investing in physical distribution infrastructure and re-engineering customer-facing processes and enabling technologies.

2008 Key initiatives

During 2008, the Automotive Infrastructure initiative involved a significant investment in fixed assets, working capital and the redesign of core processes and enabling technologies.

2008 Performance

Fourth quarter and full year 2008

Progress on the Automotive Infrastructure initiative included:

Emergency supply implementation:

- > opened two PartSource hub stores and retrofitted three existing stores into hub stores, bringing the total number of hub stores to eight; and
- > completed test of new emergency supply processes in Winnipeg in preparation for rollout in 2009.

Corporate assortment expansion:

- > completed phase one of planned physical retrofit of distribution centres to accommodate a significantly larger auto parts assortment;
- > increased auto parts stock-keeping units (SKU) count by more than 25 per cent;
- > completed implementation of a new warehouse management system in the Vaughan auto parts distribution centre;
- > began investigation of new assortment planning methodology to support a broader SKU assortment; and
- > expanded CTC's proprietary numbering capability.

Enabling technologies:

- > completed business requirements definition;
- > commenced Automotive Management System detailed design; and
- > commenced negotiations with core software providers.

CTR Change Program

During 2007, CTR began implementing its multi-year productivity effort with projects designed to overhaul and upgrade internal processes and IT systems. As the benefits of these projects begin to unfold, we will be able to make faster and better decisions and improve our agility and speed to market.

2008 Key initiatives

In 2008, CTR planned to implement productivity/control initiatives in the areas of pricing and product hierarchy to streamline and strengthen operations and improve organizational structures and efficiencies.

2008 Performance

Fourth quarter and full year 2008

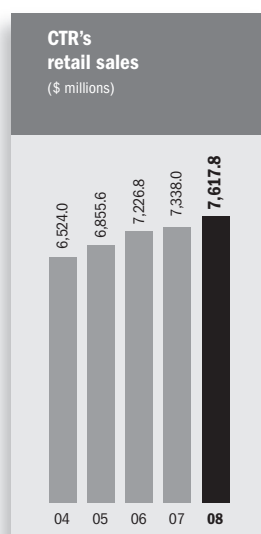
Progress made on the CTR Change Program included:

- > completed pricing implementation;
- > completed Master Data Management infrastructure for CTR's core data related to pricing;
- > completed requirements for the software components of the new promotional planning system;
- > continued current state analysis of vendor management capability; and
- > completed organizational design changes in merchandising and marketing areas.

5.3.1.2 Key performance indicators

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

- > total same store sales growth;
- > average retail sales per store; and
- > average sales per square foot of retail space.



CTR total retail and same store sales

(year-over-year percentage change)	Q4 2008 14 weeks compared to 13 weeks	Q4 2008 13 weeks compared to 13 weeks	Q4 2007 13 weeks compared to 13 weeks	2008 53 weeks compared to 52 weeks	2008 52 weeks compared to 52 weeks	2007 52 weeks compared to 52 weeks
Total retail sales ¹	9.1%	4.0%	0.4%	3.8%	2.3%	1.5%
Same store sales ²	7.3%	2.2%	(1.8)%	1.8%	0.3%	(0.5)%

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

² Includes sales from Canadian Tire and PartSource stores, and excludes sales from 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 at CTR stores, CTR's online website and PartSource, and the labour portion of automotive sales to consumers across CTR's network of stores.

CTR's same store sales

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

Average retail sales per Canadian Tire store^{1,2,3}

(\$ in millions)	2008	2007
Standard stores	\$ 15.5	\$ 15.6
Traditional stores	7.9	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 had been open for a minimum of two years as at the end of the quarter.

³ For store definitions, see section 5.3.1.3.

Management's Discussion and Analysis

Average sales per square foot of Canadian Tire retail space^{1,2,3}

	2008	2007
Retail square footage ^{1,3} (millions of square feet)	18.7	17.7
New-format stores ^{2,3}	\$ 392	\$ 394
Traditional stores ^{2,3}	\$ 490	\$ 497

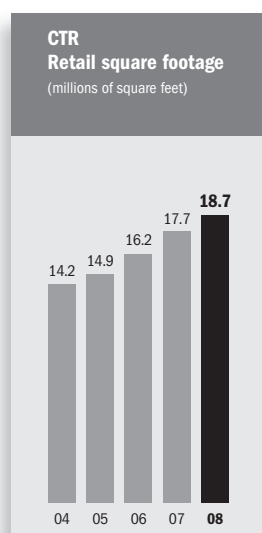
¹ Retail square footage is based on the total retail square footage including stores that had not been open for a minimum of two years as at the end of the quarter.

² Retail sales are shown on a 52-week basis in each year for those stores that had been open for a minimum of two years as at the end of the current 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.

The two tables above show comparable year-over-year results in retail sales per store and a slight decline in retail sales per square foot. The result is due to the large number of store projects we have built over the past couple of years, which are excluded from the calculation as they have not been open, in that format, for a period of two years. Once the stores have been open for two years, they are included once again in the average sales metrics.

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, include more appealing product displays and provide a more compelling shopping experience overall.



Retail sales by product division^{1,2}

(\$ in millions)	2008	2007
Home	\$ 3,169.7	\$ 3,085.2
Leisure	2,074.9	2,076.5
Automotive	1,930.2	1,859.4
Total	\$ 7,174.8	\$ 7,021.1

¹ Retail sales are shown on a 52-week basis in both years 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.

² Certain of the prior year's figures have been reclassified to conform to the current year's product groupings.

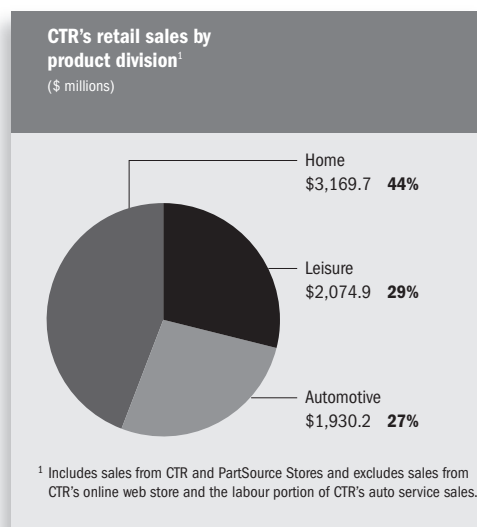
Sales in our major product divisions of home and automotive demonstrated strong growth in 2008 driven by sales in kitchen, better living, home organization and tires categories.

CTR retail sales

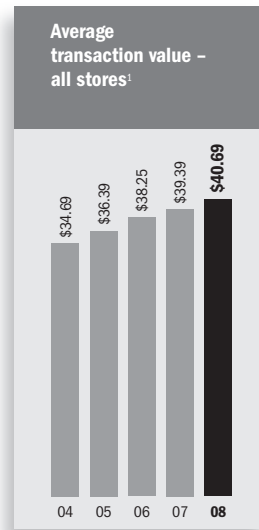
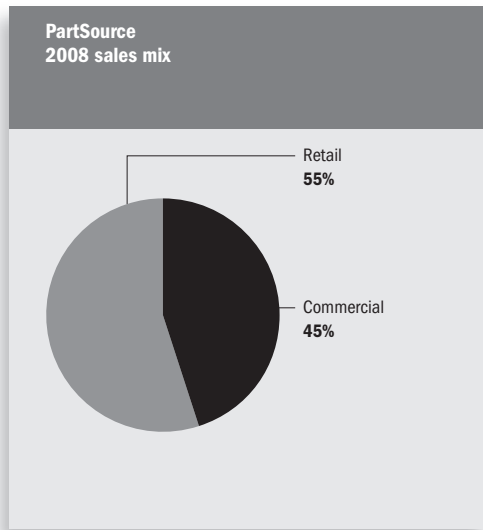
Fourth quarter Total retail sales for CTR for the 14-week fourth quarter of 2008 increased 9.1 per cent compared to the 13-week fourth quarter of 2007, while same store sales increased 7.3 per cent.

On a more comparable 13-week basis, total retail sales were up 4.0 per cent and same store sales increased 2.2 per cent. CTR's increased retail sales reflect an increase in winter-related merchandise sales during the quarter led by an increase in automotive tire sales due, in part, to new legislation in Quebec that made snow tires mandatory for all vehicles, and due to winter weather experienced across the country towards the end of the quarter.

PartSource achieved moderate sales growth in the fourth quarter of 2008, driven by the continued expansion of the network through acquisitions and growth in the commercial customer segment.



¹ Includes sales from CTR and PartSource Stores and excludes sales from CTR's online web store and the labour portion of CTR's auto service sales.



Full year 2008 On an annual basis, total retail sales for CTR for the 53 weeks of 2008 increased 3.8 per cent compared to the 52-week period of 2007. On a more comparable 52-week basis, total retail sales were up 2.3 per cent over 2007 sales levels. Retail sales were strongest in the kitchen, tires and better living categories in 2008 and weakest in home electronics. Total retail sales were affected by weaker seasonal and weather-related sales in the spring and summer due to unseasonal weather experienced across the country and softness in the tools category during the first half of the year. In addition, a challenging economic environment prevailed throughout 2008 and affected retailers across Canada.

¹ Based on all stores (excluding PartSource).

5.3.1.3 CTR's store network

As our store network has evolved, we have introduced new store formats into our store categories, which we define as follows:

Smart store format (late 2008) Average retail square footage: 71,000	Small Market store format (mid-2008) Average retail square footage: 17,000	Standard store format (1994 to mid-2008) Average retail square footage: 44,000	Traditional store format (1994 and prior) Average retail square footage: 16,000	PartSource stores (2008 and prior) Average retail square footage: 7,000
Next store concept renewal, building off the 20/20 store with a focus on growth and improving productivity through inspiring layouts, refreshed assortments and more environmentally responsible options. Stores range in size from 64,000 to 79,000 square feet. There are currently two Smart stores in the network which opened in November 2008.	Smaller format launched in July 2008, ranging in size from 14,000 to 19,000 square feet. Small Market stores meet the needs of underserved rural markets and include customized product selection to serve a particular region, easy-to-navigate signage and walkways, prominent heritage departments and generously sized outdoor areas that “expand” the store in peak periods. There are currently four Small Market stores in the network.	A combination of our newer format stores, including “20/20”, “Class-of” and “Next Generation” stores, ranging in size from 16,000 to 89,000 square feet, most of which were opened or converted to these formats between 1994 and mid-2008. Standard format stores make up approximately 92 per cent of the retail square footage in the CTR network (excluding PartSource).	Smaller than the “standard store” format on average. Traditional stores have various sizes and layouts ranging in size from 3,000 to 49,000 square feet. Traditional stores make up approximately 7 per cent of the retail square footage in the CTR network (excluding PartSource).	PartSource is an automotive parts specialty store designed to meet the needs of major purchasers of auto parts, professional automotive installers and serious do-it-yourselfers. Stores carry a tailored product assortment based on local vehicle needs and are easily recognizable with the checkerboard flooring design. Beginning in 2007, new larger warehouse locations (hub stores) were opened to help bring more parts inventory closer to customers at both CTR and PartSource stores.

CTR store count

	2008	2007	2006	2005	2004
Standard stores	393	381	363	345	327
Traditional stores	76	92	105	117	130
Small Market stores	4	-	-	-	-
Smart stores	2	-	-	-	-
Total standard, traditional, Small Market and Smart stores	475	473	468	462	457
PartSource stores	86	71	63	57	47

Management's Discussion and Analysis

5.3.1.4 CTR's financial results

(\$ in millions)	Q4 2008	Q4 2007 ¹	Change	2008	2007 ¹	Change
Retail sales	\$ 2,364.2	\$ 2,166.2	9.1%	\$ 7,617.8	\$ 7,338.0	3.8%
Net shipments (year-over-year % change)	3.0%	0.4%		3.5%	2.3%	
Gross operating revenue ²	\$ 1,636.4	\$ 1,583.7	3.3%	\$ 5,669.1	\$ 5,473.5	3.6%
EBITDA ^{2,3}	129.0	143.8	(10.3)%	527.0	520.5	1.2%
Earnings before income taxes	26.6	81.0	(67.1)%	249.2	302.4	(17.6)%
Less adjustment for:						
Gain on disposals of property and equipment	3.7	7.3		7.4	17.6	
Executive retirement obligations	(6.2)	0.3		(5.1)	(6.2)	
Delayed-start interest rate swap	(28.7)	-		(28.7)	-	
Adjusted earnings before income taxes ³	\$ 57.8	\$ 73.4	(21.3)%	\$ 275.6	\$ 291.0	(5.3)%

¹ 2007 results have been restated for the implementation, on a retrospective basis, of CICA HB 3031 – Inventories. See section 17.1 for additional information.

² 2007 gross operating revenue and EBITDA have been restated for the reclassification of passive interest income to short-term interest expense.

³ See section 18.0 on non-GAAP measures.

CTR's net shipments

CTR's net shipments are the total value of merchandise shipped to Canadian Tire associate stores and PartSource franchisee stores as well as retail sales of PartSource corporate stores, and our online web store, less discounts and net of returns.

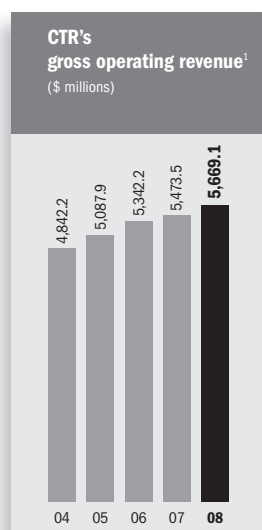
Explanation of CTR's financial results

Fourth quarter The increase in gross operating revenue was aligned with the increase in net shipments of 3.0 per cent for the quarter based on a 14-week period as compared to a 13-week period in 2007.

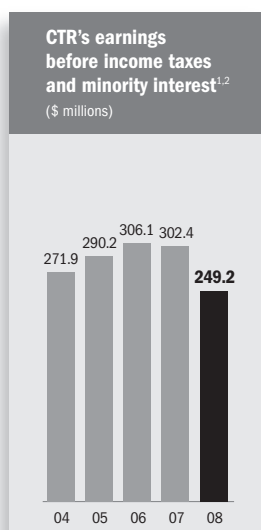
Pre-tax earnings in CTR decreased in the fourth quarter despite shipments growth. The earnings decline was partly attributable to CTR's continued investment in long-term productivity and efficiency initiatives such as the Automotive Infrastructure program, the CTR Change Program and IT renewal, as well as the impact of mark-to-market adjustments on interest rate hedges and swaps which totaled \$8 million. Pre-tax earnings were also affected by several non-operating items including the aforementioned \$28.7 million in delayed-start interest rate swap mark-to-market adjustment and \$6.2 million in executive retirement obligations.

Full year 2008 Despite a challenging retail environment, gross operating revenue increased over the previous year, primarily due to higher overall net shipments driven by new store openings. Higher rental income from our Dealers also contributed to the rise in gross operating revenue.

On an annual basis, the overall margin rate as a percentage of gross operating revenue was consistent year-over-year, reflecting a number of items, including the benefits of purchasing with hedged Canadian dollars. In spite of higher gross operating revenues, CTR's earnings before income taxes declined from the prior year due, in part, to ongoing investments related to productivity improvements, as well as the year-over-year impact of non-operating items.



¹ Gross operating revenue from 2004 to 2007 has been restated for the reclassification of passive interest income to short-term interest expense.



¹ 2007 results have been restated for the implementation, on a retrospective basis, of CICA HB 3031 – Inventories. See section 17.1 for additional information. Data required to reclassify the information prior to 2007 is not available.

² The Company had minority interest up to 2006.

5.3.1.5 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 such as Wal-Mart, Home Depot and, more recently, Lowe's entering and expanding in Canada. The industry has also experienced consolidation as department stores and other retailers either have 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 maintain our competitive position, we believe we 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.

Consumer retail markets are expected to face major challenges in 2009 due to a recession felt across Canada and increasing job losses in all provinces. In addition, a downturn in the real estate market in the United States has started to spill over to the Canadian market, and a correction in the housing market is expected to lead to declining new home starts and property values in 2009. All these factors introduce additional uncertainty into Canadian consumers' minds. This will likely be reflected in consumer spending patterns throughout the year.

The Company is taking all of these issues into account in determining its future capital spending plans, focusing even more on productivity and cost-saving initiatives and continuing to support its value proposition across all businesses.

5.3.1.6 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 operations. Refer to section 14.4 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.

Seasonality risk CTR derives a significant amount of its revenues from the sale of seasonal merchandise and, accordingly, bears a degree of sales volatility from abnormal 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 CTR and PartSource stores. The Company has established and follows comprehensive environmental policies and practices to avoid a negative impact on the environment and to protect CTR's reputation and comply with environmental laws.

Management's Discussion and Analysis

5.3.2 Mark's Work Wearhouse

5.3.2.1 2008 Strategic Plan performance

The following outlines Mark's performance in the fourth quarter and full year 2008 in the context of our 2013 Strategic Plan.

Growth initiatives

Network expansion

A critical aspect of Mark's growth plan revolves around its objective of capturing an increasingly significant share of overall apparel sales in each geographic market in which Mark's competes. To increase Mark's market presence, the Company plans to continue expanding the network of Mark's stores.

2008 Key initiatives

In 2008, Mark's planned to continue its network development by opening new stores, relocating or expanding existing stores and renovating older stores to the newest Mark's format.

2008 Performance

Fourth quarter

- > opened eight new corporate stores, four of which are integrated with CTR stores;
- > expanded three corporate stores; and
- > relocated three corporate stores, one of which is integrated with a CTR store.

Full year 2008

Mark's total retail square footage at the end of the year was 3.2 million square feet, an increase of 6.4 per cent over 2007.

New store concepts

In addition to adding incremental stores to the total network, Mark's is in the process of developing new store concepts that will be rolled out over the Plan period.

2008 Key initiatives

Mark's planned to continue to expand the store network in 2008 by developing new and innovative ways to bring Clothes That Work to consumers across the country, resulting in an increased physical presence across the geographic regions of Canada.

2008 Performance

Fourth quarter

Mark's opened four new stores that are integrated with CTR stores as part of CTR's network expansion strategy (included in total above).

Full year 2008

Mark's opened 18 new corporate stores, of which 10 are integrated with CTR stores; relocated 11 corporate stores, two of which were integrated with CTR stores; expanded six corporate stores; relocated one franchise store, opened two satellite Mark's stores inside a CTR store and opened one mobile store during 2008.

Productivity initiatives

Category expansion

Mark's has set growth goals for the 2013 Plan period which will be supported by its plans for category expansion in its three major product lines. Although growth was modest in 2008, women's wear is still expected to be the fastest growing segment of the business over the Plan period, as it is the least developed of the Mark's main category lines. Improvements in the product assortment in the women's wear category are expected to bring continued growth during the Plan period.

2008 Key initiatives

In 2008, Mark's planned to continue to expand its product assortment in the three main categories of apparel and footwear with a focus on the Clothes That Work campaign.

2008 Performance

Fourth quarter

- > sales of industrial wear increased by 15.9 per cent;
- > sales of women's wear increased by 5.6 per cent; and
- > sales of men's wear increased by 2.3 per cent.

Full year 2008

- > sales of industrial wear increased by 12.1 per cent;
- > sales of women's wear increased by 2.7 per cent; and
- > sales of men's wear decreased by 0.1 per cent.

Mark's continued to focus on the Clothes That Work campaign with the introduction of seven new Clothes That Work items during the quarter and a total of 14 new Clothes That Work items in 2008.

5.3.2.2 Key performance indicators

The following are key performance indicators for Mark's:

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

Mark's retail and same store sales growth

(year-over-year percentage change)	Q4 2008 14 weeks compared to 13 weeks	Q4 2008 13 weeks compared to 13 weeks	Q4 2007 13 weeks compared to 13 weeks	2008 53 weeks compared to 52 weeks	2008 52 weeks compared to 52 weeks	2007 52 weeks compared to 52 weeks
Total retail sales ¹	5.9%	1.6%	5.0%	3.5%	1.8%	8.0%
Same store sales ²	3.9%	(0.3)%	1.4%	0.3%	(1.4)%	4.8%

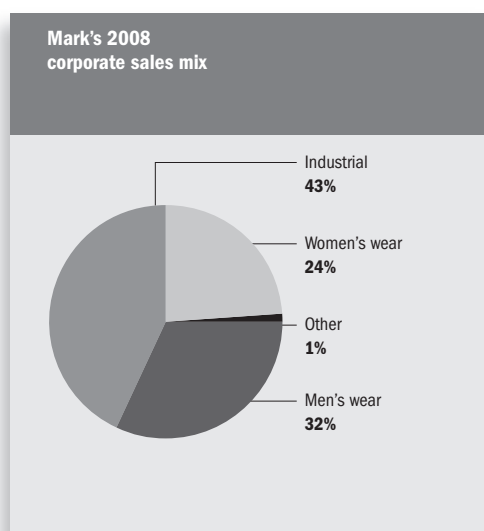
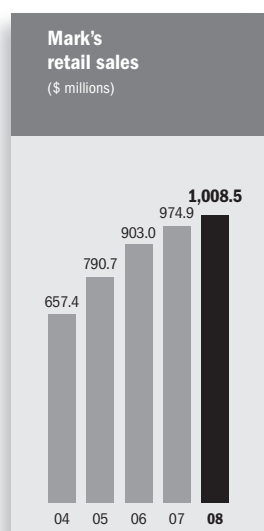
¹ Includes retail sales from corporate and franchise stores.

² Mark's same store sales for corporate and franchise sales combined exclude 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 and business-to-business customers, net of returns, across Mark's entire network of stores, fulfillment centres and Mark's online web store, recorded at retail prices.

Management's Discussion and Analysis



Fourth quarter Mark's total retail sales for the 14-week fourth quarter of 2008 increased by 5.9 per cent compared to the 13-week period of 2007. On a more comparable 13-week basis, total retail sales increased 1.6 per cent over 2007 sales. Fourth quarter retail sales were positively affected by the winter weather in Canada for the last three weeks of the year, leading to strong sales of industrial wear. Same store sales for the 14-week period of 2008 increased 3.9 per cent compared to the 13-week fourth quarter of 2007, with particularly strong same store sales results experienced in the Prairies region. On a more comparable 13-week basis, fourth quarter same store sales were similar to last year, down 0.3 per cent.

The challenging retail environment in Canada during 2008 affected retail sales growth in the more discretionary women's and men's categories while retail sales in the less discretionary industrial wear category continued to show healthy growth. Men's industrial footwear and men's accessories demonstrated the largest sales dollar increases in corporate store sales in the fourth quarter.

Full year 2008 Mark's total retail sales for the 53 weeks of 2008 increased 3.5 per cent compared to the 52-week period of 2007, with same store sales increasing slightly over the previous year levels. On a more comparable 52-week basis, total retail sales increased 1.8 per cent over 2007 sales, with same store sales down 1.4 per cent compared to the previous year.

Relatively flat same store sales for the year resulted from the continued challenges experienced in the retail environment during 2008 and decreased same store sales during the spring and summer selling period, which were due, in part, to the unseasonable weather patterns experienced across the country at that time. These challenges were offset partially by expansion of two of Mark's three major categories, industrial wear and women's wear, and by new store openings, retrofits and expansions that contributed positively to the overall sales results during the year.

Average corporate store sales¹

	For the 12 months ended January 3, 2009	For the 12 months ended December 29, 2007	For the 12 months ended December 30, 2006
Average retail sales per store (\$ thousands) ²	\$ 2,728	\$ 2,803	\$ 2,739
Average sales per square foot (\$) ³	321	338	342

¹ Calculated on a rolling 12-month basis.

² Average retail sales per corporate store includes 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.

Due partly to the softening retail environment in Canada in 2008, there was a decrease in average sales per square foot and average retail sales per store. Some of the decrease is explained by the increase in retail square footage over the last few years as part of Mark's strategy to grow the store network and improve the shopping experience for its customers. Mark's retail square footage has increased by 18.0 per cent since December 2006, largely due to this growth strategy. Mark's continues to focus on productivity at its stores.

5.3.2.3 Mark's financial results

(\$ in millions)	Q4 2008	Q4 2007 ¹	Change	2008	2007 ¹	Change
Retail sales ²	\$ 408.4	\$ 385.7	5.9%	\$ 1,008.5	\$ 974.9	3.5%
Gross operating revenue ³	355.7	326.2	9.0%	872.4	825.3	5.7%
EBITDA ⁴	79.4	73.0	9.0%	103.8	119.4	(12.9)%
Earnings before income taxes	71.7	67.0	7.0%	75.9	98.0	(22.5)%
Less adjustment for:						
Loss on disposals of property and equipment	(0.5)	(0.2)		(0.9)	(1.0)	
Adjusted earnings before income taxes ⁴	\$ 72.2	\$ 67.2	7.4%	\$ 76.8	\$ 99.0	(22.4)%

¹ 2007 results have been restated for the implementation, on a retrospective basis, of CICA HB 3031 - Inventories. See section 17.1 for additional information.

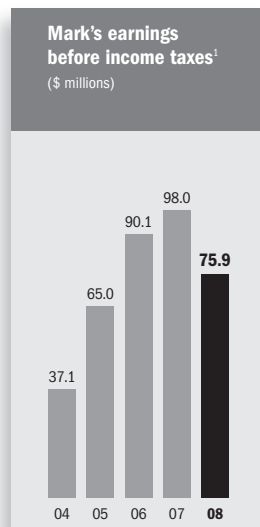
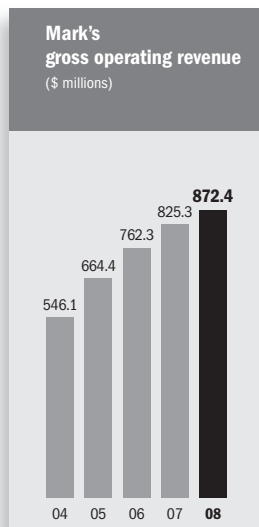
² Includes retail sales from corporate and franchise stores.

³ Gross operating revenue includes retail sales at corporate stores only.

⁴ See section 18.0 on non-GAAP measures.

Explanation of Mark's financial results

Fourth quarter Mark's pre-tax earnings increased in the fourth quarter, reflecting positive same store sales growth, when comparing the 14-week period to the 13-week period, and an improved gross margin rate over the fourth quarter of 2007. Mark's gross margin rate increased by 10 basis points in the fourth quarter year-over-year, due primarily to improved purchase markups and reduced total markdowns, offset by a higher inventory shrinkage provision compared to that made in the fourth quarter of 2007, as well as effective expense management.



¹ 2007 results have been restated for the implementation, on a retrospective basis, of CICA HB 3031 - Inventories. See section 17.1 for additional information. Data required to reclassify the information prior to 2007 is not available.

Full year 2008 Despite an improved fourth quarter, on an annual basis, Mark's pre-tax earnings decreased due to a decline in the gross margin rate of 130 basis points in 2008 year-over-year, flat annual same store sales when comparing 53 weeks to 52 weeks, and an increase in operating expenses associated with continued growth in the store network and infrastructure additions. The decline in the gross margin rate was primarily due to a higher inventory shrinkage from the Mark's annual second quarter inventory count, and the adjusted provision accrual rate thereafter, and a slightly higher markdown rate, offset partially by improved purchase markup.

5.3.2.4 Business trends

Two long-term trends that have affected Canada's approximately \$21 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, increased 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.

Consumer retail markets are expected to face major challenges in 2009 due to a recession felt across Canada and job losses in all provinces. All of these factors introduce additional uncertainty into Canadian consumers' minds going forward, and this will likely be reflected in consumer spending patterns throughout the year.

5.3.2.5 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. Refer to section 14.4 for a discussion of some other industry and Company-wide risks affecting the business.

Management's Discussion and Analysis

Seasonality risk Mark's business remains very seasonal, with the fourth quarter typically producing the largest share of sales and earnings. In 2008, for example, the fourth quarter produced about 41 per cent of total annual retail sales and approximately 94 per cent 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 risks 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 offshore, 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.

5.3.3 Canadian Tire Petroleum

5.3.3.1 2008 Strategic Plan performance

Petroleum plays a strategic role in increasing customer loyalty and driving traffic for CTR and transactions for 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 the fourth quarter and full year 2008 in the context of our 2013 Strategic Plan.

Growth initiatives

Network renewal and new store concept

Petroleum's business is an integral part of the Canadian Tire organization as customers that use Petroleum's gas bars drive sales and traffic to our other business units. In light of the current economic downturn, management will continue to evaluate the appropriate level of investment in Petroleum on an annual basis and to selectively develop Petroleum's real estate plan, focusing both on introducing new store concepts into its existing network and on renewing its current sites.

2008 Key initiatives

In 2008, Petroleum planned to continue to strengthen the existing network by opening new sites and refurbishing or rebuilding existing sites.

2008 Performance

Fourth quarter

- > opened four new gas bars;
- > refurbished 12 gas bars; and
- > replaced one gas bar.

Full year 2008

- > opened nine new gas bars;
- > rebranded two gas bars;
- > refurbished 21 and replaced three gas bars;
- > added pay-at-the-pump technology to 20 existing gas bars; and
- > closed four existing locations.

At the end of the quarter, Petroleum had 273 gas bars, including 38 rebranded sites.

Productivity initiatives

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 has been enhancing its interrelatedness strategy over the past year to further extend its marketing leverage across the Company.

2008 Key initiatives

In 2008, Petroleum sought out additional cross-marketing opportunities to further leverage its interrelatedness strategy to drive customer traffic, transactions, customer loyalty and earnings across the enterprise.

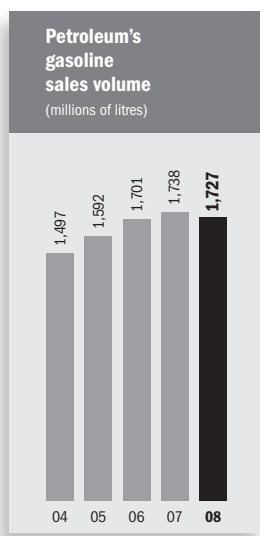
2008 Performance

Fourth quarter and full year 2008

- > issued multiplier coupons that increase the Canadian Tire 'Money' offered on gas purchases paid for in cash or by Canadian Tire Options MasterCard;
- > offered discount coupons on Canadian Tire merchandise with the purchase of gas; and
- > launched the Gas Advantage MasterCard in Quebec and Atlantic Canada.

5.3.3.2 Key performance indicators

Gasoline sales volume is a 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 2008	Q4 2007	Change	2008	2007	Change
Sales volume (millions of litres)	469.1	450.5	4.1%	1,727.0	1,737.5	(0.6)%

Petroleum has continued to grow its market share in a mature market, where gas prices were at historically high levels in 2007 and most of 2008, largely due to our loyalty program, customer service experience at our gas bars and an increased combined penetration rate on our Canadian Tire Options MasterCard and the Gas Advantage MasterCard. On a same site basis for the 14-week fourth quarter of 2008, gasoline volume increased by 1.2 per cent compared to the 13-week period in 2007. On a more comparable 13-week basis, same site gasoline sales volume decreased by 5.4 per cent during the fourth quarter of 2008, largely due to a less aggressive discount program compared to the fourth quarter of 2007.

For the 53-week period of 2008, same site gasoline sales volume decreased by 2.2 per cent over the 52-week period of 2007, largely due to higher gas prices experienced throughout most of the year, which resulted in lower consumer demand for gasoline. On a more comparable 52-week basis, same site gasoline sales volume decreased by 3.9 per cent due to the reasons listed above.

Petroleum's convenience and car wash sales

(year-over-year percentage change)

	Q4 2008	Q4 2007	2008	2007
Total retail sales				
Convenience store sales	13.5%	13.4%	10.2%	15.0%
Car wash sales	1.3%	(7.7)%	(12.7)%	14.9%
Comparable sales				
Convenience ¹	11.4%	11.2%	8.4%	10.9%
Car wash	1.2%	(7.5)%	(12.8)%	12.7%

¹ Convenience same store sales excludes three "Q" convenience stores.

Management's Discussion and Analysis

Convenience store sales in both the quarter and the full year of 2008 increased as a result of new site openings and increases in tobacco sales. The year-over-year decline in car wash sales on an annual basis is largely attributable to unfavourable weather conditions in the first quarter of the year, higher prices at the pump during the second and third quarters and a downturn in the economy in the fourth quarter.

5.3.3.3 Petroleum's financial results

(\$ in millions)	Q4 2008	Q4 2007	Change	2008	2007	Change
Retail sales	\$ 447.0	\$ 463.1	(3.5)%	\$ 1,988.1	\$ 1,771.6	12.2%
Gross operating revenue	414.3	434.1	(4.6)%	1,871.2	1,666.5	12.3%
EBITDA ¹	11.0	8.1	35.7%	43.8	37.2	18.0%
Earnings before income taxes	6.1	3.7	66.6%	26.6	20.5	30.4%
Less adjustment for:						
Loss on disposals of property and equipment	(0.2)	(0.7)		(0.5)	(2.7)	
Adjusted earnings before income taxes ¹	\$ 6.3	\$ 4.4	43.2%	\$ 27.1	\$ 23.2	17.1%

¹ See section 18.0 on non-GAAP measures.

Petroleum's retail sales

Retail sales include the sales of gasoline at Petroleum's entire network of petroleum sites, including rebranded sites, recorded at retail pump prices, 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 sites, propane and Pit Stop sites.

Gasoline pricing

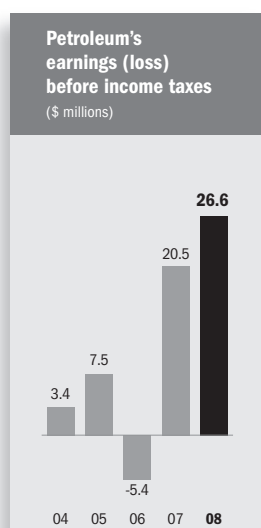
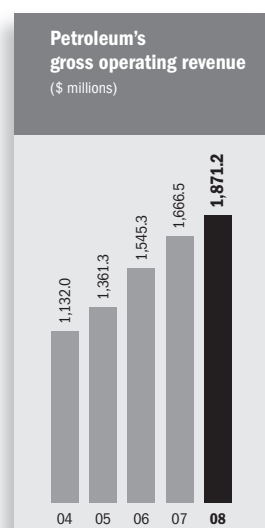
Petroleum maintains long-term wholesale agreements with major refiners to source competitively priced gasoline across Canada. This fuel is then sold through Petroleum retail locations at market prices.

Explanation of Petroleum's financial results

Fourth quarter and full year 2008 Lower gasoline sales prices, lower gasoline volumes and decreased car wash sales, partially offset by an increase in convenience store sales, contributed to Petroleum's decrease in revenue in the fourth quarter of 2008. Average gasoline prices during the fourth quarter of 2008 decreased by 8.7 per cent compared to the fourth quarter of 2007 and by 29.5 per cent compared to the third quarter of 2008, resulting in the decrease in revenue.

Over the full year, gross operating revenue was up due to higher year-over-year pump prices for most of 2008 and increases in convenience store sales, partly offset by slightly lower gasoline volume. Annual average gasoline pump prices increased by 13.3 per cent in 2008.

Gasoline margins have reached record highs in the last two years and were the major contributor to Petroleum's positive earnings performance during both the quarter and the year, a result of a more stable environment experienced during most of 2008 as compared to 2007. Petroleum incurred \$1.8 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 \$4.2 million compared to \$3.3 million incurred in 2007.



5.3.3.4 Business trends and economic outlook

Canada's petroleum market is mature, exhibiting only modest growth, and in 2008 the economics of the retail gasoline channel changed dramatically, with major swings in the price of crude oil and its associated impact on gasoline pricing. Petroleum witnessed all-time high gasoline prices at \$1.40/litre in July followed by a rapid drop to \$0.73/litre in December. Given 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 convenience stores. With higher customer traffic, Petroleum has the ability to drive further growth with an expanded menu of products and services.

The Canadian economy is expected to face major challenges in 2009 due to a recession felt across the country and job losses in all provinces. All these factors introduce additional uncertainty into Canadian consumers' minds going forward and will likely be reflected in consumer spending patterns throughout the year, which could affect decisions regarding the use of personal vehicles, automobile travel and discretionary spending on services like car washes.

5.3.3.5 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 refer to section 14.4 for a discussion of some other industry-wide and Company-wide risks.

Commodity price and disruption 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.

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

5.3.4 Canadian Tire Financial Services

5.3.4.1 Strategic Plan 2008 performance

The following outlines Financial Services' performance in the fourth quarter and full year 2008 in the context of our 2013 Strategic Plan.

Growth initiatives

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

Financial Services planned to grow its portfolio through increases in average balances, new account acquisition and the introduction of new credit cards.

2008 Key initiatives

For 2008, Financial Services' key initiatives targeted increasing gross average credit card receivables and the number of accounts carrying a balance and growing its total managed portfolio.

In 2008, Financial Services planned a major relaunch of the Canadian Tire Options MasterCard with PayPass technology which provides added convenience for customers.

2008 Performance

Fourth quarter

Gross average loans receivable were \$4.0 billion in the fourth quarter, up from \$3.8 billion in the fourth quarter of 2007. The growth reflects a 7.4 per cent increase in the average account balance and a small decline in the average number of accounts carrying a balance.

Full year 2008

Gross average loans receivable were \$3.9 billion at the end of the year, reflecting a 7.1 per cent increase in the average account balance and a 0.1 per cent increase in the number of accounts carrying a balance.

Financial Services successfully completed the relaunch of the Canadian Tire Options MasterCard in 2008 at a total cost of \$11.9 million.

Management's Discussion and Analysis

Retail banking

Financial Services began offering retail banking products including high-interest savings accounts, GICs and residential mortgages in two pilot markets in October 2006. In 2007, the pilot was expanded to include a third market in Ontario along with the launch of the Canadian Tire One-and-Only account. 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.

2008 Key initiatives

Financial Services' retail banking plans included increasing the mortgage portfolio balance and deposit balances.

Financial Services planned to incur approximately \$28 million in net expenses associated with the marketing and operations of the retail banking initiative in 2008.

2008 Performance

Fourth quarter and full year 2008

Financial Services had accumulated more than \$166 million in high-interest savings accounts, approximately \$973 million in total GIC deposits and approximately \$139 million in outstanding mortgage balances as at the end of 2008.

Financial Services incurred \$6.4 million in net expenses associated with the marketing and operations of the retail banking initiative during the fourth quarter of 2008 and a total of \$26.3 million for the full year.

Insurance and other ancillary products

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

2008 Key initiatives

Financial Services planned to increase revenues from insurance and warranty products during 2008.

2008 Performance

Fourth quarter and full year 2008

Revenues from insurance and warranty products increased 6.9 per cent in the fourth quarter and 5.5 per cent in 2008 year-over-year.

5.3.4.2 Key definitions

Total managed portfolio Financial Services' total managed portfolio consists of credit card, personal, line of credit and residential mortgage loans. The total managed portfolio includes all loans receivable that have been issued by Financial Services, before managed allowances, including those that have been securitized. Please see section 8.1.5 and below for additional information about our securitization program.

Securitization of loans receivable Securitization is the process by which interests in financial assets are sold to a third party. Financial Services securitizes credit card 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, co-ownership interests are sold to Glacier Credit Card Trust® (Glacier). Financial Services records these securitization transactions as a sale, and as a result, these assets are not included on the Company's Consolidated Balance Sheets, but are included in our total and net managed portfolios of loans receivable.

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

5.3.4.3 Key performance indicators

The following are key indicators of Financial Services' performance:

- > size of the total managed portfolio;
- > profitability of the portfolio; and
- > quality of the portfolio.

Financial Services' total managed portfolio of loans receivable

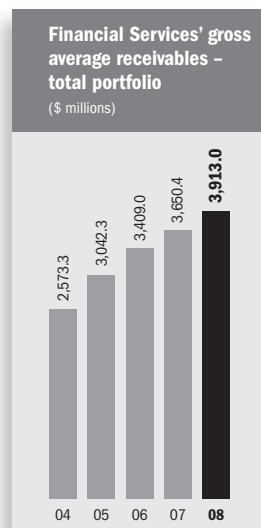
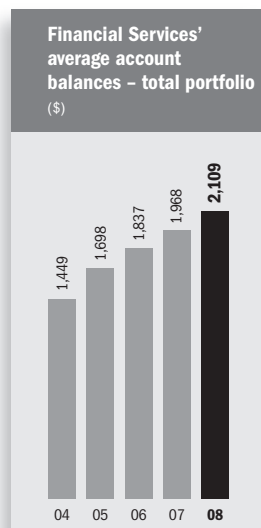
(\$ in millions, except where noted)	Q4 2008	Q4 2007	Change	2008	2007	Change
Average number of accounts with a balance (thousands)	1,851	1,864	(0.7)%	1,856	1,854	0.1%
Average account balance (\$)	\$ 2,174	\$ 2,025	7.4%	\$ 2,109	\$ 1,968	7.1%
Gross average receivables (GAR)	4,023.7	3,774.3	6.6%	3,913.0	3,650.4	7.2%
Total managed portfolio (end of period)				4,120.9	3,952.2	4.3%
Net managed portfolio (end of period)				4,023.6	3,857.0	4.3%

Net managed portfolio

Financial Services' net managed portfolio is the total value, after allowances, of loans receivable, including those that have been securitized, and consists of credit card, personal, line of credit and residential mortgage loans.

Financial Services' net managed portfolio of loans receivable

	December 31, 2008	December 31, 2007
Securitized	\$ 2,216.0	\$ 2,289.8
Unsecuritized	1,807.6	1,567.2
Net managed loans receivable	\$ 4,023.6	\$ 3,857.0



Financial Services' gross average receivables growth slowed during the fourth quarter as credit card use moderated but was offset partly by increases in average account balances driven by earlier increases in credit sales.

Financial Services' future 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.

Financial Services' portfolio of credit card loans receivable

(\$ in millions, except where noted)	Q4 2008	Q4 2007	Change	2008	2007	Change
Average number of accounts with a balance (thousands)	1,818	1,829	(0.6)%	1,819	1,816	0.2%
Average account balance (\$)	\$ 2,083	\$ 1,962	6.1%	\$ 2,031	\$ 1,899	6.9%
Gross average receivables	3,786.3	3,588.2	5.5%	3,693.9	3,450.1	7.1%
Total managed portfolio (end of period)				3,873.6	3,770.5	2.7%

Gross average credit card loans receivable grew 7.1 per cent to \$3.7 billion at the end of the year primarily due to a 6.9 per cent increase in the average account balance compared to the previous year.

Management's Discussion and Analysis

Financial Services' profitability

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

Profitability of total managed portfolio¹

	2008	2007	2006
Total revenue as a % of GAR ²	24.39%	24.78%	24.98%
Gross margin as a % of GAR ²	12.35%	12.99%	13.07%
Operating expenses as a % of GAR ³	7.44%	7.89%	7.83%
Return on average total managed portfolio ^{2,3,4}	4.93%	5.10%	5.23%

¹ Figures are calculated on a rolling 12-month basis and comprise the total managed portfolio of loans receivable.

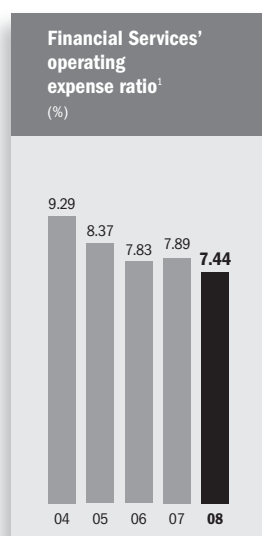
² Excludes the net effect of securitization activities and gain on disposal/redemption of investment.

³ Excludes the impact of the modification to the stock option agreements in the fourth quarter of 2006.

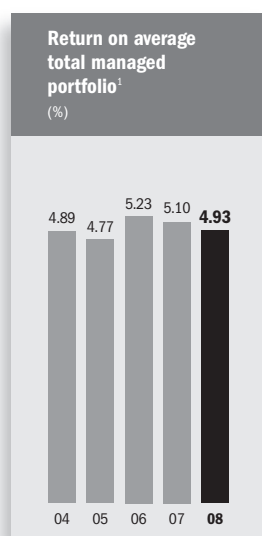
⁴ Return is calculated as earnings before taxes as a percentage of GAR.

Gross margin

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



¹ Excludes impact of 2006 stock option modification.



¹ Excludes net effect of securitization activities, disposal/redemption of MasterCard investment and impact of 2006 stock option modification.

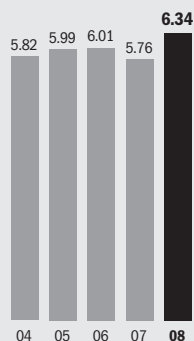
Financial Services' MasterCard accounts provide increased earnings potential through cross-selling of balance-based insurance products and other financial services being offered by Financial Services. As Financial Services introduces lower rate loans, the reduction in revenue and gross margin as a percentage of gross average receivables will be offset by continued growth in loans receivable, higher sales of insurance and warranty products and ongoing improvements in the operating expense ratio.

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 per cent. As shown in the table above, Financial Services exceeded this target in 2006 and 2007 and was well within the target range in 2008.

Portfolio quality

	2008	2007	2006
Net write-off rate (rolling 12-month basis)	6.34%	5.76%	6.01%
Account balances less than 30 days overdue at end of period	96.44%	96.36%	96.44%
Allowance rate	2.36%	2.41%	2.42%

**Net write-off rate
(rolling 12-month basis)**
(%)



Net write-offs

Net write-offs represent account balances that have been written off, net of collections of amounts 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 6.34 per cent in 2008, falling outside the target range of 5.0 to 6.0 per cent. The increase in the net write-off rate can largely be attributed to the challenging economic environment experienced throughout 2008 across the country, including job losses, higher personal debt levels and personal bankruptcy rates. In addition, the increase can be partly attributed to the refinement of the treatment of consumer proposals effective November 2008, which resulted in a one-time increase in the write-off rate of 23 basis points. This refinement relates to the immediate write-off of cardholder proposals made under the Bankruptcy and Insolvency Act. The adjustment in timing does not reflect a change in the credit performance of Financial Services' credit card receivables, but is merely an acceleration of the timing of recognition of the loss.

Allowance methodology

Financial Services is required to maintain an allowance for future write-offs that will be incurred in the receivables portfolio.

Allowance

The allowance is an estimate of the amount of receivables as at the balance sheet date that will be written off, over a set period, pursuant to Company policy. It 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.

5.3.4.4 Insurance and ancillary products

An important part of our Financial Services business is the ability to provide our large credit card customer base with additional products and services that enhance their loyalty to Canadian Tire and increase the return on our portfolio of receivables. These products and services include insurance offerings (credit protection, life and accident), warranty coverages, roadside assistance and identity theft coverage. We are continually searching for and testing additional value-added products and services for our customer base.

Of the earnings from these ancillary products and services, our creditor insurance and warranty services businesses are the most significant. These products and services have been offered to customers in excess of 20 years. Financial Services is very experienced in managing the associated risks. The creditor insurance risk and warranty risk relates exclusively to our card customer base and is borne by our reinsurance subsidiary which operates in Bermuda under professional management, including the services of reputable and experienced actuarial and administrative services organizations.

5.3.4.5 Financial Services' financial results

(\$ in millions)	Q4 2008	Q4 2007	Change	2008	2007	Change
Gross operating revenue ¹	\$ 212.4	\$ 190.3	11.6%	\$ 820.4	\$ 745.9	10.0%
EBITDA ^{1,2}	57.9	41.4	39.7%	218.1	204.1	6.8%
Earnings before income taxes	\$ 45.1	\$ 32.6	38.6%	\$ 189.5	\$ 190.3	(0.4)%
Less adjustment for:						
Gain on redemption of investment	-	-		-	18.4	
Loss on disposals of property and equipment	-	(0.1)		(0.6)	(0.4)	
Net effect of securitization activities ³	(10.6)	(10.6)		(2.9)	(14.4)	
Adjusted earnings before income taxes ²	\$ 55.7	\$ 43.3	29.0%	\$ 193.0	\$ 186.7	3.4%

¹ 2007 gross operating revenue and EBITDA have been restated for the reclassification of passive interest income to short-term interest expense.

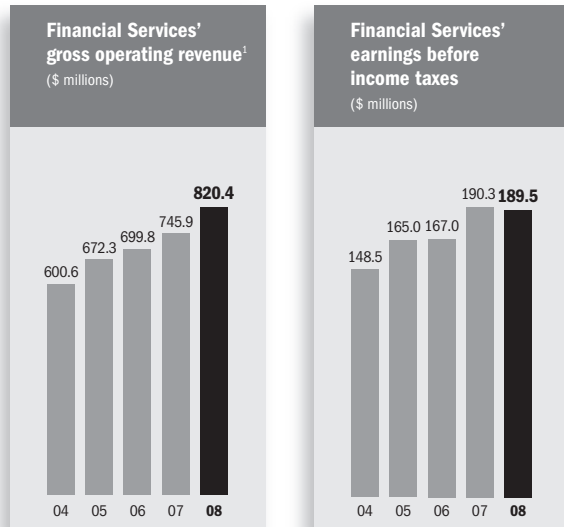
² See section 18.0 on non-GAAP measures.

³ Includes initial gain/loss on the sale of loans receivable, amortization of servicing liability, change in securitization reserve and gain/loss on reinvestment.

Management's Discussion and Analysis

Explanation of Financial Services' financial results

Fourth quarter Financial Services' fourth quarter adjusted earnings before taxes increased 29.0 per cent from the fourth quarter of 2007 due to increased gross average receivables and tight expense management. Fourth quarter adjusted earnings were, however, negatively affected by \$2.4 million due to the change in the treatment of consumer proposals as noted above and by a further write-down of the asset-backed commercial paper (ABCP) investment of \$1.0 million as discussed further in section 8.1.4.



¹ Gross operating revenue from 2004 to 2007 has been restated for the reclassification of passive interest income to short-term interest expense.

Full year 2008 Financial Services' gross operating revenue increased in 2008 due to an increase in average account balances in the loans portfolio leading to growth in loans receivable, although at a slower pace than in previous years, as well as higher credit sales.

Strong performance resulting from higher revenue and tight expense management was partially offset by investments of \$26.3 million related to the retail banking initiative (compared to \$25.5 million in 2007), \$11.9 million related to the relaunch of the Options MasterCard, \$2.4 million due to the refinement in the treatment of consumer proposals as noted above and by an additional \$2.0 million before-tax provision for impairment of ABCP recorded in 2008.

5.3.4.6 Business trends

The total Canadian bank card market has grown consistently over the past five 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. Growth of the credit card portfolio and the continued strength of the Canadian Tire brand provides an opportunity to grow the number of credit card customers that have one or more of our ancillary products and services.

5.3.4.7 Economic overview

As noted above, the year ahead is projected to be very challenging due to the economic slowdown, credit market constraints and declining consumer confidence. Financial Services expects increases in consumer bankruptcy rates to result in increased write-offs and reduced customer use of credit which in turn, will result in slowing receivables growth.

Financial Services continually monitors bankruptcy rates in Canada and adjusts its lending policies according to current trends and economic indicators. Consumer bankruptcies in Canada have increased by 13.5 per cent year-over-year (as of December 2008).

Efforts to reduce the exposure to higher credit risk that increased bankruptcies create have been underway for a number of months through measures such as cutting back on credit limits for inactive accounts and actively changing the percentage of near-prime consumers in the portfolio mix, improving predictive scorecards to identify high-risk customer behaviour and further enhancing collection strategies.

5.3.4.8 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. We have undertaken a third-party review of risk management and the results were positive. The following are some of the business risks specific to Financial Services' operations. Please refer to section 14.4 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, lines of credit 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 manages 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 has historically been an important source of funding for Canadian Tire, involving the sale of credit card loans to Glacier and, previously, 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 ABCP and asset-backed term notes issued by Glacier as described in section 8.1.4 and section 8.1.5, respectively. Developments in 2008 in the international credit markets and the resulting decline in the marketability of commercial paper and term notes have required the Company to rely on other available sources of funding. Refer to section 8.0 for additional information on the sources of funding available to the Company in 2009 and beyond.

Interest rate risk The Company's sensitivity to movements in interest rates is substantially limited to its cash and short-term investments. A 1 per cent 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. The securitization and other financing programs as described in sections 8.0 and 8.1.5 of this MD&A reduce Financial Services' funding requirements. 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, maintaining the quality of the total managed portfolio and securitized loans receivable is a key priority of Financial Services. For additional information on Canadian Tire's financing activities, please refer to section 8.0 below.

Regulatory risk Regulatory risk is the risk of negative impact to business activities, earnings or capital, regulatory relationships or reputation as a result of failure to comply with or a failure to adapt to current and changing regulations or regulatory expectations.

Financial Services' regulatory compliance strategy is to manage regulatory risk through the promotion of a strong compliance culture and the integration of solid controls within the Company. Primary responsibility for compliance with all applicable regulatory requirements rests with senior management of the Company and extends to all employees.

Financial Services' Compliance Department is responsible for the development and maintenance of a legislative compliance management system and reports on a quarterly basis to Canadian Tire Bank's Governance and Conduct Review Committee.

Specific activities that assist the Company in adhering to regulatory standards include communication of regulatory requirements, advice, training, testing, monitoring, reporting and escalation of control deficiencies and regulatory risks.

6.0 NEW BUSINESS DEVELOPMENT

Canadian Tire will continue to identify and evaluate opportunities to enhance our growth and profitability beyond the 2013 Strategic Plan period. 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 enhances Canadian Tire's brand, reputation and credit management capabilities to drive incremental growth beyond 2013.

7.0 CAPITAL MANAGEMENT

In order to support our growth agenda and meet the objectives enumerated in our 2013 Strategic Plan, the Company actively manages its capital in the manner indicated below.

7.1 Capital management objectives

The Company's objectives when managing capital are:

- > minimizing the after-tax cost of capital; and
- > maintaining flexibility in capital structure to ensure the ongoing ability to execute the Strategic Plan.

Management's Discussion and Analysis

7.2 Definition and management of capital

In the process of managing the Company's capital, management includes the following items in its definition of capital:

(year-over-year percentage change)	2008	% of total	2007	% of total
Capital components				
Current portion of long-term debt	\$ 14.8	0.3%	\$ 156.3	3.4%
Long-term debt	1,373.5	25.1%	1,341.8	28.8%
Long-term deposits	598.7	11.0%	3.8	0.1%
Other long-term liabilities ¹	3.2	0.1%	10.6	0.2%
Share capital	715.4	13.1%	700.7	15.0%
Contributed surplus	-	-%	2.3	0.0%
Components of accumulated other comprehensive loss ²	-	-%	(8.5)	(0.2)%
Retained earnings	2,755.5	50.4%	2,455.1	52.7%
Net capital under management	\$ 5,461.1	100.0%	\$ 4,662.1	100.0%

¹ Long-term liabilities that are derivative or hedge instruments related to capital items only.

² Components of other comprehensive loss relating to derivative or hedged items only.

The Company has in place various policies which it uses to manage capital, including a leverage and liquidity policy and a securities and derivatives policy. As part of the overall management of capital, management's Financial Risk Management Committee and the Audit Committee of the Board of Directors review the Company's compliance with, and performance against, these policies.

In addition, those committees perform periodic reviews of the policies to ensure they remain consistent with the risk tolerance acceptable to the Company and current market trends and conditions.

7.3 Constraints on managing capital

The Company manages its capital structure and makes modifications in response to changes in economic conditions and the risks associated with the underlying strategic initiatives. As part of existing debt agreements of the Company, two key financial covenants are monitored on an ongoing basis by management to ensure compliance with the agreements. The key covenants are as follows:

- > long-term debt can only be issued if minimum net tangible assets coverage is maintained – calculated as total assets less intangible assets, current liabilities (excluding current portion of long-term debt), and liability for employee future benefits divided by long-term debt (including current portion of long-term debt)
- > limitations on surplus available for distribution to shareholders – the Company is restricted from distributions (including dividends and redemptions or purchases of shares) exceeding its accumulated net income over a defined period.

The Company was in compliance with these covenants during the year. Under these covenants, the Company currently has significant flexibility to fund business growth and increase dividend rates within our existing dividend policy.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, purchase shares for cancellation pursuant to normal course issuer bids (NCIBs), issue new shares, issue new debt, issue new debt with different characteristics to replace existing debt, engage in additional sale and leaseback transactions of real estate properties and/or increase or decrease the amount of sales of loans receivable to Glacier.

In addition, we are required to comply with regulatory requirements associated with the operations of CTB, our federally chartered bank, and other regulatory requirements that impact our business operations.

7.4 CTB's regulatory environment

The Company's wholly-owned subsidiary, CTB, manages its capital under guidelines established by the Office of the Superintendent of Financial Institutions Canada (OSFI). The regulatory capital guidelines measure capital in relation to credit, market and operational risks. CTB has a capital management policy, an internal capital adequacy assessment process and procedures and controls which it utilizes to achieve its goals and objectives. CTB's objectives include:

- > providing sufficient capital to maintain the confidence of depositors;
- > being an appropriately capitalized institution, as measured internally, defined by regulatory authorities and compared with CTB's peers; and
- > achieving the lowest overall cost of capital consistent with preserving the appropriate mix of capital elements to meet target capitalization levels.

OSFI's current regulatory capital guidelines classify capital into two tiers. As at December 31, 2008 (CTB's fiscal year end), Tier 1 capital included common shares and retained earnings reduced by net securitization exposures. CTB currently does not hold any instruments in Tier 2 capital. Risk-weighted assets, referenced in the regulatory guidelines, include all on-balance sheet assets weighted for the risk inherent in each type of asset as well as an operational risk component based on a percentage of average risk-weighted revenues.

CTB's ratios are above internal minimum targets of 12 per cent for Tier 1 and Total capital ratios and below internal maximum targets of 11 times for the assets-to-capital multiple. OSFI's minimum Tier 1 and Total capital ratios for Canadian banks are 7 per cent and 10 per cent, respectively.

During the 12 months ended December 31, 2008, CTB complied with the capital guidelines issued by OSFI under the "International Convergence of Capital Measurement and Capital Standards – A Revised Framework" (Basel II). For the comparative period, CTB complied with the capital guidelines issued by OSFI under the then current Basel I Capital Accord (Basel I).

7.5 Key performance measures

Management also monitors capital and assesses our capital position according to the measures identified in the table below.

	January 3, 2009	December 29, 2007 ¹
Debt ratio		
Long-term debt to total capitalization ²	34.2%	31.2%
Coverage ratio		
Interest coverage ³	5.4 times	10.7 times

¹ 2007 results have been restated for the implementation, on a retrospective basis, of CICA HB 3031 – Inventories. Please refer to section 17.1 for additional information.

² Long-term debt includes the current portion of long-term debt and long-term deposits. Capitalization is based on current and long-term debt, long-term deposits, future income taxes, other long-term liabilities and shareholders' equity.

³ Interest coverage is calculated on a rolling 12-month basis for short-term and long-term debt, net of short-term interest income. Excluding the delayed-start interest rate swap mark-to-market adjustment, the interest coverage ratio would be 6.8 times at January 3, 2009. See section 18.0 for additional information on non-GAAP measures.

The interest coverage ratio has declined from the prior year due to the significant increase in pre-tax interest expense, which can be explained as follows:

- > increase in interest expense on CTB's deposits of approximately \$12.3 million; and
- > mark-to-market adjustments on financial derivatives totaling \$33.3 million (including \$28.7 million relating to delayed-start interest rate swap contracts and \$4.6 million relating to forward rate agreements).

As noted above in section 7.3, we are in compliance with our debt covenants in existing debt agreements of the Company.

Management's Discussion and Analysis

8.0 FINANCING

Canadian Tire has a number of alternative financing sources in order to ensure that the appropriate level of liquidity is available to meet our strategic objectives. These sources may be summarized as follows:

Summary of Canadian Tire's financing sources

Financing source	Amount available	Details
Committed bank lines of credit	\$1.22 billion	Provided by 11 domestic and international financial institutions. Includes support for the \$800 million commercial paper program noted below which is covered by the bank lines on a dollar for dollar basis. No balance was drawn on the bank lines as at January 3, 2009.
Commercial paper program	\$800 million	No commercial paper was outstanding as at January 3, 2009.
Medium-term notes (MTN) program	\$750 million	\$300 million has been issued to date under the current base shelf prospectus.
Securitization of receivables	Transaction specific	Securitization transactions handled through Glacier have historically proved to be a relatively cost-effective form of financing. Financial Services securitized \$635 million of credit card receivables in 2008.
Broker GIC deposits	No specified limit	This avenue of raising funds ramped up in the third and fourth quarters of 2008, and funds have been readily available through broker networks. As at the end of 2008, Financial Services held \$927 million in broker GIC deposits.
Sale and leaseback transactions	Transaction specific	Additional sources of funding available on strategic transactions involving Company-owned properties as appropriate. Completed two sale and leaseback transactions which raised \$214 million of proceeds in 2008.

As indicated in the table above, as of January 3, 2009, the Company had \$1.22 billion in committed bank lines of credit, of which \$775 million will be increased in term to two years, with annual renewals, subject only to the completion of legal documentation. The balance of the lines are committed at least until late 2009 and most are typically extended on a quarterly basis thereafter.

As of January 3, 2009, the Glacier commercial paper program has access to up to \$975 million of the total Canadian Tire committed lines, and Glacier had achieved compliance with Dominion Bond Rating Service (DBRS®) global liquidity standards.

Debt market conditions In August 2007, global debt markets began to experience a credit crisis linked to problems in the U.S. sub-prime mortgage market. This caused a worldwide reassessment of the financial risks involved with asset-backed securities and led to market disruptions, constrictions and increased interest rates for borrowers looking to refinance their short-term debt.

Canadian Tire participates in the asset-backed security markets through the use of commercial paper and issuance of MTNs. Glacier issued five-year \$635 million MTNs in the first quarter of 2008. Throughout 2007 and 2008, Glacier has continued to refinance certain of its maturing commercial paper and had \$62.2 million of commercial paper outstanding as of December 31, 2008. Although access to capital markets remains challenging and uncertain, Glacier has demonstrated success in accessing this market in 2008.

During the year, \$570 million of five-year Glacier-issued MTNs matured and were repaid in full by the Company. Should the Company be unable to complete a credit card securitization transaction in the near term due to the unstable financial market conditions, the Company has access to other sufficient sources of financing as indicated in the table above.

For 2009, no corporate debt maturities are scheduled, but late in the year, term notes at Glacier of \$625 million will mature, which will result in a corresponding increase in receivables at Financial Services, unless the notes are refinanced.

In December 2008, Canadian Tire received confirmation from both of its rating agencies on its various funding programs, all of which had a stable outlook. As at year-end there has been no change in the ratings.

Credit rating summary

	DBRS	S&P
Canadian Tire		
Commercial paper	R-1 (low)	A-1 (low) (Cdn)
Debentures	A (low)	BBB+
Medium-term notes	A (low)	BBB+
Glacier Credit Card Trust		
Asset-backed commercial paper	R-1 (high)	-
Asset-backed senior notes	AAA	AAA
Asset-backed subordinated notes	A	A
Trend or outlook	Stable	Stable

Broker deposits During the fourth quarter of 2007, CTB began testing the use of broker GIC deposits. CTB broker deposits raise cash through sales of GICs through brokers rather than directly to the retail customer and are typically offered at a higher interest rate compared to retail GICs. Individual balances up to \$100,000 are Canada Deposit Insurance Corporation (CDIC) insured. CTB broker GICs are offered in one-year to five-year terms, and all issued GICs are non-redeemable prior to maturity (except in certain rare circumstances). Given that the overall size of the broker GIC market is estimated to be \$66 billion, CTB believes that there is ample room in the market to take advantage of CTB broker GIC deposits as a cost-effective alternative funding source to the securitization of credit card receivables.

As at the end of the fourth quarter of 2008, CTB had approximately \$927 million in total short-term and long-term CTB broker GIC deposits outstanding. CTB believes that there is potential to generate further increases in this funding source in the future, depending on the time of year and on market conditions.

Foreign exchange hedging program The Company has significant demand for U.S. dollars, due to global sourcing. To mitigate the impact of fluctuating foreign exchange rates on the cost of our globally sourced merchandise and, consequently, earnings, the Company had, and continues to have, a comprehensive foreign currency hedging program. The Company's Foreign Exchange Risk Management Policy has specific guidelines for determining the minimum hedge percentage required for purchases of foreign-denominated goods and services that are expected to be completed in the period from one month to 18 months forward. Consequently, when dramatic swings in foreign currency rates occur, as experienced early in the fourth quarter, the Company has already fixed the foreign currency impact for a certain portion of its U.S. dollar-denominated purchases for the next 18 months. The current foreign currency hedge portfolio allows the Company to have some margin stability for 2009 as a majority of the U.S. dollars required for U.S.-denominated purchases are available at hedge rates more favourable than the current spot reference rate. The Company may be able to pass on changes in foreign currency exchange rates through pricing, subject to competitive conditions.

8.1 Funding program

8.1.1 Funding requirements

We fund our capital expenditures, non-securitized loans receivable, working capital, 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 2008, the primary sources of funding were:

- > \$838 million of cash arising from a net increase in deposits; and
- > \$201 million of cash generated from operating activities before other changes in working capital.

8.1.2 Cash and cash equivalents

At January 3, 2009, the Company's cash and cash equivalents totaled \$429.0 million compared to a negative cash and cash equivalents position of \$105.5 million at December 29, 2007. There was no commercial paper outstanding at the end of 2008 and 2007. During the fourth quarter of 2008, we used cash primarily for the following:

- > \$190 million for the repayment of matured \$570 million Glacier MTNs paid in November;
- > \$106 million for the net growth in loans receivable;
- > \$82 million for the net securitization of loans receivable; and
- > \$61 million for additions to property and equipment.

Management's Discussion and Analysis

8.1.3 Working capital

Minimizing our working capital requirements continues to be a long-term priority in order to maximize cash flow for use in the operations of the Company. The table below shows the change in our working capital components at the end of the fourth quarter of 2008 from the fourth quarter of 2007.

Comparable working capital components¹

(\$ in millions)	January 3, 2009	December 29, 2007	Increase (decrease) in working capital
Accounts receivable	\$ 824.1	\$ 715.0	\$ 109.1
Merchandise inventories	917.5	778.7	138.8
Prepaid expenses and deposits	40.2	29.5	10.7
Income taxes recoverable	64.2	53.2	11.0
Accounts payable and other	(1,444.2)	(1,740.4)	296.2
			\$ 565.8

¹ 2007 figures have been restated for the implementation, on a retrospective basis, of CICA HB 3031 - Inventories. See section 17.1 for additional information.

The increase in accounts receivable was largely attributable to an increase in amounts due from counterparties for foreign exchange derivatives, offset by a timing difference related to collections of Dealer receivables compared to 2007.

The increase in merchandise inventories is due to an increase in the amount of globally sourced product, which has longer lead times due to increases required by certain business partners that comprise the global supply chain. In addition, the increase can be attributed to shipments of seasonal goods for spring and summer that were not purchased by Dealers earlier in 2008 due to unseasonably cool and wet weather and management's decision to keep the seasonal inventory in storage to sell in 2009 rather than heavily discounting or otherwise disposing of the goods. Initiatives were undertaken in the latter half of 2008 to reduce the storage inventory in CTR and plans are in place to manage CTR inventories back to planned levels over the first two quarters of 2009.

The decrease in accounts payable and other is largely due to the timing of a financing arrangement for Petroleum which commenced one month later in 2008 than in 2007. In addition, a reclassification to accounts receivable of foreign exchange derivatives and a decrease in executive compensation amounts owing due to a falling share price affected accounts payable during the year.

8.1.4 Asset-backed commercial paper

The market for Canadian third-party asset-backed commercial paper has been greatly affected by the global disruption in the market experienced in August 2007. As we discussed in detail in our third quarter 2008 MD&A, the Company holds \$8.9 million in ABCP on a gross basis and has made pre-tax impairment provisions since the valuation of the ABCP came into question and as relevant information became available. During 2008, the Company recorded an additional \$2.0 million before-tax provision for impairment of the ABCP bringing the total charge for impairment to \$3.3 million or approximately 37 per cent of the original value of the ABCP.

The Company's valuation assumed that the replacement notes will bear interest rates similar to short-term instruments and that such rates would be commensurate with the nature of the underlying assets and their associated cash flows. The Company used a weighted average discount rate of 7.35 per cent. Further details can be found in our third quarter 2008 MD&A.

Subsequent to year-end, the market for Canadian third-party ABCP was addressed in a formal restructuring proposal, and, on January 21, 2009, CTB's custodian received restructured ABCP as designed in the Montreal Accord. The \$8.9 million Master Asset Vehicle II notes are floating rate notes with expected payouts in January 2017.

There still remains some uncertainty regarding the value of the underlying assets, the amount and timing of cash flows and whether a secondary market can be established for the new bonds, and this could give rise to a further change in the value of the Company's investment in ABCP. While these changes could positively or negatively affect the Company's future earnings, it would not be considered material to the Company's overall financial position, given the relatively small amount of affected ABCP held at January 3, 2009. In addition, the write-down of the Company's investment in ABCP had no effect to date on the Company's debt covenants, debt ratings or compliance with banking regulations governing the Financial Services segment or CTB.

As referenced in section 8.0, due to the amount of funds we have available through committed lines of credit and various other forms of funding, the Company has sufficient credit facilities to satisfy its financial obligations as they come due and does not expect any impact on its business as a result of the current third-party ABCP liquidity issue.

8.1.5 Loans receivable

Our loans receivable securitization program is designed to provide a cost-effective source of funding for Financial Services. Net managed loans receivable continued to increase over the last 12 months as customers' use of the Canadian Tire Options MasterCard and Canadian Tire Gas Advantage MasterCard grew and mortgage volumes increased. At the end of the fourth quarter of 2008, net managed loans receivable were 4.3 per cent higher than at the end of the fourth quarter of 2007.

CTB sells co-ownership interests in credit card loans to Glacier. The Company does not have a controlling interest in Glacier, so we do not include financial results of Glacier in our Consolidated Financial Statements. We record the sale of loans receivable in accordance with CICA's Accounting Guideline 12, "Transfers of Receivables". Please see Note 1 in the Notes to the 2008 Consolidated Financial Statements. The success of the securitization program is dependent on Glacier's ability to obtain funds from third parties by issuing debt instruments with high credit ratings. Refer to section 8.0 above for a listing of Glacier's credit ratings and prevailing market conditions.

In 2005, Financial Services began selling their co-ownership interests in personal loans to a third-party trust as part of their securitization program. In May 2008, Financial Services re-purchased the personal loans portfolio from the third-party trust and the balance was included in the Company's Consolidated Balance Sheets.

The trustee and custodian for Glacier, Computershare Trust Company of Canada, manages the co-ownership interest and acts as agent for, and on behalf of, CTB and Glacier, as the owners of the co-ownership interests. Pursuant to an asset purchase agreement dated February 26, 2007, all rights and obligations of The Canada Trust Company as custodian have been assigned to Computershare Trust Company of Canada effective September 5, 2008. BNY Trust Company of Canada acts as indenture trustee with respect to Glacier and manages the security interests of the holders of the senior and subordinated notes issued by Glacier. We are currently not aware of any events, commitments, trends or uncertainties that may have a negative impact on our arrangement with Glacier.

Cash flows from loan securitizations

(\$ in millions)	Q4 2008	Q4 2007	2008	2007
Proceeds from new securitizations	\$ -	\$ -	\$ 634.9	\$ 148.6
Decrease in securitized ownership interests	(262.7)	(402.0)	(649.2)	(580.0)
Proceeds from collections reinvested in previous securitizations	2,140.2	2,246.1	8,734.6	8,525.0
Other cash flows received on retained interest	813.2	523.4	2,565.2	1,820.6

In 2008, Financial Services securitized approximately \$635 million of loans receivable through its securitization program, which, due to unfavourable market conditions throughout the year, was lower than originally planned.

The table below lists the details of the outstanding asset-backed notes issued by Glacier.

Glacier Credit Card Trust asset-backed notes outstanding

(\$ in millions)	At January 3, 2009	At December 29, 2007	Repayment of principal begins	Expected final payment dates
Series 1997-1 Commercial Paper Notes ¹	\$ 62	\$ 141		
4.444% Series 2003-1 Senior Notes ²	-	542	Fully repaid	Fully repaid
4.274% Series 2004-1 Senior Notes ²	591	591	Aug. 1, 2009 ⁴	Nov. 20, 2009
4.187% Series 2005-1 Senior Notes ²	345	345	Aug. 1, 2010 ⁵	Nov. 19, 2010
4.271% Series 2006-1 Senior Notes ²	300	300	Aug. 1, 2011 ⁵	Nov. 18, 2011
4.405% Series 2006-2 Senior Notes ²	239	239	Feb. 3, 2014 ⁵	May 20, 2014
5.027% Series 2008-1 Senior Notes ²	600	-	Nov. 1, 2012 ⁵	Feb. 20, 2013
5.034% Series 2003-1 Subordinated Notes ³	-	28		
4.674% Series 2004-1 Subordinated Notes ³	34	34		
4.507% Series 2005-1 Subordinated Notes ³	20	20		
4.571% Series 2006-1 Subordinated Notes ³	17	17		
4.765% Series 2006-2 Subordinated Notes ³	14	14		
6.027% Series 2008-1 Subordinated Notes ³	35	-		
Total	\$ 2,257	\$ 2,271		

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 Glacier in the previous month. In some instances, earlier prepayment may be required. Expected 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 and have the same expected repayment dates as the Senior Notes.

⁴ At a minimum, repayment to occur over a three-month period prior to expected final payment date, based on the performance of the credit card loans.

⁵ At a minimum, repayment to occur over a one-month period prior to expected final payment date, based on the performance of the credit card loans.

Management's Discussion and Analysis

8.2 Funding costs

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

Interest expense

(\$ in millions)	2008	2007
Long-term interest ¹	\$ 117.9	\$ 67.1
Short-term interest ²	4.7	(4.0)
Total	\$ 122.6	\$ 63.1
Cost of debt – short-term ³	4.05%	5.04%
Cost of debt – long-term ⁴	6.11%	6.64%

¹ Long-term interest is increased or decreased by the interest rate differentials paid or received on interest rate swap contracts and includes mark-to-market adjustments on interest rate derivatives that do not receive hedge accounting.

² Short-term interest includes passive interest income. Short-term interest expense (before allocating passive income) totaled \$19.6 million and \$11.3 million for the fiscal periods ended January 3, 2009 and December 29, 2007 respectively.

³ Represents the true weighted average cost of short-term debt during the period.

⁴ Represents the true weighted average cost of long-term debt during the period.

9.0 EQUITY

The book value of Common and Class A Non-Voting Shares at the end of the fourth quarter of 2008 was \$43.73 per share compared to \$38.15 at the end of the fourth quarter of 2007.

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. In addition, the Company may purchase additional Class A Non-Voting Shares if the Board determines, after consideration of market conditions and the Company's financial flexibility and investment opportunities, that a purchase of additional Class A Non-Voting Shares is an appropriate means of enhancing the value of the remaining Class A Non-Voting Shares.

On February 19, 2009, we announced our intention to initiate an NCIB to purchase up to 3.4 million of the issued and outstanding Class A Non-Voting Shares over the 12-month period ending February 18, 2010.

An 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 0.5 million Class A Non-Voting Shares were purchased in 2008 under the previous NCIB.

Shares outstanding

	January 3, 2009	December 29, 2007
Class A Non-Voting Shares (CTC.A)		
Shares outstanding at beginning of year	78,048,062	78,047,456
Shares issued under plans ¹	649,804	457,606
Shares purchased under NCIB	(519,800)	(457,000)
Shares outstanding at end of year	78,178,066	78,048,062
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 and share purchase plans and the dividend reinvestment plan.

Subsequent to the end of the fiscal year, from January 4, 2009 to March 12, 2009, the Company issued 170,827 Class A Non-Voting Shares for proceeds of \$6.9 million and repurchased 206,500 shares at a cost of \$8.2 million.

Dividends Dividends of approximately \$68.5 million were declared on Common and Class A Non-Voting Shares in 2008 compared to dividends of \$60.4 million in 2007. The increase in dividends declared reflected the Board of Directors' decision in February 2008 to increase the annual dividend rate by 13.5 per cent from \$0.74 per share to \$0.84 per share. The fourth quarterly dividend at the 2008 rate was declared on December 4, 2008 in the amount of \$0.21 per share payable on March 2, 2009 to shareholders of record as of January 30, 2009.

On February 12, 2009, the Board of Directors declared a quarterly dividend of \$0.21 per share (unchanged from the amount paid in the last quarter of 2008), which will be paid on June 1, 2009 to shareholders of record as of April 30, 2009.

Dividend policy

Canadian Tire's policy is to maintain dividend payments equal to approximately 15 to 20 per cent of the prior year's normalized basic net earnings per share, after giving consideration to the period-end cash position, future cash requirements, capital market conditions and investment opportunities. Normalized earnings per share for this purpose excludes gains and losses on the sale of credit card and loans receivable and non-recurring items but includes gains and losses on the ordinary course disposition of property and equipment.

10.0 INVESTING ACTIVITIES

10.1 2008 capital expenditures program

Canadian Tire's capital expenditures totaled \$135 million in the fourth quarter of 2008, approximately 31 per cent lower than the \$195 million spent in the fourth quarter of 2007.

Overall, capital investments for real estate projects slowed in the latter half of 2008 as the 20/20 store rollout and construction of the Eastern Canada distribution centre were largely complete. We also began to focus on the next store concept renewals, including our Small Market stores, which are less capital intensive.

Total capital expenditures are shown in the table below:

(in millions)	2008	2007
Real estate projects (including CTR's new store projects)	\$ 272	\$ 362
Eastern Canada distribution centre	57	113
Information technology	59	54
Other purposes	84	64
Total capital expenditures	\$ 472	\$ 593

The 2008 expenditures were partially funded by two sale and leaseback transactions which provided \$214 million in proceeds.

11.0 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:

- > 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;
- > subsidiaries operating in the Pacific Rim 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. During the year, several representative offices of the Company were created to perform the activities formerly provided by the subsidiaries due to changes in local regulations and the need to enhance operational efficiencies; and
- > 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 and its wholly-owned Canadian subsidiaries.

Management's Discussion and Analysis

12.0 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 main issues challenged by the Canada Revenue Agency (CRA) relate to the tax treatments of commissions paid to foreign subsidiaries of the Company (covering periods from 1995 to 2007) 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 have reassessed and are also expected to issue further reassessments on these matters for the corresponding periods.

The Company has agreed with the CRA to settle the commissions issue for the period 1995 to 2003, although the determination of the final tax liability pursuant to the settlement is subject to the verification by the CRA of certain information provided by the Company. The Company believes the provincial tax authorities will also reassess on the same basis. The Company does not have a significant exposure on this issue subsequent to the 2003 taxation year.

The reassessments with respect to the dividends received issue are based on multiple grounds, some of which are highly unusual. The Company has appealed the reassessments and the matter is currently pending before the Tax Court of Canada. 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 unlikely – it is estimated that the total liability of the Company for additional taxes, interest and penalties could be approximately \$189.0 million. Although the Company has appealed these reassessments, current tax legislation requires the Company to remit to the CRA and its provincial counterparts approximately \$117.0 million related to this matter, of which \$112.7 million had been remitted by the end of the quarter.

The Company regularly reviews the potential for adverse outcomes in respect of tax matters. The Company believes that the ultimate disposition of the settlements, finalization on the commissions issue, resolution of the dividends received issue and other tax matters 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.

13.0 OFF-BALANCE SHEET ARRANGEMENTS

13.1 *Glacier Credit Card Trust*

As noted earlier, Glacier was formed to buy our credit card loans, and it issues debt to third-party investors to fund its credit card loans purchases. Refer to section 8.1.5 for additional information on Glacier.

13.2 *Trust financing for Dealers*

A financing program has been established to provide an efficient and cost-effective way for 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 our Dealers (Dealer Trust Loans) to finance a portion of their purchases of inventory from the Company and fixed assets. Each of these Dealer Trust Loans is secured by the store assets of the Dealer. The amount of Dealer Trust Loans was \$970.9 million at January 3, 2009, compared to \$923.5 million at December 29, 2007, reflecting Dealers' investment in store projects in 2008. In addition, participating 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 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 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 global style liquidity line and, in one case, is 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 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;
- > we have provided a waiver, ultimately to the Co-owner Trusts, of certain statutory rights that we have with respect to the 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 a Dealer who has fixed an interest rate(s) on his/her Dealer Trust Loan.

To date, we have made only a few nominal payments under the support program, and we have not accrued any amount in our Consolidated Financial Statements for future payments.

The Company receives consideration for our program support from the Trust and/or the participating Dealers. The Trust, as servicer, pays us an amount remaining after it has paid all of the Co-owner Trusts' expenses relating to Dealer Trust Loans, but before any distribution to their beneficiaries. The overall amount of consideration received depends on the average amount of Dealer Trust Loans outstanding, the average amount of credit enhancement provided to the Co-owner Trusts by the Company 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 2008	Q4 2007	2008	2007
Consideration amount received (net)	\$ 2.4	\$ 1.2	\$ 7.9	\$ 9.4
Letters of credit fees paid	0.3	0.2	1.0	0.9

The amount of our guarantees of the standby letters of credit provided by banks to the Co-owner Trusts was \$267.4 million at January 3, 2009, compared to \$167.2 million at December 29, 2007. 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 net liquidation value of the inventory and fixed assets of the participating Dealers; it will generally increase if the value of the participating Dealers' inventory and fixed assets goes down or the participating Dealers increase the amount of their Dealer Trust Loans.

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

- > if a 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;
- > if collections from Dealers and the interest rate swap counterparty are insufficient to cover all fees and expenses owing by the Co-owner Trusts, the Trust can draw on the letter(s) of credit to cover such shortfall;
- > if we do not provide sufficient credit enhancement, the Co-owner Trusts can fully draw on the letter(s) 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 Except for the termination rights set forth below, none of the Company, the Trust and the Co-owner Trusts can unilaterally terminate the financing program before November 6, 2009, and any party deciding to terminate participation in the program must provide six months' written notice to the other parties. Such written notice may be delivered at any time after the date that is six months prior to November 6, 2009.

Management's Discussion and Analysis

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 administer 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).

We are aware that the participating banks wish to amend the program on termination of the existing arrangement. As a result, while we are under no contractual obligation to provide financial support to our Dealers who participate in the arrangement, we are actively working with the Dealers and a number of banks, including the participating banks, to enable the availability of financing to the Dealers on appropriate terms and conditions.

13.3 Bank financing for Dealers and PartSource franchisees

We have guaranteed the bank debt of some Dealers and some PartSource franchisees. If a 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. All of the credit guarantees expire in 2009 and can be extended, upon expiry, at our option.

As of January 3, 2009, the maximum amount we may be required to pay under these guarantees is \$42.0 million, of which \$12.6 million had been drawn at January 3, 2009, compared to \$28.5 million at December 29, 2007. We have not accrued any specific amount for these guarantees in our Consolidated Financial Statements.

13.4 Derivative financial instruments

We use derivative financial instruments as a risk management tool solely to manage our exposure to changes in interest rates, foreign currency exchange rates and certain future stock-based compensation expenses.

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.

For details of how we account for derivative financial instruments, see Note 1 in the Notes to the Consolidated Financial Statements.

Canadian Tire uses derivative financial instruments, such as hedges and swaps, to manage financial risks related to interest rates, foreign exchange and equity-based compensation. As at January 3, 2009, long-term delayed start interest rate swaps, which had been put in place 10 years ago to manage the Company's long-term interest expense by fixing interest rates at a then attractive rate, now no longer meet the requirements for hedge accounting and, accordingly, \$19.3 million after tax was expensed in the fourth quarter.

The Company has a number of additional financial instruments in place. At year-end, on a mark-to-market basis, the value of these items was a net "in the money" position of approximately \$177.8 million. This amount is substantially included in the accumulated other comprehensive income (AOCI) section of the Company's Consolidated Balance Sheets. The most significant item included in AOCI is "in the money" foreign exchanges hedges, which total \$149.5 million pre-tax. In the absence of a material strengthening of the Canadian dollar versus the U.S. dollar, this gain will positively impact the cost of inventory purchases during the next six to nine months.

14.0 ENTERPRISE RISK MANAGEMENT

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

The intent of our ERM program is to ensure an integrated approach to managing risks to assist in achieving our strategic objectives. Our ERM program 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 the risk/reward relationship; and
- > designed to incorporate a number of approaches for managing risk, including avoidance, mitigation, insurance and acceptance.

A key element of our ERM program is the periodic review, identification and assessment of our Principal Risks, which we initially completed in 2004. We define a Principal Risk 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 probability of occurring.

Based on our experience over the past five years, we continue to enhance the processes and procedures that support the ERM program, including our setting of the Company's risk appetite, monitoring of risk 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 has been in place since 2006 to enhance the sustainability of the ERM program. The Enterprise Risk Committee was created to oversee the management of Principal Risks and other enterprise-wide risks under the leadership of the Chief Risk and Compliance Officer and has the responsibility for reviewing and approving, for recommendation to the Board of Directors, the ERM policy and program and specific policies addressing each of the Principal Risks. We are currently reviewing this management oversight structure to identify opportunities for enhancing our ability to effectively sustain our ERM program into the future.

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 in the discharge of its 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 (the Code). To this end, IAS is responsible for conducting independent assessments of the effectiveness of risk management and control processes across the Company.

14.1 Board accountability

The mandate of the Board of Directors includes overseeing the development of the ERM program, for which the Board has delegated primary responsibility to the Audit Committee. The Audit Committee is responsible for gaining and maintaining reasonable assurance that management:

- > appropriately identifies and manages risks;
- > has in place a policy that accurately sets out our risk philosophy and the expectations and accountabilities for identifying, assessing, monitoring, managing and reporting on risks (the ERM Policy);
- > fully implements and sustains the ERM program in compliance with the ERM Policy and ensures that the ERM Policy continues to accurately state our risk philosophy, 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.

Management's Discussion and Analysis

14.2 Principal Risks

The following table provides a high-level perspective on each identified Principal Risk and describes the main strategy that we have in place to mitigate the potential impacts of these risks on our business activities.

Principal Risks	Our risk management strategy
Accounting, valuation and reporting	
> financial information and reporting that lacks integrity or is not compliant with accounting standards may have a significant negative impact on our reputation	Numerous professional accountants are employed within finance groups, and policies and processes are in place to ensure validity, completeness and accuracy of transactions, including segregation of duties, transaction and report review processes, and quarterly presentations to Audit Committee and Board of Directors.
Business continuity	
> hazards, disasters and business interruptions may compromise the safety of our employees or customers and our ability to provide products and services	A comprehensive insurance program is in place with a number of carriers to provide coverage for major risks in this area. The insurance program is reviewed annually with the Audit Committee. Disaster recovery plan exercises are conducted twice annually. In addition, a policy is in place setting out expectations for business continuity capabilities. Crisis management and emergency response structures and protocols and business continuity plans are being enhanced to ensure we can appropriately respond in the event of business interruptions.
Capital and funding	
> lack of sufficient capital to absorb the impact of unexpected losses > lack of sufficient liquidity or financing to fund operations and strategic initiatives, including construction activities	Various policies and processes are in place to manage capital and funding risks. The Financial Risk Management Committee provides oversight on policy compliance. Further details are set out in sections 7.2 and 7.3.
Competitive	
> material changes in the strategic direction, positioning or practices of competitors can result in lost market share or reduced margins	Policy and process are in place to actively monitor and analyze competitive activity as part of our strategic planning process. Business units have identified differentiating initiatives to enhance our competitive position as set out throughout section 5.3.
Consumer credit	
> failure or inability to accurately predict the creditworthiness or credit behaviour of our customers may significantly affect our earnings	Policies and processes are employed to maintain and improve the quality of our consumer lending portfolio as outlined in section 5.3.4.8.
Economic	
> shifts in the economic environment can significantly affect consumer confidence and spending, and our ability to fund operations and planned strategic initiatives	Processes are in place to actively monitor economic developments in Canada. The Treasury and Strategic Planning departments have key roles in the monitoring process. Results are shared with the executives, who are accountable for any necessary adjustments to the strategic and operational plans and for ongoing investment decisions.
Ethical business conduct	
> unethical business conduct could negatively impact the Company's relationship with its employees, business partners, customers, investors, the public and its various brands	Our Code of Business Conduct (the Code) sets out expected behaviour of employees and directors. The Business Conduct Compliance Office offers multiple channels for employees to report breaches, provides interpretations of and training on the Code, and monitors investigations of potential breaches of the Code. A Supplier Code of Conduct is also in place to ensure that our suppliers and vendors abide by the same high standards of ethical business conduct.

Principal Risks	Our risk management strategy
Financial instruments	
<ul style="list-style-type: none"> > inappropriate hedging processes for foreign currencies, interest rate and equity exposures may significantly affect our operating and financial performance 	<p>Various policies and processes are employed to manage our hedging activities. Treasury processes ensure hedges are placed with highly rated financial institutions and monitor activity against policy limits. The Financial Risk Management Committee provides oversight on policy compliance. Further details are set out in sections 14.3 and 8.0.</p>
Geopolitical	
<ul style="list-style-type: none"> > changes in the domestic and international political environments may impact our ability to source and provide products and services 	<p>A policy is in place setting out expectations for the monitoring of the political environment in countries in which we do business. Business units and the Strategic Planning department are involved in the monitoring processes. Business units are accountable for appropriately responding to significant trends or events.</p>
Information	
<ul style="list-style-type: none"> > not appropriately securing sensitive business and private personal information could damage our reputation and significantly affect our financial performance 	<p>Employ policies, minimum standards and practices within the business units and technology groups pertaining to the usage, retention and destruction of information. These policies and standards include those relating to privacy of personal information, access security, systems development and change management. Information security protocols and systems are being enhanced to ensure we can appropriately protect our customer information from increasingly sophisticated criminal activity and increasingly demanding legislative and contractual obligations.</p>
Legislative compliance	
<ul style="list-style-type: none"> > failure to comply with laws and regulations could result in sanctions and financial penalties that could negatively impact our earnings and reputation > areas of most significant risk are environmental, occupational health and safety, competition, privacy, disclosure, insider trading and financial services 	<p>Policies are in place setting out expectations regarding processes for ensuring compliance with legislation, including specific policies for each of the seven areas of most significant risk. At the Corporate level, the Risk Management and Compliance Services department provides compliance oversight and guidance to the various businesses. Each of the businesses has also established accountabilities and processes for complying with the laws and regulations of most significance to their business activities. Regular reporting is also provided to the Audit Committee regarding compliance with the most significant laws and regulations.</p>
Product safety	
<ul style="list-style-type: none"> > unsafe products or services that do not meet regulatory requirements can pose a risk to the health and safety of our customers, employees, public or environment 	<p>Quality assurance processes are in place for testing products, analyzing product returns, reviewing consumer reports, responding to potential safety incidents and addressing identified concerns. We also require all vendors to carry insurance to cover product liability and indemnify us.</p>
Quality of management team	
<ul style="list-style-type: none"> > inability to attract, motivate, develop, retain and maximize the productivity of senior leaders may affect our ability to achieve strategic objectives 	<p>Various policies and practices are in place regarding organizational design, recruitment programs, succession planning, compensation structures, ongoing development programs and performance management.</p>
Technology	
<ul style="list-style-type: none"> > not having the right technology and functionality may significantly affect our ability to achieve our strategic objectives 	<p>Policies and processes are in place for monitoring systems performance, availability, capacity and currency to ensure appropriate investments are made to deliver on the needs of our businesses. A multi-year program designed to upgrade our technology infrastructure is currently underway.</p>

Management's Discussion and Analysis

14.3 Financial instruments

The following discussion on risks and risk management includes some of the required disclosures under the CICA HB Section 3862 – Financial Instruments – Disclosures, related to the nature and extent of risks arising from financial instruments, as required by the standard. Further information is also available in Note 17 of the Notes to the Consolidated Financial Statements.

The Company is exposed to a number of risks associated with financial instruments that have the potential to affect its operating and financial performance. The Company's primary financial instrument risk exposures are allowances for credit losses and liquidity risk. The Company also has financial risk exposures to foreign currency risk and interest rate risk which may be managed through the use of derivative financial instruments. The Company does not use derivative financial instruments for trading or speculative purposes.

The Company determines fair values by reference to quoted bid and ask prices, as appropriate, when available. In the absence of an active market, fair values are based on internal valuation models, such as discounted cash flow analyses, using market observed inputs. The estimated fair values of financial instruments as at January 3, 2009 and December 29, 2007 were based on relevant market prices and information available at that time. Fair values determined using valuation models require the use of assumptions concerning the amount and timing of estimated future cash flows and discount rates. In determining those assumptions, the Company uses primarily external readily observable market inputs, including factors such as interest yield curves. The detailed processes for determining fair values have been documented and applied consistently. Fair value amounts may change in subsequent periods due to market conditions, particularly changes in interest rates and exchange rates, or other factors. For interest rate swaps, foreign exchange and equity derivative contracts, the fair values reflect the estimated amounts that the Company would receive or pay if it were to settle the contracts at the reporting date. The interest rate swaps were valued using discounted cash flow models based on year-end market interest rate curves. 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.

Credit risk The Company's exposure to concentrations of credit risk is limited. Accounts receivable are primarily from Dealers spread across Canada who, individually, generally comprise less than one per cent of the total balance outstanding. 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 spread across ten financial institutions and represents the current replacement value of only those contracts which are in a gain position.

The Company's maximum exposure to credit risk is as follows:

(\$ in millions)	2008	2007
Assets held for trading	\$ 694.3	\$ 57.1
Assets held to maturity	14.6	15.4
Loans and receivables	2,519.3	2,362.5
Undrawn loan commitments	14,006.4	14,062.2
Securitized receivables	2,257.4	2,330.8
Guarantees	523.6	213.9
Total	\$ 20,015.6	\$ 19,041.9

The Company believes that the risk of all counterparties defaulting at the same time with respect to these instruments is not significant.

Allowance for credit losses The Company's allowances for receivables are maintained at levels which are considered adequate to absorb future credit losses. A continuity table of the Company's allowances for credit losses is as follows:

(\$ in millions)	Credit card loans		Other loans ¹		Accounts receivable		Total ²	
	January 3, 2009	December 29, 2007	January 3, 2009	December 29, 2007	January 3, 2009	December 29, 2007	January 3, 2009	December 29, 2007
Balance, beginning of year	\$ 51.5	\$ 30.4	\$ 2.7	\$ 2.9	\$ 5.0	\$ 4.6	\$ 59.2	\$ 37.9
Provision for credit losses	78.0	75.8	9.3	5.6	1.0	0.4	88.3	81.8
Recoveries	15.0	11.5	0.7	0.2	0.3	0.1	16.0	11.8
Write-offs	(92.7)	(66.2)	(9.2)	(6.0)	(3.0)	(0.1)	(104.9)	(72.3)
Balance, end of period	\$ 51.8	\$ 51.5	\$ 3.5	\$ 2.7	\$ 3.3	\$ 5.0	\$ 58.6	\$ 59.2

¹ Other loans include personal loans, mortgages and lines of credit loans.

² Relates to Company-owned receivables.

Foreign currency risk The Company has significant demand for foreign currencies, primarily U.S. dollars, due to global sourcing. However, it manages its exposure to foreign exchange rate risk through a comprehensive Foreign Exchange Risk Management Policy that sets forth specific guidelines and parameters, including monthly hedge percentage guidelines, for entering into foreign exchange hedge transactions for anticipated U.S. dollar denominated purchases. The Company's exposure, however, to a sustained movement in the currency markets is impacted by competitive forces and future prevailing market conditions. Refer to section 8.0 above for additional information on our foreign currency hedging program.

Liquidity risk The following table summarizes the Company's contractual maturity for its financial liabilities. The table includes both interest and principal cash flows.

(\$ in millions)	1 year	2 years	3 years	4 years	5 years	Thereafter	Total
Deposits	\$ 545.8	\$ 162.3	\$ 95.6	\$ 39.3	\$ 301.5	\$ -	\$ 1,144.5
Accounts payable and other	1,425.4	-	-	-	-	-	1,425.4
Long-term debt	14.8	458.8	21.1	8.5	6.4	863.0	1,372.6
Interest payment ¹	100.1	89.5	62.7	56.1	118.8	665.3	1,092.5
Other	-	9.8	-	-	8.1	-	17.9
Total	\$ 2,086.1	\$ 720.4	\$ 179.4	\$ 103.9	\$ 434.8	\$ 1,528.3	\$ 5,052.9

¹ Includes interest payments on deposits and long-term debt.

Interest rate risk The Company is exposed to interest rate risk, which it manages through the use of interest rate swaps. The Company has a policy in place whereby a minimum of 75 per cent of its long-term debt (term greater than one year) must be at fixed versus floating interest rates. The Company is in compliance with the policy.

14.4 Other risks

In addition to the Principal Risks identified in section 14.2 and the business-specific risks identified in section 5.3.1.6 for CTR, section 5.3.2.5 for Mark's, section 5.3.3.5 for Petroleum and section 5.3.4.8 for Financial Services, operational business risks that may cause actual results or events to differ materially from those forecasted in this MD&A include:

- > expansion activity planned for the retail businesses, as well as the associated supply chain infrastructure, could be affected by weather conditions that could impact the timing of construction;
- > the Company's ability to acquire and develop real estate properties, obtain municipal and other required government approvals, access construction labour and materials at reasonable prices and lease suitable properties could also impact the timing of construction;
- > expansion activity for CTR could also be affected by the ability of our Dealers to secure financing through the Trusts referenced in section 13.2 or through other means;
- > changes in commodity prices could also affect the profitability of CTR and Mark's;
- > fluctuating foreign currency exchange rates could impact cross-border shopping patterns and employment levels in the manufacturing and export sectors and, consequently, negatively impact consumer spending practices; and
- > the earnings of Financial Services could be affected by customers' unsatisfactory response to the retail banking initiative.

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.

15.0 CRITICAL ACCOUNTING ESTIMATES

In view of the recent turmoil in credit markets and economic recession being experienced in Canada, the Company reviewed the allowance for credit losses at Financial Services and considers it to be a "critical accounting estimate". The allowance for credit losses adjusts the value of the Financial Services loan portfolio to reflect its estimated realizable value. Financial Services' allowance for impaired loans receivable for each of credit card, personal, mortgage and line of credit loans 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 receivables. A roll-rate model is used and is based on economic conditions and trends specific to Financial Services. The allowance for impaired credit card loans (the largest portfolio) is comprised of general, bankruptcy and fraud risk components. Changes in circumstances including, but not limited to, changes in the aging of accounts and changes in the bankruptcies experienced may cause future assessments of credit risk to be materially different from current assessments, which could require an increase or decrease in the allowance for credit losses. The impairment provisions for personal loans and line of credit loans operate in similar fashion.

Further details on consumer credit risk may be found in section 5.3.4.8.

Management's Discussion and Analysis

16.0 CONTRACTUAL OBLIGATIONS

Contractual obligations due by period

(\$ in millions)	Total	In years		After 2012
		2009-2010	2011-2012	
Long-term debt ¹	\$ 1,325.4	\$ 460.2	\$ 15.1	\$ 850.1
Capital lease obligations	47.2	13.4	14.5	19.3
Operating leases	2,120.3	449.0	373.0	1,298.3
Purchase obligations	870.6	769.3	62.8	38.5
Financial Services deposits	1,144.5	708.1	134.9	301.5
Other obligations	33.1	13.4	7.8	11.9
Total contractual obligations	\$ 5,541.1	\$ 2,413.4	\$ 608.1	\$ 2,519.6

¹ Interest obligations are not included.

17.0 CHANGES IN ACCOUNTING POLICIES

17.1 Merchandise inventories

Effective, December 30, 2007 (the first day of the Company's 2008 fiscal year), the Company implemented, on a retrospective basis with restatement, the new CICA HB Section 3031 - Inventories, which was effective for interim and annual financial statements for fiscal years beginning on or after January 1, 2008.

This new standard provides guidance on the determination of cost and requires inventories to be measured at the lower of cost and net realizable value. The cost of inventories includes the cost of purchase and other costs incurred in bringing the inventories to their present location and condition. Costs such as storage costs, administrative overheads that do not contribute to bringing the inventories to their present location and condition, and selling costs are specifically excluded from the cost of inventories and are expensed in the period incurred. Reversals of previous write-downs to net realizable value are now required when there is a subsequent increase in the value of inventories. The cost of inventories should be determined using either a first-in, first-out or weighted average cost formula. Techniques for the measurement of cost of inventories, such as the retail method or standard cost method, may be used for convenience if the results approximate actual cost. The new standard also requires additional disclosures, including the accounting policies adopted in measuring inventories, the carrying amount of inventories, amount of inventories recognized as an expense during the period, the amount of write-downs during the period and the amount of any reversal of write-downs that is recognized as a reduction of expenses.

In order to correspond with the new standard, the Company's new policy states that merchandise inventories are carried at the lower of cost and net realizable value, with cost being determined as weighted average cost.

As a result of the retrospective implementation of this new standard, the cumulative impact on previously reported balances on the following dates is as follows:

(\$ in millions)	Increase (decrease)	
	December 29, 2007	December 30, 2006
Retained earnings	\$ 14.2	\$ 20.1
Inventories	22.0	31.5
Income taxes recoverable	(5.8)	-
Future income tax assets	(2.0)	(5.3)
Accounts payable and other	-	0.6
Income taxes payable	-	5.5

In addition, the retrospective impact on net earnings for the 13 weeks ended December 29, 2007 was a reduction of \$6.3 million, or \$0.08 per share, and for the 52 weeks ended December 29, 2007 was a reduction of \$5.9 million, or \$0.07 per share. See Note 1 in the Notes to the Consolidated Financial Statements for additional information.

17.2 Capital management disclosures

Effective December 30, 2007, the Company implemented the new CICA HB Section 1535 – Capital Disclosures, which is effective for fiscal years beginning on or after October 1, 2007. The new standard requires entities to disclose information about their objectives, policies and processes for managing capital, as well as their compliance with any externally imposed capital requirements. See section 7.0 for additional information. The adoption of this new standard does not require any changes to the Company's accounting, but does require additional note disclosure (see Note 16 in the Notes to the Consolidated Financial Statements for additional information).

17.3 Financial instruments

Effective, December 30, 2007, the Company implemented the new CICA HB Section 3862 – Financial Instruments – Disclosures, and CICA Handbook Section 3863 – Financial Instruments – Presentation. These standards replace the existing CICA HB Section 3861 – Financial Instruments – Disclosure and Presentation. They also require increased disclosures regarding the risks associated with financial instruments and how these risks are managed. These new standards carry forward the presentation standards for financial instruments and non-financial derivatives but provide additional guidance for the classification of financial instruments, from the perspective of the issuer, between liabilities and equity. The adoption of these new standards does not require any changes to the Company's accounting, but does require additional note disclosure (see section 14.3 in this MD&A and Note 17 in the Notes to the Consolidated Financial Statements for additional information).

17.4 International Financial Reporting Standards

In February 2008, the CICA announced that Canadian GAAP for publicly accountable enterprises will be replaced by International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011. Companies will be required to provide IFRS comparative information for the previous fiscal year. Accordingly, the conversion from Canadian GAAP to IFRS will be applicable to the Company's reporting for the first quarter of 2011, for which the current and comparative information will be prepared under IFRS. The Company expects the transition to IFRS to impact accounting, financial reporting, internal control over financial reporting, taxes, IT systems and processes as well as certain contractual arrangements. The Company is currently assessing the impact of the transition to IFRS in the above areas and has deployed additional trained resources and formal project management practices and governance to ensure the timely conversion to IFRS.

Management's Discussion and Analysis

IFRS transition progress

Key activity	Milestones/Target Dates	Progress to February 28, 2009
Project governance > steering committee formation > project resourcing > progress reporting protocols > project management practices	December 31, 2008	> governance practices established > program office, steering committee and working committee formed > project status reporting developed and implemented
Financial statement preparation > identification of differences in Canadian GAAP/IFRS accounting policies and choices > selection of entity's continuing accounting IFRS policies > selection of IFRS 1 accounting policy choices > financial statement format, including alternative performance measures > changes in note disclosure > quantification of IFRS 1 disclosures for 2010	Ready for commencement for 2011 financial year; quantification of effects of change for IFRS 1 disclosures and comparative 2010 financial statements including note disclosure by September 2010 (exclusive of Q4 2010 results)	> fundamental Canadian/IFRS differences identified > criteria for accounting policy choice selection established > critical work stream teams dealing with individual policy selection recommendations launched
Infrastructure: IFRS expertise > retraining of key finance and operational staff > education of management, Audit Committee and external constituents regarding IFRS implications	Internal education and communication ready for issuance in Q2 2010 External education and communication ready for issuance in Q4 2010	> resource requirements identified > internal and recruited resources deployed > additional consulting support identified > initial training completed for core project staff, senior management, Board of Directors and Audit Committee
Infrastructure > information technology changes to support IFRS reporting requirements	Ready for capturing 2010 comparative data in Q3 2010	> initial investigation into system requirements commenced
Business implications assessment: financial covenants and practices (including securitization) > business contract review/renegotiation > financial debt covenant assessments > off-balance sheet Trust assessments	GAAP-based clauses to be identified; renegotiation with counterparties by Q2 2010	> process to review contracts has been established
Control environment: Internal control over financial reporting (ICFR)	Approval and sign-off of all accounting changes and CEO/CFO certification process complete by end of Q4 2010	> not yet commenced

17.5 Goodwill and intangible assets

In February 2008, the CICA issued CICA HB 3064 – Goodwill and Intangible Assets, which replaces CICA HB 3062 – Goodwill and Other Intangible Assets, and CICA HB 3450 – Research and Development.

This new standard provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets.

As this standard applies to interim and annual financial statements for fiscal years beginning on or after October 1, 2008, the Company will adopt this new standard effective January 4, 2009 (the first day of the Company's 2009 fiscal year) retrospectively with a restatement of prior periods. The Company is assessing the impact of the adoption of this new standard and does not anticipate that the restatement will result in a significant impact on pre-tax earnings and total assets.

18.0 NON-GAAP MEASURES

The following measures included in this MD&A do not have a standardized meaning under Canadian GAAP and may not be comparable to similar measures presented by other companies:

- > EBITDA (earnings before interest, income taxes, depreciation and amortization);
- > adjusted earnings; and
- > same store sales.

EBITDA With the exception of Financial Services, we consider EBITDA 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 is also commonly regarded as an indirect measure of operating cash flow, a significant indicator of success for many businesses.

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

Reconciliation of EBITDA to GAAP measures¹

(\$ in millions)	Q4 2008	Q4 2007 ²	2008	2007 ²
EBITDA				
CTR	\$ 129.0	\$ 143.8	\$ 527.0	\$ 520.5
Financial Services	57.9	41.4	218.1	204.1
Petroleum	11.0	8.1	43.8	37.2
Mark's	79.4	73.0	103.8	119.4
Total EBITDA	\$ 277.3	\$ 266.3	\$ 892.7	\$ 881.2
Less: Depreciation and amortization expense				
CTR	\$ 46.9	\$ 44.2	\$ 174.6	\$ 159.1
Financial Services	3.5	3.4	13.5	12.8
Petroleum	4.9	4.4	17.2	16.7
Mark's	6.6	5.1	23.6	18.3
Total depreciation and amortization expense	\$ 61.9	\$ 57.1	\$ 228.9	\$ 206.9
Interest expense³				
CTR	\$ 55.5	\$ 18.6	\$ 103.2	\$ 59.0
Financial Services	9.3	5.4	15.1	1.0
Mark's	1.1	0.9	4.3	3.1
Total interest expense	\$ 65.9	\$ 24.9	\$ 122.6	\$ 63.1
Earnings before income taxes				
CTR	\$ 26.6	\$ 81.0	\$ 249.2	\$ 302.4
Financial Services	45.1	32.6	189.5	190.3
Petroleum	6.1	3.7	26.6	20.5
Mark's	71.7	67.0	75.9	98.0
Total earnings before income taxes	\$ 149.5	\$ 184.3	\$ 541.2	\$ 611.2

¹ Differences may occur due to rounding.

² 2007 figures have been restated for the implementation, on a retrospective basis, of CICA HB 3031 - Inventories. See section 17.1 for additional information.

³ Interest expense includes interest on short-term and long-term debt, offset by passive interest income. Prior year numbers have been restated for the reclassification of passive interest income from gross operating revenue.

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 the net effect of securitization activities 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.

From time to time adjusted earnings may also contain additional unusual and/or non-recurring items which are explained in detail at that time.

Management's Discussion and Analysis

Same store sales Same store sales is the metric used by management, and most commonly used in the retail industry, to compare retail sales growth in a more consistent manner across the industry. CTR's same store sales includes sales from all stores that have been open for more than 53 weeks and therefore allows for a more consistent comparison to other stores open during the period and to results in the prior year.

19.0 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 Chief Executive Officer (CEO) and the Chief Financial Officer (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 National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings (NI 52-109), 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 January 3, 2009. 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 January 3, 2009.

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 include, but are 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 NI 52-109, management, including the CEO and CFO, evaluated the design and effectiveness of our internal control over financial reporting as defined in NI 52-109 as at January 3, 2009. In making this assessment, management, including the CEO and CFO, used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control – Integrated Framework. This evaluation included review of the documentation of controls, evaluation of the design and testing the operating effectiveness of controls, and a conclusion on this evaluation. Based on its evaluation, the CEO and the CFO have concluded that, as at January 3, 2009, our internal control over financial reporting is effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

Management has evaluated whether there were changes in our internal controls over financial reporting during the quarter ended January 3, 2009 that 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 website includes the following documents and information of interest to investors:

- > Annual Information Form;
- > Management Information Circular;
- > quarterly reports;
- > quarterly fact sheets; and
- > 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) website at www.sedar.com.

If you would like to contact the Investor Relations department directly, call Karen Meagher (416) 480-8058 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.

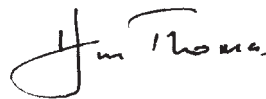
To discharge its responsibilities for financial reporting and safeguarding of assets, management depends on the Company's systems of internal accounting control. These systems are designed to provide reasonable assurance that the financial records are reliable and form a proper basis for the timely and 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.



Stephen G. Wetmore
President and
Chief Executive Officer
March 12, 2009



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 January 3, 2009 and December 29, 2007 and the consolidated statements of earnings, changes in shareholders' equity, comprehensive income and 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 January 3, 2009 and December 29, 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants
Licensed Public Accountants
Toronto, Ontario
March 12, 2009

Consolidated Statements of Earnings

For the years ended	January 3,	December 29,
(\$ in millions except per share amounts)	2009	2007
	(53 weeks)	(52 weeks)
		(Restated - Notes 1 and 22)
Gross operating revenue	\$ 9,121.3	\$ 8,606.1
Operating expenses		
Cost of merchandise sold and all other operating expenses except for the undernoted items	8,199.6	7,694.0
Interest		
Long-term debt	117.9	67.1
Short-term debt	4.7	(4.0)
Depreciation and amortization	228.9	206.9
Employee profit sharing plan (Note 11)	29.0	30.9
Total operating expenses	8,580.1	7,994.9
Earnings before income taxes	541.2	611.2
Income taxes (Note 12)		
Current	209.1	210.7
Future	(42.1)	(11.2)
Total income taxes	167.0	199.5
Net earnings	\$ 374.2	\$ 411.7
Basic and diluted earnings per share	\$ 4.59	\$ 5.05
Weighted average number of Common and Class A Non-Voting Shares outstanding (Note 10)	81,517,702	81,502,273

Consolidated Statements of Cash Flows

For the years ended (\$ in millions)	January 3, 2009 (53 weeks)	December 29, 2007 (52 weeks)
		(Restated – Notes 1 and 22)
Cash generated from (used for):		
Operating activities		
Net earnings	\$ 374.2	\$ 411.7
Items not affecting cash		
Depreciation and amortization	228.9	206.9
Net provision for loans receivable (Note 2)	87.3	81.4
Changes in fair value of derivative instruments	55.6	(2.2)
Other	7.9	2.5
Employee future benefits expense (Note 9)	6.4	6.5
Impairments on property and equipment (Note 5)	2.5	3.9
Impairment of other long-term investments (Note 19)	2.0	1.3
Gain on disposals of property and equipment	(7.8)	(17.4)
Future income taxes	(42.1)	(11.2)
Securitization loans receivable	(51.9)	(52.7)
Gain on sales of loans receivable	(73.7)	(83.6)
Gain on disposals/redemptions of shares	-	(18.4)
	589.3	528.7
Changes in other working capital components (Note 13)	(406.9)	(467.1)
Cash generated from operating activities	182.4	61.6
Investing activities		
Additions to property and equipment	(436.9)	(587.7)
Investment in loans receivable, net	(140.5)	(296.5)
Purchases of stores	(36.5)	(11.4)
Net securitization of loans receivable	(31.7)	(420.1)
Long-term receivables and other assets	(27.2)	20.8
Other long-term investments	(19.6)	-
Reclassification of other long-term investments (Note 19)	-	(8.9)
Other	(4.2)	(3.9)
Proceeds on disposition of property and equipment	240.1	30.0
Proceeds on disposals/redemptions of shares	-	18.4
Cash used for investing activities	(456.5)	(1,259.3)
Financing activities		
Net change in deposits (Note 22)	1,024.1	113.1
Class A Non-Voting Share transactions (Note 10)	7.0	0.2
Issuance of long-term debt	0.1	300.9
Dividends	(66.4)	(58.8)
Repayment of long-term debt (Note 7)	(156.2)	(4.5)
Cash generated from financing activities	808.6	350.9
Cash generated (used) in the year	534.5	(846.8)
Cash and cash equivalents, beginning of year	(105.5)	741.3
Cash and cash equivalents, end of year (Note 13)	\$ 429.0	\$ (105.5)

Consolidated Statement of Comprehensive Income

For the years ended (\$ in millions)	January 3, 2009 (53 weeks)	December 29, 2007 (52 weeks)
		(Restated - Note 1)
Net earnings	\$ 374.2	\$ 411.7
Other comprehensive income (loss), net of taxes		
Gain (loss) on derivatives designated as cash flow hedges, net of tax of \$68.9 (2007 - \$40.3)	139.7	(80.2)
Reclassification to non-financial asset of (gain) loss on derivatives designated as cash flow hedges, net of tax of \$10.1 (2007 - \$11.5)	(20.5)	22.8
Reclassification to earnings of loss (gain) on derivatives designated as cash flow hedges, net of tax of \$12.0 (2007 - \$0.7)	28.0	(1.2)
Other comprehensive income (loss)	147.2	(58.6)
Comprehensive income	\$ 521.4	\$ 353.1

Consolidated Statements of Changes in Shareholders' Equity

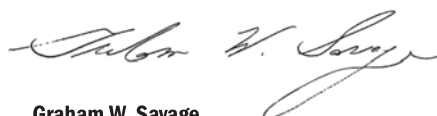
For the years ended (\$ in millions)	January 3, 2009	December 29, 2007
		(Restated - Note 1)
Share capital		
Balance, beginning of year	\$ 700.7	\$ 702.7
Transactions, net (Note 10)	14.7	(2.0)
Balance, end of year	\$ 715.4	\$ 700.7
Contributed surplus		
Balance, beginning of year	\$ 2.3	\$ 0.1
Transactions, net	(2.3)	2.2
Balance, end of year	\$ -	\$ 2.3
Retained earnings		
Balance, beginning of year as previously reported	\$ 2,440.9	\$ 2,083.7
Transitional adjustment on adoption of new accounting policies (Note 1)	14.2	20.1
Balance, beginning of year as restated	2,455.1	2,103.8
Net earnings for the year	374.2	411.7
Dividends	(68.4)	(60.4)
Repurchase of Class A Non-Voting Shares	(5.4)	-
Balance, end of year	\$ 2,755.5	\$ 2,455.1
Accumulated other comprehensive income (loss)		
Balance, beginning of year	\$ (50.0)	\$ 8.6
Other comprehensive income (loss) for the year	147.2	(58.6)
Balance, end of year	\$ 97.2	\$ (50.0)
Retained earnings and accumulated other comprehensive income	\$ 2,852.7	\$ 2,405.1

Consolidated Balance Sheets

As at (\$ in millions)	January 3, 2009	December 29, 2007
		(Restated - Notes 1 and 22)
ASSETS		
Current assets		
Cash and cash equivalents (Note 13)	\$ 429.0	\$ -
Accounts receivable	824.1	715.0
Loans receivable (Note 2)	1,683.4	1,486.1
Merchandise inventories (Note 1)	917.5	778.7
Income taxes recoverable	64.2	53.2
Prepaid expenses and deposits	40.2	29.5
Future income taxes (Note 12)	20.2	75.7
Total current assets	3,978.6	3,138.2
Long-term receivables and other assets (Note 3)	265.4	231.2
Other long-term investments, net (Note 19)	25.2	7.6
Goodwill (Note 4)	70.7	51.8
Intangible assets (Note 4)	58.4	52.4
Property and equipment, net (Note 5)	3,389.8	3,283.6
Total assets	\$ 7,788.1	\$ 6,764.8
LIABILITIES		
Current liabilities		
Bank indebtedness (Note 13)	\$ -	\$ 105.5
Deposits (Note 6)	540.7	111.5
Accounts payable and other	1,444.2	1,740.4
Current portion of long-term debt (Note 7)	14.8	156.3
Total current liabilities	1,999.7	2,113.7
Long-term debt (Note 7)	1,373.5	1,341.8
Future income taxes (Note 12)	45.9	71.8
Long-term deposits (Note 6)	598.7	3.8
Other long-term liabilities (Note 8)	202.2	125.6
Total liabilities	4,220.0	3,656.7
SHAREHOLDERS' EQUITY		
Share capital (Note 10)	715.4	700.7
Contributed surplus	-	2.3
Accumulated other comprehensive income (loss)	97.2	(50.0)
Retained earnings	2,755.5	2,455.1
Total shareholders' equity	3,568.1	3,108.1
Total liabilities and shareholders' equity	\$ 7,788.1	\$ 6,764.8



Maureen J. Sabia
Director



Graham W. Savage
Director

Notes to the Consolidated Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation The Consolidated Financial Statements include the accounts of Canadian Tire Corporation, Limited and its subsidiaries, 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 2008 and 2007 are the 53-week period ended January 3, 2009 and the 52-week period ended December 29, 2007, 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 The Canadian Institute of Chartered Accountants (CICA) Accounting Guideline 15 (AcG-15), Consolidation of Variable Interest Entities, requires a variable interest entity (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. A VIE is any type of legal structure not controlled by voting equity, but rather by contractual or other financial arrangements.

The Company reviews all legal structures in which the Company has a potential financial interest including Associate Dealer (Dealer) corporations, Petroleum Agent corporations, PartSource and Mark's Work Wearhouse (Mark's) franchisee corporations, financing trusts and external suppliers.

The Company enters into various forms of agreements with independent owner-operators of Canadian Tire Associate Stores (Dealers) and franchisees of Mark's and PartSource stores. The Company's agreement with each Dealer generally permits the 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 Dealers smaller Canadian Tire Associate Stores and, based upon successful operation of their Canadian Tire Associate Stores, to offer Dealers larger locations from time to time pursuant to the Dealer mobility system. When eligible, 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. Dealers may also obtain financing through traditional financial institutions. The Company monitors the financial condition of its 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.

While 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 net earnings.

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 other comprehensive income (loss). The Company does not currently own any self-sustaining foreign subsidiaries.

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 net earnings.

Financial instruments Effective, December 30, 2007 (the first day of the Company's 2008 fiscal year), the Company implemented the new CICA Handbook Section (HB) 3862 – Financial Instruments – Disclosures; and CICA HB 3863 – Financial Instruments – Presentation. These standards replaced the existing CICA HB 3861 – Financial Instruments – Disclosure and Presentation. They require increased disclosures regarding the risks associated with financial instruments and how these risks are managed. These new standards carry forward the presentation standards for financial instruments and non-financial derivatives but provide additional guidance for the classification of financial instruments, from the perspective of the issuer, between liabilities and equity. The adoption of these new standards did not require any changes to the Company's accounting, but did require additional note disclosure, which is included in Note 17.

Previously, the CICA issued the following accounting standards in 2007, which became effective as of the first day of the Company's 2007 fiscal year: a) CICA HB 3855 – Financial Instruments – Recognition and Measurement; b) CICA HB 3865 – Hedges; c) CICA HB 1530 – Comprehensive Income; and d) CICA HB 3251 – Equity.

Financial Instruments – Recognition and Measurement CICA HB 3855 established standards for recognizing financial assets, financial liabilities and non-financial derivatives. It requires that financial assets and financial liabilities, including derivatives, be recognized on the Consolidated Balance Sheets when the Company becomes a party to the contractual provisions of a financial instrument or non-financial derivative contract. Under this standard, all financial instruments are required to be measured at fair value on initial recognition.

The standard also requires the Company to classify financial assets and liabilities according to their characteristics and management's choices and intentions related thereto for the purposes of ongoing measurement. Classification choices for financial assets include: a) held for trading – measured at fair value with changes in fair value recorded in net earnings; b) held to maturity – recorded at amortized cost with gains and losses recognized in net earnings in the period that the asset is derecognized or impaired; c) available for sale – measured at fair value with changes in fair value recognized in other comprehensive income (loss) until realized through disposal or impairment; and d) loans and receivables – recorded at amortized cost with gains and losses recognized in net earnings in the period that the asset is derecognized or impaired. Classification choices for financial liabilities include: a) held for trading – measured at fair value with changes in fair value recorded in net earnings and b) other – measured at amortized cost with gains and losses recognized in net earnings in the period that the liability is derecognized. Any financial asset or liability can be classified as held for trading as long as its fair value is reliably determinable.

Subsequent measurement for these assets and liabilities is based on either fair value or amortized cost using the effective interest method, depending upon their classification.

In accordance with CICA HB 3855, the Company's financial assets and liabilities are generally classified and measured as follows:

Asset/Liability	Category	Measurement
Cash and cash equivalents	Held for trading	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Prepaid expenses and deposits	Held for trading	Fair value
Loans receivable	Loans and receivables	Amortized cost
Long-term receivables and other assets	Loans and receivables	Amortized cost
Other long-term investments	Held for trading	Fair value
Bank indebtedness	Held for trading	Fair value
Commercial paper	Other liabilities	Amortized cost
Accounts payable and other	Other liabilities	Amortized cost
Deposits	Other liabilities	Amortized cost
Long-term debt	Other liabilities	Amortized cost
Other long-term liabilities	Other liabilities	Amortized cost

Included in the above financial statement line items are the following:

- > while prepaid expenses are not within the scope of the new accounting standards as they are not financial assets, certain deposits included in prepaid expenses and deposits are financial assets and are classified as held for trading and measured at fair value;
- > interest-only strip related to the sale of loans receivable, which is included in long-term receivables and other assets, has been classified as held for trading and measured at fair value; and
- > certain investments which are included in long-term receivables and other assets have been classified as held to maturity and measured at amortized cost.

Other balance sheet accounts, such as merchandise inventories, prepaid expenses, current and future income taxes, goodwill, intangible assets and property and equipment are not within the scope of the new accounting standards as they are not financial assets or financial liabilities.

Transaction costs related to financial liabilities classified as other liabilities are expensed as incurred, except for transaction costs related to deposits which are added to the initial carrying amount of deposits and are amortized using the effective interest method.

Credit card balance transfer promotions offered by the Company at rates not equal to market value are measured at fair value at date of acquisition and then subsequently accounted for at amortized cost using the effective interest method. The difference between the promotional rates offered and market rates is recorded as an expense.

Embedded derivatives (elements of contracts whose cash flows move independently from the host contract) are required to be separated and measured at their respective fair values unless certain criteria are met. Under an election permitted by CICA HB 3855, management reviewed contracts entered into or modified subsequent to December 28, 2002 and determined that the Company does not have any significant embedded derivatives in these contracts that require separate accounting and disclosure.

Comprehensive Income CICA HB 1530 introduced comprehensive income, which consists of net earnings and other comprehensive income (OCI). OCI represents changes in shareholders' equity during a period arising from transactions and other events with non-owner sources and includes unrealized gains and losses on financial assets classified as available for sale, unrealized foreign currency translation gains or losses arising from self-sustaining foreign subsidiaries and changes in the fair value of the effective portion of cash flow hedging instruments. The Company has chosen to report a financial statement entitled Consolidated Statement of Comprehensive Income for the changes in these items, net of taxes, since December 31, 2006.

The cumulative changes in OCI are included in accumulated other comprehensive income (loss) (AOCI), which is presented as a separate category in shareholders' equity on the Consolidated Balance Sheets. The AOCI represents the cumulative portion of comprehensive income not already included in net earnings.

Notes to the Consolidated Financial Statements

1. Significant Accounting Policies (continued)

Hedges CICA HB 3865 specifies the criteria that must be satisfied in order for hedge accounting to be applied and the accounting for each of the permitted hedging strategies. The Company enters into various derivative contracts as part of the Company's strategy to manage its exposure to interest and foreign currencies. The Company also enters into equity derivative contracts to hedge certain future stock-based compensation expenses. For each derivative, a determination is made whether hedge accounting can be applied. Where hedge accounting can be applied, a hedging relationship is designated as a fair value hedge, a cash flow hedge or a hedge of foreign currency exposure of an investment in a self-sustaining foreign subsidiary. For our detailed accounting policy on hedge accounting, refer to the Derivatives section below in Note 1.

Equity CICA HB 3251 describes standards for the presentation of equity and changes in equity during the period, with reference to the new comprehensive income standard.

Capital management disclosures The CICA issued the new CICA HB 1535 – Capital Disclosures, which is effective for fiscal years beginning on or after October 1, 2007. The new standard requires entities to disclose information about their objectives, policies and processes for managing capital, as well as their compliance with any externally-imposed capital requirements. The adoption of this new standard did not require any changes to the Company's accounting, but did require additional note disclosure, which is included in Note 16.

Revenue recognition The Company's shipments of merchandise to Canadian Tire Retail's (CTR) 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 and interchange 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.

Cash consideration given to a customer The Company generally records cash consideration given to a customer as a reduction to the selling price of the Company's products or services and reflects it as a reduction of revenue when recognized in the income statement. Certain exceptions apply where the Company receives an identifiable benefit in exchange for the consideration, and the Company can reasonably estimate the fair value of the identifiable benefit, in which case the cost is reflected in operating expenses.

Stock-based compensation plans Stock options (referred to as "stock options with tandem stock appreciation rights") were granted in 2006, 2007 and 2008, 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 11).

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 (see Note 10).

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

Loans receivable Loans receivable include credit card, personal, residential mortgage and line of credit loans. Loans receivable are recorded at cost, net of unearned interest income and of allowances established for future credit losses. 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.

A loan is classified as impaired when there has been a deterioration in the credit quality to the extent that there is no longer reasonable assurance of the timely collection of the full amount of principal and interest. Interest income on impaired loans is not recognized.

Credit card loans that have a payment which is 180 days past due are considered impaired and are written off. 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. Residential mortgage loans are considered impaired when principal or interest payments are over 90 days past due except when fully secured or fully insured. Fully secured residential mortgage loans are classified as impaired when principal and interest payments are over 180 days past due. Residential mortgage loans that are insured are classified as impaired when principal and interest payments are 365 days past due. Line of credit loans that have a payment which is 180 days past due are considered impaired and are written off.

When a 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. 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 current.

The Company recognizes gains or losses on its loans receivable securitizations 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).

Loan securitization The Company sells pools of loans receivable (the Loans) to third-party trusts (the Trusts) in transactions known as securitizations. The transactions are accounted for as sales in accordance with Accounting Guideline 12 (AcG-12), Transfers of Receivables, 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), which are components of retained interests. The interest-only strip represents the present value of the expected spread to be earned over the collection period on the loans receivable sold. The expected spread is equal to the yield earned, less the net write-offs and interest expense on the loans receivable sold. The seller's interest and securitization reserve provide the 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 interest-only strip, the seller's interest and the securitization reserve and, for the credit card loan securitization, the additional enhancement required to be maintained.

The proceeds of the sale are deemed to be the cash received, interest-only strip and securitization reserve, less any servicing obligation assumed. The servicing liability represents the Company's estimated cost of servicing the securitized loans and is amortized over the life of the securitized loans. The proceeds are allocated between the Loans, interest-only strip, seller's interest and securitization reserve based on their relative fair values at the date of sale, with any excess or deficiency recorded as a gain or loss on sale, respectively.

The Trusts have not been consolidated in these financial statements because either they meet the criteria for a qualified special purpose entity (which are exempt from consolidation) or the Company is not the primary beneficiary.

Merchandise inventories Merchandise inventories are carried at the lower of cost and net realizable value, with cost being determined as weighted average cost.

Effective, December 30, 2007 (the first day of the Company's 2008 fiscal year), the Company implemented, on a retrospective basis with restatement, the CICA HB 3031 - Inventories, which was effective for interim and annual financial statements for fiscal years beginning on or after January 1, 2008.

This new standard provides guidance on the determination of cost and requires inventories to be measured at the lower of cost and net realizable value. The cost of inventories includes the cost of purchase and other costs incurred in bringing the inventories to their present location and condition. Costs such as storage costs, administrative overheads that do not contribute to bringing the inventories to their present location and condition, and selling costs are specifically excluded from the cost of inventories and are expensed in the period incurred. Reversals of previous write-downs to net realizable value are now required when there is a subsequent increase in the value of inventories. The cost of inventories should be determined using either a first-in, first-out or weighted average cost formula. Techniques for the measurement of cost of inventories, such as the retail method or standard cost method, may be used for convenience if the results approximate actual cost. The new standard also requires additional disclosures including the accounting policies adopted in measuring inventories, the carrying amount of inventories, amount of inventories recognized as an expense during the period, the amount of write-downs during the period and the amount of any reversal of write-downs that is recognized as a reduction of expenses.

As a result of the retrospective implementation of this new standard, the cumulative impact on previously reported balances on the following dates is as follows:

(\$ in millions)	Increase (decrease)	
	December 29, 2007	December 30, 2006
Retained earnings	\$ 14.2	\$ 20.1
Inventories	22.0	31.5
Income taxes recoverable	(5.8)	-
Future income tax assets	(2.0)	(5.3)
Accounts payable and other	-	0.6
Income taxes payable	-	5.5

In addition, the retrospective impact on net earnings for the 52 weeks ended December 29, 2007 was a reduction of \$5.9 million, or \$0.07 per share.

Included in cost of merchandise sold and all other operating expenses except for the undernoted items for the 53 weeks ended January 3, 2009 is \$6,422.0 million (2007 - \$6,060.8 million) of inventory recognized as an expense, which included \$68.2 million (2007 - \$42.6 million) of write-downs of inventory as a result of net realizable value being lower than cost. Inventory write-downs recognized in previous periods and reversed in the current year and the comparative year were insignificant.

Notes to the Consolidated Financial Statements

1. Significant Accounting Policies (continued)

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 which case the cost is reflected in operating expenses.

The Company recognizes rebates that are at the vendor's discretion when the vendor either pays the rebates or agrees to pay them and payment is considered probable and reasonably estimable.

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 substantively enacted income tax rates and laws for the year 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.

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 but 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, but 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, unless the terms of the lease provide for the transfer of ownership or a bargain purchase option at the end of the term of the lease. In these cases, depreciation is provided for using the declining balance method for comparable owned assets.

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.

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 per cent of the accrued benefit obligation are amortized on a straight-line basis over the expected average remaining service life of employees.

Derivatives Derivatives 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. All derivative instruments are recorded on the Consolidated Balance Sheets at fair value, including derivatives that are embedded in financial or non-financial contracts that are not closely related to the host contracts. For each derivative, a determination is made whether hedge accounting can be applied.

Hedge accounting Where hedge accounting can be applied, a hedge relationship is designated and documented at the inception of the derivative contracts to detail the particular risk management objective and the strategy for undertaking the hedge transaction. The documentation identifies the specific asset, liability or anticipated cash flows being hedged, the risk that is being hedged, the type of hedging instrument used and how effectiveness will be assessed. The hedging instrument must be highly effective in achieving its object of offsetting either changes in the fair value or anticipated cash flows attributable to the risk being hedged both at inception and throughout the life of the hedge. Hedge accounting is discontinued prospectively when the hedging instrument is no longer effective as a hedge, the hedging instrument is terminated or sold, or upon the sale or early termination of the hedged item.

Fair value hedges For fair value hedges, the carrying value of the hedged item is adjusted for changes in fair value attributable to the hedged risk and this adjustment is included in net earnings for the period. Changes in the fair value of the hedged item, to the extent that the hedging relationship is effective, are offset by changes in the fair value of the hedging derivative, which are also included in net earnings. When hedge accounting is discontinued, the carrying value of the hedged item is no longer adjusted and the cumulative fair value adjustments to the carrying value of the hedged items are amortized to net earnings over the remaining term of the hedged item using the effective interest method.

The Company enters into fair value hedges, including certain interest rate swap contracts. The fair value of these hedges is included in other long-term liabilities. In fair value hedges, the changes in fair value of both the hedged item attributable to the risk being hedged and the entire hedging item are recorded in net earnings for the respective period.

Cash flow hedges For cash flow hedges, the effective portion of the changes in the fair value of the hedging derivative, net of taxes, is recognized in OCI, while the ineffective portion is recognized in net earnings. When hedge accounting is discontinued, the amounts previously recognized in AOCI are reclassified to income during the periods when the variability in the cash flows of the hedged item affects net earnings. Gains and losses on derivatives are reclassified immediately to net earnings when the hedged item is sold or terminated early.

The Company enters into foreign currency contracts to hedge the exposure to foreign currency risk on the future payment of foreign currency denominated inventory purchases. The fair value of these contracts is included in accounts receivable or accounts payable and other, depending on the derivative's fair value. The changes in fair value of these contracts are included in other comprehensive income to the extent the hedges continue to be effective. Once the inventory has been recognized, the Company has elected to reclassify the related accumulated other comprehensive income amount to merchandise inventories. Subsequent changes in the fair value of the foreign exchange contracts are recorded in net earnings. The Company enters into equity derivative contracts to hedge certain future stock-based compensation expenses. The fair value of these contracts is included in accounts receivable and long-term receivables and other assets depending on the derivative's maturity. The changes in fair value of these contracts are included in other comprehensive income to the extent the hedges continue to be effective. The related other comprehensive income amounts are reclassified to net earnings based on vesting of the respective stock-based share units. The Company also enters into certain interest rate swap contracts to manage its exposure to interest rate risks. The fair value of these contracts is included in accounts payable and other or other long-term liabilities, depending on the derivative's maturity. The changes in fair value of these contracts are included in other comprehensive income to the extent the hedges continue to be effective. The related other comprehensive income amounts are allocated to net earnings in the same period in which the hedged item affects net earnings or in the period in which it is determined that the originally anticipated transaction will not occur.

Use of estimates The preparation of the Consolidated Financial Statements in conformity with Canadian generally accepted accounting principles (GAAP) 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 amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates. Estimates are used when accounting for a number of items including, but not limited to, income taxes, impairment of assets (including goodwill), employee benefits, product warranties, vendor funds, inventory provisions, amortization, uncollectible loans receivable, environmental reserves, asset retirement obligations, financial instruments and the liability for the Company's loyalty programs.

Future accounting changes

Goodwill and Intangible Assets In February 2008, the CICA issued CICA HB 3064 – Goodwill and Intangible Assets, which replaces CICA HB 3062 – Goodwill and Other Intangible Assets, and CICA HB 3450 – Research and Development.

This new standard provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets.

As this standard applies to interim and annual financial statements for fiscal years beginning on or after October 1, 2008, the Company will adopt this new standard effective January 4, 2009 (the first day of the Company's 2009 fiscal year) retrospectively with a restatement of prior periods. The Company is assessing the impact of the adoption of this new standard and does not anticipate that the restatement will result in a significant impact on pre-tax earnings and total assets.

International Financial Reporting Standards (IFRS) In February 2008, the CICA announced that Canadian GAAP for publicly accountable enterprises will be replaced by International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011. Companies will be required to provide IFRS comparative information for the previous fiscal year. Accordingly, the conversion from Canadian GAAP to IFRS will be applicable to the Company's reporting for the first quarter of 2011, for which the current and comparative information will be prepared under IFRS. The Company expects the transition to IFRS to impact accounting, financial reporting, internal control over financial reporting, taxes, IT systems and processes as well as certain contractual arrangements. The Company is currently assessing the impact of the transition to IFRS in the above areas and has deployed additional trained resources and formal project management practices and governance to ensure the timely conversion to IFRS.

Notes to the Consolidated Financial Statements

1. Significant Accounting Policies (continued)

Business Combinations In January 2009, the CICA issued CICA HB 1582 – Business Combinations, which replaces CICA HB 1581 – Business Combinations. The CICA also issued CICA HB 1601 – Consolidated Financial Statements and CICA HB 1602 – Non-Controlling Interests, which replaces CICA HB 1600 – Consolidated Financial Statements. These new sections are based on the International Accounting Standards Board's (IASB) International Financial Reporting Standard 3, "Business Combinations". The new standards replace the existing guidance on business combinations and consolidated financial statements. The objective of the new standards is to harmonize Canadian accounting for business combinations with the international and U.S. accounting standards. The new standards are to be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011, with earlier application permitted. Assets and liabilities that arose from business combinations whose acquisition dates preceded the application of the new standards will not be adjusted upon application of these new standards. The Non-Controlling Interests standard should be applied retrospectively except for certain items.

2. LOANS RECEIVABLE

Quantitative information about loans receivable managed and securitized by the Company is as follows:

(\$ in millions)	Total principal amount of receivables ¹		Average balances ¹	
	2008	2007	2008	2007
Total net managed credit card loans	\$ 3,780.4	\$ 3,681.3	\$ 3,601.5	\$ 3,370.2
Credit card loans sold	(2,216.0)	(2,233.7)	(2,592.9)	(2,602.0)
Credit card loans held	1,564.4	1,447.6	1,008.6	768.2
Total net managed personal loans ²	83.8	140.2	114.2	179.7
Loans sold	-	(56.0)	(17.8)	(85.1)
Loans held	83.8	84.2	96.4	94.6
Total net managed mortgage loans ³	138.8	35.4	76.0	13.1
Total net managed line of credit loans ⁴	20.6	-	23.7	-
Total loans receivable	1,807.6	1,567.2	\$ 1,204.7	\$ 875.9
Less: long-term portion ⁵	124.2	81.1		
Current portion of loans receivable	\$ 1,683.4	\$ 1,486.1		

¹ Amounts shown are net of allowance for credit losses.

² Personal loans are unsecured loans that are provided to qualified existing credit card holders 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. The securitized portfolio of personal loans of \$43.7 million was repurchased in May 2008 for \$26.7 million.

³ Mortgage loans are issued for terms of up to 10 years, have fixed or variable interest rates, are secured and include a mix of both high and low ratio loans. High ratio loans are fully insured and low ratio loans are partially insured.

⁴ The line of credit portfolio was purchased in January 2008 for \$29.6 million.

⁵ The long-term portion of loans receivable is included in long-term receivables and other assets.

Net credit losses for the owned portfolio for the year ended January 3, 2009 were \$87.3 million (2007 – \$81.4 million). Net credit losses for the total managed portfolio for the year ended January 3, 2009 were \$249.2 million (2007 – \$217.3 million). Net credit losses are charge-offs net of recoveries.

For both the credit card and personal loans, the retained interests include the interest-only strip, the allowance on securitized loans receivable and the servicing liability. For the personal loan securitization, retained interests also include the seller's interest and the securitization reserve.

The following tables outline the key economic assumptions used in estimating the fair value of retained interests. The tables also display the sensitivity of the current fair value of residual cash flows to immediate 10 per cent and 20 per cent adverse changes in those assumptions at year-end.

Credit card loans

(\$ in millions)	Assumptions	Impact of adverse changes on		Assumptions
		2008	fair value of retained interest ¹	
			10%	20%
Yield ²	15.46%	\$ (10.6)	\$ (21.1)	15.20%
Liquidation rate ³	26.23%	(9.0)	(16.3)	25.61%
Expected credit losses ²	6.34%	(0.0)	(0.1)	5.40%
Discount rate ²	12.00%	(0.1)	(0.1)	12.00%
Servicing rate ^{2,4}	2.00%	(1.3)	(2.6)	2.00%

Personal loans⁵

(\$ in millions)	Assumptions	
	2008	2007
Yield ²		12.82%
Payment rate ³		91.70%
Expected credit losses ²		12.76%
Discount rate ²		8.00%
Servicing rate ^{2,4}		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 per cent or 20 per cent 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 forecasted for the next 12 months.

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, 2008 (Canadian Tire Bank's fiscal year-end) was \$13.0 million (2007 - \$13.9 million) and is included in accounts payable and other.

⁵ The personal loans were not securitized at January 3, 2009. There are no retained interests and no sensitivity analysis to report for 2008.

Details of cash flows from the securitization of loans are as follows:

(\$ in millions)	2008	2007
Proceeds from new securitizations	\$ 634.9	\$ 148.6
Decrease in securitized ownership interests	(649.2)	(580.0)
Repurchase of personal loan portfolio	(27.1)	-
Cash flows received from collections reinvested in previous securitizations	8,734.6	8,525.0
Other cash flows received on retained interests	2,565.1	1,820.6

3. LONG-TERM RECEIVABLES AND OTHER ASSETS

(\$ in millions)	2008	2007
Loans receivable (Note 2)	\$ 124.2	\$ 81.1
Mortgages receivable	49.3	62.8
Derivatives (Note 17)	36.9	1.0
Interest-only strip	28.7	35.8
Pledged collateral (Note 7)	14.6	15.4
Other receivables	7.4	5.7
Other assets	4.3	6.6
Seller's interest	-	19.0
Securitization reserve	-	3.8
	\$ 265.4	\$ 231.2

Notes to the Consolidated Financial Statements

4. GOODWILL AND INTANGIBLE ASSETS

The change in the carrying amount of goodwill by business segment (Note 18) is as follows:

(\$ in millions)		CTR		Mark's		2008 Total		2007 Total
Balance, beginning of year	\$	10.4	\$	41.4	\$	51.8	\$	46.4
Goodwill acquired		5.6		13.3		18.9		5.4
Balance, end of year	\$	16.0	\$	54.7	\$	70.7	\$	51.8

The intangible assets consist of:

(\$ in millions)		2008		2007
Mark's Work Wearhouse/L'Équipeur store banner	\$	46.0	\$	46.0
Mark's franchise locations		6.0		-
Mark's private-label brands		4.4		4.4
Mark's franchise agreements		2.0		2.0
	\$	58.4	\$	52.4

These intangible assets are considered to have indefinite lives because they are expected to generate cash flows in perpetuity. There were no write-downs of goodwill or intangible assets due to impairment during 2008 and 2007.

5. PROPERTY AND EQUIPMENT

(\$ in millions)	2008			2007			Depreciation amortization rate/term
	Cost	Accumulated depreciation and amortization	Net book value	Cost	Accumulated depreciation and amortization	Net book value	
Land	\$ 727.9	\$ -	\$ 727.9	\$ 749.7	\$ -	\$ 749.7	
Buildings	2,347.2	787.1	1,560.1	2,230.3	733.5	1,496.8	4%-10%
Fixtures and equipment	645.3	434.5	210.8	627.7	416.7	211.0	10%-33%
Leasehold improvements	460.5	143.5	317.0	402.4	123.9	278.5	Term of lease
Computer software	483.5	364.5	119.0	427.1	308.5	118.6	Up to 5 years
Assets under capital lease	55.8	9.8	46.0	33.7	4.8	28.9	Term of lease/ 12.5% declining balance
Construction in progress	409.0	-	409.0	400.1	-	400.1	
	\$ 5,129.2	\$ 1,739.4	\$ 3,389.8	\$ 4,871.0	\$ 1,587.4	\$ 3,283.6	

Included in property and equipment are land and buildings held for sale with a cost of \$14.3 million and \$25.7 million, respectively (2007 - \$9.0 million and \$19.0 million, respectively) and accumulated depreciation of \$14.8 million (2007 - \$10.0 million). Land and building held for sale relates to Canadian Tire Retail stores that have re-located to newer sites. The Company is actively marketing these properties to third parties and will be sold when terms and conditions acceptable to the Company are reached.

Gains/losses on the sale of assets held for sale are reported in cost of merchandise sold and all other operating expenses except the undernoted items in the Consolidated Statements of Earnings.

The Company capitalized interest of \$15.2 million (2007 - \$15.2 million) on indebtedness related to property and equipment under construction.

Impairments of property and equipment charged against earnings for the year were \$2.5 million (2007 - \$3.9 million) and are reported in cost of merchandise sold and all other operating expenses except the undernoted items in the Consolidated Statements of Earnings.

6. DEPOSITS

Deposits include high-interest savings accounts and guaranteed investment certificates. High interest savings accounts are payable on demand and do not require a notice of withdrawal by customers. Guaranteed investment certificates earn interest over fixed terms of one to five years and are not payable until maturity, except in certain rare circumstances.

Repayment requirements

(\$ in millions)

2009	\$	379.8
2010		162.3
2011		95.6
2012		39.3
2013		301.5
Current and long-term guaranteed investment certificates		978.5
High-interest savings accounts		166.0
Total deposits ¹	\$	1,144.5

¹ The deposits number in the Consolidated Balance Sheets is net of \$5.1 million of deferred transaction costs.

7. LONG-TERM DEBT

(\$ in millions)

	2008	2007
Medium-term notes		
5.70% due June 9, 2008	\$ -	\$ 150.0
5.22% due October 1, 2010	300.0	300.0
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
Capital lease obligations	47.2	28.9
Fair value hedge adjustment	15.7	(0.3)
Promissory note	13.4	13.8
Other	12.0	5.7
Total long-term debt	1,388.3	1,498.1
Less: amounts due within one year	14.8	156.3
Total - net of current portion	\$ 1,373.5	\$ 1,341.8

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 per cent 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 per cent 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 \$14.6 million, which is included in long-term receivables and other assets (see Note 3).

Capital lease obligations The trailers, fixtures and equipment and computer software under capital leases are the security for the respective obligations. The leases have an average interest rate of 4.73 per cent and an average remaining term of 80 months.

Debt covenants The Company has provided covenants to certain of its lenders. All of the covenants were complied with during 2008 and 2007.

Notes to the Consolidated Financial Statements

7. Long-term Debt (continued)

Repayment requirements

(\$ in millions)	2009	2010	2011	2012	2013	Thereafter	Total
Medium-term notes	\$ -	\$ 300.0	\$ -	\$ -	\$ -	\$ 850.0	\$ 1,150.0
Debentures	-	150.0	-	-	-	-	150.0
Capital lease obligations	6.6	6.8	7.1	7.4	6.3	13.0	47.2
Promissory note	0.4	0.3	12.7	-	-	-	13.4
Other	7.8	1.7	1.3	1.1	0.1	-	12.0
	\$ 14.8	\$ 458.8	\$ 21.1	\$ 8.5	\$ 6.4	\$ 863.0	\$ 1,372.6

8. OTHER LONG-TERM LIABILITIES

(\$ in millions)	2008	2007
Deferred gains (Note 20)	\$ 110.9	\$ 48.1
Employee future benefits (Note 9)	56.3	52.0
Derivatives (Note 17)	17.9	10.6
Asset retirement obligations	17.1	14.9
	\$ 202.2	\$ 125.6

9. 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:

(\$ in millions)	2008	2007
Accrued benefit obligation, beginning of year	\$ 71.6	\$ 71.3
Current service cost	1.8	1.9
Interest cost	4.0	3.8
Benefits paid	(2.1)	(1.9)
Actuarial gains	(10.5)	(3.5)
Accrued benefit obligation, end of year ¹	64.8	71.6
Unamortized past service costs	2.6	3.0
Unamortized net actuarial losses	(11.1)	(22.6)
Accrued benefit liability	\$ 56.3	\$ 52.0
Elements of benefit plan costs recognized		
Current service cost	\$ 1.8	\$ 1.9
Interest cost	4.0	3.8
Actuarial gains	(10.5)	(3.5)
Elements of employee future benefit costs before adjustments to recognize the long-term nature of employee future benefit costs	(4.7)	2.2
Differences between costs arising in the period and costs recognized in the period in respect of:		
Actuarial gains (losses) ²	11.5	4.7
Plan amendments	(0.4)	(0.4)
Benefit costs recognized	\$ 6.4	\$ 6.5

¹ The accrued benefit obligation is not funded as funding is provided when benefits are paid. Accordingly, there are no plan assets.

² Includes actuarial (gains) losses amortized of \$1.0 million (2007 - \$1.2 million) less actuarial (gains) losses incurred of \$(10.5) million (2007 - \$(3.5) million).

Significant actuarial assumptions used:

	2008	2007
Accrued benefit obligation		
Discount rate	7.50%	5.50%
Benefit costs recognized		
Discount rate	5.50%	5.25%

For measurement purposes, an 8.09 per cent weighted average health care fund rate was assumed for 2008 (2007 – 5.93 per cent). The rate was assumed to decrease gradually to 4.50 per cent for 2029 (2007 – decrease gradually to 4.20 per cent for 2014) and remain at that level thereafter. The expected average remaining service period of the active employees covered by the benefit plan is 16 years (2007 – 16 years).

The most recent actuarial valuation of the obligation was performed as of November 1, 2006. The next required valuation will be as of November 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 2008:

(\$ in millions)	Increase	Decrease
Total of service and interest cost	\$ 0.9	\$ (0.7)
Accrued benefit obligation	7.3	(5.8)

10. SHARE CAPITAL

(\$ in millions)	2008	2007
Authorized		
3,423,366 Common Shares		
100,000,000 Class A Non-Voting Shares		
Issued		
3,423,366 Common Shares (2007 – 3,423,366)	\$ 0.2	\$ 0.2
78,178,066 Class A Non-Voting Shares (2007 – 78,048,062)	715.2	700.5
	\$ 715.4	\$ 700.7

During 2008 and 2007, the Company issued and repurchased Class A Non-Voting Shares. The net excess of the issue price over the repurchase price results in contributed surplus. The net excess of the repurchase price over the issue price is allocated first to contributed surplus, to the extent of any previous net excess from the issue of shares, with any remainder allocated to retained earnings.

The following transactions occurred with respect to Class A Non-Voting Shares during 2008 and 2007:

(\$ in millions)	2008		2007	
	Number	\$	Number	\$
Shares outstanding at the beginning of the year	78,048,062	\$ 700.5	78,047,456	\$ 702.5
Issued				
Dividend reinvestment plan	58,579	3.2	30,459	2.3
Stock option plan	500	-	4,600	0.3
Employee Stock Purchase Plan	477,661	26.6	338,236	25.9
Employee Profit Sharing Plan	60,348	4.0	46,140	3.6
Associate Dealer profit sharing plans	52,716	3.1	38,171	3.0
Repurchased	(519,800)	(29.9)	(457,000)	(34.9)
Excess of repurchase price over issue price (issue price over repurchase price)	-	7.7	-	(2.2)
Shares outstanding at the end of the year	78,178,066	\$ 715.2	78,048,062	\$ 700.5

Notes to the Consolidated Financial Statements

10. Share Capital (continued)

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 January 4, 2009 to March 12, 2009, the Company issued 170,827 Class A Non-Voting Shares for proceeds of \$6.9 million and repurchased 206,500 shares at a cost of \$8.2 million.

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 preferential cumulative dividends at the rate of \$0.01 per share per annum on each of the Class A Non-Voting Shares in respect of the current year and each preceding year and payment of a non-cumulative dividend on each of the Common Shares in respect of the current year 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 equal amounts per share without preference or distinction.

In the event of the liquidation, dissolution or winding-up of the Company, all of the property of the Company available for distribution to the holders of the Class A Non-Voting Shares and the Common Shares shall be paid or distributed equally share for share, to the holders of the Class A Non-Voting Shares and to the holders of the Common Shares without preference or distinction.

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.

The holders of Common Shares are entitled to receive notice of, to attend and to have one vote for each Common Share held at all meetings of holders of Common Shares, subject only to the restriction on the right to elect directors as set out above.

Common Shares can be converted, at any time and at the option of each holder of Common Shares, 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 January 3, 2009, the Company had dividends payable to holders of Class A Non-Voting Shares and Common Shares of \$17.1 million (2007 - \$15.1 million).

11. STOCK-BASED COMPENSATION PLANS

The following describes the Company's stock-based compensation plans.

Profit sharing plan for certain employees The Company has a profit sharing plan for certain of its employees. The amount awarded to employees is contingent on the Company's profitability. The maximum contribution is 6.75 per cent of earnings before income taxes, after certain adjustments. A portion of the award is contributed to a Deferred Profit Sharing Plan (DPSP) for the benefit of the employees. The maximum amount of the Company's contribution to the DPSP per employee per year is subject to limits set by the Income Tax Act. Each participating employee is required to invest and maintain 10 per cent of his or her holdings in the DPSP in the Company's Class A Non-Voting Shares. The Company's contributions to the DPSP in respect of each employee vest 20 per cent after one year of continuous service and 100 per cent after two years of continuous service.

In 2008, the Company contributed \$18.5 million (2007 - \$17.8 million) under the terms of the DPSP, towards the Trustee-managed investment portfolio. As of January 3, 2009, the DPSP held 419,280 Common Shares (2007 - 419,280) and 1,120,315 Class A Non-Voting Shares (2007 - 1,047,214) 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 per cent 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 per cent of employee contributions to the ESPP. The Company's matching contribution vests in increments of 10 per cent for every year of an employee's service.

In return for employee contributions, the Company issued to employees 477,661 Class A Non-Voting Shares in 2008 (2007 - 338,236). The Company's matching contribution of \$11.4 million in 2008 (2007 - \$10.4 million) was used to purchase Class A Non-Voting Shares in the open market. In addition, the Company recorded as compensation expense \$6.5 million (2007 - \$6.7 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 calendar quarter in which the DSU is issued. A Director may elect to participate or change his or her participation in the DSUP upon written notice. 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. 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 pursuant to the DSUP details. The value of the outstanding DSUs as at January 3, 2009, was \$3.4 million (2007 – \$4.1 million).

2005, 2006 and 2007 Performance Driven Share Unit Plans The Company had 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 commencing the day after 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. Compensation expense recorded for PDSUs for the year ended January 3, 2009 was \$6.9 million (2007 – \$15.8 million).

2008 Performance Share Unit Plan The Company has granted 2008 performance share units (PSUs) to certain employees. Each PSU 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 commencing the day after the last day of the performance period, multiplied by an applicable multiplier determined by specific performance-based criteria. Compensation expense related to the PSUs is accrued over the term of the performance period based on the expected total compensation paid out at the end of the performance period. Compensation expense recorded for PSUs for the year ended January 3, 2009 was \$2.9 million (2007 – \$nil million).

Deferred Share Unit Plan for certain executives The Company has granted deferred share units (DSUs) to certain 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 January 3, 2009 was \$(0.7) million (2007 – \$0.1 million).

Stock options The Company has granted options to certain employees for the purchase of Class A Non-Voting Shares. 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. Stock options granted prior to 2006 generally vest on a graduated basis over a four-year period and are exercisable over a term of 10 years. Stock options granted in 2006 and 2007 vest on a graduated basis over a three-year period and are exercisable over a term of seven years. Stock options granted in 2008 fully vest after three years and are exercisable over a term of seven years. At January 3, 2009, approximately 2.5 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 after 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.

The compensation expense recorded for stock options for the year ended January 3, 2009 was \$4.3 million (2007 – \$9.1 million).

The outstanding options as at January 3, 2009 were granted at prices between \$16.47 and \$83.16 and expire between February 2009 and November 2015.

Stock option transactions during 2008 and 2007 were as follows:

	2008		2007	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at beginning of year	1,293,477	\$ 55.30	1,124,166	\$ 40.61
Granted	513,437	62.56	552,854	72.47
Exercised	(27,432)	31.64	(317,089)	31.87
Forfeited and expired	(133,192)	67.53	(66,454)	61.15
Outstanding at end of year	1,646,290	\$ 56.97	1,293,477	\$ 55.30
Stock options exercisable at end of year	761,234		541,546	

Notes to the Consolidated Financial Statements

11. Stock-based Compensation Plans (continued)

The following table summarizes information about stock options outstanding at January 3, 2009:

Range of exercise prices	Options outstanding			Options exercisable	
	Number of outstanding options	Weighted average remaining contractual life ¹	Weighted average exercise price	Number exercisable at January 3, 2009	Weighted average exercise price
\$ 71.90 to 83.16	461,323	5.20	\$ 72.50	152,393	\$ 72.51
64.82 to 71.04	287,115	4.31	65.03	182,123	64.94
44.52 to 63.42	491,803	6.10	62.41	20,669	63.04
25.26 to 41.47	316,379	3.02	29.19	316,379	29.19
16.47 to 21.03	89,670	2.03	19.34	89,670	19.34
\$ 16.47 to 83.16	1,646,290	4.72	\$ 56.97	761,234	\$ 46.17

¹ Weighted average remaining contractual life is expressed in years.

12. 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:

(\$ in millions)	2008	2007
		(Restated - Note 1)
Income taxes based on a combined Canadian federal and provincial income tax rate of 32.60% (2007 - 35.10%)	\$ 176.5	\$ 214.6
Adjustment to income taxes resulting from:		
Net tax adjustment on sale/leaseback of various properties	(6.6)	-
Lower income tax rates on earnings of foreign subsidiaries	(4.0)	(4.7)
Non-taxable portion of gain on other real estate disposition	(0.9)	(2.7)
Prior years' tax adjustments	(0.5)	3.6
Prior years' tax settlements	(0.3)	(10.7)
Future tax rate adjustment	-	(2.2)
Other	2.8	1.6
Income tax expense	\$ 167.0	\$ 199.5

The following are the components of the income tax provision:

(\$ in millions)	2008	2007
		(Restated - Note 1)
Current tax expense	\$ 209.1	\$ 210.7
Future income tax benefit relating to the origination and reversal of temporary differences	(42.1)	(9.0)
Future income tax benefit resulting from change in tax rate	-	(2.2)
Income tax expense	\$ 167.0	\$ 199.5

The tax-effected temporary differences which result in future income tax assets and (liabilities) are as follows:

(\$ in millions)	2008	2007
		(Restated - Note 1)
Current		
Reserves and deferred income	\$ 64.3	\$ 60.1
Other comprehensive income	(49.1)	21.6
Capital lease obligations	2.1	0.3
Deferred items	2.0	(7.5)
Other	0.9	1.2
Current future income taxes	\$ 20.2	\$ 75.7
Long-term		
Property and equipment	\$ (87.2)	\$ (80.8)
Reserves and deferred income	26.7	10.6
Post retirement benefits	16.2	15.1
Capital lease obligations	11.6	0.1
Intangible assets	(8.3)	(7.4)
Deferred items	(7.6)	(13.2)
Other	2.7	3.8
Long-term future income taxes	\$ (45.9)	\$ (71.8)

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 main issues challenged by the Canada Revenue Agency (CRA) relate to the tax treatment of commissions paid to foreign subsidiaries of the Company (covering periods from 1995 to 2007), 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 have reassessed and are also expected to issue further reassessments on these matters for the corresponding periods.

The Company has agreed with the CRA to settle the commissions issue for the period 1995 to 2003, although the determination of the final tax liability pursuant to the settlement is subject to the verification by the CRA of certain information provided by the Company. The Company believes the provincial tax authorities will also reassess on the same basis. The Company does not have a significant exposure on this issue subsequent to the 2003 taxation year.

The reassessments with respect to the dividends received issue are based on multiple grounds, some of which are highly unusual. The Company has appealed the reassessments, and the matter is currently pending before the Tax Court of Canada. 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 unlikely – it is estimated that the total liability of the Company for additional taxes, interest and penalties could be approximately \$189.0 million. Although the Company has appealed these reassessments, current tax legislation requires the Company to remit to the CRA and its provincial counterparts approximately \$117.0 million related to this matter, of which \$112.7 million had been remitted by the end of the year.

The Company regularly reviews the potential for adverse outcomes in respect of tax matters. The Company believes that the ultimate disposition of the settlements, finalization of the commissions issue, resolution of the dividends received issue and other tax matters 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 provision, the Company's effective tax rate and its earnings could be affected positively or negatively in the period in which the matters are resolved.

Notes to the Consolidated Financial Statements

13. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

Working capital components

(\$ in millions)	2008	2007
		(Restated - Notes 1 and 22)
Cash generated from (used for):		
Accounts receivable	\$ (104.8)	\$ (363.0)
Accounts payable and other	(104.6)	62.0
Income taxes payable	(10.8)	(139.8)
Merchandise inventories	(176.0)	(43.0)
Prepaid expenses and deposits	(10.7)	16.7
Change in other working capital components	\$ (406.9)	\$ (467.1)

Cash and cash equivalents The components of cash and cash equivalents are:

(\$ in millions)	2008	2007
Cash	\$ 59.2	\$ 71.8
Line of credit borrowings	-	(316.8)
Short-term investments	369.8	139.5
Cash and cash equivalents (bank indebtedness)	\$ 429.0	\$ (105.5)

Supplementary information For the year ended January 3, 2009, the Company paid income taxes amounting to \$220.1 million (2007 - \$348.4 million) and made interest payments of \$108.7 million (2007 - \$88.5 million).

For the year ended January 3, 2009, property and equipment were acquired at an aggregate cost of \$471.9 million (2007 - \$592.7 million). The amount of property and equipment acquired that is included in accounts payable and other at January 3, 2009 is \$102.1 million (2007 - \$65.1 million).

14. LEASES

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 Dealers, the majority of the properties are income producing.

The minimum annual rental payments for equipment and property under operating leases are as follows:

(\$ in millions)	
2009	\$ 235.5
2010	213.5
2011	194.1
2012	178.9
2013	167.1
2014-2043	1,131.2
	\$ 2,120.3

Capital leases The minimum annual rental payments for equipment under capital leases are as follows:

(\$ in millions)

2009	\$	8.6
2010		8.5
2011		8.4
2012		8.4
2013		7.0
2014-2018		14.2
Total minimum lease payments		55.1
Less: financing expenses included in minimum lease payments		7.9
		\$ 47.2

15. 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 Dealers for their purchase of inventory and fixed assets (the Dealer Loans). During 2004, the Independent Trust sold all of its rights in the LCs and the then outstanding 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 Dealer Loans. Total Dealer Loans as at January 3, 2009 were \$970.9 million (2007 - \$923.5 million).

In the event that a 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 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 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 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 \$267.4 million at January 3, 2009 (2007 - \$167.2 million). The Company has not recorded any liability for these amounts, due to the credit quality of the Dealer Loans and to the nature of the underlying collateral, represented by the inventory and fixed assets of the borrowing 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.

Notes to the Consolidated Financial Statements

15. Guarantees, Commitments and Contingencies (continued)

Lease agreements The Company has entered into agreements with certain of its lessors of one of its wholly-owned subsidiaries that guarantee the lease payments to lessors. These lease agreements relate to the sale and leaseback of properties on which Canadian Tire retail stores operate. These lease agreements have expiration dates through September 2023. The Company has also 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 January 2016. 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 January 2016. The maximum amount that the Company may be required to pay under these agreements is \$214.2 million (2007 - \$11.7 million), except for three lease agreements 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.

Third-party debt agreements The Company has guaranteed the debt of certain PartSource franchisees and Dealers. These third-party debt agreements require the Company to make payments if the franchisee or Dealer fails to make scheduled debt payments. The majority of these third-party debt agreements have expiration dates extending to January 31, 2009. The maximum amount that the Company may be required to pay under these types of debt agreements is \$42.0 million (2007 - \$35.0 million), of which \$12.6 million (2007 - \$28.5 million) has been drawn at January 3, 2009. 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 January 3, 2009, the Company had the following other commitments and contingencies. In accordance with Canadian GAAP, 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 \$31.6 million (2007 - \$24.8 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 \$61.5 million (2007 - \$182.6 million) for the acquisition of property and equipment and the expansion of retail store facilities and its distribution centres in Ontario and Quebec.

The Company has committed to pay \$140.6 million (2007 - \$54.6 million) in total to third parties for credit card processing and information technology services mainly in support of the Company's credit card and retail banking services for periods up to 2014.

The Company has committed to pay \$22.0 million (2007 - \$21.2 million) for various commitments and contingent liabilities, including merchandise inventory buy-back agreements, a customs bond 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 matters 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.

16. CAPITAL MANAGEMENT DISCLOSURES

The Company's objectives when managing capital are:

- > minimizing the after-tax cost of capital; and
- > maintaining flexibility in capital structure to ensure the ongoing ability to execute the Strategic Plan.

Management includes the following items in its definition of capital:

(\$ in millions)	2008	% of total	2007	% of total
Current portion of long-term debt	\$ 14.8	0.3%	\$ 156.3	3.4%
Long-term debt	1,373.5	25.1%	1,341.8	28.8%
Long-term deposits	598.7	11.0%	3.8	0.1%
Other long-term liabilities ¹	3.2	0.1%	10.6	0.2%
Share capital	715.4	13.1%	700.7	15.0%
Contributed surplus	-	-%	2.3	0.0%
Components of accumulated other comprehensive loss ²	-	-%	(8.5)	(0.2)%
Retained earnings	2,755.5	50.4%	2,455.1	52.7%
Net capital under management	\$ 5,461.1	100.0%	\$ 4,662.1	100.0%

¹ Long-term liabilities that are derivative or hedge instruments related to capital items only.

² Components of other comprehensive loss relating to capital items only.

The Company has in place various policies which it uses to manage capital, including a leverage and liquidity policy and a securities and derivatives policy. As part of the overall management of capital, management's Financial Risk Management Committee and the Audit Committee of the Board review the Company's compliance with and performance against these policies.

In addition, management's Financial Risk Management Committee and the Audit Committee of the Board perform periodic reviews of the policies to ensure they remain consistent with the risk tolerance acceptable to the Company and with current market trends and conditions.

To assess its effectiveness in managing capital, management monitors certain key ratios to ensure they are within targeted ranges.

	2008	2007 ¹
Debt ratio		
Long-term debt to total capitalization ²	34.2%	31.2%
Coverage ratio		
Interest coverage ³	5.4 times	10.7 times

¹ 2007 results have been restated for the implementation, on a retrospective basis, of CICA HB 3031 - Inventories.

² Long-term debt includes the current portion of long-term debt, long-term debt and long-term deposits. Capitalization is based on current and long-term debt, long-term deposits, future income taxes, other long-term liabilities and shareholders' equity.

³ Interest coverage is calculated on a rolling 12-month basis for short-term and long-term interest on debt, net of short-term interest income.

As part of existing debt agreements, two key financial covenants are monitored on an ongoing basis by management to ensure compliance with the agreements. The key covenants are as follows:

- > net tangible assets coverage – calculated as:
 - total assets less intangible assets, current liabilities (excluding current portion of long-term debt), and liability for employee future benefits
 - divided by long-term debt (including current portion of long-term debt)
- > limitations on surplus available for distribution to shareholders – the Company is restricted from distributions (including dividends and redemptions or purchases of shares) exceeding its accumulated net income over a defined period.

The Company was in compliance with these covenants during the year.

The Company's wholly-owned subsidiary, Canadian Tire Bank (the Bank) manages its capital under guidelines established by the Office of the Superintendent of Financial Institutions Canada (OSFI). The regulatory capital guidelines measure capital in relation to credit, market and operational risks. The Bank has various capital policies, procedures and controls which it utilizes to achieve its goals and objectives.

Notes to the Consolidated Financial Statements

16. Capital Management Disclosures (continued)

The Bank's objectives include:

- > Providing sufficient capital to maintain the confidence of depositors;
- > Being an appropriately capitalized institution, as measured internally, defined by regulatory authorities and compared with the Bank's peers; and
- > Achieving the lowest overall cost of capital consistent with preserving the appropriate mix of capital elements to meet target capitalization levels.

The Bank's total capital consists of two tiers of capital approved under OSFI's current regulatory capital guidelines. As at December 31, 2008 (the Bank's fiscal year-end), Tier 1 capital included common shares and retained earnings reduced by net securitization exposures. The Bank currently does not hold any instruments in Tier 2 capital. Risk-weighted assets (RWA), referenced in the regulatory guidelines, include all on-balance sheet assets weighted for the risk inherent in each type of asset as well as an operational risk component based on a percentage of average risk-weighted revenues.

The Bank's ratios are above internal minimum targets of 12 per cent for Tier 1 and Total capital ratios and within internal maximum targets of 11.0 times for the assets-to-capital multiple. OSFI's minimum Tier 1 and Total capital ratios for Canadian banks are 7 per cent and 10 per cent, respectively.

During the 12 months ended December 31, 2008, the Bank complied with the capital guidelines issued by OSFI under the "International Convergence of Capital Measurement and Capital Standards - A Revised Framework" (Basel II). For the comparative period, the Bank complied with the capital guidelines issued by OSFI under the then current Basel I Capital Accord (Basel I).

17. FINANCIAL INSTRUMENTS

The Company records financial instruments classified as held for trading, including all derivative instruments, at fair values. Fair value of a financial instrument is the amount at which the financial instrument could be exchanged in an arm's length transaction between knowledgeable and willing parties under no compulsion to act. The Company determines fair values by reference to quoted bid and ask prices, as appropriate, when available. In the absence of an active market, fair values are based on internal valuation models, such as discounted cash flow analyses, using market observed inputs. The estimated fair values of financial instruments as at January 3, 2009 and December 29, 2007 were based on relevant market-prices and information available at that time. Fair values determined using valuation models require the use of assumptions concerning the amount and timing of estimated future cash flows and discount rates. In determining those assumptions, the Company uses primarily external readily observable market inputs, including factors such as interest yield curves. The detailed processes for determining fair values have been documented and applied consistently. Fair value amounts may change in subsequent periods due to market conditions, particularly changes in interest rates and exchange rates, or other factors. For interest rate swaps and foreign exchange and equity derivative contracts, the fair values reflect the estimated amounts that the Company would receive or pay if it were to settle the contracts at the reporting date. The interest rate swaps were valued using discounted cash flow models based on year-end market interest rate curves. 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.

The following table provides a comparison of carrying and fair values of financial instruments as at January 3, 2009 and December 29, 2007:

	2008						
	Held for trading	Available for sale	Held to maturity investments (amortized cost)	Loans and receivables (amortized cost)	Other financial liabilities (amortized cost)	Total carrying amount	Fair value
(\$ in millions)	(fair value)	(fair value)	(cost)	(cost)	(cost)	amount	
Cash and cash equivalents/ (bank indebtedness)	\$ 429.0	\$ -	\$ -	\$ -	\$ -	\$ 429.0	\$ 429.0
Accounts receivable ¹	169.9	-	-	656.2	-	826.1	826.1
Loans receivable	-	-	-	1,683.4	-	1,683.4	1,683.4
Deposits (recorded in Prepaids and deposits)	4.6	-	-	-	-	4.6	4.6
Long-term receivables and other assets ²	65.6	-	14.6	179.7	-	259.9	266.8
Other long-term investments	25.2	-	-	-	-	25.2	25.2
Accounts payable and other ³	\$ 43.0	\$ -	\$ -	\$ -	\$ 1,409.4	\$ 1,452.4	\$ 1,452.4
Current deposits	-	-	-	-	540.7	540.7	540.7
Long-term debt	-	-	-	-	1,388.3	1,388.3	1,243.6
Other long-term liabilities ⁴	17.9	-	-	-	-	17.9	17.9
Long-term deposits	-	-	-	-	598.7	598.7	618.5

(\$ in millions)	Held for trading (fair value)	Available for sale (fair value)	Held to maturity investments (amortized cost)	Loans and receivables (amortized cost)	Other financial liabilities (amortized cost)	Total carrying amount	Fair value
Cash and cash equivalents/ (bank indebtedness)	\$ (105.5)	\$ -	\$ -	\$ -	\$ -	\$ (105.5)	\$ (105.5)
Accounts receivable ¹	2.6	-	-	705.2	-	707.8	707.8
Loans receivable	-	-	-	1,486.1	-	1,486.1	1,486.1
Deposits (recorded in Prepaids and deposits)	10.0	-	-	-	-	10.0	10.0
Long-term receivables and other assets ²	36.9	-	15.4	171.2	-	223.5	223.5
Other long-term investments	7.6	-	-	-	-	7.6	7.6
Accounts payable and other ³	\$ 70.6	\$ -	\$ -	\$ -	\$ 1,647.5	\$ 1,718.1	\$ 1,718.1
Current deposits	-	-	-	-	111.5	111.5	111.5
Long-term debt	-	-	-	-	1,498.1	1,498.1	1,618.6
Other long-term liabilities ⁴	10.6	-	-	-	-	10.6	10.6
Long-term deposits	-	-	-	-	3.8	3.8	3.8

¹ The fair value and carrying amount of accounts receivable include derivative assets of \$169.9 million as at January 3, 2009 (2007 - \$2.6 million).

² The fair value and carrying amount of long-term receivables and other assets include derivative assets of \$36.9 million as at January 3, 2009 (2007 - \$1.0 million).

³ The fair value and carrying amount of accounts payable and other include derivative liabilities of \$43.0 million as at January 3, 2009 (2007 - \$70.6 million).

⁴ The fair value and carrying amount of other long-term liabilities include derivative liabilities of \$17.9 million as at January 3, 2009 (2007 - \$10.6 million).

The Company enters into various cash flow hedges with approved creditworthy counterparties to manage exposure to predetermined risks. Interest rate swap contracts manage the Company's current and anticipated exposure to interest rate risk. Foreign exchange contracts, primarily in U.S. dollars, hedge future purchases of foreign currency denominated goods and services. Equity derivative contracts hedge certain future stock-based compensation expenses. The notional principal amounts of these outstanding financial instruments are not recorded on the Consolidated Balance Sheets. The fair value of these contracts is included in the Consolidated Balance Sheets as accounts payable and other, other long-term liabilities, accounts receivable or long-term receivables and other assets depending on the derivative's maturity and value. Changes in fair value of these contracts is included in other comprehensive income (loss) for cash flow hedges to the extent the hedges continue to be effective. The related other comprehensive income (loss) amounts are reclassified to net earnings in the same period in which the hedged item affects net earnings or in the period in which it is determined that the originally anticipated transaction will not occur.

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. The maximum length of time over which the Company is hedging its exposure to future cash flow variability for anticipated transaction is three years.

The following table presents the fair values of all derivative instruments categorized by their hedging relationships, as well as derivatives that are not designated in hedging relationships.

(\$ in millions)	2008						2007
	Designated as hedging instruments in hedging relationships		Not designated in a hedging relationship	Designated as hedging instruments in hedging relationships		Not designated in a hedging relationship	
	Cash flow hedges	Fair value hedges		Cash flow hedges	Fair value hedges		
Assets	\$ 190.5	\$ 15.7	\$ 0.6	\$ 3.9	\$ -	\$ (0.3)	
Liabilities	15.5	-	45.4	80.9	0.3	-	

No non-derivative financial instruments were designated as hedging instruments during the year.

Pre-tax losses from cash flow hedges that were excluded from effectiveness assessment amounted to \$5.6 million (2007 - \$1.5 million gain) and were recorded in long-term interest expense.

During the year, the Company reclassified a pre-tax loss of \$28.7 million from accumulated other comprehensive income to net earnings, resulting from the discontinuance of hedge accounting.

Notes to the Consolidated Financial Statements

17. Financial Instruments (continued)

The Company has estimated that the net amount of gains and losses reported in accumulated other comprehensive income, which is currently expected to be reclassified to net earnings within the next 12 months, is a gain of \$103.3 million (net of tax).

Interest rate risk The following table identifies the Company's financial assets and liabilities that are exposed to interest rate price risk, which is the risk that the fair value of the asset or liability will change when interest rates change, or to interest rate cash flow risk, which is the risk that the cash flows of the asset or liability will change when interest rates change.

(\$ in millions)	2008				2007			
	Interest rate price risk	Interest rate cash flow risk	No interest rate risk	Total	Interest rate price risk	Interest rate cash flow risk	No interest rate risk	Total
Cash and cash equivalents/ (bank indebtedness)	\$ 305.9	\$ 3.9	\$ 119.2	\$ 429.0	\$ 138.8	\$ -	\$ (244.3)	\$ (105.5)
Accounts receivable	-	-	826.1	826.1	-	-	707.8	707.8
Loans receivable	1,584.0	99.4	-	1,683.4	1,478.1	8.0	-	1,486.1
Deposits (recorded in Prepaids and deposits)	-	-	4.6	4.6	-	-	10.0	10.0
Long-term receivables and other assets	213.7	24.4	21.8	259.9	221.7	-	1.8	223.5
Other long-term investments	19.6	5.6	-	25.2	7.6	-	-	7.6
Accounts payable and other	\$ 34.0	\$ -	\$ 1,418.4	\$ 1,452.4	\$ 0.4	\$ -	\$ 1,717.7	\$ 1,718.1
Current deposits	374.7	166.0	-	540.7	6.3	105.2	-	111.5
Long-term debt	1,376.3	12.0	-	1,388.3	1,498.1	-	-	1,498.1
Other long-term liabilities	3.3	-	14.6	17.9	10.6	-	-	10.6
Long-term deposits	598.7	-	-	598.7	3.8	-	-	3.8

The Company is exposed to interest rate risk, which it manages through the use of interest rate swaps. The Company has a policy in place that requires a minimum of 75 per cent of its long-term debt (term greater than one year) to be at fixed versus floating interest rates. The Company is in compliance with the policy.

The Company enters into interest rate swap contracts to manage its exposure to interest rate risk. As at January 3, 2009, the Company had entered into contracts that exchanged a net notional amount of \$300.0 million from fixed to floating interest rate exposure (2007 - \$350.0 million exchanged from fixed to floating). In addition, the Company entered into forward rate agreements maturing in less than two years, to exchange \$150.0 million of floating interest rate exposure back to a fixed rate of interest. These contracts hedge the Company's net balance sheet interest rate sensitivity position. A one per cent change in interest rates would not materially affect the Company's earnings, cash flow or financial position.

The following table presents interest revenue, interest expense and net fee revenue related to financial assets and financial liabilities that were not classified as held for trading:

(\$ in millions)	2008	2007
Interest revenue ¹	\$ 489.4	\$ 450.1
Interest expense	95.8	67.0
Net fee revenue ²	19.0	22.7

¹ The amount of interest revenue reported in gross operating revenue is \$479.9 million (2007 - \$441.7 million) and the amount of interest revenue reported in net interest expense is \$9.5 million (2007 - \$8.4 million).

² Fee revenues and expenses are reported in gross operating revenue.

Credit risk The Company's exposure to concentrations of credit risk is limited. Accounts receivable are primarily from Dealers spread across Canada who, individually, generally comprise less than one per cent of the total balance outstanding. 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 spread across ten financial institutions and represents the current replacement value of only those contracts which are in a gain position.

As at January 3, 2009, the Company's maximum exposure to credit risk includes the following:

(\$ in millions)	2008	2007
Assets held for trading	\$ 694.3	\$ 57.1
Assets held to maturity	14.6	15.4
Loans and receivables	2,519.3	2,362.5
Undrawn loan commitments	14,006.4	14,062.2
Securitized receivables	2,257.4	2,330.8
Guarantees (Note 15)	523.6	213.9
Total	\$ 20,015.6	\$ 19,041.9

The Company believes that the risk of all counterparties defaulting at the same time with respect to these instruments is not significant.

Allowance for credit losses The Company's allowances for receivables are maintained at levels which are considered adequate to absorb future credit losses. A continuity of the Company's allowances for credit losses is as follows:

(\$ in millions)	Credit card loans		Other loans ¹		Accounts receivable		Total	
	2008	2007	2008	2007	2008	2007	2008	2007
Balance, beginning of period	\$ 51.5	\$ 30.4	\$ 2.7	\$ 2.9	\$ 5.0	\$ 4.6	\$ 59.2	\$ 37.9
Provision for credit losses	78.0	75.8	9.3	5.6	1.0	0.4	88.3	81.8
Recoveries	15.0	11.5	0.7	0.2	0.3	0.1	16.0	11.8
Write-offs	(92.7)	(66.2)	(9.2)	(6.0)	(3.0)	(0.1)	(104.9)	(72.3)
Balance, end of period	\$ 51.8	\$ 51.5	\$ 3.5	\$ 2.7	\$ 3.3	\$ 5.0	\$ 58.6	\$ 59.2

¹ Other loans include personal loans, mortgages and lines of credit loans.

Foreign currency risk The Company has significant demand for foreign currencies, primarily United States dollars, due to global sourcing. However, it manages its exposure to foreign exchange rate risk through a comprehensive Foreign Exchange Risk Management Policy that sets forth specific guidelines and parameters, including monthly hedge percentage guidelines, for entering into foreign exchange hedge transactions for anticipated U.S. dollar-denominated purchases. The Company's exposure, however, to a sustained movement in the currency markets is impacted by competitive forces and future prevailing market conditions.

Liquidity risk The following table summarizes the Company's contractual maturity for its financial liabilities. The table includes both interest and principal cash flows.

(\$ in millions)	1 year	2 years	3 years	4 years	5 years	Thereafter	Total
Deposits	\$ 545.8	\$ 162.3	\$ 95.6	\$ 39.3	\$ 301.5	\$ -	\$ 1,144.5
Accounts payable and other	1,425.4	-	-	-	-	-	1,425.4
Long-term debt	14.8	458.8	21.1	8.5	6.4	863.0	1,372.6
Interest payment ¹	100.1	89.5	62.7	56.1	118.8	665.3	1,092.5
Other	-	9.8	-	-	8.1	-	17.9
Total	\$ 2,086.1	\$ 720.4	\$ 179.4	\$ 103.9	\$ 434.8	\$ 1,528.3	\$ 5,052.9

¹ Includes interest payments on deposits and long-term debt.

18. 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 Dealers and PartSource franchisees. Financial Services, which has a wholly-owned bank, 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, mortgage and line of credit 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. The only significant non-cash item included in segment earnings before income taxes is depreciation and amortization.

Notes to the Consolidated Financial Statements

	CTR		Financial Services		Petroleum		Mark's		Eliminations		Total	
(\$ in millions)	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Gross operating revenue ¹	\$ 5,669.1	\$ 5,473.5	\$ 820.4	\$ 745.9	\$ 1,871.2	\$ 1,666.5	\$ 872.4	\$ 825.3	\$ (111.8)	\$ (105.1)	\$ 9,121.3	\$ 8,606.1
Earnings before income taxes	249.2	302.4	189.5	190.3	26.6	20.5	75.9	98.0	-	-	541.2	611.2
Income taxes											(167.0)	(199.5)
Net earnings											\$ 374.2	\$ 411.7
Interest revenue ¹	\$ -	\$ -	\$ 479.9	\$ 442.1	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 479.9	\$ 442.1
Net interest expense ^{2,3}	103.2	59.0	15.1	1.0	-	-	4.3	3.1	-	-	122.6	63.1
Depreciation and amortization	174.6	159.1	13.5	12.8	17.2	16.7	23.6	18.3	-	-	228.9	206.9
Total assets	5,802.5	5,732.4	2,552.8	1,852.0	352.9	573.4	510.4	464.1	(1,430.5)	(1,857.1)	7,788.1	6,764.8
Capital expenditures ⁴	383.3	508.1	9.2	14.9	36.5	29.5	42.9	40.2	-	-	471.9	592.7

¹ Gross operating revenue includes dividend and operating interest revenue.

² Interest expense is not allocated to Petroleum.

³ Net interest expense includes interest on short-term and long-term debt, offset by passive interest income. Interest on long-term debt for the year ended January 3, 2009 was \$117.9 million (2007 - \$67.1 million).

⁴ Capital expenditures are presented on an accrual basis (see Note 13).

19. OTHER LONG-TERM INVESTMENTS

Included in other long-term investments is the Company's investment of \$5.6 million (2007 - \$7.6 million) in Canadian third-party asset-backed commercial paper (ABCP) issued by a number of trusts with an original cost of \$8.9 million.

The market for Canadian third-party ABCP has been greatly impacted by the global disruption in the market experienced in August 2007. The Company holds \$8.9 million in ABCP on a gross basis and has made pre-tax impairment provisions since the valuation of the ABCP came into question and as relevant information became available. During 2008, the Company recorded an additional \$2.0 million before-tax provision for impairment of the ABCP, bringing the total charge for impairment to \$3.3 million, or approximately 37 per cent of the original value of the ABCP.

The Company's valuation assumed that the replacement notes will bear interest rates similar to short-term instruments and that such rates would be commensurate with the nature of the underlying assets and their associated cash flows. The Company used a weighted average discount rate of 7.35 per cent.

Subsequent to year-end, the market for Canadian third-party ABCP was addressed in a formal restructuring proposal, and on January 21, 2009, the Bank's custodian received restructured ABCP as designed in the Montreal Accord. The \$8.9 million MAV II notes are floating rate notes with expected payouts in eight years (January 2017).

There still remains some uncertainty regarding the value of the underlying assets, the amount and timing of cash flows and whether a secondary market can be established for the new bonds, and this could give rise to a further change in the value of the Company's investment in ABCP. While these changes could positively or negatively affect the Company's future earnings, it would not be considered material to the Company's overall financial position, given the relatively small amount of affected ABCP held at January 3, 2009. In addition, the write-down of the Company's investment in ABCP had no effect to date on the Company's debt covenants, debt ratings or compliance with banking regulations governing the Financial Services segment or the Bank.

Due to the amount of funds we have available through committed lines of credit and various other forms of funding, the Company has sufficient credit facilities to satisfy its financial obligations as they come due and does not expect any impact on its business as a result of the current third-party ABCP liquidity issue.

20. SALE AND LEASEBACK OF RETAIL PROPERTIES

The Company completed the sale and leaseback of 13 Canadian Tire Retail properties to third parties during the third quarter. The proceeds from the sale of these stores totaled \$214.0 million, resulting in a net pre-tax gain of approximately \$66.8 million. As the Company entered into long-term leasebacks of the 13 stores with the third parties, the gain is being amortized over the term of the leases. The unamortized gain is included in other long-term liabilities, along with the unamortized portion of gains from previous years (see Note 8).

21. LEGAL MATTERS

The Company and certain of its subsidiaries are party to a number of legal proceedings. The Company believes that each such proceeding constitutes a routine legal matter incidental to the business conducted by the Company and that the ultimate disposition of the proceedings will not have a material effect on the Company's consolidated earnings, cash flow or financial position.

22. COMPARATIVE FIGURES

Gross operating revenue has been restated for the reclassification of passive interest income of \$15.3 million to short-term interest expense on the Consolidated Statements of Earnings.

The Company's wholly-owned subsidiary, Canadian Tire Bank, began taking deposits from customers commencing in 2007. Previously, these amounts were classified in accounts payable and other in the Consolidated Balance Sheets and in changes in other working capital components in the Consolidated Statements of Cash Flows. Commencing in the second quarter of 2008, these deposits are shown as current and long-term deposits in the Consolidated Balance Sheets and as a separate line in financing activities in the Consolidated Statements of Cash Flows. The prior period's figures have been restated to conform to the current year's presentation.

As a result of this restatement, accounts payable and other decreased by \$115.3 million, current deposits increased by \$111.5 million and long-term deposits increased by \$3.8 million in the Consolidated Balance Sheets. In addition, changes in other working capital components increased by \$113.1 million and cash generated from financing activities increased by \$113.1 million in the Consolidated Statements of Cash Flows.

Supplementary Information: Interest Coverage

The Company's long-term interest requirements for the 53 weeks ended January 3, 2009, after annualizing interest on long-term debt issued and retired during this period, amounted to \$129.2 million. The Company's earnings before interest on long-term debt and income taxes for the 53 weeks then ended were \$659.0 million, which is 5.1 times the Company's long-term interest requirements for this period.

2008 Quarterly Information

(\$ in millions, except per share amounts) (Store numbers are cumulative at end of period)	First Quarter (December 30, 2007 to March 29, 2008)	Second Quarter (March 30, 2008 to June 28, 2008)	Third Quarter (June 29, 2008 to September 27, 2008)	Fourth Quarter (September 28, 2008 to January 3, 2009)	Total
Canadian Tire Retail					
Gross operating revenue	\$ 1,071.3	\$ 1,562.1	\$ 1,399.3	\$ 1,636.4	\$ 5,669.1
Earnings before income taxes	43.6	85.0	94.0	26.6	249.2
Canadian Tire Petroleum					
Gross operating revenue	422.8	514.8	519.3	414.3	1,871.2
Earnings before income taxes	5.0	8.0	7.5	6.1	26.6
Mark's Work Wearhouse					
Gross operating revenue	147.4	200.6	168.7	355.7	872.4
Earnings (loss) before income taxes	(3.4)	7.9	(0.3)	71.7	75.9
Canadian Tire Financial Services					
Gross operating revenue	208.7	201.5	197.8	212.4	820.4
Earnings before income taxes	53.6	43.8	47.0	45.1	189.5
Total					
Gross operating revenue	\$ 1,825.3	\$ 2,450.7	\$ 2,257.5	\$ 2,587.8	\$ 9,121.3
Cost of merchandise sold and all expenses except for the undernoted items	1,644.5	2,226.2	2,024.3	2,304.6	8,199.6
Interest					
Long-term debt	20.7	18.3	18.6	60.3	117.9
Short-term debt	0.4	(1.7)	0.4	5.6	4.7
Depreciation and amortization	54.6	55.7	56.7	61.9	228.9
Employee profit sharing plan	6.3	7.5	9.3	5.9	29.0
Earnings before income taxes	98.8	144.7	148.2	149.5	541.2
Income taxes	32.1	47.0	39.6	48.3	167.0
Net earnings	66.7	97.7	108.6	101.2	374.2
Basic and diluted earnings per share ¹	0.82	1.20	1.33	1.24	4.59
Canadian Tire Retail					
Retail sales growth ²	(1.9%)	1.5%	4.1%	4.0%	2.3%
Same store sales growth ³	(4.0%)	(0.5%)	2.0%	2.2%	0.3%
Net shipments growth (year-over-year)	(0.2%)	3.2%	7.6%	3.0%	3.5%
Number of Smart stores	-	-	-	2	-
Number of Small Market stores	-	-	2	4	-
Number of standard stores	384	390	390	393	-
Number of traditional stores	89	83	81	76	-
Cumulative number of Canadian Tire Retail stores	473	473	473	475	-
Number of PartSource stores	74	75	82	86	-
Canadian Tire Petroleum					
Gasoline sales volume (millions of litres)	413.8	429.6	414.5	469.1	1,727.0
Number of gas bars	266	267	269	273	-
Number of car washes	74	74	74	74	-
Number of convenience stores	259	260	262	266	-
Mark's Work Wearhouse					
Retail sales growth ²	(3.2%)	5.3%	2.6%	1.6%	1.8%
Same store sales growth ³	(7.0%)	0.9%	(1.0%)	(0.3%)	(1.4%)
Number of Mark's Work Wearhouse stores	360	364	364	372	-
Canadian Tire Financial Services⁴					
Gross average receivables	3,831.7	3,844.9	3,951.8	4,023.7	3,913.0
Average number of accounts with a balance (thousands)	1,849	1,861	1,862	1,851	1,856
Average account balance (\$)	2,072	2,066	2,123	2,174	2,109
Class A Non-Voting Shares					
High	\$ 75.36	\$ 70.00	\$ 56.95	\$ 50.85	\$ 75.36
Low	55.78	52.40	47.93	36.56	36.56
Close	65.22	53.70	49.75	44.29	44.29
Volume (thousands of shares)	19,390	21,370	23,998	21,155	85,914
Common Shares					
High	\$ 101.50	\$ 82.45	\$ 73.45	\$ 56.99	\$ 101.50
Low	67.10	68.01	55.99	41.00	41.00
Close	78.00	69.99	56.50	45.00	45.00
Volume (thousands of shares)	43	25	28	32	128

¹ Quarterly basic and diluted 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 and diluted earnings per share are calculated using the weighted average number of Common and Class A Non-Voting Shares outstanding for the full year.

² Retail sales growth for Q4 2008 and full year 2008 has been normalized for a 13-week Q4 2008 and a 52-week 2008 year.

³ Some stores sales growth for Q4 2008 and full year 2008 has been normalized for a 13-week Q4 2008 and a 52-week 2008 year.

⁴ Total portfolio of loans receivable.

2007 Quarterly Information¹

(\$ in millions, except per share amounts) (Store numbers are cumulative at end of period)	First Quarter ¹ (December 31, 2006 to March 31, 2007)	Second Quarter ¹ (April 1, 2007 to June 30, 2007)	Third Quarter ¹ (July 1, 2007 to September 29, 2007)	Fourth Quarter ¹ (September 30, 2007 to December 29, 2007)	Total ¹
Canadian Tire Retail					
Gross operating revenue ²	\$ 1,070.9	\$ 1,514.9	\$ 1,304.0	\$ 1,583.7	\$ 5,473.5
Earnings before income taxes	38.0	88.5	94.9	81.0	302.4
Canadian Tire Petroleum					
Gross operating revenue	362.8	445.6	424.0	434.1	1,666.5
Earnings before income taxes	2.5	6.4	7.9	3.7	20.5
Mark's Work Wearhouse					
Gross operating revenue	152.1	187.2	159.8	326.2	825.3
Earnings before income taxes	(0.2)	25.0	6.2	67.0	98.0
Canadian Tire Financial Services					
Gross operating revenue ²	176.1	192.3	187.2	190.3	745.9
Earnings before income taxes	45.4	68.6	43.7	32.6	190.3
Total					
Gross operating revenue ²	\$ 1,737.7	\$ 2,314.1	\$ 2,049.2	\$ 2,505.1	\$ 8,606.1
Cost of merchandise sold and all expenses except for the undernoted items	1,587.5	2,052.4	1,822.0	2,232.1	7,694.0
Interest					
Long-term debt	15.7	14.3	16.6	20.5	67.1
Short-term debt	(5.4)	(0.5)	(2.5)	4.4	(4.0)
Depreciation and amortization	48.4	50.2	51.2	57.1	206.9
Employee profit sharing plan	5.8	9.2	9.2	6.7	30.9
Earnings before income taxes	85.7	188.5	152.7	184.3	611.2
Income taxes	30.0	66.0	50.5	53.0	199.5
Net earnings	55.7	122.5	102.2	131.3	411.7
Basic and diluted earnings per share ³	0.68	1.50	1.25	1.61	5.05
Canadian Tire Retail					
Retail sales growth	3.1%	3.8%	(0.7%)	0.4%	1.5%
Same store sales growth	1.3%	1.7%	(2.7%)	(1.8%)	(0.5%)
Net shipments growth (year-over-year)	11.1%	(0.5%)	1.4%	0.4%	2.3%
Number of Smart stores	-	-	-	-	-
Number of Small Market stores	-	-	-	-	-
Number of standard stores	367	370	372	381	
Number of traditional stores	101	96	96	92	
Cumulative number of Canadian Tire Retail stores	468	466	468	473	
Number of PartSource stores	64	67	68	71	
Canadian Tire Petroleum					
Gasoline sales volume (millions of litres)	415.3	437.4	434.3	450.5	1,737.5
Number of gas bars	265	264	265	266	
Number of car washes	75	75	75	74	
Number of convenience stores	256	256	257	258	
Mark's Work Wearhouse					
Retail sales growth	17.6%	9.7%	3.9%	5.0%	8.0%
Same store sales growth	15.7%	6.9%	0.6%	1.4%	4.8%
Number of Mark's Work Wearhouse stores	340	341	348	358	
Canadian Tire Financial Services⁴					
Gross average receivables	3,517.9	3,599.6	3,709.8	3,774.3	3,650.4
Average number of accounts with a balance (thousands)	1,845	1,855	1,854	1,864	1,854
Average account balance (\$)	1,907	1,940	2,001	2,025	1,968
Class A Non-Voting Shares					
High	\$ 75.00	\$ 84.50	\$ 87.75	\$ 87.00	\$ 87.75
Low	68.05	73.70	73.08	67.40	67.40
Close	74.74	84.05	79.37	73.53	73.53
Volume (thousands of shares)	15,652	12,878	11,334	15,331	55,194
Common Shares					
High	\$ 101.00	\$ 102.45	\$ 97.89	\$ 96.00	\$ 102.45
Low	88.25	83.00	83.00	80.00	80.00
Close	92.00	97.00	84.51	81.47	81.47
Volume (thousands of shares)	29	38	25	37	129

¹ 2007 figures have been restated for the implementation, on a retrospective basis, of CICA HB 3031 - Inventories.

² Gross operating revenue has been restated for the reclassification of passive interest income to short-term interest expense.

³ Quarterly basic and diluted 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 and diluted earnings per share are calculated using the weighted average number of Common and Class A Non-Voting Shares outstanding for the full year.

⁴ Total portfolio of loans receivable.

Ten-Year Financial Review

(\$ in millions except per share amounts)	2008 ¹	2007 ²	2006
Consolidated Statements of Earnings			
Gross operating revenue ³	\$ 9,121.3	\$ 8,606.1	\$ 8,252.9
Earnings before interest, income taxes, depreciation and amortization and minority interest ³	892.7	881.2	809.0
Earnings before income taxes and minority interest	541.2	611.2	557.8
Income taxes	167.0	199.5	200.8
Net earnings before minority interest	374.2	411.7	357.0
Minority interest	0.0	0.0	2.4
Net earnings	374.2	411.7	354.6
Cash generated from operations ⁴	589.3	528.7	410.1
Cash generated from operating activities ⁴	182.4	61.6	395.3
Earnings retained and reinvested	305.8	351.3	300.8
Capital expenditures	471.9	592.7	557.4
Consolidated Balance Sheets			
Current assets	\$ 3,978.6	\$ 3,138.2	\$ 2,541.0
Long-term receivables and other assets ⁵	265.4	231.2	382.3
Property and equipment	3,389.8	3,283.6	2,881.3
Total assets	7,788.1	6,764.8	5,804.6
Current liabilities	1,999.7	2,113.7	1,663.6
Long-term debt (excludes current portion)	1,373.5	1,341.8	1,168.4
Other long-term liabilities	202.2	125.6	112.4
Future income taxes	45.9	71.8	75.0
Minority interest	-	-	-
Shareholders' equity	3,568.1	3,108.1	2,785.2
Consolidated per share⁶			
Basic earnings per share	\$ 4.59	\$ 5.05	\$ 4.35
Diluted earnings per share	4.59	5.05	4.31
Cash generated from operations ⁴	7.22	6.49	5.03
Cash generated from operating activities ⁴	2.24	0.76	4.85
Dividends declared	0.84	0.74	0.66
Shareholders' equity	43.73	38.15	34.19
Statistics at year-end			
Number of Canadian Tire stores	475	473	468
Number of PartSource stores ⁷	86	71	63
Number of gas bars	273	266	260
Number of car washes	74	74	74
Number of Mark's Work Wearhouse stores ⁸	372	358	339

¹ 53-week period.

² 2007 figures have been restated for the implementation, on a retrospective basis, of CICA HB 3031 - Inventories. Data required to reclassify the information prior to 2007 is not available.

³ Gross operating revenue and EBITDA for 2007 and prior years have been restated for the reclassification of passive interest income to short-term interest expense.

⁴ Certain 2006 cash flow figures have been reclassified to conform to the current year's presentation with respect to securitizations and net provision for loans receivable. Data required to reclassify the information prior to 2006 is not available.

⁵ Includes goodwill and intangible assets.

⁶ Per share numbers are calculated using total shares outstanding as at the Company's year-end date.

⁷ Total in 2005 includes three unbranded PartSource stores purchased in December 2005 which were branded in 2006.

⁸ Mark's Work Wearhouse was acquired on February 1, 2002.

	2005	2004	2003 ¹	2002	2001	2000	1999
\$	7,713.9	\$ 7,062.1	\$ 6,486.8	\$ 5,888.9	\$ 5,321.8	\$ 5,168.5	\$ 4,686.4
	789.1	702.0	597.0	546.3	487.0	442.7	426.6
	527.7	460.9	365.9	311.3	272.1	236.0	222.2
	190.0	162.5	116.0	103.0	98.0	90.9	79.4
	337.7	298.4	249.9	208.3	174.1	145.1	142.8
	7.6	6.9	8.7	7.4	0.6	-	-
	330.1	291.5	241.2	200.9	173.5	145.1	142.8
	700.7	630.4	534.5	460.1	362.4	350.0	323.6
	413.5	413.1	520.1	442.0	189.4	504.1	326.1
	282.7	251.0	208.7	169.3	142.0	113.8	112.0
	391.1	340.7	278.9	249.8	358.4	382.3	377.7
\$	2,973.1	\$ 2,434.6	\$ 2,291.5	\$ 2,303.1	\$ 1,985.0	\$ 1,519.6	\$ 1,896.1
	238.6	223.4	156.7	211.5	134.4	122.9	105.4
	2,743.9	2,585.2	2,444.9	2,351.1	2,245.0	2,098.4	1,865.5
	5,955.6	5,243.2	4,893.1	4,865.7	4,364.4	3,740.9	3,867.0
	1,821.0	1,487.4	1,612.0	1,577.0	1,106.5	1,119.6	1,434.0
	1,171.3	1,081.8	886.2	1,125.2	1,310.0	1,115.0	1,050.3
	63.2	55.6	46.9	43.7	38.6	34.2	15.9
	89.0	67.2	30.9	23.7	15.0	18.9	25.4
	300.0	300.0	300.0	300.0	300.0	-	-
	2,511.1	2,251.2	2,017.1	1,796.1	1,594.3	1,453.2	1,341.4
\$	4.04	\$ 3.60	\$ 2.99	\$ 2.54	\$ 2.21	\$ 1.85	\$ 1.85
	3.98	3.53	2.95	2.51	2.19	1.85	1.82
	8.57	7.78	6.63	5.82	4.61	4.47	4.19
	5.06	5.10	6.45	5.59	2.41	6.43	4.22
	0.58	0.50	0.40	0.40	0.40	0.40	0.40
	30.83	27.75	24.98	22.49	20.29	18.50	17.17
	462	457	452	451	450	441	432
	57	47	39	33	30	28	8
	259	253	232	212	203	206	202
	67	58	47	33	20	16	10
	334	333	322	306	-	-	-

Directors

Maureen J. Sabia

Ontario, Canada

Non-Executive Chairman of the Board of the Company; President, Maureen Sabia International, a consulting firm; and Corporate Director

Martha G. Billes^{2,3}

Alberta, Canada

President, Albikin Management Inc., an investment holding company

Owen G. Billes⁴

Ontario, Canada

President, Sandy McTyre Retail Ltd., which operates a Canadian Tire Store

Peter W. Currie^{1,2}

Ontario, Canada

Corporate Director

Brian G. Domelle⁴

Ontario, Canada

President, Brian Domelle Enterprises Limited, which operates a Canadian Tire Store

H. Garfield Emerson, Q.C.^{2,3}

Ontario, Canada

Principal, Emerson Advisory, an independent business and financial advisory firm; and Corporate Director

Daniel E. Fournier^{2,3}

Quebec, Canada

Executive Vice-President and Chief Investment Officer, SITQ Inc., a real estate subsidiary of Caisse de dépôt et placement du Québec

Robert M. Franklin^{1,4}

Ontario, Canada

President, Signalta Capital Corporation, a private investment holding company; and Corporate Director and Trustee

Keith E. Gostlin⁴

British Columbia, Canada

President, K.E. Gostlin Enterprises Ltd., which operates a Canadian Tire Store

Suzanne R. Perles^{2,4}

California, U.S.A.

Managing Director, The Corporate Development Company, a corporate advisory firm

Frank Potter^{2,3}

Ontario, Canada

Chairman, Emerging Market Advisors Inc., a consulting firm dealing with international direct investment

Timothy R. Price^{1,3}

Ontario, Canada

Chairman, Brookfield Funds, Brookfield Asset Management Inc., an asset management company

James A. Riley^{2,3}

Ontario, Canada

Partner, Goodmans LLP, a law firm

Graham W. Savage^{1,2}

Ontario, Canada

Chairman, Callisto Capital LP, a merchant banking partnership; and Corporate Director

Stephen G. Wetmore

Ontario, Canada

President and Chief Executive Officer of the Company

¹ **Audit Committee**

Chairman, Graham W. Savage

² **Governance Committee**

Chairman, James A. Riley

³ **Management Resources and Compensation Committee**

Chairman, Frank Potter

⁴ **Social Responsibility 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 website at <http://corp.canadiantire.ca/en/investors>

Officers

Maureen J. Sabia

Chairman of the Board

Stephen G. Wetmore

President and Chief Executive Officer

J. Huw Thomas

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

G. Michael Arnett

President, Canadian Tire Retail

Marco Marrone

President, Canadian Tire Financial Services Limited

Michael B. Medline

Chief Corporate Officer and President, Diversified Businesses

Paul Wilson

President, Mark's Work Wearhouse Ltd.

Sharon Patterson

Senior Vice-President, Human Resources

Stanley W. Pasternak

Senior Vice-President and Treasurer

Kenneth Silver

Senior Vice-President, Real Estate and Strategy

Patrick R. Sinnott

Executive Vice-President, Technology and Supply Chain

Robyn A. Collver

Senior Vice-President, Secretary and General Counsel

Kristine Freudenthaler

Senior Vice-President, Information Technology and Chief Information Officer

Candace A. MacLean

Vice-President and Assistant Treasurer

Glossary of Terms

Asset-backed commercial paper (ABCP)

A secured short-term debt obligation. Traditionally, the underlying assets of ABCP are made up of mortgages and various types of consumer loans and receivables.

Associate Dealer/Dealer

The independent business owners who operate our Canadian Tire retail stores.

Bank card

A credit card offered by, or with, Visa or MasterCard.

Basis point

One hundredth of a percentage point.

Broker deposits

Cash deposits raised through the sale of guaranteed investment certificates through broker networks that are offered in one-year to five-year terms and are non-redeemable prior to maturity, except under rare circumstances.

Comprehensive income

A component of the shareholder's equity financial statement comprised of net income and other comprehensive income (see also other comprehensive income).

(Concept) 20/20 store

Canadian Tire store format that was introduced in 2003 and rolled out through 2008. 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. This store format is now referred to as a "standard" store.

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.

Debenture

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.

Delayed-start interest rate swap

A regular interest rate swap with the exception that the start date is not immediate (see also interest rate swap).

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, and to each share that would have been outstanding, assuming the issuance of shares for all dilutive potential shares outstanding during the period.

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.

Embedded derivative

A component of a hybrid (combined) instrument that also includes a non-derivative host contract, with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.

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.

Financial instrument

Any contract that gives rise to a financial asset of one party and a financial liability or equity instrument of another party.

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.

Hub store

A PartSource store that is designed to provide a broader assortment of automotive hard parts inventory to service a particular region's Canadian Tire and PartSource customers.

Interest coverage

Earnings before interest and income taxes divided by interest expense.

Glossary of Terms

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 cube turnover

Total cube shipped divided by average inventory for CTR.

Loans receivable

The aggregate amount of outstanding balances owed to the Company by Canadian Tire credit card holders and personal loan and mortgage loan customers.

Long-term debt to total capitalization

Long-term debt (including current portion of long-term debt) and long-term deposits divided by the sum of short-term debt, long-term debt, long-term deposits, future income taxes, other long-term liabilities, and shareholders' equity.

Mark-to-market

The valuation of financial instruments using prevailing market prices or fair value as of the balance sheet date.

Medium-term note (MTN)

Debt instrument with maturity ranging from nine months to 30 years that is offered on a continuous basis, which means that it is issued and sold as buyers request it, rather than on a single issue date.

Minority interest

A reference to shareholders – individuals, corporations or partnerships – that own less than 50 per cent 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.

New-format store

A Canadian Tire store format that was used in stores opened starting in 1994. This format was phased out starting in 2003 with the launch of the Concept 20/20 format. It incorporates, among other features, a larger, more convenient layout and expanded merchandising offering. This store format is now referred to as a "standard" store.

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.

Other comprehensive income (OCI)

An amount representing changes in shareholders' equity during a period arising from transactions and other events with non-owner sources and includes unrealized gains and losses on financial assets classified as Available-for-Sale, unrealized foreign currency translation gains or losses arising from self-sustaining foreign operations, net of hedging activities, and changes in the fair value of the effective portion of cash flow hedging instruments.

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.

Rebranding

In the context of Canadian Tire Petroleum's strategy, rebranding 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 rebranding partner participates in the profits of the converted site or is paid a fixed rent, depending upon the agreement.

Related party

Related parties exist when one party has the ability to exercise, directly or indirectly, control, joint control or significant influence over the other. Two or more parties are related when they are subject to common control, joint control or common significant influence. Related parties also include members of the Board of Directors, management and immediate family members.

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.

Glossary of Terms

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 stores that have been open for more than 53 weeks.

Securitization

The process by which financial assets are sold to a third party. At Financial Services, credit card loan receivables are routinely financed through a co-ownership interest sold to Glacier Credit Card Trust. We record these transactions as a sale, and as a result, these assets are not included in 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.

Small Market store

A Canadian Tire store that has a smaller format and focuses on meeting the needs of underserved rural markets. This store format was introduced in 2008.

Smart store

The Canadian Tire store format which replaced the 20/20 store and was introduced in 2008. This store format focuses on growth and improving productivity and is less capital intensive than the former 20/20 store format.

Standard store

A single term used to describe our 20/20 and new-format stores when reporting on their various metrics and statistics.

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.

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 is not a standard, Small Market or Smart store. Traditional stores were built prior to the introduction of the new-format store in 1994.

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

2180 Yonge Street
P.O. Box 770, Station K
Toronto, Ont. M4P 2V8
Canada
Telephone 416-480-3000
Fax 416-544-7715
Website: <http://corp.canadiantire.ca>

Shareholder Contacts

Sharon Mathers

Vice-President, Corporate Communications
and Investor Relations
416-480-8570

Karen Meagher

Associate Vice-President, Investor Relations
416-480-8058

Investor Relations Email

investor.relations@cantire.com

Annual Meeting of Shareholders

MaRS Collaboration Centre
101 College Street
Toronto, Ont.
Thursday, May 14, 2009
10:00 a.m. (EDT)

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
The Toronto-Dominion Bank
National Bank of Canada
HSBC Bank Canada
BNP Paribas (Canada)
RBS ABN Amro Bank

Registrar and Transfer Agent

Computershare Trust Company of Canada

100 University Avenue
Toronto, Ont. M5J 2Y1
Canada
Telephone 514-982-7555
Toll-free 1-800-564-6253
Fax 1-866-249-7775
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 are available online from the investor relations pages of the Company's website at <http://corp.canadiantire.ca/en/investors>.

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 website.

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



Visit our website at
www.canadiantire.ca

Investor Relations
<http://corp.canadiantire.ca/en/investors>

Canadian Tire Corporation, Limited
2180 Yonge Street, P.O. Box 770, Station K,
Toronto, Ontario, Canada M4P 2V8



Visit our **New** investor website at
<http://corp.canadiantire.ca/en/investors>



Canadian Tire represents an excellent investment opportunity



We offer products and services to meet the everyday needs of Canadian families — today and tomorrow. Our objective is to increase long-term shareholder value through sustainable earnings growth.

87-year track record of solid earnings growth

Since the early days of 1922, Canadian Tire has grown and strengthened its market presence year after year to become one of Canada's foremost corporations. Over the last 10 years, basic earnings per share have grown at a solid compounded rate of 8.2 per cent.

Top-tier corporate reputation and brand awareness

The Canadian Tire brand enjoys iconic stature in Canada. Virtually all Canadians are aware of the brand and have shopped in our stores or used our services. In 2008, Ipsos Reid Public Affairs' I-Rep corporate reputation study once again rated us the nation's second most-trusted company.

Unique model of interrelated businesses delivers balanced performance

As Canadian Tire has evolved from a single purpose retailer to a more diverse network of businesses, we have benefited from the rewards of our interrelated, interdependent model. We believe that each of our businesses adds value to — and benefits from — the strengths of the others, and that leads to a more stable overall performance.

Long-term growth and productivity potential in all businesses

Each of our five businesses is at a different stage of development and competes in different sectors. In all of the markets we serve, we have successful strategies and substantial opportunities to capture even more market share. At the same time, more customers are touching our brand in more ways and more often.

Flexible funding for growth

We have access to various forms of funding, including lines of credit, property sale/leasebacks and broker deposits, to support our growth agenda.