

LIFE IN CANADA FOR 90 YEARS



CANADIAN TIRE
ANNUAL REPORT 2011

Celebrating
90 years of
life in Canada,
Canadian
Tire's family
of companies
work together
to provide
Canadians with
their everyday
living needs.



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REASONS TO INVEST

At Canadian Tire®, we are committed to preparing our customers for the jobs and joys of everyday living in Canada – and we do it well.

For our shareholders, we are committed to delivering on our growth strategy and returning value over the long term. Simply put, we believe an investment in Canadian Tire is supported by four key strengths:

WE HAVE A STRONG COMPETITIVE ADVANTAGE

- > More than 1,700 convenient locations
- > Leading market share across key businesses
- > Canada's top sporting goods retailer
- > Robust automotive product offering
- > Diverse product mix, strong in-house brands and exclusive products
- > Financial products that complement our retail businesses



6-oz. Regular Hockey Puck

WE ARE CONTINUOUSLY INNOVATING

- > Introducing new products and services
- > Evolving our legendary customer loyalty program
- > Rolling out new store formats
- > Maintaining a modern and efficient supply chain

WE HAVE EXTENSIVE REACH AND SCALE

- > 30 million retail square feet
- > Canada's most-read flyer
- > Significant global sourcing capabilities
- > Strong ties with key product suppliers
- > Market-specific store formats

WE ARE COMMITTED TO MAINTAINING A SOLID FINANCIAL POSITION

- > Healthy free cash-flow generation
- > 9% dividend increase in 2011
- > Focused on delivering sustainable earnings growth
- > Strong balance sheet
- > Good liquidity with multiple sources of funding



10.1%

Diluted EPS (10-year CAGR*)

10.9%

Dividends declared (10-year CAGR)

6.3%

Total shareholder return (10-year CAGR)

*CAGR refers to the Compound Annual Growth Rate.

FINANCIAL HIGHLIGHTS*

(C\$ in millions, except per share amounts)

	2011	2010	% Change
CONSOLIDATED			
Revenue	\$ 10,387.1	\$ 9,213.1	12.7%
EBITDA	1,058.2	996.6	6.2%
Income before income taxes	629.9	586.8	7.3%
Net income	467.0	444.2	5.2%
Cash generated from operating activities	1,405.5	729.5	92.7%
Capital expenditures	364.7	339.8	7.3%
RETAIL SEGMENT			
Retail sales	\$ 11,596.7	\$ 10,328.5	12.3%
Revenue	9,363.5	8,178.9	14.5%
EBITDA	768.9	722.8	6.4%
Income before income taxes	410.8	386.2	6.4%
FINANCIAL SERVICES SEGMENT			
Revenue	\$ 953.3	\$ 953.7	(0.0)%
EBITDA	289.3	273.8	5.6%
Income before income taxes	219.1	200.6	9.2%
KEY FINANCIAL MEASURES			
CTR retail sales (POS) growth	2.0%	1.4%	
Retail return on invested capital (ROIC)	7.68%	8.32%	
Financial Services return on receivables (ROR)	5.45%	4.97%	
PER SHARE			
Basic earnings	\$ 5.73	\$ 5.45	5.3%
Diluted earnings	5.71	5.42	5.3%
Dividends declared	1.125	0.905	24.3%

o snapshot

This stick, exclusive to Canadian Tire, is inspired by Jonathan Toews' game stick. Jonathan is the founding member of and pro advisor to the Canadian Tire Hockey School™.

BAUER® JT-19 Stick

For more Annual Report content, including detailed financial documents, please visit: <http://annualreview.canadiantire.ca>

*The Company's 2011 results include the operating results of FGL Sports (formerly The Forzani Group Ltd.) from August 19, 2011, as well as acquisition-related costs.

This year, 2012, marks Canadian Tire's 90th Anniversary — a proud milestone for the Company. It seems fitting, therefore, to take a few moments to reflect on our past, present and future.

MESSAGE FROM THE CHAIRMAN MAUREEN J. SABIA



Having served on the Board of Directors for many years, I am mindful of the core values that have been embedded in the Company through the decades — a relentless pursuit of innovation and a constant search for new ways to serve the changing needs of our customers.

At Canadian Tire, the lessons of the past have been the foundation for the present and are the bridge to the future. But while we must learn from our past, we must never be mindlessly bound by it.

Canadian Tire's founders, A.J. and J.W. Billes, were innovators and visionaries. From their early beginnings in a small garage, taking turns tending a coal fire to keep the tires they sold from freezing, they built a strong foundation for a Company that would evolve into the twelve billion dollar, iconic retailer it is today.

They studied the ever-changing competitive landscape and took risks always to stay one step ahead. They sought out business partners to speed up the expansion of their network and offered equity in the company in exchange for having prominent community leaders making local decisions about what was best for their customers. They hired staff and told them that if their hard work made the company money, then they would share in the profits. When orders were piling up, the brothers put warehouse staff on roller skates to speed up the delivery of product to the front of the store. Very importantly, our founders were determined that respect and reward should shape their relationships, a theme that has endured and marks all our relationships today.

Today's management team are their successors in fact and in spirit. Your management and your Board are committed to being leading-edge retailers in a world that our founders could never have imagined. Having learned much about the Tire from many discussions with A.J., I know he would eagerly embrace the initiatives that current management has put in place, and is putting in place, to serve our customers better. These range from our digital strategy to the recently announced evolving loyalty program that will allow us to provide tailored offerings to our customers based on what we know they already like.

I wonder if our founders could ever have envisaged our Christmas tree in Union Station with our app that allowed people from around the world to light the tree through social media's many channels. I think they would be proud. And how proud they would be of us becoming one of the top sports retailers in the world through our acquisition of FGL Sports.

Given our founders' commitment to philanthropic initiatives in Canadian communities, I think they would be delighted by Canadian Tire Jumpstart, a charity dedicated to making it possible for so many children to explore the world of activity and sport.

"Strive always to make things better" was A.J. Billes' mantra and it is ours today. Throughout the past 90 years, we have witnessed many examples of initiatives designed to make things better for our customers. Hence our big-box strategy in response to the appearance in Canada in the nineties of the American big-box retailers. It was this strategy that resulted in Canadian Tire retail having one of the most modern store networks in North America — one that we continue to refresh every year with our newest store designs, boutiques and expanding categories of innovative merchandise.

With more than 1,700 stores and outlets in communities across the country, Canadian Tire, including Mark's and FGL Sports, has become a proxy for 'life in Canada' in so many ways. We are one of the most trusted companies in Canada. I believe this is because we have always delivered what our customers need for the jobs and joys of life in Canada. And, very importantly, it is due to the loyalty and dedication of our growing Canadian Tire family, now almost 70,000 strong.

Canadian Tire was born Canadian and remains Canadian. In the face of U.S. retailers expanding into Canada, Canadian Tire remains as one of the last significant Canadian retailers. This is partly a result of keeping our merchandise and marketing relevant to the lives of every day Canadians and partly a result of the Billes family's dedication to the Tire. Martha and Owen Billes' continued involvement offers stability of ownership, allowing management to implement its strategies for guiding the future of the Company. There is no short-term horizon here.

And because Canadian Tire believes in ensuring our success long into the future, its management is constantly fine tuned. This enables us to bring the best and brightest talent to bear on our business, permits us to put an increased focus on the execution of our strategies and ensures that long-term succession is in place at all levels of management.

Our core credibility in everyday living, playing, fixing and driving is complemented and enhanced by our apparel business at Mark's and our financial services and home services businesses at Canadian Tire Financial Services® and Canadian Tire Bank®. Following on a promise two years ago to seek out new platforms for growth that are tied to our core strengths, the Company purchased The Forzani Group Ltd., building on our long-standing credibility in sports.

All of us at Canadian Tire are committed to growth — through both organic growth and building on our areas of core credibility. Our pledge to our shareholders and our customers is to use the days of our present and our future wisely, guided always by a winning mindset. To the future we say with confidence, "bring it on!"

It is a great privilege for me to be the Chairman of the Board of Canadian Tire and to have the opportunity to work with my colleagues on the Board, with the skilled people in management and with all the men and women who make up the Canadian Tire family.

Canadian Tire has had a very distinguished 90 years and we are immensely proud of that. All of us will strive always to make things better so that we can give our customers what they need for the jobs and joys of everyday living in Canada.

The past has been our prologue, the present has always been challenging — regardless of the decade — but the future will be faced by all of us at the Tire with great confidence.

Sincerely,
Maureen J. Sabia
Chairman of the Board

1922

**J.W. AND A.J. BILLES:
BROTHERS AND
CO-FOUNDERS**

Two Toronto brothers, John W. and Alfred J. Billes, with a combined savings of \$1,800, buy the Hamilton Tire and Garage Ltd. at the corner of Gerrard and Hamilton Streets in Toronto.

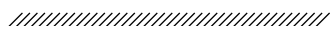
When it comes to innovation, product offerings, pricing and value, Canadian Tire stands above the rest — yesterday, today and tomorrow.

BELOW: Motomaster® oil from 1952, 1979 and 2011





**MESSAGE FROM THE CEO
STEPHEN G. WETMORE**



Canadian Tire had another successful year in 2011. Our earnings performance was strong, we continued to raise the dividend and we put our solid balance sheet to work with the acquisition of The Forzani Group Ltd.

Looking across our business units, we should all be very proud of the organization's many achievements during the year. We made progress to grow the business, improve our company performance and work towards our five-year financial aspirations. And we will build upon these successes through 2012 and beyond.

2012 marks our 90th year of preparing Canadians for everyday life in Canada, which is a tremendous accomplishment in its own right. The Canadian Tire brand stands apart from the rest through its commitment to innovation, breadth of product offerings and overall value for consumers. Ask almost any Canadian about their preferred auto store, Christmas store or backyard store, and they will name Canadian Tire. That is the mark of an iconic retail brand with a unique offering in the industry.

No part of Canadian Tire is immune to competition, and we are working hard to increase our authority across our main business categories. The good news is that we are already in an enviable position. Our brands are among the most powerful, and our customers are among the most loyal.

FGL Sports, our first major acquisition in ten years, transformed us into the country's top sporting-goods retailer. A complementary product offering and new customer demographic allow us to create Canada's ultimate authority in sports. It is still early days, but we see a major growth opportunity with FGL Sports, where our focus will be on continuing to grow market share, obtaining our stated cost savings and unveiling our long-term growth strategy.

Our Automotive business gained momentum through 2011 as new technology, training and consumer initiatives had a positive impact. While we have come a long way in a short time, we have much further to go in Automotive. This is just the beginning of a long process that will involve continuous attention, innovation and in-store execution. The same focus on execution applies to our detailed strategies in Living and Fixing.

Canadian Tire Retail (CTR) exhibited solid growth across its businesses, as we worked with our Dealers to enhance our product assortment, introduce new brands and impress customers with new store layouts and presentations.

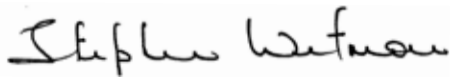
In February 2012, we began execution on a high-profile and critically important initiative in customer loyalty with the launch of our new Canadian Tire 'Money'® program. It offers more rewards for our loyal customers and will provide insights that we believe will allow us to serve them even better.

To expand our position in apparel, we continue to innovate at Mark's. We made progress with a new store format that provides a more interactive environment for the customer and improved product displays. We also put Mark's products back online with a refreshed e-commerce site while continuing our tradition of new product introductions worthy of our reputation as an apparel innovator.

Further integrated into our retail businesses is Financial Services. Strict attention to managing credit risk allowed the return on receivables to quickly return to pre-recession levels. Additionally, the pursuit of cross-promotions with CTR and the introduction of new offerings, such as home services, positions Financial Services well for the future.


The economy continues to be an element of uncertainty. New large-scale competitors keep arriving at our doorstep, and the consumer remains ever-cautious about spending. But Canadian Tire is not a company that believes this is the time to play defence. As we showed with the acquisition of FGL Sports and the countless initiatives we are putting before consumers and implementing behind the scenes, Canadian Tire is on offence. We have served Canadians for nine decades, and no one knows this country and the needs of its people better than Canadian Tire. And for that matter, no one knows us better than Canadian families.

We have a lot going on, but our organization is conscious of the aggressive marketplace in which we operate. I am proud to say that the Company's goal is to do more, to do it faster and to do it better than everyone else. It is this attitude that guides us today, and I am confident our reasons to celebrate in 2012 will extend far beyond our 90th anniversary.




Sincerely,
Stephen G. Wetmore
President and CEO

CELEBRATING
90
YEARS



Est. 1922

1924



ON THE MOVE

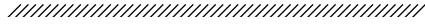
The Billes brothers expand to a new, larger store at the corner of Yonge and Isabella Streets (pictured) and, six years later, to 637 Yonge Street. These two buildings still stand today in the heart of downtown Toronto.

We sell more skates to Canadians than any other sports retailer in the country.

BELOW TOP: **BAUER VAPOR Instinct Skate**
BELOW BOTTOM: **Reebok® 7K Helmet**



WHO WE ARE



90 years after its inception, Canadian Tire has a history of evolving to reflect the everyday needs and wants of Canadians. Our businesses serve the breadth of our customers' needs. Our iconic brand holds 98% instant recognition among Canadians. That's the power of the Canadian Tire triangle.

Together, the Canadian Tire family of companies offers a wide variety of products. From frying pans to pull saws, work boots to hi-cut briefs, shoes to yoga wear, no other retailer can compete with the breadth of our product assortment. As we grow our roster of products, services and brands, we further differentiate ourselves from the big-box retailers and specialty shops occupying the retail landscape.

Only an experienced retailer like Canadian Tire can understand the things Canadians hold dear because they are dear to us as well. We celebrate the changing of the seasons along with Canadians. We obsess about hockey and make fixing fun. No one knows the ins and outs of cars and driving like we do.

To ensure our future success, the Company remains focused on growth, productivity and the customer experience, all of which are underpinned by continuous innovation.

We have multiple strategies in place to drive growth, such as strengthening our retail businesses with new categories and services and building our status as Canada's automotive authority. We are also broadening our reach in sporting goods and apparel and continuing cross-promotional activity with our Financial Services business to support retail.

Canadian Tire is a more efficient business because of our new merchandise-procurement processes, supply-chain enhancements, less capital-intensive store concept renewal projects and innovative business sustainability strategies.

Putting the customer at the centre of everything we do is essential to providing a high-quality and consistent customer experience across our network of more than 1,700 retail and gasoline outlets. Through improved store operations support and training, digital marketing, e-commerce and the use of leading-edge customer analytics, Canadian Tire prepares Canadians for the jobs and joys of everyday living in Canada.

Anchored in the iconic core brand that Canadians know and love, Canadian Tire has always sought to logically grow from its foundational categories. From humble beginnings as an auto garage, Canadian Tire Retail's (CTR) growth and evolution has mirrored the needs of our customers. Over time, Canadian Tire Corporation's (CTC) growth has taken on other brands and businesses that complement CTR, such as Mark's and FGL Sports (formerly The Forzani Group Ltd.), which enhance our offering to customers and are consistent with our growth objectives and corporate values.

The broadening of CTC strengthens our heritage categories as well as our business overall, giving Canadian Tire a much stronger position against new competitors. As opportunities arise in the future, Canadian Tire has the financial ability and flexibility to take on additional brands that will allow the combined company to retain the reputation as *the* store for life in Canada.





90TH ANNIVERSARY

1922 witnessed a number of great moments in Canadian history, including the first insulin treatment for diabetes and the right for women to vote in the province of Prince Edward Island. It also saw the birth of Canadian Tire.

It was a time of great technological advancement and overriding optimism following a long period of war and political instability. The 1920s saw the mass production of automobiles, the explosion of cinema and the proliferation of radio. With these trends came a boom in construction and demand for modern consumer products.

On September 15 of that year, not many people had a combined savings of \$1,800, but two men had both the money and the vision for a store to fit the times: A.J. Billes and J.W. Billes. The entrepreneurial brothers invested in an auto-garage business and, a year later, relocated under the name Canadian Tire.

"We used Canadian Tire because it sounded big," they said.

They established a number of philosophies that Canadian Tire proudly upholds to this day. The Billes brothers always believed in treating people with dignity and respect, offering consumers the right products at the right price, standing by the quality of the products they sold and, most importantly, the benefits of hard work.

Canadian Tire made a name for itself as an automotive "supply house" and expanded into other categories, such as gasoline and sports. The store format evolved from counter service to assisted self-serve to big-box stores with garden centres.


Through the years, Canadian Tire has earned a special place in the hearts and minds of customers, and we pride ourselves in helping Canadians enjoy this country to its fullest. For many Canadian families looking to start a new project, learn a new sport or keep their cars running smoothly, a weekend trip to our stores is nothing short of tradition. We have not simply withstood the arrival of global retail competitors, but have beat them time and again.

Canadian Tire's heritage and future are equally great. Today, we are a growing Canadian family of businesses, employing nearly 70,000 people across the country and serving all Canadians in a country we know best.

The next 90 years — Bring It On.



1937



CLERKS ON ROLLER SKATES
Canadian Tire introduces an innovation that delights generations of Toronto shoppers: clerks on roller skates who race to fill orders.



In 1956, A.J. Billes assumed the presidency of Canadian Tire Corporation and led the company until 1966.





BUSINESS AT A GLANCE

Preparing Canadians for the jobs and joys of everyday life in Canada is a mission Canadian Tire Corporation began in 1922.

Nine decades later, Canadian Tire remains one of Canada's most iconic companies. We are committed to continued growth, improving the customer experience, productivity and financial stability.

Our roots are in Canadian Tire Retail, which started as an auto garage before branching into other product categories. We have grown the CTR network dramatically while adding other business lines: Canadian Tire Gas⁺, Financial Services, PartSource, Mark's and, most recently, FGL Sports.

FGL SPORTS

AS THE LARGEST AND ONLY NATIONAL SPORTING GOODS RETAILER IN CANADA, FGL SPORTS SELLS A VAST ASSORTMENT OF ATHLETIC FOOTWEAR AND APPAREL AND SPORTING EQUIPMENT THROUGH ITS MULTIPLE CORPORATE AND FRANCHISE BANNERS.

MARK'S

A LEADING RETAILER OF MEN'S, WOMEN'S AND WORK APPAREL, MARK'S OFFERS INNOVATIVE PRODUCTS AND BRANDS FOR THE WORKPLACE AND FOR CASUAL AND OUTDOOR OCCASIONS.

- DH3™
- DENVER HAYES®
- WINDRIVER®
- T-MAX®
- ISPIRI™



Motomaster AW/H

CANADIAN TIRE RETAIL

OUR CORE RETAIL OPERATION, CTR IS COMPRISED OF DRIVING, LIVING, FIXING AND PLAYING, WITH PRODUCTS AND SERVICES FOR EVERYDAY LIFE IN CANADA.

- HOME ORGANIZATION, CLEANING AND KITCHEN
- PATIO, BARBECUES AND GARDENING
- TOOLS, HARDWARE AND PAINT
- FITNESS AND SPORTING GOODS
- OUTDOOR RECREATION
- AUTOMOTIVE
 - AUTO PARTS AND SERVICES
 - ROAD SAFETY
 - PARTSOURCE®
 - CANADIAN TIRE GAS⁺®
 - CANADIAN TIRE ROADSIDE ASSISTANCE®

FINANCIAL SERVICES

IN ADDITION TO ONE OF THE LARGEST MASTERCARD® FRANCHISES IN CANADA, FINANCIAL SERVICES IS CLOSELY LINKED TO RETAIL, OFFERING AN ARRAY OF PAYMENT OPTIONS AND OTHER SERVICES.

- EQUAL PAYMENT PLAN OPTIONS
- IN-STORE INSTANT CREDIT
- HOME SERVICES
- FOUR MILLION MASTERCARD HOLDERS



CANADIAN TIRE RETAIL

Canadian Tire Retail touches every part of Canadian life. Offering more than 100,000 different products, Canadian Tire provides a broad assortment of goods and services, the best brands and great value from one aisle to the next.

From our earliest days, we've equipped cars to be safe for road trips and prepared for harsh winter conditions. When it comes to getting small jobs done, like painting the nursery or installing a dimmer switch, our motto is "find it, fix it, fast." For cooking meals, cleaning the house or making the most of your backyard and barbeque, home managers feel at home at Canadian Tire. And as the destination for all things playing, we equip Canadians with the products they need to enjoy the activities and games they love most, from biking to skating.

Canadian Tire is constantly evolving. Our latest store format, the Smart store, emphasizes the customer experience. It uses a racetrack-style layout and inspiring boutiques within the store to provide customers with deeper assortments, helpful information and easier navigation.

With respect to marketing, we've improved our flyer layout and featured lifestyle photography that shows products as they would be used in the home. We launched *Canadian Tire Automotive Catalogue Driver*™ magazine, which promotes our auto assortments and provides car maintenance advice. Canadian Tire was named one of Canada's top 10 marketers in 2011, and its mobile app was ranked the best in the "lifestyle" category by Apple's editorial staff. We will pursue digital marketing and social media initiatives to build consumer awareness consistent with our market share leadership.

Automotive is our founding category. Focused on the customer, we are providing more exclusive and innovative products, making service improvements and introducing new tools to help guide buying decisions. It's all part of our renewed commitment to being Canada's automotive authority.

In many ways, 2011 was the "year of the tire." We ensured stores received new inventory almost every day, launched an intuitive e-commerce site that simplifies purchasing tires online and introduced one of the first "all-weather" tires: the Hankook® Optimo 4S, exclusive to Canadian Tire stores.

To showcase auto service, our first four automotive “stores of the future” opened their doors, featuring drive-in reception areas, express lube bays and a redesign of Canadian Tire’s legendary tire wall. We also completed the roll-out of the Automotive Infrastructure program, the single-largest IT project in our history, supporting counter staff with the most modern technology. At the same time, we have more than 30 automotive business support managers working in the field, focused on staff training and support.

PartSource, our specialty auto parts chain, continued to focus on improving delivery to Canadian Tire auto service centres, commercial customers and its own network. We opened a new “hub” store in the Ottawa area and expanded assortments in Toronto-area stores to ensure parts delivery was not only quick, but efficient and profitable. In addition, Canadian Tire Gas+ captured more market share, as our strategy to invest in infrastructure and upgraded sites along the 400-series highway drove increases in fuel volumes in a volatile market.

Our priorities for Automotive in 2012 include continuing to provide Canadians with the newest and most innovative products as well as investing in our key brands, such as Motomaster. We are also looking at ways to utilize the digital channel to increase sales, rolling out successful components of the new auto concept store and continuing cross promotions between Gas and Retail. To develop stronger relationships with Canadian auto enthusiasts, we also plan on expanding our grassroots marketing efforts by sponsoring more local events.

Similar to our work in Automotive, the Living department underwent a major transformation in 2011. We focused on core categories with an expanded portfolio of national brands that appeal to homeowners, aspiring chefs and everyone in between.

CANADIAN TIRE WILL BUILD OR RETROFIT 100 SMART STORES IN 2012.


To further demonstrate our authority in the home, we rolled out major appliances across the store network, while adding to our assortment of smaller kitchen appliances. To inspire our shoppers as never before, we also initiated a store re-merchandising project in Winnipeg to create the look and feel of a department store in a big-box environment.

With our Dealers, we are planning a roll-out of our re-merchandised Living department in 2012, bringing a fresh look and feel to all our stores. In addition to a wider assortment of products from great brands such as KitchenAid®, Cuisinart®, Lagostina® and Miele®, the new design features more open space, a greater number of product displays and lit shelving to better showcase our assortment.

Enhancing our reputation as Canada’s destination for all things Christmas, we expanded the Debbie Travis® offering beyond tree decorations to include everything needed to dress up the home. We broadened our product selection for the holidays, offering gift options for the handy person, gourmet cook and even pets. We raised our game in pet care through an exclusive line of products from Dog Whisperer Cesar Millan.


To steer customers in the right direction as they tackle everyday repairs, we improved signage and simplified navigation in our hardware departments and launched Canadian Tire’s House of Innovation™ initiative. In 2011, Canadian Tire bought its very own fixer-upper to show customers real-life examples of smart home improvement ideas. The upgrades and repairs made to the House of Innovation are featured online in short, informative how-to video clips. Once complete, the house will be sold, with proceeds going directly to Canadian Tire Jumpstart.

CELEBRATING
90
YEARS



Est. 1922

1958



THE FIRST GAS BAR OPENS AND CANADIAN TIRE ‘MONEY’ COUPONS ARE INTRODUCED

Canadian Tire’s first gas bar opens at Yonge and Church Streets in Toronto. Gas bar customers receive discount coupons, later known as Canadian Tire ‘Money,’ redeemable on merchandise at Canadian Tire stores.

Many of the jobs and joys of everyday life in Canada centre around the kitchen. From cooking to entertaining, Canadian Tire is a one-stop shop for all things Living.

BELOW: Lagostina Commercial Clad Elite Series





Additionally, we made investments to upgrade our in-store paint technology, installing the most modern automatic paint tinters available. In 2012, we will introduce a customized line of paint across the Canadian Tire store network, Origins by Benjamin Moore®. This exclusive product will distinguish us from the competition and raise our profile in paint and related categories.

Canadian Tire remains focused on innovation and the introduction of new brands to round out our product assortment. We continued to rebalance our portfolio of national brands in tools, which has already seen positive early results, and we will continue to foster the growth of our respected Mastercraft® brand, the number-one tool brand in Canada.

When all the housework is done, it's time to play. And Canadian Tire values active and healthy living as much as our customers do.

IN 2011, CANADIAN TIRE GAS+ DISTRIBUTED NEARLY \$28 MILLION IN CANADIAN TIRE 'MONEY.'

Canadian Tire is the "home of hockey" in more ways than one. We outfit most Canadians with their first pair of skates and, through our new-format hockey departments, have raised our game with expanded assortments from BAUER, Reebok and CCM®. To further establish our authority in the sport, we launched the Canadian Tire Hockey School through a partnership with Stanley Cup winner Jonathan Toews and the National Hockey League. More than a hockey pro, Toews has a passion for helping children and upholds Canadian Tire's long tradition of inspiring young all-stars to follow their dreams.

Off the ice, consumers responded positively to an expanded assortment of soccer products, and we will build on this success with the addition of Adidas® footwear in 2012. We also partnered with seven-time Tour de France winner Lance Armstrong's Livestrong® Foundation, and his fitness products are now in our stores. By boosting our offering of fitness equipment and accessories, we provide an assortment that includes the "good, better and best" options our customers expect.

The outdoors has long been a focus for Canadian Tire and will remain so in 2012. We are building on our leadership in camping, hunting, fishing and marine in target markets to provide expanded product assortment and service to strengthen our relationship with outdoor enthusiasts. With the addition of FGL Sports to the Canadian Tire family, we will be realizing synergies and branding opportunities across the banners to further solidify Canadian Tire as Canada's ultimate authority in sports.

Canadian Tire is committed to continuous innovation to help customers meet the demands of the changing seasons and daily life in Canada. With 90 years of experience providing Canadians with their everyday living needs, no other retailer is in a position to understand this country and continue to serve its people better than Canadian Tire.

CELEBRATING
90
YEARS

Est. 1922

1976

A.J. BILLES RECEIVES THE ORDER OF CANADA

A.J. Billes, co-founder of Canadian Tire, becomes a Member of the Order of Canada "for his contribution to the community of business, his concern for his employees and the sharing with them of his successes right from the very start."

Mastercraft® is the #1-selling tool brand in Canada, with over 92% brand awareness.

BELOW TOP: Mastercraft Maximum® 174-Piece Universal Socket Set

BELOW BOTTOM: Origins by Benjamin Moore Ultimate Interior Paint





MARK'S

In the crowded apparel market, Mark's stands out for its commitment to quality, comfort and innovation. Though our roots are in industrial wear and cold-weather protection, we are increasingly known for outfitting Canadians for their lives outside the workplace with casual and active wear for men and women.

Building on our reputation for quality and innovation, Mark's introduced several new products consistent with our promise to make "Smart Clothes."™ An additional 16 stores opened under a new format that is as innovative as the products inside.

New products that hit the shelves include Hyper-Dri® Fleece, the expansion of T-Max® insulation to lined denim, heat-holder socks and Quad Comfort® Industrial. Mark's continues to distinguish itself as Canada's market leader in industrial wear, and our leadership in this segment affords us credibility with consumers as we broaden our mix of categories. Our Imagewear™ business-to-business division, which makes custom clothing and uniforms for other businesses, also posted another year of strong sales growth.

Our new store format shortens the name on the store banner to "Mark's" and makes substantial design changes and presentation enhancements that showcase our dedication to innovative apparel to better serve the broader customer base to which we appeal. We are very excited by the resulting increase in sales and traffic in the 45 stores we've converted. In addition, Mark's launched a refreshed online shop, giving customers another convenient way to browse and make purchases.

Mark's has an exciting year ahead. Not only will we continue with the roll-out of our new store format into more regions of the country, but we will ensure all stores are stocked with the new, innovative products customers have come to expect from the brand. At the same time, we are completing several operational enhancements behind the scenes that will provide more consistency in such areas as inventory management and information and merchandise flow.

CELEBRATING
90
YEARS



Est. 1922

1991



A.J. BILLES DISTRIBUTION CENTRE OPENS

This state-of-the-art, 100-acre facility, located in Brampton, Ontario, has 13 miles of conveyor belts and one mile of storage aisles.

Mark's is Canada's #1 menswear retailer and has 99% brand awareness among Canadians between the ages of 30 and 35.

BELOW TOP: 100 Wash Yoga Capris and Pants
BELOW BOTTOM: Quad Comfort Sport Boots





FGL SPORTS

FGL Sports joined Canadian Tire Corporation in 2011. With the addition of FGL Sports' products, brands and real estate, Canadian Tire is the ultimate authority in sports.

The acquisition of FGL Sports was announced on May 9, 2011, and by the end of the summer the company was a wholly-owned subsidiary of Canadian Tire. Intended to drive growth over the long term, FGL Sports and Canadian Tire's minimal product overlap across athletic apparel and footwear and sporting equipment made the acquisition an ideal fit. With the combination of Canadian Tire Retail and FGL Sports' network of more than 500 stores, we have over 1,000 retail sports locations across Canada, serving the needs of sports lovers and athletes at all skill levels.

The integration process is well under way, and the management team, which combines the skills and strengths of both companies, is focused on driving sales and realizing synergies. Canadian Tire has already begun realizing initial cost synergies, and in the coming year this work will be focused on the areas of purchasing, transportation, marketing and advertising.

It will be a busy year for FGL Sports as we focus on strengthening our core competencies to create powerful super-brands with unparalleled emotional connections to our customers. We already offer strong service in stores, but we can serve customers even better by delivering a unique experience. Our strategy for growth includes evolving our specialty zones within our super-brands, enhancing the use of technology and innovation, continually improving our breadth and depth of assortment and ensuring we attract and retain top retail sports talent. Complementing our growth strategy is a real estate program that will expand our presence across Canada, especially in large urban locations.

The addition of FGL Sports more than doubled Canadian Tire's number of retail sports outlets across Canada.

BELOW TOP: The North Face® Apex Bionic Softshell
BELOW BOTTOM: Nike® Livestrong Shox Turbo +12





FINANCIAL SERVICES

Financial Services has evolved from a third-party credit processor for local retailers into a diversified financial services business and a chartered bank, Canadian Tire Bank, supporting our retail operations.

Providing our customers with solutions for their everyday financial needs is the main motivation for Financial Services. We have more than 1,200 dedicated employees in southern Ontario, which includes a call-centre team named the 2011 Call Centre of the Year by industry-leading research firm SQM. Through an ever-growing number of financial products and continued cross-promotional activities, Financial Services drives incremental sales to our retail businesses.

We operate a successful credit card business — Canada's third-largest MasterCard franchise — providing loyalty benefits, flexible payment programs and payment convenience. Our MasterCard offering is also a key accelerator of the corporate Loyalty program. We are focused on growing revenue, managing operating costs and controlling credit risk through analytic tools and technologies.

In addition to our credit card offerings, Financial Services complements the retail businesses with a host of new products and services. We introduced auto- and home-insurance products, as well as a new Equal Payments Plan for credit cards to minimize the strain of purchases in large-ticket categories such as tires, backyard living and major appliances. Home Services was launched through Financial Services, the result of a tremendous collaboration between Financial Services, Canadian Tire Retail and Dealers. It puts the power of our brand behind professional installation services for such products as garage-door openers and central vacuum systems, giving Canadian Tire a place in the growing do-it-for-me market segment.

We take pride in delivering world-class customer service. In 2012, Financial Services will continue to unveil new products and services that will support the growth of the retail business, such as new installation services. We will also support the regional launch of an enhanced Loyalty program offering even more customer rewards than our current program and providing us with more opportunities to better serve our customers.

CELEBRATING
90
YEARS



Est. 1922

2002



CANADIAN TIRE ACQUIRES MARK'S

Canadian Tire acquires Mark's Work Wearhouse, adding more than 300 retail stores to its network and doubling Mark's sales in only five years.

We award over \$100 million in Canadian Tire 'Money' annually.



GROWTH AND PRODUCTIVITY

Canadian Tire is focused on growth, productivity and the customer experience. We are confident our growth initiatives will be successful and believe we can take advantage of our unique product mix, vast reach, scale and strong financial position to drive innovation and further the company's strategic priorities.



NEW MOBILE APP

DRIVING 'CORE' RETAIL GROWTH:

- BUILT AND RETROFITTED A TOTAL OF 66 SMART STORES AND LAUNCHED NEW-CONCEPT AUTOMOTIVE STORE AT FOUR LOCATIONS
- ROLLED OUT AUTOMOTIVE INFRASTRUCTURE PROGRAM
- INTRODUCED ONLINE TIRE AND WHEEL SALES
- OFFERED MORE INNOVATIVE PRODUCTS AND STRENGTHENED RELATIONSHIPS WITH KEY NATIONAL BRAND SUPPLIERS
- NEW MOBILE APP NAMED THE BEST IN THE "LIFESTYLE" CATEGORY BY APPLE'S EDITORIAL STAFF
- PILOTING A NEW LOYALTY PROGRAM IN NOVA SCOTIA
- CONTINUING THE ROLL-OUT OF SMART STORES, INCLUDING AN ENHANCED LIVING SECTION

DRIVING PERFORMANCE AND PRODUCTIVITY:

- COMPLETED ADOPTION OF SHARED-SERVICES MODEL TO CENTRALIZE KEY FUNCTIONS
- MERCHANDISE PROCUREMENT INITIATIVE LAUNCHED
- BUILT THE LATEST STORE DESIGN THAT IS 75% MORE ENERGY-EFFICIENT THAN STORES CONSTRUCTED IN 2010
- FOCUSED ON CAPITAL-LIGHT REAL ESTATE PROJECTS (E.G. SMART STORE CONCEPT)
- CONTINUING THE IMPLEMENTATION OF THE MERCHANDISE PROCUREMENT INITIATIVE
- ACCELERATING THE NUMBER OF BUSINESS SUSTAINABILITY INITIATIVES, LEADING TO GREATER COST AVOIDANCE

LATEST STORE DESIGN IS 75% MORE ENERGY-EFFICIENT





LAUNCHED HOME SERVICES BUSINESS

STRONG AND GROWING BUSINESS UNITS:

- REBRANDED MARK'S AND REFORMATTED 16 MARK'S STORES
- REFRESHED MARK'S E-COMMERCE SITE
- INTRODUCED EQUAL PAYMENTS PLAN TO FINANCIAL SERVICES' ROSTER OF PAYMENT OPTIONS
- LAUNCHED HOME SERVICES BUSINESS, STARTING WITH GARAGE-DOOR OPENERS AND CENTRAL VACUUM SYSTEMS
- EXPANDING NEW MARK'S STORE FORMAT TO NEW REGIONS OF THE COUNTRY



DEVELOPING NEW PLATFORMS FOR GROWTH:

- ACQUIRED FGL SPORTS (FORMERLY THE FORZANI GROUP LTD.) TO CREATE CANADA'S ULTIMATE AUTHORITY IN SPORTS
- ON TRACK TO ACHIEVE OUR TARGET OF \$25 MILLION IN SYNERGIES
- STRENGTHENING OUR CORE COMPETENCIES TO CREATE POWERFUL SUPER-BRANDS
- ENHANCING OUR USE OF TECHNOLOGY AND INNOVATION
- IMPROVING OUR BREADTH AND DEPTH OF ASSORTMENT

ACQUIRED FGL SPORTS



OUR COMMITMENT TO COMMUNITIES

We are your neighbours helping Canadian communities grow.

THE CANADIAN TIRE FAMILY — INCLUDING CANADIAN TIRE, MARK'S, FGL SPORTS, PARTSOURCE, GAS+ AND FINANCIAL SERVICES — EQUIPS CANADIANS FOR EVERYDAY LIFE IN CANADA.

OUR COMMITMENT TO COMMUNITIES STATEMENT OUTLINES FOUR PLEDGES THAT ENSURE OUR TRADITION OF BEING YOUR NEIGHBOUR IN COMMUNITIES ACROSS CANADA CONTINUES FOR GENERATIONS TO COME.

WE LOVE CANADA'S OUTDOORS AND DEEPLY VALUE OUR HOMES

WHETHER YOU ARE OUTDOORS OR INSIDE YOUR HOME, WE ARE CANADA'S COMPANY FOR EVERYDAY LIVING. FROM THE PRODUCTS AND SERVICES WE SELL TO THE COMMUNITY ACTIVITIES WE SUPPORT, WE ARE PASSIONATE ABOUT BRINGING FAMILIES TOGETHER AND MAKING THE ENVIRONMENT BETTER FOR CANADIANS.

WE ARE LOCAL EMPLOYERS AND COMMUNITY LEADERS

WE NURTURE A CULTURE THAT REFLECTS OUR SHARED VALUES AND REWARDS EMPLOYEES FOR OUTSTANDING WORK. ALONG WITH OUR LOCAL DEALERS, FRANCHISEES, AGENTS AND STORE MANAGERS, WE SUPPORT LOCAL DECISION MAKING AND DOING WHAT'S RIGHT FOR OUR CUSTOMERS WHERE THEY LIVE.



WE ARE PROUD OF OUR PRODUCTS AND SERVICES

OUR PRODUCTS AND SERVICES ARE DESIGNED FOR LIFE IN CANADA, AND WE STAND BEHIND THEM.

WE ENCOURAGE ACTIVE AND HEALTHY LIVING

WE PLAY AN IMPORTANT ROLE IN SUPPORTING ACTIVE AND HEALTHY FAMILIES. WHETHER IT'S THROUGH A HOCKEY TEAM, HIKING CLUB OR FITNESS CLASS, WE ARE PROUD TO EQUIP AND OUTFIT CANADIANS FOR A WIDE RANGE OF ACTIVITIES, INSIDE AND OUT. OUR CHARITY, CANADIAN TIRE JUMPSTART CHARITIES, IS DEDICATED TO HELPING FAMILIES GET A HAND-UP BY SUPPORTING ORGANIZED SPORT AND PHYSICAL ACTIVITIES FOR CHILDREN IN NEED.

BUSINESS SUSTAINABILITY

Canadian Tire approaches sustainability as a business strategy, which benefits our customers and the environment.

A leader in cost-avoidance initiatives, Canadian Tire continues to integrate its sustainability strategy with business operations. We have linked business sustainability outcomes to employee compensation for certain executives and more than 250 product buyers and managers in Merchandising, Marketing, Store Planning, Store Support and Finance. Building on our success from last year, we posted strong business sustainability results with the completion of 438 initiatives that are forecasted to annually avoid approximately \$5.6 million in costs. The forecasted reduction in energy and greenhouse gas emissions is equal to powering more than 1,080 Canadian homes.

We opened the first two stores featuring a new prototypical design that renders them 75% more energy-efficient than stores built in 2010. Both in Ontario, these stores form the basis of Canadian Tire's new store construction. We also started construction on the first of 39 rooftop solar installations in the Greater Toronto Area (GTA). When complete, the panels will generate enough renewable energy to power 1,169 average-sized Canadian homes for 20 years and add an annual revenue stream for the Company.

In Quebec, the Go Eco™ automotive program, a Dealer-led initiative, was rolled out across the province. The program helps customers save money, improve vehicle performance and reduce waste to landfill, enabling 100% recycling and responsible disposal of automotive consumables in Quebec Service Centres.

Our results and innovation strategy have garnered increased recognition from the investment and sustainability communities with a string of prestigious awards for the work of both individuals and departments. In addition, Canadian Tire was added to the STOXX Global ESG Leaders Index family in 2011 and is the only Canadian retailer included.

Looking ahead to 2012, we anticipate another productive year. We will unveil a number of innovative and exciting projects, including our rooftop solar installations which will continue and extend outside of the GTA to stores throughout Ontario.

CELEBRATING
90
YEARS

Est. 1922

2005



CANADIAN TIRE JUMPSTART CHARITIES IS LAUNCHED

Canadian Tire has helped over 400,000 kids get involved in organized sports and recreation.

Gracious Living® step stools, laundry baskets, storage bins, tables and totes are made through a proprietary post-consumer material recycling technology that transforms mixed plastic waste into new retail products.

BELOW TOP: Blue Planet Flip-Top Tote from Gracious Living
BELOW BOTTOM: Green Shopper Bag



CANADIAN TIRE JUMPSTART

○ —
Launched in 2005
to focus all of
Canadian Tire's
charity efforts.

100%
of customer donations go to kids



Foam Soccer Ball

**1,800
COMMUNITY
PARTNERS**

> Canadian Tire Jumpstart
has helped over 400,000
kids since 2005.

1 in 3

Canadian families cannot afford to enrol
their children in organized sports or
recreational activities.

Source: Vision Critical Research May 2011

310 chapters

In 2011, twin brothers Eric and Christopher learned to skate. Through this experience, the seven-year-olds gained confidence, made new friends and learned important life skills. Canadian Tire Jumpstart and its community partners made all that possible.

In Canada, one in three families cannot afford to enrol their children in organized sports and recreation. With support from Canadian Tire Jumpstart, over 400,000 kids like Eric and Christopher have been given the opportunity to participate in activities that help develop healthy lifestyles and leadership and interpersonal skills. In 2011 alone, Canadian Tire Jumpstart helped over 102,000 young people.

The goal of the charity's signature program, Canadian Tire Jumpstart, is to provide children and youth with better access to the life benefits of organized sports and recreation.

It was a great year for Canadian Tire Jumpstart. A number of initiatives, driven from across the Corporation, helped to increase support and recognition while raising money to directly benefit kids across the country. Three Dealers climbed to Mount Everest base camp to raise money for Jumpstart. Twenty-three cycling enthusiasts from Canadian Tire, Jumpstart and Mark's biked from Victoria to Vancouver. And a Financial Services Gala raised funds for 500 Jumpstart Kids Activity Kits for distribution across Canada.

2011 was also a busy year for Canadian Tire Jumpstart Communities, whose mandate includes giving families and communities a boost when they need it. Victims of the wildfires in Alberta, flooding in Manitoba and Quebec and the tornado in southwestern Ontario all received support from Canadian Tire Jumpstart Communities.

In 2012, Canadian Tire Jumpstart is positioned to help another 110,000 kids get in the game and raise an incremental \$1 million while continuing to build awareness of the program among our customers. With the addition of a new Online Community Centre, every community partner and chapter can register more efficiently, enabling us to help even more kids benefit from organized sports and recreation in their communities.

CELEBRATING
90
YEARS



Est. 1922

2008



CANADIAN TIRE UNVEILS SMART STORE CONCEPT

The Canadian Tire Smart store format, which offers additional space to automotive products, sporting goods and tools while also offering a selection of Mark's products, is introduced and rolled out across the country.

Jumpstart Activity Kits provide organizations with free equipment and a resource guide to help local kids participate in individual and team activities.

BELOW: Jumpstart Activity Kit



OUR CANADIAN TIRE FAMILY

Canadian Tire has nearly 70,000 dedicated employees across its family of businesses. We thank them all for their hard work every day — for our organization and our communities.

8,000

OUR DEALERS BOAST MORE THAN 8,000 YEARS OF EXPERIENCE COMBINED.

Mark's has added 3,500 staff since joining the Canadian Tire family in 2002.



> More than 11,000 new team members joined us in 2011 through the acquisition of FGL Sports.



Financial Services named Call Centre of the Year in 2011.

Tens of thousands of people — including Dealers, corporate store managers, franchisees, petroleum retailers, supply chain and corporate employees and front-line store staff — make up the Canadian Tire family. All of them play an important role in ensuring the smooth operation of our 1,700-plus retail outlets and gas bars across the country every day.

Dealers — the best of the best in retail — are at the heart of Canadian Tire Retail. A community's local Canadian Tire is akin to a family-run operation: Dealers are a fixture of the neighbourhood and spend much of the busy day interacting directly with customers and our communities. We believe the entrepreneurship we encourage in our Dealers is a competitive advantage, giving them control of their daily operations and incentives to serve customers best. We continually work together with our Dealers to provide training for our store personnel to improve product knowledge and enhance the overall customer experience.


Outside the store, Dealers are equally active and quick to respond when communities are in need. Dealers take a great deal of pride in their support of the Canadian Tire Jumpstart program, as well as the countless local organizations and causes that are important to their customers, and raised and contributed a combined \$2.6 million in 2011.

Corporate store managers and franchisees span PartSource, Mark's and, as of 2011, FGL Sports. Together, we are partners in meeting the needs and wants of customers and providing the newest tools and training to help run successful businesses.

In charge of our national network of Canadian Tire Gas⁺ outlets are independent petroleum retailers. As small business owners, they are part of the fabric of the local community and represent our brand professionally and proudly.


The life blood of any organization is its people and Canadian Tire is thankful to all of our dedicated employees. Each one has a hand in ensuring every visit to a Canadian Tire operated store is special and memorable. Each one is an asset to the communities they serve. Each one is an important and valued member of the Canadian Tire family.

CELEBRATING
90
YEARS



Est. 1922

2010



CANADIAN TIRE UNVEILS THE FIRST-EVER, LIMITED EDITION CANADIAN TIRE 'MONEY' COIN

Canadian Tire launches a special series of three coins, each showcasing special family moments specific to winter.

Bill Konlup, Parts Manager, Edmonton, was named 2011 Jobber News Counterperson of the Year for being Canada's leading parts professional and best frontline worker.



OUR LEADERSHIP TEAM

It is a great privilege for me to be the Chairman of the Board of Canadian Tire and to have the opportunity to work with my colleagues on the Board, the skilled people in management and all the men and women who make up the Canadian Tire family.

Canadian Tire has had a very distinguished 90 years, and we are immensely proud of that. All of us will strive always to make things better so that we can give our customers what they need for the jobs and joys of everyday living in Canada.

Maureen J. Sabia // Chairman of the Board



PETER B. SAUNDERS // ³
Naples, FL, USA

GRAHAM W. SAVAGE // ^{1,2}
Toronto, ON, Canada

IAIN C. AITCHISON // ³
Howell, NJ, USA

MAUREEN J. SABIA //
Toronto, ON, Canada
Non-Executive Chairman of the Board

H. GARFIELD EMERSON, Q.C. // ¹
Toronto, ON, Canada

JOHN A.F. FURLONG // ⁴
Delta, BC, Canada

JAMES A. RILEY // ^{2,3}
Toronto, ON, Canada

GEORGE A. VALLANCE // ⁴
Langley, BC, Canada

STEPHEN G. WETMORE //
Mississauga, ON, Canada
President and Chief Executive Officer

EXECUTIVE LEADERSHIP TEAM*



STEPHEN G. WETMORE //
President and Chief Executive Officer

DEAN McCANN //
Chief Financial Officer
and Executive Vice-President, Finance

MARCO MARRONE //
Chief Operating Officer, Canadian Tire Retail
and Executive Vice-President,
Canadian Tire Corporation, Limited

GLENN BUTT //
Executive Vice-President,
Customer Experience and Automotive

G. MICHAEL ARNETT //
Executive Vice-President,
Corporate Development

ROBYN A. COLLVER //
Senior Vice-President, Secretary
and General Counsel

KENNETH SILVER //
Senior Vice-President,
Corporate Strategy and Real Estate

REGINALD J. McLAY //
Senior Vice-President, Merchandise
Sourcing and Innovation

ROBERT J. SHIELDS //
Senior Vice-President, Marketing

KRISTINE FREUDENTHALER //
Senior Vice-President, Information Technology
and Chief Information Officer

JOHN D. SALT //
Senior Vice-President, Supply Chain

DUNCAN FULTON //
Senior Vice-President, Communications
and Corporate Affairs

MARY L. TURNER //
Chief Operating Officer, Canadian Tire
Financial Services Limited
and President, Canadian Tire Bank

DOUGLAS B. NATHANSON //
Senior Vice-President
and Chief Human Resources Officer

HARRY P. TAYLOR //
Chief Operating Officer, Mark's Work
Warehouse Ltd.

MICHAEL B. MEDLINE //
President, FGL Sports Ltd.
and Executive Vice-President,
Canadian Tire Corporation, Limited

ALLAN MACDONALD //
Senior Vice-President, Automotive

DAVID R. HICKS //
Senior Vice-President, Store Operations
and Dealer Relations

*Positions effective March 5, 2012



FRANK POTTER //^{2,3*}
Toronto, ON, Canada

OWEN G. BILLES //⁴
St. Catharines, ON, Canada

TIMOTHY R. PRICE //^{2,4*}
Toronto, ON, Canada

MARTHA G. BILLES //^{2,3}
Calgary, AB, Canada

CLAUDE L'HEUREUX //⁴
Ottawa, ON, Canada

JAMES L. GOODFELLOW //^{1,4}
Oakville, ON, Canada

ALAN P. ROSSY //¹
Montreal, QC, Canada

- ¹ AUDIT COMMITTEE
- ² GOVERNANCE COMMITTEE
- ³ MANAGEMENT RESOURCES AND
COMPENSATION COMMITTEE
- ⁴ SOCIAL RESPONSIBILITY COMMITTEE
- * COMMITTEE CHAIR

FINANCIAL ASPIRATIONS*

In April 2010, we outlined a five-year plan and financial aspirations that we are working towards achieving through this period.

4.5% to 5%
FINANCIAL SERVICES
RETURN ON RECEIVABLES

3% to 5%
CTR RETAIL SALES
ANNUAL GROWTH

10% to 12%
TOTAL RETURN TO
SHAREHOLDERS
(including dividends)

8% to 10%
CONSOLIDATED EPS
ANNUAL GROWTH

10%+
RETAIL ROIC

*Please see section 5.2 of the Management's Discussion and Analysis for further information on Canadian Tire Corporation's five-year financial aspirations.



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MESSAGE FROM THE CFO
MARCO MARRONE



When I reflect on the past year, I take great pride in the significant accomplishments that we've made at Canadian Tire. Amid continued economic uncertainty, we've retained our strong financial position and used it to acquire The Forzani Group Ltd.

Our strong financial performance — fuelled by solid free cash flow and a strong balance sheet — allowed us to continue to focus on growth and productivity. From a growth perspective, quite simply, we're making our existing assets more productive. Instead of new store builds, the capital-light Smart store retrofits of existing stores represent a fraction of the traditional cost with a healthy contribution to top-line store performance.

Focused activities across the Company are also driving top-line growth. Within Automotive, we're offering tire sales online and beginning to introduce an auto-focused refresh to our Smart store concept. Our remerchandising efforts within the Living category are starting to pay dividends as we build credibility and relevance with consumers in this traffic-driving category. And Financial Services continues to support core retail through new consumer financing options and the introduction of home installation services.

From a productivity perspective, we're spending today so that we can operate more efficiently tomorrow. Strategic initiatives related to our automotive infrastructure and merchandise procurement processes, for example, are on track to reap significant rewards in the years to come. Continued investment in the loyalty program and new investment in e-commerce in 2012 will create additional platforms for future growth.

The acquisition of The Forzani Group Ltd. further demonstrates the strength of our financial position. We took on minimal debt to complete the transaction, and I expect that we'll be back to pre-acquisition debt levels in 2013. The addition of FGL Sports positions us solidly in the marketplace and represents an excellent growth opportunity for the Company.



2011



CANADIAN TIRE ACQUIRES THE FORZANI GROUP LTD.

Canadian Tire acquires The Forzani Group Ltd., the largest national sporting goods retailer in Canada. Its multiple banners, including Sport Chek® and Sports Experts®, feature a large selection of products for athletes at all skill levels.

In my message last year, I discussed accounting changes that would take place in 2011 in relation to IFRS as well as our own segment reporting. As you review the remainder of this annual report you will notice that both of these changes have been implemented. These are projects that hold special significance for me and I'm pleased with the successful transition to the new reporting methodology that's now in place.

Clearly, Stephen and I are comfortable with the state of our business and so, too, is the Board of Directors. This is evidenced by the increase in our quarterly dividend from 27.5 cents to 30 cents per share – another notable event for 2011. For our shareholders, this reflects your Board's confidence in Canadian Tire's financial position as well as prospects for continued growth.

I congratulate Dean McCann and wish him my very best in his new role as CFO. As I embark on a new position within the Company myself in 2012, I am comforted that Canadian Tire's core differentiators – specifically our unique offering, reach and scale, innovation and strong financial position – continue to position us for success. As was the case in 2011, we remain focused on financial success in 2012. Although we recognize that there's a lot that needs to be accomplished in order to attain our five-year financial aspirations, we remain focused and optimistic about the future.

Sincerely,
Marco Marrone
Chief Financial Officer*
Executive Vice-President, Finance



*As of March 5, 2012, Mr. Marrone was appointed Chief Operating Officer, Canadian Tire Retail, and Executive Vice-President, Canadian Tire Corporation Limited, and was succeeded as Chief Financial Officer and Executive Vice-President, Finance, by Dean McCann.

From natural-gas barbecues to stand-up weeders and everything in between, Canadian Tire is the destination for outdoor living.

BELOW TOP: Coleman® 3-Burner Barbecue
BELOW BOTTOM: Fiskars® Deluxe Telescopic Stand-up Weeder



Management's discussion and analysis (MD&A)

Forward-looking statements

This MD&A contains statements that are forward-looking. Actual results or events may differ materially from those forecasted in this disclosure because of the risks and uncertainties associated with Canadian Tire's business and the general economic environment. See section 14.0 in this MD&A for additional important information and a caution on the use of forward-looking information.

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.

March 15, 2012

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1.0 Preface

1.1 Definitions

In this document, the terms “we”, “us”, “our”, “Company” and “Corporation” refer to Canadian Tire Corporation, Limited and entities it controls. For commonly used terminology (such as retail sales and same store sales), see section 10.4 and the Glossary of Terms at the end of this financial report.

1.2 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 15, 2012.

1.3 Quarterly and annual comparisons in this MD&A

Unless otherwise indicated, all comparisons of results for the fourth quarter of 2011 (13 weeks ended December 31, 2011) are against results for the fourth quarter of 2010 (13 weeks ended January 1, 2011) and all comparisons of results for the full year of 2011 (52 weeks ended December 31, 2011) are against results for the full year of 2010 (52 weeks ended January 1, 2011).

1.4 Accounting framework

Commencing with the first quarter of 2011, as required by the Canadian Accounting Standards Board, the Company is reporting its financial results under International Financial Reporting Standards (IFRS) and 2010 respective numbers have been restated under IFRS for comparative purposes. The differences between IFRS and previous Canadian Generally Accepted Accounting Principles (previous GAAP) are highlighted in section 10.2 of this MD&A.

1.5 Accounting estimates and assumptions

The preparation of consolidated financial statements that conform with IFRS 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. See section 10.1 in this MD&A for further information.

2.0 Company and industry overview

2.1 Overview of the business

Canadian Tire Corporation, Limited, through a network of more than 1,700 retail outlets and gas bars, offers products and services that prepare Canadians for the jobs and joys of everyday living in Canada. The core retail business spans categories with solutions for Living, Fixing, Playing, Automotive and Apparel. The retail businesses are supported and strengthened by the Financial Services business, which offers products and services including credit cards, in-store financing, product warranties, retail deposits, insurance, and Canadian Tire Home Services.

The Company's business model results in several distinct sources of revenue, comprising primarily of:

- revenue on sale of merchandise to Dealers and PartSource, Mark's and FGL Sports franchisees;
- revenue on sale of gasoline by Petroleum;
- revenue on sale of merchandise by PartSource, Mark's and FGL Sports corporate-owned stores;
- interest income and service charges on loans receivable;
- service revenue, such as Roadside Assistance Club membership revenue, insurance premiums and reinsurance revenue, merchant, interchange and cash advance fees and clothing alteration revenue;
- royalties on sales made by Mark's and FGL Sports franchisees and license fees from Petroleum agents and Dealers; and
- rental income from investment property and FGL Sports franchisees.

The Company's segments for financial reporting purposes are Retail and Financial Services. Refer to note 7 in the notes to the consolidated financial statements for further information regarding these segments.

Retail segment

Our retail business categories are delivered through the Company's banners – Canadian Tire Retail, PartSource, Canadian Tire Petroleum, Mark's, and the various FGL Sports banners.

Canadian Tire Retail (CTR) is one of Canada's most shopped general merchandise retailers and the Company's flagship banner. The 488 CTR stores across Canada are operated by third-party operators known as Dealers who are independent business owners. Dealers buy merchandise from the Company and sell it to consumers in Canadian Tire stores. CTR operates in the Living, Fixing & Playing and Automotive categories under the “Canadian Tire” banner, best known for the iconic red triangle affixed to every store front, and the specialty automotive hard parts banner “PartSource”. The PartSource banner is a chain of 87 automotive parts specialty stores catering to “do-it-yourself” customers and professional installers of automotive parts. CTR operates close to 5,600 automotive service bays and also operates an emergency roadside assistance service called “Canadian Tire Roadside Assistance”. E-commerce retailing is supported for tires and wheels, which is hosted at www.tires.canadiantire.ca.

The Corporation supports the Canadian Tire Dealers with marketing, supply chain management, purchasing, administrative, financial and information services. Real estate and construction services required by the Company are primarily provided by Canadian Tire Real Estate Limited (CTREL). A contractual arrangement between Dealers and the Company permits Dealers to own and operate the retail business of Canadian Tire stores under the Canadian Tire name. In order to provide controls over the quality, range and price of products and services offered at Canadian Tire stores, each Dealer agrees to purchase merchandise primarily from the Company and to offer merchandise for sale at prices not exceeding those set by the Company. Obligations are specified under a standard form Dealer contract for each Dealer.

Canadian Tire Petroleum (Petroleum) is one of Canada's largest independent retailers of gasoline, with a network of 289 agent-operated gas bars, including 283 convenience stores and kiosks, 76 car washes and 89 propane stations. The majority of Petroleum sites are co-located with CTR stores as a strategy to drive traffic to CTR stores. In 2010, Petroleum entered into an agreement to build and operate 23 state-of-the-art service centres along major Ontario highways (Highway 401 and Highway 400) that feature a Canadian Tire gas bar and an associated convenience store.

Mark's is one of Canada's leading clothing and footwear retailers, operating 385 stores nationwide, including 343 corporate and 42 franchise stores, that offer industrial wear, men's casual wear, and women's casual wear. Mark's operates under the banners "Mark's", "Mark's Work Wearhouse" and in Quebec, "L'Équipeur" and offers e-commerce retailing on its website at www.marks.ca. Mark's also conducts a business-to-business operation under the name "Imagewear, a Division of Mark's Work Wearhouse".

The Forzani Group Ltd. (FGL Sports) is the largest national retailer of sporting goods in Canada, operating 321 corporate stores and 213 franchise stores from coast to coast. The business was acquired by the Company in August 2011 and is a wholly owned subsidiary. FGL Sports offers a comprehensive assortment of brand-name and private-label products under various banners, with the largest being "Sport Chek", "Sports Experts" and "Atmosphere". Sport Chek offers e-commerce retailing through its website at www.sportchek.ca.

Financial Services segment

Financial Services is comprised of Canadian Tire Bank (CTB) and Canadian Tire Financial Services (CTFS). CTB is a federally regulated bank that manages and finances Canadian Tire's consumer Options MasterCard, and retail credit card portfolios, as well as the personal loan and line of credit portfolios, and deferred financing on specific in-store purchases. CTB also accepts deposits in guaranteed investment certificates and high interest savings accounts. CTB is a member of the Canada Deposit Insurance Corporation (CDIC) and eligible deposit products issued by CTB qualify for CDIC insurance coverage. CTFS' operations consist primarily of insurance products and the processing of non-Canadian Tire cards and their related supporting activities. CTFS also provides operational support for the CTB's activities.

Foreign operations

Both the Retail and Financial Services segments have foreign operations which include representative offices in the Pacific Rim that perform activities related to product sourcing, logistics and vendor management as well as a Bermuda-based reinsurance company that reinsures the risk of certain insurance products marketed to customers of Financial Services. In addition, a U.S.-based subsidiary carries on a factoring business, using some of its funds to purchase Dealer receivables from the Retail segment, with the remainder of its funds being lent to other subsidiaries within the Company. FGL Sports also has U.S.-based wholesale operations, including an office and warehouse facility in California.

2.2 Our key performance indicators

Retail segment

In the Retail segment, the Company's financial results are driven largely by changes in retail sales, which include store-level sales at Dealer, franchise and Company-operated stores. The amount of retail sales affect shipments of merchandise to Dealers/franchisees, royalty fees and license fees. Changes in retail sales are driven by changes in same store sales and changes in the number of stores. Same store sales growth, one of the key metrics the Company uses to assess performance, include sales from stores open for more than 53 weeks and provides a useful comparison between periods.

In the Petroleum business, gasoline litres sales growth is a good measure of performance and provides a useful comparison between periods since it eliminates the effect of fluctuations in gas price, which is beyond the Company's control.

The Company also evaluates performance based on the effective utilization of its assets. Metrics used to evaluate the performance of core retail assets include average sales per square foot and retail return on invested capital (ROIC). Comparison of sales per square foot over several periods will identify whether existing assets are being made more productive by the Company's introduction of new store layouts and merchandising strategies. ROIC is the retail segment's after-tax earnings before interest, divided by average invested capital for the Retail segment. Invested capital is the sum of total Retail segment assets less Retail segment current liabilities, excluding the current portion of long-term debt. This measure, analyzed on a rolling 12 month basis, reflects how well the Company is allocating capital towards profitable investments. ROIC can be compared against the cost of capital to determine whether invested capital was used effectively.

Additionally, the Company considers EBITDA (earnings before interest, tax, depreciation and amortization) to be an effective measure of the Retail segment's profitability on an operational basis. EBITDA is also commonly regarded as an indirect measure of operating cash flow, a significant indicator of success for many businesses.

Financial Services segment

For the Financial Services segment, financial results are influenced in large part by growth in gross average receivables (GAR), which drives interest revenue. The key indicators of performance in the Financial Services segment are the size, profitability and quality of the total managed portfolio of receivables. Growth in the total managed portfolio of receivables is measured by growth in the average number of accounts and growth in the average account balance. A key profitability measure the Company tracks is the return on the average total managed portfolio (also referred to as "return on receivables" or "ROR"), which is calculated by dividing income before tax and gain/loss on disposal of property and equipment by the average total managed portfolio over a 12 month period. The quality of the portfolio is reflected in the rolling 12-month net write-off rate, the aging of the portfolio, and the allowance rate.

Key performance indicators are non-IFRS measures

Readers are cautioned that the key performance indicators identified above do not have standardized meanings under IFRS and, therefore, may not be comparable to similar terms used by other companies. The glossary of terms included as an appendix to this Management's Discussion and Analysis defines each of these key performance indicators. Please also refer to section 10.4 for a discussion on supplementary (non-GAAP/IFRS) measures.

2.3 Competitive landscape

No single retailer competes directly with Canadian Tire Retail (CTR) across all of the Company's categories of product and service offerings, reflecting the Company's unique positioning.

CTR's Living and Fixing categories compete with mass merchants, home improvement warehouses and specialty retailers across a number of product lines, including kitchen, housewares, cleaning, storage and organization, and tools. Mass-merchants and independents competing in this category include Walmart, The Bay, Home Outfitters, Sears, Home Depot, Home Hardware, and Lowes.

The Company's Automotive category, including CTR's auto service centres and hard goods department, PartSource hard-parts specialty stores, and Canadian Tire Petroleum, is one of the Company's core differentiators. The Company leads all mass-merchants in this category. The main source of competition for this category is from independent retailers, national and regional parts and tires specialty shops and automotive dealerships. Competitors include Uni-Select, Kal Tire, Fountain Tire, NAPA, Mr. Lube, Car Quest, United Auto Parts and Active Green & Ross.

Mark's offers industrial wear apparel and footwear and men's and women's casual wear. Mark's enjoys a leading market share in its industrial wear category. Mass-merchants, department stores and specialty retailers compete with Mark's men's and women's casual wear product lines. Mark's core differentiator in these product lines is its focus on quality, comfort and innovation, as well as its strong selection of brand names and private-label brands. Competitors include The Bay, Sears and GAP.

With the acquisition of FGL Sports, the Company has enhanced its status as a major player in the sporting goods, sporting apparel and footwear marketplace with leading market share in several product lines across FGL Sports and CTR's sporting goods and recreation offerings. Competition in this category is highly fragmented, coming mainly from independent specialty shops, mass merchants, and US-based retailers, including online retailers. Competitors include Source for Sports, Mountain Equipment Co-op and Foot Locker.

Financial Services' role in the Company is to strengthen and support the core retail businesses. The credit card offering competes with the major banks and other retail companies' financial services arms.

In the upcoming years, the Company anticipates that it will face increased competition from new entrants and new opportunities from industry consolidation. These include:

- Target entering Canada in 2012 via its acquisition of Zellers property leases, with operations to begin in 2013;
- US-based retailers already in Canada (including Walmart, Home Depot and Lowes) are expected to further expand their store networks in Canada;
- Heightened promotional environment as Zellers liquidates inventory at the sites selected by Target in 2012;
- New retailers expected to enter Canada in the coming years, which could include J.C. Penney, Kohl's, Nordstrom and Dick's Sporting Goods; and
- US/international retailers that do not have bricks-and-mortar stores in Canada but are capturing Canadian retail sales through e-commerce sites such as Amazon and those belonging to various apparel retailers.

The Company, however, is well positioned in this competitive environment as:

- The Company has a relatively young store network, with investments over the past several years to revitalize and introduce consumer responsive designs, such as the Smart store concept;
- Merchandise productivity key capabilities will be embedded and key initiatives within the CTR Change Program will be implemented by the end of 2013, which will help reduce costs and improve margins in the Company's retail business in an environment of increased competition;
- Improved merchandising has been implemented across many key product categories through the use of customer-centric retailing practices/customer insights; and
- FGL Sports can strengthen its already substantial foothold in the Canadian sporting goods, apparel and footwear markets as synergies with the Canadian Tire retail banner network are realized.

3.0 Core capabilities

3.1 Strong brand equity

Canadian Tire is one of the most recognized and trusted names in the Canadian retail landscape. CTR, Financial Services and Petroleum all share the Canadian Tire "red triangle" logo, leveraging the loyalty and trust summoned by the Canadian Tire name. The Company's apparel and sporting goods divisions, Mark's and FGL Sports, have developed high-quality private-label brands such as, Denver Hayes®, WindRiver®, Ispiri®, Firefly®, McKinley® and Nakamura® that have earned a level of credibility that is on par with national brands.

3.2 Loyalty program

The Canadian Tire 'Money' loyalty program was launched more than 50 years ago as an innovative customer traffic-builder for the Company's gas bars. Canadian Tire 'Money' is one of Canada's most popular and widely-known loyalty programs. In February 2012, the Company launched the new Canadian Tire 'Money' Advantage program, a redesigned and enhanced loyalty program operating in a pilot phase in Nova Scotia.

3.3 National reach and scale

The Company's more than 1,700 retail outlets and gas bars serve Canadians from coast to coast. The CTR weekly flyer is one of the most widely read advertising vehicles in Canada. Mark's and FGL Sports also issue flyers periodically to support retailing programs. The websites for the Company's leading retail banners – including www.canadiantire.ca, www.sportchek.ca, www.marks.com – are among the country's most visited websites. In addition, the Company reaches out to customers using social media websites like Facebook, Twitter and YouTube. The Canadian Tire App was one of the top apps in the Canadian Lifestyle category, according to Apple's Rewind 2011 List.

3.4 Innovative products

The Company has built a reputation as an innovator by introducing new products, programs and services that address the everyday needs of customers. Innovative products available at CTR are showcased on the Company's website at www.canadiantire.ca. Two examples of innovations in 2011 included the GE Energy Smart LED light bulbs that use nine watts of energy but are as bright as a 40 watt incandescent bulb and WinnWell CompXT Hockey Pads with "cleansport" technology that eliminates odour. Mark's and FGL Sports are providing innovative apparel and footwear products, such as the Thermolectric™ Rechargeable Heated Boots available at Mark's and lightweight/natural motion shoes like Nike Free, Adidas ClimaCool and Reebok RealFlex at Sport Chek and Sports Experts.

3.5 Customer-friendly store layouts

Through its retail banners, the Company delivers innovative store designs that help customers find what they need and want, quickly and easily. The store network is regularly refreshed to reflect the latest store layout and merchandising concepts in order to enhance the shopping experience. In the last five years, a large number of CTR stores have been refreshed. The latest store design for CTR is the Smart store, which features a "racetrack" floor plan that helps customers find products more easily through better signage and more logical product adjacencies. At Mark's, the "Mark's Work Wearhouse" legacy stores are being rebranded to "Mark's" with new and innovative features in many stores such as walk-in freezers where customers can test cold weather products, a footwear testing ramp, and "tech towers" featuring interactive product touch screens.

3.6 Real estate management expertise

The Company's strong in-house real estate management team oversees the entire network of owned and leased properties, one of the largest retail networks in the country comprising over 1,700 locations and over 30 million retail square feet. The Company's expertise in real estate enables it to expand quickly and efficiently, securing high-traffic, sought-after locations for its retail outlets. The Company owns more than 70 per cent of CTR store properties and oversees leases on the remaining CTR, Mark's and FGL Sports locations.

3.7 Global supply chain network

The Company's supply chain is responsible for managing the flow of information and goods among its suppliers, supply chain partners and retail network of stores. Supply chain partners include common carrier trucking companies, third-party logistics companies, ocean carriers and railways.

Most of CTR's products are distributed to stores from its four distribution centers (DCs) across Canada: the Brampton DC, the A.J. Billes DC in Brampton, the Montreal DC and the Calgary DC. The DCs in Ontario are operated by the Company and are staffed primarily by Company employees. Over the past three years, the A.J. Billes DC has tested and implemented two innovative technologies: dimensioner technology, and the utilization of automated guided vehicle technology, which replaces traditional narrow aisle turret trucks. Dimensioner technology has since been deployed to the Montreal and Calgary DCs and voice pick technology is being utilized in all four distribution centres.

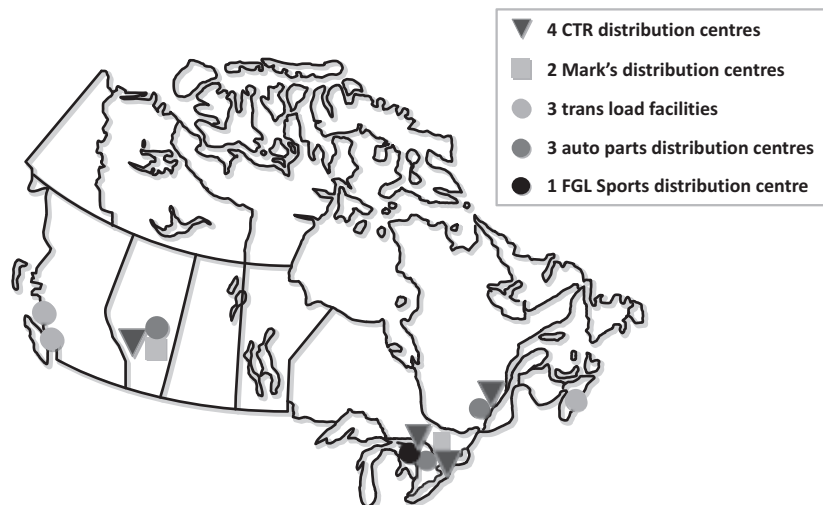
CTR's automotive hard parts supply chain is strengthened and supported by three Express Auto Parts (EAP) DCs, which provide overnight order processing six nights per week for nearly all CTR and PartSource stores. These EAP DCs enable order delivery to most stores between 24 to 48 hours from receipt of an order.

The Company also engages third-party logistics companies to provide CTR with distribution capability in Halifax and Vancouver. CTR utilizes additional space that it owns or leases primarily for product storage and returns processing.

Mark's engages third-party logistics companies to transport product shipments from DCs to stores and to transport most product shipments directly to stores from domestic suppliers. Third-party logistics companies also operate the DCs, manage the movement of goods from offshore suppliers, and provide domestic transportation services.

FGL Sports uses third-party logistics companies to transport goods to stores from its primary distribution centre in Mississauga, Ontario.

Canadian Tire's Distribution Network at a Glance:



3.8 Prudent 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, the 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.

3.9 World-class customer contact centres

The Company's commitment to creating lifelong relationships with our customers is reflected in the success of our customer contact centres at Financial Services. The contact centres continue to be recognized for their commitment to customer service excellence, earning four contact centre of the year titles and seven world class customer satisfaction awards over the past decade. In credit industry studies, credit card holders cited customer service as one of the primary reasons for deciding which credit card they use.

4.0 Historical performance highlights

4.1 Selected annual consolidated financial trends

(C\$ in millions, except per share amounts and number of retail locations)	2011 ¹	2010 ¹	2009 ^{1,2}	2008 ^{1,2,3,4}	2007 ^{1,2,3}
Revenue	\$ 10,387.1	\$ 9,213.1	\$ 8,686.5	\$ 9,121.3	\$ 8,606.1
Net earnings	467.0	444.2	335.0	375.4	411.7
Diluted earnings per share	5.71	5.42	4.10	4.60	5.05
Total assets	12,338.8	11,048.5	8,872.5	7,783.8	6,764.8
Financial Services gross average receivables (total portfolio)	4,035.5	4,041.2	4,071.5	3,913.0	3,650.4
Number of retail locations	1,783	1,242	1,216	1,206	1,168
Cash dividends declared per share	\$ 1.125	\$ 0.905	\$ 0.840	\$ 0.840	\$ 0.740
Stock price (CTC.A)	65.90	68.19	57.50	43.45	74.20

¹ 2011 is reported under IFRS. 2010 data has been restated to IFRS. All other historical figures presented are in accordance with the previous Canadian GAAP and have not been restated to IFRS.

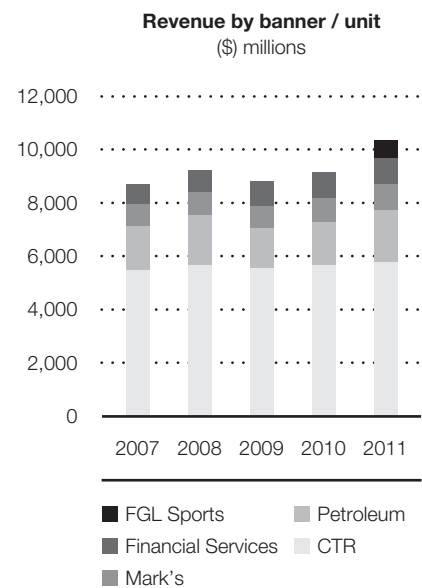
² 2009 has been restated for debt issuance costs previously included in long-term receivables and other assets, now presented with long-term debt. Bank indebtedness has been reclassified from being an offset to current assets to current liabilities. 2007 and 2008 have not been restated for this.

³ 2008 results have previously been restated for the implementation, on a retrospective basis, of CICA HB 3064 – Goodwill and Intangible Assets and the amendments to CICA HB 1000 – Financial Statement Concepts. 2007 has not been restated.

⁴ 53-week period.

The five-year trend chart demonstrates growth in revenue by banner between 2007 and 2011. In 2009, revenue declined due to the impact of the economic downturn on the retail businesses and a reduction in gasoline prices at Petroleum. Despite the challenging economic conditions in 2009, revenue increased four out of the past five years across all of our business units due to:

- higher sale of merchandise to CTR Dealers due to the expansion in the store network over that time as well as same store sales growth;
- increased sales at Mark's due to an increase in same store sales via product innovation and an improved in-store consumer experience, as well as growth in the store network;
- higher sales at Petroleum due to increased volume, network expansion, and rising gas prices over the period, as well as an increased focus on ancillary products and services such as convenience store offerings and car washes;
- increased revenue at Financial Services due to growth in the portfolio of loans receivable over 2007, specifically with regard to loan balances per account, which are now approaching industry norms; and
- the acquisition of FGL Sports.



For our retail network, the increase in store count in 2011 reflects the acquisition of FGL Sports, which added 534 retail outlets as at the end of fiscal 2011. For CTR, the focus is now on leveraging existing assets by driving productivity through the reallocation of space and expanded assortments, all at a lower capital cost than the previous generation Concept 20/20 stores. The Smart store format was launched in fall 2008. The Small Market format, launched in summer 2008, is used to replace existing small traditional stores in their markets, and also allows CTR to enter incremental markets. Small Market stores also incorporate a Mark's outlet and Petroleum gas bar where feasible. The Mark's store network has continued to expand and rebranding to "Mark's" has been completed in select locations.

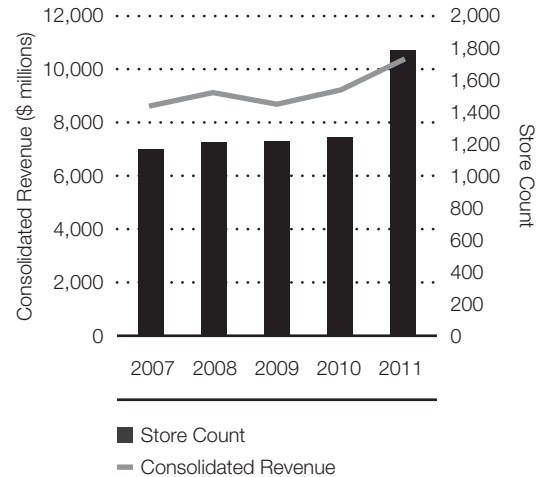
Financial Services' gross average receivables (GAR) for the total portfolio have increased over 2007. 2010 was affected by the disposition of the mortgage portfolio in Q4 2009. In 2011, new government regulations, including changes in balance transfer policies have created headwinds, resulting in a slowing in receivables growth. Financial Services' goal is to grow the total portfolio by increasing the average balance per account, increasing the average number of active accounts and offering new products, while managing risk.

Historical earnings and investment performance

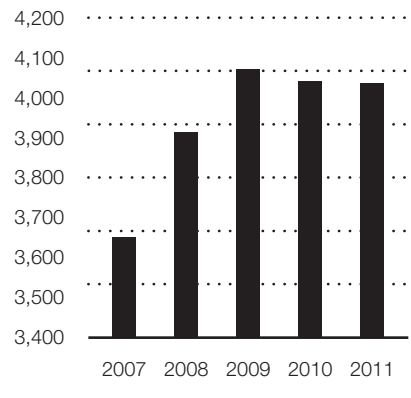
The 10-year trend chart below shows that the Company's diluted earnings per share (EPS), dividends paid per share and stock price increased steadily until 2008, which marked the beginning of the global financial crisis and economic downturn. Although the stock price and earnings rebounded in 2010, the U.S. and subsequent European sovereign debt crises and consequent muted outlook on GDP growth potentially affected the Company's recent results and stock price. The announcement that a major U.S. competitor plans to enter the Canadian market also influenced share price growth in the year. It should be noted, however, that the S&P/TSX Composite Index declined 11 per cent in 2011.

The Company has a track record of increasing its dividend, and, since 2010, has established a target pay-out ratio of 20 per cent to 25 per cent of prior year's earnings.

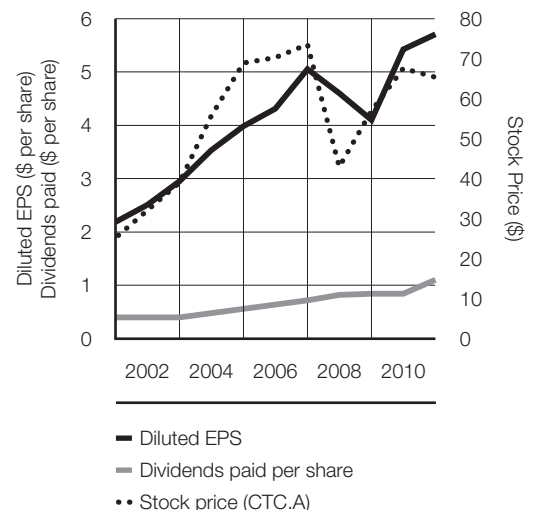
Stores and Revenue



Financial Services Gross Average Receivables
(\$ millions)



Earnings and Dividends per share (\$)
Stock price (\$)



5.0 Our strategic objectives

5.1 Strategic objectives and initiatives

While meeting the needs of the jobs and joys of everyday living in Canada, the Company has focused its retail businesses and financial services business to support growth and productivity improvements in order to achieve the five-year financial aspirations outlined in 2010 (see section 5.2 for financial aspirations). Underlying the growth and productivity initiatives in 2011 were four strategic objectives that are key to sustained future growth:

1. **Strengthen Core Retail**
Achieve growth in Canadian Tire Retail through a customer-centric approach
2. **Align all Business Units to Reinforce the Core**
Operate as "One Company"
3. **Build a High-Performing Organization**
Establish a corporate culture of continuous improvement
4. **Create New Platforms for Growth**
Identify and evaluate new growth opportunities

Major strategic initiatives over the previous five years

CTR store renewal program

Concept 20/20 stores were the cornerstone of CTR's growth agenda since 2003. The program is now complete and CTR has developed new store concepts which are designed to build on the successes of the Concept 20/20 store program with a greater focus on improving sales and productivity at a lower capital cost. The latest store concept is referred to as the Smart store. Key features of the Smart store include a "racetrack" floor plan, high walls and ceilings, improved category adjacencies and easy-to-read navigational signage. The first Smart store was opened in November 2008, and since then the Company has accelerated its rollout of this new store format across its network. A second store concept is the Small Market store, which is designed to expand the Company's presence in smaller markets. Refer to section 7.4 for progress made in 2011.

Enhanced customer loyalty program

Over 50 years ago, the Canadian Tire '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 for customers who shop at our stores and fill up at our gas bars when they pay with cash or use their Canadian Tire-branded credit cards. In 2010, the Company began development of a redesigned and enhanced loyalty program that will provide deeper customer insights. The initial pilot of the new program, "Canadian Tire Money Advantage", was launched in Nova Scotia in February 2012.

CTR Change Program

During 2007, CTR began to implement its multi-year productivity effort with projects designed to overhaul and upgrade internal core merchandising processes and IT systems in areas such as pricing management, promotional management and planning, vendor management, merchandising business planning, and assortment management. The benefits of these projects include the ability to improve decision making, agility and speed to market.

Automotive Infrastructure initiative

The Automotive Infrastructure initiative is intended to drive growth in the Company's automotive businesses and improve the automotive customer experience at Canadian Tire Retail stores. The program is comprised of two primary components:

- significantly expand Canadian Tire's automotive parts assortment and upgrade assortment planning technology; and
- upgrade CTR's automotive retail operating systems, replacing legacy-based "green screen" applications.

"Mark's" Network Renewal

A critical aspect of Mark's growth plan involves capturing an increasing share of overall apparel sales. Mark's has historically been, and continues to be, a leader in the industrial apparel and footwear market. With an aim of increasing market share in men's and women's casual apparel and footwear, Mark's launched its store renewal initiative. The renewal includes rebranding stores as simply "Mark's" as well as introducing a new store layout that highlights Mark's expanded casual wear offering.

Acquisition of FGL Sports in 2011

On August 18, 2011, the Company acquired control of FGL Sports, a Canadian retailer of sporting goods offering a comprehensive assortment of brand-name and private label products. FGL Sports operates stores from coast to coast under corporate and franchise banners including Sport Chek, Sports Experts, Atmosphere, and others. Refer to section 8.2.2 for further information related to the acquisition of FGL Sports.

5.1.1 Our performance in 2011

1. Strengthen Core Retail	
2011 objectives	Performance in 2011
<p>Focus on service and performance of Automotive by bringing together the automotive division of CTR with PartSource and Petroleum</p> <ul style="list-style-type: none"> • New product and marketing initiatives for Automotive • Pilot and roll-out Automotive Infrastructure • Build out Hard Parts assortments across PartSource store network in strategic locations to improve availability to commercial and retail customers • Grow number of Petroleum transactions and marketing initiatives to support CTR 	<ul style="list-style-type: none"> • Successfully piloted and rolled out Automotive Infrastructure across the CTR network • Launched e-commerce retailing for tires and wheels which received over 350 thousand visitors in the first month • Published two issues and distributed 4.5 million issues of the new Canadian Tire Automotive catalogue, Driver Magalogue, showcasing hard-parts assortments • Activated one new PartSource hub store in Ottawa to supply CTR stores and also built three Super Satellite PartSource stores in Ontario with almost double the assortment of a regular PartSource store • Expanded the Petroleum network, including six new stations along Ontario's 400 series highways
<p>Develop and implement a comprehensive merchandising strategy in the Living category at CTR</p>	<ul style="list-style-type: none"> • Developed and initiated a pilot in the Winnipeg market for a Living strategy focused on the "home manager" with expanded assortments, inspirational displays and improved product adjacencies
<p>Continue the roll-out of new concept CTR stores.</p> <ul style="list-style-type: none"> • Open 65 Smart store retrofits, four new Smart stores, • Open one Small Market store 	<ul style="list-style-type: none"> • Opened 57 Smart store retrofits, two new Smart stores and nine replaced/expanded Smart stores • Opened two Small Market stores • Opened four "Automotive Store of the Future" concepts within CTR stores
<p>Employ a customer-centric retailing approach and develop an enhanced loyalty program</p> <ul style="list-style-type: none"> • Continue analysis of customer shopping data • Pilot loyalty program in 2011 	<ul style="list-style-type: none"> • Initiated analysis of currently available non-customer specific shopping data – remerchandising approximately 20 categories as a result of customer insights gained • Loyalty program redesign completed – pilot was launched in February 2012
<p>Continue to execute strategies to deliver an enhanced in-store customer experience</p> <ul style="list-style-type: none"> • Continue performance improvement projects for underperforming stores 	<ul style="list-style-type: none"> • Expanded store operations support team • Completed training of over 8,000 front-line staff in the automotive management system and over 3,000 in tires and preventative maintenance • Implemented enhanced customer opinion tracking
<p>Launch a new consumer advertising campaign across all media that reinforces Canadian Tire's brand promise</p>	<ul style="list-style-type: none"> • Launched the "Bring it On" media campaign
2. Align all Business Units to Reinforce the Core	
2011 objectives	Performance in 2011
<p>Develop "Mark's – Clothes That Work" strategy to reflect broader casual wear offerings and enhance the brand and customer experience</p>	<ul style="list-style-type: none"> • Expanded the Mark's store renewal concept to the Calgary region with 16 rebrands from "Mark's Work Wearhouse" to "Mark's" for a total of 43 conversions nationwide
<p>Expand Financial Services through continued growth of portfolio of services and managed growth of receivables</p>	<ul style="list-style-type: none"> • Initiated financing programs that complement CTR's offerings including in-store instant credit, equal payment plans, and deferred payments on large purchases

3. Build a High-Performing Organization	
2011 objectives	Performance in 2011
Accelerate key productivity and efficiency initiatives, including the merchandise productivity program	<ul style="list-style-type: none"> Substantial progress made in centralization of key support functions within the organization, including finance, human resources and IT Redesigned and improved procurement processes for merchandise and non-merchandise services Completed key milestones in the CTR Change Program, a multi-year initiative designed to overhaul and upgrade the internal processes and retail IT systems
Drive business sustainability as a business strategy	<ul style="list-style-type: none"> In 2011, 438 sustainability initiatives were implemented, forecasted to avoid \$5.7 million in costs, 2,450 tonnes of waste, and 6,931 tonnes of greenhouse gas emissions annually For the first time, the Company generated revenue from its sustainability initiatives, some of which is expected to re-occur in future years
Improve return on invested capital (ROIC) for the Retail segment	<ul style="list-style-type: none"> Focused capital investments on leveraging current assets, maintained capital expenditures in line with 2011 targeted levels
4. Create New Platforms for Growth	
2011 objectives	Performance in 2011
Explore new avenues for growth and new business developments	<ul style="list-style-type: none"> Acquired FGL Sports to reinforce our leadership position in sports Launched the sale of major appliances in CTR stores Piloted and launched Home Services with initial offering of garage door openers and central vacuum installations

5.1.2 Our objectives for 2012

1. Strengthen Core Retail	
2012 objectives	2012 key activities
Continue roll-out of new concept CTR stores	<ul style="list-style-type: none"> Open 90 Smart store retrofits and 10 Smart store replacement or expansions Open three new Small Market stores and two Small Market replacement stores
Continue to execute strategies to deliver an enhanced in-store customer experience at Canadian Tire	<ul style="list-style-type: none"> Deliver training for continuous learning and development of front-line staff Continue to roll-out a comprehensive merchandising and marketing strategy in the Living category
2. Align all Business Units to Reinforce the Core	
2012 objectives	2012 key activities
Evaluate and implement an enhanced loyalty program, employ customer-centric retailing and integrate with existing marketing programs	<ul style="list-style-type: none"> Beginning in February 2012, pilot a loyalty program in Nova Scotia with flexibility in rewards and redemption alternatives
Expand e-commerce and investigate cross-business integration opportunities	<ul style="list-style-type: none"> Design an integrated online/digital experience across various retail banners
Continue to enhance store networks to drive an enhanced customer experience	<ul style="list-style-type: none"> Expand Mark's store renewal concept for a total of 101 converted locations nationwide by the end of 2012 20 new, replaced or rebranded Petroleum gas bars
Drive growth in the Retail segment with the integration and development of FGL Sports	<ul style="list-style-type: none"> Continue to focus on driving sales Deliver \$25 million in synergies by year end
Expand Financial Services through continued growth of portfolio of services and managed growth of receivables	<ul style="list-style-type: none"> Continue to evaluate the national and regional Home Services pilot programs initiated in 2011 and launch a broader service offering regionally

3. Build a High-Performing Organization	
2012 objectives	2012 key activities
Advance key productivity and efficiency initiatives	<ul style="list-style-type: none"> • Embed merchandise productivity key capabilities (technology and process) to sustain benefits into the future • Implement key initiatives within the CTR Change Program
Drive business sustainability as a business strategy	<ul style="list-style-type: none"> • Enhance key sustainability metrics and reporting • Continue to integrate sustainability into business operations, increasing both cost avoidance and revenue from business sustainability initiatives
Improve return on invested capital (ROIC) for the Retail segment	<ul style="list-style-type: none"> • Capital investments focused on leveraging current assets; maintain capital expenditures in line with 2011 levels
4. Create New Platforms for Growth	
2012 objectives	2012 key activities
Explore new avenues for growth and new business developments	<ul style="list-style-type: none"> • Continue to identify and evaluate opportunities to enhance our growth and profitability

5.2 Financial aspirations

The Strategic Objectives include financial aspirations for the Company over the five year period ending December 2014. Progress against these goals is reported annually as:

Financial measure	Aspirations over 5-year period to 2014	2011 Performance	Achieved in 2011
Canadian Tire Retail (CTR) retail sales (POS) annual growth	3% to 5%	2.0%	X
Consolidated EPS annual growth	8% to 10%	5.3%	✓ ¹
Retail return on invested capital (ROIC)	10%+	7.68%	X
Financial Services return on receivables (ROR)	4.5% to 5.0%	5.45%	✓
Total return to shareholders (TRS), including dividends	10% to 12%	(1.7)%	X

¹ Normalized for the tax matters explained below, consolidated EPS was up 17.4 per cent compared to 2010.

CTR retail sales annual growth

Retail sales grew 2.0 per cent at CTR for the year, which is below the Company's aspiration. Economic uncertainty and a cautious consumer impacted many North American retailers throughout 2011, and was reflected in the Company's sales growth. In addition, the late spring and the unseasonably warm and dry winter had a negative impact on retail sales in seasonal categories.

Consolidated EPS annual growth

Consolidated EPS increased 5.3 per cent in the year, which is below the Company's aspiration. However, normalizing for the fact that 2010 included a \$42 million tax recovery and an \$18 million (pre-tax) interest income recovery on the tax refund, which was not repeated to the same extent in 2011, EPS was up 17.4 per cent. Normalizing for the 2010 restructuring charge, in addition to the tax items noted above, EPS was up 14.4 per cent.

Retail ROIC

The rolling 12-month retail return on invested capital was 7.68 per cent at the end of 2011, which was below the Company's aspiration. The Company made significant advances on many of its strategic growth initiatives, setting a solid foundation for future growth.

Financial Services return on receivables

The Financial Services segment return on receivables exceeded the targeted range of 4.5 to 5.0 per cent in 2011. Strong performance resulted from stable credit card receivables and prudent expense management.

Total return to shareholders

Total return to shareholders (TRS), including dividends, declined 1.7 per cent in the year. While the Company's TRS was below aspirations, it should be noted that overall equity markets declined in 2011. The total return (including dividends) of the S&P/TSX Composite Index declined 8.7 per cent.

Note that the above financial aspirations reflect the Company's expectations over the life of the plan period and individual fiscal years within that period will vary.

6.0 Economic environment

6.1 2011 economic review

Investor and consumer confidence waned throughout 2011 as the European and U.S. economies continued to struggle, impacting the Canadian economy. Despite elevated international financial and economic stress, the Canadian economy continues to beat expectations in the second half of 2011. Real GDP advanced 3.5 per cent (annualized) in the third quarter, following a slight contraction in the prior quarter. During the period, Canadian households increased their debt loads in an environment of low interest rates and historically high housing prices compared to personal income. The S&P/TSX Composite index ended the year down 11 per cent; almost all major U.S. indices were flat to down; and all major international indices were down over the year.

6.2 Economic outlook

The global economic and financial environment remains a key challenge for the Canadian economy. Europe's debt problems are expected to persist and the region's financial crisis is expected to worsen in 2012. This is expected to lead to a weaker global economy that puts a damper on Canadian exports and consumer and business confidence. Inflation is expected to stabilize at or below the Bank of Canada's target of 2 per cent. At the same time, food inflation is expected to grow at a lower rate in 2012 and fuel prices are stabilizing. Consumer spending in Canada is expected to continue to grow at a modest 1-2 per cent in 2012.

7.0 Our performance

7.1 Our performance in 2011 versus 2010

Consolidated business performance

In 2011 the Company produced solid results in the face of global economic turmoil and unseasonable weather patterns across much of Canada. Revenue and earnings growth in the Retail segment were driven by the execution of strategic initiatives within the Automotive and Living categories at CTR as well as the acquisition, during Q3 2011, of FGL Sports. Steady revenue growth from a stable receivables portfolio coupled with prudent expense management in the Financial Services segment also contributed to earnings growth.

The results of our operations were affected by several non-operating items in the current and prior year. These items include:

(C\$ in millions)	Q4 2011	Q4 2010	2011	2010	Line item
Gain on FGL Sports shares ¹ (pre-tax)	\$ —	\$ —	\$ 10.4	\$ —	Other income/(expense)
FGL Sports acquisition costs (pre-tax)	(0.5)	—	(12.1)	—	Operating expenses
Restructuring charge (pre-tax)	—	—	—	(14.7)	Operating expenses
Interest income on tax refund ² (pre-tax)	0.5	18.0	3.6	18.0	Finance income
Tax provision adjustment ²	1.9	42.0	7.6	42.0	Income taxes

¹ Relates to shares held by the Company prior to the acquisition of FGL Sports. Refer to section 8.2.2 for further details.

² Refer to section 9.0 for further details.

7.2 Consolidated financial results

(C\$ in millions, except where noted)	Q4 2011	Q4 2010	Change	2011	2010	Change
Retail sales	\$3,707.8	\$3,064.3	21.0%	\$11,596.7	\$10,328.5	12.3%
Revenue	\$3,135.1	\$2,588.3	21.1%	\$10,387.1	\$ 9,213.1	12.7%
Gross margin dollars	\$ 938.8	\$ 774.1	21.3%	\$ 3,060.7	\$ 2,791.0	9.7%
Operating expenses (excluding depreciation & amortization)	594.2	490.0	21.2%	2,020.9	1,795.5	12.5%
Other income (expense)	5.8	1.1	—	18.4	1.1	—
EBITDA	\$ 350.4	\$ 285.2	22.9%	\$ 1,058.2	\$ 996.6	6.2%
Depreciation and amortization	86.6	70.5	22.9%	296.1	274.1	8.1%
Net finance costs	32.9	18.9	74.4%	132.2	135.7	(2.6)%
Income before income taxes	\$ 230.9	\$ 195.8	17.9%	\$ 629.9	\$ 586.8	7.3%
Income taxes	64.6	26.5	143.6%	162.9	142.6	14.2%
Effective tax rate	28.0%	13.5%		25.9%	24.3%	
Net income after taxes	\$ 166.3	\$ 169.3	(1.7)%	\$ 467.0	\$ 444.2	5.2%
Basic earnings per share	\$ 2.04	\$ 2.08	(1.7)%	\$ 5.73	\$ 5.45	5.3%
Diluted earnings per share	\$ 2.03	\$ 2.07	(1.7)%	\$ 5.71	\$ 5.42	5.3%

Fourth quarter 2011 versus fourth quarter 2010**Earnings Summary**

Diluted earnings per share (EPS) was \$2.03 in the quarter. EPS for the same period in 2010 was \$2.07, including the positive impact of a tax settlement which amounted to \$0.67 per share. Normalizing for the tax settlement, EPS was up 43.1 per cent in the fourth quarter of 2011 versus Q4 2010. The increase was a result of the inclusion of the operating results of FGL Sports for the quarter in 2011 and improved performance in both the Retail and Financial Services segments.

Retail sales

Consolidated retail sales increased \$643.5 million (21.0 per cent) as a result of:

- Inclusion of \$521.8 million of retail sales from FGL Sports, which was acquired in the third quarter of 2011;
- Sales growth of 2.7 per cent in the CTR/PartSource banner stores with growth being strongest in the Living and Playing categories;
- Petroleum sales increasing by 10.3 per cent due to the sharp increase in retail gas prices, which were up 12.8 per cent versus 2010; and
- Mark's apparel sales being better by 3.1 per cent primarily due to an increase in industrial wear.

Revenue

Consolidated revenue increased \$546.8 million (21.1 per cent) as a result of:

- Inclusion of \$426.1 million of revenue from FGL Sports, which was acquired in the third quarter of 2011;
- Solid growth across our other retail businesses including all major categories within the CTR banner and the Mark's Industrial division as well as double digit growth in the Petroleum business due to new sites and an increase in gas prices; and
- Modest growth in Financial Services revenue.

Gross margin

Consolidated gross margin dollars increased \$164.7 million (21.3 per cent) as a result of:

- Inclusion of margin dollars from FGL Sports; and
- Increase in revenue across our retail businesses, as noted above.

The consolidated gross margin rate (29.9 per cent of revenue) remained consistent with the prior year, as the positive inclusion of the high margin FGL Sports' business and product cost savings from CTR were offset by the unfavourable mix effect of higher Petroleum growth (relatively low margin business), promotional activity and lower gross margin rate at Financial Services.

Operating expenses (excluding depreciation and amortization)

Consolidated operating expenses (excluding depreciation and amortization) increased \$104.2 million (21.2 per cent) due to the net effect of:

- Inclusion of operating expenses incurred by FGL Sports during the quarter; offset by
- Increased efficiency at Financial Services by lowering expenses in the areas of personnel and marketing.

Depreciation and amortization expense

Consolidated depreciation and amortization expense increased \$16.1 million (22.9 per cent) due to:

- Inclusion of depreciation and amortization expense incurred by FGL Sports during the quarter; and
- Amortization of software intangible assets increased due to recent IT initiatives, which was partially offset by a decrease in depreciation expense as the Company has rolled out less capital intensive store formats in recent years.

Net finance costs

Net finance costs increased \$14.0 million (74.4 per cent) due to the net impact of the following:

- Interest income of \$0.5 million in 2011 relating to a tax settlement (described in section 9.0 below) compared to \$18.0 million of interest income in 2010 for the same tax settlement; offset by
- Lower finance costs in 2011 due to the repayment of the \$300 million 5.22 per cent medium-term note in the third quarter of 2010 and improvements in the blended cost of borrowing.

Income taxes

The effective tax rate increased from 13.5 per cent in Q4 2010 to 28.0 per cent in Q4 2011 primarily due to a reduction in the tax provision for the settlement of a tax matter in Q4 2010, as described in section 9.0 below.

Full Year 2011 versus 2010**Earnings Summary**

Diluted earnings per share (EPS) totaled \$5.71 for the year, up 5.3 per cent versus 2010. Normalizing for the Q4 2010 tax settlement and the 2010 restructuring charge, EPS was up 14.4 per cent as a result of the inclusion of FGL Sports' operating results in 2011 and the improved performance in both the Retail and Financial Services segments.

Retail sales

Consolidated retail sales increased \$1,268.2 million in the year, or 12.3 per cent, as a result of:

- Inclusion of \$740.2 million of retail sales from FGL Sports, which was acquired in the third quarter of 2011;
- Increases in Petroleum sales as a result of higher gas prices;
- Increases in CTR sales driven primarily by increases in the Living category (especially Kitchen) as a result of new product launches and promotions; and
- Increases in industrial wear sales at Mark's.

Revenue

Consolidated revenue increased \$1,174.0 million in the year, or 12.7 per cent, as a result of:

- \$645.6 million of revenue due to the inclusion in 2011 of FGL Sports;
- \$338.5 million (20.6 per cent) growth in revenue at Canadian Tire Petroleum due to an 18.4 per cent increase in gas prices compared to the prior year, as well as increased volume from additional outlets opened along the 400 series highways during the year; and
- Increased revenue across the other retail banners – Canadian Tire Retail, PartSource, and Mark's.

Gross margin

Consolidated gross margin dollars increased \$269.7 million in the year, or 9.7 per cent, as a result of:

- Inclusion of margin dollars from FGL Sports; and
- Increase in revenue across our retail businesses, as noted above.

The consolidated gross margin rate (29.5 per cent of revenue) decreased from the prior year (30.3 per cent of revenue). This was due to revenue mix (a higher proportion of lower margin Petroleum sales and growth in Living categories in CTR), promotional activity to help offset the impact of unseasonable weather conditions and lower gross margin rate in Financial Services, partially offset by the inclusion of the high margin FGL Sports' business for 19 weeks in the year.

Operating expenses (excluding depreciation and amortization)

Consolidated operating expenses (excluding depreciation and amortization) increased \$225.4 million (12.5 per cent) due to the net effect of:

- FGL Sports operating expenses and acquisition-related costs (primarily legal and consulting fees);
- Increased spending on strategic initiatives, such as the loyalty program, Automotive Infrastructure and the merchandise productivity initiative;

Offset by:

- \$14.7 million in restructuring charges recorded in Q3 2010, which was not repeated in 2011; and
- Expense reductions in Financial Services costs due to savings in personnel and marketing.

Depreciation and amortization expense

Consolidated depreciation and amortization expense increased \$22.0 million in the year (8.1 per cent) due to:

- Inclusion of depreciation and amortization expense incurred by FGL Sports since acquisition; and
- Amortization of software intangible assets increased due to recent IT initiatives, which was partially offset by a decrease in depreciation expense as the Company has rolled out less capital intensive store formats in recent years.

Net finance costs

Net finance costs decreased \$3.5 million in the year (2.6 per cent) as a result of:

- Lower interest costs due to the repayment of a \$300 million medium-term note in the third quarter of 2010; offset by
- A decrease in interest income related to a tax settlement (refer to section 9.0 for further details).

Income taxes

The effective tax rate increased from 24.3 per cent in 2010 to 25.9 per cent in 2011 due to a reduction in the tax provision for the resolution of an outstanding tax matter in 2010, as described in section 9.0. The increase in the effective tax rates was offset by the reduction in the weighted statutory tax rates, from 30.3 per cent in 2010 to 28.2 per cent in 2011.

7.3 Key operating performance measures

(year-over-year percentage change, C\$ in millions, except where noted)	Q4 2011	Q4 2010	Change	2011	2010	Change
Retail Segment – Total						
Retail sales growth	21.0%	2.4%		12.3%	3.1%	
Revenue ¹	\$ 2,874.9	\$ 2,325.9	23.6%	\$ 9,363.5	\$ 8,178.9	14.5%
Retail ROIC ²	7.68%	8.32%		n/a	n/a	
Retail Segment – by banner						
CTR						
Retail sales growth ³	2.7%	0.5%		2.0%	1.4%	
Same store sales growth ⁴	1.8%	(0.4)%		1.1%	0.7%	
Sales per square foot ^{5, 6}	\$ 383	\$ 382	0.3%	n/a	n/a	
Revenue ^{1, 7, 17}	\$ 1,573.6	\$ 1,535.5	2.5%	\$ 5,771.5	\$ 5,676.4	1.7%
Mark's						
Retail sales growth ⁸	3.1%	1.9%		3.0%	3.7%	
Same store sales growth ⁹	3.1%	0.5%		2.8%	1.5%	
Sales per square foot ¹⁰	\$ 298	\$ 295	1.0%	n/a	n/a	
Revenue ^{1, 11}	\$ 388.0	\$ 349.5	11.0%	\$ 979.5	\$ 872.6	12.3%
Petroleum						
Gasoline volume (litres) growth	(1.4)%	5.3%		2.1%	1.6%	
Retail sales growth	10.3%	12.4%		19.0%	10.2%	
Revenue ¹	\$ 490.9	\$ 444.0	10.6%	\$ 1,981.2	\$ 1,642.7	20.6%
Gross margin dollars	\$ 36.0	\$ 35.5	1.5%	\$ 146.8	\$ 139.0	5.7%
Financial Services Segment						
Revenue	\$ 241.6	\$ 237.8	1.6%	\$ 953.3	\$ 953.7	(0.0)%
Credit card sales growth	1.7%	0.6%		(0.1)%	2.8%	
Gross average receivables (GAR)	\$ 4,062.1	\$ 4,038.3	0.6%	\$ 4,035.5	\$ 4,041.2	(0.1)%
Revenue ¹² (as a % of GAR)	23.62%	23.60%		n/a	n/a	
Average number of accounts with a balance ¹³ (thousands)	1,735	1,721	0.8%	1,717	1,716	0.1%
Average account balance ¹³ (whole \$)	\$ 2,334	\$ 2,332	0.1%	\$ 2,340	\$ 2,334	0.2%
Net credit card write-off rate ^{12, 13}	7.32%	7.49%		n/a	n/a	
Past due credit card accounts (PD2+) ¹⁴	3.91%	3.83%		n/a	n/a	
Allowance rate ¹⁵	2.86%	2.85%		n/a	n/a	
Operating expenses ¹² (as a % of GAR)	6.56%	6.98%		n/a	n/a	
Return on receivables ^{12, 16}	5.45%	4.97%		n/a	n/a	

¹ Inter-segment revenue within the retail banners (CTR, Mark's and Petroleum) of \$3.7 million in the fourth quarter (\$3.1 million for Q4 2010) and \$14.3 million for YTD Q4 2011 (\$12.8 million for YTD Q4 2010) has been eliminated at the Retail segment level. Revenue reported for CTR, Mark's and Petroleum includes inter-segment revenue. FGL Sports had no inter-segment revenue with CTR, Mark's or Petroleum.

² Figures are calculated on a rolling 12-month basis.

³ Includes sales from Canadian Tire stores, PartSource stores and the labour portion of CTR's auto service sales.

⁴ Includes sales from Canadian Tire and PartSource stores. Starting Q1 2011, CTR same store sales include sales from the labour portion of CTR's auto service sales. The Q4 2010 and full year same store sales metric has been restated to reflect the change in methodology. Refer to section 10.4 for further details.

⁵ Excludes PartSource stores. Retail space does not include warehouse, garden centre and auto service areas.

⁶ CTR's sales per square foot has been calculated using sales on a rolling 52-week basis in each year for those stores that had been open for a minimum of 53 weeks as at the end of the current quarter. Sales from PartSource stores are excluded. Refer to section 10.4 for further details.

⁷ In 2011 certain vendor support funds at CTR (including PartSource) are reflected as a reduction in inventory / cost of producing revenue (for the rebates provided by suppliers) and a corresponding reduction in revenue (for amounts passed through to Dealers). These amounts were previously offset. This decreased revenue and cost of producing revenue by approximately \$11.8 million in the fourth quarter and \$54.3 million in the full year with no impact on gross margin dollars or earnings.

⁸ Includes retail sales from Mark's corporate stores and franchise stores and, commencing in 2010, ancillary revenue related to embroidery and alteration services.

⁹ Mark's same store sales includes stores open for 53 weeks and excludes new stores, store closures and ancillary revenue.

¹⁰ Starting Q1 2011, Mark's retail sales per square foot are based on sales from both corporate stores and franchise stores that have been opened for a minimum of 53 weeks. The Q4 and full year 2010 sales per square foot metric was restated to reflect the change in methodology. Refer to section 10.4 for further details.

¹¹ Includes retail sales from Mark's corporate stores. In 2011 inventory transfers to Mark's franchisees are reflected as revenue with the corresponding inventory cost reflected in cost of producing revenue (previously only the franchise royalty was reflected in revenue). This increased revenue and cost of producing revenue by approximately \$23.4 million in the fourth quarter and \$76.6 million in the full year with no impact on gross margin dollars or earnings.

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

¹³ Credit card portfolio only.

¹⁴ Accounts overdue one month or more.

¹⁵ The allowance rate was calculated on the total managed portfolio of loans receivable.

¹⁶ The return on receivables (return on average total managed portfolio) is calculated as income before income taxes and gain/loss on disposal of property and equipment as a percentage of gross average receivables (GAR).

¹⁷ Includes revenue from Canadian Tire Retail, PartSource and Franchise Trust.

FGL Sports' performance overview

A summary of FGL Sports' key top line performance metrics has been provided for the 13 and 19 week period ended December 31, 2011 compared to their 13 and 19 week period ended January 1, 2011 (prior to our acquiring control).

Key operating performance measures

(C\$ in millions)	Q4 2011	Q4 2010	August 21, 2011 to December 31, 2011	August 22, 2010 to January 1, 2011
FGL Sports				
Retail sales growth ¹	0.6%	n/a	2.3%	n/a
Same store sales growth ¹	0.7%	n/a	2.6%	n/a

¹ These key operating performance metrics are calculated using the Company's weekly sales calendar, which begins on Sunday and ends on Saturday. For 2011, the Sunday after the acquisition date was August 21 (2010 – August 22). The percentages reported in the table are for comparison purposes only as the Company did not own FGL Sports in 2010.

7.4 Retail banner network at a glance

Number of stores and retail square footage	December 31, 2011	January 1, 2011
Consolidated store count		
CTR retail banner stores ¹		
Updated and expanded stores	247	306
Smart stores	169	103
Traditional stores	58	64
Small Market stores	14	12
Total CTR retail banner stores	488	485
PartSource banner stores	87	87
Mark's banner stores ¹		
Traditional stores	342	356
Rebranded as "Mark's"	43	27
Total Mark's retail banner stores	385	383
FGL Sports banners stores ³		
Sport Chek	150	n/a
Sports Experts	70	n/a
Atmosphere	68	n/a
Other	246	n/a
Total FGL Sports retail banner stores	534	n/a
Canadian Tire gas bar locations ²	289	287
Total stores	1,783	1,242
Consolidated retail square footage (in millions)²		
CTR banner	19.7	19.3
PartSource banner	0.3	0.3
Mark's banner	3.4	3.3
FGL Sports banner ³	6.6	n/a
Total retail square footage² (in millions)	30.0	22.9

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 486 square feet per store in Q4 2011. It was not included in the above.

³ FGL Sports' store count and retail square footage information for January 1, 2011 is not applicable as the Company acquired FGL Sports on August 18, 2011.

7.5 Business segment performance

7.5.1 Retail segment

7.5.1.1 Retail Segment financial results

(C\$ in millions)	Q4 2011	Q4 2010	Change	2011	2010	Change
Retail sales	\$ 3,707.8	\$ 3,064.3	21.0%	\$ 11,596.7	\$ 10,328.5	12.3%
Revenue ¹	\$ 2,874.9	\$ 2,325.9	23.6%	\$ 9,363.5	\$ 8,178.9	14.5%
Gross margin dollars	\$ 783.9	\$ 613.8	27.7%	\$ 2,446.7	\$ 2,162.7	13.1%
Gross margin (% of revenue)	27.3%	26.4%		26.1%	26.4%	
Operating expenses (excluding depreciation & amortization)	511.2	388.0	31.7%	1,696.6	1,441.8	17.7%
Other income	5.9	0.3	–	18.8	1.9	–
EBITDA	\$ 278.6	\$ 226.1	23.4%	\$ 768.9	\$ 722.8	6.4%
Depreciation and amortization	83.9	68.0	23.6%	285.4	265.2	7.6%
Net finance costs	19.5	3.6	449.4%	72.7	71.4	1.8%
Income before income taxes	\$ 175.2	\$ 154.5	13.5%	\$ 410.8	\$ 386.2	6.4%

¹ See footnotes in the key operating performance measures table in section 7.3.

Fourth quarter 2011 versus fourth quarter 2010

Earnings Summary

Income before taxes (IBT) in the Retail segment was \$175.2 million in the quarter, 13.5 per cent higher than the same period in 2010. Excluding FGL Sports related items (earnings during the quarter and residual acquisition related costs) and the interest income received in relation to the tax settlement in Q4 2010, IBT increased 4.3 per cent. The increase reflected higher revenue, partially offset by lower margin contribution and slightly higher operating expenses.

Retail sales

Retail sales increased 21.0 per cent in the quarter as a result of the inclusion of \$521.8 million from FGL Sports, growth at Canadian Tire Petroleum due to increased gas prices and additional sites along the 400 series highways, and sales growth across all of our retail banners. Despite the unseasonably warm weather and reduced snowfall experienced in the quarter throughout most of Canada, CTR and Mark's achieved same store sales growth of 1.8 per cent and 3.1 per cent, respectively. It is worth noting that during the final quarter of 2011, according to Canada's National Climate Data and Information Archive, the amount of snowfall was 43 per cent lower than the prior year and 45 per cent below the 30 year average. This put pressure on our winter seasonal product offerings (winter tires, snow throwers and melters) and resulted in special promotions to help move the product with its consequent impact on margins, as noted below.

Sales growth at CTR banner stores was driven by increases in the Living category in kitchen and housewares due to expanded assortments, increases in the Fixing category in tools, and growth in outdoor recreational activities. Growth in these categories was partially offset by declines in weather related categories including winter tires and outdoor tools such as snow throwers and snow shovels, as well as light automotive maintenance parts.

At Mark's, sales growth was driven by the industrial wear category, partially offset by a decline in the men's casual wear category and flat sales in the ladies wear category due to unseasonably warm weather and lack of snow. Industrial wear sales are supported by the relatively strong regional economies of Western Canada.

FGL Sports' same store sales increased 0.7 per cent over their prior year comparative as the unseasonably warm weather and lack of snow, particularly in central Canada, in the quarter hampered sales of outerwear, winter clothing accessories, ski and snowboard categories.

Petroleum retail sales increased 10.3 per cent due to the 12.8 per cent increase in gas price over the prior year and additional sites from the 400 series highway initiative, offset by a modest decline in volume growth due to higher gas prices.

Retail revenue

Retail revenue increased 23.6 per cent in the quarter due to the inclusion of \$426.1 million in revenue at FGL Sports, growth at Petroleum due to increased gas prices, and revenue growth across all retail banners with similar drivers as outlined for retail sales, as noted above.

CTR revenue increased due to growth in shipments of products in kitchen, housewares, décor, home repair tools, heavy automotive maintenance parts, tires and outdoor recreation product lines stemming from strong sales of these products in stores. Strength in these product lines was offset by a decline in shipments for winter-related products in outdoor tools due to the lack of snow and unseasonably warm weather in the quarter.

Retail gross margin

Retail gross margin dollars increased \$170.1 million (27.7 per cent) mainly due to the inclusion of FGL Sports. FGL Sports' margin was negatively impacted by the amortization of the remaining \$8.7 million in the quarter relating to the \$13 million fair value purchase price adjustment to inventory recorded as part of the acquisition.

The gross margin rate increased 88 basis points in the quarter. Excluding FGL Sports' margin, the rate declined 108 basis points. The decline is due to:

- markdowns at Mark's aimed to drive sales of winter-wear due to unseasonably warm weather; and
- the mix effect of higher sales from lower margin categories (such as Living) at CTR banner stores and the lower margin Petroleum business.

Retail operating expenses (excluding depreciation and amortization)

Retail operating expenses (excluding depreciation and amortization) increased \$123.2 million (31.7 per cent) primarily due to the inclusion of expenses at FGL Sports. Excluding FGL Sports related items (operating expenses during the quarter and residual acquisition related costs), operating expenses increased 2.1 per cent due to higher spending on strategic initiatives such as merchandise and non-merchandise productivity, the new loyalty program, and Automotive Infrastructure. Increased spending on these initiatives as well as increased store labour costs at Mark's was partially offset by decreased long-term compensation expense.

Retail depreciation and amortization expense

Retail depreciation and amortization expense increased \$15.9 million (23.6 per cent) primarily due to the inclusion of FGL Sports. Excluding FGL Sports, depreciation and amortization expense increased \$2.0 million as a result of higher amortization of intangible software, offset by a decrease in depreciation expense as the Company has rolled out less capital intensive store formats in recent years.

Retail net finance costs

Retail net finance costs increased \$15.9 million, primarily due to a decrease in interest income related to a tax settlement (refer to section 9.0 for further details), offset by a decrease in interest expense due to the repayment of the \$300 million medium-term note in the third quarter of 2010.

Also note that the Auto Club business was transferred from the Financial Services segment to the Retail segment in 2011 (without restatement of the prior period results).

Full Year 2011 versus 2010

Earnings Summary

For the full year, IBT in the Retail segment was \$410.8 million, an increase of 6.4 per cent over 2010. Excluding FGL Sports items (operating income for the period since acquisition and acquisition related costs, net of the gain recorded on the shares owned prior to the acquisition date), the interest income received in relation to the aforementioned tax settlement and the 2010 restructuring charge, IBT in the Retail segment declined by 2.7 per cent.

Retail sales

Retail sales increased 12.3 per cent in the year due to the inclusion of \$740.2 million of sales at FGL Sports, growth in sales at Canadian Tire Petroleum due to increased gas prices, and sales growth across all of the retail banners.

CTR retail sales increased 2.0 per cent over the prior year, compared to 1.4 per cent growth in 2010. The increase in retail sales was driven by growth in the Living, Playing and Automotive categories. Living increases were due to new products in kitchen, major appliances, house wares and backyard living. Within Playing, sales growth was driven by outdoor recreation products and exercise equipment and within the Automotive category sales were driven by increased sales of automotive maintenance fluids and tires. This was partially offset by a slight decrease in the Fixing category, as sales of outdoor tools and gardening products were dampened by the late arrival of spring this year and sales of snow-related products were soft due to the late arrival of winter in the fourth quarter.

Mark's experienced solid retail sales growth in the year, despite unfavourable weather patterns resulting in a delay of both spring and winter seasons compared to the prior year. Sales growth throughout the year was driven by the industrial wear category, which was partially offset by softness in men's and women's wear.

Petroleum retail sales growth was driven by increases in gas prices over the prior year of 18.4 per cent.

Retail sales growth at FGL Sports of 2.3 per cent for the 19 weeks ended December 31, 2011 was driven by a strong September back-to-school selling season and promotions in golf and cycling, partially offset by a softer fourth quarter due to warmer weather and lack of snow, particularly in eastern Canada.

Retail revenue

Retail revenue increased \$1.2 billion (14.5 per cent) due to the inclusion of \$645.6 million in revenue at FGL Sports, higher gas prices in Petroleum and revenue growth across all retail banners with similar drivers as outlined for retail sales, as noted above.

Retail gross margin

Retail gross margin dollars increased \$284.0 million or 13.1 per cent due to the inclusion of FGL Sports. FGL Sports margin was negatively impacted by the amortization of \$13 million relating to the fair value purchase price adjustment to its inventory as part of the acquisition accounting.

Retail gross margin rate declined 31 basis points in 2011. Excluding FGL Sports, the rate declined 107 basis points. The rate declined compared to the prior year as a result of the higher contribution of the lower margin Petroleum business throughout the year due to high gas prices, and an increase in promotional activity at Mark's due to unfavourable weather patterns. Margin rates at CTR were also negatively impacted by a shift in the sales mix towards lower-margin products in the Living category.

Retail operating expenses (excluding depreciation and amortization)

Retail operating expenses (excluding depreciation and amortization) increased \$254.8 million or 17.7 per cent due primarily to the inclusion of FGL Sports. Excluding FGL Sports items (operating expense for the period since acquisition and acquisition related costs) and the 2010 restructuring charge, operating expenses increased 5.9 per cent due to the inclusion of Auto Club expenses transferred from the Financial Services segment, increased spending on strategic growth and productivity initiatives such as merchandise productivity, the new loyalty program and Automotive Infrastructure.

Retail depreciation and amortization expense

Retail depreciation and amortization expense increased \$20.2 million (7.6 per cent) primarily due to the inclusion of FGL Sports. Excluding FGL Sports, depreciation and amortization expense increased \$0.2 million.

Retail net finance costs

Retail net finance costs increased \$1.3 million (1.8 per cent), mostly due to a decrease in interest income related to a tax settlement (refer to section 9.0 for further details), offset by a decrease in interest expense due to the repayment of the \$300 million medium-term note in the third quarter of 2010.

7.5.1.2 Retail segment business risks

The Retail segment 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 the Retail Segment's operations. Refer to section 11.0 of this MD&A for a discussion of some other industry-wide and company-wide risks affecting the business.

Seasonality risk

CTR derives a significant amount of its revenue from the sale of seasonal merchandise and, accordingly, derives 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.

Mark's business remains very seasonal, with the fourth quarter typically producing the largest share of sales and most of annual earnings. 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 eliminate such risks completely because inventory orders, especially for a significant portion of merchandise purchased offshore, must be placed well ahead of the season.

FGL Sports is impacted by general seasonal trends that are characteristic of the apparel, hard goods and retail industries with the fourth quarter typically producing the largest percentage of sales and the majority of annual earnings. FGL Sports strives to minimize the impact of the seasonality of the business by altering its merchandise mix at certain times of the year, to reflect consumer demand.

Supply chain disruption risk

A substantial portion of the Company's product assortment is being sourced from foreign suppliers, lengthening the supply chain and extending the time between order and delivery to our distribution centres. Accordingly, the Company 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 and through strong relationships with both transportation companies and port and other shipping authorities, supplemented by marine insurance coverage.

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, to protect our reputation and to comply with environmental laws.

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 the Company's reputation. The Company 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.

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.

Market obsolescence risk

All clothing retailers are exposed, to varying degrees, to ever changing consumers' fashion preferences. Mark's and FGL Sports mitigate this risk through 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. This is especially true for Mark's heritage industrial wear category. FGL Sports offers a comprehensive assortment of brand-name and private-brand products under its various banners, with each banner focused on a particular niche in the retail marketplace with a unique marketing program.

7.5.2 Financial Services segment**7.5.2.1 Financial Services financial results**

(C\$ in millions)	Q4 2011	Q4 2010	Change	2011	2010	Change
Revenue	\$ 241.6	\$ 237.8	1.6%	\$ 953.3	\$ 953.7	(0.0)%
Gross margin dollars	136.3	135.7	0.4%	543.7	547.8	(0.8)%
Gross margin (% of revenue)	56.4%	57.1%		57.0%	57.4%	
Operating expenses (excluding depreciation & amortization)	64.4	77.4	(16.5)%	254.0	273.2	(7.0)%
Other income (expense)	(0.1)	0.8	(107.9)%	(0.4)	(0.8)	53.1%
EBITDA	\$ 71.8	\$ 59.1	21.1%	\$ 289.3	\$ 273.8	5.6%
Depreciation and amortization	2.7	2.5	4.2%	10.7	8.9	20.3%
Net finance costs	13.4	15.3	(12.6)%	59.5	64.3	(7.5)%
Income before income taxes	\$ 55.7	\$ 41.3	34.6%	\$ 219.1	\$ 200.6	9.2%

Fourth quarter 2011 versus fourth quarter 2010**Earnings Summary**

Financial Services segment income before taxes (IBT) was \$55.7 million, an increase of 34.6 per cent in the quarter versus the fourth quarter of 2010 due to increased revenue and continued operational efficiency gains resulting in lower operating expenses.

Financial Services revenue

Financial Services revenue increased 1.6 per cent over the prior year due to higher credit card interest from increased receivables and higher service fee revenue.

Financial Services gross margin

Financial Services gross margin rate declined 66 basis points from the prior year due to slightly higher impairment loss on loans receivable compared to the prior year, which had the benefit of allowance improvements following the recovery from the 2009 recession.

Financial Services operating expenses (excluding depreciation and amortization)

Financial Services operating expenses (excluding depreciation and amortization) declined 16.5 per cent in the quarter from the prior year due primarily to reductions in personnel, marketing, and bank service charges.

Financial Services net finance costs

Financial Services net finance costs declined 12.6 per cent compared to the prior year due to reductions in securitization funding.

Full Year 2011 versus 2010**Earnings Summary**

Financial Services segment IBT increased 9.2 per cent in 2011 versus 2010 due to continued management of operating expenses.

Financial Services revenue

Financial Services revenue was essentially flat in 2011 compared to 2010 due to flat gross average receivables growth.

Financial Services gross margin

Financial Services gross margin dollars declined 0.8 per cent and gross margin rate declined 41 basis points due to the reduction to the loan impairment allowance in 2010 following the 2009 recession, which was not repeated in 2011.

Financial Services operating expenses (excluding depreciation and amortization)

Operating expenses (excluding depreciation and amortization) declined 7.0 per cent in the year, primarily due to the transfer of the Auto Club business to the Retail segment in 2011 (without restatement of prior period results) and the continued management of operating expenses.

Financial Services net finance costs

Net finance costs declined by 7.5 per cent in the year, reflecting improvements in the blended cost of borrowing.

7.5.2.2 Financial Services Segment business risks

Financial Services is exposed to a number of risks in the normal course of its business that have the potential to affect its operating performance. The following are some of the business risks specific to Financial Services' operations. Please refer to section 11.2 for a discussion of company-wide risks.

Consumer credit risk

Financial Services grants credit to its customers on Canadian Tire credit cards, personal loans and lines of credit. 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 Financial Services, involving the sale of co-ownership interests in credit card loans to Glacier Credit Card Trust (GCCT). Securitization enables Financial Services to diversify funding sources and manage interest rate risks and capital requirements. Financial Services' securitization program relies on the marketability of the asset-backed commercial paper (ABCP), asset-backed senior and asset-backed subordinated notes issued by GCCT.

Interest rate risk

The Company's sensitivity to movements in interest rates is substantially limited to its cash and short-term investments. A one 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 MasterCard, which carry a fixed interest rate appropriate to customer segments with common credit scores. The securitization and other financing programs, as described in section 8.3, meet Financial Services' funding requirements. The Company 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 the Company's financing activities, please refer to section 8.3.

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.

7.6 Balance sheet and cash flows

7.6.1 Summary balance sheet

The Company's total assets, liabilities and shareholders' equity for the years ended December 31, 2011 and January 1, 2011 are noted below.

(C\$ in millions)	2011	2010	Change (\$)	Change (%)
Total assets	\$ 12,338.8	\$ 11,048.5	\$ 1,290.3	11.7%
Total liabilities	7,929.8	7,043.6	886.2	12.6%
Shareholders' equity	4,409.0	4,004.9	404.1	10.1%

A \$243 million decrease in cash at the end of 2011 as compared with 2010, reflects the usage of cash in the acquisition of FGL Sports during the third quarter of 2011 (approximately \$500 million of cash on hand used).

A 23.1 per cent increase in trade and other receivables reflects the inclusion of FGL Sports in the current year (\$99 million) as well as higher shipments during the month of December at CTR and higher sales at Mark's.

Inventory increased 61 per cent due to the inclusion of FGL Sports in the current year (\$432 million). The remainder of the increase was attributable to planned increases in inventory levels within the CTR banner, particularly tires, to enhance customer service levels and an increase in Mark's industrial wear category products to meet increasing demand.

Goodwill and intangibles increased \$749 million primarily due to the acquisition of FGL Sports in Q3 2011.

For the complete balance sheet, please refer to the consolidated balance sheets on page 83 of this 2011 Annual Report.

7.6.2. Summary cash flows

The Company's consolidated statements of cash flows for the quarters and years ended December 31, 2011 and January 1, 2011 are noted below.

(C\$ in millions)	Q4 2011	Q4 2010	Increase/ (Decrease)	2011	2010	Increase/ (Decrease)
Cash generated from operating activities	\$ 539.4	\$ 147.3	266.2%	\$ 1,405.5	\$ 729.5	92.7%
Cash used for investing activities	(90.0)	(143.2)	37.2%	(1,161.4)	(443.2)	(162.0)%
Cash used for financing activities	(622.1)	(113.8)	(446.7)%	(493.7)	(638.0)	22.6%
Cash used in the period	\$ (172.7)	\$ (109.7)	(57.4)%	\$ (249.6)	\$ (351.7)	29.0%

Cash generated from operating activities increased \$392.1 million in the fourth quarter of 2011 vs. 2010, mostly due to an improvement in working capital. Cash generated from operating activities increased \$676.0 million (92.7 per cent) for the full year 2011 vs. 2010, due to the increase in pre-tax earnings caused by the inclusion of FGL Sports, higher earnings at Financial Services and an improvement in working capital.

Cash used for investing activities increased \$718.2 million in the full year 2011 vs. 2010, mostly due to the acquisition of FGL Sports in the third quarter of 2011.

Cash used for financing activities increased \$508.3 million in the fourth quarter of 2011 vs. 2010, mostly due to a \$233.8 million increase in the net repayment of short-term borrowings and a \$264.5 million decrease in long-term debt issued during the quarter. Cash used for financing activities decreased \$144.3 million (22.6 per cent) for the full year 2011 vs. 2010, mostly due to a \$72.5 million decrease in net short-term borrowings and a \$70.7 million decrease in net debt issuance.

8.0 Liquidity, capital resources and contractual obligations

8.1 Capital management

In order to support our growth agenda and meet the goals highlighted in our Strategic Objectives, the Company actively manages its capital in the manner indicated below.

8.1.1 Capital management objectives

The Company's objectives when managing capital are:

- ensuring sufficient liquidity to support its financial obligations and execute its operating and strategic plans;
- maintaining healthy liquidity reserves and access to capital; and
- minimizing the after-tax cost of capital while taking into consideration current and future industry, market and economic risks and conditions.

The current economic environment described in section 6.0 above has not changed the Company's objectives in managing capital.

8.1.2 Financing our operations

The definition of capital varies from company to company and from industry to industry. In the process of managing the Company's capital, management includes the following items in its definition of capital:

(C\$ in millions)	2011	% of total	2010	% of total
Capital components				
Deposits	\$ 1,182.3	12.6%	\$ 615.6	7.0%
Short-term borrowings	352.6	3.8%	100.6	1.2%
Current portion of long-term debt	27.9	0.3%	354.2	4.1%
Long-term debt	2,347.7	24.9%	2,365.4	27.0%
Long-term deposits	1,102.2	11.7%	1,264.5	14.5%
Total debt	\$ 5,012.7	53.3%	\$ 4,700.3	53.8%
Share capital	710.5	7.5%	711.6	8.1%
Contributed surplus	1.1	0.0%	0.3	0.0%
Retained earnings	3,686.4	39.2%	3,325.3	38.1%
Total capital under management	\$ 9,410.7	100.0%	\$ 8,737.5	100.0%

The Company monitors its capital structure through measuring various debt-to-capitalization ratios and ensures its ability to service debt and meet other fixed obligations by tracking its interest and other fixed charges coverage ratios. The Company monitors the impact of the growing Financial Services business on the consolidated metrics. The total debt-to-total capital ratio has improved from 53.8 per cent at the end of 2010 to 53.3 per cent at the end of 2011 mainly due to an increase in retained earnings.

The Company manages its capital structure with a view to maintaining investment grade ratings from two credit rating agencies. Management calculates ratios on an alternative basis from time-to-time to approximate the methodology of debt rating agencies and other market participants and monitors the Company's performance on a current and prospective basis.

In order to maintain or adjust the capital structure, the Company has the flexibility to 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/leaseback transactions of real estate properties and/or increase or decrease the amount of sales of co-ownership interests in loans receivable to GCCT.

The Company has in place various policies which it uses to manage capital, including a leverage and liquidity policy, an interest rate risk management policy and a securities and derivatives policy. As part of the overall management of capital, management and the Audit Committee of the Board of Directors review the Company's compliance with, and performance against, these policies. Periodic reviews of the policies are performed to ensure they remain consistent with the risk tolerance acceptable to the Company and current market trends and conditions.

Under the existing debt agreements, key financial covenants are monitored on an ongoing basis by management to ensure compliance with the agreements. The key covenants are as follows:

- maintaining a specified consolidated minimum net tangible assets coverage ratio (excluding GCCT and Franchise Trust), which is 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); and
- a limitation on the amount available for distribution to shareholders whereby 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 key covenants during the period. Under these covenants, the Company currently has significant flexibility to fund business growth and maintain or amend dividend rates within our existing dividend policy.

In addition, the Company is required to comply with regulatory requirements associated with the operations of Canadian Tire Bank (CTB), a federally chartered bank, and other regulatory requirements that impact the business operations, which are noted below.

8.1.3 Canadian Tire Bank'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; and
- being an appropriately capitalized institution, as measured internally, defined by regulatory authorities and compared with CTB's peers.

CTB's total capital consists of three tiers of capital approved under OSFI's current regulatory capital guidelines. As at December 31, 2011 (CTB's fiscal year-end), Tier 1 capital includes common shares and retained earnings reduced by net securitization exposures. CTB currently does not hold any instruments in Tier 2 and Tier 3 capital. Risk-weighted assets (RWA) 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 revenue. Under IFRS, strictly for the purpose of calculating RWA, securitization transactions are still considered off-balance sheet transactions and, therefore, securitization assets are not included in the RWA calculation.

CTB's ratios are above internal minimum targets for Tier 1 and total capital ratios and well below its internal maximum targets for the assets-to-capital multiple, which are within management's acceptable range. CTB's internal minimum ratios are determined by the Internal Capital Adequacy Assessment Process. During the 12 months ended December 31, 2011 and the comparative period, CTB complied with the capital guidelines issued by OSFI under the "International Convergence of Capital Measurement and Capital Standards – A Revised Framework" (Basel II).

8.2 Investing activities

8.2.1 Capital expenditures

Total capital expenditures for the year are shown in the table below:

(C\$ in millions)	2011
Real estate projects (including CTR's new store projects)	\$ 172.0
Strategic initiatives	54.4
Information technology	54.3
FGL Sports capital expenditures post-acquisition	32.6
CTR supply chain and distribution centres	20.7
Corporate office capital expenditures for Toronto and Oakville	6.9
Petroleum gas bars	4.9
Other purposes	18.9
Total capital expenditures	\$ 364.7

8.2.2 Business acquisition

As part of its growth strategy, the Company actively pursues acquisition candidates that are a strategic fit with its retail and retail-related businesses. Major acquisitions are only consummated, however, when the acquiree's business complements the Company's major offering of products and services, and is accretive to earnings and strengthens our market position. As a result of our measured pursuit of acquiring new businesses, we have completed two major acquisitions within the past decade: Mark's Work Warehouse in 2002 and FGL Sports in 2011.

Acquisition of FGL Sports in 2011

On May 9, 2011, the Company announced its intention to acquire all of the outstanding common shares of FGL Sports, Canada's largest sporting goods retailer. The offer was conditional on 66 2/3rds per cent of the outstanding Class A (common) shares on a fully diluted basis being deposited in acceptance of the offer. The Company previously owned approximately four per cent of the outstanding shares of FGL Sports with an initial cost of \$25.0 million. The all cash offer for the shares of FGL Sports was for \$26.50 per share, excluding FGL Sports' debt and shares already owned by the Company.

On August 18, 2011, the Company acquired control of FGL Sports. The Company's approximately 97 per cent ownership of the issued and outstanding Class "A" shares (the "Common shares") of FGL Sports included the shares acquired on and prior to August 18, 2011. The Company acquired the remaining Common shares of FGL Sports on August 25, 2011.

The acquisition was financed by a combination of cash on hand and short-term financing and was accretive to earnings for the latter part of 2011.

The acquisition date fair value of consideration transferred was as follows:

(C\$ in millions)	
Cash	\$ 765.2
Fair value of previously held interests	35.4
Total cash consideration transferred	\$ 800.6

The fair value of identifiable assets acquired and liabilities assumed as at the acquisition date are as follows:

(C\$ in millions)	
Cash and cash equivalents	\$ 25.3
Trade and other receivables ¹	111.1
Loans receivable	0.8
Merchandise inventories	455.9
Income taxes recoverable	3.4
Prepaid expenses and deposits	11.1
Long-term receivables and other assets	4.9
Intangible assets	382.3
Property and equipment	155.1
Trade and other payables	(288.9)
Short-term borrowings	(241.9)
Provisions	(31.0)
Deferred income taxes	(58.2)
Other long-term liabilities	(37.7)
Total net identifiable assets	\$ 492.2

¹ Gross trade and other receivables acquired is \$112.4 million, of which \$1.3 million was expected to be uncollectible as at the acquisition date.

Goodwill was recognized as a result of the acquisition as follows:

(C\$ in millions)	
Total consideration transferred	\$ 800.6
Less: Total net identifiable assets	492.2
Goodwill	\$ 308.4

The goodwill recognized on acquisition of FGL Sports is attributable mainly to the expected future growth potential from the expanded customer base of FGL Sports' banners/brands, the network of stores which are predominantly mall-based and access to the important 18-35 year old customer segment.

None of the goodwill recognized is expected to be deductible for income tax purposes.

The Company has incurred acquisition-related costs of \$12.1 million relating to external legal, consulting fees and due diligence costs. These costs have been included in administrative expenses in the consolidated statements of income.

A pre-tax gain of \$10.4 million was recognized on the Company's previously held interest in FGL Sports prior to the acquisition date. The gain is recognized in other income in the consolidated statements of income and is included as part of the fair value of previously held interests included in the total consideration transferred, noted in the table above.

The impact of the acquisition on the consolidated statements of cash flows is as follows:

(C\$ in millions)	
Total cash consideration transferred	\$ 765.2
Cash and cash equivalents acquired	(25.3)
Acquisition of FGL Sports	\$ 739.9

8.3 Financing

Canadian Tire is in a strong liquidity position with the ability to access multiple sources of funding. A number of alternative financing sources are available to the Company and CTB 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 as of December 31, 2011

Financing Source	Amount Available	Description
Committed bank lines of credit and commercial paper program	\$1.37 billion	Provided by predominantly Canadian financial institutions, the lines are for general corporate purposes and support the corporate and GCCT commercial paper program noted below. \$50 million was drawn on the bank lines as at December 31, 2011 by the Company. The Retail segment had no commercial paper outstanding as at December 31, 2011; however GCCT in the Financial Services segment had \$303 million of commercial paper outstanding as at December 31, 2011.
Medium-term notes (MTN) program	\$750 million	A new Shelf Prospectus was filed in March 2011, providing the Company with access to up to \$750 million for 25 months from that date.
Securitization of receivables	Transaction specific	Securitization transactions, in the form of commercial paper, senior notes and subordinated notes issued through GCCT, have historically proven to be a relatively cost-effective form of financing. Financial Services securitized \$200 million of credit card receivables in 2011 as part of the GCCT securitization program.
Broker GIC deposits	No specified limit	Funds continue to be readily available through broker networks. As at December 31, 2011, Financial Services held \$1.6 billion in broker GIC deposits.
Retail deposits	No specified limit	Retail deposits consist of High Interest Savings Accounts, Tax Free Savings Accounts and retail GIC deposits. As at December 31, 2011, Financial Services held over \$687.1 million in retail deposits.
Sale/leaseback transactions	Transaction specific	Additional sources of funding available on strategic transactions involving Company-owned properties as appropriate. No sale/leaseback transactions were completed in 2011.

As indicated in the table above, as of December 31, 2011, the Company had \$1.37 billion in committed bank lines of credit, \$1 billion of which is available under a two-year syndicated credit facility. The syndicated facility is available to the Company until June 2013 and can be extended for an additional 364-day period in June 2012. The balance of the lines of credit has been established pursuant to bilateral credit agreements that are available to the Company until late 2012. Each quarter, the Company has the ability to request an extension of each of the bilateral credit agreements for an additional 90-day period.

The financial markets continue to demonstrate strong investor demand for credit products. Canadian Tire participates in the asset-backed security markets through the use of commercial paper and issuance of MTNs.

Credit rating

In 2011, DBRS downgraded the Company's ratings for various corporate funding programs, however the outlook remained stable. Standard & Poor's maintained its rating and stable outlook in 2011. GCCT's ratings remained unchanged.

Credit rating summary	DBRS	S&P
Canadian Tire		
Commercial paper	R-2 (high)	A-1 (low) (Cdn)
Debentures	BBB (high)	BBB+
Medium-term notes	BBB (high)	BBB+
Glacier Credit Card Trust		
Asset-backed commercial paper	R-1 (high) (sf)	–
Asset-backed senior notes	AAA (sf)	AAA (sf)
Asset-backed subordinated notes	A (sf)	A (sf)
Trend or outlook	Stable	Stable

Broker deposits

CTB continues to be very successful in issuing broker GIC deposits. CTB's broker GIC deposits raise cash by way of GIC sales through brokers rather than directly to the retail customer. CTB's broker GICs are offered for varying terms ranging from 30 days to five years and all issued broker GICs are non-redeemable prior to maturity (except in certain limited circumstances). Given that the overall size of the broker GIC market in Canada is estimated to be greater than \$64 billion, CTB believes that there is sufficient room in the market to maintain CTB's broker GIC deposits as a permanent alternative funding source to the securitization of credit card receivables at reasonable and cost-effective interest rates.

As at December 31, 2011, CTB had approximately \$1.6 billion in total short-term and long-term broker GIC deposits outstanding.

Retail deposits

Retail deposits consist of High Interest Savings (HIS) accounts, Tax Free Savings Accounts (TFSA) and retail GIC deposits. CTB has been successful in generating deposits from HIS accounts and TFSA and retail GIC deposits and at December 31, 2011, CTB had approximately \$687.1 million in retail deposits. Retail deposits provide another cost-effective alternative funding source to credit card securitization and broker deposits.

8.3.1 Funding program

8.3.1.1 Funding requirements

The Company funds capital expenditures, working capital needs, dividend payments and other financing needs, such as debt repayments and Class A Non-Voting Share purchases under a Normal Course Issuer Bid, from a combination of sources.

Contractual obligations due by period

(C\$ in millions)	Total	2012	In years 2013 - 2014	In years 2015 - 2016	After 2016
Current and long-term debt ^{1, 3}	\$ 1,054.5	\$ 4.3	\$ 0.2	\$ 500.0	\$ 550.0
Glacier Credit Card Trust debt ^{2, 3}	1,152.1	–	887.5	264.6	–
Finance lease obligations ⁴	292.4	37.7	59.0	44.7	151.0
Operating leases	2,110.3	290.6	514.3	396.5	908.9
Purchase obligations	1,026.7	905.4	104.9	16.4	–
Financial Services' deposits ³	2,290.6	1,188.4	868.5	233.7	–
Other obligations	40.2	16.1	14.0	3.8	6.3
Total contractual obligations	\$ 7,966.8	\$ 2,442.5	\$ 2,448.4	\$ 1,459.7	\$ 1,616.2

¹ Excludes senior and subordinated notes at Glacier Credit Card Trust.

² Represents senior and subordinate notes.

³ Excludes interest obligations on debt or deposits.

⁴ Includes interest obligations on finance leases.

8.3.2 Funding costs

The table below shows the funding costs related to short-term and long-term debt and excludes deposits held by Financial Services. The figures also include the impact of interest rate swaps, which are part of our interest rate risk management program.

(C\$ in millions)	2011	2010
Interest expense ¹	\$ 144.6	\$ 167.6
Cost of debt ²	4.19%	4.22%

¹ Represents the interest expense related to short-term and long-term debt. Short-term debt includes commercial paper and lines of credit. Long-term debt includes medium-term, senior and subordinated notes.

² Represents the weighted average cost of short-term and long-term debt during the period.

The Company's cost of debt declined slightly from 2010 with the repayment of the series 2006-1 senior and subordinated notes on November 18, 2011.

9.0 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 that were challenged by the Canada Revenue Agency (CRA) in recent years related 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 also reassessed on these matters for the corresponding periods.

The Company has settled the commissions issue for the periods 1995-2003 and does not have a significant exposure on this issue subsequent to the 2003 tax year.

The Company reached an agreement with the CRA to settle the dividends received issue in the fourth quarter of 2010. As a result of the settlement, the Company recorded an income tax recovery of \$7.6 million (2010 – \$42 million) and pre-tax interest income from overpayment of taxes of \$3.6 million (2010 – \$18 million).

The 2011 tax provision has been reduced by \$14.8 million (2010 – \$37.3 million) mainly due to the settlement of the dividends received issue and revision to the prior years' estimated tax expenses, partially offset by non-deductibility of stock options expense.

With respect to the foreign operation reference above in section 2.1, 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.

The Company regularly reviews the potential for adverse outcomes in respect of tax matters. The Company believes that the ultimate disposition of any tax matters in dispute with tax authorities 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.

10.0 Accounting policies and estimates

10.1 Critical accounting estimates

The Company estimates certain amounts reflected in its financial statements 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 2 and Note 3 of the Notes to the 2011 consolidated financial statements do not require us to make assumptions about matters that are highly uncertain and accordingly none of the estimates are considered a "critical accounting estimate" as defined in Form 51-102F1 published by the Ontario Securities Commission, except as noted below.

In the Company's view, the allowance for loan impairment at Financial Services is considered to be a "critical accounting estimate". Losses for impaired loans are recognized when there is objective evidence that the impairment of the loan portfolio has occurred. Impairment allowances are calculated on individual loans and on groups of loans assessed collectively. All individually significant loans receivable are assessed for specific impairment. Loans receivable that are not individually significant are collectively assessed for impairment by grouping together loans receivable with similar risk characteristics. The Company uses a roll rate methodology which employs statistical analysis of historical data, economic indicators and experience of delinquency and default to estimate the amount of loans that will eventually be written off. The estimated loss is the difference between the present value of the expected future cash flows, discounted at the original effective interest rate of the portfolio, and the carrying amount of the portfolio. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

10.2 Changes in accounting policies – implementation of IFRS

In February 2008, the Canadian Institute of Chartered Accountants (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. Accordingly, the conversion from previous Canadian GAAP to IFRS was applicable to the Company's reporting for 2011, for which the current and comparative 2010 information was prepared under IFRS. The transition to IFRS impacted accounting, financial reporting, internal control over financial reporting, taxes, information systems and processes as well as certain contractual arrangements.

With respect to financial reporting, there are several differences between IFRS requirements and our previous GAAP accounting policies. For a detailed description of the changes in the Company's financial reporting resulting from the transition to IFRS, along with IFRS restated 2010 financial statements, see Note 44 to the consolidated financial statements.

Some of the more significant differences at present, as they relate to our Company, are noted below. These are the ones that management considers the most relevant, but should not be viewed as an all-encompassing listing.

Consolidations (including IAS 27, 28)

Previous GAAP – Variable interest entities (VIEs) (where control is exercised by means other than share ownership) are consolidated if the reporting entity is the primary beneficiary of the VIE's earnings and qualifying special purpose entities are exempt from consolidation.

IFRS – There is no concept of qualifying special purpose entities under IFRS. There is no concept of VIE's under IFRS. Rather, entities are to be consolidated if the Company has control over the subject entity.

Some of the control factors considered include:

- a majority share ownership;
- ability to control the Board;
- power to govern financial and operating policies; and
- contracted arrangements conferring effective control.

As a result, the relationship with GCCT has been assessed and as it has met the control criteria under IAS 27, it has been consolidated upon adoption of IFRS. Impacts included increasing both the assets and the liabilities by approximately \$1.7 billion on the opening IFRS consolidated balance sheet and \$1.6 billion on the 2010 year-end IFRS consolidated balance sheet.

The Company has completed its assessment of the relationship with the Dealer Loan Program, which is administered by Franchise Trust, and has determined that it also meets the control criteria and accordingly it has been consolidated under IFRS. Assets and liabilities both increased by approximately \$760 million on the opening IFRS consolidated balance sheet and approximately \$690 million on the 2010 year-end IFRS consolidated balance sheet.

The 2010 IFRS consolidated statement of income reflects additional revenue of approximately \$105 million on a full year basis, which was primarily offset by an increase in finance costs (interest expense).

The Company has assessed that the relationships with Dealers, PartSource Franchisees, Mark's Franchisees, FGL Sports Franchisees, Petroleum agents and entities such as Canadian Tire Jumpstart Charities (our charitable organization) currently do not meet the criteria for consolidation under IFRS. It should be noted however that these relationships will be monitored continuously for potential changes in the future.

Securitizations (included in IAS 39)

Previous GAAP – Under AcG 12, "Transfer of Receivables", securitization transactions result in the recording of a sale of receivables and the consequent de-recognition of these assets from the balance sheet where the entity has surrendered control over the transferred assets and does not maintain control over these either through an agreement that obligates the entity to reacquire them or unilaterally re-acquire specific transferred assets.

IFRS – Financial assets can only be derecognized under IAS 39 if:

- the entity's contractual rights to the asset expire;
- it has transferred the asset and substantially all of the risks and rewards of ownership; and
- if some of the risks and rewards haven't transferred, the other party has the unilateral right to sell the assets.

As a result, securitization transactions with GCCT no longer meet the de-recognition criteria upon adoption of IFRS. As noted above, GCCT has been consolidated with the Company.

Borrowing costs (IAS 23)

Previous GAAP – Borrowing costs may be capitalized on major projects.

IFRS – Capitalization of borrowing costs is required on qualifying assets, which are assets that require an extended period of preparation before they are usable or saleable.

The Company has historically chosen to capitalize borrowing costs on major real estate projects only. Upon adoption of IFRS, the Company has capitalized borrowing costs only on those real estate projects that meet the qualifying asset criteria. Additionally, the Company has also extended borrowing cost capitalization to other classes of assets (e.g. major IT projects) that meet the qualifying asset criteria. The net impact was not significant.

Property and equipment (IAS 16) and Investment Property (IAS 40)

Previous GAAP – The historical cost model is required. Property and equipment are to be recorded at cost upon initial acquisition and are to be depreciated over their useful lives. There is no distinction for investment property.

IFRS – After initial recognition, there is the option to measure property and equipment and investment property using the cost model or the revaluation (mark-to-fair-market value) model.

The Company has elected to continue to use the cost model, which will minimize on-going compliance costs and minimize earnings volatility.

Certain of our property and equipment were re-componentized as of the opening IFRS consolidated balance sheet date resulting in a lower net book value of fixed assets. The impact was not significant.

It should be noted that more extensive disclosure is required under IFRS in the notes to the consolidated financial statements in this area.

Leases (IAS 17)

Previous GAAP – Previous GAAP has established quantitative guidelines to distinguish between operating leases and capital (finance) leases. Leases are treated as finance leases if, at the inception of the lease:

- there is reasonable assurance that the lessee will obtain ownership of the leased asset at the end of the lease term or if there is a bargain purchase option; or
- the lease term is 75 per cent or more of the economic life of the leased asset; or
- the present value of the minimum lease payments is 90 per cent or more of the fair value of the leased asset at the inception of the lease.

In a sale-leaseback transaction that results in an operating lease, the gain or loss arising on the sale is deferred and amortized over the lease term. If the fair value of the property is less than the carrying value, the difference is recognized as a loss immediately.

IFRS – There are no specific quantitative guidelines to determine whether the risks and rewards of ownership of the leased asset have been transferred. Each asset must be assessed qualitatively to make the determination as to whether it is an operating or finance lease.

In a sale and leaseback transaction that results in an operating lease, and it is clear that the transaction was established at fair value, the gain or loss is immediately recognized.

As a result, the Company has assessed that there were instances where assets under operating leases for previous GAAP purposes should be treated as finance leases under IFRS. This resulted in an increase in assets in the opening IFRS consolidated balance sheet of approximately \$120 million and an increase in the liabilities of approximately \$160 million. As at the 2010 year-end, on the IFRS consolidated balance sheet, leased assets were approximately \$105 million and liabilities were approximately \$155 million.

The recording of these finance leases has resulted in an increase in depreciation and finance costs, which has been substantially offset by a reduction in rent expenses.

Certain sale and leaseback transactions have resulted in operating leases for both previous GAAP and IFRS. Other sale and leaseback transactions have resulted in finance leases for IFRS, but were operating leases under previous GAAP. The deferred gains from these transactions have been restated resulting in a decrease in liabilities of approximately \$80 million with a corresponding pre-tax equity increase of \$80 million on the opening IFRS consolidated balance sheet.

Impairment of assets (IAS 36)

Previous GAAP – Assets impairment testing is required where indicators of impairment are present and a two-step approach is used to determine whether an impairment exists and to measure the impairment loss but discounting is not required at the initial step.

IFRS – Asset impairment testing is required where indicators of impairment are present and a single-step impairment testing of assets at the independent cash generating unit (CGU) level will be required to measure the loss. In addition, future cash flows used to determine the recoverable value of assets for impairment testing are discounted. Impairment losses can be reversed, except for impairment losses of goodwill.

Impairments are likely to occur more often under IFRS. The Company has identified its CGUs, which vary by business unit. Impairments were not significant in 2010, nor in 2011.

Share-based payments (IFRS 2)

Previous GAAP – Awards of share-based compensation result in a liability when the employee can compel the Company to settle the award with a cash payment instead of issuing equity instruments. Accordingly, these are measured using the difference between the quoted market price of the Company's shares and the option price.

IFRS – All stock-based awards must be recorded at fair value. Share-based payment awards for which the counterparty has a choice of requesting settlement in cash or with an equity instrument is a compound instrument with a debt component and an equity component.

The impact of accounting for these awards at fair value and as compound instruments on our opening IFRS consolidated balance sheet resulted in an increase to liabilities and a decrease to equity of approximately \$7 million before taxes.

Provisions, Contingent Liabilities and Contingent Assets (IAS 37)

Previous GAAP – Amounts payable for goods and services are reflected as accounts payable and other on the face of the balance sheet and generally represent amounts legally payable at the balance sheet date. Contingent losses are only recorded when it is likely that a future event will confirm that an asset has been impaired or a liability incurred and that the amount of the loss can be reasonably estimated.

IFRS – IFRS introduces the concept of constructive obligations (those which the Company, based on its past practice and future intent, will discharge by issuing payment, regardless of whether a legal liability technically exists or not) and onerous contracts. In addition, recognizing the more subjective nature of some obligations, IFRS requires obligations of a more subjective nature to be reflected as provisions on the face of the balance sheet, rather than trade and other payables.

As a result, additional obligations have been reflected on the consolidated balance sheet. In addition there was a reclassification of a portion of trade and other payables to the new consolidated balance sheet caption of provisions. The impact on the opening IFRS consolidated balance sheet was approximately \$41 million increase in liabilities, \$25 million decrease in equity and \$16 million increase in assets. The impact on the 2010 year-end IFRS consolidated balance sheet was approximately \$37 million increase in liabilities, \$25 million decrease in equity and \$12 million increase in assets.

Employee benefits (IAS 19)

Previous GAAP – Gains and losses related to defined benefit obligations are recorded using a 10 per cent corridor approach.

IFRS – Gains and losses related to the revaluation of defined benefit obligations can be recorded using a 10 per cent corridor approach or be immediately recognized in other comprehensive income.

The Company elected to record revaluation gains and losses (for our obligation to provide certain health care, dental care, life insurance and other benefits for certain retired employees pursuant to Company policy) in other comprehensive income, which will result in the full liability being recorded on the consolidated balance sheet while minimizing earnings volatility. This resulted in an increase to our liabilities and a decrease to our equity of approximately \$14 million before taxes on both our opening IFRS consolidated balance sheet and the 2010 year end IFRS consolidated balance sheet. The liabilities on the 2010 year end IFRS consolidated balance sheet increased by an additional \$8 million before tax to reflect the revaluation reserve (which was recorded as a charge on the 2010 year end consolidated statement of comprehensive income on an after-tax basis).

Other

The Company also assessed other relevant standards including IFRIC 13 (Customer Loyalty Programs). IFRIC 13 resulted primarily in an offsetting increase in both revenue and operating expenses. These other standards were determined to have less significance than those noted above.

We have also made choices concerning certain exemptions from retrospective application of IFRS standards at the time of changeover that are provided by IFRS 1, some of which are set out in the following table.

Optional Exemption	Election made by the Company
Business Combinations	<p>Under this exemption, the Company may elect not to apply IFRS 3 retrospectively to past business combinations. The standard may be applied prospectively from the date of the opening IFRS consolidated balance sheet.</p> <p>The Company has applied this exemption.</p>
Share-based payment transactions	<p>A first time adopter is encouraged, but not required, to apply IFRS 2 to equity instruments that were granted on or before November 7, 2002 or that were granted after November 7, 2002 and vested before the date of transition to IFRS. Otherwise retrospective application is required.</p> <p>The Company has applied this exemption to the extent possible.</p>
Employee benefits	<p>This exemption permits the Company to reset the cumulative actuarial gains and losses to zero by recognizing the full amount in the retained earnings on the opening IFRS consolidated balance sheet.</p> <p>The Company applied this exemption.</p>
Cumulative translation differences	<p>This exemption permits the Company to reset the cumulative translation differences to zero by recognizing the full amount in the retained earnings on the opening IFRS consolidated balance sheet.</p> <p>The Company applied this exemption.</p>

Optional Exemption	Election made by the Company
Designation of previously recognized financial instruments	<p>This exemption permits an entity to designate any financial asset that qualifies as available-for-sale at the date of transition to IFRS. Additionally, at the date of transition to IFRS, the Company is permitted to designate any financial instrument that qualifies as fair value through profit or loss.</p> <p>The Company applied this exemption for certain financial assets.</p>
Decommissioning liabilities included in the cost of property, plant, and equipment	<p>This exemption permits the Company not to comply with IFRIC 1 <i>Changes in Existing Decommissioning, Restoration and Similar Liabilities</i>, which requires specified changes in a decommissioning, restoration or similar liability to be added to or deducted from the cost of the asset to which it relates.</p> <p>The Company applied this exemption.</p>
Borrowing costs	<p>This exemption allows the Company to adopt IAS 23, which requires the capitalization of borrowing costs on all qualifying assets, prospectively from the date of the opening IFRS consolidated balance sheet.</p> <p>The Company applied this exemption.</p>

For further information and detailed reconciliations of shareholders' equity and comprehensive income, see Note 44 to the consolidated financial statements.

10.3 Standards, amendments and interpretations issued and not yet adopted

Financial instruments

In November 2009 the International Accounting Standards Board ("IASB") issued IFRS 9 – *Financial instruments* ("IFRS 9"), Classification and Measurement, which contained requirements for financial assets. In October 2010, requirements for financial liabilities were added to IFRS 9. IFRS 9 will replace IAS 39 – *Financial Instruments: Recognition and Measurement* ("IAS 39") in its entirety. IFRS 9 uses a single approach to determine whether a financial asset or liability is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. For financial assets, the approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. For financial liabilities measured at fair value, fair value changes due to changes in the Company's credit risk are presented in other comprehensive income ("OCI"), instead of net income, unless this would create an accounting mismatch. An accounting mismatch may occur when financial liabilities that are measured at fair value are managed with assets that are measured at fair value through profit or loss. A mismatch could arise because the entire change in the fair value of the financial assets would be presented in net income but a portion of the change in the fair value of the related financial liabilities would not. IFRS 9 is effective for annual periods beginning on or after January 1, 2015. The Company is assessing the potential impact of this standard.

Financial instruments: disclosures

In October 2010, the IASB amended IFRS 7 – *Financial instruments: Disclosures* ("IFRS 7"), which will be applied prospectively for annual periods beginning on or after July 1, 2011. The amendments require additional disclosures on transferred financial assets. The Company is assessing the potential impact of these amendments.

Deferred taxes – recovery of underlying assets

In December 2010, the IASB amended IAS 12 – *Income Taxes* ("IAS 12"), which introduces an exception to the general measurement requirements of IAS 12 in respect of investment property measured at fair value. The amendment is effective for annual periods beginning on or after January 1, 2012. This amendment is not expected to impact the Company as its investment properties are not measured at fair value.

Consolidated financial statements

In May 2011, the IASB issued IFRS 10 – *Consolidated Financial Statements* ("IFRS 10"), which replaces portions of IAS 27 – *Consolidated and Separate Financial Statements* ("IAS 27") and all of SIC-12 – *Consolidation – Special Purpose Entities* ("SIC-12"). IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more entities. The standard requires an entity to consolidate an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. As a consequence, IAS 27 has been amended but retains the existing guidance for separate financial statements.

Joint arrangements

In May 2011, the IASB issued IFRS 11 – *Joint Arrangements* ("IFRS 11"), which replaces IAS 31 – *Interests in Joint Ventures* ("IAS 31") and SIC-13 – *Jointly Controlled Entities – Non-Monetary Contributions by Venturers* ("SIC-13"). IFRS 11 requires a venturer to classify its interest in a joint arrangement as either a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting. The existing option to account for joint ventures using proportionate consolidation has been removed. For a joint operation, the venture will recognize its share of the assets, liabilities, revenue and expenses of the joint operation.

Disclosure of involvement with other entities

In May 2011, the IASB issued IFRS 12 – *Disclosure of Involvement with Other Entities* (“IFRS 12”), which establishes disclosure requirements for an entity’s interests in other entities, such as subsidiaries, joint arrangements, associates, and unconsolidated structured entities. The standard carries forward existing disclosure requirements and introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity’s interests in other entities.

As a consequence of the issue of IFRS 10 and IFRS 11, IAS 28 – *Investments in Associates* (“IAS 28”) has been amended. IAS 28 will provide accounting guidance for investments and associates and will set out the requirements for the application of the equity method when accounting for investments and joint ventures.

IFRS 10, IFRS 11 and IFRS 12 and the amendments to IAS 27 and IAS 28 are effective for annual periods beginning on or after January 1, 2013. Early adoption is permitted only if all of these standards are concurrently adopted. However, entities may provide some or all of the information required by IFRS 12 without early adopting all of IFRS 12 or early adopting IFRS 10, IFRS 11, IAS 27 and IAS 28. The Company is assessing the potential impact of these standards.

Fair value measurement

In May 2011, the IASB issued IFRS 13 – *Fair Value Measurement* (“IFRS 13”), which is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosure requirements about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures. IFRS 13 is effective for annual periods beginning on or after January 1, 2013. The Company is assessing the potential impact of these amendments.

Other comprehensive income presentation

In June 2011, the IASB amended IAS 1 – *Presentation of Financial Statements* to require companies to group together items within OCI that may be reclassified to net income. The amendments reaffirm the existing requirements that items in OCI and net income should be presented as either a single statement or two consecutive statements. The amendments are effective for annual periods beginning on or after July 1, 2012. The Company is assessing the potential impact of these amendments.

Post-employment benefits

In June 2011, the IASB amended IAS 19 – *Employment Benefits*, which applies to Defined Benefit Plans. The amendments eliminate the existing option to defer actuarial gains and losses (known as the corridor approach), require changes from remeasurement of defined benefit plan assets and liabilities to be presented in the statement of other comprehensive income, and require additional disclosures. The amendments are effective for annual periods beginning on or after January 1, 2013. This amendment is not expected to have any significant impact as the Company already immediately records any actuarial gains and losses in OCI.

Financial instruments: asset and liability offsetting

In December 2011, the IASB amended IFRS 7 and IAS 32 – *Financial instruments: Presentation* (“IAS 32”) to clarify the requirements for offsetting financial instruments and to require new disclosures on the effect of offsetting arrangements on an entity’s financial position. The IFRS 7 amendments will be applied retrospectively for annual periods beginning on or after January 1, 2013. The IAS 32 amendments will be applied retrospectively for annual periods beginning on or after January 1, 2014. The Company is assessing the potential impact of these amendments.

10.4 Supplementary (non-GAAP/IFRS) measures**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 banner same store sales include sales from all CTR and PartSource banner 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.

To enhance comparability of the same store metric across the different retail banners of the Company and retail industry, starting Q1 2011, same store sales include the sales from the labour portion of CTR’s auto service sales, online sales and take into account the percentage change in square footage of expanded and replacement stores.

Mark’s same store sales metric calculation was aligned with CTR’s effective Q1 2011.

Sales per square foot

In Q1 2011, management reassessed the calculation of the “sales per square foot” metric. Starting Q1 2011, the exclusion period of new stores was changed to 53-weeks for both CTR and Mark’s instead of a two-year period for CTR and a prorated number for Mark’s. Mark’s sales per square foot now also includes both corporate and franchise stores.

11.0 Enterprise risk management

To preserve and enhance shareholder value, the Company approaches the management of risk strategically through its Enterprise Risk Management (ERM) program. The Company's 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 significant risks across the Company and the potential impacts of risks across the organization;
- cross-functional in its perspective to provide a consistent discipline for managing risks;
- 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. We define a Principal Risk as one that, alone or in combination with other interrelated risks, can have a significant adverse impact on Canadian Tire's financial performance, reputation or ability to service its customers, and has, in the absence of controls, a credible 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 enhancing our integration of risk management activities within our strategic and operational planning and reporting processes.

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. The Executive Committee oversees the Company's risk profile and ensures the appropriate management of Principal Risks and other enterprise-wide risks, 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. This risk oversight is conducted under the leadership of the Chief Financial Officer and Executive Vice-President, Finance with the support of the Enterprise Risk Management group. Management has completed its formal annual review and update of its Principal Risks, which have been presented and approved by the Audit Committee and the Board.

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 and Board approved policies. To this end, IAS is responsible for conducting independent and objective assessments of the effectiveness of risk management, control and governance processes across the Company.

11.1 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 Objectives; and
- effectively assesses, monitors and manages Principal Risks in compliance with the ERM Policy.

11.2 Principal Risks

We have identified 10 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 and on our reputation and brand.

Principal Risks	Our risk management strategy
<p>Business continuity</p> <ul style="list-style-type: none"> hazards, disasters and business interruptions may compromise the safety of our employees or customers and our ability to provide products and services on a continuous basis 	<p>Our strategy in this area is a combination of prevention, mitigation and laying off of risk through third-party insurance. Crisis management, emergency response structures and protocols and business continuity plans continue to be enhanced to ensure we can appropriately respond in the event of business interruptions. I.T. disaster recovery plan exercises are conducted twice annually. In addition, a comprehensive insurance program is in place with a number of carriers to provide coverage for major risks in business continuity in a cost-effective manner. The insurance program is reviewed annually with the Audit Committee.</p>
<p>Consumer lending</p> <ul style="list-style-type: none"> failure or inability to accurately predict the creditworthiness or credit behaviour of our customers may significantly affect our earnings 	<p>Policies and processes are employed to strategically target the quality of our consumer lending portfolio as outlined in section 7.5.2.2. Further information regarding the Company's exposure to consumer lending risk is provided in section 11.3.</p>
<p>Financial markets</p> <ul style="list-style-type: none"> significant events or volatility in the financial markets could result in: lack of sufficient capital to absorb the impact of unexpected losses; and lack of sufficient liquidity or financing to fund operations and strategic initiatives furthermore: significant volatility in exchange rates and interest rates could have an adverse impact on our product pricing, gross margins and net interest expense; and inappropriate hedging strategies for mitigating our foreign exchange, interest rate and equity exposures could cause a significant negative impact on earnings 	<p>Various policies and processes are in place to manage capital and funding risks. The Treasurer and CFO provide oversight on policy compliance. Further details are set out in section 8.1.2.</p> <p>Various policies and processes are employed to manage our hedging activities which are designed to mitigate the Company's exposure to volatility in exchange rates, interest rates and equity markets. Treasury processes ensure hedges are placed with highly rated financial institutions and are monitored against policy limits. Further details are set out in sections 8.3 and 11.3.</p>
<p>Financial reporting</p> <ul style="list-style-type: none"> financial information and reporting that lacks integrity or is not compliant with accounting standards and securities regulations may have a negative impact on our reputation 	<p>Numerous professional accountants are employed within the Company's finance groups, and policies and processes are in place to ensure the validity, completeness and accuracy of recorded transactions, as well as segregation of duties. Finance processes are in place to monitor and respond to changing regulations and standards governing accounting and financial presentation. Financial reporting processes, including CEO/CFO Certification, are overseen by the Audit Committee.</p>
<p>Execution of strategy</p> <ul style="list-style-type: none"> failure to plan and execute strategic initiatives in alignment with the strategy could have a negative impact on our mid- to long-term success as an organization 	<p>CTC regularly reviews and updates its long-term strategic objectives and identifies the key initiatives therein as being vital to its long-term success. Operating plans set out each year's objectives required as part of the successful longer term execution of these initiatives. The Board receives reports on progress against the operating plan on a quarterly basis.</p>
<p>Key contractual relationships</p> <ul style="list-style-type: none"> inadequate management of our relationships and contracts with key business partners, including our exposure to their risks, can result in inadequate products and services. disruptions to the delivery of products and services, including inadequate customer service and legal disputes, may have a negative impact on our earnings, reputation and brand 	<p>Processes are in place to ensure the management of risks arising from key contractual relationships, including a policy requirement for review by the Legal department of key contracts prior to signing.</p> <p>A Supplier Code of Conduct is also in place to ensure that our suppliers and vendors abide by CTC's high standards of ethical business conduct.</p>

Principal Risks

Legal and legislative compliance

- failure to comply with laws and regulations could result in sanctions and financial penalties that could negatively impact our earnings and reputation
- non-compliance with expectations arising from common law can give rise to legal action that may result in financial or reputational damage

Our risk management strategy

Policies are in place setting out expectations regarding processes for ensuring compliance with legislation and regulations. The Legislative Compliance department provides compliance oversight and guidance to the organization. Each of the business units have also established processes for complying with the laws and regulations of most significance to their business activities. The Audit Committee and Governance Committee have an oversight role in this area.

Further information regarding the Company's exposure to legal risks is provided in section 11.4.

Marketplace

- economic conditions, the competitive landscape, domestic or international political environments, the demographics of the Canadian population, the buying behaviour of consumers, and the available shopping, product and service 'technologies' could have a significant negative impact on our earnings

Processes are in place to actively monitor and analyze economic, demographic, consumer behaviour and competitive developments in Canada. The Treasury and Strategic Planning departments have key roles in these processes. Results are shared with the Company's executives, who are accountable for any necessary adjustments to the strategic and operational plans and for ongoing investment decisions. The Board of Directors has an oversight role in ensuring the Company's strategy takes into account shifts in macro-economic factors.

People

- external pressures and/or ineffective internal human resource practices can negatively impact our ability to attract and retain appropriately skilled people who espouse our values and strive to achieve our strategic objectives

Various policies and practices are in place regarding organizational design, employee recruitment programs, succession planning, compensation structures, ongoing training and professional development programs and performance management.

Our Code of Business Conduct 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 and outcomes of potential breaches of the Code.

Processes are also in place for the recruitment, training and mobility of Dealers, and for the development of training programs for employees across the Dealer network.

Technology including information systems

- not having the right technology and information, including online security related to website selling activities, may affect our ability to compete effectively and achieve our strategic objectives

Processes are in place for assessing business needs and monitoring systems capabilities, 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.

11.3 Financial risks**Financial instrument risk**

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 December 31, 2011 and January 1, 2011 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. Interest rate swaps (as applicable) are 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 generated by Financial Services credit card, personal loan and line of credit customers, are a large and geographically dispersed group. Franchise Trust loan exposure is limited to the credit enhancement provided to the third-party conduit. Credit risk exposure represents the loss that would be incurred if all of the Company's counterparties were to default at the same time.

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;
- restrict the amount of hedging we can transact with any one counterparty; and
- regularly monitor the market value of the hedge portfolios by counterparty.

The Company's credit exposure with respect to hedges and similar financial instruments is spread across a number of primary domestic financial institutions and represents the current replacement value of only those contracts which are in a gain position.

The Company's credit exposure with respect to its investment portfolio is spread across financial institutions, provincial and federal governments and, to a lesser extent, corporate issuers, with limitations as to credit rating, amount, term to maturity and industry concentration levels.

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 provide for future credit losses. A continuity of the Company's allowances for credit losses is as follows:

(C\$ in millions)	Trade and other receivables		Loans receivable ^{1,2}		Total	
	2011	2010	2011	2010	2011	2010
Balance, beginning of year	\$ 7.7	\$ 3.6	\$ 117.7	\$ 127.4	\$ 125.4	\$ 131.0
Net Impairment for credit losses	5.0	4.3	302.0	300.7	307.0	305.0
Recoveries	0.1	0.2	50.0	46.2	50.1	46.4
Write-offs	(0.6)	(0.4)	(351.0)	(356.6)	(351.6)	(357.0)
Balance, end of year	\$12.2	\$ 7.7	\$ 118.7	\$ 117.7	\$ 130.9	\$ 125.4

¹ Loans include credit card loans, personal loans and line of credit loans.

² No allowances for credit losses have been made with respect to Franchise Trust loans receivable.

Foreign currency risk

The Company's primary exposure to foreign currency relates to the U.S. dollar with the demand for U.S. dollars arising principally from the global sourcing of merchandise products for its retail businesses, payable in U.S. dollars. To mitigate the impact of fluctuating foreign exchange rates on the cost of our globally sourced merchandise and, consequently, earnings, the Company has a comprehensive foreign exchange risk management policy in place which establishes ranges for the proportion of forecast U.S. dollar purchases that must be hedged for various time periods. Consequently, when dramatic swings in foreign currency rates occur, the Company has already hedged a significant portion of its near-term U.S. dollar-denominated forecast purchases. The foreign currency hedge portfolio has historically allowed the Company to achieve some margin stability. The outcome of the Company's hedge portfolio for 2012 will be dependent on the volatility of the currency markets and the directional move of the Canadian dollar. While the Company may be able to pass on changes in foreign currency exchange rates through pricing, it will be subject to currency rates and competitive conditions.

Liquidity risk

For a comprehensive discussion on the Company's liquidity risk, see note 6.4 in the notes to the consolidated financial statements.

Interest rate risk

The Company may use interest rate swaps from time to time to manage interest rate risk. 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.

11.4 Legal risk

The Company's wholly-owned subsidiary, Canadian Tire Bank, is the subject of two class action proceedings regarding allegations that certain fees charged on the Bank issued credit cards are not permitted under the Quebec Consumer Protection Act. The Bank has determined that it has a solid defense to both actions on the basis that banking and cost of borrowing disclosure is a matter of exclusive federal jurisdiction. Accordingly, no provision has been made for amounts, if any, that would be payable in the event of an adverse outcome. If adversely decided, the total aggregate exposure as at December 31, 2011 would have been approximately \$24.4 million.

The Company and certain of its subsidiaries are also party to a number of other 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 its consolidated earnings, cash flows, or financial position.

11.5 Other risks

In addition to the Principal Risks identified in section 11.2-11.4 and the business-specific risks identified in section 7.5.1.2 for Retail and section 7.5.2.2 for Financial Services, operational business risks that may cause actual results or events to differ materially from those forecasted in this MD&A include:

- 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, or lease suitable properties could also impact the timing of construction;
- changes in commodity prices could also affect the profitability of CTR, Mark's and FGL Sports; and
- 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.

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.

12.0 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 (NI 52-109), Certification of Disclosure in Issuers' Annual and Interim Filings, an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures was conducted, under the supervision of management, including the CEO and CFO, as of December 31, 2011. The evaluation included documentation review, enquiries and other procedures considered by management to be appropriate in the circumstances. Based on that evaluation, the CEO and the CFO have concluded that the design and operation of the system of disclosure controls and procedures was effective as of December 31, 2011.

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 December 31, 2011. 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 December 31, 2011, 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 and year ended December 31, 2011 that materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Changes in internal control over financial reporting

During the quarter and year ended December 31, 2011, there have been no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting, except as noted below.

In accordance with the provisions of National Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings*, management, including the CEO and CFO, have limited the scope of their design of the Company's disclosure controls and procedures and internal control over financial reporting to exclude controls, policies and procedures of FGL Sports. We acquired the assets of FGL Sports and its subsidiaries on August 18, 2011. FGL Sports' contribution to our consolidated financial statements for the year ended December 31, 2011 was approximately 6.2 per cent of consolidated revenue and approximately 6.4 per cent of consolidated pre-tax earnings. Additionally, FGL Sports' current assets and current liabilities were approximately 8.8 per cent and 9.0 per cent of consolidated current assets and liabilities, respectively, and its long-term assets and long-term liabilities were approximately 5.1 per cent and 1.2 per cent of consolidated long-term assets and long-term liabilities, respectively.

The scope limitation is primarily based on the time required to assess the FGL Sports' disclosure controls and procedures (DC&P) and internal controls over financial reporting (ICFR) in a manner consistent with the Company's other operations.

Further details related to the acquisition of FGL Sports are disclosed in section 8.2.2 of this MD&A and in Note 8.1 in the Notes to the Company's 2011 annual audited consolidated financial statements.

13.0 Social and environmental responsibility

13.1 Overview

The Company integrates responsible, sustainable business practices into its values, operations and strategy. The following three sections include information about select social and environmental programs, initiatives and policies related to the Company's business operations.

13.2 Community activities (Canadian Tire Jumpstart Charities)

The Company's charitable efforts are reflected through the work of Canadian Tire Jumpstart Charities. Its signature program, Canadian Tire Jumpstart, helps financially disadvantaged children gain the life benefits that are associated with participating in organized sports and recreational activities. The program assists with the cost of registration, equipment and transportation. Through its 314 active chapters, Canadian Tire Jumpstart has funded the programming costs for over 400,000 children since the launch of the program in 2005.

(\$C in millions)	2007	2008	2009	2010	2011
Amount raised	\$ 6.8	\$ 9.4	\$ 11.5	\$ 12.2	\$ 13.2
Children helped	38,000	48,000	65,000	98,000	102,000

During the fourth quarter of 2011, Jumpstart raised over \$4.3 million across Canada, helping over 46,000 children participate in sports and recreation programs. For the year 2011, Canadian Tire Jumpstart raised over \$13.2 million, helping over 102,000 children.

In its secondary programs, Canadian Tire Jumpstart also supports community work through the Corporation and Canadian Tire Dealers. Providing assistance for life's basics to families in financial need, the charity supports local organizations, particularly in regional disaster situations. In 2011, support was provided for five regional disasters and four community crisis situations.

13.3 Business sustainability

Strategy and aspirational goals

The Company affirms its commitment to business sustainability with three primary aspirations: a) profitably grow the business without increasing the net carbon footprint of the economy, b) eliminate unnecessary packaging while sending zero waste to landfills, and c) provide innovative products and services that meet customers' needs without compromising the ability of future generations to meet their needs.

The active management of energy and carbon issues is a foundational element of Canadian Tire's business sustainability strategy. Periodic measurements of the Corporate and Supply Chain footprint complement quarterly performance reporting on the results of initiatives that mitigate this footprint.

Company grows while energy and carbon footprint of operations shrinks

In managing the carbon footprint, the Company considers the extended value chain and includes the product and transportation partners as well as non-corporate stores. Despite an increase in the number and square footage of stores the Company improved its energy productivity in the store network. In the past three years since the inception of the business sustainability strategy, the energy and greenhouse gas (GHG) emissions related to the transportation of products from suppliers to stores decreased by nine per cent versus a more than 22 per cent increase in tonne-kilometres of product shipped. Similarly, the energy and GHG emissions related to operating the real estate network have decreased by more than nine per cent, despite a nine per cent increase in functional square footage.

The following table presents the 2010 energy and carbon footprint, and the per cent change relative to the 2007 baseline¹:

By Segment of the Value-Chain:		% of Value-Chain	2010 GHG's (tCO ₂ e)	Energy Use (GJ)	Baseline GHG's (tCO ₂ e)	% change in GHG's
Embedded in Products ²	3rd Party Product Manufacture	82.1%	2,401,600	34,546,200	2,303,200	4.3%
Product Transport ³	Canadian Tire Fleet	0.4%	10,100	144,400	5,600	82.1%
	3rd Party Product Transport	10.2%	299,000	4,109,100	334,100	(10.5)%
	Sub-total Product Transport	10.6%	309,100	4,253,500	339,700	(9.0)%
Buildings & Operations ⁴	Corp. Stores, Offices & DC's	1.8%	51,500	906,600	49,700	3.7%
	Dealers, non-Corp. stores & DC's	5.5%	162,300	2,900,400	186,100	(12.8)%
	Sub-total Buildings & Ops	7.3%	213,800	3,807,000	235,800	(9.4)%
TOTAL	Corporation & Supply Chain	100%	2,924,500	42,606,700	2,878,700	1.6%
	Per \$1,000 Revenue ⁵		0.326		0.334	(2.6)%

¹ Rounded to the closest hundred and variances calculated based on actual numbers.

² Produced in accordance with principles from the WBCSD/WRI GHG Protocol and the Company's Environmental Footprint Corporate Directive. To allow for meaningful comparison, the 2007 Baseline was recalculated to adjust for emission factor changes and add-in locations that were not reported in 2007.

³ Values embedded in retail products received by the Company's distribution centres, depots, stores or 3rd party warehouses and calculated as per a cradle-to-gate analysis which includes raw material acquisition & processing, transport to manufacturing site and manufacture of retail products.

⁴ Values from product transportation from manufacturing vendors (FOB port from overseas) to stores.

⁵ Values from the Company's operations from 1,273 owned and leased locations including offices, distribution centres, and corporately-owned, agent-run and franchise retail stores; and 294 vehicles not used for transporting products from vendors to stores.

⁶ Please note, CTC consolidated revenue does not include Dealers, franchisees and agents; however, the measure "total GHG emissions" does include emissions from these non-Company operations.

2011 Performance – avoided over four times more waste in 2011

Far beyond a 'green' initiative, the Company's comprehensive sustainability strategy centres around three key areas – products and packaging, product transportation, and buildings and operations – with the overall objective of deriving economic value from enhanced environmental and social outcomes. Now in its second year of reporting, the Company saw a 19 per cent increase in the number of sustainability initiatives completed and a quadrupling in avoided waste year-over-year.

2011 economic and environmental benefits from sustainability projects are highlighted in the following table⁶:

	Products & Packaging	Product Transportation	Buildings & Operations	Total
Completed Initiatives	175	42	221	438
Cost Avoidance ⁷ (\$)	\$ 3,567,600	\$ 143,700	\$ 1,962,800	\$ 5,674,000
Energy use Avoidance (gigajoules)	41,200	4,800	68,400	114,400
GHG emissions Avoidance (tonnes)	2,900	300	3,700	6,900
Waste Avoidance (tonnes)	2,400	N/A	100	2,500

⁶ As sustainability initiatives are part of an inherently dynamic process and as projects come to fruition, revisions to estimates are periodically made and the quarterly Performance Report is adjusted accordingly. At year-end, emission factors and global warming potentials are reassessed to align with the Company's carbon footprint and the Performance Report is consequently adjusted.

⁷ Avoidance refers to savings in comparison to what it would have been if the Company had not made the improvements. These values express a 12-month forecasted result from the date of each project's completion. Values beyond the first 12 months are not reported.

In 2011, the Company continued the integration of business sustainability across new business areas including Mark's stores, Petroleum outlets and distribution centres:

- Advancements at four of the Company's distribution centres are forecasted to annually avoid more than \$753,200 in costs, 723 tonnes of GHG emissions and 73 tonnes of waste. Generating more than 95 million shipping labels a year, the distribution centres have reduced the size of their shipping labels and increased material and process efficiency of compiling store orders of merchandise; and
- Forecasted to annually avoid more than 533 tonnes of GHG emissions, Canadian Tire gas locations in Ontario retrofitted energy efficient LED lighting in 10 gas bar canopies and some buildings interiors, coolers and parking lots and 13 Mark's stores in Alberta and Ontario have retrofitted energy efficient T8 lighting.

For the first time, the Company generated revenue from sustainability initiatives related to on-grid solar energy generation, some of which is expected to occur in future years. There are plans to install rooftop solar panels on 40 stores, that once completed will represent a peak generation of 8.7 megawatts. Additionally, existing off-grid solar PV and geothermal technologies generated over 277 GJ of energy and helped to avoid eight tonnes of greenhouse gas emissions in the local economy.

For the year, the Company also contributed \$18.5 million to community blue box and industry product stewardship and recycling programs.

This year's highlights also include:

- The Company's inclusion on the STOXX Global ESG Leaders Index family. Of the 316 constituents, 15 are based in Canada and the Company is the only Canadian retailer included. The index represents the leading global companies in terms of environmental, social and governance criteria, based on ESG indicators provided by Sustainalytics, which has provided research for the Socially Responsible Investment and Responsible Investment markets for more than 20 years;
- Linking certain employee compensation with successful sustainability initiatives;
- Developing and building the latest high-efficiency store design that is 75 per cent more efficient than the previous iteration. The new prototypical design will form the basis of the Company's new store construction efforts through to 2015;
- The roll-out of the Go Eco automotive program in all Quebec stores; and
- Winning of multiple awards by individuals and departments related to business sustainability.

For further details, please refer to our Business Sustainability Performance Reports on Making a Difference at <http://corp.canadiantire.ca/EN/MAD/BusinessSustainability/Pages/OurProgressReports.aspx>.

13.4 Responsible sourcing practices

The Company's Supplier Code of Business Conduct (the Code) sets out the principles and practices of ethical business conduct that the Company expects of its suppliers of goods and services. The code addresses child labour, forced labour, discrimination, freedom of association, wages and benefits, working hours, health and safety, and disciplinary actions.

The Company audits its suppliers and sub-suppliers through a combination of third-party audits, internal assessments and factory self-assessments. The Company expects that all suppliers, including sub-contractors, are in full compliance with the Code. Suppliers are also required to certify that they have read and agree with the Code. Suppliers who do not meet the requirements of the Code are given the opportunity to bring their business up to company standards in a reasonable time frame. The Company reserves the right to terminate its business relationship with any supplier who fails to implement corrective actions or refuses to comply with the code. In 2011, 331 factories were audited in the areas identified in the Code.

Mark's has independently audited all offshore factories (more than 200) that produce its apparel as part of its Social Compliance and Ethical Sourcing Program. Mark's conducts social compliance audits using a third-party provider. Mark's aims to work through non-compliance issues with each supplier until a satisfactory audit is obtained. Mark's has conducted regular rotating audits of all our facilities since 2006 and aims to sufficiently audit factories on an annual basis such that each facility receives a full audit at least once every three years.

14.0 Other investor communication

Caution regarding forward-looking information

This document contains forward-looking information that reflects management's current expectations related to matters such as future financial performance and operating results of the Company. Specific forward-looking statements included or incorporated by reference in this document include, but are not limited to, statements with respect to:

- our objectives in 2012 in section 5.1.2;
- the Company's financial aspirations listed in section 5.2;
- economic outlook in section 6.2; and
- business sustainability in section 13.3.

Forward-looking statements are provided for the purposes of providing information about management's current expectations and plans and allowing investors and others to get a better understanding of our financial position, results of operations and operating environment. Readers are cautioned that such information may not be appropriate for other circumstances.

All statements other than statements of historical facts included in this document may constitute forward-looking information, including but not limited to, statements concerning management's expectations relating to possible or assumed future prospects and results, our strategic goals and priorities, our actions and the results of those actions and the economic and business outlook for us. 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.

By its very nature, forward-looking information requires us to make assumptions and is subject to inherent risks and uncertainties, which give rise to the possibility that the Company's assumptions may not be correct and that the Company's expectations and plans will not be achieved. Although the Company believes that the forward-looking information in this document 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 expectations and plans as set forth in such forward-looking information for a variety of reasons. Some of the factors – many of which are beyond our control and the effects of which can be difficult to predict – include (a) credit, market, currency, operational, liquidity and funding risks, including changes in economic conditions, interest rates or tax rates; (b) the ability of Canadian Tire to attract and retain quality employees, Dealers, Canadian Tire Petroleum agents and PartSource, Mark's Work Wearhouse and FGL Sports store operators and franchisees, as well as our financial arrangements with such parties; (c) the growth of certain business categories and market segments and the willingness of customers to shop at our stores or acquire our financial products and services; (d) our margins and sales and those of our competitors; (e) risks and uncertainties relating to information management, technology, supply chain, product safety, changes in law, competition, seasonality, commodity price and business disruption, our relationships with suppliers and manufacturers, changes to existing accounting pronouncements, the risk of damage to the reputation of brands promoted by Canadian Tire and the cost of store network expansion and retrofits and (f) our capital structure, funding strategy, cost management programs and share price. We caution that the foregoing list of important factors and assumptions is not exhaustive and other factors could also adversely affect our results. Investors and other readers are urged to consider the foregoing risks, uncertainties, factors and assumptions carefully in evaluating the forward-looking information and are cautioned not to place undue reliance on such forward-looking information.

For more information on the risks, uncertainties and assumptions that could cause the Company's actual results to differ from current expectations, please refer to sections 7.5.1.2 (Retail segment business risks), 7.5.2.2 (Financial Services segment business risks) and 11.0 (Enterprise risk management) and all subsections there under of this MD&A. Please also refer to the "Risk Factors" section of our Annual Information Form for fiscal 2011 as well as Canadian Tire's other public filings, available at www.sedar.com and at www.corp.canadiantire.ca.

Statements that include forward-looking information 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 any dispositions, acquisitions, asset write-downs or other charges announced or occurring after such statements are made.

The forward-looking statements and information contained herein are based on certain factors and assumptions as of the date hereof. The Company does not undertake to update any forward-looking information, whether written or oral, that may be made from time to time by it 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 in this MD&A does not form part of this MD&A and all references in this MD&A to websites are inactive textual references and are for your information only.

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. Reflecting our commitment to full and transparent disclosure, the Investor Relations section of the Company's website (corp.canadiantire.ca/en/investors) 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 Angela McMonagle at (416) 480-8225 or email investor.relations@cantire.com.

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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 International Financial Reporting Standards, 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 15, 2012



Dean McCann
Chief Financial Officer and
Executive Vice-President, Finance

Independent Auditor's Report

To the Shareholders of Canadian Tire Corporation, Limited

We have audited the accompanying consolidated financial statements of Canadian Tire Corporation, Limited, which comprise the consolidated balance sheets as at December 31, 2011, January 1, 2011 and January 3, 2010, and the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years ended December 31, 2011 and January 1, 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Canadian Tire Corporation, Limited as at December 31, 2011, January 1, 2011 and January 3, 2010 and its financial performance and its cash flows for the years ended December 31, 2011 and January 1, 2011 in accordance with International Financial Reporting Standards.



Chartered Accountants
Licensed Public Accountants
March 15, 2012
Toronto, Ontario

Consolidated Balance Sheets

As at (C\$ in millions)	December 31, 2011	January 1, 2011	January 3, 2010
		(Note 44)	(Note 44)
ASSETS			
Cash and cash equivalents (Note 9)	\$ 325.8	\$ 568.9	\$ 885.8
Short-term investments (Note 10)	196.4	196.7	60.9
Trade and other receivables (Note 11)	829.3	673.9	853.8
Loans receivable (Note 12)	4,081.7	4,051.0	4,008.7
Merchandise inventories	1,448.6	901.0	933.0
Income taxes recoverable	–	99.3	94.7
Prepaid expenses and deposits	44.3	37.6	41.1
Assets classified as held for sale (Note 13)	30.5	20.8	15.0
Total current assets	6,956.6	6,549.2	6,893.0
Long-term receivables and other assets (Note 14)	668.9	726.9	802.3
Long-term investments (Note 15)	128.2	75.8	48.8
Goodwill and intangible assets (Note 16)	1,110.0	361.4	335.4
Investment property (Note 17)	72.4	68.6	71.2
Property and equipment (Note 18)	3,365.9	3,232.0	3,210.4
Deferred income taxes (Note 19)	36.8	34.6	46.1
Total assets	\$ 12,338.8	\$ 11,048.5	\$ 11,407.2
LIABILITIES			
Bank indebtedness (Note 9)	\$ 124.8	\$ 118.0	\$ 83.7
Deposits (Note 20)	1,182.3	615.6	863.4
Trade and other payables (Note 21)	1,640.9	1,179.9	1,192.9
Provisions (Note 22)	191.9	196.2	220.9
Short-term borrowings (Note 24)	352.6	100.6	163.0
Loans payable (Note 25)	628.7	687.0	757.4
Income taxes payable	3.9	–	–
Current portion of long-term debt (Note 26)	27.9	354.2	690.6
Total current liabilities	4,153.0	3,251.5	3,971.9
Long-term provisions (Note 22)	55.1	25.1	26.7
Long-term debt (Note 26)	2,347.7	2,365.4	2,441.1
Long-term deposits (Note 20)	1,102.2	1,264.5	1,196.9
Deferred income taxes (Note 19)	66.1	–	–
Other long-term liabilities (Note 27)	205.7	137.1	127.5
Total liabilities	7,929.8	7,043.6	7,764.1
SHAREHOLDERS' EQUITY			
Share capital (Note 29)	710.5	711.6	720.4
Contributed surplus	1.1	0.3	0.2
Accumulated other comprehensive income (loss)	11.0	(32.3)	(38.6)
Retained earnings	3,686.4	3,325.3	2,961.1
Total shareholders' equity	4,409.0	4,004.9	3,643.1
Total liabilities and shareholders' equity	\$ 12,338.8	\$ 11,048.5	\$ 11,407.2

The related notes form an integral part of these consolidated financial statements.



Maureen J. Sabia
Director



Graham W. Savage
Director

Consolidated Statements of Income

For the years ended (C\$ in millions except per share amounts)	December 31, 2011	January 1, 2011
		(Note 44)
Revenue (Note 32)	\$ 10,387.1	\$ 9,213.1
Cost of producing revenue (Note 33)	(7,326.4)	(6,422.1)
Gross margin	3,060.7	2,791.0
Other income	18.4	1.1
Operating expenses		
Distribution costs	(329.2)	(296.3)
Sales and marketing expenses	(1,286.3)	(1,090.4)
Administrative expenses	(701.5)	(682.9)
Total operating expenses (Note 34)	(2,317.0)	(2,069.6)
Operating income	762.1	722.5
Finance income	23.0	32.4
Finance costs	(155.2)	(168.1)
Net finance costs (Note 36)	(132.2)	(135.7)
Income before income taxes	629.9	586.8
Income taxes (Note 37)	(162.9)	(142.6)
Net income	\$ 467.0	\$ 444.2
Basic earnings per share	\$ 5.73	\$ 5.45
Diluted earnings per share	\$ 5.71	\$ 5.42
Weighted average number of Common and Class A Non-Voting Shares outstanding – Basic (Note 30)	81,447,398	81,565,476
Weighted average number of Common and Class A Non-Voting Shares outstanding – Diluted (Note 30)	81,803,786	81,905,012

The related notes form an integral part of these consolidated financial statements.

Consolidated Statements of Comprehensive Income

For the years ended (C\$ in millions)	December 31, 2011	January 1, 2011
		(Note 44)
Net income	\$ 467.0	\$ 444.2
Other comprehensive income (loss)		
Derivatives designated as cash flow hedges:		
Gains/(losses), net of tax of \$0.4 (2010 – \$24.2)	0.8	(53.7)
Reclassification of losses to non-financial asset, net of tax of \$15.6 (2010 – \$26.3)	40.0	55.9
Reclassification of losses to income, net of tax of \$0.4 (2010 – \$1.9)	1.0	4.0
Available-for-sale financial assets:		
Gains, net of tax of \$3.5 (2010 – \$nil)	8.9	0.1
Reclassification of (gains)/losses to income, net of tax of \$2.9 (2010 – \$nil)	(7.4)	–
Actuarial adjustments, net of tax of \$4.9 (2010 – \$2.1) (Note 28)	(14.2)	(6.2)
Total other comprehensive income	29.1	0.1
Total comprehensive income	\$ 496.1	\$ 444.3

The related notes form an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows

For the years ended (C\$ in millions)	December 31, 2011	January 1, 2011
		(Note 44)
Cash generated from (used for):		
Operating activities		
Net income	\$ 467.0	\$ 444.2
Adjustments for:		
Impairment on loans receivable (Note 12)	352.0	347.0
Depreciation on property and equipment and investment property	229.8	223.8
Income tax expense	162.9	142.6
Net finance costs	132.2	135.7
Amortization of intangible assets	66.3	50.3
Changes in fair value of derivative instruments	(3.1)	(16.0)
Other	3.4	10.3
Gain on revaluation of shares (Note 8)	(10.4)	–
	1,400.1	1,337.9
Changes in working capital and other (Note 38)	219.6	(293.1)
Cash generated from operating activities before interest and taxes	1,619.7	1,044.8
Interest paid	(176.6)	(190.5)
Interest received	26.1	6.7
Income taxes paid	(63.7)	(131.5)
Cash generated from operating activities	1,405.5	729.5
Investing activities		
Acquisition of FGL Sports (Note 8)	(739.9)	–
Acquisition of short-term investments	(334.8)	(215.5)
Acquisition of long-term investments	(123.1)	(70.5)
Additions to property and equipment and investment property	(230.5)	(237.9)
Additions to intangible assets	(128.9)	(70.4)
Long-term receivables and other assets	(3.2)	16.5
Proceeds from the disposition of long-term investments	18.1	–
Proceeds from the disposition of short-term investments	364.0	124.0
Other	16.9	10.6
Cash used for investing activities	(1,161.4)	(443.2)
Financing activities		
Issuance of long-term debt	–	264.5
Issuance of short-term borrowings	2,676.8	1,160.3
Repayment of short-term borrowings	(2,666.7)	(1,222.7)
Issuance of loans payable	129.3	248.4
Repayment of loans payable	(187.6)	(318.8)
Issuance of share capital (Note 29)	11.6	16.7
Repurchase of share capital (Note 29)	(11.9)	(25.4)
Repayment of long-term debt and finance lease liabilities	(355.6)	(690.8)
Dividends paid	(89.6)	(68.5)
Payment of transaction costs related to long-term debt	–	(1.7)
Cash used for financing activities	(493.7)	(638.0)
Cash used in the year	(249.6)	(351.7)
Cash and cash equivalents, net of bank indebtedness, beginning of year	450.9	802.1
Effect of exchange rate fluctuations on cash held	(0.3)	0.5
Cash and cash equivalents, net of bank indebtedness, end of year (Note 9)	\$ 201.0	\$ 450.9

The related notes form an integral part of these consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity

(C\$ in millions)	Share capital	Contributed surplus	Cashflow hedges	Fair value changes in available-for-sale financial assets	Total accumulated other comprehensive income (loss)	Retained earnings	Total shareholders' equity
Balance at January 1, 2011 (Note 44)	\$ 711.6	\$ 0.3	\$ (32.4)	\$ 0.1	\$ (32.3)	\$ 3,325.3	\$ 4,004.9
Total comprehensive income							
Net income						467.0	467.0
Other comprehensive income (loss)							
Derivatives designated as cash flow hedges:							
Gains, net of tax of \$0.4			0.8		0.8		0.8
Reclassification of losses to non-financial asset, net of tax of \$15.6			40.0		40.0		40.0
Reclassification of losses to income, net of tax of \$0.4			1.0		1.0		1.0
Available-for-sale financial assets:							
Gains, net of tax of \$3.5				8.9	8.9		8.9
Reclassification of gains to income, net of tax of \$2.9				(7.4)	(7.4)		(7.4)
Actuarial adjustments, net of tax of \$4.9						(14.2)	(14.2)
Total other comprehensive income (loss)	–	–	41.8	1.5	43.3	(14.2)	29.1
Total comprehensive income	–	–	41.8	1.5	43.3	452.8	496.1
Contributions by and distributions to shareholders							
Issue of Class A Non-Voting Shares (Note 29)	11.6				–		11.6
Repurchase of Class A Non-Voting Shares (Note 29)	(11.9)				–		(11.9)
Excess of issue price over repurchase price (Note 29)	(0.8)	0.8			–		–
Dividends (Note 29)					–	(91.7)	(91.7)
Total contributions by and distributions to shareholders	(1.1)	0.8	–	–	–	(91.7)	(92.0)
Balance at December 31, 2011	\$ 710.5	\$ 1.1	\$ 9.4	\$ 1.6	\$ 11.0	\$ 3,686.4	\$ 4,409.0
Balance at January 3, 2010 (Note 44)	\$ 720.4	\$ 0.2	\$ (38.6)	\$ –	\$ (38.6)	\$ 2,961.1	\$ 3,643.1
Total comprehensive income							
Net income						444.2	444.2
Other comprehensive income (loss)							
Derivatives designated as cash flow hedges:							
Losses, net of tax of \$24.2			(53.7)		(53.7)		(53.7)
Reclassification of losses to non-financial asset, net of tax of \$26.3			55.9		55.9		55.9
Reclassification of losses to income, net of tax of \$1.9			4.0		4.0		4.0
Available-for-sale financial assets:							
Gains, net of tax of \$nil				0.1	0.1		0.1
Reclassification of losses to income, net of tax of \$nil				–	–		–
Actuarial adjustments, net of tax of \$2.1						(6.2)	(6.2)
Total other comprehensive income (loss)	–	–	6.2	0.1	6.3	(6.2)	0.1
Total comprehensive income	–	–	6.2	0.1	6.3	438.0	444.3
Contributions by and distributions to shareholders							
Issue of Class A Non-Voting Shares (Note 29)	16.7				–		16.7
Repurchase of Class A Non-Voting Shares (Note 29)	(25.4)				–		(25.4)
Excess of issue price over repurchase price (Note 29)	(0.1)	0.1			–		–
Dividends (Note 29)					–	(73.8)	(73.8)
Total contributions by and distributions to shareholders	(8.8)	0.1	–	–	–	(73.8)	(82.5)
Balance at January 1, 2011 (Note 44)	\$ 711.6	\$ 0.3	\$ (32.4)	\$ 0.1	\$ (32.3)	\$ 3,325.3	\$ 4,004.9

The related notes form an integral part of these consolidated financial statements.

1. The Company and its Operations

Canadian Tire Corporation, Limited is a Canadian public company primarily domiciled in Canada. Its registered office is located at 2180 Yonge Street, Toronto, Ontario, M4P 2V8, Canada. It is listed on the Toronto Stock Exchange (TSX – CTC, CTC.A). Canadian Tire Corporation, Limited and entities it controls are together referred to in these consolidated financial statements as “the Company”.

The Company is comprised of two main business operations that offer a range of retail goods and services including general merchandise, clothing, sporting goods, petroleum and financial services. Details of its two reportable segments: “Retail” and “Financial Services” are provided in Note 7.

On August 18, 2011 the Company acquired The Forzani Group Ltd. (“FGL Sports”). The operations of FGL Sports are included in the Company’s results from operations and financial position commencing August 19, 2011.

The Company’s operations are influenced by seasonal trends in the retail environment. The second and fourth quarters of each year are typically when the Company experiences stronger revenue and net income due to the seasonal nature of some merchandise in its retail operations and timing of marketing programs.

2. Basis of Preparation

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 2011 and 2010 are the 52-week period ended December 31, 2011 and the 52-week period ended January 1, 2011, respectively.

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and using the accounting policies described herein.

These are the Company’s first annual consolidated financial statements reported under IFRS for the 52-week period ended December 31, 2011 with comparatives for the 52-week period ended January 1, 2011, and IFRS 1 – *First-time Adoption of IFRS* (“IFRS 1”) has been applied. An explanation of how the transition from previous Canadian Generally Accepted Accounting Principles to IFRS as at January 3, 2010 (“Transition Date”) has affected the reported financial position, financial performance and cash flows of the Company, including the mandatory exceptions and optional exemptions under IFRS, is provided in Note 44.

These consolidated financial statements were approved by the Company’s Board of Directors on March 15, 2012.

Basis of presentation

These consolidated financial statements have been prepared on the historical cost basis except for the following items, which are measured at fair value:

- Financial instruments at fair value through profit or loss;
- Derivative financial instruments;
- Available-for-sale financial assets;
- Liabilities for cash-settled share-based payment plans; and
- Assets acquired and liabilities assumed in business combinations.

In addition, the post-employment defined benefit obligation is recorded at its discounted present value.

Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars (“C\$”), the Company’s functional currency (“the functional currency”). All financial information is presented in millions, except per share amounts which are presented in whole dollars.

Use of estimates and judgments

The preparation of these consolidated financial statements in accordance with IFRS requires Management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of these consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from estimates made in these consolidated financial statements.

Judgment is used mainly in determining whether a balance or transaction should be recognized in the consolidated financial statements. Estimates and assumptions are used mainly in determining the measurement of recognized transactions and balances. However, judgment and estimates are often interrelated.

Judgments, estimates and assumptions are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in future periods affected.

The Company has applied judgment in its assessment of the appropriateness of consolidation of special purpose entities ("SPEs"), the classification of leases and financial instruments, the recognition of tax losses and provisions, the determination of cash generating units ("CGUs"), the identification of its investment property, the identification of the indicators of impairment for property and equipment, investment property and intangible assets, the level of componentization of property and equipment and the allocation of purchase price adjustments on business combinations.

Estimates are used when estimating the useful lives of property and equipment, investment property and intangible assets for the purposes of depreciation and amortization, when accounting for and measuring items such as inventory allowances, customer loyalty programs, deferred revenue, insurance reserves, assumptions underlying actuarial determination of post-employment defined benefit obligations, income and other taxes, provisions, certain fair value measures including those related to the valuation of business combinations, share-based payments and financial instruments, the testing of goodwill, indefinite useful life intangible assets and other assets for impairment, updating models used in the determination of allowances on loans receivable, purchase price adjustments on business combinations and calculating the pro-forma results as if the acquisition of FGL Sports had occurred at the beginning of the Company's fiscal year.

Standards, amendments and interpretations issued and not yet adopted

Financial instruments

In November 2009, the International Accounting Standards Board ("IASB") issued IFRS 9 – *Financial instruments* ("IFRS 9"), Classification and Measurement, which contained requirements for financial assets. In October 2010, requirements for financial liabilities were added to IFRS 9. IFRS 9 will replace IAS 39 – *Financial Instruments: Recognition and Measurement* ("IAS 39") in its entirety. IFRS 9 uses a single approach to determine whether a financial asset or liability is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. For financial assets the approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. For financial liabilities measured at fair value, fair value changes due to changes in the Company's credit risk are presented in other comprehensive income ("OCI"), instead of net income, unless this would create an accounting mismatch. An accounting mismatch may occur when financial liabilities that are measured at fair value are managed with assets that are measured at fair value through profit or loss. A mismatch could arise because the entire change in the fair value of the financial assets would be presented in net income but a portion of the change in the fair value of the related financial liabilities would not. IFRS 9 is effective for annual periods beginning on or after January 1, 2015. The Company is assessing the potential impact of this standard.

Financial instruments: disclosures

In October 2010, the IASB amended IFRS 7 – *Financial instruments: Disclosures* ("IFRS 7"), which will be applied prospectively for annual periods beginning on or after July 1, 2011. The amendments require additional disclosures on transferred financial assets. The Company is assessing the potential impact of these amendments.

Deferred taxes – recovery of underlying assets

In December 2010, the IASB amended IAS 12 – *Income Taxes* ("IAS 12"), which introduces an exception to the general measurement requirements of IAS 12 in respect of investment property measured at fair value. The amendment is effective for annual periods beginning on or after January 1, 2012. This amendment is not expected to impact the Company as its investment properties are not measured at fair value.

Consolidated financial statements

In May 2011, the IASB issued IFRS 10 – *Consolidated Financial Statements* ("IFRS 10"), which replaces portions of IAS 27 – *Consolidated and Separate Financial Statements* ("IAS 27") and all of SIC-12 – *Consolidation – Special Purpose Entities* ("SIC-12"). IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more entities. The standard requires an entity to consolidate an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. As a consequence, IAS 27 has been amended but retains the existing guidance for separate financial statements.

Joint arrangements

In May 2011, the IASB issued IFRS 11 – *Joint Arrangements* ("IFRS 11"), which replaces IAS 31 – *Interests in Joint Ventures* ("IAS 31") and SIC-13 – *Jointly Controlled Entities – Non-Monetary Contributions by Venturers* ("SIC-13"). IFRS 11 requires a venturer to classify its interest in a joint arrangement as either a

joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting. The existing option to account for joint ventures using proportionate consolidation has been removed. For a joint operation the venture will recognize its share of the assets, liabilities, revenue and expenses of the joint operation.

Disclosure of involvement with other entities

In May 2011, the IASB issued IFRS 12 – *Disclosure of Involvement with Other Entities* (“IFRS 12”), which establishes disclosure requirements for an entity’s interests in other entities, such as subsidiaries, joint arrangements, associates, and unconsolidated structured entities. The standard carries forward existing disclosure requirements and introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity’s interests in other entities.

As a consequence of the issue of IFRS 10 and IFRS 11, IAS 28 – *Investments in Associates* (“IAS 28”) has been amended. IAS 28 will provide accounting guidance for investments and associates and will set out the requirements for the application of the equity method when accounting for investments and joint ventures.

IFRS 10, IFRS 11 and IFRS 12 and the amendments to IAS 27 and IAS 28 are effective for annual periods beginning on or after January 1, 2013. Early adoption is permitted only if all of these standards are concurrently adopted. However, entities may provide some or all of the information required by IFRS 12 without early adopting all of IFRS 12 or early adopting IFRS 10, IFRS 11, IAS 27 and IAS 28. The Company is assessing the potential impact of these standards.

Fair value measurement

In May 2011, the IASB issued IFRS 13 – *Fair Value Measurement* (“IFRS 13”), which is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosure requirements about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures. IFRS 13 is effective for annual periods beginning on or after January 1, 2013. The Company is assessing the potential impact of these amendments.

Other comprehensive income presentation

In June 2011, the IASB amended IAS 1 – *Presentation of Financial Statements* (“IAS 1”), to require companies to group together items within OCI that may be reclassified to net income. The amendments reaffirm the existing requirements that items in OCI and net income should be presented as either a single statement or two consecutive statements. The amendments are effective for annual periods beginning on or after July 1, 2012. The Company is assessing the potential impact of these amendments.

Post-employment benefits

In June 2011, the IASB amended IAS 19 – *Employment Benefits*, which applies to Defined Benefit Plans. The amendments eliminate the existing option to defer actuarial gains and losses (known as the corridor approach), require changes from remeasurement of defined benefit plan assets and liabilities to be presented in the statement of other comprehensive income, and require additional disclosures. The amendments are effective for annual periods beginning on or after January 1, 2013. This amendment is not expected to have any significant impact as the Company already immediately records any actuarial gains and losses in OCI.

Financial instruments: asset and liability offsetting

In December 2011, the IASB amended IFRS 7 and IAS 32 – *Financial instruments: Presentation* (“IAS 32”), to clarify the requirements for offsetting financial instruments and to require new disclosures on the effect of offsetting arrangements on an entity’s financial position. The IFRS 7 amendments will be applied retrospectively for annual periods beginning on or after January 1, 2013. The IAS 32 amendments will be applied retrospectively for annual periods beginning on or after January 1, 2014. The Company is assessing the potential impact of these amendments.

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently throughout the Company.

Basis of consolidation

These consolidated financial statements include the accounts of Canadian Tire Corporation, Limited and entities it controls. Control exists when Canadian Tire Corporation, Limited has the power, directly or indirectly, to govern the financial and operating policies of an entity/arrangement so as to obtain benefit from its activities.

The results of certain subsidiaries which have different year-ends have been included in these consolidated financial statements for the 52 weeks ended December 31, 2011 and for the 52 weeks ended January 1, 2011. The year-end of Canadian Tire Financial Services Limited ("Financial Services") is December 31. The year-end of FGL Sports is January 31 and the results of FGL Sports have been included up to the Company's fiscal year-end.

Special purpose entities

The Company has established a number of SPEs. The Company does not have direct or indirect shareholdings in these entities. An SPE is consolidated, if, based on the evaluation of the substance of its relationship with the Company, including consideration of the Company's exposure to the SPE's risks and rewards, the Company concludes that it controls the SPE. SPEs were established under terms that impose strict limitations on the decision making powers of the SPEs' management. As a result, in such instances, since the Company either receives the majority of the benefits related to the SPEs' operations and net assets, the Company is exposed to risks related to the SPEs' activities, and/or the Company obtains the majority of the residual or ownership risk related to the SPEs, these SPEs are controlled by the Company. See Note 44 for further discussion on the consolidation of SPEs.

Transactions eliminated on consolidation

Intercompany balances and transactions and unrealized income and expenses arising from intercompany transactions are eliminated in preparing these consolidated financial statements.

Business combinations

The Company has applied the acquisition method in accounting for business combinations.

The Company measures goodwill as the difference between the fair value of the consideration transferred, including the recognized amount of any non-controlling interest in the acquiree, and the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date.

Consideration transferred includes the fair value of the assets transferred (including cash), liabilities incurred by the Company on behalf of the acquiree, and equity interests issued by the Company. Consideration transferred also includes the fair value of any contingent consideration.

A contingent liability of the acquiree is assumed in a business combination only if such a liability represents a present obligation and arises from a past event, and its fair value can be measured reliably.

Where a business combination is achieved in stages, previously held interests in the acquired entity are remeasured to fair value at the acquisition date, which is the date control is obtained, and the resulting gain or loss, if any, is recognized in net income. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in OCI are reclassified to net income.

Transaction costs that the Company incurs in connection with a business combination, such as finders' fees, legal fees, due diligence fees, and other professional and consulting fees, are expensed in the period as incurred.

Foreign currency translation

Transactions in foreign currencies are translated into C\$ at rates in effect at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the accounting period end date are translated to the functional currency at the exchange rate at that date. Non-monetary items that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities that are measured at fair value are translated to C\$ at the exchange rate at the date that the fair value was determined. Exchange gains or losses arising from translations are recorded in other income or cost of producing revenue in the Consolidated Statements of Income.

Financial instruments

Recognition and measurement

Financial assets and financial liabilities, including derivatives, are recognized in the Consolidated Balance Sheets when the Company becomes a party to the contractual provisions of a financial instrument or non-financial derivative contract. All financial instruments are required to be measured at fair value on initial recognition. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities classified as fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities classified as FVTPL are recognized immediately in net income.

The Company classifies financial instruments, at the time of initial recognition, 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) FVTPL; b) held to maturity; c) available-for-sale; and d) loans and receivables. Classification choices for financial liabilities include: a) FVTPL and b) other liabilities.

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

Financial assets and liabilities are offset and the net amount presented in the Consolidated Balance Sheets when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company's financial assets and financial liabilities are generally classified and measured as follows:

Asset/Liability	Category	Measurement
Cash and cash equivalents	Loans and receivables	Amortized cost
Short-term investments	Available-for-sale ¹	Fair value
Trade and other receivables	Loans and receivables ²	Amortized cost
Loans receivable	Loans and receivables	Amortized cost
Deposits (recorded in Prepaid expenses and deposits)	Loans and receivables	Amortized cost
Long-term receivables and other assets	Loans and receivables ²	Amortized cost
Long-term investments	Available-for-sale ³	Fair value
Bank indebtedness	Other liabilities	Amortized cost
Deposits	Other liabilities	Amortized cost
Trade and other payables	Other liabilities	Amortized cost
Short-term borrowings	Other liabilities	Amortized cost
Loans payable	Other liabilities	Amortized cost
Long-term debt	Other liabilities	Amortized cost

¹ Certain short-term investments are classified as FVTPL and are measured at fair value.

² Certain investments included in trade and other receivables and long-term receivables and other assets are classified as held to maturity and are measured at amortized cost.

³ Certain long-term investments are classified as FVTPL and are measured at fair value.

Financial instruments at fair value through profit or loss

Financial instruments are classified as FVTPL when the financial instrument is either held for trading or designated as such upon initial recognition. Financial assets are classified as held for trading if acquired principally for the purpose of selling in the near future or if part of an identified portfolio of financial instruments that the Company manages together and has a recent actual pattern of short-term profit-making. Derivatives are also categorized as held for trading unless they are designated as hedges.

Financial instruments classified as FVTPL are measured at fair value, with changes in fair value recorded in net income in the period in which they arise.

Held to maturity

Debt instruments are classified as held to maturity if the Company has the positive intent and ability to hold the instruments to maturity. Subsequent to initial recognition held to maturity financial assets are measured at amortized cost using the effective interest method, less any impairment losses. Any sale or reclassification of a more than insignificant amount of held to maturity investments not close to their maturity would result in the reclassification of all held to maturity investments as available-for-sale, and prevent the Company from classifying financial assets as held to maturity for the current and the following two financial years.

Available-for-sale

Financial instruments classified as available-for-sale financial assets are measured at fair value with changes in fair value recognized in OCI until realized through disposal or impairment. Dividend income from available-for-sale financial assets is recognized in net income when the Company's right to receive payments is established. Interest income on available-for-sale financial assets, calculated using the effective interest method, is recognized in net income.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment, with gains and losses recognized in net income in the period that the asset is derecognized or impaired.

Other liabilities

Subsequent to initial recognition other financial liabilities are measured at amortized cost using the effective interest method with gains and losses recognized in net income in the period that the liability is derecognized.

Derecognition of financial instruments

A financial asset is derecognized when the contractual rights to the cash flows from the asset expire or when the Company transfers the financial asset to another party without retaining control or substantially all the risks and rewards of ownership of the asset. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

A financial liability is derecognized when its contractual obligations are discharged, cancelled or expire.

Derivative financial instruments

The Company enters into various derivative financial instruments as part of the Company's strategy to manage its foreign currency and interest rate exposures. The Company also enters into equity derivative contracts to hedge certain future share-based payment expenses. The Company does not hold or issue derivative financial instruments for trading purposes.

All derivative financial instruments are initially recognized at fair value at the date the derivative contracts are entered into, including derivatives that are embedded in financial or non-financial contracts that are not closely related to the host contracts. The derivative financial instruments are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in net income immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the consolidated statements of income depends on the nature of the hedge relationship.

Embedded derivatives

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. The Company does not have any significant embedded derivatives in contracts that require separate accounting and disclosure.

Hedge accounting

Where hedge accounting can be applied a hedge relationship is designated and documented at the inception of the derivative contract 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 type of hedging instrument used and how effectiveness will be assessed. The hedging instrument must be highly effective in achieving its objective of offsetting either changes in the fair value or anticipated cash flow attributable to the risk being hedged both at inception and throughout the life of the hedge. Hedge accounting is discontinued 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 recognized in net income immediately. 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 the Consolidated Statements of Income. 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 income 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.

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 and unhedged portions are recognized immediately in net income. Amounts recorded in accumulated other comprehensive income ("AOCI") are transferred to the Consolidated Statements of Income in the periods when the hedged item affects net income. However, when the forecasted transaction that is hedged results in the recognition of a non-financial asset or liability, the gains and losses previously recognized in AOCI are transferred from AOCI and included in the initial measurement of the cost of the non-financial asset or liability.

When hedge accounting is discontinued the amounts previously recognized in AOCI are reclassified to net income during the periods when the variability in the cash flows of the hedged item affects net income. Gains and losses on derivatives are reclassified immediately to net income when the hedged item is sold or terminated early. If hedge accounting is discontinued due to the hedged item no longer being expected to occur the amount previously recognized in AOCI is reclassified immediately to net income.

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 changes in fair value of these contracts are included in OCI to the extent the hedges continue to be effective, excluding the time value component of foreign exchange options which is included in net income. Once the inventory is received, the Company has elected to reclassify the

related AOCI amount to merchandise inventories. Subsequent changes in the fair value of the foreign exchange contracts are recorded in net income as they occur.

The Company enters into equity derivative contracts to hedge certain future share-based payment expenses. The change in fair value of these contracts are included in OCI to the extent the hedges continue to be effective. The related OCI amounts are reclassified to net income based on the vesting of the respective share-based units.

Other non-trading derivatives

When a derivative financial instrument is not designated in a qualifying hedge relationship all changes in its fair value are recognized immediately in net income.

Cash and cash equivalents

Cash and cash equivalents are defined as cash plus highly liquid and rated certificates of deposit or commercial paper with an original term to maturity of three months or less. Included in cash and cash equivalents is restricted cash and cash equivalents held within Glacier Credit Card Trust ("GCCT"). Per the agreement with GCCT, this cash and cash equivalents is restricted and can only be used for the purposes of paying out note holders and additional funding costs.

Short-term investments

Short-term investments are investments in highly liquid and rated certificates of deposits, commercial paper or other securities, primarily Canadian and United States government securities and notes of other creditworthy parties, with an original term to maturity of more than three months and remaining term to maturity of less than one year.

Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less an allowance for impairment, if any. The allowance for impairment of trade and other receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the allowance is calculated as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in administrative expenses in the Consolidated Statements of Income. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are recognized as a recovery in administrative expenses in the Consolidated Statements of Income.

Receivables and payables are offset and the net amount presented in the Consolidated Balance Sheets when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Loans receivable

Credit card, personal and line of credit loans

Credit card, personal and line of credit loans are recognized when cash is advanced to the borrower. They are derecognized when either the borrower repays its obligations or substantially all of the risks and rewards of ownership are transferred. Loans receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Company does not intend to sell them immediately or in the near term.

Loans receivable are initially measured at fair value plus directly attributable transaction costs, and are subsequently measured at their amortized cost using the effective interest method, net of allowance for loan impairment. Costs associated with lending activities that are considered an integral part of the yield earned on a loan are accounted for at amortized cost using the effective interest method.

Losses for impaired loans are recognized when there is objective evidence that impairment of the loans has occurred. Impairment allowances are calculated on individual loans and on groups of loans assessed collectively. Impairment losses are recorded in cost of producing revenue in the Consolidated Statements of Income. The carrying amount of impaired loans in the Consolidated Balance Sheets is reduced through the use of its impairment allowance accounts. Losses expected from future events are not recognized.

All individually significant loans receivable are assessed for specific impairment. All individually significant loans receivable found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans receivable that are not individually significant are collectively assessed for impairment by grouping together loans receivable with similar risk characteristics.

The Company uses a roll rate methodology. This methodology employs statistical analysis of historical data and experience of delinquency and default to estimate the amount of loans that will eventually be written off as a result of events occurring before the reporting date. The estimated loss is the difference between the present value of the expected future cash flows, discounted at the original effective interest rate of the portfolio, and the carrying amount of the portfolio. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

From time to time the Company transfers credit card receivables to GCCT, a SPE. This SPE is controlled by the Company and the results are included in these consolidated financial statements.

Dealer loans

Loans to Dealers are originated by a legal entity, Franchise Trust, which is sponsored by a third party bank. The loans are initially measured at fair value plus directly attributable transaction costs, and are subsequently measured at their amortized cost using the effective interest method.

Merchandise inventories

Merchandise inventories are carried at the lower of cost and net realizable value. The cost of merchandise inventory is determined based on weighted average cost and includes costs incurred in bringing the merchandise inventories to their present location and condition. All inventories are finished goods.

Net realizable value is the estimated selling price of inventory during the normal course of business less estimated selling expenses.

Goodwill and intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the identifiable assets acquired and liabilities assumed in a business combination. 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.

Intangible assets

Intangible assets with finite useful lives are measured at cost and are amortized on a straight-line basis over their estimated useful lives, generally up to a period of five years. The estimated useful lives and amortization method are reviewed annually with the effect of any changes in estimate being accounted for on a prospective basis. All intangible assets with finite useful lives are reviewed for impairment where there are indicators that the carrying value may not be recoverable.

Intangible assets with indefinite useful lives are measured at cost and are not amortized but are tested for impairment annually, or more frequently, if events or changes in circumstances indicate that the asset might be impaired.

Costs relating to development projects can be recorded as assets only if they meet the definition of an intangible asset. The costs of intangible assets include borrowing costs that meet the criteria for capitalization. When intangible assets with finite useful lives are available for their intended use, they are amortized on a straight-line basis over their estimated useful lives. Expenditures on research activities are expensed as incurred.

Investment property

Investment property is property held to earn rental income or appreciation of capital or both. Investment property is recorded separately in the Consolidated Balance Sheets. The Company has determined that properties it provides to its Dealers, franchisees and agents are not investment property, as these relate to the Company's operating activities. This was determined based on certain criteria such as whether or not the Company provides significant ancillary services to the occupants of the property. The Company includes property that it leases out to third parties (other than Dealers, franchisees or agents) in investment property.

Investment property is measured at cost less accumulated depreciation and any impairment, if any, in the same manner as property and equipment and includes borrowing costs that meet the criteria for capitalization.

The fair value of investment property is determined annually based on internal appraisals, as the Company has determined it has sufficient experience in commercial real estate. Internal appraisals consist of applying a capitalization rate to the annualized net rental income generated by properties leased to third parties according to the location and size of the property concerned.

Property and equipment

Property and equipment are carried at cost less accumulated depreciation and impairment, if any. Land is stated at cost less any impairment. Properties in the course of construction are held at cost less any recognized impairment. The cost of an item of property or equipment comprises costs that can be directly attributed to its acquisition, including borrowing costs that meet the criteria for capitalization and initial estimates of the cost of dismantling and removing the item and restoring the site on which it is located.

Property and equipment are depreciated on a declining balance method to their residual value over their estimated useful lives. The estimated useful lives and amortization method are reviewed annually with the effect of any changes in estimate being accounted for on a prospective basis. The various components of an item of property or equipment are recognized separately when their estimated useful lives, and thus their depreciation period, are significantly different. Residual values and estimated useful lives are reviewed annually with the effect of any changes in estimate being accounted for on a prospective basis.

Leasehold improvements and lease inducements are amortized on a straight-line basis over the terms of the respective leases.

Assets held under finance leases are depreciated on a declining balance basis over their estimated useful life on the same basis as owned assets, or where shorter, over the term of the respective lease.

Depreciation and amortization rates are as follows:

Asset category	Depreciation rate/term
Buildings	4%-20%
Fixtures and equipment	5%-40%
Leasehold improvements	Shorter of term of lease or estimated useful life
Assets under finance lease	Shorter of term of lease or estimated useful life

All property and equipment is reviewed for impairment where there are indications that the carrying value may not be recoverable.

Leased assets

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Lessor

Where the Company is the lessor, rental income and license fees from an operating lease are recognized in the Consolidated Statements of Income on a straight-line basis over the term of the relevant lease.

Lessee

Where the Company is the lessee, rent payable under an operating lease is charged to the Consolidated Statements of Income on a straight-line basis over the term of the relevant lease.

Assets under finance leases are recognized as assets of the Company at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability is included in the Consolidated Balance Sheets as a finance lease obligation. Lease payments are apportioned between finance costs and reduction of the lease obligations so as to achieve a constant rate of interest on the remaining balance of the liability. Finance costs, as well as depreciation expense on the underlying leased asset, are charged to the Consolidated Statements of Income.

Sale and leaseback

In a sale and leaseback transaction, an asset is sold to a third party and the use of that asset is reacquired by entering into a lease with the third party. The accounting treatment of the sale and leaseback transaction depends upon the substance of the transaction and whether or not the sale was made at the asset's fair value.

For sale and finance leasebacks, any gain or loss from the sale is deferred and amortized over the lease term. For sale and operating leasebacks, the assets are sold at fair value, and accordingly the gain or loss from the sale is recognized immediately.

Following initial recognition, the lease treatment is consistent with the lessee principles described in the preceding section.

Impairment of assets

The carrying amount of property and equipment, investment property and intangible assets are reviewed at the end of each reporting period to determine whether there are any indicators of impairment. If any such indicators exist then the recoverable amount of the asset is estimated. Goodwill and intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually and whenever there is an indicator that the asset may be impaired.

The recoverable amount of an asset is defined as the higher of its fair value less costs to sell ("FVLCS") and its value in use ("VIU"). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the CGU to which the asset belongs. The CGU corresponds to the smallest identifiable group of assets whose continuing use generates cash inflows that are largely independent of the cash flows from other groups of assets. The Company has determined that its Retail CGUs comprise individual stores or group of stores within a geographic market. An impairment loss is recognized when the carrying amount of an asset, or of the CGU to which it belongs, exceeds the recoverable amount.

In assessing VIU, the estimated future cash flows are discounted to their present value. Cash flows are discounted using a weighted average cost of capital before tax, plus a risk premium specific to each line of business. The Company estimates cash flows before taxes based on most recent actual results or budgets. Cash flows are then extrapolated over a period of five years, taking into account a terminal value calculated by discounting the final year in perpetuity. The growth rate applied to the terminal value uses a growth rate that does not exceed the industry average growth rate.

For calculating the FVLCS of investment property, the Company applies a capitalization and vacancy rate appropriate for the individual characteristics of each property. These rates are applied to current rental streams, and the results are reviewed by the Company's internal valuations experts.

Goodwill is allocated to each of the CGUs (or groups of CGUs) expected to benefit from the synergies of the combination. Any impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the CGU pro rata based on the carrying amount of each asset in the CGU.

Impairments are recognized in other income in the Consolidated Statements of Income. Impairment on goodwill cannot be reversed. Impairment recognized for other assets in prior periods are assessed at the end of each reporting period for any indications that the impairment has decreased or no longer exists. An impairment is reversed if there has been a change in the estimates used to determine the recoverable amount. The increased carrying amount of an asset attributable to a reversal of impairment may not exceed the carrying amount that would have been determined had no impairment been recognized in prior periods.

Assets classified as held for sale

Assets and disposal groups are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale and it should be expected to be completed within one year from the date of classification. Assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Borrowing costs

Borrowing costs directly attributable to the acquisition or construction of a qualifying asset are capitalized. Qualifying assets are those that necessarily take a substantial period of time to prepare for their intended use. All other borrowing costs are recognized in finance costs in the Consolidated Statements of Income in the period in which they occur.

Employee 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 benefits over the periods in which the employees earn the benefits. The cost of employee benefits earned by employees is actuarially determined using the projected benefit method pro-rated 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. Any net actuarial gains and losses are immediately recorded in OCI.

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

The Company recognizes a liability and an expense for short-term benefits such as bonuses, profit sharing and stock purchase if the Company has a present legal obligation or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reasonably.

Other long-term employee benefits include:

Termination benefits

Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

Share-based payments

Stock options (referred to as "stock options with tandem stock appreciation rights") are granted 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 the Company's Class A Non-Voting Shares 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, the stock options are considered to be compound instruments. The fair value of compound instruments is measured at each reporting date taking into account the terms and conditions on which the rights to cash or equity instruments are granted. As the fair value of the settlement in cash is the same as the fair value of the settlement as a traditional stock option, the fair value of the stock option is the same as the fair value of the debt component. The corresponding expense and liability are recognized over the respective vesting period.

The fair value of the amount payable to employees in respect of share unit plans, which are settled in cash, is recorded as a liability over the period that the employees unconditionally become entitled to payment. The fair value of the liability is remeasured at each reporting date with the change in the liability being recognized in administrative expenses in the Consolidated Statements of Income.

Trade and other payables

Trade and other payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

Receivables and payables are offset and the net amount presented in the Consolidated Balance Sheets when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account risks and uncertainty of cash flow. Where the effect of discounting is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Where the future cash flow estimates have been adjusted for the risks specific to the liability, the discount rate does not reflect the risks specific to the liability. The unwinding of the discount is reflected in finance costs in the Consolidated Statements of Income.

When a portion or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that the Company will receive the reimbursement and the amount can be reliably measured.

Warranties and returns

A provision for warranties and returns is recognized when the underlying products or services are sold. The provision is based on historical warranty and returns data and is discounted to present value.

Site restoration and decommissioning

Legal or constructive obligations associated with the removal of underground fuel storage tanks and site remediation costs on the retirement of certain property and equipment, and the termination of certain lease agreements are recognized in the period in which they are incurred when it is probable that an outflow of resources embodying economic benefits will be required and a reasonable estimate of the amount of the obligation can be made. The obligations are initially measured at the Company's best estimate, using an expected value approach, and are discounted to present value. An amount equal to that of the initial obligation is added to the capitalized costs of the related asset. Over time, the discounted obligation amount accretes to the expected fair value of the cost to restore/decommission the location. This accretion amount is reflected in finance costs in the Consolidated Statements of Income for the period. The initial costs are depreciated over the useful lives of the related property and equipment in accordance with the depreciation rate outlined in the property and equipment note above.

Restructuring

A provision for restructuring is recognized when the Company has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced publicly. The measurement of a restructuring provision includes only direct costs arising from the restructuring, rather than ongoing activities and future operating losses of the entity.

Onerous contracts

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Company recognizes any impairment loss on the assets associated with that contract. Provisions for onerous leases are recognized when the Company believes that the unavoidable costs of meeting the lease obligations exceed the economic benefits expected to be received under the lease.

Customer loyalty programs

The Company maintains customer loyalty programs in promoting our interrelated businesses. The Company issues paper-based "Canadian Tire Money" to Dealers and to consumers whenever they make cash or debit card purchases at the Company's Petroleum gas bars. The Company also issues electronic-based "Canadian Tire Money on the Card" whenever consumers make a Canadian Tire Options MasterCard purchase from any location in the World. Both the paper-based and the electronic-based "Canadian Tire Money" can only be redeemed at the Canadian Tire Retail stores for merchandise at the option of the consumer.

An obligation arises from the above customer loyalty program when the Dealers pay the Company to acquire paper-based "Canadian Tire Money", as the Dealers retain the right to return Canadian Tire Money to the Company for refund in cash. An obligation also arises when the Company issues electronic-based "Canadian Tire Money on the Card". These obligations are measured at fair value by reference to the fair value of the awards for which they could be redeemed based on the estimated probability of their redemption and are expensed to sales and marketing expenses in the Consolidated Statements of Income.

Insurance reserve

Included in trade and other payables is an insurance reserve which consists of 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 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, or less than, the amounts provided and any adjustment will be reflected in the periods in which they become known. The Company uses actuarial valuations in determining its reserve for outstanding losses and loss related expenses using an appropriate reserving methodology for each line of business. The Company does not discount its liabilities for unpaid claims.

Deposits and commercial paper notes

Deposits and commercial paper notes are initially measured at fair value and subsequently measured at amortized cost using the effective interest method.

Loans payable

Franchise Trust, a SPE, is a legal entity sponsored by a third party bank, originates loans to Dealers for their purchase of inventory and fixed assets. Franchise Trust funds these loans through the capital markets by selling interests in the loans to multi-seller conduits who then issue asset-backed commercial paper to fund the purchases. The multi-seller conduits are sponsored by major banks. The Company, which consolidates Franchise Trust by virtue of our control over it, has arranged for several major Canadian banks to provide standby letters of credit to Franchise Trust to support the credit quality of the loan portfolio.

The loans payable are initially measured at fair value and subsequently measured at amortized cost.

Long-term debt

Long-term debt is recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortized cost and any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the Consolidated Statements of Income over the term of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the date of the Consolidated Balance Sheets.

Share capital

Shares issued by the Company are recorded at the value of proceeds received. Repurchased shares are removed from equity. No gain or loss is recognized in net income on the purchase, sale, issue or cancellation of the Company's shares.

Dividends

Dividend distributions to the Company's shareholders are recognized as a liability in the Consolidated Balance Sheets in the period in which the dividends are approved by the Company's Board of Directors.

Revenue

The Company recognizes revenue when the amount can be reliably measured, it is probable that future economic benefits will flow to the entity, and when specific criteria have been met for each of the Company's activities as described below.

Sale of goods

Revenue from the sale of goods includes merchandise sold to Dealers, Mark's Work Wearhouse Ltd. ("Mark's"), PartSource and FGL Sports franchisees, sale of gasoline by Canadian Tire Petroleum, and the sale of goods by Mark's, PartSource and FGL Sports corporate-owned stores. This revenue is recognized when the goods are delivered, provided that the recipient has no rights, including warranty rights, to return the goods. If there is any uncertainty regarding the right of a customer to return goods, no revenue is recognized until the uncertainty is resolved. However, in the case of warranties, if warranty claims can be reasonably estimated, revenue is then recorded for the net amount. Revenue from the sale of goods is measured at the fair value of the consideration received from external customers less an appropriate deduction for actual and expected returns, discounts, warranty and loyalty program costs, net of sales taxes.

Interest income on loans receivable

Interest income includes interest charged on loans receivable and fees that are an integral part of the effective interest rate on financial instruments, such as annual credit card fees. Interest income on financial assets that are classified as loans and receivable is determined using the effective interest method. This is the method of calculating the amortized cost of a financial asset or for a group of assets and of allocating the interest income over the expected life of the asset. The effective interest rate is the rate that discounts the estimated future cash flows to the instrument's initial carrying amount. Calculation of the effective interest rate takes into account fees receivable, that are an integral part of the instrument's yield, premiums or discounts on acquisition or issue, early redemption fees and transaction costs.

Services rendered

Service revenue includes Roadside Assistance Club membership revenue, insurance premiums and reinsurance revenue, extended warranty contract fees, merchant, interchange and cash advance fees, and service charges on loans receivable at Financial Services as well as clothing alteration revenue at Mark's. Service revenue is recognized according to the contractual provisions of the arrangement, which is generally when the service is provided.

Merchant and interchange fees on credit card transactions are recognized as revenue at the time transactions are completed. Revenue from separately priced extended warranty contracts is recorded on a straight-line basis over the term of the contracts.

Reinsurance premiums are recorded on the accrual basis and are included in income on a pro-rata basis over the life of the insurance contract with the unearned portion deferred in the Consolidated Balance Sheets. Premiums which are subject to adjustment are estimated based on available information. Any variances from the estimates are recorded in the periods in which they become known.

Royalties and license fees

Royalties and license fees include license fees from Petroleum agents and Dealers and royalties from Mark's franchisees. Royalties and license fee revenues are recognized as they are earned in accordance with the substance of the relevant agreement and are measured on an accrual basis.

Rental income

Rental income from investment property and FGL Sports franchisees is recognized in the Consolidated Statements of Income on a straight-line basis over the term of the lease.

Customer loyalty programs

Loyalty award credits issued as part of a sales transaction relating to the Company's "Gas Advantage" and "Cash Advantage" credit card programs results in revenue being deferred until the loyalty award is redeemed by the customer. The portion of the revenue that is deferred is the fair value of the award. The fair value of the award takes into account the amount for which the award credits could be sold separately, less the proportion of the award credits that are not expected to be redeemed by customers.

Sales returns and loyalty program redemptions

Accruals for sales returns and loyalty program redemptions are estimated on the basis of historical returns and redemptions and are recorded so as to allocate them to the same period when the revenue is recorded. These accruals are reviewed regularly and updated to reflect Management's best estimate, however, actual returns and redemptions could vary from these estimates.

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 producing revenue and related inventory when recognized in the Consolidated Statements of Income 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 as a reduction 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.

Finance income and costs

Finance income is comprised of interest income on funds invested (including available-for-sale financial assets), changes in the fair value of financial assets classified as FVTPL, and gains on interest rate hedging instruments that are recognized in net income. Interest income is recognized as it accrues using the effective interest method.

Finance costs comprise interest expense on borrowings (including borrowings related to the Dealer Loan Program), unwinding of the discount on provisions, changes in the fair value of financial assets classified as FVTPL, impairments recognized on financial assets, and losses on interest rate hedging instruments that are recognized in net income. Interest on deposits is recorded in cost of producing revenue in the Consolidated Statements of Income. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized as an expense using the effective interest method.

Income taxes

The income tax expense for the period comprises current and deferred tax. Tax is recognized in the Consolidated Statements of Income, except to the extent that it relates to items recognized either in OCI or directly in equity. In this case, the tax is recognized in OCI or in equity, respectively.

The income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the date of the Consolidated Balance Sheets in the countries where the Company operates and generates taxable income.

Deferred income tax is recognized, using the liability method, on unused tax losses, unused tax credits and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in these consolidated financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of goodwill or initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable net income. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the date of the Consolidated Balance Sheets and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred income tax liabilities are provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

Earnings per share

Basic earnings per share is calculated by dividing the net income attributable to Common and Class A Non-Voting shareholders of the Company by the weighted average number of Common and Class A Non-Voting shares outstanding during the reporting period. Diluted earnings per share is calculated by adjusting the net income attributable to shareholders and the weighted average number of shares outstanding for the effects of all dilutive potential equity instruments, which comprise employee stock options.

Segmented reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other operations. Segment operating results are reviewed regularly by the Company's CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

4. Basis for Fair Values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Property and equipment

The fair value of property and equipment recognized as a result of a business combination is based on either the cost approach or market approaches, as applicable. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly. For the cost approach the current replacement cost or reproduction cost for each major asset is calculated using either the direct method or the indirect method.

Intangible assets

The fair value of patents, trademarks/banners and private label brands acquired in a business combination is determined using an income approach. The 'relief from royalty' method has been applied to forecasted revenue and an appropriate royalty rate, which is discounted to present value. This results in an estimate of the value of owning the intangible assets.

The fair value of other intangible assets, such as customer relationships and franchise agreements, is determined using an income approach or multi-period excess earnings approach. This method is based on the discounted cash flows expected to be derived from the ownership and the present value represents the value of the intangible. The fair value of off-market leases acquired in a business combination is determined based on the present value of the difference between market rates and rates in the existing leases.

Investment property

The value is determined annually based on internal appraisals. Internal appraisals consist of applying a capitalization rate to the annualized net rental income generated by properties leased to third parties according to the location and size of the property concerned.

Inventories

The fair value of inventories acquired in a business combination is determined based on the estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

Financial instruments

The Company uses a fair value hierarchy to categorize the inputs used to measure the fair value of financial assets and financial liabilities, the levels of which are:

Level 1 – inputs are unadjusted quoted prices of identical instruments in active markets;

Level 2 – inputs are other than quoted prices included in Level 1, but that are observable for the asset or liability, either directly or indirectly; and

Level 3 – inputs are not based on observable market data

Investments in equity and debt securities

The fair value of loans and receivables, financial assets at FVTPL, held to maturity investments and available-for-sale financial assets that are traded in active markets are determined by reference to their quoted closing bid price or dealer price quotations at the reporting date. For investments that are not traded in active markets, the Company determines fair values using a combination of discounted cash flow models, comparison to similar instruments for which market observable prices exist and other valuation models. The fair value of loans and receivables and held to maturity investments are determined for disclosure purposes only.

Derivatives

Listed market prices are not available for forward exchange contracts; consequently fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

The fair value of interest rate swaps is based on counterparty confirmations tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

The fair value of the equity derivatives is based on counterparty confirmations, which is tested for reasonableness by determining the appropriate share price movement adjusted for interest using market interest rates specific to the terms of the underlying derivative contracts.

Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Company entity and counterparty when appropriate.

Trade and other receivables

The fair value of trade and other receivables is estimated to be reasonably approximated by their carrying value, due to their short-term nature.

Share-based payment transactions

The fair value of employee stock options and share units is measured using the Black-Scholes formula. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected based on publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

5. Capital Management

The Company's objectives when managing capital are:

- ensuring sufficient liquidity to support its financial obligations and execute its operating and strategic plans;
- maintaining healthy liquidity reserves and access to capital; and
- minimizing the after-tax cost of capital while taking into consideration current and future industry, market and economic risks and conditions.

The current economic environment and the transition to IFRS have not changed the Company's objectives in managing capital.

The definition of capital varies from company to company, industry to industry and for different purposes. In the process of managing the Company's capital, Management includes the following items in its definition of capital, which includes GCCT indebtedness but excludes Franchise Trust indebtedness:

(C\$ in millions)	December 31, 2011	% of total	January 1, 2011	% of total	January 3, 2010	% of total
Capital components						
Short-term deposits	\$ 1,182.3	12.6%	\$ 615.6	7.0%	\$ 863.4	9.6%
Short-term borrowings	352.6	3.8%	100.6	1.2%	163.0	1.8%
Current portion of long-term debt	27.9	0.3%	354.2	4.1%	690.6	7.6%
Long-term debt	2,347.7	24.9%	2,365.4	27.0%	2,441.1	27.0%
Long-term deposits	1,102.2	11.7%	1,264.5	14.5%	1,196.9	13.2%
Other long-term liabilities ¹	–	–%	–	–%	1.3	0.0%
Total debt	\$ 5,012.7	53.3%	\$ 4,700.3	53.8%	\$ 5,356.3	59.2%
Share capital	710.5	7.5%	711.6	8.1%	720.4	8.0%
Contributed surplus	1.1	0.0%	0.3	0.0%	0.2	0.0%
Retained earnings	3,686.4	39.2%	3,325.3	38.1%	2,961.1	32.8%
Total capital under management	\$ 9,410.7	100.0%	\$ 8,737.5	100.0%	\$ 9,038.0	100.0%

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

The Company monitors its capital structure through measuring its various debt to capitalization ratios and ensures its ability to service debt and meet other fixed obligations by tracking its interest and other fixed charge coverage ratios. The Company monitors the impact of the growing Financial Services business on the consolidated metrics.

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

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

To assess its effectiveness in managing capital, Management monitors certain key ratios to ensure they are within targeted ranges. Various debt to capitalization ratios are assessed with and without the impact of securitization.

Under the existing debt agreements, key financial covenants are monitored on an on-going basis by Management to ensure compliance with the agreements. The key covenants are as follows:

- maintaining a specified consolidated minimum net tangible asset coverage ratio (excluding GCCT and Franchise Trust), which is calculated as: total assets less intangible assets, current liabilities (excluding current portion of long-term debt), and liability for post-employment benefits, divided by long-term debt (including current portion of long-term debt); and
- a limitation on the amount available for distribution to shareholders whereby 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 key covenants during the year. Under these covenants, the Company currently has sufficient flexibility to fund business growth and maintain or amend dividend rates within our existing dividend policy.

The Company manages its capital structure with a view to maintaining investment grade rating from two credit rating agencies. Management calculates ratios on an alternative basis from time-to-time to approximate the methodology of debt rating agencies and other market participants.

In order to maintain or adjust the capital structure, the Company has the flexibility to 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 co-ownership interests in loans receivable to GCCT.

In addition, the Company is required to comply with regulatory requirements associated with the operations of Canadian Tire Bank ("the Bank"), a federally chartered bank, and other regulatory requirements that impact its business operations.

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 a capital management policy, an internal capital adequacy assessment process and procedures and controls which it utilizes to achieve its goals and objectives. The Bank's objectives include:

- providing sufficient capital to maintain the confidence of depositors; and
- being an appropriately capitalized institution, as measured internally, defined by regulatory authorities and compared with the Bank's peers.

The Bank's total capital consists of three tiers of capital approved under OSFI's current regulatory capital guidelines. As at December 31, 2011 and 2010 (the Bank's fiscal year ends), Tier 1 capital includes common shares and retained earnings reduced by net securitization exposures. The Bank currently does not hold any instruments in Tier 2 or Tier 3 capital. Risk-weighted assets ("RWA"), 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. Under IFRS, strictly for purposes of calculating RWA, securitization transactions are still considered off-balance sheet transactions, and therefore, securitization assets are not included in the RWA calculation.

The Bank's ratios are above internal minimum targets for Tier 1 and total capital ratios and well below its internal maximum targets for the assets to capital multiple. The Bank's internal minimum ratios are determined by the Internal Capital Adequacy Assessment Process. During the 12 months ended December 31, 2011 and the comparative period for 2010, 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).

While the acquisition of FGL Sports impacted consolidated debt ratios and covenant metrics, it did not fundamentally alter the Company's objectives in managing capital or its definition of capital.

6. Financial Risk Management

6.1 Overview

The Company has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk; and
- market risk (including foreign currency and interest rate risk)

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are included throughout these consolidated financial statements and notes thereto.

6.2 Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company has in place various Board approved financial risk management policies. Management provides quarterly updates to the Audit Committee on policy compliance, monitoring of key metrics and financial positions and other activities as required pursuant to the policies.

The Company's financial risk management policies are established to identify and analyze the risks faced by the Company, to set acceptable risk tolerance limits and controls, and to monitor risks and adherence to limits. The financial risk management policies and systems are reviewed regularly to ensure they remain consistent with the objectives and risk tolerance acceptable to the Company and current market trends and conditions. The Company, through its training and management standards and procedures, aims to uphold a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Company's Audit Committee oversees how Management monitors compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. The Company's Audit Committee is assisted in its oversight role by Internal Audit Services. Internal Audit Services is responsible for conducting independent assessments of the effectiveness of risk management and control processes across the Company, the results of which are reported to the Audit Committee.

6.3 Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet their contractual obligations, and arises principally from the Company's credit card and retail banking customers, Dealer network, investment securities and financial derivative instrument counterparties. The Company believes that the risk of all counterparties defaulting at the same time with respect to these instruments is not significant.

The Company's maximum exposure to credit risk, over and above amounts recognized on the Consolidated Balance Sheets, includes the following:

(C\$ in millions)	December 31, 2011	January 1, 2011
Undrawn loan commitments	\$ 17,556.5	\$ 15,012.9
Guarantees (Note 41)	287.9	273.4
Total	\$ 17,844.4	\$ 15,286.3

6.3.1 Trade and other receivables

Trade and other receivables are primarily from Dealers and franchisees spread across Canada, a large and geographically dispersed group who, individually, generally comprise less than one per cent of the total balance outstanding.

6.3.2 Loans and mortgage receivable

The Company's exposure to loans receivable credit risk resides at the Bank and is influenced mainly by the individual characteristics of each credit card or retail bank customer. Concentration of credit risk exists if a number of customers are engaged in similar activities, are located in the same geographic region or have similar economic characteristics such that their ability to meet contractual obligations could be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate a related sensitivity of the Bank's performance to developments affecting a particular counterparty, industry or geographic location. The Bank uses sophisticated credit scoring models, monitoring technology and collection modeling techniques to implement and manage strategies, policies and limits that are designed to control risk. Loans receivable are generated by a large and geographically dispersed group of customers. Current credit exposure is limited to the loss that would be incurred if all of the Bank's counterparties were to default at the same time.

The Bank maintains comprehensive procedures and information systems to effectively monitor and control the characteristics and quality of its credit portfolio. To ensure the Bank's credit granting, documentation and collection processes are followed correctly, the Bank maintains the following:

- a credit rating system that defines risk-rating criteria and rates all credits individually according to those criteria;
- portfolio characteristic monitoring;
- credit review processes; and
- independent inspections of its credit portfolio to ensure compliance.

The carrying amount of loans and mortgage receivable includes secured mortgage loans of \$68.9 million (2010 - \$61.6 million) as well as loans to Dealers totaling \$634.9 million (2010 - \$687.0 million) that are secured by the assets of the respective Dealer corporation.

6.3.3 Allowance for credit losses and past due amounts

In determining the recoverability of a loan receivable, the Company considers any change in the credit quality of the loan receivable from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the customer base being large and unrelated.

In determining the allowance for credit losses, the Company considers 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 the Company.

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

(C\$ in millions)	Trade and other receivables		Loans receivable ^{1,2}		Total	
	2011	2010	2011	2010	2011	2010
Balance, beginning of year	\$ 7.7	\$ 3.6	\$ 117.7	\$ 127.4	\$ 125.4	\$ 131.0
Impairment for credit losses	5.0	4.3	302.0	300.7	307.0	305.0
Recoveries	0.1	0.2	50.0	46.2	50.1	46.4
Write-offs	(0.6)	(0.4)	(351.0)	(356.6)	(351.6)	(357.0)
Balance, end of year	\$ 12.2	\$ 7.7	\$ 118.7	\$ 117.7	\$ 130.9	\$ 125.4

¹ Loans include credit card loans, personal loans and lines of credit loans.

² No allowances for credit losses have been made with respect to Franchise Trust loans receivable.

The Company's aging of the trade and other receivables and loans receivable that are past due, but not impaired is as follows:

(C\$ in millions)	2011		Total	2010		Total
	0-90 days	> 90 days		0-90 days	> 90 days	
Trade and other receivable	\$ 27.0	\$ 14.1	\$ 41.1	\$ 16.5	\$ 10.2	\$ 26.7
Loans receivable ¹	94.0	69.2	163.2	93.7	64.8	158.5
Total	\$ 121.0	\$ 83.3	\$ 204.3	\$ 110.2	\$ 75.0	\$ 185.2

¹ No past due loans for Franchise Trust.

A loan is considered past due when the counterparty has not made a payment by the contractual due date. Credit card and line of credit loan balances are written off when a payment is 180 days in arrears. Line of credit loans are considered impaired when a payment is over 90 days in arrears and are written off when a payment is 180 days in arrears. Personal loans are considered impaired when a payment is over 90 days in arrears and are written off when a payment is 365 days in arrears. No collateral is held against loans receivable.

6.3.4 Securities and derivatives

The Company has a Securities and Derivatives Policy in place for management of the various risks (including counterparty risk) related to investment activity and use of financial derivatives. The overall credit risk compliance mechanisms established in this policy include, but are not limited to, approval authorities, counterparty limits, notional limits, maximum term to maturity limits, industry sector limits and portfolio diversification requirements.

The Company's credit exposure of its investment portfolio is spread across financial institutions, provincial and federal governments and, to a lesser extent, corporate issuers, with limitations as to the amount, term to maturity and industry concentration levels. The Company limits its exposure to credit risk by investing only in highly liquid and rated certificates of deposit, commercial paper or other approved securities and only with counterparties that are dual rated and have a credit rating of "A" or better.

The Company limits its credit exposure to financial derivatives by transacting only with highly rated counterparties and managing within specific limits for credit exposure, notional amounts and term to maturity.

6.3.5 Credit enhancement and guarantees provided

The Company may be required to provide credit enhancement for individual Dealer's borrowings in the form of standby letters of credit or guarantees of third party bank debt agreements in respect of the financing programs available to the Dealers. See Note 41.

6.4 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The Company has in place a leverage and liquidity policy to manage its exposure to liquidity risk.

Management has identified key financial credit metric ratios and calculates these ratios in a manner to approximate the methodology of debt rating agencies and other market participants. Management regularly monitors these metrics against industry accepted targets to maintain investment grade ratings from two credit rating agencies.

It is the Bank's objective to ensure the availability of adequate funds by maintaining a strong liquidity management framework and to satisfy all applicable regulatory and statutory requirements. The Asset Liability Management Board Policy dictates liquidity and funding limits and requires the establishment of an annual Liquidity and Funding Plan which includes risk measurement methodologies, scenario analysis, stress testing, and also provides roles, responsibilities and key actions in managing a liquidity crisis. The Asset Liability Management Board Policy dictates the following liquidity and funding limits for the Bank:

- Minimum liquid assets/demand deposits ratio of 30%; and
- Minimum liquid assets/total deposits ratio of 15%.

The Company uses a detailed consolidated cash flow forecast model to regularly monitor its near term and longer term cash flow requirements which assists in optimizing its short-term cash and bank indebtedness position and evaluating longer term funding strategies. As of December 31, 2011, the Company had \$1.37 billion in committed bank lines of credit, \$1.0 billion of which is available under a two-year syndicated credit agreement dated June 9, 2009. The syndicated credit facility is available to the Company until June 9, 2013 and can be extended for an additional 364 day period in June 2012. The remaining lines of credit have been established pursuant to bi-lateral credit agreements that are available to the Company until late 2012. The Company has the ability to request an extension of each of the bi-lateral credit agreements each quarter for an additional 90 day period.

The Company has access to a number of alternative financing sources in order to ensure that the appropriate level of liquidity is available to meet its strategic objectives including: committed bank lines totaling \$1.37 billion, commercial paper program, medium-term notes program for the issuance of \$750 million available to April 2013, securitization of credit card receivables through GCCT, Broker Guaranteed Investment Certificate ("GIC") deposits, Retail GIC deposits, High Interest Savings ("HIS") account deposits, and sale and leaseback transactions.

Due to the diversification of funding sources, the Company is not exposed to any concentration risk regarding liquidity.

The following table summarizes the Company's contractual maturity for its financial liabilities, including interest payments and excluding the impact of netting agreements. The table includes both interest and principal cash flows.

(C\$ in millions)	2012	2013	2014	2015	2016	Thereafter	Total
Non-derivative financial instruments							
Bank indebtedness	\$ 124.8	\$ –	\$ –	\$ –	\$ –	\$ –	\$ 124.8
Deposits ¹	1,188.4	496.6	371.9	199.1	34.6	–	2,290.6
Trade and other payables	1,598.6	–	–	–	–	–	1,598.6
Short-term borrowings	352.6	–	–	–	–	–	352.6
Loans payable	628.7	–	–	–	–	–	628.7
Long-term debt ³	4.3	635.1	252.6	564.6	200.0	550.0	2,206.6
Finance lease obligations	23.6	20.7	14.6	13.3	11.3	92.9	176.4
Interest payment ²	176.7	156.2	106.2	69.8	47.8	580.0	1,136.7
Total non-derivative financial liabilities	\$ 4,097.7	\$ 1,308.6	\$ 745.3	\$ 846.8	\$ 293.7	\$ 1,222.9	\$ 8,515.0
Total derivative financial liabilities	2.8	3.9	–	–	–	–	6.7
Total	\$ 4,100.5	\$ 1,312.5	\$ 745.3	\$ 846.8	\$ 293.7	\$ 1,222.9	\$ 8,521.7

¹ Deposits exclude the GIC broker fee discount of \$6.1 million.

² Includes interest payments on deposits, short-term borrowings, loans payable and long-term debt.

³ The contract maturity of long-term debt excludes debt issue costs of \$6.6 million and the benefit on the effective portion of the cash flow hedges of \$0.8 million.

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts provided the expected cash flows on demand deposits from customers maintain a stable or increasing balance.

6.5 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return. The Company has in place foreign exchange, interest rate and equity risk management policies to manage its exposure to market risk. These policies establish guidelines on how the Company is to manage the market risk inherent to the business and provides mechanisms to ensure business transactions are executed in accordance with established limits, processes and procedures.

The Company does not enter into derivatives for speculative purposes. All such transactions are carried out within the guidelines established in the respective financial risk management policy as approved by the Board of Directors. Generally, the Company seeks to apply hedge accounting in order to manage volatility in its net income.

6.5.1 Foreign currency risk

The Company has significant demand for foreign currencies, primarily United States ("U.S.") dollars, due to global sourcing. The Company's exposure to foreign exchange rate risk is managed 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 enters into foreign exchange contracts, cash flow hedges, primarily in U.S. dollars, to hedge future purchases of foreign currency denominated goods and services. The Company's exposure to a sustained movement in the currency markets is impacted by competitive forces and future prevailing market conditions.

The following significant exchange rates were applicable during the year:

	Average spot rate		Reporting date spot rate		
	2011	2010	December 31, 2011	January 1, 2010	January 3, 2010
1 U.S.\$ = C\$	0.9891	1.0303	1.0170	0.9946	1.0466

6.5.2 Interest rate risk

The Company has a policy in place whereby a minimum of 75 percent of its long-term debt (term greater than one year) and lease obligations must be at fixed versus floating interest rates. The Company is in compliance with this policy. The Company may enter into interest rate swap contracts to manage its current and anticipated exposure to interest rate price risk. The Company has no interest rate swap contracts outstanding at December 31, 2011 other than interest rate swap contracts with a notional amount of \$45.7 million (2010 – \$84.5 million) in connection with the Dealer loans held by Franchise Trust (Note 25).

A one per cent change in interest rates would not materially affect the Company's earnings, cash flow or financial position, as the Company has minimal floating interest rate exposure as the indebtedness of the Company is predominantly at fixed rates. The Company's exposure to interest rate changes is predominantly driven by the Financial Services business to the extent that the interest rates on future GIC deposits, HIS account deposits, Tax Free Savings Account ("TFSA") deposits and securitization transactions are market dependent. Partially offsetting this will be future liquidity pool investment rates available to the Bank.

7. Operating Segments

Effective January 2, 2011, the Company re-organized its four previously reportable operating segments to conform with its revised view of operating the business. The Company now has two reportable segments, Retail and Financial Services. Prior year comparatives have been restated to conform to the current year's presentation.

The Company's two reportable operating segments are strategic business units, offering different products and services. They are separately managed due to their distinct nature. The following summary describes the operations in each of the Company's reportable segments:

- Retail is comprised of the Living, Fixing, Playing, Automotive, Apparel and Sporting Goods categories. The retail business is conducted through a number of banners including Canadian Tire Retail ("CTR"), Canadian Tire Gas ("Petroleum"), Mark's, PartSource, and various FGL Sports banners. Retail also includes the Dealer Loan Program (the portion (silo) of Franchise Trust that issues loans to Dealers), a financing program established to provide an efficient and cost-effective way for Dealers to access the majority of the financing required for their store operations.
- Financial Services markets a range of Canadian Tire-branded credit cards, including the Canadian Tire Options MasterCard, the Cash Advantage MasterCard and the Gas Advantage MasterCard. Financial Services also markets insurance and warranty products. The Bank, a wholly-owned subsidiary of Financial Services, is a federally regulated bank that manages and finances Canadian Tire's consumer MasterCard, Visa and retail credit card portfolios,

as well as an existing block of Canadian Tire-branded personal loan and line of credit portfolios. The Bank also offers and markets HIS accounts, TFSA's and GICs, both directly and through third-party brokers. Financial Services also includes GCCT, a financing program established to purchase co-ownership interests in the Company's credit card loans, and it issues debt to third-party investors to fund its purchases.

The two reportable operating segments have foreign-based subsidiaries or representative offices. These subsidiaries lend funds to other subsidiaries within the Company. One operates a reinsurance company while others provide support relating to product sourcing, logistics and vendor management outside of Canada. These assets and activities do not constitute a geographic segment.

The segments operate independently but do share some services such as certain corporate, treasury, financial, legal, information technology and human resource functions. All intercompany transactions are eliminated upon consolidation. The accounting policies of the reportable segments and basis of preparation are the same as described in Notes 2 and 3.

Performance is measured based on segment income before income taxes, as included in the internal management reports reviewed by the Company's CEO. Management has determined that this measure is the most relevant in evaluating segment results.

Information regarding the results of each reportable segment is as follows:

(C\$ in millions)	2011				2010			
	Retail	Financial Services	Eliminations and adjustments	Total	Retail	Financial Services	Eliminations and adjustments	Total
External revenue	\$ 9,362.8	\$ 941.2	\$ 83.1	\$ 10,387.1	\$ 8,178.2	\$ 944.0	\$ 90.9	\$ 9,213.1
Intercompany revenue	0.7	12.1	(12.8)	–	0.7	9.7	(10.4)	–
Total revenue	9,363.5	953.3	70.3	10,387.1	8,178.9	953.7	80.5	9,213.1
Gross margin	2,446.7	543.7	70.3	3,060.7	2,162.7	547.8	80.5	2,791.0
Operating expenses	(1,982.0)	(264.7)	(70.3)	(2,317.0)	(1,707.0)	(282.1)	(80.5)	(2,069.6)
Operating income	483.5	278.6	–	762.1	457.6	264.9	–	722.5
Income before income taxes	410.8	219.1	–	629.9	386.2	200.6	–	586.8
Items included in the above:								
Depreciation and amortization	\$ 285.4	\$ 10.7	\$ –	\$ 296.1	\$ 265.2	\$ 8.9	\$ –	\$ 274.1
Interest income	45.7	678.7	(4.2)	720.2	63.1	670.7	(16.0)	717.8
Interest expense	90.1	139.4	(4.2)	225.3	104.9	146.5	(16.0)	235.4

Capital Expenditures by segment are as follows:

(C\$ in millions)	2011				2010			
	Retail	Financial Services	Eliminations and adjustments	Total	Retail	Financial Services	Eliminations and adjustments	Total
Capital expenditures ¹	\$ 357.9	\$ 6.8	\$ –	\$ 364.7	\$ 321.4	\$ 18.4	\$ –	\$ 339.8

¹ Capital expenditures are presented on an accrual basis and include intangible software additions (Note 38).

Segmented Assets are as follows:

(C\$ in millions)	December 31, 2011	January 1, 2011	January 3, 2010
Retail	\$ 8,341.5	\$ 7,246.5	\$ 7,122.7
Financial Services	4,684.0	4,706.6	5,016.4
Eliminations	(686.7)	(904.6)	(731.9)
Total	\$ 12,338.8	\$ 11,048.5	\$ 11,407.2

8. Business Combinations

8.1 Acquisition of FGL Sports

On August 18, 2011, the Company acquired control of FGL Sports. The Company's approximately 97% ownership of the issued and outstanding Class "A" shares (the "Common shares") of FGL Sports included the shares acquired on and prior to August 18, 2011. The Company acquired the remaining Common shares of FGL Sports on August 25, 2011.

FGL Sports is a Canadian retailer of sporting goods offering a comprehensive assortment of brand-name and private-label products, operating stores from coast to coast, under the following corporate and franchise banners: Sport Chek, Sports Experts, Intersport, Atmosphere, Tech Shop, Nevada Bob's Golf, Hockey Experts, Sport Mart, National Sports, Athletes World, S3 and Fitness Source.

The acquisition of FGL Sports will increase Canadian Tire's presence in sporting goods, with more than 1,000 combined retail sports outlets across Canada. A significant portion of FGL Sports sales are in athletic apparel and footwear, with the balance of sales in sporting hard goods that complement the Company's existing assortment of sporting goods. The acquisition of retail banners like Sport Chek and Sports Experts is thus a natural extension of the Company's sporting goods business.

For the year ended December 31, 2011 FGL Sports contributed revenue of \$645.6 million and net income of \$29.4 million to the Company's results.

FGL Sports also recorded capital expenditures of \$32.6 million during the 19 weeks since acquisition to December 31, 2011.

If the acquisition had occurred on January 2, 2011, Management estimates that consolidated revenue would have been approximately \$11.2 billion and consolidated net income would have been approximately \$465 million for the year ended December 31, 2011. In determining these amounts, Management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same as if the acquisition had occurred on January 2, 2011. In addition, change in control costs and acquisition-related costs incurred by FGL Sports have been excluded from these amounts.

8.1.1 Consideration transferred

The acquisition date fair value of consideration transferred is as follows:

(C\$ in millions)	
Cash	\$ 765.2
Fair value of previously held interests	35.4
Total consideration transferred	\$ 800.6

8.1.2 Fair value of identifiable assets acquired and liabilities assumed as at acquisition date

The fair value of identifiable assets acquired and liabilities assumed as at the acquisition date are as follows:

(C\$ in millions)	
Cash and cash equivalents	\$ 25.3
Trade and other receivables ¹	111.1
Loans receivable	0.8
Merchandise inventories	455.9
Income taxes recoverable	3.4
Prepaid expenses and deposits	11.1
Long-term receivables and other assets	4.9
Intangible assets	382.3
Property and equipment	155.1
Trade and other payables	(288.9)
Short-term borrowings	(241.9)
Provisions	(31.0)
Deferred income taxes	(58.2)
Other long-term liabilities	(37.7)
Total net identifiable assets	\$ 492.2

¹ Gross trade and other receivables acquired is \$112.4 million, of which \$1.3 million was expected to be uncollectible as at the acquisition date.

8.1.3 Goodwill arising on acquisition of FGL Sports

Goodwill was recognized as a result of the acquisition as follows:

(C\$ in millions)	
Total consideration transferred	\$ 800.6
Less: Total net identifiable assets	492.2
Goodwill	\$ 308.4

The goodwill recognized on acquisition of FGL Sports is attributable mainly to the expected future growth potential from the expanded customer base of FGL Sports banners/brands and the network of stores which are predominantly mall-based and provide access to the important 18-35 year old customer segment.

None of the goodwill recognized is expected to be deductible for income tax purposes.

The Company has incurred acquisition-related costs of \$12.1 million relating to external legal fees, consulting fees and due diligence costs. These costs have been included in administrative expenses in the Consolidated Statements of Income.

A pre-tax gain of \$10.4 million was recognized on the Company's previously held interest in FGL Sports prior to the acquisition date. The gain is recognized in other income in the Consolidated Statements of Income and is included as part of the fair value of previously held interests included in the total consideration transferred, noted in the table above.

The impact of the acquisition on the Consolidated Statements of Cash Flows is as follows:

(C\$ in millions)	
Total consideration transferred	\$ 765.2
Cash and cash equivalents acquired	(25.3)
Acquisition of FGL Sports	\$ 739.9

8.2 Acquisition of new stores and franchises

The Company acquired the assets of three franchise operations during 2011 for total consideration of \$7.7 million, of which \$3.3 million was in the form of promissory notes payable. The fair value of identifiable assets acquired included \$3.6 million in intangible assets and \$0.3 million in property and equipment. In addition, \$0.5 million in goodwill was recognized as a result of these acquisitions.

9. Cash and Cash Equivalents

Cash and cash equivalents are comprised of the following:

(C\$ in millions)	December 31, 2011	January 1, 2011	January 3, 2010
Cash	\$ 79.6	\$ 15.5	\$ 35.2
Cash equivalents	233.4	538.2	834.3
Restricted cash and cash equivalents ¹	12.8	15.2	16.3
Total cash and cash equivalents	325.8	568.9	885.8
Bank indebtedness	(124.8)	(118.0)	(83.7)
Cash and cash equivalents, net of bank indebtedness	\$ 201.0	\$ 450.9	\$ 802.1

¹ Relates to GCCT and is restricted for the purposes of paying out note holders and additional funding costs.

10. Short-term Investments

(C\$ in millions)	December 31, 2011	January 1, 2011	January 3, 2010
Unrestricted short-term investments	\$ 195.4	\$ 196.7	\$ 60.9
Restricted short-term investments ¹	1.0	-	-
	\$ 196.4	\$ 196.7	\$ 60.9

¹ Relates to GCCT and is restricted for the purposes of paying out note holders and additional funding costs.

11. Trade and Other Receivables

(C\$ in millions)	December 31, 2011	January 1, 2011	January 3, 2010
Trade and other receivables	\$ 813.5	\$ 673.6	\$ 848.1
Derivatives	15.8	0.3	5.7
	\$ 829.3	\$ 673.9	\$ 853.8

Trade and other receivables are primarily receivables from Dealers, vendors, franchisees, and agents. Included in trade and other receivables at January 1, 2011 is \$13.0 million in pledged collateral against the promissory note in long-term debt (Note 26).

Receivables from Dealers of the Company are in the normal course of business, including cost sharing and financing arrangements. The average credit period on sales of goods is between 0 and 90 days. Interest (ranging from 0.0% to prime plus 5.0%) is charged on amounts past due.

Receivables from vendors are on account of rebate and commercial discounts receivable from vendors.

Included in trade and other receivables are amounts that are past due at the end of the reporting period but against which the Company has not recognized an allowance for doubtful receivables because there has not been a significant change in credit quality, and the amounts (which include interest accrued as per agreement) are considered recoverable. The Company does not hold any collateral or other credit enhancements over these balances however the Company has a legal right of setoff against any amounts owed by the Company to the counterparty.

The Company's exposure to credit risks and impairment losses related to trade and other receivables is disclosed in Note 6.3.

12. Loans Receivable

Quantitative information about the Company's loans receivable portfolio is as follows:

(C\$ in millions)	Total principal amount of receivables ¹			Average balance ¹	
	December 31, 2011	January 1, 2011	January 3, 2010	December 31, 2011	January 1, 2011
Credit card loans	\$ 4,026.8	\$ 3,996.3	\$ 3,931.5	\$ 3,900.5	\$ 3,886.0
Line of credit loans	8.8	11.3	15.6	10.0	13.1
Personal loans ²	3.3	11.2	34.0	6.4	20.7
Total Financial Services ¹ loans receivable	4,038.9	4,018.8	3,981.1	\$ 3,916.9	\$ 3,919.8
Dealer loans ³	628.7	687.0	757.4		
Other loans	8.8	–	–		
Total loans receivable	4,676.4	4,705.8	4,738.5		
Less: long-term portion ⁴	594.7	654.8	729.8		
Current portion of loans receivable	\$ 4,081.7	\$ 4,051.0	\$ 4,008.7		

¹ Amounts shown are net of allowance for loan impairment.

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.

³ Dealer loans issued by Franchise Trust (Note 25).

⁴ The long-term portion of loans receivable is included in long-term receivables and other assets and includes Dealer loans of \$587.5 million (January 1, 2011 – \$650.9 million; January 3, 2010 – \$715.7 million).

All loans receivable are initially recorded at fair value and subsequently measured at amortized cost. The impairment loss on loans receivable for the year ended December 31, 2011 was \$352.0 million (2010 – \$347.0 million). Recoveries of the allowance for loan impairment for the year ended December 31 2011 were \$50.0 million (2010 – \$46.3 million).

13. Assets Classified as Held for Sale

Assets held for sale include land and buildings with a cost of \$17.2 million and \$35.4 million, respectively (January 1, 2011 – \$15.9 million and \$17.8 million, respectively; January 3, 2010 – \$8.1 million and \$17.8 million, respectively), and accumulated depreciation of \$22.1 million (January 1, 2011 – \$12.9 million; January 3, 2010 – \$10.9 million). Land and buildings generally relate to former stores in the Retail segment that have relocated to newer sites. The Company is actively marketing these properties to third parties and they will be sold when terms and conditions acceptable to the Company are reached.

During the year ended December 31, 2011, the Company classified \$31.6 million (2010 – \$18.4 million) of land and buildings to assets held for sale as they meet the criteria to be classified as held for sale. During the year ended December 31, 2011, the Company transferred \$8.8 million (2010 – \$8.9 million) of land and buildings previously classified as held for sale to property and equipment, as it has determined that they no longer meet the criteria to be classified as held for sale.

During the year ended December 31, 2011, the Company sold assets held for sale and recorded a gain of \$7.4 million (2010 – \$5.2 million), which is reported in other income in the Consolidated Statements of Income.

14. Long-term Receivables and Other Assets

(C\$ in millions)	December 31, 2011	January 1, 2011	January 3, 2010
Loans receivable (Note 12)	\$ 594.7	\$ 654.8	\$ 729.8
Mortgages receivable	63.9	62.0	56.7
Derivatives	4.4	7.1	1.3
Other (Note 26)	5.9	3.0	14.5
	\$ 668.9	\$ 726.9	\$ 802.3

Mortgages receivable

The Company has a long-term mortgage receivable with an original interest rate of 12% with repayment of principal until 2016.

Other

The Company has pledged collateral as security against a promissory note. This pledged collateral was included in trade and other receivables at January 1, 2011 and matured in 2011 (Note 11).

15. Long-term Investments

Investments in highly liquid and rated certificates of deposits, commercial paper or other securities with a remaining term to maturity of greater than one year are classified as long-term investments.

The Company's exposure to credit, currency and interest rate risks related to other investments is disclosed in Note 6.

16. Goodwill and Intangible Assets

The following table presents the changes in the balance of the Company's goodwill and intangible assets:

(C\$ in millions)	Gross amount at January 1, 2011	Additions internally developed	Additions linked to business combinations	Disposals/retirements	Gross amount at December 31, 2011
Goodwill	\$ 68.7	\$ –	\$ 308.9	\$ –	\$ 377.6
Other intangibles	60.4	0.4	342.5	–	403.3
Software	688.1	125.0	43.4	(9.5)	847.0
	\$ 817.2	\$ 125.4	\$ 694.8	\$ (9.5)	\$ 1,627.9

(C\$ in millions)	Gross amount at January 3, 2010	Additions internally developed	Additions linked to business combinations	Disposals/retirements	Gross amount at January 1, 2011
Goodwill	\$ 68.6	\$ –	\$ 0.1	\$ –	\$ 68.7
Other intangibles	60.4	–	–	–	60.4
Software	620.8	76.1	–	(8.8)	688.1
	\$ 749.8	\$ 76.1	\$ 0.1	\$ (8.8)	\$ 817.2

The following table presents the changes to accumulated amortization and impairments on the Company's goodwill and intangible assets:

(C\$ in millions)	Accumulated amortization and impairment at January 1, 2011	Amortization for the year	Disposals/retirements	Accumulated amortization and impairment at December 31, 2011
Goodwill	\$ –	\$ –	\$ –	\$ –
Other intangibles	–	(1.5)	–	(1.5)
Software	(455.8)	(64.8)	4.2	(516.4)
	\$ (455.8)	\$(66.3)	\$ 4.2	\$ (517.9)

(C\$ in millions)	Accumulated amortization and impairment at January 3, 2010	Amortization for the year	Disposals/retirements	Accumulated amortization and impairment at January 1, 2011
Goodwill	\$ –	\$ –	\$ –	\$ –
Other intangibles	–	–	–	–
Software	(414.4)	(50.3)	8.9	(455.8)
	\$ (414.4)	\$ (50.3)	\$ 8.9	\$ (455.8)

The following table presents the net carrying amount of the Company's goodwill and intangible assets:

(C\$ in millions)	December 31, 2011	January 1, 2011	January 3, 2010
Indefinite-life intangible assets			
Goodwill	\$ 377.6	\$ 68.7	\$ 68.6
Other intangibles	380.9	60.4	60.4
Finite-life intangible assets			
Other intangibles	20.9	–	–
Software	330.6	232.3	206.4
	\$ 1,110.0	\$ 361.4	\$ 335.4

The following table presents the Company's goodwill:

(C\$ in millions)	December 31, 2011	January 1, 2011	January 3, 2010
FGL Sports	\$ 308.4	\$ –	\$ –
Mark's	52.2	51.7	51.7
CTR	17.0	17.0	16.9
Total	\$ 377.6	\$ 68.7	\$ 68.6

The following table presents the details of the Company's indefinite-life other intangible assets:

(C\$ in millions)	December 31, 2011	January 1, 2011	January 3, 2010
FGL Sports corporate banners	\$ 184.4	\$ –	\$ –
FGL Sports franchise banners	77.9	–	–
FGL Sports private label brands	7.2	–	–
FGL Sports franchise agreements	46.9	–	–
Mark's store banners	46.0	46.0	46.0
Mark's franchise locations	12.1	8.4	8.4
Mark's private label brands	4.0	4.0	4.0
Mark's franchise agreements	2.0	2.0	2.0
CTC Blue Planet trademark	0.4	–	–
Total	\$ 380.9	\$ 60.4	\$ 60.4

The following table presents the details of the Company's finite-life other intangible assets:

(C\$ in millions)	December 31, 2011	January 1, 2011	January 3, 2010
FGL Sports customer relationships	\$ 9.6	\$ –	\$ –
FGL Sports private label brands	0.6	–	–
FGL Sports off-market leases	10.7	–	–
Total	\$ 20.9	\$ –	\$ –

FGL Sports corporate and franchise banners represent legal trademarks of the Company. These trademarks have expiry dates ranging from 3 to 39 years, however the Company currently has no approved plans at this time for changing its store banners and intends to continue to renew these trademarks at each expiry date indefinitely. FGL Sports private label brands have legal expiry dates, however the Company's intention is to continue to renew the trademarks on the private labels at each expiry date indefinitely. The Company expects these assets to generate cash flows in perpetuity. Therefore, these intangible assets are considered to have indefinite useful lives. FGL Sports franchise agreements relate to franchise agreements that have expiry dates with options to renew and are generally operated by families and passed down to family members. The Company has historically renewed these agreements at each renewal date indefinitely. Therefore, these intangibles are considered to have indefinite useful lives.

Mark's store banners ("Mark's Work Warehouse/L'Equipeur") represent legal trademarks of the Company. These trademarks have expiry dates in 2021, however the Company has no plans on changing its store banners and intends to continue to renew these trademarks at each expiry date indefinitely. Mark's private label brands have legal expiry dates, however the Company has historically renewed the trademarks on the private labels at each expiry date indefinitely. The Company expects these assets to generate cash flows in perpetuity. Therefore, these assets are considered to have indefinite useful lives. Mark's franchise locations and franchise agreements generally have indefinite lives or have expiry dates with options to renew. The Company's intention is to renew these agreements at each renewal date indefinitely and expects the franchise locations and franchise agreements will generate cash flows in perpetuity. Therefore, these assets are considered to have indefinite useful lives.

Other finite-life intangible assets include FGL Sports customer relationships, certain private label brands and off-market leases, which the Company has assessed as having limited life terms. These assets are being amortized over a term of five years.

The amount of borrowing costs capitalized in 2011 was \$1.7 million (2010 – \$0.1 million). The capitalization rate used to determine the amount of borrowing costs capitalized during the year was 5.7% (2010 – 5.6% to 5.7%).

The amount of research and development expenditures recognized as an expense in 2011 was \$4.4 million (2010 – \$1.2 million).

Amortization expense of finite-life intangible assets is included in distribution costs, sales and marketing expenses and administrative expenses in the Consolidated Statements of Income.

Impairment of goodwill and intangible assets and subsequent reversals

Software intangibles are reviewed at each reporting date for indicators of impairment. The Company uses both external indicators (significant decline in market value, adverse effects from technological, market, economic, legal environment and lower carrying value than market capitalization) and internal indicators (physical damage, obsolescence, discontinuance, disposal or restructuring plans, declining asset performance or expected decline in performance) in reviewing for indicators of impairment. Where indicators of impairment exist the individual assets are tested for impairment based on either FVLCS or the VIU method. There were no indicators of impairment on software intangibles and no impairment was recorded in 2011 or 2010. There were no reversals of impairment recorded in 2011 and 2010.

Goodwill arising from business combinations and intangible assets with indefinite useful lives are not amortized but are reviewed for impairment on an annual basis or more frequently if there are indicators that these assets may be impaired. Goodwill acquired in a business combination is allocated to groups of CGU's according to the level at which Management monitors that goodwill. Intangible assets with indefinite useful lives are allocated to the CGU to which they relate.

Recoverable amounts for CGUs are based on the greater of FVLCS and their VIU. VIU is calculated from cash flow projections based on the most recent approved budgets, forecasts and actual results and reflecting the current state of operations. Cash flows are extrapolated over a period of up to five years with a terminal value calculated by discounting the final year in perpetuity. The key assumptions for the VIU calculations are those regarding discount rates and growth rates. The growth rate used to calculate the terminal value is based on Management's best estimate of the expected performance of the CGU, or at a minimum is tied to inflation and does not exceed the industry average growth rate. The growth rate applied to the terminal values range from 2.0% to 6.0% (2010 – 2.0% to 3.0%). The pre-tax discount rates are based on the Company's weighted average cost of capital adjusted for the tax shield of debt financing and a risk premium specific to each business segments' CGUs. The pre-tax discount rates used to calculate value in use range from 10.1% to 12.9% (2010 – 12.3% to 13.0%).

The Company performed its annual test for goodwill and indefinite-life intangible assets impairments as at the third and fourth quarters of 2011 in accordance with its policy described in Note 3. The estimated fair value exceeded the carrying values. There is no reasonably possible change in assumptions that would cause the carrying amount of any CGU to exceed its recoverable amount. As a result, no impairment was recorded on the recoverable amount of goodwill and intangible assets with indefinite useful lives.

The key assumptions used in performing the impairment test, by CGU, were as follows:

	FGL Sports	Mark's	CTR
Discount rate	12.2%	10.1%	11.5%-12.9%
Growth rate	2.0%-9.0%	2.0%	2.0-3.0%

Impairments and subsequent reversals are included in other income in the Consolidated Statements of Income.

Capital commitments

The Company has no commitments for the acquisition of intangible assets (2010 – \$nil).

17. Investment Property

The following table presents the changes in the cost of the Company's investment property:

(C\$ in millions)	2011	2010
Balance, beginning of year	\$ 84.8	\$ 83.3
Additions	6.6	2.3
Disposals / retirements	(0.2)	(0.3)
Net reclassification as held for sale	–	(0.2)
Other movements and transfers	(0.5)	(0.3)
Balance, end of year	\$ 90.7	\$ 84.8

The following table presents the changes to accumulated depreciation and impairment on the Company's investment property:

(C\$ in millions)	2011	2010
Balance, beginning of year	\$ (16.2)	\$ (12.1)
Depreciation for the year	(2.6)	(2.8)
Recovery of (impairment)	1.1	(1.5)
Disposals / retirements	–	0.2
Other movements and transfers	(0.6)	–
Balance, end of year	\$ (18.3)	\$ (16.2)

The following table presents the net carrying amount of the Company's investment property:

(C\$ in millions)	
Balance at December 31, 2011	\$ 72.4
Balance at January 1, 2011	\$ 68.6
Balance at January 3, 2010	\$ 71.2

Investment property generated rental income of \$9.3 million (2010 – \$8.7 million).

Direct operating expenses (including repairs and maintenance) arising from investment property, recognized in the income statement was \$4.0 million (2010 – \$4.6 million).

The Company determines the fair value of each commercial property by applying a pre-tax capitalization rate to the rental income for the current leases. The capitalization rate ranged from 5.0% to 11.0% (2010 – 5.0% to 12.0%). The cash flows are for a term of five years, including a terminal value. The Company has real estate management expertise that was used to perform the valuation of investment properties. As such, a valuation has not been performed by an independent valuation specialist. The estimated fair value of investment property is \$138.6 million (2010 – \$111.7 million).

Impairment of investment property and subsequent reversals

The Company recorded a reversal of impairment of \$1.1 million related to two properties that were assessed and it was determined that the market value exceeded their carrying value, offset by immaterial impairment on other property (2010 – \$1.5 million impairment). These properties are held in the Company's Retail operating segment. Impairments and subsequent reversals are included in other income in the Consolidated Statements of Income.

Capital commitments

The Company has no commitments for the acquisition of investment property (2010 – \$nil).

18. Property and Equipment

The following table presents the changes in the gross carrying amount of the Company's property and equipment:

(C\$ in millions)	Gross amount at January 1, 2011	Additions	Additions related to business combinations	Disposals/retirements	Net reclassification as held for sale	Other movements and transfers	Gross amount at December 31, 2011
Land	\$ 751.8	\$ 3.6	\$ 9.1	\$ (0.1)	\$ (11.4)	\$ (2.8)	\$ 750.2
Buildings	2,522.0	73.0	19.7	(1.5)	(25.3)	1.7	2,589.6
Fixtures and equipment	747.5	68.8	27.3	(16.9)	–	(0.7)	826.0
Leasehold improvements	548.5	70.9	97.3	(4.0)	–	(0.2)	712.5
Assets under finance lease	262.2	9.7	–	(2.2)	–	(2.3)	267.4
Construction in progress	129.0	6.7	2.0	(0.1)	–	(0.6)	137.0
	\$ 4,961.0	\$ 232.7	\$ 155.4	\$ (24.8)	\$ (36.7)	\$ (4.9)	\$ 5,282.7

(C\$ in millions)	Gross amount at January 3, 2010	Additions	Additions related to business combinations	Disposals/retirements	Net reclassification as held for sale	Other movements and transfers	Gross amount at January 1, 2011
Land	\$ 721.8	\$ 42.1	\$ –	\$ (2.7)	\$ (10.5)	\$ 1.1	\$ 751.8
Buildings	2,483.7	46.6	–	(6.5)	(5.5)	3.7	2,522.0
Fixtures and equipment	724.8	65.4	–	(34.7)	0.4	(8.4)	747.5
Leasehold improvements	496.6	59.5	–	(8.8)	–	1.2	548.5
Assets under finance lease	277.3	17.9	–	(33.0)	–	–	262.2
Construction in progress	93.2	29.9	–	–	–	5.9	129.0
	\$ 4,797.4	\$ 261.4	\$ –	\$ (85.7)	\$ (15.6)	\$ 3.5	\$ 4,961.0

The following table presents the changes to accumulated depreciation and impairment on the Company's property and equipment:

(C\$ in millions)	Accumulated depreciation and impairment at January 1, 2011	Depreciation for the year	Impairment	Disposals / retirements	Net reclassification as held for sale	Other movements and transfers	Accumulated depreciation and impairment at December 31, 2011
Land	\$ (3.2)	\$ –	\$ (1.3)	\$ 0.1	\$ –	\$ 3.0	\$ (1.4)
Buildings	(937.3)	(95.0)	(0.3)	1.1	13.9	2.8	(1,014.8)
Fixtures and equipment	(492.4)	(67.5)	–	14.0	–	0.3	(545.6)
Leasehold improvements	(181.3)	(38.7)	–	3.8	–	(0.3)	(216.5)
Assets under finance lease	(114.8)	(26.0)	–	2.1	–	0.2	(138.5)
Construction in progress	–	–	–	–	–	–	–
	\$ (1,729.0)	\$ (227.2)	\$ (1.6)	\$ 21.1	\$ 13.9	\$ 6.0	\$ (1,916.8)

(C\$ in millions)	Accumulated depreciation and impairment at January 3, 2010	Depreciation for the year	Impairment	Disposals / retirements	Net reclassification as held for sale	Other movements and transfers	Accumulated depreciation and impairment at January 1, 2011
Land	\$ (2.4)	\$ –	\$ (0.7)	\$ –	\$ –	\$ (0.1)	\$ (3.2)
Buildings	(856.6)	(92.7)	(1.5)	7.1	6.6	(0.2)	(937.3)
Fixtures and equipment	(457.6)	(65.5)	–	31.8	(0.3)	(0.8)	(492.4)
Leasehold improvements	(155.9)	(30.7)	–	7.5	–	(2.2)	(181.3)
Assets under finance lease	(114.5)	(32.1)	–	31.7	–	0.1	(114.8)
Construction in progress	–	–	–	–	–	–	–
	\$ (1,587.0)	\$ (221.0)	\$ (2.2)	\$ 78.1	\$ 6.3	\$ (3.2)	\$ (1,729.0)

The following table presents the net carrying amount of the Company's property and equipment:

(C\$ in millions)	December 31, 2011	January 1, 2011	January 3, 2010
Land	\$ 748.8	\$ 748.6	\$ 719.4
Buildings	1,574.8	1,584.7	1,627.1
Fixtures and equipment	280.4	255.1	267.2
Leasehold improvements	496.0	367.2	340.7
Assets under finance lease	128.9	147.4	162.8
Construction in progress	137.0	129.0	93.2
	\$ 3,365.9	\$ 3,232.0	\$ 3,210.4

The Company capitalized borrowing costs of \$4.1 million (2010 – \$1.3 million) on indebtedness related to property and equipment under construction. The capitalization rate used to determine the amount of borrowing costs capitalized during the year was 5.7% (2010 – 5.6% to 5.7%).

The carrying amount of assets under finance leases at December 31, 2011 is comprised of \$68.8 million (2010 – \$77.1 million) in buildings and \$60.1 million (2010 – \$70.3 million) in fixtures and equipment.

The carrying amount of property and equipment whose title is restricted is \$nil (2010 – \$nil) and the carrying amount of property and equipment pledged as security for liabilities is \$128.9 million (2010 – \$147.4 million).

The amount of compensation from third parties for items of property and equipment that were impaired, lost or given up that is included in the Consolidated Statements of Income is \$0.4 million (2010 – \$0.4 million).

Impairment of property and equipment

Property and equipment are reviewed at each reporting date for indicators of impairment. The Company uses both external indicators (significant decline in market value, adverse effects from technological, market, economic, legal environment and lower carrying value than market capitalization) and internal indicators (physical damage, obsolescence, discontinuance, disposal or restructuring plans, declining asset performance or expected decline in performance) in reviewing for indicators of impairment. Where indicators of impairment exist the individual assets are tested for impairment based on either FVLCS or the VIU method.

Property and equipment is allocated to CGUs to which they relate. The Company has determined that, for the purposes of impairment testing, its Retail CGUs comprise individual stores or group of stores within a geographic market. Where there are indications of impairment CGUs are tested for impairment. Recoverable amounts for CGUs are generally based on the VIU method. VIU is calculated from cash flow projections based on the most recent approved budgets, forecasts and actual results and reflecting the current state of operations. Cash flows are extrapolated over a period of five years with a terminal value calculated by discounting the final year into perpetuity. The key assumptions for the VIU calculations are those regarding discount rates and growth rates. The growth rate used to calculate the terminal value is based on Management's best estimate of the expected performance of the CGU, or at a minimum is tied to inflation and does not exceed the industry average growth rate. The growth rate applied to the terminal values is 2.0% (2010 – 2.0%). The pre-tax discount rates are based on the Company's weighted average cost of capital adjusted for the tax shield of debt financing and a risk premium specific to each business segments' CGUs. The pre-tax discount rates used to calculate VIU range from 8.5% to 12.9% (2010 – 8.5% to 13.0%). Where applicable, the recoverable amount of individual assets has been based on the fair value less cost to sell.

Impairment recognized in the year

Impairment of property and equipment was \$1.6 million (2010 – \$2.2 million impairment) and are reported in other income in the Consolidated Statements of Income. Reversal of impairments are recorded in the same line in the Consolidated Statements of Income. These impairments were recorded in the Company's Retail business unit. There were no reversal of impairments in 2011 and 2010.

Capital commitments

The Company has commitments of approximately \$39.8 million at December 31, 2011 for the acquisition of property and equipment (2010 – \$20.0 million).

19. Deferred Income Tax Assets and Liabilities

The tax-effected unused tax losses and temporary differences which result in deferred tax assets (liabilities) and the amount of deferred taxes recognized in the Consolidated Statements of Income are as follows:

(C\$ in millions)	Balance at January 1, 2011	Recognized in net income	Recognized in other comprehensive income	Acquired in business combination	Balance at December 31, 2011
Reserves and deferred income	\$ 77.9	\$ 8.6	\$ –	\$ 17.0	\$ 103.5
Property and equipment	(50.3)	(2.3)	–	–	(52.6)
Intangible assets	(43.4)	(2.9)	–	(88.8)	(135.1)
Employee benefits	21.9	0.8	4.9	–	27.6
Financial instruments	13.0	–	(17.0)	–	(4.0)
Finance lease assets and obligations	11.8	(0.2)	–	–	11.6
Site restoration and decommissioning	2.6	0.2	–	–	2.8
Deferred items	(0.3)	(0.2)	–	1.5	1.0
Inventory	–	3.6	–	(5.6)	(2.0)
Non-capital loss	–	0.1	–	17.8	17.9
Other	1.4	(1.3)	–	(0.1)	–
Net deferred tax asset (liability)	\$ 34.6	\$ 6.4	\$ (12.1)	\$ (58.2)	\$ (29.3)

(C\$ in millions)	Balance at January 3, 2010	Recognized in net income	Recognized in other comprehensive income	Acquired in business combination	Balance at January 1, 2011
Reserves and deferred income	\$ 82.0	\$ (4.1)	\$ –	\$ –	\$ 77.9
Property and equipment	(53.8)	3.5	–	–	(50.3)
Intangible assets	(39.4)	(4.0)	–	–	(43.4)
Employee benefits	18.9	0.9	2.1	–	21.9
Financial instruments	16.9	–	(4.0)	–	12.9
Finance lease assets and obligations	10.1	1.7	–	–	11.8
Site restoration and decommissioning	5.0	(2.4)	–	–	2.6
Deferred items	3.4	(3.7)	–	–	(0.3)
Other	3.0	(1.5)	–	–	1.5
Net deferred tax asset (liability)	\$ 46.1	\$ (9.6)	\$ (1.9)	\$ –	\$ 34.6

Certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

(C\$ in millions)	December 31, 2011	January 1, 2011	January 3, 2010
Deferred tax assets	\$ 36.8	\$ 34.6	\$ 46.1
Deferred tax liabilities	(66.1)	–	–
Net deferred tax asset (liability)	\$ (29.3)	\$ 34.6	\$ 46.1

No deferred tax liability is recognized on the unremitted earnings of non-Canadian subsidiaries to the extent that the Company is able to control the timing of the reversal of the temporary difference and it is probable that it will not reverse in the foreseeable future. The taxable temporary difference in respect of the amount of undistributed earnings of non-Canadian subsidiaries was approximately \$125.3 million at December 31, 2011 (2010 – \$126.3 million).

20. Deposits

Deposits consist of broker deposits and retail deposits.

Cash from broker deposits is raised through sales of GICs through brokers rather than directly to the retail customer. Individual balances up to \$100,000 are Canada Deposit Insurance Corporation insured. Broker deposits are offered for varying terms ranging from thirty days to five years, and all issued GICs are non-redeemable prior to maturity (except in certain rare circumstances). Total short-term and long-term broker deposits outstanding at December 31, 2011 were \$1,597.4 million (January 1, 2011 – \$1,388.1 million; January 3, 2010 – \$1,514.8 million).

Retail deposits consist of HIS deposits, retail GICs and TFSA deposits. Total retail deposits outstanding at December 31, 2011 were \$687.1 million (January 1, 2011 – \$492.0 million; January 3, 2010 – \$545.5 million).

Repayment requirements

(C\$ in millions)

2012	\$ 532.1
2013	496.6
2014	371.9
2015	199.1
2016	34.6
Current and long-term guaranteed investment certificates	1,634.3
High interest savings accounts	656.3
Total¹	\$ 2,290.6

¹ The carrying value of deposits as of December 31, 2011 is net of \$6.1 million of GIC broker discount fees (January 1, 2011 – \$7.9 million; January 3, 2010 – \$8.8 million).

Effective rates of interest

	2011	2010
Guaranteed investment certificates	3.86%	3.99%
High interest savings accounts	2.06%	1.53%

21. Trade and Other Payables

(C\$ in millions)	December 31, 2011	January 1, 2011	January 3, 2010
Trade payables and accrued liabilities	\$ 1,598.6	\$ 1,095.1	\$ 1,074.6
Deferred revenue	39.5	37.6	36.5
Derivatives (Note 39)	2.8	47.2	81.8
	\$ 1,640.9	\$ 1,179.9	\$ 1,192.9

Deferred revenue consists mainly of unearned insurance premiums, unearned Roadside Assistance Club memberships and unearned revenue related to gift certificates and gift cards.

The average credit period on trade payables is five to ninety days (2010 – five to sixty days).

22. Provisions

The following table presents the changes to the Company's provisions:

(C\$ in millions)	Warranties and returns	Site restoration and decommissioning	Onerous contracts	Customer loyalty	Other	Total
Balance at January 1, 2011	\$ 109.7	\$ 24.8	\$ 6.8	\$ 65.3	\$ 14.7	\$ 221.3
Assumed in a business combination	–	0.1	0.7	–	30.2	31.0
Charges net of reversals	245.1	5.3	1.1	(111.2)	3.1	368.6
Utilizations	(242.9)	(7.5)	(1.5)	114.0	(16.2)	(379.3)
Unwinding of discount	1.2	0.5	–	–	–	1.7
Change in discount rate	0.1	3.6	–	–	–	3.7
Balance at December 31, 2011	\$ 113.2	26.8	7.1	68.1	31.8	\$ 247.0
Less: Current portion	107.9	7.4	2.1	68.1	6.4	191.9
Long-term portion	\$ 5.3	\$ 19.4	\$ 5.0	\$ –	\$ 25.4	\$ 55.1

(C\$ in millions)	Warranties and returns	Site restoration and decommissioning	Onerous contracts	Customer loyalty	Other	Total
Balance at January 3, 2010	\$ 148.9	\$ 24.9	\$ 9.2	\$ 61.8	\$ 2.8	\$ 247.6
Charges net of reversals	181.4	5.8	2.3	118.7	16.7	324.9
Utilizations	(221.7)	(7.8)	(4.8)	(115.2)	(4.8)	(354.3)
Unwinding of discount	1.4	0.5	0.1	–	–	2.0
Change in discount rate	(0.3)	1.4	–	–	–	1.1
Balance at January 1, 2011	\$ 109.7	24.8	6.8	65.3	14.7	\$ 221.3
Less: Current portion	106.1	7.3	3.4	65.3	14.1	196.2
Long-term portion	\$ 3.6	\$ 17.5	\$ 3.4	\$ –	\$ 0.6	\$ 25.1

Warranties and returns

The provision for warranties and returns relates to the Company's obligation to stores within its Dealer network for defective goods in their current inventories and defective goods sold to customers throughout its store operations that have yet to be returned, as well as after sales and service for replacement parts. The Company undertakes to make good, by repair, replacement or refund any manufacturing defects that become apparent within one year from the date of sale unless stated otherwise. The provisions are based on estimates made from actual historical experience and data associated with similar products and services. The Company expects to incur substantially all of the liability over the next year.

The Company is reimbursed for defective goods from either the suppliers the products were purchased from or its Dealer network as part of its agreement with its Dealers.

Site restoration and decommissioning

In the normal course of business, the Company leases property and has a legal or constructive obligation to return the sites to their original or agreed upon state at the end of the lease term. The Company accrues for these costs based on reasonable estimates of the fair value and discounts based on the timing of expected outflows, where applicable.

The Company accrues for environmental restoration related to the treatment or removal of contaminated soil and site decommissioning related primarily to tank removal costs and building/canopy demolition. The Company accrues for these costs based on reasonable estimates of the fair value and discounts based on the timing of expected outflows, where applicable. Environmental reserves are expected to be paid out over five years and decommissioning reserves are expected to be paid out over 40 years as the sites are closed. In certain cases the actual outflow may be shorter or longer than the estimated life span.

Onerous contracts

The Company ceased operations at several Petroleum locations prior to the expiry of the lease. The obligation for the discounted future payments has been provided for.

The Company recognizes a provision for onerous leases contracts on leased premises that are no longer being used due to store closures. The provision represents the present value of the future lease payment that the Company is presently obligated to make under non-cancellable onerous operating lease contracts, net of revenue expected to be earned from a sublease. These estimates may vary as a result of changes in the use of the leased properties, including sub-lease arrangements where applicable. The unexpired terms of the leases range from 1 to 8 years.

The Company has a provision for an onerous contract related to the use of certain software and support, which is based on the termination clause in the agreement.

Customer loyalty

The Company maintains a provision related to its loyalty programs, including paper-based “Canadian Tire Money” issued at Petroleum gas bars and issued to Dealers, “Electronic Canadian Tire Money on-the-Card” issued whenever consumers make a Canadian Tire Options MasterCard purchase from any location in the World, and Canadian Tire coins issued to customers at Dealers. The provisions are measured at fair value by reference to the fair value of the awards for which they can be redeemed multiplied by the estimate of the probability of their redemption. The Company expects to discharge substantially all of the liability over the next year.

Other

Other provisions include the following:

Restructuring

During 2010, the Company announced a restructuring of its operations and established a provision to cover the cost of severance to be paid out to these individuals affected. The provision is based on an estimate of the number of individuals impacted and the amount of severance payments per agreements. The amount of the provision is \$0.9 million at December 31, 2011 (2010 – \$12.6 million) and is for expected future severance. The Company expects to discharge substantially all of the liability over the next year.

Legal

The Company has provisions for the cost of legal issues that have not yet been settled. The provisions are based on the Company’s best estimate of the expected settlement amount. The amount of the provisions for legal issues is \$11.1 million at December 31, 2011 (2010 – \$0.3 million).

Other

Other provisions include \$16.1 million (2010 – \$nil) of contingent liabilities which represent the best estimate for future payments to be made with respect to past acquisitions of portions of the FGL Sports operations.

Other provisions of \$3.7 million at December 31, 2011 (2010 – \$1.8 million) relate to obligations to Dealers, who based on criteria set out in the Dealer contract, are deemed to be disadvantaged by a new store opening nearby, constructive obligations for not meeting volume commitments under service agreements, and other miscellaneous contingent liabilities, the amount and timing of when the Company expects to discharge these are uncertain and are based on the Company’s best estimates.

23. Contingencies

Legal matters

The Company and certain of its subsidiaries are party to a number of legal proceedings. The Company has determined 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 its consolidated earnings, cash flows, or financial position.

The Bank is the subject of two class action proceedings regarding allegations that certain fees charged on the Bank issued credit cards are not permitted under the Quebec Consumer Protection Act. The Bank has determined that it has a solid defense to both actions on the basis that banking and cost of borrowing disclosure is a matter of exclusive federal jurisdiction. Accordingly, no provision has been made for amounts, if any, that would be payable in the event of an adverse outcome. If adversely decided, the total aggregate exposure to the Company would have been approximately \$24.4 million at December 31, 2011.

24. Short-term Borrowings

Short-term borrowings include commercial paper notes and bank line of credit borrowings. The commercial paper notes are short-term notes issued with varying original maturities of one year or less, typically 90 days or less, at interest rates fixed at the time of each renewal. The notes may bear interest payable at maturity or be sold at a discount and mature at face value. Commercial paper notes issued by the Company are recorded at amortized cost.

25. Loans Payable

Franchise Trust, a legal entity sponsored by a third party bank, originates loans to Dealers. Loans payable are the loans that Franchise Trust has incurred to fund the loans to Dealers. These loans are not direct legal liabilities of the Company, but have been consolidated in the accounts of the Company as the Company effectively controls the silo of Franchise Trust containing the Dealer loan program.

Loans payable is recorded at fair value and are due within one year.

26. Long-term Debt

Long-term debt is measured at amortized cost, using the effective interest method, and includes the following:

(C\$ in millions)	December 31, 2011		January 1, 2011		January 3, 2010	
	Face value	Carrying amount	Face value	Carrying amount	Face value	Carrying amount
Senior notes ¹						
Series 2005-1, 4.187%, November 19, 2010	\$ –	\$ –	\$ –	\$ –	\$ 341.7	\$ 341.7
Series 2006-1, 4.271%, November 18, 2011	–	–	300.0	300.0	300.0	299.7
Series 2006-2, 4.405%, May 20, 2014	238.7	238.7	238.7	238.7	238.7	238.4
Series 2008-1, 5.027%, February 20, 2013	600.0	598.3	600.0	598.3	600.0	597.4
Series 2010-1, 3.158%, November 20, 2015	250.0	248.8	250.0	248.7	–	–
Subordinated notes ¹						
Series 2005-1, 4.507%, November 19, 2010	–	–	–	–	20.1	20.1
Series 2006-1, 4.571%, November 18, 2011	–	–	17.5	17.5	17.5	17.5
Series 2006-2, 4.765%, May 20, 2014	13.9	13.9	13.9	13.9	13.9	13.9
Series 2008-1, 6.027%, February 20, 2013	34.9	34.8	34.9	34.8	34.9	34.8
Series 2010-1, 4.128%, November 20, 2015	14.6	14.5	14.6	14.5	–	–
Medium-term notes						
5.22% due October 1, 2010	–	–	–	–	300.0	299.8
4.95% due June 1, 2015	300.0	299.4	300.0	299.2	300.0	299.0
5.65% due June 1, 2016	200.0	198.6	200.0	198.3	200.0	202.5
6.25% due April 13, 2028	150.0	149.4	150.0	149.3	150.0	149.3
6.32% due February 24, 2034	200.0	199.1	200.0	199.1	200.0	199.0
5.61% due September 4, 2035	200.0	199.2	200.0	199.1	200.0	199.1
Finance lease obligations	176.4	176.4	193.0	193.0	202.5	202.5
Promissory note	4.5	4.5	15.2	15.2	17.0	17.0
Total debt	\$ 2,383.0	\$ 2,375.6	\$ 2,727.8	\$ 2,719.6	\$ 3,136.3	\$ 3,131.7
Current	\$ 27.9	\$ 27.9	\$ 354.2	\$ 354.2	\$ 690.6	\$ 690.6
Non-current	2,355.1	2,347.7	2,373.6	2,365.4	2,445.7	2,441.1
Total debt	\$ 2,383.0	\$ 2,375.6	\$ 2,727.8	\$ 2,719.6	\$ 3,136.3	\$ 3,131.7

¹ Senior and subordinated notes are those of GCCT.

The carrying value of long-term debt is net of debt issuance costs of \$6.6 million (January 1, 2011 - \$7.2 million; January 3, 2010 - \$8.0 million), and the benefit of the effective portion of the cash flow hedges of \$0.8 million (January 1, 2011 - benefit of \$1.0 million; January 3, 2010 - cost of \$3.4 million).

Senior and subordinated notes

Asset-backed series senior and subordinated notes issued by the Company are recorded at amortized cost using the effective interest method.

Subject to the payment of certain priority amounts, the series senior notes have recourse on a priority basis to the related series ownership interest. The series subordinated notes have recourse to the related series ownership interests on a subordinated basis to the series senior notes in terms of the priority of payment of principal and, in some circumstances, interest. The series notes, together with certain other permitted obligations of GCCT, are secured by the assets of GCCT. The entitlement of note holders and other parties to which such assets is governed by the priority and payment provisions set forth in the GCCT Indenture and the related series supplements under which these series of notes were issued.

Repayment of the principal of the series 2006-1 notes occurred on November 18, 2011. Repayment of the principal of the series 2006-2, 2008-1 and 2010-1 notes is scheduled to commence and be completed on the expected repayment dates indicated in the preceding table. Following repayment of principal owing, and in some circumstances interest, under the series senior notes, collections distributed to GCCT in respect of the related ownership interests will be applied to pay principal owing under series subordinated notes.

Principal repayments may commence earlier than these scheduled commencement dates if certain events occur, including:

- The Bank failing to make required distributions to GCCT, or failing to meet covenant or other contractual terms;
- The performance of the receivables failing to achieve set criteria; and
- Insufficient receivables in the pool.

None of these events have occurred for the years ended December 31, 2011 and January 1, 2011.

Medium-term notes

Medium-term notes are unsecured and are redeemable by the Company, in whole or in part, at any time, at the greater of par or a formula price based upon interest rates at the time of redemption.

Finance lease obligations

Finance leases relate to distribution centres, fixtures and equipment. The Company generally has the option to renew the lease or purchase these assets at the conclusion of the lease agreements. These leases have an interest rate in the range of 3.04% to 10.13% and a remaining term of 1 to 193 months.

Finance lease obligations are payable as follow:

(C\$ in millions)	2011		2010			
	Future minimum lease payments	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments
Due in less than one year	\$ 33.9	\$ 10.3	\$ 23.6	\$ 34.4	\$ 11.7	\$ 22.7
Due between one year and two years	30.1	9.4	20.7	32.1	10.8	21.3
Due between two years and three years	23.1	8.5	14.6	28.0	9.3	18.7
Due between three years and four years	21.0	7.7	13.3	21.7	8.0	13.7
Due between four years and five years	18.3	7.0	11.3	20.2	7.7	12.5
More than five years	129.7	36.8	92.9	148.2	44.1	104.1
	\$ 256.1	\$ 79.7	\$ 176.4	\$ 284.6	\$ 91.6	\$ 193.0

During the normal course of operation, the Company may enter into interest rate swaps to hedge against interest rate risk exposure (Note 6.5.2) in certain debt instruments.

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% 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 \$13.0 million at January 1, 2011, which is included in trade and other receivables (Note 11) and \$13.8 million at January 3, 2010, which is included in long-term receivables and other assets (Note 14). The promissory note was fully repaid by December 31, 2011.

Promissory note also includes \$4.5 million (2010 – \$2.5 million) issued as part of store acquisitions (Note 8.2). These notes are non-interest bearing.

Debt covenants

The Company has provided covenants to certain of its lenders. The Company was in compliance with all of its covenants in 2011 and 2010.

Summary of debt repayment by year

(C\$ in millions)	2012	2013	2014	2015	2016	Thereafter	Total
Senior notes	\$ –	\$ 600.0	\$ 238.7	\$ 250.0	\$ –	\$ –	\$ 1,088.7
Subordinated notes	–	34.9	13.9	14.6	–	–	63.4
Medium-term notes	–	–	–	300.0	200.0	550.0	1,050.0
Finance lease obligations	23.6	20.7	14.6	13.3	11.3	92.9	176.4
Promissory note	4.3	0.2	–	–	–	–	4.5
	\$ 27.9	\$ 655.8	\$ 267.2	\$ 577.9	\$ 211.3	\$ 642.9	\$ 2,383.0

27. Other Long-term Liabilities

(C\$ in millions)	December 31, 2011	January 1, 2011	January 3, 2010
Employee benefits (Note 28)	\$ 108.6	\$ 86.0	\$ 74.0
Deferred gains	27.0	31.0	34.3
Derivatives (Note 39)	3.9	8.3	7.3
Other	66.2	11.8	11.9
	\$ 205.7	\$ 137.1	\$ 127.5

Deferred gains relate to the sale and leaseback of certain distribution centres. The deferred gains are being amortized over the term of the leases.

Other relates to the long-term portion of deferred revenue, unearned insurance premiums, unearned roadside assistance revenue, deferred lease inducements and off-market leases.

28. Post-employment Benefits

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% 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% of his or her holdings in the Company share fund of the DPSP. The share fund holds both Common Shares and Class A Non-Voting Shares. The Company's contributions to the DPSP in respect of each employee vest 20% after one year of continuous service and 100% after two years of continuous service.

In 2011, the Company contributed \$19.8 million (2010 – \$18.6 million) under the terms of the DPSP, towards the Trustee-managed investment portfolio.

Defined benefit plan

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:

(C\$ in millions)	2011	2010
Change in the present value of defined benefit obligation		
Defined benefit obligation, beginning of year	\$ 84.3	\$ 72.0
Current service cost	1.8	1.5
Interest cost	4.9	4.7
Actuarial loss	19.1	8.3
Benefits paid	(2.7)	(2.2)
Defined benefit obligation, end of year ¹	107.4	84.3
Unamortized past service credits	1.2	1.7
Accrued benefit liability	\$ 108.6	\$ 86.0

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

(C\$ in millions)	2011	2010
Components of non-pension post retirement benefit cost		
Amounts recognized in net income:		
Current service cost	\$ 1.8	\$ 1.5
Interest cost	4.9	4.7
Amortization of unvested past service credits	(0.4)	(0.4)
Total recognized in net income	\$ 6.3	\$ 5.8
Amount recognized in other comprehensive income:		
Actuarial loss immediately recognized	\$ 19.1	\$ 8.3
Total recognized in other comprehensive income	\$ 19.1	\$ 8.3

Significant actuarial assumptions used:

	2011	2010
Defined benefit obligation, end of year:		
Discount rate	4.50%	5.75%
Net benefit plan expense for the year:		
Discount rate	5.75%	6.50%

For measurement purposes, a 7.28% weighted average health care fund rate was assumed for 2011 (2010 – 7.37%). The rate was assumed to decrease gradually to 4.50% for 2029 (2010 – decrease gradually to 4.50% for 2029) and remain at that level thereafter.

The most recent actuarial valuation of the obligation was performed as of December 31, 2009. The next required valuation will be as of December 31, 2012.

The cumulative amount of actuarial losses recognized in OCI at December 31, 2011 is \$27.4 million (2010 - \$8.3 million).

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 2011:

(C\$ in millions)	Increase	Decrease
Total of current service and interest cost	\$ 0.7	\$ (0.6)
Accrued benefit obligation	13.7	(11.0)

29. Share Capital

(C\$ in millions)	December 31, 2011	January 1, 2011	January 3, 2010
Authorized			
3,423,366 Common Shares			
100,000,000 Class A Non-Voting Shares			
Issued			
3,423,366 Common Shares (2010 – 3,423,366)	\$ 0.2	\$ 0.2	\$ 0.2
78,020,208 Class A Non-Voting Shares (2010 – 78,020,007)	710.3	711.4	720.2
	\$ 710.5	\$ 711.6	\$ 720.4

All issued shares are fully paid. The Company does not hold any of its Common or Class A Non-Voting shares. Neither the Common nor Class A Non-Voting shares have a par value.

During 2011 and 2010, 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, if any with any remainder allocated to retained earnings.

The following transactions occurred with respect to Class A Non-Voting Shares during 2011 and 2010:

(C\$ in millions)	2011		2010	
	Number	\$	Number	\$
Shares outstanding at beginning of the year	78,020,007	\$ 711.4	78,178,066	\$ 720.2
Issued				
Dividend reinvestment plan	71,604	4.3	60,485	3.4
Stock option plan	1,200	–	2,000	0.1
Employee Stock Purchase Plan	–	–	107,682	6.0
Employee Profit Sharing Plan	59,491	3.6	74,491	4.1
Dealer profit sharing plans	59,302	3.7	55,732	3.1
Repurchased	(191,396)	(11.9)	(458,449)	(25.4)
Excess of issue price over repurchase price	–	(0.8)	–	(0.1)
Shares outstanding at end of the year	78,020,208	\$ 710.3	78,020,007	\$ 711.4

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.

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 dividend 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 of December 31, 2011, the Company had dividends declared and payable to holders of Class A Non-Voting Shares and Common Shares of \$24.5 million (2010 – \$22.4 million) at a rate of \$0.30 per share (2010 – \$0.275).

Dividends per share were \$1.125 in 2011 (2010 – \$0.905)

30. Basic and Diluted Earnings Per Share

The calculation of basic and diluted earnings per share is based on the net income reported in the Consolidated Statements of Income and the weighted average number of basic and diluted shares outstanding, as follows:

	2011	2010
Weighted average number of Common and Class A Non-Voting Shares outstanding – Basic	81,447,398	81,565,476
Dilutive effect of employee stock options	356,388	339,536
Weighted average number of Common and Class A Non-Voting Shares outstanding – Diluted	81,803,786	81,905,012

Basic earnings per share

The calculation of basic earnings per share at December 31, 2011 was based on the net income attributable to Common and Class A Non-Voting shareholders of \$467.0 million (2010 – \$444.2 million) and the weighted average number of Common and Class A Non-Voting shares outstanding of 81,447,398 (2010 – 81,565,476).

Net income attributable to Common and Class A Non-Voting shareholders is the same as net income reported for the year.

Diluted earnings per share

The calculation of diluted earnings per share at December 31, 2011 was based on the profit attributable to Common and Class A Non-Voting shareholders of \$467.0 million (2010 – \$444.2 million) and the weighted average number of Common and Class A Non-Voting Shares outstanding after adjustment for the effect of all dilutive potential ordinary shares of 81,803,786 million (2010 – 81,905,012).

Net income attributable to Common and Class A Non-Voting shareholders (diluted) is the same as net income reported for the year.

31. Share-based Payments

The Company's share-based payment plans are described below. There have been no cancellations or significant modifications to any of the plans during 2011.

Stock options

The Company has granted stock options with tandem stock appreciation rights 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 vested 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 vested on a graduated basis over a three-year period and are exercisable over a term of seven years. Stock options granted in 2008, 2009, 2010 and 2011 fully vest after three years and are exercisable over a term of seven years. At December 31, 2011, approximately 2.6 million Class A Non-Voting Shares were issuable under the stock option plan.

Compensation expense, net of hedging arrangements, recorded for stock options for the year ended December 31, 2011 was \$6.0 million (2010 – \$5.9 million).

The outstanding options as at December 31, 2011 were granted at prices between \$25.42 and \$82.42 and expire between March 2012 and March 2018.

Stock option transactions during 2011 and 2010 were as follows:

	2011		2010	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at beginning of year	2,280,374	\$ 53.49	2,148,844	\$ 52.62
Granted	433,804	62.30	574,518	53.49
Exercised ¹	(68,511)	34.59	(103,860)	23.42
Forfeited	(81,651)	61.68	(339,128)	57.18
Expired	(100)	21.03	–	–
Outstanding at end of year	2,563,916	\$ 55.22	2,280,374	\$ 53.49
Stock options exercisable at end of year	975,809		761,080	

¹ The weighted average market price of the Company's shares when the options were exercised in 2011 was \$63.95 (2010 - \$59.29).

The following table summarizes information about stock options outstanding and exercisable at December 31, 2011:

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 December 31, 2011	Weighted average exercise price
\$ 64.82 to 82.42	531,106	1.85	\$ 69.70	531,106	\$ 69.70
62.30 to 63.42	746,725	4.85	62.76	318,125	63.39
53.49 to 56.71	518,718	5.17	53.52	4,623	53.67
40.04 to 49.26	671,067	4.18	40.52	25,655	47.75
25.42 to 33.51	96,300	0.85	28.55	96,300	28.55
\$ 25.42 to 82.42	2,563,916	3.97	\$ 55.22	975,809	\$ 62.93

¹ Weighted average remaining contractual life is expressed in years.

Performance Share Unit Plans

The Company grants 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 was accrued over the performance period based on the expected total compensation to be paid out at the end of the performance period. The performance period of each plan is approximately three years from the date of issuance. Compensation expense, net of hedging arrangements, recorded for these PSUs for the year ended December 31, 2011 was \$15.3 million (2010 – \$10.7 million).

Deferred Share Unit Plan

The Company offers a Deferred Share Unit Plan (“DSUP”) for members of the Board of Directors. Under this plan, 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 liability related to granted DSUs changes due to dividends and share price movements. These changes to the amount payable are recorded as compensation expense in the period of change. Compensation expense recorded for the year ended December 31, 2011 was \$(0.1) million (2010 – \$1.3 million).

Deferred Share Unit Plan for certain executives

The Company offers, and has granted, shares under a DSUP for certain executives. Under this plan, certain executives may elect to receive all or a percentage of his or her annual bonus in the form of notional Class A Non-Voting Shares of the Company. 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. The DSU account for each employee includes the value of dividends, if any, as if reinvested in additional DSUs. The employee 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 liability related to granted DSUs changes due to dividends and share price movements. These changes to the amount payable are recorded as compensation expense in the period of change. Compensation expense recorded for the year ended December 31, 2011 was \$nil (2010 – \$0.2 million).

The fair value of a DSU is equal to the traded price of the Company’s Class A Non-Voting Shares.

The fair value of stock options and PSUs were determined using the Black-Scholes option pricing model with the following inputs:

	2011		2010	
	Stock options	PSUs	Stock options	PSUs
Share price at end of year (C\$)	\$ 65.90	\$ 65.90	\$ 68.19	\$ 68.19
Weighted average exercise price (C\$) ¹	\$ 54.78	N/A	\$ 53.42	N/A
Expected remaining life (years)	3.2	1.0	3.1	1.3
Expected dividends	1.9%	3.2%	1.6%	2.2%
Expected volatility	25.3%	21.9%	25.0%	22.9%
Risk-free interest rate	1.3%	1.2%	2.1%	1.6%

¹ Reflects expected forfeitures.

The expense recognized for share-based compensation is summarized as follows:

(C\$ in millions)	2011	2010
Expense arising from share-based payment transactions	\$ 18.9	\$ 30.8
Effect of hedging arrangements	2.3	(12.7)
Total expense included in net income	\$ 21.2	\$ 18.1

The total carrying amount of liabilities for share-based payment transactions at December 31, 2011 is \$72.8 million (2010 – \$56.1 million).

The intrinsic value of the liability for vested benefits at December 31, 2011 is \$12.9 million (2010 – \$13.5 million).

32. Revenue

(C\$ in millions)	2011	2010
Sale of goods	\$ 8,997.6	\$ 7,853.8
Interest income on loans receivable	697.2	685.4
Services rendered	354.7	353.7
Royalties and license fees	325.9	310.0
Rental income	11.7	10.2
	\$ 10,387.1	\$ 9,213.1

Major customers

Revenue is earned from a variety of customers. CTR, Mark's and FGL Sports sell merchandise to a network of over 750 independent Dealers and franchisees. Financial Services and Petroleum provide goods and services to millions of customers. The Company does not have a reliance on any one customer.

33. Cost of Producing Revenue

(C\$ in millions)	2011	2010
Inventory cost of sales	\$ (6,916.7)	\$ (6,016.2)
Net impairment loss on loans receivable	(296.2)	(294.3)
Finance costs on deposits	(70.1)	(67.3)
Other	(43.4)	(44.3)
	\$ (7,326.4)	\$ (6,422.1)

Included in inventory cost of sales for the year ended December 31, 2011 is \$73.3 million (2010 – \$50.9 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 year ended December 31, 2011 were \$23.9 million (2010 – \$15.1 million). The write-downs and reversals are included in cost of producing revenue in the Consolidated Statements of Income.

34. Operating Expenses by Nature

(C\$ in millions)	2011	2010
Personnel expenses (Note 35)	\$ (817.4)	\$ (725.6)
Occupancy	(438.4)	(384.8)
Marketing and advertising	(317.1)	(309.9)
Depreciation of property and equipment and investment property	(229.8)	(223.8)
Amortization of intangible assets	(66.3)	(50.3)
Other	(448.0)	(375.2)
	\$ (2,317.0)	\$ (2,069.6)

35. Personnel Expenses

(C\$ in millions)	2011	2010
Wages and salaries	\$ (630.7)	\$ (539.4)
Benefits	(162.5)	(170.7)
Share-based payments	(24.2)	(15.5)
	\$ (817.4)	\$ (725.6)

36. Finance Income and Finance Costs

(C\$ in millions)	2011	2010
Finance income		
Interest income on tax instalments	\$ 3.6	\$ 18.3
Interest income on mortgages	7.4	6.6
Interest income on financial assets designated as fair value through profit or loss	11.7	3.3
Interest income on available-for-sale financial assets	0.3	3.2
Other finance income	—	1.0
Total finance income	\$ 23.0	\$ 32.4
Finance costs		
Interest expense on subordinated and senior notes ¹	\$ (67.1)	\$ (72.3)
Interest expense on medium-term notes ²	(59.2)	(62.8)
Interest on loans payable	(17.1)	(16.8)
Interest expense on finance leases	(11.4)	(12.6)
Other finance costs	(6.2)	(5.0)
	\$ (161.0)	\$ (169.5)
Less: Capitalized borrowing costs	5.8	1.4
Total finance costs	\$ (155.2)	\$ (168.1)
Net finance costs	\$ (132.2)	\$ (135.7)

¹ Relates to GCCT and includes \$0.2 million of amortization of debt issuance costs (January 1, 2011 – \$1.8 million).

² Includes \$0.4 million of amortization of debt issuance costs (January 1, 2011 – \$0.7 million).

37. Income Taxes

The following are the major components of the income tax expense:

(C\$ in millions)	2011	2010
Current tax expense		
Current period	\$ (185.7)	\$ (178.3)
Adjustments in respect of prior years	16.4	45.3
	\$ (169.3)	\$ (133.0)
Deferred tax expense		
Deferred income tax expense relating to the origination and reversal of temporary differences	\$ 6.4	\$ (9.6)
Deferred income tax expense (benefit) resulting from change in tax rate	—	—
	\$ 6.4	\$ (9.6)
Income tax expense	\$ (162.9)	\$ (142.6)

Reconciliation of income tax expense

Income taxes in the Consolidated Statements of Income vary from amounts that would be computed by applying the statutory income tax rate for the following reasons:

(C\$ in millions)	2011	2010
Income before income taxes	\$ 629.9	\$ 586.8
Income taxes based on the applicable tax rate of 28.08% (2010 – 30.49%)	(176.9)	(179.0)
Adjustment to income taxes resulting from:		
Prior years' tax settlements	7.6	42.0
Change in legislation relating to stock options	(1.8)	(8.0)
Adjustments of prior years' tax estimates	9.0	3.4
Lower income tax rates on earnings of foreign subsidiaries	0.4	1.9
Other	(1.2)	(2.9)
Income tax expense	\$ (162.9)	\$ (142.6)

The applicable tax rate is the aggregate of the Canadian federal income tax rate of 16.5% (2010 – 18.0%) and Canadian provincial income tax rate of 11.58% (2010 – 12.49%). The decrease in the applicable tax rate from 2010 is primarily due to federal and provincial legislative rate reductions enacted by the respective governments.

In the ordinary course of business, the Company is subject to ongoing audits by tax authorities. While the Company has determined 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 that were challenged by the Canada Revenue Agency ("CRA") in recent years related 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 also reassessed on these matters for the corresponding periods.

The Company has settled the commissions issue for the periods 1995 to 2003 and does not have a significant exposure on this issue subsequent to the 2003 tax year.

The Company reached an agreement with the CRA to settle the dividends received issue in the fourth quarter of 2010. As a result of the settlement, the Company recorded an income tax recovery of \$7.6 million (2010 – \$42.0 million) and pre-tax interest income from overpayment of taxes of \$3.6 million (2010 – \$18.0 million).

The 2011 tax provision has been reduced by \$14.8 million (2010 – \$37.3 million) due mainly to the settlement of the dividends received issue and revision to the prior years' estimated tax expense, partially offset by non-deductibility of stock option expense.

The Company regularly reviews the potential for adverse outcomes in respect of tax matters. The Company believes that the ultimate disposition of these will not have a material adverse effect on its liquidity, consolidated financial position or results of operations because the Company has determined 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.

38. Notes to the Consolidated Statements of Cash Flows

Changes in working capital and other are comprised of the following:

(C\$ in millions)	2011	2010
Trade and other receivables	\$ (31.4)	\$ 201.1
Loans receivable	(318.5)	(324.6)
Merchandise inventories	(88.9)	18.4
Income taxes recoverable	7.3	(15.6)
Prepaid expenses and deposits	4.4	3.5
Deposits	401.1	(183.5)
Trade and other payables	242.1	30.9
Deferred revenue	15.7	—
Short-term provisions	(9.7)	(27.9)
Long-term provisions	0.2	(1.6)
Employee benefits	(2.7)	6.2
Changes in working capital and other	\$ 219.6	\$ (293.1)

Supplementary information

Acquisitions and disposals

During the year ended December 31, 2011, property and equipment and investment property were acquired at an aggregate cost of \$239.3 million (2010 – \$263.7 million). The amount related to property and equipment and investment property acquired that is included in trade and other payables at December 31, 2011 was \$25.1 million (2010 – \$29.3 million). Property and equipment and investment property with a carrying amount of \$17.0 million were disposed of during the year ended December 31, 2011 (2010 – \$12.1 million).

During the year ended December 31, 2011, intangible assets were acquired at an aggregate cost of \$125.4 million (2010 – \$76.1 million). The amount related to intangible assets acquired that is included in trade and other payables at December 31, 2011 was \$4.8 million (2010 – \$8.4 million). Intangible assets with a carrying amount of \$2.3 million were disposed of during the year ended December 31, 2011 (2010 – \$0.3 million).

39. Financial Instruments

39.1 Categories of financial instruments

The following table provides a comparison of carrying and fair values of financial instruments as at December 31, 2011, January 1, 2011 and January 3, 2010:

(C\$ in millions)	December 31, 2011		January 1, 2011		January 3, 2010	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Assets designated as fair value through profit or loss ("FVTPL")						
Short-term investments	\$ 32.3	\$ 32.3	\$ 49.7	\$ 49.7	\$ 30.0	\$ 30.0
Long-term investments	6.6	6.6	5.1	5.1	4.5	4.5
Assets mandatorily classified as held for trading ("HFT")						
Derivatives ¹	\$ 5.6	\$ 5.6	\$ 7.4	\$ 7.4	\$ 2.2	\$ 2.2
Available-for-sale ("AFS") financial assets						
Short-term investments	\$ 164.1	\$ 164.1	\$ 147.0	\$ 147.0	\$ 30.9	\$ 30.9
Long-term investments	121.6	121.6	70.7	70.7	44.3	44.3
Assets carried at amortized cost						
Cash and cash equivalents	\$ 325.8	\$ 325.8	\$ 568.9	\$ 568.9	\$ 885.8	\$ 885.8
Trade and other receivables	800.9	800.9	643.8	643.8	847.6	847.6
Held to maturity investments ²	–	–	13.0	13.1	13.8	13.8
Prepaid expenses and deposits	4.7	4.7	1.8	1.8	3.1	3.1
Loans receivable	4,081.7	4,081.5	4,051.0	4,050.8	4,008.7	4,008.7
Long-term receivables and other assets	660.2	660.2	719.8	719.6	787.2	787.2
Liabilities mandatorily classified as held for trading ("HFT")						
Derivatives ³	\$ 4.9	\$ 4.9	\$ 9.1	\$ 9.1	\$ 26.5	\$ 26.5
Liabilities carried at amortized cost						
Bank indebtedness	\$ 124.8	\$ 124.8	\$ 118.0	\$ 118.0	\$ 83.7	\$ 83.7
Deposits	1,182.3	1,182.3	615.6	615.6	863.4	863.4
Trade and other payables	1,509.2	1,509.2	1,034.1	1,034.1	1,010.4	1,010.4
Short-term borrowings	352.6	352.6	100.6	100.6	163.0	163.0
Loans payable	628.7	628.7	687.0	687.0	757.4	757.4
Long-term debt	2,375.6	2,520.1	2,719.6	2,832.9	3,131.7	3,212.6
Long-term deposits	1,102.2	1,140.3	1,264.5	1,301.2	1,196.9	1,242.8
Hedging relationships						
Derivatives assets ⁴	\$ 14.6	\$ 14.6	\$ –	\$ –	\$ 4.8	\$ 4.8
Derivative liabilities ⁵	1.8	1.8	46.4	46.4	62.6	62.6

¹ \$1.9 million included in trade and other receivables and \$3.7 million included in long-term receivables and other assets (January 1, 2011 – \$0.3 million included in trade and other receivables and \$7.1 million included in long-term receivables and other assets; January 3, 2010 – \$1.2 million included in trade and other receivables and \$1.0 million included in long-term receivables and other assets).

² Included in trade and other receivables at January 1, 2011 (long-term receivables and other assets at January 3, 2010).

³ \$1.0 million included in trade and other payables and \$3.9 million included in other long-term liabilities (January 1, 2011 – \$6.1 million included in trade and other payables and \$3.0 million included in other long-term liabilities; January 3, 2010 – \$21.4 million included in trade and other payables and \$5.1 million included in other long-term liabilities).

⁴ \$13.9 million included in trade and other receivables and \$0.7 million included in long-term receivables and other assets (January 1, 2011 – \$nil included in trade and other receivables and \$nil included in long-term receivables and other assets; January 3, 2010 – \$4.5 million included in trade and other receivables and \$0.3 million included in long-term receivables and other assets).

⁵ \$1.8 million included in trade and other payables and \$nil included in other long-term liabilities (January 1, 2011 – \$41.1 million included in trade and other payables and \$5.3 million included in other long-term liabilities; January 3, 2010 – \$60.4 million included in trade and other payables and \$2.2 million included in other long-term liabilities).

Cash flows from cash flow hedges are expected to flow over the next seventeen months and are expected to be recognized in net income over the period ending in December 2013.

39.2 Items of income, expense, gains or losses

The following table presents certain amounts of income, expense, gains or losses arising from financial instruments that were recognized in the statements of comprehensive income:

(C\$ in millions)	2011	2010
Net gain (loss) on:		
Financial instruments designated at FVTPL	\$ 1.5	\$ 0.6
Financial instruments classified as HFT ¹	(3.9)	10.8
Gain on AFS financial assets recognized in other comprehensive income	12.4	0.1
Gain on AFS financial assets reclassified to income	10.3	–
Interest income (expense):		
Total interest income calculated using effective interest method for financial instruments that are not at FVTPL	719.5	706.5
Total interest expense calculated using effective interest method for financial instruments that are not at FVTPL	(218.9)	(231.5)
Fee income (expense):		
Fee income arising from financial instruments that are not at FVTPL	13.4	16.1
Fee expense arising from financial instruments that are not at FVTPL	(15.2)	(15.8)

¹ Excludes gains (losses) on foreign exchange contracts classified as HFT.

39.3 Fair value of financial assets and financial liabilities classified using the fair value hierarchy

The Company uses a fair value hierarchy, as described in Note 3, to categorize the inputs used to measure the fair value of financial assets and financial liabilities. The following table presents the financial instruments measured at fair value classified by the fair value hierarchy:

(C\$ in millions)	December 31, 2011			
	Level 1	Level 2	Level 3	Total
Financial assets				
At fair value through net income	\$ –	\$ 32.3	\$ 6.6	\$ 38.9
Available-for-sale	–	285.7	–	285.7
Derivatives	–	20.2	–	20.2
Financial liabilities				
Derivatives	–	6.7	–	6.7
				January 1, 2011
	Level 1	Level 2	Level 3	Total
Financial assets				
At fair value through net income	\$ –	\$ 49.7	\$ 5.1	\$ 54.8
Available-for-sale	–	217.7	–	217.7
Derivatives	–	7.4	–	7.4
Financial liabilities				
Derivatives	–	55.5	–	55.5
				January 3, 2010
	Level 1	Level 2	Level 3	Total
Financial assets				
At fair value through net income	\$ –	\$ 30.0	\$ 4.5	\$ 34.5
Available-for-sale	–	75.2	–	75.2
Derivatives	–	7.0	–	7.0
Financial liabilities				
Derivatives	–	89.1	–	89.1

Changes in fair value measurement for instruments categorized in Level 3

Level 3 financial instruments include asset-backed commercial paper. The following table presents the changes in fair value measurements for these instruments:

(C\$ in millions)	2011	2010
Balance, beginning of year	\$ 5.1	\$ 4.5
Fair value gains, net of losses, recognized in net income ¹	1.5	0.6
Balance, end of year	\$ 6.6	\$ 5.1

¹ Reported in other income on the Consolidated Statements of Income.

There were no transfers in either direction between Level 1 and Level 2 in 2011 or 2010.

40. Operating Leases

The Company as lessee

The Company leases a number of retail stores, distribution centres, Petroleum sites, facilities and office equipment under operating leases with termination dates extending to 2043. Generally, the leases have renewal options, primarily at the Company's option.

The annual lease payments for property and equipment under operating leases are as follows:

(C\$ in millions)	2011	2010
Less than one year	\$ 290.6	\$ 197.6
Between one and five years	910.8	674.7
More than five years	908.9	884.4
	\$ 2,110.3	\$ 1,756.7

The following amounts recognized as an expense in the Consolidated Statements of Income are as follows:

(C\$ in millions)	2011	2010
Minimum lease payments	\$ 215.2	\$ 167.3
Contingent rent	1.7	1.9
Sub-lease payments received	(0.8)	–
	\$ 216.1	\$ 169.2

Due to the redevelopment or replacement of existing properties, certain leased properties are no longer needed for business operations. Where possible, the Company sub-leases these properties to third parties, receiving sub-lease payments to reduce costs. In addition, the Company has certain premises where it is on the head lease and sub-leases the property to franchisees. The total future minimum sublease payments expected to be received under these non-cancellable sub-leases is \$94.8 million as at December 31, 2011 (2010 – \$0.9 million). The Company has recognized a provision of \$4.8 million (2010 – \$4.9 million) in respect of these leases (Note 22).

The Company as lessor

The Company leases out a number of its investment property, and certain sublease arrangements, under operating leases (Note 17), with lease terms between 1 to 11 years, and a majority of them have an option to renew after the expiry date. The lessee does not have an option to purchase the property at the expiry of the lease period.

The future annual lease payments from lessees under non-cancellable leases are as follows:

(C\$ in millions)	2011	2010
Less than one year	\$ 26.7	\$ 8.4
Between one and five years	74.7	26.2
More than five years	54.1	36.0
	\$ 155.5	\$ 70.6

41. Guarantees and Commitments

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

Franchise Trust, a legal entity sponsored by a third party bank, originates loans to Dealers for their purchase of inventory and fixed assets. While Franchise Trust is consolidated as part of these financial statements, the Company has arranged for the third party bank to provide standby letters of credit to Franchise Trust to support the credit quality of the Dealer loan portfolio. The third party bank may also draw against the standby letters of credit to cover any shortfalls in certain related fees owing to it. In any case where a draw is made against the standby letters of credit, the Company has agreed to reimburse the third party bank issuing the standby letters of credit for the amount so drawn. In the unlikely event that all the standby letters of credit had been fully drawn simultaneously, the maximum payment by the Company under this reimbursement obligation would have been \$137.2 million at December 31, 2011 (2010 – \$179.4 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 or property 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, including environmental remediation. Typically, the term and amount of such indemnification will be determined by the parties in the agreements. The nature of these indemnification agreements prevents the Company from estimating the maximum potential liability it would be required to pay to counterparties. Historically, the Company has not made any significant indemnification payments under such agreements, and no amount has been accrued in the consolidated financial statements with respect to these indemnification agreements.

Lease agreements

The Company has entered into agreements with certain of its lessors that guarantee the lease payments of certain sub-lessees of its facilities to lessors. Generally, these lease agreements relate to facilities the Company has vacated prior to the end of the term of its lease. These lease agreements require the Company to make lease payments throughout the lease term if the sub-lessee fails to make the scheduled payments. These lease agreements have expiration dates through 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 \$6.9 million (2010 – \$7.2 million), except for six 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 Dealers. These third party debt agreements require the Company to make payments if the Dealer fails to make scheduled debt payments. The majority of these third party debt agreements have expiration dates extending to January 28, 2012. The maximum amount that the Company may be required to pay under these debt agreements is \$50.0 million (2010 – \$50.0 million), of which \$38.8 million (2010 – \$36.8 million) has been issued at December 31, 2011. 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 Franchise Trust 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 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

As at December 31, 2011, the Company had other commitments. The Company has not recognized any liability relating to these commitments:

The Company has obtained documentary and standby letters of credit aggregating \$25.8 million (2010 – \$25.2 million) relating to the importation of merchandise inventories and to facilitate various real estate activities for the Company’s merchandise operations.

The Company has entered into agreements to buy back franchise-owned merchandise inventory should the banks foreclose on any of the franchisees. The terms of the guarantees range from less than a year to the lifetime of the particular underlying franchise agreement. The Company’s maximum exposure is \$69.9 million (2010 – \$11.9 million).

The Company has committed to pay \$9.2 million (2010 – \$8.2 million) for various commitments and contingent liabilities including a customs bond and the obligation to buy back two franchise stores.

The Company has committed to pay \$68.4 million (2010 – \$91.2 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 2016.

42. Related Parties

The Company’s majority shareholder is Ms. Martha G. Billes, who controls directly and indirectly approximately 61% of the Common shares of the Company through two privately held companies, Tire ‘N’ Me Pty. Ltd. and Albikin Management Inc.

The Company has related party relationships with members of the Board of Directors, key management personnel, and other entities over which they exercise control. Key management personnel include the Board of Directors, the Company’s Chief Executive Officer, Chief Financial Officer, and the top five senior officers. Close family members of these key management personnel, members of the Board of Directors and any entities over which they exercise control, are also defined as related parties. Transactions with members of the Company’s Board of Directors who were also Dealers represented less than one-percent of the Company’s total revenue and were in accordance with established Company policy applicable to all Dealers. Other transactions with related parties during the year were not significant.

Key management personnel compensation, including Directors fees, comprises:

(C\$ in millions)	2011	2010
Salaries and short-term employee benefits	\$ 9.0	\$ 9.2
Share-based payments	6.5	10.1
Other long-term benefits	1.7	1.2
	\$ 17.2	\$ 20.5

Significant subsidiaries

Subsidiaries are entities controlled by Canadian Tire Corporation, Limited. Control exists when Canadian Tire Corporation, Limited has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, actual and potential voting rights that presently are exercisable or convertible are taken into account. Management has also considered additional factors in assessing control such as de facto circumstantial evidence. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Canadian Tire Corporation, Limited’s significant subsidiaries are:

	Country of incorporation	Ownership interest	
		2011	2010
Canadian Tire Financial Services Limited	Canada	100%	100%
Mark’s Work Wearhouse Ltd.	Canada	100%	100%
Canadian Tire Real Estate Limited	Canada	100%	100%
The Forzani Group Ltd. ¹	Canada	100%	—

¹ On January 1, 2012, the name The Forzani Group Ltd. was changed to FGL Sports Ltd.

43. Subsequent Event

On February 9, 2012 the Company's Board of Directors declared a dividend of \$0.30 per share payable on June 1, 2012 to shareholders of record as of April 30, 2012.

44. Transition to International Financial Reporting Standards

The Company has adopted IFRS effective January 2, 2011. Prior to the adoption of IFRS, the Company presented its financial statements in accordance with previous Canadian Generally Accepted Accounting Principles ("previous GAAP"). As a result, the 2010 comparative information has been adjusted from amounts previously reported in the Company's financial statements prepared in accordance with previous GAAP. IFRS 1 – *First-time Adoption of International Financial Reporting Standards* ("IFRS 1"), requires first-time adopters to apply IFRS Standards retrospectively as if IFRS had been in effect from the date of the Company's inception. The Company's transition date is January 3, 2010 (the "Transition Date") and an opening Consolidated Balance Sheet has been prepared as at that date. These consolidated financial statements have been presented in accordance with the IFRS accounting policies discussed in Note 3.

A. Presentation of consolidated financial statements

Consolidated Statements of Income – "function of expense" presentation

The Company has chosen to present the Consolidated Statements of Income on the "function of expense" or "cost of sales" format. The Company has determined that presenting expenses based on function provides more meaningful and relevant information to users of its financial statements. Additional information on the nature of expenses is disclosed in Note 34.

The more significant change to the Company's Consolidated Statements of Income is the separate presentation of "cost of merchandise sold and all other operating expenses except for the undernoted items" under previous GAAP into "cost of producing revenue" and "operating expenses – distribution costs; sales and marketing expenses; and administrative expenses". Depreciation and amortization are now included in each of these classifications as applicable. In addition, interest on deposits has been reclassified from "net interest expense" to "cost of producing revenue".

A full reconciliation of the Consolidated Statements of Income reported under previous GAAP to that prepared under IFRS is presented in section G.

Consolidated Balance Sheets

IFRS requires certain items, some of which the Company previously grouped together, to be presented separately on the face of the Consolidated Balance Sheets. Such items include "investment property", "provisions", and "assets classified as held for sale". As part of the transition to IFRS, the term "future income taxes" has been replaced with "deferred income taxes". Under IFRS all deferred tax assets or liabilities are classified as non-current. Furthermore, as a result of applying the IFRS 1 exemption, certain financial assets have been reclassified from "held for trading" to "available-for-sale". These reclassifications for presentation under IFRS are shown in the restated Consolidated Balance Sheets as "IFRS Reclassifications" in section G.

A full reconciliation of the Consolidated Balance Sheets reported under previous GAAP to that prepared under IFRS is presented in section G.

B. Optional exemptions from full retrospective application

IFRS 1 provides entities preparing their first IFRS compliant financial statements with several optional exemptions from full retrospective application of IFRS. The Company has applied certain of these optional exemptions as described below.

Business combinations

This exemption allows the Company to not apply IFRS 3 – *Business Combinations* retrospectively to past business combinations. The Company has elected to apply this exemption and therefore has not restated business combinations that took place prior to the Transition Date. Any goodwill arising on such business combinations before the Transition Date remains at the carrying value determined under previous GAAP.

Share-based payment transactions

This exemption allows the Company to not apply IFRS 2 – *Share-based Payments* ("IFRS 2") to equity instruments granted on or before November 7, 2002, or to equity instruments granted after November 7, 2002 and vested before the Transition Date. The Company has elected not to apply IFRS 2 to equity instruments granted on or before November 7, 2002 and to equity instruments granted after November 7, 2002 that had vested by the Transition Date.

Fair value as deemed cost

This exemption allows the Company to initially measure an item of property and equipment, investment property, or intangible asset at its fair value, or an amount determined by a previous GAAP revaluation and use that amount as deemed cost as at the Transition Date on an asset by asset basis. The Company has elected not to apply this exemption.

Employee benefits

This exemption permits the Company to reset its cumulative unamortized actuarial gains and losses to zero by recognizing the full amount in opening retained earnings as at January 3, 2010. The Company has elected to apply this exemption.

Cumulative translation differences

This exemption permits the Company to reset its cumulative translation differences to zero by recognizing the full amount in opening retained earnings as at January 3, 2010. The Company has elected to apply this exemption.

Designation of previously recognized financial instruments

This exemption permits an entity to designate any financial asset that qualifies as available-for-sale at the Transition Date. Additionally, at the date of transition to IFRS, the Company is permitted to designate any financial instrument that qualifies as fair value through profit or loss. The Company has applied this exemption to certain of its financial assets. These financial instruments were previously designated as held for trading and were carried in the Company's annual audited financial statements as at January 2, 2010 at their fair value of \$75.0 million.

Decommissioning liabilities included in the cost of property and equipment

This exemption permits the Company to not comply with IFRIC 1 – *Changes in Existing Decommissioning, Restoration and Similar Liabilities* ("IFRIC 1"). IFRIC 1 requires specified changes in the measurement of a decommissioning, restoration or similar liability to be added to or deducted from the cost of the asset to which it relates. The Company has elected to apply this exemption.

Borrowing costs

This exemption allows the Company to adopt IAS 23 – *Borrowing Costs*, which requires the capitalization of borrowing costs on all qualifying assets, prospectively from the Transition Date. The Company has elected to apply this exemption.

Leases

This exemption applies to first-time adopters who have made a determination of whether an arrangement contained a lease in accordance with a previous GAAP. If the determination made under the entity's previous GAAP would have given the same outcome as that resulting from applying IAS 17 – *Leases* and IFRIC 4 – *Determining whether an Arrangement contains a Lease*, then the first-time adopter need not reassess that determination when it adopts IFRS. The Company has elected to apply this exemption, and as a result has not reassessed its arrangements.

Insurance

This exemption allows the Company to apply the transitional provisions in IFRS 4 – *Insurance Contracts* ("IFRS 4"). IFRS 4 restricts changes in accounting policies for insurance contracts including changes made by a first-time adopter. The Company has elected to apply this exemption.

C. Mandatory exceptions to retrospective application of IFRS

In preparing these consolidated financial statements in accordance with IFRS 1 the Company has applied the following mandatory exceptions from full retrospective application of IFRS.

Hedge accounting

As required by IAS 39 – *Financial Instruments: Recognition and Measurement*, the Company has measured all derivatives at fair value and eliminated all deferred gains and losses arising on derivatives that were reported in accordance with previous GAAP as if they were assets or liabilities. Only hedging relationships that satisfied the hedge accounting criteria as of the Transition Date are reflected as hedges in the IFRS financial statements.

Estimates

Estimates made by the Company under previous GAAP are consistent with their application under IFRS.

D. Reconciliation of Shareholders' Equity from previous GAAP to IFRS

The following is a reconciliation of the Company's total Shareholders' Equity reported in accordance with previous GAAP to its Shareholders' Equity reported in accordance with IFRS for the following dates:

(C\$ in millions)	Note	January 1, 2011	January 3, 2010
Total Shareholders' Equity as reported under previous GAAP		\$ 4,066.7	\$ 3,687.9
Transitional adjustments:			
Property and equipment	i	(1.0)	(0.6)
Impairment	ii	(2.5)	(1.3)
Leases	iii	22.8	35.4
Provisions	iv	(24.9)	(24.7)
Loyalty programs	v	(1.2)	(1.6)
Employee benefits	vi	(22.0)	(14.2)
Share-based payments	vii	(6.0)	(6.7)
Consolidation	viii	(0.2)	–
Securitization	ix	(48.0)	(49.2)
Financial instruments	x	0.4	1.1
Foreign exchange translation	xi	4.2	4.2
Income taxes	xii	16.4	12.8
Other		0.2	–
Total transitional adjustments		(61.8)	(44.8)
Total Shareholders' Equity as reported under IFRS		\$ 4,004.9	\$ 3,643.1

The following is an explanation of the adjustments to shareholders' equity:

(i) Property and equipment

IAS 16 – *Property, Plant and Equipment* requires the Company to componentize the amount initially recognized in respect of an item of property, plant and equipment into its significant parts and depreciate each part separately over its respective useful life. The Company determined that certain of its supply chain assets have additional separable parts or “components”. These components were separately depreciated over their useful lives, resulting in a higher depreciation charge.

Furthermore, insurance proceeds and rental proceeds netted against the cost of property and equipment under previous GAAP have been reclassified to net income under IFRS.

(ii) Impairment

IFRS requires impairment testing of goodwill, intangibles and tangible assets at the CGU level. Under previous GAAP, the Company tested goodwill at the reporting unit level. This change resulted in an impairment of goodwill associated with one of its CGUs in the Retail operating segment.

Under previous GAAP, tangible and intangible assets other than goodwill were tested for impairment by first comparing the undiscounted cash flows generated by the asset or group of assets to the carrying amount. If the application of this first test indicated that there was an impairment, the amount of the impairment was then calculated by comparing the discounted cash flows to the carrying amount of the asset or group of assets. Under IFRS, impairment testing is performed by immediately comparing discounted cash flows to the carrying amount of an asset or group of assets. As a result, the Company recorded impairments on certain of its long-lived assets in its Retail operating segment.

(iii) Leases

There are two impacts to the Company of adopting lease accounting under IFRS: (a) the reclassification of certain leases from operating to finance, and (b) the accounting for deferred gains and losses on previous sale and leaseback transactions.

(a) Under previous GAAP, the Company classified a lease as operating or finance based on quantitative “bright-line” tests. Under IFRS, the assessment must be made based on a qualitative analysis of risks and rewards. As a result of the qualitative analysis, the Company identified certain IT and supply chain leases where the Company obtains the majority of the risks and rewards incidental to ownership. These leases were reclassified from operating to finance leases. As a result, the Company has retrospectively recorded leased assets and finance lease obligations, as well as an adjustment to retained earnings based on the difference between the lease payments under previous GAAP and the depreciation and interest (accretion) recorded on the finance leases under IFRS.

(b) Under IFRS, any gains or losses on sale and leaseback transactions that were established at fair value and where the leaseback transaction results in an operating lease must be recognized immediately. Under previous GAAP, the Company was amortizing the gains or losses over the lease term. As a result, the Company has recognized the remaining balance of deferred gains on its operating sale and leaseback transactions in opening retained earnings.

(iv) Provisions

Under IFRS, reserves and/or accruals for which there is a significant degree of uncertainty about the amount or timing of the payment are classified as provisions. In addition, a provision must be discounted when the time-value of money is material. Therefore, the Company reclassified certain accruals to provisions and has discounted these provisions where applicable.

Furthermore, IFRS specifies that the discount rate applied to the provision must be the rate that reflects the risks associated with the obligation. Under previous GAAP, the Company measured its provisions for asset retirement obligations using the credit-adjusted risk-free rate of interest. As a result, the Company has remeasured its provisions for asset retirement obligations, which are now referred to as site restoration and decommissioning provisions under IFRS.

Under previous GAAP, reserves and accruals are only recorded when a legal obligation exists. Under IFRS provisions are recorded for both legal and constructive obligations. A constructive obligation exists when an action by the Company indicates to a third party that it will accept certain responsibilities, and creates a valid expectation on the part of that third party that it will discharge those responsibilities.

(v) Loyalty programs

IFRIC 13 – *Customer Loyalty Programmes* requires award credits granted as part of a sales transaction to be accounted for as a separate component of revenue earned on the transaction. Revenue earned on the transaction is allocated to the award credit based on its fair value and deferred until the award credits are redeemed, unless a third party provides the awards, in which case revenue is deferred until the Company fulfills its obligations to the customer in respect of the awards. As a result, the Company has deferred revenue earned on transactions relating to its loyalty programs until the Company has fulfilled its obligation to the customer.

(vi) Employee benefits

Under previous GAAP, the Company was using the corridor method to amortize actuarial gains and losses. On transition to IFRS, the Company elected to reset all cumulative unamortized actuarial gains and losses to zero as at the Transition Date. Cumulative actuarial gains and losses that existed at the Transition Date were recognized in opening retained earnings for the Company's employee benefit plans.

(vii) Share-based payments

Under previous GAAP, the obligation for cash settled share-based awards was revalued at each reporting period based on the intrinsic value of each award and the portion vested. Under IFRS, the obligation for cash-settled awards was remeasured at each reporting date based on the fair value of each award and the portion vested.

Under previous GAAP, the Company recognized forfeitures of share-based awards as they occurred. Under IFRS, an estimate is required of the number of awards expected to vest, which is revised if subsequent information indicates that actual forfeitures are likely to differ from the estimate. As a result, the Company adjusted its liability for share-based awards.

Under previous GAAP, the Company recognized the total fair value of share-based awards with graded vesting on a straight-line basis over the employment period necessary to vest the award. Under IFRS, the Company recognized the fair value of each tranche in an award with graded vesting on a straight-line basis over the vesting period of the tranche.

(viii) Consolidation

Glacier Credit Card Trust ("GCCT")

GCCT was formed to buy co-ownership interests in the Company's credit card loans. GCCT issues debt to third-party investors to fund its purchases. Under previous GAAP, GCCT was determined to be a qualifying SPE and was therefore exempt from consolidation. Under IFRS, the Company is required to consolidate an entity that it controls based on the criteria set forth in SIC 12 – *Consolidation – Special Purpose Entities* ("SIC 12"). The Company determined that it controls GCCT and is therefore required to consolidate GCCT under IFRS.

Dealer loan program

Franchise Trust, a legal entity sponsored by a third party bank, originates loans to Dealers for their purchase of inventory and fixed assets. The Company has arranged for several major Canadian banks to provide standby letters of credit to Franchise Trust to support the credit quality of the loan portfolio. The Company was not required to consolidate any part of Franchise Trust under previous GAAP. Under IFRS, the Company is required to consolidate an entity/ arrangement (or a portion thereof) it is considered to control based on the criteria set forth in IAS 27 and SIC 12. The Company has determined that it controls the portion (silo) of Franchise Trust that issues loans to Dealers under the Dealer loan program and accordingly, is required to consolidate the silo of Franchise Trust containing the Dealer loan program.

(ix) Securitization

Since 1995, the Company has securitized credit card receivables through GCCT. Under previous GAAP, the Company recorded a gain/loss on sale and derecognized the credit card receivables. Under IFRS, an entity may not derecognize an asset when it maintains the majority of the risks and rewards associated with the asset. Therefore, the securitization transactions no longer qualify for derecognition under IFRS and the Company must recognize the receivables in the Consolidated Balance Sheets. Accordingly, the gain/loss on the sale of the receivables was reversed.

*(x) Financial instruments**Hedging with options*

Under IFRS, the Company is required to reflect the time value of foreign exchange options in the Consolidated Statements of Income. Under previous GAAP, the fair market value of the foreign exchange options portfolio was recorded as an adjustment to inventory (for goods where title of ownership had transferred) or OCI (for future merchandise yet to be purchased). Under IFRS, the time value component of the fair market valuation of the foreign exchange options portfolio is recorded in the Consolidated Statements of Income rather than in OCI, which results in new income statement volatility going forward under IFRS.

Debt issuance costs

Under IFRS, all transaction costs that are directly attributable to the issuance of debt must be capitalized and amortized over the term of the debt. Under previous GAAP, the Company expensed these transaction costs as incurred. As a result, costs previously expensed are retrospectively capitalized in the Consolidated Balance Sheets and netted against the outstanding debt.

Allowance for impairment of loans receivable

Under both previous GAAP and IFRS, the Company determines its allowance for impairment of loans receivable using an incurred loss model. However, IFRS requires objective evidence of a loss having occurred prior to recording impairment on a financial asset. IFRS also provides more detailed guidance on loss events, impairment analysis, and when an impairment is permitted. This increased guidance has resulted in an increase in the Company's impairment allowance.

(xi) Foreign exchange translation

The Company elected to reset all cumulative translation differences to zero as at the Transition Date. Cumulative translation differences that existed at the Transition Date were fully recognized in opening retained earnings.

(xii) Income taxes

This adjustment reflects the change in current or deferred income taxes resulting from the effect of the IFRS adjustments described as allowed under IAS 12 – *Income Taxes*.

E. Reconciliation of Net Income and Comprehensive Income from previous GAAP to IFRS

The following is a reconciliation of the Company's Net income and Comprehensive income reported in accordance with previous GAAP to its Net income and Comprehensive income in accordance with IFRS for the 52 weeks ended January 1, 2011:

(C\$ in millions)	Notes	52 weeks ended January 1, 2011
Net income as reported under previous GAAP		\$ 453.6
Transitional adjustments:		
Property and equipment	i	(0.4)
Impairment	ii	(1.2)
Leases	iii	(12.6)
Provisions	iv	(0.2)
Loyalty programs	v	0.4
Employee benefits	vi	0.5
Share-based payments	vii	0.7
Consolidation	viii	(0.2)
Securitization	ix	1.2
Financial instruments	x	1.3
Income taxes	xi	0.9
Other		0.2
Total transitional adjustments		(9.4)
Net income as reported under IFRS		\$ 444.2

(C\$ in millions)	Notes	52 weeks ended January 1, 2011
Comprehensive income as reported under previous GAAP		\$ 461.3
Transitional adjustments:		
Adjustments to net income		(9.4)
Employee benefits	vi	(6.2)
Financial instruments	x	(1.4)
Comprehensive income as reported under IFRS		\$ 444.3

The following is an explanation of the adjustments to net income and comprehensive income:

(i) Property and equipment

Additional significant components of certain assets are depreciated separately over a shorter useful life. As a result, higher depreciation was charged on these components.

(ii) Impairment

On initial transition to IFRS, the Company impaired certain depreciable assets. The lower cost base resulted in a decrease in depreciation expense. In addition, an impairment indicator was triggered during the year ended January 1, 2011 and the Company recognized additional impairments under IFRS of \$1.5 million relating to investment property.

(iii) Leases

The Company accounts for leases of certain assets as finance leases under IFRS. As a result, the Company depreciates the leased assets on the same basis as similar owned assets and records interest expense on the obligation. Under previous GAAP, these assets were accounted for as operating leases and rental payments were expensed on a straight-line basis over the lease term.

Furthermore, the gain recorded on previous sale and leaseback transactions were being amortized to net income on a straight-line basis over the lease term under previous GAAP. Under IFRS, as a result of the reclassification of the lease from operating to finance, the gain on sale was amortized on the same basis as the leased assets.

Under previous GAAP, the Company was amortizing gains and losses from previous sale and leaseback transactions classified as operating leases over the term of the various lease agreements. Under IFRS, gains and losses on sale and leaseback transactions that result in an operating lease must be recorded in income immediately. Therefore, the balances are no longer being amortized.

(iv) Provisions

The adjustments relate to movements in the IFRS discount rate during the year and the unwinding of the discount rate applied to provisions for warranty and site restoration, which were partly offset by depreciation on decommissioning and restoration obligations.

*(v) Loyalty programs**Awards provided by the Company*

Under IFRS, the Company defers revenue allocated to award credits granted as part of a sales transaction and recognizes that revenue when the customer redeems the award credits. Under previous GAAP, the cost of providing award credits was included in revenue and marketing expenses.

Awards provided by a third party

Under previous GAAP, the Company recorded the cost of operating its Canadian Tire Money programs as a reduction of revenue. Under IFRS, since the awards associated with this program are supplied by a third party, the Company defers revenue until it has fulfilled its obligations to the customer in respect of the awards. As the Company's obligation to the customer is fulfilled at the same time that the award credits are granted to the customer, the event triggering the revenue deferral and the event triggering revenue recognition are the same, resulting in the Company immediately recognizing the revenue associated with the loyalty transaction and a corresponding loyalty expense.

(vi) Employee benefits

The Company elected to recognize all cumulative actuarial gains and losses as at the Transition Date. As a result, the Company adjusted its expense to remove the amortization of actuarial gains and losses. Furthermore, the Company's policy under IFRS is to record actuarial gains and losses into OCI. Under previous GAAP, the Company was recognizing actuarial gains and losses into income using the corridor approach.

(vii) Share-based payments

Under previous GAAP, the obligation for cash settled share-based awards was revalued at each reporting period based on the intrinsic value of each award and the portion vested. Under IFRS, the obligation for cash-settled awards was remeasured at each reporting date based on the fair value of each award and the portion vested.

Under previous GAAP, the Company recognized forfeitures of share-based awards as they occurred. Under IFRS, an estimate is required of the number of awards expected to vest, which is revised if subsequent information indicates that actual forfeitures are likely to differ from the estimate. As a result, the Company adjusted its liability for share-based awards.

Under previous GAAP, the Company recognized the total fair value of share-based awards with graded vesting on a straight-line basis over the employment period necessary to vest the award. Under IFRS, the Company recognized the fair value of each tranche in an award with graded vesting on a straight-line basis over the vesting period of the tranche.

(viii) Consolidation

The Company consolidates GCCT and the silo of Franchise Trust containing the Dealer loan program under IFRS, but did not consolidate these entities under previous GAAP. Accordingly, the financial results of these entities have been included in the determination of the Company's net income under IFRS.

(ix) Securitization

Credit card receivables that were securitized through GCCT no longer qualify for derecognition under IFRS as they did under previous GAAP. As a result, the Company has reinstated the receivable balances and corresponding income and expenses related to those balances.

*(x) Financial instruments**Hedging with options*

Under IFRS, the Company is required to reflect the time value of foreign exchange options in the Consolidated Statements of Income. Under previous GAAP, the fair market value of the foreign exchange options portfolio was recorded as an adjustment to inventory (for goods where title of ownership had transferred) or OCI (for future merchandise yet to be purchased). Under IFRS, the time value component of the fair market valuation of the foreign exchange options portfolio is recorded in the Consolidated Statements of Income rather than in OCI, which results in new income statement volatility going forward under IFRS.

Designation of previously recognized financial instruments

Upon transition to IFRS, certain financial assets were reclassified from "held for trading" to "available-for-sale". Changes in the fair value of financial assets classified as held for trading are recorded in net income, whereas changes in fair value of available-for-sale financial assets are recorded in OCI.

Debt issuance costs

Under IFRS, all transaction costs that are directly attributable to the issuance of debt must be capitalized. Under previous GAAP, the Company expensed these transaction costs as incurred. Therefore, the previously expensed costs were retrospectively capitalized in the Consolidated Balance Sheets and netted against the outstanding debt. These transaction costs are being amortized into income over the term of the related debt.

Allowance for impairment of loans receivable

Under IFRS, the Company was required to recalculate its allowance for impairment of loans receivable. This resulted in an increase in the impairment and a decrease to net income.

(xi) Income taxes

This adjustment reflects the current or deferred income taxes resulting from the effect of the IFRS adjustments described.

F. Reconciliation of Cash Flows from previous GAAP to IFRS

The most significant adjustments to the Company's Consolidated Statements of Cash Flows reported in accordance with IFRS relate to the consolidation of additional entities under IFRS that were not required to be consolidated under previous GAAP and the elimination of securitization transactions reported under previous GAAP that no longer qualify for de-recognition under IFRS.

All amounts and classification changes referenced in the note below relate to items in the Company's Consolidated Statements of Cash Flows for the 52 weeks ended January 1, 2011.

As a result of the consolidation of additional entities and new finance leases, the repayment of long-term debt increased from \$310.1 million under previous GAAP to \$690.8 million under IFRS. Issuance of debt under IFRS is \$264.5 million. In addition, under IFRS the Company includes "issuance/repayment of short-term borrowings" of \$1,160.3 million and \$1,222.7 million, respectively, and "issuance/repayment of loans payable" of \$248.8 million and \$318.8 million, respectively, in financing activities.

As a result of securitization transactions reported under previous GAAP no longer qualifying for de-recognition under IFRS, "net provision for loans receivable" of \$177.5 million under previous GAAP is now presented as "impairment on loans receivable" of \$347.0 million under IFRS. In addition, "gain on sale of loans receivable" of \$33.8 million, "securitization loans receivable" of \$30.9 million and "net securitization of loans receivable" of \$155.1 million presented under previous GAAP are no longer applicable under IFRS. "Investment in loans receivable" changed from (\$156.6) million under previous GAAP to (\$324.6) million under IFRS.

The Company has also modified the classification of certain items within the Consolidated Statements of Cash Flows. "Investment in loans receivable", classified as investing activities under previous GAAP, is now presented as "loans receivable" in "changes in working capital and other". "Net change in deposits", classified as financing activities under previous GAAP, is now presented as "deposits" in "changes in working capital and other".

Net finance costs and income tax expense are included in "operating activities" and interest paid, interest received and income taxes paid are included in "cash generated from operating activities" in the Consolidated Statements of Cash Flows under IFRS.

G. Financial Statements Reconciliations

The following are reconciliations of the financial statements reported under previous GAAP to amended financial statements prepared under IFRS.

Consolidated Balance Sheet under IFRS

As at January 3, 2010 (C\$ in millions)	Previous GAAP	Consolidation of additional entities	IFRS reclassifications	IFRS adjustments	IFRS
ASSETS					
Cash and cash equivalents	\$ 869.7	\$ 16.3	\$ (0.2)	\$ –	\$ 885.8
Short-term investments	64.0	(3.3)	0.2	–	60.9
Trade and other receivables	835.9	2.9	15.0	–	853.8
Loans receivable	2,274.8	1,774.8	–	(40.9)	4,008.7
Merchandise inventories	933.6	–	–	(0.6)	933.0
Income taxes recoverable	94.7	–	–	–	94.7
Prepaid expenses and deposits	40.7	–	0.4	–	41.1
Deferred income taxes	82.8	–	(82.8)	–	–
Assets classified as held for sale	–	–	15.0	–	15.0
Total current assets	5,196.2	1,790.7	(52.4)	(41.5)	6,893.0
Long-term receivables and other assets	109.9	712.3	(0.4)	(19.5)	802.3
Other long-term investments	48.8	–	–	–	48.8
Intangible assets	337.2	–	–	(1.8)	335.4
Investment property	–	–	71.2	–	71.2
Property and equipment	3,180.4	–	(86.2)	116.2	3,210.4
Deferred income taxes	–	–	33.0	13.1	46.1
Total assets	\$ 8,872.5	\$ 2,503.0	\$ (34.8)	\$ 66.5	\$ 11,407.2
LIABILITIES					
Bank indebtedness	\$ 83.7	\$ –	\$ –	\$ –	\$ 83.7
Deposits	863.4	–	–	–	863.4
Trade and other payables	1,391.4	19.2	(212.2)	(5.5)	1,192.9
Provisions	–	–	199.4	21.5	220.9
Short-term borrowings	–	163.0	–	–	163.0
Loans payable	–	757.4	–	–	757.4
Current portion of long-term debt	309.3	365.0	–	16.3	690.6
Total current liabilities	2,647.8	1,304.6	(12.8)	32.3	3,971.9
Long-term provisions	–	–	22.0	4.7	26.7
Long-term debt	1,101.2	1,198.4	–	141.5	2,441.1
Long-term deposits	1,196.9	–	–	–	1,196.9
Deferred income taxes	49.8	–	(49.8)	–	–
Other long-term liabilities	188.9	–	5.8	(67.2)	127.5
Total liabilities	5,184.6	2,503.0	(34.8)	111.3	7,764.1
SHAREHOLDERS' EQUITY					
Share capital	720.4	–	–	–	720.4
Contributed surplus	0.2	–	–	–	0.2
Accumulated other comprehensive income (loss)	(46.4)	–	–	7.8	(38.6)
Retained earnings	3,013.7	–	–	(52.6)	2,961.1
Total shareholders' equity	3,687.9	–	–	(44.8)	3,643.1
Total liabilities and shareholders' equity	\$ 8,872.5	\$ 2,503.0	\$ (34.8)	\$ 66.5	\$ 11,407.2

Consolidated Balance Sheet under IFRS

As at January 1, 2011 (C\$ in millions)	Previous GAAP	Consolidation of additional entities	IFRS reclassifications	IFRS adjustments	IFRS
ASSETS					
Cash and cash equivalents	\$ 554.3	\$ 15.4	\$ (0.8)	\$ –	\$ 568.9
Short-term investments	195.9	–	0.8	–	196.7
Trade and other receivables	662.3	2.0	9.6	–	673.9
Loans receivable	2,481.2	1,606.8	–	(37.0)	4,051.0
Merchandise inventories	901.5	–	–	(0.5)	901.0
Income taxes recoverable	99.4	–	–	(0.1)	99.3
Prepaid expenses and deposits	37.6	–	0.3	(0.3)	37.6
Deferred income taxes	72.4	–	(72.4)	–	–
Assets classified as held for sale	–	–	20.8	–	20.8
Total current assets	5,004.6	1,624.2	(41.7)	(37.9)	6,549.2
Long-term receivables and other assets	100.9	648.1	(0.4)	(21.7)	726.9
Other long-term investments	75.8	–	–	–	75.8
Intangible assets	363.0	–	–	(1.6)	361.4
Investment property	–	–	70.1	(1.5)	68.6
Property and equipment	3,219.8	–	(90.9)	103.1	3,232.0
Deferred income taxes	–	–	17.8	16.8	34.6
Total assets	\$ 8,764.1	\$ 2,272.3	\$ (45.1)	\$ 57.2	\$ 11,048.5
LIABILITIES					
Bank indebtedness	\$ 118.0	\$ –	\$ –	\$ –	\$ 118.0
Deposits	615.6	–	–	–	615.6
Trade and other payables	1,355.9	18.6	(187.6)	(7.0)	1,179.9
Provisions	–	–	174.8	21.4	196.2
Short-term borrowings	–	100.6	–	–	100.6
Loans payable	–	687.0	–	–	687.0
Current portion of long-term debt	22.6	317.5	–	14.1	354.2
Total current liabilities	2,112.1	1,123.7	(12.8)	28.5	3,251.5
Long-term provisions	–	–	18.2	6.9	25.1
Long-term debt	1,079.4	1,148.8	–	137.2	2,365.4
Long-term deposits	1,264.5	–	–	–	1,264.5
Deferred income taxes	54.6	–	(54.6)	–	–
Other long-term liabilities	186.8	–	4.1	(53.8)	137.1
Total liabilities	4,697.4	2,272.5	(45.1)	118.8	7,043.6
SHAREHOLDERS' EQUITY					
Share capital	711.6	–	–	–	711.6
Contributed surplus	0.3	–	–	–	0.3
Accumulated other comprehensive income (loss)	(38.7)	–	0.1	6.3	(32.3)
Retained earnings	3,393.5	(0.2)	(0.1)	(67.9)	3,325.3
Total shareholders' equity	4,066.7	(0.2)	–	(61.6)	4,004.9
Total liabilities and shareholders' equity	\$ 8,764.1	\$ 2,272.3	\$ (45.1)	\$ 57.2	\$ 11,048.5

Consolidated Statement of Income 'Function of Expense' format under previous GAAP

 For the year ended January 1, 2011
 (C\$ in millions)

Format under previous GAAP		<i>Adjustments for new format</i>		Function of expense format under previous GAAP
Gross operating revenue	\$ 8,980.8	—	\$ 8,980.8	Revenue
		(6,425.0)	(6,425.0)	Cost of producing revenue
			2,555.8	Gross margin
Operating expenses				
Cost of merchandise sold and all other operating expenses except for the undernoted items	(8,000.2)	8,000.2		
Net interest expense	(103.3)	103.3		
Depreciation and amortization	(247.3)	247.3		
Employee profit sharing plan	(33.0)	33.0		
Total operating expenses	(8,383.8)			
		15.5	15.5	Other income
		(298.6)	(298.6)	Operating expenses
		(956.9)	(956.9)	Distribution costs
		(682.8)	(682.8)	Sales and marketing expenses
			(682.8)	Administrative expenses
			(1,938.3)	Total operating expenses
			633.0	Operating income
		28.3	28.3	Finance income
		(64.3)	(64.3)	Finance costs
			(36.0)	Net finance costs
Earnings before income taxes	597.0	—	597.0	Income before income taxes
Income taxes				
Current	(132.8)			
Future	(10.6)			
Income taxes	(143.4)		(143.4)	Income taxes
Net earnings	\$ 453.6		\$ 453.6	Net income

Consolidated Statement of Income under IFRS

For the year ended January 1, 2011 (C\$ in millions)	Function of expense format under previous GAAP	Consolidation of additional entities	IFRS adjustments/ reclassifications	IFRS
Revenue	\$ 8,980.8	\$ 105.2	\$ 127.1	\$ 9,213.1
Cost of producing revenue	(6,425.0)	–	2.9	(6,422.1)
Gross margin	2,555.8	105.2	130.0	2,791.0
Other income	15.5	(12.3)	(2.1)	1.1
Operating expenses				
Distribution costs	(298.6)	–	2.3	(296.3)
Sales and marketing expenses	(956.9)	–	(133.5)	(1,090.4)
Administrative expenses	(682.8)	(2.9)	2.8	(682.9)
Total operating expenses	(1,938.3)	(2.9)	(128.4)	(2,069.6)
Operating income	633.0	90.0	(0.5)	722.5
Finance income	28.3	(0.2)	4.3	32.4
Finance costs	(64.3)	(90.0)	(13.8)	(168.1)
Net finance costs	(36.0)	(90.2)	(9.5)	(135.7)
Income before income taxes	597.0	(0.2)	(10.0)	586.8
Income taxes	(143.4)	–	0.8	(142.6)
Net income	\$ 453.6	\$ (0.2)	\$ (9.2)	\$ 444.2
Basic earnings per share	\$ 5.56	–	(0.11)	\$ 5.45
Diluted earnings per share	\$ 5.56	–	(0.14)	\$ 5.42
Weighted average number of Common and Class A Non-Voting Shares outstanding – Basic	81,565,476	–	–	81,565,476
Weighted average number of Common and Class A Non-Voting Shares outstanding – Diluted	81,565,476	–	339,536	81,905,012

Supplementary Information: Interest Coverage

The Company's long-term interest requirements for the 52 weeks ended December 31, 2011, after annualizing interest on long-term debt issued and retired during this period, amounted to \$158.5 million. The Company's earnings before interest on long-term debt and income taxes for the 52 weeks then ended were \$788.4 million, which is 5.0 times the Company's long-term interest requirements for this period.

2011 Quarterly Information

	First Quarter (January 2, 2011 to April 2, 2011)	Second Quarter (April 3, 2011 to July 2, 2011)	Third Quarter (July 3, 2011 to October 1, 2011)	Fourth Quarter (October 2, 2011 to December 31, 2011)	Total
(C\$ in millions, except per share amounts)					
(Store numbers are cumulative at end of period)					
Retail segment					
Revenue	\$ 1,726.5	\$ 2,318.3	\$ 2,443.8	\$ 2,874.9	\$ 9,363.5
Income before income taxes	31.6	98.2	105.8	175.2	410.8
Financial Services segment					
Revenue	233.8	234.8	243.1	241.6	953.3
Income before income taxes	50.8	48.4	64.2	55.7	219.1
Total					
Revenue	\$ 1,976.2	\$ 2,570.9	\$ 2,704.9	\$ 3,135.1	\$ 10,387.1
Cost of producing revenue	1,363.4	1,842.4	1,924.3	2,196.3	7,326.4
Operating expenses	498.7	548.8	588.7	680.8	2,317.0
Net finance costs	34.0	33.2	32.1	32.9	132.2
Income taxes	24.0	40.8	33.5	64.6	162.9
Net income	58.4	105.8	136.5	166.3	467.0
Basic earnings per share ¹	0.72	1.30	1.68	2.04	5.73
Diluted earnings per share ¹	0.71	1.29	1.67	2.03	5.71
Canadian Tire Retail					
Retail sales growth	(0.6)%	1.9%	3.2%	2.7%	2.0%
Same store sales growth	(1.4)%	0.9%	2.3%	1.8%	1.1%
Number of updated and expanded stores	306	272	272	247	
Number of Smart stores	104	139	139	169	
Number of traditional stores	64	63	62	58	
Number of Small Market stores	13	13	13	14	
Cumulative number of Canadian Tire Retail stores	487	487	486	488	
Number of PartSource stores	87	87	87	87	
FGL Sports					
Retail sales growth ²	n/a	n/a	6.6%	0.6%	2.3%
Same store sales growth ²	n/a	n/a	7.3%	0.7%	2.6%
Number of FGL Sports stores	n/a	n/a	528	534	
Canadian Tire Petroleum					
Number of gas bars	289	290	291	289	
Number of car washes	76	76	76	76	
Number of convenience stores	284	285	286	283	
Mark's Work Wearhouse					
Retail sales growth	6.2%	0.5%	2.8%	3.1%	3.0%
Same store sales growth	6.2%	0.1%	2.7%	3.1%	2.8%
Number of Mark's Work Wearhouse stores	382	384	385	385	
Canadian Tire Financial Services					
Average number of account with a balance ³ (thousands)	1,699	1,708	1,728	1,735	1,717
Average account balance ³ (\$)	2,337	2,347	2,341	2,334	2,340
Gross average receivables ⁴ (millions)	3,993.3	4,025.6	4,061.1	4,062.1	4,035.5
Class A Non-Voting Shares					
High	\$ 68.93	\$ 65.70	\$ 63.27	\$ 66.85	\$ 68.93
Low	61.20	57.81	51.80	54.00	51.80
Close	65.67	63.10	57.00	65.90	65.90
Volume (thousands of shares)	13,627	14,332	14,084	13,116	55,159
Common Shares					
High	\$ 77.40	\$ 76.99	\$ 72.24	\$ 74.75	\$ 77.40
Low	70.00	69.01	61.01	63.50	61.01
Close	76.93	71.15	68.00	72.51	72.51
Volume (thousands of shares)	34	35	36	18	123

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 the 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 FGL Sports was acquired on August 18, 2011. The metrics are calculated using the Company's weekly sales calendar, which begins on Sunday and ends on Saturday. For 2011, the Sunday after the acquisition date was August 21 (2010 - August 22). The percentages reported in the table are for comparison purposes only as the Company did not own FGL Sports in 2010.

³ Credit card portfolio only.

⁴ Total portfolio of loans receivable.

2010 Quarterly Information

	First Quarter (January 3, 2010 to April 3, 2010)	Second Quarter (April 4, 2010 to July 3, 2010)	Third Quarter (July 4, 2010 to October 2, 2010)	Fourth Quarter (October 3, 2010 to January 1, 2011)	Total
(C\$ in millions, except per share amounts)					
(Store numbers are cumulative at end of period)					
Retail segment					
Revenue	\$ 1,639.4	\$ 2,208.8	\$ 2,004.8	\$ 2,325.9	\$ 8,178.9
Income before income taxes	27.3	120.2	84.2	154.5	386.2
Financial Services segment					
Revenue	232.2	241.8	241.9	237.8	953.7
Income before income taxes	46.9	58.1	54.3	41.3	200.6
Total					
Revenue	\$ 1,889.0	\$ 2,469.7	\$ 2,266.1	\$ 2,588.3	\$ 9,213.1
Cost of producing revenue	1,302.0	1,738.1	1,567.8	1,814.2	6,422.1
Operating expenses	468.4	519.4	521.3	560.5	2,069.6
Net finance costs	41.6	37.6	37.6	18.9	135.7
Income taxes	22.6	55.5	38.0	26.5	142.6
Net income	51.6	122.8	100.5	169.3	444.2
Basic earnings per share ¹	0.63	1.51	1.23	2.08	5.45
Diluted earnings per share ¹	0.63	1.50	1.23	2.07	5.42
Canadian Tire Retail					
Retail sales growth	2.1%	1.3%	2.0%	0.5%	1.4%
Same store sales growth ⁵	1.7%	0.8%	1.4%	(0.4)%	0.7%
Number of updated and expanded stores	363	326	326	306	
Number of Smart stores	37	77	77	103	
Number of traditional stores	70	68	68	64	
Number of Small Market stores	10	11	11	12	
Cumulative number of Canadian Tire Retail stores	480	482	482	485	
Number of PartSource stores	87	87	87	87	
FGL Sports					
Retail sales growth ²	n/a	n/a	n/a	n/a	n/a
Same store sales growth ²	n/a	n/a	n/a	n/a	n/a
Number of FGL Sports stores	n/a	n/a	n/a	n/a	
Canadian Tire Petroleum					
Number of gas bars	273	273	283	287	
Number of car washes	73	73	73	76	
Number of convenience stores	268	268	278	282	
Mark's Work Wearhouse					
Retail sales growth	3.8%	6.2%	4.5%	1.9%	3.7%
Same store sales growth ⁵	0.8%	3.4%	2.4%	0.5%	1.5%
Number of Mark's Work Wearhouse stores	382	383	383	383	
Canadian Tire Financial Services					
Average number of account with a balance ³ (thousands)	1,712	1,716	1,716	1,721	1,716
Average account balance ³ (\$)	2,324	2,339	2,342	2,332	2,334
Gross average receivables ⁴ (millions)	4,026.3	4,051.1	4,049.3	4,038.3	4,041.2
Class A Non-Voting Shares					
High	\$ 58.62	\$ 59.63	\$ 59.12	\$ 68.93	\$ 68.93
Low	51.13	50.86	53.00	55.73	50.86
Close	55.75	54.93	56.79	68.19	68.19
Volume (thousands of shares)	12,447	11,545	10,049	11,957	45,997
Common Shares					
High	\$ 66.89	\$ 70.00	\$ 67.99	\$ 75.99	\$ 75.99
Low	60.00	64.10	63.72	63.23	60.00
Close	65.01	64.55	66.97	75.00	75.00
Volume (thousands of shares)	23	37	13	47	120

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 the 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 FGL Sports was acquired on August 18, 2011. The metrics are calculated using the Company's weekly sales calendar, which begins on Sunday and ends on Saturday. For 2011, the Sunday after the acquisition date was August 21 (2010 – August 22). The percentages reported in the table are for comparison purposes only as the Company did not own FGL Sports in 2010.

³ Credit card portfolio only.

⁴ Total portfolio of loans receivable.

⁵ Same store sales growth has been restated to conform with the current year's presentation. See section 10.4 for further detail.

Ten-Year Financial Review

(C \$ in millions except per share amounts)	2011	2010 ¹
Consolidated Statements of Income		
Revenue	\$ 10,387.1	\$ 9,213.1
Earnings before interest, income taxes, depreciation & amortization and non-controlling interest	1,058.2	996.6
Income before income taxes and non-controlling interest	629.9	586.8
Income taxes	162.9	142.6
Net income before non-controlling interest	467.0	444.2
Non-controlling interest	–	–
Net income before non-controlling interest	467.0	444.2
Cash generated from operations (before changes in working capital and other)	1,400.1	1,337.9
Cash generated from operating activities	1,405.5	729.5
Earnings retained and reinvested ⁴	375.3	370.4
Capital expenditures ⁵	364.7	339.8
Consolidated Balance Sheets		
Current Assets	\$ 6,956.6	\$ 6,549.2
Long-term assets ⁶	1,943.9	1,198.7
Property and equipment and investment property	3,438.3	3,300.6
Total assets	12,338.8	11,048.5
Current liabilities	4,153.0	3,251.5
Long-term debt (excludes current portion)	2,347.7	2,365.4
Long-term deposits (excludes current portion)	1,102.2	1,264.5
Other long-term liabilities ⁷	326.9	162.2
Non-controlling interest	–	–
Shareholders' equity	4,409.0	4,004.9
Consolidated per Share⁸		
Basic earnings per share	\$ 5.73	\$ 5.45
Diluted earnings per share	5.71	5.42
Cash generated from operations (before changes in working capital and other)	17.19	16.43
Cash generated from operating activities	17.26	8.96
Dividends declared per share	1.125	0.905
Shareholders' equity	54.14	49.17
Statistics at Year End		
Number of Canadian Tire Retail stores	488	485
Number of PartSource stores	87	87
Number of gas bars	289	287
Number of car washes	76	76
Number of Mark's Work Wearhouse stores	385	383
Number of FGL Sports stores ⁹	534	–

¹ 2010 figures have been restated for IFRS.

² Results reported under the previous Canadian GAAP.

³ 53-week period.

⁴ Net income less dividends.

⁵ Capital expenditures are presented on an accrual basis and include intangible software additions.

⁶ Includes long-term receivables and other assets, long-term investments, goodwill and intangible assets and deferred income taxes.

⁷ Includes long-term provisions, deferred income taxes and other long-term liabilities.

⁸ Per share numbers are calculated using total shares outstanding as at the Company's year-end date.

⁹ FGL Sports was acquired on August 18, 2011.

	2009 ²	2008 ^{2,3}	2007 ²	2006 ²	2005 ²	2004 ²	2003 ^{2,3}	2002 ²
	\$ 8,686.5	\$ 9,121.3	\$ 8,606.1	\$ 8,252.9	\$ 7,713.9	\$ 7,062.1	\$ 6,486.8	\$ 5,888.9
	873.7	891.8	881.2	809.0	789.1	702.0	597.0	546.3
	479.2	543.0	611.2	557.8	527.7	460.9	365.9	311.3
	144.2	167.6	199.5	200.8	190.0	162.5	116.0	103.0
	335.0	375.4	411.7	357.0	337.7	298.4	249.9	208.3
	–	–	–	2.4	7.6	6.9	8.7	7.4
	335.0	375.4	411.7	354.6	330.1	291.5	241.2	200.9
	694.7	588.4	528.7	410.1	700.7	630.4	534.5	460.1
	418.8	181.5	61.6	395.3	413.5	413.1	520.1	442.0
	266.3	307.0	351.3	300.8	282.7	251.0	208.7	169.3
	273.1	471.9	592.7	557.4	391.1	340.7	278.9	249.8
	\$ 5,196.2	\$ 3,979.0	\$ 3,138.2	\$ 2,541.0	\$ 2,973.1	\$ 2,434.6	\$ 2,291.5	\$ 2,303.1
	495.9	605.9	343.0	382.3	238.6	223.4	156.7	211.5
	3,180.4	3,198.9	3,283.6	2,881.3	2,743.9	2,585.2	2,444.9	2,351.1
	8,872.5	7,783.8	6,764.8	5,804.6	5,955.6	5,243.2	4,893.1	4,865.7
	2,647.8	1,999.7	2,113.7	1,663.6	1,821.0	1,487.4	1,612.0	1,577.0
	1,101.2	1,373.5	1,341.8	1,168.4	1,171.3	1,081.8	886.2	1,125.2
	1,196.9	598.7	3.8	–	–	–	–	–
	238.7	246.9	197.4	187.4	152.2	122.8	77.8	67.4
	–	–	–	–	300.0	300.0	300.0	300.0
	3,687.9	3,565.0	3,108.1	2,785.2	2,511.1	2,251.2	2,017.1	1,796.1
	\$ 4.10	\$ 4.60	\$ 5.05	\$ 4.35	\$ 4.04	\$ 3.60	\$ 2.99	\$ 2.54
	4.10	4.60	5.05	4.31	3.98	3.53	2.95	2.51
	8.51	7.21	6.49	5.03	8.57	7.78	6.63	5.82
	5.13	2.22	0.76	4.85	5.06	5.10	6.45	5.59
	0.840	0.840	0.740	0.660	0.580	0.500	0.400	0.400
	45.19	43.69	38.15	34.19	30.83	27.75	24.98	22.49
	479	475	473	468	462	457	452	451
	87	86	71	63	57	47	39	33
	272	273	266	260	259	253	232	212
	73	74	74	74	67	58	47	33
	378	372	358	339	334	333	322	306
	–	–	–	–	–	–	–	–

Asset-backed commercial paper (ABCP)

A secured short-term debt obligation. Traditionally, the underlying assets of ABCP are made up of consumer loans and receivables.

Associate Dealer (Dealer)

The independent business owners who operate our Canadian Tire Retail stores.

Basic earnings per share

Basic earnings per share is calculated by dividing the net income attributable to Common and Class A Non-Voting shareholders of the Company by the weighted average number of Common and Class A Non-Voting shares outstanding during the reporting period.

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 30-day to five-year terms and are non-redeemable prior to maturity, except under rare circumstances.

Cash generating unit (CGU)

Cash generating unit corresponds to the smallest identifiable group of assets whose continuing use generates cash inflows that are largely independent of the cash flows from other groups of assets. The Company has determined that its Retail CGUs comprise individual stores or group of stores within a geographical market.

Comprehensive income

A separate financial statement comprised of net income and other comprehensive income (see also other comprehensive income).

Compound Annual Growth Rate (CAGR)

The compound annual growth rate is the year-over-year percentage growth rate over a given period of time. It is found by calculating the nth root of the total percentage return over the period where n is the number of years.

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 an "updated and expanded" store. A Concept 20/20 store may include a Mark's Work Wearhouse store.

Credit risk

The potential for loss due to the failure of a borrower to meet their financial obligation.

Debenture

Long-term corporate debt that is not secured by the pledge of specific assets.

Derivative

A financial instrument whose value depends upon the values of underlying assets, interest rates, currency exchange rates, or indices.

Diluted earnings per share

Diluted earnings per share is calculated by adjusting the net income attributable to shareholders and the weighted average number of shares outstanding for the effects of all dilutive potential equity instruments, which comprise employee stock options.

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.

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.

Finance lease

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. Under the previous Canadian GAAP, these leases were known as capital leases.

Financial instrument

Any contract that gives rise to a financial asset of one party and a financial liability or equity instrument of another party.

Franchise Trust (Dealer Loan Program)

A financing program established to provide an efficient and cost-effective way for Dealers to access the majority of the financing required for their store operations. The portion (silo) of Franchise Trust that issues loans to the Dealers is included in the consolidated financial statements.

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 neutralize/manage interest rate, foreign currency exchange or other exposures arising from regular business transactions.

High interest savings account

A form of savings deposit at Canadian Tire Bank which pays higher interest than a traditional chequing or saving account with no minimum balance or withdrawal restrictions.

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.

IFRS

International Financial Reporting Standards.

Interest coverage

Income before finance costs and income taxes divided by finance costs.

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.

Investment property

Investment property is property held to earn rental income or appreciation of capital or both. Properties provided to Dealers, franchisees and agents are not considered investment property, as these are related to the Company's operating activities. Property leased to third parties are considered investment property.

Loans receivable

The aggregate amount of outstanding balances owed to the Company by Canadian Tire credit card holders and personal loan and line of credit customers.

Mark-to-market

The valuation of financial instruments using prevailing market prices or fair value as of the balance sheet date.

Mark's Rebranding

Introduced in 2010, this Mark's store concept includes a new store layout that highlights the expanded casual wear offering, as well as rebranding the Mark's Work Wearhouse stores as simply "Mark's".

Medium-term note (MTN)

Debt instrument with maturity of at least one year and a maximum of 30 years that can be offered by the Company during the term of a short form base shelf prospectus, which has a current term extending until April 23, 2013.

Non-controlling interest

A reference to shareholders – individuals, corporations or partnerships – that own less than 50 per cent of a subsidiary's outstanding voting common stock. In the past, the non-controlling shareholders held an

interest in the subsidiary's net assets and share earnings with the majority shareholder. The Company had a significant non-controlling interest between 2001 and 2006.

Non-current assets held for sale

Non-current assets and disposal groups are classified as assets held-for-sale when their carrying amount is to be recovered principally through a sale transaction rather than through continuing use.

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.

Operating segments

Effective January 2, 2011, the Company re-organized its four previously reportable operating segments to conform with its revised view of operating the business. The Company now has two reportable segments, Retail and Financial Services. See Note 7 to the notes to the consolidated financial statements for more information.

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, changes in the fair value of the effective portion of cash flow hedging instruments and actuarial gains and losses.

Petroleum 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.

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.

Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. The amount of the provision is a best estimate of the consideration required to settle the present obligation. Examples of the Company's provisions include warranties and returns, site restoration and decommissioning, onerous contracts and customer loyalty programs.

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.

Retail return on invested capital

Retail after-tax earnings before interest, divided by average invested capital. Invested capital is the sum of total assets less current liabilities (excluding current portion of long-term debt) for the Retail segment.

Retail sales

Retail sales refer to the point of sales (ie: cash register) value of all goods sold at Dealer-operated, franchisee-operated and corporate-owned stores across the retail banners. Retail sales is different from revenue. See revenue for more details.

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.

Revenue

Revenue from the sale of goods includes shipments of merchandise to Canadian Tire Dealers, Mark's Work Wearhouse, PartSource and FGL Sports franchisees, sale of gasoline by Canadian Tire Petroleum, and the sale of goods by Mark's Work Wearhouse, PartSource and FGL Sports corporate-owned stores. Revenue also includes interest income on loans receivable, as well as service revenue from Roadside Assistance Club memberships, insurance premiums and merchant and interchange fees on credit card transactions. Royalties, license fees and rental income are also included in revenue.

Same store sales

The same store sales metric is used by management and is common throughout the retail industry. This metric identifies sales growth generated by the existing store network and removes the effect of opening and closing stores. Same store sales includes sales from all stores that have been open for a minimum of 53 weeks. The calculation excludes stores that have been retrofitted, replaced or expanded where the percentage change in square footage exceeds 25% of the original store size. CTR's same store sales metric includes PartSource store sales and automotive service labour sales.

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.

Small Market store

Introduced in 2008, this Canadian Tire Retail store has a smaller format and focuses on meeting the needs of underserved rural markets. The size of the Small Market store is in the range of 14,000 to 19,000 square feet. The Small Market store may include a Mark's Work Wearhouse store.

Smart store

Introduced in 2008, this Canadian Tire Retail store format replaces the updated and expanded stores. This store format focuses on growth and improving productivity and is less capital intensive than the former store concepts. The Smart store may include a Mark's store.

Total managed portfolio

The total value, before allowances, of the loans receivable portfolio, which includes credit card receivables, personal loans and line of credit loans.

Traditional store

A Canadian Tire store that is not an "updated and expanded", Small Market or Smart store. Traditional stores were built prior to the introduction of new-format stores in 1994.

Transition date

The transition date refers to the date when the Company transitioned from Canadian generally accepted accounting principles (CGAAP) to International Financial Reporting Standards (IFRS). The transition date was January 3, 2010.

Total debt-to-total capital ratio

A ratio that measures total debt (which includes current and long-term debt and deposits and long-term derivatives or hedge instruments related to capital items only) divided by total capital under management (which includes total debt, share capital, contributed surplus and retained earnings).

Updated and expanded stores

A single term used to describe Canadian Tire Retail stores that have been updated or expanded from traditional stores, including a mix of previous store concepts such as the 20/20, Next Generation, and Class Of stores. The updated and expanded stores were introduced between 1994 and 2008, prior to the Smart store and Small Market store concepts.

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.

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

Iain C. Aitchison³

New Jersey, U.S.A.

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

H. Garfield Emerson, Q.C.¹

Ontario, Canada

Principal, Emerson Advisory, an independent advisory firm; and Corporate Director

John A. Furlong⁴

British Columbia, Canada

Corporate Director

James L. Goodfellow^{1,4}

Ontario, Canada

Corporate Director

Claude L'Heureux⁴

Ontario, Canada

President, Gestion Claude L'Heureux, which operates at Canadian Tire Store

Frank Potter^{2,3}

Ontario, Canada

Corporate Director

Timothy R. Price^{2,4}

Ontario, Canada

Chairman, Brookfield Funds, Brookfield Asset Management Inc., an asset management company

James A. Riley^{2,3}

Ontario, Canada

Managing Director and Chief Operating Officer, The Catalyst Capital Group Inc., a private equity firm

Alan P. Rossy¹

Quebec, Canada

President and CEO, Groupe Copley, a real estate leasing and development company

Peter B. Saunders³

Florida, U.S.A.

Corporate Director

Graham W. Savage^{1,2}

Ontario, Canada

Corporate Director

George A. Vallance⁴

British Columbia, Canada

President, G.A. Vallance Holdings Limited, which operates a Canadian Tire Store

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, Timothy R. Price

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

Non-Executive Chairman of the Board

Stephen G. Wetmore

President and Chief Executive Officer

Marco Marrone

Chief Operating Officer, Canadian Tire Retail and Executive Vice-President, Canadian Tire Corporation, Limited

Dean McCann

Chief Financial Officer and Executive Vice-President, Finance

G. Michael Arnett

Executive Vice-President, Corporate Development

Michael B. Medline

President, FGL Sports Ltd., Executive Vice-President, Canadian Tire Corporation, Limited

Glenn Butt

Executive Vice-President, Customer Experience and Automotive

Harry P. Taylor

Chief Operating Officer, Mark's Work Warehouse Ltd.

Mary L. Turner

Chief Operating Officer, Canadian Tire Financial Services Limited and President, Canadian Tire Bank

Robyn A. Collver

Senior Vice-President, Secretary and General Counsel

Kristine Freudenthaler

Senior Vice-President, Information Technology and Chief Information Officer

Douglas B. Nathanson

Senior Vice-President, Chief Human Resources Officer

John D. Salt

Senior Vice-President, Supply Chain

Kenneth Silver

Senior Vice-President, Corporate Strategy and Real Estate

Candace A. MacLean

Vice-President and Treasurer

Shareholder and Corporate Information

HOME OFFICE

CANADIAN TIRE CORPORATION, LIMITED

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P.O. Box 770, Station K
Toronto, Ontario M4P 2V8
Canada
Telephone: 416-480-3000
Fax: 416-544-7715
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SHAREHOLDER CONTACTS

ANGELA McMONAGLE

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Investor Relations email:
investor.relations@cantire.com

MEDIA CONTACT

NICOLE PICOT

Vice-President, Communications
nicole.picot@cantire.com

ANNUAL MEETING OF SHAREHOLDERS

MaRS COLLABORATION CENTRE

101 College Street
Toronto, Ontario
Thursday, May 10, 2012
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)
The Royal Bank of Scotland
(Canada) Branch
Alberta Treasury Branches

REGISTRAR AND TRANSFER AGENT

COMPUTERSHARE TRUST COMPANY OF CANADA

100 University Avenue
Toronto, Ontario 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.

2011 DIVIDENDS DECLARED

Date of Declaration	Record Date	Date Payable	Amount Payable Per Share
November 10, 2011	January 31, 2012	March 1, 2012	\$0.30
August 11, 2011	October 31, 2011	December 1, 2011	\$0.275
May 12, 2011	July 29, 2011	September 1, 2011	\$0.275
February 10, 2011	April 29, 2011	June 1, 2011	\$0.275

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 the 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 télécharger la version française du rapport annuel de Canadian Tire ou en demander un exemplaire, veuillez consulter le site Web de Canadian Tire, à l'adresse <http://corp.canadiantire.ca/fr/investors>.

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