CANADIAN TIRE CORPORATION
A FAMILY OF COMPANIES

ANNUAL REPORT 2012

table of

CONTENTS

01 • INVESTMENT STRENGTHS

03 • FINANCIAL HIGHLIGHTS

04 • BUSINESS AT A GLANCE

06 • MESSAGE FROM THE CHAIRMAN

07 • MESSAGE FROM THE CEO

08 • BUSINESS STRATEGY

10 • CANADIAN TIRE RETAIL™

12 • FGL SPORTS™

14 • MARK'S™

15 • FINANCIAL SERVICES

16 • OUR COMMITMENT TO OUR COMMUNITY

17 • CANADIAN TIRE JUMPSTART CHARITIES®

18 • FINANCIAL ASPIRATIONS

19 • OUR LEADERSHIP TEAM

20 • MESSAGE FROM THE CFO

21 • FINANCIAL PERFORMANCE

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investment strengths

CANADIAN TIRE CORPORATION IS A FAMILY OF COMPANIES THAT PUTS THE CUSTOMER AT THE CENTRE OF EVERYTHING WE DO. WE HAVE ONE OF THE COUNTRY'S STRONGEST BRANDS, SUPPORTED BY MORE THAN 1,700 LOCATIONS ACROSS CANADA, A BROAD OFFERING OF RETAIL PRODUCTS, HOME SERVICES AND FINANCIAL SERVICES, AN IMPRESSIVE WEB PRESENCE AND A NEW, LEADING-EDGE TECHNOLOGY STRATEGY. WE ARE COMMITTED TO DELIVERING ON OUR STRATEGIC INITIATIVES AND CREATING VALUE FOR SHAREHOLDERS OVER THE LONG TERM. YOUR INVESTMENT IN CANADIAN TIRE IS SUPPORTED BY THESE KEY STRENGTHS:

STRONG COMPETITIVE ADVANTAGE

- Family of Companies includes some of the most recognized and respected retail brands in Canada
- Canada's leading retailer in dozens of key sports, Automotive, Living and Fixing categories
- Extremely successful Financial Services business supports Retail companies
- Diverse product mix, strong in-house brands and exclusive products

EXTENSIVE REACH AND SCALE

- Stores located within 15 minutes of 90% of Canadians
- One of the country's largest commercial real estate portfolios
- Strong web presence, including some of the country's most-visited sites
- Flyers and catalogues reach over 11 million households each week
- One in five Canadians holds a Canadian Tire Options® MasterCard®

INNOVATION

- State-of-the-art store concepts for all banners
- Increased use of technology across all businesses, including award-winning mobile app, in-store displays, digital catalogue and online marketing
- Extensive use of exclusive, private-label brands, including 60 innovative apparel and footwear products
- Efficient and modern supply chain with continuing productivity enhancements
- Innovative loyalty program, generating customer insights
- Sustainable practices integrated across the business

STRONG FINANCIAL POSITION

- Multiple sources of liquidity
- Strong free cash flow
- History of consistent dividend increases
- Focus on delivering sustainable earnings growth

9.3%	12.1%	3.6%
DILUTED EPS (10-YEAR CAGR*)	DIVIDENDS DECLARED (10-YEAR CAGR)	TOTAL SHAREHOLDER RETURN (10-YEAR CAGR)

*CAGR refers to the Compound Annual Growth Rate.

DOUGLAS COUPLAND'S INFINITE TIRES
art installation at the Marine Drive Shopping Complex in Vancouver, British Columbia

financial highlights

CANADIAN TIRE CORPORATION MAINTAINED ITS STRONG FINANCIAL POSITION IN 2012 WHILE POSTING EXCELLENT REVENUE AND EARNINGS PERFORMANCE ACROSS THE COMPANY.

($C IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

	2012	2011	% CHANGE
CONSOLIDATED			
Revenue	$ 11,427.2	$ 10,387.1	10.0%
EBITDA	1,138.5	1,058.2	7.6%
Income before income taxes	677.2	629.9	7.5%
Net income	499.2	467.0	6.9%
Capital expenditures	334.8	364.7	(8.2)%
Cash generated from operating activities	743.0	1,405.5	(47.1)%
RETAIL SEGMENT			
Retail sales	$ 12,852.5	$ 11,668.3	10.1%
Revenue	10,381.2	9,363.5	10.9%
EBITDA	798.7	768.9	3.9%
Income before income taxes	400.3	410.8	(2.6)%
FINANCIAL SERVICES SEGMENT			
Revenue	$ 981.9	$ 960.4	2.2%
Income before income taxes	276.9	219.1	26.4%
KEY FINANCIAL MEASURES			
Canadian Tire Retail sales (POS) growth	0.8%	2.0%	
Retail return on invested capital (ROIC)	6.67%	7.68%	
Financial services return on receivables (ROR)	6.76%	5.45%	
PER SHARE			
Basic earnings	$ 6.13	$ 5.73	6.9%
Diluted earnings	6.10	5.71	6.9%
Dividends declared	1.25	1.125	11.1%

FOR MORE INFORMATION, INCLUDING DETAILED FINANCIAL DOCUMENTS, PLEASE VISIT
CORP.CANADIANTIRE.CA

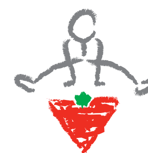
business at a glance

WE ARE PART OF COMMUNITIES FROM COAST-TO-COAST, AND NO ONE KNOWS CANADA OR UNDERSTANDS THE NEEDS OF CANADIANS LIKE WE DO. OUR PRODUCTS AND SERVICES REFLECT OUR DIVERSE CUSTOMERS, THEIR LOVE OF SPORTS AND THE OUTDOORS AND THEIR PASSION FOR THEIR HOMES AND AUTOMOBILES.

SPORTCHEK

sports experts

Mark's



Jumpstart

Giving kids a sporting chance.

INTERSPORT

CANADIAN TIRE RETAIL

One of Canada's most trusted brands, Canadian Tire is focused on the everyday jobs and joys of our customers. With 490 retail locations and a robust online community, we sell more products, in more places, than any other Canadian retailer. We are Canada's store.

CANADIAN TIRE'S RETAIL CATEGORIES INCLUDE:

LIVING

- Home organization, cleaning, pet care and kitchen
- Patio, barbeques and gardening

FIXING

- Tools, hardware and paint

PLAYING

- Fitness and sporting goods
- Outdoor recreation

DRIVING

- Auto parts
- Tires
- Auto Service
- PartSource®
- Gas+®
- Roadside Assistance®

MARK'S

Mark's is the largest retailer of men's apparel and footwear in Canada. We also have a growing women's apparel and footwear business. With 386 stores operating under Mark's, Mark's Work Wearhouse and L'Equipeur®, as well as Marks.com, we provide Canadians from coast-to-coast with a wide selection of products known for comfort, durability, value and innovation.

FGL SPORTS

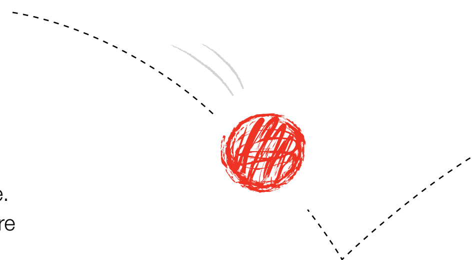
FGL Sports is the number one sports retailer in Canada, selling a vast assortment of sports-related products, from athletic footwear to leisure apparel. We are the conduit between Canadians and the best sports brands in the world. We believe in the importance of living healthy, active lives and we share the country's passion for the outdoors. With more than 495 stores across Canada, FGL Sports provides the products and services that help sport enthusiasts of all skill levels succeed.

FGL SPORTS RETAIL BANNERS INCLUDE:

- Sport Chek®
- Sports Experts®
- Atmosphere®
- National Sports®
- Intersport®

FINANCIAL SERVICES

Financial Services provides customers with solutions for their everyday financial needs. We complement the retail businesses across the Family of Companies with a host of products and services such as equal payment plan options, in-store instant credit, Canadian Tire Home Services™ and home and auto insurance. The Canadian Tire MasterCard portfolio has more than four million card members.



THE CANADIAN TIRE FAMILY OF COMPANIES CARRIES BEST-IN-CLASS, PRIVATE-LABEL AND PREMIER NATIONAL BRANDS.

message

FROM THE CHAIRMAN MAUREEN J. SABIA

CANADIAN TIRE HAS A PROUD HERITAGE. AND IN 2012, OUR 90TH BIRTHDAY, WE PUBLISHED THE HISTORY OF OUR FIRST 90 YEARS, *LIVING THE CANADIAN DREAM - HOW CANADIAN TIRE BECAME CANADA'S STORE.*

The book is all about leadership, entrepreneurship and innovation, the hallmarks that distinguish Canadian Tire. It chronicles the fascinating path Canadian Tire has travelled to become the Canadian icon it is. And it is about the many, many thousands of employees who have made the journey with us.

Much can be learned from a company whose values have been preserved for over 90 years and whose evolution has been unique. I am not sure anyone today would set out to design a company like Canadian Tire Corporation. Our company defies 'business school' logic, but it is a company that has flourished and prospered because of and in spite of its unique evolutionary journey.

But, proud as we are of our heritage, all of us at the Tire have our sights set firmly on our future.

And we have bold ambitions.

On January 23, 2013, Canadian Tire announced the largest-ever corporate commitment to amateur sport in Canadian history. Canadian Tire, Sport Chek and Sports Experts have become premier sponsors of Canada's Olympic Team – and our entire 'family of companies' announced a staggering array of partnerships with Canada's leading sports federations and with Canadian Olympians and leading athletes.

The benefits to be derived from these new partnerships in sport are being enthusiastically embraced by our family of companies and are proving to be a huge source of pride and excitement for our Dealers, franchisees and employees across the country. We believe in the power of sport. That is why we have been committed to our Jumpstart initiative that gives disadvantaged children the opportunity to get in the game and benefit from the advantages participation in sport gives them.

But our ambition does not stop with our Olympic sponsorship. We are committed to the next 90 years in which innovation, execution and customer centric strategies will form the basis of our continued success.

We will be Canada's sports store, serving customers at every level of athletic ambition.

In January, 2013 we opened the most digitally-savvy sports store – in fact, the most digital retail environment of any kind – in North America. Sport Chek's new retail 'lab' on Yonge Street in Toronto uses 140 interactive screens to deliver 54 channels of custom content and has numerous destinations throughout the store with products for customers that can be customized to their individual preferences.

I think it is interesting that, in the 1950s, Yonge Street was also the location of our first 'retail lab' as the Billes brothers reinvented the retail experience at Canadian Tire. More than 60 years later we are still innovating as a company. The digital lessons being learned in Sport Chek's retail lab will ultimately benefit all our customers across all our businesses.

We will create a new standard for an exciting retail experience, both physically and digitally. In March 2013 we will introduce our e-catalogue and we are well advanced on our e-commerce strategy. At the Tire, we refer to all of this as smart commerce.

We will introduce new Canadians to life in Canada and provide them with the products and the know-how they require to enjoy their new lives in Canada. And young Canadians will enthusiastically embrace our stores as their parents and grandparents have done.

Our financial services division, through the Canadian Tire Bank, will continue to meet the changing financial product needs of our customers with new services and new products.

Our talented executive team led by Stephen Wetmore, supported by our hard-working Board of Directors is proactively pursuing both organic and net new growth opportunities that will provide even greater value to our shareholders. And we will pursue bold new initiatives designed to make Canadian Tire even more attractive to our long term investors.

'Stay tuned' as we look forward to the future with great confidence in our ability to meet the needs of our shareholders and the ever changing needs of our customers. We are on an exciting journey of unremitting ambition.

On a more sober note, Alan Rossy will not stand for re election to the Board at our AGM. All of us enjoyed working with Alan and we want to extend to him our appreciation of the value he brought to us. With the approval of our shareholders, we will welcome Pierre Boivin, President and CEO of Claridge Inc. and the immediate past CEO of the Montreal Canadiens, to our Board.

Sincerely,
Maureen J. Sabia, Chairman of the Board

message

FROM THE CEO STEPHEN G. WETMORE

2012 WAS A BUSY, EXCITING AND SUCCESSFUL YEAR FOR CANADIAN TIRE CORPORATION AND ITS LOYAL CUSTOMERS. ACROSS OUR FAMILY OF COMPANIES, FINANCIAL PERFORMANCE WAS STRONG. WE ACHIEVED A 10% INCREASE IN REVENUES, CLOSELY MANAGED EXPENDITURES AND INCREASED OUR DIVIDEND FOR THE THIRD CONSECUTIVE YEAR.

At the heart of our brand is an understanding of everyday life in Canada. While most of our competitors must stay true to their American roots, we are proudly Canadian and have taken a bold move to become the largest supporter of amateur sports in the country, anchored by our top tier partnership with Canada's Olympic Team for the next eight years.

Our history in 'Playing' comes from our heritage brand – Canadian Tire Retail. Over several years, we have relentlessly been making the changes necessary to exceed our customers' expectations throughout Canadian Tire – in partnership with our Associate Dealer network – and are together creating a powerful destination for customers: "Canada's Store." During 2012, we launched more than 85 Smart Stores. The new Living merchandising and marketing strategy was incorporated into 73 stores and we opened 50 new outdoor recreational Pro Shops which exceeded even our expectations.

Evolving from bricks and mortar to digital and online, investments in next-in-class technology have positioned us to be a leader in 'smart commerce' and the next generation of the retail experience. Canadian Tire is launching a game changing new digital experience for customers in 2013 that combines the best of a magazine and catalogue with embedded social media feeds and increased product information. Meanwhile, in early 2013, FGL Sports and Sport Chek opened a game-changing retail 'lab' store, delivering next-in-class retail and digital innovations for an unparalleled shopping experience. All of these investments require changing the way we think – changing our assumptions of how to win in retail – and I couldn't be more pleased with our progress.

Our heritage in 'Playing' and sport resulted in our acquisition of FGL Sports in 2011 and throughout 2012 this premier sports division continued to deliver everything we had envisioned. Between the 'Your Better Starts Here' brand campaign, digital innovations and new stores, they have been injecting a new excitement into the family. FGL Sports has exceeded our financial targets which has allowed us to pursue an aggressive growth strategy for its 'super brand,' Sport Chek.

In 2012, our new management team started to reinvigorate our Mark's apparel brand. While delivering strong financial results and introducing Marks.com and new marketing campaigns, I believe they have also begun the next decade of growth for Mark's which captures its unique positioning in the Canadian marketplace. 2013 will be an important year as our management team seeks to recapture the growth trajectory that Mark's saw in the mid 2000s.

Our Financial Services division has grown from a 'triangle' company into a division serving the entire Family of Companies – launching a new Sport Chek branded credit card and deferred payment services in 2012. They are also working closely with our retail businesses to develop new platforms for growth, including the Canadian Tire Drivers Academy, the expansion of Home Services and the continued promotion of in-store financing.

Our commitment to the power of sport extends throughout our Company and is embodied in our support of Jumpstart, which reached a milestone in 2012 by helping its 500,000th child in Canada to get in the game. Now through our sponsorships in Canada's major sport categories, our Family of Companies has taken its rightful place in supporting healthy and active living for Canadians.

This past year marked our 90th anniversary of providing Canadians with the products and services they need for life in Canada. We have grown with our country through the years. While we believe you should be very proud of the Company's heritage and legacy, we must continue to adapt if we are to move forward with strength. Mobile technology is radically changing the way we do business and every process that supports it. Knowledge gained from our successful loyalty trial coupled with our digital strategy will keep our brand relevant as we head towards our 100th anniversary.

We are focused on creating long term sustainable shareholder value and we thank you for your continued support.

Sincerely,
Stephen G. Wetmore, President and CEO

business strategy

THE CANADIAN TIRE FAMILY OF COMPANIES REMAINS FOCUSED ON GROWTH THROUGH FOUR STRATEGIC PILLARS. THE FOUNDATION OF OUR FIVE-YEAR FINANCIAL ASPIRATIONS, THESE STRATEGIC OBJECTIVES WILL CONTINUE TO DRIVE OUR BUSINESS FORWARD IN THE YEARS AND DECADES TO COME.

1 / STRENGTHEN CORE RETAIL

Our core retail business, Canadian Tire Retail, operates in the Living, Fixing, Playing and Driving categories. We are executing initiatives that will grow the business, reinforce our brand and deliver exceptional customer experiences across our network.

CONTINUE ROLLING OUT NEW CONCEPT, CAPITAL-LIGHT CANADIAN TIRE RETAIL STORES

» Completed more than 85 Smart Store and Small Market projects in 2012
» Approximately 70 store projects planned for 2013
» Expanding "store-within-a-store" concept: converting 400 stores to new Living format in 2013 and doubling the number of outdoor recreation Pro Shops
» Short, medium and long term vision for the store network

RETAIN AND GROW MARKET-LEADING POSITIONS

» Focus on leadership in high-growth categories
» Tailor store assortments to meet local customer needs
» Reinforce our authority in Automotive

SKILLFULLY EXECUTE OUR KEY OPERATIONAL PRIORITIES

» Build a digital platform that draws on the national reach and scale of our existing network of stores
» Continue to gain insight and learnings from loyalty pilot program
» Utilitze our investment in the Automotive Infrastructure program to strengthen our market position

2 / ALIGN RETAIL AND FINANCIAL BUSINESS UNITS TO REINFORCE THE CORE

Our retail banners and financial services business strengthen and drive growth in key categories. We will continue to invest in our heritage businesses and develop new services and programs to support our leadership position. Our Family of Companies contributes to the overarching goals we have set.

» Strengthen our position as Canada's ultimate authority in sports

» Partner with strategic vendors and organizations such as the Canadian Olympic Team and NASCAR®

» Expand innovative automobile products and service offerings

» Retain and grow market share in core brands and apparel categories

» "Install what we sell" through Home Services

» Broaden in-store financing offers across retail banners

3 / BUILD A HIGH-PERFORMING ORGANIZATION

We are improving our operational and financial performance through the execution of programs that improve productivity. We continue to:

» Focus on financial flexibility to ensure we meet our strategic objectives
- Increase efficiency through our shared services model of centralized functions

» Maintain a strong corporate culture that recognizes that our leadership team and employees are one of our company's greatest assets

» Support the recently opened Marine Drive Shopping Complex in Vancouver, which brings together all three banners – Canadian Tire, Mark's and Sport Chek – in one location

» Implement new merchandise procurement initiatives

» Focus on business sustainability as an innovation strategy that complements and supports our strategic growth objectives. Recognized as a leader in business sustainability through numerous awards in 2012, including :
- GLOBE Award for Best Green Retailing Practices
- Named one of the 50 Best Corporate Citizens in Canada by Corporate Knights

4 / CREATE NEW GROWTH PLATFORMS

We are growing our business through the introduction of new products, services, store concepts and digital platforms.

» Identify opportunities that add depth to key categories through development of innovative and exclusive products
- Pursue organic growth opportunities through new store design concepts and financial product offerings
- Strengthen apparel and footwear offerings across multiple banners
- Support product sales through Home Services and financing options

» Seek out meaningful acquisitions and new selling platform
- Announced intent to purchase Pro Hockey Life Sporting Goods Inc.

» Launch new digital technology, mobile and e-commerce functionality

» Continue to develop gas bars in new service centres along Highway 400 and Highway 401 in Ontario

» Launched new Canadian Tire Drivers Academy pilot program

» Installed rooftop solar energy systems at eight Canadian Tire stores in southern Ontario to supply renewable energy directly to the electrical grid

canadian tire retail

CANADIAN TIRE UNDERSTANDS THE JOBS AND JOYS OF LIFE IN CANADA AND WE OFFER A RANGE OF PRODUCTS AND SERVICES THAT ARE UNMATCHED IN THE COUNTRY. WE ARE CANADA'S STORE.

ONE UNIQUE FACTOR THAT SETS CANADIAN TIRE APART IN THE CANADIAN RETAIL MARKET IS OUR ASSOCIATE DEALER MODEL. OPERATING AS INDIVIDUAL ENTREPRENEURS, ASSOCIATE DEALERS KNOW THEIR COMMUNITIES AND THEIR CUSTOMERS.

From the very beginning, when the entrepreneurial Billes brothers set out to deliver quality products at the best price, they focused on their customers' needs.

As Canadian consumers and life in Canada have evolved over the years, so have we. Over the last nine decades, our catalyst for change has remained consistent. Every expansion, every new store opening, every new product or service introduced to our store shelves and our service bays has been inspired by our customers.

We were the first company to give its customers aggressive "cash back" promotions with the introduction of Canadian Tire 'Money'® – Canada's first loyalty program. In 2012, we upgraded our program with the Nova Scotia-based pilot of Canadian Tire 'Money' Advantage™ – a rewards program that ranks among the best in the country for customer value and gives us greater insight into our customers.

Our heritage business, Automotive, continued to deliver the latest and most innovative products to our customers. For the past several years, Canadian Tire's automotive executives have successfully hosted "Combustion Chamber" events – an automotive product search program that invites our vendors to showcase their newest, most innovative product offerings. In 2012 the automotive team took the search global, hosting our first Combustion Chamber event at SEMA (Specialty Equipment Market Association), the world's premier automotive specialty products trade event. Our team met with top vendors from around the globe to ensure our stores are stocked with leading products that will appeal to all our automotive customers – from first-time car owners to driving enthusiasts.

In our Fixing category, we expanded the paint selection to include top quality brands such as Origins™ by Benjamin Moore®. To accompany the launch of this exclusive product we invested in new colour matching and blending technology, as well as employee training by design experts in order to deliver an industry-leading customer experience.

In 2012, we launched our Pro Shop hunting and fishing "store-within-a-store" concept in our Playing category. In key markets, this store experience is designed to meet niche market demands by delivering an expanded selection of products, including top brands at excellent value. These stores are staffed with trained product specialists to ensure an enhanced customer experience.

Drawing on the findings from our kitchen pilot program in Winnipeg last year, we also launched a national store redesign that delivers the best product assortment and customer experience in the market. We are committed to maintaining our position as a leading retailer of small appliances in Canada by creating an intuitive, solution-based experience with an expanded product selection. This Living strategy will ensure that in 2013 we continue to deliver the premium brands and excellent value our customers have come to expect from us.

One unique factor that sets Canadian Tire apart in the Canadian retail market is our Associate Dealer model. Operating as individual entrepreneurs, Associate Dealers know their communities and their customers. We think and operate nationally, but the strength of our Associate Dealers enables us to execute locally.

Looking forward, we will continue to innovate and expand our product selection, roll out new in-store experiences and find new and meaningful ways to connect with our customers in the community. In January 2013, we committed our support to amateur sport from the playground to the podium and announced a strategic partnership with the Canadian Olympic and Paralympic Teams. Our involvement in sport goes back decades – from the products, gear and apparel we bring to Canadians in our stores to the local teams we sponsor in our communities. We are Canada's store, and have been so for 90 years.

PREMIER NATIONAL PARTNER

CANADIAN TIRE RETAIL IS UNRIVALLED IN THE SELECTION AND QUALITY OF AUTO PRODUCTS IN CANADA.

Goodyear® Nordic Winter

fgl sports

FGL SPORTS IS OUR CONDUIT BETWEEN CANADIANS AND THE BEST SPORTS BRANDS IN THE WORLD. THIS PAST YEAR, WE CONCENTRATED OUR EFFORTS ON AGGRESSIVELY GROWING THE BUSINESS, EXPANDING OUR FOOTPRINT AND CREATING AN UNPARALLELED CUSTOMER EXPERIENCE IN OUR STORES.

IN-STORE AND ONLINE, FGL SPORTS CONTINUES TO PUSH BOUNDARIES, SEEKING NEW AND INNOVATIVE WAYS TO ENGAGE WITH CONSUMERS.

In 2012, we began executing two key strategic initiatives: an aggressive store expansion program and building an emotional connection with our customers.

Execution of our first strategy – focusing on our core corporate banners – began by identifying Sport Chek® as our "super brand." Over the next five years, FGL Sports plans on expanding Sport Chek by 50 per cent, opening new concept flagship stores in strategic urban markets, and adding more than 100 new stores, equivalent to two million square feet of new retail space. This year we concentrated our efforts on strategic corporate banners to better showcase Sport Chek, Atmosphere and National Sports.

Our second strategy was to create an emotional connection with Canadians by being relevant to our customers and playing a distinct role in their lives. In the summer of 2012, we began to forge stronger relationships with our customers through a major rebrand of Sport Chek. Following extensive consumer research, FGL Sports created a complete brand package that saw the reinvention of the Sport Chek brand across media channels. The new Sport Chek branding encouraged Canadians to unleash a "better" version of themselves. The campaign kicked off with a Sidney Crosby television commercial that featured the debut of the new Sport Chek tag line "Your Better Starts Here™."

In addition, FGL Sports launched a number of programs that focused on the moment before "your better." The rebrand received significant praise in the marketing world, including *Marketing* magazine: Top 10 Marketers of the Year and *Strategy* magazine: Top 5 Marketers of the Year.

We personalize our message and connect with our customers through digital media, and we have committed to being an industry leader in this field. Eighty per cent of our customers are under 45 and consume media digitally. With this insight, and strong knowledge of our customers, we created a comprehensive digital plan that saw the debut of our first ever social flyer – an interactive flyer program housed on Sport Chek's Facebook page. The digital push continued with the planning and development of the Sport Chek "lab" store. The first of its kind was launched on Yonge Street in mid-Toronto in early 2013, and features cutting-edge displays and interactive engagement stations. More than 60 years after Canadian Tire built its first retail "lab" store on Yonge Street, our company continues to reinvent the retail experience in Canada. Lessons from the Sport Chek "lab" store will guide customer experience innovations across the Family of Companies.

In November 2012, FGL Sports announced an agreement to acquire Pro Hockey Life. A sports retailer with 23 urban, high-end hockey stores, Pro Hockey Life operates in five provinces across Canada. If the acquisition receives regulatory approval and is concluded, Pro Hockey Life will operate as a banner under FGL Sports, joining super brands such as Sport Chek and Sports Experts. The acquisition would strengthen our position as a leading sports retailer and continue to help upcoming recreational and professional athletes succeed.

We know Canadians want an authentic sports retail brand and as we move into 2013 we will continue to fit that description while pushing ourselves to be relevant, unique and exciting. In January 2013, we announced strategic partnerships between Sport Chek and Sports Experts and Canada's Olympic and Paralympic Teams and major national sports federations. Our continued support of community and amateur athletics will help us eliminate barriers to participating in sport, enable our budding stars to make the most of their talent, and make the Canadian Tire family the number one supporter of athletics in Canada.

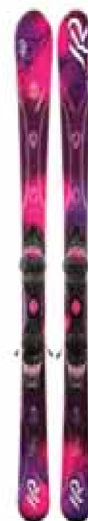
In-store and online, FGL Sports continues to push boundaries, seeking new and innovative ways to engage with consumers.

SPORTCHEK

PREMIER NATIONAL PARTNER

sports experts

PREMIER NATIONAL PARTNER



FGL SPORTS OFFERS THE LARGEST SELECTION OF SKI AND SNOWBOARD EQUIPMENT IN NORTH AMERICA.

K2™ Superfree ERP 10.0

mark's

MARK'S PROVIDES CANADIANS WITH SMART CLOTHES FOR EVERYDAY LIVING. OUR CLOTHING AND FOOTWEAR ARE DURABLE, HIGH-QUALITY AND COMFORTABLE WITH INNOVATIVE FEATURES AND BENEFITS.

While industrial apparel and footwear are our heritage businesses, men's and women's casual apparel and footwear remain a strategic priority for us and now comprise much of our sales.

In 2012, we remained focused on developing and bringing to market an innovative product assortment. We introduced anti-slip footwear tailored for the hospitality industry and expanded our assortment of products containing T-Max® temperature regulating insulation to include outer-wear, sweaters, lined denim, socks and boots.

We also continued our Mark's Work Wearhouse rebranding efforts, opening or rebranding 81 stores under the Mark's banner. The rebranding involved new exterior and interior signs, improved in-store merchandising, upgraded lighting and larger, more convenient fitting rooms. These efforts were supported by a new national advertising campaign and a public relations program. Consumer response to the rebranding continues to be positive, and the style, comfort, quality and value of our products has been strong, attracting many new customers.

In September, we improved and relaunched our website, Marks.com. The site now offers a much broader product assortment, a sleeker user experience and more interactive features.

Visits, transactions and sales have increased dramatically since the relaunch and in the coming year we will continue to look for ways to improve and enhance the customer experience.

Our Imagewear™ business-to-business division is Canada's largest supplier of branded industrial apparel, footwear and promotional items. Developing tailored apparel and footwear for a client base of medium and large-sized businesses, Imagewear posted another year of strong sales and profit growth. This growth was driven by increased sales to existing clients as well as through new clients.

The coming year will be another exciting one for Mark's. Not only will we continue rebranding stores across the country but we will increase consumer perception of Mark's as a retailer of both industrial and casual apparel and footwear. In addition, we will enhance our purchasing and supply chain capabilities to improve merchandise style and consistency, expand margins and improve inventory management.

We will continue to pursue our goal of providing customers with smart clothes for everyday life and work, and we will unwaveringly pursue improvements in all aspects of our business.

MARK'S HAS THE #1 MARKET SHARE IN WORKWEAR.
Dakota Anti-Slip Lace Up

financial services

FINANCIAL SERVICES PROVIDES A STRONG PORTFOLIO OF PRODUCTS AND SERVICES TO COMPLEMENT OUR RETAIL BUSINESSES. WHETHER SUPPORTING THE LAUNCH OF NEW BUSINESSES AND SERVICES OR DRIVING CHANGES, FINANCIAL SERVICES' UNIQUE CAPABILITIES HAVE PROVEN TO BE VALUABLE ASSETS FOR THE CORPORATION.

Canadian Tire is one of the few retailers in Canada that has its own Financial Services division. This presents unique opportunities to yield benefits for the retail divisions, while providing a channel of growth for Financial Services itself. Whether the product is a new lending platform, such as the new Sport Chek® MasterCard®, or instant credit, growth in our credit card and lending business will be driven by staying relevant to our customers.

Factors influencing Financial Services' strong 2012 performance included: lower write-offs, continued expense control, improved yield management and new payment terms. This year, Financial Services also benefitted from greater integration within Canadian Tire Retail's marketing activities.

Our strong Financial Services portfolio complements our retail companies. After launching in-store financing and equal payment capabilities in 2011, we increased awareness of our financing options through marketing efforts in 2012. These options now support the sale of large-ticket items and are positioned as a key driver of sales and receivables growth for Financial Services. They also serve as the basis for further expansion of our Canadian Tire Home Services offerings.

The Canadian Tire Drivers Academy hit the road this year with pilot programs in Toronto and St. Catharines, Ontario. Created in partnership among Financial Services, Canadian Tire Retail and local Dealers, the Canadian Tire Drivers Academy was developed to establish relationships among young and new Canadians as well as expand our customer demographic. During the two-week program, students move between the classroom, the driver's seat and the Canadian Tire service bay, where they learn about car maintenance. This holistic approach to driver education is unique to the Canadian Tire Drivers Academy and differentiates our program from others in the marketplace.

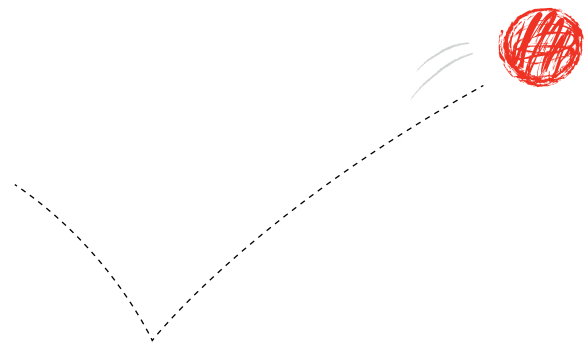
Behind the scenes, Financial Services continues to invest in technological and analytics advancements that will enable us to sustain our industry-leading results in fraud prevention, collections and credit risk.

The year ahead for Financial Services is bright, and the team is focused on two key priorities. The first is growing our credit card and financing business. This will be accomplished through greater collaboration with the Canadian Tire Family of Companies, with support from our world-class call centre operations, which were once again recognized as the best in North America by SQM, a leading call centre industry research group.

A second priority for 2013 is maximizing customer engagement on both our online and mobile platforms. We plan to develop an integrated mobile solution that presents key retail offerings alongside financial products, services and loyalty rewards. This unique offering will benefit our retail businesses and Financial Services.

THERE ARE MORE THAN FOUR MILLION CANADIAN TIRE MASTERCARDS IN CIRCULATION.

our commitment to our community



FOR 90 YEARS, OUR STORES HAVE BEEN AN INTEGRAL PART OF THE COMMUNITIES IN WHICH WE OPERATE. THE CANADIAN TIRE FAMILY OF COMPANIES CONTINUES ITS LEGACY OF COMMUNITY SUPPORT THROUGH NATIONAL AND LOCAL PROGRAMS INITIATED AND EXECUTED BY OUR DEALERS, FRANCHISEES, STORE OPERATORS, EMPLOYEES AND THE CORPORATION.

AMATEUR SPORTS

We believe in the power of sport to unite families, neighbourhoods and the nation. Whether someone aspires to be a champion at the playground or on the podium, we believe we have a role to play in helping Canadians succeed. Today, we support hundreds of local community sports teams and national sports federations, including the Canadian Olympic and Paralympic Teams, the Greater Toronto Hockey League, St. Mary's University Women's Hockey Program, the Canadian Soccer Association®, Skate Canada, Hockey Canada, the Canadian Junior Golf Association, Alpine Canada Alpin and the Canadian Games Council.

INJURY PREVENTION PROGRAMS

In 2012, Canadian Tire worked with government and community partners across the country to educate families about safety. Our initiatives included winter driving events, child booster seat installation clinics, bike and helmet checks and fire prevention awareness seminars.

COMMUNITY LEADERSHIP

Through our national network of stores and more than 85,000 employees, we have continued Canadian Tire's history of local leadership. Our Family of Companies is involved in community initiatives including military base support at home and overseas, and days of service supporting local charitable organizations.

We are your neighbours helping Canadian families enjoy life in Canada.

WE SUPPORT CANADIANS' LOVE OF THE OUTDOORS AND THEIR HOMES

We are Canada's company for everyday living, whether outdoors or inside the home. From the products and services we sell to the community activities we support, we are passionate about bringing families together and promoting more sustainable communities.

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 do what is right for our customers where they live.

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, indoors and out. Canadian Tire Jumpstart Charities is dedicated to enriching the lives of kids in need through sports and physical activity.

WE ARE PROUD OF OUR PRODUCTS AND SERVICES

Our products and services are designed for life in Canada, and we stand behind them.

canadian tire jumpstart charities

IN CANADA, ONE IN THREE FAMILIES CANNOT AFFORD TO ENROL THEIR CHILDREN IN ORGANIZED SPORTS AND RECREATION. THE GOAL OF JUMPSTART CHARITIES IS TO GIVE CHILDREN ACROSS THE COUNTRY AN OPPORTUNITY TO PARTICIPATE IN A VARIETY OF ACTIVITIES THAT HELP DEVELOP HEALTHY LIFESTYLES, LEADERSHIP AND INTERPERSONAL SKILLS.

During 2012, Jumpstart distributed $12 million back into Canadian communities to help kids who otherwise could not have participated in sports and recreation.

It was a great year for Jumpstart, and a number of initiatives, driven from across the Family of Companies, garnered support and recognition while raising more money than ever. Jumpstart Pedal for Kids brought together cycling enthusiasts from Canadian Tire Retail, FGL Sports, Mark's, Financial Services and Jumpstart to bike the 500 kilometres from Kingston to Niagara Falls, Ontario. The pack of riders was joined by Martha Billes, chairman of Canadian Tire Jumpstart, who cycled the final leg of the tour, taking the group to the finish line.

In Welland, Ontario, children will be able to play baseball at the brand new Canadian Tire Jumpstart–Billes Family Field. And the community of Port aux Basques, Newfoundland, had the thrill of a lifetime this past summer. After winning an internal fundraising contest for the Jumpstart Red Ball campaign, the local Canadian Tire Dealer hosted a community celebration and street party featuring "guest-of-honour," Stanley Cup champion and Olympic gold medalist Jonathan Toews.

Since Jumpstart's inception in 2005, more than half a million children have received financial assistance to help them participate in sports and recreation. This historic milestone was reached thanks to the combined efforts of the Canadian Tire Family of Companies, Canadian Tire Dealers and their store staff, and Petroleum Agents. A supportive Canadian government, community partners, corporate partners, vendors, customers and donors were also crucial. While reaching this milestone was exciting, we know that we can do much, much more.

Jumpstart has set new and ambitious goals. Our new president, Johnny Misley, will lead our charity into the next five years of growth. By 2017, we hope to double annual revenues to $28.3 million and to help three times as many kids each year.

Our vision is about more than getting children involved in sports and recreation; it is about making Canada a place where all kids have a chance to fulfill their dreams – from playground to podium.

ONE IN THREE CANADIAN FAMILIES CANNOT AFFORD TO ENROL THEIR CHILDREN IN ORGANIZED SPORTS OR RECREATIONAL ACTIVITIES.

JUMPSTART HAS HELPED MORE THAN 540,000 KIDS SINCE 2005.

THIS YEAR, JUMPSTART DISTRIBUTED $12 MILLION BACK INTO CANADIAN COMMUNITIES.

financial aspirations*

IN APRIL 2010, WE OUTLINED A FIVE-YEAR PLAN AND STRATEGIC OBJECTIVES THAT ARE THE FOUNDATION OF OUR FINANCIAL ASPIRATIONS.

3% to 5%

CANADIAN TIRE RETAIL SALES ANNUAL GROWTH

8% to 10%

CONSOLIDATED EPS ANNUAL GROWTH

10%+

RETAIL ROIC

4.5% to 5%

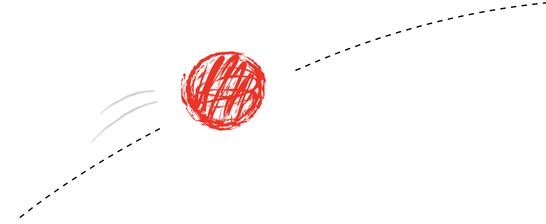
FINANCIAL SERVICES RETURN ON RECEIVABLES

10% to 12%

TOTAL RETURN TO SHAREHOLDERS

(including dividends)

**Please see section 5.2 of the 2012 Management's Discussion and Analysis for further information on Canadian Tire Corporation's five-year financial aspirations.*



our leadership team

ON BEHALF OF THE BOARD OF DIRECTORS I WANT TO TELL OUR SHAREHOLDERS HOW WELL THEY ARE SERVED BY THE TALENTED MANAGEMENT TEAM UNDER THE EXCEPTIONAL LEADERSHIP OF STEPHEN WETMORE. THE RELATIONSHIP BETWEEN YOUR HARDWORKING DIRECTORS AND YOUR MANAGEMENT IS AS EFFECTIVE AND PRODUCTIVE AS IT HAS EVER BEEN. WE CHALLENGE EACH OTHER CONTINUALLY AND OUT OF THESE CHALLENGES EMERGES AN ALIGNMENT ON STRATEGIC AND OPERATIONAL ISSUES THAT CREATES LONG TERM VALUE. – MAUREEN J. SABIA, CHAIRMAN OF THE BOARD

board of DIRECTORS

MAUREEN J. SABIA
TORONTO, ON, CANADA
NON-EXECUTIVE CHAIRMAN OF THE BOARD

IAIN C. AITCHISON • 3
HOWELL, NJ, USA

MARTHA G. BILLES • 2, 3
CALGARY, AB, CANADA

OWEN G. BILLES • 4
ST. CATHARINES, ON, CANADA

H. GARFIELD EMERSON, Q.C. • 1
TORONTO, ON, CANADA

JOHN A. F. FURLONG • 4
VANCOUVER, BC, CANADA

JAMES L. GOODFELLOW • 1, 4
OAKVILLE, ON, CANADA

JONATHAN LAMPE • 2
TORONTO, ON, CANADA

CLAUDE L'HEUREUX • 4
OTTAWA, ON, CANADA

FRANK POTTER • 2, 3
TORONTO, ON, CANADA

TIMOTHY R. PRICE • 2, 4
TORONTO, ON, CANADA

ALAN P. ROSSY • 1
MONTREAL, QC, CANADA

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NAPLES, FL, USA

GRAHAM W. SAVAGE • 1, 2
TORONTO, ON, CANADA

GEORGE A. VALLANCE • 4
LANGLEY, BC, CANADA

STEPHEN G. WETMORE
TORONTO, ON, CANADA
PRESIDENT AND CHIEF EXECUTIVE OFFICER

1 AUDIT COMMITTEE / CHAIRMAN, GRAHAM W. SAVAGE
2 GOVERNANCE COMMITTEE / CHAIRMAN, JONATHAN LAMPE
3 MANAGEMENT RESOURCES AND COMPENSATION COMMITTEE / CHAIRMAN, FRANK POTTER
4 SOCIAL RESPONSIBILITY COMMITTEE / CHAIRMAN, TIMOTHY R. PRICE

EXECUTIVE LEADERSHIP TEAM

STEPHEN G. WETMORE
» President and Chief Executive Officer, Canadian Tire Corporation, Limited

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

DEAN MCCANN
» Executive Vice-President, Finance and Chief Financial Officer, Canadian Tire Corporation, Limited

MICHAEL B. MEDLINE
» President, FGL Sports and Mark's and Executive Vice-President, Canadian Tire Corporation, Limited

MARY L. TURNER
» Chief Operating Officer, Canadian Tire Financial Services Limited

HARRY P. TAYLOR
» Chief Operating Officer, Mark's

ROBYN A. COLLVER
» Senior Vice-President, Secretary and General Counsel, Canadian Tire Corporation, Limited

DOUGLAS B. NATHANSON
» Senior Vice-President and Chief Human Resources Officer, Canadian Tire Corporation, Limited

EUGENE ROMAN
» Senior Vice-President and Chief Technology Officer, Canadian Tire Corporation, Limited

JOHN D. SALT
» Senior Vice-President, Supply Chain, Canadian Tire Corporation, Limited

KENNETH SILVER
» Senior Vice-President, Corporate Strategy and Real Estate, Canadian Tire Corporation, Limited

GREGORY CRAIG
» Senior Vice-President, Finance, Canadian Tire Corporation, Limited

DUNCAN FULTON
» Senior Vice-President, Communications and Corporate Affairs, Canadian Tire Corporation, Limited

DAVID R. HICKS
» Senior Vice-President, Dealer Relations and Store Operations, Canadian Tire Retail

ALLAN MACDONALD
» Senior Vice-President, Automotive and Marketing, Canadian Tire Retail

REGINALD J. MCLAY
» Senior Vice-President, Merchandise Sourcing, Canadian Tire Retail

DAVID MOCK
» Senior Vice-President, Merchandising, Canadian Tire Retail

message
FROM THE CFO DEAN MCCANN

IT HAS BEEN A TREMENDOUS YEAR OF ACCOMPLISHMENT FOR CANADIAN TIRE. AS A SHAREHOLDER, YOU SHOULD FEEL CONFIDENT THAT THE GROWTH STRATEGY PUT IN PLACE UNDER STEPHEN WETMORE'S DIRECTION – THE STRATEGY BEING CARRIED OUT BY THE MORE THAN 85,000 EMPLOYEES ACROSS CANADA – IS LEADING US ON A PATH OF CONTINUED GROWTH AND SUCCESS.

One major accomplishment in 2012 was the integration of FGL Sports into the Canadian Tire Family of Companies. Without a doubt, much of the success can be attributed to the folks who have worked tirelessly to ensure sales targets are met and synergies are delivered. However, the success – and in large part the initial acquisition itself – is also due to the strength of Canadian Tire's financial position.

The drivers of our financial flexibility are as sound as they are sustainable. Our retail businesses consistently generate significant free cash flow and we have ample access to bank lines as sources of liquidity. Our Financial Services segment is generating cash above the needs of the business, with multiple sources of funding for its receivables portfolios. Further augmenting financial flexibility is our significant ownership position in real estate, including some of the most desirable retail locations in Canada. Overall, this supports our strong balance sheet, investment-grade debt ratings and excellent access to liquidity.

Financial flexibility is clearly important, but so too is working towards our five-year financial aspirations. Progressing towards these aspirations and achieving profitable sales growth are my prime focus areas as CFO and as financial counsel to Canadian Tire's executive leadership team. The prime levers for meeting our earnings-driven aspirations are effective cost controls and efficient resource allocation. Now, more than ever, we are scrutinizing how we spend – a clear acknowledgment that we must spend more wisely given the increasing competitive pressures in the marketplace.

Efficient resource allocation basically means spending smarter. A prime example of this is the sports partnership announcement that we made early in 2013, which includes a reallocation of our marketing spend to promote several of our retail banners as Premier National Partners of the Canadian Olympic Team. The partnership represents a reallocation of spending that we believe will help build our sports strategy and strengthen an area of our business that we're passionate about and view as a long-term competitive differentiator. The partnership will become a cornerstone of our marketing efforts not only externally, but internally among our employees as we all celebrate the Olympic spirit.

Our primary goal with respect to capital allocation is to generate long-term profitable growth by investing in our business. Furthermore, we are constantly seeking opportunities to expand our reach within the categories in which Canadian Tire has a significant strategic position. We are also committed to returning capital to shareholders, and in 2012 our strong capital position allowed us to increase our dividend by 17 per cent, maintaining our payout ratio of 20 to 25 per cent of prior year normalized earnings.

In addition, we repurchased some 300,000 shares above our anti-dilutive requirement and have filed a Normal Course Issuer Bid that gives us the ability to repurchase up to 2.5 million shares in 2013, subject to market conditions, our financial flexibility and consideration of our investment opportunities.

Looking forward to 2013, I will continue to be focused on controlling costs and allocating resources efficiently in order to improve earnings quality. Also on my agenda is enhancing the effectiveness of our external reporting of Canadian Tire's financial results, positioning and overall value proposition. Last year the Canadian Institute of Chartered Accountants recognized us for our external financial reporting in the consumer products sector, and in 2013 we will continue to look for opportunities to improve communication and disclosure in order to better demonstrate the company's full value and growth potential to our many stakeholders.

I expect that 2013 will be a demanding year for us, but I'm confident that we have the team, strategy and financial positioning to thrive. I thank you for being a shareholder and look forward to reporting back to you next year.

Sincerely,
Dean McCann, Executive Vice-President, Finance and Chief Financial Officer, Canadian Tire Corporation, Limited

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 forecast 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 statements.

We cannot provide any assurance that forecast 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.

Table of Contents

1.0 PREFACE 23

2.0 COMPANY AND INDUSTRY OVERVIEW 23

3.0 CORE CAPABILITIES 26

4.0 HISTORICAL PERFORMANCE HIGHLIGHTS 28

5.0 STRATEGIC OBJECTIVES 30

6.0 ECONOMIC ENVIRONMENT 36

7.0 FINANCIAL PERFORMANCE 36

7.1 Financial performance in 2012 versus 2011 36
7.2 Consolidated financial results 37
7.3 Key operating performance measures 39
7.4 Retail banner network at a glance 40
7.5 Business segment performance 41
7.5.1 Retail segment 41
7.5.2 Financial Services segment 44
7.6 Balance sheet and cash flows 46

8.0 LIQUIDITY, CAPITAL RESOURCES AND CONTRACTUAL OBLIGATIONS 46

9.0 TAX MATTERS 52

10.0 ACCOUNTING POLICIES AND ESTIMATES 52

11.0 ENTERPRISE RISK MANAGEMENT 55

12.0 CONTROLS AND PROCEDURES 60

13.0 SOCIAL AND ENVIRONMENTAL RESPONSIBILITY 61

14.0 OTHER INVESTOR COMMUNICATION 64

1.0 Preface

1.1 Definitions

In this document, the terms "we", "us", "our", "Company" and "Corporation" refer to Canadian Tire Corporation, Limited and its business units and subsidiaries. For commonly used terminology (such as retail sales and same store sales), see section 7.3 and the glossary of terms at the end of this 2012 Annual 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 February 21, 2013.

1.3 Quarterly and annual comparisons in this MD&A

Unless otherwise indicated, all comparisons of results for Q4 2012 (13 weeks ended December 29, 2012) are against results for Q4 2011 (13 weeks ended December 31, 2011), and all comparisons of results for the full year of 2012 (52 weeks ended December 29, 2012) are against results for the full year of 2011 (52 weeks ended December 31, 2011).

1.4 Accounting framework

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), and using the accounting policies described in note 3 to the consolidated financial statements.

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, Apparel and Sporting Goods. 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:

- revenue on shipments to Associate Dealers (Dealers) and PartSource, Mark's Work Wearhouse Ltd. (Mark's) and FGL Sports Ltd. (FGL Sports) franchisees;
- royalties on sales made by Mark's and FGL Sports franchisees;
- revenue on sales of goods to corporate-store customers;
- franchise rent and Dealer property licence fees;
- revenue on sales of gasoline and convenience items at gas bars;
- interest income and service charges on credit card loans receivable;
- revenue from insurance products sold to credit card holders; and
- merchant and interchange fees on credit card transactions.

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

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

Canadian Tire Retail is one of Canada's most shopped general merchandise retailers and the Company's flagship banner. The 490 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 CTR 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 storefront, 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, in addition to supporting CTR stores with emergency automotive parts supply. 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 and is hosted at http://tires.canadiantire.ca. The canadiantire.ca informational website received more than 100 million views in 2012.

The Corporation supports the CTR Dealers with marketing, supply chain management, purchasing, administrative, financial and information services. Real estate and construction services required by the Company are provided primarily by Canadian Tire Real Estate Limited. A contractual arrangement between Dealers and the Company permits Dealers to own and operate the retail business of CTR stores under the Canadian Tire name. In order to provide controls over the quality, range and price of products and services offered at CTR 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.

Petroleum is one of Canada's largest independent retailers of gasoline, with a network of 299 retailer-operated gas bars, including 294 convenience stores, 80 car washes and 90 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 gas bars in state-of-the-art service centres along major Ontario highways (Highway 400 and Highway 401). The service centres feature a Canadian Tire gas bar and an associated convenience store. There were 16 of the 400/401 series highway locations in operation at year-end.

Mark's is one of Canada's leading clothing and footwear retailers, operating 386 stores nationwide, including 347 corporate and 39 franchise stores, that offer industrial wear, men's casual wear, women's casual wear and footwear. Mark's operates under the banners "Mark's", "Mark's Work Wearhouse" and in Quebec, "L'Equipeur" 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".

FGL Sports is the largest national retailer of sporting goods in Canada, operating 283 corporate stores and 212 franchise stores from coast to coast. The business was acquired by the Company on August 18, 2011. 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 financial institution that manages and finances Canadian Tire's MasterCard and retail credit card portfolios, as well as 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 sales of insurance products and Canadian Tire Home Services offerings and the processing of non-Canadian Tire cards at Dealer stores and their related supporting activities. CTFS also provides operational support for 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, through a wholly owned subsidiary, also has U.S.-based wholesale operations, including offices and warehouse facilities in the states of California and Washington.

2.2 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 affects shipments of merchandise to Dealers/franchisees, royalty fees and licence fees. Retail sales are driven by changes in same-store sales and changes in the number of stores. Same-store sales growth is one of the key metrics used by management to assess performance and to compare retail sales growth in a more consistent manner across the industry. It provides a useful comparison of sales at banner stores when input factors such as the number of stores have changed from one year to the next. Refer to section 10.4 for additional information on key metrics.

In the Petroleum business, gasoline litres sales growth is used as a performance measure. It 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 (retail 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. Retail 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 toward profitable investments. Retail ROIC can be compared to 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 not a-generally accepted accounting principle (GAAP) measure and is commonly regarded as an indirect measure of operating cash flow, a significant indicator of success for many businesses. Please refer to section 7.5.1.1 for a schedule showing the relationship of Retail segment EBITDA to the most comparable GAAP measure (income before income taxes).

Financial Services segment

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 income 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

Readers are cautioned that some of 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 definition of each of these key performance indicators can be found in the glossary of terms that has been included as an appendix to this 2012 Annual Report. Please also refer to section 10.4 for further discussion of supplementary non-GAAP measures.

2.3 Competitive landscape

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

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

The Company's Automotive category, including CTR's auto service centres and hard goods department, PartSource hard-parts specialty stores, and Petroleum, is one of the Company's core differentiators. The Company leads all mass merchants in this category. The main source of competition in 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, CARQUEST, Princess Auto, UAP and Active Green & Ross.

Mark's offers industrial wear apparel and footwear and men's and women's casual wear. Mark's is the largest retailer of men's apparel in Canada. Mass merchants, department stores and specialty retailers compete with Mark's men's and women's casual apparel and footwear 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, Walmart, Target and Gap.

FGL Sports is Canada's largest national retailer of sporting goods, offering a comprehensive assortment of brand-name and private-brand products through a network of corporate and franchise stores. The majority of the stores operate under the Sport Chek and Sports Experts banners. Each banner is focused on a particular niche and operates in the highly fragmented retail marketplace with competitors including independent specialty shops, mass merchants, U.S.-based retailers and online retailers. Competitors may include Source for Sports and Foot Locker. FGL Sports' stores are located in malls, strip malls and retail power centres. The Company's Sport Chek banner also offers e-commerce retailing through its website at www.sportchek.ca and offers a merchandise assortment from virtually all categories available under the Sport Chek banner.

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 2013 via its acquisition of Zellers property leases;
- U.S.-based retailers already in Canada (including Walmart, Home Depot and Lowe's) that are expected to further expand their store networks in Canada;
- Nordstrom entering Canada in 2013 via four leased properties (three being vacated by Sears in 2013), with operations expected to begin in 2015;
- New retailers expected to enter Canada in the coming years, which could include J.C. Penney, Kohl's and Dick's Sporting Goods; and
- U.S./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.

In addition to the physical and online presence of other competitors in the marketplace, the retail consumer landscape is also changing rapidly, with retailers modifying how they reach out to customers and encourage them to shop in their stores. The changes include:

- a technology-savvy and more informed customer due to the breadth of information available online to educate themselves on specific items and product features;

- advances in technology allowing retailers to target specific customers based on their physical location and send text and email messages with special deals as they come within a specific distance of their stores;
- a changing Canadian demographic, with customers who have different shopping patterns and needs and none of the brand loyalty that established retailers have created over their existence; and
- a customer who is more price-sensitive due to the current economic climate, is able to price-compare online before making purchases and is looking to retailers who can offer a more convenient shopping experience.

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

- 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 at CTR and the rebranding initiative at Mark's;
- merchandise productivity key capabilities will be embedded and key initiatives within the CTR Change Program are expected to 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;
- the FGL Sports store network will complete its banner rationalization initiative by the end of Q1 2013 and will continue to focus on opening new Sport Chek and Atmosphere stores to enhance the customer experience in-store; and
- progress on the Company's integrated digital strategy initiatives continues with key projects due to launch in 2013.

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 other 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 first phase of a redesigned and enhanced loyalty program, "Canadian Tire 'Money' Advantage", 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, and a new fully interactive Canadian Tire iPad App was launched in December 2012 to help our customers better manage and track their automotive maintenance needs.

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 recent innovations included For Living™ RTA furniture with the Assemblease™ and Fit Quick™ fastening technology and the Greenworks® 40V lithium ion cordless mower featuring a 90-minute run time and mulching capabilities. Mark's and FGL Sports are providing innovative apparel and footwear products, such as the T-Max® Heat men's and women's wear for improved warmth and thermal regulation available at Mark's and Nike Shield protective athletic footwear and Ripzone recycled materials insulated jackets 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 and has added features such as "price lookup" kiosks throughout the store.

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. In addition the rebranded stores incorporate a renewed focus on women's apparel with approximately 41 per cent of stores already rebranded to the Mark's format.

In 2012, FGL Sports announced its growth strategy and banner rationalization initiative. As part of this strategy, non-strategic banners will be closed by the end of Q1 2013, and future corporate store growth will be concentrated on the Sport Chek and Atmosphere banners. In 2013, a new-concept, "retail lab" location was opened. This location will serve as a testing ground for the interactive displays and digital enhancements that may be rolled out to new urban "flagship" Sport Chek stores. The first flagship store is expected to open in the second half of the year and will enhance the customer experience in-store.

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. The balance of CTR stores, as well as Mark's and FGL Sports stores operate in leased 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 centres (DCs) across Canada. The DCs in Ontario are operated by the Company and are staffed primarily by Company employees. Over the past three years, the DCs have tested and implemented state-of-the-art and innovative technologies: dimensioner technology (in AJ Billes, Calgary and Montreal DCs), voice pick technology (in AJ Billes, Calgary, Montreal and Brampton DCs) and the utilization of automated guided vehicle technology, which replaces traditional man-operated forklifts (in AJ Billes DC).

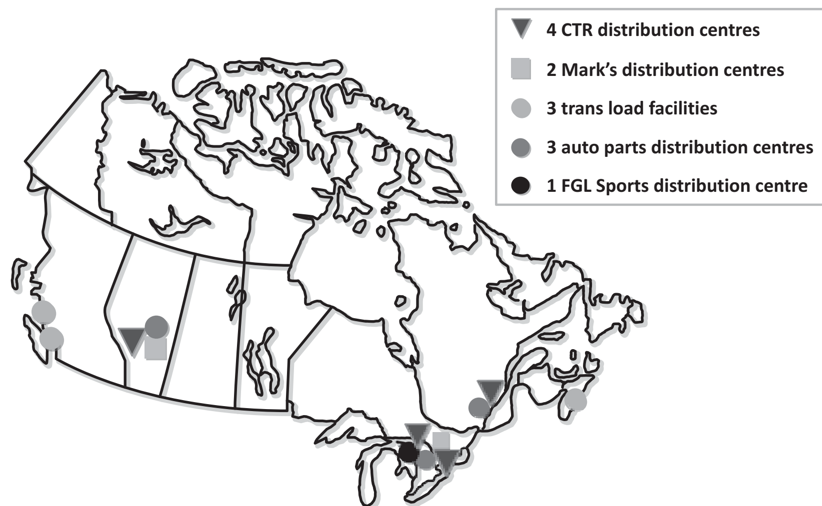
CTR's automotive hard parts supply chain is strengthened and supported by three Express Auto Parts (EAP) DCs, which provide overnight order processing six nights per week for nearly all CTR and PartSource stores. These EAP DCs enable order delivery to most stores between 24 to 48 hours from receipt of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

The Company also engages third-party logistics companies to provide CTR with distribution capability in Halifax and CTR, FGL Sports and Mark's with distribution capability in 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 its franchise and corporate stores from its primary distribution centre in Mississauga, Ontario. Golden Viking Sports LLC, a subsidiary of FGL Sports, also has warehouse facilities in the states of California and Washington.

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. They have a professional team of managers, analysts and statisticians who use 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 products to achieve an appropriate balance of risk and return.

3.9 World-class customer contact centres

The Company's commitment to creating lifelong relationships with its customers is reflected in the success of its customer contact centres at Financial Services. The contact centres continue to be recognized for their commitment to customer service excellence, earning five 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

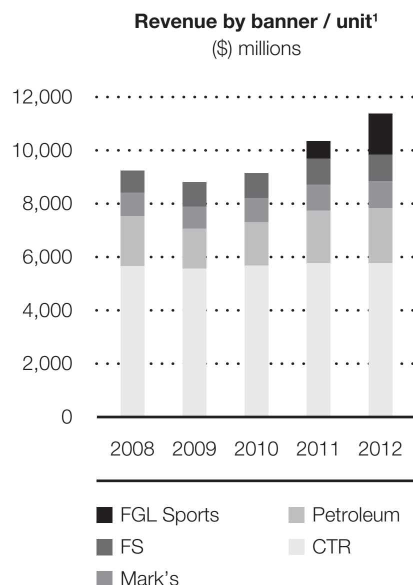
(C$ in millions, except per share amounts and number of retail locations)	2012[1]	2011[1]	2010[1]	2009[1,2]	2008[1,2,3,4]
Revenue	**$ 11,427.2**	$ 10,387.1	$ 9,213.1	$ 8,686.5	$ 9,121.3
Net income	**499.2**	467.0	444.2	335.0	375.4
Diluted earnings per share	**6.10**	5.71	5.42	4.10	4.60
Total assets	**13,181.4**	12,338.8	11,048.5	8,872.5	7,783.8
Financial Services gross average accounts receivables (total portfolio)	**4,096.0**	4,035.5	4,041.2	4,071.5	3,913.0
Number of retail locations	**1,757**	1,783	1,242	1,216	1,206
Cash dividends declared per share	**$ 1.250**	$ 1.125	$ 0.905	$ 0.840	$ 0.840
Stock price (CTC.A)	**69.11**	65.90	68.19	57.50	43.45

[1] 2011 and onward 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. 2008 has not been restated for this.
[3] 2008 results have been previously 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.
[4] 53-week period.

The five-year trend chart demonstrates change in revenue by banner between 2008 and 2012. In 2009, revenue declined due to the impact of the economic downturn on the retail businesses and a reduction in gasoline prices at Petroleum. Since 2009, revenue increased every year across all of our business units due to:

- higher shipments to 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 2008, specifically with regard to average account balances, which continue to approach industry norms for standard credit card portfolios, along with new products and services being offered to customers; and
- the acquisition of FGL Sports.

Revenue by banner / unit[1]
($) millions



1 FS = Financial Services segment. The others are retail banners in the Retail segment.

For our retail network, the decrease in store count in 2012 largely reflects the banner rationalization of FGL Sports, which resulted in the closure or conversion of 42 retail outlets in 2012 with a further 85 corporate stores to be closed or converted to Sport Chek or Atmosphere banners in 2013. 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.

Plans for the next new-concept CTR store incorporate further enhancements to the customer experience in stores by focusing on technology to make better one-on-one connections with customers. In addition, CTR plans to pilot an Express store concept in 2013. These store formats are expected to be smaller stand-alone locations that could fit in alternate retail spaces, such as malls, and would incorporate varying overall designs and formats.

In 2012, the Company continued to roll out a new Super Satellite store format for PartSource. These stores have been remerchandised to reduce the number of accessories and similar products already sold at CTR stores and feature a smaller retail footprint and larger warehouse space. PartSource converted eight existing stores to the Super Satellite format, bringing the total number of Super Satellite stores to 11. PartSource will continue to convert existing stores to the Super Satellite format in 2013 and will be piloting a new micro-site format to better support parts supply to commercial customers and CTR stores in a number of markets across Canada.

The Mark's store network has continued to expand and rebranding to "Mark's" has been completed in selected locations, with a total of 159 Mark's branded stores as at the end of 2012.

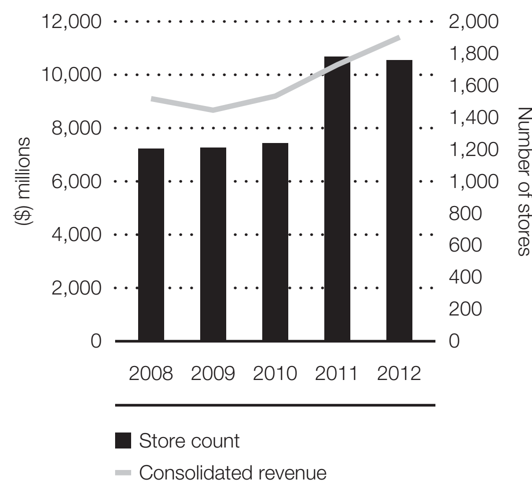
With the banner rationalization initiative completed by the end of Q1 2013, FGL Sports will move forward with growth plans for the Sport Chek and Atmosphere banner stores. In 2013, the first large, urban flagship Sport Chek stores will open and will include various digital technology features to enhance the customer experience in stores.

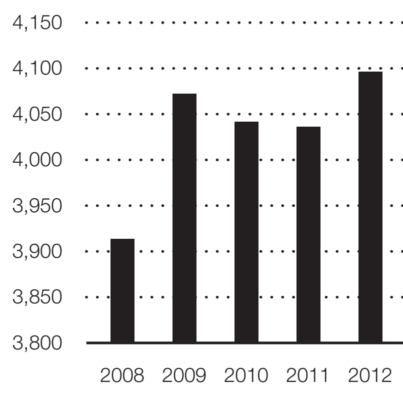
Financial Services' gross average accounts receivables (GAAR) for the total portfolio have increased over 2008. Results for 2010 were affected by the disposition of the mortgage portfolio in Q4 2009. In 2011, economic conditions along with new government regulations created headwinds, resulting in a slowing of receivables growth. In 2012, the economic environment was largely unchanged from 2011, and consumers continued to favour other low interest-paying vehicles to make purchases in an effort to reduce interest payments and debt levels on credit cards. Financial Services' goal is to grow the total portfolio by increasing the average balance per account and the average number of active accounts and by offering new products while managing risk.

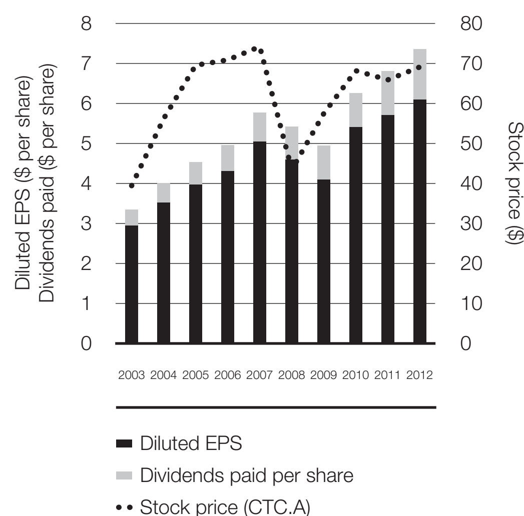
Historical earnings and investment performance

The 10-year trend chart 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 in both 2011 and 2012, offset partly by the inclusion of FGL Sports, which was acquired in August 2011. The impending arrival of a major U.S. competitor in the Canadian market in 2013 also may have influenced share price growth in the year.

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







5.0 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 2012 were four strategic objectives that are key to sustained future growth:

1. **Strengthen core retail**
   Achieve growth in CTR 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

CTR store renewal program

Concept 20/20 stores have been the cornerstone of CTR's growth agenda since 2003. The program is now complete and CTR has developed new store concepts that 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, the Small Market store, is designed to expand the Company's presence in smaller markets and generally has a Mark's store and Petroleum location on site, where feasible.

A new store concept, the Express store concept, is planned for pilot in 2013. These Express stores would be smaller stand-alone stores providing many benefits, including the ability to be located in retail nodes (such as malls), and could feature expanded assortments and new ways to display products that could not be replicated in our regular CTR stores.

In addition, the Company plans to continue with the rollout of the Living strategy and Pro Shop concepts to CTR stores. The Living strategy involves a reallocation of space across the Living footprint and focuses on the "home manager" with expanded assortments, inspirational displays and improved product adjacencies. The ProShop (store within a store) concept will be implemented in selected stores and communities across the country and focus on the breadth and depth of seasonally relevant and regionalized assortments. They will also provide an improved merchandising experience with enhanced staff engagement and knowledge, all of which lead to an enriched customer experience in the stores. Refer to section 5.1 for progress made in 2012 and plans for 2013.

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 CTR stores and fill up at Petroleum 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 phase of the new loyalty program, Canadian Tire 'Money' Advantage, was launched in Nova Scotia in February 2012, and the Company plans to continue the initial phase offering throughout 2013 while collecting and analyzing customer data and shopping patterns. Insights from the initial phase offering will be used to determine the ultimate design for a national rollout of the loyalty program.

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. In 2012, major work streams were focused on procurement and assortment review capabilities and reverse flow processes.

Automotive Infrastructure initiative

The Automotive Infrastructure (AI) initiative was implemented to drive growth in the Company's automotive businesses and improve the automotive customer experience at CTR stores. The program, which was substantially complete in 2011, comprises 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.

With the AI initiative fully rolled out to stores, the Company is now focused on providing support and training to automotive department employees so that they leverage the software application to its full potential.

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 "Mark's", offers a better customer experience including stores that have wider aisles, cleaner sightlines, brighter interiors and interactive features, as well as greater style and fashion in casual apparel and footwear assortments. The rebranding also includes increased marketing to build awareness of Mark's as a casual apparel and footwear retailer in addition to the existing awareness of Mark's as an industrial apparel and footwear retailer. The Company anticipates an additional 44 stores will be rebranded in 2013.

Acquisition of FGL Sports in 2011

On August 18, 2011, the Company acquired control of The Forzani Group Limited and the name was later changed to FGL Sports Ltd. Refer to section 8.2.3 for further information related to the acquisition of FGL Sports.

FGL Sports network growth strategy

In May 2012, FGL Sports announced a five-year growth strategy that included a plan to rationalize the banners under the FGL Sports umbrella and expansion of the Sport Chek and Atmosphere banner networks. The growth plan includes the addition of over 100 stores, or more than two million square feet of new retail selling space, over the next five years. In particular, new-concept, large urban flagship Sport Chek stores will be built, with the first location expected to open in 2013.

Pending acquisition of Pro Hockey Life Sporting Goods Inc. (Pro Hockey Life)

In November 2012, the Company announced its intention to purchase Pro Hockey Life, a 23-store chain of specialty hockey stores. The acquisition, if approved by the Competition Bureau, will provide the Company with access to the high-end hockey market and is a logical fit for the growing sports business within CTR and FGL Sports banner stores. At the date of this MD&A, a decision by the Competition Bureau was still pending.

Integrated digital strategy

The Company is committed to delivering an innovative digital retail experience to its customers anywhere, anytime, and on any device. At CTR, customers can purchase tires and wheels online, use the Canadian Tire App to create a comprehensive digital shopping list and visit www.canadiantire.ca to read product ratings and reviews. In 2013, CTR will dramatically expand its e-commerce offering and offer the full range of CTR products for online purchase to its customers. In addition, CTR will introduce a digital e-catalogue that includes customer testimonial video messages and interactive product information.

At Mark's and Sport Chek stores, inspiring digital displays broaden the in-store shopping experience and act as an extension to their robust online shopping platforms allowing customers to further evaluate their purchase decisions and have fun while they're doing it. In-store digital experiences will continue to be a significant part of store design at Sport Chek and Mark's stores and will continue to be added to CTR stores in 2013.

5.1.1 Performance in 2012

1. Strengthen core retail	
2012 Objectives	**Performance in 2012**
Continue the rollout of new-concept CTR stores • Open 90 Smart store retrofits and 10 Smart store replacements or expansions • Open three new Small Market stores and two Small Market replacement stores	• Opened 68 Smart store retrofits and replaced/expanded 10 Smart stores • Opened four new Small Market stores, and updated one traditional store to a Small Market store
Continue to execute strategies to deliver an enhanced in-store customer experience • Continue performance improvement projects for underperforming stores • Continue improvements in automotive parts • Deliver improved in-stock positions	• Completed training for continuous learning and development of over 3,000 front-line staff in 465 CTR stores on new automotive management system and over 4,000 front-line staff in 400 stores on tires and preventive maintenance • Improved promotional in-stock positions of 27 stores • Rolled out comprehensive merchandising and marketing strategy in the Living category to 73 stores, bringing the total to 83 stores by the end of 2012 • Rolled out new product inquiry technology to stores to provide improved customer service • Installed Wi-Fi enhancements in CTR stores in advance of digital enhancements to be rolled out in 2013
Launch a new consumer advertising campaign across all mediums that reinforces Canadian Tire's brand promise	• Launched the "Canada's Store" media campaign with fully integrated print, television and digital advertising components • Launched a multimedia holiday advertising campaign focused on entertaining, dining and gift-giving • Launched two destination guides showcasing product assortments in key categories and providing consumers with additional information on products • Published two issues of Canadian Tire Driving magazine and distributed approximately two million copies directly to households and through our CTR stores and Petroleum locations

2012 Objectives	Performance in 2012
Employ a customer-centric retailing approach and develop an enhanced loyalty program • Continue analysis of customer shopping data • Initiate first phase of new loyalty program in 2012	• Initiated analysis of customer-specific shopping data, leading to remerchandising of six categories as a result of customer insights gained • Canadian Tire 'Money' Advantage loyalty program redesign completed; initial phase was launched in February 2012 • Over 250,000 Nova Scotia residents have signed up for new loyalty card • Initial results show average basket size is over 30 per cent higher when the Canadian Tire 'Money' Advantage card is used • Continued to collect and analyze data from initial phase of new loyalty program and launched targeted marketing offers to customers
2. Align all business units to reinforce the core	
2012 Objectives	**Performance in 2012**
Expand e-commerce and investigate cross-business integration opportunities	• Relaunched Mark's online web store with 700 additional products now available for online purchase • Aligned in-store tire selector kiosks with online tire assortment, ensuring consistent offering across both channels
• Continue to enhance store networks to drive an enhanced customer experience • Expand Mark's store renewal concept for a total of 101 converted locations nationwide by the end of 2012 • Expand, build or replace Petroleum gas bars • FGL Sports banner rationalization	• Refreshed 81 Mark's stores for a total of 159 converted locations nationwide • Completed 16 gas bar projects including eight rebranded sites and four new sites, of which two were new 400/401 series highway gas bar locations • Announced banner rationalization, closed 41 non-strategic banner locations, of which seven locations were converted to the Sport Chek banner and one location was converted to the Atmosphere banner, and added four new Sport Chek and one new Atmosphere store to the network • Converted eight PartSource stores to the new Super Satellite store format, bringing the total of Super Satellite stores to 11
Drive growth in the Retail segment with the integration and development of FGL Sports	• Achieved 4.9 per cent same-store sales growth across FGL Sports businesses • Successfully integrated the acquisition of FGL Sports • Exceeded the synergy run rate target of $25.0 million
Expand Financial Services through continued growth of portfolio of services and managed growth of receivables • Continue to evaluate Home Services pilot programs • Launch broader service offering regionally	• Enhanced financing programs that complement CTR's offerings, including in-store instant credit, equal payment plans and deferred payments on large purchases • Rolled out Home Services pilot programs and services to approximately 250 stores • Enhanced service offering through pilot programs for heating and cooling system sales and installations to seven provinces, windows and doors sales and installations to one market and painting services to four markets throughout the country

3. Build a high-performing organization	
2012 Objectives	**Performance in 2012**
Advance key productivity and efficiency initiatives • Embed merchandise productivity key capabilities (technology and process) to sustain benefits into the future • Implement key initiatives within the CTR Change Program	• Redesigned and improved procurement processes for merchandise and non-merchandise services • Implemented a new career path for merchandising teams • Created new line review process, as well as enhanced coaching and training, for category business managers • Completed key milestones for delivery of reverse flow and procurement/ assortment capabilities as part of the CTR Change Program initiative
Drive business sustainability as a business strategy • Enhance key sustainability metrics and reporting • Continue to integrate sustainability into business operations, increasing both cost avoidance and revenue from business sustainability initiatives	• Enhanced reporting through inclusion of emissions from FGL Sports products and buildings, as well as Petroleum fuels and transport, in the total environmental footprint • Completed 953 sustainability initiatives across the business, forecast to avoid $3.6 million in costs annually
Improve return on invested capital for the Retail segment	• Focused capital investments on leveraging current assets • Increased emphasis on productivity of information technology spending and on controlling costs

4. Create new platforms for growth	
2012 Objectives	**Performance in 2012**
• Explore new avenues for growth and new business developments • Continue to identify and evaluate opportunities to enhance our growth and profitability	• Announced planned acquisition of Pro Hockey Life to strengthen our leadership position in sports and broaden our offering in the hockey category • Expanded Home Services pilot program offering to include painting and additional items for installation such as garden sheds, windows and doors, Christmas lights, furnaces and air conditioners in selected markets • Launched Canadian Tire Drivers Academy in two locations in Ontario • Launched 22 new Pro Shops for Hunting, 15 new Pro Shops for Fishing and 14 combined Hunting and Fishing Pro Shops in Ontario and Quebec

5.1.2 Objectives for 2013

1. Strengthen core retail	
2013 Objectives	**2013 Key activities**
Continue rollout of new-concept CTR stores	• Complete at least 50 Smart store projects • Open one new Small Market store and one Small Market replacement store • Pilot new-concept CTR Express store • Develop next new CTR store concept
Continue to execute strategies to deliver an enhanced in-store customer experience at CTR	• Deliver product locator software and training to more than 100 stores • Deliver enhanced tires training to 350 stores • Continue to roll out a comprehensive merchandising and marketing strategy in the Living category, with 400 stores converted by the end of 2013 • Improve automotive service CSI scores by 200 basis points (bps)

2. Align all business units to reinforce the core	
2013 Objectives	**2013 Key activities**
Design and implement an enhanced loyalty program, employ customer-centric retailing and integrate with existing marketing programs	• Continue to learn from and evolve first phase of CTR loyalty offering and identify markets for expansion of program in 2014 • Continue to design target offerings to customers, based on loyalty customer shopping data • Support first phase of new loyalty program at eight gas bars in Nova Scotia
Expand e-commerce and investigate cross-business integration opportunities	• Continue with design of an integrated online/digital experience across various retail banners • Expand e-commerce offering • Launch digital catalogue
Continue to enhance store networks to drive an enhanced customer experience	• Continue Mark's network expansion, including three new stores, nine replacements/expansions and 32 stores rebranded to the new Mark's format, for a total of 203 converted locations nationwide by the end of 2013 • Add or upgrade 20 Petroleum sites, including six new locations, five rebranded locations and nine replacement or retrofit projects; included in the total are three 400/401 series highway sites • Convert approximately eight existing PartSource stores to Super Satellite format
Drive growth in the Retail segment with the integration and development of FGL Sports	• Complete banner rationalization program by end of Q1 2013 • Complete 39 FGL Sports store network projects, including 27 new Sport Chek and Atmosphere stores, two Sport Chek flagship stores, five replacement stores and five expansions
Expand Financial Services through continued growth of portfolio of services and managed growth of receivables	• Continue to identify and provide alternate financing methods and support to Home Services customer transactions • Continue to market and promote new in-store offerings, including deferred financing, installment payments and new account acquisitions
3. Build a high-performing organization	
2013 Objectives	**2013 Key activities**
Advance key productivity and efficiency initiatives (technology and process capabilities) to sustain benefits into the future	• Simplify the flyer process through review of current flyer planning processes to simplify execution and reduce rework while driving flyer performance and productivity • Continue rollout of new line review processes to identify and execute against defined category roles • Evaluate productivity and effectiveness of SKUs within our assortments to assess future benefits • Identify opportunities to implement technology in support of consistent assortment reviews • Streamline supply chain operations to reduce expenses
Drive business sustainability as a business strategy	• Continue to integrate sustainability across the Company's operations, generating both cost avoidance and revenue from business sustainability initiatives • Optimize key sustainability metrics and reporting

4. Create new platforms for growth	
2013 Objectives	**2013 Key activities**
Explore new avenues for growth and new business developments	• Focus on growth of leadership and heritage category businesses • Continue to roll out new Hunting and/or Fishing Pro Shops in selected markets • Identify new products and services to grow receivables at Financial Services • Expand digital commerce capabilities across all banners • Continue to evaluate the national and regional Home Services pilot programs initiated in 2011 and 2012 and launch a broader service offering regionally
Improve return on invested capital for the Retail segment	• Consolidated capital expenditures to increase to a range of $400 to $425 million (excluding costs related to a potential purchase of land for a future distribution centre), largely related to FGL Sports growth and investments in store concepts and technology • Focus on improved productivity of operating cost structure and continued margin performance

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	2012 Performance	Achieved in 2012	2010 to 2012 CAGR Performance	Achieved from 2010 to 2012
CTR retail sales (POS) annual growth	3% to 5%	0.8%	x	1.7%	x
Consolidated EPS annual growth	8% to 10%	6.9%	x[1]	14.3%	√
Retail return on invested capital	10%+	6.7%	x	6.7%[2]	x
Financial Services return on receivables	4.5% to 5.0%	6.8%	√	6.8%[2]	√
Total return to shareholders (TRS) including dividends	10% to 12%	6.8%	x	7.9%	x

[1] *Normalized for the items described in the table in section 7.1, consolidated basic EPS growth was 13.1 per cent.*
[2] *Retail ROIC and ROR are targets intended to be achieved at the end of the outlook period, therefore, have been calculated as at the year-end date.*

CTR retail sales annual growth

Retail sales grew 0.8 per cent at CTR for the year, which is below the Company's aspiration. Economic uncertainty and a cautious consumer continued to have an impact on many North American retailers throughout 2012 and are reflected in the Company's sales growth. In addition, the impact of increased competition in the marketplace, and the late start to winter in Central Canada, primarily in Ontario and Quebec, negatively affected retail sales at CTR stores.

Consolidated EPS annual growth

Consolidated basic EPS increased 6.9 per cent in the year, which is below the Company's aspiration. However, there were several non-operating items that were included in the Company's results. Normalizing for unusual items listed in the table in section 7.1, basic EPS was up 13.1 per cent.

Retail ROIC

The rolling 12-month retail return on invested capital was 6.67 per cent at the end of 2012, which was below the Company's aspiration. The Company continues to focus on improving the productivity of its capital investments and has 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 2012. Strong performance resulted from improved net write-offs, growth in credit charges, modest growth in credit card receivables, prudent expense management and continuation of relatively low funding costs.

Total return to shareholders

Total return to shareholders, including dividends, was 6.8 per cent in the year. While the Company's TRS was below its aspiration, it was largely in line with the TRS of the S&P/TSX Composite Index which was 7.2 per cent in the year.

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 2012 Economic review

Investor and consumer confidence continued to be challenged throughout 2012 as the European and U.S. economies continued to struggle, affecting the Canadian economy. Despite elevated international financial and economic stress, the Canadian economy continued to beat expectations in the first half of 2012, but annualized GDP growth slowed to 0.6 per cent in the third quarter due to weakening demand for exports and lower residential investment, offset by higher consumer spending. During the period, Canadian households increased their debt loads in a continued environment of low interest rates and historically high housing prices compared to personal income. The S&P/TSX Composite Index ended the year up 4.0 per cent and almost all major U.S. and major international indices were up over the prior 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 uncertainty surrounding the U.S. government's debt levels continues to weigh on economic growth forecasts, potentially acting as a headwind for Canadian exports, and weakening consumer confidence in Canada. Inflation is expected to continue to be below the Bank of Canada's target of 2.0 per cent until the end of 2013. At the same time, food inflation is expected to grow at a higher rate in 2013, and consumer spending in Canada is expected to continue to grow at approximately 2.0 per cent in 2013.

7.0 Financial performance

7.1 Financial performance in 2012 versus 2011

Consolidated business performance

In 2012 the Company produced solid results in the face of global economic turmoil and a highly competitive retail marketplace with new competitors coming to Canada and existing competitors building out store networks. Revenue and earnings growth in the Retail segment were driven by the execution of strategic initiatives within the Living category and a positive response to the outdoor recreation assortment at CTR, as well as positive results at Mark's and the inclusion of FGL Sports. Steady revenue growth from a modestly growing receivables portfolio coupled with prudent expense management in the Financial Services segment and lower net write-offs also provided a meaningful contribution to earnings growth.

The results of our operations include several items in the current and prior year. These items include:

(C$ in millions)	Q4 2012	Q4 2011	2012	2011	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
FGL Sports purchase price adjustment[2] (pre-tax)	–	(8.7)	–	(13.0)	Cost of producing revenue
FGL Sports banner rationalization (pre-tax)	–	–	(22.8)	–	Various
Restructuring[3] (pre-tax)	(19.6)	–	(19.6)	–	Operating expenses
Interest income on tax refund[4] (pre-tax)	–	0.5	–	3.6	Finance income
Tax provision adjustment[4]	2.1	1.9	2.1	7.6	Income taxes

[1] Relates to shares held by the Company prior to the acquisition of FGL Sports. Refer to section 8.2.3 for further details.
[2] Relates to the purchase price adjustment to FGL Sports' inventory recorded as part of the acquisition on August 18, 2011.
[3] Relates to severance and restructuring charges in connection with key management and personnel changes in Q4 2012.
[4] Refer to section 9.0 for further details.

7.2 Consolidated financial results

(C$ in millions, except where noted)	Q4 2012	Q4 2011	Change	2012	2011	Change
Retail sales[1]	$ 3,780.5	$ 3,727.2	1.4%	$ 12,852.5	$ 11,668.3	10.1%
Revenue	$ 3,166.7	$ 3,135.1	1.0%	$ 11,427.2	$ 10,387.1	10.0%
Gross margin dollars	$ 994.4	$ 938.8	5.9%	$ 3,497.9	$ 3,060.7	14.3%
Operating expenses (excluding depreciation & amortization)	661.8	594.2	11.4%	2,365.1	2,020.9	17.0%
Other income (expense)	5.2	5.8	(10.3)%	5.7	18.4	(69.1)%
EBITDA	$ 337.8	$ 350.4	(3.6)%	$ 1,138.5	$ 1,058.2	7.6%
Depreciation and amortization	87.8	86.6	1.4%	335.1	296.1	13.2%
Net finance costs	33.4	32.9	1.2%	126.2	132.2	(4.6)%
Income before income taxes	$ 216.6	$ 230.9	(6.2)%	$ 677.2	$ 629.9	7.5%
Income taxes	53.5	64.6	(17.1)%	178.0	162.9	9.3%
Effective tax rate	24.7%	28.0%		26.3%	25.9%	
Net income	$ 163.1	$ 166.3	(1.9)%	$ 499.2	$ 467.0	6.9%
Basic earnings per share	$ 2.00	$ 2.04	(1.9)%	$ 6.13	$ 5.73	6.9%
Diluted earnings per share	$ 2.00	$ 2.03	(1.8)%	$ 6.10	$ 5.71	6.9%

[1] Retail sales for the prior year have been restated. Refer to section 10.4 for more details.

Fourth quarter 2012 versus fourth quarter 2011

Earnings summary

Diluted earnings per share (EPS) were $2.00 in the quarter, including the net negative impact of restructuring charges and a tax provision adjustment taken during the quarter. Diluted EPS for the same period in 2011 were $2.03. Normalizing for the above-noted items, diluted EPS were up 2.8 per cent in Q4 2012 versus 2011. The increase was largely a result of strong performance in the Financial Services segment.

Retail sales

Consolidated retail sales increased $53.3 million (1.4 per cent) due to:

- sales growth of 4.5 per cent in the FGL Sports banner stores, partially offset by the impact of stores closed due to banner rationalization;
- increased Petroleum sales of 5.0 per cent due to higher volumes from new sites opened during the quarter, increased gasoline prices and strong convenience sales;
- Mark's apparel sales growth of 3.7 per cent primarily due to increased sales of industrial wear; and
- a slight decline in CTR retail sales growth, the result of a delayed start to winter weather in Central Canada as well as planned reductions of sales in low-margin categories, such as electronics and household cleaning categories, partially offset by growth in key leadership categories including kitchen, outdoor recreation and light automotive parts.

Revenue

Consolidated revenue increased $31.6 million (1.0 per cent) as a result of:

- increased sales in Mark's industrial and accessories products;
- sales growth in the Petroleum business due to new site openings, increased gasoline prices and strong convenience sales;
- increased Financial Services revenue on higher average receivables; offset by
- an overall shipments decline at CTR, where increased shipments in key categories within the Automotive, Living and Fixing & Playing categories were more than offset by lower than expected shipments in seasonal categories and winter tires.

Gross margin

Consolidated gross margin dollars increased $55.6 million (5.9 per cent) as a result of increases in revenue across our Retail and Financial Services businesses, as noted above.

The consolidated gross margin rate (31.4 per cent of revenue) was up 146 bps compared to the prior year due to:

- the increased CTR margin as the effort to manage the balance of sales and margin continued throughout 2012;
- the inclusion of the high-margin FGL Sports' business;
- reduced promotional activity at Mark's compared to Q4 2011; and
- the improvement in net write-offs at Financial Services.

Operating expenses (excluding depreciation and amortization)

Consolidated operating expenses (excluding depreciation and amortization) increased $67.6 million (11.4 per cent) due to:

- higher personnel costs due to $19.6 million in restructuring charges; and
- increased marketing and advertising expenses primarily due to the timing of CTR spending, Mark's stores relaunch campaign, and higher marketing expenses at Financial Services; and
- increased occupancy costs, primarily due to store network expansion.

Depreciation and amortization expense

Consolidated depreciation and amortization expense increased $1.2 million (1.4 per cent) due to higher amortization of software intangible assets due to recent Retail segment IT initiatives, which was partially offset by a decrease in depreciation expense as the Company has rolled out fewer capital intensive store formats in recent years.

Net finance costs

Net finance costs increased $0.5 million (1.2 per cent) largely due to increased interest expense resulting from a higher average balance of Glacier Credit Card Trust (GCCT) notes outstanding.

Full year 2012 versus 2011

Earnings summary

Diluted earnings per share totalled $6.10 for the year, up 6.9 per cent versus 2011. Normalizing for pre-tax items identified in the table in section 7.1, diluted EPS were up 12.9 per cent.

Retail sales

Consolidated retail sales increased $1,184.2 million in the year, or 10.1 per cent, due to:

- inclusion of FGL Sports retail sales for a full year compared to 19 weeks in 2011;
- increased Petroleum sales due to higher volumes from the 400/401 series highway sites, increased gasoline prices and strong convenience sales;
- increased CTR sales driven primarily by strength in the Living category (especially kitchen) as a result of the Living strategy rollout to stores and strong sales in outdoor recreation products; and
- increased industrial wear sales at Mark's.

Revenue

Consolidated revenue increased $1,040.1 million in the year, or 10.0 per cent, as a result of:

- FGL Sports revenue included for a full year compared to 19 weeks in 2011;
- growth in revenue at Petroleum due to increased volume from additional sites opened along the 400/401 series highways during the year, increased gasoline prices and strong convenience sales;
- increased revenue at Mark's and Financial Services; and
- flat revenue growth at CTR.

Gross margin

Consolidated gross margin dollars increased $437.2 million in the year, or 14.3 per cent, due to the inclusion of a full year of FGL Sports results compared to 19 weeks in 2011 and increased revenue across our Retail and Financial Services businesses, as noted above.

The consolidated gross margin rate (30.6 per cent of revenue) increased 114 bps compared to the prior year. This was due to a focused effort to rebalance sales and margin at CTR, reduced promotional activity at Mark's compared to 2011 and the impact of synergies realized at FGL Sports, as well as a 446 bps improvement in margin rate in Financial Services due to an improvement in net write-offs.

Operating expenses (excluding depreciation and amortization)

Consolidated operating expenses (excluding depreciation and amortization) increased $344.2 million (17.0 per cent) due to:

- FGL Sports operating expenses being included for a full year compared to 19 weeks in 2011 and banner rationalization costs; and
- increased spending on personnel expenses, largely due to restructuring costs in Q4 2012.

Depreciation and amortization expense

Consolidated depreciation and amortization expense increased $39.0 million in the year (13.2 per cent) due to:

- the inclusion of FGL Sports results for a full year compared to 19 weeks in 2011; and
- higher amortization of software intangible assets from recent Retail segment IT initiatives.

Net finance costs

Net finance costs decreased $6.0 million in the year (4.6 per cent) due to the net impact of the following:

- reduced borrowing costs from a lower average balance of GCCT notes outstanding and an improvement in the blended cost of debt;

- reduced borrowing costs incurred by Franchise Trust due to a decrease in the cost of funding and a decrease in the amount of loans outstanding to Dealers; offset by
- lower earned interest income related to interest income received in 2011 from a favourable tax settlement; and
- reduced liquidity due to the acquisition of FGL Sports.

7.3 Key operating performance measures

Readers are reminded that key operating performance measures do not have standard meanings under IFRS and, therefore, may not be comparable to similar terms used by other companies. Refer to section 10.4 and the glossary of terms included as an appendix to this 2012 Annual Report for definitions and further information on changes made to performance measures.

(year-over-year percentage change, C$ in millions, except where noted)	Q4 2012	Q4 2011	Change	2012	2011	Change
Retail segment – total						
Retail sales growth[1]	1.4%	20.8%		10.1%	12.2%	
Revenue[2]	$ 2,901.1	$ 2,874.9	0.9%	$ 10,381.2	$ 9,363.5	10.9%
Retail ROIC[3]	6.67%	7.68%		n/a	n/a	
Retail segment – by banner						
CTR						
Retail sales growth[1, 4]	(0.5)%	2.6%		0.8%	2.0%	
Same store sales growth[1, 4]	(1.1)%	1.7%		0.3%	1.1%	
Sales per square foot[1, 5]	$ 385	$ 387	(0.5)%	n/a	n/a	
Revenue[2, 6]	$ 1,548.2	$ 1,573.6	(1.6)%	$ 5,779.7	$ 5,771.5	0.1%
Mark's						
Retail sales growth[1,7]	3.7%	3.2%		4.2%	3.0%	
Same store sales growth[1,9]	3.5%	3.1%		3.7%	2.8%	
Sales per square foot[9]	$ 309	$ 298	3.7%	n/a	n/a	
Revenue[2, 8]	$ 402.5	$ 388.0	3.7%	$ 1,016.6	$ 979.5	3.8%
FGL Sports						
Retail sales growth[10]	4.5%	0.6%		4.1%	2.3%	
Same store sales growth[10]	2.9%	0.7%		4.9%	2.6%	
Revenue[2]	$ 444.2	$ 426.1	4.3%	$ 1,550.3	$ 645.6	140.1%
Petroleum						
Gasoline volume growth in litres	2.7%	(1.4)%		1.3%	2.1%	
Retail sales growth	5.0%	10.3%		4.0%	19.0%	
Revenue[2]	$ 509.8	$ 490.9	3.8%	$ 2,049.6	$ 1,981.2	3.5%
Gross margin dollars	$ 35.8	$ 36.0	(0.8)%	$ 145.6	$ 146.8	(0.8)%
Financial Services segment						
Revenue[11]	$ 248.0	$ 243.5	1.8%	$ 981.9	$ 960.4	2.2%
Credit card sales growth	1.8%	1.7%		1.2%	(0.1)%	
Gross average accounts receivables (GAAR)	$ 4,209.6	$ 4,062.1	3.6%	$ 4,096.0	$ 4,035.5	1.5%
Revenue[11, 3] (as a % of GAAR)	23.97%	23.80%		n/a	n/a	
Average number of accounts with a balance[12] (thousands)	1,753	1,735	1.1%	1,724	1,717	0.4%
Average account balance[12] (whole $)	$ 2,396	$ 2,334	2.7%	$ 2,370	$ 2,340	1.3%
Net credit card write-off rate[3, 12]	6.58%	7.32%		n/a	n/a	
Past due credit card accounts[12, 13] (PD2+)	2.96%	3.91%		n/a	n/a	
Allowance rate[14]	2.54%	2.86%		n/a	n/a	
Operating expenses[3] (as a % of GAR)	6.44%	6.56%		n/a	n/a	
Return on receivables[3]	6.76%	5.45%		n/a	n/a	

1 *Sales metrics for the prior year have been restated. Refer to section 10.4 for more details.*
2 *Inter-segment revenue within the retail banners (CTR, Mark's and Petroleum) of $3.6 million in the fourth quarter ($3.7 million for Q4 2011) and $15.0 million for YTD Q4 2012 ($14.3 million for YTD Q4 2011) 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.*
3 *Figures are calculated on a rolling 12-month basis.*
4 *Includes sales from Canadian Tire stores, PartSource stores and the labour portion of CTR's auto service sales.*
5 *Excludes PartSource stores. Retail space does not include seasonal outdoor garden centre, auto service bays, warehouse and administrative space.*
6 *Includes revenue from Canadian Tire Retail, PartSource and Franchise Trust.*
7 *Includes retail sales from Mark's corporate and franchise stores and ancillary revenue related to embroidery and alteration services.*
8 *Includes sale of goods to Mark's franchise stores and retail sales from Mark's corporate stores and excludes ancillary revenue.*
9 *Includes sales from both corporate and franchise stores and excludes ancillary revenue. Sales per square foot does not include warehouse and administrative space.*
10 *FGL Sports' key operating performance metrics are calculated using the Company's weekly sales calendar which begins on Sunday and ends on Saturday. The percentages in the table are for comparison purposes only as the Company did not own FGL Sports in 2010. Retail sales include sales from both corporate and franchise stores.*
11 *Financial Services' prior year revenue has been restated. Refer to note 7 to the consolidated financial statements for more information.*
12 *Credit card portfolio only.*
13 *Accounts overdue one month or more.*
14 *The allowance rate was calculated on the total managed portfolio of loans receivable.*

7.4 Retail banner network at a glance

Number of stores and retail square footage	2012	2011
Consolidated store count		
CTR retail banner stores[1]		
Updated and expanded stores	180	247
Smart stores	247	169
Traditional stores	44	58
Small Market stores	19	14
Total CTR retail banner stores	490	488
PartSource banner stores	87	87
Mark's banner stores[1]		
Mark's Work Wearhouse	225	305
Mark's	159	78
Work World	2	2
Total Mark's retail banner stores	386	385
FGL Sports banner stores		
Sport Chek	161	150
Sports Experts	72	70
Atmosphere	57	68
Other	205	246
Total FGL Sports retail banner stores	495	534
Canadian Tire gas bar locations	299	289
Total stores	1,757	1,783
Consolidated retail square footage (in millions)[2]		
CTR banner	19.9	19.7
PartSource banner	0.3	0.3
Mark's banner	3.4	3.4
FGL Sports banners	6.6	6.6
Total retail square footage[2] (in millions)	30.2	30.0

[1] Store count numbers reflect individual selling locations; therefore, both CTR and Mark's totals include stores that are co-located.
[2] The average retail square footage for Petroleum's convenience stores was 513 square feet per store in Q4 2012 (486 square feet per store in Q4 2011). It is not included in the above.

FGL Sports total store count has decreased from Q4 2011 largely due to store closures related to the FGL Sports banner rationalization strategy that was announced in Q2 2012. As at the end of 2012, 42 corporate stores had been closed or converted to Sport Chek or Atmosphere banner stores as part of this initiative. In addition, the decrease in store count is partly attributable to 12 Atmosphere-Sport Chek combination stores (previously considered two separate side-by-side selling locations) being converted into single selling locations.

7.5 Business segment performance

7.5.1 Retail segment

7.5.1.1 Retail segment financial results

(C$ in millions)	Q4 2012	Q4 2011	Change	2012	2011	Change
Retail sales[1]	**$ 3,780.5**	$ 3,727.2	1.4%	**$ 12,852.5**	$ 11,668.3	10.1%
Revenue	**$ 2,901.1**	$ 2,874.9	0.9%	**$ 10,381.2**	$ 9,363.5	10.9%
Gross margin dollars	**$ 826.9**	$ 783.9	5.5%	**$ 2,835.3**	$ 2,446.7	15.9%
Gross margin (% of revenue)	**28.5%**	27.3%	124 bps	**27.3%**	26.1%	118 bps
Operating expenses (excluding depreciation & amortization)	**573.0**	511.2	12.1%	**2,039.6**	1,696.6	20.2%
Other income (expense)	**5.0**	5.9	(14.9)%	**3.0**	18.8	(84.3)%
EBITDA	**$ 258.9**	$ 278.6	(7.1)%	**$ 798.7**	$ 768.9	3.9%
Depreciation and amortization	**85.2**	83.9	1.5%	**325.2**	285.4	13.9%
Net finance costs	**18.8**	19.5	(4.0)%	**73.2**	72.7	0.7%
Income before income taxes	**$ 154.9**	$ 175.2	(11.6)%	**$ 400.3**	$ 410.8	(2.6)%

[1] Retail sales for the prior year have been restated. Refer to section 10.4 for more details.

Fourth quarter 2012 versus fourth quarter 2011

Earnings summary

Income before income taxes (IBT) in the Retail segment was $154.9 million in the quarter, down 11.6 per cent over the prior year. Normalizing for the items identified in the table in section 7.1, IBT decreased 5.3 per cent. The earnings decline resulted from modest revenue growth and higher operating expenses in the quarter.

Retail sales

Retail sales increased 1.4 per cent in the quarter as a result of sales growth at FGL Sports, as well as sales at newly opened Sport Chek stores, sales increases at Mark's driven by strong industrial wear sales and increased retail sales at Petroleum due to higher convenience sales, higher gasoline prices and higher gasoline volume from additional sites opened during the quarter. The strongest retail sales performance was experienced in the regions of the country where winter weather prevailed, largely Alberta in the first part of the quarter and then Quebec and Ontario in the last two weeks of December.

Sales declined 0.5 per cent at CTR banner stores over the prior year partly due to the late start to winter in Ontario and Quebec that delayed consumer demand for winter tires, but was also in line with market trends in Q4. In addition, active management of the balance between sales and margin growth contributed to the overall decline. The seasonal business was also affected by a stronger than expected response for new assortments in seasonal products and, as store inventories could not match customer demand, shipments and sales were lost. Retail sales results were partially offset by strong sales in key leadership categories, including outdoor recreation and light automotive parts, along with kitchen and home organization categories due to expanded assortments and the rollout of the Living strategy concept to stores during the year.

At Mark's, sales growth was driven by the industrial wear and women's casual wear categories, partially offset by a decline in the men's casual wear category. Industrial and accessories sales are supported by the relatively strong regional economies of Western Canada and were strongest in Alberta which also benefited from an early start to winter weather in the first part of the quarter.

FGL Sports' retail sales increased 4.5 per cent over the prior year due to strong sales in hard goods, apparel and footwear categories, partially offset by the impact of the NHL lockout, which led to lower sales in licensed hockey products. In addition, the late start to winter, particularly in Ontario and Quebec, hampered sales of outerwear, winter clothing accessories and ski and snowboard categories.

Petroleum retail sales increased 5.0 per cent due to higher gasoline volumes from additional sites opened during the quarter, higher gasoline prices and increased convenience sales over the prior year.

Retail revenue

Retail revenue increased 0.9 per cent in the quarter due to growth across FGL Sports and Mark's and at Petroleum with similar drivers as outlined for retail sales, as noted above.

CTR revenue was down 1.6 per cent over the prior year due to soft shipments of seasonal categories and due to planned reductions of sales in low-margin categories, such as electronics and household cleaning. Strong shipments were experienced in kitchen and home organization categories stemming from

strong demand for these products in stores, particularly where the Living strategy concept had been implemented. The majority of the decline in shipments was felt in Ontario and Quebec, where there was a late start to winter weather.

Retail gross margin

Retail gross margin dollars increased $43.0 million (5.5 per cent), while the gross margin rate increased 124 bps in the quarter. The increase was largely due to improvements in the level of promotional sales mix at CTR and less discounting at Mark's and to synergies experienced at FGL Sports, offset by lower gasoline margins at Petroleum.

Retail operating expenses (excluding depreciation and amortization)

Retail operating expenses (excluding depreciation and amortization) increased $61.8 million (12.1 per cent) primarily due to:

- higher personnel expenses, including $19.2 million in restructuring charges made during the quarter;
- higher advertising and marketing expenses, mainly due to the rebranding initiative at Mark's stores and timing of advertising expenses at CTR; and
- higher occupancy costs, primarily due to store network expansion.

Retail depreciation and amortization expense

Retail depreciation and amortization expense increased $1.3 million (1.5 per cent) primarily due to higher amortization of intangible software.

Retail net finance costs

Retail net finance costs decreased $0.7 million (4.0 per cent), primarily due to the net impact of the following:

- reduced borrowing costs due to the repayment of short-term debt; and
- improvement in the blended cost of debt.

Full year 2012 versus 2011

Earnings summary

For the full year, income before income taxes in the Retail segment was $400.3 million, a decrease of 2.6 per cent over 2011. Normalizing for the items referred to in the table in section 7.1, income before income taxes in the Retail segment increased by 4.8 per cent due to increased revenue and gross margin contributions, offset by higher operating expenses.

Retail sales

Retail sales increased 10.1 per cent in the year due to the inclusion of FGL Sports results for a full year compared to 19 weeks in 2011, growth in sales at Petroleum from increased gasoline volume sold at 400/401 series highway sites, increased gasoline prices and higher convenience sales over the prior year, and sales growth across all of the retail banners.

CTR retail sales increased 0.8 per cent compared to the prior year. The increase in retail sales was largely driven by growth in the Living category, including new products in kitchen and home organization. Sales growth was also attributable to outdoor recreation products, largely due to the success of the Hunting and Fishing Pro Shops that were opened during the year, and to backyard living and camping products. Sales growth was partially offset by a decline in sales of hockey and sports equipment related to increased competition in the marketplace and the impact of the NHL hockey lockout. In addition, seasonal product sales were down due to an unexpectedly strong demand for new assortments in seasonal categories, resulting in lost shipments and sales from low inventory levels at stores. The automotive category experienced increased sales in automotive maintenance, batteries and performance tires, partially offset by a decrease in all-season and winter tires, largely due to the late arrival of winter across most of Ontario and Quebec.

Mark's experienced retail sales growth in the year driven by industrial wear, footwear and women's wear, which was partially offset by softness in men's wear sales.

Petroleum retail sales growth was driven by increases in gasoline volumes due to additional 400/401 series highway sites, higher gasoline prices and higher convenience sales compared to the prior year.

FGL Sports retail sales growth was largely due to the inclusion of a full year's sales compared to 19 weeks in 2011 and sales at newly opened Sport Chek stores.

Retail revenue

Retail revenue increased $1,017.7 million (10.9 per cent) due to the inclusion of FGL Sports revenue for a full year compared to 19 weeks in 2011, increased gasoline volumes and higher gasoline prices in Petroleum, and revenue growth at Mark's and FGL Sports, with similar drivers as those outlined for retail sales. CTR revenue increased due to higher shipments in key leadership categories, including kitchen, kitchen appliances and outdoor recreation, due to strong consumer demand for these products.

Retail gross margin

Retail gross margin dollars increased $388.6 million or 15.9 per cent due to the inclusion of FGL Sports results for a full year compared to 19 weeks in 2011, strategic pricing review efforts in key CTR categories and lower markdowns at Mark's.

The Retail gross margin rate increased 118 bps in 2012. The rate increase was a result of including a full year of FGL Sports results compared to 19 weeks in 2011, active management of the CTR sales mix and improvements resulting from purchasing and merchandising initiatives and a decrease in promotional activity at Mark's compared to the prior year.

Retail operating expenses (excluding depreciation and amortization)

Retail operating expenses (excluding depreciation and amortization) increased $343.0 million or 20.2 per cent due primarily to the inclusion of FGL Sports for a full year compared to 19 weeks in 2011, restructuring charges of $19.2 million, banner rationalization charges related to the FGL Sports growth strategy, and increased occupancy expenses across the CTR and Mark's businesses.

Retail depreciation and amortization expense

Retail depreciation and amortization expense increased $39.8 million (13.9 per cent) primarily due to the inclusion of FGL Sports results for a full year compared to 19 weeks in 2011 and higher amortization related to intangible software assets from recent IT initiatives.

Retail net finance costs

Retail net finance costs increased $0.5 million (0.7 per cent) due to the net impact of the following:

- lower interest income due to interest income received in 2011 on a favourable tax settlement; and
- reduced liquidity due to the acquisition of FGL Sports; offset by
- lower borrowing costs incurred by Franchise Trust due to a decrease in the cost of funding and a decrease in the amount of loans outstanding to Dealers.

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 its 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 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 winter 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 affected by general seasonal trends that are characteristic of the apparel, hard goods and retail industries with the fourth quarter typically producing the majority of pre-tax 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 sourced from foreign suppliers, lengthening the supply chain and extending the time between order and delivery to its 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 risk 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 comply with environmental laws and protect its reputation.

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 includes 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 and 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

Clothing and apparel 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 casual 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 products under its various banners, and is partnered with strong national branded suppliers who continually evolve their assortments to reflect consumer preferences.

7.5.2 Financial Services segment

7.5.2.1 Financial Services segment financial results

(C$ in millions)	Q4 2012	Q4 2011[1]	Change	2012	2011[1]	Change
Revenue	**$ 248.0**	$ 243.5	1.8%	**$ 981.9**	$ 960.4	2.2%
Gross margin dollars	**132.4**	122.2	8.2%	**536.6**	482.0	11.3%
Gross margin (% of revenue)	**53.4%**	50.2%	315 bps	**54.6%**	50.2%	446 bps
Other income (expense)	**0.2**	(0.1)	453.6%	**2.7**	(0.4)	828.2%
Operating expenses	**71.4**	67.1	6.2%	**263.6**	264.7	(0.4)%
Operating Income	**61.2**	55.0	11.2%	**275.7**	216.9	27.1%
Net finance income	**(0.5)**	(0.7)	(19.9)%	**(1.2)**	(2.2)	(43.2)%
Income before income taxes	**$ 61.7**	$ 55.7	10.8%	**$ 276.9**	$ 219.1	26.4%

[1] *Financial Services operating segment results for the 13 and 52 weeks ended December 31, 2011 have been reclassified to correspond to the current year presentation. Refer to note 7 to the consolidated financial statements for more information.*

Fourth quarter 2012 versus fourth quarter 2011

Earnings summary

Financial Services segment income before income taxes was $61.7 million, an increase of 10.8 per cent in the quarter versus Q4 2011, due to increased revenue from receivables growth and lower net write-offs.

Financial Services revenue

Financial Services revenue increased 1.8 per cent over the prior year due to receivables growth and higher average account balances.

Financial Services gross margin

Financial Services gross margin dollars increased $10.2 million from the prior year due to a 315 bps improvement in the gross margin rate, as well as growth in receivables.

Financial Services operating expenses

Financial Services operating expenses increased 6.2 per cent in the quarter from the prior year due primarily to the timing of marketing and acquisition expenses.

Financial Services net finance income

Financial Services net finance income decreased 19.9 per cent compared to the prior year due to lower earned interest income.

Full year 2012 versus 2011

Earnings summary

Financial Services segment income before income taxes increased 26.4 per cent in 2012 versus 2011 due to higher revenue, lower write-offs and continued management of expenses.

Financial Services revenue

Financial Services revenue was up 2.2 per cent in 2012 compared to 2011 due to GAAR growth.

Financial Services gross margin

Financial Services gross margin dollars increased 11.3 per cent and gross margin rate increased 446 bps mainly due to improvements in the net impairment loss for loans receivable. During the year, Financial Services changed the monthly minimum payment requirements on their credit card portfolio. This change has affected the aging of customer balances. While management continues to monitor the impact of this change, no related adjustment has been made to the loan loss reserve as at December 29, 2012.

Financial Services operating expenses

Operating expenses were down slightly compared to 2011, primarily due to the continued management of expenses, largely offset by increased marketing and acquisition costs.

Financial Services net finance income

Net finance income declined by 43.2 per cent in the year, primarily reflecting a decline in earned interest income.

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 macroeconomic 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 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) and asset-backed senior and 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; however, further diversification of funding sources such as high-interest savings accounts and retail deposits could create greater exposure to interest rate risk. In addition, interest rate risk can be affected by securitization activity and the need to replace funding in large amounts over a short period of time. 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 MasterCards, 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 depends on 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 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 CTB'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

Selected line items from the Company's assets, liabilities and shareholders' equity for the years ended December 29, 2012, and December 31, 2011, are noted below.

(C$ in millions)	2012	2011	Change ($)	Change (%)
Assets				
Cash and cash equivalents	**$ 1,015.5**	$ 325.8	$ 689.7	211.7%
Loans receivable	**4,265.7**	4,081.7	184.0	4.5%
Long-term investments	**182.7**	128.2	54.5	42.5%
Investment property	**95.1**	72.4	22.7	31.4%
Total assets	**13,181.4**	12,338.8	842.6	6.8%
Liabilities				
Bank indebtedness	**$ 86.0**	$ 124.8	$ (38.8)	(31.1)%
Deposits	**1,311.0**	1,182.3	128.7	10.9%
Short-term borrowings	**118.9**	352.6	(233.7)	(66.3)%
Current portion of long-term debt	**661.9**	27.9	634.0	2,272.4%
Total liabilities	**8,417.8**	7,929.8	488.0	6.2%
Shareholders' equity	**$ 4,763.6**	$ 4,409.0	$ 354.6	8.0%

An increase of $689.7 million in the cash and cash equivalents balance largely represents an accumulation of cash to fund the maturing GCCT debt in February 2013.

Loans receivable increased $184.0 million due to higher sales and average balances on credit cards.

Bank indebtedness decreased by $38.8 million and short-term borrowings decreased by $233.7 million, largely due to repayment of GCCT commercial paper.

Deposits increased by $128.7 million to fund a higher loans receivable balance.

The current portion of long-term debt increased by $634.0 million, reflecting the upcoming GCCT debt maturity in February 2013.

For the complete balance sheet, please refer to the consolidated balance sheets in this 2012 Annual Report.

7.6.2. Summary cash flows

The Company's cash and cash equivalents position, net of bank indebtedness, was $929.5 million as at December 29, 2012.

During the year, cash of $728.5 million was generated primarily due to cash from financing activities of Financial Services and cash generated from operations of the Retail and Financial Services segments, net of all capital expenditures and dividends paid. This balance also reflects $441.4 million of restricted cash which partially funds the maturing GCCT debt in February 2013.

The Company's consolidated statements of cash flows for the quarters and years ended December 29, 2012, and December 31, 2011, are noted below.

(C$ in millions)	Q4 2012	Q4 2011	Change ($)	2012	2011	Change ($)
Cash generated from operating activities	**$ 431.4**	$ 539.4	$ (108.0)	**$ 743.0**	$ 1,405.5	$ (662.5)
Cash generated from (used for) investing activities	**23.2**	(90.0)	113.2	**(261.5)**	(1,161.4)	899.9
Cash generated from (used for) financing activities	**326.6**	(622.1)	948.7	**247.0**	(493.7)	740.7
Cash generated (used) in the period	**$ 781.2**	$ (172.7)	$ 953.9	**$ 728.5**	$ (249.6)	$ 978.1

Cash generated in the quarter versus a usage in Q4 of 2011 is primarily due to the financing activities of Financial Services in Q4 2012 versus Q4 2011 and the use of cash for financing in the fourth quarter of 2011 to repay $280.0 million of short-term indebtedness arising from the acquisition of FGL Sports.

Cash generated during the year versus a usage of cash in 2011 is primarily due to the financing activities of Financial Services in 2012 versus 2011 and the investment in FGL Sports in 2011. Total debt issued by GCCT in 2012, through securitization of receivables, totalled $635.0 million, of which $183.8 million was used to repay GCCT commercial paper and the balance will be used to partially fund the $635.0 million GCCT debt maturing in February 2013; whereas in 2011 GCCT repaid $317.5 million of maturing debt. The acquisition of FGL Sports in 2011 was offset by an investment in working capital by Financial Services in 2012 (growth in credit card receivables and reduction in deposit gathering).

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 following manner.

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 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, from 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 and includes GCCT indebtedness but excludes Franchise Trust indebtedness:

(C$ in millions)	2012	% of total	2011	% of total
Capital components				
Deposits	$ 1,311.0	12.7%	$ 1,182.3	12.6%
Short-term borrowings	118.9	1.2%	352.6	3.8%
Current portion of long-term debt	661.9	6.4%	27.9	0.3%
Long-term debt	2,336.0	22.7%	2,347.7	24.9%
Long-term deposits	1,111.8	10.8%	1,102.2	11.7%
Total debt	$ 5,539.6	53.8%	$ 5,012.7	53.3%
Share capital	688.0	6.7%	710.5	7.5%
Contributed surplus	2.9	0.0%	1.1	0.0%
Retained earnings	4,074.4	39.5%	3,686.4	39.2%
Total capital under management	$ 10,304.9	100.0%	$ 9,410.7	100.0%

The Company manages its capital structure with a view to maintaining an investment-grade rating from two credit rating agencies. Management calculates its ratios to approximate the methodology of debt rating agencies and other market participants on a current and prospective basis. To assess its effectiveness in managing capital, management monitors these ratios against targeted ranges.

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 a normal course issuer bid program ("NCIB program"), issue new shares, repay debt, 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 increase or decrease the amount of sales of co-ownership interests in loans receivable to GCCT.

The Company has in place various policies that 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 consistency with risk tolerances.

Under the existing debt agreements, key financial covenants are reviewed on an ongoing basis by management to monitor compliance with the agreements.

The key covenants are as follows:

- a requirement to maintain, at all times, a specified minimum ratio of consolidated net tangible assets to the outstanding principal amount of all consolidated funded obligations (as defined in the respective debt agreements which exclude the assets and liabilities of GCCT and Franchise Trust); 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, among other things, its accumulated net income over a defined period.

The Company was in compliance with these key covenants as at December 29, 2012. Under these covenants, the Company currently has sufficient flexibility to fund business growth and maintain or amend dividend rates within its existing dividend policy.

In addition, the Company is required to comply with regulatory requirements associated with the operations of CTB, a federally chartered bank, and other regulatory requirements that have an impact on its business operations.

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 that 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, 2012 and 2011 (CTB's fiscal year-ends), 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 and a market risk component for assets held in the trading book and for on- and off-balance-sheet financial instruments held in a foreign currency. 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. Assets are included in the trading book when they are held either with trading intent or to hedge other elements in the trading book.

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, 2012, and the comparative period for 2011, 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

8.2.1 Capital expenditures

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

(C$ in millions)	2012	2011
Real estate projects	**$ 204.1**	$ 199.0
Information technology	**76.9**	74.9
Supply chain and distribution centres	**25.7**	20.7
Strategic initiatives [1]	**5.3**	54.4
Other purposes	**22.8**	15.7
Total capital expenditures [2]	**$ 334.8**	$ 364.7

[1] Strategic initiatives includes Automotive Infrastructure, CTR loyalty, customer-centric retailing and online.
[2] Capital expenditures are presented on an accrual basis.

Capital expenditures were down 8.2 per cent in 2012 compared to 2011. The decline was largely due to:

- decreased spending on strategic initiative projects, including the Automotive Infrastructure project and the initial phase of the new loyalty program as both were substantially complete at the end of 2011; and
- an overall decline in real estate projects spending related to a decline in CTR projects, largely due to timing, offset by increased costs related to the Mark's rebranding initiative; partially offset by
- increased spending on chip card payment and technology upgrades at Petroleum gas bars; and
- the addition of a full year of FGL Sports capital expenditures compared to 19 weeks in 2011.

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 Wearhouse in 2002 and FGL Sports in 2011.

8.2.3 Acquisition of FGL Sports

The Company acquired control of FGL Sports on August 18, 2011, through its approximately 97 per cent ownership of the issued and outstanding Class "A" shares (the Common shares) of FGL Sports that were 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, the TechShop, Nevada Bob's Golf, Hockey Experts, Sport Mart, National Sports, Athletes World, S3 and Fitness Source.

The acquisition of FGL Sports increased the Company's operation in the sporting goods category of its retail operating segment. 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 such as 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 recorded $32.6 million of capital expenditures during the 19 weeks from the date of acquisition to December 31, 2011.

8.2.4 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

8.2.5 Fair value of identifiable assets acquired and liabilities assumed as at acquisition date

The fair values 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.

8.2.6 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 and brands and the network of stores that are predominantly mall-based and provide access to the 18-to-35-year-old customer segment. None of the goodwill recognized is expected to be deductible for income tax purposes.

For the year ended December 31, 2011, the Company incurred acquisition-related costs of $12.1 million relating to external legal fees, consulting fees and due diligence costs. These costs are included in administrative expenses in the consolidated statements of income.

For the year ended December 31, 2011, a pre-tax gain of $10.4 million was recognized relating to 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 for the year ended December 31, 2011, is as follows:

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

For additional information related to the purchase transaction of FGL Sports, please refer to the Q4 2011 MD&A in the 2011 Annual Report and to note 8.1 in the notes to the consolidated financial statements.

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 29, 2012

Financing source	Amount available	Description
Committed bank lines of credit and commercial paper program	$1.5 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. The Company had no commercial paper outstanding as at December 29, 2012, however GCCT had $119.0 million of commercial paper outstanding as at December 29, 2012.
Medium-term notes (MTN) program	$750.0 million	A Shelf Prospectus providing the Company with access to up to $750.0 million expires in April 2013. The Company intends to file a new Shelf Prospectus in March 2013, which would provide the Company with access to up to $750.0 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, continue to be a relatively cost-effective form of financing. Financial Services securitized $634.9 million of credit card receivables in 2012 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 29, 2012, Financial Services held $1,587.2 million 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 29, 2012, Financial Services held $843.1 million in retail deposits.
Sale/leaseback transactions	Transaction-specific	Additional sources of funding are available for strategic transactions involving Company-owned properties as appropriate.

As indicated in the table above, as of December 29, 2012, the Company had $1.5 billion in committed bank lines of credit, $1.2 billion of which is available under a four-year syndicated credit facility. The syndicated facility is available to the Company until June 2016 and can be extended for an additional 364-day period in June 2013. The balance of the lines of credit have been established pursuant to bilateral credit agreements that are available to the Company until late 2013. Each quarter, the Company has the ability to request that the term of each of the bilateral credit agreements be reset to 364 days.

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

DBRS and Standard & Poor's confirmed the Company's credit ratings for various corporate funding programs in Q4 2012. 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 and are offered for varying terms ranging from 30 days to five years. 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 $64.0 billion, CTB believes that there is sufficient room in the market to maintain its 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 29, 2012, CTB had $1,587.2 million in total short-term and long-term broker GIC deposits outstanding.

Retail deposits

Retail deposits consist of high interest savings accounts (HIS), tax-free savings accounts (TFSA) and retail GIC deposits. CTB has been successful in generating deposits from HIS and TFSA accounts and retail GIC deposits, and at December 29, 2012, CTB had $843.1 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 NCIB program, from a combination of sources.

Contractual obligations due by period

(C$ in millions)	Total	2013	In years 2014 - 2015	In years 2016 - 2017	2018 & beyond
Current and long-term debt[1,2]	$ 1,052.7	$ 2.7	$ 300.0	$ 200.0	$ 550.0
Glacier Credit Card Trust debt[2,3]	1,786.9	634.9	517.1	634.9	–
Finance lease obligations[4]	236.2	34.5	49.1	34.1	118.5
Operating leases	2,132.7	306.1	524.8	405.2	896.6
Purchase obligations	804.8	717.7	83.2	3.9	–
Financial Services' deposits[3]	2,430.3	1,318.5	655.5	456.3	–
Other obligations	79.3	29.0	20.4	10.2	19.7
Total contractual obligations	$ 8,522.9	$ 3,043.4	$ 2,150.1	$ 1,744.6	$ 1,584.8

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

[2] Excludes interest obligations on debt or deposits.

[3] Represents senior and subordinate notes at Glacier Credit Card Trust.

[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 and Franchise Trust indebtedness.

(C$ in millions)	2012	2011[1]
Interest expense[2]	**$ 119.7**	$ 127.6
Cost of debt[3]	**4.54%**	4.60%

[1] Prior year numbers were restated to exclude Franchise Trust indebtedness.
[2] 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.
[3] Represents the weighted average cost of short-term and long-term debt during the period.

8.4 Equity

As noted previously, the Company has a policy of purchasing Class A Non-Voting Shares to offset the dilutive effect of the issuance of Class A Non-Voting Shares pursuant to its stock option plan and dividend reinvestment plan. As part of the NCIB program which commenced February 19, 2012, and expired February 18, 2013 (the 2012 NCIB),the Company could have purchased additional Class A Non-Voting Shares to the aggregate maximum of 2.5 million if, after consideration of various factors, including capital market conditions and Canadian Tire's financial flexibility and investment opportunities, it determined that a purchase of additional Class A Non-Voting Shares was an appropriate means of enhancing the value of the remaining Class A Non-Voting Shares.

The number of Class A Non-Voting Shares purchased by Canadian Tire pursuant to the 2012 NCIB program was 483,354. This figure includes 299,806 Class A Non-Voting Shares that were purchased beyond the Corporation's anti-dilutive policy during Q4 2012. The weighted average price at which the purchases under the 2012 NCIB program were made was $68.55 per Class A Non-Voting Share.

Shares outstanding

	December 29, 2012	December 31, 2011
Class A Non-Voting Shares (CTC.A)		
Shares outstanding at beginning of the year	**78,020,208**	78,020,007
Shares issued under plans[1]	**183,547**	191,597
Shares repurchased under NCIB	**(483,354)**	(191,396)
Shares outstanding at end of the year	**77,720,401**	78,020,208
Common Shares (CTC)		
Shares outstanding at the beginning and end of the year	**3,423,366**	3,423,366

[1] *We issue shares under various employee profit sharing and share purchase plans, in addition to the dividend reinvestment plan.*

As at February 21, 2013, the number of outstanding Class A Non-Voting Shares and the number of outstanding Common Shares had not changed from the numbers presented as at December 29, 2012 in the table above.

9.0 Tax matters

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 Q4 2010. As a result of the settlement, the Company recorded an income tax recovery of $2.1 million (2011 – $7.6 million) and pre-tax interest income from overpayment of taxes of $nil (2011 – $3.6 million).

The 2012 tax provision has been further reduced by $4.4 million (2011 – $9.0 million) due to adjustments to prior years' estimated tax payable net of deferred tax adjustments resulting from Ontario not implementing the expected tax rate reductions scheduled for 2012 and 2013.

With respect to the foreign operation reference 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 these will not have a material adverse effect on its liquidity, consolidated financial position or net income 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.

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 2012 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. Future customer behaviour may be affected by a number of factors, including

changes in interest and unemployment rates and program design changes. 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 – new standards implemented

Deferred taxes – recovery of underlying assets

In December 2010, the IASB amended IAS 12 – *Income Taxes* ("IAS 12") introducing an exception to the general measurement requirements of IAS 12. Investment property measured at fair value is exempt from the general measurement requirements of IAS 12. The amendment was effective for annual periods beginning on or after January 1, 2012. This amendment did not have an impact on the Company as its investment property is not measured at fair value.

Financial instruments: Disclosures

In October 2010, the IASB amended IFRS 7 – Financial Instruments: Disclosures ("IFRS 7"), which requires additional disclosures on transferred financial assets. The amendment was applicable prospectively for annual periods beginning on or after July 1, 2011. The additional disclosures on transferred financial assets provided in note 12 of the consolidated financial statements.

10.3 Standards, amendments and interpretations issued and not yet adopted

The following new standards, amendments and interpretations have been issued but are not effective for the fiscal year ended December 29, 2012, and, accordingly, have not been applied in preparing these consolidated financial statements.

Financial instruments

In November 2009, the IASB issued IFRS 9 – *Financial Instruments: Classification and Measurement* ("IFRS 9"), 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. Early adoption is permitted. The Company is assessing the potential impact of this standard.

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 Standing Interpretation Committee 12 – *Consolidation – Special Purpose Entities* ("SIC-12"). IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an investor controls one or more investees. The standard requires an investor 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* and SIC-13 – *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. 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 venturer 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 provides accounting guidance for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates 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 was permitted only if all of these standards are concurrently adopted. The Company does not expect IFRS 10, IFRS 11, IAS 27 and IAS 28 to have any significant impact on its financial statements. The implementation of IFRS 12 will result in additional financial statement note disclosures.

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 does not expect IFRS 13 to have any significant impact on its financial statements.

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 does not expect the IAS 1 amendments to have any significant impact on its financial statements.

Post-employment benefits

In June 2011, the IASB issued amendments to IAS 19 – *Employment Benefits* ("IAS 19") that apply 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 OCI section of the statements of comprehensive income and require additional disclosures. The amendments are effective for annual periods beginning on or after January 1, 2013. These amendments are 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 IFRS 7 amendments will result in additional financial statement note disclosures. The Company is assessing the potential impact of the IAS 32 amendments.

10.4 Key metrics and supplementary non-GAAP measures

Retail sales

Retail sales refer to the point of sale (i.e., cash register) value of all goods and services sold at Dealer-operated, franchisee-operated, Petroleum retailer-operated and corporate-owned stores across the retail banners. To enhance comparability of the retail sales metric across the different retail banners of the Company and the retail industry, starting in Q1 2012, CTR's retail sales includes additional customer transactions (such as delivery and assembly charges) that were previously excluded. To further enhance comparability of the retail sales metric, starting in Q3 2012, Mark's definition of retail sales was updated to align with that of other businesses within the Company.

Prior-year retail sales metrics have been restated.

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. Same-store sales definitions for CTR, Mark's and FGL Sports banners can be found in section 7.3 of this MD&A and also in the glossary of terms at the end of this 2012 Annual Report.

Sales per square foot

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. Sales per square foot definitions for CTR and Mark's banners can be found in section 7.3 of this MD&A and also in the glossary of terms at the end of this 2012 Annual Report.

EBITDA

Management primarily uses EBITDA in assessing the performance of its ongoing retail operations and its ability to generate cash flows.

Retail ROIC

The Company believes retail ROIC is useful in assessing the return on capital invested in various retail assets.

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, managing and reporting risk effectively and consistently across the Company.

The ERM program provides an integrated approach to managing risks, supporting the Company's strategic objectives. The Company's ERM program is:

- enterprise-wide in scope by providing an understanding of significant risks and the potential impacts 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;
- integrated into the strategic and operational planning and reporting processes; and
- designed to incorporate a number of approaches for managing risk, including avoidance, mitigation, insurance and acceptance.

The ERM program continues to further develop upon its framework relative to: risk identification, risk quantification, risk monitoring and risk integration and optimization in consultation with Executive leadership.

11.1 Risk governance

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 the Company's 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 that the ERM policy continues to accurately state the Company's risk philosophy, as well as 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 the Company's business and assumptions underlying the strategic objectives; and
- effectively assesses, monitors and manages Principal Risks in compliance with the ERM policy.

The officer in charge of each banner and corporate function is accountable for effectively managing risks relevant to their respective business areas. The Executive Committee oversees the Company's risk profile and the management of Principal Risks and other enterprise-wide risks. The Executive Committee is also responsible for reviewing and approving, for recommendation to the Board of Directors, the ERM policy, 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 of Finance (CFO) with the support of the Vice-President of Internal Audit Services and Enterprise Risk Management.

The Company's Internal Audit Services (IAS) division also supports the 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.

11.2 Principal Risks

A key element of the Company's ERM program is the periodic review, identification and assessment of Principal Risks. The Company defines 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. These Principal Risks are enterprise-wide in scope and represent strategic, financial and operational risks. Management has completed its formal annual review of its Principal Risks, which has been presented to the Audit Committee and approved by the Board of Directors. Recent changes include:

- the addition of an operations risk to the Company's list of Principal Risks due to the ongoing growth and complexity of Canadian Tire's businesses; and
- changing the name and/or the underlying definition of some of the existing Principal Risks to better align with identification of the source of the risk.

The following table provides a high-level perspective on each of the identified 11 Principal Risks and describes the main strategy that the Company has in place to mitigate the potential impacts of these risks on its business objectives.

Principal Risks	Risk management strategy
Business continuity Risk of an event or a series of events including natural or man-made disasters or other unplanned and/or prolonged business interruptions that: • compromise the safety of the Company's employees or customers; • result in the Company not being able to provide products or services to its customers; • limit or prevent the Company from communicating with its customers, employees, stakeholders and shareholders; or • can result in a significant financial loss and/or damage to the Company's reputation.	The enterprise-wide business continuity program includes disaster recovery and crisis management. Policies, plans and processes require all essential business areas to be able to respond to an event of business interruption or crisis. Furthermore, information systems are periodically tested through disaster recovery plans. In addition, a comprehensive insurance program with a number of carriers provides related coverage.
Consumer lending Canadian Tire Bank's consumer lending portfolio is exposed to credit or default risk arising from CTB's failure or inability to accurately predict the creditworthiness or credit behaviour of its customers in a normal market or under stressed economic conditions, resulting in a significant negative impact to earnings and the availability of financing for the receivables.	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.
Execution of strategy The Company has a number of key initiatives supporting its strategic objectives. Failure to appropriately identify, plan, resource, execute and achieve the full benefits of these initiatives may result in a significant negative impact on the Company's mid-to-long-term success and reputation, including a loss of revenue, market share or investor confidence.	The Company 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. Further details are set out in section 5.0. The Board of Directors receives reports on progress against the operating plan on a quarterly basis and periodic updates on strategic initiatives. The Board of Directors is also engaged in the annual review of the long-term strategy and influences the agenda of strategic initiatives for the following year.
Financial markets Risk associated with fundamental changes in the economic environment or significant events or volatility in the financial markets, resulting in: • tight capital and debt markets and/or high cost of capital and debt such that the Company cannot maintain sufficient capital to absorb unexpected losses and/or to economically acquire and maintain the required funding and capital structure necessary to carry out its strategic plan; • significant volatility in the U.S. dollar/Canadian dollar exchange rate such that there is significant negative impact on the Company's gross margin and product pricing strategies, resulting in reduced sales and, ultimately, in reduced earnings; and • significant volatility in interest rates such that there is a significant negative impact on the Company's net interest expense. In addition, financial markets risk also includes the risk of market exposures due to inappropriate hedging strategies, resulting in a negative impact on earnings.	Various policies and processes support the management of capital and funding risks. The Treasurer and CFO provide oversight on policy compliance. Further details are set out in section 8.1.1. Various financial risk management policies and processes are employed to manage the Company's hedging activities, which are designed to mitigate the Company's exposure to foreign exchange rate volatility and sensitivity to adverse movements in interest rates and the equity markets. Hedge transactions are executed with highly rated financial institutions and are monitored against policy limits and counterparty limits. Further details are set out in sections 8.3 and 11.3.
Financial reporting Risk of restatement and reissue of the Company's financial statements due to failure to adhere to financial accounting and presentation standards and securities regulations relevant to financial reporting, and/or inadequate explanation of the Company's operating performance, financial condition and future prospects, resulting in regulatory sanctions, loss in share value and/or reputational damage.	Policies and processes provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements. These processes include monitoring and responding to changing regulations and standards governing accounting and financial presentation. Further details are set out in section 12.0.

Principal Risks	Risk management strategy
Key business relationships Risks associated with the Company having a wide range of key business relationships and affiliations (with such parties as Dealers, agents and franchisees, as well as a limited number of vendors and suppliers) may result in disruption to business operations and financial loss. The scope, complexity, materiality and/or criticality of these key business relationships can potentially affect customer service, procurement, product and service delivery and can result in legal disputes that may have a significant negative impact on the Company's earnings, cost of operations, reputation and brand.	The Company periodically assesses the capabilities, strategic fit and other realized benefits of key business relationships in the context of supporting the overall business strategy. Appropriate governance structures, including policies, processes, contracts, service level agreements and other management activities, are in place to maintain and strengthen the relationships that are critical to the success of the Company's performance and aligned with its overall strategic needs. A key relationship for the Company is with the CTR Dealers. Management of the CTR Dealer relationship is led by officers of the Company with oversight by the Chief Executive Officer (CEO) and Board of Directors.
Legal Risk of failure to comply with current and changing laws, regulations or regulatory policies, codes or rules, resulting in negative impact to the Company's reputation, earnings or capital, regulatory relationships or business activities. Laws, regulations and regulatory polices referred to include privacy, securities (disclosure and insider trading), environmental, banking, competition, occupational health and safety, product safety, records, and employment.	Policies address compliance with legislation and regulations. The Legislative Compliance department provides compliance oversight and guidance to the organization. Each of the business units has also established processes for complying with the laws and regulations of most significance to its 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 Risk due to fluctuations or fundamental changes in the external business environment, resulting in financial loss. Fluctuations or fundamental shifts in the marketplace could include: • economic recession, depression or high inflation affecting consumer spending; • changes in the competitive landscape for the retail or financial services sectors affecting the attractiveness of shopping at Canadian Tire's businesses; • changes in the domestic or international political environments (including new legislation) affecting the cost of products and/or ability to do business; • shifts in the demographics of the Canadian population, reducing the relevance of the products and services offered by the Company; • changes in the buying behaviour of consumers, rendering the Company's products and services less attractive; or • the introduction of new technologies rendering the Company's products or services as obsolete, which may result in a significant negative impact on the Company's sales, market share, operating margins and/or inability to achieve its strategic objectives.	Processes 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 amendments to the strategic and operational plans and for ongoing investment decisions.
Operations Risk of failure of the Company's business operations and processes (merchandising, supply chain, store networks and financial services) to support its key business objectives. Failed processes in terms of design, integration and/or execution can result in incremental financial expenditures or losses, theft or fraud, damages to assets, poor service delivery, negative customer experiences or regulatory related issues.	The officer in charge of each banner and corporate function is accountable for providing assurances that policies and processes are adequately designed and operating effectively to support the Company's strategic and performance objectives.

Principal Risks	Risk management strategy
People Risk associated with the Company not being able to attract and retain sufficient and appropriately skilled people who have the expertise (focus, commitment and capability) to support the achievement of the Company's strategic objectives and not being able to address external and/or internal human-resources-related matters.	Various policies and practices address organizational design, employee recruitment programs, succession planning, compensation structures, ongoing training and professional development programs and performance management. The Company's Code of Business Conduct sets out expected ethical 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.
Technology (including information systems) Technology risks include the failure to: • invest in technology in a manner that supports the Company's ability to achieve its strategic objectives; • operate in a manner so as to ensure that systems and data files are available to support business operations, including customer needs and management requirements; and • secure and protect customer, employee and corporate information from internal threats, external threats and unexpected effects of change, thereby exposing the Company to possible corruption/loss of data, regulatory sanctions, litigation or reputational damage.	Policies, standards and processes address capabilities, performance, availability and security. Security protocols along with corporate information security policies address compliance with information security standards, including those in relation to information belonging to the Company's customers and employees.

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 29, 2012, and December 31, 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 foreign exchange and equity derivative contracts, the fair values reflect the estimated amounts that the Company would receive or pay if it were to settle the contracts at the reporting date. The 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 a counterparty based on year-end market interest rates, implied counterparty volatility values and the year-end closing share price of the Class A Non-Voting Shares of the Company on the Toronto Stock Exchange. The Company did not have any interest rate swaps outstanding at December 29, 2012, and December 31, 2011.

Credit risk

The Company's exposure to concentrations of credit risk is limited. Accounts receivable are primarily from Dealers and FGL Sports franchisees 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.

The Company uses derivative financial instruments as a risk management tool solely to manage its exposure to changes in foreign currency exchange rates and certain future stock-based compensation expenses. To manage the credit and market risks associated with derivative financial instruments, the Company:

- deals only with counterparties that are highly rated financial institutions;
- restricts the amount of hedging it can transact with any one counterparty; and
- regularly monitors the market value of the hedge portfolios by counterparty.

The Company's credit exposure with respect to derivative financial instruments is spread across a number of primary domestic financial institutions and represents the current replacement value of only those contracts that 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 that are considered adequate to provide for future credit losses. A continuity of the Company's allowances for trade and other receivables is as follows:

	Trade and other receivables	
(C$ in millions)	**2012**	2011
Balance, beginning of year	**$ 12.2**	$ 7.7
Net additions (reversals)	**1.4**	4.5
Balance, end of year	**$ 13.6**	$ 12.2

A continuity of the Company's allowances for loans receivable is as follows:

	Loan receivable[1,2]	
(C$ in millions)	**2012**	2011
Balance, beginning of year	**$ 118.7**	$ 117.7
Impairments for credit losses	**265.6**	302.0
Recoveries	**58.1**	50.0
Writeoffs	**(331.7)**	(351.0)
Balance, end of year	**$ 110.7**	$ 118.7

[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 and FGL Sports loans receivable.

Liquidity risk

For a comprehensive discussion of the Company's liquidity risk, see note 6 in the notes to the consolidated financial statements.

Foreign currency risk

The Company has significant demand for U.S. dollars due to global sourcing. To mitigate the impact of fluctuating foreign exchange rates on the cost of globally sourced merchandise and, consequently, earnings, the Company has a comprehensive foreign exchange risk management policy in place that 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 2013 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.

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 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.

The Company's wholly owned subsidiary, CTB, is the subject of two class action proceedings regarding allegations that certain fees charged on CTB-issued credit cards are not permitted under the Quebec Consumer Protection Act. CTB has determined that it has a solid defence to both actions on the basis that banking and cost of borrowing disclosure are matters 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 CTB would be approximately $26.2 million as at December 29, 2012.

11.5 Other risks

In addition to the Principal Risks identified in sections 11.2 to 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 forecast in this MD&A include the following:

- 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 have an impact on the timing of construction.
- Changes in commodity prices could also affect the profitability of CTR, Mark's and FGL Sports.
- Fluctuating foreign currency exchange rates could have an impact on cross-border shopping patterns and employment levels in the manufacturing and export sectors and, consequently, have a negative impact on consumer spending practices.

We cannot provide any assurance that forecast 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 CEO and the CFO, so that they can make appropriate decisions regarding public disclosure.

The Company's system of disclosure controls and procedures includes, but is not limited to, its Disclosure Policy, its Code of Business Conduct, the effective functioning of its 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 the Company's disclosure controls and procedures was conducted, under the supervision of management, including the CEO and CFO, as of December 29, 2012. 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 at December 29, 2012.

Internal control over financial reporting

Management is also responsible for establishing and maintaining appropriate internal controls over financial reporting. The Company's 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. The Company's procedures for financial reporting also include the active involvement of qualified financial professionals, senior management and its 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 the Company's internal control over financial reporting as defined in NI 52-109 as at December 29, 2012. 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 about this evaluation. Based on their evaluation, the CEO and the CFO have concluded that, as at December 29, 2012, the Company's 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.

Changes in internal control over financial reporting

During the quarter and year ended December 29, 2012, 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.

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 selected 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 323 active chapters, Canadian Tire Jumpstart has funded the programming costs for over 540,000 children since the launch of the program in 2005.

(C$ in millions)	**2012**	2011	2010	2009	2008	2007
Amount raised	**$ 14.8**	$ 13.2	$ 12.2	$ 11.5	$ 9.4	$ 6.8
Children helped	**125,000**	102,000	98,000	65,000	48,000	38,000

During Q4 2012, Jumpstart raised over $4.0 million across Canada, helping over 45,000 children participate in sports and recreation programs. For the year 2012, Canadian Tire Jumpstart raised $14.8 million, helping over 125,000 children.

Helping Canadians enjoy life in Canada has always been at the centre of the Company's activities. The Canadian Tire family of companies is proud to support local initiatives across all its banners through community and organizational support, such as amateur sport, injury prevention programs and disaster relief. In 2012, through Canadian Tire Jumpstart Charities, support was provided for three regional disasters and six community crisis situations.

13.3 Business sustainability

Strategy and aspirations

The Business Sustainability strategy supports the Company's corporate strategic objectives as outlined in section 5.1. It is an innovation strategy that aims to achieve productivity gains and economic benefits from enhanced environmental and social outcomes by integrating sustainability into business operations.

The Company's Business Sustainability strategy has three aspirations:

1. Energy and climate – Profitably grow the business without increasing the net carbon footprint of the economy.
2. Waste – Profitably grow the business while eliminating unnecessary packaging and send zero waste to landfills.
3. Products – Provide innovative products and services that meet customers' needs without compromising the ability of future generations to meet their needs.

Business sustainability reporting

As part of its Business Sustainability strategy, the Company annually reports on the following: (i) energy and carbon footprint and (ii) business sustainability initiatives completed. The energy and carbon footprint report provides a view of the environmental performance for the Company and its extended value-chain. The summary of completed business sustainability initiatives provides a forward-looking view of the anticipated benefits resulting from implementation of these initiatives. The footprint report aids the Company in identifying opportunities for improvement and the initiatives aim to reduce the Company's footprint. Together, this reporting is the quantitative basis for measuring performance of the Business Sustainability strategy in the context of the Company's strategic objective of building a high-performing organization.

Energy and carbon footprint

The active management of energy and carbon is a foundational element of the Company's Business Sustainability strategy. The scope of the footprint reporting is the Company's value-chain which looks at environmental impacts and potential opportunities from products and product transportation, as well as from our business and retail operations.

For the first time, we are including in our footprint calculation, emissions and energy use from:

1. Products – FGL Sports retail products and Petroleum fuels;
2. Product transportation – Petroleum fuels; and
3. Business and retail operations – FGL Sports stores, offices and distribution centres.

The data collection and subsequent review for determining the Company's environmental footprint is a rigorous process that is normally completed after the close of the calendar year. As such, the Company's most recent environmental footprint reporting is for 2011. In 2011, more than 97 per cent of the Company's emissions came from third-party activities, such as product manufacturing.

The Company is focused on productivity initiatives that support the businesses' growth while minimizing its environmental footprint through more efficient operations. Overall, 2011 normalized emissions, which are measured per unit of revenue, remain unchanged. Product transport normalized emissions, which are measured per unit of tonne-kilometre, dropped 11.1 per cent due to an increase in the use of ocean shipping.

The following table presents the Company's 2011 energy and carbon footprint[2], and the percentage change relative to the 2010 baseline:

By segment of the value-chain:		% of Value-chain	2011 GHG's[3] (tCO_2e)	2011 Energy use (GJ)	Baseline GHG's (tCO_2e)	% change in GHG's
Product & packaging[4]	Raw material acquisition and product manufacturing (CTR, PartSource, Petroleum, FGL Sports)	85.8%	4,082,800	56,524,800	3,885,900	5.1%
	Per $1,000 banner revenue		0.443		0.444	(0.2)%
Product transport[5]	Canadian Tire fleet (CTR, PartSource) and third-party product transport (CTR, Petroleum)	8.5%	406,300	5,581,900	360,900	12.6%
	Per 1,000 tonne-kilometres		0.035		0.039	(11.1)%
Business & retail operations[6]	Corporate and non-corporate stores, offices and DC operations (all banners)	5.6%	267,600	4,561,000	268,700	(0.4)%
	Per square metre		0.049		0.049	(0.8)%
Total	Corporation & supply chain	100%	4,756,700	66,667,700	4,515,500	5.3%
	Per $1,000 consolidated revenue[1]		0.425		0.424	0.1%

1 For environmental footprint reporting purposes, revenue includes FGL Sports full-year results for both 2010 and 2011 to allow for meaningful comparison with the greenhouse gas (GHG) values, which include FGL Sports full-year results for both years. Please see footnote 2 regarding the inclusion of FGL Sports full -year results in both years.

2 Rounded to the closest hundred and variances calculated based on actual numbers.
Produced in accordance with principles from the WBCSD/WRI GHG Protocol and the Company's Environmental Footprint Corporate Directive. The 2010 baseline was restated to account for the addition to the reporting of (1) FGL Sports products and business retail operations as per the GHG Protocol requirement to restate emissions as a result of structural changes such as acquisitions and (2) Petroleum products and product transportation for meaningful year-over-year comparison. Mark's products, customer use and product end-of-life emissions are not currently measured due to data unavailability.

3 Measured as tonnes of carbon dioxide equivalents (CO2e). Greenhouse gases such as methane and nitrous oxide are converted to their carbon dioxide equivalent based on their relative global warming potential.

4 Values embedded in retail products received by distribution centres, depots, stores, agents or customers' homes and calculated as per a cradle-to-gate analysis which includes raw material acquisition and processing, transport to manufacturing site and manufacture of retail products or refining of fuels.

5 Values from product transportation from manufacturing vendors to stores or from refining sites to gas bars.

6 Values from 1,859 corporate and third-party operated sites including offices, distribution centres, and corporate, Dealer, agent and franchise retail stores; and 53 vehicles.

Business Sustainability initiatives completed

Business Sustainability initiatives are innovation projects that enhance productivity and aim to reduce the Company's environmental footprint in the future, while achieving cost avoidance or revenue generation.

Major initiatives completed in 2012 include the following:

- CTR and Mark's DCs worked together to launch a new program to reuse cartons from the CTR DC to ship goods to Mark's stores. Other initiatives implemented by the Mark's team included a packaging reduction project to minimize carton use and a project that cuts paper use in the picking process. These projects will continue to increase productivity and are forecast to annually avoid over $0.6 million in costs and 84 tonnes of waste.
- The Canadian Tire transportation team completed its road-to-rail conversion work for deliveries in Eastern Canada. More efficient from both an operational and environmental perspective, the Company's Eastern Canada transportation structure has changed significantly to an 88/12 rail/road ratio from the previous 55/45 ratio for both inbound and outbound deliveries. These changes are forecast to allow the Company to annually avoid more than 11,000 tonnes of GHG emissions, equivalent to removing over 2,500 cars from the roads. Cost avoidance related to this project is not reported due to business confidentiality.

Overall economic and environmental benefits from sustainability projects are reported by key business areas related to our value-chain segments. Results for 2012 are summarized in the following table[1]:

	Completed initiatives[5]	Cost[6] avoidance[7]	Energy use avoidance[7] (gigajoules)	GHG emissions avoidance[7] (tCO_2e)	Waste avoidance[7] (tonnes)
Product & packaging[2]	563	$ 1,771,000	31,100	2,300	1,900
Product transport[3]	27	$ 112,000	168,200	11,600	0
Business & retail operations[4]	363	$ 1,741,000	33,500	2,300	100
Total	**953**	**$ 3,624,000**	**232,800**	**16,200**	**2,000**
Equivalencies		*Sales generated by 1.2 CTR stores[8]*	*Energy used by 2,196 Canadian homes annually[9]*		*Waste produced by 3,089 Canadian homes annually[10]*

[1] Dollars rounded to the closest thousand and gigajoules, tonnes of CO_2e and tonnes of waste rounded to the closest hundred.

[2] Values from initiatives related to products such as product and packaging right-sizing or damage reduction projects.

[3] Values from initiatives related to product transportation such as the acquisition of new fuel-efficient fleet trucks or the road-to-rail project.

[4] Values from initiatives related to our business and retail operations such as the construction of new energy-efficient CTR stores or lighting retrofits.

[5] Initiatives vary in complexity and size from changes made to an individual retail product, a retrofit made to a fleet vehicle or the building of a new store. Project completion for these initiatives is defined by: (i) the commercial operation date for buildings and product transport projects, and (ii) the approval date for operations and product projects. Projects are reported in the quarter they are completed unless data is not available, in which case the completed project is reported in a future quarter provided it is in the same year as the project's completion date or the first quarter of the following year.

[6] Cost avoidance may include operating expenses or cost of goods sold, depending on the type of project. Most projects' cost avoidance is related to energy or freight cost avoidance.

[7] Avoidance refers to savings in comparison to what the costs, energy, GHG emissions and waste would have been if the Company had not made the improvements. Values express a 12-month forecast occurring after project completion. Additional cumulative results beyond this 12-month forecast are not reported. Values reported include (i) costs avoided by the Company and (ii) energy, GHG emissions, and waste avoided by the Company and, in some cases, its value chain partners such as customers and vendors.

[8] Represents the estimated number of CTR stores that would be required to generate the same amount of variable earnings before tax as the cost avoidance reported.

[9] Represents the estimated number of average Canadian homes that could be powered for a year based on the forecast annual avoided energy use resulting from sustainability projects (source: Natural Resources Canada, 2009).

[10] Represents the estimated number of households (based on the average waste produced per Canadian household) as it relates to the forecast annual avoided waste resulting from sustainability projects (source: Statistics Canada, 2008).

In 2012, the Company's renewable energy initiative generated over $1.5 million in revenue, generated 2,300 gigajoules of energy (the equivalent amount of energy needed to power 22 Canadian homes for a year) and helped to avoid over 67 tonnes of greenhouse gas emissions in local communities.

Further to this initiative, the Company contributed over $22.0 million to community blue box, industry product stewardship and recycling programs.

For further details, please refer to the Company's 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 mitigates social compliance risk through a combination of ensuring suppliers have signed the Code as evidence of agreement; internal assessments of suppliers; and third-party audits of suppliers' facilities. The approach taken by the Company is targeted, focusing on the suppliers with potential for non-compliance, based on criteria such as country of origin, labour intensity and local laws. The risk mitigation strategy is tiered, with a strict zero tolerance policy of critical violations of the Code and a continuous improvement approach for suppliers with non-critical gaps. Implementations of corrective actions of non-critical gaps are verified through third-party audits. 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 2012, the Company facilitated training sessions with its suppliers in China, which were attended by over 200 suppliers. Over 680 CTR, Mark's and FGL Sports suppliers were audited by the Company through industry standard third-party audits, with identified gaps addressed through continuous improvement processes. The Company performs a complete audit of its suppliers with potential for non-compliance at a minimum of once every three years.

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. Similarly to the Company, Mark's conducts social compliance audits using a third-party provider and 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 its 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 statements

This document contains forward-looking statements that reflect 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:

- objectives in 2013 in section 5.1.2;
- the Company's financial aspirations listed in section 5.2;
- the 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 statements, 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 statements 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 statements are 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 their very nature, forward-looking statements require us to make assumptions and are 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 statements in this document are based on information and assumptions that are current, reasonable and complete, these statements are 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 statements 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 statements and are cautioned not to place undue reliance on such forward-looking statements.

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 thereunder of this MD&A. Please also refer to the "Risk Factors" section of our Annual Information Form for fiscal 2012, as well as Canadian Tire's other public filings, available on the SEDAR (System for Electronic Disclosure and Retrieval) website at www.sedar.com and at www.corp.canadiantire.ca.

Forward-looking statements do not take into account the effect that transactions, or non-recurring or other special items announced or occurring after the statements are made, have on the Company's business. For example, they do not include the effect of any dispositions, acquisitions, asset writedowns 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 statements, 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:

- the Annual Information Form;
- the 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 at www.sedar.com.

If you would like to contact the Investor Relations department directly, call Lisa Greatrix at (416) 480-8725 or email investor.relations@cantire.com.

February 21, 2013

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Index to the Consolidated Financial Statements and Notes

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS 68

INDEPENDENT AUDITOR'S REPORT 69

CONSOLIDATED FINANCIAL STATEMENTS:

Consolidated Balance Sheets 70
Consolidated Statements of Income 71
Consolidated Statements of Comprehensive Income 72
Consolidated Statements of Cash Flows 73
Consolidated Statements of Changes in Shareholders' Equity 74

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS:

Note 1. The company and its operations 75
Note 2. Basis of preparation 75
Note 3. Significant accounting policies 77
Note 4. Basis for fair values 86
Note 5. Capital management 87
Note 6. Financial risk management 89
Note 7. Operating segments 92
Note 8. Business combinations 94
Note 9. Cash and cash equivalents 95
Note 10. Short-term investments 95
Note 11. Trade and other receivables 96
Note 12. Loans receivable 96
Note 13. Assets classified as held for sale 97
Note 14. Long-term receivables and other assets 98
Note 15. Goodwill and intangible assets 98
Note 16. Investment property 100
Note 17. Property and equipment 101
Note 18. Deferred income tax assets and liabilities 102
Note 19. Deposits 103
Note 20. Trade and other payable 103
Note 21. Provisions 104
Note 22. Contingencies 104
Note 23. Short-term borrowings 105
Note 24. Loans payable 105
Note 25. Long-term debt 105
Note 26. Other long-term liabilities 106
Note 27. Post-employment benefits 107
Note 28. Share capital 108
Note 29. Basic and diluted earnings per share 109
Note 30. Share-based payments 109
Note 31. Revenue 111
Note 32. Cost of producing revenue 111
Note 33. Operating expenses by nature 112
Note 34. Finance income and finance costs 112
Note 35. Income taxes 112
Note 36. Notes to the consolidated statements of cash flows 113
Note 37. Financial instruments 114
Note 38. Operating leases 116
Note 39. Guarantees and commitments 116
Note 40. Related parties 118
Note 41. Comparative figures 119

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 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 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
February 21, 2013

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 29, 2012 and December 31, 2011, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years ended December 29, 2012 and December 31, 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 29, 2012 and December 31, 2011, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

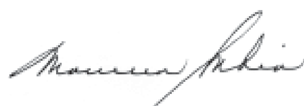
Chartered Accountants
Licensed Public Accountants

February 21, 2013
Toronto, Ontario

Consolidated Balance Sheets

As at (C$ in millions)	December 29, 2012	December 31, 2011
ASSETS		
Cash and cash equivalents (Note 9)	**$ 1,015.5**	$ 325.8
Short-term investments (Note 10)	**168.9**	196.4
Trade and other receivables (Note 11)	**750.6**	829.3
Loans receivable (Note 12)	**4,265.7**	4,081.7
Merchandise inventories	**1,503.3**	1,448.6
Prepaid expenses and deposits	**39.1**	44.3
Assets classified as held for sale (Note 13)	**5.5**	30.5
Total current assets	**7,748.6**	6,956.6
Long-term receivables and other assets (Note 14)	**681.2**	668.9
Long-term investments	**182.7**	128.2
Goodwill and intangible assets (Note 15)	**1,089.9**	1,110.0
Investment property (Note 16)	**95.1**	72.4
Property and equipment (Note 17)	**3,343.5**	3,365.9
Deferred income taxes (Note 18)	**40.4**	36.8
Total assets	**$ 13,181.4**	$ 12,338.8
LIABILITIES		
Bank indebtedness (Note 9)	**$ 86.0**	$ 124.8
Deposits (Note 19)	**1,311.0**	1,182.3
Trade and other payables (Note 20)	**1,631.3**	1,640.9
Provisions (Note 21)	**185.8**	191.9
Short-term borrowings (Note 23)	**118.9**	352.6
Loans payable (Note 24)	**623.7**	628.7
Income taxes payable	**5.5**	3.9
Current portion of long-term debt (Note 25)	**661.9**	27.9
Total current liabilities	**4,624.1**	4,153.0
Long-term provisions (Note 21)	**54.8**	55.1
Long-term debt (Note 25)	**2,336.0**	2,347.7
Long-term deposits (Note 19)	**1,111.8**	1,102.2
Deferred income taxes (Note 18)	**77.7**	66.1
Other long-term liabilities (Note 26)	**213.4**	205.7
Total liabilities	**8,417.8**	7,929.8
SHAREHOLDERS' EQUITY		
Share capital (Note 28)	**688.0**	710.5
Contributed surplus	**2.9**	1.1
Accumulated other comprehensive income (loss)	**(1.7)**	11.0
Retained earnings	**4,074.4**	3,686.4
Total shareholders' equity	**4,763.6**	4,409.0
Total liabilities and shareholders' equity	**$ 13,181.4**	$ 12,338.8

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 29, 2012	December 31, 2011
		(Note 41)
Revenue (Note 31)	$ 11,427.2	$ 10,387.1
Cost of producing revenue (Note 32)	(7,929.3)	(7,326.4)
Gross margin	3,497.9	3,060.7
Other income	5.7	18.4
Operating expenses		
Distribution costs	(356.2)	(368.7)
Sales and marketing expenses	(1,636.4)	(1,307.9)
Administrative expenses	(707.6)	(640.4)
Total operating expenses (Note 33)	(2,700.2)	(2,317.0)
Operating income	803.4	762.1
Finance income	18.1	23.0
Finance costs	(144.3)	(155.2)
Net finance costs (Note 34)	(126.2)	(132.2)
Income before income taxes	677.2	629.9
Income taxes (Note 35)	(178.0)	(162.9)
Net income	$ 499.2	$ 467.0
Basic earnings per share	$ 6.13	$ 5.73
Diluted earnings per share	$ 6.10	$ 5.71
Weighted average number of Common and Class A Non-Voting Shares outstanding (Note 29):		
Basic	81,435,218	81,447,398
Diluted	81,805,594	81,803,786

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 29, 2012	December 31, 2011
Net income	**$ 499.2**	$ 467.0
Other comprehensive income (loss)		
Derivatives designated as cash flow hedges:		
(Losses) gains, net of tax of $7.8 (2011 – $0.4)	**(21.0)**	0.8
Reclassification of losses to non-financial asset, net of tax of $3.5 (2011 – $15.6)	**9.7**	40.0
Reclassification of (gains) losses to income, net of tax of $nil (2011 – $0.4)	**(0.1)**	1.0
Available-for-sale financial assets:		
Gains, net of tax of $0.2 (2011 – $3.5)	**0.3**	8.9
Reclassification of gains to income, net of tax of $0.6 (2011 – $2.9)	**(1.6)**	(7.4)
Actuarial adjustments, net of tax of $3.9 (2011 – $4.9) (Note 27)	**(9.5)**	(14.2)
Total other comprehensive income (loss)	**(22.2)**	29.1
Total comprehensive income	**$ 477.0**	$ 496.1

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 29, 2012	December 31, 2011
		(Note 41)
Cash generated from (used for):		
Operating activities		
Net income	$ 499.2	$ 467.0
Adjustments for:		
Gross impairment loss on loans receivable (Note 12)	323.7	352.0
Depreciation on property and equipment and investment property (Note 33)	248.9	229.8
Income tax expense	178.0	162.9
Net finance costs	126.2	132.2
Amortization of intangible assets (Note 33)	86.2	66.3
Changes in fair value of derivative instruments	(7.7)	(3.1)
Deferred income taxes	16.5	(6.4)
Other	13.7	9.8
Gain on revaluation of shares (Note 8)	–	(10.4)
	1,484.7	1,400.1
Changes in working capital and other (Note 36)	(434.0)	219.6
Cash generated from operating activities before interest and income taxes	1,050.7	1,619.7
Interest paid	(155.3)	(176.6)
Interest received	8.9	26.1
Income taxes paid	(161.3)	(63.7)
Cash generated from operating activities	743.0	1,405.5
Investing activities		
Acquisition of FGL Sports (Note 8)	–	(739.9)
Acquisition of short-term investments	(264.0)	(334.8)
Acquisition of long-term investments	(130.0)	(123.1)
Additions to property and equipment and investment property	(222.3)	(230.5)
Additions to intangible assets	(64.3)	(128.9)
Long-term receivables and other assets	17.6	(3.2)
Proceeds from the disposition of long-term investments	4.7	18.1
Proceeds from the maturity and disposition of short-term investments	360.7	364.0
Proceeds on disposition of property and equipment, investment property and assets held for sale	45.0	21.0
Other	(8.9)	(4.1)
Cash used for investing activities	(261.5)	(1,161.4)
Financing activities		
Net (repayment) issuance of short-term borrowings	(233.7)	10.1
Issuance of loans payable	235.3	129.3
Repayment of loans payable	(240.3)	(187.6)
Issuance of share capital (Note 28)	12.4	11.6
Repurchase of share capital (Note 28)	(33.1)	(11.9)
Issuance of long-term debt	637.4	–
Repayment of long-term debt and finance lease liabilities	(30.1)	(355.6)
Dividends paid	(97.7)	(89.6)
Payment of transaction costs related to long-term debt	(3.2)	–
Cash generated from (used for) financing activities	247.0	(493.7)
Cash generated (used) in the year	728.5	(249.6)
Cash and cash equivalents, net of bank indebtedness, beginning of year	201.0	450.9
Effect of exchange rate fluctuations on cash held	–	(0.3)
Cash and cash equivalents, net of bank indebtedness, end of year (Note 9)	$ 929.5	$ 201.0

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	Cash flow hedges	Fair value changes in available-for-sale financial assets	Total accumulated other comprehensive income (loss)	Retained earnings	Total shareholders' equity
Balance at December 31, 2011	$ 710.5	$ 1.1	$ 9.4	$ 1.6	$ 11.0	$ 3,686.4	$ 4,409.0
Total comprehensive income							
Net income						499.2	499.2
Other comprehensive income (loss)							
Derivatives designated as cash flow hedges:							
Losses, net of tax of $7.8			(21.0)		(21.0)		(21.0)
Reclassification of losses to non-financial asset, net of tax of $3.5			9.7		9.7		9.7
Reclassification of gains to income, net of tax of $nil			(0.1)		(0.1)		(0.1)
Available-for-sale financial assets:							
Gains, net of tax of $0.2				0.3	0.3		0.3
Reclassification of gains to income, net of tax of $0.6				(1.6)	(1.6)		(1.6)
Actuarial adjustments, net of tax of $3.9						(9.5)	(9.5)
Total other comprehensive (loss)	–	–	(11.4)	(1.3)	(12.7)	(9.5)	(22.2)
Total comprehensive income (loss)	–	–	(11.4)	(1.3)	(12.7)	489.7	477.0
Contributions by and distributions to shareholders							
Issue of Class A Non-Voting Shares (Note 28)	12.4				–		12.4
Repurchase of Class A Non-Voting Shares (Note 28)	(33.1)				–		(33.1)
Excess of issue price over repurchase price (Note 28)	(1.8)	1.8			–		–
Dividends					–	(101.7)	(101.7)
Total contributions by and distributions to shareholders	(22.5)	1.8	–	–	–	(101.7)	(122.4)
Balance at December 29, 2012	$ 688.0	$ 2.9	$ (2.0)	$ 0.3	$ (1.7)	$ 4,074.4	$ 4,763.6
Balance at January 1, 2011	$ 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 28)	11.6				–		11.6
Repurchase of Class A Non-Voting Shares (Note 28)	(11.9)				–		(11.9)
Excess of issue price over repurchase price (Note 28)	(0.8)	0.8			–		–
Dividends					–	(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

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, apparel, sporting goods, petroleum and financial services. Details of its two reportable operating segments, Retail and Financial Services, are provided in Note 7. The Company acquired FGL Sports Ltd. (formerly The Forzani Group Ltd.) ("FGL Sports") on August 18, 2011. The operations of FGL Sports are included in the Company's results from operations and financial position commencing August 19, 2011.

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 2012 and 2011 are the 52-week period ended December 29, 2012, and the 52-week period ended December 31, 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 consolidated financial statements were authorized for issuance by the Company's Board of Directors on February 21, 2013.

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 share-based payment plans; and
- initial recognition of 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, and the number of shares or the weighted average number of shares, which are presented in whole numbers.

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 periods. 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.

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

Estimates are used when determining 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, customer loyalty programs, deferred revenue, income and other taxes, provisions and purchase price adjustments on business combinations; when making assumptions underlying actuarial determination of post-employment benefits; when measuring certain fair values, including those related to the valuation of business combinations, share-based payments and financial instruments; when testing goodwill, intangible assets with indefinite useful lives and other assets for impairment; and when updating models used in the determination of allowances on loans receivable. The allowances on loans receivable are based on historical customer payment experience as described in Note 3; future customer behaviour may be affected by a number of factors, including changes in interest and unemployment rates and program design changes.

New standards implemented

Deferred taxes – recovery of underlying assets

In December 2010, the IASB amended IAS 12 – *Income Taxes* ("IAS 12"), introducing an exception to the general measurement requirements of IAS 12. Investment property measured at fair value is exempt from the general measurement requirements of IAS 12. The amendment was effective for annual periods beginning on or after January 1, 2012. This amendment did not have an impact on the Company as its investment property is not measured at fair value.

Financial instruments: Disclosures

In October 2010, the IASB amended IFRS 7 – *Financial Instruments: Disclosures* ("IFRS 7"), which requires additional disclosures on transferred financial assets. The amendment was applicable prospectively for annual periods beginning on or after July 1, 2011. The additional disclosures on transferred financial assets are provided in Note 12.

Standards, amendments and interpretations issued and not yet adopted

The following new standards, amendments and interpretations have been issued but are not effective for the fiscal year ended December 29, 2012, and, accordingly, have not been applied in preparing these consolidated financial statements.

Financial instruments

In November 2009, the IASB issued IFRS 9 – *Financial Instruments: Classification and Measurement* ("IFRS 9"), 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. Early adoption is permitted. The Company is assessing the potential impact of this standard.

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 Standing Interpretation Committee – *Consolidation – Special Purpose Entities* ("SIC-12"). IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an investor controls one or more investees. The standard requires an investor 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* and SIC-13 – *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. 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 venturer 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 provides accounting guidance for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates 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 was permitted only if all of these standards are concurrently adopted. The Company does not expect IFRS 10, IFRS 11, IAS 27 and IAS 28 to have any significant impact on its financial statements. The implementation of IFRS 12 will result in additional financial statement note disclosures.

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 does not expect IFRS 13 to have any significant impact on its financial statements.

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 does not expect the IAS 1 amendments to have any significant impact on its financial statements.

Post-employment benefits

In June 2011, the IASB issued amendments to IAS 19 – *Employment Benefits* ("IAS 19") that apply 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 OCI section of the statements of comprehensive income, and require additional disclosures. The amendments are effective for annual periods beginning on or after January 1, 2013. These amendments are 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 IFRS 7 amendments will result in additional financial statement note disclosures. The Company is assessing the potential impact of the IAS 32 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 significant entities controlled by Canadian Tire Corporation, Limited are identified in Note 40.

The results of certain subsidiaries that have different year-ends have been included in these consolidated financial statements for the 52 weeks ended December 29, 2012, and for the 52 weeks ended December 31, 2011. The year-end of Canadian Tire Financial Services Limited ("Financial Services") is December 31.

Special purpose entities (SPEs)

A number of SPEs are consolidated without the Company having 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 either the Company 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 or the Company obtains the majority of the residual or ownership risk related to the SPEs, these SPEs are deemed to be controlled by the Company.

Business combinations

The Company applies 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 at 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, the fair value of any contingent consideration and equity interests issued by the Company.

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 are expensed in the period as incurred.

Foreign currency translation

Transactions in foreign currencies are translated into Canadian dollars at rates in effect at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated into Canadian dollars at the closing exchange rate at the balance sheet date. Non-monetary items that are measured in terms of historical cost are translated into Canadian dollars at the exchange rate at the date of the original transaction. Non-monetary assets and liabilities that are measured at fair value are translated into Canadian dollars at the exchange rate at the date that the fair value is 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. 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.

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.

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	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	Amortized cost
Long-term investments	Available for sale[2]	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.
[2] Certain long-term investments are classified as FVTPL.

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.

Available for sale

Financial assets classified as available for sale are measured at fair value with changes in fair value recognized in OCI until realized through disposal or other than temporary 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, are 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, including derivatives that are embedded in financial or non-financial contracts that are not closely related to the host contracts, are measured at fair value. The gain or loss that results from remeasurement at each reporting period 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 net 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, certain criteria are documented at the inception of the derivative contract and updated at each reporting date.

Fair-value hedges

For fair-value hedges, the carrying amount 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 net income. When hedge accounting is discontinued, the carrying amount of the hedged item is no longer adjusted and the cumulative fair-value adjustments to the carrying amount of the hedged item are amortized to net income over the remaining term of the hedged item using the effective interest method.

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 reclassified to net income in the periods when the hedged item affects net income. However, when a 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 reclassified 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 reclassifies 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.

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.

Short-term investments

Short-term investments are investments in highly liquid and rated certificates of deposit, 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

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.

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, the loans are sold or written off or substantially all of the risks and rewards of ownership are transferred.

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 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 might be 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, with certain adjustments for other relevant circumstances influencing the recoverability of the loans receivable. 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.

Dealer loans

Loans to Associate Dealers (“Dealers”), independent third-party operators of Canadian Tire Retail stores, are initially measured at fair value plus directly attributable transaction costs and are subsequently measured at their amortized cost using the effective interest method, less an allowance for impairment, if any.

Merchandise inventories

Merchandise inventories are carried at the lower of cost or net realizable value.

Cash consideration received from vendors is recognized as a reduction to the cost of related inventory unless the cash consideration received is either a reimbursement of incremental costs incurred by the Company or a payment for assets or services delivered to the vendor.

The cost of merchandise inventories are 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.

Long-term investments

Investments in highly liquid and rated certificates of deposit, 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.

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 measured at cost less impairment and is not amortized.

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 methods are reviewed annually with the effect of any changes in estimate being accounted for on a prospective basis.

Intangible assets with indefinite useful lives are measured at cost less impairment and are not amortized. Expenditures on research activities are expensed as incurred.

Investment property

Investment property is property held to earn rental income or for appreciation of capital or both. 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 the Company provides significant ancillary services to the lessees 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 in the same manner as property and equipment.

Property and equipment

Property and equipment are measured at cost less accumulated depreciation and any accumulated impairment. Land is measured at cost less any accumulated impairment. Properties in the course of construction are measured at cost less any accumulated impairment losses. The cost of an item of property or equipment comprises costs that can be directly attributed to its acquisition and initial estimates of the cost of dismantling and removing the item and restoring the site on which it is located.

Buildings, fixtures and equipment are depreciated on a declining balance method to their residual value over their estimated useful lives. The estimated useful lives, amortization method and residual values 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 the same basis as owned assets or, where shorter, over the terms of the respective leases.

Depreciation and amortization rates are as follows:

Asset category	Depreciation rate/term
Buildings	4–20%
Fixtures and equipment (Including software intangible assets)	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

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

When the Company is the lessor in an operating lease, rental income and licence fees are recognized in net income on a straight-line basis over the term of the lease.

Lessee

When the Company is the lessee in an operating lease, rent payments are charged to net income on a straight-line basis over the term of the 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.

Sale and leaseback

The accounting treatment of a sale and leaseback transaction depends upon the substance of the transaction and whether the sale is 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 in net income.

Impairment of assets

The carrying amounts of property and equipment, investment property and intangible assets with finite useful lives 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 not amortized but are tested for impairment at least annually or whenever there is an indicator that the asset may be impaired.

Cash generating units

When 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 inflows from other assets or groups of assets. The Company has determined that its Retail CGUs comprise individual stores or groups of stores within a geographic market.

Goodwill is allocated to each of the CGUs (or groups of CGUs) expected to benefit from the synergies of the combination. Goodwill acquired in a business combination is allocated to groups of CGUs 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. 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.

Determining the recoverable amount

An impairment loss is recognized when the carrying amount of an asset, or of the CGU to which it belongs, exceeds the recoverable amount. The recoverable amount of an asset or CGU is defined as the higher of its fair value less costs to sell (FVLCS) and its value in use (VIU).

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 the most recent actual results or budgets. Cash flows are then extrapolated over a period of up to five years, taking into account a terminal value calculated by discounting the final year in perpetuity. The growth rate applied to the terminal values is based on the Bank of Canada's target growth rate or a growth rate specific to the individual item being tested based on management's estimate.

Recording impairments and reversal of impairments

Impairments and reversals of impairments are recognized in other income in the consolidated statements of income. Impairments of goodwill cannot be reversed. Impairments of other assets recognized in prior periods are assessed at the end of each reporting period to determine if the indicators of impairment have reversed or no longer exist. An impairment is reversed if the estimated recoverable amount exceeds the carrying 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

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. 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 qualify for recognition as a completed sale within one year from the date of classification. Assets (and disposal groups) classified as held for sale are measured at the lower of the carrying amount or FVLCS.

Borrowing costs

Borrowing costs directly attributable to the acquisition or construction of a qualifying asset are capitalized. Qualifying assets are those that require a minimum of three months to prepare for their intended use. All other borrowing costs are recognized in cost of producing revenue and in finance costs in the consolidated statements of income in the period in which they occur.

Employee benefits

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 purchases 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.

Post-employment 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 costs are discounted at a rate that is based on market rates as at the measurement date. Actuarial gains and losses are immediately recorded in OCI.

The Company also provides post-employment benefits with respect to a Deferred Profit Sharing Plan (DPSP).

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 a provision for 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 with tandem stock appreciation rights (stock options) 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 as at the exercise date and the exercise price of the stock option. These 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.

Insurance reserve

Included in trade and other payables is an insurance reserve that 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 of 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.

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 flows. 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.

Sales and warranty returns

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

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 with 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.

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 costs 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 or the expected net cost of continuing with the contract.

Customer loyalty

Provisions for the fair value of loyalty program redemptions are estimated on the basis of historical redemptions. The provisions are reviewed regularly and updated to reflect management's best estimate; however, actual redemptions could vary from these estimates.

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.

Long-term debt

Long-term debt is classified as current when the Company expects to settle the liability in its normal operating cycle, it holds the liability primarily for the purpose of trading or the liability is due to be settled within 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, when 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 and to Mark's Work Wearhouse Ltd. ("Mark's"), PartSource and FGL Sports franchisees; the sale of gasoline through agents; and the sale of goods by Mark's, PartSource and FGL Sports corporate-owned stores. This revenue is recognized when the goods are delivered, less an estimate for the sales and warranty returns. Revenue from the sale of goods is measured at the fair value of the consideration received less an appropriate deduction for actual and expected returns, discounts, rebates and warranty and loyalty program costs, net of sales taxes.

Sales and warranty returns

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.

Customer loyalty programs

Loyalty award credits issued as part of a sales transaction relating to the Company's Gas Advantage, Cash Advantage and Sport Chek MasterCard Rewards credit card programs result 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.

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.

Services rendered

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

Merchant, interchange and processing fees, cash advance fees and foreign exchange 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. Revenue from Home Services is recognized when the work order is complete.

Reinsurance premiums are recorded on an accrual basis and are included in net income on a pro rata basis over the life of the insurance contract, with the unearned portion deferred in the consolidated balance sheets. Premiums that 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 licence fees

Royalties and licence fees include licence fees from petroleum agents and Dealers and royalties from Mark's and FGL Sports franchisees. Royalties and licence 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 operating leases where the Company is the lessor is recognized on a straight-line basis over the terms of the respective leases.

Vendor rebates

The Company records cash consideration received from vendors as a reduction in the price of vendors' products and recognizes it as a reduction to the cost of related inventory or, if the related inventory has been sold, to the cost of producing revenue. Certain exceptions apply where the cash consideration received is either a reimbursement of incremental costs incurred by the Company 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 is reasonably estimable.

Finance income and costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets). Interest income is recognized as it accrues using the effective interest method.

Finance costs comprises interest expense on borrowings (including borrowings related to the Dealer Loan Program), unwinding of the discount on provisions and impairment recognized on financial assets. Interest on deposits is recorded in cost of producing revenue in the consolidated statements of income.

Income taxes

The income tax expense for the year comprises current and deferred tax. Income tax expense is recognized in net income except to the extent that it relates to items recognized either in OCI or directly in equity. In this case, the income tax expense 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 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 income 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.

Operating segments

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, and for which discrete financial information is available. Segment operating results are reviewed regularly by the Company's CEO to make decisions about resources to be allocated to the segment and to assess the segment's performance.

4. Basis for fair values

Fair values have been determined for measurement and/or disclosure purposes based on the following methods.

Business combinations

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 each act knowledgeably and willingly. For the cost approach, the current replacement cost or reproduction cost for each major asset is calculated.

Intangible assets

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

The fair values of other intangible assets acquired in a business combination, such as customer relationships and franchise agreements, are 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. The present value of the cash flows represents the value of the intangible asset. 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.

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.

Investment property

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

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 are observable for the asset or liability, either directly or indirectly.

Level 3 – Inputs are not based on observable market data.

Fair values of financial instruments reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Company and counterparties when appropriate.

Investments in equity and debt securities

The fair values 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 values of loans and receivables and held-to-maturity investments are determined for disclosure purposes only.

Derivatives

The fair value of a forward exchange contract 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 derived from the terms and maturity of each contract using market interest rates for a similar instrument at the measurement date.

The fair value of equity derivatives is determined by reference to share price movement adjusted for interest using market interest rates specific to the terms of the underlying derivative contracts.

Share-based payment transactions

The fair value of employee stock options and share units is measured using the Black-Scholes formula. Measurement inputs include the share price on the measurement date, exercise price of the instrument, expected volatility (based on weighted average historical 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 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 Glacier Credit Card Trust (GCCT) indebtedness but excludes Franchise Trust indebtedness:

(C$ in millions)	2012	% of total	2011	% of total
Capital components				
Deposits	$ 1,311.0	12.7%	$ 1,182.3	12.6%
Short-term borrowings	118.9	1.2%	352.6	3.8%
Current portion of long-term debt	661.9	6.4%	27.9	0.3%
Long-term debt	2,336.0	22.7%	2,347.7	24.9%
Long-term deposits	1,111.8	10.8%	1,102.2	11.7%
Total debt	$ 5,539.6	53.8%	$ 5,012.7	53.3%
Share capital	688.0	6.7%	710.5	7.5%
Contributed surplus	2.9	0.0%	1.1	0.0%
Retained earnings	4,074.4	39.5%	3,686.4	39.2%
Total capital under management	$ 10,304.9	100.0%	$ 9,410.7	100.0%

The Company monitors its capital structure through measuring various debt-to-capitalization and debt-to-earnings 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 Financial Services operating segment business on the consolidated metrics.

The Company manages its capital structure with a view to maintaining an investment-grade rating from two credit rating agencies. Management calculates its ratios to approximate the methodology of debt rating agencies and other market participants on a current and prospective basis. To assess its effectiveness in managing capital, management monitors these ratios against targeted ranges.

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 a normal course issuer bid program (NCIB), issue new shares, repay debt, 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 increase or decrease the amount of sales of co-ownership interests in loans receivable to GCCT.

The Company has in place various policies that 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 consistency with the risk tolerances.

Under the existing debt agreements, key financial covenants are reviewed on an ongoing basis by management to monitor compliance with the agreements.

The key covenants are as follows:

- a requirement to maintain, at all times, a specified minimum ratio of consolidated net tangible assets to the outstanding principal amount of all consolidated funded obligations (as defined in the respective debt agreements, which exclude the assets and liabilities of GCCT and Franchise Trust); 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, among other things, its accumulated net income over a defined period.

The Company was in compliance with these key covenants as at December 29, 2012. Under these covenants, the Company currently has sufficient flexibility to fund business growth and maintain or amend dividend rates within its existing dividend policy.

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 have an impact on its business operations.

The Bank manages its capital under guidelines established by the Office of the Superintendent of Financial Institutions of Canada (OSFI). The regulatory capital guidelines measure capital in relation to credit, market and operational risks. The Bank has various capital policies and procedures and controls that it utilizes to achieve its goals and objectives. The Bank's objectives include:

- providing sufficient capital to maintain the confidence of investors and 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, 2012 (the Bank's fiscal year-end), 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, and a market risk component for assets held in the trading book for on and off-balance-sheet financial instruments held in foreign currency. For the purposes of calculating RWA, securitization transactions are considered off-balance-sheet transactions and therefore securitization assets are not included in the RWA calculation. Assets are included in the trading book when they are held either with trading intent or to hedge other elements in the trading book.

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, 2012 and 2011, 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).

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 and 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 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.

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 its contractual obligations and arises principally from the Company's credit card customers, Dealer network, investment securities and financial derivative instrument counterparties.

The Company's maximum exposure to credit risk, over and above amounts recognized in the consolidated balance sheets, include the following:

(C$ in millions)	2012	2011[1]
Undrawn loan commitments	$ 10,135.1	$ 10,682.1
Guarantees	632.1	562.8
Total	$ 10,767.2	$ 11,244.9

[1] *The prior period's figure has been restated to correspond to the current-year presentation. Undrawn loan commitments were previously defined to include credit card accounts with zero credit limit and accounts with status prohibiting purchases. The definition was changed in the current year to exclude these accounts. As result of the change in definition, prior-year undrawn loan commitments have been reduced by $6,874.4 million. Guarantees were previously defined to include the amounts outstanding as at the balance sheet date for which the Company is the indemnifier. The definition was changed in the current year to include the maximum amount that could be drawn and indemnified by the Company. As a result of the change in definition, prior-year guarantees have been increased by $274.9 million.*

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 mortgages receivable

The carrying amount of loans and mortgages receivable includes secured mortgage loans of $67.1 million (2011 – $68.9 million) as well as loans to Dealers totalling $629.7 million (2011 – $634.9 million) that are secured by the assets of the respective Dealer corporations. Consequently, the Company's exposure to loans receivable credit risk resides at Franchise Trust and at the Bank.

Credit risk at the Bank is influenced mainly by the individual characteristics of each credit card 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 modelling 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.

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.

The Company's allowances for credit losses are maintained at levels that are considered adequate to absorb future credit losses.

A continuity of the Company's allowances for trade and other receivables is as follows:

	Trade and other receivables	
(C$ in millions)	**2012**	2011
Balance, beginning of year	**$ 12.2**	$ 7.7
Net additions (reversals)	**1.4**	4.5
Balance, end of year	**$ 13.6**	$ 12.2

A continuity of the Company's allowances for loans receivable is as follows:

	Loans receivable[1,2]	
(C$ in millions)	**2012**	2011
Balance, beginning of year	**$ 118.7**	$ 117.7
Impairments for credit losses	**265.6**	302.0
Recoveries	**58.1**	50.0
Writeoffs	**(331.7)**	(351.0)
Balance, end of year	**$ 110.7**	$ 118.7

[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 and FGL Sports 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:

			2012			2011
(C$ in millions)	**1–90 days**	**> 90 days**	**Total**	1–90 days	> 90 days	Total
Trade and other receivables	**$ 13.5**	**$ 14.5**	**$ 28.0**	$ 27.0	$ 14.1	$ 41.1
Loans receivable[1]	**76.6**	**52.7**	**129.3**	94.0	69.2	163.2
Total	**$ 90.1**	**$ 67.2**	**$ 157.3**	$ 121.0	$ 83.3	$ 204.3

[1] No past due loans for Franchise Trust and FGL Sports.

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, credit rating requirements, 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 in the "A" category 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 Dealers' 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 39.

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.

In addition to the leverage and liquidity policy, the Company has in place an Asset Liability Management Board policy specific to the Bank. 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 that includes risk measurement methodologies, scenario analysis and stress testing and also provides roles, responsibilities and key actions in managing a liquidity crisis. Stress tests are conducted on a regular basis for a variety of bank-specific and market-wide stress scenarios (individually and in combination) to identify sources of potential strain and to ensure that current exposures remain in accordance with the Bank's established liquidity risk tolerance. Stress test scenarios include disruption to the securitization funding market, immediate terminations within broker deposits, unexpected and persistent withdrawals of retail deposits, funding pressure for the Company, which affects the amount of intercompany borrowing available to the Bank, and balance sheet growth greater than forecast. The Asset Liability Management Board Policy dictates the following liquidity limits for the Bank:

- a minimum liquid assets/demand deposits ratio of 30 per cent; and
- a minimum liquid assets/total deposits ratio of 15 per cent.

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 29, 2012, the Company had $1.5 billion in committed bank lines of credit, $1.2 billion of which is available under a four-year syndicated credit agreement dated June 29, 2012. The syndicated credit facility is available to the Company until June 29, 2016, and can be extended for an additional 364-day period in June 2013. The remaining lines of credit have been established pursuant to bilateral credit agreements that are available to the Company until late 2013. The Company has the ability to request an extension of each of the bilateral 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 totalling $1.5 billion, a commercial paper program and medium-term notes program for the issuance of $750 million available to April 2013, and sale and leaseback transactions. Assets of the Bank are funded through securitization of credit card receivables through GCCT, broker guaranteed investment certificate (GIC) deposits, retail GIC deposits and high-interest savings (HIS) account deposits.

Due to the diversification of its 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 both principal and interest payments:

(C$ in millions)	2013	2014	2015	2016	2017	Thereafter	Total
Non-derivative financial liabilities							
Bank indebtedness	$ 86.0	$ –	$ –	$ –	$ –	$ –	$ 86.0
Deposits[1]	1,318.5	420.2	235.3	143.0	313.3	–	2,430.3
Trade and other payables	1,498.7	–	–	–	–	–	1,498.7
Short-term borrowings	118.9	–	–	–	–	–	118.9
Loans payable	623.7	–	–	–	–	–	623.7
Long-term debt[2]	637.6	252.5	564.6	200.0	634.9	550.0	2,839.6
Finance lease obligations	24.9	17.2	15.5	11.9	8.8	88.3	166.6
Interest payment[3]	187.7	135.6	98.0	75.3	53.7	536.2	1,086.5
Total non-derivative financial liabilities	$ 4,496.0	$ 825.5	$ 913.4	$ 430.2	$ 1,010.7	$ 1,174.5	$ 8,850.3
Total derivative financial liabilities	13.1	0.2	–	–	–	–	13.3
Total	$ 4,509.1	$ 825.7	$ 913.4	$ 430.2	$ 1,010.7	$ 1,174.5	$ 8,863.6

[1] Deposits exclude the GIC broker fee discount of $7.5 million.

[2] The contract maturity of long-term debt excludes debt issue costs of $7.7 million and the benefit on the effective portion of the cash flow hedges of $0.6 million.

[3] Includes interest payments on deposits, short-term borrowings, loans payable, long-term debt and finance lease obligations.

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier or at significantly different amounts except for deposits. The cash flows from deposits are not expected to vary significantly provided the expected cash flows 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 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 provide mechanisms to ensure business transactions are executed in accordance with established limits, processes and procedures.

All such transactions are carried out within the guidelines established in the respective financial risk management policies 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 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, 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 affected by competitive forces and future prevailing market conditions.

6.5.2 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) 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 29, 2012, other than interest rate swap contracts with a notional amount of $28.9 million (2011 – $45.7 million) in connection with the Dealer loans held by Franchise Trust (Note 24).

A one per cent change in interest rates would not materially affect the Company's net income or equity 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 rates charged on credit cards and future liquidity pool investment rates available to the Bank.

7. Operating segments

The Company has two reportable operating segments, Retail and Financial Services. The 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 comprises the Living, Playing & Fixing, 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, the Gas Advantage MasterCard and the Sport Chek MasterCard. Financial Services also markets insurance and warranty products. The Bank, a wholly owned subsidiary of Canadian Tire Financial Services Limited, is a federally regulated bank that manages and finances the Company'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 account deposits, TFSA deposits and GIC deposits, both directly and through third-party brokers. Financial Services includes GCCT, a financing program established to purchase co-ownership interests in the Company's credit card loans. GCCT issues debt to third-party investors to fund its purchases.

Performance is measured based on segment income before income taxes, as included in the internal management reports reviewed by the Company's Chief Executive Officer. Management has determined that this measure is the most relevant in evaluating segment results.

Information regarding the results of each reportable operating segment is as follows:

				2012				2011
(C$ in millions)	Retail	Financial Services	Eliminations and adjustments	Total	Retail	Financial Services[1]	Eliminations and adjustments[1]	Total
External revenue	$ 10,380.9	$ 967.0	$ 79.3	$ 11,427.2	$ 9,362.8	$ 948.3	$ 76.0	$ 10,387.1
Intercompany revenue	0.3	14.9	(15.2)	–	0.7	12.1	(12.8)	–
Total revenue	10,381.2	981.9	64.1	11,427.2	9,363.5	960.4	63.2	10,387.1
Cost of producing revenue	7,545.9	445.3	(61.9)	7,929.3	6,916.8	478.4	(68.8)	7,326.4
Gross margin	2,835.3	536.6	126.0	3,497.9	2,446.7	482.0	132.0	3,060.7
Other income (expense)	3.0	2.7	–	5.7	18.8	(0.4)	–	18.4
Operating expenses	2,364.8	263.6	71.8	2,700.2	1,982.0	264.7	70.3	2,317.0
Operating income	473.5	275.7	54.2	803.4	483.5	216.9	61.7	762.1
Net finance (income) costs	73.2	(1.2)	54.2	126.2	72.7	(2.2)	61.7	132.2
Income before income taxes	$ 400.3	$ 276.9	$ –	$ 677.2	$ 410.8	$ 219.1	$ –	$ 629.9
Items included in the above:								
Depreciation and amortization	$ 325.2	$ 9.9	$ –	$ 335.1	$ 285.4	$ 10.7	$ –	$ 296.1
Interest income	35.3	691.5	(1.5)	725.3	45.7	678.7	(4.2)	720.2
Interest expense	83.4	134.9	(1.5)	216.8	90.1	139.4	(4.2)	225.3

[1] *Financial Services' operating segment results for the year ended December 31, 2011, have been reclassified to correspond to the current-year presentation. Certain revenues and costs that were previously presented in finance income and finance costs that are directly related to funding Financial Services' loans receivable have been presented in revenue and cost of producing revenue. This reclassification presents Financial Services' results as it manages and views its business and how the results are being presented to the Company's CEO. These revenues and costs are considered financing activities for external reporting and are therefore reported in net finance costs in the consolidated statements of income. As a result of the reclassification of Financial Services' results for the year ended December 31, 2011, external revenue increased by $7.1 million, cost of producing revenue increased by $68.8 million, gross margin decreased by $61.7 million, operating income decreased by $61.7 million and net finance costs decreased by $61.7 million. There is no impact to income before income taxes. The reclassifications in Financial Services' operating segment results are reversed in elimination and adjustments, resulting in no impact to the consolidated statements of income.*

The eliminations and adjustments include the following items:

- reclassifications of certain revenues and costs in the Financial Services segment to finance income and finance costs;
- reclassifications of revenues and operating expenses to reflect loyalty program accounting in accordance with IFRS Interpretations Committee (IFRIC) 13 for the Company's Canadian Tire Money programs; and
- inter-segment eliminations.

Capital expenditures by reportable operating segment are as follows:

				2012				2011
(C$ in millions)	Retail	Financial Services	Eliminations and adjustments	Total	Retail	Financial Services	Eliminations and adjustments	Total
Capital expenditures[1]	$ 329.4	$ 5.4	$ –	$ 334.8	$ 357.9	$ 6.8	$ –	$ 364.7

[1] *Capital expenditures are presented on an accrual basis and include intangible software additions (Note 36).*

Total assets by reportable operating segment are as follows:

(C$ in millions)	2012	2011
Retail[1]	$ 7,950.3	$ 7,772.5
Financial Services	5,429.9	4,684.0
Eliminations[1]	(198.8)	(117.7)
Total	$ 13,181.4	$ 12,338.8

[1] *Retail operating segment assets and eliminations no longer include investment in Financial Services subsidiaries. Prior-period figures have been restated to correspond to the current-year presentation. There is no impact on total assets on the consolidated balance sheets as a result of this change in presentation.*

8. Business combinations

8.1 Acquisition of FGL Sports

The Company acquired control of FGL Sports on August 18, 2011, through its approximately 97 per cent ownership of the issued and outstanding Class "A" shares ("the Common shares") of FGL Sports that were 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, the TechShop, Nevada Bob's Golf, Hockey Experts, Sport Mart, National Sports, Athletes World, S3 and Fitness Source.

The acquisition of FGL Sports increased the Company's operation in the Sporting Goods category of its retail operating segment. 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 recorded $32.6 million of capital expenditures during the 19 weeks from the date of acquisition to December 31, 2011.

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 and brands and the network of stores which are predominantly mall-based and provide access to the 18–35-year-old customer segment.

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

For the year ended December 31, 2011, the Company incurred acquisition-related costs of $12.1 million relating to external legal fees, consulting fees and due diligence costs. These costs are included in administrative expenses in the consolidated statements of income.

For the year ended December 31, 2011, a pre-tax gain of $10.4 million was recognized relating to 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 for the year ended December 31, 2011, 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 Other acquisitions

During the year ended December 29, 2012, the Company acquired three franchise operations for total consideration of $6.9 million, of which $2.6 million was in the form of a promissory note payable. The fair value of identifiable assets acquired and liabilities assumed includes $0.1 million in trade and other receivables, $2.5 million in inventory, $4.2 million in intangible assets, $0.4 million in property and equipment and $0.3 million in liabilities. The purpose of these acquisitions is to convert franchise businesses into corporate stores.

The Company acquired control of Golden Viking Sports on July 1, 2012, through its 100 per cent ownership of the issued and outstanding shares for total consideration of $2.4 million, net of cash and cash equivalents acquired. The fair value of identifiable assets acquired and liabilities assumed includes $1.4 million in trade and other receivables, $3.8 million in inventory, $0.6 million in prepaid expenses and deposits, $4.2 million in liabilities and $0.1 million in deferred income taxes liability. In addition, $0.9 million in goodwill was recognized as a result of this acquisition. The purpose of this acquisition is to grow the Company's wholesale business, especially in the U.S.

During the year ended December 31, 2011, the Company acquired three franchise operations 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 includes $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. The purpose of these acquisitions is to convert franchise businesses into corporate stores.

9. Cash and cash equivalents

Cash and cash equivalents comprise of the following:

(C$ in millions)	2012	2011
Cash	$ 40.5	$ 79.6
Cash equivalents	533.6	233.4
Restricted cash and cash equivalents[1]	441.4	12.8
Total cash and cash equivalents	1,015.5	325.8
Bank indebtedness	(86.0)	(124.8)
Cash and cash equivalents, net of bank indebtedness	$ 929.5	$ 201.0

[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)	2012	2011
Unrestricted short-term investments	$ 167.3	$ 195.4
Restricted short-term investments[1]	1.6	1.0
	$ 168.9	$ 196.4

[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)	2012	2011
Trade and other receivables	$ 743.6	$ 800.9
Derivatives	6.5	15.8
Total financial assets (Note 37)	750.1	816.7
Other	0.5	12.6
	$ 750.6	$ 829.3

Trade and other receivables are primarily receivables from Dealers, vendors, franchisees and agents.

Receivables from Dealers are in the normal course of business, including cost-sharing and financing arrangements. The average credit period on sales of goods is between one and 90 days. Interest (ranging from 0.0 per cent to prime plus 5.0 per cent) is charged on amounts past due.

Receivables from vendors are on account of rebate and commercial discounts receivable from vendors.

The Company's exposures to credit risks and impairment losses related to trade and other receivables are disclosed in Note 6.3.

12. Loans receivable

Quantitative information about the Company's loans receivable portfolio is as follows:

	Total principal amount of receivables[1]		Average balance[1]	
(C$ in millions)	2012	2011	2012	2011
Credit card loans	$ 4,234.3	$ 4,026.8	$ 3,979.5	$ 3,900.5
Line of credit loans	7.5	8.8	8.2	10.0
Personal loans [2]	0.5	3.3	1.6	6.4
Total Financial Services' loans receivable	4,242.3	4,038.9	$ 3,989.3	$ 3,916.9
Dealer loans [3]	623.7	628.7		
Other loans	7.7	8.8		
Total loans receivable	4,873.7	4,676.4		
Less: long-term portion [4]	608.0	594.7		
Current portion of loans receivable	$ 4,265.7	$ 4,081.7		

[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 one 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 24).
[4] The long-term portion of loans receivable is included in long-term receivables and other assets and includes Dealer loans of $601.5 million (2011 – $587.5 million).

The gross impairment loss on loans receivable for the year ended December 29, 2012, was $323.7 million (2011 – $352.0 million). Recoveries of bad debts for the year ended December 29, 2012, were $58.1 million (2011 – $50.0 million).

For the year ended December 29, 2012, the amount of cash received from interest earned on credit cards and loans was $669.6 million (2011 – $655.3 million).

Transfers of financial assets

Glacier Credit Card Trust

GCCT is a special purpose entity that was created to securitize credit card loans receivable. As at December 29, 2012, the Bank has transferred $1,479.0 million (2011 – $1,454.7 million) in credit card loans receivable to GCCT but has retained substantially all of the credit risk associated with the transferred assets. Due to retention of substantially all of the risks and rewards on these assets, the Bank continues to recognize these assets within loans receivable, and the transfers are accounted for as secured financing transactions. The associated liability as at December 29, 2012, of $1,901.3 million (2011 – $1,451.7 million), secured by these assets, includes the commercial paper and term notes on the consolidated balance sheets and is carried at amortized cost. The Bank is exposed to the majority of ownership risks and rewards of the GCCT and, hence, it is consolidated. The carrying amount of the assets approximates their fair value. The difference between the credit card loans receivable transferred and the associated liabilities is shown below.

	2012		2011	
(C$ in millions)	Carrying amount	Fair value	Carrying amount	Fair value
Credit card loans receivable transferred	$ 1,479.0	$ 1,479.0	$ 1,454.7	$ 1,454.7
Associated liabilities	1,901.3	1,933.9	1,451.7	1,500.7
Net position	$ (422.3)	$ (454.9)	$ 3.0	$ (46.0)

For legal purposes, the co-ownership interests in the Bank's receivables that are owned by GCCT have been sold at law to GCCT and are not available to the creditors of the Bank.

The Bank has not identified any factors arising from current market circumstances that could lead to a need for the Bank to extend liquidity and/or credit support to GCCT over and above the existing arrangements or that could otherwise change the substance of the Bank's relationship with GCCT. There have been no changes in the capital structure of GCCT since the Bank's assessment for consolidation.

Franchise Trust

The consolidated financial statements include a portion (silo) of Franchise Trust, a legal entity sponsored by a third-party bank that originates and services loans to Dealers for their purchases of inventory and fixed assets ("the Dealer loans").

The Company has arranged for several major Canadian banks to provide standby letters of credit ("the LCs") to Franchise Trust as credit support for the Dealer loans. During 2004, Franchise Trust sold all of its rights in the LCs and the then outstanding Dealer loans to other independent trusts set up by major Canadian banks ("the Co-owner Trusts") that raise funds in the capital markets to finance their purchase of these undivided co-ownership interests. Due to the retention of substantially all of the risks and rewards relating to these Dealer loans, the transfers are accounted for as secured financing transactions and, accordingly, the Company continues to recognize the current portion of these assets in loans receivable ($22.2 million at December 29, 2012, and $41.2 million at December 31, 2011) and the long-term portion in long-term receivables and other assets ($601.5 million at December 29, 2012, and $587.5 million at December 31, 2011) and records the associated liability secured by these assets as loans payable ($623.7 million at December 29, 2012, and $628.7 million at December 31, 2011), being the loans that Franchise Trust has incurred to fund the Dealer loans. The Dealer loans and loans payable are initially recorded at fair value and subsequently carried at amortized cost.

	2012		2011	
(C$ in millions)	Carrying amount	Fair value	Carrying amount	Fair value
Dealer loans	$ 623.7	$ 623.8	$ 628.7	$ 629.5
Associated liabilities	623.7	623.7	628.7	628.7
Net position	$ –	$ 0.1	$ –	$ 0.8

The Dealer loans have been sold at law and are not available to the creditors of the Company. Loans payable are not legal liabilities of the Company.

In the event that a Dealer defaults on a loan, the Company has the right to purchase such loan from the Co-owner Trusts, at which time the Co-owner Trusts will assign such Dealer's debt instrument and related security documentation to the Company. The assignment of this documentation provides the Company with first-priority security rights over all of such Dealer's assets, subject to certain prior ranking statutory claims. In most cases, the Company would expect to recover any payments made to purchase a defaulted loan, including any associated expenses. In the event the Company does not choose to purchase a defaulted Dealer loan, the Co-owner Trusts may draw against the LCs.

The Co-owner Trusts may also draw against the LCs to cover any shortfalls in certain related fees owing to them. In any case where a draw is made against the LCs, the Company has agreed to reimburse the bank issuing the LCs for the amount so drawn. In the event that all the LCs had been fully drawn simultaneously, the maximum payment by the Company under this reimbursement obligation would have been $164.0 million at December 29, 2012 (2011 – $137.2 million). The Company has not recorded any liability for these amounts, due to the credit quality of the Dealer loans and to the nature of the underlying collateral, represented by the inventory and fixed assets of the borrowing Dealers.

13. Assets classified as held for sale

Land and buildings are transferred to assets classified as held for sale from property and equipment and investment property when they meet the criteria to be assets classified as held for sale. Land and buildings previously included in assets classified as held for sale are transferred to property and equipment or investment property, as appropriate, when it is determined that they no longer meet the criteria to be assets classified as held for sale.

Land and buildings classified as assets held for sale 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 29, 2012, the Company recorded impairment of $1.8 million (2011 – $nil) as it was determined that the FVLCS was less than the carrying amount. During the year ended December 29, 2012, the Company recorded reversal of impairment of $1.0 million (2011 – $nil) as a result of the FVLCS exceeding the carrying amount. The impairment and reversal of impairment are recorded in the Company's Retail operating segment. The impairment and reversal of impairment are reported in other income in the consolidated statements of income.

During the year ended December 29, 2012, the Company sold assets held for sale and recorded a gain of $11.1 million (2011 – $7.4 million), which is reported in other income in the consolidated statements of income.

14. Long-term receivables and other assets

(C$ in millions)	2012	2011
Loans receivable (Note 12)	$ 608.0	$ 594.7
Mortgages receivable	61.1	63.9
Derivatives	4.4	4.4
Other receivables	1.9	1.6
Total financial assets (Note 37)	675.4	664.6
Other	5.8	4.3
	$ 681.2	$ 668.9

Mortgages receivable

The Company has a long-term mortgage receivable with an interest rate of 12 per cent and repayment of principal until 2016.

15. Goodwill and intangible assets

The following table presents the changes in cost and accumulated amortization and impairment of the Company's intangible assets:

					2012
	Indefinite-life intangible assets and goodwill		Finite-life intangible assets		
(C$ in millions)	Goodwill	Other intangibles	Software	Other intangibles	Total
Cost					
Balance, beginning of year	$ 377.6	$ 380.9	$ 847.0	$ 22.4	$ 1,627.9
Additions internally developed	–	–	64.7	–	64.7
Additions linked to business combinations	0.9	4.2	–	–	5.1
Other additions	–	0.2	1.4	–	1.6
Disposals/retirements	–	–	(3.0)	(0.2)	(3.2)
Other movements and transfers	–	(0.3)	–	0.3	–
Balance, end of year	$ 378.5	$ 385.0	$ 910.1	$ 22.5	$ 1,696.1
Accumulated depreciation and impairment					
Balance, beginning of year	$ –	$ –	$ (516.4)	$ (1.5)	$ (517.9)
Amortization for year	–	–	(83.9)	(2.3)	(86.2)
Impairment losses	(1.6)	–	(0.9)	–	(2.5)
Disposals/retirements	–	–	2.4	–	2.4
Other	–	–	–	(2.0)	(2.0)
Balance, end of year	$ (1.6)	$ –	$ (598.8)	$ (5.8)	$ (606.2)
Net carrying amount, end of year	$ 376.9	$ 385.0	$ 311.3	$ 16.7	$ 1,089.9

					2011
	Indefinite-life intangible assets and goodwill		Finite-life intangible assets		
(C$ in millions)	Goodwill	Other intangibles	Software	Other intangibles	Total
Cost					
Balance, beginning of year	$ 68.7	$ 60.4	$ 688.1	$ –	$ 817.2
Additions internally developed	–	0.4	125.0	–	125.4
Additions related to business combinations	308.9	320.1	43.4	22.4	694.8
Disposals/retirements	–	–	(9.5)	–	(9.5)
Balance, end of year	$ 377.6	$ 380.9	$ 847.0	$ 22.4	$ 1,627.9
Accumulated depreciation and impairment					
Balance, beginning of year	$ –	$ –	$ (455.8)	$ –	$ (455.8)
Amortization for year	–	–	(64.8)	(1.5)	(66.3)
Disposals/retirements	–	–	4.2	–	4.2
Balance, end of year	$ –	$ –	$ (516.4)	$ (1.5)	$ (517.9)
Net carrying amount, end of year	$ 377.6	$ 380.9	$ 330.6	$ 20.9	$ 1,110.0

The following table presents the details of the Company's goodwill:

(C$ in millions)	2012	2011
FGL Sports	$ 309.3	$ 308.4
Mark's	52.2	52.2
CTR	15.4	17.0
Total	$ 376.9	$ 377.6

The following table presents the details of the Company's indefinite-life other intangible assets:

(C$ in millions)	2012	2011
FGL Sports corporate banners	$ 184.4	$ 184.4
FGL Sports franchise banners	77.9	77.9
FGL Sports private-label brands	7.2	7.2
FGL Sports franchise agreements	46.7	46.9
Mark's store banner	46.0	46.0
Mark's franchise locations	16.2	12.1
Mark's private-label brands	4.0	4.0
Mark's franchise agreements	2.0	2.0
Other trademarks	0.6	0.4
Total	$ 385.0	$ 380.9

The following table presents the details of the Company's finite-life other intangible assets:

(C$ in millions)	2012	2011
FGL Sports customer relationships	$ 7.6	$ 9.6
FGL Sports private-label brands	0.5	0.6
FGL Sports off-market leases	8.6	10.7
Total	$ 16.7	$ 20.9

FGL Sports corporate and franchise banners represent legal trademarks of the Company and have expiry dates ranging from 2018 to 2023. Mark's store banners ("Mark's Work Wearhouse/L'Équipeur") represent legal trademarks of the Company and expire in 2021. FGL Sports and Mark's private-label brands have legal expiry dates. The Company currently has no approved plans to change its store banners, other than those announced, and intends to continue to renew all trademarks and private-label brands 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, Mark's franchise locations, and Mark's franchise agreements have expiry dates with options to renew or have indefinite lives. The Company's intention is to renew these agreements at each renewal date indefinitely, and the Company expects the franchise agreements and franchise locations 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 that 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 2012 was $1.7 million (2011 – $1.7 million). The capitalization rate used to determine the amount of borrowing costs capitalized during the year was 5.7 per cent (2011 – 5.7 per cent).

The amount of research and development expenditures recognized as an expense in 2012 was $6.7 million (2011 – $4.4 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 intangible assets and subsequent reversal

The Company performed its annual impairment test of goodwill and indefinite-life intangible assets using the following key rates:

	FGL Sports	Mark's	CTR
Discount rate (pre-tax)	10.9%	10.9%	10.9–12.3%
Growth rate	2.0%	2.0%	2.0–3.0%

During the year ended December 29, 2012, the Company recorded an impairment on software intangibles of $0.9 million (2011 – $nil) as part of its banner rationalization plan at FGL Sports. In addition, the Company recorded $1.6 million (2011 – $nil) of impairment on goodwill related to the purchase of Retail stores. These impairments pertain to the Company's Retail operating segment and are reported in other income in the consolidated statements of income. There were no reversals of impairment recorded in 2012 and 2011.

For all other goodwill and intangible assets, the estimated recoverable amount exceeded the carrying amount. There is no reasonable possible change in assumptions that would cause the carrying amount to exceed the recoverable amount.

Capital commitments

The Company has no commitments for the acquisition of intangible assets (2011 – $nil).

16. Investment property

The following table presents the changes in the cost and accumulated depreciation and impairment on the Company's investment property:

(C$ in millions)	2012	2011
Cost		
Balance, beginning of year	$ 90.7	$ 84.8
Additions	19.3	6.6
Disposals/retirements	(0.2)	(0.2)
Reclassified from held for sale	17.9	–
Other movements and transfers	(1.7)	(0.5)
Balance, end of year	$ 126.0	$ 90.7
Accumulated depreciation and impairment		
Balance, beginning of year	$ (18.3)	$ (16.2)
Depreciation for the year	(2.7)	(2.6)
Impairment	(0.7)	–
Reversals of impairment	1.4	1.1
Reclassified from held for sale	(9.3)	–
Other movements and transfers	(1.3)	(0.6)
Balance, end of year	$ (30.9)	$ (18.3)
Net carrying amount, end of year	$ 95.1	$ 72.4

The investment property generated rental income of $10.1 million (2011 – $9.3 million).

Direct operating expenses (including repairs and maintenance) arising from investment property recognized in net income were $5.0 million (2011 – $4.0 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 5.25 per cent to 11.0 per cent (2011 – 5.0 per cent to 11.0 per cent). The cash flows are for a term of five years, including a terminal value. The Company has real estate management expertise that is used to perform the valuation of investment property. As such, a valuation has not been performed by an independent valuation specialist. The estimated fair value of investment property was $198.7 million (2011 – $138.6 million).

Impairment of investment property and subsequent reversal

During the year ended December 29, 2012, the Company recorded reversal of impairment of $1.4 million (2011 – $1.1 million) on properties where it was determined that the FVLCS exceeded their carrying amount. The Company recorded impairment of $0.7 million (2011 – $nil) on properties where the FVLCS is less than their carrying amount. These properties pertain to the Company's Retail operating segment. The impairment and reversal of impairment are reported in other income in the consolidated statements of income.

Capital commitments

The Company has no commitments for the acquisition of investment property (2011 – $nil).

17. Property and equipment

The following table presents the changes in the cost and accumulated depreciation and impairment on the Company's property and equipment:

2012							
(C$ in millions)	Land	Buildings	Fixtures and equipment	Leasehold improvements	Assets under finance lease	Construction in progress	Total
Cost							
Balance, beginning of year	$ 750.2	$ 2,589.6	$ 826.0	$ 712.5	$ 267.4	$ 137.0	$ 5,282.7
Additions	5.3	24.5	62.5	33.0	12.1	111.8	249.2
Additions related to business combinations	–	–	0.4	–	–	–	0.4
Disposals/retirements	(1.3)	(3.3)	(26.6)	(4.7)	(8.6)	–	(44.5)
Classified as held for sale	(9.9)	(15.2)	(0.3)	(0.3)	–	0.6	(25.1)
Other movements and transfers	–	88.1	18.4	37.7	2.3	(147.1)	(0.6)
Balance, end of year	$ 744.3	$ 2,683.7	$ 880.4	$ 778.2	$ 273.2	$ 102.3	$ 5,462.1
Accumulated depreciation and impairment							
Balance, beginning of year	$ (1.4)	$ (1,014.8)	$ (545.6)	$ (216.5)	$ (138.5)	$ –	$ (1,916.8)
Additions	–	(96.6)	(71.9)	(55.1)	(22.6)	–	(246.2)
Impairment	0.1	(1.0)	(2.1)	(4.4)	–	–	(7.4)
Disposals/retirements	(0.1)	1.9	24.3	4.0	8.6	–	38.7
Classified as held for sale	1.3	7.7	0.1	0.5	(0.2)	–	9.4
Other movements and transfers	–	(0.1)	3.8	–	–	–	3.7
Balance, end of year	$ (0.1)	$ (1,102.9)	$ (591.4)	$ (271.5)	$ (152.7)	$ –	$ (2,118.6)
Net carrying amount, end of year	**$ 744.2**	**$ 1,580.8**	**$ 289.0**	**$ 506.7**	**$ 120.5**	**$ 102.3**	**$ 3,343.5**

2011							
(C$ in millions)	Land	Buildings	Fixtures and equipment	Leasehold improvements	Assets under finance lease	Construction in progress	Total
Cost							
Balance, beginning of year	$ 751.8	$ 2,522.0	$ 747.5	$ 548.5	$ 262.2	$ 129.0	$ 4,961.0
Additions	3.6	73.0	68.8	70.9	9.7	6.7	232.7
Additions related to business combinations	9.1	19.7	27.3	97.3	–	2.0	155.4
Disposals/retirements	(0.1)	(1.5)	(16.9)	(4.0)	(2.2)	(0.1)	(24.8)
Classified as held for sale	(11.4)	(25.3)	–	–	–	–	(36.7)
Other movements and transfers	(2.8)	1.7	(0.7)	(0.2)	(2.3)	(0.6)	(4.9)
Balance, end of year	$ 750.2	$ 2,589.6	$ 826.0	$ 712.5	$ 267.4	$ 137.0	$ 5,282.7
Accumulated depreciation and impairment							
Balance, beginning of year	$ (3.2)	$ (937.3)	$ (492.4)	$ (181.3)	$ (114.8)	$ –	$ (1,729.0)
Additions	–	(95.0)	(67.5)	(38.7)	(26.0)	–	(227.2)
Impairment	(1.3)	(0.3)	–	–	–	–	(1.6)
Disposals/retirements	0.1	1.1	14.0	3.8	2.1	–	21.1
Classified as held for sale	–	13.9	–	–	–	–	13.9
Other movements and transfers	3.0	2.8	0.3	(0.3)	0.2	–	6.0
Balance, end of year	$ (1.4)	$ (1,014.8)	$ (545.6)	$ (216.5)	$ (138.5)	$ –	$ (1,916.8)
Net carrying amount, end of year	$ 748.8	$ 1,574.8	$ 280.4	$ 496.0	$ 128.9	$ 137.0	$ 3,365.9

The Company capitalized borrowing costs of $2.1 million (2011 – $4.1 million) on indebtedness related to property and equipment under construction. The rate used to determine the amount of borrowing costs capitalized during the year was 5.7% (2011 – 5.7%).

The carrying amount of assets under finance leases at December 29, 2012, comprises of $58.7 million (2011 – $68.8 million) in buildings and $61.8 million (2011 – $60.1 million) in fixtures and equipment.

The carrying amount of property and equipment whose title was restricted is $nil (2011 – $nil).

The amount of compensation from third parties included in net income for property and equipment that was impaired, lost or given up was $0.1 million (2011 – $0.4 million).

Impairment of property and equipment and subsequent reversal

During the year ended December 29, 2012, the Company recorded impairment of $7.4 million (2011 – $1.6 million), related primarily to its banner rationalization plan at FGL Sports. The impairment pertains to the Company's Retail operating segment and is reported in other income in the consolidated statements of income. There was no reversal of impairment in 2012 or 2011.

Capital commitments

The Company has commitments of approximately $28.5 million at December 29, 2012 for the acquisition of property and equipment (2011 – $39.8 million).

18. Deferred income tax assets and liabilities

The tax-effected unused tax losses and temporary differences that result in deferred tax assets (liabilities) and the amount of deferred taxes recognized in the net income or equity are as follows:

					2012
(C$ in millions)	**Balance, beginning of year**	**Recognized in net income**	**Recognized in other comprehensive income**	**Acquired in business combination**	**Balance, end of year**
Reserves and deferred income	**$ 103.5**	**$ 0.8**	**$ –**	**$ –**	**$ 104.3**
Property and equipment	**(52.6)**	**(3.2)**	**–**	**–**	**(55.8)**
Intangible assets	**(135.1)**	**(7.2)**	**–**	**–**	**(142.3)**
Employee benefits	**27.6**	**1.9**	**3.9**	**–**	**33.4**
Financial instruments	**(4.0)**	**–**	**4.7**	**–**	**0.7**
Finance lease assets and obligations	**11.6**	**0.2**	**–**	**–**	**11.8**
Site restoration and decommissioning	**2.8**	**0.3**	**–**	**–**	**3.1**
Deferred items	**1.0**	**(0.9)**	**–**	**–**	**0.1**
Inventory	**(2.0)**	**2.3**	**–**	**(0.1)**	**0.2**
Non-capital loss	**17.9**	**(10.0)**	**–**	**–**	**7.9**
Other	**–**	**(0.7)**	**–**	**–**	**(0.7)**
Net deferred tax asset (liability)[1]	**$ (29.3)**	**$ (16.5)**	**$ 8.6**	**$ (0.1)**	**$ (37.3)**

					2011
(C$ in millions)	Balance, beginning of year	Recognized in net income	Recognized in other comprehensive income	Acquired in business combination	Balance, end of year
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)[2]	$ 34.6	$ 6.4	$ (12.1)	$ (58.2)	$ (29.3)

[1] *Includes the net amount of deferred tax assets of $40.4 million and deferred tax liabilities of $77.7 million.*

[2] *Includes the net amount of deferred tax assets of $36.8 million and deferred tax liabilities of $66.1 million.*

No deferred tax 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 $132.7 million at December 29, 2012 (2011 – $125.3 million).

19. 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. Broker deposits are offered for varying terms ranging from 30 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 29, 2012, were $1,579.7 million (2011 – $1,597.4 million).

Retail deposits consist of HIS deposits, retail GICs and TFSA deposits. Total retail deposits outstanding at December 29, 2012, were $843.1 million (2011 – $687.1 million).

Repayment requirements

(C$ in millions)	
2013	$ 505.1
2014	420.2
2015	235.3
2016	143.0
2017	313.3
Current and long-term broker and retail deposits	1,616.9
High-interest savings accounts	813.4
Total[1]	$ 2,430.3

[1] *The carrying amount of deposits as of December 29, 2012 is net of $7.5 million of GIC broker discount fees (2011 – $6.1 million).*

Effective rates of interest

	2012	2011
GIC deposits	**3.73%**	3.86%
HIS account deposits	**1.90%**	2.06%

20. Trade and other payables

(C$ in millions)	2012	2011
Trade payables and accrued liabilities	**$ 1,498.7**	$ 1,509.2
Derivatives	**13.1**	2.8
Total financial liabilities (Note 37)	**1,511.8**	1,512.0
Deferred revenue	**41.2**	39.5
Insurance reserve	**13.8**	12.9
Other	**64.5**	76.5
	$ 1,631.3	$ 1,640.9

Deferred revenue consists mainly of unearned insurance premiums, unearned roadside assistance revenue and unearned revenue related to gift certificates and gift cards.

Other consists of sales taxes payable.

The average credit period on trade payables is five to 90 days (2011 – five to 90 days).

21. Provisions

The following table presents the changes to the Company's provisions:

						2012
(C$ in millions)	Sales and warranty returns	Site restoration and decommissioning	Onerous contracts	Customer loyalty	Other	Total
Balance, beginning of year	$ 113.2	$ 26.8	$ 7.1	$ 68.1	$ 31.8	$ 247.0
Charges, net of reversals	242.8	11.5	0.4	112.8	1.0	368.5
Utilizations	(245.7)	(5.0)	(2.8)	(107.7)	(16.0)	(377.2)
Unwinding of discount	1.0	0.4	–	–	–	1.4
Change in discount rate	–	0.9	–	–	–	0.9
Balance, end of year	$ 111.3	$ 34.6	$ 4.7	$ 73.2	$ 16.8	$ 240.6
Less: Current provisions	108.6	7.3	1.5	66.1	2.3	185.8
Long-term provisions	$ 2.7	$ 27.3	$ 3.2	$ 7.1	$ 14.5	$ 54.8

Sales and warranty returns

The provision for sales and warranty 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.

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.

Onerous contracts

The Company recognizes a provision for onerous lease contracts on premises that are no longer being used due to store closures.

Customer loyalty

The Company maintains a provision related to its loyalty programs, including paper-based Canadian Tire 'Money' issued at Petroleum gas bars and to Dealers and Electronic Canadian Tire 'Money' on-the-Card issued whenever consumers make a Canadian Tire Options MasterCard purchase. In addition, the Company is testing a new loyalty program called Canadian Tire 'Money' Advantage. All forms of loyalty can be redeemed only 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' because 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 or Canadian Tire 'Money' Advantage. 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.

Other

Other provisions include liabilities for severance under restructuring arrangements, the cost of legal issues that have not yet been settled and other claims. The amount and timing of when the Company expects to discharge these liabilities are uncertain and are based on the Company's best estimates.

22. 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 net income, 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 are matters 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 the court rules against the Company, the total aggregate exposure would be approximately $26.2 million at December 29, 2012.

23. 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. Short-term borrowings 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.

24. Loans payable

Franchise Trust, an SPE, is a legal entity sponsored by a third-party bank that 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, which are initially recognized at fair value and are subsequently measured at amortized cost, are due within one year.

25. Long-term debt

Long-term debt includes the following:

		2012		2011
(C$ in millions)	Face value	Carrying amount	Face value	Carrying amount
Senior notes[1]				
Series 2006-2, 4.405%, May 20, 2014	$ 238.7	$ 238.7	$ 238.7	$ 238.7
Series 2008-1, 5.027%, February 20, 2013	600.0	599.5	600.0	598.3
Series 2010-1, 3.158%, November 20, 2015	250.0	249.0	250.0	248.8
Series 2012-1, 2.807%, May 20, 2017	200.0	199.0	–	–
Series 2012-2, 2.394%, October 20, 2017	400.0	398.0	–	–
Subordinated notes[1]				
Series 2006-2, 4.765%, May 20, 2014	13.9	13.9	13.9	13.9
Series 2008-1, 6.027%, February 20, 2013	34.9	34.9	34.9	34.8
Series 2010-1, 4.128%, November 20, 2015	14.6	14.6	14.6	14.5
Series 2012-1, 3.827%, May 20, 2017	11.6	11.6	–	–
Series 2012-2, 3.174%, October 20, 2017	23.3	23.3	–	–
Medium-term notes				
4.95% due June 1, 2015	300.0	299.6	300.0	299.4
5.65% due June 1, 2016	200.0	198.9	200.0	198.6
6.25% due April 13, 2028	150.0	149.4	150.0	149.4
6.32% due February 24, 2034	200.0	199.1	200.0	199.1
5.61% due September 4, 2035	200.0	199.2	200.0	199.2
Finance lease obligations	166.6	166.6	176.4	176.4
Promissory note	2.6	2.6	4.5	4.5
Total debt	$ 3,006.2	$ 2,997.9	$ 2,383.0	$ 2,375.6
Current	$ 661.9	$ 661.9	$ 27.9	$ 27.9
Non-current	2,344.3	2,336.0	2,355.1	2,347.7
Total debt	$ 3,006.2	$ 2,997.9	$ 2,383.0	$ 2,375.6

[1] *Senior and subordinated notes are those of GCCT.*

The carrying amount of long-term debt is net of debt issuance costs of $7.7 million (2011 – $6.6 million) and the benefit on the effective portion of the fair value hedges of $0.6 million (2011 – benefit of $0.8 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 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 2006-2, 2008-1, 2010-1, 2012-1 and 2012-2 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 occurred in the year ended December 29, 2012.

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 such leases or purchase the leased assets at the conclusion of the lease term. During 2012, interest rates on finance leases ranged from 0.81 per cent to 12.75 per cent. Remaining terms at December 29, 2012, were one to 169 months.

Finance lease obligations are payable as follows:

			2012			2011
(C$ in millions)	**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	**$ 34.5**	**$ 9.6**	**$ 24.9**	$ 33.9	$ 10.3	$ 23.6
Due between one year and two years	**25.8**	**8.6**	**17.2**	30.1	9.4	20.7
Due between two years and three years	**23.3**	**7.8**	**15.5**	23.1	8.5	14.6
Due between three years and four years	**18.9**	**7.0**	**11.9**	21.0	7.7	13.3
Due between four years and five years	**15.2**	**6.4**	**8.8**	18.3	7.0	11.3
More than five years	**118.5**	**30.2**	**88.3**	129.7	36.8	92.9
	$ 236.2	**$ 69.6**	**$ 166.6**	$ 256.1	$ 79.7	$ 176.4

Promissory notes

Promissory notes were 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 as at December 29, 2012.

26. Other long-term liabilities

(C$ in millions)	**2012**	2011
Employee benefits (Note 27)	**$ 125.9**	$ 108.6
Deferred gains	**24.2**	27.0
Deferred revenue	**18.3**	20.3
Derivatives (Note 37)	**0.2**	3.9
Other	**44.8**	45.9
	$ 213.4	$ 205.7

Deferred gains relate to the sale and leaseback of certain distribution centres. The deferred gains are amortized over the terms of the leases.

Other includes unearned insurance premiums, unearned roadside assistance revenue, deferred lease inducements and off-market leases.

27. 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 per cent of earnings before income taxes, after certain adjustments. A portion of the award is contributed to a DPSP for the benefit of the employees. The maximum amount of the Company's contribution to the DPSP per employee per year is subject to limits set by the Income Tax Act. Each participating employee is required to invest and maintain 10 per cent of the portion of their award required to be contributed to the DPSP in a 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 per cent after one year of continuous service and 100 per cent after two years of continuous service.

In 2012, the Company contributed $20.0 million (2011 – $19.8 million) under the terms of the DPSP.

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)	2012	2011
Change in the present value of defined benefit obligation		
Defined benefit obligation, beginning of year	$ 107.4	$ 84.3
Current service cost	2.5	1.8
Interest cost	4.9	4.9
Actuarial loss	13.4	19.1
Benefits paid	(3.3)	(2.7)
Defined benefit obligation, end of year[1]	124.9	107.4
Unamortized past service credits	1.0	1.2
Accrued benefit liability	$ 125.9	$ 108.6

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

(C$ in millions)	2012	2011
Components of non-pension post-retirement benefit cost		
Amounts recognized in net income:		
Current service cost	$ 2.5	$ 1.8
Interest cost	4.9	4.9
Amortization of past service credits	(0.3)	(0.4)
Total recognized in net income	$ 7.1	$ 6.3
Amount recognized in other comprehensive income:		
Actuarial loss immediately recognized	$ 13.4	$ 19.1
Total recognized in other comprehensive income	$ 13.4	$ 19.1

Significant actuarial assumptions used:

	2012	2011
Defined benefit obligation, end of year:		
Discount rate	4.00%	4.50%
Net benefit plan expense for the year:		
Discount rate	4.50%	5.75%

For measurement purposes, a 6.20 per cent weighted average health care trend rate is assumed for 2012 (2011 – 7.28 per cent). The rate is assumed to decrease gradually to 4.50 per cent for 2032 (2011 – decrease gradually to 4.50 per cent for 2029) and remain at that level thereafter.

The most recent actuarial valuation of the obligation was performed as of December 31, 2012. The next required valuation will be as of December 31, 2015.

The cumulative amount of actuarial losses before tax recognized in equity at December 29, 2012, was $40.8 million (2011 – $27.4 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 2012:

(C$ in millions)	Increase	Decrease
Total of current service and interest cost	$ 0.9	$ (0.7)
Accrued benefit obligation	10.7	(8.8)

28. Share capital

(C$ in millions)	**2012**	2011
Authorized		
3,423,366 Common Shares		
100,000,000 Class A Non-Voting Shares		
Issued		
3,423,366 Common Shares (2011 – 3,423,366)	**$ 0.2**	$ 0.2
77,720,401 Class A Non-Voting Shares (2011 – 78,020,208)	**687.8**	710.3
	$ 688.0	$ 710.5

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 2012 and 2011, 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, with any remainder allocated to retained earnings.

The following transactions occurred with respect to Class A Non-Voting Shares during 2012 and 2011:

	2012		2011	
(C$ in millions)	**Number**	**$**	Number	$
Shares outstanding at beginning of the year	**78,020,208**	**$ 710.3**	78,020,007	$ 711.4
Issued				
Dividend reinvestment plan	**69,545**	**4.6**	71,604	4.3
Stock option plan	**200**	**–**	1,200	–
Employee Profit Sharing Plan	**59,078**	**4.1**	59,491	3.6
Dealer profit sharing plans	**54,724**	**3.7**	59,302	3.7
Repurchased	**(483,354)**	**(33.1)**	(191,396)	(11.9)
Excess of issue price over repurchase price	**–**	**(1.8)**	–	(0.8)
Shares outstanding at end of the year	**77,720,401**	**$ 687.8**	78,020,208	$ 710.3

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 and in 2012 the Company purchased an additional 299,806 Class A Non-Voting Shares.

Conditions of Class A Non-Voting Shares and Common Shares

The holders of Class A Non-Voting Shares are entitled to receive a preferential cumulative dividend at the rate of $0.01 per share per annum. After payment of preferential cumulative dividends at the rate of $0.01 per share per annum on each of the Class A Non-Voting Shares with respect to the current year and each preceding year and payment of a non-cumulative dividend on each of the Common Shares with respect to 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 or priority of one share over another.

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 or priority of one share over another.

The holders of Class A Non-Voting Shares are entitled to receive notice of and to attend all meetings of the shareholders; however, except as provided by the *Business Corporations Act* (Ontario) and as hereinafter noted, they are not entitled to vote at those meetings. 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 those directors who are elected by the holders of Class A Non-Voting Shares 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 at least two-thirds of the shares of each class represented and voted at a meeting of the shareholders called for the purpose of considering such an increase. 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 and thereafter the Class A Non-Voting Shares shall be designated as Class A Shares.

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 29, 2012, the Company had dividends declared and payable to holders of Class A Non-Voting Shares and Common Shares of $28.5 million (2011 – $24.5 million) at a rate of $0.35 per share (2011 – $0.30).

On February 21, 2013 the Company's Board of Directors declared a dividend of $0.35 per share payable on June 1, 2013 to shareholders of record as of April 30, 2013.

Dividends per share declared were $1.25 in 2012 (2011 – $1.125).

29. 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. Net income attributable to Common and Class A Non-Voting shareholders is the same as net income reported for the year.

The weighted average number of basic and diluted shares outstanding is calculated as follows:

	2012	2011
Weighted average number of Common and Class A Non-Voting Shares outstanding – Basic	**81,435,218**	81,447,398
Dilutive effect of employee stock options	**370,376**	356,388
Weighted average number of Common and Class A Non-Voting Shares outstanding – Diluted	**81,805,594**	81,803,786

30. Share-based payments

The Company's share-based payment plans are described below. There were no cancellations or significant modifications to any of the plans during 2012.

Stock options

The Company has granted stock options to certain employees that enable such employees to exercise their stock options and subscribe for Class A Non-Voting Shares or receive a cash payment equal to the difference between the market price of the Company's Class A Non-Voting Shares as at the exercise date and the exercise price of the stock option. 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 from 2008 to 2011 generally vest on the third anniversary of their grant and are exercisable over a term of seven years. Stock options granted in 2012 generally vest on a graduated basis over three-year period and are exercisable over a term of seven years. At December 29, 2012, approximately 2.4 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 29, 2012, was $9.5 million (2011 – $6.0 million).

Stock option transactions during 2012 and 2011 were as follows:

	2012		2011	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at beginning of year	**2,563,916**	**$ 55.22**	2,280,374	$ 53.49
Granted	**742,802**	**63.76**	433,804	62.30
Exercised and surrendered	**(744,620)**	**44.31**	(68,511)	34.59
Forfeited	**(155,715)**	**64.81**	(81,651)	61.68
Expired	**–**	**–**	(100)	21.03
Outstanding at end of year	**2,406,383**	**$ 60.62**	2,563,916	$ 55.22
Stock options exercisable at end of year	**876,505**		975,809	

[1] The weighted average market price of the Company's shares when the options were exercised in 2012 was $67.28 (2011 – $63.95).

The following table summarizes information about stock options outstanding and exercisable at December 29, 2012:

	Options outstanding			Options exercisable	
Range of exercise prices	Number of outstanding options	Weighted average remaining contractual life[1]	Weighted average exercise price	Number exercisable at December 29 2012	Weighted average exercise price
$ 66.04 to 82.42	**313,109**	**1.59**	**$ 71.89**	**290,965**	**$ 72.28**
63.67 to 64.82	**783,291**	**5.36**	**63.83**	**109,978**	**64.82**
62.30 to 63.42	**637,771**	**3.98**	**62.72**	**256,035**	**63.34**
44.52 to 56.71	**490,420**	**4.14**	**53.40**	**37,735**	**52.32**
29.63 to 40.04	**181,792**	**3.02**	**39.48**	**181,792**	**39.48**
$ 29.63 to 82.42	**2,406,383**	**4.08**	**$ 60.62**	**876,505**	**$ 61.07**

[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 during the 10-day period commencing on the first business day after the last day of the performance period, multiplied by a factor determined by specific performance-based criteria. 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 29, 2012, was $20.1 million (2011 – $15.3 million).

Deferred share unit plans

Directors

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, which is paid quarterly, 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. 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. Compensation expense (recovery) recorded for the year ended December 29, 2012, was $0.4 million (2011 – ($0.1) million).

Executives

The Company also offers a DPSP for certain executives. Under this plan, executives may elect to receive all or a percentage of their annual bonus in the form of 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 five business days prior to the tenth business day following the release of the Company's financial statements for the

year in respect of which the annual bonus was earned. The DSU account for each employee includes the value of dividends, if any, as if reinvested in additional DSUs. The executive is not permitted to convert DSUs into cash until his or her departure from the Company. 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. Compensation expense recorded for the year ended December 29, 2012, was $0.1 million (2011 – $nil).

The fair value of stock options and PSUs was determined using the Black-Scholes option pricing model with the following inputs:

	2012		2011	
	Stock options	PSUs	Stock options	PSUs
Share price at end of year (C$)	$ 69.11	$ 69.11	$ 65.90	$ 65.90
Weighted average exercise price (C$)[1]	$ 60.53	N/A	$ 54.78	N/A
Expected remaining life (years)	3.3	1.2	3.2	1.0
Expected dividends	2.3%	3.1%	1.9%	3.2%
Expected volatility	25.2%	19.8%	25.3%	21.9%
Risk-free interest rate	1.5%	1.3%	1.3%	1.2%

[1] *Reflects expected forfeitures.*

The expense recognized for share-based compensation is summarized as follows:

(C$ in millions)	2012	2011
Expense arising from share-based payment transactions	$ 34.2	$ 18.9
Effect of hedging arrangements	(4.1)	2.3
Total expense included in net income	$ 30.1	$ 21.2

The total carrying amount of liabilities for share-based payment transactions at December 29, 2012, was $66.0 million (2011 – $72.8 million).

The intrinsic value of the liability for vested benefits at December 29, 2012, was $13.9 million (2011 – $12.9 million).

31. Revenue

(C$ in millions)	2012	2011
Sale of goods	$ 10,005.8	$ 8,997.6
Interest income on loans receivable	707.2	697.2
Services rendered	361.3	354.7
Royalties and licence fees	340.3	325.9
Rental income	12.6	11.7
	$ 11,427.2	$ 10,387.1

Major customers

The Company does not have reliance on any one customer.

32. Cost of producing revenue

(C$ in millions)	2012	2011
Inventory cost of sales	$ 7,545.3	$ 6,916.7
Net impairment loss on loans receivable	261.2	296.2
Finance costs on deposits	72.5	70.1
Other	50.3	43.4
	$ 7,929.3	$ 7,326.4

Inventory writedowns as a result of net realizable value being lower than cost, recognized in the year ended December 29, 2012 were $82.6 million (2011 – $73.3 million).

Inventory writedowns recognized in previous periods and reversed in the year ended December 29, 2012 were $17.3 million (2011 – $23.9 million). The reversal of writedowns was the result of actual losses being lower than previously estimated.

The writedowns and reversals are included in inventory cost of sales.

33. Operating expenses by nature

(C$ in millions)	2012	2011
Personnel expenses	$ 987.9	$ 817.4
Occupancy	571.6	438.4
Marketing and advertising	341.0	317.1
Depreciation of property and equipment and investment property	248.9	229.8
Amortization of intangible assets	86.2	66.3
Other	464.6	448.0
	$ 2,700.2	$ 2,317.0

34. Finance income and finance costs

(C$ in millions)	2012	2011
Finance income[1]		
Tax instalments	$ 0.1	$ 3.6
Mortgages	8.2	7.4
Short- and long-term investments	8.4	9.9
Other	1.4	2.1
Total finance income	$ 18.1	$ 23.0
Finance costs[1]		
Subordinated and senior notes[2]	$ 57.4	$ 63.9
Medium-term notes[3]	59.2	59.2
Loans payable	13.5	17.1
Finance leases	10.9	11.4
Short-term borrowings	3.1	4.4
Other	4.0	5.0
	148.1	161.0
Less: Capitalized borrowing costs	3.8	5.8
Total finance costs	$ 144.3	$ 155.2
Net finance costs	$ 126.2	$ 132.2

[1] The presentation of the components of finance income and finance costs has changed. The prior period's figures have been restated to correspond to the current-year presentation.
[2] Relates to GCCT and includes $1.7 million of amortization of debt issuance costs (2011 – $0.2 million).
[3] Includes $0.4 million of amortization of debt issuance costs (2011 – $0.4 million).

35. Income taxes

The following are the major components of the income tax expense:

(C$ in millions)	2012	2011
Current tax expense		
Current period	$ 169.8	$ 185.7
Adjustments in respect of prior years	(8.3)	(16.4)
	$ 161.5	$ 169.3
Deferred tax expense		
Deferred income tax expense (benefit) relating to the origination and reversal of temporary difference	$ 14.7	$ (6.4)
Deferred income tax expense (benefit) resulting from change in tax rate	1.8	–
	$ 16.5	$ (6.4)
Income tax expense	$ 178.0	$ 162.9

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)	2012	2011
Income before income taxes	$ 677.2	$ 629.9
Income taxes based on the applicable statutory tax rate of 26.38% (2011 – 28.08%)	178.6	176.9
Adjustment to income taxes resulting from:		
Prior years' tax settlements	(2.1)	(7.6)
Non-deductibility of stock option expense	3.5	1.8
Adjustments of prior years' tax estimates	(6.2)	(9.0)
Changes in expected Ontario tax rates	1.8	–
Lower income tax rates on earnings of foreign subsidiaries	0.5	(0.4)
Other	1.9	1.2
Income tax expense	$ 178.0	$ 162.9

The applicable statutory tax rate is the aggregate of the Canadian federal income tax rate of 15.0 per cent (2011 – 16.5 per cent) and Canadian provincial income tax rate of 11.38 per cent (2011 – 11.58 per cent). The decrease in the applicable tax rate from 2011 is primarily due to federal tax rate reduction.

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 $2.1 million (2011 – $7.6 million) and pre-tax interest income from overpayment of taxes of $nil (2011 – $3.6 million).

The 2012 tax provision has been further reduced by $4.4 million (2011 – $9.0 million) due to adjustments to prior years' estimated tax payable net of deferred tax adjustments resulting from Ontario not implementing the expected tax rate reductions scheduled for 2012 and 2013.

The Company regularly reviews the potential for adverse outcomes with respect to 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 net income 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.

36. Notes to the consolidated statements of cash flows

Changes in working capital and other comprise the following:

(C$ in millions)	2012	2011
Trade and other receivables	$ 77.4	$ (31.4)
Loans receivable	(521.7)	(318.5)
Merchandise inventories	(41.5)	(88.9)
Income taxes	(15.1)	7.3
Prepaid expenses and deposits	5.8	4.4
Deposits	134.7	401.1
Trade and other payables	(65.3)	242.1
Provisions	(8.4)	(9.7)
Long-term provisions	(8.0)	0.2
Deferred revenue	(2.2)	15.7
Employee benefits	10.3	(2.7)
Changes in working capital and other	$ (434.0)	$ 219.6

Supplementary information

During the year ended December 29, 2012, the Company acquired property and equipment and investment property at an aggregate cost of $268.5 million (2011 – $239.3 million) and intangible assets at an aggregate cost of $66.3 million (2011 – $125.4 million).

The amount related to property and equipment and investment property acquired that is included in trade and other payables at December 29, 2012, is $47.6 million (2011 – $25.1 million). The amount related to intangible assets that is included in trade and other payables at December 29, 2012, is $5.4 million (2011 – $4.8 million).

Also included in the property and equipment, investment property and intangible assets acquired are non-cash items relating to finance leases, asset retirement obligations and capitalized interest in the amount of $25.1 million (2011 – $13.1 million).

37. Financial instruments

37.1 Categories of financial instruments

The following table provides a comparison of the carrying amounts and fair values of financial instruments:

	2012		2011	
(C$ in millions)	Carrying amount	Fair value	Carrying amount	Fair value
Assets designated as fair value through profit or loss (FVTPL)				
Short-term investments	$ 9.4	$ 9.4	$ 32.3	$ 32.3
Long-term investments	7.3	7.3	6.6	6.6
Assets mandatorily classified as held for trading (HFT)				
Derivatives[1]	$ 6.3	$ 6.3	$ 5.6	$ 5.6
Available-for-sale (AFS) financial assets				
Short-term investments	$ 159.5	$ 159.5	$ 164.1	$ 164.1
Long-term investments	175.4	175.4	121.6	121.6
Assets carried at amortized cost				
Cash and cash equivalents	$ 1,015.5	$ 1,015.5	$ 325.8	$ 325.8
Trade and other receivables (Note 11)	743.6	743.6	800.9	800.9
Prepaid expenses and deposits	3.7	3.7	4.7	4.7
Loans receivable	4,265.7	4,265.7	4,081.7	4,081.5
Long-term receivables and other assets	671.0	671.1	660.2	660.2
Liabilities mandatorily classified as held for trading (HFT)				
Derivatives[2]	$ 5.9	$ 5.9	$ 4.9	$ 4.9
Liabilities carried at amortized cost				
Bank indebtedness	$ 86.0	$ 86.0	$ 124.8	$ 124.8
Trade and other payables (Note 20)	1,498.7	1,498.7	1,509.2	1,509.2
Short-term borrowings	118.9	118.9	352.6	352.6
Loans payable	623.7	623.7	628.7	628.7
Debt	2,997.9	3,162.5	2,375.6	2,520.1
Deposits	2,422.8	2,453.5	2,284.5	2,322.6
Hedging relationships				
Derivative assets[3]	$ 4.6	$ 4.6	$ 14.6	$ 14.6
Derivative liabilities[4]	7.4	7.4	1.8	1.8

[1] $2.8 million included in trade and other receivables and $3.5 million included in long-term receivables and other assets (2011 – $1.9 million and $3.7 million, respectively).
[2] $5.9 million included in trade and other payables and $nil included in other long-term liabilities (2011 – $1.0 million and $3.9 million, respectively).
[3] $3.7 million included in trade and other receivables and $0.9 million included in long-term receivables and other assets (2011 – $13.9 million and $0.7million, respectively).
[4] $7.2 million included in trade and other payables and $0.2 million included in other long-term liabilities (2011 – $1.8 million and $nil, respectively).

Cash flows from cash flow hedges are expected to flow over the next 16 months and are expected to be recognized in net income over the period ending in November 2014 subject to review at each reporting year-end.

37.2 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 net income or equity:

(C$ in millions)	2012	2011
Net gain (loss) on:		
Financial instruments designated at FVTPL	$ 0.7	$ 1.5
Financial instruments classified as HFT[1]	2.2	(3.9)
Gain on AFS financial assets recognized in other comprehensive income	0.5	12.4
Gain on AFS financial assets reclassified to net income	2.2	10.3
Interest income (expense):		
Total interest income calculated using effective interest method for financial instruments that are not at FVTPL	724.8	719.5
Total interest expense calculated using effective interest method for financial instruments that are not at FVTPL	(213.4)	(218.9)
Fee income arising from financial instruments that are not at FVTPL		
Credit payment processing fee income	148.6	149.5
Other fee income	3.0	13.4
Fee expense arising from financial instruments that are not at FVTPL		
Credit payment processing fee expense	(28.7)	(23.6)
Other fee expense	(18.1)	(15.2)

[1] *Excludes gains (losses) on foreign exchange contracts classified as HFT.*

37.3 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:

				2012
(C$ in millions)	Level 1	Level 2	Level 3	Total
Financial assets				
At fair value through profit or loss	$ –	$ 16.7	$ –	$ 16.7
Available for sale	–	334.9	–	334.9
Derivatives	–	10.9	–	10.9
Financial liabilities				
Derivatives	–	13.3	–	13.3

				2011
	Level 1	Level 2	Level 3	Total
Financial assets				
At fair value through profit or loss	$ –	$ 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

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)	2012	2011
Balance, beginning of year	$ 6.6	$ 5.1
Fair value gains, net of losses, recognized in net income[1]	0.7	1.5
Transfers out of Level 3[2]	(7.3)	–
Balance, end of year	$ –	$ 6.6

[1] *Reported in other income in the consolidated statements of income.*

[2] *Asset-backed commercial paper investments commenced trading in an active market during 2012, and therefore quoted market prices are used to value these investments. Consequently, the carrying amount of asset-backed commercial paper was transferred to Level 2 during 2012.*

There were no transfers in either direction between Level 1 and Level 2 in 2012 or 2011.

38. 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 2062. 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)	2012	2011
Less than one year	$ 306.1	$ 290.6
Between one and five years	930.0	910.8
More than five years	896.6	908.9
	$ 2,132.7	$ 2,110.3

The amounts recognized as an expense are as follows:

(C$ in millions)	2012	2011
Minimum lease payments	$ 296.6	$ 215.2
Contingent rent	4.5	1.7
Sublease payments received	(38.2)	(0.8)
	$ 262.9	$ 216.1

Due to the redevelopment or replacement of existing properties, certain leased properties are no longer needed for business operations. Where possible, the Company subleases these properties to third parties, receiving sublease payments to reduce costs. In addition, the Company has certain premises where it is on the head lease and subleases the property to franchisees. The total future minimum sublease payments expected to be received under these non-cancellable subleases were $103.3 million as at December 29, 2012 (2011 – $94.8 million). The Company has recognized a provision of $4.4 million (2011 – $4.8 million) with respect to these leases (Note 21).

The Company as lessor

The Company leases out a number of its investment properties, and certain sublease arrangements, under operating leases (Note 16), with lease terms between one to 20 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 receivable from lessees under non-cancellable leases are as follows:

(C$ in millions)	2012	2011
Less than one year	$ 26.9	$ 26.7
Between one and five years	84.2	74.7
More than five years	62.2	54.1
	$ 173.3	$ 155.5

39. 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 and other commitments 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 several major Canadian banks to provide standby letters of credit to Franchise Trust to support the credit quality of the Dealer loan portfolio. The banks 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 banks 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 $164.0 million at December 29, 2012 (2011 – $137.2 million). The Company has not recorded any liability for these amounts due to the credit quality of the Dealer loans and to the nature of the underlying collateral represented by the inventory and fixed assets of the borrowing Dealers.

Business and property dispositions

In connection with agreements for the sale of all or a part of a business 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 sublessees 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 sublessee 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 was $6.2 million (2011 – $6.9 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 26, 2013. The maximum amount that the Company may be required to pay under these debt agreements was $50.0 million (2011 – $50.0 million), of which $40.3 million (2011 – $38.8 million) was issued at December 29, 2012. 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 that 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 29, 2012, 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 $24.0 million (2011 – $25.8 million) relating to the importation of merchandise inventories and to facilitate various real estate activities.

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 as at December 29, 2012 was $70.0 million (2011 – $69.9 million).

The Company has committed to pay $9.2 million (2011 – $9.2 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 $41.4 million (2011 – $68.4 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 2017.

40. Related parties

The Company's majority shareholder is Ms. Martha G. Billes, who controls directly and indirectly approximately 61 per cent 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 per cent 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)	2012	2011
Salaries and short-term employee benefits	**$ 11.8**	$ 9.0
Share-based payments	**11.1**	6.5
Other long-term benefits	**1.8**	1.7
	$ 24.7	$ 17.2

Significant entities

Entities are subsidiaries and trusts 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 entities are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The Company's significant entities are as follows:

	Country of incorporation	Ownership interest	
		2012	2011
Canadian Tire Financial Services Limited	Canada	**100%**	100%
Canadian Tire Bank	Canada	**100%**	100%
Glacier Credit Card Trust[1]	Canada	**0%**	0%
Mark's Work Wearhouse Ltd.	Canada	**100%**	100%
Canadian Tire Real Estate Limited	Canada	**100%**	100%
FGL Sports Ltd.[2]	Canada	**100%**	100%

[1] The Company determined that it controls GCCT based on the criteria under SIC 12 – Consolidation – Special Purpose Entities.
[2] On January 1, 2012, the name of The Forzani Group Ltd. was changed to FGL Sports Ltd.

41. Comparative figures

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

In the consolidated statements of income, certain employee benefits costs previously included in administrative expenses are now presented in distribution costs and sales and marketing expenses within operating expenses. For the year ended December 31, 2011, administrative expenses have been reduced by $61.1 million, with a corresponding increase in distribution costs and sales and marketing expenses of $39.5 million and $21.6 million, respectively. There is no impact on net income as a result of this change in presentation.

In the consolidated statements of cash flows, issuance/repayment of short-term borrowings, which were previously shown separately, are presented as net (repayment) issuance of short-term borrowings in financing activities. There is no impact on cash used for financing activities as a result of this change in presentation.

2012 Quarterly Information

(C$ in millions, except where noted)	First Quarter (January 1, 2012 to March 31, 2012)	Second Quarter (April 1, 2012 to June 30, 2012)	Third Quarter (July 1, 2012 to September 29, 2012)	Fourth Quarter (September 30, 2012 to December 29, 2012)	Total
(Store numbers are cumulative at end of period)					
Retail segment					
Revenue	$ 2,184.1	$ 2,731.6	$ 2,564.4	$ 2,901.1	$10,381.2
Income before income taxes	24.5	115.3	105.6	154.9	400.3
Financial Services segment					
Revenue	241.7	242.5	249.7	248.0	981.9
Income before income taxes	73.0	68.5	73.7	61.7	276.9
Total					
Revenue	$ 2,439.5	$ 2,991.2	$ 2,829.8	$ 3,166.7	$11,427.2
Cost of producing revenue	1,690.5	2,095.7	1,970.8	2,172.3	7,929.3
Operating expenses	625.8	676.0	648.8	749.6	2,700.2
Net finance costs	29.6	31.5	31.7	33.4	126.2
Income taxes	26.5	50.1	47.9	53.5	178.0
Net income	71.0	133.7	131.4	163.1	499.2
Basic earnings per share[1]	0.87	1.64	1.61	2.00	6.13
Diluted earnings per share[1]	0.87	1.63	1.61	2.00	6.10
Canadian Tire Retail					
Retail sales growth[5]	3.8%	1.0%	0.3%	(0.5)%	0.8%
Same store sales growth[5]	3.3%	0.4%	(0.2)%	(1.1)%	0.3%
Number of Canadian Tire Retail banner stores	488	487	487	490	
Number of PartSource banner stores	87	87	87	87	
FGL Sports					
Retail sales growth[2]	5.6%	4.2%	4.2%	4.5%	4.1%
Same store sales growth[2]	7.0%	4.8%	4.4%	2.9%	4.9%
Number of FGL Sports banner stores	506	501	490	495	
Canadian Tire Petroleum					
Number of gas bars	289	291	293	299	
Number of car washes	76	76	76	80	
Number of convenience stores	283	285	287	294	
Mark's Work Wearhouse					
Retail sales growth[5]	6.7%	5.2%	2.0%	3.7%	4.2%
Same store sales growth[5]	5.8%	4.2%	1.7%	3.5%	3.7%
Number of Mark's Work Wearhouse banner stores	385	386	387	386	
Financial Services Segment					
Average number of accounts with a balance[3] (thousands)	1,697	1,713	1,733	1,753	1,724
Average account balance[3]	2,359	2,354	2,370	2,396	2,370
Gross average accounts receivables[4] (millions)	4,014.1	4,044.2	4,116.1	4,209.6	4,096.0
Class A Non-Voting Shares					
High	$ 66.82	$ 71.55	$ 73.46	$ 72.37	$ 73.46
Low	62.17	64.29	65.70	64.63	62.17
Close	64.46	68.88	70.76	69.11	69.11
Volume (thousands of shares)	16,573	14,430	12,274	12,732	56,010
Common Shares					
High	$ 74.99	$ 78.99	$ 82.00	$ 82.69	$ 82.69
Low	70.35	72.20	74.03	74.68	70.35
Close	72.15	76.51	79.85	81.68	81.68
Volume (thousands of shares)	31	23	27	36	117

[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 for Q1 to Q3 2012 are for comparison purposes only, as the Company did not own FGL Sports prior to August 18, 2011.

[3] Credit card portfolio only.

[4] Total portfolio of loans receivable.

[5] Figures have been restated to reflect updated calculation methodology

2011 Quarterly Information

(C$ in millions, except where noted)	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
(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[6]	235.4	236.5	245.0	243.5	960.4
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[5]	(0.6)%	2.0%	3.2%	2.6%	2.0%
Same store sales growth[5]	(1.5)%	0.9%	2.3%	1.7%	1.1%
Number of Canadian Tire Retail banner stores	487	487	486	488	
Number of PartSource banner 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 banner 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[5]	6.6%	1.1%	1.9%	3.2%	3.0%
Same store sales growth[5]	6.3%	0.9%	1.5%	3.1%	2.8%
Number of Mark's Work Wearhouse banner stores	382	384	385	385	
Financial Services Segment					
Average number of accounts 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 accounts 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.

[5] Figures have been restated to reflect updated calculation methodology

[6] Financial Services' revenue has been restated.

TEN-YEAR FINANCIAL REVIEW

(C$ in millions, except where noted)	2012	2011
Consolidated Statements of Income		
Revenue	$ 11,427.2	$ 10,387.1
Earnings before interest, income taxes, depreciation & amortization and non-controlling interest	1,138.5	1,058.2
Income before income taxes and non-controlling interest	677.2	629.9
Income taxes	178.0	162.9
Net income before non-controlling interest	499.2	467.0
Non-controlling interest	–	–
Net income	499.2	467.0
Cash generated from operations (before changes in working capital and other)	1,484.7	1,400.1
Cash generated from operating activities	743.0	1,405.5
Earnings retained and reinvested[4]	397.5	375.3
Capital expenditures[5]	334.8	364.7
Consolidated Balance Sheets		
Current assets	$ 7,748.6	$ 6,956.6
Long-term assets[6]	1,994.2	1,943.9
Property and equipment and investment property	3,438.6	3,438.3
Total assets	13,181.4	12,338.8
Current liabilities	4,624.1	4,153.0
Long-term debt (excludes current portion)	2,336.0	2,347.7
Long-term deposits (excludes current portion)	1,111.8	1,102.2
Other long-term liabilities[7]	345.9	326.9
Non-controlling interest	–	–
Shareholders' equity	4,763.6	4,409.0
Consolidated per Share[8]		
Basic earnings per share	$ 6.13	$ 5.73
Diluted earnings per share	6.10	5.71
Cash generated from operations (before changes in working capital and other)	18.30	17.19
Cash generated from operating activities	9.16	17.26
Dividends declared per share	1.250	1.125
Shareholders' equity	58.71	54.14
Statistics at Year End		
Number of Canadian Tire Retail banner stores	490	488
Number of PartSource banner stores	87	87
Number of gas bars	299	289
Number of car washes	80	76
Number of Mark's Work Warehouse banner stores	386	385
Number of FGL Sports banner stores[9]	495	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.

2010[1]	2009[2]	2008[2,3]	2007[2]	2006[2]	2005[2]	2004[2]	2003[2,3]
$ 9,213.1	$ 8,686.5	$ 9,121.3	$ 8,606.1	$ 8,252.9	$ 7,713.9	$ 7,062.1	$ 6,486.8
996.6	873.7	891.8	881.2	809.0	789.1	702.0	597.0
586.8	479.2	543.0	611.2	557.8	527.7	460.9	365.9
142.6	144.2	167.6	199.5	200.8	190.0	162.5	116.0
444.2	335.0	375.4	411.7	357.0	337.7	298.4	249.9
–	–	–	–	2.4	7.6	6.9	8.7
444.2	335.0	375.4	411.7	354.6	330.1	291.5	241.2
1,337.9	694.7	588.4	528.7	410.1	700.7	630.4	534.5
729.5	418.8	181.5	61.6	395.3	413.5	413.1	520.1
370.4	266.3	307.0	351.3	300.8	282.7	251.0	208.7
339.8	273.1	471.9	592.7	557.4	391.1	340.7	278.9
$ 6,549.2	$ 5,196.2	$ 3,979.0	$ 3,138.2	$ 2,541.0	$ 2,973.1	$ 2,434.6	$ 2,291.5
1,198.7	495.9	605.9	343.0	382.3	238.6	223.4	156.7
3,300.6	3,180.4	3,198.9	3,283.6	2,881.3	2,743.9	2,585.2	2,444.9
11,048.5	8,872.5	7,783.8	6,764.8	5,804.6	5,955.6	5,243.2	4,893.1
3,251.5	2,647.8	1,999.7	2,113.7	1,663.6	1,821.0	1,487.4	1,612.0
2,365.4	1,101.2	1,373.5	1,341.8	1,168.4	1,171.3	1,081.8	886.2
1,264.5	1,196.9	598.7	3.8	–	–	–	–
162.2	238.7	246.9	197.4	187.4	152.2	122.8	77.8
–	–	–	–	–	300.0	300.0	300.0
4,004.9	3,687.9	3,565.0	3,108.1	2,785.2	2,511.1	2,251.2	2,017.1
$ 5.45	$ 4.10	$ 4.60	$ 5.05	$ 4.35	$ 4.04	$ 3.60	$ 2.99
5.42	4.10	4.60	5.05	4.31	3.98	3.53	2.95
16.43	8.51	7.21	6.49	5.03	8.57	7.78	6.63
8.96	5.13	2.22	0.76	4.85	5.06	5.10	6.45
0.905	0.840	0.840	0.740	0.660	0.580	0.500	0.400
49.17	45.19	43.69	38.15	34.19	30.83	27.75	24.98
485	479	475	473	468	462	457	452
87	87	86	71	63	57	47	39
287	272	273	266	260	259	253	232
76	73	74	74	74	67	58	47
383	378	372	358	339	334	333	322
–	–	–	–	–	–	–	–

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.

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 (within one year) rather than through continuing use

Basic earnings per share
Basic earnings per share is calculated by dividing 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 (bps)
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.

Carbon and Energy Footprint
The energy use and greenhouse gas emissions from Canadian Tire's operations and some external activities from its extended value-chain such as raw material acquisition, product manufacturing, product transportation and buildings operations.

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 calculated 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 compared to 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 store.

Core Retail
The Company's core retail business covers various categories including solutions for Living, Playing and Fixing, Automotive, Apparel and Sporting goods.

Credit risk
The potential for loss due to the failure of a borrower to meet their financial obligation.

Dealer
The independent business owners who operate our Canadian Tire Retail stores.

Debenture
Long-term corporate debt that is not secured by the pledge of specific assets.

Debt covenants
Restrictions on the activities of a debtor written into bank loan agreements or bond indenture agreements that prohibit the debtor from taking actions that might hurt the interests of the lenders or bondholders.

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 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.

EBITDA
Earnings before interest, tax, depreciation and amortization (EBITDA) is known 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.

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.

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.

Gigajoules (GJ)
A unit of measurement for energy use.

Greenhouse gas (GHG) emissions
Represents one or a combination of the following gases contributing to the greenhouse effect: carbon dioxide ($C0_2$), methane (CH_4), nitrous oxide (N_20), sulphur hexafluoride (SF_6) hydrofluorocarbons (HFCs), and perfluorocarbons (PFCs).

Gross Average Accounts Receivable (GAAR):
GAAR is the average of the loans receivable outstanding.

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 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, which are issued by the International Accounting Standards Board.

Interest coverage
Income for the year before interest on debt and income taxes divided by annualized interest on debt issued and retired for the year.

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, personal loan and line of credit customers, and dealer loans and other loans.

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.

Off-balance sheet financial transaction
A financial arrangement that is structured in a way that it is not recorded on an entity's balance sheet.

Operating segments
An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the CEO to make decisions about resource allocation and performance measurement for which discrete financial information is available.

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, and key management, as well as any immediate family members and entities controlled by these parties or their immediate family members

Retail return on invested capital (ROIC)
Retail return on invested capital is calculated by dividing the rolling 12-month retail after-tax earnings, before net finance costs, 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. The average is based on the retail invested capital at the beginning and ending of the rolling 12-month period.

Retail sales
Retail sales refer to the point of sales (i.e. 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.

Return on receivables (ROR)
Return on receivables is a key profitability measure the Company uses to track the return on the average total managed portfolio of loans receivable. ROR is calculated as income before taxes and gain/loss on disposal of property and equipment as a percentage of gross average receivables (GAR).

Revenue
Revenue from the sale of goods includes shipments of merchandise to Canadian Tire Dealers, 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 directly to customers. Revenue also includes interest income on loans receivable, as well as service revenue from Roadside Assistance memberships, home services, insurance premiums and merchant and interchange fees on credit card transactions provided by Financial Services. Royalties, license fees and rental income are also included in revenue.

Securitization
Securitization is 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.

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. 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. For CTR and FGL Sports, same store sales include sales from all stores that have been open for a minimum of one year and one week. For Mark's, same store sales include sales from all stores that have been open since at least the beginning of the comparative quarter in the prior year.

Sales per square foot
Sales per square foot is a metric used by management to evaluate the effective utilization of its assets. The metric is calculated using sales on a rolling 52-week basis in each year for those stores that have been open for a minimum of one fiscal year as at the end of the current quarter. 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.

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 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.

Sustainability (or Business Sustainability)
An innovative strategy that provides economic benefits from enhanced social and environmental outcomes by integrating sustainability into business operations. The scope of the strategy is Canadian Tire's value-chain – reaching upstream to our suppliers and downstream to our customers.

Tonnes of Carbon Dioxide Equivalents (tCO_2e)

Expresses all greenhouse gases in the measurement of carbon dioxide by adjusting other types of greenhouse gases – methane, nitrous oxide, sulphur hexafluoride hexafluoride, hydrofluorocarbons, and perfluorocarbons – to their carbon dioxide equivalent based on their relative Global Warming Potential (GWP).

Total managed portfolio

The total value, before allowances, of the loans receivable portfolio, which includes credit card, personal and line of credit loans.

Total Return to Shareholders (TRS)

Total Return to Shareholders is used to compare the performance of different companies' stocks and shares over time. It combines share price appreciation and dividends paid to show the total return to the shareholder.

Trading Book

A trading book consists of positions in financial instruments and commodities held either with trading intent or in order to hedge other elements of the trading book.

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.

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; President, Maureen Sabia International, a consulting firm; and Corporate Director

Iain C. Aitchison[3]
New Jersey, U.S.A.
Corporate Director

Martha G. Billes[2,3]
Alberta, Canada
President, Albikin Management Inc., an investment holding company

Owen G. Billes[4]
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. Furlong[4]
British Columbia, Canada
Corporate Director

James L. Goodfellow[1,4]
Ontario, Canada
Corporate Director

Jonathan Lampe[2]
Ontario, Canada
Partner, Goodmans LLP, a law firm

Claude L'Heureux[4]
Ontario, Canada
President, Gestion Claude L'Heureux, which operates a 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

Alan P. Rossy[1]
Quebec, Canada
President and CEO, Groupe Copley, a real estate company

Peter B. Saunders[3]
Florida, U.S.A.
Corporate Director

Graham W. Savage[1,2]
Ontario, Canada
Corporate Director

George A. Vallance[4]
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, Jonathan Lampe

[3] **Management Resources and Compensation Committee**
Chairman, Frank Potter

[4] **Social Responsibility Committee**
Chairman, Timothy R. Price

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, Canadian Tire Corporation, Limited

Marco Marrone
Chief Operating Officer, Canadian Tire Retail and Executive Vice-President, Canadian Tire Corporation, Limited

Michael B. Medline
President, FGL Sports and Mark's and Executive Vice-President, Canadian Tire Corporation, Limited

Dean McCann
Executive Vice-President, Finance and Chief Financial Officer, Canadian Tire Corporation, Limited

Mary L. Turner
Chief Operating Officer, Canadian Tire Financial Services Limited

Harry P. Taylor
Chief Operating Officer, Mark's

Robyn A. Collver
Senior Vice-President, Secretary and General Counsel, Canadian Tire Corporation, Limited

Douglas B. Nathanson
Senior Vice-President and Chief Human Resources Officer, Canadian Tire Corporation, Limited

Eugene Roman
Senior Vice-President and Chief Technology Officer, Canadian Tire Corporation, Limited

John D. Salt
Senior Vice-President, Supply Chain, Canadian Tire Corporation, Limited

Kenneth Silver
Senior Vice-President, Corporate Strategy and Real Estate, Canadian Tire Corporation, Limited

Candace A. MacLean
Vice-President and Treasurer, Canadian Tire Corporation, Limited

Shareholder and Corporate Information

HOME OFFICE

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Investor Relations email:
investor.relations@cantire.com

MEDIA CONTACT

ROBERT NICOL
Vice-President, Communications
robert.nicol@cantire.com

ANNUAL MEETING OF SHAREHOLDERS

MaRS COLLABORATION CENTRE
101 College Street
Toronto, Ontario
Thursday, May 9, 2013
10:00 a.m. (EDT)

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)
Caisse centrale Desjardins
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: 1-877-982-8768
(toll-free in North America)
Fax: 1-866-249-7775
Email: service@computershare.com

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

DISCLOSURE DOCUMENTS

Corporate governance disclosure and other investor information are available online from the investor relations pages of the Company's website at http://corp.canadiantire.ca/en/investors.

Additional copies of 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.

EXCHANGE LISTINGS

THE TORONTO STOCK EXCHANGE
Common Shares (CTC)
Class A Non-Voting Shares (CTC.A)

AUDITORS

DELOITTE LLP
Chartered Accountants

2012 DIVIDENDS DECLARED

Date of Declaration	Record Date	Date Payable	Amount Payable Per Share
November 8, 2012	January 31, 2013	March 1, 2013	$0.35
August 9, 2012	October 31, 2012	December 1, 2012	$0.30
May 10, 2012	July 31, 2012	September 1, 2012	$0.30
February 9, 2012	April 30, 2012	June 1, 2012	$0.30

Certain brands mentioned in this report are the trade-marks of Canadian Tire Corporation, Limited, Mark's Work Wearhouse Ltd. and FGL Sports Ltd. Others are the property of their respective owners.

Notes

Notes

Notes

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AS OF JANUARY 1, 2013, CANADIAN TIRE RETAIL, SPORT CHEK AND SPORTS EXPERTS ARE PROUD PARTNERS OF THE CANADIAN OLYMPIC TEAM

SPORTCHEK

PREMIER NATIONAL PARTNER

PREMIER NATIONAL PARTNER

sports experts

PREMIER NATIONAL PARTNER

TO LEARN MORE ABOUT US, VISIT

www.corp.canadiantire.ca