Management’s Discussion and Analysis

Canadian Tire Corporation, Limited

Fourth Quarter and Full Year 2015

1.0 Preface

1.1 Definitions

In this document, the terms “we”, “us”, “our”, “Company”, “Canadian Tire Corporation”, “CTC”, and “Corporation” refer to Canadian Tire Corporation, Limited, on a consolidated basis. This document also refers to the Corporation’s three reportable operating segments: the “Retail segment”, the “CT REIT segment”, and the “Financial Services segment”.

The financial results for the Retail segment are delivered by the businesses operated by the Company under the Company’s retail banners, which include Canadian Tire, PartSource, Petroleum, Mark’s, Sport Chek, Sports Experts, Atmosphere, and Pro Hockey Life (“PHL”).

In this document:

“Canadian Tire” refers to the general merchandise retail and services businesses carried on under the “Canadian Tire” and “PartSource” names and trademarks.

“Canadian Tire stores” and “Canadian Tire gas bars” refer to stores and gas bars (which may include convenience stores, car washes and propane stations) respectively, operated under the “Canadian Tire” and “Gas+” names and trademarks.

“PartSource stores” refers to stores operated under the “PartSource” name and trademarks.

“Petroleum” refers to the retail petroleum business carried out under the “Canadian Tire” and “Gas+” names and trademarks.

“CT REIT” refers to the business carried on by CT Real Estate Investment Trust and its subsidiaries, including CT REIT Limited Partnership (“CT REIT LP”).

“Financial Services” refers to the business carried on by the Company’s Financial Services subsidiaries, including Canadian Tire Bank (“CTB” or “the Bank”).

“FGL Sports” refers to the retail business carried on by FGL Sports Ltd., and “FGL Sports stores” which includes stores operated under the “Sport Chek”, “Sports Experts”, “Atmosphere”, and “Pro Hockey Life” names and trademarks.

“Mark’s” refers to the retail business carried on by Mark’s Work Wearhouse Ltd., and “Mark’s stores” which includes stores operated under the “Mark’s”, “Mark’s Work Wearhouse”, and “L’Équipeur” names and trademarks.

Other terms that are capitalized in this document are defined the first time they are used.

1.2 Forward-looking statements

This Management’s Discussion and Analysis (“MD&A”) contains statements that are forward-looking. Actual results or events may differ materially from those forecast and from statements of the Company’s plans or aspirations that are made in this MD&A because of the risks and uncertainties associated with the Corporation’s business and the general economic environment. The Company cannot provide any assurance that any forecast financial or operational performance, plans or financial aspirations will actually be achieved or, if achieved, will result in an increase in the price of the Company’s shares. Refer to section 16.0 in this MD&A for a more detailed discussion of the Company’s use of forward-looking statements.

1.3 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 17, 2016.

1.4 Quarterly and annual comparisons in the MD&A

Unless otherwise indicated, all comparisons of results for Q4 2015 (13 weeks ended January 2, 2016) are compared against results for Q4 2014 (14 weeks ended January 3, 2015) and all comparisons of results for the full year 2015 (52 weeks ended January 2, 2016) are compared against results for the full year 2014 (53 weeks ended January 3, 2015).

1.5 Accounting framework

The annual consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), also referred to as Generally Accepted Accounting Principles ("GAAP"), using the accounting policies described in Note 3 of the annual consolidated financial statements.

1.6 Accounting estimates and assumptions

The preparation of consolidated financial statements that conform to IFRS requires Management 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. Refer to section 11.1 in this MD&A for further information.

1.7 Key operating performance measures and additional GAAP and non-GAAP financial measures

The Company has identified several key operating performance measures and non-GAAP financial measures which Management believes are useful in assessing the performance of the Company; however, readers are cautioned that some of these measures may not have standardized meanings under IFRS and, therefore, may not be comparable to similar terms used by other companies.

Retail sales is one of these key operating performance measures and refers to the Point of Sale ("POS" i.e. cash register) value of all goods and services sold to retail customers at stores operated by Canadian Tire Associate Dealers ("Dealers"), Mark's and FGL Sports franchisees, and Petroleum retailers, at corporately-owned stores across all retail banners, of services provided as part of the Home Services offering, and of goods sold through the Company's online sales channels, and in aggregate does not form part of the Company's consolidated financial statements. Management believes that retail sales and related year-over-year comparisons provide meaningful information to investors and are expected and valued by them to help assess the size and financial health of the retail network of stores. These measures also serve as an indicator of the strength of the Company's brand, which ultimately impacts its consolidated financial performance. Refer to section 11.3.1 for additional information on retail sales.

Revenue, as reported in the Company's consolidated financial statements, comprises primarily the sale of goods to Dealers and to franchisees of Mark's and FGL Sports, the sale of gasoline through Petroleum retailers, the sale of goods to retail customers by stores that are corporately-owned under the Mark's, PartSource and FGL Sports banners, the sale of services through the Home Services business, the sale of goods to customers through INA International Ltd. ("INA"), a business-to-business operation of FGL Sports and through the Company's online sales channels, as well as revenue generated from interest, service charges, interchange and other fees and from insurance products sold to credit card holders in the Financial Services segment, and rent paid by third-party tenants in the CT REIT segment.

The Company also evaluates performance based on the effective utilization of its assets. The primary metric used to evaluate the performance of core retail assets is average 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 retail businesses' introduction of new store layouts and merchandising strategies. In addition, Management believes that return on invested capital ("ROIC"), analyzed on a rolling 12-month basis, reflects how well the Company is allocating capital toward profitable retail investments. Retail ROIC can be compared to CTC's cost of capital to determine whether invested capital was used effectively. Refer to section 11.3.1 for a description of changes made to the definition of this metric in Q4 2014.

Management calculates and analyzes certain measures to assess the size, profitability, and quality of Financial Services' 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"). Refer to section 11.3.1 for a definition of ROR.

Aspirations with respect to retail sales, Retail ROIC and ROR have been included in our financial aspirations for the three-years ending in 2017. Refer to section 5.0 in this MD&A for the financial aspirations, assumptions, and related risks.

Additionally, the Company considers earnings before interest, tax, depreciation and amortization, and the change in fair value of the redeemable financial instrument ("adjusted EBITDA") to be an effective measure of CTC's profitability on an operational basis. Adjusted EBITDA is a non-GAAP financial metric and is commonly regarded as an indirect measure of operating cash flow, a significant indicator of success for many businesses. Refer to section 11.3.2 for a schedule showing the relationship of the Company's consolidated adjusted EBITDA to the most comparable GAAP measure.

In the CT REIT segment, certain income and expense measurements that are recognized under GAAP are supplemented by Management's use of certain non-GAAP financial key operating performance measures when analyzing operating performance. Management believes the non-GAAP financial key operating performance measures provide useful information to both Management and investors in measuring the financial performance and financial condition of CT REIT. These measures include funds from operations ("FFO"), adjusted funds from operations ("AFFO"), and net operating income ("NOI"). Refer to section 11.3.2 for further information and for a reconciliation of these measures to the nearest GAAP measure.

1.8 Rounding and percentages

Rounded numbers are used throughout the MD&A. All year-over-year percentage changes are calculated on whole dollar amounts except in the presentation of basic and diluted earnings per share ("EPS"), in which the year-over-year percentage changes are based on fractional amounts.

2.0 Company and industry overview

2.1 Overview of the business

Canadian Tire Corporation is a family of businesses that includes Canadian Tire, PartSource, Petroleum, FGL Sports, Mark's, CT REIT, and a Financial Services division.

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

- shipments to Canadian Tire Dealers and franchisees of FGL Sports and Mark's;
- royalties on sales made by franchisees of FGL Sports and Mark's;
- sales of goods to retail customers of corporately-owned stores and wholesale revenue from sales to business customers;
- franchise rent and Dealer property license fees;
- sales of gasoline and convenience items at gas bars;
- interest income and service charges on credit card loans receivable;
- merchant and interchange fees on credit card transactions;
- revenue from insurance products sold to credit card holders; and
- rental revenue from third-party tenants leasing space at properties owned by the Company.

The Company has three reportable operating segments for financial reporting purposes: Retail, CT REIT, and Financial Services.

2.1.1 Retail segment

The Company's retail business results are delivered through the Company's retail banners: Canadian Tire, PartSource, Petroleum, Mark's, and the various FGL Sports banners.

Canadian Tire is one of Canada's most shopped general merchandise retailers. For more than 90 years, Canadian Tire has been Canadians' store for life in Canada. Canadian Tire offers products and services in the Living, Playing, Fixing, Automotive, and Seasonal categories. Canadian Tire is best known for the iconic red triangle affixed to every Canadian Tire storefront and also operates the specialty automotive hard parts banner PartSource. Canadian Tire aspires to be identified as "Canada's store" and one of the Canadian consumers' most recognized and trusted brands. One of its strategies to build its brand is to reconnect with customers through renewed marketing campaigns such as "Tested for life in Canada™". As part of its evolution, Canadian Tire now offers many of its products and services online for purchase, through its website at www.canadiantire.ca, with in-store pick-up across the entire store network. In addition to Canadian Tire's commitment to strengthening its eCommerce platform, it is focused on finding ways to use technology to service and connect with today's customers. Examples include in-aisle product locator devices, product-selection tools in the Automotive category, and enhancements to the Canadian Tire mobile app. Canadian Tire also offers one of Canada's most beloved loyalty programs, "My Canadian Tire 'Money'™", which allows customers to choose between paper-based and electronic 'Money'.

The 498 Canadian Tire stores, including close to 5,600 automotive service bays, across Canada are run by third-party operators known as Dealers, who are independent business owners. Dealers buy merchandise from CTC and sell it to consumers in Canadian Tire stores or online. Canadian Tire supports Canadian Tire Dealers with marketing, supply chain management, and purchasing, administrative, financial, and information services. Each Dealer owns the fixtures, equipment and inventory of the Canadian Tire store he or she operates and is responsible for the store staff and operating expenses for that store. Each Dealer agrees to comply with the policies, marketing plans, and operating standards prescribed by

Canadian Tire, including purchasing merchandise primarily from Canadian Tire and offering merchandise for sale at prices not exceeding those set by Canadian Tire. In April 2013, the Company and its Dealers agreed to new contract terms which came into effect on June 30, 2013 and expire on December 31, 2024. Each contract includes guidelines for gross margin and cost sharing, simplified processes to achieve efficiencies and reduce costs, and guidelines to improve Dealer mobility within the network.

Petroleum is one of Canada's largest independent retailers of gasoline, with a network of 296 retailer-operated gas bars, including 291 convenience stores and 83 car washes. Petroleum operates under the banner Gas+. The majority of Petroleum sites are co-located with a Canadian Tire store as a strategy to drive traffic to the Company's core retail banner stores. In addition, Petroleum has a contract to build and operate 23 Canadian Tire gas bars in state-of-the-art service centres along major Ontario highways (Highway 400 and Highway 401). The service centres feature a gas bar and an associated convenience store. There were 20 of these locations in operation as at January 2, 2016.

Mark's provides Canadians with apparel and footwear for everyday work and everyday living by focusing its core business on developing durable, high-quality and comfortable items for casual and industrial use. Mark's operates 380 stores nationwide, including 347 corporate and 33 franchise stores that offer industrial wear, men's casual wear, women's casual wear, footwear, and accessories. Mark's operates under the banners Mark's, Mark's Work Wearhouse and, in Quebec, L'Équipeur, and offers products for sale through its website at www.marks.com. Mark's also conducts a business-to-business operation under the name "Imagewear, a Division of Mark's Work Wearhouse".

FGL Sports is a national retailer of sporting goods and active wear in Canada, operating 433 stores including 249 corporate stores and 184 franchise stores from coast to coast. 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 (others include "Intersport", "National Sports", "Hockey Experts" and "Pro Hockey Life"). Sport Chek offers products for sale through its website at www.sportchek.ca. FGL Sports also conducts a business-to-business operation under the name INA.

2.1.2 CT REIT segment

CT REIT has a geographically-diversified portfolio of properties which comprises 287 properties located across each of the provinces and two territories of Canada totaling approximately 21.5 million square feet of gross leasable area. The property portfolio includes Canadian Tire stores, retail developments anchored by a Canadian Tire store, Canadian Tire distribution centres ("DC"s), a mixed-use commercial property, and development lands upon which Canadian Tire retail banner stores may be built. CT REIT's primary business involves owning, developing and leasing income-producing commercial properties. CTC holds an approximate 83.8 percent effective interest in CT REIT.

2.1.3 Financial Services segment

Financial Services markets a range of Canadian Tire-branded credit cards, including the Canadian Tire Options MasterCard, the Cash Advantage MasterCard, and the Gas Advantage MasterCard. Financial Services also markets insurance and warranty products and processes credit card transactions for purchases made in Canadian Tire stores and Petroleum outlets. CTC holds an 80.0 percent interest in the Financial Services business, which includes Canadian Tire Bank, a federally regulated financial institution that manages and finances the Company's consumer MasterCard portfolio. The Bank also offers and markets high-interest savings account deposits, tax-free savings account deposits ("TFSA"s), and guaranteed investment certificate deposits ("GIC"s), both directly and through third-party brokers. The Financial Services segment includes a Bermuda-based reinsurance company that reinsures the risk of certain insurance products marketed to Canadian Tire customers, and Glacier Credit Card Trust ("GCCT" or "Glacier"), a trust established to purchase co-ownership interests in the Company's credit card loans. Glacier issues debt to third-party investors to fund its purchases.

2.1.4 Foreign operations

The Retail segment has representative offices in the Pacific Rim that perform activities relating to product sourcing, logistics and vendor management. In addition, a United States ("U.S.") based subsidiary carries on a factoring business, using some of its funds to purchase Dealer receivables from the Company, with the remainder of its funds being loaned to other subsidiaries within the Company. FGL Sports, through a subsidiary, has wholesale operations based in the U.S., including warehouse facilities in the state of Washington. The Financial Services segment includes a Bermuda-based reinsurance company.

2.2 Competitive landscape

No single retailer (traditional bricks-and-mortar or online) competes directly with Canadian Tire across all of its categories of product and service offerings, reflecting Canadian Tire's unique position in the Canadian retail marketplace. Canadian Tire's Living, Playing, Fixing, and Seasonal categories compete with mass merchants, home improvement warehouses,

and specialty retailers across a number of product lines, including kitchen, cleaning, storage and organization, tools, and online offerings.

Canadian Tire's Automotive business, including its auto service centres and hard-goods departments, PartSource hard-parts specialty stores and Petroleum retail outlets and gas bars, is one of the Company's core differentiators. The main competition in this category is from independent retailers, including online retailers, national and regional parts and tire specialty shops and automotive dealerships. In recent years, mass merchants and online specialty retailers have become an increasing source of competition, particularly in the tire market.

Mark's offers industrial apparel and footwear as well as men's and women's casual apparel and footwear through bricks-and-mortar stores and online offerings. Mark's has the highest market share in industrial apparel and footwear and is a leader in men's casual apparel in the Canadian retail marketplace. Mass merchants, department stores, specialty retailers, and online retailers compete with Mark's product lines. Mark's core differentiators are its strong national brands and private-label program with a focus on quality, comfort, durability and functionality, its wide assortment of industrial apparel, its casual and industrial-footwear offering, and its online retail channel.

FGL Sports is a leading national retailer of sporting goods and active wear, offering a wide assortment of brand-name and private-label products through a network of corporate and franchise stores and its online retail channel. FGL Sports' stores are primarily located in malls, strip malls, and retail power centres. 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 vendor-direct online and outlet-store sales channels. FGL Sports' core differentiators are its strong brand equity in core brands, including both private-label and elite national brands, world-class digital concept and flagship stores, its online retail channel, real estate coverage with high-profile locations in major shopping centres, and its strategic sports partnerships and sponsorships.

Canadian Tire, Mark's, and FGL Sports also compete with retail businesses that sell products through eCommerce channels. The Company's major retail banners host eCommerce sites which aim to address this increasing source of competition.

CT REIT's primary business involves owning, developing, and leasing income-producing commercial properties located in Canada. Competitors to CT REIT include other real estate investors, managers, and developers of commercial properties in the Canadian real estate market. Certain of these competitors may have greater financial and other resources and greater operating flexibility than CT REIT. An increase in the availability of funds for investment or an increase in interest in real estate property investments may increase the competition for attractive real estate property investments, thereby increasing purchase prices and reducing yields.

Financial Services' primary role in the Company is to strengthen and support the core retail businesses. The credit card offering of Financial Services competes with those of the major Canadian banks and other retail companies' financial services arms. Competitors in the financial services industry have been creating mobile enabled solutions that allow customers the choice of doing their banking online using their computer and through mobile devices. In response to the recent trends, in September 2015, Financial Services launched an innovative mobile payments app which is exclusive to Canadian Tire Options® MasterCard® members. The mobile app is one of several key differentiators for Financial Services as it is the only payment solution in Canada to deliver payment capabilities, gamification features, special offers, and rewards to customers while allowing them to track their credit card information and e-Canadian Tire 'Money' rewards. Another industry change occurred in November 2014, when Visa and MasterCard submitted voluntary proposals to reduce interchange fees paid by retailers accepting their credit cards as a form of payment for retail sales transactions to an average effective rate of 1.5 percent for the next five years. The implementation began prior to April 2015. The reduction in interchange fees has impacted revenue growth for credit card issuers partnered with these associations, including the Company. The Company is partially mitigating the impact on its revenue growth with its strong value proposition and enhanced credit approval and in-store acquisition processes.

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

- U.S.-based retailers already in Canada (including Walmart, Costco, Home Depot, Cabela's, Bass Pro Shops, Lowe's, and Nordstrom) that are in the process of expansion or are expected to further expand their store networks in Canada;
- new retailers that may enter Canada in the coming years which could include J.C. Penney, Kohl's, and Dick's Sporting Goods;
- vendor-direct online and outlet-store sales channels, including, for example, those operated by Under Armour;

- non-traditional market entrants and new technologies such as mobile payments which impact the competitive landscape and credit card industry;
- Costco partnering with Capital One to become a MasterCard issuer; and
- U.S. or international retailers that do not have bricks-and-mortar stores in Canada but are capturing sales from Canadian customers through eCommerce 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 expectations of retail consumers are also changing rapidly, with retailers modifying how they reach out to customers and encourage them to shop in their stores. The changes include:

- technology-savvy and better informed customers, due in part to the breadth of information available online for education on specific items and product features;
- advances in mobile technology, allowing retailers to market to customers based on their physical location by sending text and email messages with specific targeted offers as they come within a specific distance of stores;
- a changing Canadian demographic, with customers who have different shopping patterns and needs and little brand loyalty to established retailers; and
- customers who are more price-sensitive and price-compare online before making purchases.

The Company is well positioned in this competitive environment and has identified core capabilities that differentiate the Company and its businesses and operations from those of its competitors and that add value for its customers. These core capabilities are discussed in further detail in section 3.0 of this MD&A.

3.0 Core capabilities

Management has identified several core capabilities that differentiate the Company, and its businesses and operations, from those of its competitors and add value for its customers. These include:

Strong brand equity

The Company is committed to being a "brand-led" organization and has made significant investments in digital technology to further improve the retail experience for its customers and thereby further increase the value of its brand. Recognizing that the Company's brand is its most valuable asset, Canadian Tire Corporation has established a Brand and Community Committee of the Board. This Committee's mandate includes oversight of the effectiveness of strategies to maintain and enhance the brand.

Canadian Tire is one of the most recognized and trusted names in the Canadian retail landscape. Canadian Tire stores and gas bars as well as many of the products offered by Financial Services all share the Canadian Tire "red triangle" logo, leveraging the loyalty and trust summoned by the Canadian Tire brand. Part of the Company's brand strategy includes the development or acquisition of high-quality private-label brands. Canadian Tire made significant progress in its execution of this strategy in 2015, showcasing its strength in style and design with the evolution of the CANVAS™ home decor line, and its strength delivering quality and performance with the expansion of the MAXIMUM line of professional-grade tools. Furthermore, the rapid rollout of the WOODS® brand for camping and outdoor enthusiasts delivered innovation and differentiation to the entire outdoor business, while the well-received FRANK™ brand continued its expansion into new household cleaning and food categories winning customer conversion from national brands. The Company's private-label and exclusively licensed brands such as Motomaster®, MasterCraft®, Denver Hayes®, WindRiver®, Diadora®, Firefly, McKINLEY®, and Nakamura® have earned a level of credibility that is on par with national brands, and are sought after by consumers from across the country.

Loyalty program

Introduced in 1958 as an innovative customer traffic-builder for Canadian Tire stores and gas bars, the Canadian Tire 'Money'® loyalty program remains a beloved and nostalgic part of the Company's history. Over a year into the digitized program, which introduced electronic 'Money' as an alternative to traditional paper bills, the "My Canadian Tire 'Money'™" program has over 8 million active members, and remains one of Canada's most well-known loyalty programs. The Company has also developed a relationship with a key partner to provide customers with an enhanced value proposition through the SCENE program, which enables members to earn and redeem points for products available at 190 Sport Chek locations across Canada. In September 2015, Financial Services launched an innovative mobile payments application, the "Canadian Tire mPay&Play™" app, which offers MasterCard® card members bonus rewards, exclusive offers and quick and easy account servicing. The mobile payment solution is available exclusively at Canadian Tire and provides card members with the convenience of paying for purchases with their Canadian Tire Options® MasterCard® using a smartphone. Refer to

section 6.1 for further information about the evolution of the Company's loyalty program and the Company's co-marketing initiatives in 2015.

Dealers

The Company's 498 Canadian Tire stores are operated by dedicated entrepreneurs called Dealers who are the face and the voice of the triangle in communities from coast-to-coast. The Canadian Tire Dealer model is unique to the Company and has served both the Dealers and the Company well for more than 80 years by allowing both parties to move forward collaboratively to succeed in a rapidly changing environment with increased competition. It is this relationship and shared purpose of creating a strong enterprise that is a differentiator from other Canadian retailers, and that acts as a strategic advantage, providing the ability to adapt stores and offerings to the local marketplace.

Innovative products

As a brand-led organization that upholds its customer promise of being Canada's Store, Canadian Tire continued to evolve its "Tested for Life in Canada™" program in 2015. The innovative program enlists a focus group of 15,000 customer volunteers who provide honest and authentic feedback on products, which lead to modifications and improvements. The program has helped the Company build a reputation as an innovator that is committed to providing its customers with quality products that are tested by Canadians, for Canadians. Sport Chek continues to be a leader in the Canadian marketplace in the integration of technology and sport. For example, in 2015, the Company launched the latest in wearables technology with the FitBit Surge which integrates GPS and automatic, continuous, wrist-based heart rate tracking along with real-time work out statistics designed to make the most of an athlete's training.

Innovative/digital store layouts

Through its retail banners, the Company delivers innovative store designs that help customers find what they need, quickly and easily. The store network is regularly refreshed to reflect the latest assortments, store layout, and merchandising concepts in order to enhance the in-store shopping experience. Over the last five years, the majority of Canadian Tire stores have been refreshed to the Smart store format. This concept features a "race track" floor plan and incorporates better signage and more logical product adjacencies, added features such as "price lookup" kiosks, customer assistance stations, and some of the latest technology throughout the store. An evolution of this store concept includes an expanded Living category footprint with enhanced assortments, inspirational displays, and improved product adjacencies, as well as the Pro Shop (store within a store) concept in Hunting and/or Fishing categories.

June 2015 marked the opening of Canadian Tire's most innovative and digitally enhanced store. At 136,000 square feet, the "Showcase" store in Edmonton boasts over 100 digital screens, a large exterior high resolution LED screen, digital flyer access, and helpful product selectors in the Living, Playing, Fixing, Seasonal, and Automotive sections. It also includes the world's first retail execution of a car simulator, as well as Canada's Dream Backyard and Patio Builder - an innovative and engaging customer experience that uses Oculus VR technology developed at Canadian Tire's Cloud 9 Innovation Centre in Winnipeg, Manitoba. With over 73,000 individual products, the Showcase store has the most extensive assortment of any Canadian Tire store in Canada, and demonstrates the Company's strategy of offering assortments that are tailored to the local market.

At Mark's, known as L'Équipeur in Quebec, customers have responded favourably to an improved customer experience due, in part, to clear and consistent navigational signage and better in-store merchandising and assortments across the network. In 2015, the Company continued to refresh the Mark's store network, particularly in Quebec, and opened a 22,000 square foot 'test store' at West Edmonton Mall in October, which is also the chain's largest location. The Company launched a new bilingual website for L'Équipeur in 2015 to focus on in-store digital and eCommerce expansion that will continue in 2016 with the new Marks.com website.

At FGL Sports, the retailer further strengthened its position as Canada's leading sporting goods retailer while bringing the best sports brands in the world to Canadians from coast-to-coast. A focus on enhancing the customer experience has led to improved in-store execution and merchandising as well as the installation of new in-store digital features to better assist customers to make the right purchasing decisions. Through the new Sport Chek flagship stores, two of which opened in 2014 in Edmonton, Alberta and Burnaby, British Columbia, FGL Sports is changing customer expectations with its digitally advanced and personalized retail experience. In 2015, the Company opened Sport Chek flagship stores in Toronto's Yorkdale Mall and Mississauga's Square One Mall, and brought a first-of-its-kind live TSN broadcast studio to the Maple Leaf Square store in Toronto, Ontario. In addition, FGL Sports re-launched its new eCommerce website at SportChek.ca in the Fall of 2015, with enhanced features and capabilities to improve the customer shopping experience.

Real estate expertise
The Company's strong in-house real estate team manages the entire network of owned and leased properties for all of its banners, and manages a significant portion of CT REIT's portfolio pursuant to a property management agreement. The Company's portfolio represents one of Canada's largest retail networks, comprising 1,698 locations and over 30 million retail square feet. The Company's expertise in real estate enables it to quickly and efficiently identify properties that are ideally situated for future development or redevelopment and to secure high-traffic, sought-after locations for its retail outlets. The Company's real estate management team also has a strong track record of developing commercial and industrial properties.

The Company owns the majority of Canadian Tire store properties either directly or indirectly through its majority interest in CT REIT. The balance of its Canadian Tire stores, as well as almost all Mark's and FGL Sports stores, operate in leased locations.

Sport sponsorships
The Company is a leading supporter of sport in Canada. The Company believes in the "Power of Sport" to unite families, communities, and the nation and has relationships with over 60 amateur and professional sports organizations, including partnerships with the Canadian Olympic Committee, Canadian Paralympic Committee, Hockey Canada, Skate Canada, and the National Hockey League. In addition to sport partners, the Company also supports high performance athletes who represent the Company's core values and embody spirit, passion and excellence within the world of sports. The Company's commitment to sport provides an opportunity to broaden its reach amongst key consumer groups pursing sport across a range of disciplines and at all skill levels. In addition, the Company uses its sport focus to increase the attractiveness of its brand and products to customers.

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 Canadian Tire products are distributed to stores from four DCs across Canada. The two DCs in Brampton, Ontario ("A.J. Billes" and "Brampton") are operated by the Company and are staffed primarily by Company employees while the DCs in Calgary, Alberta and Montreal, Quebec are operated for the Company by a third-party logistics company. In recent years, the DCs have focused on implementing new technologies aimed at driving efficiencies and improving operational flexibility. As examples, voice-pick technology that has been implemented is designed to enhance shipment quality and reduce errors, and the utilization of automated-guided vehicle technology at the A.J. Billes DC has replaced conventional lift vehicles and operators.

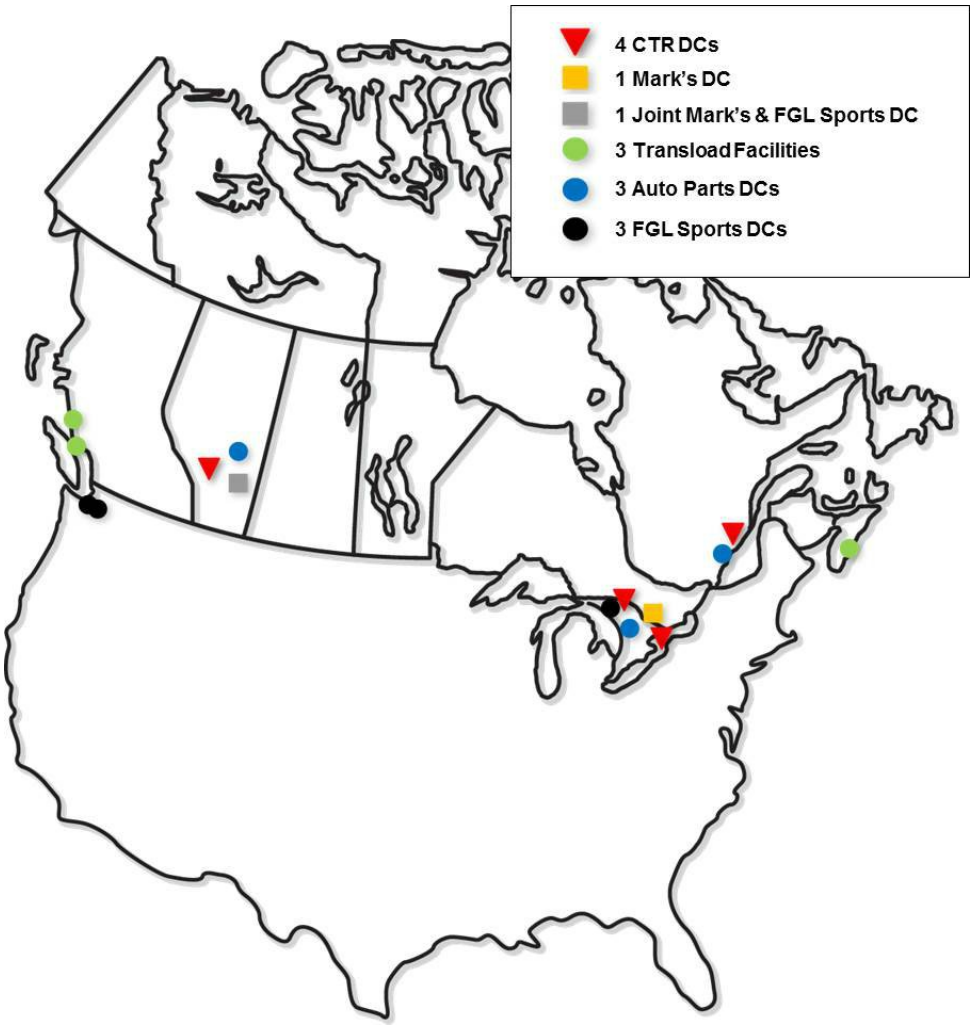
The Company has identified the need to replace the aging Brampton DC. Land in Bolton, Ontario was acquired in 2013 to replace this DC and construction began in 2014. The new Bolton DC is expected to be fully operational in 2017, at which time the Brampton DC will be decommissioned.

A new Calgary DC that services both Mark's and FGL Sports opened in early 2015. This DC replaces Mark's third-party operated DC in Calgary and provides FGL Sports with new distribution capacity in Western Canada.

In addition, Mark's partnered with a third-party logistics provider to operate the Mark's DC in Brampton pursuant to an outsourcing arrangement. The movement of goods from offshore suppliers to the DC is managed by the Company's supply chain through Canadian Tire's third-party overseas consolidator and network of third-party carrier partners. Mark's processes inbound offshore ocean containers through an outsourced transload facility in Vancouver.

FGL Sports uses third-party logistics companies to transport goods to its franchise and corporate stores from its DCs in Calgary, Alberta, and Mississauga, Ontario. These facilities use state-of-the-art warehouse management systems, automated-conveyor systems, and light-directed packing systems to distribute products to both franchise and corporate stores. FGL Sports also operates a third facility in Brampton for corporate distribution overflow and INA wholesale Canadian distribution operations. INA has two warehouse facilities in the state of Washington.

The Company's distribution network at a glance:



Prudent credit risk management

Financial Services has more than 25 years of experience managing credit card risk and has a professional team of managers, analysts, and statisticians who use sophisticated industry-standard and proprietary credit-scoring models to manage that 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.

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* award titles and nine *Customer Satisfaction* awards over the past decade.

4.0 Historical performance highlights

4.1 Selected annual consolidated financial trends

The following table provides selected annual consolidated financial and non-financial information for the last three fiscal periods. The financial information has been prepared in accordance with IFRS. The fourth quarter and full year 2015 results include one less week of retail operations compared to fourth quarter and full year 2014.

(C$ in millions, except per share amounts and number of retail locations)	**2015**	2014	2013
Revenue	**$ 12,279.6**	$ 12,462.9	$ 11,785.6
Net income	**735.9**	639.3	564.4
Basic EPS	**8.66**	7.65	6.96
Diluted EPS	**8.61**	7.59	6.91
Total assets	**14,987.8**	14,553.2	13,630.0
Total non-current financial liabilities[1]	**5,778.6**	5,473.0	4,941.7
Financial Services gross average accounts receivables (total portfolio)	**4,838.7**	4,684.6	4,374.3
Number of retail locations	**1,698**	1,700	1,687
Cash dividends declared per share	**$ 2.1500**	$ 1.9625	$ 1.4875
Stock price (CTC.A)[2]	**118.16**	122.22	99.84

[1] Includes short and long-term deposits, long-term debt including the current portion, long-term derivative liabilities included in other long-term liabilities, and the redeemable financial instrument.

[2] Closing share price as of the date closest to the Company's fiscal year-end.

The three-year trend chart highlights changes in revenue by banner between 2013 and 2015.

Consolidated revenue increased in 2014 primarily due to:

- higher shipments to Dealers relating to same-store sales growth at Canadian Tire and same-store sales growth across the Mark's and FGL Sports banners;
- higher retail sales in Petroleum due to increased volume as new sites were added on the 400/401 highways, increases in the price per litre and increased focus on convenience products;
- increased revenue in Financial Services largely attributable to process enhancements and new product offerings which led to an increase in the average account balance; and
- an incremental week of Retail segment operations in 2014.

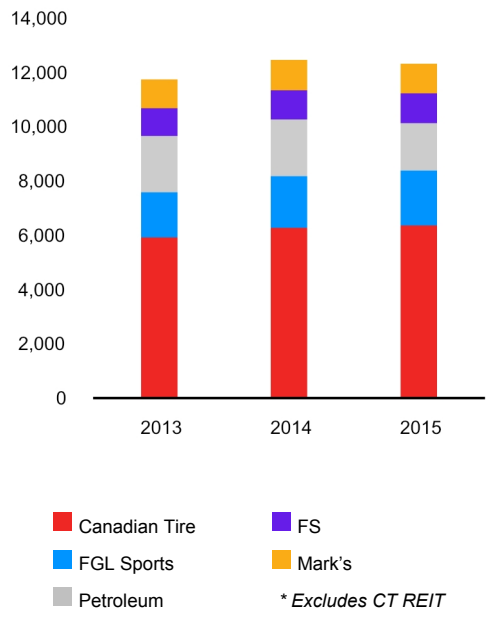
In 2015, consolidated revenue decreased compared to 2014 due to:

- lower retail sales at Petroleum due to lower gas prices;
- one less week of Retail segment operations in 2015; and
- a decline in the same-store sales growth at Mark's;

partially offset by:

- increased shipments to Dealers relating to same-store sales growth at Canadian Tire;
- increased retail sales at FGL Sports; and
- increased revenue in Financial Services primarily due to new product offerings and process enhancements that increased the average account balance.

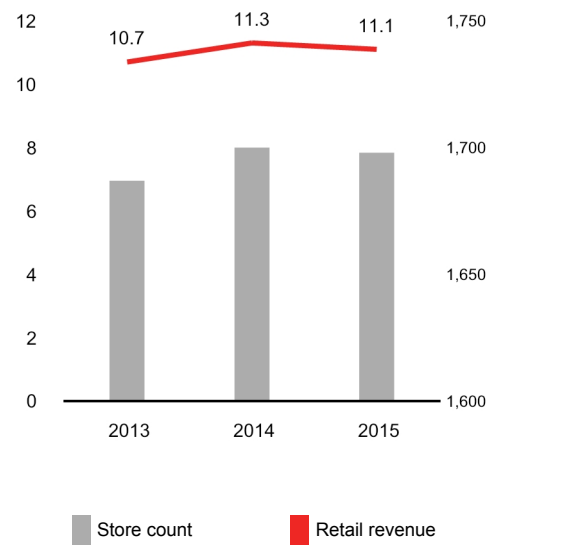
REVENUE BY BANNER/UNIT*
($ millions)



Store count has increased since 2013. The increase in store count from 2013 is in line with the growth strategy at FGL Sports to increase the number of Sport Chek and Atmosphere banner stores in the network and continued selective expansion at Canadian Tire; partially offset by the conversion in 2015 of eight FGL Sports franchise locations to buying members and a slight decline in the number of Mark's stores due to the closure of lower performing stores.

Retail revenue has increased since 2013 in line with the store count despite lower retail sales at Petroleum due to lower gas prices.

STORES AND RETAIL REVENUE
Retail Revenue
($ billions)

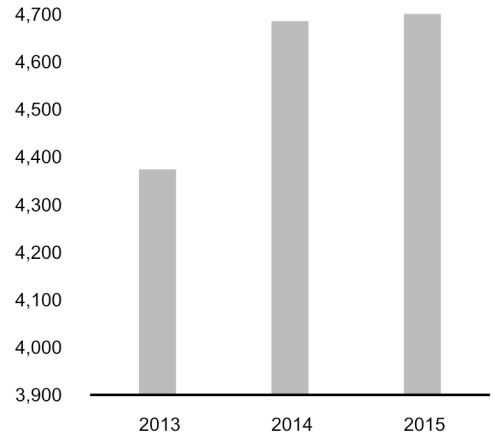


Financial Services gross average accounts receivable ("GAAR") for the total portfolio has increased over the past three years.

Higher average account balances, financing offers, in-store financing for Canadian Tire customers, and continued focus on the optimization of approval and credit limit strategies contributed to this growth in 2014 and 2015.

Ongoing investment in new account acquisition also contributed to GAAR growth; however the rate of growth slowed in 2015 due to a conservative approach to new accounts in 2014 and the earlier part of 2015, in response to economic uncertainty.

FINANCIAL SERVICES GROSS AVERAGE ACCOUNTS RECEIVABLE
($ millions)



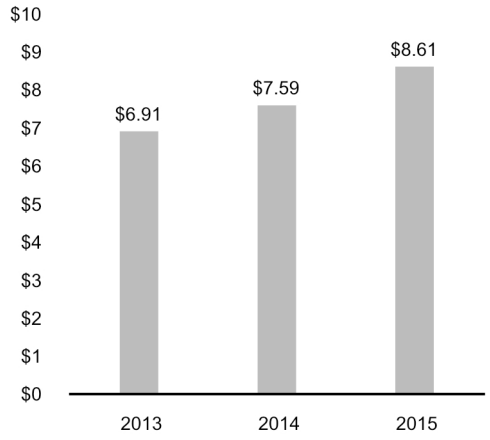
The Company's diluted EPS has steadily increased every year since 2013 primarily due to:

- solid gross margin growth from both the Retail and Financial Services segments, due to strong revenue as well as improvement in gross margin rate in both segments;
- strong retail sales growth at Canadian Tire and FGL Sports;
- increased credit card charges on increased GAAR in the Financial Services segment;
- the Company's share buy-back program which resulted in a reduction in the weighted average number of shares outstanding; and
- the impact of after-tax gains on the sale of surplus properties;

partially offset by:

- an increase in selling, general, and administrative expenses in both years due to increased investment in the network; and
- the impact of the sale of 20 percent of the Financial Services business in Q4 2014.

DILUTED EPS
($ per share)



5.0 Three Year (2015 to 2017) Financial aspirations

Financial aspirations: 2015 to 2017

The following represents forward-looking information and users are cautioned that actual results may vary.

The Company announced its three-year growth strategy and financial aspirations for fiscal years 2015 to 2017 in October 2014. The financial aspirations are outlined below along with our 2015 performance and Management's current view of the key assumptions and significant risks:

Financial Measure	Annual Aspiration	2015 Performance	Achieved in 2015?
Canadian Tire retail sales annual growth[1]	3%+	3.9%	✓
Mark's retail sales annual growth[1]	5%+	(0.7)%	✗
FGL Sports retail sales annual growth[1]	9%+	4.8%	✗
Financial Services return on receivables (ROR)	6%+	7.73%	✓

[1] Retail sales annual growth for purposes of the financial aspirations is calculated on a comparable basis using the 52 weeks ended January 2, 2016 compared to the 52 weeks ended January 3, 2015.

Mark's did not achieve its annual retail sales growth aspiration of 5+ percent in 2015 due to the effect of the impact of the drop in oil prices on the Alberta economy and industrial wear and industrial footwear sales, as well as unseasonably warm temperatures in the fourth quarter and a delayed start to winter weather in many parts of Canada.

FGL Sports did not achieve its annual retail sales growth aspiration of 9+ percent in 2015 percent due to lower than expected growth at its Quebec franchisees, unseasonably warm temperatures in the fourth quarter, a delayed start to winter weather in many parts of Canada, and the impact of the decline in the Alberta economy.

Financial Measure	Aspiration over 3-year period 2015 to 2017	2015 Performance	Tracking toward 3-year Aspiration?
Average diluted EPS growth[1]	8% to 10%	8.4%	✓
Retail return on invested capital (Retail ROIC)	9%+	8.09%	✓

[1] Average diluted EPS growth is calculated using normalized diluted EPS, refer to Section 11.3.2 in this MD&A for a calculation of normalized diluted EPS.

Conditions that affect the Company's performance have changed since the Retail ROIC aspiration was announced. The deterioration of the Alberta economy, resulting from the decline in oil prices, and the decline in the value of the Canadian dollar as compared to the U.S. dollar, has resulted in challenges to deliver the growth in earnings required to achieve the Retail ROIC aspiration. Notwithstanding these challenges, Retail ROIC continues to be a focus and the Company continues to strive to achieve this aspiration by growing earnings, through prudent capital allocation, and through the benefits achieved as part of the Company's productivity initiatives.

Management's current view of the key assumptions and significant risks that support the Company's financial aspirations are laid out below:

1. Annual retail sales growth of 3+ percent at Canadian Tire, 5+ percent at Mark's, and 9+ percent at FGL Sports

Key assumptions:
- Strong and consistent same-store sales growth across core retail businesses
- Retail square footage growth at Canadian Tire and Mark's in line with recent years
- Continued Sport Chek network expansion
- Growth in eCommerce sales across all retail banners
- Positive customer response to brand-focused marketing, in-store merchandising, category specific tactical growth initiatives, and digital initiatives
- Effective use of loyalty program customer shopping data to create targeted customer offerings and enhance in-store experience

Significant risks:
- Limitations on availability of preferred retail locations due to continued competition and demand for retail space in Canada
- Increased competition due to expanding and new U.S. retailers, new and existing online competitors, or a significant change in the Canadian retail landscape
- Decline in economic growth, consumer confidence, and household spending
- The competitiveness of the Company's loyalty programs
- Customer's willingness to participate in and the relative attractiveness of the Company's marketing offers
- Impact of commodity prices and other factors on the economic condition of various geographic or customer segments

2. Average diluted EPS growth of 8 to 10 percent over the three-year period
Key assumptions: • Realization of aspirations for retail sales growth • Increasing bottom-line earnings across all businesses through strong margin management, operating expense growth in line with revenue growth, and growth in GAAR in the Financial Services segment • Realization of cost savings and benefits from initiatives aimed at improving gross margin and operating expenses, including Dealer contract initiatives and enterprise-wide productivity initiative
Significant risks: • Revenue growth not achieved, refer to significant risks associated with retail sales aspirations described above • Increased costs relating to foreign exchange and global sourcing of key products impacting the Company's ability to maintain or reduce operating, supply chain, and/or product costs • Inability to achieve enhanced purchasing efficiencies and a reduction of overhead expenses • Short-term effect on EPS from the Company's capital-allocation initiatives including the potential impact of organic and inorganic growth initiatives designed to create long-term growth • GAAR growth could be challenged by new regulations and adverse economic conditions
3. Financial Services return on receivables of 6+ percent annually
Key assumptions: • Continued gross average accounts receivable growth • Customers respond positively to new marketing initiatives, including enhanced loyalty program and in-store financing at the retail banners • Continued prudent expense management
Significant risks: • Decline in economic growth, consumer confidence, and household spending • Higher credit or default risk resulting in incremental allowance for future write-offs • GAAR growth could be challenged by new regulations and adverse economic conditions
4. Retail return on invested capital of 9+ percent by the end of 2017
Key assumptions: • Growth in retail earnings due to sales growth and successful execution of productivity initiatives that preserve retail gross margin and reduce operating expense as a percent of revenue • Continued successful investments in businesses to achieve organic growth and in projects and initiatives to improve returns • Average annual operating capital expenditures of $600 million to $625 million over the three-year period
Significant risks: • Earnings growth not achieved, refer to significant risks associated with retail sales and EPS growth aspirations described above

6.0 2015 and 2016 Strategic imperatives

6.1 2015 Strategic imperatives and objectives

The Company set out its strategic imperatives and objectives for 2015 in October 2014. The following is a summary of those imperatives along with Management's assessment in achieving its 2015 objectives.

1. Pursue initiatives to support achievement of the three year (2015 - 2017) financial aspirations

2015 Objectives	Final Assessment
• Execute strategy for Retail business growth including innovative marketing campaigns, banner network expansion, focusing on core customer segments at Canadian Tire, FGL Sports, and Mark's, and continue with a Canadian Tire product category focus on specialty retail operations	Achieved
• Improve supply chain efficiencies and capabilities with construction of new Canadian Tire distribution capacity and improve replenishment time and in-stock position for FGL Sports and Mark's supply chain and fulfillment to Western Canadian stores with the conversion to the new DC in Calgary	Achieved
• Focus on margin management across Retail businesses including transition of Mark's overseas buying operations to INA's wholesale division	Achieved
• Continue to grow Financial Services through offering new and innovative products and services, integrating with Retail businesses, enhancing loyalty proposition, and through new account acquisition	Achieved
• Continue to support CT REIT's growth agenda	Achieved

Throughout 2015, the Company's retail banners continued to drive growth through innovative new marketing campaigns by bringing new products and assortments into its stores that cater to each banner's core customer segment. For example, Canadian Tire expanded the product assortment under the private label brands, FRANK™ and CANVAS™, further enhancing the style and design perceptions of Canadian Tire. Canadian Tire has also continued to invest in developing existing private label brands that have shown strong customer loyalty. As well, in 2015, Canadian Tire launched programs under the exclusive WOODS® and OUTBOUND brands, further reinforcing Canadian Tire's position as the destination for

quality camping products. In addition, the Company focused on growing the margin at Canadian Tire despite significant pressure due to a weaker Canadian dollar, and continued the transition of Mark's buying operations to INA's wholesale division.

Work on the Bolton DC continues to progress as scheduled, with the facility expected to be fully functional in late 2017. In addition, the new FGL Sports and Mark's DC opened in January 2015 improving the supply chain process in Western Canada for each of these banners.

In 2014 and earlier this year, the Financial Services business made a conscious decision to slow new account acquisition growth of its credit card portfolio in response to economic uncertainty, however, the Financial Services business maintained its gross average account receivable balance by continuing its support of the Retail businesses and offering new and innovative financial products to customers.

In addition to purchasing fourteen properties from CTC and one redevelopment property from a third party (excluding three acquisitions of land adjoining existing CT REIT owned retail properties), CT REIT continued to develop and intensify its existing portfolio, which in total added 1.2 million square feet of gross leasable area in 2015.

2. Make balanced capital allocation decisions

The Company is in a strong liquidity position with multiple sources of funding and financial flexibility. In order to support its various growth agendas, the Company continues to actively manage its capital and make wise capital allocation decisions that support the achievement of its financial aspirations, while balancing its objective of returning value to shareholders.

2015 Objectives	Final Assessment
• Complete share repurchases during 2015 in order to reach a total of $400 million of Class A Non-Voting Shares repurchased, in excess of the amount required for anti-dilutive purposes, for the period from November 7, 2014 through to the end of fiscal 2015	Achieved
• Maintain operating capital expenditures within $600 million and $625 million and capital expenditures for additional distribution capacity within $175 million and $200 million	Achieved
• CT REIT to gain access to capital markets and demonstrate its ability to raise equity and debt independently	Achieved

The Company achieved its stated objective of repurchasing $400 million of its outstanding Class A Non-Voting shares on October 1, 2015. In addition, the Company purchased $110 million of shares under its recently announced (November 12, 2015) intention to repurchase a further $550 million of its Class A Non-Voting Shares, in excess of the amount required for anti-dilutive purposes, by the end of 2016.

During the year, the Company's operating capital expenditures were $529.0 million, lower than the stated range and distribution capacity expenditures, which are largely attributable to the Bolton DC construction, were $144.7 million, also lower than the stated range.

In June 2015, CT REIT issued $150 million of Series A Senior Unsecured Debentures and $200 million of Series B Senior Unsecured Debentures through the capital markets, demonstrating its ability to raise debt independently.

3. Drive growth in core businesses

The Company will focus on driving growth from within its four core businesses: Canadian Tire, FGL Sports, Mark's, and Financial Services. Growth from within the core businesses, both inorganic and organic, will primarily come from key heritage categories.

2015 Objectives	Final Assessment
• Continue to roll out and evolve current Canadian Tire store concepts	Achieved
• Continue to test and develop a new Canadian Tire store concept	Achieved
• Continue to remain relevant to target customers, including active families, and reinforce Canadian Tire's place as Canada's store	Achieved
• Continue to rebrand Mark's Work Wearhouse stores to the Mark's format and begin to rejuvenate L'Équipeur stores in Quebec	Achieved
• Continue to expand FGL Sports' retail footprint with the addition of flagship stores	Achieved
• Launch the Sport Chek Hero store concept that incorporates digital aspects of flagship stores in select existing Sport Chek stores	Achieved
• Further integrate Financial Services with Retail businesses by offering additional products and services to customers in-store and online, supporting enhanced loyalty propositions and identifying new growth opportunities as part of the Scotiabank partnership	Achieved

During the year each banner strengthened its store network by opening new stores and refreshing older stores to their latest formats. This included Canadian Tire retrofitting 41 stores to the Smart store concept and opening one large concept Showcase store which incorporates digital components that provide customers with a premium in-store experience. In addition, Mark's refreshed eighteen stores to the latest Mark's format and FGL Sports opened two flagship Sport Chek stores and one flagship Sports Experts store.

Canadian Tire's focus to be Canada's store for active families was evident in 2015 through it's "We all play for Canada™" and "Tested for Life in Canada™" marketing campaigns and its ongoing support of over 60 amateur and professional sports organizations.

The Company launched its first Sport Chek Hero store by converting its Leaside neighborhood store in Toronto, Ontario and its first Sports Experts/Atmosphere Hero combo store in Quebec City, Quebec. These stores incorporate many of the digital aspects of the flagship store concept.

Financial Services continued to support the Retail businesses through in-store and online offers which served to add new accounts and increase account balances in its credit card portfolio. In addition, growth in Financial Services was driven by the digital loyalty program, which now has over 8 million active members.

4. Transition from old-world retailing to the new (digitization of retail)

In order to compete on a global basis and continue to be relevant and engaged with its customers, the Company must invest in the future of retailing. The future of retailing, also referred to as the "digitization of retail", requires significant investment in foundational technological platforms in order to successfully transition the Company from the old world to the new.

2015 Objectives	Final Assessment
• Continue to grow and enhance the "My Canadian Tire 'Money'™" loyalty program	Achieved
• Improve the digital experience across each of the Company's major retail banners, including eCommerce	Achieved
• Commence deployment of a new POS system at Mark's and initiate planning for future deployment of new POS system at FGL Sports	Delayed (6 months)
• Launch the first phase of a mobile wallet pilot	Achieved

During the year, the "My Canadian Tire 'Money'™" program grew to over 8 million active members, and the program remains one of Canada's most well-known loyalty programs.

At Canadian Tire, the banner's online and digital presence continued to strengthen as the eCommerce site was enhanced based on user feedback; and new functionality was added to make it a more seamless customer experience. As well, FGL

Sports launched their new website with eCommerce functionality and also brought the back-end process in-house. Moving forward, further updates and functionality will be added.

The development of a new POS system, at Mark's and FGL Sports, was delayed in 2015 as the Company chose to leverage the recently completed eCommerce digital foundation at Mark's and FGL Sports and extend this new platform to the physical stores.

In September 2015, Financial Services launched an innovative mobile payments application, the "Canadian Tire mPay&Play™" app, which offers customers bonus rewards, a gaming experience, exclusive offers, and quick and easy account servicing while allowing customers to pay for in-store purchases with their Canadian Tire Options® MasterCard® with their mobile device.

5. Strengthen the brands

The Company is committed to being a "brand-led" organization. It believes that the strength and value of its brands are directly correlated to the strength of its business results. Successful achievement of objectives within this strategic imperative will ensure that the Company's brands are supported and enhanced in the eyes of its customers and other key stakeholders.

2015 Objectives	Final Assessment
• Continue to focus on being a brand-led organization, with continued investment in key brand-building assets, including: Olympic and sports partnerships; community involvement programs; and Canadian Tire Jumpstart Charities ("Canadian Tire Jumpstart")	Achieved
• Continue to build high-quality private-label and exclusive brands	Achieved
• Continue to grow assortment of top national brands at FGL Sports and Mark's	Achieved
• Develop cross-banner co-marketing initiatives internally and under the Company's strategic partnership with Scotiabank	Achieved

During the year, the Company signed innovative sponsorship arrangements with seven sport organizations or athletes, including new partnerships with the Edmonton Oilers and adding Wayne Gretzky as a Jumpstart ambassador.

During 2015, the Company continued to invest in, and develop its private label and exclusive brands including FRANK™, CANVAS™, and WOODS® at Canadian Tire, Dakota®, Denver Hayes®, and WindRiver® at Mark's, and Diadora®, Firefly, and Techno at Sport Chek. Development in these brands allows the Company to increase customer loyalty and showcase new and innovative products and features.

At FGL Sports and Mark's, both banners continued to enhance their assortments by bringing their core customers products from the top national and private label brands including Under Armour, FitBit, and Nike at FGL Sports and Columbia, Merrell, and Denver Hayes® at Mark's. As well, both banners executed several co-marketing offers with Cineplex and Scotiabank's SCENE™ card members, which drove increased traffic and sales growth.

6.2 2016 Strategic imperatives

For 2016, the Company will pursue the following strategic imperatives and key initiatives, which are aligned with its vision to ultimately become the most innovative retailer in the world, and support the achievement of the three year (2015 - 2017) financial aspirations.

The following represents forward-looking information and users are cautioned that actual results may vary.

1. Strengthen brands and enhance customer experiences (connections)

The Company is committed to being a "brand-led" organization and being the conduit between target customers and the best portfolio of retail brands. Management believes that the strength and value of the Company's brands are directly correlated to the strength of its business results. Successful achievement of the initiatives within this strategic imperative will ensure that the Company's brands are supported and enhanced in the eyes of its customers and other key stakeholders.

2016 Initiatives
• Continue to keep the Company's brands relevant through innovative marketing campaigns and through opportunities to highlight innovation and digital capabilities to its target customers • Continue to build customer connections across all banners by offering unparalleled shopping experiences both in-store and online • Activate sports and community partnerships to keep the Company's brand in the minds of Canadians • Grow customer-loyalty program through in-store acquisition and through mobile app and other digital channels • Continue to create and offer high-quality, innovative private-label assortments across the Company's retail banners that will drive customer loyalty and increase brand awareness

2. Transition to the new world of omni-retail where digital complements the physical

In order to compete on a global basis and continue to be relevant and engaged with its customers, the Company must invest in the future of digital retailing to both enhance its physical store networks and eCommerce capabilities. The "digitization of retail" requires significant investment in foundational technological platforms in order to continue successfully transitioning the Company from traditional brick-and-mortar to omni-channel retailing.

2016 Initiatives
• Create world-class digital experiences through digital marketing, in-store technology, eCommerce, and integrated loyalty programs that complement physical retail stores • Utilize customer data and shopping insights to personalize and enhance offers, communication and content, and to achieve efficiencies

3. Drive growth and productivity in core businesses

The Company continues to focus on driving organic growth and productivity within its four core banners: Canadian Tire, FGL Sports, Mark's, and Financial Services. It will also pursue inorganic opportunities, including eCommerce and new world omni-retail capabilities to create new growth platforms and bring required competencies to the Canadian Tire family of companies.

2016 Initiatives
• Continue to drive sales and revenue across all banners through on-going category management, innovative marketing campaigns, new assortments, and enhanced in-store and digital experiences • Achieve sustainable and profitable growth through productivity initiatives that target the operating expense structure and gross margins • Continue to increase the retail footprint by adding flagship stores at FGL and building new or expanding stores at Canadian Tire and Mark's • Pursue selective acquisitions that strengthen and grow our existing portfolio of brands and bring new world capabilities • Allocate capital through a balanced approach to maximize growth and long-term shareholder returns • Re-invigorate GAAR growth by investing in in-store financing programs that drive sales at Canadian Tire

4. Create an agile and high-performing corporate culture

The success of any great organization is directly attributable to the quality of its leadership. The Company is committed to attracting, developing, and retaining world-class talent that will drive growth in the business. The Company believes that meeting its financial aspirations is dependent on having the right team and the right corporate culture in place. The Company will continue to develop or acquire talent in key areas such as digital retailing, marketing, and data analytics in order to drive growth in its core businesses.

2016 Initiatives
• Attract and develop talent to ensure required capabilities and expertise to bring Company into the new world of retail • Engage employees to stimulate innovation and growth • Deepen connections in communities across the country • Develop and share capabilities by collaborating across the business

7.0 Financial performance

The fourth quarter and full year 2015 results include one less week of retail operations compared to fourth quarter and full year 2014.

7.1 Consolidated financial performance

For a review of consolidated financial results, including earnings, retail sales, and revenue, refer to section 7.1.2.

Non-operational items

The results of operations include two non-operational items in the prior year. These items include:

- a premium paid on early redemption of the Company's medium-term notes in the second quarter of 2014; and
- the change in fair value of the redeemable financial instrument arising from the Financial Services strategic partnership transaction which closed during the fourth quarter of 2014.

The table below summarizes the pre-tax amounts for the above listed non-operational items that were included in the fourth quarter and year-to-date results of the prior year:

(C$ in millions)	**Q4 2015**	Q4 2014	**2015**	2014
Financial Statement line item:				
Net finance costs	**$ —**	$ —	**$ —**	$ (15.0)
Change in fair value of redeemable financial instrument	**—**	(17.0)	**—**	(17.0)

Where indicated, we have provided prior year financial results normalized for the items above. References to "normalized" earnings and "normalized" diluted EPS are made throughout the financial results discussion and reflect the results of operations excluding the above items. Normalized results are non-GAAP measures and do not have standardized meanings under IFRS and, therefore, may not be comparable to similar terms used by other companies. For further information and reconciliation to GAAP measures, refer to section 11.3.2 in this MD&A.

7.1.1 Consolidated key operating performance measures

The fourth quarter and full year 2015 results include one less week of retail operations compared to fourth quarter and full year 2014.

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 11.3.1 in this MD&A for definitions and further information.

(C$ in millions)	**Q4 2015**	Q4 2014	Change	**2015**	2014	Change
Adjusted EBITDA[1]	**$ 474.0**	$ 437.5	8.4%	**$ 1,518.8**	$ 1,376.4	10.4%
Selling, general and administrative expenses (excluding depreciation and amortization) as a % of revenue[2]	**21.0%**	21.1%	(14) bps	**21.8%**	21.6%	26 bps
Adjusted EBITDA[1] as a % of revenue	**14.0%**	12.0%	205 bps	**12.4%**	11.0%	133 bps

[1] Adjusted EBITDA is a non-GAAP measure; refer to section 11.3.2 in this MD&A for additional information.

[2] Selling, general and administrative expenses exclude depreciation and amortization of $114.0 million in Q4 2015 ($101.7 million in Q4 2014) and $415.8 million in 2015 ($365.3 million in 2014).

Adjusted EBITDA and adjusted EBITDA as a percentage of revenue have increased compared to prior quarter and prior year reflecting strong earnings across all segments as well as a $29.2 million gain on the sale of surplus property in the third quarter.

Selling, general, and administrative expenses (excluding depreciation and amortization) as a percentage of revenue was flat compared to prior quarter and prior year. During 2015, this metric has been negatively impacted by the significant decline in Petroleum revenue due to lower gas prices. Excluding the decline in Petroleum revenue, Q4 and full year 2015 selling, general and administrative expenses (excluding depreciation and amortization) as a percentage of revenue decreased 58 basis points and 46 basis points, respectively. The decline is due to the Company's continued focus on cost control and productivity initiatives across all levels of the business despite higher activity levels at Canadian Tire, FGL Sports, and Financial Services as well as a decline in variable compensation expense across the Company.

7.1.2 Consolidated financial results

(C$ in millions, except where noted)	Q4 2015	Q4 2014	Change	2015	2014	Change
Retail sales[1]	**$ 4,031.0**	$ 4,270.7	(5.6)%	**$ 13,762.0**	$ 13,856.6	(0.7)%
Revenue	**$ 3,380.2**	$ 3,653.8	(7.5)%	**$ 12,279.6**	$ 12,462.9	(1.5)%
Gross margin dollars	**$ 1,177.6**	$ 1,213.2	(2.9)%	**$ 4,135.3**	$ 4,046.0	2.2 %
Gross margin as a % of revenue	**34.8%**	33.2%	163 bps	**33.7%**	32.5%	121 bps
Other (income) expense	**$ (3.9)**	$ 5.6	168.5 %	**$ (54.9)**	$ (11.0)	400.7 %
Selling, general and administrative expenses	**823.8**	873.8	(5.7)%	**3,096.1**	3,052.9	1.4 %
Net finance costs	**22.3**	23.4	(4.2)%	**92.8**	108.9	(14.7)%
Change in fair value of redeemable financial instrument	**—**	17.0	(100.0)%	**—**	17.0	(100.0)%
Income before income taxes	**$ 335.4**	$ 293.4	14.3 %	**$ 1,001.3**	$ 878.2	14.0 %
Income taxes	**93.9**	86.8	8.0 %	**265.4**	238.9	11.1 %
Effective tax rate	**28.0%**	29.6%		**26.5%**	27.2%	
Net income	**$ 241.5**	$ 206.6	16.9 %	**$ 735.9**	$ 639.3	15.1 %
Net income attributable to:						
Shareholders of Canadian Tire Corporation	**$ 225.2**	$ 191.3	17.7 %	**$ 659.4**	$ 604.0	9.2 %
Non-controlling interests	**16.3**	15.3	7.0 %	**76.5**	35.3	117.1 %
	$ 241.5	$ 206.6	16.9 %	**$ 735.9**	$ 639.3	15.1 %
Basic EPS	**$ 3.02**	$ 2.46	22.8 %	**$ 8.66**	$ 7.65	13.2 %
Diluted EPS	**$ 3.01**	$ 2.44	23.3 %	**$ 8.61**	$ 7.59	13.5 %
Weighted average number of Common and Class A Non-Voting Shares outstanding:						
Basic	**74,638,445**	77,830,243	NM[2]	**76,151,321**	78,960,025	NM[2]
Diluted	**74,939,608**	78,464,673	NM[2]	**76,581,602**	79,612,957	NM[2]

[1] Key operating performance measure. Refer to section 11.3.1 in this MD&A for additional information.
[2] Not meaningful.

Non-controlling interests

The following table outlines the net income attributable to the Company's non-controlling interests. For additional details, refer to Note 17 to the annual consolidated financial statements.

(C$ in millions)	Q4 2015	Q4 2014	2015	2014
Financial Services Non-controlling interest percentage 20.0% (2014 - 20.0%)	**$ 10.6**	$ 10.3	**$ 53.0**	$ 10.3
CT REIT Non-controlling interest percentage 16.2% (2014 - 16.8%)	**5.2**	5.0	**20.6**	19.9
Retail segment subsidiary Non-controlling interest percentage 50.0% (2014 - 50.0%)	**0.5**	—	**2.9**	5.1
Net income attributable to non-controlling interests	**$ 16.3**	$ 15.3	**$ 76.5**	$ 35.3

Consolidated fourth quarter 2015 versus fourth quarter 2014

Earnings Summary

Diluted EPS was $3.01 in the quarter, an increase of $0.57 per share, or 23.3 percent, over the prior year. Normalizing for the change in fair value of the redeemable financial instrument in the prior year, diluted EPS in the quarter increased 13.6 percent over prior year. The earnings performance reflects strong gross margin contribution from Canadian Tire, a reduction in the allowance for future write-offs of the credit card portfolio in the Financial Services segment, higher per litre gas margins at Petroleum, and increased earnings at CT REIT as a result of third-party properties acquired in 2015. The increased quarterly consolidated earnings also reflect a decline in selling, general and administrative expenses primarily due to lower variable compensation expense and reduced marketing and advertising spend across all Retail banners and in the Financial Services segment; partially offset by increased investment in the Retail network and higher personnel costs to support information technology initiatives.

Refer to section 11.3.2 for calculations of prior year normalized net income.

Retail sales
Consolidated retail sales decreased $239.7 million or 5.6 percent; however this includes a 15.4 percent decline in Petroleum retail sales due to lower gas prices and gas volumes which decreased due to one less week of operations in fiscal 2015. Excluding Petroleum, consolidated retail sales decreased 4.2 percent reflecting lower sales across the Canadian Tire, FGL Sports, and Mark's banners which were negatively impacted by unseasonably warmer weather during the quarter, the slow-down of the Alberta economy, and the impact of one less week of Retail segment operations compared to prior year. Refer to sections 7.2.3 for further information regarding Retail segment sales in the quarter.

Revenue
Consolidated revenue decreased $273.6 million, or 7.5 percent, which includes an $89.2 million decline in Petroleum revenue resulting from lower gas prices and lower gas volume which decreased due to one less week of operations in fiscal 2015. Excluding Petroleum, consolidated revenue decreased $184.4 million, or 5.8 percent, primarily due to lower shipments at Canadian Tire, decreased sales at FGL Sports and Mark's, and one less week of Retail segment operations in 2015. Financial Services revenue was relatively flat during the quarter. Refer to sections 7.2.3 and 7.4.2 for further information regarding Retail and Financial Services segment revenue.

Gross margin
Consolidated gross margin dollars decreased $35.6 million, or 2.9 percent, and the gross margin rate increased 163 basis points. Excluding Petroleum, which was impacted by higher per litre gas margins, the consolidated gross margin rate increased 119 basis points primarily as a result of stronger gross margin rates at Canadian Tire as well as higher gross margin rates in the Financial Services segment; partially offset by lower gross margin rates at Mark's and, to a lesser extent, FGL Sports. Refer to sections 7.2.3 and 7.4.2 for further information regarding Retail and Financial Services segment gross margin.

Other (income) expense
Consolidated other income increased $9.5 million primarily due to Retail segment gains on sales of surplus properties during the quarter and a decline in asset impairment charges compared to prior year. Refer to section 7.2.3 for further information regarding Retail segment other income.

Selling, general and administrative expenses
Consolidated selling, general, and administrative expenses decreased $50.0 million, or 5.7 percent, primarily due to:
- lower variable compensation expense across the Company;
- lower marketing and advertising expenditures in the Financial Services and Retail segments; and
- the impact of one less week of Retail segment operations in 2015;

partially offset by:
- increased depreciation and amortization relating to increased capital spending on IT initiatives and increased investment in the Retail network; and
- higher planned personnel costs to support information technology initiatives, including the Company's digital strategy.

Net finance costs
Consolidated net finance costs decreased $1.1 million primarily due to lower interest rates on net new debt and an increase in interest capitalized on qualifying IT and real estate projects.

Income taxes
The effective tax rate decreased to 28.0 percent from 29.6 percent in the prior year, primarily due to lower non-deductible stock option expense and the change to the fair value of the redeemable financial instrument in 2014. Refer to Tax Matters in section 10.0 of this MD&A for further details.

Consolidated full year 2015 versus full year 2014

Earnings Summary

Diluted EPS was $8.61, an increase of $1.02 per share, or 13.5 percent, over the prior year. Normalizing for the one-time charge associated with the early redemption of medium-term notes in Q2 2014 and the change in fair value of the redeemable financial instrument in Q4 2014, diluted EPS increased $0.67 per share, or 8.4 percent. Further, this year-over-year increase to diluted EPS reflects:

- a decrease of $0.55 per share due to the impact of the sale of 20 percent of the Financial Services business in Q4 2014 (a $42.4 million reduction to earnings attributable to Shareholders of the Company from Q1 2015 to Q3 2015, the anniversary of the transaction);
- an increase of $0.33 per share for the sale of a surplus property in Q3 2015 (a $25.4 million increase in earnings); and
- the favourable impact of a reduction in the weighted average number of shares outstanding due to share repurchases.

The resulting increase in earnings reflects strong retail sales growth at Canadian Tire and FGL Sports, strong gross margin contribution from Canadian Tire, Petroleum's higher per litre gas margins, and increased credit card charges on increased GAAR in the Financial Services segment; partially offset by a reduction in retail sales and gross margin rates at Mark's and an increase in selling, general, and administrative expenses compared to prior year.

Refer to section 11.3.2 for calculations of prior year normalized net income.

Retail sales

Consolidated retail sales decreased marginally compared to the prior year; however this includes a 13.8 percent decline in Petroleum retail sales due to lower gas prices. Excluding Petroleum, consolidated retail sales increased 2.0 percent reflecting higher sales at Canadian Tire and FGL Sports; partially offset by decreased sales at Mark's banners and the impact of one less week of Retail segment operations in 2015. Refer to sections 7.2.3 for further information regarding Retail segment sales in the year.

Revenue

Consolidated revenue decreased $183.3 million, or 1.5 percent over the prior year, which includes a $344.3 million decline in Petroleum revenue resulting from lower gas prices. Excluding Petroleum, consolidated revenue increased 1.6 percent due to increased sales and revenue at Canadian Tire and FGL Sports, despite having one less week of Retail operations in 2015, as well as increased revenue in the Financial Services segment. Refer to sections 7.2.3 and 7.4.2 for further information regarding Retail and Financial Services segment revenue.

Gross margin

Consolidated gross margin dollars increased $89.3 million, or 2.2 percent driven by increased sales and revenue at Canadian Tire, FGL Sports, and Financial Services. The gross margin rate increase of 121 basis points is primarily attributable to higher per litre gas margins at Petroleum. Excluding Petroleum, the gross margin rate increased 16 basis points as a result of solid growth in the gross margin rate at Canadian Tire partially offset by a reduction in the gross margin rate at Mark's and the Financial Services segment. Refer to sections 7.2.3 and 7.4.2 for further information regarding Retail and Financial Services segment gross margin.

Other income

Consolidated other income increased $43.9 million primarily due to a $29.2 million gain on the sale of surplus property in Q3 2015 and a reduction in impairment charges compared to prior year.

Selling, general and administrative expenses

Consolidated selling, general, and administrative expenses increased $43.2 million, or 1.4 percent, compared to the prior year primarily due to:

- increased occupancy costs related to new stores at Canadian Tire and FGL Sports; and
- increased depreciation and amortization relating to higher capital spending on IT initiatives and increased investment in the Retail network;

partially offset by:

- lower variable compensation expense across the Company;
- lower marketing and advertising costs across all Retail banners and the Financial Services segment; and
- the impact of one less week of Retail segment operations in 2015.

Net finance costs
Consolidated net finance costs decreased $16.1 million (a decrease of $1.1 million, or 1.2 percent, after normalizing for the one-time charge associated with the early redemption of medium-term notes in Q2 2014) primarily due to lower interest rates on net new debt and an increase in interest capitalized on qualifying IT and real estate projects.

Income taxes
The effective tax rate decreased to 26.5 percent from 27.2 percent in the prior year primarily due to lower non-deductible stock option expense, the change to the fair value of the redeemable financial instrument in 2014, and higher tax benefits related to capital property dispositions partially offset by a reduction in favourable tax settlements in the year. Refer to Tax Matters in section 10.0 of this MD&A for further details.

7.1.3 Seasonal trend analysis
Quarterly operating net income and revenue are affected by seasonality. Largely due to the seasonal nature of some merchandise and the timing of marketing programs in the retail businesses, the fourth quarter typically generates the greatest contribution to revenues and earnings, and the first quarter the least. The following table shows the financial performance of the Company by quarter for the last two years. The trend quarter-over-quarter could be impacted by non-operational items as outlined in section 7.1.

(C$ in millions, except per share amounts)	**Q4 2015**	Q3 2015	Q2 2015	Q1 2015	Q4 2014[1]	Q3 2014	Q2 2014	Q1 2014
Revenue	**$ 3,380.2**	$ 3,126.8	$ 3,257.7	$ 2,514.9	$ 3,653.8	$ 3,069.9	$ 3,166.1	$ 2,573.1
Net income	**241.5**	219.9	186.2	88.3	206.6	178.2	178.9	75.6
Basic EPS	**3.02**	2.63	2.16	0.88	2.46	2.19	2.14	0.88
Diluted EPS	**3.01**	2.62	2.15	0.88	2.44	2.17	2.12	0.88

[1] Q4 2014 included one additional week of retail operations compared to Q4 2015.

7.2 Retail segment performance

The fourth quarter and full year 2015 results include one less week of retail operations compared to fourth quarter and full year 2014.

7.2.1 Retail segment key operating performance measures

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 11.3.1 in this MD&A for definitions and further information on performance measures. The table below provides key operating performance measures for Q4 2015 (13 weeks ended January 2, 2016) compared against results for Q4 2014 (14 weeks ended January 3, 2015) and the full year 2015 (52 weeks ended January 2, 2016) compared against results for the full year 2014 (53 weeks ended January 3, 2015), except for same-store sales and same-store gasoline volume growth.

(Year-over-year percentage change, C$ in millions, except as noted)	**Q4 2015**	Q4 2014	Change	**2015**	2014	Change
Retail segment - total						
Retail sales growth	**(5.6)%**	7.3 %		**(0.7)%**	4.8 %	
Revenue[1]	**$ 3,087.0**	$ 3,360.8	(8.2)%	**$11,075.3**	$11,304.6	(2.0)%
Retail ROIC[2]	**8.09 %**	8.07 %		**n/a**	n/a	
EBITDA[3]	**$ 334.4**	$ 310.7	7.6 %	**$ 913.0**	$ 824.0	10.8 %
Retail segment - by banner						
Canadian Tire						
Retail sales growth[4]	**(2.6)%**	8.3 %		**2.4 %**	4.4 %	
Same-store sales growth[4, 5]	**2.0 %**	2.8 %		**3.2 %**	2.4 %	
Sales per square foot[6] (whole $)	**$ 400**	$ 398	0.4 %	**n/a**	n/a	
Revenue[1, 7]	**$ 1,719.5**	$ 1,826.3	(5.8)%	**$ 6,352.3**	$ 6,268.6	1.3 %
FGL Sports						
Retail sales growth[8]	**(5.7)%**	15.0 %		**2.7 %**	11.5 %	
Same-store sales growth[5, 8]	**(0.4)%**	4.9 %		**4.4 %**	6.9 %	
Sales per square foot[9] (whole $)	**$ 289**	$ 291	(0.6)%	**n/a**	n/a	
Revenue[1]	**$ 594.0**	$ 618.5	(4.0)%	**$ 2,028.5**	$ 1,905.5	6.5 %
Mark's						
Retail sales growth[10]	**(10.2)%**	5.4 %		**(2.3)%**	4.5 %	
Same-store sales growth[5, 10]	**(5.2)%**	1.2 %		**(0.5)%**	3.1 %	
Sales per square foot[11] (whole $)	**$ 325**	$ 335	(3.0)%	**n/a**	n/a	
Revenue[1, 12]	**$ 402.0**	$ 450.1	(10.7)%	**$ 1,092.6**	$ 1,121.6	(2.6)%
Petroleum						
Gasoline volume growth in litres	**(7.3)%**	4.4 %		**0.3 %**	(0.1)%	
Same-store gasoline volume growth in litres[5]	**(0.1)%**	(1.6)%		**2.0 %**	(2.7)%	
Retail sales growth	**(15.4)%**	(3.6)%		**(13.8)%**	1.1 %	
Revenue[1]	**$ 400.6**	$ 489.8	(18.2)%	**$ 1,735.0**	$ 2,079.3	(16.6)%
Gross margin dollars	**$ 39.4**	$ 42.2	(6.5)%	**$ 173.9**	$ 162.2	7.2 %

1 Inter-segment revenue within the retail banners of $29.1 million in the fourth quarter ($23.9 million for Q4 2014) and $133.1 million in 2015 ($70.4 million for 2014) has been eliminated at the Retail segment level. Revenue reported for Canadian Tire, FGL Sports, Mark's, and Petroleum includes inter-segment revenue.
2 Figures are calculated on a rolling 12-month basis. Refer to section 11.3.1 in this MD&A for additional information.
3 EBITDA is a non-GAAP measure. Refer to section 11.3.2 in this MD&A for additional information.
4 Retail sales growth includes sales from Canadian Tire stores, PartSource stores, and the labour portion of Canadian Tire's auto service sales.
5 Same-store sales growth has been calculated by aligning the 2014 fiscal calendar to match the 2015 fiscal calendar (i.e., sales from week one in 2015 are compared against week two in 2014, 52 weeks versus 52 weeks for the full year and 13 weeks versus 13 weeks for Q4). Refer to section 11.3.1 in this MD&A for additional information.
6 Sales per square foot figures are calculated on a rolling 12-month basis and excludes PartSource stores. Retail space does not include seasonal outdoor garden centre, auto service bays or warehouse and administrative space.
7 Revenue includes revenue from Canadian Tire, PartSource, and Franchise Trust.
8 Retail sales growth include sales from both corporate and franchise stores.
9 Sales per square foot figures are calculated on a rolling 12-month basis, includes both corporate and franchise stores and includes warehouse and administrative space.
10 Retail sales growth includes retail sales from Mark's corporate and franchise stores and ancillary revenue relating to embroidery and alteration services.
11 Sales per square foot has been calculated on a rolling 12-month basis, includes sales from both corporate and franchise stores and excludes ancillary revenue. Sales per square foot do not include warehouse and administrative space.
12 Revenue includes sale of goods to Mark's franchise stores, retail sales from Mark's corporate stores and includes ancillary revenue relating to embroidery and alteration services.

7.2.2 Retail banner network at a glance

Number of stores and retail square footage	2015	2014
Consolidated store count		
Canadian Tire stores[1]		
Smart stores	**385**	337
Updated and expanded stores	**50**	96
Traditional stores	**35**	36
Small Market stores	**25**	22
Other	**3**	2
Total Canadian Tire stores	**498**	493
PartSource stores	**91**	91
FGL Sports stores		
Sport Chek	**190**	189
Sports Experts	**74**	73
Atmosphere	**69**	66
Other	**100**	108
Total FGL Sports stores[2]	**433**	436
Mark's stores[1]		
Mark's	**323**	304
Mark's Work Wearhouse	**12**	34
L'Équipeur	**45**	45
Total Mark's stores	**380**	383
Canadian Tire gas bar locations	**296**	297
Total stores	**1698**	1,700
Consolidated retail square footage[3](in millions)		
Canadian Tire	**20.9**	20.5
PartSource	**0.3**	0.3
FGL Sports	**7.3**	7.2
Mark's	**3.5**	3.5
Total retail square footage[3]	**32.0**	31.5

1 Store count numbers reflect individual selling locations. Both Canadian Tire and Mark's totals include stores that are co-located.
2 2014 store count includes 8 franchise locations which were converted to buying members during Q3 2015. These stores are no longer included in the 2015 store count.
3 The retail square footage excludes Petroleum's convenience store rental space.

7.2.3 Retail segment financial results

(C$ in millions)	Q4 2015	Q4 2014	Change	2015	2014	Change
Retail sales[1]	**$ 4,031.0**	$ 4,270.7	(5.6)%	**$ 13,762.0**	$ 13,856.6	(0.7)%
Revenue	**$ 3,087.0**	$ 3,360.8	(8.2)%	**$ 11,075.3**	$ 11,304.6	(2.0)%
Gross margin dollars	**$ 985.8**	$ 1,025.8	(3.9)%	**$ 3,327.7**	$ 3,270.9	1.7 %
Gross margin as a % of revenue	**31.9%**	30.5%	141 bps	**30.0%**	28.9%	111 bps
Other (income)	**$ (31.1)**	$ (20.0)	55.4 %	**$ (160.7)**	$ (110.4)	45.6 %
Selling, general and administrative expenses	**778.8**	819.5	(4.9)%	**2,926.0**	2,861.7	2.2 %
Net finance income	**(12.1)**	(8.2)	48.3 %	**(42.5)**	(11.9)	258.4 %
Income before income taxes	**$ 250.2**	$ 234.5	6.6 %	**$ 604.9**	$ 531.5	13.8 %

1 Retail sales is a key operating performance measure. Refer to section 11.3.1 in this MD&A for additional information.

Retail segment fourth quarter 2015 versus fourth quarter 2014

Earnings Summary

Income before income taxes increased $15.7 million, or 6.6 percent, compared to prior year. This increase is primarily attributable to an increase in the gross margin rate at Canadian Tire, Petroleum's higher per litre gas margins, increased other income, and lower selling, general, and administrative expenses during the quarter.

Retail sales

Canadian Tire retail sales decreased 2.6 percent (same-store sales increased 2.0 percent). The results reflect strong non-seasonal sales driven by Kitchen and Cleaning categories, higher year-over-year seasonal sales of Toys and Christmas products, and a shift in sales mix to higher priced items which were more than offset by Management's decision to re-focus the Home Services business to support products that are sold exclusively within Canadian Tire stores, the impact of mild weather conditions, the downturn in the Alberta economy, and the impact of one less week of Retail segment operations in 2015 compared to 2014.

FGL Sports retail sales decreased 5.7 percent (same-store sales decreased 0.4 percent). Strong non-seasonal sales of electronics, athletic and casual clothing, footwear, licensed clothing, and team sports drove sales during the quarter and partially offset the impact of mild weather conditions on cold weather merchandise, including winter hard goods and outerwear, the downturn in the Alberta economy, and the impact of one less week of Retail segment operations in 2015 compared to 2014.

Retail sales at Mark's decreased 10.2 percent (same-store sales decreased 5.2 percent). Mark's sales continued to be adversely impacted by a decline in industrial wear and industrial footwear sales related to the slow-down in the Alberta economy. In addition, the warmer weather during the quarter negatively impacted sales of cold weather merchandise and sales were negatively impacted by one less week of Retail segment operations in 2015 compared to 2014. These declines were partially offset by significant growth in several key casual wear categories including denim, casual footwear, and outerwear.

Petroleum retail sales decreased 15.4 percent resulting from a decline in gas prices and lower gas volumes which were impacted by one less week of Retail segment operations in 2015 compared to 2014 partially offset by higher non-gas sales.

Revenue

Revenue decreased $273.8 million, or 8.2 percent. Excluding the impact of Petroleum, which decreased 18.2 percent year-over-year due to a decline in gas prices and lower gas volume, Retail revenue decreased 6.4 percent primarily driven by:

- the impact of one less week of Retail segment operations in 2015;
- lower product shipments to Dealers at Canadian Tire; and
- lower retail sales at Mark's and FGL Sports for the reasons noted previously.

Gross margin

Gross margin dollars decreased $40.0 million, or 3.9 percent reflecting lower revenue at Canadian Tire, FGL Sports, and Mark's, due in part to having one less week of Retail segment operations in 2015. The gross margin rate increase of 141 basis points was impacted by higher gross margins at Petroleum. Excluding Petroleum, the gross margin rate increased 97 basis points primarily due to:

- an improvement in the gross margin rate at Canadian Tire as the impact of a weaker Canadian dollar on product cost was more than offset by productivity initiatives focused on optimizing assortments, improving sales mix, and reducing product costs; and
- benefits earned from improved Dealer earnings as part of the Company's cost and margin sharing arrangement;

partially offset by:

- a significant decline in the gross margin rate at Mark's due to a shift in mix from higher margin industrial wear to lower margin casual wear products, primarily relating to the economic downturn in Alberta, and the impact on product cost of a weaker Canadian dollar; and
- a modest decline in the gross margin rate at FGL Sports due to the impact of warmer weather resulting in a shift in sales mix from higher margin winter outerwear to lower margin electronics.

Other income
Other income increased $11.1 million, primarily due to gains on sales of surplus properties during the quarter, a decline in asset impairment charges, and distributions earned on CT REIT units held by the Company, which were $26.6 million in the current year compared to $24.7 million in the prior year.

Selling, general and administrative expenses
Selling, general, and administrative expenses decreased $40.7 million, or 4.9 percent, primarily due to:
- lower variable compensation expense across all banners;
- lower marketing and advertising costs at Canadian Tire and FGL Sports; and
- the impact of one less week of Retail segment operations in 2015;

partially offset by:
- increased depreciation and amortization relating to increased capital spending on IT initiatives and increased investment in the Retail network; and
- higher planned personnel costs to support information technology initiatives, including the Company's digital strategy.

Net finance income
Net finance income increased $3.9 million compared to the prior year primarily due to lower interest expense on debt as a result of the maturity of the Company's medium-term notes in Q2 2015 and an increase in interest capitalized on qualifying IT and real estate projects; partially offset by lower income earned on inter-segment debt, specifically CT REIT Series 1 Class C LP Units which were redeemed in May 2015.

Retail segment full year 2015 versus full year 2014

Earnings Summary
Income before income taxes increased $73.4 million or 13.8 percent compared to prior year. Normalizing for the one-time charge associated with the early redemption of medium-term notes in the prior year, income before income taxes increased 10.7 percent. This increase reflects a strong gross margin rate at Canadian Tire, a $29.2 million pre-tax gain on the sale of surplus property during Q3 2015, increased net finance income during the year, and Petroleum's higher per litre gas margins; partially offset by lower gross margin rates at Mark's and a net increase in selling, general, and administrative expenses during the year. Refer to section 11.3.2 for calculations of prior year normalized net income.

Retail sales
Canadian Tire retail sales increased 2.4 percent (same-store sales increased 3.2 percent). Strong non-seasonal sales, a shift in sales mix, and sales associated with new assortments more than offset the impacts of a slow-down in the Alberta economy, unseasonably warmer weather in the fourth quarter, one less week of Retail segment operations in 2015 compared to 2014, and Management's decision to re-focus the Home Services business to products that are sold exclusively within Canadian Tire stores.

FGL Sports retail sales increased 2.7 percent (same-store sales increased 4.4 percent). The sales increase was driven by key categories including electronics, athletic and casual clothing, licensed goods and team sports at Sports Chek, as well as higher sales at PHL, which benefited from refreshed inventory and new marketing campaigns in the second and third quarters. Increased sales in these categories as well as an increase in eCommerce sales due to the new on-line platform launched in Q2 more than offset the negative impacts to retail sales during the year from a weak Alberta economy, unseasonably warmer weather during the fourth quarter, and one less week of Retail segment operations in 2015 compared to 2014.

Mark's sales decreased 2.3 percent (same-store sales decreased 0.5 percent). Mark's sales throughout the year were adversely impacted by a decline in industrial wear and industrial footwear sales due to the slow-down in the Alberta economy. In addition, warmer weather negatively impacted cold weather merchandise sales and sales were negatively impacted by one less week of Retail segment operations in 2015. These declines were partially offset by growth in key casual wear categories including denim, casual footwear, and outerwear.

Petroleum retail sales decreased 13.8 percent resulting from a decline in gas prices and the impact of one less week of Retail segment operations in 2015 compared to 2014 partially offset by higher non-gas sales.

Revenue
Revenue declined 2.0 percent compared to prior year. Excluding the impact of Petroleum, which decreased 16.6 percent year-over-year due to a decline in gas prices, Retail revenue increased 1.2 percent primarily driven by:
- increased product shipments to Dealers at Canadian Tire reflecting an increase in sales growth in the year; and
- increased retail sales at FGL Sports;

partially offset by:
- decreased retail sales at Mark's; and
- the impact of one less week of Retail segment operations in 2015.

Gross margin
Gross margin dollars increased $56.8 million, or 1.7 percent, primarily due to higher shipments at Canadian Tire and increased retail sales at FGL Sports during the year. The gross margin rate increase of 111 basis points was impacted by higher per litre gas margins at Petroleum. Excluding Petroleum, the gross margin rate increased 7 basis points in the Retail segment. This increase was primarily attributable to the gross margin rate improvement at Canadian Tire which more than offset the negative impacts to gross margin rate across all banners from a weaker Canadian dollar, a depressed Alberta economy, and warmer weather in the fourth quarter of the year.

Canadian Tire's improvement in gross margin rate during the year was primarily due to productivity initiatives focused on optimizing assortments, improving sales mix, and reducing product costs as well as to the benefits earned from improved Dealer earnings as part of the Company's cost and margin sharing arrangement.

Mark's gross margin rate declined significantly year-over-year primarily due to a shift in mix from industrial wear to casual wear products as a result of the economic downturn in Alberta. This was compounded by the adverse impacts of a weaker Canadian dollar on product costs and warmer weather in the fourth quarter. These impacts dampened sales of cold weather merchandise, which is a major component of full year sales.

FGL Sports gross margin rate was relatively flat year-over-year as improvements in supply chain productivity largely offset a shift in mix from higher-margin outerwear to lower-margin electronic products.

Other income
Other income increased $50.3 million compared to prior year primarily due to a $29.2 million gain on the sale of a surplus property during the third quarter, a decline in asset impairments compared to prior year, and distributions earned on CT REIT units held by the Company, which were $103.9 million in the current year compared to $97.8 million in the prior year.

Selling, general and administrative expenses
Selling, general, and administrative expenses increased $64.3 million or 2.2 percent compared to the prior year due to:
- higher inter-segment occupancy costs related to market rent paid on all retail properties sold to CT REIT;
- higher planned personnel costs to support information technology initiatives, including the Company's digital strategy; and
- increased depreciation and amortization relating to increased capital spending on IT initiatives and increased investment in the Retail network;

partially offset by:
- lower variable compensation expense across all banners;
- lower marketing and advertising costs at Canadian Tire, FGL Sports, and Mark's; and
- the impact of one less week of Retail segment operations in 2015.

Net finance income
Net finance income increased to $42.5 million compared to $11.9 million in the prior year (or net finance income of $26.9 million after normalizing for the one-time charge associated with the early redemption of medium-term notes in Q2 2014). This increase of $15.6 million (on a normalized basis) is primarily due to lower interest expense on debt and an increase in interest capitalized on qualifying IT and real estate projects partially offset by lower income earned on inter-segment debt, specifically CT REIT Series 1 Class C LP Units which were redeemed in May 2015.

Refer to section 11.3.2 for calculations of prior year normalized net income.

7.2.4 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 12.2 of this MD&A for a discussion of some other industry-wide and company-wide risks affecting the business.

Seasonality risk

Canadian Tire 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. Canadian Tire 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 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, footwear and hard goods industries. 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 DCs. 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 the use of advanced tracking systems and visibility tools, effective supplier selection and procurement practices and through strong relationships with transportation companies and port and other shipping authorities, supplemented by marine insurance coverage.

Environmental risk

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

Environmental risk within Petroleum is primarily associated with the storage and 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 supply and demand conditions; domestic and foreign political policy; commodity speculation; and potential supply chain disruptions from natural and human-caused disasters. To mitigate this risk to profitability, Petroleum maintains tight controls over its operational costs and enters into long-term gasoline purchase arrangements with integrated gasoline wholesalers. Petroleum also enhances profitability through a comprehensive cross-marketing strategy with other Canadian Tire banners and higher-margin, ancillary businesses such as convenience store and car wash sales.

Market obsolescence risk

Clothing and apparel retailers are exposed, to varying degrees, to ever-changing consumers' fashion preferences. FGL Sports and Mark's mitigate this risk through brand positioning, consumer preference monitoring, demand forecasting and merchandise selection efforts. FGL Sports offers a comprehensive assortment of brand-name products under its various banners and partners with strong, national branded suppliers which continually evolve their assortments to reflect customer preferences. 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. Mark's industrial wear category is exposed to fluctuations in the resource and construction industry.

Global sourcing risk
Canadian Tire, FGL Sports, and Mark's use internal resources and third-party logistics providers to manage supply chain technology and the movement of foreign-sourced goods from suppliers to the Company's Canadian DCs and to their retail stores. Similar to other retailers that source products internationally, there is exposure to risks associated with foreign suppliers which can include, but are not limited to, currency fluctuations, the stability of manufacturing operations in other countries and transportation and port disruptions (see supply chain disruption risk). The Company uses internal resources and third-party quality assurance providers to proactively manage product quality with vendors in the foreign sourcing regions. The Company believes that its business practices are appropriate to mitigate the risks. Further information regarding the Company's exposure to foreign currency risk is provided in section 12.3.

7.3 CT REIT segment performance

7.3.1 CT REIT segment key operating performance measures
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 11.3.1 in this MD&A for definitions and further information on performance measures.

(C$ in millions)	**Q4 2015**	Q4 2014	Change	**2015**	2014	Change
Net operating income[1]	**$ 68.2**	$ 62.1	9.7%	**$ 265.4**	$ 239.6	10.7%
Funds from operations[1]	**50.0**	46.6	7.5%	**194.7**	176.9	10.1%
Adjusted funds from operations[1]	**39.0**	34.7	12.5%	**151.7**	132.9	14.1%

[1] Non-GAAP measures, refer to section 11.3.2 in this MD&A for additional information.

7.3.2 CT REIT segment financial results

(C$ in millions)	**Q4 2015**	Q4 2014	Change	**2015**	2014	Change
Property revenue	**$ 96.6**	$ 89.2	8.3%	**$ 378.2**	$ 344.8	9.7 %
Property expense	**21.8**	19.3	12.7%	**86.9**	76.7	13.3 %
General and administrative expense	**2.7**	2.1	21.6%	**9.6**	8.3	14.5 %
Net finance costs	**22.0**	21.3	3.3%	**87.1**	82.7	5.4 %
Fair market value adjustment	**(12.7)**	(7.3)	74.3%	**(39.9)**	(141.2)	(71.7)%
Income before income taxes	**$ 62.8**	$ 53.8	17.0%	**$ 234.5**	$ 318.3	(26.3)%

CT REIT segment fourth quarter 2015 versus fourth quarter 2014

Earnings summary
Income before income taxes in CT REIT increased $9.0 million, or 17.0 percent, in the quarter, primarily due to properties acquired during 2015 and 2014 and an increase of $5.4 million in the fair market value adjustment over the prior year.

Property revenue
Property revenue consists of base rent, operating cost and property tax recoveries. Property revenue increased by $7.4 million, or 8.3 percent, compared to the prior year mainly due to higher base rent relating to properties acquired and intensification activities completed during 2015 and 2014.

$92.5 million of the $96.6 million in property revenue was received from CTC. The rent revenue received from CTC is 7.3 percent higher than prior year of $86.2 million.

Property expense
Property expense for the quarter was $21.8 million, of which the majority of the costs are recoverable from tenants, with CT REIT absorbing these expenses for vacant properties. Property expense consists primarily of property taxes and costs incurred pursuant to the Property Management Agreement between CT REIT and CTC.

Property expense increased by $2.5 million compared to the prior year largely due to property acquisitions.

General and administrative expense
General and administrative expenses are primarily related to personnel costs, ongoing operational costs associated with the public entity, and outsourced costs which are largely related to the services provided by CTC pursuant to the Services Agreement between CT REIT and CTC.

General and administrative expenses were higher by $0.6 million compared to the prior year primarily due to increased compensation costs and expense associated with the recognition of a deferred tax asset partially offset by lower transfer agency and filing fees.

Net finance costs
Net finance costs consists of distributions on the Class C LP Units held by CTC, mortgage and debenture interest, bank credit facility interest expense, and debenture financing fees. Net finance costs were higher by $0.7 million, or 3.3 percent compared to the prior year largely due to interest on debentures issued in June 2015 and mortgages assumed partially offset by lower interest expense due to the redemption of Series 1 Class C LP Units in May 2015.

Net operating income
During the quarter, NOI was $68.2 million, which consists of rental revenue less property operating costs. NOI was higher by $6.1 million, or 9.7 percent, compared to the prior year mainly due to property acquisitions completed in 2015 and 2014. NOI is a non-GAAP measure; refer to section 11.3.2 for additional information.

Funds from operations and adjusted funds from operations
FFO and AFFO for the quarter were $50.0 million and $39.0 million, respectively. FFO and AFFO were higher compared to the prior year by $3.4 million and $4.3 million largely due to the impact of the NOI variances discussed above. FFO and AFFO are non-GAAP measures; refer to section 11.3.2 for additional information.

CT REIT segment full year 2015 versus full year 2014

Earnings summary
Income before income taxes decreased $83.8 million compared to the prior year largely due to a $101.3 million decrease in fair value adjustment on investment properties from the prior year partially offset by an increase in property revenue.

Property revenue
Property revenue growth of 9.7 percent was attributable to higher base rent relating to properties acquired and intensification activities completed during 2015 and 2014.

Property revenue for the year was $378.2 million, of which $361.9 million was received from CTC. The rent revenue received from CTC is 8.9 percent higher than prior year of $332.2 million.

Property expense
Property expense for the year was $86.9 million, of which the majority of the costs are recoverable from tenants, with CT REIT absorbing these expenses for vacant properties. Property expense increased 13.3 percent compared to the prior year largely due to property acquisitions.

General and administrative expense
General and administrative expenses were higher by $1.3 million compared to the prior year primarily due to increased compensation costs and expense associated with the draw-down of a deferred tax asset; partially offset by lower transfer agency and filing fees and decreased due diligence costs.

Net finance costs
Net finance costs increased $4.4 million, or 5.4 percent, mainly attributable to a $6.4 million increase in interest on debentures issued in June 2015, mortgages assumed and draws on the $200 million revolving credit facility ("Bank Credit Facility") partially offset by lower interest expense due to the redemption of Series 1 Class C LP Units in May 2015.

Net operating income
NOI was $265.4 million for the year, an increase of 10.7 percent from the prior year primarily due to property acquisitions completed in 2015 and 2014. NOI is a non-GAAP measure; refer to section 11.3.2 for additional information.

Funds from operations and adjusted funds from operations
FFO and AFFO were $194.7 million and $151.7 million respectively. FFO and AFFO were higher compared to the prior year by $17.8 million and $18.8 million largely due to property acquisitions completed in 2015 and 2014. FFO and AFFO are non-GAAP measures; refer to section 11.3.2 for additional information.

7.3.3 CT REIT segment business risks
CT REIT 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 operations of CT REIT. Please refer to section 4 in CT REIT's Annual Information Form and Part X - Enterprise Risk Management in CT REIT's Management's Discussion and Analysis for the period ended December 31, 2015, which are not incorporated herein by reference, for a discussion of risks that affect CT REIT's operations and also to section 12.2 in this MD&A for a discussion of industry-wide and company-wide risks affecting the business.

Financial risks
In the normal course of business, CT REIT is exposed to financial risks of varying degrees of significance which could affect its ability to achieve its strategic imperatives and could materially adversely affect the financial performance of CT REIT, its ability to make distributions to its unitholders, and the trading price of its publicly traded units. Refer to Note 24 (b) in CT REIT's annual consolidated financial statements for a discussion of financial risk management.

Real property ownership and tenant risks
Real estate ownership is generally subject to numerous factors and risks, including changes in local economic conditions, local real estate conditions, the attractiveness of properties to potential tenants or purchasers, competition with other landlords with similar available space, and the ability of the owner to provide adequate maintenance at competitive costs. The properties of CT REIT are well located within their respective markets and provide an attractive platform from which to grow given their stable characteristics, which include high occupancy, staggered lease maturities, and strong retailing attributes.

Tax-related risks
Risks related to the changes in income tax laws applicable to CT REIT such that the CT REIT would not qualify as a mutual fund trust for the purposes of the Income Tax Act, including the treatment of real estate investment trusts, mutual fund trusts, or the REIT Exception for a taxation year under the Income Tax Act, could have a material and adverse impact on the value of the publicly traded units and on distributions to unitholders. Management of CT REIT has a compliance program to provide reasonable assurances that CT REIT satisfies the conditions to qualify as a closed-end mutual fund trust, by complying with the restrictions in the Income Tax Act as they are interpreted and applied by the Canada Revenue Agency ("CRA"). No assurance can be given that CT REIT will be able to comply with these restrictions at all times. There can be no assurance that income tax laws applicable to CT REIT, including the treatment of real estate investment trusts and mutual fund trusts under the Income Tax Act, will not be changed in a manner which adversely affects CT REIT or unitholders.

7.4 Financial Services segment performance

7.4.1 Financial Services segment key operating performance measures

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 11.3.1 in this MD&A for definitions and further information on performance measures.

(C$ in millions) except where noted	**Q4 2015**	Q4 2014	Change	**2015**	2014	Change
Credit card sales growth[1]	**1.6%**	2.7%		**0.9%**	3.5%	
Gross average accounts receivable (GAAR)	**$ 4,845.9**	$ 4,822.0	0.5 %	**$ 4,838.7**	$ 4,684.6	3.3%
Revenue[2] (as a % of GAAR)	**22.81%**	22.96%		**n/a**	n/a	
Average number of accounts with a balance[3] (thousands)	**1,844**	1,864	(1.1)%	**1,840**	1,837	0.2%
Average account balance[3] (whole $)	**$ 2,625**	$ 2,584	1.6 %	**$ 2,627**	$ 2,547	3.1%
Net credit card write-off rate[2, 3]	**6.18%**	6.05%		**n/a**	n/a	
Past due credit card receivables[3, 4] (PD2+)	**2.95%**	2.98%		**n/a**	n/a	
Allowance rate[5]	**2.25%**	2.27%		**n/a**	n/a	
Operating expenses[2] (as a % of GAAR)	**5.68%**	6.42%		**n/a**	n/a	
Return on receivables[2]	**7.73%**	7.36%		**n/a**	n/a	

1 Credit card sales growth excludes balance transfers.
2 Figures are calculated on a rolling 12-month basis.
3 Credit card portfolio only.
4 Credit card receivables more than 30 days past due as a percentage of total ending credit card receivables.
5 The allowance rate was calculated based on the total-managed portfolio of loans receivable.

7.4.2 Financial Services segment financial results

(C$ in millions)	**Q4 2015**	Q4 2014	Change	**2015**	2014	Change
Revenue	**$ 264.5**	$ 266.1	(0.6)%	**$ 1,101.2**	$ 1,075.7	2.4 %
Gross margin dollars	**148.9**	148.1	0.6 %	**649.1**	640.5	1.4 %
Gross margin (% of revenue)	**56.3%**	55.6%	67 bps	**58.9%**	59.5%	(59) bps
Other expense	**0.6**	0.9	(40.5)%	**1.9**	1.6	19.7 %
Selling, general and administrative expenses	**68.8**	75.8	(9.1)%	**274.7**	300.8	(8.7)%
Net finance (income)	**(0.3)**	(0.5)	(40.2)%	**(1.5)**	(6.9)	(77.9)%
Income before income taxes	**$ 79.8**	$ 71.9	11.1 %	**$ 374.0**	$ 345.0	8.4 %

Financial Services segment fourth quarter 2015 versus fourth quarter 2014

Earnings summary

Income before income taxes of $79.8 million increased $7.9 million, or 11.1 percent, due to savings in marketing expenditures as well as lower variable compensation expense and a reduction in the allowance for future write-offs of the credit card portfolio partially offset by increased insolvency write-offs and a reduction in interchange revenue, resulting from industry wide adoption of a revised rate schedule in Q2 2015.

Revenue

Revenue remained relatively flat during the quarter compared to prior year. Lower revenue deferral on balance transfers and deferred sales transactions[1] and higher credit card charges driven by a slight increase in GAAR were offset by lower interchange revenue resulting from new industry standards adopted in Q2 2015. GAAR increased 0.5 percent driven by increased average account balances partially offset by a lower number of accounts due to a conservative approach to new account acquisition taken in 2014 and earlier in the year, in response to economic uncertainty.

Gross margin

Gross margin dollars increased 0.6 percent and the gross margin rate increased 67 basis points during the quarter primarily due to favourable credit card portfolio aging which led to a reduction in the allowance for future write-offs and a reduction

[1] In accordance with IFRS, balance transfers, deferred sales, and installments sales are recorded at fair value using an effective interest rate. Financial Services records a reduction to revenue when funding these loans, which is amortized back into revenue over the term of the loan.

in insurance loss reserves partially offset by increased insolvency write-offs and a reduction in interchange revenue resulting from industry wide adoption of a revised rate schedule in Q2 2015.

Selling, general and administrative expenses
Selling, general, and administrative expenses decreased $7.0 million, or 9.1 percent, primarily due to reduced marketing expenditures as well as lower variable compensation expense.

Net finance income
Net finance income decreased by $0.2 million primarily due to lower interest earned on inter-company loans.

Financial Services segment full year 2015 versus full year 2014

Earnings summary
Income before income taxes increased $29.0 million, or 8.4 percent, compared to prior year due to increased credit charges on increased GAAR partially offset by lower interchange revenue and increased loyalty expenses. Savings in operating expenditures during the year were offset by a higher allowance for future write-offs of the credit card portfolio compared to the prior year.

Revenue
Revenue increased $25.5 million or 2.4 percent compared to prior year primarily due to higher credit charges as a result of increased GAAR as well as lower revenue deferral on balance transfers and deferred sales transactions[2] partially offset by increased loyalty expenses and lower interchange revenue. GAAR increased 3.3 percent from increased average account balances and growth in active accounts.

Gross margin
Gross margin dollars increased 1.4 percent compared to prior year as a result of higher revenue. Gross margin rate decreased 59 basis points from the prior year primarily due to increased insolvency write-offs and a higher allowance for future write-offs of the credit card portfolio compared to the prior year when there was a reduction in the allowance due to Management's assessment of the effect of the changes made to the monthly minimum payment requirements in 2012. This decrease in the gross margin rate was partially offset by higher credit card charges on increased GAAR and lower revenue deferral on balance transfers and deferred sales transactions[2].

Selling, general and administrative expenses
Selling, general, and administrative expenses decreased $26.1 million or 8.7 percent primarily due to a reduction in consulting expenses, including a one-time settlement of a contingency-based contract in 2014, lower marketing and advertising expenses, and lower variable compensation expense.

Net finance income
Net finance income decreased $5.4 million primarily due to lower interest earned on inter-company loans.

7.4.3 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 12.2 for a discussion of company-wide risks.

Consumer credit risk
Financial Services grants credit to its customers on Canadian Tire credit cards, which may include varying payment options. With the granting of credit, Financial Services assumes certain risks with respect to the ability and willingness of its customers to repay debt. Financial Services manages credit risk to optimize profitability, within the scope of internal risk policy, 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.

[2] In accordance with IFRS, balance transfers, deferred sales, and installments sales are recorded at fair value using an effective interest rate. Financial Services records a reduction to revenue when funding these loans, which is amortized back into revenue over the term of the loan.

Liquidity and funding risk
Liquidity and funding risk is the risk that Financial Services will be unable to meet its funding obligations or obtain funding at a reasonable cost. Financial Services mitigates its liquidity and funding risk by maintaining multiple diversified funding sources that include securitization of receivables, broker GIC deposits, retail deposits, and inter-company borrowing. Financial Services also maintains a pool of high-quality marketable securities that can be used as a source of liquidity under a short-term stress scenario. Financial Services monitors a number of regulatory metrics including Liquidity Coverage Ratio, Net Cumulative Cash Flow, and Net Stable Funding Ratio. Liquidity and funding risk is further mitigated by $2.25 billion of committed funding facilities provided by Scotiabank.

Further details on financing sources for Financial Services are included in section 8.5.

Interest rate risk
The Financial Services segment is exposed to interest rate risk to the extent that changes in interest rates impact net interest income and net economic value. A significant proportion of the funding liabilities for Financial Services are fixed rate, which reduces interest rate risk. A one per cent change in interest rates does not materially affect net interest income or net economic value.

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. The Bank's Compliance department is responsible for the development and maintenance of a regulatory compliance management system. 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.

8.0 Balance sheet analysis, liquidity, and capital resources

8.1 Selected balance sheet highlights
Selected line items from the Company's assets, liabilities, and shareholders' equity as at January 2, 2016 and January 3, 2015 are noted below:

(C$ in millions)	2015	2014	Change ($)	Change (%)
Assets				
Cash and cash equivalents	**$ 900.6**	$ 662.1	$ 238.5	36.0 %
Short-term investments	**96.1**	289.1	(193.0)	(66.8)%
Loans receivable	**4,875.5**	4,905.5	(30.0)	(0.6)%
Merchandise inventories	**1,764.5**	1,623.8	140.7	8.7 %
Long-term receivables and other assets	**731.2**	684.2	47.0	6.9 %
Property and equipment	**3,978.2**	3,743.1	235.1	6.3 %
Total assets	**$ 14,987.8**	$ 14,553.2	$ 434.6	3.0 %
Liabilities				
Deposits	**880.7**	950.7	(70.0)	(7.4)%
Short-term borrowings	**88.6**	199.8	(111.2)	(55.6)%
Loans payable	**655.5**	604.4	51.1	8.5 %
Current portion of long-term debt	**24.3**	587.5	(563.2)	(95.9)%
Long-term debt	**2,971.4**	2,131.6	839.8	39.4 %
Long-term deposits	**1,372.2**	1,286.2	86.0	6.7 %
Total liabilities	**$ 9,198.1**	$ 8,922.4	$ 275.7	3.1 %

For the complete balance sheet, refer to the Consolidated Balance Sheets in the 2015 Annual Report.

The year-over-year increase in total assets of $434.6 million was primarily due to:
- an increase in cash and cash equivalents of $238.5 million offset by a decrease in short-term investments of $193.0 million due to a shift towards investing in marketable securities with a term of less than 90-days resulting in a net increase of $45.3 million;

- an increase in property and equipment of $235.1 million as a result of capital expenditures, including spend related to construction of the Bolton DC, capital spending on IT initiatives, and investment in the Retail network, partially offset by higher depreciation and amortization;
- an increase in merchandise inventories of $140.7 million due to higher inventory levels at FGL Sports and Mark's. This increase is primarily to support new stores, investment in new categories (e.g. electronics and footwear at FGL Sports and denim and casual footwear at Mark's), the impact of higher costs due to the weaker Canadian dollar, higher industrial related inventory at Mark's, as well as higher inventory in certain cold weather and winter categories due to a delay in the arrival of winter weather during the fourth quarter of fiscal 2015. Management expects that industrial and winter related inventory levels will normalize in 2016 through adjustments made to 2016 buying volume and ongoing sales during the first quarter; and
- an increase in long-term receivables and other assets of $47.0 million primarily due to the number of Dealers that are participating in the Franchise Trust Dealer loan program, following the changes to the Dealer contract in 2013;

partially offset by;

- a decrease in loans receivable of $30.0 million primarily driven by lower credit card loans at CTFS.

The year-over-year increase in total liabilities of $275.7 million was primarily due to:

- a net increase in term debt (current portion of long-term debt and long-term debt) of $276.6 million primarily due to debt issuances of $500 million by Glacier and $350 million by CT REIT in June 2015, offset by maturing CTC medium-term notes of $300 million in June 2015 and Glacier notes of $265 million in November 2015;
- an increase in long-term deposits of $86.0 million due to a strategic decision to take advantage of lower interest rates and to maintain diversified fund maturities; and
- an increase in loans payable of $51.1 million, consistent with the increase in the long-term receivables noted above;

partially offset by:

- a decrease in short-term borrowings of $111.2 million driven by repayment of $78.0 million CT REIT's line of credit and a $33.0 million reduction in the commercial paper outstanding at Glacier; and
- a decrease in short-term deposits of $70.0 million due to lower maturities in 2016 versus 2015.

8.2 Summary cash flows

The Company's Consolidated Statements of Cash Flows for the quarters and years ended January 2, 2016 and January 3, 2015 are noted below:

(C$ in millions)	**Q4 2015**	Q4 2014 [1]	Change	**2015**	2014 [1]	Change
Cash generated from operating activities before the undernoted item	**$ 790.4**	$ 690.8	$ 99.6	**$ 1,004.1**	$ 906.9	$ 97.2
Change in loans receivable	**(169.4)**	(207.0)	37.6	**(25.2)**	(332.4)	307.2
Cash generated from operating activities	**621.0**	483.8	137.2	**978.9**	574.5	404.4
Change in investments, long-term receivables, and other	**51.9**	(164.5)	216.4	**210.1**	77.9	132.2
Additions to property and equipment, investment property and intangibles	**(199.9)**	(223.9)	24.0	**(610.6)**	(688.7)	78.1
Proceeds on disposition of property and equipment, investment property and assets held for sale	**42.7**	—	42.7	**101.5**	21.3	80.2
Cash (used for) investing activities	**(105.3)**	(388.4)	283.1	**(299.0)**	(589.5)	290.5
Change in long-term debt, loans payable, short-term borrowings, and other	**(282.5)**	(221.7)	(60.8)	**201.0**	160.3	40.7
Dividends paid and distributions to non-controlling interests	**(53.9)**	(41.8)	(12.1)	**(206.0)**	(160.9)	(45.1)
Repurchase of share capital	**(116.7)**	(87.4)	(29.3)	**(434.6)**	(290.6)	(144.0)
Change in deposits	**30.2**	40.5	(10.3)	**12.5**	(97.0)	109.5
Net proceeds on sale of ownership interests in the Financial Services business	**—**	476.8	(476.8)	**—**	476.8	(476.8)
Cash (used for) generated from financing activities	**(422.9)**	166.4	(589.3)	**(427.1)**	88.6	(515.7)
Cash generated in the period	**$ 92.8**	$ 261.8	$ (169.0)	**$ 252.8**	$ 73.6	$ 179.2

[1] Prior year figures have been restated. Refer to Note 39 of the consolidated financial statements.

Consolidated fourth quarter 2015 versus fourth quarter 2014

The Company's cash generated in the quarter decreased to $92.8 million from $261.8 million in 2014. The $169.0 million decrease in cash generated was primarily due to:

- $476.8 million of cash generated from the sale of 20 percent of the Financial Services business in the prior year;
- an additional $60.8 million in cash used for change in long-term debt, loans payable, and short-term borrowings as a result of net higher debt payments related to repayment of Senior and Subordinated notes which matured in the quarter; and
- a $29.3 million increase in payments for share buy-backs in connection with the Company's previously communicated share repurchase plan;

partially offset by:

- an additional $216.4 million in cash generated from change in investments, and long-term receivables driven by a decrease in net investments;
- a $99.6 million improvement in cash from operations, net of loans receivable;
- a $42.7 million increase in proceeds on disposition of assets;
- $37.6 million lower growth in loans receivable; and
- a $24.0 million reduction in cash used for capital expenditures due to the timing of payments on major capital projects.

Consolidated full year 2015 versus full year 2014

The Company's cash generated in the year increased to $252.8 million from $73.6 million in 2014. The $179.2 million increase in cash generated was primarily due to:

- $307.2 million lower growth in loans receivable as a result of more cautious account acquisition and a $109.5 million net change in deposits in Financial Services;
- an additional $132.2 million in cash generated from other investing activities driven by a decrease in net investments;
- a $97.2 million improvement in cash from operations, net of loans receivable;
- a $80.2 million increase in proceeds on disposition of assets; and
- a $78.1 million reduction in cash used for capital expenditures due to the timing of payments on major capital projects;

partially offset by:

- $476.8 million of cash generated from the sale of 20 percent of the Financial Services business in the prior year;
- a $144.0 million increase in payments for share buy-backs in connection with the Company's previously communicated share repurchase plan; and
- a $45.1 million increase in dividends and distributions, driven by an increase in the dividends paid and higher distributions related to the non-controlling interest in the Financial Services business.

8.3 Capital management

In order to support its growth agenda and pursue its strategic imperatives, the Company actively manages its capital.

8.3.1 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 has not caused Management to change the Company's objectives in managing capital.

8.3.2 Capital under management

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 Glacier indebtedness but excludes Franchise Trust indebtedness:

(C$ in millions)		2015	% of total		2014	% of total
Capital components						
Deposits	**$**	**880.7**	**8.2%**	$	950.7	9.1%
Short-term borrowings		**88.6**	**0.8%**		199.8	1.9%
Current portion of long-term debt		**24.3**	**0.2%**		587.5	5.6%
Long-term debt		**2,971.4**	**27.8%**		2,131.6	20.4%
Long-term deposits		**1,372.2**	**12.8%**		1,286.2	12.3%
Total debt	**$**	**5,337.2**	**49.8%**	$	5,155.8	49.3%
Redeemable financial instrument		**517.0**	**4.9%**		517.0	4.9%
Share capital		**671.2**	**6.3%**		695.5	6.8%
Contributed surplus		**2.9**	**0.0%**		2.9	0.0%
Retained earnings		**4,172.0**	**39.0%**		4,075.1	39.0%
Total capital under management	**$**	**10,700.3**	**100.0%**	$	10,446.3	100.0%

The Company monitors its capital structure through measuring debt-to-earnings ratios and ensures its ability to service debt and meet other fixed obligations by tracking its interest and other coverage ratios.

The Company manages its capital structure over the long term to optimize the balance among capital efficiency, financial flexibility, and risk mitigation. 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, re-purchase shares pursuant to a normal course issuer bid ("NCIB") program, repay debt, issue new debt and equity at Canadian Tire Corporation and CT REIT, 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 a policy in place to manage capital. 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, the policy. In addition, periodic review of the policy is performed to ensure consistency with the risk tolerances.

Key financial covenants of the existing debt agreements are reviewed by Management on an ongoing basis to monitor compliance with the agreements. The key financial covenants for Canadian Tire Corporation 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 CTB deposits and the assets and liabilities of GCCT and Franchise Trust); and
- a limit 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 January 2, 2016 and January 3, 2015. Under these covenants, the Company currently has sufficient flexibility to fund business growth and maintain or amend dividend rates within its existing dividend policy.

CT REIT is required to comply with financial covenants established under its Trust Indenture, Bank Credit Agreements, and the Declaration of Trust and was in compliance with the key covenants as at December 31, 2015 and 2014.

In addition, the Company is required to comply with regulatory requirements for capital associated with the operations of CTB, a federally chartered bank, and other regulatory requirements that have an impact on its business operations and certain financial covenants established under its unsecured revolving credit facility.

8.3.3 Canadian Tire Bank's regulatory environment

CTB manages its capital under guidelines established by the Office of the Superintendent of Financial Institutions of Canada ("OSFI"). OSFI's regulatory capital guidelines are based on the international Basel Committee on Banking Supervision framework entitled Basel III: A Global Regulatory Framework for More Resilient Banks and Banking Systems ("Basel III"), which came into effect in Canada on January 1, 2013, and measures capital in relation to credit, market, and operational risks. The Bank has various capital policies and procedures and controls, including an Internal Capital Adequacy Assessment Process ("ICAAP"), which 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.

OSFI's regulatory capital guidelines under Basel III allow for two tiers of capital. As at December 31, 2015, the Bank's fiscal year-end, Common Equity Tier 1 ("CET1") capital includes common shares, retained earnings, and Accumulated Other Comprehensive Income ("AOCI"). The Bank currently does not hold any additional Tier 1 or Tier 2 capital instruments. Therefore, the Bank's CET1 is equal to its Tier 1 and total regulatory 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 a 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.

As at December 31, 2015 and 2014, the Bank complied with all regulatory capital guidelines established by OSFI, its internal targets as determined by its ICAAP, and the financial covenants of its credit facility.

8.4 Investing

8.4.1 Capital expenditures

The Company's capital expenditures for the periods ended January 2, 2016 and January 3, 2015 were as follows:

(C$ in millions)	**2015**	2014
Real estate[1]	**$ 259.9**	$ 256.6
Information technology	**212.2**	153.8
Other operating	**56.9**	65.6
Operating capital expenditures	**529.0**	476.0
CT REIT acquisitions and developments excluding vend-ins from CTC[2]	**42.4**	183.4
Distribution capacity	**144.7**	62.4
Total capital expenditures[3]	**$ 716.1**	$ 721.8

[1] Retail capital expenditures include $17.7 million related to the acquisition of 12 real estate leases, formerly held by Target Canada which were acquired during the year ended January 2, 2016, and are primarily recorded in "Long-term receivables and other assets" on the Consolidated Balance Sheets.

[2] Beginning in Q3 2015, the definition of CT REIT acquisitions and developments (excluding vend-ins from CTC) was changed to also exclude inter-segment transactions; the impact to previously stated 2014 figures is immaterial.

[3] Capital expenditures are presented on an accrual basis and include software additions, but exclude acquisitions relating to business combinations and intellectual properties.

Capital expenditures for 2015 decreased $5.7 million to $716.1 million compared to $721.8 million in 2014 primarily due lower CT REIT third party acquisitions partially offset by increased spending on distribution capacity relating to the Bolton DC, as well as increased capital spending on IT initiatives.

Operating capital expenditures were $529.0 million compared to $476.0 million in the prior year and lower than the stated range of $600 million to $625 million. Capital expenditures for additional distribution capacity were $144.7 million, lower than the Company's stated range of $175 million to $200 million due to capital spending initially planned for 2015 being deferred to 2016.

Capital commitments

The Company has commitments of approximately $120.2 million at January 2, 2016 (2014 – $136.7 million) for the acquisition of tangible and intangible assets.

Capital expenditure update

The following represents forward-looking information and users are cautioned that actual results may vary.

Operating capital expenditures
As previously disclosed in Q2 2015, the Company expects its three-year average annual operating capital expenditures between fiscal 2015 and 2017 to be between $600 million and $625 million, including continued investment in the Company's store network, capital spending relating to the acquisition of 12 former Target locations in Q2 2015, and significant new investments in digital technology. The average annual operating capital expenditures do not include spending relating to DC capacity or properties CT REIT acquires from third parties.

As previously disclosed, for fiscal 2016, the Company expects average annual operating capital expenditures to be within the range of $625 million to $650 million.

Distribution capacity capital expenditures
As previously disclosed, for fiscal 2016, the Company expects capital expenditures required for distribution capacity to be in the range of $150 million to $175 million.

8.4.2 Business acquisition
As part of its growth strategy, the Company actively pursues acquisition candidates that are a strategic fit with its retail businesses and expand the Company's eCommerce and omni-retail capabilities. Major acquisitions are only consummated where the Company expects to strengthen its market position and create long-term value for Shareholders. As a result of its measured approach to acquiring new businesses, the Company has completed two major acquisitions within the past 13 years: Mark's Work Wearhouse Limited in 2002 and The Forzani Group Limited in 2011.

8.5 Liquidity and financing
The Company is in a strong liquidity position with the ability to access multiple funding sources. A number of alternative financing sources are available to the Company, CT REIT, and CTB to ensure that the appropriate level of liquidity is available to meet the Company's strategic imperatives.

Summary of Canadian Tire's financing sources as of January 2, 2016:

Committed bank lines of credit and commercial paper program
Primarily provided by Canadian financial institutions, $1.5 billion of the committed bank lines are available to the Company through a four-year $1.2 billion syndicated credit facility expiring in July 2019 and $300 million in bilateral credit agreements expiring in November 2016. The lines are for general corporate purposes of the Company and support the Glacier commercial paper program. The Company had no borrowings outstanding as at January 2, 2016; however, Glacier had $88.6 million of commercial paper outstanding as at January 2, 2016.

Bank lines of credit totaling $200 million are committed to CT REIT for general purposes under a five-year syndicated revolving credit facility maturing in July 2020. CT REIT had no borrowing outstanding under its credit facility as at January 2, 2016.

Note purchase facility and unsecured revolving credit facility - Amount available: $2.25 billion
CTB has a $250 million revolving credit facility provided by Scotiabank and a $2 billion note purchase facility available for the purchase of Senior and Subordinated Notes issued by Glacier, both expiring in October 2017. CTB had no borrowing outstanding under these facilities as at January 2, 2016.

Medium-term notes and debentures
CTC's Shelf Prospectus dated March 11, 2013 expired in April 2015; however, the Company may choose to renew it at any time. In the meantime, the Company could issue notes via short-term prospectuses. Medium-term notes totaling $550 million remain outstanding as at January 2, 2016, as CTC repaid $300 million of medium-term notes that matured on June 1, 2015.

CT REIT filed a base shelf prospectus on March 5, 2015 providing CT REIT with the ability to raise up to $1.5 billion of debt and equity capital for 25 months from that date. In June 2015, CT REIT issued $350 million of senior unsecured debentures.

Securitization of receivables - Amount available: Transaction specific
Securitization transactions, in the form of commercial paper, senior notes, and subordinated notes issued through Glacier, continue to be a relatively cost-effective form of financing for CTB. Financial Services securitized $500 million of credit card receivables in 2015 as part of the Glacier securitization program.

Broker GIC deposits - Amount available: No specified limit
Funds continue to be readily available to CTB through broker networks. As at January 2, 2016, Financial Services held $1.6 billion in broker GIC deposits.

Retail deposits - Amount available: No specified limit
Retail deposits consist of high interest savings accounts ("HIS") held by CTB and retail GIC deposits, available both within and outside a TFSA. As at January 2, 2016, Financial Services held $704.4 million in retail deposits.

Real estate - Amount available: Transaction specific
Strategic transactions involving properties not owned by CT REIT.

CT REIT - Amount available: Various
Additional sources of funding are available to CT REIT as appropriate, including the ability to access equity and debt markets, subject to the terms and conditions of CT REIT's Declaration of Trust and all applicable regulatory requirements.

Credit rating
Canadian Tire Corporation is rated by two independent credit rating agencies: Dominion Bond Rating Service ("DBRS") and Standard & Poors ("S&P"), which provide credit ratings of debt securities for commercial entities. A credit rating generally provides an indication of the risk that the borrower will not fulfill its full obligations in a timely manner with respect to both interest and principal commitments. Rating categories range from highest credit quality (generally "AAA") to default in payment (generally "D").

S&P confirmed the Company's credit ratings in Q2 2015 while DBRS last confirmed the Company's credit ratings in Q4 2014. During Q3 2015, at the request of the Company, DBRS and S&P withdrew their respective credit ratings on Canadian Tire's commercial paper program. Glacier's ratings remained unchanged. In Q2 2015, DBRS and S&P confirmed the Issuer rating of CT REIT and assigned a credit rating on CT REIT's senior unsecured debentures.

Credit rating summary	DBRS	S&P
Canadian Tire		
Issuer rating	BBB (high)	BBB+
Medium-term notes	BBB (high)	BBB+
Trend or outlook	Stable	Stable
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)
CT REIT		
Issuer rating	BBB (high)	BBB+
Trend or outlook	Stable	Stable
Senior unsecured debentures	BBB (high)	BBB+

8.5.1 Contractual obligations, guarantees and commitments
8.5.1.1 Contractual obligations
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 an NCIB program, from a combination of sources. The following table shows the Company's contractual obligations required to be paid over the next five-year period and beyond. The Company believes it has sufficient liquidity available to meet its contractual obligations as at January 2, 2016.

Contractual obligations due by period

(C$ in millions)	Total	2016	2017	2018	2019	2020	2021 & beyond
Current and long-term debt[1, 3]	**$ 962.6**	$ 4.6	$ 1.8	$ 17.6	$ 38.1	$ 0.5	$ 900.0
Glacier Credit Card Trust debt[2, 3]	**1,899.5**	—	634.9	264.6	500.0	500.0	—
Finance lease obligations[4]	**193.5**	28.2	24.1	21.0	18.5	25.9	75.8
Operating leases	**2,283.5**	343.4	313.5	282.5	245.3	214.2	884.6
Purchase obligations	**1,624.2**	1,449.7	70.8	45.1	25.5	24.1	9.0
Financial Services' deposits[3]	**2,261.8**	889.5	326.1	357.3	411.5	277.4	—
Other obligations	**182.0**	59.0	35.2	27.2	21.4	16.6	22.6
	$ 9,407.1	$ 2,774.4	$ 1,406.4	$ 1,015.3	$ 1,260.3	$ 1,058.7	$ 1,892.0

1 Excludes senior and subordinated notes at GCCT.
2 Represents senior and subordinated notes.
3 Excludes interest obligations on debt or deposits.
4 Includes interest obligations on finance leases.

8.5.1.2 Guarantees and commitments

In the normal course of business, the Company enters into numerous agreements that may contain features that meet the definition of a guarantee and provides other additional indemnification commitments to counterparties in various transactions that require the Company to compensate the counterparties for certain amounts and costs incurred. For a discussion of the Company's significant guarantees and commitments, refer to Note 37 of the annual consolidated financial statements.

The Company's maximum exposure to credit risk with respect to such guarantees and commitments is provided in Note 5 to the annual consolidated financial statements.

8.6 Funding costs

The table below shows the funding costs relating to short-term and long-term debt and excludes deposits held by CTB and Franchise Trust indebtedness:

(C$ in millions)	2015	2014
Interest expense[1]	**$ 99.7**	$ 106.2
Cost of debt[2]	**3.38%**	4.38%

1 Represents the interest expense related to short-term and long-term debt. Short-term debt includes lines of credit. Long-term debt includes medium-term, debentures, senior, and subordinated notes.
2 Represents the weighted average cost of short-term and long-term debt during the period. An early redemption premium of $15.0 million is included in 2014.

For a discussion of the liquidity and credit risks associated with the Company's ability to generate sufficient resources to meet its financial obligations, refer to section 12.3 in this MD&A.

9.0 Equity

9.1 Shares outstanding

(C$ in millions)	2015	2014
Authorized		
3,423,366 Common Shares		
100,000,000 Class A Non-Voting Shares		
Issued		
3,423,366 Common Shares (2014 - 3,423,366)	**$ 0.2**	$ 0.2
70,637,987 Class A Non-Voting Shares (2014 - 74,023,208)	**671.0**	695.3
	$ 671.2	$ 695.5

Each year, the company files an NCIB which allows it to purchase shares in the open market.

On October 9, 2014, the Company announced its intention to repurchase $400 million of its Class A Non-Voting Shares by the end of 2015, in excess of the amount of shares to be purchased for anti-dilutive purposes and subject to regulatory approval. Having completed this buyback, the Company announced (on November 12, 2015) its intention to repurchase a further $550 million of its Class A Non-Voting Shares by the end of 2016, in excess of the amount of shares to be purchased for anti-dilutive purposes and subject to regulatory approval. The following table summarizes the Company's intentions and purchases made related to these two announcements:

	(C$ in millions)
Share buy-back intention announced on October 9, 2014	$ 400.0
Shares purchased in 2014	83.7
Shares purchased from January 4, 2015 through October 1, 2015	316.3
	$ —
Share buy-back intention announced on November 12, 2015	550.0
Shares repurchased from November 13, 2015 through January 2, 2016	110.0
Shares repurchased from January 3, 2016 through February 17, 2016	55.0
Shares remaining to be repurchased in 2016 under the November 12, 2015 announcement, subject to regulatory approval of a new NCIB[1]	$ 385.0

[1] The Company will file a notice of intention with the TSX to make an NCIB to purchase up to 6 million Class A Non-Voting Shares during the period March 2, 2016 through March 1, 2017.

9.2 Dividends

The Company has declared dividends payable to holders of Class A Non-Voting Shares and Common Shares at a rate of $0.575 per share payable on June 1, 2016 to shareholders of record as of April 30, 2016. The dividend is considered an "eligible dividend" for tax purposes.

9.3 Equity derivative contracts

The Company enters into equity derivative contracts to partially offset its exposure to fluctuations in stock option and performance share unit plan expense. Equity derivatives commonly used by the Company include floating-rate equity forwards and fixed-rate equity forwards.

During the year, equity forwards which had hedged 275,000 performance share units settled resulting in a payment to the Company of $15.8 million. Also during the year, the Company entered into a floating rate equity forward to offset its exposure to 100,000 stock option and performance share units at a weighted average purchase price of $126.63.

10. 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.

With respect to temporary differences relating to and arising from the Company's investment in its subsidiaries, the Company is able to control and has no plans that would result in the realization of the respective temporary differences. Accordingly, the Company has not provided for deferred taxes related to these respective temporary differences that might otherwise occur from transactions relating to the Company's investment in its subsidiaries.

The Company regularly reviews the potential for adverse outcomes with respect to tax matters. The Company believes that the ultimate disposition of these matters 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.

Income taxes for the 13 and 52 weeks ended January 2, 2016 increased to $93.9 million (2014 - $86.8 million) and $265.4 million (2014 - $238.9 million), respectively. The effective tax rate for the 13 weeks ended January 2, 2016 decreased to 28.0 percent (2014 - 29.6 percent) primarily relating to lower non-deductible stock option expense and the change to the fair value of the redeemable financial instrument in 2014.

The effective tax rate for the 52 weeks ended January 2, 2016 decreased to 26.5 percent (2014 - 27.2 percent) primarily due to lower non-deductible stock option expense, the change to the fair value of the redeemable financial instrument in 2014, and higher tax benefits related to capital property dispositions in 2015; partially offset by a reduction in favourable tax settlements in the year.

The following represents forward-looking information and users are cautioned that actual results may vary.

In Q3 2015, the Company announced the effective tax rate for fiscal 2016 was expected to be approximately 27.5 percent. This estimate includes assumptions relating to the tax provision impact of the non-deductibility of anticipated changes in fair value of the redeemable financial instrument and higher anticipated stock option expense as compared to 2015.

11. Accounting policies, estimates, and non-GAAP measures

11.1 Critical accounting estimates

The Company estimates certain amounts reflected in its consolidated financial statements using detailed financial models 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 Management's judgment, the accounting policies and estimates detailed in Note 2 and Note 3 of the notes to the consolidated financial statements contained in the Company's 2015 Annual Report do not require Management 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 in 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.

11.2 Changes in accounting policies

Standards, amendments, and interpretations issued and not yet adopted

The following new standards, amendments and interpretations have been issued and are expected to have an impact on the Company, but are not effective for the fiscal year ending January 2, 2016, and accordingly have not been applied in preparing the consolidated financial statements.

Financial instruments

In July 2014, the International Accounting Standard Board ("IASB") issued the final version of IFRS 9 – *Financial Instruments* ("IFRS 9"), which brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 - *Financial Instruments: Recognition and Measurement* ("IAS 39").

Classification and measurement – Financial assets are classified and measured based on the business model under which they are managed and the contractual cash flow characteristics of the financial assets. Financial liabilities are classified in a similar manner as under IAS 39, except that financial liabilities measured at fair value will have fair value changes resulting from changes in the entity's own credit risk recognized in Other Comprehensive Income instead of Net Income, unless this would create an accounting mismatch.

Impairment – The measurement of impairment of financial assets is based on an expected credit loss model. It is no longer necessary for a triggering event to have occurred before credit losses are recognized. IFRS 9 also includes new disclosure requirements about expected credit losses and credit risk.

Hedge accounting - The new general hedge accounting model more closely aligns hedge accounting with risk management activities undertaken by entities when hedging their financial and non-financial risk exposures. It will provide more opportunities to apply hedge accounting to reflect actual risk management activities.

IFRS 9 is to be applied retrospectively for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Company is assessing the potential impact of this standard.

Revenue from Contracts with Customers
In May 2014, the IASB issued IFRS 15 – *Revenue from Contracts with Customers* ("IFRS 15"), which replaces IAS 11 – *Construction Contracts*, IAS 18 – *Revenue* and IFRIC 13 – *Customer Loyalty Programmes*, as well as various other interpretations regarding revenue. IFRS 15 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers, except for contracts that are within the scope of the standards on leases, insurance contracts, and financial instruments. IFRS 15 also contains enhanced disclosure requirements. IFRS 15 is to be applied retrospectively for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Company is assessing the potential impact of this standard.

Disclosure initiative
In December 2014, the IASB issued *Disclosure Initiative Amendments to IAS 1* as part of the IASB's Disclosure Initiative. These amendments encourage entities to apply professional judgment regarding disclosure and presentation in their financial statements.

These amendments are effective for annual periods beginning on or after January 1, 2016. The implementation of these amendments will not have a significant impact on the Company.

In January 2016, the IASB issued *Disclosure Initiative Amendments to IAS 7* also as part of the IASB's Disclosure Initiative. These amendments require entities to provide additional disclosures that will enable financial statements users to evaluate changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash changes.

These amendments are effective for annual periods beginning on or after January 1, 2017. Earlier application is permitted. The Company is currently assessing the potential impact of these amendments.

Leases
In January 2016, the IASB issued IFRS 16 - *Leases* ("IFRS 16"), which replaces IAS 17 - *Leases* ("IAS 17") and related interpretations. IFRS 16 provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is 12-months or less or the underlying asset has a low value. IFRS 16 substantially carries forward the lessor accounting in IAS 17 with the distinction between operating leases and finance leases being retained.

IFRS 16 will be applied retrospectively for annual periods beginning on or after January 1, 2019. Early adoption is permitted if IFRS 15 has also been applied. The Company is assessing the potential impact of this standard.

Income taxes
In January 2016, the IASB issued *Recognition of Deferred Tax Assets for Unrealized Losses* as an amendment to IAS 12 – *Income Taxes*. These amendments address the accounting for deferred tax assets for unrealized losses on debt instruments measured at fair value.

These amendments are effective for annual periods beginning on or after January 1, 2017. Earlier application is permitted. The Company is currently assessing the potential impact of these amendments.

11.3 Key operating performance measures and non-GAAP financial measures
The Company uses certain key operating performance measures and non-GAAP financial measures and believes that they provide useful information to both Management and investors in measuring the financial performance and financial condition of the Company for the reasons outlined below.

Some of these measures do not have a standardized meaning prescribed by GAAP and therefore may not be comparable to similarly titled measures presented by other publicly traded companies. They should not be construed as an alternative to other financial measures determined in accordance with GAAP.

11.3.1 Key operating performance measures

Retail sales

Retail sales refers to the POS (i.e. cash register) value of all goods and services sold to retail customers at stores operated by Dealers, Mark's and FGL Sports franchisees, and Petroleum retailers, at corporately-owned stores across all retail banners, of services provided as part of the Home Services offering, and of goods sold through the Company's online sales channels, and in aggregate does not form part of the Company's consolidated financial statements.

Revenue, as reported in the Company's consolidated financial statements, comprises primarily the sale of goods to Dealers and to franchisees of Mark's and FGL Sports, the sale of gasoline through Petroleum retailers, the sale of goods to retail customers by stores that are corporately-owned under the Mark's, PartSource and FGL Sports banners, the sale of services through the Home Services business, the sale of goods to customers through INA, a business-to-business operation of FGL Sports, and through the Company's online sales channels, as well as revenue generated from interest, service charges, interchange and other fees and from insurance products sold to credit card holders in the Financial Services segment, and rent paid by third-party tenants in the CT REIT segment.

Sales definitions for the Retail banners can be found in the footnotes to the table contained within section 7.2.1 of this MD&A.

Management believes that retail sales and related year-over-year comparisons provide meaningful information to investors and are expected and valued by Management to help assess the size and financial health of the retail network of stores. These measures also serve as an indicator of the strength of the Company's brand, which ultimately impacts its consolidated financial performance.

Same-store sales

Same-store sales is a metric used by Management and is also commonly used in the retail industry to identify sales growth generated by a Company's existing store network and removes the effect of opening and closing stores in the period. For Canadian Tire stores, the calculation also excludes stores that have been retrofitted, replaced, or expanded where the percentage change in square footage exceeds 25 percent of the original store size, and includes sales from all stores that have been open for a minimum of one year and one week as well as eCommerce sales. For Mark's and FGL Sports, same-store sales include sales from all stores that have been open since at least the beginning of the comparative month in the prior year and includes eCommerce sales. During the year, to better reflect how the Company manages operations, the same-store sales definition at Mark's and FGL Sports was refined to reflect stores opening at the beginning of the comparative month versus the beginning of the comparative quarter. Prior period same-store sales growth was not restated as the impact was not material. Additional information on same-store sales definitions for Canadian Tire, Mark's, and FGL Sports can be found in section 7.2.1 of this MD&A.

Sales per square foot

Management and investors use comparisons of sales per square foot metrics over several periods to help 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 Canadian Tire, Mark's, and FGL Sports can be found in section 7.2.1 of this MD&A and in the glossary contained in the Company's 2015 Annual Report.

Retail return on invested capital

The Company believes that Retail ROIC is useful in assessing the return on capital invested in its retail assets. In Q4 2014, Management refined the definition of Retail ROIC to exclude the investments in and effects of CT REIT and Financial Services on the Retail segment, thus ensuring that the Retail ROIC metric reflects a pure retail business number. Retail ROIC is calculated as the rolling 12-months retail earnings divided by average invested retail capital. Retail earnings are defined as Retail segment after-tax earnings excluding interest expense, inter-segment earnings, minimum lease payments and non-controlling interests. Average invested capital is defined as Retail segment total assets, including operating leases capitalized at a factor of eight, less Retail segment current liabilities and inter-segment balances for the current and prior year. An aspiration with respect to Retail ROIC has been included as one of the Company's financial aspirations.

Return on receivables

ROR is used by Management to assess the profitability of the Financial Services total portfolio of receivables. ROR is calculated by dividing income before income tax and gains/losses on disposal of property and equipment by the average total-managed portfolio over a 12-month period. An aspiration with respect to ROR has been included as one of the Company's financial aspirations.

11.3.2 Non-GAAP financial measures

Adjusted EBITDA

The following table reconciles consolidated income before income taxes, net finance costs, depreciation and amortization, and change in fair value of redeemable financial instrument, or adjusted EBITDA, to net income which is a GAAP measure reported in the consolidated financial statements for the periods ended January 2, 2016 and January 3, 2015. Management uses adjusted EBITDA as a supplementary measure when assessing the performance of its ongoing operations and its ability to generate cash flows to fund its cash requirements, including the Company's capital expenditures.

(C$ in millions)	**Q4 2015**	Q4 2014	**2015**	2014
Adjusted EBITDA	**$ 474.0**	$ 437.5	**$ 1,518.8**	$ 1,376.4
Change in fair value of redeemable financial instrument	**—**	17.0	**—**	17.0
EBITDA	**$ 474.0**	$ 420.5	**$ 1,518.8**	$ 1,359.4
Less:				
Depreciation and amortization[1]	**116.3**	103.7	**424.7**	372.3
Net finance costs	**22.3**	23.4	**92.8**	108.9
Income before income taxes	**$ 335.4**	$ 293.4	**$ 1,001.3**	$ 878.2
Income taxes	**93.9**	86.8	**265.4**	238.9
Effective tax rate	**28.0%**	29.6%	**26.5%**	27.2%
Net income	**$ 241.5**	$ 206.6	**$ 735.9**	$ 639.3

[1] Includes $2.3 million reported in cost of producing revenue in the quarter ($2.0 million in 2014) and $8.9 million for Q4 YTD 2015 ($7.0 million in Q4 YTD 2014).

Retail segment EBITDA

The following table reconciles Retail segment income before income taxes, net finance costs, and depreciation and amortization, or EBITDA, to income before income taxes which is a supplementary GAAP measure reported in the notes to the consolidated financial statements for the periods ended January 2, 2016 and January 3, 2015.

(C$ in millions)	**Q4 2015**	Q4 2014	**2015**	2014
EBITDA	**$ 334.4**	$ 310.7	**$ 913.0**	$ 824.0
Less:				
Depreciation and amortization[1]	**96.3**	84.4	**350.6**	304.4
Net finance income	**(12.1)**	(8.2)	**(42.5)**	(11.9)
Income before income taxes	**$ 250.2**	$ 234.5	**$ 604.9**	$ 531.5

[1] Includes $2.3 million reported in cost of producing revenue in the quarter ($2.0 million in 2014) and $8.9 million for Q4 YTD 2015 ($7.0 million for Q4 YTD 2014).

Normalized net income and earnings per share

During the prior year, the Company's results of operations included non-operating items. Management believes that normalizing GAAP net income attributable to Shareholders of the Company and basic EPS for non-operating items provides a useful method for assessing the Company's underlying operating performance and assists in making decisions regarding the ongoing operations of its business.

The following is a reconciliation of normalized net income attributable to Shareholders of the Company and normalized basic and diluted EPS to the respective GAAP measures:

(C$ in millions, except per share amounts)	**Q4 2015**	**EPS**	Q4 2014	EPS	**2015**	**EPS**	2014	EPS
Net income/basic EPS	**$ 225.2**	**$ 3.02**	$ 191.3	$ 2.46	**$ 659.4**	**$ 8.66**	$ 604.0	$ 7.65
Add (deduct) the impact of the following:								
Change in fair value of redeemable financial instrument	**—**	**—**	17.0	0.22	**—**	**—**	17.0	0.22
Medium-term notes redemption	**—**	**—**	—	—	**—**	**—**	15.0	0.19
Tax impact of medium-term notes	**—**	**—**	—	—	**—**	**—**	(4.0)	(0.05)
Adjusted net income/adjusted basic EPS	**$ 225.2**	**$ 3.02**	$ 208.3	$ 2.68	**$ 659.4**	**$ 8.66**	$ 632.0	$ 8.01
Adjusted net income/adjusted diluted EPS	**$ 225.2**	**$ 3.01**	$ 208.3	$ 2.65	**$ 659.4**	**$ 8.61**	$ 632.0	$ 7.94

The change in fair value of the redeemable financial instrument relates to the liability arising from the Financial Services transaction with Scotiabank. Refer to Note 35 in the consolidated financial statements for further details and accounting treatment. The recurring fair value measurement relating to the redeemable financial instrument is not included in the

measure of segmented profit or loss reviewed by Management and is therefore excluded from the segmented results reported in section 7.0 of this MD&A.

Normalized Retail segment income before income taxes

The following is a reconciliation of normalized Retail segment income before income taxes to the nearest supplementary GAAP measure:

(C$ in millions)	**Q4 2015**	Q4 2014	**2015**	2014
Income before income taxes	**$ 250.2**	$ 234.5	**$ 604.9**	$ 531.5
Add (deduct) the impact of the following:				
Medium-term notes redemption	**—**	—	**—**	15.0
Adjusted income before income taxes	**$ 250.2**	$ 234.5	**$ 604.9**	$ 546.5

Adjusted net debt

The following table reconciles adjusted net debt to GAAP measures reported as at the periods ended as indicated. The Company believes that adjusted net debt is relevant in assessing the amount of financial leverage employed.

The Company calculates debt as the sum of short-term debt, long-term debt, short-term deposits, long-term deposits, and certain other short-term borrowings. The Company calculates adjusted debt as debt less inter-company debt and liquid assets.

As at January 2, 2016 (C$ in millions)	**Consolidated**	**Retail**	**CT REIT**	**Financial Services**
Consolidated net debt				
Bank indebtedness	**$ —**	**$ —**	**$ —**	**$ —**
Short-term deposits	**880.7**	**—**	**—**	**880.7**
Long-term deposits	**1,372.2**	**—**	**—**	**1,372.2**
Short-term borrowings	**88.6**	**—**	**—**	**88.6**
Current portion of long-term debt	**24.3**	**19.7**	**4.2**	**0.4**
Long-term debt	**2,971.4**	**673.2**	**404.0**	**1,894.2**
Debt	**5,337.2**	**692.9**	**408.2**	**4,236.1**
Liquid assets[1]	**(1,150.1)**	**(850.3)**	**(24.7)**	**(275.1)**
Net debt (cash)	**4,187.1**	**(157.4)**	**383.5**	**3,961.0**
Inter-company debt	**—**	**(1,761.1)**	**1,687.0**	**74.1**
Adjusted net debt (cash)	**$ 4,187.1**	**$ (1,918.5)**	**$ 2,070.5**	**$ 4,035.1**

[1] Liquid assets include cash, short-term investments, and long-term investments.

As at January 3, 2015 (C$ in millions)	Consolidated	Retail	CT REIT	Financial Services
Consolidated net debt				
Bank indebtedness	$ 14.3	$ 14.3	$ —	$ —
Short-term deposits	950.7	—	—	950.7
Long-term deposits	1,286.2	—	—	1,286.2
Short-term borrowings	199.8	—	78.0	121.8
Current portion of long-term debt	587.5	321.6	1.2	264.7
Long-term debt	2,131.6	680.3	57.2	1,394.1
Debt	5,170.1	1,016.2	136.4	4,017.5
Liquid assets[1]	(1,127.2)	(780.0)	(2.7)	(344.5)
Net debt (cash)	4,042.9	236.2	133.7	3,673.0
Inter-company debt	—	(2,196.9)	1,847.3	349.6
Adjusted net debt (cash)	$ 4,042.9	$ (1,960.7)	$ 1,981.0	$ 4,022.6

[1] Liquid assets include cash, short-term investments, and long-term investments.

CT REIT Non-GAAP Financial Measures

Net operating income

NOI is defined as cash rental revenue from investment properties less property operating costs. NOI is used as a key indicator of performance as it represents a measure over which Management has control.

CT REIT evaluates its performance by comparing the performance of the portfolio adjusted for the effects of non-operational items and current-year acquisitions.

The following table shows the relationship of NOI to GAAP property revenue and property expense in the Consolidated Statements of Income and the Consolidated Statements of Comprehensive Income:

(C$ in millions)	**Q4 2015**	Q4 2014	**2015**	2014
Property revenue	**$ 96.6**	$ 89.2	**$ 378.2**	$ 344.8
Less:				
Property expense	**21.8**	19.3	**86.9**	76.7
Straight-line rent adjustment	**6.7**	7.9	**26.1**	28.7
Add:				
Straight-line land lease expense adjustment	**0.1**	0.1	**0.2**	0.2
Net operating income	**$ 68.2**	$ 62.1	**$ 265.4**	$ 239.6

Funds from operations

CT REIT calculates its FFO in accordance with the Real Property Association of Canada White Paper on FFO for IFRS issued in April 2014. The purpose of the White Paper is to provide reporting issuers and investors with greater guidance on the definition of FFO and to promote more consistent disclosure from reporting issuers.

Management believes that FFO provides an operating performance measure that, when compared period-over-period, reflects the impact on operations of trends in occupancy levels, rental rates, operating costs and property taxes, acquisition activities and interest costs, and provides a perspective of the financial performance that is not immediately apparent from net income determined in accordance with IFRS. FFO adds back to net income items that do not arise from operating activities, such as fair value adjustments. FFO, however, still includes non-cash revenues relating to accounting for straight-line rent and makes no deduction for the recurring capital expenditures necessary to sustain the existing earnings stream.

Adjusted funds from operations

AFFO is a supplemental measure of operating performance widely used in the real estate industry to assess an entity's ability to pay distributions. Management believes that AFFO is an effective measure of the cash generated from operations, after providing for operating capital requirements which are referred to as "productive capacity maintenance expenditures".

CT REIT calculates AFFO by adjusting FFO for non-cash income and expense items such as amortization of straight-line rents. FFO is also adjusted for a reserve for maintaining productive capacity required for sustaining property infrastructure and revenue from real estate properties and direct leasing costs. Property capital expenditures do not occur evenly over the fiscal year. The property capital reserve in the AFFO calculation is intended to reflect an average annual spending level.

The following table reconciles FFO and AFFO to GAAP Income before income taxes as reported in the Consolidated Statements of Income and the Consolidated Statements of Comprehensive Income:

(C$ in millions)	**Q4 2015**	Q4 2014	**2015**	2014
Income before income taxes	**$ 62.8**	$ 53.8	**$ 234.5**	$ 318.3
Fair value adjustment of investment property	**(12.7)**	(7.3)	**(39.9)**	(141.2)
Deferred taxes	**(0.1)**	(0.2)	**0.1**	(0.5)
Fair value of equity awards	**—**	0.3	**—**	0.3
Funds from operations	**50.0**	46.6	**194.7**	176.9
Properties straight-line rent adjustment	**(6.7)**	(7.9)	**(26.1)**	(28.7)
Straight-line land lease expense adjustment	**0.1**	0.1	**0.2**	0.2
Capital expenditure reserve	**(4.4)**	(4.1)	**(17.1)**	(15.5)
Adjusted funds from operations	**$ 39.0**	$ 34.7	**$ 151.7**	$ 132.9

12.0 Enterprise risk management

12.0 Enterprise risk management

To preserve and enhance shareholder value, the Company approaches the management of risk strategically through its enterprise risk management program ("ERM Program"). The Company's ERM Program supports the development of risk identification, quantification, monitoring and reporting capabilities as well as the integration of these capabilities into management processes.

The Company's strategies and objectives influence the priorities of the ERM Program. The program addresses strategic, financial, and operational risks and their potential impacts across all of the Company's banners and is:

- cross-functional in its perspective;
- intended to provide a consistent and disciplined approach to support the effective management of risks;
- designed to help support and optimize risk/reward related decisions;
- integrated into the strategic planning and reporting processes;
- designed to assess and incorporate risk mitigation strategies including avoidance, control, transfer, and acceptance; and
- developed and implemented by Management with Board oversight.

The Company continues to mature the ERM Program in the normal course of its activities with a focus on key risks to the Company's strategy and the execution of that strategy as well as on the continuing development of the underlying processes and tools supporting the program.

12.1 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:

- annually, reviewing and recommending to the Board for approval the ERM Policy (and Risk Appetite Statement) setting out the key principles (risk philosophy) and risk appetite of the Corporation and the expectations and accountabilities for identifying, assessing, monitoring, managing, and responding to Risks;
- annually, reviewing and recommending to the Board for approval the Principal Risks of the Corporation;
- reviewing the approach used to appropriately identify, assess, monitor, manage, and respond to Risks;
- conducting an annual review of the ERM Program and considering and approving any changes thereto;
- as required, reviewing and approving policies regarding the management of the Corporation's Principal Risks;
- quarterly obtaining from management a report addressing the Corporation's exposure to each Principal Risk;
- obtaining from Internal Audit Services ("IAS") (consistent with its planned coverage) reports regarding management's implementation and maintenance of an effective ERM Program and the management of the Corporation's Principal Risks; and
- reviewing the adequacy of insurance coverages maintained by the Corporation.

The officer in charge of each banner and corporate function is accountable for effectively managing risks relevant to their respective business areas. The Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") oversee the Company's risk profile and the management of Principal Risks and other enterprise-wide risks. This risk oversight is led by the Senior Vice-President, Risk & Regulatory Affairs.

The Company's IAS function 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.

12.2 Principal risks

A key element of the Company's ERM Program is the periodic identification and assessment of Principal Risks. The Company defines a Principal Risk as one that, alone or in combination with other interrelated risks, could have a significant adverse impact on the Company's brand, financial position, and/or ability to achieve its strategic objectives 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:

- modifying the name and/or the descriptions of some of the existing Principal Risks as Management continues to refine the way it articulates the source of risk; and
- the identification of Brand, Cyber, and Information Risks as Principal Risks, reflecting Management's focus on the Company's digital and brand strategies, and the increased value of the tangible and intangible assets that are the product of those strategies.

The following provides a high-level perspective on each of the identified thirteen 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. The mitigation and management of Principal Risks is approached holistically with a view to ensuring all risk exposures associated with a Principal Risk are considered. Although the Corporation believes the measures taken to mitigate risks described below are reasonable, there can be no assurance that they will effectively mitigate risks that may have a negative impact on CTC's financial position, brand, and/or ability to achieve its strategic objectives.

Global and domestic marketplace

CTC is subject to risks resulting from fluctuations or fundamental changes in the external business environment. These fluctuations or fundamental shifts in the Marketplace could include:

- economic recession, depression, or high inflation, impacting consumer spending;
- changes in the competitive landscape in the retail, financial services, or real estate sectors, impacting the attractiveness of shopping at CTC's businesses and the value of its real estate holdings;
- changes in the domestic or international political environments, impacting the cost of products and/or ability to do business;
- shifts in the demographics of the Canadian population, impacting the relevance of the products and services offered by CTC;
- changes in the buying behaviour of consumers or weather patterns, impacting the relevance of the products and services offered by CTC; and
- introduction of new "technologies" impacting the relevance of the products, channels, or services offered by CTC, which may result in a negative impact on CTC's financial position, brand and/or ability to achieve its strategic objectives.

Risk management strategy:

The Company regularly monitors and analyzes economic, political, demographic, geographic, and competitive developments in Canada and economic, political, and competitive developments in countries from which it sources merchandise or technology solutions. Likely impacts of these developments are factored into the Company's strategic and operational plans and investment decisions, as Management considers appropriate, to mitigate risk and take advantage of opportunities that may arise.

Further information regarding the Company's exposure to this risk for each business segment is provided in sections 7.2.4, 7.3.3, and 7.4.3.

Strategy

CTC operates in a number of industries which are highly competitive and constantly evolving. The Company selects strategies intended to address these risks and positively differentiate its performance in the marketplace. Should the Company be unable to properly respond to fluctuations in the external business environment as a result of inaction, ineffective strategies or poor implementation of strategies, this could adversely impact CTC's financial position, brand, and/or ability to achieve its strategic objectives.

Risk management strategy:
The Company regularly assesses strategies to enable achievement of its financial aspirations. These strategies take the form of a number of strategic objectives. On at least a quarterly basis, the Company identifies and assesses the external and internal risks that may impede the achievement of its strategic objectives. The goal of this approach is to provide early warning and escalation within the Company of information about significant risks and to engage in appropriate Management activities to mitigate these risks. In addition to supporting strategy execution, the approach enables Management to assess the effectiveness of its strategies in light of external and internal conditions and propose changes to strategic objectives as it may consider appropriate.

The Company's annual operating plans include the key initiatives chosen to advance the successful longer-term execution of its strategic objectives. Further information regarding the key initiatives is included in sections 6.1 and 6.2.

Brand
The strength of the Canadian Tire brand significantly contributes to the success of the Company and is sustained through its culture and processes. Maintaining and enhancing brand equity enables the Company to innovate to better serve its customers, grow and achieve its financial goals and strategic aspirations. CTC's reputation, and consequently brand, may be negatively affected by various factors, some of which may be outside of its control. Should these factors materialize, stakeholders' trust in the Company, the perception of what its brand stands for, its connection with customers, and subsequently its brand equity, may significantly diminish. As a result, CTC's financial position, brand and/or ability to achieve its strategic objectives may be negatively affected.

Risk management strategy:
The Company's strategies include plans and investments to enhance its significant brands. All employees are expected to manage risks that can impact those brands. Most risks that could impact the Company's brand are managed through its risk framework. In addition, its executive team is accountable to educate employees about the need to identify and escalate matters that could create brand risk. The Company's communications department monitors a variety of sources to identify publicly reported issues that could create brand risk and supports the executive team in managing its response to those issues. Canadian Tire's Code of Business Conduct provides all employees, contractors, and directors with guidance on ethical values and expected behaviour that enable it to sustain its culture of integrity.

People
CTC is subject to the risk of 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 CTC's strategic objectives. CTC's financial position, brand, and/or ability to achieve its strategic objectives may be negatively affected by its failure to manage its people risk.

Risk management strategy:
The Company manages its people risk through its 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 innovation and investment
CTC's business is affected by the introduction of new technologies, which may positively or adversely impact CTC's products, channels, and services. CTC's choices of investments in technology may support its ability to achieve its strategic objectives, or may negatively affect its financial position, brand, and/or ability to achieve its strategic objectives.

Risk management strategy:
The Company supports its key strategic objectives through its investments in people, process, and technology to meet operational and security requirements, and leverage technological advances in the marketplace.

The Company maintains policies, processes, and procedures to address capabilities, performance, security, and availability including resiliency and disaster recovery for systems, infrastructure, and data.

The Company regularly monitors and analyzes the Company's needs and its technology performance to determine the effectiveness of its investments and its investment priorities.

Key business relationships
CTC's business model relies on certain significant business relationships. Such relationships include, but are not limited to, relationships with our Dealers, agents, franchisees, and suppliers.

The scope, complexity, materiality, and/or criticality of these key business relationships can affect customer service, procurement, product and service delivery, and expense management. Failure to effectively manage these relationships may have a negative impact on CTC's financial position, brand and/or ability to achieve its strategic objectives.

Risk management strategy:
The Company regularly assesses the capabilities, strategic fit, and other realized benefits of key business relationships in the context of supporting its strategies.

Governance structures, including policies, processes, contracts, service 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 its Canadian Tire Dealers. Management of the Canadian Tire Dealer relationship is led by officers of the Company with oversight by the CEO and Board of Directors.

Cyber
CTC relies on IT systems in all areas of operations. The Company's information systems are subject to an increasing number of sophisticated cyber threats. The methods used to obtain unauthorized access, disable or degrade service or sabotage systems are constantly evolving. Should a cyber-attack be successful and a breach of sensitive information occur or its systems and services be disrupted, CTC's financial position, brand, and/or ability to achieve its strategic objectives may be negatively affected.

Risk management strategy:
The Company maintains policies, processes, and procedures to address capabilities, performance, security, and availability including resiliency and disaster recovery for systems, infrastructure, and data.

Security protocols, along with corporate information security policies, address compliance with information security standards, including those relating to information belonging to the Company's customers and employees. The Company actively monitors, manages, and continues to enhance its ability to mitigate cyber risk through its enterprise wide programs.

The Company maintains insurance coverage to further mitigate exposure to certain risks.

Information
In the normal course of business, the Company collects and stores sensitive data, including personal information of its customers and employees, information of its business partners and material internal information. The integrity, reliability and security of information are critical to its business operations and strategy.

The lack of integrity and reliability of information for decision-making, loss or inappropriate disclosure or misappropriation of sensitive information could negatively affect CTC's financial position, brand, and/or ability to achieve its strategic objectives.

Risk management strategy:
The Company has policies, processes, and controls designed to manage and safeguard the information of its customers, employees, and material internal information throughout its lifecycle. The Company continues to enhance its ability to mitigate information risk in conjunction with its cyber risk management activities.

Operations
CTC has complex and diverse operations across its business units and functional areas. Sources of Operations risk include, but are not limited to, merchandising, supply chain, store networks, property management and development, financial services, business disruptions, regulatory requirements, and reliance on technology.

Operations risk is the risk of potential for loss resulting from inadequate or failed internal processes or systems, human interactions or external events. Should this risk materialize, CTC's financial position, brand, and/or ability to achieve its strategic objectives could be negatively affected.

Risk management strategy:
The officer in charge of each banner and corporate function is accountable for providing assurances that policies, processes, and procedures are adequately designed and operating effectively to support the strategic and performance objectives, availability of business services, and regulatory compliance of the banner that they operate or support. The Company maintains insurance coverage to further mitigate exposure to certain risks.

Financial
Macroeconomic conditions are highly cyclical, volatile and can have a material effect on the ability of the Company to achieve strategic goals and aspirations. CTC must manage risks associated with:

- tight capital markets and/or high cost of capital;
- significant volatility in exchange rates; and
- significant volatility or change in interest rates.

Failure to develop, implement, and execute effective strategies to manage these risks may result in insufficient capital to absorb unexpected losses and/or decreases in margin and/or changes in asset value, negatively affecting CTC's financial position, brand, and/or ability to achieve its strategic objectives.

Risk management strategy:
The Company has Board-approved policies in place that govern the management of capital, funding, and other financial risks. The Treasurer and CFO provide assurances with respect to policy compliance. Refer to section 8.3 for further details.

In particular, 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, are governed by a Board-approved policy. Hedge transactions are executed with highly rated financial institutions and are monitored against policy and counterparty limits. Further details are set out in sections 8.5 and 12.3.

Financial reporting
Public companies such as CTC are subject to risks relating to the restatement and reissue of financial statements, which may be due to:

- failure to adhere to financial accounting and presentation standards and securities regulations relevant to financial reporting;
- fraudulent activity and/or failure to maintain an effective system of internal controls; and/or
- inadequate explanation of a Company's operating performance, financial condition, and future prospects.

The realization of one or more of these risks may result in regulatory-related issues or may negatively impact CTC's financial position, brand and/or ability to achieve its strategic objectives.

Risk management strategy:
Internal controls, which include policies, processes and procedures, provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements and other disclosure documents. This includes monitoring and responding to changing regulations and standards governing accounting and financial presentation. Further details are set out in section 13.0.

Legal and litigation
The Company is or may become subject to claims, disputes, and legal proceedings arising in the ordinary course of business. The outcome of litigation cannot be predicted or guaranteed. Unfavourable rulings may have a material adverse effect on CTC's financial position, brand, and/or ability to achieve its strategic objectives.

Risk management strategy:
A formal Legal Risk Management Governance Framework addresses requirements for compliance with applicable laws, regulations, and regulatory policies. The Legislative Compliance department provides compliance oversight and guidance to the organization. A team of legal professionals assist employees to mitigate and manage risks related to claims or potential claims, disputes, and legal proceedings.

Credit
CTC's credit risk, which may result if a customer or counterparty fails to meet its contractual obligations arises principally from operations of the Company's credit card portfolio, CTC's interaction with its Dealer network, and financial instruments. Failure to effectively manage this risk may negatively impact CTC's financial position, brand, and/or ability to achieve its strategic objectives.

Risk management strategy:
Various credit risk management policies and processes are employed to manage and mitigate the Company's credit risk exposure and are monitored for compliance with policy and counterparty limits. Further details are set out in section 12.3.

Further information regarding the Company's exposure to consumer lending risk is provided in section 7.4.3.

12.3 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 relate to credit card loans receivable and allowances for credit losses thereon and the value of the Company's derivative financial instruments employed to manage exposure to foreign currency risk, interest rate risk, and equity risk, all of which are subject to financial market volatility.

The foreign exchange contracts were valued based on the differential between the contract rates and the year-end spot rate and reflect the time value of money. The equity derivative contracts were valued based on the year-end Class A Non-Voting Shares closing share price of the Company on the TSX, year-end market interest rates, implied counterparty volatility values, and reflect the time value of money. The interest rate swaps were valued based on the difference between contract rates and year-end forward swap rates and reflect the time value of money.

Counterparty credit risk
The Company's exposure to concentrations of counterparty credit risk is limited. Accounts receivable are primarily from Dealers and FGL Sports franchisees across Canada who, individually, generally comprise less than one per cent of the total balance outstanding. Similarly, loans receivable are primarily generated by Financial Services' credit card customers which are a large and geographically-dispersed group. Franchise Trust loan exposure is limited to the credit enhancement provided to the third-party conduit.

The Company uses derivative financial instruments as a risk management tool solely to manage its exposure to changes in foreign currency exchange rates, interest rates, and certain future stock-based compensation expenses. Credit exposure with respect to derivative financial instruments is represented by the current replacement value of the contracts that are in a gain position, of which the Company's exposure is spread across a number of financial institutions. To manage the credit and market risks associated with derivative financial instruments, the Company:
- deals only with counterparties that are highly rated financial institutions;
- limits the term to maturity of hedging transactions; and
- limits the market value of the hedge portfolios by counterparty.

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 limits to credit rating, amount, term to maturity, and industry concentration levels. The Company believes that the risk of all of its counterparties defaulting at the same time with respect to these instruments is low.

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 loans receivable[1] is as follows:

(C$ in millions)		**2015**		2014
Balance, beginning of year	**$**	**113.2**	$	121.4
Impairments for credit losses, net of recoveries		**301.9**		279.7
Recoveries		**65.9**		59.8
Write-offs		**(369.5)**		(347.7)
Balance, end of year	**$**	**111.5**	$	113.2

[1] Loans include credit card loans and line of credit loans. No allowances for credit losses have been made with respect to Franchise Trust and FGL Sports loans receivable.

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 reasonably stressed conditions. The Company has a policy in place to manage its exposure to liquidity risk.

For a comprehensive discussion of the Company's liquidity risk, see note 5 in the notes to the annual consolidated financial statements.

Foreign currency risk
The Company sources its merchandise globally. Approximately 44%, 41%, and 6% of the value of the inventory purchased for the Canadian Tire, Mark's, and FGL banners, respectively, is denominated in U.S. dollars. To mitigate the impact of fluctuating foreign exchange rates on the cost of these purchases, the Company has an established foreign exchange risk management program that governs the proportion of forecast U.S. dollar purchases that must be hedged through the purchase of foreign exchange contracts. The purpose of the program is to provide certainty with respect to a portion of the foreign exchange component of future merchandise purchases.

As the Company has hedged a significant portion of the cost of its near-term U.S.-dollar-denominated forecast purchases, a change in foreign currency rates will not impact that portion of the cost of those purchases. Even when a change in rates is sustained, the Company's program to hedge a proportion of forecast U.S. dollar purchases continues. As hedges are placed at current foreign exchange rates, the impact of a sustained change in rate will eventually be reflected in the cost of the Company's U.S. dollar purchases. The hedging program has historically allowed the Company to defer the impact of sudden exchange rate movements on margins and allow it time to develop strategies to mitigate the impact of a sustained change in foreign exchange rates. Some vendors have an underlying exposure to U.S. currency fluctuations which may affect the price they charge the Company for merchandise from time to time; the Company's hedging program does not mitigate that risk. While the Company may be able to pass on changes in foreign currency exchange rates through pricing, any decision to do so will be subject to market conditions.

Interest rate risk
The Company may use interest rate derivatives 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.

12.4 Legal risks
The Company and certain of its subsidiaries are party to a number of legal proceedings. The Company believes that each such proceeding constitutes a routine legal matter incidental to the business conducted by the Company. The Company cannot determine the ultimate outcome of all the outstanding claims but believes that the ultimate disposition of the proceedings will not have a material adverse effect on its consolidated earnings, cash flow, or financial position.

13.0 Controls and procedures

13.1 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 to senior management on a timely basis, 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 consolidated financial statements, MD&A, Annual Information Form, 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 January 2, 2016. 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 January 2, 2016.

13.2 Internal controls 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 relating 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 operation of the Company's internal control over financial reporting as defined in NI 52-109, as at January 2, 2016. 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 (2013). 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 concluded that, as at January 2, 2016, the Company's internal control over financial reporting is effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with IFRS.

13.3 Changes in internal control over financial reporting

During the quarter and year ended January 2, 2016, 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.

14.0 Social and environmental responsibility

14.1 2015 Sustainability initiatives

The Company's sustainability initiatives aim to enhance its productivity and reduce its environmental footprint relative to its business growth. In 2015, new productivity gains were realized through a number of sustainability projects which were completed in 2014.

The projects were targeted at right-sizing products and packaging, reducing fuel used to transport products, reducing damaged products, and increasing energy efficiency in buildings relative to the prior year. These gains resulted in environmental benefits equivalent to eliminating the waste generation of 2,600 Canadian homes and the energy required to power 2,500 Canadian homes for a year. The following table summarizes sustainability projects completed in 2013 and 2014, and the associated benefits realized in 2015. Benefits are measured for the current 12-month period following the project completion date, and continued to be measured in the subsequent year.

($C in millions, except where indicated)	Enterprise Cost Avoidance ($M)	Energy Use Avoidance (percent improvement[1])	GHG Emissions Avoidance (tonnes CO_2e)	Waste Avoidance (tonnes)	Water Avoidance (cubic metres)
Product & Packaging[2]	1.1	15%	699	1,582	—
Product Transport[3]	2.2	55%	631	27	—
Business & Retail Operations[4]	6.2	12%	10,746	133	3,437
Total	**9.5**	**13%**	**12,076**	**1,742**	**3,437**
% from net new 2014 projects	53%		34%	25%	—%

1 Improvements refer to savings in comparison to the baseline scenario, where the baseline scenario is defined as "what would have most likely occurred in the absence of the sustainability project". Improvements are relating to the specific projects reported and do not represent total improvements to the value-chain segment.

2 Realized reductions in energy use resulting from the transportation of optimized product and packaging as well as waste reductions stemming from reduced packaging, damages, and product waste at end-of-life.

3 Realized reductions in energy use from increased fuel efficiency in transportation modes and vehicles (e.g. use of long-combination vehicles).

4 Realized reductions in energy use in buildings and their operations through energy efficiency initiatives (e.g. new construction, retrofits, and signage optimization) as well as water use reductions (e.g. irrigation system retrofits).

14.2 Environmental footprint

The following table presents the Company and its extended value-chain's 2014 environmental footprint and the percentage change relative to the 2013 baseline. The data collection and subsequent review for determining the Company's environmental footprint are rigorous processes that are normally completed after the close of the calendar-year. As such, the Company's most recent environmental footprint is for 2014. An independent third-party provided a limited assurance review on the footprint data.

Overall, the Company became less emission intensive in 2014 mainly due to reduced consumer demand for emission intensive products, and a continued shift to less emission intensive fuels sold at Petroleum. Absolute emissions increased 3.6 percent relative to revenue growth of 5.7 percent in fiscal 2014 compared to 2013.

		Energy Use			GHG emissions		
By segment of the value-chain[1]		Percent of total	Gigajoules	Change[2] (B) / W	Percent of total	tCO_2e	Change[2] (B) / W
Product & Packaging[3]	Raw material acquisition and product manufacturing (Canadian Tire, PartSource, Petroleum, Mark's, FGL Sports)	83.5%	53,355,666	13.1%	84.8%	3,786,568	4.1%
	Per $1,000 banner revenue		4.69	6.5%		0.33	(2.0)%
Product Transport[4]	Canadian Tire fleet (Canadian Tire, PartSource) and third-party product transport (Canadian Tire, Petroleum)	8.8%	5,652,389	(0.8)%	9.1%	406,613	(0.8)%
	Per 1,000 tonne-kilometres		0.51	(0.7)%		0.04	(0.7)%
Business & Retail Operations[5]	Corporate and non-corporate stores, offices, and DC's operations (all banners)	7.7%	4,934,943	6.6%	6.1%	273,406	3.6%
	Per square metre		0.86	3.6%		0.05	0.6%
Total	**Corporation & extended value-chain**	**100.0%**	**63,942,998**	**11.2%**	**100.0%**	**4,466,587**	**3.6%**
	Per $1,000 consolidated revenue		**5.13**	**5.1%**		**0.36**	**(2.0)%**

1 Produced in accordance with principles from the World Business Council on Sustainable Development and World Resource Institute Greenhouse Gas ("GHG") Protocol. The 2013 baseline was restated to reflect changes in measurement scope and updates of previous calculations, as necessary. Mark's and FGL Sports product transport, customer use, and product end-of-life emissions for all banners are not currently measured due to data unavailability.

2 Percentage change relative to 2013 environmental footprint. A negative change indicates a reduction in energy use and/or GHG emissions which is an improvement and indicated as Better (B), versus a positive change which indicates an increase in energy use and/or GHG emissions and is indicated as Worse (W).

3 Values embedded in retail products received by DCs, 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.

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

5 Values from corporate and third-party operated sites including offices, DCs and corporate, Dealer, agent, and franchise retail stores. The 2013 Business and Retail Operations footprint was restated to reflect corrected energy use figures for certain locations and the removal of non-product transport vehicles due to relative immateriality.

For details on Canadian Tire's participation in provincial product stewardship programs, as well as information on the Company's sustainability strategy, impacts, and a 2014 Assurance Statement please refer to our Business Sustainability Performance Reports on the Corporate Citizenship site at: http://corp.canadiantire.ca/EN/CorporateCitizenship/EnvironmentalSustainability/Pages/OurProgressReports.aspx.

14.3 Responsible sourcing practices

As one of Canada's most trusted companies, Canadian Tire goes to great lengths so that the practices of employees, Directors, independent contractors and suppliers are completed with honesty, integrity and respect. Details on Canadian Tire's Responsible Sourcing policies and activities are available on the Company's website at: http://corp.canadiantire.ca/EN/CorporateCitizenship/ResponsibleSourcing/Pages/default.aspx.

14.4 Corporate Philanthropy

CTC supports a variety of social causes but the largest single beneficiary is Canadian Tire Jumpstart Charities. This charity is an independent organization committed to assisting financially challenged families in communities across Canada by funding costs associated with children participating in organized sport and physical activity. Additional information regarding Jumpstart is available on their website at: http://jumpstart.canadiantire.ca.

15.0 Transactions between related parties

The Company's majority shareholder is Ms. Martha G. Billes, who controls approximately 61.4 percent 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 Company's CEO, CFO, and certain other senior officers. Close family members of these key management personnel, members of the Board of Directors, and any entities over which they exercise control are also defined as related parties. Transactions with members of the Company's Board of Directors who were also Dealers represented less than one percent of the Company's total revenue and were in accordance with established Company policy applicable to all Dealers. Other transactions with related parties during the year were not significant.

16.0 Forward-looking statements and other investor communication

Caution regarding forward-looking statements

This document contains forward-looking statements that reflect Management's current expectations relating 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:

- competitive landscape in section 2.2;
- the Company's financial aspirations for fiscal years 2015 to 2017 in section 5.0;
- 2015 strategic imperatives and objectives in section 6.1;
- 2016 strategic imperatives in section 6.2;
- capital management objectives in subsections 8.3.1 and 8.3.3;
- capital expenditures in subsection 8.4.1;
- liquidity and availability of financing in section 8.5;
- contractual obligations, guarantees and commitments in subsection 8.5.1;
- the Company's intention with respect to the purchase of its Class A Non-Voting Shares in section 9.1; and
- tax matters in section 10.0.

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

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 current expectations relating to possible or assumed future prospects and results, the Company's strategic goals and priorities, its actions and the results of those actions and the economic and business outlook for the Company. Often, but not always, forward-looking statements can be identified by the use of forward-looking terminology such as "may", "will", "expect", "intend", "believe", "estimate", "plan", "can", "could", "should", "would", "outlook", "forecast", "anticipate", "aspire", "foresee", "continue", "ongoing" or the negative of these terms or variations of them or similar terminology. Forward-looking statements are based on the reasonable assumptions, estimates, analyses, beliefs 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 Management to make assumptions and are subject to inherent risks and uncertainties, which give rise to the possibility that the Company's assumptions, estimates, analyses, beliefs and opinions may not be correct and that the Company's expectations and plans will not be achieved. Examples of Management's beliefs, which may prove to be incorrect, include, but are not limited to, beliefs about the effectiveness of certain performance measures, beliefs about current and future competitive conditions and the Company's position in the competitive environment, beliefs about the Company's core capabilities and beliefs regarding the availability of sufficient liquidity to meet the Company's contractual obligations. Although the Company believes that the forward-looking statements in this document are based on information, assumptions and beliefs 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. Some of the factors, many of which are beyond the Company's 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 the Company to attract and retain high quality employees for all of its businesses, Dealers, Canadian Tire Petroleum retailers and Mark's and FGL Sports franchisees, as well as the Company's financial arrangements with such parties; (c) the growth of certain business categories and market segments and the willingness of customers to shop at its stores or acquire its financial products and services; (d) the Company's margins and sales and those of its competitors; (e) the changing consumer preferences toward eCommerce, online retailing and the introduction of new technologies; (f) risks and uncertainties relating to information management, technology, cyber threats, property management and development, environmental liabilities, supply chain management, product safety, changes in law, regulation, competition, seasonality, weather patterns, commodity prices and business disruption, the Company's relationships with suppliers, manufacturers, partners and other third parties, changes to existing accounting pronouncements, the risk of damage to the reputation of brands promoted by the Company and the cost of store network expansion and retrofits; (g) the Company's capital structure, funding strategy, cost management programs and share price; and (h) the Company's ability to obtain all necessary regulatory approvals. Management cautions that the foregoing list of important factors and assumptions is not exhaustive and other factors could also adversely affect the Company's 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 7.2.4 (Retail segment business risks), 7.3.3 (CT REIT segment business risks), 7.4.3 (Financial Services segment business risks) and 12.0 (Enterprise risk management) and all subsections thereunder of this MD&A. Please also refer to section 2.10 (Risk Factors) of the Company's Annual Information Form for fiscal 2015, as well as the Company's other public filings, available on the SEDAR (System for Electronic Document Analysis 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 write downs, or other charges announced or occurring after such statements are made.

The forward-looking statements and information contained herein are based on certain factors and assumptions as of the date hereof. The Company does not undertake to update any forward-looking 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, except as is 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 is not incorporated by reference into this MD&A. All references to such websites are inactive textual references and are for information only.

Commitment to disclosure and investor communication

The Company strives to maintain a high standard of disclosure and investor communication and has been recognized as a leader in financial reporting practices. Reflecting the Company's commitment to full and transparent disclosure, the Investor Relations section of the Company's website, at: 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 other supplementary information;
- reference materials on the Company's reporting changes; and
- conference call webcasts (archived for one year).

The Company's Annual Report, 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 17, 2016

Management's Responsibility for Financial Statements

The management of Canadian Tire Corporation, Limited is responsible for the accompanying consolidated financial statements. 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 our Management's Discussion and Analysis 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 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 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.

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.

"Michael B. Medline"

Michael B. Medline
President and
Chief Executive Officer

"Dean McCann"

Dean McCann
Executive Vice-President
and Chief Financial Officer

February 17, 2016

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 January 2, 2016 and January 3, 2015, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of cash flows and consolidated statements of changes in equity for the years ended January 2, 2016 and January 3, 2015, 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 January 2, 2016 and January 3, 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants

February 17, 2016
Toronto, Ontario

Consolidated Balance Sheets

As at (C$ in millions)	January 2, 2016	January 3, 2015
ASSETS		
Cash and cash equivalents (Note 8)	**$ 900.6**	$ 662.1
Short-term investments (Note 9)	**96.1**	289.1
Trade and other receivables (Note 10)	**915.0**	880.2
Loans receivable (Note 11)	**4,875.5**	4,905.5
Merchandise inventories	**1,764.5**	1,623.8
Income taxes recoverable	**42.2**	31.9
Prepaid expenses and deposits	**96.1**	104.5
Assets classified as held for sale (Note 12)	**2.3**	13.1
Total current assets	**8,692.3**	8,510.2
Long-term receivables and other assets (Note 13)	**731.2**	684.2
Long-term investments	**153.4**	176.0
Goodwill and intangible assets (Note 14)	**1,246.8**	1,251.7
Investment property (Note 15)	**137.8**	148.6
Property and equipment (Note 16)	**3,978.2**	3,743.1
Deferred income taxes (Note 18)	**48.1**	39.4
Total assets	**$ 14,987.8**	$ 14,553.2
LIABILITIES		
Bank indebtedness (Note 8)	**$ —**	$ 14.3
Deposits (Note 19)	**880.7**	950.7
Trade and other payables (Note 20)	**1,957.1**	1,961.2
Provisions (Note 21)	**216.1**	206.0
Short-term borrowings (Note 23)	**88.6**	199.8
Loans payable (Note 24)	**655.5**	604.4
Income taxes payable	**61.5**	54.9
Current portion of long-term debt (Note 25)	**24.3**	587.5
Total current liabilities	**3,883.8**	4,578.8
Long-term provisions (Note 21)	**45.7**	44.1
Long-term debt (Note 25)	**2,971.4**	2,131.6
Long-term deposits (Note 19)	**1,372.2**	1,286.2
Deferred income taxes (Note 18)	**111.1**	93.9
Other long-term liabilities (Note 26)	**813.9**	787.8
Total liabilities	**9,198.1**	8,922.4
EQUITY		
Share capital (Note 28)	**671.2**	695.5
Contributed surplus	**2.9**	2.9
Accumulated other comprehensive income	**148.1**	82.0
Retained earnings	**4,172.0**	4,075.1
Equity attributable to shareholders of Canadian Tire Corporation	**4,994.2**	4,855.5
Non-controlling interests (Note 17)	**795.5**	775.3
Total equity	**5,789.7**	5,630.8
Total liabilities and equity	**$ 14,987.8**	$ 14,553.2

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

"Maureen J. Sabia"

Maureen J. Sabia
Director

"Diana L. Chant"

Diana L. Chant
Director

Consolidated Statements of Income

For the years ended (C$ in millions, except per share amounts)	**January 2, 2016**	January 3, 2015
Revenue (Note 30)	**$ 12,279.6**	$ 12,462.9
Cost of producing revenue (Note 31)	**8,144.3**	8,416.9
Gross margin	**4,135.3**	4,046.0
Other (income)	**(54.9)**	(11.0)
Selling, general and administrative expenses (Note 32)	**3,096.1**	3,052.9
Net finance costs (Note 33)	**92.8**	108.9
Change in fair value of redeemable financial instrument (Note 35)	**—**	17.0
Income before income taxes	**1,001.3**	878.2
Income taxes (Note 18)	**265.4**	238.9
Net income	**$ 735.9**	$ 639.3
Net income attributable to:		
Shareholders of Canadian Tire Corporation	**$ 659.4**	$ 604.0
Non-controlling interests (Note 17)	**76.5**	35.3
	$ 735.9	$ 639.3
Basic EPS	**$ 8.66**	$ 7.65
Diluted EPS	**$ 8.61**	$ 7.59
Weighted average number of Common and Class A Non-Voting Shares outstanding:		
Basic	**76,151,321**	78,960,025
Diluted	**76,581,602**	79,612,957

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

Consolidated Statements of Comprehensive Income

For the years ended (C$ in millions)		**January 2, 2016**		January 3, 2015
Net income	**$**	**735.9**	$	639.3
Other comprehensive income				
Items that may be reclassified subsequently to net income:				
Cash flow hedges:				
Gains		**275.6**		114.0
Reclassification of gains to non-financial assets		**(207.4)**		(77.5)
Reclassification of gains to income		**(3.0)**		(1.5)
Available-for-sale financial assets:				
(Losses)		**(0.5)**		(0.1)
Reclassification of gains to income		**—**		(0.1)
Item that will not be reclassified subsequently to net income:				
Actuarial gains (losses)		**0.8**		(13.2)
Other comprehensive income		**65.5**		21.6
Other comprehensive income attributable to:				
Shareholders of Canadian Tire Corporation	**$**	**68.0**	$	21.5
Non-controlling interests		**(2.5)**		0.1
	$	**65.5**	$	21.6
Comprehensive income	**$**	**801.4**	$	660.9
Comprehensive income attributable to:				
Shareholders of Canadian Tire Corporation	**$**	**727.4**	$	625.5
Non-controlling interests		**74.0**		35.4
	$	**801.4**	$	660.9

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

Consolidated Statements of Cash Flows

For the years ended (C$ in millions)	**January 2, 2016**	January 3, 2015 (Note 39)
Cash generated from (used for):		
Operating activities		
Net income	**$ 735.9**	$ 639.3
Adjustments for:		
Depreciation of property and equipment and investment property (Notes 31 and 32)	**312.8**	279.2
Income tax expense	**265.4**	238.9
Net finance costs	**92.8**	108.9
Amortization of intangible assets (Note 32)	**111.9**	93.1
Changes in fair value of derivative instruments	**6.9**	(33.9)
(Gain) on disposal of property and equipment, investment property, assets held for sale, intangible assets, and lease terminations	**(43.9)**	(9.0)
Change in fair value of redeemable financial instrument (Note 35)	**—**	17.0
Interest paid	**(101.4)**	(122.0)
Interest received	**8.4**	10.4
Income taxes paid	**(284.0)**	(256.5)
Other	**14.6**	25.0
	1,119.4	990.4
Change in operating working capital and other (Note 34)	**(115.3)**	(83.5)
Change in loans receivable	**(25.2)**	(332.4)
Cash generated from operating activities	**978.9**	574.5
Investing activities		
Additions to property and equipment and investment property	**(515.9)**	(538.6)
Additions to intangible assets	**(94.7)**	(150.1)
	(610.6)	(688.7)
Acquisition of short-term investments	**(177.4)**	(431.6)
Proceeds from the maturity and disposition of short-term investments	**426.6**	665.3
Acquisition of long-term investments	**(35.0)**	(155.8)
Proceeds from the disposition of long-term investments	**—**	7.6
Proceeds on disposition of property and equipment, investment property, and assets held for sale	**101.5**	21.3
Long-term receivables and other assets	**0.1**	3.1
Other	**(4.2)**	(10.7)
	311.6	99.2
Cash (used for) investing activities	**(299.0)**	(589.5)
Financing activities		
Dividends paid	**(152.2)**	(141.4)
Distributions paid to non-controlling interests	**(53.8)**	(19.5)
	(206.0)	(160.9)
Net (repayment) issuance of short-term borrowings	**(111.2)**	79.4
Issuance of loans payable	**270.1**	235.6
Repayment of loans payable	**(219.0)**	(242.4)
Issuance of long-term debt (Note 25)	**856.1**	563.7
Repayment of long-term debt and finance lease liabilities (Note 25)	**(588.5)**	(474.0)
Payment of transaction costs related to long-term debt	**(6.5)**	(2.0)
	201.0	160.3
Repurchase of share capital (Note 28)	**(434.6)**	(290.6)
Proceeds on sale of ownership interests in the Financial Services business	**—**	500.0
Transaction costs on sale of ownership interests in the Financial Services business	**—**	(23.2)
	(434.6)	186.2
Change in deposits	**12.5**	(97.0)
Cash (used for) generated from financing activities	**(427.1)**	88.6
Cash generated in the period	**252.8**	73.6
Cash and cash equivalents, net of bank indebtedness, beginning of period	**647.8**	574.2
Cash and cash equivalents, net of bank indebtedness, end of period (Note 8)	**$ 900.6**	$ 647.8

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

Consolidated Statements of Changes in Equity

(C$ in millions)	Share capital	Contributed surplus	Total accumulated other comprehensive income: Cashflow hedges	Total accumulated other comprehensive income: Fair value changes in available-for-sale financial assets	Total accumulated other comprehensive income: Total accumulated other comprehensive income	Retained earnings	Equity attributable to shareholders of Canadian Tire Corporation	Equity attributable to non-controlling interests	Total equity
Balance at January 3, 2015	**$ 695.5**	**$ 2.9**	**$ 81.8**	**$ 0.2**	**$ 82.0**	**$ 4,075.1**	**$ 4,855.5**	**$ 775.3**	**$ 5,630.8**
Net income	**—**	**—**	**—**	**—**	**—**	**659.4**	**659.4**	**76.5**	**735.9**
Other comprehensive income (loss)	**—**	**—**	**66.6**	**(0.5)**	**66.1**	**1.9**	**68.0**	**(2.5)**	**65.5**
Total comprehensive income (loss)	**—**	**—**	**66.6**	**(0.5)**	**66.1**	**661.3**	**727.4**	**74.0**	**801.4**
Contributions by and distributions to shareholders of Canadian Tire Corporation									
Issuance of Class A Non-Voting Shares (Note 28)	**8.3**	**—**	**—**	**—**	**—**	**—**	**8.3**	**—**	**8.3**
Repurchase of Class A Non-Voting Shares (Note 28)	**(434.6)**	**—**	**—**	**—**	**—**	**—**	**(434.6)**	**—**	**(434.6)**
Excess of purchase price over average cost (Note 28)	**402.0**	**—**	**—**	**—**	**—**	**(402.0)**	**—**	**—**	**—**
Dividends	**—**	**—**	**—**	**—**	**—**	**(162.4)**	**(162.4)**	**—**	**(162.4)**
Contributions by and distributions to non-controlling interests									
Issuance of trust units to non-controlling interests, net of transaction costs	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**1.8**	**1.8**
Distributions and dividends to non-controlling interests	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(55.6)**	**(55.6)**
Total contributions and distributions	**(24.3)**	**—**	**—**	**—**	**—**	**(564.4)**	**(588.7)**	**(53.8)**	**(642.5)**
Balance at January 2, 2016	**$ 671.2**	**$ 2.9**	**$ 148.4**	**$ (0.3)**	**$ 148.1**	**$ 4,172.0**	**$ 4,994.2**	**$ 795.5**	**$ 5,789.7**

(C$ in millions)	Share capital	Contributed surplus	Total accumulated other comprehensive income: Cashflow hedges	Total accumulated other comprehensive income: Fair value changes in available-for-sale financial assets	Total accumulated other comprehensive income: Total accumulated other comprehensive income	Retained earnings	Equity attributable to shareholders of Canadian Tire Corporation	Equity attributable to non-controlling interests	Total equity
Balance at December 28, 2013	$ 712.9	$ 2.4	$ 47.0	$ 0.4	$ 47.4	$ 4,404.6	$ 5,167.3	$ 282.6	$ 5,449.9
Net income	—	—	—	—	—	604.0	604.0	35.3	639.3
Other comprehensive income (loss)	—	—	34.8	(0.2)	34.6	(13.1)	21.5	0.1	21.6
Total comprehensive income (loss)	—	—	34.8	(0.2)	34.6	590.9	625.5	35.4	660.9
Contributions by and distributions to shareholders of Canadian Tire Corporation									
Issuance of Class A Non-Voting Shares (Note 28)	6.9	—	—	—	—	—	6.9	—	6.9
Repurchase of Class A Non-Voting Shares (Note 28)	(290.6)	—	—	—	—	—	(290.6)	—	(290.6)
Excess of purchase price over average cost (Note 28)	266.3	—	—	—	—	(266.3)	—	—	—
Dividends	—	—	—	—	—	(154.1)	(154.1)	—	(154.1)
Issuance of redeemable financial instrument (Note 35)						(500.0)	(500.0)		(500.0)
Contributed surplus arising on sale of property to CT REIT	—	0.5	—	—	—	—	0.5	—	0.5
Contributions by and distributions to non-controlling interests									
Sale of ownership interests in the Financial Services business, net of transaction costs								476.8	476.8
Issuance of trust units to non-controlling interests, net of transaction costs	—	—	—	—	—	—	—	1.8	1.8
Distributions to non-controlling interests	—	—	—	—	—	—	—	(21.3)	(21.3)
Total contributions and distributions	(17.4)	0.5	—	—	—	(920.4)	(937.3)	457.3	(480.0)
Balance at January 3, 2015	$ 695.5	$ 2.9	$ 81.8	$ 0.2	$ 82.0	$ 4,075.1	$ 4,855.5	$ 775.3	$ 5,630.8

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" or "Canadian Tire Corporation". Refer to Note 17 for the Company's major subsidiaries.

The Company comprises three main business operations, which offer a range of retail goods and services, including general merchandise, apparel, sporting goods, petroleum, financial services including a bank, and real estate operations. Details of its three reportable operating segments are provided in Note 6.

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 2015 and 2014 are the 52-week period ended January 2, 2016 and the 53-week period ended January 3, 2015, 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 17, 2016.

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 ("FVTPL");
- derivative financial instruments;
- available-for-sale financial assets;
- liabilities for share-based payment plans; and
- initial recognition of assets acquired and liabilities assumed in a business combination.

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.

Judgments and estimates
The preparation of these consolidated financial statements in accordance with IFRS requires Management to make judgments and estimates that affect:

- the application of accounting policies;
- the reported amounts of assets and liabilities;
- disclosures of contingent assets and liabilities; and
- the reported amounts of revenue and expenses during the reporting periods.

Actual results may differ from estimates made in these consolidated financial statements.

Judgments are made in the selection and assessment of the Company's accounting policies. Estimates are used mainly in determining the measurement of recognized transactions and balances. Estimates are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Judgments and estimates are often interrelated. The Company's judgments and estimates are continually re-evaluated to ensure they remain appropriate. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in future periods affected.

The following are the accounting policies that are subject to judgments and estimates that the Company believes could have the most significant impact on the amounts recognized in these consolidated financial statements.

Impairment of assets

Judgment - The Company uses judgment in determining the grouping of assets to identify its Cash Generating Units ("CGUs") for purposes of testing for impairment of property and equipment and goodwill and intangible assets. The Company has determined that its Retail CGUs comprise individual stores or groups of stores within a geographic market. In testing for impairment, goodwill acquired in a business combination is allocated to the CGUs that are expected to benefit from the synergies of the business combination. In testing for impairment of intangibles with indefinite lives, these assets are allocated to the CGUs to which they relate. Furthermore, on a quarterly basis, judgment has been used in determining whether there has been an indication of impairment, which would require the completion of a quarterly impairment test, in addition to the annual requirement.

Estimation - The Company's estimate of a CGU's or group of CGUs' recoverable amount based on value in use ("VIU") involves estimating future cash flows before taxes. Future cash flows are estimated based on multi-year extrapolation of the most recent historical actual results or budgets and a terminal value calculated by discounting the final year in perpetuity. The growth rate applied to the terminal value is based on the Bank of Canada's target inflation rate or Management's estimate of the growth rate specific to the individual item being tested. The future cash flow estimates are then discounted to their present value using an appropriate pre-tax discount rate that incorporates a risk premium specific to each business. The Company's determination of a CGU's or group of CGUs' recoverable amount based on fair value less cost to sell uses factors such as market rental rates for comparable assets.

Fair value measurement of redeemable financial instrument

Judgment - The Company uses judgment in determining the fair value measurement of the redeemable financial instrument issued in conjunction with the sale of a 20 percent equity interest in the Company's Financial Services business. In calculating the fair value, judgment is used when determining the discount and growth rates applied to the forecasted earnings in the discounted cash flow valuation. Refer to Note 35 for further information regarding this financial instrument.

Estimation - The inputs to determine the fair value are taken from observable markets where possible, but where they are unavailable, assumptions are required in establishing fair value. The fair value of the redeemable financial instrument is determined based on the Company's best estimate of forecasted normalized earnings attributable to the Financial Services business, adjusted for any undistributed earnings.

Merchandise inventories

Estimation - Merchandise inventories are carried at the lower of cost and net realizable value. The estimation of net realizable value is based on the most reliable evidence available of the amount the merchandise inventories are expected to realize. Additionally, estimation is required for inventory provisions due to shrinkage.

Income and other taxes

Judgment - In calculating current and deferred income and other taxes, the Company uses judgment when interpreting the tax rules in jurisdictions where the Company operates. The Company also uses judgment in classifying transactions and assessing probable outcomes of claimed deductions, which considers expectations of future operating results, the timing and reversal of temporary differences, and possible audits of income tax and other tax filings by tax authorities.

Consolidation

Judgment - The Company uses judgment in determining the entities that it controls and accordingly consolidates. An entity is controlled when the Company has power over an entity, exposure or rights to variable returns from its involvement with the entity, and is able to use its power over the entity to affect its return from the entity. The Company has power over an entity when it has existing rights that give it the current ability to direct the relevant activities, which are the activities that significantly affect the investee's returns. Since power comes from rights, power can result from contractual arrangements. However, certain contractual arrangements contain rights that are designed to protect the Company's interest, without giving it power over the entity.

Loans receivable

Estimation - The Company's estimate of allowances on credit card loans receivable is based on a roll-rate methodology that 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 these loans receivable. Default rates, loss rates, and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure

that they remain appropriate. Future customer behaviour may be affected by a number of factors, including changes in interest and unemployment rates and program design changes.

Post-employment benefits

Estimation - The accounting for the Company's post-employment benefit plan requires the use of assumptions. The accrued benefit liability is calculated using actuarial determined data and the Company's best estimates of future salary escalations, retirement ages of employees, employee turnover, mortality rates, market discount rates, and expected health and dental care costs.

Other

Other estimates include determining the useful lives of property and equipment, investment property, and intangibles assets for the purposes of depreciation and amortization; in accounting for and measuring items such as deferred revenue, customer loyalty and other provisions, and purchase price adjustments on business combinations; and in measuring certain fair values, including those related to the valuation of business combinations, share-based payments, and financial instruments.

Standards, amendments, and interpretations issued and not yet adopted

The following new standards, amendments, and interpretations have been issued and are expected to have an impact on the Company, but are not effective for the fiscal year ended January 2, 2016, and, accordingly, have not been applied in preparing these consolidated financial statements.

Financial instruments

In July 2014, the IASB issued the final version of IFRS 9 - *Financial Instruments* ("IFRS 9"), which brings together the classification and measurement, impairment, and hedge accounting phases of the IASB's project to replace *Financial Instruments: Recognition and Measurement* ("IAS 39").

Classification and measurement - Financial assets are classified and measured based on the business model under which they are managed and the contractual cash flow characteristics of the financial assets. Financial liabilities are classified in a similar manner as under IAS 39, except that financial liabilities measured at fair value will have fair value changes resulting from changes in the entity's own credit risk, recognized in Other Comprehensive Income ("OCI") instead of net income, unless this would create an accounting mismatch.

Impairment - The measurement of impairment of financial assets is based on an expected credit loss model. It is no longer necessary for a triggering event to have occurred before credit losses are recognized. IFRS 9 also includes new disclosure requirements about expected credit losses and credit risk.

Hedge accounting - The new general hedge accounting model more closely aligns hedge accounting with risk management activities undertaken by entities when hedging their financial and non-financial risk exposures. It will provide more opportunities to apply hedge accounting to reflect actual risk management activities.

IFRS 9 will be applied retrospectively for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Company is assessing the potential impact of this standard.

Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 - *Revenue from Contracts with Customers* ("IFRS 15"), which replaces IAS 11 - *Construction Contracts*, IAS 18 - *Revenue,* and IFRIC 13 - *Customer Loyalty Programmes* ("IFRIC 13"), as well as various other interpretations regarding revenue. IFRS 15 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers, except for contracts that are within the scope of the standards on leases, insurance contracts, and financial instruments. IFRS 15 also contains enhanced disclosure requirements.

IFRS 15 will be applied retrospectively for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Company is assessing the potential impact of this standard.

Disclosure initiative

In December 2014, the IASB issued *Disclosure Initiative Amendments to IAS 1* as part of the IASB's Disclosure Initiative. These amendments encourage entities to apply professional judgment regarding disclosure and presentation in their financial statements.

These amendments are effective for annual periods beginning on or after January 1, 2016. The implementation of these amendments will not have a significant impact on the Company.

In January 2016, the IASB issued *Disclosure Initiative Amendments to IAS 7* also as part of the IASB's Disclosure Initiative. These amendments require entities to provide additional disclosures that will enable financial statements users to evaluate changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash changes.

These amendments are effective for annual periods beginning on or after January 1, 2017. Earlier application is permitted. The Company is currently assessing the potential impact of these amendments.

Leases
In January 2016, the IASB issued IFRS 16 - *Leases* ("IFRS 16"), which replaces IAS 17 - *Leases* ("IAS 17") and related interpretations. IFRS 16 provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is 12-months or less or the underlying asset has a low value. IFRS 16 substantially carries forward the lessor accounting in IAS 17 with the distinction between operating leases and finance leases being retained.

IFRS 16 will be applied retrospectively for annual periods beginning on or after January 1, 2019. Early adoption is permitted if IFRS 15 has also been applied. The Company is assessing the potential impact of this standard.

Income taxes
In January 2016, the IASB issued *Recognition of Deferred Tax Assets for Unrealized Losses* as an amendment to IAS 12 – *Income Taxes*. These amendments address the accounting for deferred tax assets for unrealized losses on debt instruments measured at fair value.

These amendments are effective for annual periods beginning on or after January 1, 2017. Earlier application is permitted. The Company is currently assessing the potential impact of these amendments.

3. Significant accounting policies

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

Basis of consolidation
These consolidated financial statements include the accounts of Canadian Tire Corporation and entities it controls. An entity is controlled when the Company has the ability to direct the relevant activities of the entity, has exposure, or rights, to variable returns from its involvement with the entity, and is able to use its power over the entity to affect its returns from the entity.

The results of certain subsidiaries that have different year-ends have been included in these consolidated financial statements for the 52-week period ended January 2, 2016 and the 53-week period ended January 3, 2015. The year-end of CTFS Holdings Limited and its subsidiaries, Franchise Trust, and CT Real Estate Investment Trust ("CT REIT") is December 31.

Income or loss and each component of OCI are attributed to the shareholders of the Company and to the non-controlling interests. Total comprehensive income is attributed to the shareholders of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance on consolidation.

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 interests 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.

The fair values 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.

The fair values of banners and trademarks acquired in a business combination are determined using an income approach. The "relief from royalty" method has been applied to forecast revenue using an appropriate royalty rate. This results in an estimate of the value of the intangible assets acquired by the Company.

The fair values of franchise agreements and other intangibles, such as customer relationships, 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 ownership of the assets. 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.

The fair values 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 sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

Transaction costs that the Company incurs in connection with a business combination are expensed immediately.

Joint arrangement
A joint arrangement is an arrangement in which two or more parties have joint control. Joint control is the contractually agreed sharing of control whereby decisions about relevant activities require unanimous consent of the parties sharing control. A joint arrangement is classified as a joint operation when the parties that have joint control have rights to the assets and obligations for the liabilities related to the arrangement. The Company records its share of a joint operation's assets, liabilities, revenues, and expenses.

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. Exchange gains or losses arising from translation are recorded in Other income or Cost of producing revenue as applicable 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 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[1]	Available for sale	Fair value
Trade and other receivables[2]	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[2]	Loans and receivables	Amortized cost
Long-term investments[3]	Available for sale	Fair value
Bank indebtedness	Other liabilities	Amortized cost
Deposits	Other liabilities	Amortized cost
Trade and other payables[2]	Other liabilities	Amortized cost
Short-term borrowings	Other liabilities	Amortized cost
Loans payable	Other liabilities	Amortized cost
Long-term debt	Other liabilities	Amortized cost
Redeemable financial instrument (recorded in other long-term liabilities)	FVTPL	Fair value

[1] Certain short-term investments are classified as FVTPL and measured at fair value.
[2] Includes derivatives that are classified as FVTPL or are effective hedging instruments, and measured at fair value as well as share-based payables which are carried at fair value.
[3] Certain long-term investments are classified as FVTPL and measured at fair value.

Financial instruments at fair value through profit or loss

Financial instruments are classified as FVTPL when the financial instrument is either held for trading or designated as such upon initial recognition. Financial instruments 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 classified as FVTPL unless they are designated as effective hedging instruments.

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.

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, at which point the change in fair value is recognized in net income. 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 created or retained by the Company is recognized as a separate asset or liability.

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

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

All derivative financial instruments, including derivatives 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 case 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 hedge 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 forecast 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 against foreign currency risk on the future payment of foreign-currency-denominated inventory purchases and certain expenses. 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 and subsequent changes in the fair value of the foreign currency contracts are recorded in net income as they occur. When the expenses are incurred, the Company reclassifies the related AOCI amount to the expense.

The Company enters into interest rate swap contracts to hedge the exposure against interest rate risk on the future interest payments of debt issuances. The changes in fair value of these contracts are included in OCI to the extent that the hedges continue to be effective. When the interest expense is incurred, the Company reclassifies the related AOCI amount to finance costs.

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 ("U.S.") 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 Selling, general and administrative expenses in the Consolidated Statements of Income. When a trade receivable is deemed uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are recognized as a recovery in Selling, general and administrative expenses in the Consolidated Statements of Income.

Loans receivable
Loans receivable consists of credit card and line of credit loans, as well as loans to Associate Dealers ("Dealers"), who are independent third-party operators of Canadian Tire Retail stores. Loans receivable are recognized when cash is advanced to the borrower. They are derecognized when 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 has been incurred but not yet identified. Loans receivable that are not individually significant are collectively assessed for impairment by grouping together loans receivable with similar risk characteristics.

The Company uses a roll-rate methodology to calculate allowances for credit card and line of credit loans. 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.

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

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

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 5.

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 any accumulated impairment and is not amortized.

Finite life and indefinite life 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 for a period of two to seven 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 any accumulated 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 to third parties (other than Dealers, franchisees, or agents) in investment property. Investment property is measured and depreciated in the same manner as property and equipment.

Property and equipment

Property and equipment is 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. The cost of an item of property or equipment comprises costs that are 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 using a declining balance method to their estimated 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 are amortized on a straight-line basis over the terms of the respective leases or useful life, if shorter.

Assets held under finance leases are depreciated on the same basis as owned assets. If there is no reasonable certainty that the Company will obtain ownership, by the end of the lease term, the asset is depreciated over the shorter of lease term and its useful life.

Depreciation and amortization rates are as follows:

Asset Category	Depreciation rate/term
Buildings	4-20%
Fixtures and equipment	5-40%
Leasehold improvements	Shorter of term of lease or useful life
Assets under finance lease	Shorter of term of lease or 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. Lease incentives are amortized on a straight-line basis over the terms of the respective leases.

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 is assessed based 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. Indicators of impairment may include a significant decline in asset market value, material adverse changes in the external operating environment which affect the manner in which the asset is used or is expected to be used, obsolescence, or physical damage of the asset. 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 CGUs correspond 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.

Goodwill acquired in a business combination is allocated to each of the CGUs (or groups of CGUs) expected to benefit from the synergies of the combination. Intangible assets with indefinite useful lives are allocated to the CGU to which they relate.

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 VIU.

In assessing VIU, the estimated future cash flows are discounted to their present value. Cash flows are discounted using a pre-tax discount rate that includes 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 inflation rate or a growth rate specific to the individual item being tested based on Management's estimate.

Recording impairments and reversals of impairments
Impairments and reversals of impairments are recognized in Other income in the Consolidated Statements of Income. 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. 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 loss 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 and are not depreciated. The fair value measurement of assets held for sale is categorized within Level 2 of fair value hierarchy (refer to Note 35.4 for definition of levels).

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 or in Net finance costs in the Consolidated Statements of Income in the period in which they are incurred.

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 employee 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 employees 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, life expectancy, 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 contributions to a Deferred Profit Sharing Plan ("DPSP").

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 with respect to share unit plans and trust unit plans, which are settled in cash, is recorded as the services are provided over the vesting period. The fair value of the liability is remeasured at each reporting date with the change in the liability being recognized in Selling, general and 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 net income during 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
The provision for sales and warranty returns relates to the Company's obligation for defective goods in current store inventories and defective goods sold to customers that have yet to be returned, after sales service for replacement parts, and future corporate store sales 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
An obligation arises from the "My Canadian Tire 'Money'™" customer loyalty program when the Company issues e-Canadian Tire 'Money' and when the Dealers pay the Company to acquire paper-based Canadian Tire 'Money', as the Dealers retain the right to return paper-based Canadian Tire Money to the Company for refund in cash. These obligations are measured at fair value by reference to the fair value of the awards for which they could be redeemed and based on the estimated probability of their redemption. The expense is recorded in Selling, general and administrative expenses in the Consolidated Statements of Income.

Debt
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, the liability is due to be settled within 12 months after the date of the Consolidated Balance Sheets, or it does not have an unconditional right to defer settlement of the liability for at least 12 months after the date of the Consolidated Balance Sheets.

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

Share repurchases are charged to share capital at the average cost per share outstanding and the excess between the repurchase price and the average cost is first allocated to contributed surplus, with any remainder allocated to retained earnings.

Dividends
Dividends declared and payable 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.

Distributions
Distributions to non-controlling interests are recognized as a liability in the Consolidated Balance Sheets in the period in which the distributions are declared.

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 Mark's Work Wearhouse Ltd. ("Mark's") and FGL Sports Ltd. ("FGL Sports") franchisees, the sale of gasoline through agents, and the sale of goods by Mark's, PartSource, and FGL Sports corporately-owned stores to the general public. 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.

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 receivables is determined using the effective interest method.

Services rendered
Service revenue includes Roadside Assistance Club membership 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.

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 selling 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 selling, general and administrative expenses.

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

Net finance 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 relating to the Dealer Loan Program), unwinding of the discount on provisions, and is net of borrowing costs that have been capitalized. 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 income 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 for unused tax losses, unused tax benefits, 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 the initial recognition of goodwill or the 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 ("Basic EPS") is calculated by dividing the net income attributable to the 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 ("Diluted EPS") is calculated by adjusting the net income attributable to the shareholders of the Company and the weighted average number of shares outstanding for the effects of all potentially dilutive equity instruments, which comprise employee stock options. Net income attributable to the shareholders of the Company is the same for both the Basic EPS and Diluted EPS calculations.

Non-controlling interests
When the proportion of the equity held by non-controlling interests changes, the Company adjusts the carrying amounts of the controlling and non-controlling interests to reflect the changes in their relative interest in the subsidiary. The Company

recognizes directly in equity any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received, and attribute it to the shareholders of the Company.

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.

4. 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)		**2015**	**% of total**		2014	% of total
Capital components						
Deposits	**$**	**880.7**	**8.2%**	$	950.7	9.1%
Short-term borrowings		**88.6**	**0.8%**		199.8	1.9%
Current portion of long-term debt		**24.3**	**0.2%**		587.5	5.6%
Long-term debt		**2,971.4**	**27.8%**		2,131.6	20.4%
Long-term deposits		**1,372.2**	**12.8%**		1,286.2	12.3%
Total debt	**$**	**5,337.2**	**49.8%**	$	5,155.8	49.3%
Redeemable financial instrument		**517.0**	**4.9%**		517.0	4.9%
Share capital		**671.2**	**6.3%**		695.5	6.8%
Contributed surplus		**2.9**	**0.0%**		2.9	0.0%
Retained earnings		**4,172.0**	**39.0%**		4,075.1	39.0%
Total capital under management	**$**	**10,700.3**	**100.0%**	$	10,446.3	100.0%

The Company monitors its capital structure through measuring debt-to-earnings ratios and ensures its ability to service debt and meet other fixed obligations by tracking its interest and other coverage ratios.

The Company manages its capital structure over the long term to optimize the balance among capital efficiency, financial flexibility, and risk mitigation. 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, re-purchase shares pursuant to a normal course issuer bid ("NCIB") program, repay debt, issue new debt and equity at Canadian Tire Corporation and CT REIT, 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 a policy in place to manage capital. 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, the policy. In addition, periodic review of the policy is performed to ensure consistency with the risk tolerances.

Key financial covenants of the existing debt agreements are reviewed by Management on an ongoing basis to monitor compliance with the agreements. The key financial covenants for Canadian Tire Corporation 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 Canadian Tire Bank ["CTB" or "the Bank"] deposits and the assets and liabilities of GCCT and Franchise Trust); and

- a limit 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 January 2, 2016 and January 3, 2015. Under these covenants, the Company currently has sufficient flexibility to fund business growth and maintain or amend dividend rates within its existing dividend policy.

CT REIT is required to comply with financial covenants established under its Trust Indenture, Bank Credit Agreements, and the Declaration of Trust and was in compliance with the key covenants as at December 31, 2015 and 2014.

In addition, the Company is required to comply with regulatory requirements for capital associated with the operations of CTB, a federally chartered bank, and other regulatory requirements that have an impact on its business operations and certain financial covenants established under its unsecured revolving credit facility.

CTB manages its capital under guidelines established by the Office of the Superintendent of Financial Institutions of Canada ("OSFI"). OSFI's regulatory capital guidelines are based on the international Basel Committee on Banking Supervision framework entitled Basel III: A Global Regulatory Framework for More Resilient Banks and Banking Systems ("Basel III"), which came into effect in Canada on January 1, 2013, and measures capital in relation to credit, market, and operational risks. The Bank has various capital policies and procedures and controls, including an Internal Capital Adequacy Assessment Process ("ICAAP"), which 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.

OSFI's regulatory capital guidelines under Basel III allow for two tiers of capital. As at December 31, 2015, the Bank's fiscal year-end, Common Equity Tier 1 ("CET1") capital includes common shares, retained earnings, and AOCI. The Bank currently does not hold any additional Tier 1 or Tier 2 capital instruments. Therefore, the Bank's CET1 is equal to its Tier 1 and total regulatory 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 a 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.

As at December 31, 2015 and 2014, the Bank complied with all regulatory capital guidelines established by OSFI, its internal targets as determined by its ICAAP, and the financial covenants of its credit facility.

5. Financial risk management

5.1 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, policy, and processes for measuring and managing risk. Further quantitative disclosures are included throughout these consolidated financial statements and notes thereto.

5.2 Risk management framework

The Company's financial risk management policy serves 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 strategies 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.

5.3 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)		**2015**		2014
Undrawn loan commitments	**$**	**9,514.1**	$	9,463.7
Guarantees		**482.1**		605.2
Total	**$**	**9,996.2**	$	10,068.9

Refer to Note 11 for information on the credit quality and performance of loans receivables.

5.3.1 Securities and derivatives

The Company has a policy in place to manage the various risks (including counterparty risk) related to investment activity and use of financial derivatives. 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 and term to maturity.

5.3.2 Credit enhancement and guarantees provided

The Company may be required to provide credit enhancement for individual Dealer's borrowings in the form of standby letters of credit (the "LCs") or guarantees of third-party bank debt agreements, in respect of the financing programs available to the Dealers (Note 37).

5.4 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 reasonably stressed conditions. The Company has in place a policy to manage its exposure to liquidity risk. 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.

In addition, the Bank has in place an Asset Liability Management policy. 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.

As at January 2, 2016, the Company had $3.9 billion in committed bank lines of credit of which $1.2 billion is available to Canadian Tire Corporation and GCCT under a syndicated credit facility maturing July 2019, $300.0 million is available to Canadian Tire Corporation pursuant to 365-day bilateral credit agreements maturing in late 2016, $2.25 billion is available to CTB through a credit card funding facility maturing October 2017, and $200.0 million is available to CT REIT under a five-year syndicated revolving credit facility maturing July 2020.

In addition to the bank lines of credit, the Company has access to additional funding sources including internal cash generation, strategic real estate transactions, and access to public and private financial markets as appropriate. Assets of the Bank are funded through securitization of credit card receivables through GCCT, broker guaranteed investment certificates ("GICs"), retail GIC deposits, and high-interest savings ("HIS") account deposits.

GCCT filed a short form base shelf prospectus on March 31, 2015 enabling the issuance of up to $1.5 billion of term notes for the subsequent 25-month period. In addition, on March 5, 2015, CT Real Estate Investment Trust ("CT REIT") filed a base shelf prospectus under which it may raise up to $1.5 billion of debt and equity capital for the subsequent 25-month period.

The following table summarizes the Company's contractual maturity for its financial liabilities, including both principal and interest payments:

(C$ in millions)	2016	2017	2018	2019	2020	Thereafter	Total
Non-derivative financial liabilities							
Deposits[1]	889.5	326.1	357.2	411.5	277.4	—	2,261.7
Trade and other payables	1,836.9	—	—	—	—	—	1,836.9
Short-term borrowings	88.6	—	—	—	—	—	88.6
Loans payable	655.5	—	—	—	—	—	655.5
Long-term debt	2.3	634.9	264.6	500.0	500.0	900.0	2,801.8
Finance lease obligations	19.6	17.3	14.5	12.7	11.6	70.2	145.9
Mortgages	4.1	1.2	17.1	37.6	—	—	60.0
Interest payments[2]	143.4	132.0	111.5	89.7	65.0	457.0	998.6
Total	$ 3,639.9	$ 1,111.5	$ 764.9	$ 1,051.5	$ 854.0	$ 1,427.2	$ 8,849.0

[1] Deposits exclude the GIC broker fee discount of $8.8 million.
[2] 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.

5.5 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 a policy in place to manage its exposure to market risk. The policy establishes guidelines on how the Company is to manage the market risk inherent to the business and provides mechanisms to ensure business transactions are executed in accordance with established limits, processes, and procedures.

All such transactions are carried out within the established guidelines and generally, the Company seeks to apply hedge accounting in order to manage volatility in its net income.

5.5.1 Foreign currency risk

The Company sources its merchandise globally. Approximately 44%, 41%, and 6% of the value of the inventory purchased for the Canadian Tire, Mark's, and FGL banners, respectively, is denominated in U.S. dollars. To mitigate the impact of fluctuating foreign exchange rates on the cost of these purchases, the Company has an established foreign exchange risk management program that governs the proportion of forecast U.S. dollar purchases that must be hedged through the purchase of foreign exchange contracts. The purpose of the program is to provide certainty with respect to a portion of the foreign exchange component of future merchandise purchases.

As the Company has hedged a significant portion of the cost of its near-term U.S.-dollar-denominated forecast purchases, a change in foreign currency rates will not impact that portion of the cost of those purchases. Even when a change in rates is sustained, the Company's program to hedge a proportion of forecast U.S. dollar purchases continues. As hedges are placed at current foreign exchange rates, the impact of a sustained change in rate will eventually be reflected in the cost of the Company's U.S. dollar purchases. The hedging program has historically allowed the Company to defer the impact of sudden exchange rate movements on margins and allow it time to develop strategies to mitigate the impact of a sustained change in foreign exchange rates. Some vendors have an underlying exposure to U.S. currency fluctuations which may affect the price they charge the Company for merchandise from time to time; the Company's hedging program does not

mitigate that risk. While the Company may be able to pass on changes in foreign currency exchange rates through pricing, any decision to do so will be subject to market conditions.

5.5.2 Interest rate risk

The Company may enter into interest rate swap contracts to manage its current and anticipated exposure to interest rate price risk. The Company has a policy in place whereby a minimum of 75 percent of its long-term debt (term greater than one year) and lease obligations must be at fixed interest rates. The Company is in compliance with this policy.

A one percent change in interest rates would not materially affect the Company's net income or equity as the Company has minimal floating interest rate exposure given 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. In addition, the Company has entered into delayed start interest rate swaps to hedge a portion of its planned GCCT term debt issuances in 2017 and 2018.

6. Operating segments

The Company has three reportable operating segments: Retail, CT REIT, 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:

- The retail business is conducted through a number of banners, including Canadian Tire, 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). Non-CT REIT real estate is included in Retail.

- CT REIT is an unincorporated, closed-end real estate investment trust. CT REIT holds a geographically-diversified portfolio of properties comprised largely of Canadian Tire banner stores, Canadian Tire anchored retail developments, mixed-use commercial property, and distribution centres.

- 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 and processes credit card transactions with respect to purchases made in Canadian Tire associate stores and Petroleum outlets. Financial Services includes CTB, a federally regulated financial institution 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 line of credit portfolios. The Bank also offers HIS deposit accounts, TFSA deposit accounts and GIC deposits, both directly and through third-party brokers. Financial Services also includes GCCT, a financing program established to purchase co-ownership interests in the Company's credit card loans. 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. 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:

	2015					2014				
(C$ in millions)	**Retail**	**CT REIT**	**Financial Services**	**Eliminations and adjustments**	**Total**	Retail	CT REIT	Financial Services	Eliminations and adjustments	Total
External revenue	**$11,069.8**	**$ 16.3**	**$ 1,087.6**	**$ 105.9**	**$ 12,279.6**	$11,298.9	$ 12.6	$ 1,059.6	$ 91.8	$ 12,462.9
Intercompany revenue	**5.5**	**361.9**	**13.6**	**(381.0)**	**—**	5.7	332.2	16.1	(354.0)	—
Total revenue	**11,075.3**	**378.2**	**1,101.2**	**(275.1)**	**12,279.6**	11,304.6	344.8	1,075.7	(262.2)	12,462.9
Cost of producing revenue	**7,747.6**	**—**	**452.1**	**(55.4)**	**8,144.3**	8,033.7	—	435.2	(52.0)	8,416.9
Gross margin	**3,327.7**	**378.2**	**649.1**	**(219.7)**	**4,135.3**	3,270.9	344.8	640.5	(210.2)	4,046.0
Other (income) expense	**(160.7)**	**—**	**1.9**	**103.9**	**(54.9)**	(110.4)	—	1.6	97.8	(11.0)
Selling, general and administrative expenses	**2,926.0**	**96.5**	**274.7**	**(201.1)**	**3,096.1**	2,861.7	85.0	300.8	(194.6)	3,052.9
Net finance (income) costs	**(42.5)**	**87.1**	**(1.5)**	**49.7**	**92.8**	(11.9)	82.7	(6.9)	45.0	108.9
Change in fair value of redeemable financial instrument					**—**	—	—	—	17.0	17.0
Fair value loss (gain) on investment properties	**—**	**(39.9)**	**—**	**39.9**	**—**	—	(141.2)	—	141.2	—
Income before income taxes	**$ 604.9**	**$ 234.5**	**$ 374.0**	**$ (212.1)**	**$ 1,001.3**	$ 531.5	$ 318.3	$ 345.0	$ (316.6)	$ 878.2
Items included in the above:										
Depreciation and amortization	**$ 350.6**	**$ —**	**$ 7.0**	**$ 67.1**	**$ 424.7**	$ 304.4	$ —	$ 8.8	$ 59.1	$ 372.3
Interest income	**101.1**	**0.3**	**845.4**	**(80.6)**	**866.2**	116.9	0.3	783.6	(97.3)	803.5
Interest expense	**45.5**	**87.4**	**109.7**	**(81.2)**	**161.4**	90.6	83.0	109.8	(98.0)	185.4

The eliminations and adjustments include the following items:

- reclassifications of certain revenues and costs in the Financial Services segment to net finance costs;
- reclassifications of revenues and operating expenses to reflect loyalty program accounting in accordance with IFRIC 13 for the Company's Canadian Tire Money programs;
- conversion from CT REIT's fair value investment property valuation policy to the Company's cost model, including the recording of depreciation;
- inter-segment eliminations and adjustments including intercompany rent, property management fees, credit card processing fees; and
- the change in fair value of the redeemable financial instrument.

Capital expenditures by reportable operating segment are as follows:

	2015				2014			
(C$ in millions)	**Retail[2]**	**CT REIT**	**Financial Services**	**Total**	Retail	CT REIT	Financial Services	Total
Capital expenditures[1]	**$ 655.9**	**$ 42.4**	**$ 17.8**	**$ 716.1**	$ 524.5	$ 183.4	$ 13.9	$ 721.8

[1] Capital expenditures are presented on an accrual basis and include software additions.
[2] Retail capital expenditures include $17.7 million related to the acquisition of 12 real estate leases, formerly held by Target Canada which were acquired during the year, and are primarily recorded in long-term receivables and other assets on the Consolidated Balance Sheets.

Total assets by reporting operating segment are as follows:

(C$ in millions)	**2015**	2014
Retail	**$ 11,128.0**	$ 11,066.5
CT REIT	**4,350.9**	4,017.4
Financial Services	**5,520.3**	5,553.6
Eliminations and adjustments	**(6,011.4)**	(6,084.3)
Total assets[1]	**$ 14,987.8**	$ 14,553.2

[1] The Company employs a shared-services model for several of its back-office functions, including finance, information technology, human resources, and legal. As a result, expenses relating to these functions are allocated on a systematic and rational basis to the reportable operating segments. The associated assets and liabilities are not allocated among segments in the presented measures of segmented assets and liabilities.

Total liabilities by reporting operating segment are as follows:

(C$ in millions)		2015		2014
Retail	**$**	**3,899.1**	$	4,137.1
CT REIT		**2,137.5**		2,015.3
Financial Services		**4,588.4**		4,576.3
Eliminations and adjustments		**(1,426.9)**		(1,806.3)
Total liabilities[1]	**$**	**9,198.1**	$	8,922.4

[1] The Company employs a shared-services model for several of its back-office functions, including finance, information technology, human resources, and legal. As a result, expenses relating to these functions are allocated on a systematic and rational basis to the reportable operating segments. The associated assets and liabilities are not allocated among segments in the presented measures of segmented assets and liabilities.

The eliminations and adjustments include the following items:

- conversion from CT REIT's fair value investment property valuation policy to the Company's cost model, including the recording of depreciation;
- fair value measurement of the redeemable financial instrument; and
- inter-segment eliminations.

7. Joint arrangement and business combinations

7.1 Joint arrangement of Canada Square

On July 17, 2014, CT REIT acquired a one-third interest in Canada Square, a mixed-use commercial development in Toronto, pursuant to a co-ownership arrangement (the "Co-ownership"). The Co-ownership is a joint arrangement as the material decisions about relevant activities require unanimous consent of the co-owners. This joint arrangement is a joint operation as each co-owner has rights to the assets and obligations relating to the Co-ownership. Accordingly, CT REIT recognizes its proportionate share of the assets, liabilities, revenue, and expenses of the Co-ownership in its financial statements.

7.2 Other business combinations

During the year ended January 2, 2016, the Company acquired various franchise operations for total consideration of $3.2 million, of which $2.3 million was payable at January 2, 2016. The fair value of the net assets acquired was $2.8 million, resulting in goodwill recognized of $0.4 million.

During the year ended January 3, 2015, the Company acquired various franchise operations for total consideration of $7.3 million, of which $1.0 million was payable at January 3, 2015. The fair value of the net assets acquired was $3.3 million, resulting in goodwill recognized of $4.0 million.

8. Cash and cash equivalents

Cash and cash equivalents comprise the following:

(C$ in millions)		2015		2014
Cash	**$**	**192.2**	$	134.5
Cash equivalents		**698.6**		521.0
Restricted cash and cash equivalents[1]		**9.8**		6.6
Total cash and cash equivalents[2]		**900.6**		662.1
Bank indebtedness		**—**		(14.3)
Cash and cash equivalents, net of bank indebtedness	**$**	**900.6**	$	647.8

[1] Relates to GCCT and is restricted for the purpose of paying out note holders and additional funding costs.
[2] Included in cash and cash equivalents are amounts held in reserve in support of Financial Services' liquidity and regulatory requirements. Refer to Note 34.1.

9. Short-term investments

Short-term investments include the following:

(C$ in millions)	2015	2014
Short-term investments[1]	$ 95.4	$ 287.5
Restricted short-term investments[2]	0.7	1.6
	$ 96.1	$ 289.1

[1] Included in short-term investments are amounts held in reserve in support of Financial Services' liquidity and regulatory requirements. Refer to Note 34.1.
[2] Relates to GCCT and is restricted for the purpose of paying out note holders and additional funding costs.

10. Trade and other receivables

Trade and other receivables include the following:

(C$ in millions)	2015	2014
Trade and other receivables	$ 673.6	$ 736.8
Derivatives (Note 35)	241.4	143.4
Total financial assets	$ 915.0	$ 880.2

Trade receivables are primarily from Dealers and franchisees, a large and geographically-dispersed group whose receivables, individually, generally comprise less than one percent of the total balance outstanding.

Receivables from Dealers are in the normal course of business, and include cost-sharing and financing arrangements. The net average credit period on sale of goods is between 14 and 120 days.

11. 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)	2015	2014	2015	2014
Credit card loans	$ 4,839.4	$ 4,862.9	$ 4,722.7	$ 4,563.4
Line of credit loans	4.9	5.8	5.4	6.1
Total Financial Services' loans receivable	$ 4,844.3	$ 4,868.7	$ 4,728.1	$ 4,569.5
Dealer loans[2]	655.5	604.4		
Other loans	4.1	5.5		
Total loans receivable	5,503.9	5,478.6		
Less: long-term portion[3]	628.4	573.1		
Current portion of loans receivable	$ 4,875.5	$ 4,905.5		

[1] Amounts shown are net of allowance for loan impairment.
[2] Dealer loans issued by Franchise Trust (refer to Note 24).
[3] The long-term portion of loans receivable is included in long-term receivables and other assets and includes Dealer loans of $624.9 million (2014 – $568.2 million).

For the year ended January 2, 2016, cash received from interest earned on credit cards and loans was $789.6 million (2014 - $732.4 million).

The carrying amount of loans includes loans to Dealers that are secured by the assets of the respective Dealer corporations. 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. 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.

A continuity schedule of the Company's allowances for loans receivable[1] is as follows:

(C$ in millions)	2015	2014
Balance, beginning of year	**$ 113.2**	$ 121.4
Impairments for credit losses, net of recoveries	**301.9**	279.7
Recoveries	**65.9**	59.8
Write-offs	**(369.5)**	(347.7)
Balance, end of year	**$ 111.5**	$ 113.2

[1] Loans include credit card loans and line of credit loans. No allowances for credit losses have been made with respect to Franchise Trust and FGL Sports loans receivable.

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

The Company's aging of the loans receivable that are past due, but not impaired, is as follows:

	2015			2014		
(C$ in millions)	**1-90 days**	**> 90 days**	**Total**	1-90 days	> 90 days	Total
Loans receivable	**$ 306.3**	**$ 62.8**	**$ 369.1**	$ 342.9	$ 60.4	$ 403.3

Credit card loans are considered impaired and 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. No collateral is held against loans receivable, except for loans to Dealers, as discussed above.

Transfers of financial assets

Glacier Credit Card Trust

GCCT is a special purpose entity ("SPE") that was created to securitize credit card loans receivable. As at January 2, 2016, the Bank has transferred co-ownership interest in credit card loans receivable to GCCT but has retained substantially all of the credit risk associated with the transferred assets. Due to the 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 January 2, 2016, 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 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:

	2015		2014	
(C$ in millions)	**Carrying amount**	**Fair value**	Carrying amount	Fair value
Credit card loans receivable transferred[1]	**$ 1,988.0**	**$ 1,988.0**	$ 1,785.6	$ 1,785.6
Associated liabilities	**1,982.3**	**2,021.4**	1,780.4	1,819.6
Net position	**$ 5.7**	**$ (33.4)**	$ 5.2	$ (34.0)

[1] The fair value measurement of credit card loans receivable is categorized within Level 2 of the fair value hierarchy. For a definitions of the levels refer to Note 35.4.

For legal purposes, the co-ownership interests in the Bank's receivables 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 LCs to Franchise Trust as credit support for the Dealer loans. Franchise Trust has sold all of its rights in the LCs and 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. Accordingly, the Company

continues to recognize the current portion of these assets in loans receivable and the long-term portion in long-term receivables and other assets, and records the associated liability secured by these assets as loans payable, 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.

	2015		2014	
(C$ in millions)	**Carrying amount**	**Fair value**	Carrying amount	Fair value
Dealer loans[1]	**$ 655.5**	**$ 655.5**	$ 604.4	$ 604.4
Associated liabilities	**655.5**	**655.5**	604.4	604.4
Net position	**$ —**	**$ —**	$ —	$ —

[1] The fair value measurement of Dealer loans is categorized within Level 2 of the fair value hierarchy. For a definitions of the levels refer to Note 35.4.

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. Refer to Note 37 for further information.

12. 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 as per the Company's accounting policy. Land and buildings previously included in assets classified as held for sale are transferred to property and equipment, investment property, or goodwill and intangibles, as appropriate, when it is determined that they no longer meet the criteria to be assets classified as held for sale.

As at January 2, 2016, land, buildings, and investment properties classified as held for sale were $0.4 million (2014 - $3.2 million), $1.9 million (2014 - $4.3 million), and $nil (2014 - $5.6 million), respectively.

Land and buildings classified as assets held for sale generally relate to former stores in the Retail segment that have been 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 January 2, 2016, the Company sold assets held for sale and recorded a gain of $6.0 million (2014 - $8.2 million), which is reported in Other income in the Consolidated Statements of Income. There were no impairments or reversals of impairments on assets classified as held for sale.

13. Long-term receivables and other assets

Long-term receivables and other assets include the following:

(C$ in millions)	2015	2014
Loans receivable (Note 11)	$ 628.4	$ 573.1
Mortgages receivable	28.0	32.5
Derivatives (Note 35)	50.2	58.3
Other receivables	5.1	4.8
Total financial assets	711.7	668.7
Other	19.5	15.5
	$ 731.2	$ 684.2

14. Goodwill and intangible assets

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

						2015
	Indefinite-life intangible assets and goodwill			Finite-life intangible assets		
(C$ in millions)	Goodwill	Banners and trademarks	Franchise agreements and other intangibles	Software	Other intangibles	Total
Cost						
Balance, beginning of year	$ 438.5	$ 266.6	$ 156.9	$ 1,158.1	$ 23.1	$ 2,043.2
Additions internally developed	—	—	—	109.1	—	109.1
Additions related to business combinations	0.4	—	2.0	—	—	2.4
Other additions	—	0.8	—	—	—	0.8
Disposals/retirements	—	—	—	0.9	—	0.9
Other movements and transfers	—	—	—	(0.4)	—	(0.4)
Balance, end of year	$ 438.9	$ 267.4	$ 158.9	$ 1,267.7	$ 23.1	$ 2,156.0
Accumulated amortization and impairment						
Balance, beginning of year	$ (1.9)	$ —	$ —	$ (775.3)	$ (14.3)	$ (791.5)
Amortization for the year	—	—	—	(109.8)	(2.1)	(111.9)
Impairment	—	—	—	—	—	—
Disposals/retirements	—	—	—	(4.5)	—	(4.5)
Other movements and transfers	—	—	—	—	(1.3)	(1.3)
Balance, end of year	$ (1.9)	$ —	$ —	$ (889.6)	$ (17.7)	$ (909.2)
Net carrying amount, end of year	$ 437.0	$ 267.4	$ 158.9	$ 378.1	$ 5.4	$ 1,246.8

						2014
	Indefinite-life intangible assets and goodwill			Finite-life intangible assets		
(C$ in millions)	Goodwill	Banners and trademarks	Franchise agreements and other intangibles	Software	Other intangibles	Total
Cost						
Balance, beginning of year	$ 434.5	$ 245.2	$ 154.3	$ 1,027.1	$ 23.1	$ 1,884.2
Additions internally developed	—	—	—	134.2	—	134.2
Additions related to business combinations	4.0	—	2.6	—	—	6.6
Other additions	—	21.4	—	—	—	21.4
Disposals/retirements	—	—	—	(2.6)	—	(2.6)
Other movements and transfers	—	—	—	(0.6)	—	(0.6)
Balance, end of year	$ 438.5	$ 266.6	$ 156.9	$ 1,158.1	$ 23.1	$ 2,043.2
Accumulated amortization and impairment						
Balance, beginning of year	$ (1.6)	$ —	$ —	$ (686.9)	$ (10.2)	$ (698.7)
Amortization for the year	—	—	—	(90.9)	(2.2)	(93.1)
Impairment	(0.3)	—	—	—	—	(0.3)
Disposals/retirements	—	—	—	2.5	—	2.5
Other movements and transfers	—	—	—	—	(1.9)	(1.9)
Balance, end of year	$ (1.9)	$ —	$ —	$ (775.3)	$ (14.3)	$ (791.5)
Net carrying amount, end of year	$ 436.6	$ 266.6	$ 156.9	$ 382.8	$ 8.8	$ 1,251.7

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

(C$ in millions)	**2015**	2014
FGL Sports	**$ 356.9**	$ 356.9
Mark's	**56.7**	56.3
Canadian Tire	**23.4**	23.4
Total	**$ 437.0**	$ 436.6

Banners and trademarks includes FGL Sports and Mark's store banners, which represent legal trademarks of the Company with expiry dates ranging from 2016 to 2030. In addition, banners and trademarks include FGL Sports and Mark's private-label brands that have legal expiry dates. As the Company currently has no approved plans to change its store banners and intends to continue to renew all trademarks and private-label brands at each expiry date for the foreseeable future, there is no foreseeable limit to the period over which the assets are expected to generate net cash inflows. Therefore, these intangible assets are considered to have indefinite useful lives.

Franchise agreements have expiry dates with options to renew or have indefinite lives. As the Company intends to renew these agreements at each renewal date for the foreseeable future, there is no foreseeable limit to the period over which the franchise agreements and franchise locations will generate net cash inflows. Therefore, these assets are considered to have indefinite useful lives.

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 amortized over a term of five to seven years. Off-market leases are amortized over the term of the lease to which they relate.

The amount of borrowing costs capitalized in 2015 was $3.4 million (2014 - $3.2 million). The capitalization rate used to determine the amount of borrowing costs capitalized during the year was 6.0 percent (2014 - 5.7 percent).

Amortization expense of software and other finite-life intangible assets is included in Selling, general and administrative expenses in the Consolidated Statements of Income.

Impairment of intangible assets and subsequent reversal

The Company performed its annual impairment test on goodwill and indefinite-life intangible assets for all CGUs based on VIU using after-tax discount rates ranging from 7.2 to 10.0 percent and growth rates ranging from 1.0 to 12.1 percent per annum.

The amount of impairment of intangible assets in 2015 was $nil (2014 - $0.3 million). There was no reversal of impairments in 2015 or 2014. The impairment on goodwill in 2014 pertains to the Company's Retail operating segment and is reported in Other Income in the Consolidated Statements of Income.

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

15. Investment property

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

(C$ in millions)		**2015**		2014
Cost				
Balance, beginning of year	**$**	**178.8**	$	123.9
Additions		**11.0**		32.9
Disposals/retirements		**(3.8)**		(3.7)
Reclassified to/from held for sale		**(6.1)**		(3.3)
Reclassified to/from property and equipment		**(10.1)**		—
Other movements and transfers		**2.6**		29.0
Balance, end of year	**$**	**172.4**	$	178.8
Accumulated depreciation and impairment				
Balance, beginning of year	**$**	**(30.2)**	$	(30.4)
Depreciation for the year		**(4.0)**		(3.5)
Impairment		**—**		(1.6)
Disposal/retirements		**1.1**		2.3
Reclassified to/from held for sale		**2.8**		5.1
Reclassified to/from property and equipment		**(4.1)**		—
Other movements and transfers		**(0.2)**		(2.1)
Balance, end of year	**$**	**(34.6)**	$	(30.2)
Net carrying amount, end of year	**$**	**137.8**	$	148.6

The investment properties generated rental income of $19.2 million (2014 - $16.9 million).

Direct operating expenses (including repairs and maintenance) arising from investment property recognized in net income were $9.7 million (2014 - $8.8 million).

The estimated fair value of investment property was $228.2 million (2014 - $230.7 million). This recurring fair value measurement is categorized within Level 3 of the fair value hierarchy (refer to Note 35.4 for definition of levels). The Company determines the fair value of investment property by applying a pre-tax capitalization rate to the annual rental income for the current leases. The capitalization rate ranged from 5.3 percent to 11.0 percent (2014 - 5.8 percent to 11.0 percent). 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 and has also completed independent appraisals on certain investment property owned by CT REIT.

Impairment of investment property and subsequent reversal
Any impairment or reversals of impairment are reported in Other income in the Consolidated Statements of Income.

16. Property and equipment

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

(C$ in millions)	Land	Buildings	Fixtures and equipment	Leasehold improvements	Assets under finance lease	Construction in progress	2015 Total
Cost							
Balance, beginning of year	$ 861.0	$ 2,857.7	$ 1,071.9	$ 1,001.1	$ 256.5	$ 224.3	$ 6,272.5
Additions	9.1	63.3	165.8	155.6	14.0	163.2	571.0
Disposals/retirements	(4.2)	(10.5)	(21.4)	(6.7)	(8.0)	(26.3)	(77.1)
Reclassified to/from held for sale	(0.4)	(5.8)	(0.5)	—	—	—	(6.7)
Reclassified to/from investment property	0.9	9.2	—	—	—	—	10.1
Other movements and transfers	8.0	2.0	0.8	(9.3)	0.3	(1.8)	—
Balance, end of year	$ 874.4	$ 2,915.9	$ 1,216.6	$ 1,140.7	$ 262.8	$ 359.4	$ 6,769.8
Accumulated depreciation and impairment							
Balance, beginning of year	$ (4.4)	$ (1,289.8)	$ (712.0)	$ (365.7)	$ (157.5)	$ —	$ (2,529.4)
Depreciation for the year	—	(108.4)	(103.8)	(80.0)	(16.5)	—	(308.7)
Impairment	—	(0.2)	(0.2)	—	—	—	(0.4)
Reversal of impairment losses	—	—	0.1	0.1	—	—	0.2
Disposals/retirements	0.1	4.8	18.6	7.1	7.4	—	38.0
Reclassified to/from held for sale	—	4.0	0.3	—	—	—	4.3
Reclassified to/from investment property	—	4.1	—	—	—	—	4.1
Other movements and transfers	(2.3)	(0.3)	2.2	2.3	(1.6)	—	0.3
Balance, end of year	$ (6.6)	$ (1,385.8)	$ (794.8)	$ (436.2)	$ (168.2)	$ —	$ (2,791.6)
Net carrying amount , end of year	$ 867.8	$ 1,530.1	$ 421.8	$ 704.5	$ 94.6	$ 359.4	$ 3,978.2

(C$ in millions)	Land	Buildings	Fixtures and equipment	Leasehold improvements	Assets under finance lease	Construction in progress	2014 Total
Cost							
Balance, beginning of year	$ 815.0	$ 2,750.8	$ 938.8	$ 882.3	$ 276.6	$ 179.1	$ 5,842.6
Additions	49.8	141.2	139.8	145.2	19.4	59.3	554.7
Disposals/retirements	—	(4.8)	(35.2)	(23.4)	(10.5)	—	(73.9)
Reclassified to/from held for sale	(3.2)	(15.9)	(0.5)	(2.5)	—	—	(22.1)
Other movements and transfers	(0.6)	(13.6)	29.0	(0.5)	(29.0)	(14.1)	(28.8)
Balance, end of year	$ 861.0	$ 2,857.7	$ 1,071.9	$ 1,001.1	$ 256.5	$ 224.3	$ 6,272.5
Accumulated depreciation and impairment							
Balance, beginning of year	$ (0.3)	$ (1,201.0)	$ (641.3)	$ (316.5)	$ (167.4)	$ —	$ (2,326.5)
Depreciation for the year	—	(102.4)	(80.1)	(74.9)	(18.3)	—	(275.7)
Impairment	(4.1)	(0.6)	(0.2)	—	(0.1)	—	(5.0)
Disposals/retirements	—	3.8	27.0	23.2	10.5	—	64.5
Reclassified to/from held for sale	—	8.3	0.3	2.5	—	—	11.1
Other movements and transfers	—	2.1	(17.7)	—	17.8	—	2.2
Balance, end of year	$ (4.4)	$ (1,289.8)	$ (712.0)	$ (365.7)	$ (157.5)	$ —	$ (2,529.4)
Net carrying amount , end of year	$ 856.6	$ 1,567.9	$ 359.9	$ 635.4	$ 99.0	$ 224.3	$ 3,743.1

The Company capitalized borrowing costs of $11.8 million (2014 - $7.7 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 6.0 percent (2014 - 5.7 percent).

The carrying amount of assets under finance leases at January 2, 2016, comprises $39.3 million (2014 - $44.9 million) in buildings and $55.3 million (2014 - $54.1 million) in fixtures and equipment.

Impairment of property and equipment and subsequent reversal
The impairment of property and equipment pertain to the Company's Retail operating segment. Any impairment or reversal of impairment is reported in Other income in the Consolidated Statements of Income.

17. Subsidiaries

17.1 Control of subsidiaries and composition of the Company

These consolidated financial statements include entities controlled by Canadian Tire Corporation. Control exists when Canadian Tire Corporation has the ability to direct the relevant activities and the returns of an entity. The financial statements of these entities are included in these consolidated financial statements from the date that control commences until the date that control ceases. Details of the Company's significant entities are as follows:

			Ownership Interest	
Name of subsidiary	**Principal activity**	Country of incorporation and operation	**2015**	2014
CTFS Holdings Limited[1]	Marketing of insurance products, processing credit card transactions at Canadian Tire stores, banking, and reinsurance	Canada	**80.0%**	80.0%
Canadian Tire Real Estate Limited	Real estate	Canada	**100.0%**	100.0%
CT Real Estate Investment Trust	Real estate	Canada	**83.8%**	83.2%
FGL Sports Ltd.	Retailer of sporting equipment, apparel and footwear	Canada	**100.0%**	100.0%
Franchise Trust[2]	Canadian Tire Dealer Loan Program	Canada	**0.0%**	0.0%
Glacier Credit Card Trust[3]	Financing program to purchase co-ownership interests in Canadian Tire Bank's credit card loans	Canada	**0.0%**	0.0%
Mark's Work Wearhouse Ltd.	Retailer of clothing and footwear	Canada	**100.0%**	100.0%

[1] Legal entity CTFS Holdings Limited, incorporated in 2014, is the parent company of CTB and CTFS Bermuda Holdings Limited. CTB's principal activity is banking, marketing of insurance products, and processing credit card transactions at Canadian Tire stores. CTFS Bermuda Holdings Limited owns 100.0 percent of CTFS Bermuda Ltd., whose principal activity is reinsurance.

[2] Franchise Trust is a legal entity sponsored by a third-party bank that originates loans to Dealers under the Dealer Loan Program. The Company does not have any share ownership in Franchise Trust. However, the Company has determined that it has the ability to direct the relevant activities and returns on the silo of assets and liabilities of Franchise Trust that relate to the Canadian Tire Dealer Loan Program. As the Company has control over this silo of assets and liabilities, it is consolidated in these financial statements.

[3] GCCT was formed to meet specific business needs of the Company, namely to buy co-ownership interests in the Company's credit card loans. GCCT issues debt to third-party investors to fund its purchases. The Company does not have any share ownership in GCCT. However, the Company has determined that it has the ability to direct the relevant activities and returns of GCCT. As the Company has control over GCCT, it is consolidated in these financial statements.

17.2 Details of non-wholly owned subsidiaries that have non-controlling interests

The portion of net assets and income attributable to third parties is reported as non-controlling interests and net income attributable to non-controlling interests in the Consolidated Balance Sheets and Consolidated Statements of Income, respectively. The non-controlling interests of CT REIT and CTFS Holdings Limited were initially measured at fair value on the date of acquisition.

The following table summarizes the information relating to non-controlling interests:

				2015
(C$ in millions)	**CT REIT[1]**	**CTFS Holdings Limited[2]**	**Other[3]**	**Total**
Non-controlling interests	**16.2%**	**20.0%**	**50.0%**	
Current assets	**$ 29.3**	**$ 5,364.2**	**$ 13.2**	**$ 5,406.7**
Non-current assets	**4,321.6**	**209.9**	**32.2**	**4,563.7**
Current liabilities	**245.2**	**1,226.3**	**4.3**	**1,475.8**
Non-current liabilities	**1,892.4**	**3,305.8**	**25.6**	**5,223.8**
Net assets	**2,213.3**	**1,042.0**	**15.5**	**3,270.8**
Revenue	**$ 378.2**	**$ 1,165.2**	**$ 181.4**	**$ 1,724.8**
Net income attributable to non-controlling interests	**$ 20.6**	**$ 53.0**	**$ 2.9**	**$ 76.5**
Equity attributable to non-controlling interests	**286.5**	**504.3**	**4.7**	**795.5**
Distributions to non-controlling interests	**(20.3)**	**(33.6)**	**(1.7)**	**(55.6)**

[1] Net income attributable to non-controlling interests is based on net income of CT REIT adjusted to convert to the Company's cost method, including recording of depreciation.

[2] Net income attributable to non-controlling interests is based on the net income of CTFS Holdings Limited adjusted for contractual requirements as stipulated in the Universal Shareholder agreement.

[3] Net income attributable to non-controlling interests is based on net income of the subsidiary adjusted for contractual requirements as stipulated in the ownership agreement.

(C$ in millions)	CT REIT[1]	CTFS Holdings Limited[2]	Other[3]	Total
				2014
Non-controlling interests	16.8%	20.0%	50.0%	
Current assets	$ 15.1	$ 5,326.1	$ 9.0	$ 5,350.2
Non-current assets	4,002.3	222.9	34.1	4,259.3
Current liabilities	(310.2)	(1,846.9)	(2.8)	(2,159.9)
Non-current liabilities	(1,705.1)	(2,699.5)	(26.7)	(4,431.3)
Net assets	2,002.2	1,002.6	13.6	3,018.4
Revenue	$ 344.8	$ 241.6	$ 187.8	$ 774.2
Net income attributable to non-controlling interests	$ 19.9	$ 10.3	$ 5.1	$ 35.3
Equity attributable to non-controlling interests	284.4	487.3	3.6	775.3
Distributions to non-controlling interests	(19.8)	—	(1.5)	(21.3)

1 Net income attributable to non-controlling interests is based on net income of CT REIT adjusted to convert to the Company's cost method, including recording of depreciation.
2 Net income attributable to non-controlling interests is based on the net income of CTFS Holdings Limited adjusted for contractual requirements as stipulated in the Universal Shareholder agreement.
3 Net income attributable to non-controlling interests is based on net income of the subsidiary adjusted for contractual requirements as stipulated in the ownership agreement.

17.3 Continuity of non-controlling interests

(C$ in millions)	**2015**	2014
Balance at beginning of year	**$ 775.3**	$ 282.6
Sale of ownership interests, net of transaction costs	**—**	476.8
Comprehensive income attributable to non-controlling interests for the year[1]	**74.0**	35.4
Issuance of trust units to non-controlling interests, net of transaction costs	**1.8**	1.8
Distributions	**(55.6)**	(21.3)
Balance at end of year	**$ 795.5**	$ 775.3

1 Includes $(2.5) million (2014 - $0.1 million) from the Consolidated Statements of Comprehensive Income.

18. Income taxes

18.1 Deferred income tax assets and liabilities

The amount of deferred tax assets or liabilities recognized in the Consolidated Balance Sheets and the corresponding movement recognized in the Consolidated Statements of Income, Consolidated Statements of Changes in Equity, or resulting from a business combination is as follows:

(C$ in millions)	**Balance, beginning of year**	**Recognized in profit or loss**	**Recognized in other comprehensive income**	**Recognized in equity**	**Acquired in Business Combination**	**Other adjustments**	**Balance, end of year**
							2015
Provisions, deferred revenue and reserves	**$ 139.3**	**$ 4.5**	**$ —**	**$ —**	**$ —**	**$ —**	**$ 143.8**
Property and equipment	**(56.7)**	**12.9**	**—**	**—**	**—**	**—**	**(43.8)**
Intangible assets	**(147.5)**	**(5.7)**	**—**	**—**	**(0.3)**	**—**	**(153.5)**
Employee benefits	**36.4**	**1.3**	**(0.2)**	**—**	**—**	**—**	**37.5**
Cash flow hedges	**(29.5)**	**—**	**(23.8)**	**—**	**—**	**—**	**(53.3)**
Finance lease assets and obligations	**13.9**	**(1.9)**	**—**	**—**	**—**	**—**	**12.0**
FVTPL financial asset	**(18.7)**	**5.9**	**—**	**—**	**—**	**—**	**(12.8)**
Tax losses	**3.5**	**(0.6)**	**—**	**—**	**—**	**0.8**	**3.7**
Other	**4.8**	**(1.3)**	**—**	**—**	**(0.1)**	**—**	**3.4**
Net deferred tax asset (liability)[1]	**$ (54.5)**	**$ 15.1**	**$ (24.0)**	**$ —**	**$ (0.4)**	**$ 0.8**	**$ (63.0)**

1 Includes the net amount of deferred tax assets of $48.1 million and deferred tax liabilities of $111.1 million.

							2014[1]
(C$ in millions)	Balance, beginning of year	Recognized in profit or loss	Recognized in other comprehensive income	Recognized in equity	Acquired in Business Combination	Other adjustments	Balance, end of year
Provisions, deferred revenue and reserves	$ 123.5	$ 15.8	$ —	$ —	$ —	$ —	$ 139.3
Property and equipment	(53.8)	(2.9)	—	—	—	—	(56.7)
Intangible assets	(152.2)	4.8	—	—	—	—	(147.4)
Employee benefits	30.5	1.2	4.7	—	—	—	36.4
Cash flow hedges	(17.0)	—	(12.5)	—	—	—	(29.5)
Finance lease assets and obligations	10.8	3.1	—	—	—	—	13.9
FVTPL financial asset	(10.6)	(8.1)	—	—	—	—	(18.7)
Tax Losses	1.7	1.8	—	—	—	—	3.5
Other	3.1	1.1	—	0.5	—	—	4.7
Net deferred tax asset (liability)[2]	$ (64.0)	$ 16.8	$ (7.8)	$ 0.5	$ —	$ —	$ (54.5)

[1] Note the prior year balances have been reclassified to align to the current year presentation, which more clearly describes the categories of temporary tax differences.
[2] Includes the net amount of deferred tax assets of $39.4 million and deferred tax liabilities of $93.9 million.

No deferred tax is recognized on the amount of temporary differences arising from the difference between the carrying amount of the investment in subsidiaries, branches and associates, and interests in joint arrangements accounted for in the financial statements and the cost amount for tax purposes of the investment. The Company is able to control the timing of the reversal of these temporary differences and believes it is probable that they will not reverse in the foreseeable future. The amount of these taxable temporary differences was approximately $2.6 billion at January 2, 2016 (2014 - $2.5 billion).

18.2 Income tax expense

The following are the major components of income tax expense:

(C$ in millions)	**2015**	2014
Current tax expense		
Current period	**$ 258.9**	$ 248.5
Adjustments in respect of prior years	**21.6**	7.2
	$ 280.5	$ 255.7
Deferred tax (benefit) expense		
Deferred income tax (benefit) relating to the origination and reversal of temporary differences	**$ (0.3)**	$ (7.9)
Deferred income tax (benefit) adjustments in respect of prior years	**(16.6)**	(8.9)
Deferred income tax expense resulting from change in tax rate	**1.8**	—
	(15.1)	(16.8)
Total income tax expense	**$ 265.4**	$ 238.9

Income tax expense (benefit) recognized in Other Comprehensive Income was as follows:

(C$ in millions)	**2015**	2014
Gains on derivatives designated as cash flow hedges	**$ 100.0**	$ 40.4
Reclassification of gains to non-financial assets on derivatives designated as cash flow hedges to non-financial assets	**(74.9)**	(27.2)
Reclassification of gains to income on derivatives designated as cash flow hedges to income	**(1.1)**	(0.6)
(Losses) on available-for-sale financial assets	**(0.2)**	(0.1)
Reclassification of gains to income on available-for-sale financial assets to income	**—**	—
Actuarial gains (losses)	**0.2**	(4.7)
Total income tax expense	**$ 24.0**	$ 7.8

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)		**2015**		2014
Income before income taxes	**$**	**1,001.3**	$	878.2
Income taxes based on the applicable statutory tax rate of 26.56% (2014 - 26.50%)	**$**	**266.0**	$	232.7
Adjustment to income taxes resulting from:				
Non-taxable portion of capital gains		**(6.8)**		—
Income attributable to non-controlling interest in flow-through entities		**(6.3)**		(6.6)
Adjustments of tax estimates		**7.3**		5.9
Non-deductibility of stock option expense		**2.5**		10.5
Prior years' tax settlements		**(2.3)**		(7.6)
Changes in tax rates		**1.8**		—
Higher (lower) income tax rates on earnings of foreign subsidiaries		**0.3**		(0.5)
Non-deductibility of change in fair value of redeemable financial instrument		**—**		4.5
Other		**2.9**		—
Income tax expense	**$**	**265.4**	$	238.9

The applicable statutory tax rate is the aggregate of the Canadian federal income tax rate of 15.0 percent (2014 - 15.0 percent) and the provincial income tax rate of 11.6 percent (2014 - 11.5 percent). The increase in the applicable rate from 2014 is primarily due to an increase in the provincial tax rates in the year.

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 2015 tax expense has been reduced by $2.3 million (2014 - $7.6 million) due to prior years' tax settlements and increased by $7.3 million (2014 - 5.9 million) due to adjustments to tax estimates.

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.

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 issued broker GICs are non-redeemable prior to maturity (except in certain rare circumstances). Total short-term and long-term broker deposits outstanding at January 2, 2016, were $1,548.5 million (2014 - $1,534.6 million).

Retail deposits consist of HIS deposits, retail GICs, and TFSA deposits. Total retail deposits outstanding at January 2, 2016, were $704.4 million (2014 - $702.3 million).

For repayment requirements of deposits refer to Note 5.4. The following are the effective rates of interest:

	2015	2014
GIC deposits	**2.84%**	3.00%
HIS account deposits	**1.52%**	1.53%

20. Trade and other payables

Trade and other payables include the following:

(C$ in millions)	2015	2014
Trade payables and accrued liabilities	$ 1,836.9	$ 1,834.9
Derivatives (Note 35)	0.7	—
Total financial liabilities	1,837.6	1,834.9
Deferred revenue	38.4	39.3
Insurance reserve	16.9	16.8
Other	64.2	70.2
	$ 1,957.1	$ 1,961.2

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

Other consists primarily of sales taxes payable.

The credit range period on trade payables is three to 180 days (2014 - four to 120 days).

21. Provisions

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

						2015
(C$ in millions)	Sales and warranty returns	Site restoration and decommissioning	Onerous contracts	Customer loyalty	Other	Total
Balance, beginning of year	$ 115.6	$ 38.4	$ 1.1	$ 79.9	$ 15.1	$ 250.1
Charges, net of reversals	296.5	(0.7)	3.9	153.6	4.9	458.2
Utilizations	(292.3)	(1.1)	(3.4)	(147.3)	(5.4)	(449.5)
Unwinding of discount	0.6	0.7	—	—	0.3	1.6
Change in discount rate	0.1	1.0	0.1	—	0.2	1.4
Balance, end of year	$ 120.5	$ 38.3	$ 1.7	$ 86.2	$ 15.1	$ 261.8
Current provisions	115.9	4.0	1.3	86.2	8.7	216.1
Long-term provisions	$ 4.6	$ 34.3	$ 0.4	$ —	$ 6.4	$ 45.7

22. Contingencies

Legal and regulatory matters

The Company is party to a number of legal and regulatory proceedings. The Company believes that each such proceeding constitutes a routine matter incidental to the business conducted by the Company. The Company cannot determine with certainty the ultimate outcome of all the outstanding claims but believes that the ultimate disposition of the proceedings will not have a material adverse effect on its consolidated earnings, cash flow, or financial position.

23. Short-term borrowings

Short-term borrowings include commercial paper notes and bank line of credit borrowings. Short-term borrowings may bear interest payable at maturity or be sold at a discount and mature at face value.

The commercial paper notes are short-term notes issued with varying original maturities of one year or fewer, typically 90 days or fewer, at interest rates fixed at the time of each renewal, and are recorded at amortized cost. As at January 2, 2016, $88.6 million (2014 - $121.8 million) of commercial paper notes were issued by the Company.

As at January 2, 2016, $nil (2014 - $78.0 million) of bank line of credit borrowings had been drawn on CT REIT's Bank Credit Facility.

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 incurs to fund 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:

	2015		2014	
(C$ in millions)	**Face value**	**Carrying amount**	Face value	Carrying amount
Senior notes[1]				
Series 2010-1, 3.158%, November 20, 2015	**$ —**	**$ —**	$ 250.0	$ 249.7
Series 2012-1, 2.807%, May 20, 2017	**200.0**	**199.7**	200.0	199.4
Series 2012-2, 2.394%, October 20, 2017	**400.0**	**399.2**	400.0	398.7
Series 2013-1, 2.755%, November 20, 2018	**250.0**	**249.1**	250.0	248.9
Series 2014-1, 2.567%, September 20, 2019	**472.5**	**470.7**	472.5	470.2
Series 2015-1, 2.238%, September 20, 2020	**465.0**	**462.9**	—	—
Subordinated notes[1]				
Series 2010-1, 4.128%, November 20, 2015	**—**	**—**	14.6	14.6
Series 2012-1, 3.827%, May 20, 2017	**11.6**	**11.6**	11.6	11.6
Series 2012-2, 3.174%, October 20, 2017	**23.3**	**23.3**	23.3	23.3
Series 2013-1, 3.275%, November 20, 2018	**14.6**	**14.6**	14.6	14.6
Series 2014-1, 3.068%, September 20, 2019	**27.5**	**27.5**	27.5	27.5
Series 2015-1, 3.237%, September 20, 2020	**35.0**	**35.0**	—	—
Medium-term notes and debentures				
4.95% due June 1, 2015	**—**	**—**	300.0	299.3
2.85% due June 9, 2022	**150.0**	**149.2**	—	—
3.53% due June 9, 2025	**200.0**	**198.8**	—	—
6.375% due April 13, 2028	**150.0**	**148.5**	150.0	149.6
6.445% due February 24, 2034	**200.0**	**198.0**	200.0	199.5
5.61% due September 4, 2035	**200.0**	**199.3**	200.0	199.5
Finance lease obligations	**145.9**	**145.9**	153.0	153.0
Mortgages	**60.0**	**60.1**	58.3	58.5
Promissory note	**2.3**	**2.3**	1.2	1.2
Total debt	**$ 3,007.7**	**$ 2,995.7**	$ 2,726.6	$ 2,719.1
Current	**$ 24.3**	**$ 24.3**	$ 587.5	$ 587.5
Non-current	**2,983.4**	**2,971.4**	2,139.1	2,131.6

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

The carrying amount of long-term debt is net of debt issuance costs of $12.0 million (2014 - $7.5 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 2012-1, 2012-2, 2013-1, 2014-1, and 2015-1 notes is scheduled to commence and be completed on the expected repayment dates indicated in the preceding table. Subsequent to repayment, collections distributed to GCCT with respect to the related ownership interest will be applied to pay principal owing. This process is applied to principal owing for series subordinated notes and in some circumstances interest for the series senior 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 January 2, 2016.

Medium-term notes and debentures
Medium-term notes and debentures 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.

On June 25, 2014, the Company redeemed $200.0 million of medium-term notes, which were to mature on June 1, 2016 and bore interest at 5.65 percent. Upon redemption, the Company paid a redemption premium of $15.0 million, which was included in net finance costs.

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 2015, interest rates on finance leases ranged from 0.81 percent to 11.35 percent. Remaining terms at January 2, 2016, were one to 144 months.

Finance lease obligations are payable as follows:

	2015			2014		
(C$ in millions)	**Future minimum lease payments**	**Interest**	**Present value of future minimum lease payments**	Future minimum lease payments	Interest	Present value of future minimum lease payments
Due in less than one year	**$ 27.8**	**$ 8.2**	**$ 19.6**	$ 29.7	$ 9.0	$ 20.7
Due between one year and two years	**24.5**	**7.2**	**17.3**	25.0	8.0	17.0
Due between two years and three years	**21.0**	**6.5**	**14.5**	21.0	7.0	14.0
Due between three years and four years	**18.5**	**5.8**	**12.7**	18.4	6.3	12.1
Due between four years and five years	**16.7**	**5.1**	**11.6**	16.1	5.6	10.5
More than five years	**85.0**	**14.8**	**70.2**	98.8	20.1	78.7
	$ 193.5	**$ 47.6**	**$ 145.9**	$ 209.0	$ 56.0	$ 153.0

Mortgages
Mortgages bear interest rates ranging from 2.50 percent to 3.60 percent and have maturity dates ranging from May 2016 to December 2019.

Promissory notes
Promissory notes were issued as part of franchise acquisitions (Refer to note 7.2). 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 January 2, 2016.

26. Other long-term liabilities

Other long-term liabilities include the following:

(C$ in millions)		2015		2014
Redeemable financial instrument[1]	**$**	**517.0**	$	517.0
Employee benefits (Note 27)		**141.2**		137.5
Deferred gains		**16.8**		18.1
Derivatives (Note 35)		**12.9**		—
Deferred revenue		**8.8**		13.2
Other		**117.2**		102.0
	$	**813.9**	$	787.8

[1] A financial liability; refer to Note 35 for further information on the redeemable financial instrument.

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 the long-term portion of share-based payment transactions, unearned insurance premiums, unearned roadside assistance revenue, deferred lease inducements, and off-market leases.

27. Post-employment benefits

Profit-sharing program

The Company has a profit-sharing program for certain employees. The amount awarded to employees is contingent on the Company's profitability. A portion of the award ("Base Award") is contributed to a DPSP for the benefit of the employees. The maximum amount of the Company's Base Award 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 percent of the Base Award 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 percent after one year of continuous service and 100 percent after two years of continuous service.

In 2015, the Company contributed $22.1 million (2014 - $20.5 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)		2015		2014
Change in the present value of defined benefit obligation				
Defined benefit obligation, beginning of year	**$**	**137.5**	$	115.4
Current service cost		**2.3**		1.9
Interest cost		**5.4**		5.6
Actuarial gain arising from changes in demographic assumptions		**(0.2)**		(0.3)
Actuarial (gain) loss arising from changes in financial assumptions		**(4.6)**		18.6
Actuarial loss (gain) arising from changes in experience assumptions		**3.8**		(0.4)
Benefits paid		**(3.0)**		(3.3)
Defined benefit obligation, end of year[1]	**$**	**141.2**	$	137.5

[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)	2015	2014
Components of non-pension post-retirement benefit cost		
Amounts recognized in net income:		
Current service cost	**$ 2.3**	$ 1.9
Interest cost	**5.4**	5.6
Total recognized in net income	**$ 7.7**	$ 7.5
Amount recognized in other comprehensive income:		
Actuarial gain arising from changes in demographic assumptions	**$ 0.2**	$ 0.3
Actuarial gain (loss) arising from changes in financial assumptions	**4.6**	(18.6)
Actuarial (loss) gain arising from changes in experience assumptions	**(3.8)**	0.4
Total recognized in other comprehensive income	**$ 1.0**	$ (17.9)

Significant actuarial assumptions used:

	2015	2014
Defined benefit obligation, end of year:		
Discount rate	**4.10%**	4.00%
Net benefit plan expense for the year:		
Discount rate	**4.00%**	4.90%

For measurement purposes, a 4.91 percent weighted average health care cost trend rate is assumed for 2015 (2014 - 6.12 percent). The rate is assumed to decrease gradually to 2.91 percent for 2032 (2014 - decrease gradually to 4.50 percent for 2032) and remain at that level thereafter.

The most recent actuarial valuation of the obligation was performed as of January 2, 2016. The next required valuation will be as of December 29, 2018.

The cumulative amount of actuarial losses before tax recognized in equity at January 2, 2016, was $44.1 million (2014 - $45.1 million).

Sensitivity analysis:

The following tables provide the sensitivity of the defined benefit obligation and defined benefit cost relating to post-employment benefits provided by the Company to the health care cost trend rate, the discount rate, and the life expectancy assumptions. For each sensitivity test, the impact of a reasonably possible change in a single factor is shown with other assumptions left unchanged.

(C$ in millions)				**2015**
Sensitivity analysis	**Total of current service and interest cost**		**Accrued benefit obligation**	
	Increase	***Decrease***	***Increase***	***Decrease***
A fifty basis point change in assumed discount rates	**$ (0.1)**	**$ 0.1**	**$ (11.0)**	**$ 12.4**
A one-percentage-point change in assumed health care cost trend rates	**0.8**	**(0.6)**	**12.9**	**(10.8)**
A one year change in assumed life expectancy	**(0.2)**	**0.2**	**(3.0)**	**3.0**

The weighted average duration of the defined benefit plan obligation at January 2, 2016 is 16.5 years (2014 - 17.5 years).

28. Share capital

Share capital consists of the following:

(C$ in millions)	2015	2014
Authorized		
3,423,366 Common Shares		
100,000,000 Class A Non-Voting Shares		
Issued		
3,423,366 Common Shares (2014 - 3,423,366)	**$ 0.2**	$ 0.2
70,637,987 Class A Non-Voting Shares (2014 - 74,023,208)	**671.0**	695.3
	$ 671.2	$ 695.5

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 2015 and 2014, the Company issued and repurchased Class A Non-Voting Shares.

The following transactions occurred with respect to Class A Non-Voting Shares during 2015 and 2014:

	2015		2014	
(C$ in millions)	**Number**	**$**	Number	$
Shares outstanding at beginning of the year	**74,023,208**	**$ 695.3**	76,560,851	$ 712.7
Issued under the dividend reinvestment plan	**65,760**	**8.3**	62,357	6.9
Repurchased[1]	**(3,450,981)**	**(434.6)**	(2,600,000)	(290.6)
Excess of purchase price over average cost	**—**	**402.0**	—	266.3
Shares outstanding at end of the period	**70,637,987**	**$ 671.0**	74,023,208	$ 695.3

[1] Repurchased shares have been restored to the status of authorized but unissued shares. The Company records shares repurchased on a transaction date basis.

Conditions of Class A Non-Voting Shares and Common Shares

The holders of Class A Non-Voting Shares are entitled to receive a fixed cumulative preferential dividend at the rate of $0.01 per share per annum. After payment of fixed cumulative preferential 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 in any manner whatsoever whether 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, or be required by applicable securities legislation or by the Toronto Stock Exchange to be made to all holders of Common Shares in Ontario 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 and thereafter 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 voting entitlement applicable to Class A Non-Voting Shares would not apply in the case where an offer is made to purchase both Class A Non-Voting Shares and Common Shares at the same price per share and on the same terms and conditions.

The foregoing is a summary of certain conditions attached to the Class A Non-Voting Shares of the Company and reference should be made to the Company's articles of amendment dated December 15, 1983 for a full statement of such conditions.

As of January 2, 2016, the Company had dividends declared and payable to holders of Class A Non-Voting Shares and Common Shares of $42.6 million (2014 - $40.7 million) at a rate of $0.575 per share (2014 - $0.525 per share).

On February 17, 2016 the Company's Board of Directors declared a dividend of $0.575 per share payable on June 1, 2016 to shareholders of record as of April 30, 2016.

Dividends per share declared were $2.1500 in 2015 (2014 - $1.9625).

Dilutive effect of employee stock options is 430,281 (2014 - 652,932).

29. Share-based payments

The fair value of employee stock options and performance share units ("PSUs") 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. The fair value of deferred share units ("DSUs") is equal to the traded price of a Class A Non-Voting Share.

The Company's share-based payment plans are described below. There were no cancellations or significant modifications to any of the plans during 2015.

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 daily weighted average share price of the Company's Class A Non-Voting Shares on 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-calendar day period ending on the last day immediately preceding the date of grant. Stock options granted from 2008 to 2011 generally vested on the third anniversary of their grant and were exercisable over a term of seven years. Stock options granted from 2012 to 2015 generally vest on a graduated basis over a three-year period and are exercisable over a term of seven years. At January 2, 2016, the aggregate number of Class A Non-Voting Shares that were authorized for issuance under the stock option plan was 3.4 million.

Compensation expense, net of hedging arrangements, recorded for stock options for the year ended January 2, 2016, was $14.0 million (2014 - $10.7 million).

Stock option transactions during 2015 and 2014 were as follows:

	2015		2014	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Outstanding at beginning of year	**1,526,343**	**$ 72.21**	1,986,354	$ 64.26
Granted	**387,234**	**129.14**	330,879	99.81
Exercised and surrendered	**(823,888)**	**65.69**	(747,768)	63.17
Forfeited	**(79,446)**	**92.53**	(35,810)	74.90
Expired	**—**	**—**	(7,312)	71.90
Outstanding at end of year	**1,010,243**	**$ 97.75**	1,526,343	$ 72.21
Stock options exercisable at end of year	**243,240**		538,667	

[1] The weighted average market price of the Company's shares when the options were exercised in 2015 was $127.12 (2014 - $105.37).

The following table summarizes information about stock options outstanding and exercisable at January 2, 2016:

	Options outstanding			Options exercisable	
Range of exercise prices	**Number of outstanding options**	**Weighted average remaining contractual life[1]**	**Weighted average exercise price**	**Number of exercisable options**	**Weighted average exercise price**
$ 129.14	**362,669**	**6.19**	**$ 129.14**	**—**	**$ —**
99.72 to 103.61	**267,707**	**5.20**	**99.83**	**73,101**	**99.85**
69.01	**258,080**	**4.18**	**69.01**	**48,352**	**69.01**
40.04 to 63.67	**121,787**	**2.44**	**60.64**	**121,787**	**60.64**
$ 40.04 to 129.14	**1,010,243**	**4.96**	**$ 97.75**	**243,240**	**$ 74.09**

[1] Weighted average remaining contractual life is expressed in years.

Performance share unit and performance unit plans

The Company grants PSUs to certain of its employees. Each PSU entitles the participant to receive a cash payment equal to the weighted average price of Class A Non-Voting Shares of the Company traded on the Toronto Stock Exchange during the 10-calendar 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, as set out in the performance share unit plan. The performance period of each PSU award is approximately three years from the date of issuance. Compensation expense, net of hedging arrangements, recorded for these PSUs for the year ended January 2, 2016, was $25.0 million (2014 - $51.2 million).

CT REIT grants Performance Units ("PUs") to its executives. Each PU entitles the executive to receive a cash payment equal to the weighted average price of Units of CT REIT traded on the Toronto Stock Exchange during the 10-calendar day period commencing on the first business day following the end of the performance period, multiplied by a factor determined by specific performance-based criteria, as set out in the performance unit plan. The performance period of each PU award is approximately three years from the date of issuance. Compensation expense recorded for the year ended January 2, 2016 for PUs granted to executive officers was $0.7 million (2014 - $0.2 million).

Deferred share unit and deferred unit plans

The Company offers a Deferred Share Unit Plan ("DSUP") to members of its Board of Directors who are not employees or officers of the Company. Under this plan, directors may elect to receive all or a portion of their annual compensation, which is paid quarterly, in DSUs. The number of DSUs to be issued is determined by dividing the quarterly compensation amount the director has elected to defer by the weighted average price at which Class A Non-Voting Shares of the Company trade on the Toronto Stock Exchange during the 10-calendar day period prior to and including the last business day before the end of the calendar quarter. The DSU account of each director includes the value of dividends, if any, which are reinvested in additional DSUs. Directors are not permitted to convert DSUs into cash until their departure from the Board. The value of DSUs when converted to cash will be equivalent to the fair market value of the Class A Non-Voting Shares at the time the conversion takes place pursuant to the terms of the DSUP. Compensation expense recorded for the year ended January 2, 2016, was $(0.1) million (2014 - $2.2 million).

The Company also offers a DSUP to its executives. Under this plan, executives may elect to receive all or a portion of their annual bonus in DSUs. The number of DSUs to be issued is determined by dividing the annual bonus amount the executive has elected to defer by the weighted average price at which Class A Non-Voting Shares of the Company trade

on the Toronto Stock Exchange during the five business days immediately 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 executive includes the value of dividends, if any, which are 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 DSUs when converted to cash will be equivalent to the fair market value of the Class A Non-Voting Shares at the time the conversion takes place pursuant to the terms of the DSUP. Compensation expense recorded for the year ended January 2, 2016, was $nil (2014 - $0.5 million).

CT REIT offers a Deferred Unit Plan ("DUP") for members of its Board of Trustees who are not employees or officers of CT REIT or its affiliates. Under this plan, trustees may elect to receive all or a portion of their annual compensation, which is paid quarterly, in Deferred Units ("DUs"). The number of DUs to be issued is determined by dividing the quarterly compensation amount the trustee has elected to defer by the volume weighted average price at which Units of CT REIT trade on the Toronto Stock Exchange during the five trading days immediately preceding the end of the calendar quarter. The DU account of each trustee includes the value of distributions, if any, which are reinvested in additional DUs. DUs represent the right to receive an equivalent number of Units issued by CT REIT or, at the trustee's election, the cash equivalent thereof, upon the trustee's departure from the Board. DUs that are converted to cash will be equivalent to the fair market value of Units of CT REIT at the time the conversion takes place pursuant to the terms of the DUP.

The fair value of a DU is equal to the traded price of a CT REIT Unit. Compensation expense recorded for the year ended January 2, 2016, was $0.1 million (2014 - $0.1 million).

Restricted Unit Plan

CT REIT offers a Restricted Unit Plan ("RUP") for its executives. Under this plan, executives of CT REIT may elect to receive all or a portion of their annual bonus in restricted units ("RUs") which entitle the executive to receive an equivalent number of Units issued by CT REIT or, at the executive's election, the cash equivalent thereof, at the end of the vesting period which is generally five years from the annual bonus payment date. The number of RUs to be issued is determined by dividing the annual bonus amount the executive has elected to defer by the volume weighted average price at which Units of CT REIT trade on the Toronto Stock Exchange during the five trading days immediately prior to the tenth business day following the release of CT REIT's financial statements for the year in which the annual bonus was earned. The RUP also provides for discretionary grants of RUs which entitle the executive to receive an equivalent number of Units of CT REIT issued by CT REIT or, at the executive's election, the cash equivalent thereof, at the end of the vesting period which is generally three years from the date of issuance. RUs that are converted to cash will be equivalent to the market value of Units of CT REIT on the conversion date pursuant to the terms of the RUP. The RU account for each executive includes the value of distributions, if any, which are reinvested in additional RUs.

The fair value of an RU is equal to the traded price of a CT REIT Unit. Compensation expense recorded for the year ended January 2, 2016 for RUs issued to executives was $nil (2014 - $0.1 million).

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

	2015		2014	
	Stock options	**PSUs**	Stock options	PSUs
Share price at end of year (C$)	**$ 118.16**	**$ 118.16**	$ 122.22	$ 122.22
Weighted average exercise price[1](C$)	**$ 97.17**	**N/A**	$ 71.89	N/A
Expected remaining life (years)	**4.0**	**0.9**	3.7	1.0
Expected dividends	**1.8%**	**2.6%**	1.7%	2.3%
Expected volatility[2]	**22.3%**	**21.1%**	24.5%	17.7%
Risk-free interest rate	**1.1%**	**0.9%**	1.6%	1.4%

[1] Reflects expected forfeitures.
[2] Reflects historical volatility over a period of time similar to the remaining life of the stock options, which may not necessarily be the actual outcome.

Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

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

(C$ in millions)		2015		2014
Expense arising from share-based payment transactions	**$**	**35.6**	$	103.8
Effect of hedging arrangements		**4.1**		(38.8)
Total expense included in net income	**$**	**39.7**	$	65.0

The total carrying amount of liabilities for share-based payment transactions at January 2, 2016, was $100.0 million (2014 - $170.3 million).

The intrinsic value of the liability for vested benefits at January 2, 2016, was $23.4 million (2014 - $51.3 million).

30. Revenue

Revenue consists of the following:

(C$ in millions)		2015		2014
Sale of goods	**$**	**10,649.9**	$	10,890.6
Interest income on loans receivable		**852.1**		784.6
Royalties and license fees		**375.6**		363.2
Services rendered		**342.6**		372.2
Rental income		**59.4**		52.3
	$	**12,279.6**	$	12,462.9

Major customers
The Company does not rely on any one customer.

31. Cost of producing revenue

Cost of producing revenue consists of the following:

(C$ in millions)		2015		2014
Inventory cost of sales[1]	**$**	**7,747.1**	$	8,033.2
Net impairment loss on loans receivable		**297.1**		274.7
Finance costs on deposits		**54.5**		57.6
Other		**45.6**		51.4
	$	**8,144.3**	$	8,416.9

[1] Inventory cost of sales includes depreciation for the year ended January 2, 2016 of $8.9 million (2014 - $7.0 million).

Inventory writedowns as a result of net realizable value being lower than cost, recognized in the year ended January 2, 2016 were $33.9 million (2014 - $40.2 million).

Inventory writedowns recognized in previous periods and reversed in the year ended January 2, 2016 were $5.7 million (2014 - $14.5 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.

32. Selling, general and administrative expenses

Selling, general and administrative expenses consist of the following:

(C$ in millions)		**2015**		2014
Personnel expenses	**$**	**1,127.9**	$	1,140.7
Occupancy		**648.6**		625.1
Marketing and advertising		**365.3**		381.4
Depreciation of property and equipment and investment property[1]		**303.9**		272.2
Amortization of intangible assets		**111.9**		93.1
Other		**538.5**		540.4
	$	**3,096.1**	$	3,052.9

[1] Refer to Note 31 for depreciation included in cost of producing revenue.

33. Net finance costs

Net finance costs consists of the following:

(C$ in millions)		**2015**		2014
Finance income				
Short- and long-term investments	**$**	**8.0**	$	10.4
Mortgages		**5.6**		7.9
Tax installments		**—**		0.1
Other		**0.5**		0.5
Total finance income	**$**	**14.1**	$	18.9
Finance costs				
Subordinated and senior notes	**$**	**50.2**	$	40.0
Medium-term notes		**45.9**		69.3
Loans payable		**11.1**		12.2
Finance leases		**9.0**		9.4
Short-term borrowings		**1.2**		1.3
Other[1]		**7.4**		6.8
		124.8		139.0
Less: Capitalized borrowing costs		**17.9**		11.2
Total finance costs	**$**	**106.9**	$	127.8
Net finance costs	**$**	**92.8**	$	108.9

[1] Includes $1.8 million of amortization of debt issuance costs (2014 - $2.1 million).

34. Notes to the consolidated statements of cash flows

Change in operating working capital and other comprise the following:

(C$ in millions)	2015	2014
Change in operating working capital		
Trade and other receivables	**$ 83.1**	$ (38.1)
Merchandise inventories	**(147.3)**	(146.6)
Income taxes	**(0.6)**	(1.9)
Prepaid expenses and deposits	**8.3**	(36.1)
Trade and other payables	**(80.9)**	86.9
Total	**(137.4)**	(135.8)
Change in other		
Provisions	**12.7**	17.1
Long-term provisions	**(0.4)**	(3.2)
Other long term liabilities	**9.8**	38.4
Total	**22.1**	52.3
Change in operating working capital and other	**$ (115.3)**	$ (83.5)

34.1 Cash and marketable investments held in reserve

Cash and marketable investments includes reserves held by the Financial Services segment in support of its liquidity and regulatory requirements. As at January 2, 2016, reserves held by Financial Services totaled $275.1 million (2014 - $344.5 million) and includes restricted cash and short-term investments disclosed in Notes 8 and 9.

34.2 Supplementary information

During the year ended January 2, 2016, the Company acquired property and equipment and investment property at an aggregate cost of $582.0 million (2014 - $587.6 million). During the year ended January 2, 2016, intangible assets were internally developed or acquired at an aggregate cost of $109.9 million (2014 - $155.6 million).

The amount related to property and equipment and investment property acquired that is included in trade and other payables at January 2, 2016, is $104.1 million (2014 - $71.7 million). The amount related to intangible assets that is included in trade and other payables at January 2, 2016, is $38.0 million (2014 - $22.8 million).

During the year ended January 2, 2016, the Company also included in the property and equipment, investment property, and intangible assets acquired non-cash items relating to finance leases, asset retirement obligations, and capitalized interest in the amount of $33.7 million (2014 - $37.3 million).

35. Financial instruments

35.1 Fair value of financial instruments

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

The carrying amount of the Company's cash and cash equivalents, trade and other receivables, loans receivable, bank indebtedness, trade and other payables, short-term borrowings, and loans payable approximate their fair value either due to their short-term nature or because they are derivatives, which are carried at fair value.

The carrying amount of the Company's long-term receivables and other assets approximate their fair value either because the interest rates applied to measure their carrying amount approximate current market interest or because they are derivatives, which are carried at fair value.

Fair values of financial instruments reflect the credit risk of the Company and counterparties when appropriate.

Investments in equity and debt securities
The fair values of 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.

Redeemable financial instrument
On October 1, 2014, The Bank of Nova Scotia ("Scotiabank") acquired a 20.0 percent interest in the Financial Services business from the Company for proceeds of $476.8 million, net of $23.2 million in transaction costs. In conjunction with the transaction, Scotiabank was provided an option to sell and require the Company to purchase all of the interest owned by Scotiabank at any time during the six-month period following the tenth anniversary of the transaction. This obligation gives rise to a liability for the Company (the "redeemable financial instrument") and is recorded on the Company's Consolidated Balance Sheets in Other long-term liabilities. The purchase price will be based on the fair value of the Financial Services business and Scotiabank's proportionate interest in the Financial Services business, at that time.

The redeemable financial instrument was initially recorded at $500.0 million and is subsequently measured at fair value with changes in fair value recorded in net income for the period in which they arise. The subsequent fair value measurements of the redeemable financial instrument are calculated based on a discounted cash flow analysis using normalized earnings attributable to the Financial Services business, adjusted for any undistributed earnings and Scotiabank's proportionate interest in the business. The Company estimates future normalized earnings based on the most recent actual results. The earnings are then forecast over a period of five years, taking into account a terminal value calculated by discounting the final year in perpetuity. The growth rate applied to the terminal value is based on an industry based estimate for the Financial Services business. The discount rate reflects the cost of equity of the Financial Services business and is based on expected market rates adjusted to reflect the risk profile of the Business. The fair value measurement is performed quarterly using internal estimates and judgment supplemented by periodic input from a third party. This recurring fair value measurement is categorized within Level 3 of the fair value hierarchy (refer to Note 35.4).

35.2 Fair value measurement of debt and deposits
The fair value measurement of debt and deposits is categorized within Level 2 of the fair value hierarchy (refer to Note 35.4).

The fair values of the Company's debt and deposits compared to the carrying amounts are as follows:

As at		**January 2, 2016**		January 3, 2015
(C$ in millions)	**Carrying amount**	**Fair value**	Carrying amount	Fair value
Liabilities carried at amortized cost				
Debt	**$ 2,995.7**	**$ 3,161.1**	$ 2,719.1	$ 2,900.8
Deposits	**$ 2,252.9**	**$ 2,276.1**	$ 2,236.9	$ 2,255.4

The difference between the fair values and the carrying amounts (excluding transaction costs, which are included in the carrying amount of debt) is due to decreases in market interest rates for similar instruments. The fair values are determined by discounting the associated future cash flows using current market interest rates for items of similar risk.

35.3 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)	**2015**	2014
Net gain (loss) on:		
Financial instruments designated as FVTPL	**$ —**	$ 0.2
Financial instruments classified as FVTPL[1]	**(7.5)**	18.3
Interest income (expense):		
Total interest income calculated using effective interest method for financial instruments that are not at FVTPL	**863.0**	799.3
Total interest expense calculated using effective interest method for financial instruments that are not at FVTPL	**(167.4)**	(169.6)
Fee expense arising from financial instruments that are not at FVTPL:		
Other fee expense	**(11.6)**	(24.6)

[1] Excludes gains (losses) on cash flow hedges, which are effective hedging relationships and gains (losses) on assets held for sale that are both reflected in the Consolidated Statements of Comprehensive Income.

35.4 Fair value of financial assets and financial liabilities classified using the fair value hierarchy

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; and
Level 3 - Inputs are not based on observable market data.

The following table presents the financial instruments measured at fair value classified by the fair value hierarchy:

(C$ in million)		**2015**		2014	
Balance sheet line	**Category**	**Level**		Level	
Short-term investments	FVTPL	**2**	**$ —**	2	$ 115.1
Short-term investments	Available for sale	**2**	**96.1**	2	174.0
Long-term investments	Available for sale	**2**	**153.4**	2	176.0
Trade and other receivables	FVTPL[1]	**2**	**27.3**	2	15.1
Trade and other receivables	Effective hedging instruments	**2**	**214.1**	2	128.3
Long-term receivables and other assets	FVTPL[1]	**2**	**25.4**	2	58.3
Long-term receivables and other assets	Effective hedging instruments	**2**	**24.8**	2	—
Trade and other payables	FVTPL[1]	**2**	**0.7**	2	—
Redeemable financial instrument	FVTPL	**3**	**517.0**	3	517.0
Other long-term liabilities	Effective hedging instruments	**2**	**12.9**	2	—

[1] Includes derivatives that are classified as held for trading.

There were no transfers in either direction between categories in 2015 or 2014.

Changes in fair value measurement for instruments categorized in Level 3

Level 3 financial instruments include a redeemable financial instrument.

As of January 2, 2016, the fair value of the redeemable financial instrument is estimated to be $517.0 million (2014 - $517.0 million). The determination of the fair value of the redeemable financial instrument requires significant judgment on the part of Management, refer to Note 2 of these consolidated financial statements for further information.

The following table presents the changes in the fair value measurements for these instrument:

(C$ in millions)		**2015**		2014
Balance, beginning of year	**$**	**517.0**	$	—
Fair value at inception		**n/a**		500.0
Unrealized fair value gains, net of losses, recognized in net income		**—**		17.0
Balance, end of year	**$**	**517.0**	$	517.0

36. 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 March 31, 2035. 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)		**2015**		2014
Less than one year	**$**	**343.4**	$	326.4
Between one and five years		**1,055.5**		990.2
More than five years		**884.6**		764.5
	$	**2,283.5**	$	2,081.1

The amounts recognized as an expense are as follows:

(C$ in millions)		**2015**		2014
Minimum lease payments	**$**	**341.9**	$	312.4
Contingent rent		**5.1**		3.3
Sublease payments received		**(39.7)**		(35.9)
	$	**307.3**	$	279.8

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 under these non-cancellable subleases were $94.9 million as at January 2, 2016 (2014 - $88.8 million). The Company has recognized a provision of $0.5 million (2014 - $1.1 million) with respect to these leases.

The Company as lessor

The Company leases out a number of its investment properties, and has certain sublease arrangements, under operating leases (refer to Note 15), with lease terms between one to 20 years with the majority having 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)		**2015**		2014[1]
Less than one year	**$**	**34.4**	$	32.3
Between one and five years		**92.3**		97.7
More than five years		**55.9**		48.8
	$	**182.6**	$	178.8

[1] The prior year figures were revised to include CT REIT's future annual lease payments receivable from third-party lessees. As a result of this change, total non-cancellable lease payments receivable as at January 3, 2015 increased by $76.7 million.

37. 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
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 LCs to Franchise Trust to support the credit quality of the Dealer loan portfolio. The banks may also draw against the LCs to cover any shortfalls in certain related fees owing to it. In any case where a draw is made against the LCs, the Company has agreed to reimburse the banks issuing the standby LCs for the amount so drawn. 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. In the unlikely event that all the LCs had been fully drawn simultaneously, the maximum payment by the Company under this reimbursement obligation would have been $151.0 million at January 2, 2016 (2014 - $144.6 million).

The Company has obtained documentary and standby letters of credit aggregating $32.3 million (2014 - $38.5 million) related to the importation of merchandise inventories and to facilitate various real estate activities.

Business and property dispositions
In connection with agreements for the sale of all or 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 guarantees
The Company has 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 November 2023. The maximum amount that the Company may be required to pay under these agreements was $5.3 million (2014 - $6.4 million). 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 financial guarantees
The Company has guaranteed the debts of certain Dealers. These third-party financial guarantees require the Company to make payments if the Dealer fails to make scheduled debt payments. The majority of these third-party financial guarantees have expiration dates extending up to and including July 2016. The maximum amount that the Company may be required to pay under these debt agreements was $50.0 million (2014 - $50.0 million), of which $32.3 million (2014 - $38.5 million) was issued at January 2, 2016. No amount has been accrued in the consolidated financial statements with respect to these debt agreements.

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 January 2, 2016, was $88.0 million (2014 - $70.0 million).

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 agreements
In the ordinary course of business, the Company provides other additional indemnification agreements 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.

The Company's exposure to credit risks related to the above noted guarantees are disclosed in Note 5.

Capital commitments
As at January 2, 2016, the Company had capital commitments for the acquisition of property and equipment, investment property, and intangible assets for an aggregate cost of approximately $120.2 million (2014 - $164.6 million).

38. Related parties

The Company's majority shareholder is Ms. Martha G. Billes, who controls approximately 61.4 percent 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 Company's Chief Executive Officer, Chief Financial Officer, and certain other senior officers. Close family members of these key management personnel, members of the Board of Directors, and any entities over which they exercise control are also defined as related parties. Transactions with members of the Company's Board of Directors who were also Dealers represented less than one percent of the Company's total revenue and were in accordance with established Company policy applicable to all Dealers. Other transactions with related parties during the year were not significant.

Board of Directors and key management personnel compensation comprises:

(C$ in millions)	**2015**	2014
Salaries and short-term employee benefits	**$ 12.3**	$ 12.4
Share-based payments	**10.2**	41.3
Other long-term benefits	**1.5**	2.9
	$ 24.0	$ 56.6

39. Comparative figures

Cash flows
Certain of the prior period figures within the Consolidated Statements of Cash Flows have been reclassified to align with Management's current view of the Company's operations.