

## **Management's discussion and analysis (MD&A)**

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### ***Introduction***

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

### **Definitions**

In this document, the terms "we", "us", "our", "Company" and "Canadian Tire" refer to Canadian Tire Corporation, Limited and its business units and subsidiaries. For commonly used terminology (such as retail sales and same store sales), see the Glossary of Terms (pages 124 to 126) in the MD&A contained in our 2010 Annual Report, which can be found online on the SEDAR website at [www.sedar.com](http://www.sedar.com) and on our Canadian Tire website in the Investor Relations section at [corp.canadiantire.ca/en/investors](http://corp.canadiantire.ca/en/investors).

### **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 May 12, 2011.

### **Quarterly comparisons in this MD&A**

Unless otherwise indicated, all comparisons of results for the first quarter (13 weeks ended April 2, 2011) are against results for the first quarter of 2010 (13 weeks ended April 3, 2010).

### **Accounting framework**

Commencing with the first quarter of 2011, as required by the Canadian Accounting Standards Board, the Company is reporting its financial results under International Financial Reporting Standards (IFRS). The differences between IFRS and previous Canadian Generally Accepted Accounting Principles (previous GAAP) are highlighted in Section 13 of this MD&A.

### **Accounting estimates and assumptions**

The preparation of condensed consolidated financial statements that conform with IFRS requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the Condensed Consolidated Financial Statements and the reported amounts of revenue and expenses during the reporting period. See section 11.0 in this MD&A for further information.

## **Forward-looking statements**

This MD&A contains statements that are forward-looking. Actual results or events may differ materially from those forecasted in this disclosure because of the risks and uncertainties associated with Canadian Tire's business and the general economic environment. See section 19.0 in this MD&A for additional important information and a caution on the use of forward-looking information.

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

### ***1.0 Our Company***

#### ***1.1 Overview of the business***

Canadian Tire operates more than 1,200 retail outlets and gas bars throughout Canada and also offers a variety of financial services to Canadians.

**Canadian Tire's retail business** comprises four banners:

**Canadian Tire Retail (CTR)**, which is represented by a network of 487 stores that are operated by Associate Dealers (Dealers), who are independent business owners and carry our Living/Fixing/Playing and Automotive categories.

**PartSource**, which is comprised of 87 specialty automotive hard parts stores that cater to serious "do-it-yourselfers" and professional installers of automotive parts.

**Canadian Tire Gas (Petroleum)**, which is comprised of 289 agent-operated gas bars.

**Mark's Work Wearhouse (Mark's)** which is comprised of 382 stores offering industrial wear, men's wear and women's wear.

**Financial Services** offers the Canadian Tire Options® MasterCard®, retail deposits, in-store financing, insurance and warranty products, guaranteed investment certificates (GICs) and high-interest and tax-free savings accounts.

For a full description of our retail and financial services business please see Section 1.0 of the MD&A contained in our 2010 Annual Report.

## 1.2 Retail banner network at a glance

Number of stores and retail square footage	April 2, 2011	January 1, 2011	April 3, 2010
<b>Consolidated store count</b>			
CTR retail banner stores <sup>1</sup>			
Updated and expanded stores	306	306	363
Smart stores	104	103	37
Traditional stores	64	64	70
Small Market stores	13	12	10
Total CTR retail banner stores	487	485	480
PartSource banner stores	87	87	87
Mark's banner stores <sup>1</sup>	382	383	382
Canadian Tire gas bar locations <sup>2</sup>	289	287	273
<b>Total stores</b>	<b>1,245</b>	<b>1,242</b>	<b>1,222</b>
<b>Consolidated retail square footage (in millions)<sup>2</sup></b>			
CTR banner	19.4	19.3	19.0
PartSource banner	0.3	0.3	0.3
Mark's banner	3.3	3.3	3.3
<b>Total retail square footage<sup>2</sup> (in millions)</b>	<b>23.0</b>	<b>22.9</b>	<b>22.6</b>

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

<sup>2</sup> The average retail square footage for Petroleum's convenience stores was 470 square feet per store in Q1 2011. It has not been included in the total above.

The Company continues to retrofit its CTR banner store network, with a focus on converting selected traditional and "updated and expanded" existing stores to the latest formats. Customer feedback indicates that the two new formats (Small Market and Smart store) have been well received and sales results have been positive. As a result the Company has extended its new format build/conversion program with 2 real estate projects completed to date in 2011.

## 2.0 Our Strategic Objectives

### 2.1 Strategic Objectives

Our Strategic Objectives (announced at our investor conference and media day on April 7, 2010 and which have been posted online on our website (under the Investor section) at <http://corp.canadiantire.ca>) outline our approach to building the Canadian Tire brand through a renewed focus on growth and productivity throughout the five-year plan period.

The specific strategic objectives are included in section 4.0 of the MD&A contained in the 2010 Annual Report. Highlights of key accomplishments during the quarter in advancing our strategic agenda are noted below in Section 3.2 of this MD&A.

## 2.2 Financial aspirations

The Strategic Objectives include financial aspirations for the Company for the five-year period ending in December 2014. These aspirations are not to be construed as guidance or forecasts for any individual year within the five-year period, but rather as long-term, rolling goals that we aspire to achieve over the life of the Strategic Plan, based on the successful execution of our various initiatives.

Financial measure	Aspirations over 5 year period
CTR retail banner sales (POS) annual growth	3% to 5%
Consolidated adjusted EPS annual growth	8% to 10%
Retail return on invested capital (ROIC)	10%+
Financial Services return on receivables (ROR)	4.5% to 5.0%
Total Return to Shareholders (TRS), including dividends	10% to 12%

We will report on our progress against these financial aspirations on an annual basis in our year-end Annual Report.

## 3.0 Our performance in 2011

### 3.1 Condensed Consolidated financial results

(\$ in millions except per share amounts)	Q1 2011	Q1 2010	Change
Retail sales	\$ 1,962.6	\$ 1,892.5	3.7%
Revenue	1,976.2	1,889.0	4.6%
Gross margin	31.0%	31.1%	
EBITDA	182.1	181.5	0.3%
Depreciation and amortization	65.7	65.7	0.1%
Net finance costs	34.0	41.6	(18.4)%
Income before income taxes	82.4	74.2	11.1%
Effective tax rate	29.2%	30.5%	
Net income	\$ 58.4	\$ 51.6	13.3%
Basic earnings per share	\$ 0.72	\$ 0.63	13.5%
Diluted earnings per share	\$ 0.71	\$ 0.63	13.4%

### Revenue

Revenue for the quarter increased 4.6 per cent over the prior year due to higher revenues at Mark's resulting from strong industrial wear sales, and a strong increase in Petroleum revenues as a result of higher gas prices over the prior year and the incremental revenue from new gas sites along the 400 series highways in Ontario which opened during the latter part of 2010.

## Net income

Net income increased 13.3 per cent due to improved performance within both the Retail (pre-tax income up 16.1 per cent) and Financial Services (pre-tax income up 8.2 per cent) segments. Both segments were positively impacted by lower net finance costs. In addition, the effective tax rate in Q1 2011 decreased to 29.2 per cent from 30.5 per cent in Q1 2010.

### 3.2 Q1 2011 performance overview

A summary of our key performance metrics for the first quarter follows.

#### Key operating performance measures

(year-over-year percentage change, \$ in millions, except where noted)

	Q1 2011	Q1 2010	Change
<b><u>Retail Segment- Total</u></b>			
Retail sales growth	3.7%	5.7%	
Revenue	\$ 1,726.5	\$1,639.4	5.3%
EBITDA	\$ 112.8	\$ 115.3	(2.1)%
Income before tax	\$ 31.6	\$ 27.3	16.1%
Retail ROIC <sup>16</sup>	8.44%	7.60%	
<b><u>Retail Segment- by banner</u></b>			
<b><u>CTR</u></b>			
Retail sales growth <sup>1</sup>	(0.6)%	2.1%	
Same store sales growth <sup>2</sup>	(1.4)%	1.7%	
Retail square footage <sup>3</sup> (in millions of square feet)	19.4	19.0	1.7%
Sales per square foot <sup>3, 4</sup> (updated/expanded & traditional)	\$ 380	\$ 384	(1.0)%
Revenue <sup>14, 15</sup>	\$ 1,103.7	\$ 1,107.3	(0.3)%
<b><u>Mark's</u></b>			
Retail sales growth <sup>5</sup>	6.2%	3.8%	
Same store sales growth <sup>6</sup>	6.2%	0.8%	
Total retail square footage (in millions of square feet)	3.3	3.3	(0.2)%
Sales per square foot <sup>12</sup>	\$ 298	\$ 292	2.1%
Revenue <sup>11, 14</sup>	\$ 182.5	\$ 154.2	18.4%
<b><u>Gas (Petroleum)</u></b>			
Gasoline volume (litres) growth	4.2%	(0.6)%	
Revenue <sup>14</sup>	\$ 444.2	\$ 381.4	16.5%
Gross margin dollars	\$ 35.1	\$ 32.3	8.6%
<b><u>Financial Services Segment</u></b>			
Credit card sales growth	(5.7)%	8.8%	
Gross average credit card receivables growth	(0.2)%	5.9%	
Average number of accounts with a balance <sup>7</sup> (thousands)	1,699	1,712	(0.7)%

(year-over-year percentage change, \$ in millions, except where noted)

	Q1 2011	Q1 2010	Change
Average account balance <sup>7</sup> (whole \$)	\$ 2,337	\$ 2,324	0.6%
Net credit card write-off rate <sup>7</sup>	7.38%	8.01%	
Past due accounts (PD2+) <sup>13</sup>	4.23%	4.15%	
Allowance rate <sup>8</sup>	3.04%	3.12%	
Operating expenses <sup>9</sup> (as a % of Gross Accounts receivable-GAR)	7.07%	6.62%	
Return on average total managed portfolio <sup>9, 10</sup>	5.09%	3.93%	
Revenue <sup>14</sup>	\$ 233.8	\$ 232.2	0.7%
Income before tax	\$ 50.8	\$ 46.9	8.2%

<sup>1</sup> Includes sales from Canadian Tire stores, PartSource stores and the labour portion of CTR's auto service sales.

<sup>2</sup> Includes sales from Canadian Tire and PartSource stores. Starting Q1 2011, CTR same store sales include sales from the labour portion of CTR's auto service sales. The Q1 2010 same store sales metric was restated to reflect the change in methodology. Refer to section 14.0 for further details.

<sup>3</sup> Excludes PartSource stores. Retail space does not include warehouse, garden centre and auto service areas.

<sup>4</sup> Retail sales are shown on a 52-week basis in each year for those stores that had been open for a minimum of 53 weeks as at the end of the current quarter. Sales from PartSource stores are excluded. Refer to section 14.0 for further details.

<sup>5</sup> Includes retail sales from Mark's corporate stores and franchise stores and, commencing in 2010, ancillary embroidery and alteration revenue, net of sales returns.

<sup>6</sup> Mark's same store sales exclude new stores, stores not open for 53 weeks, store closures and ancillary revenue.

<sup>7</sup> Credit card portfolio only.

<sup>8</sup> The allowance rate was calculated on the total managed portfolio of loans receivable.

<sup>9</sup> Figures are calculated on a rolling 12-month basis and comprise the total managed portfolio of loans receivable. As these are rolling 12-month figures, Q1 2010 data includes both previous GAAP (Q2-Q4 2009) and IFRS-restated data (for Q1 2010).

<sup>10</sup> Return is calculated as adjusted earnings before taxes as a percentage of GAR.

<sup>11</sup> Includes retail sales from Mark's corporate stores. In 2011 inventory transfers to Mark's franchisees are reflected as revenue with the corresponding inventory cost reflected in cost of producing revenue (previously only the franchise royalty was reflected in revenue). This increased revenue and cost of producing revenue by approximately \$18.3 million with no impact on gross margin or earnings.

<sup>12</sup> Starting Q1 2011, retail sales per square foot are based on sales from both corporate stores and franchise stores that have been opened for more than 52 weeks. The Q1 2010 sales per square foot metric was restated to reflect the change in methodology. Refer to section 14.0 for further details.

<sup>13</sup> Accounts overdue 2 months or more.

<sup>14</sup> Revenue presented before eliminations.

<sup>15</sup> In 2011 certain vendor support funds at CTR are reflected as a reduction in inventory / cost of producing revenue (for the rebates provided by suppliers) and a corresponding reduction in revenue (for amounts passed through to Dealers). These amounts were previously offset. This decreased revenue and cost of producing revenue by approximately \$22 million with no impact on gross margin or earnings.

<sup>16</sup> Figures are calculated on a rolling 12-month basis. As these are rolling 12-month figures, Q1 2010 data includes both previous GAAP (Q2-Q4 2009) and IFRS-restated data (for Q1 2010). The aspirational target noted in section 2.2 is prior to IFRS adjustment.

### 3.3 Business segment performance

#### 3.3.1 Retail Segment

##### 3.3.1.1 Key performance indicators

The following are key measures of sales productivity in the Canadian Tire Retail (including PartSource), Petroleum and Mark's banner stores, which are highlighted in the charts below:

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

#### Sales metrics

(year-over-year percentage change, except sales per sq. ft.)		Q1 2011	Q1 2010
Retail sales:			
- CTR banner <sup>1</sup>		(0.6)%	2.1%
- Marks' banner		6.2%	3.8%
- Gas (Petroleum)		15.8%	19.5%
Same store sales:			
- CTR banner <sup>1</sup>		(1.4)%	1.7%
- Mark's banner		6.2%	0.8%
Sales per square foot:			
- CTR banner <sup>1</sup>		\$380	\$384
- Mark's banner <sup>1</sup>		298	292

<sup>1</sup> See footnotes in the key performance measure table in section 3.2.

#### Gasoline sales volume

	Q1 2011	Q1 2010	Change
Sales volume (millions of litres)	423.3	406.4	4.2%

#### Retail sales growth

##### First quarter

Total retail sales in the first quarter increased by 3.7 per cent over the prior year.

CTR banner store retail sales decreased 0.6 per cent primarily due to the late arrival of spring in Q1 2011 versus Q1 2010. The cool weather impacted the Living, Fixing and Playing areas of the store, specifically in weather related categories such as gardening, cycling and backyard.

Automotive category retail sales in CTR banner stores increased year over year reflecting the results of the increased focus on this important category. Various initiatives aimed at driving sales

have provided sales growth in automotive maintenance fluids, light automotive maintenance parts and tires.

Retail sales in the apparel category (distributed through Mark's banner stores) increased 6.2 per cent over the prior year. The industrial wear category experienced double digit growth, with men's industrial footwear and workwear leading the way. Sales declined slightly in men's casual wear and women's wear although selective categories of men's casual wear, such as sweaters and fleece tops, also contributed to sales growth.

The 15.8 per cent increase in retail sales in the Gas channel (Petroleum) was due to a 4.2 per cent increase in gas volumes, attributable primarily to the new sites located along the 400 series highways in Ontario which came on stream in 2010, and a significant increase in pump prices over the prior year. A strong increase in ancillary sales through convenience stores also contributed to Petroleum's positive sales result.

### **3.3.1.2 Retail Segment financial results**

(\$ in millions)	Q1 2011	Q1 2010	Change
Retail sales	\$ 1,962.6	\$ 1,892.5	3.7%
Revenue <sup>1</sup>	1,726.5	1,639.4	5.3%
Gross margin (percent of revenue)	26.9%	27.0%	
EBITDA	112.8	115.3	(2.1)%
Depreciation and amortization	63.2	63.9	(1.1)%
Net finance costs	18.0	24.1	(25.6)%
Earnings before income taxes	31.6	27.3	16.1%

<sup>1</sup> See footnotes in the key performance indicator table in section 3.2.

### **Explanation of Retail Segment financial results**

#### **Revenue**

Revenue increased 5.3 per cent due to higher sales at both Mark's and Petroleum. The increase at Mark's was driven by higher industrial wear sales. Petroleum revenue increased primarily due to higher gas prices and increased volumes attributable to new sites along the 400 series highways in Ontario (operated through a controlled partnership) which began opening during 2010.

Commencing in 2011, the Company aligned its treatment of transactions with Canadian Tire Associate Dealers and Mark's franchisees. This resulted in changes in the treatment of inventory shipments to Mark's franchisees and certain vendor support funds at CTR. In addition to royalty fees, inventory shipments to Mark's franchisees are now reflected as revenue and corresponding cost of sales. This increased revenue by approximately \$18.3 million with no impact on gross margin dollars (although the gross margin percentage increased as a result). Certain vendor support funds at CTR are now reflected as a reduction in inventory/cost of sales and a corresponding reduction in revenue when provided to Dealers. The net effect was a decrease of revenue of approximately \$22 million with no impact on gross margin dollars (although the gross margin percentage declined as a result).

## Gross Margin

The gross margin percentage was relatively flat as the positive impact of the stronger Canadian dollar was substantially offset by the higher proportion of Petroleum sales, which have lower margin rates than the rest of the Retail segment.

## Income before tax

Income before taxes increased 16.1 per cent primarily due to lower interest costs. Gross margin dollar increases were offset by higher operating expenses attributable to higher sales and marketing costs for CTR, as well as operating costs for the new Petroleum sites on the 400 series highways.

### 3.3.1.3 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. These include, but are not limited to, supply chain disruption, seasonality and environmental risks. Please see sections 5.3.1.5, 5.3.2.5 and 5.3.3.5 of our 2010 MD&A contained in our 2010 Annual Report for an explanation of these business-specific risks. See also section 10.0 of this MD&A for a discussion of Enterprise risk management and section 14.0 of the MD&A contained in our 2010 Annual Report for a discussion of some other industry-wide and Company-wide risks affecting the business.

### 3.3.2 Canadian Tire Financial Services

#### 3.3.2.1 Key performance indicators

Financial Services' profitability measures are tracked as a percentage of total gross average receivables (GAR), and key portfolio quality metrics are shown in the table below.

	Q1 2011	Q1 2010
Total gross average receivables <sup>1</sup>	\$ 3,993.3	\$ 4,026.3
Total revenue as a % of GAR <sup>1</sup>	23.69%	24.80%
Variable expenses as a % of GAR <sup>1</sup>	10.0%	13.80%
Other expenses as a % of GAR <sup>1</sup>	1.53%	0.45%
Operating expenses as a % of GAR <sup>1</sup>	7.07%	6.62%
Return on average total managed portfolio <sup>1</sup>	5.09%	3.93%
Net credit card write-off rate	7.38%	8.01%
Credit card account balances less than 30 days overdue at the end of the period	95.77%	95.85%

<sup>1</sup> See footnotes in the key performance indicator table in section 3.2.

## Business Performance

In 2009 and 2010, the Canadian economy was challenged with an increase in unemployment resulting in rising consumer bankruptcies, a deterioration of the aging of receivables and increased write-offs. The economy began to recover in the second half of 2010 and into the first quarter of 2011 and this has resulted in the return on Financial Services's total managed portfolio coming back in line with historical norms.

Auto club services, previously part of the Financial Services segment, were reflected in the Retail segment effective Q1 2011. This resulted in an increase in Retail revenues of approximately \$7 million for that segment with a corresponding decrease to the Financial Services segment.

In addition, the capital structure of the Financial Services segment was rebalanced to be more reflective of industry norms. This was achieved by way of an intercompany dividend (\$300 million) which effectively resulted in reduced interest income to the Financial Services segment (with a corresponding reduction in interest expense to the Retail segment).

The net effect of both of these items was approximately \$4 million for the quarter, with no impact on the consolidated earnings.

Credit card receivables declined slightly due to the impact of credit card industry regulations that resulted in lower balance transfers and credit limit increases.

## Portfolio Quality

While credit card aging remained relatively consistent with the previous year, the Q1 2011 rolling 12-month net write-off rate on the credit card loans portfolio was positively impacted by a decrease in regular and bankruptcy-related -write-offs as a result of the improving economic environment.

### 3.3.2.2 Financial Services' financial results

(\$ in millions)	Q1 2011	Q1 2010	Change
Revenue	\$ 233.8	\$ 232.2	0.7%
Gross margin	56.4%	54.8%	
EBITDA	69.3	66.2	4.6%
Depreciation and amortization	2.5	1.8	41.3%
Net finance costs	16.0	17.5	(8.5)%
Income before income taxes	50.8	46.9	8.2%

## **Explanation of Financial Services' financial results**

### **Revenue**

Financial Services' revenue increased 0.7 per cent over the prior year due to higher interest attributable to selective pricing and revenue initiatives implemented. Revenue was negatively impacted by aforementioned transfer of the Auto Club business to the Retail Segment and by the impact on accounts receivable of regulations that came into force during 2010.

### **Gross Margin**

Gross margin improved due to lower impairment losses (loan loss provisioning requirements) and lower fee and reinsurance costs.

### **Income before tax**

Financial Services' income before tax increased 8.2 per cent over the prior year due to the improvement in margins noted above. Overall net finance costs declined due to favorable interest rates on Glacier Credit Card Trust (GCCT) issued notes in Q4 2010. Operating expenses as a % of receivables increased in Q1 2011 due to increased marketing expenses associated with in-store account acquisition promotions, the impact of sales tax changes (Harmonized Sales Tax - HST) implementation, and the migration to chip and PIN card technology.

### **3.3.2.3 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. These include, but are not limited to, consumer credit, securitization funding, interest rate and regulatory risk. Please see section 5.3.4.7 and 5.3.4.8 of our MD&A contained in our 2010 Annual Report for an explanation of these business-specific risks. Also see section 10.0 of this MD&A for a discussion on Enterprise risk management and section 14.0 of the MD&A contained in our 2010 Annual Report for a discussion of some other industry-wide and Company-wide risks affecting the business.

## **4.0 Capital management**

In order to support our growth agenda and meet our strategic objectives, the Company actively manages its capital. The Company's objectives in managing capital, its' definition of capital and its constraints were included in section 7.0 (Capital Management) of the MD&A contained in our 2010 Annual Report.

There were no material changes during the first quarter of 2011 in the Company's objectives, definitions or constraints in managing capital, except as noted below.

In connection with the Company's move to IFRS, the Company determined that, under the definition of control under IFRS, the Company would be consolidating the assets and liabilities of

GCCT. The debt of GCCT (both short term and long term) is considered to be part of capital under management by the Company. This amount was approximately \$1.6 billion as at April 2, 2011. It should be noted that the liabilities Consolidated from the Franchise Trust silo (Dealer loans) are not considered part of capital under management. Please see Note 5 to the Condensed Consolidated Financial Statements for further information.

## ***5.0 Financing***

The Company is in a strong liquidity position with the ability to access multiple sources of funding. A detailed description of credit market conditions, the Company's sources of funding and credit ratings were provided in section 8.0 of the MD&A contained in our 2010 Annual Report.

Subsequent to April 2, 2011, the Company increased its available committed bank lines to \$1.37 billion.

There were no changes to the Company's credit ratings during the quarter and no material changes to credit market conditions.

### ***5.1 Funding program***

#### ***5.1.1 Funding requirements***

We fund our capital expenditures, working capital needs, dividend payments and other financing needs, such as debt repayments and Class A Non-Voting Share purchases under the Normal Course Issuer Bid (NCIB), from a combination of sources.

In the first quarter of 2011, the primary source of funding was;

- Cash generated from operating activities before interest and taxes (\$238.8 million); and
- Net increase in loans payable (\$20.5 million).

#### ***5.1.2 Uses of Cash***

During the first quarter of 2011, we used cash primarily for the following:

- Capital expenditures including intangibles, on a cash basis (\$75.5 million);
- Payment of interest expenses and income taxes (\$116.2 million);
- Net increase in short and long term investments (\$115.6 million); and
- Payment of dividends (\$22.4 million).

### 5.1.3 Working capital

Optimizing our working capital continues to be a long-term priority in order to maximize cash flow for use in the operations of the Company. The table below shows the change in the value of our working capital components at the end of the first quarter of 2011 from the first quarter of 2010.

(\$ in millions)	April 2, 2011	April 3, 2010	Increase/ (decrease) in working capital
Short-term investments	\$ 262.8	\$ 67.1	\$ 195.7
Trade and other receivables	694.1	564.9	129.2
Merchandise inventories	1,083.8	1,088.6	(4.8)
Income taxes recoverable	150.5	97.4	53.1
Prepaid expenses and deposits	74.6	75.6	(1.0)
Trade and other payables	(1,230.6)	(1,045.0)	(185.6)
Provisions	(182.5)	(221.6)	39.1
			\$ 225.7

Accounts receivable increased over the prior year due to a tire incentive program that involved extended payment terms to Dealers as well as the impact of the HST which increased input tax credit receivables.

Income taxes recoverable increased over the prior year due to the resolution of an outstanding tax matter referred to in Note 14 of the notes to the financial statements contained in our 2010 annual report.

Trade and other payables increased over the prior year primarily due to an increase in inventory in transit accruals and employee deferred compensation expense accruals.

### 5.1.4 Loans receivable

As a result of the implementation of IFRS (see section 13.0 below), loans receivable now comprise credit card and personal loans receivables held directly by Financial Services as well as those previously securitized loans held by Glacier Credit Card Trust (the accounts of which are now Consolidated with those of the Company) and loans to Dealers held by Franchise Trust (which are now also consolidated with those of the Company). The composition is as follows:

(\$ in millions)	Q1 2011	Q1 2010
Loans receivable (credit card & loans receivable)	\$ 2,221.8	\$2,146.2
Glacier Credit Card Trust	1,570.9	1,733.4
Franchise Trust Dealer Loans	707.5	771.6
Total Loans receivable	\$4,500.2	\$4,651.2

## **6.0 Equity**

The book value of Common and Class A Non-Voting Shares at the end of the first quarter of 2011 was \$49.19 per share compared to \$45.02 at the end of the first quarter of 2010.

For information related to the number of shares outstanding for the Class A Non-Voting Shares (CTC.A) and the Common Shares (CTC), see Note 14 in the Notes to the Condensed Consolidated Financial Statements.

## **Dividends**

Dividends declared on Common and Class A Non-Voting Shares in the first quarter of 2011 remained consistent with the fourth quarter of 2010 at \$0.275 per share, reflecting the Board of Directors' decision in November 2010 to increase the quarterly dividend rate from \$0.21 per share.

## **7.0 Investing activities**

### **7.1 Q1 2011 Capital expenditures**

Canadian Tire's capital expenditures, on an accrual basis, totaled \$53.7 million in the first quarter of 2011, slightly lower than Q1 2010 spending of \$54.0 million. These capital expenditures were comprised of:

- \$30.8 million for real estate projects, including projects associated with the rollout of CTR's new store formats;
- \$13.3 million for information technology initiatives, including Automotive Infrastructure;
- \$4.8 million for CTR strategic initiatives;
- \$2.4 million for CTR supply chain and distribution centres; and
- \$2.4 million for other purposes.

## **8.0 Foreign operations**

The Company has established operations outside of Canada including offshore activities in Bermuda and the Pacific Rim. For an overview of our foreign operations, see section 11.0 of the MD&A contained in the 2010 Annual Report.

## **9.0 Tax matters**

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

There have been no substantial changes in the status of ongoing audits by tax authorities as described in section 12.0 in the MD&A contained in our 2010 Annual Report.

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

## **10.0 Enterprise risk management**

The Company approaches the management of risk strategically through its Enterprise Risk Management (ERM) framework in order to mitigate the impact of principal risks on its business and operations. The ERM framework sets out principles and tools for identifying, evaluating, prioritizing, monitoring and managing risk effectively and consistently across the Company.

The ERM framework and the principal risks that the Company manages on an ongoing basis are described in detail in sections 14.0 and 14.2, respectively, in the MD&A contained in our 2010 Annual Report.

Management reviews risks on an ongoing basis and did not identify any new principal risks during the first quarter of 2011.

## **11.0 Critical accounting estimates**

The Company estimates certain amounts reflected in its financial statements using detailed financial models that are based on historical experience, current trends and other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from those estimates. In our judgment, the accounting policies and estimates detailed in Note 2 and Note 3 of the Notes to the Interim Condensed Consolidated Financial Statements for the 13 weeks ending April 2, 2011 do not require us to make assumptions about matters that are highly uncertain and accordingly none of the estimates is considered a "critical accounting estimate" as defined in Form 51-102F1 published by the Ontario Securities Commission, except as noted below.

In the Company's view the allowance for loan impairment at Financial Services is considered to be a "critical accounting estimate". Losses for impaired loans are recognized when there is objective

evidence that the impairment of the loan portfolio has occurred. Impairment allowances are calculated on individual loans and on groups of loans assessed collectively. All individually significant loans receivable are assessed for specific impairment. All individually significant loans receivable found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans receivable that are not individually significant are collectively assessed for impairment by grouping together loans receivable with similar risk characteristics. The Company uses a roll rate methodology. This methodology employs statistical analysis of historical data and experience of delinquency and default to estimate the amount of loans that will eventually be written off as a result of events occurring before the date of the Condensed Consolidated Balance Sheet. 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.

### ***12.0 Contractual obligations***

The Company has a number of obligations related to long-term debt, finance (capital) lease obligations, operating leases, purchase obligations, Financial Services' deposits and other obligations. For a complete description of amounts outstanding for the year-ended January 1, 2011, see section 16.0 of the MD&A contained in our 2010 Annual Report.

At the end of the first quarter of 2011, there have been no material changes since the year-ended January 1, 2011. For a continuity schedule of lease obligations and debt repayment maturities by year, see Note 23 K in the notes to the Q1 2011 Unaudited Interim Condensed Consolidated Financial Statements.

### ***13.0 Changes in accounting policies – Implementation of IFRS***

In February 2008, the CICA announced that Canadian GAAP for publicly accountable enterprises will be replaced by IFRS for fiscal years beginning on or after January 1, 2011. Accordingly, the conversion from previous GAAP to IFRS is applicable to the Company's reporting for the first quarter of 2011, for which the current and comparative information have been prepared under IFRS. The transition to IFRS has impacted accounting, financial reporting, internal control over financial reporting, taxes, information systems and processes as well as certain contractual arrangements.

#### ***13.1 Impact of International Financial Reporting Standards (IFRS) on the 2011 Condensed Consolidated Financial Statements***

There are several differences between IFRS requirements and our previous GAAP accounting policies. For a detailed description of the changes in the Company's financial reporting resulting from the transition to IFRS, along with IFRS restated 2010 financial statements, see Notes 23 and 24 to the Q1 2011 Unaudited Interim Condensed Consolidated Financial Statements.

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

### **Consolidations (including IAS 27, 28)**

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

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

Some of the control factors considered include:

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

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

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

The 2010 IFRS Condensed Consolidated Statement of Income will reflect additional revenue of approximately \$105 million on a full year basis, which will be primarily offset by an increase in finance costs (interest expense).

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

## **Securitizations (included in IAS 39)**

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

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

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

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

## **Borrowing costs (IAS 23)**

**Previous GAAP** - Borrowing costs may be capitalized on major projects.

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

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

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

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

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

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

Certain of our property and equipment were re-componentized as of the Opening IFRS Condensed Consolidated Balance Sheet date resulting in a lower net book value of fixed assets. The impact was not significant.

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

## **Leases (IAS 17)**

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

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

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

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

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

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

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

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

## **Impairment of assets (IAS 36)**

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

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

Impairments are likely to occur more often under IFRS. The Company has identified its CGUs, which vary by business unit. Impairments were not significant in 2010.

## **Share-based payments (IFRS 2)**

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

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

The impact of accounting for these awards at fair value and as compound instruments on our Opening IFRS Condensed Consolidated Balance Sheet resulted in an increase to liabilities and a decrease to equity of approximately \$7 million before taxes.

## **Provisions, Contingent Liabilities and Contingent Assets (IAS 37)**

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

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

As a result, additional obligations have been reflected on the Condensed Consolidated Balance Sheet. In addition there was a reclassification of a portion of "Trade and other payables" to the new Condensed Consolidated Balance Sheet caption of "Provisions". The impact on the Opening IFRS Condensed Consolidated Balance Sheet was approximately \$41 million increase in Liabilities, \$25 million decrease in equity and \$16 million increase in assets. The impact on the 2010 year-end IFRS Condensed Consolidated Balance Sheet was approximately \$37 million increase in Liabilities, \$25 million decrease in equity and \$12 million increase in assets.

### **Employee benefits (IAS 19)**

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

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

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

### **Other**

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

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

Optional Exemption	CTC Election
Business Combinations	<p>Under this exemption, the Company may elect not to apply IFRS 3 retrospectively to past business combinations. The standard may be applied prospectively from the date of the Opening IFRS Condensed Consolidated Balance Sheet,</p> <p>The Company has applied this exemption.</p>
Share-based payment transactions	<p>A first time adopter is encouraged, but not required, to apply IFRS 2 to equity instruments that were granted on or before November 7, 2002 or that were granted after November 7, 2002 and vested before the date of transition to IFRS. Otherwise retrospective application is required.</p> <p>The Company has applied this exemption to the extent possible.</p>
Fair value or revaluation as deemed cost	<p>This exemption allows the Company to initially measure an item of Property, Plant and Equipment upon transition to IFRS at fair value or a previous GAAP valuation (ie: historical cost).</p> <p>The Company applied this exemption when historical information was not available for certain assets.</p>
Employee benefits	<p>This exemption permits the Company to reset the cumulative actuarial gains and losses to zero by recognizing the full amount in the retained earnings on the Opening IFRS Condensed Consolidated Balance Sheet.</p> <p>The Company applied this exemption.</p>
Cumulative translation differences	<p>This exemption permits the Company to reset the cumulative translation differences to zero by recognizing the full amount in the retained earnings on the Opening IFRS Condensed Consolidated Balance Sheet.</p> <p>The Company applied this exemption.</p>
Designation of previously recognized financial instruments	<p>This exemption permits an entity to designate any financial asset that qualifies as available-for-sale at the date of transition to IFRS. Additionally, at the date of transition to IFRS, the Company is permitted to designate any financial instrument that qualifies as fair value through profit or loss.</p> <p>The Company applied this exemption for certain financial assets.</p>
Decommissioning liabilities included in the cost of property, plant, and equipment	<p>This exemption permits the Company not to comply with IFRIC 1 <i>Changes in Existing Decommissioning, Restoration and Similar Liabilities</i>, which requires specified changes in a decommissioning, restoration or similar liability to be added to or deducted from the cost of the asset to which it relates.</p> <p>The Company applied this exemption.</p>
Borrowing costs	<p>This exemption allows the Company to adopt IAS 23, which requires the capitalization of borrowing costs on all qualifying assets, prospectively from the date of the Opening IFRS Condensed Consolidated Balance Sheet.</p> <p>The Company applied this exemption.</p>

The above impact assessment is based on IFRS as it stands at present. It should be noted, however, that accounting standards and interpretations are always subject to change and that the Company's initial reporting under IFRS for the 2011 fiscal year (and prior year comparatives presented) are based on standards that are believed to be effective at the end of 2011. The

Company will thus continue to actively monitor developments in the standards as proposed and issued by the International Accounting Standards Board (IASB), as well as regulatory standards issued by Canadian Securities administrators and Office of the Superintendent of Financial Institutions (OSFI) and adjust its reporting accordingly.

### **13.2 Future Changes in Accounting Policies**

#### ***Financial instruments***

The IASB has issued IFRS 9 – *Financial instruments* (IFRS 9), which will ultimately replace IAS 39 – *Financial Instruments: Recognition and Measurement* (IAS 39) in its entirety. The replacement of IAS 39 is a multi-phase project with the objective of improving and simplifying the reporting of financial instruments. The issuance of IFRS 9 in November 2009 is the first phase of the project. This phase provides guidance on the classification and measurement of financial assets and financial liabilities. IFRS 9 is effective for annual periods beginning on or after January 1, 2013. Early adoption is permitted. The Company is assessing the potential impact of this standard.

#### ***Financial instruments: disclosures***

The IASB has amended IFRS 7 – *Financial instruments: Disclosures*, which will be applied prospectively for annual periods beginning on or after July 1, 2011. The amendments require additional disclosures on transactions involving the transfer of financial assets. The Company is assessing the potential impact of these amendments.

#### ***Deferred taxes – Recovery of underlying assets***

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

### **14.0 Supplementary measures**

#### **Same store sales**

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

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

Mark's same store sales metric calculation was aligned with CTR's.

## **Sales per square foot**

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

## **15.0 Controls and procedures**

### **Changes in internal control over financial reporting**

During the first quarter of 2011, there have been no changes in the Company’s internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

## **16.0 Subsequent event**

On May 9, 2011, the Company announced its intention to acquire all of the outstanding common shares of The Forzani Group Ltd. (FGL), Canada’s largest sporting goods retailer with annual revenues of approximately \$1.4 billion. This acquisition is considered a strong strategic fit and will establish Canadian Tire as Canada’s ultimate authority in sports, with more than 1,000 combined retail sports outlets across the country.

The all cash offer for the shares of FGL is for \$26.50 per share, valuing the acquisition at approximately \$771 million, excluding FGL debt and shares already owned by the Company. The offer is conditional on 66 2/3rds of the outstanding common shares on a fully diluted basis being deposited in acceptance of the offer as well as regulatory approval and customary conditions. The acquisition is intended to be financed by a combination of cash on hand and short term financing. The transaction is expected to close in the third quarter of 2011 and be accretive to earnings for the year.

## **17.0 Business sustainability**

Canadian Tire has three aspirations for its sustainability initiatives: Grow the business without increasing the net carbon footprint of the economy; eliminate unnecessary packaging while sending zero waste to landfills; and, provide innovative products and services that meet customers’ needs without compromising the ability of future generations to meet their needs.

Specific sustainability measures are reported in relation to three key segments of the business operations: Products; transportation of these products to retail stores; and, the operation of the Company’s owned and leased buildings.

Year-to-date the Company completed 93 initiatives, forecasted to annually avoid approximately \$0.9 million in costs, 412 tonnes of waste, and more than 960 tonnes<sup>1</sup> of greenhouse gas emissions – equivalent to the energy use and emissions from powering 142 Canadian homes each year<sup>2</sup>.

More specifically, the results are as follows:<sup>3</sup>

	Products and Packaging	Product Transportation	Buildings and Operations	Total
Completed Initiatives <sup>4</sup>	51	0	42	93
Cost Avoidance(\$) <sup>5</sup>	\$617,100	0	\$273,900	\$891,000
Energy Avoidance <sup>5</sup> (Gigajoules)	4,300	0	10,800	15,100
GHG emissions Avoidance <sup>5</sup> (tonnes <sup>1</sup> )	340	0	620	960
Equivalent number of Canadian homes powered (annually)	40	0	102	142

Canadian Tire also contributed \$3.3 million to community blue box and industry product stewardship and recycling programs year-to-date.

For a measure of our carbon footprint and further details on our sustainability initiatives please see Section 20.0 in our MD&A contained in our 2010 Annual Report or refer to <http://CTSustainabilityinAction.ca>.

### **18.0 Community Activities – Jumpstart**

Canadian Tire's charitable efforts are reflected in the work of Canadian Tire Jumpstart Charities, which helps financially disadvantaged children gain the life benefits that are associated with participating in organized sports and recreation activities. To date, 310 Jumpstart chapters have been created in communities across the country and have contributed to help over 328,000 children.

<sup>1</sup> Measured as carbon dioxide equivalents (CO<sub>2</sub>-eq). Greenhouse gasses such as methane (CH<sub>4</sub>) and nitrous oxide (N<sub>2</sub>O) are converted to their carbon dioxide equivalent based on their relative global warming potential (GWP).

<sup>2</sup> These values express a 12-month forecasted result from the date of each project's completion. Values beyond the first 12 months are not reported. Also not reported, are projects completed in the past quarters or their cumulative benefits.

<sup>3</sup> As sustainability initiatives are part of an inherently dynamic process and as projects come to fruition, revisions to estimates are periodically made to provide the most accurate data available at the time.

<sup>4</sup> Initiatives vary in complexity and size from changes made to an individual retail product, a retrofit made to a fleet vehicle or the building of a new store.

<sup>5</sup> Avoidance refers to savings in comparison to what it would have been if Canadian Tire had not made the improvements. These values express a 12-month forecasted result from the date of each project's completion

During the first quarter of 2011, Jumpstart raised over \$1.5 million across Canada, helping over 13,000 children participate in sports and recreation programs. Jumpstart continues to grow and help more children. In 2011, Canadian Tire Jumpstart Charities has a target to help over 110,000 children by covering registration, equipment and transportation costs for sport and recreation activities.

## ***19.0 Other Investor Communication***

### **Caution regarding forward-looking information**

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

- financial aspirations listed in section 2.2;
- the Company's Strategic objectives in section 2.1; and
- business sustainability in section 17.0.

In addition, long-term financial metrics and aspirations that extend to 2014 have not been adjusted for IFRS, which was implemented in the first quarter of 2011.

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

All statements other than statements of historical facts included in this document may constitute forward-looking information, including but not limited to, statements concerning management's expectations relating to possible or assumed future prospects and results, our strategic goals and priorities, our actions and the results of those actions and the economic and business outlook for us. Often but not always, forward-looking information can be identified by the use of forward-looking terminology such as "may", "will", "expect", "believe", "estimate", "plan", "could", "should", "would", "outlook", "forecast", "anticipate", "foresee", "continue" or the negative of these terms or variations of them or similar terminology. Forward-looking information is based on the reasonable assumptions, estimates, analysis and opinions of management made in light of its experience and perception of trends, current conditions and expected developments, as well as other factors that management believes to be relevant and reasonable at the date that such statements are made.

By its very nature, forward-looking information requires us to make assumptions and is subject to inherent risks and uncertainties, which give rise to the possibility that the Company's assumptions may not be correct and that the Company's expectations and plans will not be achieved. Although the Company believes that the forward-looking information in this document is based on information and assumptions which are current, reasonable and complete, this information is

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

For more information on the risks, uncertainties and assumptions that could cause the Company's actual results to differ from current expectations, please refer to sections 3.3.1.3 (Business risks), 3.3.2.3 (Business risks) and 10.0 (Enterprise risk management) and all subsections there- under of this MD&A. Please also refer to the "Risk Factors" section of our Annual Information Form for fiscal 2010 and our 2010 Management's Discussion and Analysis, as well as Canadian Tire's other public filings, available at [www.sedar.com](http://www.sedar.com) and at [www.corp.canadiantire.ca](http://www.corp.canadiantire.ca).

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

The forward-looking statements and information contained herein are based on certain factors and assumptions as of the date hereof. The Company does not undertake to update any forward-looking information, whether written or oral, that may be made from time to time by it or on its behalf, to reflect new information, future events or otherwise, unless required by applicable securities laws.

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

## **Commitment to disclosure and investor communication**

Canadian Tire strives to maintain a high standard of disclosure and investor communication and has been recognized as a leader in financial reporting practices. Reflecting our commitment to full and transparent disclosure, the Investor Relations section of the Company's website ([corp.canadiantire.ca/en/investors](http://corp.canadiantire.ca/en/investors)) includes the following documents and information of interest to investors:

- Annual Information Form;
- Management Information Circular;
- quarterly reports;
- quarterly fact sheets; and
- conference call webcasts (archived for one year).

The Company's Annual Information Form, Management Information Circular and quarterly reports are also available on the SEDAR (System for Electronic Disclosure and Retrieval) website at [www.sedar.com](http://www.sedar.com).

If you would like to contact the Investor Relations department directly, call Angela McMonagle at (416) 480-8225 or email [investor.relations@cantire.com](mailto:investor.relations@cantire.com).

***CONDENSED CONSOLIDATED FINANCIAL STATEMENTS***

***CANADIAN TIRE CORPORATION, LIMITED***

**Q1 2011**

# **Condensed Consolidated Balance Sheets (Unaudited)**

As at (C\$ in millions)	April 2, 2011	April 3, 2010 <sup>(1)</sup>	January 1, 2011 <sup>(1)</sup>	January 3, 2010 <sup>(1)</sup>
<b>ASSETS</b>				
Cash and cash equivalents (Note 15)	\$ 458.0	\$ 845.2	\$ 568.9	\$ 885.8
Short-term investments	262.8	67.1	196.7	60.9
Trade and other receivables	694.1	564.9	673.9	853.8
Loans receivable (Notes 12 and 23C)	3,827.0	3,902.5	4,051.0	4,008.7
Merchandise inventories	1,083.8	1,088.6	901.0	933.0
Income taxes recoverable	150.5	97.4	99.3	94.7
Prepaid expenses and deposits	74.6	75.6	37.6	41.1
	6,550.8	6,641.3	6,528.4	6,878.0
Assets classified as held for sale (Note 17)	19.3	21.5	20.8	15.0
<b>Total current assets</b>	<b>6,570.1</b>	<b>6,662.8</b>	<b>6,549.2</b>	<b>6,893.0</b>
Long-term receivables and other assets (Note 23D)	745.4	822.6	726.9	802.3
Other long-term investments	125.8	49.3	75.8	48.8
Intangible assets (Note 23E)	360.0	334.4	361.4	335.4
Investment property (Note 23F)	67.4	70.7	68.6	71.2
Property and equipment (Note 23G)	3,220.9	3,191.8	3,232.0	3,210.4
Deferred income taxes (Note 23B)	47.8	48.3	34.6	46.1
<b>Total assets</b>	<b>\$ 11,137.4</b>	<b>\$ 11,179.9</b>	<b>\$ 11,048.5</b>	<b>\$ 11,407.2</b>
<b>LIABILITIES</b>				
Bank indebtedness (Note 15)	\$ 82.3	\$ 82.3	\$ 118.0	\$ 83.7
Deposits	723.4	760.2	615.6	863.4
Trade and other payables	1,230.6	1,045.0	1,179.9	1,192.9
Provisions (Note 23H)	182.5	221.6	196.2	220.9
Commercial paper notes (Note 23I)	100.9	163.2	100.6	163.0
Loans payable (Note 23J)	707.5	771.6	687.0	757.4
Current portion of long-term debt (Note 23K)	354.6	686.6	354.2	690.6
<b>Total current liabilities</b>	<b>3,381.8</b>	<b>3,730.5</b>	<b>3,251.5</b>	<b>3,971.9</b>
Long-term provisions (Note 23H)	24.7	23.8	25.1	26.7
Long-term debt (Note 23K)	2,360.2	2,401.7	2,365.4	2,441.1
Long-term deposits	1,213.6	1,220.1	1,264.5	1,196.9
Other long-term liabilities (Note 23L)	150.6	129.9	137.1	127.5
<b>Total liabilities</b>	<b>7,130.9</b>	<b>7,506.0</b>	<b>7,043.6</b>	<b>7,764.1</b>
<b>SHAREHOLDERS' EQUITY</b>				
Share capital (Note 13)	711.5	720.7	711.6	720.4
Contributed surplus	0.4	0.1	0.3	0.2
Accumulated other comprehensive income	(72.9)	(42.5)	(38.5)	(38.6)
Retained earnings	3,367.5	2,995.6	3,331.5	2,961.1
<b>Total shareholders' equity</b>	<b>4,006.5</b>	<b>3,673.9</b>	<b>4,004.9</b>	<b>3,643.1</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 11,137.4</b>	<b>\$ 11,179.9</b>	<b>\$ 11,048.5</b>	<b>\$ 11,407.2</b>

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

(1) In preparing its 2010 comparative information, the Company has adjusted amounts reported previously in financial statements prepared in accordance with previous Canadian Generally Accepted Accounting Principles ("previous GAAP"). See Note 22 to these condensed consolidated financial statements for an explanation of the transition to International Financial Reporting Standards ("IFRS").

# **Condensed Consolidated Statements of Income (Unaudited)**

(C\$ in millions except per share amounts)		13 weeks ended April 2, 2011	13 weeks ended April 3, 2010 <sup>(1)</sup>
<b>Revenue (Note 7)</b>	\$	<b>1,976.2</b>	\$ 1,889.0
Cost of producing revenue (Note 8)		<b>(1,363.4)</b>	(1,302.0)
<b>Gross margin</b>		<b>612.8</b>	587.0
Other income (expenses)		<b>2.3</b>	(2.8)
Operating expenses			
Distribution costs		<b>(74.7)</b>	(72.1)
Sales and marketing expenses		<b>(252.8)</b>	(241.7)
Administrative expenses		<b>(171.2)</b>	(154.6)
Total operating expenses (Note 9)		<b>(498.7)</b>	(468.4)
<b>Operating income</b>		<b>116.4</b>	115.8
Finance income		<b>4.9</b>	1.6
Finance costs		<b>(38.9)</b>	(43.2)
Net finance costs		<b>(34.0)</b>	(41.6)
<b>Income before income taxes</b>		<b>82.4</b>	74.2
<b>Income taxes</b>		<b>(24.0)</b>	(22.6)
<b>Net income</b>	\$	<b>58.4</b>	\$ 51.6
<b>Basic earnings per share</b>	\$	<b>0.72</b>	\$ 0.63
<b>Diluted earnings per share</b>	\$	<b>0.71</b>	\$ 0.63
<b>Weighted average number of Common and Class A Non-Voting Shares outstanding - Basic (Note 14)</b>		<b>81,446,076</b>	81,625,769
<b>Weighted average number of Common and Class A Non-Voting Shares outstanding - Diluted (Note 14)</b>		<b>81,864,677</b>	81,955,325

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

(1) In preparing its 2010 comparative information, the Company has adjusted amounts reported previously in financial statements prepared in accordance with previous Canadian Generally Accepted Accounting Principles ("previous GAAP"). See Note 22 to these condensed consolidated financial statements for an explanation of the transition to International Financial Reporting Standards ("IFRS").

**Condensed Consolidated Statements of Comprehensive Income (Unaudited)**

(C\$ in millions)	13 weeks ended April 2, 2011	13 weeks ended April 3, 2010 <sup>(1)</sup>
<b>Net income</b>	<b>\$ 58.4</b>	<b>\$ 51.6</b>
<b>Other comprehensive income (loss)</b>		
Derivatives designated as cash flow hedges:		
Loss on fair value changes, net of tax of \$17.8 (2010 - \$13.0)	<b>(46.5)</b>	(23.9)
Reclassification of loss to non-financial assets, net of tax of \$4.5 (2010 - \$10.2)	<b>11.6</b>	18.3
Reclassification of loss to income, net of tax of \$0.2 (2010 - \$0.6)	<b>0.4</b>	1.4
Gain on fair value changes in available for sale financial assets, net of tax of \$nil (2010 - \$0.1)	<b>0.1</b>	0.3
<b>Total other comprehensive loss</b>	<b>(34.4)</b>	(3.9)
<b>Total comprehensive income</b>	<b>\$ 24.0</b>	<b>\$ 47.7</b>

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

(1) In preparing its 2010 comparative information, the Company has adjusted amounts reported previously in financial statements prepared in accordance with previous Canadian Generally Accepted Accounting Principles ("previous GAAP"). See Note 22 to these condensed consolidated financial statements for an explanation of the transition to International Financial Reporting Standards ("IFRS").

# Condensed Consolidated Statements of Cash Flows (Unaudited)

(C\$ in millions)	13 weeks ended April 2, 2011	13 weeks ended April 3, 2010 <sup>(1)</sup>
<b>Cash generated from (used for):</b>		
<b>Operating activities</b>		
Net income	\$ 58.4	\$ 51.6
Adjustments for:		
Depreciation on property and equipment and investment properties	52.3	53.5
Impairment on loans receivable (Note 12)	89.6	90.4
Net finance costs	34.0	41.6
Income tax expense	24.0	22.6
Amortization of intangible assets	13.4	12.2
Other	4.3	5.2
	276.0	277.1
Changes in working capital and other (Note 15)	(37.2)	(122.7)
Cash generated from operating activities before interest and taxes	238.8	154.4
Interest paid	(40.7)	(46.6)
Interest received	1.9	0.5
Income taxes paid	(75.5)	(27.1)
<b>Cash generated from operating activities</b>	<b>124.5</b>	<b>81.2</b>
<b>Investing activities</b>		
Acquisition of short-term investments	(131.1)	(25.4)
Acquisition of long-term investments	(68.0)	-
Additions to property and equipment and investment properties	(54.7)	(59.7)
Additions to intangible assets	(20.8)	(11.4)
Long-term receivables and other assets	(0.8)	2.9
Proceeds from the disposition of long-term investments	18.1	-
Proceeds from the disposition of short-term investments	65.4	19.2
Other	0.1	(0.1)
<b>Cash used for investing activities</b>	<b>(191.8)</b>	<b>(74.5)</b>
<b>Financing activities</b>		
Issuance of commercial paper	269.3	469.1
Repayment of commercial paper	(269.0)	(468.9)
Issuance of loans payable	50.9	104.3
Repayment of loans payable	(30.4)	(90.1)
Issuance of share capital (Note 13)	1.1	6.7
Repurchase of share capital (Note 13)	(1.1)	(6.5)
Repayment of long-term debt and finance lease liabilities	(6.8)	(43.8)
Dividends paid	(22.4)	(17.1)
<b>Cash used for financing activities</b>	<b>(8.4)</b>	<b>(46.3)</b>
<b>Cash used in the period</b>	<b>(75.7)</b>	<b>(39.6)</b>
<b>Cash and cash equivalents, net of bank indebtedness, beginning of period</b>	<b>450.9</b>	<b>802.1</b>
<b>Effect of exchange rate fluctuations on cash held</b>	<b>0.5</b>	<b>0.4</b>
<b>Cash and cash equivalents, net of bank indebtedness, end of period (Note 15)</b>	<b>\$ 375.7</b>	<b>\$ 762.9</b>

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

(1) In preparing its 2010 comparative information, the Company has adjusted amounts reported previously in financial statements prepared in accordance with previous Canadian Generally Accepted Accounting Principles ("previous GAAP"). See Note 22 to these condensed consolidated financial statements for an explanation of the transition to International Financial Reporting Standards ("IFRS").

**Condensed Consolidated Statements of Changes in Shareholders' Equity (Unaudited)**

(C\$ in millions)	Share capital	Contributed surplus	Cashflow Hedges	Fair value changes in available for sale financial assets	Employee Benefits	Total accumulated other comprehensive income (loss)	Retained earnings	Total shareholders' equity <sup>(1)</sup>
<b>Balance at January 3, 2010</b>	\$ 720.4	0.2	(38.6)	-	-	(38.6)	2,961.1	\$ 3,643.1
<b>Total comprehensive income</b>								
Net income							51.6	51.6
<b>Other comprehensive income (loss)</b>								
Derivatives designated as cash flow hedges:								
Loss on fair value changes, net of tax of \$13.0			(23.9)			(23.9)		(23.9)
Reclassification of loss to non-financial assets, net of tax of \$10.2			18.3			18.3		18.3
Reclassification of loss to income, net of tax of \$0.6			1.4			1.4		1.4
Gain on fair value changes in available for sale financial assets, net of tax of \$0.1				0.3		0.3		0.3
<b>Total other comprehensive income (loss)</b>	-	-	(4.2)	0.3	-	(3.9)	-	(3.9)
<b>Total comprehensive income (loss)</b>	-	-	(4.2)	0.3	-	(3.9)	51.6	47.7
<b>Contributions by and distributions to shareholders</b>								
Issue of Class A Non-Voting Shares (Note 13)	6.7							6.7
Repurchase of Class A Non-Voting Shares (Note 13)	(6.5)							(6.5)
Excess of repurchase price over issue price (Note 13)	0.1	(0.1)						-
Dividends paid to shareholders							(17.1)	(17.1)
<b>Total contributions by and distributions to shareholders</b>	0.3	(0.1)	-	-	-	-	(17.1)	(16.9)
<b>Balance at April 3, 2010</b>	\$ 720.7	0.1	(42.8)	0.3	-	(42.5)	2,995.6	\$ 3,673.9

(C\$ in millions)	Share capital	Contributed surplus	Cashflow Hedges	Fair value changes in available for sale financial assets	Employee Benefits	Total accumulated other comprehensive income (loss)	Retained earnings	Total shareholders' equity
<b>Balance at January 1, 2011</b>	\$ 711.6	0.3	(32.4)	0.1	(6.2)	(38.5)	3,331.5	\$ 4,004.9
<b>Total comprehensive income</b>								
Net income							58.4	58.4
<b>Other comprehensive income (loss)</b>								
Derivatives designated as cash flow hedges:								
Loss on fair value changes, net of tax of \$17.8			(46.5)			(46.5)		(46.5)
Reclassification of loss to non-financial assets, net of tax of \$4.5			11.6			11.6		11.6
Reclassification of loss to income, net of tax of \$0.2			0.4			0.4		0.4
Gain on fair value changes in available for sale financial assets, net of tax of \$nil				0.1		0.1		0.1
<b>Total other comprehensive income (loss)</b>	-	-	(34.5)	0.1	-	(34.4)	-	(34.4)
<b>Total comprehensive income (loss)</b>	-	-	(34.5)	0.1	-	(34.4)	58.4	24.0
<b>Contributions by and distributions to shareholders</b>								
Issue of Class A Non-Voting Shares (Note 13)	1.1							1.1
Repurchase of Class A Non-Voting Shares (Note 13)	(1.1)							(1.1)
Excess of issue price over repurchase price (Note 13)	(0.1)	0.1						-
Dividends paid to shareholders							(22.4)	(22.4)
<b>Total contributions by and distributions to shareholders</b>	(0.1)	0.1	-	-	-	-	(22.4)	(22.4)
<b>Balance at April 2, 2011</b>	\$ 711.5	0.4	(66.9)	0.2	(6.2)	(72.9)	3,367.5	\$ 4,006.5

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

(1) In preparing its 2010 comparative information, the Company has adjusted amounts reported previously in financial statements prepared in accordance with previous Canadian Generally Accepted Accounting Principles ("previous GAAP"). See Note 22 to these condensed consolidated financial statements for an explanation of the transition to International Financial Reporting Standards ("IFRS").

## Notes to the Condensed Consolidated Financial Statements (Unaudited)

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### 1. The Company and its Operations

Canadian Tire Corporation, Limited and its subsidiaries ("the Company") is comprised of two main business operations that offer a range of retail goods and services including general merchandise, clothing, petroleum and financial services. The Company is a limited liability incorporated business primarily domiciled in Canada. The address of its registered office is 2180 Yonge Street, Toronto, Ontario, M4P 2V8, Canada. The Company is listed on the Toronto Stock Exchange (TSX – CTC, CTC.A).

### 2. Basis of Preparation

#### Statement of compliance

These condensed interim consolidated financial statements ("interim consolidated financial statements") have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS"), which includes interpretations as issued by the International Accounting Standards Board (the "IASB") and the IFRS Interpretations Committee.

The Company prepared these interim consolidated financial statements for the 13 weeks ended April 2, 2011 in accordance with IAS 34 - *Interim Financial Reporting*, IFRS 1 - *First Time Adoption of IFRS* and the accounting policies that the Company expects to be in effect as at and for the year ending December 31, 2011. Changes in accounting policies are the result of changing from previous Canadian Generally Accepted Accounting Principles ("previous GAAP") to IFRS.

These interim consolidated financial statements should be read in conjunction with the Company's 2010 annual financial statements and in consideration of the IFRS transitional and selected annual disclosures included in Notes 22 and 23 to these interim consolidated financial statements.

These interim consolidated financial statements were approved by the Company's Board of Directors on May 12, 2011.

#### Basis of presentation

These interim 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 and loss;
- Derivative financial instruments;
- Available-for-sale financial assets;
- Liabilities for cash-settled share-based payment plans.

#### Functional and presentation currency

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

#### Use of estimates and judgments

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

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

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

The Company has applied judgment in its assessment of the appropriateness of consolidation of special purpose entities, the classification of leases and financial instruments, the recognition of tax losses and provisions, the determination of cash generating units, defining its investment properties, identifying the indicators of impairment for property and equipment, investment property and intangible assets with finite useful lives, and the level of componentization of property and equipment.

## Notes to the Condensed Consolidated Financial Statements (Unaudited)

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Estimates are used when estimating the useful lives of property and equipment, investment property and intangible assets for the purposes of depreciation and amortization, when accounting for and measuring items such as inventory allowances, customer loyalty programs, deferred revenue, insurance reserves, assumptions underlying actuarial determination of retirement future benefit obligations, income and other taxes, provisions, certain fair value measures including those related to the valuation of business combinations, share-based payments and financial instruments, testing goodwill, indefinite useful life intangible assets and other assets for impairment and updating models used in the determination of allowances on loans receivable.

### Standards and interpretations issued and not yet adopted

#### *Financial instruments*

In November 2009 and October 2010, the IASB issued IFRS 9 – *Financial instruments* (“IFRS 9”), Classification and Measurement of Financial Assets and Financial Liabilities, respectively. IFRS 9 will replace IAS 39 – *Financial Instruments: Recognition and Measurement* (“IAS 39”) in its entirety. IFRS 9 uses a single approach to determine whether a financial asset or liability is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. For financial assets, the approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. For financial liabilities measured at fair value, fair value changes due to changes in the Company’s credit risk are presented in other comprehensive income (“OCI”), instead of net income, unless this would create an accounting mismatch. IFRS 9 is effective for annual periods beginning on or after January 1, 2013. Early adoption is permitted. The Company is assessing the potential impact of this standard.

#### *Financial instruments: disclosures*

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

#### *Deferred taxes – Recovery of underlying assets*

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

### 3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these interim consolidated financial statements, and have been applied consistently by all of the Company’s subsidiaries.

#### **Basis of consolidation**

These interim consolidated financial statements include the accounts of the Company and its controlled subsidiaries. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity/arrangement so as to obtain benefit from its activities.

#### *Special purpose entities*

The Company has established a number of special purpose entities (“SPE”). The Company does not have direct or indirect shareholdings in these entities. An SPE is consolidated, if, based on the evaluation of the substance of its relationship with the Company, including consideration of the Company’s exposure to the SPE’s risks and rewards, the Company concludes that it controls the SPE. SPEs controlled by the Company were established under terms that impose strict limitations on the decision making powers of the SPE’s management. As a result, in such instances, the Company either receives the majority of the benefits related to the SPE’s operations and net assets, the Company is exposed to risks related to the SPE’s activities, and/or the Company obtains the majority of the residual or ownership risk related to the SPEs. See note 22D (viii) for further discussion on the consolidation of SPEs.

#### *Transactions eliminated on consolidation*

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

#### *Business combinations*

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

## Notes to the Condensed Consolidated Financial Statements (Unaudited)

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

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

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

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

### Foreign currency translation

#### *Functional and presentation currency*

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Canadian dollars ("C\$"), which is the Company's functional and presentation currency.

#### *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 denominated in foreign currencies at the accounting period end date are translated to the functional currency at the exchange rate at that date. Non-monetary items that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities that are measured at fair value are translated to Canadian dollars at the exchange rate at the date that the fair value was determined. Exchange gains or losses arising from translations are recorded in "other income (expenses)" or "cost of producing revenue" in the Consolidated Statements of Income, except for those relating to cash flow hedges where hedge accounting is achieved, which are deferred and recognized in OCI.

#### *Foreign operations*

The results and financial position of all of the Company's foreign operations (whose functional currency is the Canadian dollar) are translated into the Company's presentation currency as follows:

- Monetary items of foreign operations are translated into Canadian dollars at exchange rates in effect at each accounting period end date.
- Non-monetary items of foreign operations are translated at their historical exchange rates
- The income and expense items of foreign operations are translated to Canadian dollars at average exchange rates during the period,
- Gains or losses arising from translation of the financial statements of these foreign operations are recorded in "other income (expenses)" in the Consolidated Statements of Income.

### Financial instruments

#### *Recognition and measurement*

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

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) at FVTPL and b) other liabilities.

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

## Notes to the Condensed Consolidated Financial Statements (Unaudited)

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

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

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

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

- <sup>1</sup> Certain short-term investments are classified as FVTPL and are measured at fair value;
- <sup>2</sup> Certain investments which are included in trade and other receivables have been classified as held to maturity and are measured at amortized cost; and
- <sup>3</sup> Certain other long-term investments are classified as FVTPL and are measured at fair value

### *Financial instruments at fair value through profit or loss*

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

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

### *Held to maturity*

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

### *Available for sale*

Financial instruments classified as available for sale financial assets are measured at fair value with changes in fair value recognized in OCI until realized through disposal or impairment. Dividend income from available for sale financial assets is recognized in profit or loss 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 profit or loss.

### *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 losses, with gains and losses recognized in profit or loss in the period that the asset is derecognized or impaired.

## Notes to the Condensed Consolidated Financial Statements (Unaudited)

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### *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 profit or loss in the period that the liability is derecognized.

### *Derecognition of financial instruments*

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

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

### *Derivative financial instruments*

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

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

### *Embedded derivatives*

Embedded derivatives (elements of contracts whose cash flows move independently from the host contract) are required to be separated and measured at their respective fair values unless certain criteria are met. The Company does not have any significant embedded derivatives in contracts that require separate accounting and disclosure.

### *Hedge accounting*

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

### *Fair value hedges*

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

The Company enters into fair value hedges, including certain interest rate swap contracts.

### *Cash flow hedges*

For cash flow hedges, the effective portion of the changes in the fair value of the hedging derivative, net of taxes, is recognized in OCI, while the ineffective and unhedged portions are recognized immediately in profit or loss. Amounts accumulated in accumulated other comprehensive income ("AOCI") are transferred to the Consolidated Statements of Income in the periods when the hedged item affects profit or loss. However, when the 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 transferred from AOCI and included in the initial measurement of the cost of the non-financial asset or liability.

When hedge accounting is discontinued, the amounts previously recognized in AOCI are reclassified to profit or loss during the periods when the variability in the cash flows of the hedged item affects profit or loss. Gains and losses on derivatives are reclassified immediately to profit or loss when the hedged item is sold or terminated early. If hedge

## Notes to the Condensed Consolidated Financial Statements (Unaudited)

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accounting is discontinued due to the hedged item no longer being expected to occur, the amount previously recognized in AOCI is reclassified immediately to profit or loss.

The Company enters into foreign currency contracts to hedge the exposure to foreign currency risk on the future payment of foreign currency denominated inventory purchases. The changes in fair value of these contracts are included in OCI to the extent the hedges continue to be effective, excluding the time value component of foreign exchange options which is included in profit or loss. Once the inventory is received, the Company has elected to reclassify the related AOCI amount to merchandise inventories. Subsequent changes in the fair value of the foreign exchange contracts are recorded in profit or loss as they occur.

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

### *Other non-trading derivatives*

When a derivative financial instrument is not held for trading, and is not designated in a qualifying hedge relationship, all changes in its fair value are recognized immediately in profit or loss.

### *Share capital*

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

### **Cash and cash equivalents**

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

### **Short-term investments**

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

### **Trade and other receivables**

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

### **Loans receivable**

#### *Credit card, personal and line of credit loans*

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

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

Losses for impaired loans are recognized when there is objective evidence that impairment of the loan portfolio 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

## Notes to the Condensed Consolidated Financial Statements (Unaudited)

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amount of impaired loans in the Consolidated Balance Sheets is reduced by impairment allowance accounts. Losses expected from future events are not recognized.

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

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

### *Dealer loans*

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

### **Merchandise inventories**

Merchandise inventories are carried at the lower of cost and net realizable value. The cost of merchandise inventory is determined based on weighted average cost and includes other 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.

### **Intangibles**

#### *Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the identifiable assets acquired and liabilities assumed in a business combination. Goodwill is not amortized, but is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired.

#### *Intangible assets*

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

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

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

### **Investment property**

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

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

The fair value of investment property is determined annually based on internal appraisals, as the Company has determined it has sufficient experience in commercial real estate. Internal appraisals consist of applying a capitalization

## Notes to the Condensed Consolidated Financial Statements (Unaudited)

rate to the annualized net rental income generated by properties leased to third parties according to the location and size of the property concerned.

### Property and equipment

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

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

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

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

Depreciation rates are as follows:

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

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

### Leased assets

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

#### Lessor

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

#### Lessee

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

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

#### Sale and leaseback

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

For sale and finance leasebacks, any apparent profit 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 profit or loss from the sale is recognized immediately.

Following initial recognition, the lease treatment is consistent with the lessee principles described above.

## Notes to the Condensed Consolidated Financial Statements (Unaudited)

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### **Impairment of Assets**

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

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

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

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

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

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

### **Non-current assets held for sale**

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

### **Borrowing costs**

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

### **Employee benefits**

The Company provides certain health care, dental care, life insurance and other benefits, but not pensions, for certain retired employees pursuant to Company policy. The Company accrues the cost of these employee benefits over the periods in which the employees earn the benefits. The cost of employee benefits earned by employees is actuarially determined using the projected benefit method pro-rated on length of service and management's best estimate of salary escalation, retirement ages of employees, employee turnover and expected health and dental care costs. The discount rate used is based on market rates as at the measurement date. Any net actuarial gains and losses are immediately recorded in OCI.

## Notes to the Condensed Consolidated Financial Statements (Unaudited)

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Other long-term employee benefits include:

### *Termination benefits*

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

### *Short-term benefits*

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

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

### *Share-based payments*

Stock options (referred to as “stock options with tandem stock appreciation rights”) are granted with a feature that enables the employee to exercise the stock option or receive a cash payment equal to the difference between the market price of the Company’s Class A Non-Voting Shares at the exercise date and the exercise price of the stock option. As the employee can request settlement in cash and the Company is obligated to pay cash upon demand, the stock options are considered to be compound instruments. The fair value of compound instruments is measured at each reporting date taking into account the terms and conditions on which the rights to cash or equity instruments are granted. As the fair value of the settlement in cash is the same as the fair value of the settlement as a traditional stock option, the fair value of the stock options is the same as the fair value of the debt component. The corresponding expense and liability are recognized over the respective vesting period.

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

### **Trade and other payables**

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

### **Provisions**

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

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

### *Warranties and returns*

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

### *Site restoration and decommissioning*

Legal or constructive obligations associated with the removal of underground fuel storage tanks and site remediation costs on the retirement of certain property and equipment, and the termination of certain lease agreements are recognized in the period in which they are incurred when it is probable that an outflow of resources embodying economic benefits will be required and a reasonable estimate of the amount of the obligation can be made. The obligations are initially measured at the Company’s best estimate, using an expected value approach, and discounted to present value. An amount equal to that of the initial obligation is added to the capitalized costs of the related asset. Over time, the discounted obligation amount accretes due to the increase in the fair value resulting from the passage of time. This

## Notes to the Condensed Consolidated Financial Statements (Unaudited)

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accretion amount is charged to the Consolidated Statements of Income as a "Finance cost" for the period. The initial costs are depreciated over the useful lives of the related property and equipment in accordance with the depreciation rate outlined in the property and equipment note above.

### **Restructuring**

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

### **Onerous contracts**

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

### **Customer loyalty programs**

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

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

### **Insurance reserve**

Included in Trade and other payables is an insurance reserve which consists of an amount determined from loss reports and individual cases and an amount, based on past experience, for losses incurred but not reported. These estimates are continually reviewed and are necessarily subject to the impact of future changes in such factors as claim severity and frequency. 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.

### **Deposits and commercial paper notes**

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

### **Loans payable**

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

The loans payable are initially measured at fair value and subsequently measured at amortized cost and are due within one year.

### **Long-term debt**

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

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

## Notes to the Condensed Consolidated Financial Statements (Unaudited)

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### **Dividends**

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

### **Revenue**

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

#### *Sale of goods*

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

#### *Interest income on loans receivable*

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

#### *Services rendered*

Service revenue includes Roadside Assistance Club membership revenue, insurance premiums and reinsurance revenue, extended warranty contract fees, merchant, interchange and cash advance fees, service charges on loans receivable and embroidery/alteration revenue. Service revenue is recognized according to the contractual provisions of the arrangement, which is generally when the service is provided.

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

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

#### *Royalties and license fees*

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

#### *Rental income*

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

#### *Customer loyalty programs*

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

#### *Sales returns and loyalty program redemptions*

Accruals for sales returns and loyalty program redemptions are estimated on the basis of historical returns and redemptions and are recorded so as to allocate them to the same period when the revenue is recorded. These accruals

## Notes to the Condensed Consolidated Financial Statements (Unaudited)

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are reviewed regularly and updated to reflect management's best estimate, however actual returns and redemptions could vary from these estimates.

### Vendor rebates

The Company records cash consideration received from vendors as a reduction in the price of vendors' products and reflects it as a reduction to cost of producing revenue and related inventory when recognized in the Consolidated Statements of Income and Consolidated Balance Sheets. Certain exceptions apply where the cash consideration received is either a reimbursement of incremental selling costs incurred by the reseller or a payment for assets or services delivered to the vendor, in which case the cost is reflected as a reduction in operating expenses.

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

### Finance income and costs

Finance income is comprised of interest income on funds invested (including available for sale financial assets), dividend income, gains on the disposal of available for sale financial assets, changes in the fair value of financial assets classified as FVTPL, and gains on hedging instruments that are recognized in profit or loss. Interest income is recognized as it accrues in profit or loss, using the effective interest method. Dividend income is recognized on the date that the Company's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

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

### Income taxes

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

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

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

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

### Earnings per share

Basic earnings per share is calculated by dividing the net income attributable to Common and Class A Non-Voting shareholders of the Company by the weighted average number of Common and Class A Non-Voting shares outstanding during the reporting period. Diluted earnings per share is calculated by adjusting the net income attributable to shareholders and the weighted average number of shares outstanding for the effects of all potentially dilutive shares. For the Company this is comprised of the dilutive effect of employee stock options.

### Segmented reporting

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

## Notes to the Condensed Consolidated Financial Statements (Unaudited)

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### 4. Basis for Fair Values

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

#### *Property and equipment*

The fair value of property and equipment recognized as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly. The fair value of items of property and equipment is based on the market approach and cost approaches using quoted market prices for similar items when available and replacement cost when appropriate.

#### *Intangible assets*

The fair value of patents and trademarks acquired in a business combination is based on the discounted estimated royalty payments that have been avoided as a result of the patent or trademark being owned.

The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

#### *Investment property*

The fair value is determined annually based on internal appraisals. Internal appraisals consist of applying a capitalization rate to the annualized net rental income generated by properties leased to third parties according to the location and size of the property concerned.

#### *Inventories*

The fair value of inventories acquired in a business combination is determined based on the estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

#### *Financial instruments*

The Company uses a fair value hierarchy to categorize the inputs used to measure the fair value of financial assets and financial liabilities. The following presents the financial instruments measured at fair value classified by the fair value hierarchy, 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 that are observable for the asset or liability, either directly or indirectly; and

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

#### *Investments in equity and debt securities*

The fair value of loans and receivables, financial assets at FVTPL, held to maturity investments and available for sale financial assets that are traded in active markets are determined by reference to their quoted closing bid price or dealer price quotations at the reporting date. For investments that are not traded in active markets, the Company determines fair values using a combination of discounted cash flow models, comparison to similar instruments for which market observable prices exist and other valuation models. The fair value of loans and receivables and held to maturity investments are determined for disclosure purposes only.

#### *Derivatives*

Listed market prices are not available for forward exchange contracts; consequently fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

The fair value of interest rate swaps is based on counterparty confirmations tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Company entity and counterparty when appropriate.

## Notes to the Condensed Consolidated Financial Statements (Unaudited)

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### *Trade and other receivables*

The fair value of trade and other receivables is estimated to be reasonably approximated by their carrying value, due to their short-term nature.

### *Share-based payment transactions*

The fair value of employee stock options and share units is measured using the Black-Scholes formula. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected based on publicly available information), weighted average expected life of the instruments (based on historical experience and general option-holder behavior), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

## 5. Capital Management

The Company's objectives when managing capital are:

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

The current economic environment and the transition to IFRS have not changed the Company's objectives in managing capital.

The Company is in compliance with key covenants under its existing debt agreements during the quarter. Under these covenants, the Company currently has significant flexibility to fund business growth and maintain or amend dividend rates within its existing dividend policy.

To assess its effectiveness in managing capital, the Company monitors certain key ratios to ensure they are within targeted ranges. Various debt to capitalization ratios are contemplated with and without the impact of securitization.

The Company's definition of capital is the same as that defined in Note 18 of the Company's 2010 annual financial statements, except that it includes GCCT indebtedness. The definition excludes Franchise Trust indebtedness. See Note 23M in these interim consolidated financial statements.

The Company is in compliance with regulatory requirements associated with the operations of Canadian Tire Bank ("the Bank"), its federally chartered bank, and other regulatory requirements that impact its business operations.

The Bank's ratios are above internal minimum targets for Tier 1 and Total Capital ratios and below its internal maximum targets for the assets to capital multiple. The Bank's internal minimum ratios are determined by the Internal Capital Adequacy Assessment Process. During the three months ended April 2, 2011 and the comparative period, the Bank complied with the capital guidelines issued by OSFI under the "International Convergence of Capital Measurement and Capital Standards – A Revised Framework" (Basel II).

## 6. Operating Segments

Effective January 2, 2011, the Company organized its four previously reportable operating segments to conform to its revised view of operating the business. The Company now has two reportable segments, Retail and Financial Services. Prior year comparatives have been restated to conform to the current year presentation.

The Company's two reportable operating segments are strategic business units, offering different products and services. They are separately managed due to their distinct nature. The following summary describes the operations in each of the Company's reportable segments:

- Retail is comprised of Living, Fixing, Playing, Automotive and Apparel categories. The retail business is conducted through a number of banners including Canadian Tire Retail (CTR), Canadian Tire Gas (Petroleum), Mark's Work Warehouse, and PartSource. Retail also includes the Dealer Loan Program, a financing program established to provide an efficient and cost-effective way for Dealers to access the majority of the financing required for their store operations.
- Financial Services is a business that markets a range of Canadian Tire-branded credit cards, personal loans, lines of credit, insurance and warranty products. It also operates a federally regulated bank that offers guaranteed investment certificates and accepts consumer deposits. Financial Services also includes Glacier Credit Card Trust

## Notes to the Condensed Consolidated Financial Statements (Unaudited)

("GCCT"), a financing program established to purchase co-ownership interests in the Company's credit card loans, and it issues debt to third-party investors to fund its purchases.

The two reportable operating segments have foreign-based subsidiaries or activities. These subsidiaries hold assets such as highly rated short-term securities. One operates a reinsurance company while others provide product sourcing, logistics and vendor management outside of Canada. These assets and activities do not constitute a geographic segment.

The segments operate independently but do share some services such as certain corporate, treasury, financial, legal and human resource functions. All intercompany transactions are eliminated upon consolidation. The accounting policies of the reportable segments and basis of preparation are the same as described in notes 2 and 3.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment income before income tax, as included in the internal management reports reviewed by the Company's CEO. Management believes that this measure is the most relevant in evaluating segment results.

(C\$ in millions)	13 weeks ended April 2, 2011				13 weeks ended April 3, 2010			
	Retail	Financial Services	Eliminations and Adjustments	Total	Retail	Financial Services	Eliminations and Adjustments	Total
External revenue	\$ 1,726.3	\$ 231.2	\$ 18.7	\$ 1,976.2	\$ 1,639.2	\$ 229.8	\$ 20.0	\$ 1,889.0
Intercompany revenue	0.2	2.6	(2.8)	-	0.2	2.4	(2.6)	-
Total revenue	1,726.5	233.8	15.9	1,976.2	1,639.4	232.2	17.4	1,889.0
Gross margin	465.2	131.7	15.9	612.8	442.2	127.4	17.4	587.0
Operating expenses	(417.9)	(64.9)	(15.9)	(498.7)	(389.0)	(62.0)	(17.4)	(468.4)
Operating income	49.6	66.8	-	116.4	51.4	64.4	-	115.8
Income before income taxes	31.6	50.8	-	82.4	27.3	46.9	-	74.2

Items included in the above:

Depreciation and amortization	\$ 63.2	\$ 2.5	\$ -	\$ 65.7	\$ 63.9	\$ 1.8	\$ -	\$ 65.7
Interest income	7.9	166.9	-	174.8	7.3	159.8	(0.2)	166.9
Interest expense	21.9	34.9	(1.4)	55.4	26.8	35.5	(2.9)	59.4
Capital expenditures <sup>1</sup>	51.0	2.7	-	53.7	52.6	1.4	-	54.0

<sup>1</sup> Capital expenditures are presented on an accrual basis and include intangible software additions (Note 16), and exclude goodwill, deferred taxes and financial instruments

### Segmented Assets

As at (C\$ in millions)	April 2, 2011	April 3, 2010	January 1, 2011	January 3, 2010
Retail	\$ 7,495.8	\$ 7,373.0	\$ 7,246.5	\$ 7,122.7
Financial Services	4,629.2	5,175.5	4,706.6	5,016.4
Eliminations	(987.6)	(1,368.6)	(904.6)	(731.9)
Total	\$ 11,137.4	\$ 11,179.9	\$ 11,048.5	\$ 11,407.2

### Major customers

Revenue is earned from a variety of customers. Canadian Tire ships merchandise to a network of over 500 independent Dealers and franchisees. Financial Services, Petroleum and Mark's Work Wearhouse provide goods and services to millions of customers. The Company does not have a reliance on any one customer.

## Notes to the Condensed Consolidated Financial Statements (Unaudited)

### 7. Revenue

(C\$ in millions)	13 weeks ended April 2, 2011	13 weeks ended April 3, 2010
Sale of goods	\$ 1,636.5	\$ 1,558.3
Interest income on loans receivable	174.8	166.9
Services rendered	83.8	83.9
Royalties and license fees	79.4	77.7
Rental income	1.7	2.2
	<b>\$ 1,976.2</b>	<b>\$ 1,889.0</b>

### 8. Cost of Producing Revenue

(C\$ in millions)	13 weeks ended April 2, 2011	13 weeks ended April 3, 2010
Inventory cost of sales	\$ (1,260.3)	\$ (1,197.1)
Net impairment loss on loans receivable	(76.0)	(77.5)
Finance costs on deposits	(16.7)	(16.5)
Other	(10.4)	(10.9)
	<b>\$ (1,363.4)</b>	<b>\$ (1,302.0)</b>

Included in "inventory cost of sales" for the 13 weeks ended April 2, 2011 is \$15.7 million (2010 – \$14.0 million) of write-downs of inventory as a result of net realizable value being lower than cost. Inventory write-downs recognized in previous periods and reversed in the current quarter and comparative quarter were insignificant. The write-downs and reversals are included in "cost of producing revenue" on the Consolidated Statements of Income.

### 9. Operating Expenses by Nature

(C\$ in millions)	13 weeks ended April 2, 2011	13 weeks ended April 3, 2010
Personnel expenses (Note 10)	\$ (175.8)	\$ (167.1)
Occupancy	(99.2)	(96.8)
Marketing and advertising	(58.4)	(56.1)
Depreciation of property and equipment and investment properties	(52.3)	(53.5)
Amortization of intangible assets	(13.4)	(12.2)
Other	(99.6)	(82.7)
	<b>\$ (498.7)</b>	<b>\$ (468.4)</b>

### 10. Personnel Expenses

(C\$ in millions)	13 weeks ended April 2, 2011	13 weeks ended April 3, 2010
Wages and salaries	\$ (133.9)	\$ (130.1)
Benefits	(35.6)	(34.2)
Share-based payments expense	(6.3)	(2.8)
	<b>\$ (175.8)</b>	<b>\$ (167.1)</b>

### 11. Share-Based Payment Plans

During the 13 weeks ended April 2, 2011, the Company issued the following share-based payment awards:

#### *Stock options*

The Company granted 433,804 stock options with tandem stock appreciation rights to employees. These stock options fully vest after a three-year period, are exercisable over a term of seven years and have an exercise price of \$62.30.

#### *2011 Performance Share Plan*

The Company has granted 2011 performance share units (PSUs) to certain employees. Each PSU entitles the participant to receive a cash payment equal to the weighted average closing price of Class A Non-Voting Shares traded on the

## Notes to the Condensed Consolidated Financial Statements (Unaudited)

Toronto Stock Exchange for the 20-day period commencing the day after the last day of the performance period, multiplied by an applicable multiplier determined by specific performance-based criteria.

### 12. Loans Receivable

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

(C\$ in millions)	Total principal amount of receivables <sup>1</sup>				Average balance for the 13 weeks ended	
	April 2, 2011	April 3, 2010	January 1, 2011	January 3, 2010	April 2, 2011	April 3, 2010
Credit card loans	\$ 3,774.1	\$ 3,839.8	\$ 3,996.3	\$ 3,931.5	\$ 3,851.2	\$ 3,850.0
Personal loans <sup>2</sup>	8.0	25.6	11.2	34.0	9.6	29.8
Line of credit loans	10.6	14.2	11.3	15.6	10.9	14.8
Total Financial Services' loans receivable	3,792.7	3,879.6	4,018.8	3,981.1	\$ 3,871.7	\$ 3,894.6
Dealer loans	707.5	771.6	687.0	757.4		
Total loans receivable	4,500.2	4,651.2	4,705.8	4,738.5		
Less: long-term portion <sup>3</sup>	673.2	748.7	654.8	729.8		
Current portion of loans receivable	\$ 3,827.0	\$ 3,902.5	\$ 4,051.0	\$ 4,008.7		

<sup>1</sup> Amounts shown are net of allowance for loan impairment.

<sup>2</sup> Personal loans are unsecured loans that are provided to qualified existing credit card holders for terms of three to five years. Personal loans have fixed monthly payments of principal and interest; however, the personal loans can be repaid at any time without penalty.

<sup>3</sup> The long-term portion of loans receivable is included in long-term receivables and other assets, and includes Dealer loans of \$670.6 million at April 2, 2011 (April 3, 2010 - \$738.8 million).

All loans receivable are initially recorded at fair value and subsequently measured at amortized cost. The allowance for loan impairment for the portfolio for the 13 weeks ended April 2, 2011 was \$89.6 million (2010 - \$90.4 million). Recoveries of the allowance for loan impairment for the 13 weeks ended April 2, 2011 was \$13.6 million (2010 - \$12.9 million).

### 13. Share Capital

(C\$ in millions)	April 2, 2011	April 3, 2010	January 1, 2011	January 3, 2010
Authorized				
3,423,366 Common Shares				
100,000,000 Class A Non-Voting Shares				
Issued				
3,423,366 Common Shares (April 3, 2010 - 3,423,366)	\$ 0.2	\$ 0.2	\$ 0.2	\$ 0.2
78,020,307 Class A Non-Voting Shares (April 3, 2010 - 78,178,223)	711.3	720.5	711.4	720.2
	\$ 711.5	\$ 720.7	\$ 711.6	\$ 720.4

All issued shares are fully paid. The Company does not hold any of its Common or Class A Non-Voting shares. Neither the Common nor Class A Non-Voting shares have a par value.

During 2011 and 2010, the Company issued and repurchased Class A Non-Voting Shares. The net excess of the issue price over the repurchase price results in contributed surplus. The net excess of the repurchase price over the issue price is allocated first to contributed surplus, if any, with any remainder allocated to retained earnings.

## Notes to the Condensed Consolidated Financial Statements (Unaudited)

The following transactions occurred with respect to Class A Non-Voting Shares during 2011 and 2010:

(C\$ in millions)	13 weeks ended April 2, 2011		13 weeks ended April 3, 2010	
	Number	\$	Number	\$
Shares outstanding at beginning of the period	78,020,007	711.4	78,178,066	720.2
Issued				
Dividend reinvestment plan	17,230	1.1	15,775	0.8
Employee stock purchase plan	300	-	107,682	5.9
Repurchased	(17,230)	(1.1)	(123,300)	(6.5)
(Excess of issue price over repurchase price) Excess of repurchase price over issue price	-	(0.1)	-	0.1
Shares outstanding at end of the period	78,020,307	711.3	78,178,223	720.5

Since 1988 the Company has followed an anti-dilution policy. The Company repurchases shares to substantially offset the dilutive effects of issuing Class A Non-Voting Shares pursuant to various corporate programs.

As at April 2, 2011, the Company had dividends declared and payable to holders of Class A Non-Voting Shares and Common Shares of \$22.4 million (2010 - \$ 17.1 million) at a rate of \$0.275 per share (2010 - \$0.21).

### 14. Basic and Diluted Earnings Per Share

The calculation of basic and diluted earnings per share is based on the net income reported in the Consolidated Statements of Income and the weighted average number of basic and diluted shares outstanding, as follows:

	13 weeks ended April 2, 2011	13 weeks ended April 3, 2010
Weighted average number of Common and Class A Non-Voting Shares outstanding - Basic	81,446,076	81,625,769
Dilutive effect of employee stock options	418,601	329,556
Weighted average number of Common and Class A Non-Voting Shares outstanding - Diluted	81,864,677	81,955,325

### 15. Notes to the Consolidated Statements of Cash Flows

Changes in working capital and other are comprised of the following:

(C\$ in millions)	13 weeks ended April 2, 2011	13 weeks ended April 3, 2010
Trade and other receivables	\$ (15.7)	\$ 287.8
Loans receivable	114.7	(7.4)
Merchandise inventories	(172.5)	(156.2)
Income taxes recoverable	0.3	1.6
Prepaid expenses and deposits	(37.0)	(34.5)
Deposits	56.2	(80.8)
Trade and other payables	31.7	(130.5)
Short-term provisions	(13.9)	0.7
Long-term provisions	(0.4)	(2.9)
Employee benefits	(0.6)	(0.5)
Changes in working capital and other	\$ (37.2)	\$ (122.7)

## Notes to the Condensed Consolidated Financial Statements (Unaudited)

The components of cash and cash equivalents are:

(C\$ in millions)	April 2, 2011	April 3, 2010	January 1, 2011	January 3, 2010
Cash	\$ 7.9	\$ 24.3	\$ 15.5	\$ 35.2
Cash equivalents	436.7	802.6	538.2	834.3
Restricted cash and cash equivalents	13.4	18.3	15.2	16.3
Total cash and cash equivalents	458.0	845.2	568.9	885.8
Bank indebtedness	(82.3)	(82.3)	(118.0)	(83.7)
Cash and cash equivalents, net of bank indebtedness	\$ 375.7	\$ 762.9	\$ 450.9	\$ 802.1

### 16. Property, Equipment, Investment Property and Intangible Assets

#### *Acquisitions and disposals*

During the 13 weeks ended April 2, 2011, property and equipment and investment properties were acquired at an aggregate cost of \$39.1 million (2010 - \$43.3 million). The amount of property and equipment and investment properties acquired that is included in trade and other payables at April 2, 2011 was \$10.8 million (2010 - \$4.7 million). Property and equipment and investment properties with a carrying amount of \$0.6 million (2010 - \$0.5 million) were disposed of during the 13 weeks ended April 2, 2011.

During the 13 weeks ended April 2, 2011, intangible assets were acquired at an aggregate cost of \$14.6 million (2010 - \$10.7 million). The amount of intangible assets acquired that is included in trade and other payables at April 2, 2011 was \$0.8 million (2010 - \$1.9 million).

#### *Capital commitments*

The Company has commitments of approximately \$26.2 million at April 2, 2011 for the acquisition of property and equipment (2010 - \$23.6 million).

### 17. Assets Classified as Held for Sale

Assets held for sale include land and buildings with a cost of \$13.6 million and \$18.0 million, respectively (2010 - \$14.9 million and \$17.5 million, respectively), and accumulated depreciation of \$12.3 million (2010 - \$10.9 million). Land and buildings generally relate to properties in the Retail segment that have relocated to newer sites. The Company is actively marketing these properties to third parties and they will be sold when terms and conditions acceptable to the Company are reached.

During the quarter the Company classified \$4.1 million of land and buildings to assets held for sale as they meet the criteria to be classified as held for sale (2010 - \$6.9 million). The Company transferred \$5.6 million land and buildings previously classified as held for sale to property and equipment as it has determined that they no longer meet the criteria to be classified as held for sale (2010 - \$0.4 million).

### 18. Legal Matters

The Company and certain of its subsidiaries are party to a number of legal proceedings. The Company believes that each such proceeding constitutes a routine legal matter incidental to the business conducted by the Company and that the ultimate disposition of the proceedings will not have a material effect on its consolidated earnings, cash flows, or financial position.

The Company's wholly-owned subsidiary, Canadian Tire Bank (the Bank), is the subject of two class action proceedings regarding allegations that certain fees charged on the Bank issued credit cards are not permitted under the Quebec Consumer Protection Act. The Bank believes it has a solid defense to both actions on the basis that banking and cost of borrowing disclosure is a matter of exclusive federal jurisdiction. Accordingly, no provision has been made for amounts, if any, that would be payable in the event of an adverse outcome. If adversely decided, the present total aggregate exposure to the Bank is expected to be approximately \$22.5 million.

## Notes to the Condensed Consolidated Financial Statements (Unaudited)

### 19. Tax Matters

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

There have been no material changes in ongoing audits by tax authorities as disclosed in Note 14 of the most recently issued annual financial statements for the 52 weeks ended January 1, 2011 contained in our 2010 Annual Report.

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

### 20. Related Parties

The Company has related party relationships with its subsidiaries, key management personnel, and other entities over which key management exercises control. Key management personnel include the Board of Directors, the Company's Chief Executive Officer, Chief Financial Officer, and the top four senior officers. Close family members of these key management personnel and any entities over which they exercise control are also defined as related parties. Transactions with related parties during the period were insignificant. Transactions with members of the Company's Board of Directors who were also Canadian Tire Dealers represented less than one-percent of the Company's total revenue and were in accordance with established Company policy applicable to all Dealers.

#### *Significant subsidiaries*

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, actual and potential voting rights that presently are exercisable or convertible are taken into account. Management has also considered additional factors in assessing control such as de facto circumstantial evidence. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The Company's significant subsidiaries are:

Significant Subsidiaries	Country of incorporation	Ownership Interest	
		2011	2010
Canadian Tire Financial Services Limited	Canada	100%	100%
Mark's Work Wearhouse Limited	Canada	100%	100%
Canadian Tire Real Estate Limited	Canada	100%	100%

### 21. Subsequent Events

On May 12, 2011 the Company's Board of Directors declared a dividend of \$0.275 per share payable on September 1, 2011 to shareholders of record as of July 29, 2011.

On May 9, 2011, the Company announced its intention to acquire all of the outstanding common shares of The Forzani Group Ltd. (FGL), Canada's largest sporting goods retailer. The offer is conditional on 66 2/3rds of the outstanding common shares on a fully diluted basis being deposited in acceptance of the offer as well as regulatory approval and customary conditions. The Company currently owns approximately four percent of the outstanding shares of FGL. The all cash offer for the shares of FGL is for \$26.50 per share, valuing the acquisition at approximately \$771 million, excluding FGL debt and shares already owned by the Company. The transaction is expected to close in the third quarter of 2011.

### 22. Transition to International Financial Reporting Standards (IFRS)

The Company has adopted IFRS effective January 2, 2011. Prior to the adoption of IFRS, the Company presented its financial statements in accordance with previous Canadian Generally Accepted Accounting Principles ("previous GAAP"). IFRS 1 - *First-time Adoption of International Financial Reporting Standards* ("IFRS 1"), requires first-time adopters to apply IFRS Standards retrospectively as if IFRS had been in effect from the date of the Company's inception. The Company's first annual consolidated financial statements prepared in accordance with IFRS will be for the fiscal year ending December 31, 2011. Accordingly, the Company will make an unreserved statement of compliance with IFRS beginning with its 2011 annual financial statements. The Company's transition date is January 3, 2010 (the "Transition

## Notes to the Condensed Consolidated Financial Statements (Unaudited)

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Date”) and an opening Consolidated Balance Sheet has been prepared as at that date. The interim consolidated financial statements for the 13 weeks ended April 2, 2011 are prepared in compliance with IAS 34 - *Interim Financial Statements*. These financial statements have been presented in accordance with the IFRS accounting policies discussed in Note 3. The Company will ultimately prepare its opening Consolidated Balance Sheet and financial statements for 2010 and 2011 by applying IFRS that are in effect as at December 31, 2011. Accordingly, the opening Consolidated Balance Sheet and financial statements for 2010 and 2011 may differ from these financial statements if new standards are subsequently enacted.

### A. Presentation of consolidated financial statements

#### *Consolidated Statements of Income - “function of expense” presentation*

The Company has chosen to present the Consolidated Statements of Income on the “function of expense” or “cost of sales” format. The Company has determined that presenting expenses based on function provides more meaningful and relevant information to users of its financial statements. Additional information on the nature of expenses is disclosed in Note 9.

The more significant change to the Company’s Consolidated Statements of Income is the separate presentation of “Cost of merchandise sold and all other operating expenses except for the undernoted items” under previous GAAP into “Cost of producing revenue” and “Operating expenses – Distribution costs; Sales and marketing expenses; and Administrative expenses”. Depreciation and amortization are now included in each of these classifications as applicable. In addition, interest on deposits has been reclassified from “Net interest expense” to “Cost of producing revenue”.

A full reconciliation of the Consolidated Statements of Income previously reported under previous GAAP to that prepared under IFRS is presented in section G.

#### *Consolidated Balance Sheets*

IFRS requires certain items, some of which the Company previously grouped together, to be presented separately on the face of the Consolidated Balance Sheets. Such items include “investment property”, “provisions”, and “assets classified as held for sale”. As part of the transition to IFRS, the term “future income taxes” has been replaced with “deferred income taxes”. Under IFRS all deferred tax assets or liabilities are classified as non-current. Furthermore, as a result of applying the IFRS 1 exemption, certain financial assets have been reclassified from “held for trading” to “available-for-sale”. These reclassifications for presentation under IFRS are shown in the Restated Consolidated Balance Sheets under IFRS as “IFRS Reclassifications” (see section G).

A full reconciliation of the Consolidated Balance Sheets reported under previous GAAP to that prepared under IFRS is presented in section G.

### B. Elected exemptions from full retrospective application

IFRS 1 provides entities preparing their first IFRS compliant financial statements with several optional exemptions from full retrospective application of IFRS. The Company has applied certain of these optional exemptions as described below.

#### *Business combinations*

This exemption allows the Company to not apply IFRS 3 - *Business Combinations* retrospectively to past business combinations. The Company has elected to apply this exemption and therefore has not restated business combinations that took place prior to the Transition Date. Any goodwill arising on such business combinations before the Transition Date remains at the carrying value determined under previous GAAP.

#### *Share-based payment transactions*

This exemption allows the Company to not apply IFRS 2 - *Share-based Payments* (“IFRS 2”) to equity instruments granted on or before November 7, 2002, or to equity instruments granted after November 7, 2002 and vested before the Transition Date. The Company has elected not to apply IFRS 2 to equity instruments granted on or before November 7, 2002 and to equity instruments granted after November 7, 2002 that had vested by the Transition Date.

#### *Fair value as deemed cost*

This exemption allows the Company to initially measure an item of property and equipment, investment property, or intangible asset at its fair value, or an amount determined by a previous GAAP revaluation and use that amount as deemed cost as at the Transition Date on an asset by asset basis. The Company has elected not to apply this exemption.

#### *Employee benefits*

This exemption permits the Company to reset its cumulative unamortized actuarial gains and losses to zero by recognizing the full amount in opening retained earnings as at January 3, 2010. The Company has elected to apply this exemption.

## Notes to the Condensed Consolidated Financial Statements (Unaudited)

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### *Cumulative translation differences*

This exemption permits the Company to reset its cumulative translation differences to zero by recognizing the full amount in opening retained earnings as at January 3, 2010. The Company has elected to apply this exemption.

### *Designation of previously recognized financial instruments*

This exemption permits an entity to designate any financial asset that qualifies as available-for-sale at the Transition Date. Additionally, at the date of transition to IFRS, the Company is permitted to designate any financial instrument that qualifies as fair value through profit or loss. The Company has applied this exemption to certain of its financial assets. These financial instruments were previously designated as held for trading and were carried in the Company's annual audited financial statements as at January 2, 2010 at their fair value of \$75.0 million.

### *Decommissioning liabilities included in the cost of property and equipment*

This exemption permits the Company to not comply with IFRIC 1 - *Changes in Existing Decommissioning, Restoration and Similar Liabilities* ("IFRIC 1"). IFRIC 1 requires specified changes in the measurement of a decommissioning, restoration or similar liability to be added to or deducted from the cost of the asset to which it relates. The Company has elected to apply this exemption.

### *Borrowing costs*

This exemption allows the Company to adopt IAS 23 - *Borrowing Costs*, which requires the capitalization of borrowing costs on all qualifying assets, prospectively from the Transition Date. The Company has elected to apply this exemption.

### *Leases*

This exemption applies to first-time adopters who have made a determination of whether an arrangement contained a lease in accordance with a previous GAAP. If the determination made under the entity's previous GAAP would have given the same outcome as that resulting from applying IAS 17 - *Leases* and IFRIC 4 - *Determining whether an Arrangement contains a Lease*, then the first-time adopter need not reassess that determination when it adopts IFRS. The Company has elected to apply this exemption, and as a result has not reassessed its arrangements.

### *Insurance*

This exemption allows the Company to apply the transitional provisions in IFRS 4 - *Insurance Contracts* ("IFRS 4"). IFRS 4 restricts changes in accounting policies for insurance contracts including changes made by a first-time adopter. The Company has elected to apply this exemption.

## **C. Mandatory exemptions to retrospective application of IFRS**

In preparing these interim consolidated financial statements in accordance with IFRS 1 the Company has applied the following mandatory exceptions from full retrospective application of IFRS.

### *Hedge accounting*

As required by IAS 39 - *Financial Instruments: Recognition and Measurement*, the Company has measured all derivatives at fair value and eliminated all deferred gains and losses arising on derivatives that were reported in accordance with previous GAAP as if they were assets or liabilities. Only hedging relationships that satisfied the hedge accounting criteria as of the Transition Date are reflected as hedges in the IFRS financial statements.

### *Estimates*

Estimates made by the Company under previous GAAP are consistent with their application under IFRS.

## Notes to the Condensed Consolidated Financial Statements (Unaudited)

### D. Reconciliation of Shareholders' Equity from previous GAAP to IFRS

The following is a reconciliation of the Company's total Shareholders' Equity reported in accordance with previous GAAP to its Shareholders' Equity reported in accordance with IFRS for the following dates:

(C\$ in millions)	Note	January 3, 2010	April 3, 2010	January 1, 2011
Total Shareholders' Equity as reported under previous GAAP		\$ 3,687.9	\$ 3,716.3	\$ 4,066.7
Transitional adjustments:				
Property and equipment	i	(0.6)	(0.8)	(1.0)
Impairment	ii	(1.3)	(1.2)	(2.5)
Leases	iii	35.4	33.6	22.8
Provisions	iv	(24.7)	(24.6)	(24.9)
Loyalty programs	v	(1.6)	(1.0)	(1.2)
Employee benefits	vi	(14.2)	(14.0)	(22.0)
Share-based payments	vii	(6.7)	(5.5)	(6.0)
Consolidation	viii	-	(0.2)	(0.2)
Securitization	ix	(49.2)	(47.8)	(48.0)
Financial instruments	x	1.1	2.4	0.4
Foreign exchange translation	xi	4.2	4.2	4.2
Income taxes	xii	12.8	12.5	16.4
Other		-	-	0.2
Total transitional adjustments		(44.8)	(42.4)	(61.8)
Total Shareholders' Equity as reported under IFRS		\$ 3,643.1	\$ 3,673.9	\$ 4,004.9

The following is an explanation of the adjustments to equity:

#### (i) Property and equipment

IAS 16 - *Property, Plant and Equipment* requires the Company to componentize the amount initially recognized in respect of an item of property, plant and equipment to its significant parts and depreciate each part separately over its useful life. The Company determined that certain of its supply chain assets have additional separable parts or "components". These components were separately depreciated over their useful lives, resulting in a higher depreciation charge. Furthermore, insurance proceeds and rental proceeds netted against the cost of property and equipment under previous GAAP have been reclassified to income under IFRS.

#### (ii) Impairment

IFRS requires impairment testing of goodwill, intangibles and tangible assets at the CGU level. Under previous GAAP the Company tested goodwill at the reporting unit level. This change resulted in an impairment of goodwill associated with one of its CGUs in the Retail operating segment.

Under previous GAAP tangible and intangible assets other than goodwill are tested for impairment by first comparing the undiscounted cash flows generated by the asset or group of assets to the carrying amount. If the application of this first test indicates that there is an impairment, the amount of the impairment is then calculated by comparing the discounted cash flows to the carrying amount of the asset or group of assets. Under IFRS impairment testing is performed by comparing discounted cash flows to the carrying amount of an asset or group of assets. As a result, the Company recorded impairments on certain of its long-lived assets in its Retail operating segment.

#### (iii) Leases

There are two impacts to the Company of adopting lease accounting under IFRS: (a) the reclassification of certain leases from operating to finance, and (b) the accounting for deferred gains and losses on previous sale and lease-back transactions.

(a) Under previous GAAP the Company classified a lease as operating or finance based on quantitative "bright-line" tests. Under IFRS the assessment must be made based on a qualitative analysis of risks and rewards. As a result of the qualitative analysis, the Company identified certain IT and supply chain leases where the Company obtains the majority of the risks and rewards incidental to ownership. These leases have been reclassified from operating to finance leases. As a result, the Company has retrospectively recorded leased assets and finance lease obligations, as well as an adjustment to retained earnings based on the difference between the lease payments under previous GAAP and the depreciation and interest (accretion) recorded on the finance leases under IFRS.

## Notes to the Condensed Consolidated Financial Statements (Unaudited)

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(b) Under IFRS any gains or losses on sale and lease-back transactions that are established at fair value and where the lease-back transaction results in an operating lease must be recognized immediately. Under previous GAAP the Company was amortizing the gains or losses over the lease term. As a result, the Company has recognized the remaining balance of deferred gains on its operating sale and lease-back transaction in opening retained earnings.

### *(iv) Provisions*

Under IFRS reserves and/or accruals for which there is a significant degree of uncertainty about the amount or timing of the payment are classified as provisions. In addition, a provision must be discounted when the time-value of money is material. Therefore, the Company reclassified certain accruals to provisions and has discounted these provisions where applicable.

Furthermore, IFRS specifies that the discount rate applied to the provision must be the rate that reflects the risks associated with the obligation. Under previous GAAP the Company measured its provisions for asset retirement obligations using the credit-adjusted risk-free rate of interest. As a result, the Company has re-measured its provisions for asset retirement obligations, which are now referred to as site restoration and decommissioning provisions under IFRS.

Under previous GAAP reserves and accruals are only recorded when a legal obligation exists. Under IFRS provisions are recorded for both legal and constructive obligations. A constructive obligation exists when an action by the Company indicates to a third party that it will accept certain responsibilities, and creates a valid expectation on the part of that third party that it will discharge those responsibilities.

### *(v) Loyalty programs*

IFRIC 13 - *Customer Loyalty Programmes* requires award credits granted as part of a sales transaction to be accounted for as a separate component of revenue earned on the transaction. Revenue earned on the transaction is allocated to the award credit based on its fair value and deferred until the award credits are redeemed, unless a third party provides the awards, in which case revenue is deferred until the Company fulfills its obligations to the customer in respect of the awards. As a result, the Company has deferred revenue earned on transactions relating to its loyalty programs.

### *(vi) Employee benefits*

Under GAAP the Company was using the corridor method to amortize gains and losses. On transition to IFRS, the Company elected to reset all cumulative unamortized actuarial gains and losses to zero as at the Transition Date. Cumulative actuarial gains and losses that existed at the Transition Date were recognized in opening retained earnings for the Company's employee benefit plans.

### *(vii) Share-based payments*

Under previous GAAP the obligation for cash settled share-based awards is revalued at each reporting period based on the market price of the Company's Class A Non-voting Shares and the portion vested. Under IFRS the obligation for cash-settled awards is remeasured at each reporting date based on the fair value of the award and the portion vested.

Under previous GAAP the Company recognized forfeitures of share-based awards as they occurred. Under IFRS an estimate is required of the number of awards expected to vest, which is revised if subsequent information indicates that actual forfeitures are likely to differ from the estimate. As a result, the Company adjusted its liability for share-based awards.

Under previous GAAP the Company recognized the total fair value of share-based awards with graded vesting on a straight-line basis over the employment period necessary to vest the award. Under IFRS the Company recognized the fair value of each tranche in an award with graded vesting on a straight-line basis over the vesting period of the tranche.

### *(viii) Consolidation*

#### *Glacier Credit Card Trust ("GCCT")*

Glacier Credit Card Trust was formed to buy co-ownership interests in the Company's credit card loans. GCCT issues debt to third-party investors to fund its purchases. Under previous GAAP GCCT was determined to be a qualifying special purpose entity and was therefore exempt from consolidation. Under IFRS the Company is required to consolidate an entity that it controls based on the criteria set forth in IAS 27 - *Consolidated and Separate Financial Statements* ("IAS 27") and SIC 12 - *Consolidation - Special Purpose Entities* ("SIC 12"). The Company determined that it controls GCCT and is therefore required to consolidate GCCT under IFRS.

#### *Dealer loan program*

A legal entity sponsored by a third party bank, Franchise Trust (FT) originates loans to Dealers for their purchase of inventory and fixed assets. The Corporation has arranged for several major Canadian banks to provide standby letters of credit to Franchise Trust to support the credit quality of the loan portfolio. The Company was not required to consolidate any part of FT under previous GAAP. Under IFRS the Company is required to consolidate an entity/arrangement (or a

## Notes to the Condensed Consolidated Financial Statements (Unaudited)

portion thereof) it is considered to control based on the criteria set forth in IAS 27 and SIC 12. The Company has determined that it controls the portion (silo) of FT that issues loans to Dealers under the Dealer loan program and accordingly, is required to consolidate the silo of FT containing the Dealer loan program.

### (ix) *Securitization*

Since 1995, the Company has securitized credit card receivables through GCCT. Under previous GAAP the Company recorded a gain/loss on sale and derecognized the credit card receivables. Under IFRS an entity may not derecognize an asset when it maintains the majority of the risks and rewards associated with the asset. Therefore, the securitization transactions no longer qualify for derecognition under IFRS and the Company must recognize the receivables on the Consolidated Balance Sheets. Accordingly, the gain/loss on the sale of the receivables is reversed.

### (x) *Financial instruments*

#### Hedging with options

Under IFRS, the Company is required to reflect the time value of foreign exchange options in the Consolidated Statements of Income. Under previous GAAP, the fair market value of the option portfolio was recorded as an adjustment to inventory (for goods where title of ownership had transferred) or Other Comprehensive Income ("OCI") (for future merchandise yet to be purchased). Under IFRS, the time value component of the fair market valuation of the foreign exchange options portfolio will be recorded in the Consolidated Statements of Income rather than in OCI, which results in new income statement volatility going forward under IFRS.

#### Debt issuance costs

Under IFRS all transaction costs that are directly attributable to the issuance of debt must be capitalized and amortized over the term of the debt. Under previous GAAP the Company expensed these transaction costs as incurred. As a result, costs previously expensed are retrospectively capitalized in the Consolidated Balance Sheets.

#### Allowance for impairment of loans receivable

Under both previous GAAP and IFRS the Company determines its allowance for impairment of loans receivable using an incurred loss model. However, IFRS requires objective evidence of a loss having occurred prior to recording impairment on a financial asset. IFRS also provides more detailed guidance on loss events, impairment analysis, and when an impairment is permitted. This increased guidance has resulted in an increase in the Company's impairment allowance.

### (xi) *Foreign exchange translation*

The Company elected to reset all cumulative translation differences to zero as at the Transition Date. Cumulative translation differences that existed at the Transition Date were fully recognized in opening retained earnings.

### (xii) *Income taxes*

This adjustment reflects the change in current or deferred income taxes resulting from the effect of the IFRS adjustments described as allowed under IAS 12 - *Income Taxes*.

## E. Reconciliation of Comprehensive Income from previous GAAP to IFRS

The following is a reconciliation of the Company's net income reported in accordance with previous GAAP to its net income in accordance with IFRS for the following periods:

(C\$ in millions)	Notes	13 weeks ended April 3, 2010	52 weeks ended January 1, 2011
Net income as reported under previous GAAP		\$ 49.4	\$ 453.6
Transitional adjustments:			
Property and equipment	i	(0.2)	(0.4)
Impairment	ii	0.1	(1.2)
Leases	iii	(1.8)	(12.6)
Provisions	iv	0.1	(0.2)
Loyalty programs	v	0.6	0.4
Employee benefits	vi	0.1	0.5
Share-based payments	vii	1.2	0.7
Consolidation	viii	(0.2)	(0.2)
Securitization	ix	1.4	1.2
Financial instruments	x	1.3	1.3
Income taxes	xi	(0.4)	0.9
Other		-	0.2
Total transitional adjustments		2.2	(9.4)
Net income as reported under IFRS		\$ 51.6	\$ 444.2

## Notes to the Condensed Consolidated Financial Statements (Unaudited)

(C\$ in millions)	Notes	13 weeks ended April 3, 2010	52 weeks ended January 1, 2011
Comprehensive income as reported under previous GAAP		\$ 45.3	\$ 461.3
Transitional adjustments, net of tax:			
Adjustments to net income		2.2	(9.4)
Employee benefits	vi	-	(6.2)
Financial instruments	x	0.2	(1.4)
Comprehensive income as reported under IFRS		\$ 47.7	\$ 444.3

The following is an explanation of the adjustments to net income and comprehensive income:

### (i) Property and equipment

Additional significant components of certain assets are depreciated separately over a shorter useful life. As a result, higher depreciation was charged on these components.

### (ii) Impairment

On initial transition to IFRS the Company impaired certain depreciable assets. The lower cost base resulted in a decrease in depreciation expense. An impairment indicator was triggered during the year ended January 1, 2011 and the Company recognized an impairment loss of \$1.5 million relating to investment property.

### (iii) Leases

The Company accounts for leases of certain assets as finance leases under IFRS. As a result, the Company depreciates the leased assets on the same basis as similar owned assets and records accretion expense on the financing obligation. Under previous GAAP these assets were accounted for as operating leases and rental payments were expensed on a straight-line basis over the lease term.

Furthermore, the gain recorded on previous sale and lease-back transactions were being amortized to net income on a straight-line basis over the lease term under previous GAAP. Under IFRS as a result of the reclassification of the lease from operating to finance, the gain on sale is amortized on the same basis as the leased assets.

Under previous GAAP the Company was amortizing gains and losses from previous sale and lease-back transactions classified as operating leases over the term of the various lease agreements. Under IFRS gains and losses on sale and lease-back transactions that result in an operating lease must be recorded in income immediately. Therefore, the balances are no longer being amortized.

### (iv) Provisions

The adjustment for the 52 weeks ended January 1, 2011 related to movements in the IFRS discount rate during the year and the unwinding of the discount rate applied to provisions for warranty and site restoration, which were partly offset by depreciation on decommissioning and restoration obligations. The adjustment for the 13 weeks ended April 3, 2010 related to the depreciation on decommissioning and restoration obligations which were partly offset by the unwinding of the discount rate applied to provisions for warranty and site restorations.

### (v) Loyalty programs

#### Awards provided by the Company

Under IFRS the Company defers revenue allocated to award credits granted as part of a sales transaction and recognizes that revenue when the customer redeems the award credits. Under previous GAAP the cost of providing award credits was included in sales and marketing expenses.

#### Awards provided by a third party

Under previous GAAP the Company recorded the cost of operating its Canadian Tire Money programs as a reduction of revenue. Under IFRS, since the awards associated with this program are supplied by a third party, the Company defers revenue until it has fulfilled its obligations to the customer in respect of the awards. As the Company's obligation to the customer is fulfilled at the same time that the award credits are granted to the customer, the event triggering the revenue deferral and the event triggering revenue recognition are the same, resulting in the Company immediately recognizing the revenue associated with the loyalty transaction and a corresponding loyalty expense.

### (vi) Employee benefits

The Company elected to recognize all cumulative actuarial gains and losses as at the Transition Date. As a result, the Company adjusted its pension expense to remove the amortization of actuarial gains and losses. Furthermore, the

## Notes to the Condensed Consolidated Financial Statements (Unaudited)

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Company's policy under IFRS is to record revaluation gains and losses into OCI. Under previous GAAP the Company was recognizing revaluation gains and losses into income using the corridor approach.

### *(vii) Share-based payments*

Under previous GAAP the obligation for cash settled share-based awards was revalued at each reporting period based on the intrinsic value of the Company's Class A Non-voting Shares and the portion vested. Under IFRS cash-settled awards are re-measured at each reporting date based on the fair value of the Company's Class A Non-Voting Shares and the portion vested.

Under previous GAAP the Company recognized forfeitures of share-based awards as they occurred. Under IFRS an estimate is required of the number of awards expected to vest, which is revised if subsequent information indicates that actual forfeitures are likely to differ from the estimate. As a result, the Company adjusted its liability for share-based awards.

Under previous GAAP the Company recognized the total fair value of share-based awards with graded vesting on a straight-line basis over the employment period necessary to vest the award. Under IFRS the Company recognized the fair value of each tranche in an award with graded vesting on a straight-line basis over the vesting period of the tranche.

### *(viii) Consolidation*

The Company consolidates GCCT and the silo of FT containing the Dealer loan program under IFRS, but did not consolidate these entities under previous GAAP. Accordingly, the financial results of these entities have been included in the determination of the Company's net income under IFRS.

### *(ix) Securitization*

Credit card receivables that were securitized through GCCT no longer qualify for derecognition under IFRS as they would under previous GAAP. As a result, the Company has reinstated the receivable balances and corresponding income and expenses related to those balances.

### *(x) Financial instruments*

#### *Hedging with options*

Under IFRS, the Company is required to reflect the time value of foreign exchange options in the Consolidated Statements of Income. Under previous GAAP, the fair market value of the option portfolio was recorded as an adjustment to inventory (for goods where title of ownership had transferred) or OCI (for future merchandise yet to be purchased). Under IFRS, the time value component of the fair market valuation of the foreign exchange options portfolio is recorded in the Consolidated Statements of Income rather than in OCI.

#### *Designation of previously recognized financial instruments*

Upon transition to IFRS certain financial assets were reclassified from held for trading to available for sale. Changes in the fair value of financial assets classified as held for trading are recorded in net income, whereas changes in fair value of available for sale financial assets are recorded in OCI.

#### *Debt issuance costs*

Under IFRS all transaction costs that are directly attributable to the issuance of debt must be capitalized. Under previous GAAP the Company expensed these transaction costs. Therefore, the previously expensed costs are retrospectively capitalized in the Consolidated Balance Sheets and netted against the outstanding debt. These transaction costs are being amortized into income over the term of the related debt.

#### *Allowance for impairment of loans receivable*

Under IFRS the Company was required to recalculate its allowance for impairment of loans receivable. This resulted in an increase in the impairment and a decrease to net income.

### *(xi) Income taxes*

This adjustment reflects the current or deferred income taxes resulting from the effect of the IFRS adjustments described.

## **F. Reconciliation of Cash Flows from previous GAAP to IFRS**

The most significant adjustments to the Company's Consolidated Statements of Cash Flows reported in accordance with IFRS relate to the consolidation of additional entities under IFRS that were not required to be consolidated under previous GAAP and the elimination of securitization transactions reported under previous GAAP that no longer qualify for derecognition under IFRS.

All amounts and classification changes referenced in the note below relate to items in the Company's Consolidated Statements of Cash Flows for the 13 weeks ended April 3, 2010.

## Notes to the Condensed Consolidated Financial Statements (Unaudited)

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As a result of the consolidation of additional entities and new finance leases, the repayment of long-term debt increased from \$2.9 million under previous GAAP to \$43.8 million under IFRS. In addition, under IFRS the Company includes “issuance/repayment of commercial notes” of \$469.1 million and \$468.9 million, respectively, and “issuance/repayment of loans payable” of \$104.3 million and \$90.1 million, respectively in financing activities.

As a result of the elimination of securitization transactions reported under previous GAAP that no longer qualify for de-recognition under IFRS, “net provision for loans receivable” of \$47.3 million under previous GAAP is now presented as “impairment on loans receivable” of \$90.4 million under IFRS. “Gain on sale of loans receivable” of \$7.0 million, “securitization loans receivable” of \$8.1 million and “net securitization of loans receivable” of \$2.6 million presented under previous GAAP are no longer applicable under IFRS. “Investment in loans receivable” decreased from \$70.6 million under previous GAAP to (\$7.4) million under IFRS.

The Company has also modified the classification of certain items within the Consolidated Statements of Cash Flows. “Investment in loans receivable”, classified as investing activities under previous GAAP, is now presented as “loans receivable” in “changes in working capital and other”. “Net change in deposits”, classified as financing activities under previous GAAP, is now presented as “deposits” in “changes in working capital and other”.

Net finance costs and income tax expense are included in “operating activities” and interest paid, interest received and income taxes paid are included in “cash generated from operating activities” in the Consolidated Statements of Cash Flows under IFRS.

## Notes to the Condensed Consolidated Financial Statements (Unaudited)

### G. Restated Financial Statements

The following are reconciliations of the financial statements reported under previous GAAP to amended financial statements prepared under IFRS.

#### Restated Consolidated Balance Sheet under IFRS

As at January 3, 2010 (C\$ in millions)	Previous GAAP	Consolidation of additional entities	IFRS Reclassifications	IFRS Adjustments	IFRS
<b>ASSETS</b>					
Cash and cash equivalents	\$ 869.7	\$ 16.3	\$ (0.2)	\$ -	\$ 885.8
Short-term investments	64.0	(3.3)	0.2	-	60.9
Trade and other receivables	835.9	2.9	15.0	-	853.8
Loans receivable	2,274.8	1,774.8	-	(40.9)	4,008.7
Merchandise inventories	933.6	-	-	(0.6)	933.0
Income taxes recoverable	94.7	-	-	-	94.7
Prepaid expenses and deposits	40.7	-	0.4	-	41.1
Deferred income taxes	82.8	-	(82.8)	-	-
	5,196.2	1,790.7	(67.4)	(41.5)	6,878.0
Assets classified as held for sale	-	-	15.0	-	15.0
<b>Total current assets</b>	<b>5,196.2</b>	<b>1,790.7</b>	<b>(52.4)</b>	<b>(41.5)</b>	<b>6,893.0</b>
Long-term receivables and other assets	109.9	712.3	(0.4)	(19.5)	802.3
Other long-term investments	48.8	-	-	-	48.8
Intangible assets	337.2	-	-	(1.8)	335.4
Investment property	-	-	71.2	-	71.2
Property and equipment	3,180.4	-	(86.2)	116.2	3,210.4
Deferred income taxes	-	-	33.0	13.1	46.1
<b>Total assets</b>	<b>\$ 8,872.5</b>	<b>\$ 2,503.0</b>	<b>\$ (34.8)</b>	<b>\$ 66.5</b>	<b>\$ 11,407.2</b>
<b>LIABILITIES</b>					
Bank indebtedness	\$ 83.7	\$ -	\$ -	\$ -	\$ 83.7
Deposits	863.4	-	-	-	863.4
Trade and other payables	1,391.4	19.2	(212.2)	(5.5)	1,192.9
Provisions	-	-	199.4	21.5	220.9
Commercial paper notes	-	163.0	-	-	163.0
Loans payable	-	757.4	-	-	757.4
Current portion of long-term debt	309.3	365.0	-	16.3	690.6
<b>Total current liabilities</b>	<b>2,647.8</b>	<b>1,304.6</b>	<b>(12.8)</b>	<b>32.3</b>	<b>3,971.9</b>
Long-term provisions	-	-	22.0	4.7	26.7
Long-term debt	1,101.2	1,198.4	-	141.5	2,441.1
Long-term deposits	1,196.9	-	-	-	1,196.9
Deferred income taxes	49.8	-	(49.8)	-	-
Other long-term liabilities	188.9	-	5.8	(67.2)	127.5
<b>Total liabilities</b>	<b>5,184.6</b>	<b>2,503.0</b>	<b>(34.8)</b>	<b>111.3</b>	<b>7,764.1</b>
<b>SHAREHOLDERS' EQUITY</b>					
Share capital	720.4	-	-	-	720.4
Contributed surplus	0.2	-	-	-	0.2
Accumulated other comprehensive income (loss)	(46.4)	-	-	7.8	(38.6)
Retained earnings	3,013.7	-	-	(52.6)	2,961.1
<b>Total shareholders' equity</b>	<b>3,687.9</b>	<b>-</b>	<b>-</b>	<b>(44.8)</b>	<b>3,643.1</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 8,872.5</b>	<b>\$ 2,503.0</b>	<b>\$ (34.8)</b>	<b>\$ 66.5</b>	<b>\$ 11,407.2</b>

## Notes to the Condensed Consolidated Financial Statements (Unaudited)

### Restated Consolidated Balance Sheet under IFRS

As at April 3, 2010 (C\$ in millions)	Previous GAAP (Note 22)	Consolidation of additional entities	IFRS Reclassifications	IFRS Adjustments	IFRS
<b>ASSETS</b>					
Cash and cash equivalents	\$ 827.7	\$ 18.3	\$ (0.8)	\$ -	\$ 845.2
Short-term investments	106.6	(40.3)	0.8	-	67.1
Trade and other receivables	548.8	2.8	13.3	-	564.9
Loans receivable	2,174.6	1,766.2	-	(38.3)	3,902.5
Merchandise inventories	1,089.3	-	-	(0.7)	1,088.6
Income taxes recoverable	98.0	-	-	(0.6)	97.4
Prepaid expenses and deposits	75.3	-	0.3	-	75.6
Deferred income taxes	85.0	-	(85.0)	-	-
	5,005.3	1,747.0	(71.4)	(39.6)	6,641.3
Assets classified as held for sale	-	-	21.5	-	21.5
<b>Total current assets</b>	<b>5,005.3</b>	<b>1,747.0</b>	<b>(49.9)</b>	<b>(39.6)</b>	<b>6,662.8</b>
Long-term receivables and other assets	105.8	735.9	(0.3)	(18.8)	822.6
Other long-term investments	49.3	-	-	-	49.3
Intangible assets	336.3	-	-	(1.9)	334.4
Investment property	-	-	70.7	-	70.7
Property and equipment	3,173.0	-	(92.2)	111.0	3,191.8
Deferred income taxes	-	-	35.2	13.1	48.3
<b>Total assets</b>	<b>\$ 8,669.7</b>	<b>\$ 2,482.9</b>	<b>\$ (36.5)</b>	<b>\$ 63.8</b>	<b>\$ 11,179.9</b>
<b>LIABILITIES</b>					
Bank indebtedness	\$ 82.3	\$ -	\$ -	\$ -	\$ 82.3
Deposits	760.3	(0.1)	-	-	760.2
Trade and other payables	1,243.3	20.3	(209.0)	(9.6)	1,045.0
Provisions	-	-	198.2	23.4	221.6
Commercial paper notes	-	163.2	-	-	163.2
Loans payable	-	771.6	-	-	771.6
Current portion of long-term debt	307.6	365.0	-	14.0	686.6
<b>Total current liabilities</b>	<b>2,393.5</b>	<b>1,320.0</b>	<b>(10.8)</b>	<b>27.8</b>	<b>3,730.5</b>
Long-term provisions	-	-	18.9	4.9	23.8
Long-term debt	1,099.0	1,163.1	-	139.6	2,401.7
Long-term deposits	1,220.1	-	-	-	1,220.1
Deferred income taxes	49.8	-	(49.8)	-	-
Other long-term liabilities	191.0	-	5.2	(66.3)	129.9
<b>Total liabilities</b>	<b>4,953.4</b>	<b>2,483.1</b>	<b>(36.5)</b>	<b>106.0</b>	<b>7,506.0</b>
<b>SHAREHOLDERS' EQUITY</b>					
Share capital	720.7	-	-	-	720.7
Contributed surplus	0.1	-	-	-	0.1
Accumulated other comprehensive income (loss)	(50.5)	-	0.2	7.8	(42.5)
Retained earnings	3,046.0	(0.2)	(0.2)	(50.0)	2,995.6
<b>Total shareholders' equity</b>	<b>3,716.3</b>	<b>(0.2)</b>	<b>-</b>	<b>(42.2)</b>	<b>3,673.9</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 8,669.7</b>	<b>\$ 2,482.9</b>	<b>\$ (36.5)</b>	<b>\$ 63.8</b>	<b>\$ 11,179.9</b>

## Notes to the Condensed Consolidated Financial Statements (Unaudited)

### Restated Consolidated Balance Sheet under IFRS

As at January 1, 2011 (C\$ in millions)	Previous GAAP	Consolidation of additional entities	IFRS Reclassifications	IFRS Adjustments	IFRS
<b>ASSETS</b>					
Cash and cash equivalents	\$ 554.3	\$ 15.4	\$ (0.8)	\$ -	\$ 568.9
Short-term investments	195.9	-	0.8	-	196.7
Trade and other receivables	662.3	2.0	9.6	-	673.9
Loans receivable	2,481.2	1,606.8	-	(37.0)	4,051.0
Merchandise inventories	901.5	-	-	(0.5)	901.0
Income taxes recoverable	99.4	-	-	(0.1)	99.3
Prepaid expenses and deposits	37.6	-	0.3	(0.3)	37.6
Deferred income taxes	72.4	-	(72.4)	-	-
	5,004.6	1,624.2	(62.5)	(37.9)	6,528.4
Assets classified as held for sale	-	-	20.8	-	20.8
<b>Total current assets</b>	<b>5,004.6</b>	<b>1,624.2</b>	<b>(41.7)</b>	<b>(37.9)</b>	<b>6,549.2</b>
Long-term receivables and other assets	100.9	648.1	(0.4)	(21.7)	726.9
Other long-term investments	75.8	-	-	-	75.8
Intangible assets	363.0	-	-	(1.6)	361.4
Investment property	-	-	70.1	(1.5)	68.6
Property and equipment	3,219.8	-	(90.9)	103.1	3,232.0
Deferred income taxes	-	-	17.8	16.8	34.6
<b>Total assets</b>	<b>\$ 8,764.1</b>	<b>\$ 2,272.3</b>	<b>\$ (45.1)</b>	<b>\$ 57.2</b>	<b>\$ 11,048.5</b>
<b>LIABILITIES</b>					
Bank indebtedness	\$ 118.0	\$ -	\$ -	\$ -	\$ 118.0
Deposits	615.6	-	-	-	615.6
Trade and other payables	1,355.9	18.6	(187.6)	(7.0)	1,179.9
Provisions	-	-	174.8	21.4	196.2
Commercial paper notes	-	100.6	-	-	100.6
Loans payable	-	687.0	-	-	687.0
Current portion of long-term debt	22.6	317.5	-	14.1	354.2
<b>Total current liabilities</b>	<b>2,112.1</b>	<b>1,123.7</b>	<b>(12.8)</b>	<b>28.5</b>	<b>3,251.5</b>
Long-term provisions	-	-	18.2	6.9	25.1
Long-term debt	1,079.4	1,148.8	-	137.2	2,365.4
Long-term deposits	1,264.5	-	-	-	1,264.5
Deferred income taxes	54.6	-	(54.6)	-	-
Other long-term liabilities	186.8	-	4.1	(53.8)	137.1
<b>Total liabilities</b>	<b>4,697.4</b>	<b>2,272.5</b>	<b>(45.1)</b>	<b>118.8</b>	<b>7,043.6</b>
<b>SHAREHOLDERS' EQUITY</b>					
Share capital	711.6	-	-	-	711.6
Contributed surplus	0.3	-	-	-	0.3
Accumulated other comprehensive income (loss)	(38.7)	-	0.1	0.1	(38.5)
Retained earnings	3,393.5	(0.2)	(0.1)	(61.7)	3,331.5
<b>Total shareholders' equity</b>	<b>4,066.7</b>	<b>(0.2)</b>	<b>-</b>	<b>(61.6)</b>	<b>4,004.9</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 8,764.1</b>	<b>\$ 2,272.3</b>	<b>\$ (45.1)</b>	<b>\$ 57.2</b>	<b>\$ 11,048.5</b>

## Notes to the Condensed Consolidated Financial Statements (Unaudited)

### Restated Consolidated Statement of Income 'Function of Expense' format under previous GAAP

13 weeks ended April 3, 2010  
(C\$ in millions)

Format under previous GAAP		Adjustments for new format		Function of expense format under previous GAAP
<b>Gross operating revenue</b>	<b>\$ 1,830.1</b>	<b>-</b>	<b>\$ 1,830.1</b>	<b>Revenue</b>
		(1,304.1)	(1,304.1)	Cost of producing revenue
			<b>526.0</b>	<b>Gross margin</b>
<b>Operating expenses</b>				
Cost of merchandise sold and all other operating expenses except for the undernoted items	(1,662.2)	1,662.2		
Net interest expense	(32.0)	32.0		
Depreciation and amortization	(59.7)	59.7		
Employee profit sharing plan	(4.5)	4.5		
<b>Total operating expenses</b>	<b>(1,758.4)</b>			
		0.5	0.5	Other income (expenses)
				Operating expenses
		(72.7)	(72.7)	Distribution costs
		(210.1)	(210.1)	Sales and marketing expenses
		(156.5)	(156.5)	Administrative expenses
			(439.3)	Total operating expenses
			<b>87.2</b>	<b>Operating income</b>
		2.1	2.1	Finance income
		(17.6)	(17.6)	Finance costs
			<b>(15.5)</b>	<b>Net finance costs</b>
<b>Earnings before income taxes</b>	<b>71.7</b>	<b>-</b>	<b>71.7</b>	<b>Income before income taxes</b>
<b>Income taxes</b>				
Current	(22.3)			
<b>Income taxes</b>	<b>(22.3)</b>		<b>(22.3)</b>	<b>Income taxes</b>
<b>Net earnings</b>	<b>\$ 49.4</b>		<b>\$ 49.4</b>	<b>Net income</b>

## Notes to the Condensed Consolidated Financial Statements (Unaudited)

### Restated Consolidated Statement of Income under IFRS

13 weeks ended April 3, 2010 (C\$ in millions)	Function of expense format under previous GAAP	Consolidation of additional entities	IFRS Adjustments/ Reclassifications	IFRS
<b>Revenue</b>	<b>\$ 1,830.1</b>	<b>\$ 26.8</b>	<b>\$ 32.1</b>	<b>\$ 1,889.0</b>
Cost of producing revenue	(1,304.1)	-	2.1	(1,302.0)
<b>Gross margin</b>	<b>526.0</b>	<b>26.8</b>	<b>34.2</b>	<b>587.0</b>
Other income (expenses)	0.5	(2.8)	(0.5)	(2.8)
Operating expenses				
Distribution costs	(72.7)	-	0.6	(72.1)
Sales and marketing expenses	(210.1)	-	(31.6)	(241.7)
Administrative expenses	(156.5)	(0.9)	2.8	(154.6)
<b>Total operating expenses</b>	<b>(439.3)</b>	<b>(0.9)</b>	<b>(28.2)</b>	<b>(468.4)</b>
<b>Operating income</b>	<b>87.2</b>	<b>23.1</b>	<b>5.5</b>	<b>115.8</b>
Finance income	2.1	(1.3)	0.8	1.6
Finance costs	(17.6)	(22.0)	(3.6)	(43.2)
<b>Net finance costs</b>	<b>(15.5)</b>	<b>(23.3)</b>	<b>(2.8)</b>	<b>(41.6)</b>
<b>Income before income taxes</b>	<b>71.7</b>	<b>(0.2)</b>	<b>2.7</b>	<b>74.2</b>
<b>Income taxes</b>	<b>(22.3)</b>	<b>-</b>	<b>(0.3)</b>	<b>(22.6)</b>
<b>Net income</b>	<b>\$ 49.4</b>	<b>\$ (0.2)</b>	<b>\$ 2.4</b>	<b>\$ 51.6</b>
<b>Basic earnings per share</b>	<b>\$ 0.61</b>	<b>-</b>	<b>0.02</b>	<b>\$ 0.63</b>
<b>Diluted earnings per share</b>	<b>\$ 0.61</b>	<b>-</b>	<b>0.02</b>	<b>\$ 0.63</b>
<b>Weighted average number of Common and Class A Non-Voting Shares outstanding - Basic</b>	<b>81,625,769</b>	<b>-</b>	<b>-</b>	<b>81,625,769</b>
<b>Weighted average number of Common and Class A Non-Voting Shares outstanding - Diluted</b>	<b>81,625,769</b>	<b>-</b>	<b>329,556</b>	<b>81,955,325</b>

## Notes to the Condensed Consolidated Financial Statements (Unaudited)

### Restated Consolidated Statement of Income 'Function of Expense' format under previous GAAP

52 weeks ended January 1, 2011  
(C\$ in millions)

Format under previous GAAP		Adjustments for new format		Function of expense format under previous GAAP
<b>Gross operating revenue</b>	<b>\$ 8,980.8</b>	-	<b>\$ 8,980.8</b>	<b>Revenue</b>
		(6,425.0)	(6,425.0)	Cost of producing revenue
			<b>2,555.8</b>	<b>Gross margin</b>
<b>Operating expenses</b>				
Cost of merchandise sold and all other operating expenses except for the undernoted items	(8,000.2)	8,000.2		
Net interest expense	(103.3)	103.3		
Depreciation and amortization	(247.3)	247.3		
Employee profit sharing plan	(33.0)	33.0		
<b>Total operating expenses</b>	<b>(8,383.8)</b>			
		15.5	15.5	Other income (expenses)
				Operating expenses
		(298.6)	(298.6)	Distribution costs
		(956.9)	(956.9)	Sales and marketing expenses
		(682.8)	(682.8)	Administrative expenses
			(1,938.3)	Total operating expenses
			<b>633.0</b>	<b>Operating income</b>
		28.3	28.3	Finance income
		(64.3)	(64.3)	Finance costs
			(36.0)	Net finance costs
<b>Earnings before income taxes</b>	<b>597.0</b>	-	<b>597.0</b>	<b>Income before income taxes</b>
<b>Income taxes</b>				
Current	(132.8)			
Future	(10.6)			
<b>Income taxes</b>	<b>(143.4)</b>		<b>(143.4)</b>	<b>Income taxes</b>
<b>Net earnings</b>	<b>\$ 453.6</b>		<b>\$ 453.6</b>	<b>Net income</b>

## Notes to the Condensed Consolidated Financial Statements (Unaudited)

### Restated Consolidated Statement of Income under IFRS

52 weeks ended January 1, 2011 (C\$ in millions)	Function of expense format under previous GAAP	Consolidation of additional entities	IFRS Adjustments/ Reclassifications	IFRS
<b>Revenue</b>	<b>\$ 8,980.8</b>	<b>\$ 105.2</b>	<b>\$ 127.1</b>	<b>\$ 9,213.1</b>
Cost of producing revenue	(6,425.0)	-	2.9	(6,422.1)
<b>Gross margin</b>	<b>2,555.8</b>	<b>105.2</b>	<b>130.0</b>	<b>2,791.0</b>
Other income (expenses)	15.5	(12.3)	(2.1)	1.1
Operating expenses				
Distribution costs	(298.6)	-	2.3	(296.3)
Sales and marketing expenses	(956.9)	-	(133.5)	(1,090.4)
Administrative expenses	(682.8)	(2.9)	2.8	(682.9)
Total operating expenses	(1,938.3)	(2.9)	(128.4)	(2,069.6)
<b>Operating income</b>	<b>633.0</b>	<b>90.0</b>	<b>(0.5)</b>	<b>722.5</b>
Finance income	28.3	(0.2)	4.3	32.4
Finance costs	(64.3)	(90.0)	(13.8)	(168.1)
Net finance costs	(36.0)	(90.2)	(9.5)	(135.7)
<b>Income before income taxes</b>	<b>597.0</b>	<b>(0.2)</b>	<b>(10.0)</b>	<b>586.8</b>
<b>Income taxes</b>	<b>(143.4)</b>	<b>-</b>	<b>0.8</b>	<b>(142.6)</b>
<b>Net income</b>	<b>\$ 453.6</b>	<b>\$ (0.2)</b>	<b>\$ (9.2)</b>	<b>\$ 444.2</b>
<b>Basic earnings per share</b>	<b>\$ 5.56</b>	<b>-</b>	<b>(0.11)</b>	<b>\$ 5.45</b>
<b>Diluted earnings per share</b>	<b>\$ 5.56</b>	<b>-</b>	<b>(0.14)</b>	<b>\$ 5.42</b>
Weighted average number of Common and Class A Non-Voting Shares outstanding - Basic	81,565,476	-	-	81,565,476
Weighted average number of Common and Class A Non-Voting Shares outstanding - Diluted	81,565,476	-	339,536	81,905,012

## Notes to the Condensed Consolidated Financial Statements (Unaudited)

### 23. Selected Annual Disclosures

As these interim consolidated financial statements are the Company's first consolidated financial statements prepared using IFRS, the Company has included certain unaudited annual IFRS disclosures to the extent that they are new disclosures or have changed significantly under IFRS and the Company considers them to be helpful to the understanding of the interim consolidated financial statements.

#### A. Finance Income and Finance Costs

The following provides details of finance income and finance costs for the 52 weeks ended January 1, 2011:

(C\$ in millions)	52 weeks ended January 1, 2011
Finance income	
Interest income on tax instalments	\$ 18.3
Interest income on mortgages	6.6
Interest income on financial assets designated as fair value through profit and loss	3.3
Interest income on available for sale financial assets	3.2
Other finance income	1.0
<b>Total finance income</b>	<b>\$ 32.4</b>
Finance costs	
Interest expense on subordinated and senior notes <sup>1</sup>	\$ (70.5)
Interest expense on medium-term notes	(62.1)
Interest on loans payable	(16.8)
Interest expense on finance leases	(12.6)
Amortization of debt issuance costs <sup>1</sup>	(2.5)
Other finance costs <sup>1</sup>	(5.0)
Total finance costs	\$ (169.5)
Less: Capitalized interest	\$ 1.4
<b>Total finance costs</b>	<b>\$ (168.1)</b>
<b>Net finance costs</b>	<b>\$ (135.7)</b>

<sup>1</sup> Glacier Credit Card Trust finance costs are included in the above lines in the following amounts: Interest expense on subordinated and senior notes \$70.5 million; amortization of debt issuance costs \$1.8 million and other finance costs \$0.9 million.

#### B. Income Taxes

The following are the major components of the income tax expense for the 52 weeks ended January 1, 2011:

(C\$ in millions)	52 weeks ended January 1, 2011
<b>Current tax expense</b>	
Current period	\$ 178.3
Adjustments in respect of prior years	(45.4)
	\$ 132.9
<b>Deferred tax expense</b>	
Deferred income tax expense relating to the origination and reversal of temporary differences	\$ 9.7
Deferred income tax expense (benefit) resulting from change in tax rate	-
	\$ 9.7
<b>Total income tax expense</b>	<b>\$ 142.6</b>

## Notes to the Condensed Consolidated Financial Statements (Unaudited)

### Reconciliation of income tax expense

Income taxes in the Consolidated Statements of Income vary from amounts that would be computed by applying statutory income tax rates for the following reasons:

(C\$ in millions)	52 weeks ended January 1, 2011
Income before income taxes	\$ 586.8
Income taxes based on the applicable tax rate of 30.49%	179.0
Adjustment to income taxes resulting from:	
Prior years' tax settlements	(42.0)
Change in legislation relating to stock options	8.0
Adjustments of prior years' tax estimates	(3.4)
Lower income tax rates on earnings of foreign subsidiaries	(1.9)
Other	2.9
Income tax expense	\$ 142.6

The applicable tax rate is the aggregate of the Canadian federal income tax rate of 18% and Canadian provincial income tax rate of 12.49%.

The tax-effected temporary differences which result in deferred tax assets and (liabilities) and the amount of deferred taxes recognized in the Consolidated Statements of Income are as follows:

(C\$ in millions)	Balance at January 3, 2010	Recognized in profit or loss	Recognized in other comprehensive income	Balance at January 1, 2011
Reserves and deferred income	\$ 82.0	\$ (4.1)	\$ -	\$ 77.9
Property and equipment	(53.8)	3.5	-	(50.3)
Intangible assets	(39.4)	(4.0)	-	(43.4)
Employee benefits	18.9	0.9	2.1	21.9
Financial instruments	16.9	-	(3.9)	13.0
Finance lease assets and obligations	10.1	1.7	-	11.8
Site restoration and decommissioning	5.0	(2.4)	-	2.6
Deferred items	3.4	(3.7)	-	(0.3)
Other	3.0	(1.6)	-	1.4
Net deferred tax asset (liability)	\$ 46.1	\$ (9.7)	\$ (1.8)	\$ 34.6

## Notes to the Condensed Consolidated Financial Statements (Unaudited)

### C. Loans Receivable

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

(C\$ in millions)	Total principal amount of receivables <sup>1</sup>	Average balance for the 52 weeks ended
	As at January 1, 2011	January 1, 2011
Credit card loans	\$ 3,996.3	\$ 3,886.1
Personal loans <sup>2</sup>	11.2	20.7
Line of credit loans	11.3	13.1
Total Financial Services' loans receivable	4,018.8	\$ 3,919.9
Dealer loans	687.0	
Total loans receivable	4,705.8	
Less: long-term portion <sup>3</sup>	654.8	
Current portion of loans receivable	\$ 4,051.0	

<sup>1</sup> Amounts shown are net of allowance for loan impairment.

<sup>2</sup> Personal loans are unsecured loans that are provided to qualified existing credit card holders for terms of three to five years. Personal loans have fixed monthly payments of principal and interest; however, the personal loans can be repaid at any time without penalty.

<sup>3</sup> The long-term portion of loans receivable is included in long-term receivables and other assets, and includes Dealer loans of \$650.9 million.

All loans receivable are recorded at amortized cost. The allowance for loan impairment for the portfolio for the 52 weeks ended January 1, 2011 was \$347.0 million. Recoveries of the allowance for loan impairment for the 52 weeks ended January 1, 2011 was \$52.7 million.

### D. Long-Term Receivables and Other Assets

(C\$ in millions)	As at January 1, 2011
Loans receivable (Note 23 C)	\$ 654.8
Mortgages receivable	62.0
Derivatives	7.1
Other receivables	3.0
	\$ 726.9

### E. Intangible Assets

The following table presents the changes in the balance of the Company's intangible assets for the 52 weeks ended January 1, 2011:

(C\$ in millions)	Gross amount at January 3, 2010	Additions – internally developed	Additions linked to business combinations	Other additions	Disposals/ retirements	Other movement and transfers	Gross amount at January 1, 2011
Goodwill	\$ 68.6	\$ -	\$ 0.1	\$ -	\$ -	\$ -	\$ 68.7
Other intangibles	60.4	-	-	-	-	-	60.4
Purchased / customized software	620.8	72.2	-	3.9	(12.0)	3.2	688.1
	\$ 749.8	\$ 72.2	\$ 0.1	\$ 3.9	\$ (12.0)	\$ 3.2	\$ 817.2

## Notes to the Condensed Consolidated Financial Statements (Unaudited)

The following table presents the changes to accumulated amortization and impairments on the Company's intangible assets for the 52 weeks ended January 1, 2011:

(C\$ in millions)	Accumulated amortization and impairment at January 3, 2010	Amortization for the year	Disposals / retirements	Other movements and transfers	Accumulated amortization and impairment at January 1, 2011
Goodwill	\$ -	\$ -	\$ -	\$ -	\$ -
Other intangibles	-	-	-	-	-
Purchased / customized software	(414.4)	(50.3)	11.6	(2.7)	(455.8)
	\$ (414.4)	\$ (50.3)	\$ 11.6	\$ (2.7)	\$ (455.8)

The following table presents the net carrying amount of the Company's intangible assets:

(C\$ in millions)	As at January 3, 2010	As at January 1, 2011
<b>Indefinite-life intangible assets</b>		
Goodwill	\$ 68.6	\$ 68.7
Other intangibles	60.4	60.4
<b>Finite-life intangible assets</b>		
Purchased / customized software	206.4	232.3
	\$ 335.4	\$ 361.4

### F. Investment Property

The following table presents the changes in the balance of the Company's investment properties for the 52 weeks ended January 1, 2011:

(C\$ in millions)	
Balance at January 3, 2010	\$ 83.3
Additions	2.3
Disposals / retirements	(0.3)
Reclassified as held for sale	(0.2)
Other movements and transfers	(0.3)
Balance at January 1, 2011	\$ 84.8

The following table presents the changes to accumulated depreciation and impairment loss on the Company's investment properties for the 52 weeks ended January 1, 2011:

(C\$ in millions)	
Balance at January 3, 2010	\$ (12.1)
Depreciation for the year	(2.8)
Impairment losses	(1.5)
Disposals / retirements	0.2
Balance at January 1, 2011	\$ (16.2)

## Notes to the Condensed Consolidated Financial Statements (Unaudited)

The following table presents the net carrying amount of the Company's investment properties:

(C\$ in millions)

Balance at January 3, 2010	\$	71.2
Balance at January 1, 2011	\$	68.6

The estimated fair value of investment property was \$110.2 million as at January 1, 2011. This fair value has been determined by applying an appropriate capitalization rate to the rental income earned by the investment property. A valuation has not been performed by an independent valuation specialist.

Investment property generated rental income of \$8.4 million.

An impairment of \$1.5 million was recognized relating to four investment properties held by the Company's Retail operating segment.

### G. Property and Equipment

The following table presents the changes in the gross carrying amount of the Company's property and equipment for the 52 weeks ended January 1, 2011:

(C\$ in millions)	Gross amount at January 3, 2010	Additions	Disposals/ retirements	Reclassifications to held for sale	Other movements and transfers	Gross amount at January 1, 2011
Land	\$ 721.8	\$ 42.1	\$ (2.7)	\$ (7.7)	\$ (2.5)	\$ 751.0
Buildings	2,483.7	46.6	(9.5)	(0.8)	2.2	2,522.2
Fixtures and equipment	725.6	66.0	(35.3)	0.4	(9.6)	747.1
Leasehold improvements	496.6	64.4	(8.8)	-	(0.1)	552.1
Assets under finance lease	277.3	17.9	(33.0)	-	-	262.2
Construction in progress	92.4	25.0	-	-	5.9	123.3
	\$ 4,797.4	\$ 262.0	\$ (89.3)	\$ (8.1)	\$ (4.1)	\$ 4,957.9

The following table presents the changes to accumulated depreciation and impairment loss on the Company's property and equipment for the 52 weeks ended January 1, 2011:

(C\$ in millions)	Accumulated depreciation and impairment at January 3, 2010	Depreciation for the year	Impairment losses	Disposals / retirements	Reclassifications to held for sale	Other movements and transfers	Accumulated depreciation and impairment at January 1, 2011
Land	\$ (2.4)	\$ -	\$ (0.7)	\$ -	\$ -	\$ -	\$ (3.1)
Buildings	(856.6)	(92.7)	(1.4)	7.1	2.8	3.9	(936.9)
Fixtures and equipment	(457.6)	(65.5)	-	31.8	(0.3)	0.4	(491.2)
Leasehold improvements	(155.9)	(30.7)	-	7.5	-	(0.7)	(179.8)
Assets under finance lease	(114.5)	(32.1)	-	31.7	-	-	(114.9)
Construction in progress	-	-	-	-	-	-	-
	\$ (1,587.0)	\$ (221.0)	\$ (2.1)	\$ 78.1	\$ 2.5	\$ 3.6	\$ (1,725.9)

## Notes to the Condensed Consolidated Financial Statements (Unaudited)

The following table presents the net carrying amount of the Company's property and equipment:

(C\$ in millions)	As at January 3, 2010	As at January 1, 2011
Land	\$ 719.4	\$ 747.9
Buildings	1,627.1	1,585.3
Fixtures and equipment	268.0	255.9
Leasehold improvements	340.7	372.3
Assets under finance lease	162.8	147.3
Construction in progress	92.4	123.3
	<b>\$ 3,210.4</b>	<b>\$ 3,232.0</b>

The carrying amount of assets under finance leases at January 1, 2011 is comprised of \$76.6 million in buildings and \$70.7 million in equipment.

### H. Provisions

The following table presents the changes to the Company's provisions for the year ended January 1, 2011:

(C\$ in millions)	Warranties and returns	Site restoration and decommissioning	Onerous contracts	Customer loyalty	Other	Total
Balance at January 3, 2010	\$ 148.9	\$ 24.9	\$ 9.2	\$ 61.8	\$ 2.8	\$ 247.6
Charges net of reversals	181.4	5.8	2.3	118.7	16.7	324.9
Utilizations	(221.7)	(7.8)	(4.8)	(115.2)	(4.8)	(354.3)
Unwinding of discount	1.4	0.5	0.1	-	-	2.0
Change in discount rate	(0.3)	1.4	-	-	-	1.1
<b>Balance at January 1, 2011</b>	<b>\$ 109.7</b>	<b>\$ 24.8</b>	<b>\$ 6.8</b>	<b>\$ 65.3</b>	<b>\$ 14.7</b>	<b>\$ 221.3</b>
Less: Current portion	106.1	7.3	3.4	65.3	14.1	196.2
Long-term portion	\$ 3.6	\$ 17.5	\$ 3.4	\$ -	\$ 0.6	\$ 25.1

### I. Commercial Paper Notes

The commercial paper notes are short-term notes issued with varying original maturities of one year or less, typically 90 days or less, at interest rates fixed at the time of each renewal. The notes may bear interest payable at maturity or be sold at a discount and mature at face value. Commercial paper notes issued by the Company are recorded at amortized cost.

### J. Loans Payable

A legal entity sponsored by a third party bank, Franchise Trust originates loans to Dealers. Loans Payable are the loans that Franchise Trust has incurred to fund the loans to Dealers. These loans are not legal liabilities of the Company.

## Notes to the Condensed Consolidated Financial Statements (Unaudited)

### K. Long-Term Debt

Outstanding loans, measured at amortized cost, are as follows for the year-ended January 1, 2011:

(C\$ in millions)	Face value	Carrying amount
Senior notes <sup>1</sup>		
Series 2006-1, 4.271%, November 18, 2011	\$ 300.0	\$ 300.0
Series 2006-2, 4.405%, May 20, 2014	238.7	238.7
Series 2008-1, 5.027%, February 20, 2013	600.0	600.0
Series 2010-1, 3.158%, November 20, 2015	250.0	250.0
Subordinated notes <sup>1</sup>		
Series 2006-1, 4.571%, November 18, 2011	17.5	17.5
Series 2006-2, 4.765%, May 20, 2014	13.9	13.9
Series 2008-1, 6.027%, February 20, 2013	34.9	34.9
Series 2010-1, 4.128%, November 20, 2015	14.6	14.6
Medium-term notes		
4.95% due June 1, 2015	300.0	300.0
5.65% due June 1, 2016	200.0	200.0
6.25% due April 13, 2028	150.0	150.0
6.32% due February 24, 2034	200.0	200.0
5.61% due September 4, 2035	200.0	200.0
Finance lease obligations	284.6	193.0
Promissory note	12.7	12.7
Debt issuance costs <sup>2</sup>	(7.3)	(7.3)
Other	1.6	1.6
<b>Total debt</b>	<b>\$ 2,811.2</b>	<b>\$ 2,719.6</b>
Current	\$ 365.9	\$ 354.2
Non-current	\$ 2,445.3	\$ 2,365.4
<b>Total debt</b>	<b>\$ 2,811.2</b>	<b>\$ 2,719.6</b>

<sup>1</sup> Senior and subordinated notes are those of Glacier Credit Card Trust.

<sup>2</sup> Includes \$3.2 million of debt issuance costs related to Glacier Credit Card Trust.

#### 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. The entitlement of Note holders and other parties to which such assets is governed by the priority and payment provisions set forth in the GCCT Indenture and the related Series Supplements under which these series of Notes were issued.

Repayment of the principal of the Series 2006-1, 2006-2 and 2008-1 notes is scheduled to commence and be completed on the expected repayment dates indicated in the preceding chart. Following repayment of principal owing, and in some circumstances interest, under the Series Senior notes, collections distributed to GCCT in respect of the related Ownership Interests will be applied to pay principal owing under Series Subordinated notes.

Principal repayments may commence earlier than these scheduled commencement dates if certain events occur, including:

- The Servicer of the receivables failing to make required distributions to GCCT, or failing to meet covenant or other contractual terms relating to its performance as Servicer;
- The performance of the receivables failing to achieve set criteria; and
- Insufficient receivables in the pool.

None of these events have occurred to date.

## Notes to the Condensed Consolidated Financial Statements (Unaudited)

### Medium-term notes

Medium-term notes are unsecured and are redeemable by the Company, in whole or in part, at any time, at the greater of par or a formula price based upon interest rates at the time of redemption.

### Finance lease obligations

Finance lease obligations are payable as follows:

(C\$ in millions)	Future minimum lease payments		Interest	Present value of minimum lease payments	
Due in less than one year	\$	34.4	\$	11.7	\$ 22.7
Due between one year and two years		32.1		10.8	21.3
Due between two years and three years		28.0		9.3	18.7
Due between three years and four years		21.7		8.0	13.7
Due between four years and five years		20.2		7.7	12.5
More than five years		148.2		44.1	104.1
	\$	284.6	\$	91.6	\$ 193.0

### Summary of debt repayment by year

(C\$ in millions)	2011	2012	2013	2014	2015	Thereafter	Total
Senior notes	\$ 300.0	\$ -	\$ 600.0	\$ 238.7	\$ 250.0	\$ -	\$ 1,388.7
Subordinated notes	17.5	-	34.9	13.9	14.6	-	80.9
Medium-term notes	-	-	-	-	300.0	750.0	1,050.0
Finance lease obligations	22.7	21.3	18.7	13.7	12.5	104.1	193.0
Promissory note	12.7	-	-	-	-	-	12.7
Other	1.3	1.1	0.1	-	-	-	2.5
	\$ 354.2	\$ 22.4	\$ 653.7	\$ 266.3	\$ 577.1	\$ 854.1	\$ 2,727.8

The carrying value of long-term debt includes debt issuance costs of \$7.3 million and the effective portion of fair value hedges of \$0.9 million benefit.

## L. Other Long-Term Liabilities

(C\$ in millions)	As at January 1, 2011
Employee benefits	\$ 86.0
Deferred gains	31.0
Derivatives	8.3
Other	11.8
	\$ 137.1

## Notes to the Condensed Consolidated Financial Statements (Unaudited)

### M. Capital Management

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

(C\$ in millions)	2010	% of total
<b>Capital components</b>		
Deposits	\$ 615.6	7.0%
Commercial paper notes	100.6	1.2%
Current portion of long-term debt	354.2	4.1%
Long-term debt	2,365.4	27.0%
Long-term deposits	1,264.5	14.5%
Total debt	\$ 4,700.3	53.8%
Share capital	711.6	8.1%
Contributed surplus	0.3	0.0%
Retained earnings	3,331.5	38.1%
<b>Total capital under management</b>	<b>\$ 8,743.7</b>	<b>100.0%</b>

### N. Post-employment benefits

The Company provides certain health care, dental care, life insurance and other benefits for certain retired employees pursuant to Company policy. The Company does not have a pension plan. Information about the Company's defined benefit plan is as follows:

(C\$ in millions)	January 1, 2011
<b>Change in the present value of defined benefit obligation</b>	
Defined benefit obligation, beginning of year	\$ 72.0
Current service cost	1.5
Interest cost	4.7
Actuarial loss	8.3
Benefits paid	(2.2)
Defined benefit obligation, end of year <sup>1</sup>	84.3
Unamortized past service credits	1.7
Accrued benefit liability	<b>\$ 86.0</b>
<b>Components of non-pension post retirement benefit cost</b>	
Amounts recognized in profit and loss:	
Current service cost	\$ 1.5
Interest cost	4.7
Amortization of unvested past service credits	(0.4)
Total recognized in profit and loss	<b>\$ 5.8</b>
Amount recognized in other comprehensive income:	
Actuarial loss immediately recognized	\$ 8.3
Total recognized in other comprehensive income	<b>\$ 8.3</b>

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

## Notes to the Condensed Consolidated Financial Statements (Unaudited)

### *Significant actuarial assumptions used:*

Defined benefit obligation, end of year:	
Discount rate	5.75%
Net benefit plan expense for the year:	
Discount rate	6.50%

For measurement purposes, a 7.28 per cent weighted average health care trend rate was assumed for 2010. The rate was assumed to decrease gradually to 4.50 per cent for 2029 and remain at that level thereafter. The expected average remaining service period of the active employees covered by the benefit plan is 14 years.

The most recent actuarial valuation of the obligation was performed as of December 31, 2009. The next required valuation will be as of December 31, 2012.

### *Sensitivity analysis:*

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects for 2010:

(C\$ in millions)	Increase	Decrease
Total of service and interest cost	\$ 0.6	\$ (0.5)
Accrued benefit obligation	9.7	(7.9)

## **O. Related Party Transactions**

The Company has related party relationships with its subsidiaries, key management personnel, and other entities over which key management exercises control. Key management personnel include the Board of Directors, the Company's Chief Executive Officer, Chief Financial Officer, and the top four senior officers. Close family members of these key management personnel and any entities over which they exercise control are also defined as related parties. Transactions with related parties during the period were insignificant. Transactions with members of the Company's Board of Directors who were also Canadian Tire Dealers represented less than one-percent of the Company's total revenue and were in accordance with established Company policy applicable to all Dealers.

Key management personnel compensation comprises:

(C\$ in millions)	2010
Salaries and short-term employee benefits	\$ 9.2
Other long-term benefits	1.6
Share-based payments	6.2
	<u>\$ 16.9</u>

## **Supplementary Information: Interest Coverage**

The Company's finance cost requirements for the 52 weeks ended April 2, 2011, after annualizing interest on debt issued and retired during this period, amounted to \$163.0 million. The Company's income before interest on debt and income taxes for the 52 weeks ended April 2, 2011 was \$765.8 million, which is 4.7 times the Company's finance cost requirements for this period.