Management's discussion and analysis (MD&A)

Forward-looking statements

This MD&A contains statements that are forward-looking. Actual results or events may differ materially from those forecasted in this disclosure because of the risks and uncertainties associated with Canadian Tire's business and the general economic environment. See section 11.0 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 Preface

1.1 Definitions

In this document, the terms "we", "us", "our", "Company" and "Corporation" refer to Canadian Tire Corporation, Limited and entities it controls. For commonly used terminology (such as retail sales and same store sales), see the Glossary of Terms (pages 156 to 158) in the MD&A contained in the Company's 2011 Annual Report, which can be found online on the SEDAR (System for Electronic Disclosure and Retrieval) website at http://www.sedar.com and on the Company's Canadian Tire website in the Investor Relations section at http://investors.canadiantire.ca.

1.2 Review and approval by the Board of Directors

The Board of Directors, on the recommendation of its Audit Committee, authorized for issuance the contents of this MD&A on August 9, 2012.

1.3 Quarterly and year-to-date comparisons in this MD&A

Unless otherwise indicated, all comparisons of results for the second quarter of 2012 (13 weeks ended June 30, 2012) are against results for the second quarter of 2011 (13 weeks ended July 2, 2011) and comparisons of 2012 year-to-date results (26 weeks ended June 30, 2012) are against 2011 year-to-date results (26 weeks ended July 2, 2011).

1.4 Accounting estimates and assumptions

The preparation of condensed interim consolidated financial statements that conform with International Financial Reporting Standards (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 interim consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. See section 7.1 in this MD&A for further information.

1.5 Rounding and percentages

Rounded numbers are used throughout the MD&A. Year-over-year percentage changes are calculated on whole dollar amounts. In the presentation of basic and diluted earnings per share, the year-over-year percentage changes are based on fractional amounts.

2.0 Company and industry overview

2.1 Overview of the business

For a full description of the Company's Retail and Financial Services business segments, please see section 2.1 of the MD&A contained in the Company's 2011 Annual Report.

2.2 Strategic objectives

While meeting the needs of the jobs and joys of everyday living in Canada, the Company has focused its retail businesses and financial services business to support growth and productivity improvements in order to achieve the five-year financial aspirations outlined in 2010 (see section 3.0 for financial aspirations). The specific strategic objectives are included in section 5.0 of the MD&A contained in the 2011 Annual Report.

2.3 Key performance indicators

For a full description of the Company's key performance indicators, please see section 2.2 of the MD&A contained in the Company's 2011 Annual Report. Readers are cautioned that certain key performance indicators do not have standardized meanings under IFRS and, therefore, may not be comparable to similar terms used by other companies. Please refer to section 10.4 of the MD&A contained in the Company's 2011 Annual Report for a discussion on supplementary (non-GAAP/IFRS) measures as well as section 7.3 in this MD&A.

3.0 Financial aspirations

The strategic objectives include financial aspirations for the Company over the five-year period ending December 2014. Progress against these financial aspirations is reported annually. The next update will be reported in the 2012 Annual Report.

Financial measure	**Aspirations over 5-year period to 2014**
Canadian Tire Retail (CTR) retail sales (POS) annual growth	3% to 5%
Consolidated 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%

4.0 Performance in 2012

4.1 Consolidated financial results

(C$ in millions, except per share)	Q2 2012	Q2 2011	Change	YTD Q2 2012	YTD Q2 2011	Change
Retail sales[1]	$ 3,481.6	$ 3,028.9	14.9%	$ 5,902.8	$ 5,002.9	18.0%
Revenue	$ 2,991.2	$ 2,570.9	16.4%	$ 5,430.7	$ 4,547.1	19.4%
Gross margin dollars	$ 895.5	$ 728.5	22.9%	$ 1,644.5	$ 1,341.3	22.6%
Other (expense) income	(4.2)	0.1	n/a	(0.3)	2.4	n/a
Operating expenses (excluding depreciation & amortization)	592.1	480.8	23.2%	1,138.6	913.8	24.6%
EBITDA	$ 299.2	$ 247.8	20.7%	$ 505.6	$ 429.9	17.6%
Depreciation and amortization	83.9	68.0	23.4%	163.2	133.7	22.1%
Net finance costs	31.5	33.2	(5.5)%	61.1	67.2	(9.1)%
Income before income taxes	$ 183.8	$ 146.6	25.3%	$ 281.3	$ 229.0	22.8%
Income taxes	50.1	40.8	22.7%	76.6	64.8	18.1%
Effective tax rate	27.3%	27.8%		27.3%	28.3%	
Net income	$ 133.7	$ 105.8	26.4%	$ 204.7	$ 164.2	24.6%
Basic earnings per share	$ 1.64	$ 1.30	26.4%	$ 2.51	$ 2.02	24.6%
Diluted earnings per share	$ 1.63	$ 1.29	26.4%	$ 2.50	$ 2.01	24.7%

1. Retail sales for the prior year have been restated. See section 7.3 for more details.

Second quarter

Earnings summary

Diluted earnings per share in the quarter were $1.63, an increase of 26.4 per cent compared to the second quarter of 2011. The increase reflected strong results in the Retail segment and growth in Financial Services segment earnings. Income before income taxes in the quarter were partially offset by $22.7 million of costs associated with the FGL Sports banner rationalization plan announced in the quarter.

The following summarizes the pre-tax impacts of the FGL Sports banner rationalization plan announced during the quarter:

(C$ in millions)

Line item	Q2 2012	Q2 2011	YTD Q2 2012	YTD Q2 2011
Cost of producing revenue	$ (6.2)	$ -	$ (6.2)	$ -
Other (expense) income	(6.3)	-	(6.3)	-
Operating expenses	(10.2)	-	(10.2)	-

Retail sales

Consolidated retail sales increased $452.7 million (14.9 per cent) in the quarter as a result of:

- Inclusion of FGL Sports retail sales of $396.6 million (acquired in the third quarter of 2011);
- Sales growth at CTR due to strong sales of key seasonal outdoor products, partially offset by softness in sales of automotive parts and service;
- Increased sales at Petroleum due to higher gas volumes; and
- Sales growth at Mark's led by strong industrial and accessories sales.

Revenue

Consolidated revenue increased $420.3 million (16.4 per cent) as a result of:

- Inclusion of FGL Sports revenue of $335.2 million;
- Solid growth across all other retail businesses and increased gas volumes at Petroleum; and
- Growth in Financial Services segment revenue.

Gross margin

Consolidated gross margin dollars increased $167.0 million (22.9 per cent) as a result of:

- Inclusion of margin dollars from FGL Sports, partially offset by costs related to the FGL Sports banner rationalization plan;
- Reduction in impairment losses on loans receivable in the Financial Services segment due to improved aging of the portfolio and the impact of changes to credit card terms implemented in the quarter; and
- Increased revenue across all retail businesses.

Operating expenses (excluding depreciation and amortization)

Consolidated operating expenses (excluding depreciation and amortization) increased $111.3 million (23.2 per cent) due to:

- Inclusion of FGL Sports regular operating expenses and incremental costs related to the FGL Sports banner rationalization plan;
- Higher customer acquisition expenses in Financial Services, offset by ongoing expense management; and
- Lower expenses in the Retail segment due to timing of advertising and marketing expenses compared to the prior year, partly offset by higher personnel costs.

Depreciation and amortization expense

Consolidated depreciation and amortization expense increased $15.9 million (23.4 per cent) primarily due to:

- The inclusion of FGL Sports; and
- Higher amortization expense of intangible software assets, partially offset by a decrease in depreciation expense on property and equipment.

Net finance costs

Net finance costs decreased $1.7 million (5.5 per cent) due to the impact of the following:

- Reduced borrowing costs incurred by Franchise Trust due to a decrease in the amount and number of loans outstanding to Canadian Tire Dealers; and
- Reduced interest expense resulting from a lower amount of Glacier Credit Card Trust (GCCT) senior and subordinated notes outstanding.

Income taxes

The effective tax rate decreased to 27.3 per cent in Q2 2012 from 27.8 per cent in Q2 2011 primarily due to reductions in the federal and provincial tax rates.

Year-to-date

Consolidated year-to-date net income grew 24.6 per cent over the prior year largely driven by increased earnings in both business segments. The Retail segment grew on strong margins in CTR and Mark's and the inclusion of FGL Sports, partially offset by the costs of the FGL Sports banner rationalization plan. Financial Services grew due to higher revenue and lower impairment losses on loans receivable.

Seasonal trend analysis

The second and fourth quarters of each year typically tend to generate stronger revenues and earnings in the retail businesses due to the seasonal nature of some merchandise and the timing of marketing programs. The following table shows the financial performance by quarter for the last two years.

Consolidated quarterly results[1]

(C$ in millions except per share amounts)	**Q2 2012**	**Q1 2012**	**Q4 2011**	**Q3 2011**	**Q2 2011**	**Q1 2011**	**Q4 2010**	**Q3 2010**	**Q2 2010**
Revenue	$ 2,991.2	$ 2,439.5	$ 3,135.1	$ 2,704.9	$ 2,570.9	$ 1,976.2	$ 2,588.3	$ 2,266.1	$ 2,469.7
Net income	133.7	71.0	166.3	136.5	105.8	58.4	169.3	100.5	122.8
Basic earnings per share	1.64	0.87	2.04	1.68	1.30	0.72	2.08	1.23	1.51
Diluted earnings per share	1.63	0.87	2.03	1.67	1.29	0.71	2.07	1.23	1.50

1. Q2 2010 to Q2 2011 excludes the results of FGL Sports, as the Company did not own FGL Sports prior to August 18, 2011.

4.2 Key operating performance measures

(year-over-year percentage change C$ in millions, except where noted)	Q2 2012	Q2 2011	Change	YTD Q2 2012	YTD Q2 2011	Change
Retail segment – total						
Retail sales growth[1]	14.9%	5.1%		18.0%	4.5%	
Revenue[2]	$ 2,731.6	$ 2,318.3	17.8%	$ 4,915.7	$ 4,044.8	21.5%
Retail ROIC[3]	7.43%	7.84%		n/a	n/a	
Retail segment – by banner						
CTR						
Retail sales growth[1, 4]	1.0%	2.0%		2.0%	1.0%	
Same store sales growth[1, 4]	0.4%	0.9%		1.5%	0.0%	
Sales per square foot[1, 5, 6]	$ 385	$ 385	0.2%	n/a	n/a	
Revenue[2,7]	$ 1,651.3	$ 1,598.1	3.3%	$ 2,836.1	$ 2,701.8	5.0%
Mark's						
Retail sales growth[8]	6.1%	0.5%		6.6%	3.0%	
Same store sales growth[9]	4.2%	0.1%		5.0%	2.8%	
Sales per square foot[10]	$ 304	$ 297	2.4%	n/a	n/a	
Revenue[2, 11]	$ 222.4	$ 211.7	5.1%	$ 413.9	$ 394.2	5.0%
FGL Sports						
Retail sales growth[12]	4.2%	n/a		4.9%	n/a	
Same store sales growth[12]	4.8%	n/a		5.8%	n/a	
Revenue[2, 12]	$ 335.2	n/a		$ 677.0	n/a	
Petroleum						
Gasoline volume growth in litres	3.3%	1.4%		0.8%	3.1%	
Retail sales growth	3.7%	22.8%		4.4%	19.4%	
Revenue[2]	$ 526.7	$ 511.6	3.0%	$ 996.4	$ 955.8	4.2%
Gross margin dollars	$ 38.0	$ 37.1	2.4%	$ 70.0	$ 72.2	(3.0)%
Financial Services segment						
Revenue[13]	$ 242.5	$ 236.5	2.6%	$ 484.2	$ 471.9	2.6%
Credit card sales growth	(0.3)%	2.0%		1.8%	(1.7)%	
Gross average receivables (GAR)	$ 4,044.2	$ 4,025.6	0.5%	$ 4,029.2	$ 4,009.5	0.5%
Revenue[13, 14] (as a % of GAR)	24.04%	23.63%		n/a	n/a	
Average number of accounts with a balance[15] (thousands)	1,713	1,708	0.3%	1,705	1,704	0.1%
Average account balance[15] (whole $)	$ 2,354	$ 2,347	0.3%	$ 2,356	$ 2,342	0.6%
Net credit card write-off rate[14, 15]	7.16%	7.33%		n/a	n/a	
Past due credit card accounts[15, 16] (PD2+)	3.44%	3.90%		n/a	n/a	
Allowance rate[17]	2.51%	2.87%		n/a	n/a	
Operating expenses[14] (as a % of GAR)	6.43%	7.02%		n/a	n/a	
Return on receivables[14, 18]	6.47%	4.86%		n/a	n/a	

1. CTR's sales metrics for the prior year have been restated. See section 7.3 for more details. Total retail sales for the prior year has been restated, though there was no change to the year-over-year percentage.

2. Inter-segment revenue within the retail banners (CTR, Mark's and Petroleum) of $4.0 million in the second quarter ($3.1 million for Q2 2011) and $7.7 million for YTD Q2 2012 ($7.0 million for YTD Q2 2011) has been eliminated at the Retail segment level. Revenue reported for CTR, Mark's and Petroleum includes inter-segment revenue. FGL Sports had no inter-segment revenue with CTR, Mark's or Petroleum.

3. Figures are calculated on a rolling 12-month basis. ROIC is the Retail segment's after-tax earnings before interest, divided by average invested capital for the Retail segment. Invested capital is the sum of total Retail segment assets less Retail segment current liabilities, excluding the current portion of long-term debt.

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

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

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

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

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

9. Mark's same store sales include stores open for a minimum of 53 weeks and exclude store closures and ancillary revenue.

10. Mark's retail sales per square foot are based on sales from both corporate stores and franchise stores that have been open for a minimum of 53 weeks.

11. Includes sale of goods to Mark's franchisee stores and retail sales from Mark's corporate stores.

12. FGL Sports' key operating performance metrics are calculated using the Company's weekly sales calendar, which begins on Sunday and ends on Saturday. The metrics reported in the table are for comparison purposes only as the Company did not own FGL Sports prior to August 18, 2011.

13. Financial Services' prior year revenue has been restated. See note 4 of the notes to the condensed interim consolidated financial statements for more information.

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

15. Credit card portfolio only.

16. Accounts overdue one month or more.

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

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

4.3 Retail banner network at a glance

Number of stores and retail square footage	June 30, 2012	December 31, 2011	July 2, 2011
Consolidated store count			
CTR retail banner stores[1]			
Updated and expanded stores	199	247	272
Smart stores	220	169	139
Traditional stores	51	58	63
Small Market stores	17	14	13
Total CTR retail banner stores	487	488	487
PartSource banner stores	87	87	87
Canadian Tire gas bar locations	291	289	290
Mark's banner stores[1]			
Mark's Work Wearhouse	293	305	326
Mark's	91	78	56
Work World	2	2	2
Total Mark's retail banner stores	386	385	384
FGL Sports banner stores[2]			
Sport Chek	152	150	n/a
Sports Experts	70	70	n/a
Atmosphere	55	68	n/a
Other	224	246	n/a
Total FGL Sports retail banner stores	501	534	n/a
Total stores	**1,752**	**1,783**	**1,248**
Consolidated retail square footage[3] (in millions)			
CTR banner	19.8	19.7	19.5
PartSource banner	0.3	0.3	0.3
Mark's banner	3.4	3.4	3.3
FGL Sports banner[2]	6.5	6.6	n/a
Total retail square footage[3] (in millions)	**30.0**	**30.0**	**23.1**

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

2. FGL Sports' store count and retail square footage information for July 2, 2011 is not applicable as the Company did not acquire FGL Sports until August 18, 2011.

3. The average retail square footage for Petroleum's convenience stores was 496 square feet per store in Q2 2012 (471 square feet per store in Q2 2011). It is not included in the above.

The Company continues to retrofit its store network with a focus on converting selected existing stores to the latest formats. During the quarter CTR completed 53 store projects including one incremental new build, two replacement stores and four major expansion projects with the remainder primarily remerchandising projects to convert stores to the Smart store format.

As noted in the Q1 2012 MD&A, FGL Sports total store count has decreased from Q4 2011 due to ongoing store closures of less profitable store locations, including seven corporate and two franchise locations during Q2 2012. In addition, the decrease is partly attributable to 12 Atmosphere-Sport Chek combination stores (previously considered two separate side-by-side selling locations) being converted into single selling locations.

During the quarter Mark's completed six real estate projects including opening two new corporate stores and relocating four corporate stores. In addition, one Mark's Work Wearhouse store was closed.

4.4 Business segment performance

4.4.1 Retail segment

4.4.1.1 Retail segment financial results

(C$ in millions)	Q2 2012	Q2 2011	Change	YTD Q2 2012	YTD Q2 2011	Change
Retail sales[1]	$ 3,481.6	$ 3,028.9	14.9%	$ 5,902.8	$ 5,002.9	18.0%
Revenue	$ 2,731.6	$ 2,318.3	17.8%	$ 4,915.7	$ 4,044.8	21.5%
Gross margin dollars	$ 727.6	$ 580.1	25.5%	$ 1,318.6	$ 1,045.3	26.2%
Gross margin (% of revenue)	26.6%	25.0%		26.8%	25.8%	
Other (expense) income	(4.7)	0.3	n/a	(2.7)	2.6	n/a
Operating expenses (excluding depreciation & amortization)	507.4	398.4	27.5%	981.7	753.1	30.4%
EBITDA	$ 215.5	$ 182.0	18.3%	$ 334.2	$ 294.8	13.3%
Depreciation and amortization	81.5	65.3	24.8%	158.4	128.5	23.3%
Net finance costs	18.7	18.5	0.6%	36.0	36.5	(1.3)%
Income before income taxes	$ 115.3	$ 98.2	17.3%	$ 139.8	$ 129.8	7.6%

1. Retail sales for the prior year have been restated. See section 7.3 for more details.

Second quarter

Earnings summary

Retail segment income before income taxes increased 17.3 per cent to $115.3 million compared to the prior year. This increase resulted from sales growth across all banners, margin improvements and the inclusion of FGL Sports, partially offset by $22.7 million of costs associated with the FGL Sports banner rationalization plan.

Retail sales

Retail sales increased 14.9 per cent in the quarter primarily as a result of the inclusion of FGL Sports and sales growth across all retail banners.

CTR retail sales increased 1.0 per cent in the quarter (0.4 per cent same store sales increase) driven by sales in key seasonal categories, including backyard fun, backyard living, outdoor recreation and gardening. Increased marketing efforts and new assortments drove sales increases in the kitchen category. This was partially offset by decreases in home décor as well as in cycling where sales were shifted into the first quarter due to the early spring weather in March. Automotive experienced strong sales in key seasonal categories such as car care and maintenance products; however, auto service and related parts sales declined in the quarter compared to the same period in 2011.

At Mark's, retail sales growth of 6.1 per cent (4.2 per cent same store sales increase) was driven by growth in all merchandising categories led by industrial apparel and accessories sales, particularly in Western Canada. Favourable weather compared to the prior year resulted in significant growth in men's and women's seasonal apparel categories.

FGL Sports' retail sales increased 4.2 per cent in the quarter compared to the prior year (4.8 per cent same store sales increase) due to strong sales in spring footwear and apparel, led by branded athletic clothing, and solid hard goods category sales including golf and equipment for team sports.

Petroleum retail sales increased 3.7 per cent primarily due to increased gas volume, led by strong year-over-year volume increases at sites along the 400 series highways.

Retail revenue

Retail revenue increased 17.8 per cent in the quarter primarily due to the inclusion of FGL Sports.

CTR revenue increased 3.3 per cent driven by growth in replenishment shipments of backyard living, backyard fun, outdoor tools and gardening products due to strong sales early in the quarter. Additionally, the launch of the new interior and exterior paint line drove growth in paint shipments. Shipments were up slightly in the Automotive category with increases in car care and automotive maintenance products, partially offset by a decline in heavy automotive parts and all season tires.

Mark's revenue increased 5.1 per cent in the quarter primarily due to improved retail sales, as noted above, which was led by industrial apparel and accessories as well as increases in women's and men's seasonal wear.

Retail gross margin

Retail gross margin dollars increased 25.5 per cent versus Q2 2011 due to the inclusion of FGL Sports and increased revenue across all banners, offset partially by $6.2 million of costs related to the FGL Sports banner rationalization plan.

The gross margin rate increased 162 basis points in the quarter due to the inclusion of the higher margin FGL Sports business and strong margins at CTR, Mark's and Petroleum. Overall, CTR's margin rate was flat to the prior year on solid margin rates in the living, fixing and playing categories and a margin rate decline in automotive. Automotive margin was negatively impacted by a mix-shift favouring lower margin promotional products and lower automotive parts revenue during the quarter. Margin rate improvements in the quarter at Mark's were due to favourable weather this quarter compared to a year ago when unseasonably cool weather resulted in higher clearance markdowns in spring and summer apparel. In the Petroleum division, margins were essentially flat compared to the previous quarter and prior year, reflecting stable market conditions across the country.

Retail operating expenses (excluding depreciation and amortization)

Retail operating expenses (excluding depreciation and amortization) increased 27.5 per cent due to the inclusion of operating expenses from FGL Sports (which included $10.2 million of costs related to the FGL Sports banner rationalization plan), increased personnel costs (severance, employee incentives and increased store payroll) and an increase in occupancy costs due to replacement store projects and increases in rent and property taxes. The increases were partially offset by lower marketing and advertising expenditures which have been deferred to the second half of 2012, and reduced spending on strategic initiatives compared to the prior year, including the loyalty program pilot, and merchandise productivity.

Retail depreciation and amortization expense

Retail depreciation and amortization expense increased 24.8 per cent primarily due to the inclusion of FGL Sports. Higher amortization expense on intangible software assets, offset by a decrease in depreciation expense on property and equipment, also contributed to the increase.

Year-to-date

Retail sales on a year-to-date basis were up 18.0 per cent and revenue was up 21.5 per cent compared to the prior year, largely due to the inclusion of FGL Sports. Retail sales also increased due to growth in key seasonal categories and outdoor recreation products and growth in the kitchen category at CTR. Revenue was higher due to increases across all retail banners and higher shipment volumes in key CTR seasonal categories.

Income before income taxes increased 7.6 per cent on a year-to-date basis. Gross margin increases were partially offset by higher operating expenses which included costs related to the impact of the FGL Sports banner rationalization plan.

4.4.1.2 Retail segment business risks

The Retail segment is exposed to a number of risks in the normal course of its business that have the potential to affect its operating performance. These include, but are not limited to, supply chain disruption, seasonality and environmental risks. Please see section 7.5.1.2 of the MD&A contained in the Company's 2011 Annual Report for an explanation of these business-specific risks. See also section 8.0 of this MD&A for a discussion of Enterprise risk management and section 11.0 of the MD&A contained in the Company's 2011 Annual Report for a discussion of additional industry-wide and Company-wide risks affecting the business.

4.4.2 Financial Services segment

4.4.2.1 Financial Services financial results

(C$ in millions)	Q2 2012	Q2 2011[1]	Change	YTD Q2 2012	YTD Q2 2011[1]	Change
Revenue	$ 242.5	$ 236.5	2.6%	$ 484.2	$ 471.9	2.6%
Gross margin dollars	$ 136.1	$ 115.3	18.0%	$ 266.3	$ 230.6	15.4%
Gross margin (% of revenue)	56.1%	48.8%		55.0%	48.9%	
Other income (expense)	0.5	(0.2)	322.4%	2.4	(0.2)	1,203.6%
Operating expenses	68.3	67.3	1.4%	127.5	132.2	(3.6)%
Operating income	$ 68.3	$ 47.8	42.7%	$ 141.2	$ 98.2	43.7%
Net finance (income) costs	(0.2)	(0.6)	(54.6)%	(0.3)	(1.0)	(63.6)%
Income before income taxes	$ 68.5	$ 48.4	41.6%	$ 141.5	$ 99.2	42.7%

1. Financial Services operating segment results for the 13 and 26 weeks ended July 2, 2011 have been reclassified to correspond to the current year presentation. See note 4 of the notes to the condensed interim consolidated financial statements for more information.

Second quarter

Earnings summary

Financial Services income before income taxes increased 41.6 per cent in the quarter compared to the prior year. The increase was due to lower impairment loss on loans receivable, a result of improved portfolio aging and write-off performance and the impact of changes to credit card terms implemented in the quarter. Revenue growth also contributed to increased income before income taxes.

Financial Services revenue

Financial Services revenue increased 2.6 per cent year-over-year due primarily to increased interest income from modestly higher receivables.

Financial Services gross margin

Financial Services gross margin rate increased 733 basis points in the quarter compared to the prior year due to a $14.5 million improvement in the net impairment loss on loans receivable, a result of improved receivables aging and favourable net-write-offs, and the impact of changes to credit card terms implemented in the quarter.

Financial Services operating expenses

Financial Services operating expenses increased 1.4 per cent in the quarter compared to the prior year, due to higher customer acquisition costs, partially offset by continued management of expenses.

Year-to-date

Revenue on a year-to-date basis was better than the prior year due to increased interest income and fees on increased receivables as a result of a greater proportion of accounts carrying a balance. Income before income taxes in the first half of the year increased compared to the prior year, primarily as a result of significantly lower net impairment losses from improved receivables portfolio aging metrics and lower operating expenses.

4.4.2.2 Financial Services segment business risks

Financial Services is exposed to a number of risks in the normal course of its business that have the potential to affect its operating performance. These include, but are not limited to, consumer credit, securitization funding, interest rate and regulatory risk. Please see section 7.5.2.2 of the MD&A contained in the Company's 2011 Annual Report for an explanation of these business-specific risks. See also section 8.0 of this MD&A for a discussion on Enterprise risk management and section 11.0 of the MD&A contained in the Company's 2011 Annual Report for a discussion of additional industry-wide and Company-wide risks affecting the business.

4.5 Balance sheet and cash flows

4.5.1 Balance sheet highlights

The Company's total assets, liabilities and shareholders' equity as at June 30, 2012 and July 2, 2011 are noted below along with select balance sheet line items where there have been significant changes versus the prior year. The changes compared to Q2 2011 are primarily due to the inclusion of FGL Sports beginning in Q3 2011.

(C$ in millions)	**June 30, 2012**	**July 2, 2011**	**Change ($)**	**Change (%)**
Current assets				
Cash and cash equivalents and short-term investments	$ 543.9	$ 1,189.4	$ (645.5)	(54.3%)
Merchandise inventories	1,528.7	940.1	588.6	62.6%
Long-term assets				
Goodwill and intangible assets	1,095.5	365.3	730.2	200.0%
Total assets	**12,278.2**	**11,516.7**	**761.5**	**6.6%**
Current liabilities				
Deposits	$ 1,238.3	$ 852.5	$ 385.8	45.3%
Trade and other payables	1,424.9	1,164.4	260.5	22.4%
Short-term borrowings	118.2	300.9	(182.7)	(60.7%)
Current portion of long-term debt	662.9	354.8	308.1	86.8%
Total liabilities	**7,700.1**	**7,405.1**	**295.0**	**4.0%**
Shareholders' equity	**4,578.1**	**4,111.6**	**466.5**	**11.3%**

Assets

Cash and short-term investments decreased $645.5 million, reflecting the use of cash in the acquisition of FGL Sports during the third quarter of 2011.

Merchandise inventories increased $588.6 million, primarily due to the inclusion of FGL Sports. The remainder of the increase was attributable to planned increases in inventory levels within the CTR banner to enhance customer service levels and in-stock positions, particularly in seasonal sales categories which are expected to sell through the remainder of the summer and early fall seasons.

Goodwill and intangible assets increased $730.2 million, primarily due to the acquisition of FGL Sports in Q3 2011 and due to capital expenditures on intangible software assets for various strategic and other initiatives.

Liabilities

Current deposits increased $385.8 million, primarily due to a strategic decision to acquire more deposits to fund operations at Financial Services.

Trade and other payables increased $260.5 million, due to the acquisition of FGL Sports and partially due to higher purchases of inventory at both CTR and Mark's to support service levels, along with higher seasonal purchases of summer and fall inventory at Mark's.

Short-term borrowings decreased $182.7 million, as proceeds from issuance of long-term senior and subordinated notes were used to repay short-term borrowings.

Current portion of long-term debt increased $308.1 million largely reflecting the $600.0 million of GCCT senior notes and $34.9 million of GCCT subordinated notes that are maturing in February 2013.

4.5.2. Summary cash flows

The Company's consolidated statements of cash flows for the quarters ended June 30, 2012 and July 2, 2011 are noted below.

(C$ in millions)	**Q2 2012**	**Q2 2011**	**Change**	**YTD 2012**	**YTD 2011**	**Change**
Cash generated from operating activities	$ 335.1	$ 256.3	$ 78.8	$ 284.5	$ 380.8	$ (96.3)
Cash used for investing activities	(50.3)	(56.5)	6.2	(208.3)	(248.3)	40.0
Cash (used for) generated from financing activities	(202.0)	152.6	(354.6)	(61.7)	144.2	(205.9)
Cash generated in the period	$ 82.8	$ 352.4	$ (269.6)	$ 14.5	$ 276.7	$ (262.2)

Cash generated in the quarter decreased primarily due to the repayment, net of issuance, of $380.4 million in commercial paper, partially offset by the proceeds received from the $211.6 million term securitization transaction completed in Q2 2012, versus the issuance, net of repayment of $200.0 million of commercial paper in Q2 2011.

Similarly, cash generated on a year-to-date basis decreased primarily due to the repayment, net of issuance, of $234.4 million of commercial paper and bank lines partially offset by the proceeds received from the $211.6 million term securitization transaction completed in Q2 2012, versus the issuance, net of repayment of $200.3 million of commercial paper in Q2 2011.

5.0 Capital management, financing and capital expenditures

5.1 Capital management

The Company's objectives in managing capital, its definition of capital and its constraints are included in Note 3 of the Q2 2012 condensed interim consolidated financial statements. There were no changes during the second quarter of 2012 in the Company's objectives, definitions or constraints in managing capital. The Company was in compliance with its debt covenants and regulatory requirements.

5.2 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 8.3 of the MD&A contained in the Company's 2011 Annual Report. The total of available lines of credit at June 30, 2012 was $1.57 billion.

During the quarter, the Company extended the term and increased the size of its syndicated bank lines of credit to a four-year $1.2 billion facility expiring in June 2016 (previously a two-year $1.0 billion facility expiring in June 2013), resulting in total bank lines of credit of $1.57 billion (previously $1.37 billion) available to the Company.

Subsequent to the quarter, the Company extended $300 million of its bi-lateral lines of credit to July 2013.

On May 31, 2012, the Company issued $200.0 million of five year senior notes and $11.6 million of five year subordinated GCCT notes, bearing an interest rate of 2.8 per cent and 3.8 per cent, respectively, payable semi-annually. The senior and subordinated notes have an expected repayment date of May 20, 2017.

5.3 Capital expenditures

The Company's capital expenditures for the quarters ended June 30, 2012 and July 2, 2011 are noted below.

(C$ in millions)	Q2 2012	Q2 2011	YTD Q2 2012	YTD Q2 2011
Real estate projects	$ 46.3	$ 29.6	$ 87.6	$ 60.4
Information technology	14.9	14.2	32.2	22.5
Supply chain and distribution centres	3.7	2.7	4.7	5.1
Strategic initiatives[1]	1.8	8.4	3.5	18.2
Other purposes	2.1	4.0	4.9	6.4
Total capital expenditures[2]	$ 68.8	$ 58.9	$ 132.9	$ 112.6

1. Strategic initiatives includes automotive infrastructure, CTR loyalty, customer-centric retailing and online.
2. Capital expenditures are presented on an accrual basis and include intangible software additions.

Capital expenditures increased over the prior year largely due to the inclusion of FGL Sports, partially offset by reduced spending on strategic initiatives.

6.0 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 material changes in the status of ongoing audits by tax authorities as described in section 9.0 in the MD&A contained in the Company's 2011 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.

7.0 Accounting policies and estimates

7.1 Critical accounting estimates

The Company estimates certain amounts reflected in its financial statements using detailed financial models that are based on historical experience, current trends and other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from those estimates. In management's judgment, the accounting policies and estimates detailed in Note 2 of the Q2 2012 condensed interim consolidated financial statements do not require us to make assumptions about matters that are highly uncertain and accordingly none of the estimates are considered a "critical accounting estimate" as defined in Form 51-102F1 published by the Ontario Securities Commission, except as noted below.

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

7.2 Changes in accounting policies

New standards implemented

Deferred taxes – recovery of underlying assets
In December 2010, the International Accounting Standards Board (IASB) amended International Accounting Standard (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 did not impact the Company as its investment properties are not measured at fair value.

Standards, amendments and interpretations issued and not yet adopted

The following new standards, amendments and interpretations have been issued but are not yet effective for the fiscal year ending December 29, 2012 and, accordingly, have not been applied in preparing the Company's interim consolidated financial statements.

Financial instruments
In November 2009 the IASB issued IFRS 9 – *Financial Instruments Classification and Measurement*, ("IFRS 9"): which contained requirements for financial assets. In October 2010, requirements for financial liabilities were added to IFRS 9. IFRS 9 will replace IAS 39 – *Financial Instruments: Recognition and Measurement* ("IAS 39") in its entirety. IFRS 9 uses a single approach to determine whether a financial asset or liability is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. For financial assets, the approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. For financial liabilities measured at fair value, fair value changes due to changes in the Company's credit risk are presented in other comprehensive income ("OCI"), instead of net income, unless this would create an accounting mismatch. An accounting mismatch may occur when financial liabilities that are measured at fair value are managed with assets that are measured at fair value through profit or loss. A mismatch could arise because the entire change in the fair value of the financial assets would be presented in net income but a portion of the change in the fair value of the related financial liabilities

would not. IFRS 9 is effective for annual periods beginning on or after January 1, 2015. Early adoption is permitted. The Company is assessing the potential impact of this standard.

Financial instruments: disclosures

In October 2010, the IASB amended IFRS 7 – *Financial Instruments: Disclosures ("IFRS 7")*, which will be applied prospectively for annual periods beginning on or after July 1, 2011. The amendments require additional disclosures on transferred financial assets. The Company is assessing the potential impact of these amendments and will include these disclosures in its 2012 annual financial statements.

Consolidated financial statements

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

Joint arrangements

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

Disclosure of involvement with other entities

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

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

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

Fair value measurement

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

Other comprehensive income presentation

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

Post-employment benefits

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

Financial instruments: asset and liability offsetting

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

7.3 Supplementary (non-GAAP/IFRS) measures

Retail sales

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

CTR's same store sales and sales per square foot have also been updated to reflect the new methodology. Prior year metrics for CTR have been restated.

8.0 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 11.0 and 11.2, respectively, in the MD&A contained in the Company's 2011 Annual Report.

Management reviews risks on an ongoing basis and did not identify any new principal risks during the second quarter of 2012.

9.0 Controls and procedures

Changes in internal control over financial reporting

During the second quarter of 2012, there have been no changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting, except as noted below.

In accordance with the provisions of National Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings*, management, including the CEO and CFO, have limited the scope of their design of the Company's disclosure controls and procedures and internal control over financial reporting to exclude controls, policies and procedures of FGL Sports. The assets of FGL Sports and its subsidiaries were acquired on August 18, 2011. FGL Sports' contribution to the Company's condensed consolidated financial statements for the second quarter and year-to-date June 30, 2012 was approximately 11.2 per cent and 12.5 per cent of consolidated revenue, respectively, and approximately negative 6.2 per cent and negative 1.3 per cent of consolidated pre-tax earnings, respectively. Additionally, FGL Sports' current assets and current liabilities were approximately 8.2 per cent and 6.4 per cent of consolidated current assets and liabilities, respectively, and its long-term assets and long-term liabilities were approximately 4.9 per cent and 1.7 per cent of consolidated long-term assets and long-term liabilities, respectively.

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

Further details related to the acquisition of FGL Sports are disclosed in section 8.2.2 of the MD&A contained in the 2011 Annual Report.

10.0 Social and environmental responsibility

10.1 Overview

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

10.2 Community activities (Canadian Tire Jumpstart Charities)

The Company's charitable efforts are reflected through the work of Canadian Tire Jumpstart Charities. Its signature program, Canadian Tire Jumpstart, helps financially disadvantaged children gain the life benefits that are associated with participating in organized sports and recreational activities. The program assists with the cost of registration, equipment and transportation. Through its 314 active chapters, Canadian Tire Jumpstart has funded the programming costs for over 470,000 children since the launch of the program in 2005.

During the second quarter of 2012, Jumpstart raised over $4.1 million across Canada, helping over 34,000 children participate in sports and recreation programs.

During 2012, Jumpstart raised over $7.5 million across Canada, helping over 55,000 children participate in sports and recreation programs.

In its secondary programs, Canadian Tire Jumpstart also supports community work through the Company and Canadian Tire Dealers. Providing assistance for life's basics to families in financial need, the charity supports local organizations, particularly in regional disaster situations.

10.3 Business sustainability

The Company has three aspirations related to its Business Sustainability strategy:

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

Sustainability initiatives and the forecasted annual benefits associated with them are reported quarterly for three key aspects of the Company's business value chain: (1) retail products ("Products and Packaging"), (2) transportation of these products to retail stores ("Product Transportation"), and (3) the operation of the Company's owned and leased buildings ("Buildings and Operations"). The table below presents a summary of the initiatives and their benefits, year-to-date. Refer to section 13.3 of the MD&A contained in the Company's 2011 Annual Report for more information on the Company's business sustainability strategy.

Completed initiatives and associated forecasted annual benefits

Current Year Completed Initiatives and Associated Benefits:	Products and Packaging	Product Transportation[1]	Buildings and Operations	YTD Q2 2012
Number of initiatives[2]	414	7	116	537
Cost avoidance[3,4] ($)	671,000	47,000	456,000	1,174,000
Energy use avoidance[3] (gigajoules)	19,817	165,894	17,511	203,222
Equivalent energy used[5] (number of Canadian homes)	187	1,567	165	1,919
GHG emissions avoidance[3,6] (tCO_2e)	1,417	11,456	905	13,777
Waste avoidance[3] (t)	577	n/a	3	580
Equivalent waste produced[7] (number of Canadian homes)	902	n/a	5	907

1. Figures for the road-to-rail project were restated in the second quarter of 2012 to include the forecasted annual benefits related to inbound shipments. Figures disclosed in the first quarter of 2012 included energy use and GHG (Greenhouse gas) emissions avoidance for outbound loads only. The adjusted figures for energy use and GHG emissions avoidance are 67,200 GJ and 6,600 tCO_2e, respectively.
2. Initiatives vary in complexity and size from changes made to an individual retail product, a retrofit made to a fleet vehicle or the building of a new store. Project completion for these initiatives is defined by: (i) the commercial operation date for buildings and product transport projects, and (ii) the approval date for operations and product projects. Projects are reported in the quarter they are completed, unless data is not available, in which case the completed project is reported in a future quarter provided it is the same year of the project's completion date or the first quarter of the following year.
3. Avoidance refers to savings in comparison to what it would have been if the Company had not made the improvements. Values express a 12-month forecast occurring after project completion. Additional cumulative results beyond this 12 month forecast are not reported. Values reported include (i) costs avoided by the Company and (ii) energy, GHG emissions, and waste avoided by the Company and, in some cases, its value chain partners such as customers and vendors.
4. The forecasted cost avoidance for the road-to-rail project is not reported due to confidentiality.
5. Calculates the equivalent number of average Canadian homes powered for a year related to the forecasted annual avoided energy use resulting from sustainability projects (source: Natural Resources Canada).
6. Measured as carbon dioxide equivalents (CO_2e). Greenhouse gasses such as methane (CH_4) and nitrous oxide (N_2O) are converted to their carbon dioxide equivalent based on their relative global warming potential.
7. Calculates the equivalent number of households (based on the average waste produced per Canadian household) in relation to the forecasted annual avoided waste resulting from sustainability projects (source: Statistics Canada).

Progress summary

The significant improvement in forecasted annual greenhouse gas and energy use avoidance is primarily due to the completion of the road-to-rail project – a project that was initially reported on in the first quarter of 2012. The project has substantially changed the structure (i.e. road and rail transport) for two of the Company's transportation routes in Eastern Canada to favour rail transportation for 80 per cent of the shipments in comparison to 25 per cent previously. The road-to-rail project was also a significant source of forecasted cost avoidance; however due to confidentiality, the Company does not report these benefits.

Key initiatives

The second quarter of 2012 saw considerable success in real estate projects, with the completion of 37 sustainability initiatives across Canadian Tire, Mark's and Petroleum retail locations. The majority of the projects were specific to Mark's retail locations and include the installation of 23 lighting improvements. In total, the business sustainability initiatives led by the real estate team generated more than $1.0 million in revenue during the quarter and are forecasted to avoid approximately $195,000 in costs, 8,500 gigajoules of energy and 330 tonnes of GHG emissions annually.

In 2011, the Company initiated its solar strategy and committed to the installation of approximately 40 rooftop solar energy systems at stores across Ontario. In the second quarter, two of these systems reached commercial operation at Canadian Tire Retail stores in Southern Ontario, generating more than 400 gigajoules of energy to date, the equivalent of powering approximately four Canadian homes for a year. The solar energy systems supply energy directly into the Ontario electrical grid and will have a peak generation capacity of more than eight megawatts of power once all of the sites are complete.

During the first half of the year, the Company contributed approximately $7.0 million to community blue box and industry product stewardship and recycling programs.

11.0 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:

- the Company's financial aspirations listed in section 3.0; and
- business sustainability in section 10.3.

Forward-looking statements are provided for the purposes of providing information about management's current expectations and plans and allowing investors and others to get a better understanding of the Company's 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, the Company's strategic goals and priorities, the Company's actions and the results of those actions and the economic and business outlook for the Company. 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 the Company's control and the effects of which can be difficult to predict – include (a) credit, market, currency, operational, liquidity and funding risks, including changes in economic conditions, interest rates or tax rates; (b) the ability of Canadian Tire to attract and retain quality employees, Dealers, Canadian Tire Petroleum agents and PartSource, Mark's and FGL Sports store operators and franchisees, as well as the Company's financial arrangements with such parties; (c) the growth of certain business categories and market segments and the willingness of customers to shop at the Company's stores or acquire the Company's financial products and services; (d) the Company's margins and sales and those of the Company's competitors; (e) risks and uncertainties relating to information management, technology, supply chain, product safety, changes in law, regulations, competition, seasonality, commodity price and business disruption, the Company's 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) the Company's 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 the Company's results. Investors and other readers are urged to consider the foregoing risks, uncertainties, factors and assumptions carefully in evaluating the forward-looking 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 4.4.1.2 (Retail segment business risks), 4.4.2.2 (Financial Services segment business risks) and 8.0 (Enterprise risk management) and all subsections there under of this MD&A. Please also refer to the "Risk Factors" section of the Company's Annual Information Form for fiscal 2011 and the Company's 2011 Management's Discussion and Analysis, as well as Canadian Tire's other public filings, available at www.sedar.com and at www.corp.canadiantire.ca.

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

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

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

Commitment to disclosure and investor communication

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

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

The Company's Annual Information Form, Management Information Circular and quarterly reports are also available on the SEDAR website at www.sedar.com.

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

August 9, 2012

Condensed Consolidated Balance Sheets (Unaudited)

As at (C$ in millions)		June 30, 2012		July 2, 2011		December 31, 2011
ASSETS						
Cash and cash equivalents (Note 13)	**$**	**310.9**	$	933.8	$	325.8
Short-term investments		**233.0**		255.6		196.4
Trade and other receivables		**635.1**		600.9		829.3
Loans receivable (Note 10)		**4,041.5**		4,054.7		4,081.7
Merchandise inventories		**1,528.7**		940.1		1,448.6
Income taxes recoverable		**9.5**		83.8		-
Prepaid expenses and deposits		**89.0**		85.9		44.3
Assets classified as held for sale (Note 15)		**27.2**		17.1		30.5
Total current assets		**6,874.9**		6,971.9		6,956.6
Long-term receivables and other assets		**707.5**		717.9		668.9
Long-term investments		**168.1**		151.1		128.2
Goodwill and intangible assets		**1,095.5**		365.3		1,110.0
Investment property		**66.2**		71.2		72.4
Property and equipment		**3,335.2**		3,200.2		3,365.9
Deferred income taxes		**30.8**		39.1		36.8
Total assets	**$**	**12,278.2**	$	11,516.7	$	12,338.8
LIABILITIES						
Bank indebtedness (Note 13)	**$**	**95.5**	$	205.7	$	124.8
Deposits		**1,238.3**		852.5		1,182.3
Trade and other payables		**1,424.9**		1,164.4		1,640.9
Provisions		**180.1**		188.8		191.9
Short-term borrowings		**118.2**		300.9		352.6
Loans payable (Note 16)		**652.7**		688.9		628.7
Income taxes payable		**-**		-		3.9
Current portion of long-term debt		**662.9**		354.8		27.9
Total current liabilities		**4,372.6**		3,756.0		4,153.0
Long-term provisions		**50.7**		24.9		55.1
Long-term debt (Note 19)		**1,917.0**		2,355.5		2,347.7
Long-term deposits		**1,085.2**		1,128.0		1,102.2
Deferred income taxes		**70.1**		-		66.1
Other long-term liabilities		**204.5**		140.7		205.7
Total liabilities		**7,700.1**		7,405.1		7,929.8
SHAREHOLDERS' EQUITY						
Share capital (Note 11)		**709.1**		710.7		710.5
Contributed surplus		**2.6**		1.1		1.1
Accumulated other comprehensive income (loss)		**24.2**		(44.9)		11.0
Retained earnings		**3,842.2**		3,444.7		3,686.4
Total shareholders' equity		**4,578.1**		4,111.6		4,409.0
Total liabilities and shareholders' equity	**$**	**12,278.2**	$	11,516.7	$	12,338.8

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

Condensed Consolidated Statements of Income (Unaudited)

(C$ in millions except per share amounts)	13 weeks ended June 30, 2012	13 weeks ended July 2, 2011 (Note 20)	26 weeks ended June 30, 2012	26 weeks ended July 2, 2011 (Note 20)
Revenue (Note 5)	**$ 2,991.2**	$ 2,570.9	**$ 5,430.7**	$ 4,547.1
Cost of producing revenue (Note 6)	**(2,095.7)**	(1,842.4)	**(3,786.2)**	(3,205.8)
Gross margin	**895.5**	728.5	**1,644.5**	1,341.3
Other (expense) income	**(4.2)**	0.1	**(0.3)**	2.4
Operating expenses				
Distribution costs	**(91.6)**	(90.2)	**(178.8)**	(173.6)
Sales and marketing expenses	**(409.9)**	(298.0)	**(778.7)**	(556.7)
Administrative expenses	**(174.5)**	(160.6)	**(344.3)**	(317.2)
Total operating expenses (Note 7)	**(676.0)**	(548.8)	**(1,301.8)**	(1,047.5)
Operating income	**215.3**	179.8	**342.4**	296.2
Finance income	**4.4**	5.7	**8.5**	10.6
Finance costs	**(35.9)**	(38.9)	**(69.6)**	(77.8)
Net finance costs	**(31.5)**	(33.2)	**(61.1)**	(67.2)
Income before income taxes	**183.8**	146.6	**281.3**	229.0
Income taxes	**(50.1)**	(40.8)	**(76.6)**	(64.8)
Net income	**$ 133.7**	$ 105.8	**$ 204.7**	$ 164.2
Basic earnings per share	**$ 1.64**	$ 1.30	**$ 2.51**	$ 2.02
Diluted earnings per share	**$ 1.63**	$ 1.29	**$ 2.50**	$ 2.01
Weighted average number of Common and Class A Non-Voting Shares outstanding - Basic (Note 12)	**81,452,563**	81,452,162	**81,450,827**	81,449,119
Weighted average number of Common and Class A Non-Voting Shares outstanding - Diluted (Note 12)	**81,820,664**	81,827,673	**81,817,430**	81,844,316

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

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

	13 weeks ended		26 weeks ended	
(C$ in millions)	**June 30, 2012**	July 2, 2011	**June 30, 2012**	July 2, 2011
Net income	**$ 133.7**	$ 105.8	**$ 204.7**	$ 164.2
Other comprehensive income (loss)				
Derivatives designated as cash flow hedges:				
Gains (losses), net of tax of $10.9 and $4.4 (2011 - $0.5 and $18.3)	**28.7**	(1.3)	**11.1**	(47.8)
Reclassification of losses to non-financial asset, net of tax of $0.3 and $1.2 (2011 - $6.2 and $10.7)	**0.9**	15.5	**3.4**	27.1
Reclassification of losses to income, net of tax of $nil and $nil (2011 - $nil and $0.2)	**-**	0.1	**-**	0.5
Available-for-sale financial assets:				
Gains, net of tax of $0.1 and $0.1 (2011 - $2.9 and $2.9)	**0.1**	7.2	**0.2**	7.3
Reclassification of (gains) losses to income, net of tax of $nil and $0.6 (2011 - $0.2 and $0.2)	**-**	0.3	**(1.5)**	0.3
Total other comprehensive income (loss)	**29.7**	21.8	**13.2**	(12.6)
Total comprehensive income	**$ 163.4**	$ 127.6	**$ 217.9**	$ 151.6

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

Condensed Consolidated Statements of Cash Flows (Unaudited)

(C$ in millions)	13 weeks ended June 30, 2012	13 weeks ended July 2, 2011 (Note 20)	26 weeks ended June 30, 2012	26 weeks ended July 2, 2011 (Note 20)
Cash generated from (used for):				
Operating activities				
Net income	**$ 133.7**	$ 105.8	**$ 204.7**	$ 164.2
Adjustments for:				
Impairment on loans receivable (Note 10)	**77.2**	89.8	**160.5**	179.4
Depreciation on property and equipment and investment property	**60.9**	53.5	**120.2**	105.8
Income tax expense	**50.1**	40.8	**76.6**	64.8
Net finance costs	**31.5**	33.2	**61.1**	67.2
Amortization of intangible assets	**23.0**	14.5	**43.0**	27.9
Other	**1.3**	4.2	**6.2**	8.5
	377.7	341.8	**672.3**	617.8
Changes in working capital and other	**38.1**	(82.5)	**(230.1)**	(119.7)
Cash generated from operating activities before interest and taxes	**415.8**	259.3	**442.2**	498.1
Interest paid	**(38.2)**	(47.1)	**(76.1)**	(87.8)
Interest received	**2.0**	18.1	**3.7**	20.0
Income taxes paid	**(44.5)**	26.0	**(85.3)**	(49.5)
Cash generated from operating activities	**335.1**	256.3	**284.5**	380.8
Investing activities				
Acquisition of short-term investments	**(36.8)**	(79.3)	**(161.2)**	(210.4)
Acquisition of long-term investments	**-**	(37.6)	**(80.3)**	(105.6)
Additions to property and equipment and investment property	**(48.3)**	(35.1)	**(103.0)**	(89.8)
Additions to intangible assets	**(16.2)**	(18.4)	**(31.3)**	(39.2)
Proceeds from the maturity and disposition of long-term investments	**-**	-	**4.7**	18.1
Proceeds from the maturity and disposition of short-term investments	**49.9**	108.8	**158.8**	174.2
Other	**1.1**	5.1	**4.0**	4.4
Cash used for investing activities	**(50.3)**	(56.5)	**(208.3)**	(248.3)
Financing activities				
Net (repayment) issuance of short-term borrowings	**(380.4)**	200.0	**(234.4)**	200.3
Issuance of loans payable	**41.2**	21.9	**135.8**	72.8
Repayment of loans payable	**(43.0)**	(40.5)	**(111.8)**	(70.9)
Issuance of share capital (Note 11)	**8.9**	8.3	**10.1**	9.4
Repurchase of share capital (Note 11)	**(8.8)**	(8.4)	**(10.0)**	(9.5)
Issuance of long-term debt	**211.7**	-	**211.7**	-
Repayment of long-term debt and finance lease liabilities	**(5.9)**	(6.3)	**(13.0)**	(13.1)
Dividends paid	**(24.5)**	(22.4)	**(48.9)**	(44.8)
Payment of transaction costs related to long-term debt	**(1.2)**	-	**(1.2)**	-
Cash (used for) generated from financing activities	**(202.0)**	152.6	**(61.7)**	144.2
Cash generated in the period	**82.8**	352.4	**14.5**	276.7
Cash and cash equivalents, net of bank indebtedness, beginning of period	**132.7**	375.7	**201.0**	450.9
Effect of exchange rate fluctuations on cash held	**(0.1)**	-	**(0.1)**	0.5
Cash and cash equivalents, net of bank indebtedness, end of period (Note 13)	**$ 215.4**	$ 728.1	**$ 215.4**	$ 728.1

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

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	Total accumulated other comprehensive income (loss)	Retained earnings	Total shareholders' equity
Balance at December 31, 2011	$ 710.5	$ 1.1	$ 9.4	$ 1.6	$ 11.0	$ 3,686.4	$ 4,409.0
Total comprehensive income							
Net income						204.7	204.7
Other comprehensive income (loss)							
Derivatives designated as cash flow hedges:							
Gains, net of tax of $4.4			11.1		11.1		11.1
Reclassification of losses to non-financial asset, net of tax of $1.2			3.4		3.4		3.4
Reclassification of losses to income, net of tax of $nil			-		-		-
Available-for-sale financial assets:							
Gains, net of tax of $0.1				0.2	0.2		0.2
Reclassification of (gains) to income, net of tax of $0.6				(1.5)	(1.5)		(1.5)
Total other comprehensive income (loss)	-	-	14.5	(1.3)	13.2	-	13.2
Total comprehensive income	-	-	14.5	(1.3)	13.2	204.7	217.9
Contributions by and distributions to shareholders							
Issue of Class A Non-Voting Shares (Note 11)	10.1				-		10.1
Repurchase of Class A Non-Voting Shares (Note 11)	(10.0)				-		(10.0)
Excess of issue price over repurchase price (Note 11)	(1.5)	1.5			-		-
Dividends					-	(48.9)	(48.9)
Total contributions by and distributions to shareholders	(1.4)	1.5	-	-	-	(48.9)	(48.8)
Balance at June 30, 2012	$ 709.1	$ 2.6	$ 23.9	$ 0.3	$ 24.2	$ 3,842.2	$ 4,578.1
Balance at January 1, 2011	$ 711.6	$ 0.3	$ (32.4)	$ 0.1	$ (32.3)	$ 3,325.3	$ 4,004.9
Total comprehensive income							
Net income						164.2	164.2
Other comprehensive income (loss)							
Derivatives designated as cash flow hedges:							
Losses, net of tax of $18.3			(47.8)		(47.8)		(47.8)
Reclassification of losses to non-financial asset, net of tax of $10.7			27.1		27.1		27.1
Reclassification of losses to income, net of tax of $0.2			0.5		0.5		0.5
Available-for-sale financial assets:							
Gains, net of tax of $2.9				7.3	7.3		7.3
Reclassification of losses to income, net of tax of $0.2				0.3	0.3		0.3
Total other comprehensive income (loss)	-	-	(20.2)	7.6	(12.6)	-	(12.6)
Total comprehensive income	-	-	(20.2)	7.6	(12.6)	164.2	151.6
Contributions by and distributions to shareholders							
Issue of Class A Non-Voting Shares (Note 11)	9.4				-		9.4
Repurchase of Class A Non-Voting Shares (Note 11)	(9.5)				-		(9.5)
Excess of issue price over repurchase price (Note 11)	(0.8)	0.8			-		-
Dividends					-	(44.8)	(44.8)
Total contributions by and distributions to shareholders	(0.9)	0.8	-	-	-	(44.8)	(44.9)
Balance at July 2, 2011	$ 710.7	$ 1.1	$ (52.6)	$ 7.7	$ (44.9)	$ 3,444.7	$ 4,111.6

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

1. The Company and its Operations

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

The Company is comprised of two main business operations that offer a range of retail goods and services including general merchandise, clothing, sporting goods, petroleum and financial services. Details of its two reportable operating segments: “Retail” and “Financial Services” are provided in Note 4.

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

2. Basis of Preparation

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”), as issued by the International Accounting Standards Board (“IASB”). The Company prepared these interim consolidated financial statements for the 13 and 26 weeks ended June 30, 2012 (and comparative results for the 13 and 26 weeks ended July 2, 2011) in accordance with International Accounting Standard (“IAS”) 34 – *Interim Financial Reporting.* These interim consolidated financial statements should be read in conjunction with the annual financial statements contained in the Company’s 2011 Annual Report.

These interim consolidated financial statements were authorized for issuance by the Company’s Board of Directors on August 9, 2012.

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

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 and the number of shares or the weighted average number of shares which are presented in whole numbers.

Use of estimates and judgments
The preparation of these 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 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 interim 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, the identification of its investment property, the identification of the indicators of impairment for property and equipment, investment property and intangible assets, the level of componentization of property and equipment and the allocation of purchase price adjustments on business combinations.

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

New standards implemented

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 did not impact the Company as its investment properties are not measured at fair value.

Standards, amendments and interpretations issued and not yet adopted

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

Financial instruments

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

Financial instruments: disclosures

In October 2010, the IASB amended IFRS 7 – *Financial Instruments: Disclosures* ("IFRS 7"), which will be applied prospectively for annual periods beginning on or after July 1, 2011. The amendments require additional disclosures on transferred financial assets. The Company is assessing the potential impact of these amendments and will include these disclosures in its 2012 annual financial statements.

Consolidated financial statements

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

Joint arrangements

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

Disclosure of involvement with other entities

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

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

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

Fair value measurement

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

Other comprehensive income presentation

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

Post-employment benefits

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

Financial instruments: asset and liability offsetting

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

3. Capital Management

The Company's objectives when managing capital are:

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

The definition of capital varies from company to company, industry to industry and for different purposes. The Company's definition of capital is the same as that detailed in Note 5 of the annual financial statements contained in the Company's 2011 Annual Report, which includes Glacier Credit Card Trust ("GCCT") indebtedness but excludes Franchise Trust indebtedness.

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 assessed with and without the impact of securitization.

The Company was in compliance with key covenants under its existing debt agreements during the quarter ended June 30, 2012. Under these covenants, the Company currently has sufficient flexibility to fund business growth and maintain or amend dividend rates within its existing dividend policy. The Company is in compliance with regulatory requirements, including the capital guidelines issued by the Office of the Superintendent of Financial Institutions of Canada, associated with the operations of Canadian Tire Bank ("the Bank"), a federally chartered bank, and other regulatory requirements that impact its business operations.

4. Operating Segments

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

- Retail is comprised of the Living, Playing & Fixing, Automotive, Apparel and Sporting Goods categories. The retail business is conducted through a number of banners including Canadian Tire Retail, Canadian Tire Gas ("Petroleum"), Mark's, PartSource, and various FGL Sports banners. Retail also includes the Dealer Loan Program (the portion (silo) of Franchise Trust that issues loans to Dealers), a financing program established to provide an efficient and cost-effective way for Dealers to access the majority of the financing required for their store operations.

- Financial Services markets a range of Canadian Tire-branded credit cards, including the Canadian Tire Options MasterCard, the Cash Advantage MasterCard and the Gas Advantage MasterCard. Financial Services also markets insurance and warranty products. The Bank, a wholly-owned subsidiary of Canadian Tire Financial Services Limited, is a federally regulated bank that manages and finances Canadian Tire's consumer MasterCard, Visa and retail credit card portfolios, as well as an existing block of Canadian Tire-branded personal loan and line of credit portfolios. The Bank also offers and markets High Interest Savings account deposits, Tax Free Savings Account deposits and Guaranteed Investment Certificate deposits, both directly and through third-party brokers. Financial Services includes GCCT, a financing program established to purchase co-ownership interests in the Company's credit card loans, and it issues debt to third-party investors to fund its purchases.

The two reportable operating segments have foreign-based subsidiaries or representative offices. Some of these subsidiaries lend funds to other subsidiaries within the Company. One of these subsidiaries operates a reinsurance company and is included in Financial Services, while other subsidiaries or representative offices provide support relating to product sourcing, logistics and vendor management outside of Canada and are included in Retail. These assets and activities do not constitute a geographic segment.

The segments operate independently but do share some services such as certain corporate, treasury, financial, legal, information technology and human resource functions. All intercompany transactions are eliminated upon consolidation. The accounting policies of the reportable segments and basis of preparation are the same as described in Note 2 of these interim consolidated financial statements and Note 3 of the Company's 2011 annual financial statements.

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

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

	13 weeks ended June 30, 2012				13 weeks ended July 2, 2011			
(C$ in millions)	Retail	Financial Services	Eliminations and adjustments	Total	Retail	Financial Services [1]	Eliminations and adjustments [1]	Total
External revenue	$ 2,731.6	$ 239.1	$ 20.5	$ 2,991.2	$ 2,318.1	$ 233.3	$ 19.5	$ 2,570.9
Intercompany revenue	-	3.4	(3.4)	-	0.2	3.2	(3.4)	-
Total revenue	2,731.6	242.5	17.1	2,991.2	2,318.3	236.5	16.1	2,570.9
Cost of producing revenue	2,004.0	106.4	(14.7)	2,095.7	1,738.2	121.2	(17.0)	1,842.4
Gross margin	727.6	136.1	31.8	895.5	580.1	115.3	33.1	728.5
Other (expense) income	(4.7)	0.5	-	(4.2)	0.3	(0.2)	-	0.1
Operating expenses	588.9	68.3	18.8	676.0	463.7	67.3	17.8	548.8
Operating income	134.0	68.3	13.0	215.3	116.7	47.8	15.3	179.8
Net finance costs	18.7	(0.2)	13.0	31.5	18.5	(0.6)	15.3	33.2
Income before income taxes	$ 115.3	$ 68.5	$ -	$ 183.8	$ 98.2	$ 48.4	$ -	$ 146.6
Items included in the above:								
Depreciation and amortization	$ 81.5	$ 2.4	$ -	$ 83.9	$ 65.3	$ 2.7	$ -	$ 68.0
Interest income	8.6	169.6	(0.4)	177.8	12.4	165.4	(1.6)	176.2
Interest expense	21.5	32.6	(0.4)	53.7	23.6	33.5	(1.6)	55.5

	26 weeks ended June 30, 2012				26 weeks ended July 2, 2011			
(C$ in millions)	Retail	Financial Services	Eliminations and adjustments	Total	Retail	Financial Services [1]	Eliminations and adjustments [1]	Total
External revenue	$ 4,915.6	$ 477.9	$ 37.2	$ 5,430.7	$ 4,044.4	$ 466.1	$ 36.6	$ 4,547.1
Intercompany revenue	0.1	6.3	(6.4)	-	0.4	5.8	(6.2)	-
Total revenue	4,915.7	484.2	30.8	5,430.7	4,044.8	471.9	30.4	4,547.1
Cost of producing revenue	3,597.1	217.9	(28.8)	3,786.2	2,999.5	241.3	(35.0)	3,205.8
Gross margin	1,318.6	266.3	59.6	1,644.5	1,045.3	230.6	65.4	1,341.3
Other (expense) income	(2.7)	2.4	-	(0.3)	2.6	(0.2)	-	2.4
Operating expenses	1,140.1	127.5	34.2	1,301.8	881.6	132.2	33.7	1,047.5
Operating income	175.8	141.2	25.4	342.4	166.3	98.2	31.7	296.2
Net finance costs	36.0	(0.3)	25.4	61.1	36.5	(1.0)	31.7	67.2
Income before income taxes	$ 139.8	$ 141.5	$ -	$ 281.3	$ 129.8	$ 99.2	$ -	$ 229.0
Items included in the above:								
Depreciation and amortization	$ 158.4	$ 4.8	$ -	$ 163.2	$ 128.5	$ 5.2	$ -	$ 133.7
Interest income	16.8	341.7	(0.4)	358.1	24.3	334.6	(3.0)	355.9
Interest expense	40.9	65.1	(0.4)	105.6	45.6	68.4	(3.0)	111.0

[1] Financial Services' operating segment results for the 13 and 26 weeks ended July 2, 2011 have been reclassified to correspond to the current year presentation. Certain revenues and costs that were previously presented in finance income and finance costs that are directly related to funding Financial Services' loans receivable have been presented in revenue and cost of producing revenue. This reclassification presents Financial Services' results as it manages and views its business and how the results are being presented to the Company's CEO. These revenues and costs are considered financing activities for external reporting and are therefore reported in net finance costs in the Condensed Consolidated Statements of Income. As a result of the reclassification of Financial Services' results for the 13 and 26 weeks ended July 2, 2011, external revenue increased by $1.7 million and $3.3 million, respectively, cost of producing revenue increased by $17.0 million and $35.0 million, respectively, gross margin decreased by $15.3 million and $31.7 million, respectively, operating income decreased by $15.3 million and $31.7 million, respectively, and net finance costs decreased by $15.3 million and $31.7 million, respectively. There is no impact to income before income taxes. The reclassifications in Financial Services' operating segment results are reversed in elimination and adjustments, resulting in no impact to the Condensed Consolidated Statements of Income.

Capital expenditures by reportable segment are as follows:

	13 weeks ended June 30, 2012				13 weeks ended July 2, 2011			
(C$ in millions)	**Retail**	**Financial Services**	**Eliminations and adjustments**	**Total**	Retail	Financial Services	Eliminations and adjustments	Total
Capital expenditures [1]	**$ 68.1**	**$ 0.7**	**$ -**	**$ 68.8**	$ 57.2	$ 1.7	$ -	$ 58.9

	26 weeks ended June 30, 2012				26 weeks ended July 2, 2011			
(C$ in millions)	**Retail**	**Financial Services**	**Eliminations and adjustments**	**Total**	Retail	Financial Services	Eliminations and adjustments	Total
Capital expenditures [1]	**$ 131.9**	**$ 1.0**	**$ -**	**$ 132.9**	$ 108.2	$ 4.4	$ -	$ 112.6

[1] Capital expenditures are presented on an accrual basis and include intangible software additions (Note 14).

Total assets by reportable segment are as follows:

(C$ in millions)	**June 30, 2012**	July 2, 2011	December 31, 2011
Retail	**$ 8,288.2**	$ 7,667.7	$ 8,341.5
Financial Services	**4,756.5**	4,681.4	4,684.0
Eliminations	**(766.5)**	(832.4)	(686.7)
Total	**$ 12,278.2**	$ 11,516.7	$ 12,338.8

5. Revenue

	13 weeks ended		26 weeks ended	
(C$ in millions)	**June 30, 2012**	July 2, 2011	**June 30, 2012**	July 2, 2011
Sale of goods	**$ 2,638.5**	$ 2,227.0	**$ 4,727.8**	$ 3,863.5
Interest income on loans receivable	**173.4**	170.5	**349.6**	345.3
Services rendered	**90.7**	89.2	**175.8**	173.0
Royalties and license fees	**84.7**	80.3	**170.8**	159.7
Rental income	**3.9**	3.9	**6.7**	5.6
	$ 2,991.2	$ 2,570.9	**$ 5,430.7**	$ 4,547.1

Major customers

Revenue is earned from a variety of customers. Canadian Tire Retail, Mark's, FGL Sports and PartSource ship merchandise to a network of over 750 independent Dealers and franchisees. Mark's, FGL Sports and PartSource corporate-owned stores, Petroleum and Financial Services provide goods and services directly to customers. The Company does not have a reliance on any one customer.

6. Cost of Producing Revenue

	13 weeks ended		26 weeks ended	
(C$ in millions)	**June 30, 2012**	July 2, 2011	**June 30, 2012**	July 2, 2011
Inventory cost of sales	**$ 2,003.9**	$ 1,739.3	**$ 3,597.1**	2,999.6
Net impairment loss on loans receivable	**61.6**	76.1	**129.7**	152.1
Finance costs on deposits	**17.8**	16.5	**36.0**	33.2
Other	**12.4**	10.5	**23.4**	20.9
	$ 2,095.7	$ 1,842.4	**$ 3,786.2**	$ 3,205.8

Inventory write-downs as a result of net realizable value being lower than cost recognized in the 13 and 26 weeks ended June 30, 2012 were $24.4 million (2011 - $19.0 million) and $40.5 million (2011 - $34.6 million), respectively.

Inventory write-downs recognized in previous periods and reversed in the 13 and 26 weeks ended June 30, 2012 were $2.2 million (2011 - $4.6 million) and $3.9 million (2011 - $7.1 million), respectively.

The write-downs and reversals are included in inventory cost of sales.

7. Operating Expenses by Nature

	13 weeks ended		26 weeks ended	
(C$ in millions)	**June 30, 2012**	July 2, 2011	**June 30, 2012**	July 2, 2011
Personnel expenses (Note 8)	**$ 248.2**	$ 182.2	**$ 489.3**	$ 358.0
Occupancy	**143.5**	97.5	**285.1**	196.7
Marketing and advertising	**84.1**	88.8	**139.2**	147.2
Depreciation of property and equipment and investment property	**60.9**	53.5	**120.2**	105.8
Amortization of intangible assets	**23.0**	14.5	**43.0**	27.9
Other	**116.3**	112.3	**225.0**	211.9
	$ 676.0	$ 548.8	**$ 1,301.8**	$ 1,047.5

8. Personnel Expenses

	13 weeks ended		26 weeks ended	
(C$ in millions)	**June 30, 2012**	July 2, 2011	**June 30, 2012**	July 2, 2011
Wages and salaries	**$ 183.0**	$ 136.6	**$ 357.8**	$ 270.5
Benefits	**61.2**	39.6	**118.0**	75.2
Share-based payments	**4.0**	6.0	**13.5**	12.3
	$ 248.2	$ 182.2	**$ 489.3**	$ 358.0

9. Share-based Payments

During the 26 weeks ended June 30, 2012, the Company issued the following share-based payment awards:

Stock options

The Company granted 720,658 stock options with tandem stock appreciation rights to certain employees. These stock options fully vest on a graduated basis over a three-year period, are exercisable over a term of seven years and have an exercise price of $63.67.

Performance Share Unit Plans

The Company has granted performance share units (PSUs) to certain employees. Each PSU entitles the participant to receive a cash payment in an amount equal to the weighted average closing price of Class A Non-Voting Shares traded on the Toronto Stock Exchange for the 20-day period commencing the day after the last day of the performance period, multiplied by an applicable multiplier determined by specific performance-based criteria. Compensation expense related to the PSUs is accrued over the performance period based on the expected total compensation to be paid out at the end of the performance period. The performance period of each plan is approximately three years from the date of issuance.

10. Loans Receivable

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

(C$ in millions)	Total principal amount of receivables[1] June 30, 2012	July 2, 2011	December 31, 2011	Average balance[1] June 30, 2012	July 2, 2011
Credit card loans	**$ 3,990.3**	$ 3,996.4	$ 4,026.8	**$ 3,905.6**	$ 3,870.7
Line of credit loans	**8.2**	9.9	8.8	**8.5**	10.6
Personal loans [2]	**1.4**	5.9	3.3	**2.3**	8.2
Total Financial Services' loans receivable	**3,999.9**	4,012.2	4,038.9	**$ 3,916.4**	$ 3,889.5
Dealer loans [3]	**652.7**	688.9	628.7		
Other loans	**8.4**	-	8.8		
Total loans receivable	**4,661.0**	4,701.1	4,676.4		
Less: long-term portion [4]	**619.5**	646.4	594.7		
Current portion of loans receivable	**$ 4,041.5**	$ 4,054.7	$ 4,081.7		

[1] Amounts shown are net of allowance for loan impairment.
[2] Personal loans are unsecured loans that are provided to qualified existing credit card holders for terms of three to five years. Personal loans have fixed monthly payments of principal and interest; however, the personal loans can be repaid at any time without penalty.
[3] Dealer loans issued by Franchise Trust.
[4] The long-term portion of loans receivable is included in long-term receivables and other assets and includes Dealer loans of $612.4 million at June 30, 2012 (July 2, 2011 - $644.7 million and December 31, 2011 - $587.5 million).

All loans receivable are initially recorded at fair value and subsequently measured at amortized cost. The impairment loss on loans receivable for the 13 and 26 weeks ended June 30, 2012 was $77.2 million (2011 - $89.8 million) and $160.5 million (2011 - $179.4 million), respectively. Recoveries of the allowance for loan impairment for the 13 and 26 weeks ended June 30, 2012 was $14.4 million (2011 - $12.4 million) and $28.5 million (2011 - $24.1 million), respectively.

11. Share Capital

(C$ in millions)	June 30, 2012	July 2, 2011	December 31, 2011
Authorized			
3,423,366 Common Shares			
100,000,000 Class A Non-Voting Shares			
Issued			
3,423,366 Common Shares (July 2, 2011 - 3,423,366; December 31, 2011 - 3,423,366)	**$ 0.2**	$ 0.2	$ 0.2
78,020,350 Class A Non-Voting Shares (July 2, 2011 - 78,020,999; December 31, 2011 - 78,020,208)	**708.9**	710.5	710.3
	$ 709.1	$ 710.7	$ 710.5

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

During 2012 and 2011, the Company issued and repurchased Class A Non-Voting Shares. The net excess of the issue price over the repurchase price results in contributed surplus. The net excess of the repurchase price over the issue price is allocated first to contributed surplus, if any, with any remainder allocated to retained earnings.

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

(C$ in millions)	26 weeks ended June 30, 2012 Number		$	26 weeks ended July 2, 2011 Number		$
Shares outstanding at beginning of the year	**78,020,208**	**$**	**710.3**	78,020,007	$	711.4
Issued						
Dividend reinvestment plan	**35,540**		**2.3**	33,689		2.1
Stock option plan	**200**		**-**	1,000		-
Employee Profit Sharing Plan	**59,078**		**4.1**	59,491		3.6
Dealer profit sharing plans	**54,724**		**3.7**	59,302		3.7
Repurchased	**(149,400)**		**(10.0)**	(152,490)		(9.5)
Excess of issue price over repurchase price	**-**		**(1.5)**	-		(0.8)
Shares outstanding at end of the period	**78,020,350**	**$**	**708.9**	78,020,999	$	710.5

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 June 30, 2012, the Company had dividends declared and payable to holders of Class A Non-Voting Shares and Common Shares of $24.4 million (2011 - $22.4 million) at a rate of $0.30 per share (2011 - $0.275 per share).

On August 9, 2012 the Company's Board of Directors declared a dividend of $0.30 per share payable on December 1, 2012 to shareholders of record as of October 31, 2012.

12. Basic and Diluted Earnings Per Share

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

	13 weeks ended		26 weeks ended	
	June 30, 2012	July 2, 2011	**June 30, 2012**	July 2, 2011
Weighted average number of Common and Class A Non-Voting Shares outstanding - Basic	**81,452,563**	81,452,162	**81,450,827**	81,449,119
Dilutive effect of employee stock options	**368,101**	375,511	**366,603**	395,197
Weighted average number of Common and Class A Non-Voting Shares outstanding - Diluted	**81,820,664**	81,827,673	**81,817,430**	81,844,316

13. Notes to the Condensed Consolidated Statements of Cash Flows

The components of cash and cash equivalents are:

(C$ in millions)		**June 30, 2012**		July 2, 2011		December 31, 2011
Cash	**$**	**30.5**	$	7.6	$	79.6
Cash equivalents		**267.6**		910.1		233.4
Restricted cash and cash equivalents[1]		**12.8**		16.1		12.8
Total cash and cash equivalents		**310.9**		933.8		325.8
Bank indebtedness		**95.5**		205.7		124.8
Cash and cash equivalents, net of bank indebtedness	**$**	**215.4**	$	728.1	$	201.0

[1] Relates to GCCT and is restricted for the purposes of paying out note holders and additional funding costs.

14. Property, Equipment, Investment Property and Intangible Assets

Acquisitions and disposals

During the 13 and 26 weeks ended June 30, 2012, property and equipment and investment property were acquired at an aggregate cost of $51.7 million (2011 - $40.5 million) and $103.4 million (2011 - $79.6 million), respectively. The amount of property and equipment and investment property acquired that is included in trade and other payables at June 30, 2012 was $16.1 million (2011 - $12.7 million). During the 13 and 26 weeks ended June 30, 2012, property and equipment and investment property were disposed of with a carrying amount of $12.0 million (2011 - $5.5 million) and $16.6 million (2011 - $6.1 million), respectively.

During the 13 and 26 weeks ended June 30, 2012, intangible assets were acquired at an aggregate cost of $17.1 million (2011 - $18.4 million) and $29.5 million (2011 - $33.0 million), respectively. The amount of intangible assets acquired that is included in trade and other payables at June 30, 2012 was $2.9 million (2011 - $2.2 million). During the 13 and 26 weeks ended June 30, 2012, intangible assets were disposed of with a carrying amount of $0.1 million (2011 - $1.2 million) and $0.1 million (2011 - $1.2 million), respectively.

Capital commitments

The Company has commitments of approximately $25.6 million at June 30, 2012 for the acquisition of property and equipment (2011 - $34.3 million).

15. Assets Classified as Held for Sale

Assets classified as held for sale as at June 30, 2012 include land and buildings with a cost of $6.8 million and $45.5 million, respectively (2011 - $10.7 million and $19.4 million, respectively), and accumulated depreciation of $25.1 million (2011 - $13.0 million). Land and buildings generally relate to stores in the Retail segment that have relocated to newer sites. The Company is actively marketing these properties to third parties and they will be sold when terms and conditions acceptable to the Company are reached.

16. Loans Payable

Franchise Trust, a legal entity sponsored by a third party bank, originates loans to Dealers. Loans payable are the loans that Franchise Trust has incurred to fund the loans to Dealers. These loans are not direct legal liabilities of the Company, but have been consolidated in the accounts of the Company as the Company effectively controls the silo of Franchise Trust containing the Dealer loan program.

Loans payable are recorded at fair value and are due within one year.

17. Legal Matters

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

The Bank is the subject of two class action proceedings regarding allegations that certain fees charged on the Bank issued credit cards are not permitted under the Quebec Consumer Protection Act. The Bank has determined that it has a solid defense to both actions on the basis that banking and cost of borrowing disclosure is a matter of exclusive federal jurisdiction. Accordingly, no provision has been made for amounts, if any, that would be payable in the event of an adverse outcome. If adversely decided, the total aggregate exposure to the Company would have been approximately $25.3 million at June 30, 2012.

18. 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 37 of the annual financial statements contained in the Company's 2011 Annual Report.

The Company regularly reviews the potential for adverse outcomes in respect of tax matters. The Company believes that the ultimate disposition of these will not have a material adverse effect on its liquidity, consolidated financial position or results of operations because the Company 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.

19. Long-term Debt

On May 31, 2012, the Company issued $200.0 million of five year senior notes and $11.6 million of five year subordinated notes, bearing an interest rate of 2.8% and 3.8%, respectively, payable semi-annually. The senior and subordinated notes have an expected repayment date of May 20, 2017.

20. Comparative Figures

Certain of the prior period's figures have been reclassified to correspond to the current year presentation. In the Condensed Consolidated Statements of Income, certain employee benefits costs previously included in administrative expenses are now presented in distribution costs and sales and marketing expenses within operating expenses. For the 13 weeks ended July 2, 2011, administrative expenses have been reduced by $16.4 million, with a corresponding increase in distribution costs and sales and marketing expenses of $11.3 million and $5.1 million, respectively. For the 26 weeks July 2, 2011, administrative expenses have been reduced by $31.0 million, with a corresponding increase in distribution costs and sales and marketing expenses of $20.0 million and $11.0 million, respectively.

In the Condensed Consolidated Statements of Cash Flows, issuance/repayment of short-term borrowings, which were previously shown separately, are presented net in financing activities. There is no impact to cash generated from (used for) financing activities as a result of this change in presentation.

Supplementary Information: Interest Coverage (Unaudited)

The Company's finance cost requirements for the 52 weeks ended June 30, 2012, after annualizing interest on debt issued and retired during this period, amounted to $149.6 million. The Company's income before interest on debt and income taxes for the 52 weeks ended June 30, 2012 was $831.8 million, which is 5.6 times the Company's finance cost requirements for this period.