

Canadian Tire Corporation, Limited

Fourth Quarter and Full Year 2013

Management's Discussion and Analysis (MD&A)

1.0 Preface

1.1 Definitions

In this document, the terms “we”, “us”, “our”, “Company”, “Canadian Tire Corporation”, “CTC” and “Corporation” refer to Canadian Tire Corporation, Limited, its subsidiaries and their collective businesses. This document also refers to the Corporation's three reportable operating segments: the “Retail segment”, the “CT REIT segment” and the “Financial Services segment”.

The financial results for the Retail segment are delivered by the businesses operated under the Company's retail banners, which include Canadian Tire, PartSource, Petroleum, Mark's, Sport Chek, Sports Experts and Atmosphere. In this document:

“Canadian Tire” refers to the Company's general merchandise retail business and its home services business carried on under the “Canadian Tire” name and trademarks and the business carried on under the “PartSource” name and trademarks.

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

“FGL Sports” refers to the retail business carried on by FGL Sports Ltd., a wholly owned subsidiary of the Company and “FGL Sports stores” includes stores operated under the “Sport Chek”, “Sports Experts” and “Atmosphere” names and trademarks.

“Mark's” refers to the retail business carried on by Mark's Work Wearhouse Ltd., a wholly owned subsidiary of the Company, and “Mark's stores” includes stores operated under the “Mark's”, “Mark's Work Wearhouse”, “Work World” and “L'Equipeur” names and trademarks.

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

The financial results for the CT REIT segment are delivered by CT Real Estate Investment Trust and its subsidiaries (“CT REIT”). CT REIT is a majority-owned subsidiary of the Corporation.

The financial results for the Financial Services segment are delivered by Canadian Tire Financial Services Limited (“CTFS”) and its subsidiaries, including Canadian Tire Bank (“CTB”). CTFS is a wholly owned subsidiary of the Corporation and CTB is a wholly owned subsidiary of CTFS.

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

1.2 Forward-looking statements

This MD&A contains statements that are forward-looking. Actual results or events may differ materially from those forecasted and from statements of the Company's plans or aspirations that are made in this disclosure because of the risks and uncertainties associated with the Corporation's business and the general economic environment. The Company cannot provide any assurance that any forecasted financial or operational performance, plans and financial aspirations will actually be achieved or, if

achieved, will result in an increase in the price of the Company's shares. Refer to section 14.0 in this MD&A for a more detailed discussion of the Company's use of forward looking statements.

1.3 Review and approval by the Board of Directors

The Board of Directors, on the recommendation of its Audit Committee, approved the contents of this MD&A on February 13, 2014.

1.4 Quarterly and annual comparisons in this MD&A

Unless otherwise indicated, all comparisons of results for Q4 2013 (13 weeks ended December 28, 2013) are against results for Q4 2012 (13 weeks ended December 29, 2012) and all comparisons of results for the full year of 2013 (52 weeks ended December 28, 2013) are against results for the full year of 2012 (52 weeks ended December 29, 2012).

1.5 Accounting framework

The Annual Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), also referred to as Generally Accepted Accounting Principles ("GAAP"), using the accounting policies described in note 3 to the Annual Consolidated Financial Statements.

1.6 Accounting estimates and assumptions

The preparation of consolidated financial statements that conform to IFRS requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Refer to section 10.1 in this MD&A for further information.

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

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

Retail sales is one of these key operating performance measures and refers to the point of sale (i.e., cash register) value of all goods and services sold to retail customers at Canadian Tire Dealer-operated, Mark's, PartSource and FGL Sports franchisee-operated, Petroleum retailer-operated and corporately owned stores across the retail banners and through its online sales channels and in aggregate does not form part of the Company's consolidated financial statements. Revenue, as reported in the Company's consolidated financial statements, is comprised primarily of the sales of goods to Canadian Tire Associate Dealers ("Dealers") and to franchisees of Mark's, PartSource and FGL Sports, the sale of gasoline through Petroleum retailers, the sale of goods to retail customers by stores that are corporately owned under the Mark's, PartSource and FGL Sports banners, the sale of services through the home services business, the sale of goods to customers through INA International Ltd. ("INA"), a business-to-business operation of FGL Sports and through the Company's online sales channels, as well as revenue generated from interest, service charges, interchange and other fees and from insurance products sold to credit card holders in the Financial Services segment and rent paid by third-party tenants in the CT REIT segment. Management believes that retail sales and related year-over-year comparisons provide meaningful information to investors and are expected and valued by them to help them assess the size and financial health of the retail network of stores; these measures also serve as an indicator of the strength of the Company's brand, which ultimately impacts its consolidated financial performance. Refer to section 10.3 for additional information on retail sales.

The Company also evaluates performance based on the effective utilization of its assets. The primary metric used to evaluate the performance of core retail assets is average sales per square foot. Comparison of sales per square foot over several periods will identify whether existing assets are being made more productive by the retail businesses' introduction of new store layouts and merchandising

strategies. In addition, Management believes return on invested capital (“ROIC”), analyzed on a rolling 12-month basis, reflects how well the Company is allocating capital toward profitable investments. ROIC can be compared to CTC’s cost of capital to determine whether invested capital was used effectively. Refer to section 10.3 for a description of changes made to the definition of this metric. In addition, an aspiration with respect to ROIC has been included in our five-year financial aspirations. Refer to section 5.0 for further information on the Company’s financial aspirations and for an analysis of CTC’s performance against its aspirational performance goals for 2013.

Additionally, the Company considers earnings before interest, tax, depreciation and amortization (“EBITDA”) to be an effective measure of CTC’s profitability on an operational basis. EBITDA is a non-GAAP financial metric and is commonly regarded as an indirect measure of operating cash flow, a significant indicator of success for many businesses. Please refer to section 10.3 for a schedule showing the relationship of the Company’s consolidated EBITDA to the most comparable GAAP measure (net income).

In the CT REIT segment, certain income and expense measurements that are recognized under GAAP are supplemented by Management’s use of certain non-GAAP financial key operating performance measures when analyzing operating performance. Management believes the non-GAAP financial key operating performance measures provide useful information to both Management and investors in measuring the financial performance and financial condition of CT REIT. These measures include funds from operations (“FFO”), adjusted funds from operations (“AFFO”) and net operating income (“NOI”). Refer to section 10.3 for further information and for a reconciliation of these measures to the nearest GAAP measure.

Management calculates and analyzes certain measures to assess the size, profitability and quality of Financial Services’ total managed portfolio of receivables. Growth in the total managed portfolio of receivables is measured by growth in the average number of accounts and growth in the average account balance. A key profitability measure the Company tracks is the return on the average total managed portfolio (also referred to as “return on receivables” or “ROR”). Refer to section 10.3 for a definition of ROR.

An aspiration with respect to ROR has also been included in the Company’s five-year financial aspirations. Refer to section 5.0 for further information on CTC’s financial aspirations and for an analysis of its performance against the aspirational performance goals for 2013.

1.8 Rounding and percentages

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

2.0 Company and industry overview

2.1 Overview of the business

The Company, through a network of nearly 1,700 retail outlets and gas bars and a range of financial services products, offers products and services that prepare Canadians for the jobs and joys of everyday living in Canada. The Retail segment spans the following categories: Living, Fixing, Playing, Automotive, Seasonal and Gardening, Apparel and Sports. The retail businesses are supported and strengthened by the Financial Services business, which offers credit cards and other credit products, retail deposits and insurance products.

In August 2013, the Company acquired Pro Hockey Life Sporting Goods Inc. (“PHL”). The operations of PHL are included in CTC’s results from operations and financial position commencing with the date of acquisition.

In addition, on October 23, 2013, CTC completed its sale of 255 of its retail properties and one distribution centre ("DC") to a newly formed entity, CT REIT, which is an unincorporated, closed-end real estate investment trust formed by the Company as the preferred vehicle for continued ownership and investment in its real estate. As at December 28, 2013, CTC held an approximate 83.1 per cent effective interest in CT REIT. The operations of CT REIT are included in the Company's results from operations and financial position commencing July 15, 2013. CT REIT did not carry on operations prior to October 23, 2013.

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

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

With the creation of CT REIT, the Company now has three reportable operating segments for financial reporting purposes: Retail, CT REIT and Financial Services.

Retail segment

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

Canadian Tire is the Company's flagship banner and one of Canada's most shopped general merchandise retailers. The 491 Canadian Tire stores across Canada are run by third-party operators known as Dealers, who are independent business owners. Dealers buy merchandise from CTC and sell it to consumers in Canadian Tire stores. Canadian Tire operates in the Living, Fixing, Playing, Automotive, and Seasonal and Gardening categories and also operates Canadian Tire Home Services which offers HVAC, roofing, painting, garage door installation and other services for home-owners. Canadian Tire is best known for the iconic red triangle affixed to every Canadian Tire storefront and also operates the specialty automotive hard parts banner "PartSource". The PartSource banner is a chain of 90 automotive parts specialty stores catering to medium to heavy "do-it-yourself" customers, automotive enthusiasts and commercial installers, in addition to supporting Canadian Tire stores with emergency automotive parts supply. Close to 5,600 automotive service bays are operated under the Canadian Tire name. Canadian Tire also operates an emergency roadside assistance service called Canadian Tire Roadside Assistance. Select categories of Canadian Tire's products are offered online through e-commerce retailing which is hosted at www.tires.canadiantire.ca for tires and wheels and, as at December 28, 2013, at www.canadiantire.ca for a broader range of products which are available for purchase and pick up in test markets. Canadian Tire will consider opportunities to expand e-commerce retailing in 2014.

Canadian Tire supports Canadian Tire Dealers with marketing, supply chain management, purchasing, administrative, financial and information services. Real estate and construction services required by Canadian Tire are provided through Canadian Tire Real Estate Limited, a wholly owned subsidiary of CTC. Canadian Tire's relationship with each Dealer is governed by an individual Dealer contract pursuant to which each Dealer agrees to operate the retail business of a Canadian Tire store under the Canadian Tire name and to use his or her best efforts personally to manage his or her Canadian Tire store at its maximum capacity and efficiency. Each Dealer owns the fixtures, equipment and inventory of, and is responsible for the store staff and operating expenses for, the Canadian Tire store he or she operates. Each Dealer agrees to comply with the policies, marketing plans and operating standards prescribed by

Canadian Tire, including purchasing merchandise primarily from Canadian Tire and offering merchandise for sale at prices not exceeding those set by Canadian Tire. In April 2013, the Company announced that discussions with its Dealers had resulted in new contract terms for each Dealer which came into effect June 30, 2013 and generally expire on December 31, 2024.

Petroleum is one of Canada's largest independent retailers of gasoline, with a network of 300 retailer-operated gas bars, including 295 convenience stores, 82 car washes and 89 propane stations. The majority of Petroleum sites are co-located with a Canadian Tire store as a strategy to drive traffic to the Company's core retail banner stores. In 2010, Petroleum entered into an agreement to build and operate 23 Canadian Tire gas bars in state-of-the-art service centres along major Ontario highways (Highway 400 and Highway 401). The service centres feature a gas bar and an associated convenience store. There were 19 of these locations in operation as at December 28, 2013.

Mark's is one of Canada's leading clothing and footwear retailers, operating 385 stores nationwide, including 348 corporate and 37 franchise stores that offer industrial wear, men's casual wear, women's casual wear, footwear and accessories. Mark's operates under the banners "Mark's", "Mark's Work Wearhouse", "Work World" and in Quebec, "L'Equipeur" and offers products for sale through its website at www.marks.com. Mark's also conducts a business-to-business operation under the name "Imagewear, a Division of Mark's Work Wearhouse".

FGL Sports is the largest national retailer of sporting goods in Canada, operating 421 stores including 237 corporate stores and 184 franchise stores from coast to coast. FGL Sports offers a comprehensive assortment of brand-name and private-label products under various banners, with the largest being "Sport Chek", "Sports Experts" and "Atmosphere". New to the FGL Sports store network is PHL, which was acquired in August 2013, and added 23 stores selling high-end hockey equipment to retail customers. Sport Chek offers products for sale through its website at www.sportchek.ca. FGL Sports also conducts a business to business operation, INA.

CT REIT segment

An initial public offering ("IPO") of units of CT REIT was completed on October 23, 2013. CT REIT did not carry on operations prior to this date. CT REIT has a geographically diversified portfolio of properties comprised of 258 properties located across each of the provinces and two territories of Canada totaling approximately 19.0 million square feet of gross leasable area ("GLA") ("the Properties"). The Properties include Canadian Tire stores, retail developments anchored by a Canadian Tire store, one DC and development lands acquired for the future development of Canadian Tire stores. CT REIT's primary business involves owning, developing and leasing income-producing commercial properties. CTC holds an approximate 83.1 per cent effective interest in CT REIT.

Financial Services segment

The Financial Services segment is comprised primarily of CTB, CTFS and a reinsurance subsidiary of CTFS. CTB is a federally regulated financial institution that manages and finances Canadian Tire-branded MasterCard and retail credit card portfolios, as well as personal loan and line of credit portfolios, all offered under the Canadian Tire name and trademarks. CTB also accepts deposits, offering guaranteed investment certificates and high-interest savings accounts to Canadian customers. CTB is a member of the Canada Deposit Insurance Corporation ("CDIC") and eligible deposit products issued by CTB qualify for CDIC insurance coverage. CTFS' operations consist primarily of the marketing of financial services, the processing of both Canadian Tire and other credit card transactions at Canadian Tire Dealer stores and through its reinsurance subsidiary, the reinsurance of insurance products. CTFS also provides operational support for CTB's activities.

Foreign operations

Both the Retail and Financial Services segments have foreign operations, which include representative offices in the Pacific Rim that perform activities related to product sourcing, logistics and vendor management and a Bermuda-based reinsurance company that reinsures the risk of certain insurance products marketed to Canadian Tire customers. In addition, a U.S.-based subsidiary carries on a

factoring business, using some of its funds to purchase Dealer receivables from the Company, with the remainder of its funds being lent to other subsidiaries within the Company. FGL Sports, through a wholly owned subsidiary, has wholesale operations based in the U.S., including warehouse facilities in the state of Washington.

2.2 Competitive landscape

No single retailer competes directly with Canadian Tire across all of its categories of product and service offerings, reflecting Canadian Tire's unique positioning in the Canadian retail marketplace.

Canadian Tire's Living, Fixing, Playing and Seasonal and Gardening categories compete with mass merchants, home improvement warehouses and specialty retailers across a number of product lines, including kitchen, cleaning, storage and organization and tools.

Canadian Tire's Automotive business, including its auto service centres and hard goods departments, PartSource hard-parts specialty stores and Petroleum retail outlets and gas bars, is one of the Company's core differentiators. Canadian Tire leads all mass merchants in this category. The main source of competition in this category is from independent retailers, national and regional parts and tires specialty shops and automotive dealerships. Canadian Tire offers online purchasing of tires and wheels through www.tires.canadiantire.ca and, during 2013, launched an e-commerce capability for a broader range of products which are available for purchase and pick up in test markets.

Mark's offers industrial apparel and footwear as well as men's and women's casual apparel and footwear. Mark's is the largest retailer of men's apparel in Canada. Mass merchants, department stores and specialty retailers compete with Mark's product lines. Mark's core differentiators are its focus on quality, comfort and durability, its strong selection of brand names and private label brands and its in-store customer experience. Mark's offers a wide assortment of its products online through its website at www.marks.com and offers a wide assortment from its in-store categories.

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

Competitors of each of Canadian Tire, Mark's and FGL Sports include those retail businesses that sell products from bricks-and-mortar locations and those that sell through e-commerce channels.

CT REIT's primary business involves owning, developing and leasing income-producing commercial properties located primarily in Canada. Competitors to CT REIT include other investors, managers and owners in seeking tenants and for the purchase and development of desirable real estate property in the Canadian real estate market.

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

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

- U.S.-based retailers already in Canada (including Wal-Mart, Target, Home Depot, Cabela's, Bass Pro Shops and Lowe's) that are in the process of expansion or are expected to further expand their store networks in Canada;

- Nordstrom entering Canada with its first store opening in 2014 and three additional stores expected to open in 2015 and beyond;
- new retailers expected to enter Canada in the coming years, which could include J.C. Penney, Kohl's, Saks Fifth Avenue and Dick's Sporting Goods; and
- United States ("U.S.") or international retailers that do not have bricks-and-mortar stores in Canada but are capturing sales from Canadian customers through e-commerce sites such as Amazon and those belonging to various apparel retailers.

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

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

The Company is well positioned in this competitive environment because:

- it has made investments in its store network over the past several years to revitalize and introduce consumer-responsive designs, such as the Smart store concept at Canadian Tire and the rebranding initiative at Mark's;
- merchandise productivity capabilities have been implemented and embedded into purchasing processes, which are helping to reduce costs and improve margins;
- the FGL Sports store network growth strategy is continuing with a focus on opening new Sport Chek stores to enhance the customer experience in-store; and
- progress on the Company's integrated digital strategy is continuing with the completion in 2013 of its foundational digital platform and a phased-in approach for key initiatives such as the newly launched Canadian Tire e-commerce platform.

3.0 Core capabilities

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

Strong brand equity

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

Loyalty program

The Canadian Tire 'Money'® loyalty program was launched more than 50 years ago as an innovative customer traffic-builder for Canadian Tire stores and gas bars. Canadian Tire 'Money' is one of Canada's most popular and widely known loyalty programs. In February 2012, the Company launched the first

phase of a redesigned and enhanced loyalty program, “Canadian Tire ‘Money’ Advantage”, in Nova Scotia. This program has become an important source of customer-based data that the Company is using to build retail strategies and relationships with Canadian Tire’s loyal customers over the long term. Management continues to test and learn from the existing pilot program and will be exploring additional customer-centric opportunities in 2014.

Innovative products

The Company has built a reputation as an innovator by introducing new or innovative products, programs and services that address the everyday needs of customers. Innovative products available at Canadian Tire stores are showcased on the Company’s website at www.canadiantire.ca. Two examples of innovations, exclusive to Canadian Tire, include the GreenWorks 40 Volt Lithium Ion Brushless Chainsaw with superior cutting torque and longer equipment life and the Coleman Instant Tent featuring a WeatherTec system that is guaranteed to keep users dry and sets up in one minute. Mark’s and FGL Sports are providing innovative apparel and footwear products, such as the X-Toe® external safety toe on men’s safety footwear to improve comfort and fit and heated winter boots available at Mark’s and the Adidas Springblade running shoes and Nike Hypervenom soccer shoes available at Sport Chek and Sports Experts.

Customer-friendly store layouts

Through its retail banners, the Company delivers innovative store designs that help customers find what they need and want, quickly and easily. The store network is regularly refreshed to reflect the latest assortments, store layout and merchandising concepts in order to enhance the in-store shopping experience. In the last five years, the majority of Canadian Tire stores have been refreshed to the Smart store format. This concept features a “racetrack” floor plan, incorporates better signage and more logical product adjacencies, added features such as “price lookup” kiosks, customer assistance stations and the latest technology throughout the store.

At Mark’s, the majority of the “Mark’s Work Wearhouse” legacy stores have been rebranded to “Mark’s” with new and innovative features in many stores as well as improved assortments in both men’s and women’s casual apparel and footwear. Throughout 2013, customers responded favourably to an improved customer experience due, in part, to clear and consistent navigational signage and better in-store merchandising and assortments across the network.

In 2012, FGL Sports announced its growth strategy and banner rationalization initiative. As part of this strategy, non-strategic banners were closed and future corporate store growth is concentrated primarily on the Sport Chek banner. A focus on enhancing the customer experience has led to improved in-store execution and merchandising, and installation of new digital features in-store to assist customers with making the right purchasing decisions. In 2013, a new-concept, “retail lab” location was opened and it serves as a testing ground for the interactive displays and digital enhancements that may be rolled out to new urban “flagship” Sport Chek stores. The first flagship store opened in Edmonton, Alberta, in January 2014 and includes many enhancements that focus on an improved customer experience both in- and out-of-the store.

Real estate management expertise

The Company’s strong in-house real estate team manages the entire network of owned and leased properties for CTC and for CT REIT and, in the case of CT REIT, pursuant to a property management agreement. The portfolio represents one of the largest retail networks in the country, comprising nearly 1,700 locations and over 30 million retail square feet. The Company’s expertise in real estate enables it to quickly and efficiently identify properties that are ideally situated for future development or redevelopment and to secure high-traffic, sought-after locations for its retail outlets. The Company directly owns 104 Canadian Tire store properties and, through its majority interest in CT REIT, indirectly owns 255 Canadian Tire store properties, totaling more than 70 per cent of the 491 Canadian Tire store locations. The balance of the Canadian Tire stores, as well as almost all of the Mark’s and FGL Sports stores, operate in leased locations.

Global supply chain network

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

Most of Canadian Tire's products are distributed to stores from four DCs across Canada. The two DCs in Brampton, Ontario (called the "AJ Billes" and "Brampton" DCs) are operated by the Company and are staffed primarily by Company employees while the DCs in Calgary, Alberta and Montreal, Quebec are operated for the Company by a third-party logistics company. Over the past five years, the DCs have tested and implemented state-of-the-art and innovative technologies: dimensioner technology (in the AJ Billes, Calgary and Montreal DCs), voice pick technology (in the AJ Billes, Calgary, Montreal and Brampton DCs) and the utilization of automated guided vehicle technology, which replaces traditional man-operated forklifts (in the AJ Billes DC). The Company has identified the need to replace the Brampton DC. Land in Bolton, Ontario was acquired in 2013 for this purpose.

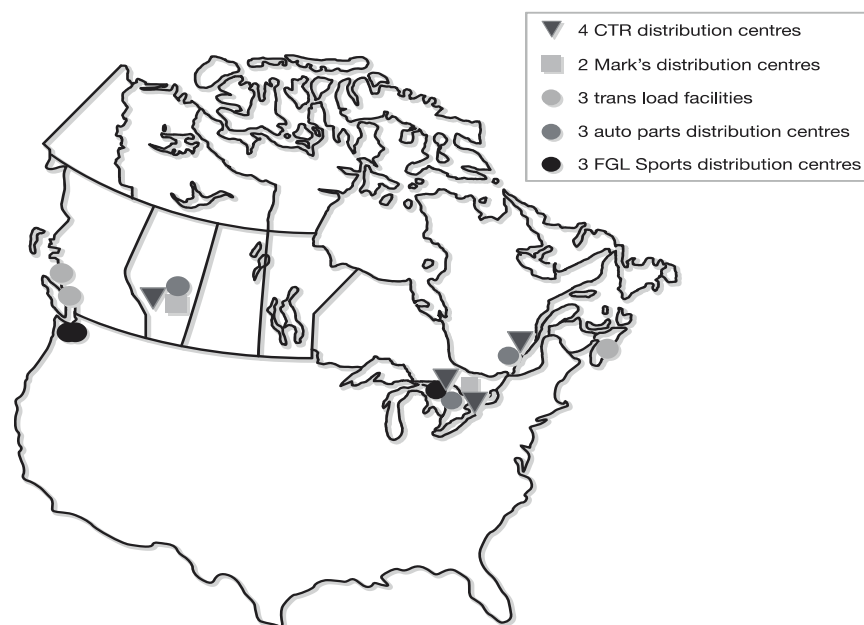
Canadian Tire's automotive hard parts supply chain is strengthened and supported by three Express Auto Parts ("EAP") depots, which provide overnight order fulfilment six nights per week for nearly all Canadian Tire and PartSource stores. These depots enable order delivery to most stores within 24 hours from receipt of an order. In addition to automotive hard parts, these depots support the Company's online tire business with overnight deliveries.

The Company also engages third-party logistics companies to provide trans loading and distribution capability in Vancouver, British Columbia for Canadian Tire, FGL Sports and Mark's and in Halifax, Nova Scotia for Canadian Tire only. Canadian Tire utilizes additional space that it owns or leases primarily for product storage and returns processing.

Mark's is partnered with a third-party logistics provider that operates Mark's DCs in Calgary, Alberta and Brampton, Ontario pursuant to an outsourcing arrangement. The movement of goods from off-shore suppliers to the two DCs is managed by Mark's Supply Chain through Canadian Tire's third party overseas consolidator and network of third-party carrier partners. Mark's processes inbound off-shore ocean containers through an outsourced Trans load facility in Vancouver. Mark's utilizes third-party rail and transportation partners to manage transportation to and from its two DCs.

FGL Sports uses third-party logistics companies to transport goods to its franchise and corporate stores from its primary DC in Mississauga, Ontario. This facility uses state-of-the art warehouse management systems, automated conveyor systems and a light-directed packing system to distribute products to both franchise and corporate stores. FGL Sports operates a second facility in Brampton, Ontario for corporate distribution overflow and INA wholesale Canadian distribution operations. INA also has two warehouse facilities in the state of Washington. With the acquisition of PHL in August of 2013, FGL Sports also operates a small warehouse facility in Laval, Quebec that distributes product exclusively to the PHL retail banner stores.

The Company's distribution network at a glance:



Prudent credit risk management

Financial Services has more than 25 years of experience managing credit card risk and has a professional team of managers, analysts and statisticians who use sophisticated industry-standard and proprietary credit-scoring models to manage credit risk. As a result, the team is able to make an informed assessment of the credit quality of each customer account and tailor products to achieve an appropriate balance of risk and return.

World-class customer contact centres

The Company's commitment to creating lifelong relationships with its customers is reflected in the success of its customer contact centres at Financial Services. The contact centres continue to be recognized for their commitment to customer service excellence, earning five *Contact Centre of the Year* titles and seven *Customer Satisfaction* awards over the past decade.

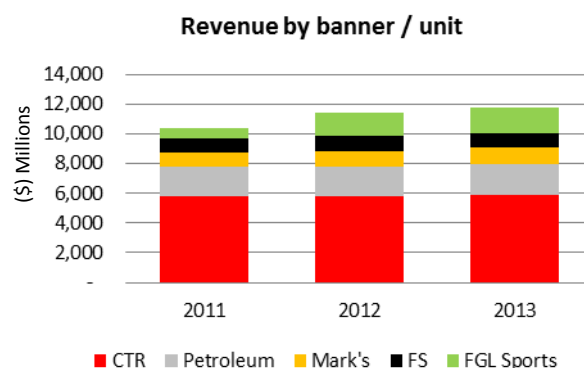
4.0 Historical performance highlights

4.1 Selected annual consolidated financial trends

(C\$ in millions, except per share amounts and number of retail locations)

	2013	2012 ¹	2011
Revenue	\$ 11,785.6	\$ 11,427.2	\$ 10,387.1
Net income	564.4	498.9	467.0
Basic earnings per share attributable to owners of the Company	6.96	6.13	5.73
Diluted earnings per share attributable to owners of the Company	6.91	6.10	5.71
Total assets	13,630.0	13,228.6	12,338.8
Total non-current liabilities	3,858.0	3,792.7	3,776.8
Financial Services gross average accounts receivables (total portfolio)	4,374.3	4,096.0	4,035.5
Number of retail locations	1,687	1,737	1,783
Cash dividends declared per share	\$ 1.4875	\$ 1.250	\$ 1.125
Stock price (CTC.A)	99.84	69.11	65.90

¹ Prior year figures have been restated. Refer to section 10.2 in this MD&A for additional information.

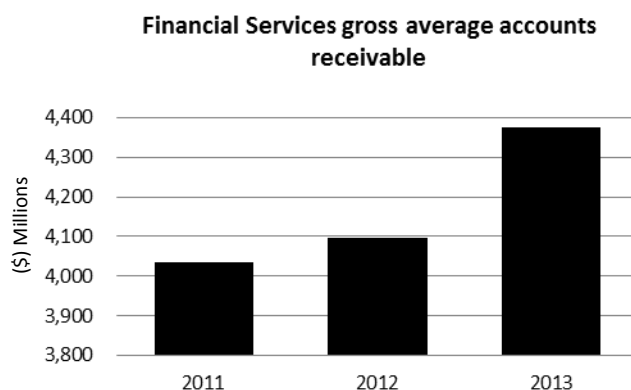


The three-year trend chart highlights changes in revenue by banner between 2011 and 2013. Since 2011, consolidated revenue increased every year due primarily to:

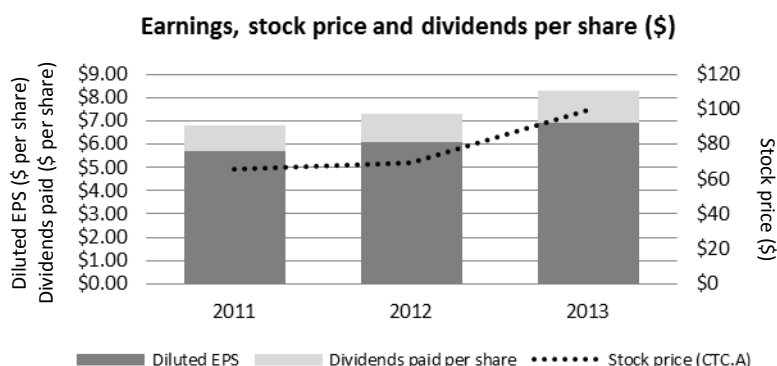
- higher shipments to Dealers related to same-store sales growth at Canadian Tire and same-store sales growth across the Mark's and FGL Sports banners;
- higher retail sales at Petroleum due to increased volume, network expansion and rising gas prices over the period, as well as an increased focus on ancillary products and services such as convenience store offerings and car washes;
- increased revenue at Financial Services largely attributable to realignment of the Financial Services business to support the Company's retail businesses, as well as process enhancements and new product offerings which have led to an increase in the number of average accounts; and
- revenue growth from the addition of FGL Sports in August 2011 and the acquisition of PHL in August 2013.



The decrease in the store count from 2011 largely reflects the FGL Sports banner rationalization initiative which, through the net closure of over 100 stores, formed an important initial phase of the FGL Sports growth strategy which was announced in 2012. This initiative rationalized the FGL Sports corporate stores, with future growth in the network to come primarily from Sport Chek banner stores. Despite the decrease in the number of stores, retail revenue has continued to increase, due to same store sales growth, higher sales at Petroleum and sales growth from acquisitions as discussed above.



Financial Services' gross average accounts receivables ("GAAR") for the total portfolio has increased over 2011. In 2012 and 2013, the economic environment was largely unchanged from 2011. Due to on-going investment in new account acquisition, financing offers for an expanded services portfolio, higher average account balances and continued focus on the optimization of approval and credit limit strategies, Financial Services strengthened its trend of strong GAAR growth in 2013.



Historical earnings and investment performance

The three year trend chart shows that the Company's diluted EPS, dividends paid per share and stock price have increased since 2011. This growth comes despite the U.S. and subsequent European sovereign debt crises and consequent muted outlook on gross domestic product ("GDP") growth which potentially affected the Company's results and share prices in 2012. The anticipated arrival of a major U.S.-based competitor in the Canadian retail marketplace in 2013 also may have influenced share price growth in 2012 and 2013.

In 2013, the Company announced several initiatives aimed at surfacing value for shareholders including the formation of CT REIT, the announcement of the Company's intention to seek a financial partner for its credit card portfolio, an increase in the annual dividend and a share buy-back program, which were favourably received by the capital markets. In 2013, the Company's Class A share price increased 46.5 per cent over the prior year.

The Company has a track record of increasing its annual dividend and, from 2010 to 2012, had established a target payout ratio of 20 to 25 per cent of its prior year's earnings. In Q3 2013, the Company announced an increase in the dividend payout ratio target to 25 to 30 per cent of the prior year's earnings.

5.0 Financial aspirations and strategic objectives

5.1 Financial aspirations

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 its efforts to achieve the five-year financial aspirations outlined in 2010 and listed below. Note that the financial aspirations reflect the Company's aspirations over the life of the plan period and it is expected that performance for individual fiscal years within that period will vary.

Financial Measure	Aspirations over 5-year period to 2014	2013 Performance	Achieved in 2013	2010 to 2013 CAGR ¹ Performance	Achieved from 2010 to 2013
Canadian Tire retail sales annual growth ²	3% to 5%	2.5%	X	1.9%	X
Consolidated EPS annual growth	8% to 10%	13.5%	✓	14.1%	✓
Return on invested capital ²	10% +	7.4%	X	7.4% ³	X
Financial Services return on receivables ²	4.5% to 5.0%	7.3%	✓	7.3% ³	✓
Total return to shareholders including dividends	10% to 12%	46.5%	✓	16.1%	✓

¹ Cumulative average growth rate.

² Key operating performance measures. Refer to section 10.3 in this MD&A for additional information.

³ ROIC and ROR are targets intended to be achieved at the end of the outlook period, therefore, have been calculated as at the year-end date.

Attainment of the financial aspirations is dependent on the performance of the Company, which in turn, is dependent on the performance of and outlook for the behavior of the Canadian economy and the Canadian consumer. Management continues to expect that the Canadian economy will remain relatively stable and will achieve moderate growth in GDP and consumer spending over the near term. Management also expects that Canadian consumers will continue to be cautious and seek value in their purchasing decisions. Achievement of the financial aspirations also depends on the Company's ability to offer products and services and a customer experience that serves the needs of its core customers, to operate in an increasingly competitive Canadian retail market and to deploy capital in an efficient manner and make its existing assets more productive.

The Company reports on its progress toward achievement of the financial aspirations annually. In addition, on a quarterly basis, Management reviews the material risks and underlying assumptions that will impact the achievement of its aspirational targets over the five-year period. Based on its assessment as at the date of this MD&A, Management still aspires to achieve the consolidated EPS annual growth, Financial Services ROR and Total Return to Shareholders ("TRS") aspirations within the stated five-year period.

While Management continues to aspire to achieve the Canadian Tire retail sales growth aspiration of three per cent to five per cent annually, Management does not believe this metric will be achieved when calculated on a cumulative average basis over the outlook period ending 2014. The ROIC measure of 10 per cent is the most aggressive of the financial aspirations and, while progress continues to be made, reaching this aspiration is dependent upon the Company's continued focus on deploying capital in an efficient manner and increasing the earnings generated by its existing retail assets. Based on the expected deployment of capital and anticipated earnings from the Company's retail assets, Management does not believe that the Company will achieve this aspiration by the end of the five-year strategic plan period. However, the Company continues to aspire to this level of performance.

5.2 Strategic objectives and initiatives

Progress made towards achieving the strategic objectives in 2013 was supported by the following major strategic initiatives:

Major strategic initiatives

- **Invest in and grow existing retail store networks**

- **Canadian Tire store renewal program**

Beginning in 2008, the Company began to roll out its newest Canadian Tire store concept, referred to as the Smart store. Key features of the Smart store include a “racetrack” floor plan, high walls and ceilings, improved category adjacencies and easy-to-read navigational signage. All future Smart stores will include an expanded Living category footprint that focuses on the “home manager” with expanded assortments, inspirational displays and improved product adjacencies.

In addition, the Hunting and Fishing ProShop (store within a store) concept had been rolled out to 120 stores as at the end of the fourth quarter. This concept increases the breadth and depth of seasonally relevant and regionalized assortments and provides an improved merchandising experience with enhanced staff engagement and knowledge, all leading to an enriched customer experience in the stores. The Company will continue to include Hunting and/or Fishing ProShops in selected stores and communities across the country. Refer to section 5.2.2 for 2014 objectives related to Canadian Tire network growth.

- **Mark’s network renewal**

A critical aspect of Mark’s growth plan involves capturing an increasing share of overall apparel sales. Mark’s has historically been, and continues to be, a leader in the industrial apparel and footwear market. With the goal of increasing market share in casual apparel and footwear, Mark’s launched its store renewal initiative. The renewal includes rebranding stores as “Mark’s” and offering a better customer experience in its stores, including wider aisles, cleaner sightlines, brighter interiors and interactive features, as well as greater style and fashion in casual apparel and footwear assortments. The rebranding renewal includes increased marketing to build awareness of Mark’s as a casual apparel and footwear retailer, in addition to the existing awareness of Mark’s as an industrial apparel and footwear retailer, in order to expand Mark’s customer base.

- **FGL Sports network growth strategy**

In May 2012, FGL Sports announced a five-year growth strategy that included a plan to rationalize its retail banners under the FGL Sports umbrella, closing over 100 retail locations, to focus primarily on expansion of its Sport Chek banner stores. The growth plan includes the addition of over 100 new retail stores, or approximately 1.4 million square feet of net new retail selling space, over a five-year time period. In particular, new-concept, large, urban flagship Sport Chek stores will be built, the first of which opened in January 2014.

In addition, in August 2013, FGL Sports acquired the PHL chain of 23 specialty retail hockey stores. Refer to section 8.2.3 for additional information on this transaction.

- **CT REIT growth strategy**

The principal objective of CT REIT is to create value for its unit holders over the long term by generating reliable, durable and growing monthly cash distributions on a tax-efficient basis. To achieve this objective, CT REIT’s management focuses on expanding the REIT’s asset base while also increasing its AFFO per Unit.

Future growth in CT REIT will be achieved through contractual annual rent escalations over the initial term of the property portfolio leases, pursuing accretive acquisitions of properties from CTC and third parties, and through further development, including intensification of its properties.

Through contractual arrangements with the Company, CT REIT has preferred rights to CTC's real estate and development activities, including access to both new builds and surplus property and associated intensification opportunities. In addition, CT REIT will use its close relationship with CTC to gain insight into additional commercial real estate acquisition and development opportunities across the country.

- **Technology and digital investments**

In 2013, digital capabilities for Canadian Tire were improved with upgrades to broadband connectivity and Wi-Fi distribution in all stores which supports new customer-facing technology. In addition, during 2013, the Company began construction of the Winnipeg Data Centre ("WDC") to provide infrastructure support for new capabilities and other systems. The WDC is expected to improve speed to market, reduce long-term technology costs and reduce systems redundancy and security. In 2013 the Company also announced its involvement with Communitech, a high-tech hub giving the Company direct access to talent and technologies for development of advanced digital experiences for customers across the Company's businesses.

Customers connect with the Company's leading retail banners through a variety of digital channels including the individual banner websites accessible at: www.canadiantire.ca, www.sportchek.ca and www.marks.com and which are among Canada's most visited websites. Through Facebook, Twitter, Pinterest and YouTube, the Company continued to increase engagement with customers, having most recently surpassed one million "Likes" on the Canadian Tire Facebook page. In addition, the Company's digital presence continues to grow. Smartphone and iPad applications offered across all of the Company's banners have counted over two million downloads to date.

Customers can also purchase products from the Company's retail banners online. In Q4 2013, the Company launched its new e-commerce platform for Canadian Tire which complements the existing e-commerce platforms for Mark's and FGL Sports. In-store digital experiences will continue to be a significant part of store design at Sport Chek and Mark's stores and will continue to be added to Canadian Tire stores on an on-going basis.

5.2.1 Performance in 2013

The table below summarizes and reports against the 2013 annual objectives that were identified in the 2012 Annual Report:

1. Strengthen core retail		
2013 Objectives	2013 Key activities	Assessment
Continue rollout of new concept Canadian Tire stores		
<ul style="list-style-type: none"> • Complete >50 Smart stores • Open one new and one replacement Small Market store • Pilot Canadian Tire Express store • Develop next new Canadian Tire store concept 	<ul style="list-style-type: none"> • Completed 62 Smart store projects • Opened one new Small Market store and one Small Market replacement store • Launched pilot of new Canadian Tire Express store in August 2013 in Toronto, Ontario • Planning continues on development of next new Canadian Tire store concept 	<ul style="list-style-type: none"> • Achieved • Achieved • Achieved • In progress

Continue to deliver an enhanced in-store customer experience at Canadian Tire		
<ul style="list-style-type: none"> • Deliver product locator software and training to >100 stores • Deliver enhanced tires training to 350 stores • Continue to roll out the Living strategy to 400 stores • Improve automotive service customer service index ("CSI") scores by 200 basis points ("bps") 	<ul style="list-style-type: none"> • Fully implemented Fast Find program at 133 Canadian Tire stores • Completed delivery of enhanced tires training to 350 stores • Living concept assortment available to all 491 Canadian Tire stores in network. 292 stores have also adopted the associated merchandising. • Automotive service CSI scores improved significantly over the first three quarters of the year, but did not meet the targeted 200 bps improvement. The Company is pleased with the progress made in automotive service to-date and continues to identify ways to improve the experience. 	<ul style="list-style-type: none"> • Achieved • Achieved • Achieved • Not Achieved
2. Align all business units to reinforce the core		
2013 Objectives	2013 Key activities	Assessment
Design and implement an enhanced loyalty program, employ customer-centric retailing and integrate with existing marketing programs		
<ul style="list-style-type: none"> • Continue to evolve first phase of Canadian Tire loyalty offering and identify markets for expansion of program in 2014 • Continue to design targeted offers to customers • Support first phase of new loyalty program at eight gas bars in Nova Scotia 	<ul style="list-style-type: none"> • Integrated loyal customer data analytics into marketing, planning and merchandising reviews • Continued to test and learn from pilot program • Executed direct marketing campaigns to retain and grow loyal customers in the pilot market • Loyalty card accepted at eight gas bars in Nova Scotia 	<ul style="list-style-type: none"> • Achieved • In progress • Achieved • Achieved
Expand e-commerce and investigate cross-business integration opportunities		
<ul style="list-style-type: none"> • Continue with design of an integrated online/digital experience across various retail banners • Expand e-commerce offering • Launch digital catalogue 	<ul style="list-style-type: none"> • Re-launched foundational infrastructure platform for www.canadiantire.ca • Launched Canadian Tire e-commerce offering in test markets across the country • Launched digital catalogue in April 2013 	<ul style="list-style-type: none"> • In progress • Achieved • Achieved
Continue to enhance store networks to drive an enhanced customer experience		
<ul style="list-style-type: none"> • Continue Mark's network expansion, including three new stores, nine replacements/ expansions and 32 Mark's rebrands • A total of 203 Mark's locations nationwide by the end of 2013 • Add or upgrade 20 Petroleum 	<ul style="list-style-type: none"> • Opened three new stores, nine replacements/ relocations/expansions and 40 Mark's rebranded stores • A total of 206 Mark's locations nationwide as at December 28, 2013 • Added or upgraded 13 Petroleum sites, 	<ul style="list-style-type: none"> • Achieved • Achieved • Not Achieved

<p>sites, including six new locations, five rebranded locations and nine replacement or retrofit projects</p> <ul style="list-style-type: none"> • Convert approximately eight existing PartSource stores to Super Satellite format 	<p>including seven new locations, one rebranded location and five replacement or retrofit projects</p> <ul style="list-style-type: none"> • Converted 10 existing PartSource stores to Super Satellite format • Converted 24 PartSource franchises to corporate stores 	<p>due primarily to rebrand site availability</p> <ul style="list-style-type: none"> • Achieved • Achieved
Drive growth in the Retail segment with integration and development of FGL Sports		
<ul style="list-style-type: none"> • Complete banner rationalization program (Q1 2013) • Complete 27 new Sport Chek and Atmosphere stores, two Sport Chek flagship stores, five replacement stores and five expansions 	<ul style="list-style-type: none"> • Completed banner rationalization • Completed 46 new store projects and renovated/relocated 19 properties <p>Included in the above was the opening of one urban retail lab store as a facility for testing in-store digital technology for future store concepts and designs</p> <ul style="list-style-type: none"> • Completed the acquisition of PHL, a specialty hockey store chain with 23 stores 	<ul style="list-style-type: none"> • Achieved • Achieved however flagship store openings pushed to 2014; the first one opened in January 2014.
Expand Financial Services through continued growth of portfolio services and managed growth of receivables		
<ul style="list-style-type: none"> • Continue to identify and provide alternate financing methods and support to Home Services customers • Continue to market and promote new in-store financing offers 	<ul style="list-style-type: none"> • Continued to identify and provide alternate financing methods for customers including instant credit and deferred payment options • Continued to market and promote new in-store offers, including instant credit, deferred financing, installment payment programs and new account acquisitions 	<ul style="list-style-type: none"> • Achieved • Achieved
3. Build a high-performing organization		
2013 Objectives	2013 Key activities	Assessment
Advance key productivity and efficiency initiatives (technology and process capabilities to sustain benefits into the future)		
<ul style="list-style-type: none"> • Simplify the flyer process and drive flyer performance and productivity • Identify opportunities to implement technology and new processes in support of consistent assortment reviews • Evaluate productivity and effectiveness of SKUs within assortments • Streamline supply chain 	<ul style="list-style-type: none"> • Completed in-depth review of flyer process and continued to utilize insights from customer data to further enhance flyer process and design • Line reviews are leveraging new processes and technology • Continued to integrate productivity initiatives in ongoing assortment process • Initiatives achieved targeted savings in 	<ul style="list-style-type: none"> • Achieved • Achieved • In progress • Achieved

operations to reduce expenses	2013	
Drive business sustainability as a business strategy		
<ul style="list-style-type: none"> • Continue to integrate sustainability across the Company's operations, generating both cost avoidance and revenue from initiatives • Optimize key sustainability metrics and reporting 	<ul style="list-style-type: none"> • Continued to integrate sustainability across the Company's operations, generating both cost avoidance and revenue from business sustainability initiatives • Established new format for reporting quarterly key sustainability metrics in the interim MD&As 	<ul style="list-style-type: none"> • Achieved • Achieved
4. Create new platforms for growth		
2013 Objectives	2013 Key activities	Assessment
Explore new avenues for growth and new business developments		
<ul style="list-style-type: none"> • Focus on growth of leadership and heritage category businesses • Continue to roll out new Hunting and/or Fishing ProShops in selected markets • Identify new products and services to grow receivables at Financial Services • Expand digital commerce capabilities across all banners • Continue to evaluate the national and regional Home Services pilot programs and launch a broader service offering regionally 	<ul style="list-style-type: none"> • Invested in leadership and heritage category businesses including Living, outdoor recreation and Automotive to drive growth • Completed 66 Hunting, 17 Fishing and 37 combined Hunting and Fishing ProShops in selected markets bringing the total to 120 as at December 31, 2013 • Launched new Canadian Tire Options World MasterCard and advanced in-store financing to include FGL Sports products • Expanded digital commerce capabilities at Canadian Tire with initial phase launched in November 2013, re-launched www.marks.com with enhanced functionality and assortments • Expanded service offering including HVAC, roofing, painting and garage door installation beyond pilot markets and added an additional nine Canadian Tire product categories to installation program 	<ul style="list-style-type: none"> • Achieved • Achieved • Achieved • Achieved • Achieved
Improve return on invested capital		
<ul style="list-style-type: none"> • Consolidated capital expenditures to increase to a range of \$400 to \$425 million (excluding costs related to a potential purchase of land for a future DC) • Focus on improved productivity of operating cost structure and continued margin performance 	<ul style="list-style-type: none"> • Consolidated capital expenditures were \$544.5 million including \$102.2 million related to land purchased for future distribution capacity. • Gross margin improvements realized in 2013 • ROIC improved by 8 basis points 	<ul style="list-style-type: none"> • \$17.3 million over guidance due to accelerated IT agenda for 2014 initiatives • Achieved

In addition to the above objectives and accomplishments in 2012, the creation of CT REIT added to the financial flexibility of the Company and surfaced the value of its real estate.

5.2.2 Objectives for 2014

The strength and value of the Company's brands are directly correlated to the strength of its business results. In 2013, the Company invested in a variety of innovative and brand-enhancing awareness programs to reinforce the relevance of its brands for customers today and to support their relevance in the future. Underlying the 2014 objectives that have been identified in the table below is a commitment to being a brand-led organization. Successful achievement of the objectives will ensure that the Company's brands are supported and enhanced in the eyes of our customers and other key stakeholders.

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

Management has identified key assumptions and material risk factors that may affect the achievability of the 2014 objectives. The majority of the identified material risk factors form part of the Company's 11 Principal Risks, including: marketplace, people, key business relationships, technology, operations, financial markets and consumer lending. For a full list of the Company's Principal Risks, refer to section 11.2. Additional assumptions and risk factors have been identified below.

1. Invest in and grow existing retail networks
2014 Objectives
<i>Retail segment network expansion and development</i> <ul style="list-style-type: none"> • Complete 40 Smart store projects • Complete 50 ProShop projects • Complete 20 new Sport Chek stores including two flagship stores • Rebrand all remaining Mark's Work Wearhouse stores to the Mark's format • Build on growth across the Company's network of retail banners to support CT REIT's growth agenda • Continue to assess relevant organic and inorganic opportunities to generate sustainable, long-term growth from heritage categories
<i>Key assumption</i> <ul style="list-style-type: none"> • <i>Retail marketplace conditions are assumed to be within normal parameters with respect to prices, margins, product availability and supplier agreements for major product offerings</i>
<i>Significant risks</i> <ul style="list-style-type: none"> • <i>Limitations on availability of preferred retail locations due to increased competition and demand for retail space in Canada</i> • <i>Availability of suitable acquisition targets that meet Company's criteria</i>
2. Invest in technology, digital and loyalty platforms
2014 Objectives
<i>Digital / e-commerce expansion and rollout</i> <ul style="list-style-type: none"> • Roll-out Canadian Tire e-commerce functionality nationally and explore opportunities to further expand e-commerce capabilities • Continue to invest in base infrastructure to support future enhancements to Mark's and FGL Sports e-commerce channels • Install additional product locator technology in 300 stores including a rollout of an additional 4,000 customer-facing and 4,000 employee-facing devices across the Canadian Tire store network to enhance in-store customer experience and drive sales growth • Expand use of digital technologies both in-store and on mobile devices at Sport Chek • Evolve the collection, use and dissemination of customer data and insights to effect marketing and purchasing decisions across all banners and explore additional customer-centric opportunities

<p><i>Key assumptions</i></p> <ul style="list-style-type: none"> • <i>Loyal customers will continue to respond favourably to e-commerce and digital offerings at key retail banners</i>
<p><i>Significant risks</i></p> <ul style="list-style-type: none"> • <i>Ability to provide targeted digital offerings that meet the needs of a diverse mix of customers across the key retail banners</i> • <i>Company's ability to effectively utilize customer data to enhance the customer offering and in-store experience</i>
<p>3. Build a high-performing organization</p>
<p>2014 Objectives</p>
<p><i>Optimize organizational performance and execution</i></p> <ul style="list-style-type: none"> • Continue to evolve CTC into a brand-led organization with continued investment in its key brand building assets: Olympic and Sports partnerships; community involvement programs; and Canadian Tire JumpStart Charities ("JumpStart") • Identify financial partner and complete transaction for Financial Services credit card business to decrease risks associated with funding the credit card portfolio, create growth opportunities for Financial Services and to generate additional financial flexibility for the Company • Implement terms of new Dealer contract and focus on improving collaborative relationship to enhance the core Canadian Tire customer experience, increase productivity and to generate overall enterprise value • Identify opportunities to improve productivity within the Company's cost structure to generate additional earnings growth
<p><i>Key assumptions</i></p> <ul style="list-style-type: none"> • <i>Ability to identify processes within the business that can be redesigned to create a more efficient process and reduce future costs</i>
<p><i>Significant risks</i></p> <ul style="list-style-type: none"> • <i>Increased costs related to global sourcing of key products could impact Company's ability to hold or reduce operating and/or supply chain costs</i> • <i>Ability to achieve enhanced purchasing efficiencies and reduce overhead expenses</i> • <i>Ability to identify a suitable partner for the credit card business and negotiate terms acceptable to both parties</i>

6.0 Economic environment

6.1 2013 Economic review

Investor and consumer confidence continued to be challenged throughout 2013 and the global economy remained sluggish, particularly as Europe pulled out of a recession and due to uncertainty surrounding U.S. government operations. While the Canadian economy felt these effects, it rebounded stronger than expected as Canadian GDP growth quickened to its fastest pace in nearly two years, expanding to an annualized pace of 2.7 per cent with household spending continuing to drive much of the growth. The S&P/TSX Composite Index ended the year up 8.6 per cent and almost all major U.S. and major international indices ended the year up over 2012.

7.0 Financial performance

7.1 Summary of quarterly results

Over the past two years, the Company's quarterly revenue and earnings have steadily increased with the second and fourth quarters typically generating 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 of the Company by quarter for the last two years.

(C\$ in millions, except per share amounts)	Q4 2013 ¹	Q3 2013	Q2 2013	Q1 2013	Q4 2012	Q3 2012	Q2 2012	Q1 2012
Revenue	\$ 3,328.7	\$ 2,956.0	\$ 3,021.1	\$ 2,479.8	\$ 3,166.7	\$ 2,829.8	\$ 2,991.2	\$ 2,439.5
Net income	191.0	145.5	154.9	73.0	162.8	131.4	133.7	71.0
Basic earnings per share attributable to owners of the Company	2.34	1.81	1.92	0.90	2.00	1.61	1.64	0.87
Diluted earnings per share attributable to owners of the Company	2.32	1.79	1.91	0.90	1.99	1.61	1.63	0.87

¹ Prior year figures have been restated. Refer to section 10.2 in this MD&A for additional information.

7.2 Financial performance in 2013 versus 2012

Consolidated business performance

In 2013, the Company produced solid results despite a highly competitive retail marketplace with new competitors coming to Canada and existing competitors expanding store networks across the country. Revenue and earnings growth in the Retail segment were driven by continued strength in automotive assortments, the execution of strategic objectives within the Living category, a positive response to the outdoor recreation assortment and ProShop concept, a balanced approach to management of margins and sales at Canadian Tire and seasonal winter weather in the fourth quarter. In addition, changes made to assortments and in-store execution at Mark's, new product brands and assortments as well as the acquisition of PHL by FGL Sports, contributed to the positive year-over-year performance. Revenue growth from strong receivables growth coupled with prudent expense management and lower net write-offs in the Financial Services segment also provided a meaningful contribution to earnings growth.

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

- costs associated with the formation of CT REIT in 2013;
- costs associated with the banner rationalization initiative at FGL Sports in 2012;
- restructuring charges taken in 2012; and
- tax and tax provision adjustments made in 2012.

References to "normalized" earnings and "normalized" diluted EPS attributable to owners of the Company are made throughout the financial results discussion in sections 7.3 and 7.4 and reflect the results of operations excluding these items. Normalized results are non-GAAP measures and do not have standardized meanings under IFRS and, therefore, may not be comparable to similar terms used by other companies. For further information and a reconciliation to GAAP measures, refer to section 10.3 in this MD&A.

7.3 Consolidated performance

7.3.1 Consolidated key operating performance measures

Readers are reminded that key operating performance measures do not have standard meanings under IFRS and, therefore, may not be comparable to similar terms used by other companies. Refer to section 10.3 in this MD&A for definitions and further information on changes made to performance measures.

(C\$ in millions, except where noted)	Q4 2013	Q4 2012	Change	2013	2012	Change
Revenue ¹	\$ 3,328.7	\$ 3,166.7	5.1%	\$ 11,785.6	\$ 11,427.2	3.1%
ROIC ^{2,3}	7.42%	7.34%	8 bps	n/a	n/a	

¹ Inter-segment revenue within the retail banners and with CT REIT has been eliminated upon consolidation.

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

³ ROIC has been restated. Refer to section 10.3 in this MD&A for additional information.

7.3.1.1 Consolidated financial results

(C\$ in millions, except where noted)	Q4 2013	Q4 2012 ³	Change	2013	2012 ³	Change
Retail sales ¹	\$ 3,981.1	\$ 3,774.7	5.5%	\$ 13,225.3	\$ 12,824.9	3.1%
Revenue	\$ 3,328.7	\$ 3,166.7	5.1%	\$ 11,785.6	\$ 11,427.2	3.1%
Gross margin dollars	\$ 1,082.5	\$ 994.4	8.9%	\$ 3,722.3	\$ 3,497.9	6.4%
Gross margin (% of revenue)	32.5%	31.4%	112bps	31.6%	30.6%	97bps
Operating expenses (excluding depreciation & amortization)	695.3	662.2	5.0%	2,483.6	2,365.5	5.0%
Other (expense) income	(6.2)	5.2	(217.1)%	(3.0)	5.7	(152.1)%
EBITDA ²	\$ 381.0	\$ 337.4	12.9%	\$ 1,235.7	\$ 1,138.1	8.6%
Depreciation and amortization	89.7	87.8	2.2%	345.3	335.1	3.0%
Net finance costs	25.9	33.4	(22.2)%	105.8	126.2	(16.1)%
Income before income taxes	\$ 265.4	\$ 216.2	22.7%	\$ 784.6	\$ 676.8	15.9%
Income taxes	74.4	53.4	39.4%	220.2	177.9	23.8%
Effective tax rate	28.0%	24.7%		28.1%	26.3%	
Net income	\$ 191.0	\$ 162.8	17.2%	\$ 564.4	\$ 498.9	13.1%
Net income attributable to:						
Owners of the Company	\$ 187.8	162.8	15.2%	\$ 561.2	498.9	12.5%
Non-controlling interests	3.2	-	-	3.2	-	-
	\$ 191.0	162.8	17.2%	\$ 564.4	498.9	13.1%
Basic earnings per share attributable to owners of the Company	\$ 2.34	\$ 2.00	16.9%	\$ 6.96	\$ 6.13	13.5%
Diluted earnings per share attributable to owners of the Company	\$ 2.32	\$ 1.99	16.4%	\$ 6.91	\$ 6.10	13.3%

¹ Retail sales for the current and prior year periods have been restated. Refer to section 10.3 in this MD&A for additional information on the restatement and on retail sales.

² Non-GAAP measure. Refer to section 10.3 in this MD&A for additional information.

³ Prior year figures have been restated. Refer to section 10.2 in this MD&A for additional information.

Consolidated fourth quarter 2013 versus fourth quarter 2012

Earnings summary

Diluted EPS attributable to owners of the Company were \$2.32 in the quarter, up 16.4 per cent over the prior year. Normalizing for the one-time costs highlighted in section 7.2, diluted EPS attributable to owners of the Company were \$2.35, an increase of 9.8 per cent over the prior year's normalized earnings. The earnings growth largely reflects strong top-line revenue and gross margin contributions from both the Retail and Financial Services segments.

Retail sales

Consolidated retail sales increased \$206.4 million (5.5 per cent) due to:

- sales growth from seasonal promotional campaigns and events and seasonal winter weather as well as strong assortments across Canadian Tire, FGL Sports and Mark's retail banners;
- increased gasoline prices and higher non-gasoline sales at Petroleum; and
- the addition of PHL.

Revenue

Consolidated revenue increased \$162.0 million (5.1 per cent) as a result of:

- higher shipment levels from increased Dealer replenishment in key categories at Canadian Tire;
- increased sales across FGL Sports, Mark's and Petroleum banners; and
- increased credit charges related to gross average receivables growth at Financial Services.

Gross margin

Consolidated gross margin dollars increased \$88.1 million (8.9 per cent) as a result of increases in revenue across the Retail and Financial Services businesses, as noted above.

The consolidated gross margin rate (32.5 per cent of revenue) was up 112 bps compared to the prior year due primarily to:

- improvements in promotional pricing in key categories at Canadian Tire, as well as a higher margin sales mix;
- higher margin sales mix at FGL Sports and fewer product mark-downs at Mark's; and
- higher credit charges at Financial Services.

Operating expenses (excluding depreciation and amortization)

Consolidated operating expenses (excluding depreciation and amortization) increased \$33.1 million (5.0 per cent) due primarily to:

- increased marketing and advertising costs largely due to sports sponsorship payments;
- higher personnel costs due to increased incentive compensation;
- higher information systems and technology spending;
- higher occupancy costs due to new stores in the network and the addition of PHL at FGL Sports; and
- one-time costs associated with the formation of CT REIT.

Depreciation and amortization expense

Consolidated depreciation and amortization expense increased \$1.9 million (2.2 per cent) due to capitalized costs associated with increased IT initiatives and intangible software assets, as well as Petroleum, Mark's and FGL Sports banner network updates and expansion projects.

Net finance costs

Net finance costs decreased \$7.5 million (22.2 per cent) largely due to lower interest expense on notes issued by Glacier Credit Card Trust ("Glacier"), a special purpose entity created to securitize credit card loans receivable, which were refinanced at a lower rate and a lower aggregate principal amount of notes outstanding compared to the prior year.

Consolidated full year 2013 versus full year 2012**Earnings summary**

Diluted EPS attributable to owners of the Company totalled \$6.91 for the year, up 13.3 per cent versus 2012. Normalizing for the one-time items identified in section 7.2, diluted EPS attributable to owners of the Company were \$7.02, up 8.8 per cent.

Retail sales

Consolidated retail sales increased \$400.4 million in the year, or 3.1 per cent, due to:

- sales growth from incremental promotional events and campaigns and seasonal winter weather as well as new and better assortments at Canadian Tire, FGL Sports and Mark's;
- sales growth from the Sport Chek banner stores and liquidation sales in Q1 related to banner rationalization at FGL Sports;
- increased gasoline prices and volumes at Petroleum; and
- the addition of PHL.

Revenue

Consolidated revenue increased \$358.4 million in the year, or 3.1 per cent, as a result of:

- higher shipments and Dealer replenishment related to increased sales at Canadian Tire;
- higher retail sales at FGL Sports and Mark's;
- increased gasoline prices and volumes at Petroleum; and
- higher credit charges due to increased gross average receivables at Financial Services.

Gross margin

Consolidated gross margin dollars increased \$224.4 million in the year, or 6.4 per cent, as a result of increased revenue as noted above.

The consolidated gross margin rate (31.6 per cent of revenue) increased 97 bps compared to the prior year. This was due primarily to:

- strong margin management at Canadian Tire and increased sales in higher margin categories;
- higher mix of regular priced versus promotional sales and less clearance activity at Mark's;
- increased credit charges at Financial Services; and
- higher margin sales mix at FGL Sports, offset by margin rate declines in Q1 related to banner rationalization activity.

Operating expenses (excluding depreciation and amortization)

Consolidated operating expenses (excluding depreciation and amortization) increased \$118.1 million (5.0 per cent) due primarily to:

- higher personnel costs related to increased incentive compensation;
- increased marketing and advertising costs largely due to incremental destination guides and costs associated with advertising campaigns at Canadian Tire as well as sports sponsorship payments;
- higher occupancy and other costs due to the addition of PHL and the formation of CT REIT; and
- higher information systems and technology spending.

Depreciation and amortization expense

Consolidated depreciation and amortization expense increased \$10.2 million in the year (3.0 per cent) due to increased capitalized costs associated with digital infrastructure development and intangible software assets, as well as Petroleum, Mark's and FGL Sports banner network updates and expansion projects.

Net finance costs

Net finance costs decreased \$20.4 million in the year (16.1 per cent) due primarily to lower interest expense on Glacier notes which were refinanced at a lower rate and a lower aggregate principal amount of notes outstanding compared to the prior year.

7.4 Business segment performance

7.4.1 Retail segment key operating performance measures

Readers are reminded that key operating performance measures do not have standard meanings under IFRS and, therefore, may not be comparable to similar terms used by other companies. Refer to section 10.3 in this MD&A for definitions and further information on changes made to performance measures.

(year-over-year percentage change, C\$ in millions, except where noted)	Q4 2013	Q4 2012	Change	2013	2012	Change
Retail segment – total						
Retail sales growth ^{1,2}	5.5%	1.1%		3.1%	2.1%	
Revenue ³	\$ 3,048.5	\$ 2,901.1	5.1%	\$ 10,691.6	\$ 10,381.2	3.0%
Retail segment – by banner						
Canadian Tire						
Retail sales growth ⁴	4.5%	(0.5)%		2.5%	0.8%	
Same store sales growth ⁴	4.0%	(1.1)%		1.8%	0.3%	
Sales per square foot ⁵	\$ 389	\$ 385	1.0%	n/a	n/a	
Revenue ^{3, 6}	\$ 1,593.4	\$ 1,548.2	2.9%	\$ 5,915.5	\$ 5,779.7	2.4%
FGL Sports						
Retail sales growth ^{1,7,8}	13.3%	2.3%		6.8%	3.9%	
Same store sales growth ^{7,8}	12.5%	2.8%		7.7%	4.2%	
Sales per square foot ^{7,9}	\$ 285	\$ 264	7.9%	n/a	n/a	
Revenue ³	\$ 519.2	\$ 444.2	16.9%	\$ 1,656.8	\$ 1,550.3	6.9%
Mark's						
Retail sales growth ^{1, 10}	5.5%	3.7%		4.8%	4.2%	
Same store sales growth ^{1, 11}	5.2%	3.5%		4.6%	3.7%	
Sales per square foot ¹¹	\$ 318	\$ 310	2.6%	n/a	n/a	
Revenue ^{3, 12}	\$ 419.3	\$ 402.5	4.2%	\$ 1,060.8	\$ 1,016.6	4.3%
Petroleum						
Gasoline volume growth in litres	(0.6)%	2.7%		0.4%	1.3%	
Retail sales growth	1.9%	5.0%		1.6%	4.0%	
Revenue ³	\$ 519.8	\$ 509.8	2.0%	\$ 2,075.0	\$ 2,049.6	1.2%
Gross margin dollars	\$ 39.4	\$ 35.8	10.2%	\$ 149.8	\$ 145.6	2.9%

¹ Retail sales for the current and prior year periods have been restated. Refer to section 10.3 in this MD&A for additional information.

² Refer to section 10.3 in this MD&A for additional information on retail sales.

³ Inter-segment revenue within the retail banners of \$3.2 million in the fourth quarter (\$3.6 million for Q4 2012) and \$15.0 million for 2013 (\$15.0 million for 2012) has been eliminated at the Retail segment level. Revenue reported for Canadian Tire, FGL Sports, Mark's and Petroleum includes inter-segment revenue.

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

⁵ Excludes PartSource stores. Retail space does not include seasonal outdoor garden centre, auto service bays, warehouse and administrative space.

⁶ Includes revenue from Canadian Tire, PartSource and Franchise Trust.

⁷ Retail sales include sales from both corporate and franchise stores and beginning in Q3 2013 includes sales from PHL for the period from August 12th 2013 to September 28, 2013. Prior year metric has been restated to align FGL Sport's weekly sales calendar with that of Canadian Tire and Mark's. Refer to section 10.3 in this MD&A for additional information.

⁸ Year to date sales metrics have been restated. Refer to section 10.3 in this MD&A for additional information.

⁹ Figures are calculated on a rolling 12-month basis and include both corporate and franchise stores. Sales per square foot includes warehouse and administrative space.

¹⁰ Includes retail sales from Mark's corporate and franchise stores and ancillary revenue related to embroidery and alteration services.

¹¹ Includes sales from both corporate and franchise stores and excludes ancillary revenue. Sales per square foot does not include warehouse and administrative space.

¹² Includes sale of goods to Mark's franchise stores and retail sales from Mark's corporate stores and excludes ancillary revenue.

7.4.1.1 Retail banner network at a glance

Number of stores and retail square footage	2013	2012
Consolidated store count		
Canadian Tire stores ¹		
Smart stores	308	247
Updated and expanded stores	125	180
Traditional stores	36	44
Small Market stores	21	19
Express	1	N/A
Total Canadian Tire stores	491	490
PartSource stores	90	87
FGL Sports stores		
Sport Chek	171	161
Sports Experts	72	72
Atmosphere	66	57
Other ^{2,3}	112	185
Total FGL Sports stores	421	475
Mark's stores ¹		
Mark's	206	159
Mark's Work Wearhouse	178	225
Work World	1	2
Total Mark's stores	385	386
Canadian Tire gas bar locations	300	299
Total stores	1,687	1,737
Consolidated retail square footage⁴ (in millions)		
Canadian Tire	20.2	19.9
PartSource	0.3	0.3
FGL Sports ⁵	6.7	6.5
Mark's	3.5	3.4
Total retail square footage^{4,5} (in millions)	30.7	30.1

¹ Store count numbers reflect individual selling locations. Both Canadian Tire and Mark's totals include stores that are co-located.

² Pro Hockey Life business was acquired by FGL Sports in Q3 2013 and includes 23 corporate stores.

³ Store count has been adjusted. Refer to section 10.3 in this MD&A for additional information.

⁴ The average retail square footage for Petroleum's convenience stores was 528 square feet per store in Q4 2013 (513 square feet per store in Q4 2012). It is not included in the above.

⁵ Retail square footage has been adjusted. Refer to section 10.3 in this MD&A for additional information.

The Company continues to retrofit its store network with a focus on converting selected existing stores to the latest formats. As at the end of Q4 2013, 308 Canadian Tire stores had been converted to the Smart store format and all stores had access to the Living concept assortment. In addition, during 2013, Management converted all of its PartSource franchise locations to corporately operated stores.

The Q4 2013 FGL Sports total store count reflects the completion of the banner rationalization initiative in Q1 2013 and the addition of 23 PHL stores in Q3 2013. Refer to sections 7.4.1 and 10.3 for additional information.

Throughout 2013, Mark's continued to focus on its rebranding efforts across the network with both existing and new stores. As at the end of Q4 2013, Mark's had 206 Mark's branded locations in its network.

7.4.1.2 Retail segment financial results

(C\$ in millions)	Q4 2013	Q4 2012 ³	Change	2013	2012 ³	Change
Retail sales ¹	\$ 3,981.1	\$ 3,774.7	5.5%	\$ 13,225.3	\$ 12,824.9	3.1%
Revenue	\$ 3,048.5	\$ 2,901.1	5.1%	\$ 10,691.6	\$ 10,381.2	3.0%
Gross margin dollars	\$ 904.9	\$ 826.9	9.4%	\$ 3,011.9	\$ 2,835.3	6.2%
Gross margin (% of revenue)	29.7%	28.5%	118bps	28.2%	27.3%	86bps
Operating expenses (excluding depreciation & amortization)	646.7	573.3	12.8%	2,185.9	2,039.9	7.2%
Other (expense) income	12.2	5.0	143.4%	15.2	3.0	417.0%
EBITDA ²	\$ 270.4	\$ 258.6	4.4%	\$ 841.2	\$ 798.4	5.3%
Depreciation and amortization	75.8	85.2	(11.0)%	323.5	325.2	(0.5)%
Net finance costs	1.8	18.8	(90.2)%	54.1	73.2	(26.2)%
Income before income taxes	\$ 192.8	\$ 154.6	24.5%	\$ 463.6	\$ 400.0	15.9%

¹ Retail sales for the current and prior year periods have been restated. Refer to section 10.3 in this MD&A for additional information.

² See non-GAAP measures in section 10.3 in this MD&A for additional information.

³ Prior year figures have been restated. Refer to section 10.2 in this MD&A for additional information.

Retail segment fourth quarter 2013 versus fourth quarter 2012

Earnings summary

Income before income taxes ("IBT") in the Retail segment was \$192.8 million in the quarter, up 24.5 per cent over the prior year. Normalizing for the one-time items identified in section 7.2, IBT was up 12.6 per cent.

Certain metrics such as operating expenses and EBITDA in the Retail segment were negatively impacted by the inclusion of CT REIT in the quarter. Operating expenses were impacted by one-time costs associated with the formation of CT REIT, as well as a shift from bearing depreciation costs to payment of rent expense at market rates for properties acquired by CT REIT. This also impacted the Retail EBITDA metric as distributions earned on the Class B LP Units are recorded in other income, the rent expense amount exceeded the decline in total depreciation and income earned by the Company on the Class C LP Units issued by CT REIT is recorded in net finance costs which are excluded from EBITDA by definition.

Retail sales

Fourth quarter retail sales growth of 4.5 per cent (same-store sales growth of 4.0 per cent) at Canadian Tire was driven by strong sales of automotive, outdoor recreation and outdoor tools products and a positive response to promotional events and campaigns launched in the quarter. In addition, the arrival of winter weather in late November across key regions in Western Canada and Ontario as well as the ice storm in Eastern Canada led to higher sales in winter-related categories, particularly in the Automotive category.

At FGL Sports, retail sales growth of 13.3 per cent (same-store sales up 12.5 per cent) was led by higher sales of new brands and assortments in casual clothing and athletic footwear, as well as the addition of Olympic performance apparel products which launched in Sport Chek stores in November. The positive retail sales performance also reflected the addition of PHL during the quarter.

At Mark's sales growth of 5.5 per cent (same-store sales up 5.2 per cent) was driven by strong growth in industrial apparel, men's and women's accessories and all footwear categories. New promotional events and favourable winter weather across the country in the second half of the quarter also contributed to the increased sales performance.

Petroleum sales were up 1.9 per cent in the quarter largely related to higher gasoline prices and increased non-gasoline sales.

Revenue

Revenue increased \$147.4 million in the quarter, or 5.1 per cent, as a result of:

- shipments related to increased Dealer replenishment of key automotive assortments, outdoor tools and outdoor recreation products and increased sales at Canadian Tire;
- higher retail sales at FGL Sports, Mark's and Petroleum; and
- the addition of PHL results.

Gross margin

Retail segment margin dollars increased \$78.0 million in the year, or 9.4 per cent, as a result of increased revenue as noted above.

The Retail segment gross margin rate (29.7 per cent of revenue) increased 118 bps compared to the prior year. This was due to:

- improved sales mix in key Playing and Living categories at Canadian Tire;
- the inclusion of PHL and strong sales performance and mix at FGL Sports; and
- lower mark-downs resulting from lower inventory levels at Mark's.

Operating expenses (excluding depreciation and amortization)

Retail segment operating expenses (excluding depreciation and amortization) increased \$73.4 million (12.8 per cent) due primarily to:

- higher personnel costs related to incentive compensation;
- increased advertising and marketing spending related to sports sponsorship payments;
- higher occupancy costs primarily related to market rent paid on the retail properties sold to CT REIT; and
- higher information systems and technology spending.

Other income

Retail segment other income was \$12.2 million which includes distributions earned on CT REIT Class B LP Units and Units held by the Company.

Depreciation and amortization expense

Retail segment depreciation and amortization expense decreased \$9.4 million in the quarter (11.0 per cent) as properties that have been sold to CT REIT are no longer depreciated in the Retail segment.

Net finance costs

Net finance costs decreased \$17.0 million in the year (90.2 per cent) due primarily to income earned on the CT REIT Class C LP Units held by CTC and by an increase in capitalized interest from information technology and real estate projects.

Retail segment full year 2013 versus full year 2012

Earnings summary

For the full year, IBT in the Retail segment was \$463.6 million, an increase of 15.9 per cent over 2012. Normalizing for the one-time items referred to in section 7.2, Retail segment IBT increased by 7.4 per cent.

Certain metrics such as operating expenses and EBITDA in the Retail segment were negatively impacted by the inclusion of CT REIT during the year. Operating expenses were impacted by one-time costs associated with formation of CT REIT as well as a shift from bearing depreciation costs to payment of rent expense at market rates for properties acquired by CT REIT. This also impacted the Retail EBITDA metric as distributions earned on the Class B LP Units are recorded in other income, the rent expense amount exceeded the decline in total depreciation and income earned on the Class C LP Units is recorded in net finance costs which are excluded from EBITDA by definition.

Retail sales

Retail sales increased \$400.4 million in the year, or 3.1 per cent, as a result of:

- sales growth from additional promotional events and campaigns and new and better assortments of key automotive, outdoor recreation and outdoor tools products at Canadian Tire;
- strong sales in soft goods related to new assortments and additional promotion activity as well as better inventory in-stock positions of core athletic footwear products at FGL Sports;
- strong sales of industrial apparel, men's and women's accessories and footwear at Mark's; and
- increased gasoline prices, volumes and non-gas sales at Petroleum.

Revenue

Revenue increased \$310.4 million in the year, or 3.0 per cent, as a result of:

- higher shipments of automotive and seasonal products related to increased sales at Canadian Tire; and
- higher retail sales at FGL Sports, Mark's and Petroleum.

Gross margin

Retail segment gross margin dollars increased \$176.6 million in the year, or 6.2 per cent, as a result of increased revenue as noted above.

The Retail segment gross margin rate (28.2 per cent of revenue) increased 86 bps compared to the prior year. This was due primarily to a favourable sales mix across all banners.

Operating expenses (excluding depreciation and amortization)

Retail segment operating expenses (excluding depreciation and amortization) increased \$146.0 million (7.2 per cent) due to:

- higher personnel costs related to incentive compensation ;
- increased advertising and marketing spending related to incremental destination guides and costs associated with advertising campaigns at Canadian Tire, as well as sports sponsorship payments;
- higher occupancy costs related to market rent paid on retail properties sold to CT REIT; and
- higher information systems and technology spending.

Other income

Retail segment other income was \$15.2 million for the full year due primarily to distributions earned on CT REIT Class B LP Units and Units held by the Company.

Depreciation and amortization expense

Retail segment depreciation and amortization expense decreased \$1.7 million over the prior year (0.5 per cent) as properties sold to CT REIT are no longer depreciated in the Retail segment, partially offset by increased depreciation on higher capital spending related to store network and information technology infrastructure projects.

Net finance costs

Retail segment net finance costs decreased \$19.1 million in the year (26.2 per cent) due primarily to income earned on Class C LP Units of CT REIT held by CTC and increased investment income from a higher liquidity position compared to the prior year.

7.4.1.3 Retail segment business risks

The Retail segment is exposed to a number of risks in the normal course of its business that have the potential to affect its operating performance. The following are some of the business risks specific to the Retail segment's operations. Refer to section 11.2 of this MD&A for a discussion of some other industry-wide and company-wide risks affecting the business.

Seasonality risk

Canadian Tire derives a significant amount of its revenue from the sale of seasonal merchandise and, accordingly, derives a degree of sales volatility from abnormal weather patterns. Canadian Tire mitigates this risk, to the extent possible, through the breadth of its product mix as well as effective procurement and inventory management practices.

Mark's business remains very seasonal, with the fourth quarter typically producing the largest share of sales and annual earnings. Detailed sales reporting and merchandise planning modules assist Mark's in mitigating the risks and uncertainties associated with unseasonable weather and consumer behaviour during the important winter selling season but cannot eliminate such risks completely because inventory orders, especially for a significant portion of merchandise purchased offshore, must be placed well ahead of the season.

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

Supply chain disruption risk

A substantial portion of the Company's product assortment is sourced from foreign suppliers, lengthening the supply chain and extending the time between order and delivery to its DCs. Accordingly, the Company is exposed to potential supply chain disruptions due to foreign supplier failures, geopolitical risk, labour disruption or insufficient capacity at ports and risk of delays or loss of inventory in transit. The Company mitigates this risk through the use of advanced tracking systems and visibility tools, effective supplier selection and procurement practices and through strong relationships with both transportation companies and port and other shipping authorities, supplemented by marine insurance coverage.

Environmental risk

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

Environmental risk within Petroleum is primarily associated with the handling of gasoline, oil and propane. Environmental contamination, if not prevented or remediated, could result in fines and sanctions and damage the Company's reputation. The Company mitigates its environmental risks through a

comprehensive regulatory compliance program, which includes environmental investigations and the remediation of contaminated sites, as required. Petroleum also has environmental insurance coverage.

Commodity price and disruption risk

The operating performance of petroleum retailers can be affected by fluctuations in the commodity cost of oil. The wholesale price of gasoline is subject to global oil price supply and demand conditions, which are increasingly a function of rising demand from fast-developing countries such as India and China, political instability in the Middle East and potential supply chain disruptions from natural and human-caused disasters, as well as commodity speculation. To mitigate this risk to profitability, Petroleum maintains tight controls over its operational costs and enters into long-term gasoline purchase arrangements with integrated gasoline wholesalers. Petroleum also enhances profitability through a comprehensive cross-marketing strategy with other Canadian Tire banners and higher-margin, ancillary businesses such as convenience store and car wash sales.

Market obsolescence risk

Clothing and apparel retailers are exposed, to varying degrees, to ever-changing consumers' fashion preferences. Mark's and FGL Sports mitigate this risk through brand positioning, consumer preference monitoring, demand forecasting and merchandise selection efforts. Mark's specifically targets consumers of durable everyday casual wear and is less exposed to changing fashions than apparel retailers offering high-fashion apparel and accessories. This is especially true for Mark's heritage industrial wear category. FGL Sports offers a comprehensive assortment of brand-name products under its various banners and partners with strong, national branded suppliers who continually evolve their assortments to reflect customer preferences.

Global sourcing risk

Canadian Tire, FGL Sports and Mark's use internal resources and third-party logistics providers to manage supply chain technology and the movement of foreign-sourced goods from suppliers to the Company's Canadian DCs and to their retail stores. Similar to other retailers who source products internationally, there is exposure to risks associated with foreign suppliers which can include, but are not limited to, currency fluctuations, the stability of manufacturing operations in other countries and transportation and port disruptions. The Company uses internal resources and third-party quality assurance providers to proactively manage product quality with vendors in the foreign sourcing regions. The Company believes that its business practices are appropriate to mitigate the risks. Further information regarding the Company's exposure to foreign currency risk is provided in section 11.3. Additional information regarding the Company's responsible sourcing practices is provided in section 13.4.

7.4.2 CT REIT segment

7.4.2.1 CT REIT segment key operating performance measures

Readers are reminded that key operating performance measures do not have standard meanings under IFRS and, therefore, may not be comparable to similar terms used by other companies. Refer to section 10.3 in this MD&A for definitions and further information on changes made to performance measures.

(C\$ in millions)	For the period from July 15, 2013 to December 31, 2013	
Net operating income ¹	\$	44.1
Funds from operations ¹		31.5
Adjusted funds from operations ¹		23.5

¹ Non-GAAP measures. Refer to section 10.3 in this MD&A for additional information.

7.4.2.2 CT REIT segment financial results

	For the period from July 15, 2013 to December 31, 2013	
(\$C in millions)		
Property revenue	\$	63.0
Property expense		(13.8)
General and administrative expense		(2.2)
Interest income		0.1
Interest and other financing charges		(15.6)
Fair value adjustment on investment properties		(0.5)
Net income and comprehensive income	\$	31.0

Revenue

Revenue for the period from July 15, 2013 to December 31, 2013 was \$63.0 million, of which \$61.3 million was received from CTC. Revenue consists of base rent, operating cost and property tax recoveries.

Property expense

Property expense for the period from July 15, 2013 to December 31, 2013 was \$13.8 million, of which the majority of costs are recoverable from tenants. Property expense consists primarily of realty taxes and costs pursuant to the property management agreement between CT REIT and the Company.

General and administrative expense

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

Interest and other financing charges

Interest expense for the period from July 15, 2013 to December 31, 2013 is primarily related to distributions on the Class C LP Units held by CTC.

Net operating income

NOI for the period from July 15, 2013 to December 31, 2013 was \$44.1 million which consists of cash rental revenue less property operating costs. NOI is a non-GAAP measure. Refer to section 10.3 for additional information.

Funds from operations and adjusted funds from operations

FFO and AFFO for the period from July 15, 2013 to December 31, 2013 were \$31.5 million and \$23.5 million, respectively. FFO and AFFO are non-GAAP measures. Refer to section 10.3 for additional information.

Operating results for the period from July 15, 2013 to December 31, 2013 for CT REIT have not been compared to a financial forecast as the CT REIT final prospectus reflected a financial forecast beginning in Q1 2014.

7.4.2.3 CT REIT segment business risks

CT REIT is exposed to a number of risks in the normal course of its business that have the potential to affect its operating performance. The following are some of the business risks specific to the operations of CT REIT. Please refer to section 4 in CT REIT's Annual Information Form ("AIF") for the period ended December 31, 2013 for a comprehensive discussion of risks that affect its operations and also to section 11.2 in this MD&A for a discussion of industry-wide and company-wide risks affecting the business.

Financial risks

In the normal course of business, CT REIT is exposed to financial risks of varying degrees of significance which could affect its ability to achieve its strategic objectives and could materially adversely affect the financial performance of CT REIT, its ability to make distributions to its Unitholders and the trading price of its units.

Real property ownership and tenant risks

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

Tax-related risks

Management of CT REIT has developed a compliance program to provide reasonable assurances that the REIT satisfies the conditions to qualify as a closed-end mutual fund trust by complying with the restrictions in the Income Tax Act as they are interpreted and applied by the Canada Revenue Agency ("CRA"). No assurance can be given that CT REIT will be able to comply with these restrictions at all times. If CT REIT were not to qualify as a mutual fund trust for purposes of the Income Tax Act, the consequences could be material and adverse.

7.4.3 Financial Services segment

7.4.3.1 Financial Services segment key operating performance measures

Readers are reminded that key operating performance measures do not have standard meanings under IFRS and, therefore, may not be comparable to similar terms used by other companies. Refer to section 10.3 in this MD&A for definitions and further information on changes made to performance measures.

(year-over-year percentage change, C\$ in millions, except where noted)	Q4 2013	Q4 2012	Change	2013	2012	Change
Revenue	\$ 259.6	\$ 248.0	4.7%	\$ 1,025.9	\$ 981.9	4.5%
Credit card sales growth ¹	3.5%	1.8%		3.1%	1.7%	
Gross average accounts receivable	\$ 4,507.0	\$ 4,209.6	7.1%	\$ 4,374.3	\$ 4,096.0	6.8%
Revenue ² (as a % of GAAR)	23.45%	23.97%		n/a	n/a	
Average number of accounts with a balance ³ (thousands)	1,811	1,753	3.3%	1,772	1,724	2.8%
Average account balance ³ (whole \$)	\$ 2,485	\$ 2,396	3.7%	\$ 2,464	\$ 2,370	4.0%
Net credit card write-off rate ^{2,3}	5.75%	6.58%		n/a	n/a	
Past due credit card receivables ^{3,4} (PD2+)	3.03%	2.96%		n/a	n/a	
Allowance rate ⁵	2.61%	2.54%		n/a	n/a	
Operating expenses ² (as a % of GAAR)	6.36%	6.44%		n/a	n/a	
Return on receivables ²	7.32%	6.76%		n/a	n/a	

¹ Credit card sales excludes balance transfers.

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

³ Credit card portfolio only.

⁴ Credit card receivables more than 30 days past due as a percentage of total ending credit card receivables.

⁵ The allowance rate was calculated on the total managed portfolio of loans receivable.

7.4.3.2 Financial Services segment financial results

(C\$ in millions)	Q4 2013	Q4 2012	Change	2013	2012 ²	Change
Revenue	\$ 259.6	\$ 248.0	4.7%	\$ 1,025.9	\$ 981.9	4.5%
Gross margin dollars	145.4	132.4	9.9%	595.4	536.6	11.0%
Gross margin (% of revenue)	56.0%	53.4%	265bps	58.0%	54.6%	339bps
Other (expense) income	0.2	0.2	(4.3)%	0.4	2.7	(87.1)%
Operating expenses	75.3	71.5	5.1%	278.5	263.7	5.5%
Operating income ¹	\$ 70.3	\$ 61.1	15.4%	\$ 317.3	\$ 275.6	15.2%
Net finance costs	(1.3)	(0.5)	160.5%	(2.7)	(1.2)	116.9%
Income before income taxes	\$ 71.6	\$ 61.6	16.6%	\$ 320.0	\$ 276.8	15.6%

¹ Additional GAAP measure. Refer to section 10.3 in this MD&A for additional information.

² Prior year figures have been restated. Refer to section 10.2 in this MD&A for additional information.

Financial Services segment fourth quarter 2013 versus fourth quarter 2012

Earnings summary

Financial Services income before income taxes was \$71.6 million, an increase of 16.6 per cent in the quarter compared to Q4 2012 due to higher revenue from gross average receivables growth and interest expense savings.

Revenue

Financial Services revenue increased 4.7 per cent in the quarter compared to the prior year due to higher credit charges related to gross average receivables growth.

Gross margin

Financial Services gross margin dollars increased \$13.0 million from the prior year due to higher credit charges related to gross average receivables growth and lower interest expense due to lower interest rates, offset by higher net write-offs on the credit card portfolio.

Operating expenses

Financial Services operating expenses increased 5.1 per cent in the quarter from the prior year due primarily to increased costs related to information systems projects and higher personnel costs related to incentive compensation.

Net finance costs

Net finance costs increased \$0.8 million in the quarter due primarily to higher inter-company interest earned on loans.

Financial Services segment full year 2013 versus full year 2012

Earnings summary

Financial Services segment income before income taxes increased 15.6 per cent in 2013 compared to 2012 due primarily to higher revenue and interest expense savings, partially offset by increased operating expenses.

Revenue

Financial Services revenue increased 4.5 per cent in the year compared to the prior year due to higher credit charges related to gross average receivables growth.

Gross margin

Financial Services gross margin dollars increased \$58.8 million from the prior year due to growth in gross average receivables and interest expense savings.

Operating expenses

Financial Services operating expenses increased 5.5 per cent in the year compared to the prior year due primarily to increased costs related to account acquisition and information systems projects.

Net finance costs

Net finance costs increased \$1.5 million in the year due primarily to higher inter-company interest earned on loans.

7.4.3.3 Financial Services segment business risks

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

Consumer credit risk

Financial Services grants credit to its customers on Canadian Tire credit cards, personal loans and lines of credit. With the granting of credit, Financial Services assumes certain risks such as the failure to accurately predict the willingness of its customers to repay debt. Financial Services manages credit risk to maintain and improve the quality of its consumer lending portfolio by:

- employing sophisticated credit-scoring models to constantly monitor the creditworthiness of customers;
- using the latest technology to make informed credit decisions for each customer account to limit credit risk exposure;
- adopting technology to improve the effectiveness of the collection process; and
- monitoring the macroeconomic environment, especially with respect to consumer debt levels, interest rates, employment levels and income levels.

Securitization funding risk

Securitization has historically been an important source of funding for Financial Services, involving the sale of co-ownership interests in credit card receivables to Glacier. Securitization enables Financial Services to diversify funding sources and manage interest rate risks and capital requirements. Financial Services' securitization program relies on the marketability of the asset-backed commercial paper and asset-backed senior and subordinated notes issued by Glacier.

Interest rate risk

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

Regulatory risk

Regulatory risk is the risk of negative impact to business activities, earnings or capital, regulatory relationships or reputation as a result of failure to comply with or failure to adapt to current and changing regulations or regulatory expectations.

Financial Services' regulatory compliance strategy is to manage regulatory risk through the promotion of a compliance culture and the development and maintenance of sound controls within the Company. Primary responsibility for maintaining compliance with all applicable regulatory requirements rests with senior management of the Company, but extends to all employees.

Financial Services' Compliance department is responsible for the development and maintenance of a legislative compliance management system and reports on a quarterly basis to CTB's Governance and Conduct Review Committee.

Specific activities that assist the Company in adhering to regulatory standards include communication of regulatory requirements, advice, training, testing, monitoring, reporting and escalation of control deficiencies and regulatory risks.

7.5 Balance sheet and cash flows

7.5.1 Summary balance sheet

Selected line items from the Company's assets, liabilities and shareholders' equity for the years ended December 28, 2013 and December 29, 2012 are noted below.

(C\$ in millions)	2013	2012 ¹	Change (\$)	Change (%)
Assets				
Cash and cash equivalents	\$ 643.2	\$ 1,015.5	\$ (372.3)	(36.7)%
Short-term investments	416.6	168.9	247.7	146.7%
Trade and other receivables	758.5	750.6	7.9	1.1%
Loans receivable	4,569.7	4,265.7	304.0	7.1%
Merchandise inventories	1,481.0	1,503.3	(22.3)	(1.5)%
Property and equipment	3,516.1	3,343.5	172.6	5.2%
Total assets	13,630.0	13,228.6	401.4	3.0%
Liabilities				
Deposits	\$ 1,178.4	\$ 1,311.0	\$ (132.6)	(10.1)%
Trade and other payables	1,817.4	1,631.3	186.1	11.4%
Current portion of long-term debt	272.2	661.9	(389.7)	(58.9)%
Long-term debt	2,339.1	2,336.0	3.1	0.1%
Long-term deposits	1,152.0	1,111.8	40.2	3.6%
Total liabilities	8,180.1	8,464.3	(284.2)	(3.4)%
Total equity	\$ 5,449.9	\$ 4,764.3	\$ 685.6	14.4%

¹ Prior year figures have been restated. Refer to section 10.2 in this MD&A for additional information.

The year-over-year increase in total assets of \$401.4 million is due primarily to:

- an increase in loans receivable of \$304.0 million largely related to credit card receivables growth at Financial Services;
- an increase in short-term investments of \$247.7 million largely related to the net cash proceeds received from the CT REIT IPO and exercise of the over-allotment option;
- an increase in property and equipment of \$172.6 million for investments in retail store assets and supporting technology investments as well as land purchased for potential future distribution capacity;
- working capital improvements from strong retail sales and faster conversion of trade accounts receivable into cash, as well as overall improved inventory management across the retail banners; offset by
- a net decrease in cash and cash equivalents of \$372.3 million, mostly driven by an accumulation of cash in 2012 to fund the February 2013 Glacier debt maturity and purchases of Class A Non-Voting Shares of the Company made during the year.

The \$284.2 million decrease in total liabilities reflects a net decrease of \$386.6 in securitized debt due primarily to the Company reissuing a lower amount of Glacier notes and a decrease in deposits at Financial Services, offset by an increase in trade and other payables arising from improved working capital management, the PHL acquisition and an increase in incentive compensation accruals.

For the complete balance sheet, please refer to the Annual Consolidated Balance Sheets in the 2013 Annual Report.

7.5.2. Summary cash flows

The Company's cash and cash equivalents position, net of bank indebtedness, was \$574.2 million as at December 28, 2013.

The decrease in cash generated in the quarter compared to the prior year was primarily driven by the financing and operating activities at Financial Services. These activities included a net lower Glacier refinancing and a decrease in funding through broker deposits. The decrease was partially offset by net proceeds received from the CT REIT IPO, which as at December 28, 2013 had been invested in short-term investments and marketable securities.

Cash generated during the year declined by \$1,083.6 million as improvements in operating working capital and the proceeds of the CT REIT initial public offering were more than offset by:

- a reduction in outstanding Glacier debt and CTB deposits outstanding;
- capital investment in property and equipment including the PHL acquisition and land purchased for future distribution capacity;
- an increase in short-term and long-term investments;
- repurchase of Class A Non-Voting Shares; and
- an increase in loans receivable.

The Company's consolidated statements of cash flows for the quarters and years ended December 28, 2013 and December 29, 2012 are noted below.

(C\$ in millions)	Q4 2013	Q4 2012 ¹	Change (\$)	2013	2012 ¹	Change (\$)
Cash generated from (used for) operating activities before the undernoted items	\$ 449.8	\$ 420.1	\$ 29.7	\$ 1,528.7	\$ 1,467.5	\$ 61.2
Change in operating working capital and other	188.9	273.7	(84.8)	270.2	(29.8)	300.0
Change in loans receivable	(236.5)	(245.8)	9.3	(600.2)	(521.7)	(78.5)
Change in deposits	(135.1)	70.4	(205.5)	(96.2)	134.7	(230.9)
Cash generated from operating activities before interest and income taxes	267.1	518.4	(251.3)	1,102.5	1,050.7	51.8
Interest paid	(39.3)	(41.0)	1.7	(126.5)	(155.3)	28.8
Interest received	2.9	3.0	(0.1)	12.0	8.9	3.1
Income taxes paid	(48.0)	(49.0)	1.0	(191.2)	(161.3)	(29.9)
Cash generated from operating activities	\$ 182.7	\$ 431.4	\$ (248.7)	\$ 796.8	\$ 743.0	\$ 53.8
Cash (used for) generated from investing activities	(403.2)	23.2	(426.4)	(786.4)	(261.5)	(524.9)
Cash generated from (used for) financing activities	453.5	326.6	126.9	(365.5)	247.0	(612.5)
Cash generated (used) in the period	\$ 233.0	\$ 781.2	\$ (548.2)	\$ (355.1)	\$ 728.5	\$ (1,083.6)

¹ Prior year figures have been restated. Refer to section 10.2 in this MD&A for additional information.

8.0 Liquidity, capital resources and contractual obligations

8.1 Capital management

In order to support its growth agenda and meet the goals highlighted in its strategic objectives, the Company actively manages its capital in the following manner.

8.1.1 Capital management objectives

The Company's objectives when managing capital are:

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

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

8.1.2 Capital under management

The definition of capital varies from company to company, from industry to industry and for different purposes. In the process of managing the Company's capital, Management includes the following items in its definition of capital and includes Glacier indebtedness but excludes Franchise Trust indebtedness:

(C\$ in millions)	2013	% of total	2012	% of total
Capital components				
Deposits	\$ 1,178.4	11.6%	\$ 1,311.0	12.7%
Short-term borrowings	120.3	1.2%	118.9	1.2%
Current portion of long-term debt	272.2	2.6%	661.9	6.4%
Long-term debt	2,339.1	23.0%	2,336.0	22.7%
Long-term deposits	1,152.0	11.3%	1,111.8	10.8%
Total debt	5,062.0	49.7%	\$ 5,539.6	53.8%
Share capital	587.0	5.8%	688.0	6.7%
Contributed surplus	6.2	0.0%	2.9	0.0%
Retained earnings	4,526.7	44.5%	4,075.1	39.5%
Total capital under management	\$ 10,181.9	100.0%	\$ 10,305.6	100.0%

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

In order to maintain or adjust the capital structure, the Company has the flexibility, if desired, to issue or repay debt, issue or purchase its shares, pay a special dividend, engage in additional sale and leaseback transactions of real estate properties, securitize credit card receivables through Glacier, issue deposits through CTB and issue new debt through CT REIT.

The Company has in place various policies that it uses to manage capital, including a leverage and liquidity policy, an interest rate risk management policy and a securities and derivatives policy. As part of the overall management of capital, Management and the Audit Committee of the Board of Directors review the Company's compliance with, and performance against, these policies. In addition, periodic reviews of the policies are performed to ensure consistency with risk tolerances.

Key financial covenants of the existing debt agreements are reviewed by Management on an on-going basis to monitor compliance with the agreements.

The key covenants are as follows:

- a requirement to maintain, at all times, a specified minimum ratio of consolidated net tangible assets to the outstanding principal amount of all consolidated funded obligations (as defined in the respective debt agreements, which exclude the assets and liabilities of Glacier and Franchise Trust); and
- a limitation on the amount available for distribution to shareholders whereby the Company is restricted from distributions (including dividends and redemptions or purchases of shares) exceeding, among other things, its accumulated net income over a defined period.

The Company was in compliance with these key covenants as at December 28, 2013 and December 29, 2012. Under these covenants, the Company currently has sufficient flexibility to fund business growth and maintain or amend dividend rates within its existing dividend policy.

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

CT REIT's objectives when managing capital are to ensure access to capital and sufficient liquidity is available to support on-going property operations, developments and acquisitions while generating reliable, durable and growing monthly cash distributions on a tax-efficient basis to maximize long term unitholder value.

CT REIT's strategy and process for managing capital is driven by requirements established under its Declaration of Trust and the syndicated bank credit facility provided by a number of Canadian financial institutions. For further information on CT REIT's capital strategy, refer to Part V of CT REIT's Q4 2013 MD&A.

8.1.3 Canadian Tire Bank's regulatory environment

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

CTB's capital management objectives include maintaining sufficient capital to satisfy regulators and to maintain the confidence of depositors.

OSFI's regulatory capital guidelines under Basel III allow for two tiers of capital. As at December 31, 2013 (CTB's fiscal year-end), Common Equity Tier 1 ("CET1") capital includes common shares, retained earnings and accumulated other comprehensive income. CTB currently does not hold any additional Tier 1 or Tier 2 capital instruments. Therefore, CTB's CET1 is equal to its Tier 1 and Total regulatory capital. Risk-weighted assets ("RWA") include all on-balance-sheet assets weighted for the risk inherent in each type of asset, as well as an operational risk component based on a percentage of average risk-weighted revenues and a market risk component for assets held in the trading book for on and off-balance sheet financial instruments held in a foreign currency. For the purposes of calculating RWA, securitization transactions are considered off-balance-sheet transactions and therefore securitization assets are not included in the RWA calculation. Assets are included in the trading book when they are held either with trading intent or to hedge other elements in the trading book.

During the 12 month periods ended December 31, 2013 and 2012, CTB complied with all regulatory capital guidelines established by OSFI and its internal targets as determined by ICAAP.

8.2 Investing

8.2.1 Capital expenditures

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

(C\$ in millions)	2013		2012 ¹
Real estate projects	\$	240.4	\$ 196.4
Information technology		146.5	82.1
Supply chain and existing distribution centres		18.3	25.9
Bolton distribution centre		102.2	7.7
CT REIT		9.0	-
Other purposes		28.1	22.7
Total capital expenditures ²	\$	544.5	\$ 334.8

¹ Prior year figures were reclassified to conform to the current year's presentation.

² Capital expenditures are presented on an accrual basis.

Capital expenditures for 2013 were \$544.5 million, including \$102.2 million for land purchased for future distribution capacity. Excluding these costs, capital expenditures were \$442.3 million which is \$17.3 million over the high-end of the Company's stated range of \$400 million to \$425 million in 2013. The increase in capital expenditures spending over the prior year and over planned levels was due primarily to:

- investments in digital capabilities announced earlier in the year including investments in the WDC which will provide needed infrastructure for new capabilities and systems, as well as investments in new generation point of sale ("POS") systems for Mark's and FGL Sports;
- capital spending on real estate projects including costs associated with new FGL Sports banner store openings, store network initiatives at Canadian Tire and store network rebranding at Mark's; and
- two acquisitions of development lands by CT REIT in the amount of approximately \$9.0 million during the fourth quarter.

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

In Q3 2013, the Company announced that operating capital expenditures in 2014 were expected to be between \$500 million and \$525 million. The Company also expects to have further capital expenditures of approximately \$75 million to \$100 million as it progresses with building a replacement DC for one of its current Brampton facilities. In addition, the Company expects to support CT REIT's growth with sales of CTC properties to CT REIT which are not expected to affect CTC capital levels. The Company also intends to support CT REIT if it identifies property investments that would be acquired from third parties. Transactions of this kind would increase the overall capital expenditures for CTC.

The increased range for capital expenditures in fiscal 2014 is based on Management's expectations that the Retail store network would continue to be expanded and refreshed and includes costs related to the FGL Sports store network expansion, continued Smart store remerchandising and roll-out of the ProShop concept to Canadian Tire stores as well as Mark's network enhancements and rebranding efforts. In addition, the anticipated level of capital expenditures assumes that further investment will be made in information technology and digital initiatives both in the Company's store network and also in legacy systems that support the Company's operations and the Company's brand.

8.2.2 Business acquisition

As part of its growth strategy, the Company actively pursues acquisition candidates that are a strategic fit with its retail and retail-related businesses. Major acquisitions are only consummated, however, when the acquiree's business complements the Company's major offering of products and services and is expected to be accretive to earnings and strengthen its market position. As a result of its measured approach to acquiring new businesses, the Company has completed two major acquisitions within the past eleven years: Mark's Work Wearhouse Limited in 2002 and The Forzani Group Limited in 2011.

8.2.3 Acquisition of Pro Hockey Life Sporting Goods Inc.

In August 2013, the Company acquired 100 per cent of the issued and outstanding shares of PHL, a Canadian retailer of sporting goods, with 23 urban, high-end hockey stores operating in five provinces across Canada under various trade names. The acquisition is a natural extension of the Company's sporting goods business.

The total consideration transferred, and the estimates of the fair value of identifiable assets acquired, liabilities assumed and goodwill recognized, as a result of the acquisition, are as follows:

(C\$ in millions)	
Total consideration transferred	\$ 58.0
Fair value of identifiable assets acquired and liabilities assumed	
Trade and other receivables	0.2
Merchandise inventories	47.9
Prepaid expenses and deposits	1.4
Assets classified as held for sale	3.7
Intangible assets	14.1
Property and equipment	10.4
Trade and other payables	(37.4)
Short-term borrowings	(21.8)
Deferred income taxes	(4.8)
Other long-term liabilities	(3.3)
Net identifiable assets acquired and liabilities assumed	10.4
Goodwill	\$ 47.6

The goodwill recognized on acquisition of PHL is attributable mainly to the expected future growth potential from the expanded customer base of PHL stores, the network of stores and access to the urban high-end customer segment within the hockey equipment market.

The goodwill recognized is not expected to be deductible for income tax purposes.

8.2.4 CT Real Estate Investment Trust

During the fourth quarter of 2013, in connection with its acquisition of approximately \$3.5 billion of properties from the Company, CT REIT completed a \$303.0 million (including exercise in full of the over-allotment option) IPO of Units. Units were issued at a price of \$10.00 per unit and net proceeds were \$278.9 million. The Company holds an approximate 83.1 per cent effective interest in CT REIT through ownership of 59,711,094 Units and all the issued and outstanding Class B Limited Partnership units, which are economically equivalent to and exchangeable for Units.

On December 23, 2013, CT REIT completed acquisitions of two development lands for the future development of Canadian Tire stores at an aggregate purchase price of approximately \$9.0 million, including acquisition costs, which were settled with cash.

8.3 Liquidity and Financing

The Company is in a strong liquidity position with the ability to access multiple sources of funding. A number of alternative financing sources are available to the Company, CT REIT and CTB to ensure that the appropriate level of liquidity is available to meet the Company's strategic objectives. These sources may be summarized as follows:

Summary of Canadian Tire's financing sources as of December 28, 2013

Financing source	Amount Available	Description
Committed bank lines of credit and commercial paper program	\$1,675.0 million	Primarily provided by Canadian financial institutions, \$1,475.0 million of the committed bank lines are for general corporate purposes of the Company and support the corporate and Glacier commercial paper program noted below. Included in the lines is \$200.0 million for general purposes for CT REIT. The Company had no commercial paper outstanding as at December 28, 2013, however Glacier had \$120.3 million of commercial paper outstanding as at December 28, 2013. CT REIT had no borrowing under its credit facility as at December 28, 2013.
Medium-term notes (MTN) program	\$750.0 million	A new Shelf Prospectus was filed in March 2013, providing the Company with the ability to access the public markets for up to \$750.0 million for 25 months from that date.
Securitization of receivables	Transaction-specific	Securitization transactions, in the form of commercial paper, senior notes and subordinated notes issued through Glacier, continue to be a relatively cost-effective form of financing for CTB. Financial Services securitized \$264.6 million of credit card receivables in 2013 as part of the Glacier securitization program.
Broker GIC deposits	No specified limit	Funds continue to be readily available to CTB through broker networks. As at December 28, 2013, Financial Services held \$1,546.2 million in broker GIC deposits.
Retail deposits	No specified limit	Retail deposits consist of high interest savings accounts ("HIS") held by CTB and retail GIC deposits, available both within and outside a tax-free savings account "TFSA"). As at December 28, 2013, Financial Services held \$792.5 million in retail deposits.
Real estate	Transaction specific	Strategic transactions involving properties not owned by CT REIT.
CT REIT	Various	Additional sources of funding are available to CT REIT as appropriate, including the ability to access equity and debt markets, subject to the terms and conditions of CT REIT's Declaration of Trust and all applicable regulatory requirements.

As indicated in the table above, as of December 28, 2013, the Company had \$1,675.0 million in committed bank lines of credit of which \$1,175.0 million is available to the Company under a four-year syndicated credit facility, \$200.0 million is available to CT REIT under a four-year syndicated revolving credit facility and \$300.0 million is available for the Company pursuant to bilateral credit agreements.

The \$1,175.0 million syndicated facility is available to the Company until June 2017 and can be extended for an additional 364-day period in June 2014. The CT REIT \$200.0 million facility is an unsecured, revolving syndicated credit facility available to CT REIT until October 2017.

The remaining \$300.0 million balance of the lines of credit has been established pursuant to bilateral credit agreements that are available to the Company until late 2014. Each quarter, the Company has the ability to request that the term of each of the bilateral credit agreements be reset to 364 days.

The financial markets continue to demonstrate strong investor demand for credit products. CTC participates in the asset-backed security markets through the issuance by Glacier of commercial paper and longer-term debt issuances.

Credit rating

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

DBRS and S&P confirmed the Company's credit ratings for various corporate funding programs in Q4 2013. Glacier's ratings remained unchanged. DBRS and S&P also confirmed the issuer ratings for CT REIT following the IPO transaction that closed on October 23, 2013.

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

8.3.1 Funding program

8.3.1.1 Funding requirements

The Company funds capital expenditures, working capital needs, dividend payments and other financing needs, such as debt repayments and Class A Non-Voting Share purchases, under a normal course issuer bid ("NCIB") program from a combination of sources. The following table shows the Company's contractual obligations required to be made over the next five-year period and beyond. The Company believes it has sufficient liquidity available to meet its contractual obligations as at December 28, 2013.

Contractual obligations due by period

(C\$ in millions)		In years		In years	
	Total	2014	2015 - 2016	2017 - 2018	2019 & beyond
Current and long-term debt ^{1,3}	\$ 1,050.0	\$ -	\$ 500.0	\$ 550.0	\$ -
Glacier Credit Card Trust debt ^{2,3}	1,416.6	252.5	264.6	899.5	0.0
Finance lease obligations ⁴	214.2	27.9	47.0	33.0	106.3
Operating leases	2,178.1	322.9	554.8	438.0	862.4
Purchase obligations	845.7	764.0	70.8	10.6	0.3
Financial Services' deposits ³	2,338.7	1,186.7	469.6	682.4	0.0
Other obligations	175.7	56.4	46.8	34.0	38.5
Total contractual obligations	\$ 8,219.0	\$ 2,610.4	\$ 1,953.6	\$ 2,647.5	\$ 1,007.5

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

² Represents senior and subordinate notes.

³ Excludes interest obligations on debt or deposits.

⁴ Includes interest obligations on finance leases.

8.3.2 Funding costs

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

(\$C in millions)	2013	2012
Interest expense ¹	\$ 102.8	\$ 119.7
Cost of debt ²	4.18%	4.54%

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

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

For a discussion of the liquidity and credit risks associated with the Company's ability to generate sufficient resources to meet its financial obligations, refer to section 11.3 in this MD&A.

8.4 Equity

Shares outstanding

(C\$ in millions)	2013	2012
Authorized		
3,423,366 Common Shares		
100,000,000 Class A Non-Voting Shares		
Issued		
3,423,366 Common Shares (2012 - 3,423,366)	\$ 0.2	\$ 0.2
76,560,851 Class A Non-Voting Shares (2012 - 77,720,401)	586.8	687.8
	\$ 587.0	\$ 688.0

On February 22, 2013, the Toronto Stock Exchange ("TSX") accepted the Company's notice of intention to make a NCIB to purchase, between February 26, 2013 and February 25, 2014, of up to 2.5 million Class A Non-Voting Shares. In connection with the acceptance of the NCIB, the Company announced its intention, subject to a number of conditions, to purchase a minimum of \$100.0 million of its Class A Non-Voting Shares, in addition to those purchased for anti-dilutive purposes, over the course of 2013.

During the fourth quarter, the Company purchased 368,770 Class A Non-Voting Shares under the NCIB at a cost of \$35.8 million, of which 31,420 shares were purchased for anti-dilutive purposes.

As at year-end, the Company had purchased 1,159,550 Class A Non-Voting Shares, in addition to those purchased for anti-dilutive purposes, under the NCIB at an aggregate cost of \$100.0 million and therefore achieved its stated Class A Non-Voting Share purchase goal for 2013.

As at February 13, 2014, there had been no change to the number of outstanding Common Shares and Class A Non-Voting Shares from the numbers presented as at December 28, 2013 in the table above.

8.4.1 Dividends

As of December 28, 2013, the Company had dividends declared and payable to holders of Class A Non-Voting Shares and Common Shares of \$35.0 million (2012 - \$28.5 million) at a rate of \$0.4375 per share (2012 - \$0.35 per share).

During the quarter, the Company announced an increase to its dividend policy for 2014 to pay 25 to 30 per cent of prior year normalized basic net EPS, after giving consideration to the period end cash position and future cash flow requirements, to shareholders of the Company. This represented an increase in the dividend policy from the previous range of 20 per cent to 25 per cent of prior year normalized basic net EPS.

8.4.2 Equity derivative contracts

The Company enters into equity derivative contracts to provide a partial offset to its exposure to fluctuations in stock option and performance share unit ("PSU") plan expense. Equity derivatives commonly used by the Company include total return swaps, floating-rate equity forwards and fixed-rate equity forwards. Total return swap hedges are structured to cash settle quarterly on a predetermined rate reset date with a final cash settlement at expiry while the floating and fixed-rate equity forwards cash settle at expiry.

During the fourth quarter, two total return swaps which had hedged 350,000 stock options expired. The Company received a final cash settlement of \$2.8 million in the fourth quarter on expiry of these hedges. The Company also received \$2.4 million to settle the expiry of a floating-rate equity forward which had hedged 225,000 stock options. The Company entered into a new floating-rate equity forward prior to year end at a purchase price of \$99.76 per share to offset its exposure to 200,000 stock options.

During the year, three total return swaps which had hedged 425,000 stock options expired and the Company received cash settlements totaling \$12.2 million on these hedges. The Company also received \$2.4 million to settle the expiry of a floating-rate equity forward which had hedged 225,000 stock options and \$1.1 million to settle the expiry of a fixed-rate equity forward which had hedged 125,000 PSUs. Also during the year, the Company entered into three new fixed-rate equity forwards at a weighted average forward price of \$72.43 per share to offset its exposure to 435,000 PSUs and three new floating-rate equity forwards at a weighted average purchase price of \$84.25 per share to offset its exposure to 450,000 stock options.

9.0 Tax matters

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

As a result of the Company's investment in and development of certain information technology Scientific Research and Experimental Development ("SR&ED") projects, a claim was filed during the year with the Canada Revenue Agency ("CRA") for SR&ED tax credits relating to a prior period (which is currently under audit by the CRA).

No additional amounts were accrued in the Company's Annual Consolidated Financial Statements during the year in respect of the claim for SR&ED tax credits. The 2013 tax provision was reduced by \$2.6 million (2012 - \$6.2 million) due to adjustments to prior years' tax estimates.

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

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

Income taxes for the 13 and 52 weeks ended December 28, 2013 were increased to \$74.4 million (2012 - \$53.4 million) and \$220.2 million (2012 - \$177.9 million), respectively. The effective tax rates for the 13 and 52 weeks ended December 28, 2013 increased to 28.03 per cent (2012 - 24.70 per cent) and 28.07 per cent (2012 - 26.29 per cent), respectively, mainly due to an increase in the non-deductible stock option expense, partially offset by a reduction in benefits related to prior year tax settlements and adjustments to prior years' tax estimates.

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

In Q3 2013, the Company announced the effective tax rate for fiscal 2014 was expected to be approximately 27.0 per cent. This reflects the estimated benefit to the Company's effective tax rate of CT REIT's forecasted 2014 results of operations (as presented in CT REIT's preliminary and final prospectuses) and a lower anticipated stock option expense compared to 2013.

10.0 Accounting policies and estimates

10.1 Critical accounting estimates

The Company estimates certain amounts reflected in its Annual Consolidated 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 and note 3 of the notes to the Annual Consolidated Financial Statements do not require Management to make assumptions about matters that are highly uncertain and, accordingly, none of the estimates are considered a "critical accounting estimate" as defined in Form 51-102F1 published by the Ontario Securities Commission except as noted below.

In the Company's view, the allowance for loan impairment at Financial Services is considered to be a "critical accounting estimate". Losses for impaired loans are recognized when there is objective evidence that the impairment of the loan portfolio has occurred. Impairment allowances are calculated on individual loans and on groups of loans assessed collectively. All individually significant loans receivable are assessed for specific impairment. Loans receivable that are not individually significant are collectively assessed for impairment by grouping together loans receivable with similar risk characteristics. The Company uses a roll-rate methodology, which employs statistical analysis of historical data, economic indicators and experience of delinquency and default to estimate the amount of loans that will eventually be written off. Future customer behaviour may be affected by a number of factors, including changes in interest and unemployment rates and program design changes. The estimated loss is the difference

between the present value of the expected future cash flows, discounted at the original effective interest rate of the portfolio and the carrying amount of the portfolio. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

10.2 Changes in accounting policies – new standards implemented

Consolidated financial statements

In May 2011, the International Accounting Standard Board (“IASB”) issued IFRS 10 – *Consolidated Financial Statements* (“IFRS 10”), which replaced portions of IAS 27 – *Consolidated and Separate Financial Statements* (“IAS 27”) and all of Standing Interpretation Committee (“SIC”) – *Consolidation – Special Purpose Entities*. IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an investor controls one or more investees. The standard requires an investor to consolidate an investee when it has the ability to direct the relevant activities of the investees, has exposure or 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. IFRS 10 and the amendments to IAS 27 were effective for annual periods beginning on or after January 1, 2013. The implementation of IFRS 10 and the amendments to IAS 27 did not have a significant impact on the Company.

Joint arrangements

In May 2011, the IASB issued IFRS 11 – *Joint Arrangements* (“IFRS 11”), which replaced 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 are accounted for using the equity method of accounting. The previous option to account for joint ventures using proportionate consolidation was removed. For a joint operation, the venturer recognizes its share of the assets, liabilities, revenue and expenses of the joint operation. IFRS 11 was effective for annual periods beginning on or after January 1, 2013. The implementation of IFRS 11 did not have a significant impact on the Company.

Disclosure of interests in other entities

In May 2011, the IASB issued IFRS 12 – *Disclosure of Interests in 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 interest in other entities.

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

IFRS 12 and the amendments to IAS 28 were effective for annual periods beginning on or after January 1, 2013. Implementation of IFRS 12 resulted in additional disclosures in note 17 to the Annual Consolidated Financial Statements. The amendments to IAS 28 did not have a significant impact on the Company.

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 when required for use by other 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 previous IFRS, guidance on measuring and disclosing fair value was dispersed among the specific standards requiring fair value

measurements and in many cases did not reflect a clear measurement basis or consistent disclosures. IFRS 13 was effective for annual periods beginning on or after January 1, 2013. The implementation of IFRS 13 has resulted in additional disclosures in note 35 to the Annual Consolidated Financial Statements.

Other comprehensive income presentation

In June 2011, the IASB amended IAS 1 – *Presentation of Financial Statements* (“IAS 1”) to require companies to group together items within other comprehensive income (“OCI”) that may be reclassified to net income. The amendments reaffirm the existing requirements that items in OCI and net income should be presented as either a single statement or two consecutive statements. The amendments were effective for annual periods beginning on or after January 1, 2013. The implementation of IAS 1 amendments did not have a significant impact on the Company’s Annual Consolidated Financial Statements.

Post-employment benefits

In June 2011, the IASB issued amendments to IAS 19 – *Employment Benefits* (“IAS 19”) that apply to defined benefit plans. The amendments eliminate the existing option to defer actuarial gains and losses (known as the corridor approach), require changes from remeasurement of defined benefit plan assets and liabilities to be presented in the OCI section of the statements of comprehensive income and require additional disclosures. The amendments were effective for annual periods beginning on or after January 1, 2013. These amendments, which were applied retrospectively, did not have a significant impact as the Company already immediately records any actuarial gains and losses in OCI as incurred. In addition, the benefit of past service credits, previously recognized in employee benefits in other long-term liabilities on the consolidated balance sheets, have been reclassified to retained earnings. As a result of the retrospective application of this standard, the cumulative impact on previously reported balances and results from operations was as follows:

(C\$ in millions)	Increase (decrease)	
	December 29, 2012	December 31, 2011
Deferred income tax asset	\$ (0.3)	\$ (0.3)
Other long-term liabilities	(1.0)	(1.3)
Retained earnings	0.7	1.0
Administrative expenses	0.4	-
Income taxes	(0.1)	-

There was no impact to cash generated on the consolidated statements of cash flows for the year ended December 29, 2012.

Financial Instruments: Asset and liability offsetting

In December 2011, the IASB amended IFRS 7 – *Financial Instruments: Disclosures* (“IFRS 7”) to require new disclosures on the effect of offsetting arrangements on the entity’s financial position. The IFRS 7 amendment was effective for annual periods beginning on or after January 1, 2013 and must be applied retrospectively. The implementation of IFRS 7 did not have a significant impact on the Company.

Impairment of assets

In May 2013, the IASB amended IAS 36 – *Impairment of Assets* (“IAS 36”), to clarify the requirement to disclose information about the recoverable amount of assets for which an impairment loss has been recognized or reversed. The IAS 36 amendments will be applied retrospectively for annual periods beginning on or after January 1, 2014 with earlier application permitted. The Company chose to adopt this amendment in 2013 and it did not have a significant impact on the Company.

Standards, amendments and interpretations issued and not yet adopted

The following new standards, amendments and interpretations have been issued but are not effective for the fiscal year ended December 28, 2013 and, accordingly, have not been applied in preparing the Annual 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. For financial liabilities measured at fair value, fair value changes due to changes in the Company’s credit risk are presented in 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. The effective date has been deferred. Early adoption is permitted. The Company is assessing the potential impact of this standard.

Financial instruments: Asset and liability offsetting

In December 2011, the IASB amended IAS 32 – *Financial Instruments: Presentation* (“IAS 32”) to clarify the requirements which permit offsetting a financial asset and liability in the financial statements. 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 the IAS 32 amendments.

Financial Instruments: Novation of derivatives and continuation of hedge accounting

In June 2013, the IASB issued *Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39*. This amendment to IAS 39 Financial Instruments: Recognition and Measurement provides an exception to the requirement to discontinue hedge accounting in situations where over-the-counter derivatives designated in hedging relationships are directly or indirectly novated to a central counterparty as a consequence of laws or regulations, or the introduction of laws or regulations. The IAS 39 amendments will be applied retrospectively for annual periods beginning on or after January 1, 2014. The Company is assessing the potential impact of the IAS 39 amendments.

Levies

In May 2013, the IASB issued IFRIC Interpretation 21 – *Levies* (“IFRIC 21”), which is an interpretation of IAS 37 – *Provisions, Contingent Liabilities and Contingent Assets*. IFRIC 21 clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. IFRIC 21 is effective for years beginning on or after January 1, 2014 and must be applied retrospectively. The Company is assessing the potential impact of this standard.

10.3 Key operating performance measures, additional GAAP measures and non-GAAP financial measures

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

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

Key operating performance measures

Retail sales

Retail sales refers to the aggregated point-of-sale (i.e., cash register) value of all goods and services sold to retail customers at Canadian Tire Dealer-operated, Mark's, PartSource and FGL Sports franchisee-operated, Petroleum retailer-operated and corporately owned stores across all retail banners and do not form part of the Company's consolidated financial statements. Revenue, as reported in the Company's consolidated financial statements, is comprised primarily of the sales of goods to Canadian Tire Dealers and to Mark's, PartSource and FGL Sports franchisees, the sale of gasoline through Petroleum agents and the sale of goods to retail customers by Mark's, PartSource and FGL Sports corporately owned stores.

In addition, beginning in Q1 2013, retail sales includes the value of all goods and services provided as part of the Home Services offering. To enhance comparability of the retail sales metric across the different retail banners of the Company and the retail industry, starting in Q3 2012, Mark's definition of retail sales was updated to align with that of other businesses within the Company. In Q1 2013, FGL Sports aligned its weekly sales calendar with that of Canadian Tire and Mark's.

In addition, in Q3 2013, FGL Sports made a change to how it defines its retail sales. As a result of the change, sales from 18 of the Company's non-franchised retail locations that participate in wholesale buying shows on an ad hoc basis were removed from the calculation of retail sales. Prior year figures and metrics have been restated. Sales definitions for the Retail banners can be found in sections 7.4.1 and 10.3 of this MD&A.

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

Same-store sales

Same-store sales is a metric used by Management and is also commonly used in the retail industry to compare sales earned by a retailer's established outlets over a certain time period and to determine what portion of new sales can be attributed to the opening of new stores. Prior year same-store sales results have been restated for the retail sales definition change made by FGL Sports as noted above. Same-store sales definitions for Canadian Tire, Mark's and FGL Sports can be found in section 7.4.1 and 10.3 of this MD&A.

Sales per square foot

Management and investors use comparisons of sales per square foot metrics over several periods to help identify whether existing assets are being made more productive by the Company's introduction of new store layouts and merchandising strategies. Beginning in Q2 2013, FGL Sports began reporting this metric externally in the MD&A. Q3 2013 and prior year sales results have been restated for the retail sales definition change made by FGL Sports as noted above. Sales per square foot definitions for Canadian Tire, Mark's and FGL Sports can also be found in section 7.4.1 of this MD&A.

ROIC

The Company believes ROIC is useful in assessing the return on capital invested in various assets. In Q4 2013, with the addition of CT REIT to the Company's financial results and operations, Management changed the definition of ROIC to better reflect the manner in which Management views ROIC. The new definition is the consolidated after-tax earnings and non-controlling interest before interest expense and minimum lease payments on operating leases and excluding operations of the Financial Services business, divided by average invested capital. Invested capital is defined as consolidated assets net of Financial Services, less current liabilities, excluding the current portion of long-term debt plus capitalized operating leases. Prior year metrics have been restated. An aspiration with respect to ROIC has been

included as one of the Company's financial aspirations. Refer to section 5.1 for additional information regarding the Company's ROIC performance in 2013.

Return on receivables

ROR is used by Management to assess the profitability of the Financial Services total portfolio of receivables. ROR is calculated by dividing income before income tax and gain/loss on disposal of property and equipment by the average total managed portfolio over a 12-month period. An aspiration with respect to ROR has been included as one of the Company's financial aspirations. Refer to section 5.1 for additional information on the Company's ROR performance in 2013.

Additional GAAP measures

Operating income

Operating income is defined as earnings before net finance costs and income taxes and is included in the Company's Annual Consolidated Financial Statements. Management believes operating income is useful in assessing the Company's underlying operating performance. It is also a commonly used measure which investors, financial analysts and rating agencies may use to evaluate and compare a company's performance against expectations and against other companies.

Non-GAAP financial measures

EBITDA

The following table reconciles consolidated income before income taxes, net finance costs and depreciation and amortization to net income which is a GAAP measure reported in the Annual Consolidated Financial Statements for the periods ended December 28, 2013 and December 29, 2012. Management uses EBITDA as a supplementary measure when assessing the performance of its on-going operations and its ability to generate cash flows to fund its cash requirements, including the Company's capital expenditures.

(C\$ in millions, except per share amounts)	Q4 2013	Q4 2012 ¹	Change	2013	2012 ¹	Change
EBITDA	\$ 381.0	\$ 337.4	12.9%	\$ 1,235.7	\$ 1,138.1	8.6%
Depreciation and amortization	89.7	87.8	2.2%	345.3	335.1	3.0%
Net finance costs	25.9	33.4	(22.2)%	105.8	126.2	(16.1)%
Income before income taxes	\$ 265.4	\$ 216.2	22.7%	\$ 784.6	\$ 676.8	15.9%
Income taxes	74.4	53.4	39.4%	220.2	177.9	23.8%
Effective tax rate	28.0%	24.7%		28.1%	26.3%	
Net income	\$ 191.0	\$ 162.8	17.2%	\$ 564.4	\$ 498.9	13.1%
Net income attributable to:						
Owners of the Company	\$ 187.8	162.8	15.2%	\$ 561.2	498.9	12.5%
Non-controlling interests	3.2	-	-	3.2	-	-
	\$ 191.0	162.8		\$ 564.4	498.9	
Basic earnings per share attributable to owners of the Company	\$ 2.34	\$ 2.00	16.9%	\$ 6.96	\$ 6.13	13.5%
Diluted earnings per share attributable to owners of the Company	\$ 2.32	\$ 1.99	16.4%	\$ 6.91	\$ 6.10	13.3%

¹ Prior year figures have been restated. Refer to section 10.2 in this MD&A for additional information.

Normalized net earnings

During the current and prior year, the Company's results of operations included several one-time items. Management believes that normalizing GAAP net earnings attributable to owners of the Company and basic net EPS attributable to owners of the Company for these items provides a useful method for assessing the Company's underlying operating performance and assists in making decisions regarding the on-going operations of its business.

The following is a reconciliation of normalized net earnings attributable to owners of the Company and normalized basic and diluted EPS attributable to owners of the Company to GAAP net earnings attributable to owners of the Company and basic and diluted net EPS attributable to owners of the Company for Q4 2013 and Q4 2012:

(C\$ in millions, except for per share amounts)	Q4 2013	EPS	Q4 2012	EPS
Net earnings/basic net earnings per share attributable to owners of the Company	\$ 187.8	\$ 2.34	\$ 162.8	\$ 2.00
Add (deduct) the impact of the following:				
CT REIT one-time costs	3.4	0.04	-	-
Tax provision adjustment	-	-	(2.1)	(0.03)
Tax adjustment	(0.8)	(0.01)	(5.4)	(0.07)
Restructuring costs	-	-	19.6	0.24
Normalized net earnings/normalized basic net earnings per share attributable to owners of the Company	\$ 190.4	\$ 2.37	\$ 174.9	\$ 2.15
Normalized net earnings/normalized diluted net earnings per share attributable to owners of the Company	\$ 190.4	\$ 2.35	\$ 174.9	\$ 2.14

The following is a reconciliation of normalized net earnings attributable to owners of the Company and normalized basic and diluted EPS attributable to owners of the Company to GAAP net earnings attributable to owners of the Company and basic and diluted net EPS attributable to owners of the Company for the full year 2013 and 2012:

(C\$ in millions, except for per share amounts)	2013	EPS	2012	EPS
Net earnings/basic net earnings per share attributable to owners of the Company	\$ 561.2	\$ 6.96	\$ 498.9	\$ 6.13
Add (deduct) the impact of the following:				
CT REIT one-time costs	11.6	0.14	-	-
Tax provision adjustment	-	-	(2.1)	(0.03)
Tax adjustment	(2.8)	(0.03)	(11.5)	(0.14)
Restructuring costs	-	-	19.6	0.24
FGL Sports banner rationalization costs	-	-	22.8	0.28
Normalized net earnings/normalized basic net earnings per share attributable to owners of the Company	\$ 570.0	\$ 7.07	\$ 527.7	\$ 6.48
Normalized net earnings/normalized diluted net earnings per share attributable to owners of the Company	\$ 570.0	\$ 7.02	\$ 527.7	\$ 6.45

CT REIT Non-GAAP Financial Measures

CT REIT uses certain non-GAAP financial measures including NOI, FFO and AFFO to provide useful information to both Management and investors in measuring the financial performance and financial condition of CT REIT. These non-GAAP financial measures exclude the impact of certain expenses and income that must be recognized under GAAP when analyzing underlying operating performance, as the excluded items are not necessarily reflective of CT REIT's underlying operating performance or the impact on the comparability of financial performance between periods. CT REIT's method of calculating the following non-GAAP financial measures may differ from other issuers' methods and accordingly, may not be comparable to those reported by other issuers.

Net operating income

NOI from operations is defined as cash rental revenue from investment properties less property operating costs. NOI is used as a key indicator of performance as it represents a measure over which management has control. CT REIT evaluates its performance by comparing the performance of the portfolio adjusted for the effects of one-time items and current year acquisitions. The following table shows the relationship of NOI to GAAP property revenue and property expense to the Consolidated Statement of Income and Comprehensive Income for the period from July 15, 2013 to December 31, 2013.

	For the period from July 15, 2013 to December 31, 2013
(\$C in millions)	
Property revenue	\$ 63.0
Less:	
Property expense	13.8
Straight-line rent adjustment	5.2
Straight-line land lease expense adjustment	(0.1)
Net operating income	\$ 44.1

Funds from operations

CT REIT calculates its FFO in accordance with the Real Property Association of Canada White Paper on FFO for IFRS issued in November 2012. The purpose of the White Paper was to provide reporting issuers and investors with greater guidance on the definition of FFO and to help promote more consistent disclosure from reporting issuers.

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

Adjusted funds from operations

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

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

The following table reconciles FFO and AFFO to GAAP net income and comprehensive income as reported in the Consolidated Statement of Income and Comprehensive Income for the period from July 15, 2013 to December 31, 2013.

	For the period from July 15, 2013 to December 31, 2013	
(\$C in millions)		
Property revenue	\$	63.0
Property expense		(13.8)
General and administrative expense		(2.2)
Interest income		0.1
Interest and other financing charges		(15.6)
Fair value adjustment on investment properties		(0.5)
Net income and comprehensive income	\$	31.0
Fair value adjustment on investment properties		0.5
Funds from operations	\$	31.5
Properties straight-line rent adjustment		(5.2)
Land lease straight-line expense adjustment		0.1
Capital expenditure reserve		(2.9)
Adjusted funds from operations	\$	23.5

11.0 Enterprise risk management

To preserve and enhance shareholder value, the Company approaches the management of risk strategically through its enterprise risk management (“ERM Program”). The Company’s comprehensive ERM Program addresses risk: identification; quantification, monitoring and integration.

The ERM Program provides an integrated approach to the management of risks, supporting the Company’s strategies and objectives. The program is:

- enterprise-wide in scope, addressing strategic, financial and operational risks and the potential impacts across the organization;
- cross-functional in its perspective to provide a consistent discipline for managing risks;
- designed to help support and optimize risk/reward related decisions;
- integrated into the strategic, planning and reporting processes; and
- designed to assess and incorporate risk mitigation strategies including avoidance, control, insurance and acceptance.

The Company’s ERM Program continues to further develop and refine underlying processes and tools aimed at supporting the identification, evaluation, monitoring and reporting of key risks across the Company.

Protecting and enhancing CTC’s brand and reputation is a key consideration in the effective management of each of the Principal Risks.

11.1 Risk governance

The mandate of the Board of Directors includes overseeing the development of the ERM Program, for which the Board has delegated primary responsibility to the Audit Committee. The Audit Committee is responsible for gaining and maintaining reasonable assurance that management:

- appropriately identifies and manages risks;
- has in place a policy that accurately sets out the Company’s risk philosophy and the expectations and accountabilities for identifying, assessing, monitoring, managing and reporting on risks (“the ERM policy”);
- fully implements and sustains the ERM Program in compliance with the ERM policy, and that the ERM policy continues to accurately state the Company’s risk philosophy, as well as expectations and accountabilities for managing risks;

- identifies Principal Risks in a timely manner, including those risks relating to or arising from any weaknesses or threats to the Company's business and assumptions underlying the strategic objectives;
- effectively assesses, monitors and manages Principal Risks in compliance with the ERM policy; and
- provides a report addressing the Corporation's Principal Risks on a periodic basis.

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

The Company's Internal Audit Services ("IAS") function also supports the overall risk management program. The primary role of IAS is to assist the Audit Committee in the discharge of its responsibilities relating to risk and uncertainty, financial controls and control deviations, compliance with laws and regulations and compliance with the Company's Code of Business Conduct and Board-approved policies. To this end, IAS is responsible for conducting independent and objective assessments of the effectiveness of risk management, control and governance processes across the Company.

11.2 Principal Risks

A key element of the Company's ERM Program is the periodic review, identification and assessment of Principal Risks. The Company defines a Principal Risk as one that, alone or in combination with other interrelated risks, can have a significant adverse impact on the Company's brand, reputation, financial performance, or ability to service its customers and has, in the absence of controls, a credible probability of occurring. These Principal Risks are enterprise-wide in scope and represent strategic, financial and operational risks. Management has completed its formal annual review of its Principal Risks, which has been presented to the Audit Committee and approved by the Board of Directors. Recent changes include: an update to the underlying definition of some of the existing Principal Risks to better align with identification of the source of the risk; and risk factors associated with CT REIT have been identified and incorporated into certain Principal Risks.

The following table provides a high-level perspective on each of the identified 11 Principal Risks and describes the main strategy that the Company has in place to mitigate the potential impacts of these risks on its business objectives. The mitigation and management of Principal Risks is approached holistically with a view to ensuring all risk exposures associated with a Principal Risk are considered.

Principal Risks	Risk Management Strategy
<p>Marketplace</p> <p>Risk due to fluctuations or fundamental changes in the external business environment resulting in financial loss. Fluctuations or fundamental shifts in the market place could include:</p> <ul style="list-style-type: none"> • economic recession, depression, high inflation impacting consumer spending; • changes in the competitive landscape in the retail, financial services, or real estate sectors impacting the attractiveness of shopping at Canadian Tire's businesses and the value of real estate holdings; • changes in the domestic or international political environments (including new legislation) 	<p>The Company regularly monitors and analyzes external economic, political, demographic, consumer behaviour and competitive developments in Canada. The Treasury, Strategic and Financial Planning departments have key roles in these processes.</p> <p>Results are shared with the Company's executives, who are accountable for any necessary amendments to the strategic and operational plans and for on-going investment decisions in order to respond to evolving market and economic trends.</p>

<p>impacting the cost of products and/or ability to do business;</p> <ul style="list-style-type: none"> • shifts in the demographics of the Canadian population reducing the relevance of the products and services offered by the Company; • changes in the buying behaviour of consumers or weather patterns rendering the Company's products and services less attractive; and • introduction of new "technologies" rendering the Company's products, channels, or services as obsolete <p>which may result in a negative impact on the Company's revenue, market share, operating margins and/or inability to achieve its strategic objectives.</p>	<p>Further information regarding the Company's exposure to each business segment risks is provided in sections 7.4.1.3, 7.4.2.3 and 7.4.3.3.</p>
<p>Execution of strategy</p> <p>The Company has a number of key initiatives supporting its strategic objectives. Failure to appropriately identify, plan, resource, execute and achieve the full benefits of these initiatives may result in a negative impact on the Company's revenue, market share, operating margins or investor confidence.</p>	<p>The Company regularly reviews its financial aspirations, strategic objectives and plans and identifies the key initiatives therein as being vital to its success. On an on-going basis, the Company identifies and assesses the internal and external risks that may impede the achievement of strategic objectives. Operating plans set out each year's objectives required as part of the successful longer-term execution of these initiatives. Further details are set out in sections 5.2.1 and 5.2.2.</p> <p>The Board of Directors receives reports on progress against the operating plan on a quarterly basis and periodic updates on strategic initiatives. The Board of Directors is also engaged in the annual review of the strategies and plans and influences the agenda of strategic initiatives for the following year.</p>
<p>People</p> <p>Risk associated with the Company not being able to attract and retain sufficient and appropriately skilled people who have the expertise (focus, commitment and capability) to support the achievement of the Company's strategic objectives and address external and/or internal human resources related matters.</p>	<p>Various policies and practices address organizational design, employee recruitment programs, succession planning, compensation structures, on-going training and professional development programs and performance management.</p> <p>The Company's Code of Business Conduct sets out expected ethical behaviour of employees and directors. The Business Conduct Compliance Office offers multiple channels for employees to report breaches, provides interpretations of and training on the Code and monitors investigations and outcomes of potential breaches of the Code.</p>

<p>Key business relationships</p> <p>Risks associated with the Company having a wide range of key business relationships, partnerships and affiliations (with such parties as dealers, agents and franchisees as well as a limited number of vendors, suppliers and other third parties) may result in disruption to business operations and financial loss. The scope, complexity, materiality and/or criticality of these key business relationships can potentially affect customer service, procurement, product and service delivery and may result in legal disputes having a negative impact to the Company's earnings, cost of operations, or brand/reputation.</p>	<p>The Company regularly assesses the capabilities, strategic fit and other realized benefits of key business relationships in the context of supporting the overall business strategy.</p> <p>Appropriate governance structures, including policies, processes, contracts, service agreements and other management activities, are in place to maintain and strengthen the relationships that are critical to the success of the Company's performance and aligned with its overall strategic needs.</p> <p>A key relationship for the Company is with the Canadian Tire Dealers. Management of the Canadian Tire Dealer relationship is led by officers of the Company with oversight by the Chief Executive Officer ("CEO") and Board of Directors.</p>
<p>Technology</p> <p>Technology risks include the failure to:</p> <ul style="list-style-type: none"> invest in technology in a manner that supports the Company's ability to achieve its strategic objectives; operate in a manner so as to ensure that systems, infrastructure and data files are available and recoverable to support business operations including customer needs and management requirements; and secure and protect customer, employee and corporate information from internal threats, external threats and unexpected effects of change <p>which may result in corruption/loss of data, regulatory related issues, litigation, or brand/reputational damage.</p>	<p>The Company supports its key strategic objectives through IT investments to meet operational needs and leverage technological advances in the marketplace.</p> <p>The Company maintains policies, processes and procedures to address capabilities, performance, availability and security. Security protocols along with corporate information security policies address compliance with information security standards, including those in relation to information belonging to the Company's customers and employees.</p>
<p>Operations</p> <p>Risk of failure of the Company's business operations and processes (merchandising, supply chain, store networks, property management and development and financial services) to support its key business objectives. Failed processes in terms of design, integration and/or execution may result in incremental financial expenditures, theft or fraud, damages to assets, poor service delivery, negative customer experiences, or regulatory related issues.</p>	<p>The officer in charge of each banner and corporate function is accountable for providing assurances that policies, processes and procedures are adequately designed and operating effectively to support the Company's strategic and performance objectives.</p>
<p>Financial markets</p> <p>Risk associated with fundamental changes in the economic environment, or significant events or volatility in the financial markets resulting in:</p> <ul style="list-style-type: none"> tight capital and debt markets and/or high cost of capital and debt such that the Company cannot maintain sufficient capital to absorb unexpected losses and/or to economically 	<p>Various policies and processes support the management of capital and funding risks. The Treasurer and CFO provide oversight on policy compliance. Further details are set out in section 8.1.</p> <p>Various financial risk management policies and processes are employed to manage the Company's</p>

<p>acquire and maintain the required funding and capital structure necessary to carry out its strategic plan;</p> <ul style="list-style-type: none"> • significant volatility in the US and Canadian dollar exchange rate such that there is negative impact on the Company's gross margin and product pricing strategies which may result in reduced revenue and ultimately in reduced earnings; and • significant volatility in interest rates such that there is a negative impact on the Company's net interest expense; or • significant changes in interest rates which may impact the value of real estate related investments and on the Company's share value. <p>In addition, financial markets risk also includes the risk of market exposures due to inappropriate hedging strategies which may result in a negative impact to the Company's earnings.</p>	<p>hedging activities, which are designed to mitigate the Company's exposure to foreign exchange rate volatility and sensitivity to adverse movements in interest rates and the equity markets. Hedge transactions are executed with highly rated financial institutions and are monitored against policy limits and counterparty limits. Further details are set out in sections 8.3 and 11.3.</p>
<p>Financial reporting</p> <p>Risk of restatement and reissuance of the Company's financial statements due to:</p> <ul style="list-style-type: none"> • failure to adhere to financial accounting and presentation standards and securities regulations relevant to financial reporting; • fraudulent activity and/or failure to maintain an effective system of internal controls; and/or • inadequate explanation of the Company's operating performance, financial condition and future prospects <p>which may result in regulatory related issues or loss in share value.</p>	<p>Internal controls which include policies, processes and procedures, provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements and other disclosure documents. This includes monitoring and responding to changing regulations and standards governing accounting and financial presentation. Further details are set out in section 12.0.</p>
<p>Legal</p> <p>Risk of failure to comply with current and changing laws, regulations or regulatory policies, codes or rules which may result in a negative impact to the Company's brand/reputation, earnings or capital, regulatory relationships, or business activities. Laws, regulations and regulatory policies referred to include privacy, securities (disclosure and insider trading), environmental, banking, tax, competition, occupational health and safety, product safety, records and employment.</p>	<p>Policies address compliance with legislation and regulations. The Legislative Compliance department provides compliance oversight and guidance to the organization. Each of the business units has also established processes for complying with the laws and regulations of most significance to its business activities. The Audit Committee and Governance Committee have an oversight role in this area.</p> <p>Further information regarding the Company's exposure to legal risks is provided in section 11.4.</p>

<p>Business continuity Risk of an event or a series of events including natural or man-made disasters or other unplanned and/or prolonged business interruptions that:</p> <ul style="list-style-type: none"> • compromise the safety of the Company's employees or customers; • result in the Company not being able to provide products or services to its customers; and/or • limit or prevent the Company from communicating with its customers, employees, stakeholders and shareholders <p>which may result in a financial loss and/or brand/reputational damage.</p>	<p>The Company maintains an enterprise-wide business continuity program which includes disaster recovery and crisis management components. Policies require all essential business areas to have plans and processes to enable a response to a business interruption or crisis event. Furthermore, information systems are periodically tested through disaster recovery plans.</p> <p>In addition, a comprehensive business interruption insurance program provides related coverage.</p>
<p>Consumer lending Canadian Tire Bank's consumer lending portfolio is exposed to credit or default risk arising from CTB's failure or inability to accurately predict the creditworthiness or credit behaviour of its customers in a normal market or under stressed economic conditions, which may result in a negative impact to the Company's earnings and the availability of financing for the receivables.</p>	<p>Policies and processes are employed to strategically target the quality of the consumer lending portfolio as outlined in section 7.4.3.3. Further information regarding the Company's exposure to consumer lending risk is provided in section 11.3.</p>

11.3 Financial risks

Financial instrument risk

The Company is exposed to a number of risks associated with financial instruments that have the potential to affect its operating and financial performance. The Company's primary financial instrument risk exposures are allowances for credit losses and liquidity risk. The Company also has financial risk exposures to foreign currency risk and interest rate risk, which may be managed through the use of derivative financial instruments. The Company does not use derivative financial instruments for trading or speculative purposes.

The Company determines fair values by reference to quoted bid and ask prices, as appropriate, when available. In the absence of an active market, fair values are based on internal valuation models, such as discounted cash flow analyses, using market-observed inputs. The estimated fair values of financial instruments as at December 28, 2013 and December 29, 2012, were based on relevant market prices and information available at that time. Fair values determined using valuation models require the use of assumptions concerning the amount and timing of estimated future cash flows and discount rates. In determining those assumptions, the Company uses primarily external readily observable market inputs, including factors such as interest yield curves. The detailed processes for determining fair values have been documented and applied consistently. Fair value amounts may change in subsequent periods due to market conditions, particularly changes in interest rates and exchange rates, or other factors. For foreign exchange and equity derivative contracts, the fair values reflect the estimated amounts that the Company would receive or pay if it were to settle the contracts at the reporting date. The foreign exchange contracts were valued based on the differential between contract rates and year-end spot rates and reflect the time value of money. The equity derivative contracts were valued by a counterparty based on year-end market interest rates, implied counterparty volatility values and the year-end closing share price of the Class A Non-Voting Shares of the Company on the TSX. The Company did not have any interest rate swaps outstanding at December 28, 2013 and December 29, 2012.

Credit risk

The Company's exposure to concentrations of credit risk is limited. Accounts receivable are primarily from Dealers and FGL Sports franchisees spread across Canada who, individually, generally comprise less than one per cent of the total balance outstanding. Similarly, loans receivable generated by Financial Services' credit card, personal loan and line of credit customers are a large and geographically dispersed group. Franchise Trust loan exposure is limited to the credit enhancement provided to the third-party conduit. Credit risk exposure represents the loss that would be incurred if all of the Company's counterparties were to default at the same time.

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

- deals only with counterparties that are highly rated financial institutions;
- limits the amount of hedging transactions with any one counterparty;
- limits the term to maturity of hedging transactions; and
- regularly monitors the market value of the hedge portfolios by counterparty.

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

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

The Company believes that the risk of all counterparties defaulting at the same time with respect to these instruments is not significant.

Allowance for credit losses

The Company's allowances for receivables are maintained at levels that are considered adequate to provide for future credit losses. A continuity of the Company's allowances for loans receivable is as follows:

(\$C in millions)	2013	2012
Loans receivable balance, beginning of year ^{1,2}	\$ 110.7	\$ 118.7
Net impairments for credit losses	267.0	265.6
Recoveries	59.1	58.1
Write-offs	(315.4)	(331.7)
Net additions (reversals)	10.7	(8.0)
Loans receivable balance, end of year	\$ 121.4	\$ 110.7

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

² No allowance for credit losses have been made with respect to Franchise Trust and FGL Sports loans receivable.

Liquidity risk

For a comprehensive discussion of the Company's liquidity risk, see note 6 in the notes to the Annual Consolidated Financial Statements.

Foreign currency risk

The Company has significant demand for U.S. dollars due to its global sourcing activities. To mitigate the impact of fluctuating foreign exchange rates on the cost of globally sourced merchandise and, consequently, earnings, the Company has a comprehensive foreign exchange risk management policy in place that establishes ranges for the proportion of forecast U.S. dollar purchases that must be hedged for various time periods. Consequently, when dramatic swings in foreign currency rates occur, the Company has already hedged a significant portion of its near-term U.S.-dollar-denominated forecast purchases. The foreign currency hedge portfolio has historically allowed the Company to achieve some margin stability. The outcome of the Company's hedge portfolio for 2014 will be dependent on the volatility of the currency markets and the directional move of the Canadian dollar. While the Company may be able to pass on changes in foreign currency exchange rates through pricing, it will be subject to currency rates and competitive conditions.

Interest rate risk

The Company may use interest rate swaps from time to time to manage interest rate risk. The Company has a policy in place whereby a minimum of 75 per cent of its long-term debt (term greater than one year) must be at fixed versus floating interest rates. The Company is in compliance with the policy.

11.4 Legal risk

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

The Company's wholly owned subsidiary, CTB, is the subject of two class action proceedings regarding allegations that certain fees charged on CTB-issued credit cards are not permitted under the Quebec Consumer Protection Act. CTB has determined that it has a solid defence to both actions on the basis that banking and cost of borrowing disclosure are matters of exclusive federal jurisdiction. Accordingly, no provision has been made for amounts, if any, that would be payable in the event of an adverse outcome. If adversely decided, the total aggregate exposure to CTB would be approximately \$28.4 million as at December 28, 2013.

11.5 Other risks

In addition to the risks identified in sections 11.2 to 11.4 and the business-specific risks identified in section 7.4.1.3 for the Retail segment, 7.4.2.3 for the CT REIT segment and section 7.4.3.3 for the Financial Services segment, operational business risks that may cause actual results or events to differ materially from those forecast in this MD&A include the following:

- the Company's ability to acquire and develop real estate properties, obtain municipal and other required government approvals, access construction labour and materials at reasonable prices, or lease suitable properties could also have an impact on the timing of construction;
- changes in commodity prices could affect the profitability of the Canadian Tire, Mark's and FGL Sports business; and
- fluctuating foreign currency exchange rates could have an impact on cross-border shopping patterns and employment levels in the manufacturing and export sectors and, consequently, have a negative impact on consumer spending practices.

The Company cannot provide any assurance that forecast financial or operational performance will actually be achieved or, if it is, that it will result in an increase in the price of the Company's shares.

12.0 Controls and procedures

Disclosure controls and procedures

Management is responsible for establishing and maintaining a system of controls and procedures over the public disclosure of financial and non-financial information regarding the Company. Such controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported, on a timely basis, to senior management, including the Chief Executive Officer and the Chief Financial Officer, so that they can make appropriate decisions regarding public disclosure.

The Company's system of disclosure controls and procedures includes, but is not limited to, its Disclosure Policy, its Code of Business Conduct, the effective functioning of its Disclosure Committee, procedures in place to systematically identify matters warranting consideration of disclosure by the Disclosure Committee, verification processes for individual financial and non-financial metrics and information contained in annual and interim filings, including the consolidated financial statements, MD&As, Annual Information Form and other documents and external communications.

As required by CSA National Instrument 52-109 ("NI 52-109"), Certification of Disclosure in Issuers' Annual and Interim Filings, an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures was conducted, under the supervision of management, including the CEO and CFO, as of December 28, 2013. The evaluation included documentation review, enquiries and other procedures considered by management to be appropriate in the circumstances. Based on that evaluation, the CEO and the CFO have concluded that the design and operation of the system of disclosure controls and procedures was effective as at December 28, 2013.

Internal control over financial reporting

Management is also responsible for establishing and maintaining appropriate internal controls over financial reporting. The Company's internal controls over financial reporting include, but are not limited to, detailed policies and procedures related to financial accounting and reporting and controls over systems that process and summarize transactions. The Company's procedures for financial reporting also include the active involvement of qualified financial professionals, senior management and its Audit Committee.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

As required by NI 52-109, management, including the CEO and CFO, evaluated the design and operation of the Company's internal control over financial reporting as defined in NI 52-109 as at December 28, 2013. In making this assessment, management, including the CEO and CFO, used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control – Integrated Framework (1992). This evaluation included review of the documentation of controls, evaluation of the design and testing the operating effectiveness of controls and a conclusion about this evaluation. Based on their evaluation, the CEO and the CFO have concluded that, as at December 28, 2013, the Company's internal control over financial reporting is effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with GAAP.

Changes in internal control over financial reporting

During the quarter and year ended December 28, 2013, 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 such controls, policies and procedures of PHL. The scope limitation is primarily based on the time required to assess PHL's 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 PHL are disclosed in section 8.2.3 of this MD&A and in note 7.1 of the Company's Annual Consolidated Financial Statements.

13.0 Social and environmental responsibility

13.1 Overview

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

13.2 Community activities

The Company's charitable efforts are reflected in the work of Canadian Tire Jumpstart Charities ("Canadian Tire Jumpstart"). Canadian Tire Jumpstart helps financially disadvantaged children gain the life benefits associated with participating in organized sports and recreational activities. The program assists with the cost of registration, equipment and transportation. Through its 332 active chapters, Canadian Tire Jumpstart has funded the programming costs for over 698,000 children since the launch of the program in 2005.

(C\$ in millions)	2013	2012	2011	2010	2009
Amount raised	\$ 19.0	\$ 14.8	\$ 13.2	\$ 12.2	\$ 11.5
Children helped	155,000	125,000	102,000	98,000	65,000

During Q4 2013, Jumpstart raised over \$4.0 million across Canada, helping over 65,000 children participate in sports and recreation programs. For the year 2013, Canadian Tire Jumpstart raised \$19.0 million, helping over 155,000 children.

Helping Canadians enjoy life in Canada has always been at the centre of the Company's activities. The Canadian Tire family of companies is proud to support local initiatives across all its banners through community and organizational support, including support of amateur sport, injury prevention programs and disaster relief.

13.3 Business sustainability

Strategy and aspirations

The Company's Business Sustainability strategy supports its corporate strategic objectives as outlined in section 5.2. It is an innovation strategy that aims to achieve productivity gains and economic benefits from enhanced environmental and social outcomes by integrating sustainability into business operations. Through its Business Sustainability strategy, the Company aims to serve its customers, communities, employees and shareholders, both now and in the future.

The Company's Business Sustainability strategy has four imperatives:

- optimize productivity: drive product and operations value chain improvements;
- develop innovation: create and reinvent better processes, products and services;
- enhance the brand: protect and enhance banner brands and corporate reputation; and
- drive company engagement: engage employees through integration of sustainability practices into everyday business operations.

Business Sustainability reporting

As part of its Business Sustainability strategy, the Company reports annually on the following: (i) business sustainability initiatives completed, which provides a forward-looking view of the anticipated benefits resulting from implementation of these initiatives and aims to reduce the Company's footprint and (ii) the energy and carbon footprint, which provides a view of the environmental performance for the Company and its extended value-chain and aids the Company in identifying opportunities for improvement.

Business Sustainability initiatives completed

Business Sustainability initiatives are innovation projects that enhance productivity and aim to reduce the Company's environmental footprint in the future, while achieving annual cost avoidance benefits which could then be available to be invested back into the business.

In 2013, the forecasted annual cost avoidance from sustainability projects is estimated to be approximately \$5.3 million in costs. In addition, forecasted annual environmental benefits are expected to result in improvements in energy efficiency of 12 per cent and annual waste avoidance of 1,700 tonnes. This forecasted reduction in energy and greenhouse gas emissions is equal to powering more than 1,700 Canadian homes for a year.

Major initiatives this year include:

- the installation of demand-control ventilation systems at 129 Canadian Tire stores in Ontario, resulting in approximately \$1.3 million in forecasted annual energy cost reductions and a 10 per cent energy improvement, which translates to over 5,200 tonnes of greenhouse gas emissions;
- Financial Services' on-going efforts to reduce paper use resulted in approximately 103,000 customer conversions to credit card e-statements this year which is forecasted to annually avoid approximately \$0.7 million and 23 tonnes of waste through the elimination of processing, paper and postage costs;
- the implementation of a new waste management initiative that integrates practices at over 600 corporate locations, including FGL Sports, Mark's and PartSource stores, Canadian Tire Petroleum retail gas outlets and distribution centre facilities. The initiative helped consolidate over 100 waste management vendors down to two strategic partners and is expected to bring in annualized savings for the Company through the reduction of fuel surcharges and optimization of waste pick-up frequency;
- on-going efforts in product and packaging sustainability, which achieved approximately \$1.3 million in annual cost avoidance; and
- the renewable energy initiative, generating approximately 14,400 gigajoules of renewable energy (the equivalent amount of energy needed to power 363 Canadian homes for a year) and helped to avoid over 430 tonnes of greenhouse gas emissions in local communities.

The following table summarizes projects that have been completed in 2013 and their forecasted annualized economic and environmental benefits.

		Economic benefit	Environmental benefits		
		Cost avoided (\$)	Energy use (per cent improvement ¹)	Waste avoided (tonnes)	Water avoided (cubic meters)
By segment of the value-chain:					
Product & Packaging	Reduced energy from transportation of optimized product and packaging as well as waste reductions (reduced packaging, damages and product waste)	\$ 1,279,000	14.0%	1,657	n/a
Product transport	Reduced energy use from increased fuel efficiency in transportation modes and vehicles (e.g. use of long-combination vehicles)	91,000	40.0%	n/a	n/a
Business & retail operations	Reduced energy use in buildings and their operations through energy efficiency initiatives (e.g. new construction, retrofits and signage optimization)	3,921,000	12.0%	43	2,291
Total		\$ 5,291,000	12.0%	1,700	2,291

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

Energy and carbon footprint

The following table presents the Company and its extended value-chain 2012 energy and carbon footprint and the per cent change relative to the 2011 baseline. The data collection and subsequent review for determining the Company's environmental footprint is a rigorous process that is normally completed after the close of the calendar year. As such, the Company's most recent environmental footprint is for 2012. For the first time, energy use and emissions from Mark's products have been included in the footprint calculations.

Overall, 2012 energy and emissions decreased by 1.8 and 1.3 per cent respectively and total normalized energy and emissions, which are measured per unit of revenue, decreased by 3.7 and 3.3 per cent respectively. This is mainly due to reductions in energy use and emissions from the product and packaging segment where the overall volume of product received decreased across banners (except for Petroleum).

By segment of the value-chain ¹ :		Energy Use			GHG emissions		
		% of total	Gigajoules	% change	% of total	tCO ₂ e	% change
Product & Packaging ²	Raw material acquisition and product manufacturing (CTR, PartSource, Petroleum, Mark's, FGL Sports)	86.6%	62,908,130	(1.8)%	87.6%	4,554,325	(1.4)%
	<i>Per \$1,000 banner revenue</i>		6.05	(3.7)%		0.44	(3.4)%
Product Transport ³	Canadian Tire fleet (CTR, PartSource) and third-party product transport (CTR, Petroleum)	7.1%	5,177,821	(2.7)%	7.2%	374,701	(2.8)%
	<i>Per 1,000 tonne-kilometres</i>		0.45	0.3%		0.03	0.2%
Business & Retail Operations ⁴	Corporate and non-corporate stores, offices and DC's operations (all banners)	6.3%	4,548,509	(1.0)%	5.2%	272,827	2.2%
	<i>Per square metre</i>		0.82	(1.7)%		0.05	1.4%
Corporation & extended value-chain		100.0%	72,634,461	(1.8)%	100.0%	5,201,853	(1.3)%
Total							
<i>Per \$1,000 consolidated revenue</i>			6.36	(3.7)%		0.46	(3.3)%

¹Produced in accordance with principles from the World Business Council on Sustainable Development and World Resource Institute GHG Protocol and the Company's Environmental Footprint Corporate Directive. The 2011 baseline was restated to account for the addition to the reporting of Mark's and National Sports products and packaging and to adjust emissions numbers based on updated emissions factors. Mark's and FGL Sports product transport, customer use and product end-of-life emissions for all banners are not currently measured due to data unavailability.

²Values embedded in retail products received by DCs, depots, stores, agents or customers' homes and calculated as per a cradle-to-gate analysis which includes raw material acquisition and processing, transport to manufacturing site and manufacture of retail products or refining of fuels.

³Values from product transportation from manufacturing vendors to stores or from refining sites to gas bars.

⁴Values from corporate and third-party operated sites including offices, DCs and corporate, Dealer, agent and franchise retail stores as well as non-product transport vehicles.

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

13.4 Responsible sourcing practices

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

The Company mitigates social compliance risk through a combination of ensuring suppliers have signed the Code as evidence of agreement; internal assessments of suppliers; and third-party audits of suppliers' facilities. The approach taken by the Company is targeted, focusing on the suppliers with potential for non-compliance, based on criteria such as country of origin, labour intensity and local laws. The risk mitigation strategy is tiered, with a strict zero tolerance policy of critical violations of the Code and a

continuous improvement approach for suppliers with non-critical gaps. Implementation of corrective actions of non-critical gaps is verified through third-party audits. The Company reserves the right to terminate its business relationship with any supplier who fails to implement corrective actions or refuses to comply with the Code.

In 2013, 537 Canadian Tire, Mark's and FGL Sports banner suppliers were audited by the Company through industry standard third-party audits, with identified gaps addressed through continuous improvement processes. The Company performs a complete audit of its suppliers with potential for non-compliance at a minimum of once every three years.

Canadian Tire continues to complete social compliance audits through a third-party provider and completed 437 factory audits during 2013. In addition, Canadian Tire continued its education programs with off-shore vendors with over 130 vendors in Asia participating in social compliance sessions. Canadian Tire reviews all third-party audits and works with factories on continually improving their factory performance. Corrective action plans are verified and lack of improvement or critical failures are grounds for termination.

Mark's conducts social compliance audits of off-shore factories that supply private label products using a third-party provider and factories are audited when they begin production for Mark's. In all cases, an audit is scheduled within 12 months of the first Mark's production. Any non-compliance findings are incorporated in a corrective action plan, which must be signed by factory management and implemented immediately. Follow-up audits are scheduled to verify that areas of non-compliance are rectified. Once factories are deemed compliant with the Code, they are scheduled for a social compliance audit every three years. In 2013, Mark's completed 80 audits of off-shore factories.

Suppliers to INA, a subsidiary of FGL Sports, participate in the Business Social Compliance Initiative ("BSCI"). BSCI was established by the Foreign Trade Association in 2003, creating a common platform for companies' supplier Codes of Conduct and social compliance monitoring systems. The BSCI Code of Conduct is derived from International Labour Organization Conventions, the United Nations Universal Declaration of Human Rights, the United Nations Convention on the Rights of the Child and the OECD Guidelines for Multinational Enterprises and it is similar to the Code in every respect. Suppliers participating in the BSCI are audited by professional firms accredited by Social Accountability Accreditation Services, to assess their compliance with the BSCI Code of Conduct. Suppliers also work directly with BSCI to build the capacity for sustainable social compliance improvements. In 2013, INA completed audits of 20 factories. Additional information on the BSCI can be found at: www.bsci-intl.org/.

In July 2013, Canadian Tire became one of the founding members of the Alliance for Bangladesh Worker Safety Initiative ("Alliance") which has launched a binding, five-year undertaking that will be transparent, results-oriented, measurable and verifiable with the intent of improving safety in the Bangladeshi ready-made garment industry. The undertaking is a collaborative effort, with input from a wide variety of stakeholders, including industry, the International Labour Organization, the U.S. State Department and the Bangladeshi government and aims to rapidly create uniform and open standards for fire and building safety that will guide inspections of factories and inform safety training programs for management and workers. The effort is supported by third-party monitoring and verification, along with structure and education, as well as insulation from possible employer abuse, necessary to empower factory workers to play a key role in safety remediation and the establishment of sustainable, safe conditions in the factories where they work. The Company is committed to the Alliance as it will lead to fire and building safety improvements for factory workers in Bangladesh. Additional information on the Alliance and a roadmap of the Alliance five-year undertaking can be found at: www.bangladeshworkersafety.org/.

14.0 Other investor communication

Caution regarding forward-looking statements

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

- financial aspirations in section 5.1;
- strategic objectives and initiatives in section 5.2;
- objectives for 2014 in section 5.2.2;
- capital management objectives in sections 8.1.1 and 8.1.3;
- capital expenditures in section 8.2.1;
- availability of financing in section 8.3;
- tax matters in section 9.0; and
- business sustainability in section 13.3.

Forward-looking statements are provided for the purposes of providing information about Management's current expectations and plans and allowing investors and others to get a better understanding of 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 statements, 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, its actions and the results of those actions and the economic and business outlook for the Company. Often but not always, forward-looking statements can be identified by the use of forward-looking terminology such as "may", "will", "expect", "believe", "estimate", "plan", "could", "should", "would", "outlook", "forecast", "anticipate", "foresee", "continue" or the negative of these terms or variations of them or similar terminology. Forward-looking statements are based on the reasonable assumptions, estimates, analyses, beliefs and opinions of Management, made in light of its experience and perception of trends, current conditions and expected developments, as well as other factors that Management believes to be relevant and reasonable at the date that such statements are made.

By their very nature, forward-looking statements require Management to make assumptions and are subject to inherent risks and uncertainties, which give rise to the possibility that the Company's assumptions, estimates, analyses, beliefs and opinions may not be correct and that the Company's expectations and plans will not be achieved. Examples of Management's beliefs, which may prove to be incorrect include, but are not limited to, beliefs about the effectiveness of certain performance measures, beliefs about current and future competitive conditions and the Company's position in the competitive environment, beliefs about the Company's core capabilities and beliefs regarding the availability of sufficient liquidity to meet the Company's contractual obligations. Although the Company believes that the forward-looking statements in this document are based on information, assumptions and beliefs that are current, reasonable and complete, these statements are necessarily subject to a number of factors that could cause actual results to differ materially from Management's expectations and plans as set forth in such forward-looking statements 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 the Company to attract and retain high quality employees for all of its businesses, Dealers, Canadian Tire Petroleum agents and Mark's Work Wearhouse and FGL Sports franchisees, as well as the Company's financial arrangements with such parties; (c) the growth of certain business categories and market segments and the willingness of customers to shop at its stores or acquire its financial products and services; (d) the Company's margins and sales and those of its competitors; (e) the changing consumer preferences toward e-commerce, online retailing and the introduction of new technologies; (f) risks and uncertainties relating to information management,

technology, property management and development, supply chain, product safety, changes in law, regulation, competition, seasonality, weather patterns, commodity price and business disruption, the Company's relationships with suppliers manufacturers, partners and other third parties, changes to existing accounting pronouncements, the risk of damage to the reputation of brands promoted by the Company and the cost of store network expansion and retrofits; and (g) the Company's capital structure, funding strategy, cost management programs and share price. Management cautions that the foregoing list of important factors and assumptions is not exhaustive and other factors could also adversely affect the Company's results. Investors and other readers are urged to consider the foregoing risks, uncertainties, factors and assumptions carefully in evaluating the forward-looking statements and are cautioned not to place undue reliance on such forward-looking statements.

For more information on the risks, uncertainties and assumptions that could cause the Company's actual results to differ from current expectations, please refer to sections 7.4.1.3 (Retail segment business risks), 7.4.2.3 (CT REIT segment business risks), 7.4.3.3 (Financial Services segment business risks) and 11.0 (Enterprise risk management) and all subsections thereunder of this MD&A. Please also refer to the "Risk Factors" section of the Company's Annual Information Form for fiscal 2013, as well as the Company's other public filings, available on the SEDAR (System for Electronic Document Analysis and Retrieval) website at www.sedar.com and at www.corp.canadiantire.ca.

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

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

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

- the Annual Information Form;
- the Management Information Circular;
- quarterly reports;
- quarterly fact sheets;
- reference materials on the Company's reporting changes; and
- conference call webcasts (archived for one year).

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

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

February 13, 2014

Management's Responsibility for Financial Statements

The management of Canadian Tire Corporation, Limited is responsible for the accompanying consolidated financial statements. The financial statements have been prepared by management in accordance with International Financial Reporting Standards, which recognize the necessity of relying on some best estimates and informed judgements. All financial information in our Management's Discussion and Analysis is consistent with the consolidated financial statements.

To discharge its responsibilities for financial reporting and safeguarding of assets, management depends on the Company's systems of internal accounting control. These systems are designed to provide reasonable assurance that the financial records are reliable and form a proper basis for the timely and accurate preparation of financial statements. Management meets the objectives of internal accounting control on a cost effective basis through the prudent selection and training of personnel, adoption and communication of appropriate policies, and employment of an internal audit program.

The Board of Directors oversees management's responsibilities for the consolidated financial statements primarily through the activities of its Audit Committee, which is composed solely of directors who are neither officers nor employees of the Company. This Committee meets with management and the Company's independent auditors, Deloitte LLP, to review the consolidated financial statements and recommend approval by the Board of Directors. The Audit Committee is also responsible for making recommendations with respect to the appointment of and for approving remuneration and the terms of engagement of the Company's auditors. The Audit Committee also meets with the auditors, without the presence of management, to discuss the results of their audit, their opinion on internal accounting controls, and the quality of financial reporting.

The consolidated financial statements have been audited by Deloitte LLP, who were appointed by shareholder vote at the annual shareholders' meeting. Their report is presented below.

"Stephen Wetmore"

Stephen G. Wetmore
Chief Executive Officer

February 13, 2014

"Dean McCann"

Dean McCann
Executive Vice President and
Chief Financial Officer

Independent Auditor's Report

To the Shareholders of Canadian Tire Corporation, Limited

We have audited the accompanying consolidated financial statements of Canadian Tire Corporation, Limited, which comprise the consolidated balance sheets as at December 28, 2013 and December 29, 2012, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended December 28, 2013 and December 29, 2012, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Canadian Tire Corporation, Limited as at December 28, 2013 and December 29, 2012, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

The image shows a handwritten signature in black ink that reads "Deloitte LLP". The signature is written in a cursive, flowing style.

Chartered Professional Accountants, Chartered Accountants
Licensed Public Accountants

February 13, 2014
Toronto, Ontario

Consolidated Balance Sheets

As at

(C\$ in millions)

December 28, 2013

December 29, 2012

(Note 39)

ASSETS

Cash and cash equivalents (Note 8)	\$	643.2	\$	1,015.5
Short-term investments (Note 9)		416.6		168.9
Trade and other receivables (Note 10)		758.5		750.6
Loans receivable (Note 11)		4,569.7		4,265.7
Merchandise inventories		1,481.0		1,503.3
Income taxes recoverable		31.5		47.5
Prepaid expenses and deposits		68.2		39.1
Assets classified as held for sale (Note 12)		9.1		5.5
Total current assets		7,977.8		7,796.1
Long-term receivables and other assets (Note 13)		686.0		681.2
Long-term investments		134.7		182.7
Goodwill and intangible assets (Note 14)		1,185.5		1,089.9
Investment property (Note 15)		93.5		95.1
Property and equipment (Note 16)		3,516.1		3,343.5
Deferred income taxes (Note 18)		36.4		40.1
Total assets	\$	13,630.0	\$	13,228.6

LIABILITIES

Bank indebtedness (Note 8)	\$	69.0	\$	86.0
Deposits (Note 19)		1,178.4		1,311.0
Trade and other payables (Note 20)		1,817.4		1,631.3
Provisions (Note 21)		196.1		185.8
Short-term borrowings (Note 23)		120.3		118.9
Loans payable (Note 24)		611.2		623.7
Income taxes payable		57.5		53.0
Current portion of long-term debt (Note 25)		272.2		661.9
Total current liabilities		4,322.1		4,671.6
Long-term provisions (Note 21)		38.2		54.8
Long-term debt (Note 25)		2,339.1		2,336.0
Long-term deposits (Note 19)		1,152.0		1,111.8
Deferred income taxes (Note 18)		100.4		77.7
Other long-term liabilities (Note 26)		228.3		212.4
Total liabilities		8,180.1		8,464.3

EQUITY

Share capital (Note 28)		587.0		688.0
Contributed surplus		6.2		2.9
Accumulated other comprehensive income (loss)		47.4		(1.7)
Retained earnings		4,526.7		4,075.1
Equity attributable to owners of the Company		5,167.3		4,764.3
Non-controlling interests (Note 17)		282.6		-
Total equity		5,449.9		4,764.3
Total liabilities and equity	\$	13,630.0	\$	13,228.6

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

"Maureen J. Sabia"

Maureen J. Sabia

Director

"Graham W. Savage"

Graham W. Savage

Director

Consolidated Statements of Income

For the years ended

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

	December 28, 2013	December 29, 2012
		(Note39)
Revenue (Note 30)	\$ 11,785.6	\$ 11,427.2
Cost of producing revenue (Note 31)	(8,063.3)	(7,929.3)
Gross margin	3,722.3	3,497.9
Other (expense) income	(3.0)	5.7
Operating expenses		
Distribution costs	(342.0)	(356.2)
Sales and marketing expenses	(1,737.6)	(1,636.4)
Administrative expenses	(749.3)	(708.0)
Total operating expenses (Note 32)	(2,828.9)	(2,700.6)
Operating income	890.4	803.0
Finance income	20.1	18.1
Finance costs	(125.9)	(144.3)
Net finance costs (Note 33)	(105.8)	(126.2)
Income before income taxes	784.6	676.8
Income taxes (Note 18)	(220.2)	(177.9)
Net income	\$ 564.4	\$ 498.9
Net income attributable to:		
Owners of the Company	\$ 561.2	\$ 498.9
Non-controlling interests	3.2	-
	\$ 564.4	\$ 498.9
Basic earnings per share attributable to owners of the Company	\$ 6.96	\$ 6.13
Diluted earnings per share attributable to owners of the Company	\$ 6.91	\$ 6.10
Weighted average number of Common and Class A Non-Voting Shares outstanding:		
Basic	80,652,472	81,435,218
Diluted	81,180,863	81,805,594

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

Consolidated Statements of Comprehensive Income

For the years ended

(C\$ in millions)

December 28, 2013

December 29, 2012

(Note 39)

Net income	\$	564.4	\$	498.9
Other comprehensive income				
Items that may be reclassified subsequently to net income:				
Cash flow hedges:				
Gains (losses), net of tax of \$30.0 (2012 - \$7.8)		83.1		(21.0)
Reclassification of (gains) losses to non-financial asset, net of tax of \$12.2 (2012 - \$3.5)		(33.7)		9.7
Reclassification of gains to income, net of tax of \$0.1 (2012 - \$nil)		(0.4)		(0.1)
Available-for-sale financial assets:				
Gains, net of tax of \$nil (2012 - \$0.2)		0.1		0.3
Reclassification of gains to income, net of tax of \$nil (2012 - \$0.6)		-		(1.6)
Item that will not be reclassified subsequently to net income:				
Actuarial gains (losses), net of tax of \$3.6 (2012 - \$3.9) (Note 27)		10.0		(9.5)
Other comprehensive income (loss)		59.1		(22.2)
Comprehensive income	\$	623.5	\$	476.7
Comprehensive income attributable to:				
Owners of the Company	\$	620.3	\$	476.7
Non-controlling interests		3.2		-

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

Consolidated Statements of Cash Flows

For the years ended

(C\$ in millions)

December 28, 2013

December 29, 2012

(Note 39)

Cash generated from (used for):

Operating activities

Net income	\$	564.4	\$	498.9
Adjustments for:				
Gross impairment loss on loans receivable (Note 11)		326.1		323.7
Depreciation on property and equipment and investment property (Note 32)		253.8		248.9
Income tax expense		220.2		177.9
Net finance costs		105.8		126.2
Amortization of intangible assets (Note 32)		91.5		86.2
Changes in fair value of derivative instruments		(37.9)		(7.7)
Gain on disposal of property and equipment, investment property and assets held for sale		(10.3)		(7.9)
Other		15.1		21.3
		1,528.7		1,467.5
Change in operating working capital and other (Note 34)		270.2		(29.8)
Change in loans receivable		(600.2)		(521.7)
Change in deposits		(96.2)		134.7
Cash generated from operating activities before interest and income taxes		1,102.5		1,050.7
Interest paid		(126.5)		(155.3)
Interest received		12.0		8.9
Income taxes paid		(191.2)		(161.3)
Cash generated from operating activities		796.8		743.0

Investing activities

Acquisition of Pro Hockey Life Sporting Goods Inc. (Note 7)	(58.0)	-
Acquisition of short-term investments	(339.2)	(264.0)
Proceeds from the maturity and disposition of short-term investments	193.8	360.7
Acquisition of long-term investments	(55.1)	(130.0)
Proceeds from the disposition of long-term investments	0.4	4.7
Additions to property and equipment and investment property	(404.3)	(222.3)
Proceeds on disposition of property and equipment, investment property and assets held for sale	20.6	45.0
Additions to intangible assets	(105.9)	(64.3)
Long-term receivables and other assets	(21.5)	17.6
Purchases of stores (Note 7)	(17.3)	(9.3)
Other	0.1	0.4
Cash used for investing activities	(786.4)	(261.5)

Financing activities

Net repayment of short-term borrowings	(20.4)	(233.7)
Issuance of loans payable	235.9	235.3
Repayment of loans payable	(248.5)	(240.3)
Issuance of share capital (Note 28)	5.8	12.4
Repurchase of share capital (Note 28)	(105.9)	(33.1)
Issuance of long-term debt	265.8	637.4
Repayment of long-term debt and finance lease liabilities	(659.2)	(30.1)
Dividends paid	(113.0)	(97.7)
Issuance of trust units to non-controlling interests	303.0	-
Trust unit issue costs	(24.1)	-
Distributions paid to non-controlling interests	(3.6)	-
Payment of transaction costs related to long-term debt	(1.3)	(3.2)
Cash (used for) generated from financing activities	(365.5)	247.0
Cash (used) generated in the year	(355.1)	728.5
Cash and cash equivalents, net of bank indebtedness, beginning of year	929.5	201.0
Effect of exchange rate fluctuations on cash held	(0.2)	-
Cash and cash equivalents, net of bank indebtedness, end of year (Note 8)	\$ 574.2	\$ 929.5

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

Consolidated Statements of Changes in Equity

(C\$ in millions)	Share capital	Contributed surplus	Cash flow hedges	Fair value changes in available-for-sale financial assets	Total accumulated other comprehensive income (loss)	Retained earnings	Equity attributable to owners of the Company	Equity attributable to non-controlling interests	Total equity
Balance at December 29, 2012	\$ 688.0	\$ 2.9	\$ (2.0)	\$ 0.3	\$ (1.7)	\$ 4,074.4	\$ 4,763.6	\$ -	\$ 4,763.6
Restatement of Employee Benefits (Note 39)					0.7	0.7	0.7		0.7
Restated balance at December 29, 2012	688.0	2.9	(2.0)	0.3	(1.7)	4,075.1	4,764.3	-	4,764.3
Total comprehensive income									
Net income						561.2	561.2	3.2	564.4
Other comprehensive income (loss)									
Items that may be reclassified subsequently to net income:									
Cash flow hedges:									
Gains, net of tax of \$30.0			83.1		83.1		83.1		83.1
Reclassification of gains to non-financial asset, net of tax of \$12.2			(33.7)		(33.7)		(33.7)		(33.7)
Reclassification of losses to income, net of tax of \$0.1			(0.4)		(0.4)		(0.4)		(0.4)
Available-for-sale financial assets:									
Gains, net of tax of \$nil				0.1	0.1		0.1		0.1
Reclassification of gains to income, net of tax of \$nil				-	-		-		-
Item that will not be reclassified subsequently to net income:									
Actuarial gains, net of tax of \$3.6						10.0	10.0		10.0
Total other comprehensive (loss)	-	-	49.0	0.1	49.1	10.0	59.1	-	59.1
Total comprehensive income (loss)	-	-	49.0	0.1	49.1	571.2	620.3	3.2	623.5
Contributions by and distributions to owners of the Company									
Issue of Class A Non-Voting Shares (Note 28)	5.8				-		5.8		5.8
Repurchase of Class A Non-Voting Shares (Note 28)	(105.9)				-		(105.9)		(105.9)
Excess of issue price over repurchase price (Note 28)	(0.9)	0.9			-		-		-
Dividends					-	(119.6)	(119.6)		(119.6)
Change in ownership interests									
Contributed surplus arising on sale of property to CT REIT		2.4					2.4		2.4
Contributions by and distributions to non-controlling interests									
Issuance of Units (Note 17)								283.0	283.0
Distributions								(3.6)	(3.6)
Total contributions by and distributions to shareholders	(101.0)	3.3	-	-	-	(119.6)	(217.3)	279.4	62.1
Balance at December 28, 2013	\$ 587.0	\$ 6.2	\$ 47.0	\$ 0.4	\$ 47.4	\$ 4,526.7	\$ 5,167.3	\$ 282.6	\$ 5,449.9
Balance at December 31, 2011	\$ 710.5	\$ 1.1	\$ 9.4	\$ 1.6	\$ 11.0	\$ 3,686.4	\$ 4,409.0	\$ -	\$ 4,409.0
Restatement of Employee Benefits (Note 39)						1.0	1.0		1.0
Restated balance at December 31, 2011	710.5	1.1	9.4	1.6	11.0	3,687.4	4,410.0	-	4,410.0
Total comprehensive income									
Net income						498.9	498.9		498.9
Other comprehensive income (loss)									
Items that may be reclassified subsequently to net income:									
Cash flow hedges:									
Losses, net of tax of \$7.8			(21.0)		(21.0)		(21.0)		(21.0)
Reclassification of losses to non-financial asset, net of tax of \$3.5			9.7		9.7		9.7		9.7
Reclassification of gains to income, net of tax of \$nil			(0.1)		(0.1)		(0.1)		(0.1)
Available-for-sale financial assets:									
Gains, net of tax of \$0.2				0.3	0.3		0.3		0.3
Reclassification of gains to income, net of tax of \$0.6				(1.6)	(1.6)		(1.6)		(1.6)
Items that will not be reclassified subsequently to net income:									
Actuarial losses, net of tax of \$3.9						(9.5)	(9.5)		(9.5)
Total other comprehensive (loss)	-	-	(11.4)	(1.3)	(12.7)	(9.5)	(22.2)	-	(22.2)
Total comprehensive income (loss)	-	-	(11.4)	(1.3)	(12.7)	489.4	476.7	-	476.7
Contributions by and distributions to shareholders									
Issue of Class A Non-Voting Shares (Note 28)	12.4				-		12.4		12.4
Repurchase of Class A Non-Voting Shares (Note 28)	(33.1)				-		(33.1)		(33.1)
Excess of issue price over repurchase price (Note 28)	(1.8)	1.8			-		-		-
Dividends					-	(101.7)	(101.7)		(101.7)
Total contributions by and distributions to shareholders	(22.5)	1.8	-	-	-	(101.7)	(122.4)	-	(122.4)
Balance at December 29, 2012	\$ 688.0	\$ 2.9	\$ (2.0)	\$ 0.3	\$ (1.7)	\$ 4,075.1	\$ 4,764.3	\$ -	\$ 4,764.3

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

1. The Company and its operations

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

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

In October 2013, CT Real Estate Investment Trust (“CT REIT”) completed an Initial Public Offering and indirectly acquired a portfolio of properties from the Company. CT REIT is an unincorporated, closed-end real estate investment trust which holds a geographically diversified portfolio of properties comprised largely of stand-alone Canadian Tire stores, properties anchored by a Canadian Tire store and containing one or more stores operating under a Canadian Tire banner and/or third party tenants, a distribution centre and development lands. The operations of CT REIT are included in the Company’s results from operations and financial position commencing July 15, 2013. CT REIT did not carry on operations prior to October 23, 2013.

The Company acquired Pro Hockey Life Sporting Goods Inc. (“PHL”) in August 2013. The operations of PHL are included in the Company’s results from operations and financial position commencing the date of acquisition.

2. Basis of preparation

Fiscal year

The fiscal year of the Company consists of a 52 or 53-week period ending on the Saturday closest to December 31. The fiscal years for the consolidated financial statements and notes presented for 2013 and 2012 are the 52-week periods ended December 28, 2013 and December 29, 2012, respectively.

Statement of compliance

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

These consolidated financial statements were authorized for issuance by the Company’s Board of Directors on February 13, 2014.

Basis of presentation

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

- financial instruments at fair value through profit or loss;
- derivative financial instruments;
- available-for-sale financial assets;
- liabilities for share-based payment plans; and
- initial recognition of assets acquired and liabilities assumed in a business combination.

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

Functional and presentation currency

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

Judgments and estimates

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

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

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

Impairment of assets

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

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

Merchandise inventories

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

Loans receivable

Estimation - The Company's estimate of allowances on loans receivable is based on a roll rate methodology that employs statistical analysis of historical data and experience of delinquency and default to estimate the amount of loans that will eventually be written off as a result of events occurring before the reporting date, with certain adjustments for other relevant circumstances influencing the recoverability of the loans receivable. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate. Future customer behaviour may be affected by a number of factors, including changes in interest and unemployment rates and program design changes.

Income and other taxes

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

Post-employment benefits

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

Consolidation

Judgment - The Company uses judgment in determining the entities that it controls and accordingly consolidates. An entity is controlled when the Company has power over an entity, exposure, or rights, to variable returns from its involvement with the entity, and is able to use its power over the entity to affect its return from the entity. The Company has power over an entity when it has existing rights that give it the current ability to direct the relevant activities, which are the activities that significantly affect the investee's returns. Since power comes from rights, power can result from contractual arrangements. However, certain contractual arrangements contain rights that are designed to protect the Company's interest without giving it power over the entity. Note 17 lists the significant entities that are controlled by the Company.

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

New standards implemented

Consolidated financial statements

In May 2011, the International Accounting Standard Board ("IASB") issued IFRS 10 – *Consolidated Financial Statements* ("IFRS 10"), which replaced portions of IAS 27 – *Consolidated and Separate Financial Statements* ("IAS 27") and all of Standing Interpretation Committee ("SIC") – *Consolidation – Special Purpose Entities*. IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an investor controls one or more investees. The standard requires an investor to consolidate an investee when it has the ability to direct the relevant activities of the investees, has exposure or 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. IFRS 10 and the amendments to IAS 27 were effective for annual periods beginning on or after January 1, 2013. The implementation of IFRS 10 and the amendments to IAS 27 did not have a significant impact on the Company.

Joint arrangements

In May 2011, the IASB issued IFRS 11 – *Joint Arrangements* ("IFRS 11"), which replaced 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 are accounted for using the equity method of accounting. The previous option to account for joint ventures using proportionate consolidation was removed. For a joint operation, the venturer recognizes its share of the assets, liabilities, revenue and expenses of the joint operation. IFRS 11 was effective for annual periods beginning on or after January 1, 2013. The implementation of IFRS 11 did not have a significant impact on the Company.

Disclosure of interests in other entities

In May 2011, the IASB issued IFRS 12 – *Disclosure of Interests in 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 interest in other entities.

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

IFRS 12 and the amendments to IAS 28 were effective for annual periods beginning on or after January 1, 2013. Implementation of IFRS 12 resulted in additional disclosures in Note 17 to these consolidated financial statements. The amendments to IAS 28 did not have a significant impact on the Company.

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 when required for use by other 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 previous IFRS, guidance on measuring and disclosing fair value was dispersed among the specific standards requiring fair value measurements and in many cases did not reflect a clear measurement basis or consistent disclosures. IFRS 13 was effective for annual periods beginning on or after January 1, 2013. The implementation of IFRS 13 has resulted in additional disclosures in Note 35 to these consolidated financial statements.

Other comprehensive income presentation

In June 2011, the IASB amended IAS 1 – *Presentation of Financial Statements* ("IAS 1") to require companies to group together items within other comprehensive income ("OCI") that may be reclassified to net income. The amendments reaffirm the existing requirements that items in OCI and net income should be presented as either a single statement or two consecutive statements. The amendments were effective for annual periods beginning on or after January 1, 2013. The implementation of IAS 1 amendments did not have a significant impact on the Company's consolidated financial statements.

Post-employment benefits

In June 2011, the IASB issued amendments to IAS 19 – *Employment Benefits* (“IAS 19”) that apply to defined benefit plans. The amendments eliminate the existing option to defer actuarial gains and losses (known as the corridor approach), require changes from remeasurement of defined benefit plan assets and liabilities to be presented in the OCI section of the statements of comprehensive income, and require additional disclosures. The amendments were effective for annual periods beginning on or after January 1, 2013. These amendments, which were applied retrospectively, did not have a significant impact as the Company already immediately records any actuarial gains and losses in OCI as incurred. In addition, the benefit of past service credits, previously recognized in employee benefits in other long-term liabilities on the consolidated balance sheets, have been reclassified to retained earnings. As a result of the retrospective application of this standard, the cumulative impact on previously reported balances and results from operations was as follows:

(C\$ in millions)	Increase (decrease)	
	December 29, 2012	December 31, 2011
Deferred income tax asset	\$ (0.3)	\$ (0.3)
Other long-term liabilities	(1.0)	(1.3)
Retained earnings	0.7	1.0
Administrative expenses	0.4	-
Income taxes	(0.1)	-

There was no impact to cash generated on the consolidated statements of cash flows for the year ended December 29, 2012.

Financial Instruments: Asset and liability offsetting

In December 2011, the IASB amended IFRS 7 – *Financial Instruments: Disclosures* (“IFRS 7”) to require new disclosures on the effect of offsetting arrangements on the entity’s financial position. The IFRS 7 amendment was effective for annual periods beginning on or after January 1, 2013 and must be applied retrospectively. The implementation of IFRS 7 did not have a significant impact on the Company.

Impairment of assets

In May 2013, the IASB amended IAS 36 – *Impairment of Assets* (“IAS 36”), to clarify the requirement to disclose information about the recoverable amount of assets for which an impairment loss has been recognized or reversed. The IAS 36 amendments will be applied retrospectively for annual periods beginning on or after January 1, 2014 with earlier application permitted. The Company chose to adopt this amendment in 2013 and it had no significant impact on the Company.

Standards, amendments and interpretations issued and not yet adopted

The following new standards, amendments and interpretations have been issued but are not effective for the fiscal year ended December 28, 2013, and, accordingly, have not been applied in preparing these consolidated financial statements.

Financial instruments

In November 2009, the IASB issued IFRS 9 – *Financial Instruments: Classification and Measurement* (“IFRS 9”), which contained requirements for financial assets. In October 2010, requirements for financial liabilities were added to IFRS 9. IFRS 9 will replace IAS 39 – *Financial Instruments: Recognition and Measurement* (“IAS 39”) in its entirety. IFRS 9 uses a single approach to determine whether a financial asset or liability is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. For financial assets, the approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. For financial liabilities measured at fair value, fair value changes due to changes in the Company’s credit risk are presented in 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. The effective date for implementation of this standard has been deferred. Early adoption is permitted. The Company is assessing the potential impact of this standard.

Financial instruments: Asset and liability offsetting

In December 2011, the IASB amended IAS 32 – *Financial Instruments: Presentation* (“IAS 32”) to clarify the requirements which permit offsetting a financial asset and liability in the financial statements. 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 the IAS 32 amendments.

Financial Instruments: Novation of derivatives and continuation of hedge accounting

In June 2013, the IASB issued *Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39*. This amendment to IAS 39 Financial Instruments: Recognition and Measurement provides an exception to the requirement to discontinue hedge accounting in situations where over-the-counter derivatives designated in hedging relationships are directly or indirectly novated to a central counterparty as a consequence of laws or regulations, or the introduction of laws or regulations. The IAS 39 amendments will be applied retrospectively for annual periods beginning on or after January 1, 2014. The Company is assessing the potential impact of the IAS 39 amendments.

Levies

In May 2013, the IASB issued IFRIC Interpretation 21 – *Levies* (“IFRIC 21”), which is an interpretation of IAS 37 – *Provisions, Contingent Liabilities and Contingent Assets*. IFRIC 21 clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. IFRIC 21 is effective for years beginning on or after January 1, 2014 and must be applied retrospectively. The Company is assessing the potential impact of this standard.

3. Significant accounting policies

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

Basis of consolidation

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

The results of certain subsidiaries that have different year-ends have been included in these consolidated financial statements for the 52 weeks ended December 28, 2013 and December 29, 2012. The year-end of Canadian Tire Financial Services Limited (“Financial Services”), Franchise Trust and CT REIT is December 31.

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

Business combinations

The Company applies the acquisition method in accounting for business combinations.

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

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

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

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

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

The fair values of franchise agreements and other intangibles, such as customer relationships, are determined using an income approach or multi-period excess earnings approach. This method is based on the discounted cash flows expected to be derived from ownership of the assets. The present value of the cash flows represents the value of the intangible asset.

The fair value of off-market leases acquired in a business combination is determined based on the present value of the difference between market rates and rates in the existing leases.

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

Transaction costs that the Company incurs in connection with a business combination are expensed in the period as incurred.

Foreign currency translation

Transactions in foreign currencies are translated into Canadian dollars at rates in effect at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated into Canadian dollars at the closing exchange rate at the balance sheet date. Non-monetary items that are measured in terms of historical cost are translated into Canadian dollars at the exchange rate at the date of the original transaction. Non-monetary assets and liabilities that are measured at fair value are translated into Canadian dollars at the exchange rate at the date that the fair value is determined. Exchange gains or losses arising from translations are recorded in other income or cost of producing revenue in the consolidated statements of income.

Financial instruments

Recognition and measurement

Financial assets and financial liabilities, including derivatives, are recognized in the consolidated balance sheets when the Company becomes a party to the contractual provisions of a financial instrument or non-financial derivative contract. All financial instruments are required to be measured at fair value on initial recognition. Subsequent measurement of these assets and liabilities is based on either fair value or amortized cost using the effective interest method, depending upon their classification.

Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities classified as fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities classified as FVTPL are recognized immediately in net income.

The Company classifies financial instruments, at the time of initial recognition, according to their characteristics and management's choices and intentions related thereto for the purposes of ongoing measurement. Classification choices for financial assets include a) FVTPL, b) held to maturity, c) available for sale, and d) loans and receivables. Classification choices for financial liabilities include a) FVTPL and b) other liabilities.

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

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

¹Certain short-term investments are classified as FVTPL.

²Certain long-term investments are classified as FVTPL.

Financial instruments at fair value through profit or loss

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

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

Available for sale

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

Loans and receivables

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

Other liabilities

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

Derecognition of financial instruments

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

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

Derivative financial instruments

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

All derivative financial instruments, including derivatives that are embedded in financial or non-financial contracts that are not closely related to the host contracts, are measured at fair value. The gain or loss that results from remeasurement at each reporting period is recognized in net income immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in net income depends on the nature of the hedge relationship.

Embedded derivatives

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

Hedge accounting

Where hedge accounting can be applied, certain criteria are documented at the inception of the derivative contract and updated at each reporting date.

Fair-value hedges

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

Cash flow hedges

For cash flow hedges, the effective portion of the changes in the fair value of the hedging derivative, net of taxes, is recognized in OCI, while the ineffective and unhedged portions are recognized immediately in net income. Amounts recorded in accumulated other comprehensive income ("AOCI") are reclassified to net income in the periods when the hedged item affects net income. However, when a forecasted transaction that is hedged results in the recognition of a non-financial asset or liability, the gains and losses previously recognized in AOCI are reclassified from AOCI and included in the initial measurement of the cost of the non-financial asset or liability.

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

The Company enters into foreign currency contracts to hedge the exposure to foreign currency risk on the future payment of foreign-currency-denominated inventory purchases and certain expenses. The changes in fair value of these contracts are included in OCI to the extent the hedges continue to be effective, excluding the time value component of foreign exchange options, which is included in net income. Once the inventory is received, the Company reclassifies the related AOCI amount to merchandise inventories and subsequent changes in the fair value of the foreign currency contracts are recorded in net income as they occur. When the expenses are incurred, the Company reclassifies the AOCI amount to the expense.

Cash and cash equivalents

Cash and cash equivalents are defined as cash plus highly liquid and rated certificates of deposit or commercial paper with an original term to maturity of three months or less.

Short-term investments

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

Trade and other receivables

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

Loans receivable

Credit card, personal and line of credit loans

Credit card, personal and line of credit loans are recognized when cash is advanced to the borrower. They are derecognized when the borrower repays its obligations, the loans are sold or written off or substantially all of the risks and rewards of ownership are transferred.

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

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

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

Dealer loans

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

Merchandise inventories

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

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

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

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

Long-term investments

Investments in highly liquid and rated certificates of deposit, commercial paper or other securities with a remaining term to maturity of greater than one year are classified as long-term investments.

The Company's exposure to credit, currency and interest rate risks related to other investments is disclosed in Note 5.

Intangible assets***Goodwill***

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the identifiable assets acquired and liabilities assumed in a business combination. Goodwill is measured at cost less any accumulated impairment and is not amortized.

Intangible assets

Intangible assets with finite useful lives are measured at cost and are amortized on a straight-line basis over their estimated useful lives, generally up to a period of five years. The estimated useful lives and amortization methods are reviewed annually with the effect of any changes in estimate being accounted for on a prospective basis.

Intangible assets with indefinite useful lives are measured at cost less any accumulated impairment and are not amortized.

Expenditures on research activities are expensed as incurred.

Investment property

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

Investment property is measured in the same manner as property and equipment.

Property and equipment

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

Buildings, fixtures and equipment are depreciated using a declining balance method to their estimated residual value over their estimated useful lives. The estimated useful lives, amortization method and residual values are reviewed annually with the effect of any changes in estimate being accounted for on a prospective basis.

Leasehold improvements and lease inducements are amortized on a straight-line basis over the terms of the respective leases or useful life, if shorter.

Assets held under finance leases are depreciated on the same basis as owned assets or, where shorter, over the terms of the respective leases.

Depreciation and amortization rates are as follows:

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

Leased assets

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

Lessor

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

Lessee

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

Assets under finance leases are recognized as assets of the Company at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability is included in the consolidated balance sheets as a finance lease obligation. Lease payments are apportioned between finance costs and reduction of the lease obligations so as to achieve a constant rate of interest on the remaining balance of the liability.

Sale and leaseback

The accounting treatment of a sale and leaseback transaction is assessed based upon the substance of the transaction and whether the sale is made at the asset's fair value.

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

Impairment of assets

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

Cash generating units

When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the CGU to which the asset belongs. The CGUs correspond to the smallest identifiable group of assets whose continuing use generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The Company has determined that its Retail CGUs comprise individual stores or groups of stores within a geographic market.

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

Determining the recoverable amount

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

In assessing VIU, the estimated future cash flows are discounted to their present value. Cash flows are discounted using a pre-tax discount rate that includes a risk premium specific to each line of business. The Company estimates cash flows before taxes based on the most recent actual results or budgets. Cash flows are then extrapolated over a period of up to five years, taking into account a terminal value calculated by discounting the final year in perpetuity. The growth rate applied to the terminal values is based on the Bank of Canada's target growth rate or a growth rate specific to the individual item being tested based on management's estimate.

Recording impairments and reversal of impairments

Impairments and reversals of impairments are recognized in other income in the consolidated statements of income. Any impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the CGU. Impairments of goodwill cannot be reversed. Impairments of other assets recognized in prior periods are assessed at the end of each reporting period to determine if the indicators of impairment have reversed or no longer exist. An impairment is reversed if the estimated recoverable amount exceeds the carrying amount. The increased carrying amount of an asset attributable to a reversal of impairment may not exceed the carrying amount that would have been determined had no impairment been recognized in prior periods.

Assets classified as held for sale

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

Borrowing costs

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

Employee benefits

Short-term benefits

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

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

Post-employment benefits

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

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

Other long-term employee benefits include:

Termination benefits

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

Share-based payments

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

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

Insurance reserve

Included in trade and other payables is an insurance reserve that consists of an amount determined from loss reports and individual cases and an amount, based on past experience, for losses incurred but not reported. These estimates are continually reviewed and are subject to the impact of future changes in such factors as claim severity and frequency. While management believes that the amount is adequate, the ultimate liability may be in excess of or less than the amounts provided, and any adjustment will be reflected in the periods in which they become known.

The Company uses actuarial valuations in determining its reserve for outstanding losses and loss-related expenses using an appropriate reserving methodology for each line of business. The Company does not discount its liabilities for unpaid claims.

Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account risks and uncertainty of cash flows. Where the effect of discounting is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Sales and warranty returns

The provision for sales and warranty returns relates to the Company's obligation for defective goods in current store inventories and defective goods sold to customers that have yet to be returned, as well as after sales service for replacement parts. Accruals for sales and warranty returns are estimated on the basis of historical returns and are recorded so as to allocate them to the same period the corresponding revenue is recognized. These accruals are reviewed regularly and updated to reflect management's best estimate; however, actual returns could vary from these estimates.

Site restoration and decommissioning

Legal or constructive obligations associated with the removal of underground fuel storage tanks and site remediation costs on the retirement of certain property and equipment and with the termination of certain lease agreements are recognized in the period in which they are incurred when it is probable that an outflow of resources embodying economic benefits will be required and a reasonable estimate of the amount of the obligation can be made. The obligations are initially measured at the Company's best estimate, using an expected value approach, and are discounted to present value.

Onerous contracts

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable costs of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract or the expected net cost of continuing with the contract.

Customer loyalty

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

Other

Other provision includes liabilities for severance under restructuring arrangements. Provision for restructuring is recognized when the Company has approved a detailed and formal restructuring plan and the restructuring has either commenced or has been announced publicly. The measurement of a restructuring provision includes only direct costs arising from the restructuring, rather than ongoing activities and future operating losses of the entity. In addition, the cost of legal issues that have not been settled and other claims are included.

Debt

Debt is classified as current when the Company expects to settle the liability in its normal operating cycle, it holds the liability primarily for the purpose of trading, the liability is due to be settled within 12 months after the date of the consolidated balance sheets or it does not have an unconditional right to defer settlement of the liability for at least 12 months after the date of the consolidated balance sheets.

Share capital

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

Dividends

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

Distributions

Distributions to non-controlling interests are recognized as a liability in the consolidated balance sheets in the period in which the distributions are approved by CT REIT's Board of Trustees.

Revenue

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

Sale of goods

Revenue from the sale of goods includes merchandise sold to Dealers and Mark's Work Wearhouse Ltd. ("Mark's"), PartSource and FGL Sports Ltd. ("FGL Sports") franchisees, the sale of gasoline through agents, and the sale of goods by Mark's, PartSource and FGL Sports corporate-owned stores to the general public. This revenue is recognized when the goods are delivered, less an estimate for the sales and warranty returns. Revenue from the sale of goods is measured at the fair value of the consideration received less an appropriate deduction for actual and expected returns, discounts, rebates and warranty and loyalty program costs, net of sales taxes.

Sales and warranty returns

If there is any uncertainty regarding the right of a customer to return goods, no revenue is recognized until the uncertainty is resolved. However, in the case of warranties, if warranty claims can be reasonably estimated, revenue is then recorded for the net amount.

Customer loyalty programs

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

Interest income on loans receivable

Interest income includes interest charged on loans receivable and fees that are an integral part of the effective interest rate on financial instruments, such as annual credit card fees. Interest income on financial assets that are classified as loans and receivables is determined using the effective interest method.

Services rendered

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

Merchant, interchange and processing fees, cash advance fees and foreign exchange fees on credit card transactions are recognized as revenue at the time transactions are completed. Revenue from separately priced extended warranty contracts is recorded on a straight-line basis over the term of the contracts. Revenue from Home Services is recognized when the work order is complete.

Reinsurance premiums are recorded on an accrual basis and are included in net income on a pro rata basis over the life of the insurance contract, with the unearned portion deferred in the consolidated balance sheets. Premiums that are subject to adjustment are estimated based on available information. Any variances from the estimates are recorded in the periods in which they become known.

Royalties and licence fees

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

Rental income

Rental income from operating leases where the Company is the lessor is recognized on a straight-line basis over the terms of the respective leases.

Vendor rebates

The Company records cash consideration received from vendors as a reduction in the price of vendors' products and recognizes it as a reduction to the cost of related inventory or, if the related inventory has been sold, to the cost of producing revenue. Certain exceptions apply where the cash consideration received is either a reimbursement of incremental selling costs incurred by the Company or a payment for assets or services delivered to the vendor, in which case the cost is reflected as a reduction in operating expenses.

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

Finance income and finance costs

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

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

Income taxes

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

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

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

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

Earnings per share attributable to owners of the Company

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

Operating segments

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

4. Capital management

The Company's objectives when managing capital are:

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

The definition of capital varies from company to company, industry to industry and for different purposes. In the process of managing the Company's capital, management includes the following items in its definition of capital, which includes Glacier Credit Card Trust ("GCCT") indebtedness but excludes Franchise Trust indebtedness:

(C\$ in millions)	2013	% of total	2012	% of total
Capital components				
Deposits	\$ 1,178.4	11.6%	\$ 1,311.0	12.7%
Short-term borrowings	120.3	1.2%	118.9	1.2%
Current portion of long-term debt	272.2	2.6%	661.9	6.4%
Long-term debt	2,339.1	23.0%	2,336.0	22.7%
Long-term deposits	1,152.0	11.3%	1,111.8	10.8%
Total debt	\$ 5,062.0	49.7%	\$ 5,539.6	53.8%
Share capital	587.0	5.8%	688.0	6.7%
Contributed surplus	6.2	0.0%	2.9	0.0%
Retained earnings	4,526.7	44.5%	4,075.1	39.5%
Total capital under management	\$ 10,181.9	100.0%	\$ 10,305.6	100.0%

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

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

In order to maintain or adjust the capital structure, the Company has the flexibility to adjust the amount of dividends paid to shareholders, purchase shares for cancellation pursuant to a normal course issuer bid program ("NCIB"), issue new shares, repay debt, issue new debt, issue new debt with different characteristics to replace existing debt, engage in additional sale and leaseback transactions of real estate properties and increase or decrease the amount of sales of co-ownership interests in loans receivable to GCCT.

The Company has in place various policies that it uses to manage capital, including a leverage and liquidity policy, an interest rate risk management policy and a securities and derivatives policy. As part of the overall management of capital, management and the Audit Committee of the Board of Directors review the Company's compliance with, and performance against, these policies. In addition, periodic reviews of the policies are performed to ensure consistency with the risk tolerances.

Key financial covenants of the existing debt agreements are reviewed by management on an ongoing basis to monitor compliance with the agreements.

The key covenants are as follows:

- a requirement to maintain, at all times, a specified minimum ratio of consolidated net tangible assets to the outstanding principal amount of all consolidated funded obligations (as defined in the respective debt agreements, which exclude the assets and liabilities of GCCT and Franchise Trust); and
- a limitation on the amount available for distribution to shareholders whereby the Company is restricted from distributions (including dividends and redemptions or purchases of shares) exceeding, among other things, its accumulated net income over a defined period.

The Company was in compliance with these key covenants as at December 28, 2013 and December 29, 2012. Under these covenants, the Company currently has sufficient flexibility to fund business growth and maintain or amend dividend rates within its existing dividend policy.

In addition, the Company is required to comply with regulatory requirements for capital associated with the operations of Canadian Tire Bank ("Bank"), a federally chartered bank, and other regulatory requirements that have an impact on its business operations.

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

The Bank's objectives include:

- providing sufficient capital to maintain the confidence of investors and depositors; and
- being an appropriately capitalized institution, as measured internally, defined by regulatory authorities and compared with the Bank's peers.

OSFI's regulatory capital guidelines under Basel III allow for two tiers of capital. As at December 31, 2013 (the Bank's fiscal year-end), Common Equity Tier 1 ("CET1") capital includes common shares, retained earnings and accumulated other comprehensive income. The Bank currently does not hold any additional Tier 1 or Tier 2 capital instruments. Therefore, the Bank's CET1 is equal to its Tier 1 and total regulatory capital. Risk-weighted assets ("RWA") include all on-balance-sheet assets weighted for the risk inherent in each type of asset, as well as an operational risk component based on a percentage of average risk-weighted revenues, and a market risk component for assets held in the trading book for on and off-balance sheet financial instruments held in a foreign currency. For the purposes of calculating RWA, securitization transactions are considered off-balance-sheet transactions and therefore securitization assets are not included in the RWA calculation. Assets are included in the trading book when they are held either with trading intent or to hedge other elements in the trading book.

During the 12 months ended December 31, 2013 and 2012, the Bank complied with all regulatory capital guidelines established by OSFI and its internal targets as determined by its ICAAP.

5. Financial risk management

5.1 Overview

The Company has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk; and
- market risk (including foreign currency and interest rate risk).

This note presents information about the Company's exposure to each of the above risks and the Company's objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are included throughout these consolidated financial statements and notes thereto.

5.2 Risk management framework

The Company's financial risk management policies are established to identify and analyze the risks faced by the Company, to set acceptable risk tolerance limits and controls and to monitor risks and adherence to limits. The financial risk management policies and systems are reviewed regularly to ensure they remain consistent with the objectives and risk tolerance acceptable to the Company and current market trends and conditions. The Company, through its training and management standards and procedures, aims to uphold a disciplined and constructive control environment in which all employees understand their roles and obligations.

5.3 Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's credit card customers, Dealer network, investment securities and financial derivative instrument counterparties.

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

(C\$ in millions)	2013		2012	
Undrawn loan commitments	\$	10,556.8	\$	10,135.1
Guarantees		600.4		632.1
Total	\$	11,157.2	\$	10,767.2

Refer to Note 10 and Note 11 for information on the credit quality performance of trade and other receivables and loans receivables.

5.3.1 Securities and derivatives

The Company has a Securities and Derivatives Policy in place for management of the various risks (including counterparty risk) related to investment activity and use of financial derivatives. The Company's credit exposure of its investment portfolio is spread across financial institutions, provincial and federal governments and, to a lesser extent, corporate issuers, with limitations as to the amount, term to maturity and industry concentration levels.

The Company limits its exposure to credit risk by investing only in highly liquid and rated certificates of deposit, commercial paper or other approved securities and only with counterparties that are dual rated and have a credit rating in the "A" category or better.

The Company limits its credit exposure to financial derivatives by transacting only with highly rated counterparties and managing within specific limits for credit exposure, notional amounts and term to maturity.

5.3.2 Credit enhancement and guarantees provided

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

5.4 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The Company has in place a leverage and liquidity policy to manage its exposure to liquidity risk.

Management has identified key financial credit metric ratios and calculates these ratios in a manner to approximate the methodology of debt rating agencies and other market participants. Management regularly monitors these metrics against industry-accepted targets to maintain investment-grade ratings from two credit rating agencies.

In addition to the leverage and liquidity policy, the Company has in place an Asset Liability Management Board policy specific to the Bank. It is the Bank's objective to ensure the availability of adequate funds by maintaining a strong liquidity management framework and to satisfy all applicable regulatory and statutory requirements. The Company uses a detailed consolidated cash flow forecast model to regularly monitor its near-term and longer-term cash flow requirements, which assists in optimizing its short-term cash and bank indebtedness position and evaluating longer-term funding strategies. The Company had \$1.7 billion in committed bank lines of credit of which \$1.2 billion is available to the Company under a four-year syndicated credit facility, \$200.0 million is available to CT REIT under a four-year syndicated revolving credit facility and \$300.0 million of the lines of credit have been established for the Corporation pursuant to bilateral credit agreements. The \$1.2 billion syndicated facility is available to the Company until June 2017 and can be extended for an additional 364-day period in June 2014. The CT REIT \$200.0 million facility is an unsecured, revolving syndicated credit facility available to CT REIT until October 2017 and can be extended for an additional 364-day period in October 2014. The balance of the lines, \$300.0 million, has been established pursuant to bilateral credit agreements that are available to the Company until late 2014. Each quarter, the Company has the ability to request that the term of each of the bilateral credit agreements be reset to 364 days.

The Company has access to a number of alternative financing sources in order to ensure that the appropriate level of liquidity is available to meet its strategic objectives including: committed bank lines totalling \$1.7 billion, a commercial paper program and medium-term notes program for the issuance of \$750.0 million available to April 2015. Assets of the Bank are funded through securitization of credit card receivables through GCCT, broker guaranteed investment certificate ("GIC") deposits, retail GIC deposits and high-interest savings ("HIS") account deposits.

Due to the diversification of its funding sources, the Company is not exposed to any concentration risk regarding liquidity.

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

(C\$ in millions)	2014	2015	2016	2017	2018	Thereafter	Total
Non-derivative financial liabilities							
Bank indebtedness	\$ 69.0	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 69.0
Deposits ¹	1,186.7	278.4	191.2	323.0	359.4	-	2,338.7
Trade and other payables ²	1,657.0	-	-	-	-	-	1,657.0
Short-term borrowings	120.3	-	-	-	-	-	120.3
Loans payable	611.2	-	-	-	-	-	611.2
Long-term debt ³	253.7	564.6	200.0	634.9	264.6	550.0	2,467.8
Finance lease obligations	18.8	17.2	13.7	10.7	9.4	81.5	151.3
Interest payments ⁴	155.0	117.3	93.9	71.2	49.7	500.0	987.1
Total	\$ 4,071.7	\$ 977.5	\$ 498.8	\$ 1,039.8	\$ 683.1	\$ 1,131.5	\$ 8,402.4

¹Deposits excludes the GIC broker fee discount of \$8.3 million.

²Trade and other payables exclude \$80.8 million of commodity tax payable.

³The contract maturity of long-term debt excludes debt issue costs of \$7.2 million and the benefit on the effective portion of the cash flow hedges of \$0.6 million.

⁴Includes interest payments on deposits, short-term borrowings, loans payable, long-term debt and finance lease obligations.

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier or at significantly different amounts except for deposits. The cash flows from deposits are not expected to vary significantly provided the expected cash flows from customers maintain a stable or increasing balance.

5.5 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage market risk exposures within acceptable parameters while optimizing the return. The Company has in place foreign exchange, interest rate and equity risk management policies to manage its exposure to market risk. These policies establish guidelines on how the Company is to manage the market risk inherent to the business and provide mechanisms to ensure business transactions are executed in accordance with established limits, processes and procedures.

All such transactions are carried out within the guidelines established in the respective financial risk management policies as approved by the Board of Directors. Generally, the Company seeks to apply hedge accounting in order to manage volatility in its net income.

5.5.1 Foreign currency risk

The Company has significant demand for foreign currencies, primarily United States ("U.S.") dollars, due to its global sourcing activities. The Company's exposure to foreign exchange rate risk is managed through a comprehensive Foreign Exchange Risk Management Policy that sets forth specific guidelines and parameters, including monthly hedge percentage guidelines, for entering into foreign exchange hedge transactions for anticipated U.S.-dollar-denominated purchases. The Company enters into foreign exchange contracts, primarily in U.S. dollars, to hedge future purchases of foreign-currency-denominated goods and services. The Company's exposure to a sustained movement in the currency markets is affected by competitive forces and future prevailing market conditions.

5.5.2 Interest rate risk

The Company has a policy in place whereby a minimum of 75 per cent of its long-term debt (term greater than one year) and lease obligations must be at fixed versus floating interest rates. The Company is in compliance with this policy. The Company may enter into interest rate swap contracts to manage its current and anticipated exposure to interest rate price risk. The Company has no interest rate swap contracts outstanding at December 28, 2013, other than interest rate swap contracts with a notional amount of \$16.3 million (2012 – \$28.9 million) in connection with the Dealer loans held by Franchise Trust (Note 24).

A one per cent change in interest rates would not materially affect the Company's net income or equity as the Company has minimal floating interest rate exposure as the indebtedness of the Company is predominantly at fixed rates. The Company's exposure to interest rate changes is predominantly driven by the Financial Services business to the extent that the interest rates on future GIC deposits, HIS account deposits, tax free savings account ("TFSA") deposits and securitization transactions are market-dependent. Partially offsetting this will be rates charged on credit cards and future liquidity pool investment rates available to the Bank.

6. Operating segments

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

- Retail is comprised of the Living, Playing, Fixing, Automotive, Seasonal & Gardening, Apparel and Sporting Goods categories. The retail business is conducted through a number of banners, including Canadian Tire, Canadian Tire Gas ("Petroleum"), Mark's, PartSource, and various FGL Sports banners. Retail also includes the Dealer Loan Program (the portion (silo) of Franchise Trust that issues loans to Dealers), 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. Non-CT REIT real estate is included in Retail.
- CT REIT is an unincorporated, closed-end real estate investment trust. CT REIT holds a geographically diversified portfolio of properties comprised largely of Canadian Tire banner stores, Canadian Tire anchored retail developments and one distribution centre.
- Financial Services markets a range of Canadian Tire-branded credit cards, including the Canadian Tire Options MasterCard, the Cash Advantage MasterCard, the GasAdvantage MasterCard and the Sport Chek MasterCard. Financial Services also markets insurance and warranty products. The Bank, a wholly owned subsidiary of Canadian Tire Financial Services Limited, is a federally regulated bank that manages and finances the Company's consumer MasterCard, Visa and retail credit card portfolios, as well as an existing block of Canadian Tire-branded personal loan and line of credit portfolios. The Bank also offers and markets HIS account deposits, TFSA deposits and GIC deposits, both directly and through third-party brokers. Financial Services includes GCCT, a financing program established to purchase co-ownership interests in the Company's credit card loans. GCCT issues debt to third-party investors to fund its purchases.

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

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

						2013
	Eliminations and adjustments					Total
(C\$ in millions)	Retail	CT REIT	Financial Services			
External revenue	\$ 10,690.2	\$ 1.7	\$ 1,010.4	\$ 83.3	\$	11,785.6
Intercompany revenue	1.4	61.3	15.5	(78.2)		-
Total revenue	10,691.6	63.0	1,025.9	5.1		11,785.6
Cost of producing revenue	7,679.7	-	430.5	(46.9)		8,063.3
Gross margin	3,011.9	63.0	595.4	52.0		3,722.3
Other income (expense)	15.2	-	0.4	(18.6)		(3.0)
Operating expenses	2,509.4	16.1	278.5	24.9		2,828.9
Operating income	517.7	46.9	317.3	8.5		890.4
Net finance (income) costs	54.1	15.4	(2.7)	39.0		105.8
Fair value adjustment on investment properties	-	(0.5)	-	0.5		-
Income before income taxes	\$ 463.6	\$ 31.0	\$ 320.0	\$ (30.0)	\$	784.6
Items included in the above:						
Depreciation and amortization	\$ 323.5	\$ -	\$ 10.3	\$ 11.5	\$	345.3
Interest income	53.2	0.1	740.1	(19.2)		774.2
Interest expense	82.4	15.5	112.4	(19.2)		191.1

2012

(C\$ in millions)	Retail	Financial Services	Eliminations and adjustments	Total
External revenue	\$ 10,380.9	\$ 967.0	\$ 79.3	\$ 11,427.2
Intercompany revenue	0.3	14.9	(15.2)	-
Total revenue	10,381.2	981.9	64.1	11,427.2
Cost of producing revenue	7,545.9	445.3	(61.9)	7,929.3
Gross margin	2,835.3	536.6	126.0	3,497.9
Other income (expense)	3.0	2.7	-	5.7
Operating expenses	2,365.1	263.7	71.8	2,700.6
Operating income	473.2	275.6	54.2	803.0
Net finance (income) costs	73.2	(1.2)	54.2	126.2
Fair value adjustment on investment properties	-	-	-	-
Income before income taxes	\$ 400.0	\$ 276.8	\$ -	\$ 676.8
Items included in the above:				
Depreciation and amortization	\$ 325.2	\$ 9.9	\$ -	\$ 335.1
Interest income	35.3	691.5	(1.5)	725.3
Interest expense	83.4	134.9	(1.5)	216.8

The eliminations and adjustments include the following items:

- reclassifications of certain revenues and costs in the Financial Services segment to finance income and finance costs;
- reclassifications of revenues and operating expenses to reflect loyalty program accounting in accordance with IFRS Interpretations Committee ("IFRIC") 13 for the Company's Canadian Tire Money programs;
- as CT REIT uses the fair value model for its investment properties, adjustments are made to convert to the Company's cost method, including recording depreciation expense; and
- inter-segment eliminations.

Capital expenditures by reportable operating segment are as follows:

	2013			
(C\$ in millions)	Retail	CT REIT	Financial Services	Total
Capital expenditures ¹	\$ 528.2	\$ 9.0	\$ 6.9	\$ 544.1

	2012			
(C\$ in millions)	Retail	Financial Services		Total
Capital expenditures ¹	\$ 329.4	\$ 5.4		\$ 334.8

¹Capital expenditures are presented on an accrual basis and include software additions (Note 34)

Total assets by reporting operating segment are as follows:

(C\$ in millions)	2013	2012
Retail	\$ 10,509.0	\$ 7,978.6
CT REIT ¹	3,611.2	-
Financial Services	5,384.6	5,448.8
Eliminations ¹	(5,874.8)	(198.8)
Total assets ²	\$ 13,630.0	\$ 13,228.6

¹CT REIT uses the fair value model for its investment properties. The adjustment to convert to the Company's cost basis is included in Eliminations.

²The Company employs a shared services model for several of its back-office functions, including finance, information technology, human resources and legal. As a result, expenses related to these functions are allocated on a systematic and rational basis to the reportable operating segments. The associated assets and liabilities are not allocated between segments in the presented measures of segmented assets and liabilities.

Total liabilities by reporting operating segment are as follows:

(C\$ in millions)	2013		2012	
Retail	\$	4,322.1	\$	3,956.0
CT REIT		1,830.9		-
Financial Services		4,408.3		4,707.1
Eliminations		(2,381.2)		(198.8)
Total liabilities ¹	\$	8,180.1	\$	8,464.3

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

7. Business combinations

7.1 Acquisition of Pro Hockey Life Sporting Goods Inc. ("PHL")

In August 2013, the Company acquired 100 per cent of the issued and outstanding shares of PHL, a Canadian retailer of sporting goods, with 23 urban, high-end hockey stores operating in five provinces across Canada under various trade names. The acquisition is a natural extension of the Company's sporting goods business.

The total consideration transferred, and the fair value of identifiable assets acquired, liabilities assumed and goodwill recognized, as a result of the acquisition, are as follows:

(C\$ in millions)	
Total consideration transferred	\$ 58.0
Fair value of identifiable assets acquired and liabilities assumed	
Trade and other receivables	0.2
Merchandise inventories	47.9
Prepaid expenses and deposits	1.4
Assets classified as held for sale	3.7
Intangible assets	14.1
Property and equipment	10.4
Trade and other payables	(37.4)
Short-term borrowings	(21.8)
Deferred income taxes	(4.8)
Other long-term liabilities	(3.3)
Net identifiable assets acquired and liabilities assumed	10.4
Goodwill	\$ 47.6

The goodwill recognized on the acquisition of PHL is attributable mainly to the expected future growth potential from the expanded customer base of PHL stores, the network of stores and access to the urban high-end customer segment within the hockey equipment market.

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

PHL's revenue and net income are not significant to the Company's overall results.

7.2 Other acquisitions

During the year ended December 28, 2013, the Company acquired various franchise operations for total consideration of \$32.8 million, of which \$15.5 million was payable at December 28, 2013. The fair value of the net assets acquired was \$24.4 million, resulting in goodwill recognized of \$8.4 million.

During the year ended December 29, 2012, the Company acquired various franchise operations for total consideration of \$6.9 million, of which \$2.6 million was in the form of promissory note. The fair value of net assets acquired approximates the total consideration transferred; therefore no goodwill was recognized on the acquisitions.

In addition, the Company acquired control of Golden Viking Sports on July 1, 2012 through its 100 per cent ownership of the issued and outstanding shares for total consideration of \$2.4 million, net of cash and cash equivalents acquired. The fair value of net assets acquired was \$1.5 million, resulting in goodwill recognized of \$0.9 million.

8. Cash and cash equivalents

Cash and cash equivalents comprise the following:

(C\$ in millions)	2013	2012
Cash	\$ 91.5	\$ 40.5
Cash equivalents	546.1	533.6
Restricted cash and cash equivalents ¹	5.6	441.4
Total cash and cash equivalents	643.2	1,015.5
Bank indebtedness	(69.0)	(86.0)
Cash and cash equivalents, net of bank indebtedness	\$ 574.2	\$ 929.5

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

9. Short-term investments

(C\$ in millions)	2013	2012
Unrestricted short-term investments	\$ 415.0	\$ 167.3
Restricted short-term investments ¹	1.6	1.6
	\$ 416.6	\$ 168.9

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

10. Trade and other receivables

(C\$ in millions)	2013	2012
Trade and other receivables	\$ 682.9	\$ 743.6
Derivatives	72.9	6.5
Other	2.7	0.5
	\$ 758.5	\$ 750.6

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

Receivables from Dealers are in the normal course of business, and include cost-sharing and financing arrangements. The net average credit period on sale of goods is between one and 120 days. Interest (ranging from 0.0 per cent to prime plus 3.5 per cent) is charged on amounts past due.

11. Loans receivable

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

(C\$ in millions)	Total principal amount of receivables		Average balance ¹	
	2013	2012	2013	2012
Credit card loans	\$ 4,522.7	\$ 4,234.3	\$ 4,253.3	\$ 3,979.5
Line of credit loans	6.5	7.5	7.0	8.2
Personal loans ²	0.1	0.5	0.2	1.6
Total Financial Services' loans receivable	4,529.3	4,242.3	4,260.5	3,989.3
Dealer loans ³	611.2	623.7		
Other loans	6.4	7.7		
Total loans receivable	5,146.9	4,873.7		
Less: long-term portion ⁴	577.2	608.0		
Current portion of loans receivable	\$ 4,569.7	\$ 4,265.7		

¹Amounts shown are not net of allowance for loan impairment.

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

³Dealer loans issued by Franchise Trust (Note 24)

⁴The long-term portion of loans receivable is included in long-term receivables and other assets and includes Dealer Loans of \$571.6 million (2012 – \$601.5 million)

The gross impairment loss on loans receivable for the year ended December 28, 2013, was \$326.1 million (2012 – \$323.7 million). Recoveries of bad debts for the year ended December 28, 2013, was \$59.1 million (2012 – \$58.1 million).

For the year ended December 28, 2013, the amount of cash received from interest earned on credit cards and loans was \$690.1 million (2012 – \$669.6 million).

The carrying amount of loans includes loans to Dealers that are secured by the assets of the respective Dealer corporations. The Company's exposure to loans receivable credit risk resides at Franchise Trust and at the Bank. Credit risk at the Bank is influenced mainly by the individual characteristics of each credit card customer. The Bank uses sophisticated credit scoring models, monitoring technology and collection modelling techniques to implement and manage strategies, policies and limits that are designed to control risk. Loans receivable are generated by a large and geographically dispersed group of customers. Current credit exposure is limited to the loss that would be incurred if all of the Bank's counterparties were to default at the same time.

A continuity schedule of the Company's allowances for loans receivable¹ is as follows:

(C\$ in millions)	2013	2012
Balance, beginning of year	\$ 110.7	\$ 118.7
Impairments for credit losses, net of recoveries	267.0	265.6
Recoveries	59.1	58.1
Write-offs	(315.4)	(331.7)
Net additions (reversals)	10.7	(8.0)
Balance, end of year	\$ 121.4	\$ 110.7

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

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

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

(C\$ in millions)	2013			2012		
	1-90 days	> 90 days	Total	1-90 days	> 90 days	Total
Loans receivable ^{1,2}	\$ 308.9	\$ 58.0	\$ 366.9	\$ 292.9	\$ 52.7	\$ 345.6

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

²The prior year figures have been restated to correspond to the current-year presentation.

A loan is considered past due when the counterparty has not made a payment by the contractual due date. Credit card and line of credit loan balances are written off when a payment is 180 days in arrears. Line of credit loans are considered impaired when a payment is over 90 days in arrears and are written off when a payment is 180 days in arrears. Personal loans are considered impaired when a payment is over 90 days in arrears and are written off when a payment is 365 days in arrears. No collateral is held against loans receivable, except for loans to Dealers, as discussed above.

Transfers of financial assets

Glacier Credit Card Trust

GCCT is a special purpose entity ("SPE") that was created to securitize credit card loans receivable. As at December 28, 2013, the Bank has transferred \$1,535.5 million (2012 – \$1,479.0 million) co-ownership interest in credit card loans receivable to GCCT but has retained substantially all of the credit risk associated with the transferred assets. Due to retention of substantially all of the risks and rewards on these assets, the Bank continues to recognize these assets within loans receivable, and the transfers are accounted for as secured financing transactions. The associated liability as at December 28, 2013, of \$1,532.4 million (2012 – \$1,901.3 million), secured by these assets, includes the commercial paper and term notes on the consolidated balance sheets and is carried at amortized cost. The Bank is exposed to the majority of ownership risks and rewards of the GCCT and, hence, it is consolidated. The carrying amount of the assets approximates their fair value. The difference between the credit card loans receivable transferred and the associated liabilities is shown below:

(C\$ in millions)	2013		2012	
	Carrying amount	Fair value	Carrying amount	Fair value
Credit card loans receivable transferred ¹	\$ 1,535.5	\$ 1,535.5	\$ 1,479.0	\$ 1,479.0
Associated liabilities	1,532.4	1,546.1	1,901.3	1,933.9
Net position	\$ 3.1	\$ (10.6)	\$ (422.3)	\$ (454.9)

¹ The fair value measurement of credit card loans receivable is categorized within Level 2 of the fair value hierarchy (see Note 35.3 for definition of levels).

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

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

Franchise Trust

The consolidated financial statements include a portion (silo) of Franchise Trust, a legal entity sponsored by a third-party bank that originates and services loans to Dealers for their purchases of inventory and fixed assets (the "Dealer loans"). The Company has arranged for several major Canadian banks to provide standby LCs to Franchise Trust as credit support for the Dealer loans. Franchise Trust has sold all of its rights in the LCs and outstanding Dealer loans to other independent trusts set up by major Canadian banks (the "Co-owner Trusts") that raise funds in the capital markets to finance their purchase of these undivided co-ownership interests. Due to the retention of substantially all of the risks and rewards relating to these Dealer loans, the transfers are accounted for as secured financing transactions and, accordingly, the Company continues to recognize the current portion of these assets in loans receivable (\$39.5 million at December 28, 2013, and \$22.2 million at December 29, 2012) and the long-term portion in long-term receivables and other assets (\$571.7 million at December 28, 2013, and \$601.5 million at December 29, 2012) and records the associated liability secured by these assets as loans payable (\$611.2 million at December 28, 2013, and \$623.7 million at December 29, 2012), being the loans that Franchise Trust has incurred to fund the Dealer loans. The Dealer loans and loans payable are initially recorded at fair value and subsequently carried at amortized cost.

(C\$ in millions)	2013		2012	
	Carrying amount	Fair value	Carrying amount	Fair value
Dealer loans ¹	\$ 611.2	\$ 611.2	\$ 623.7	\$ 623.8
Associated liabilities	611.2	611.2	623.7	623.7
Net position	\$ -	\$ -	\$ -	\$ 0.1

¹ The fair value measurement of dealer loans is categorized within Level 2 of the fair value hierarchy (see Note 35.3 for definition of levels).

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

In the event that a Dealer defaults on a loan, the Company has the right to purchase such loan from the Co-owner Trusts, at which time the Co-owner Trusts will assign such Dealer's debt instrument and related security documentation to the Company. The assignment of this documentation provides the Company with first-priority security rights over all of such Dealer's assets, subject to certain prior ranking statutory claims.

In most cases, the Company would expect to recover any payments made to purchase a defaulted loan, including any associated expenses. In the event the Company does not choose to purchase a defaulted Dealer loan, the Co-owner Trusts may draw against the LCs.

The Co-owner Trusts may also draw against the LCs to cover any shortfalls in certain related fees owing to them. In any case where a draw is made against the LCs, the Company has agreed to reimburse the bank issuing the LCs for the amount so drawn. In the event that all the LCs had been fully drawn simultaneously, the maximum payment by the Company under this reimbursement obligation would have been \$170.4 million at December 28, 2013 (2012 – \$164.0 million). The Company has not recorded any liability for these amounts, due to the credit quality of the Dealer loans and to the nature of the underlying collateral, represented by the inventory and fixed assets of the borrowing Dealers.

12. Assets classified as held for sale

Land and buildings are transferred to assets classified as held for sale from property and equipment and investment property when they meet the criteria to be assets classified as held for sale. Land and buildings previously included in assets classified as held for sale are transferred to property and equipment or investment property, as appropriate, when it is determined that they no longer meet the criteria to be assets classified as held for sale. In addition, certain assets acquired in the PHL acquisition are classified as held for sale. See Note 7.

The fair value measurement of assets held for sale is categorized within Level 2 of the fair value hierarchy (see Note 35.3 for definition of levels).

Land and buildings classified as assets held for sale generally relate to former stores in the Retail segment that have relocated to newer sites. The Company is actively marketing these properties to third parties, and they will be sold when terms and conditions acceptable to the Company are reached.

During the year ended December 28, 2013, the Company recorded impairment of \$0.1 million (2012 – \$1.8 million) as it was determined that the recoverable amount was less than the carrying amount. During the year ended December 28, 2013, the Company recorded reversal of impairment of \$nil million (2012 – \$1.0 million) as a result of the recoverable amount exceeding the carrying amount. Impairment and reversal of impairments are recorded in the Company's Retail operating segment, and reported in other income in the consolidated statements of income.

During the year ended December 28, 2013, the Company sold assets held for sale and recorded a gain of \$12.9 million (2012 – \$11.1 million), which is reported in other income in the consolidated statements of income.

13. Long-term receivables and other assets

(C\$ in millions)	2013		2012	
Loans receivable (Note 11)	\$	577.2	\$	608.0
Mortgages receivable		53.1		61.1
Derivatives		40.3		4.4
Other		15.4		7.7
	\$	686.0	\$	681.2

14. Goodwill and intangible assets

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

	2013					
	Indefinite-life intangible assets and goodwill			Finite-life intangible assets		
(C\$ in millions)	Goodwill	Banners and trademarks	Franchise agreements and other intangibles	Software	Other intangibles	Total
Cost						
Balance, beginning of year	\$ 378.5	\$ 242.2	\$ 142.8	\$ 910.1	\$ 22.5	\$ 1,696.1
Additions internally developed	-	-	-	117.6	-	117.6
Additions related to business combinations	56.0	3.0	11.5	-	0.6	71.1
Other additions	-	-	-	0.2	-	0.2
Disposals/retirements	-	-	-	(2.3)	-	(2.3)
Other movements and transfers	-	-	-	1.5	-	1.5
Balance, end of year	\$ 434.5	\$ 245.2	\$ 154.3	\$ 1,027.1	\$ 23.1	\$ 1,884.2
Accumulated depreciation and impairment						
Balance, beginning of year	\$ (1.6)	\$ -	\$ -	\$ (598.8)	\$ (5.8)	\$ (606.2)
Amortization for the year	-	-	-	(89.3)	(2.2)	(91.5)
Disposals/retirements	-	-	-	1.2	-	1.2
Other movements and transfers	-	-	-	-	(2.2)	(2.2)
Balance, end of year	\$ (1.6)	\$ -	\$ -	\$ (686.9)	\$ (10.2)	\$ (698.7)
Net carrying amount, end of year	\$ 432.9	\$ 245.2	\$ 154.3	\$ 340.2	\$ 12.9	\$ 1,185.5

2012

	Indefinite-life intangible assets and goodwill			Finite-life intangible assets		
(C\$ in millions)	Goodwill	Banners and trademarks	Franchise agreements and other intangibles	Software	Other intangibles	Total
Cost						
Balance, beginning of year	\$ 377.6	\$ 242.0	\$ 138.9	\$ 847.0	\$ 22.4	\$ 1,627.9
Additions internally developed	-	-	-	64.7	-	64.7
Additions related to business combinations	0.9	-	4.2	-	-	5.1
Other additions	-	0.2	-	1.4	-	1.6
Disposals/retirements	-	-	-	(3.0)	(0.2)	(3.2)
Other movements and transfers	-	-	(0.3)	-	0.3	-
Balance, end of year	\$ 378.5	\$ 242.2	\$ 142.8	\$ 910.1	\$ 22.5	\$ 1,696.1
Accumulated depreciation and impairment						
Balance, beginning of year	\$ -	\$ -	\$ -	\$ (516.4)	\$ (1.5)	\$ (517.9)
Amortization for the year	-	-	-	(83.9)	(2.3)	(86.2)
Impairment	(1.6)	-	-	(0.9)	-	(2.5)
Disposals/retirements	-	-	-	2.4	-	2.4
Other movements and transfers	-	-	-	-	(2.0)	(2.0)
Balance, end of year	\$ (1.6)	\$ -	\$ -	\$ (598.8)	\$ (5.8)	\$ (606.2)
Net carrying amount, end of year	\$ 376.9	\$ 242.2	\$ 142.8	\$ 311.3	\$ 16.7	\$ 1,089.9

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

(C\$ in millions)	2013	2012
FGL Sports	\$ 356.9	\$ 309.3
Mark's	52.3	52.2
Canadian Tire	23.7	15.4
Total	\$ 432.9	\$ 376.9

Banners and trademarks includes FGL Sports and Mark's store banners, which represents legal trademarks of the Company with expiry dates ranging from 2016 to 2025. In addition, banners and trademarks include FGL Sports and Mark's private-label brands that have legal expiry dates. The Company currently has no approved plans to change its store banners and intends to continue to renew all trademarks and private-label brands at each expiry date indefinitely. The Company expects these assets to generate cash flows in perpetuity. Therefore, these intangible assets are considered to have indefinite useful lives.

Franchise agreements have expiry dates with options to renew or have indefinite lives. The Company's intention is to renew these agreements at each renewal date indefinitely, and the Company expects the franchise agreements and franchise locations will generate cash flows in perpetuity. Therefore, these assets are considered to have indefinite useful lives.

Other finite-life intangible assets include FGL Sports customer relationships, certain private-label brands and off-market leases that the Company has assessed as having limited life terms. These assets are being amortized over a term of five years.

The amount of borrowing costs capitalized in 2013 was \$1.7 million (2012 – \$1.7 million). The capitalization rate used to determine the amount of borrowing costs capitalized during the year was 5.7 per cent (2012 – 5.7 per cent).

The amount of research and development expenditures recognized as an expense in 2013 was \$4.1 million (2012 – \$6.7 million).

Amortization expense of finite-life intangible assets is included in distribution costs, sales and marketing expenses and administrative expenses in the consolidated statements of income.

Impairment of intangible assets and subsequent reversal

The Company performed its annual impairment test on goodwill and indefinite-life intangible assets for all CGUs based on VIU using a pre-tax discount rates which range from 11.8 to 12.9 per cent and growth rate which ranges from 2.0 to 3.0 per annum

There was no impairment or reversal of impairment in 2013. The impairment on software and goodwill in 2012 pertain to the Company's Retail operating segment and is reported in other (expense) income in the consolidated statements of income.

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

Capital commitments

The Company has no commitments for the acquisition of intangible assets (2012 – \$nil).

15. Investment property

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

(C\$ in millions)	2013		2012
Cost			
Balance, beginning of year	\$	126.0	90.7
Additions		3.9	19.3
Disposals/retirements		-	(0.2)
Net movement (to) from held for sale		(6.6)	17.9
Other movements and transfers		0.6	(1.7)
Balance, end of year	\$	123.9	\$ 126.0
Accumulated depreciation and impairment			
Balance, beginning of year	\$	(30.9)	\$ (18.3)
Depreciation for the year		(2.7)	(2.7)
Impairment		(1.4)	(0.7)
Reversal of impairment		0.2	1.4
Net movement to (from) held for sale		4.3	(9.3)
Other movements and transfers		0.1	(1.3)
Balance, end of year	\$	(30.4)	\$ (30.9)
Net carrying amount, end of year	\$	93.5	\$ 95.1

The investment property generated rental income of \$10.7 million (2012 – \$10.1 million).

Direct operating expenses (including repairs and maintenance) arising from investment property recognized in net income were \$5.4 million (2012 – \$5.0 million).

The estimated fair value of investment property was \$173.0 million (2012 – \$198.7 million). This recurring fair value measurement is categorized within Level 3 of the fair value hierarchy (see Note 35.3 for definition of levels). The Company determines the fair value of investment property by applying a pre-tax capitalization rate to the annual rental income for the current leases. The capitalization rate ranged from 5.75 per cent to 11.0 per cent (2012 – 5.25 per cent to 11.0 per cent). The cash flows are for a term of five years, including a terminal value. The Company has real estate management expertise that is used to perform the valuation of investment property. As such, a valuation has not been performed by an independent valuation specialist.

Impairment of investment property and subsequent reversal

Investment properties pertain to the Company's Retail operating segment. Any impairment or reversal of impairment are reported in other (expense) income in the consolidated statements of income.

Capital commitments

The Company has no commitments for the acquisition of investment property (2012 – \$nil).

16. Property and equipment

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

							2013
(C\$ in millions)	Land	Buildings	Fixtures and equipment	Leasehold improvements	Assets under finance lease	Construction in progress	Total
Cost							
Balance, beginning of year	\$ 744.3	\$ 2,683.7	\$ 880.4	\$ 778.2	\$ 273.2	\$ 102.3	\$ 5,462.1
Additions	84.4	56.7	70.3	123.7	8.4	78.4	421.9
Additions related to business combinations	-	-	12.1	-	-	-	12.1
Disposals/retirements	-	(2.5)	(23.9)	(13.8)	(5.1)	-	(45.3)
Net movement (to) from held for sale	(2.3)	(4.4)	-	0.6	-	-	(6.1)
Other movements and transfers	(11.4)	17.3	(0.1)	(6.4)	0.1	(1.6)	(2.1)
Balance, end of year	\$ 815.0	\$ 2,750.8	\$ 938.8	\$ 882.3	\$ 276.6	\$ 179.1	\$ 5,842.6
Accumulated depreciation and impairment							
Balance, beginning of year	\$ (0.1)	\$ (1,102.9)	\$ (591.4)	\$ (271.5)	\$ (152.7)	\$ -	\$ (2,118.6)
Depreciation for the year	-	(100.0)	(71.5)	(60.0)	(19.6)	-	(251.1)
Impairment	-	-	(0.1)	-	-	-	(0.1)
Reversal of Impairment losses	0.1	-	-	0.1	-	-	0.2
Disposals/retirements	(2.0)	3.7	21.6	13.0	4.9	-	41.2
Net movement to (from) held for sale	-	1.0	-	(0.6)	-	-	0.4
Other movements and transfers	1.7	(2.8)	0.1	2.5	-	-	1.5
Balance, end of year	\$ (0.3)	\$ (1,201.0)	\$ (641.3)	\$ (316.5)	\$ (167.4)	\$ -	\$ (2,326.5)
Net carrying amount, end of year	\$ 814.7	\$ 1,549.8	\$ 297.5	\$ 565.8	\$ 109.2	\$ 179.1	\$ 3,516.1

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

The Company capitalized borrowing costs of \$2.1 million (2012 – \$2.1 million) on indebtedness related to property and equipment under construction. The rate used to determine the amount of borrowing costs capitalized during the year was 5.7 per cent (2012 – 5.7 per cent).

The carrying amount of assets under finance leases at December 28, 2013, comprises \$51.5 million (2012 – \$58.7 million) in buildings and \$57.7 million (2012 – \$61.8 million) in fixtures and equipment.

Impairment of property and equipment and subsequent reversal

The impairment of property and equipment pertain to the Company's Retail operating segment. Any impairment or reversal of impairment is reported in other (expense) income in the consolidated statements of income.

Capital commitments

The Company has commitments of approximately \$17.1 million at December 28, 2013 for the acquisition of property and equipment (2012 – \$28.5 million).

17. Subsidiaries

17.1 Control of subsidiaries and composition of the Company

These consolidated financial statements include entities controlled by Canadian Tire Corporation, Limited. Control exists when Canadian Tire Corporation, Limited has the ability to direct the relevant activities and the returns of an entity. The financial statements of entities are included in these consolidated financial statements from the date that control commences until the date that control ceases.

Details of Canadian Tire Corporation, Limited's significant entities are as follows:

Name of subsidiary	Principal activity	Country of incorporation and operation	Ownership interest	
			2013	2012
Canadian Tire Financial Services Limited	Marketing of insurance products, Canadian Tire Home Services offerings and processing credit card transactions at Canadian Tire stores	Canada	100.0%	100.0%
Canadian Tire Bank	Banking	Canada	100.0%	100.0%
Glacier Credit Card Trust ¹	Financing program to purchase co-ownership interest in Canadian Tire Bank's credit card loans	Canada	0.0%	0.0%
Mark's Work Wearhouse Ltd.	Retailer of clothing and footwear	Canada	100.0%	100.0%
Canadian Tire Real Estate Limited	Real estate	Canada	100.0%	100.0%
FGL Sports Ltd.	Retailer of sporting goods	Canada	100.0%	100.0%
CT Real Estate Investment Trust	Real estate	Canada	83.1%	N/A
Franchise Trust ²	Canadian Tire Dealer loan program	Canada	0.0%	0.0%

¹GCCT was formed to meet specific business needs of the Company, namely to buy co-ownership interests in the Company's credit card loans. GCCT issues debt to third-party investors to fund its purchases. The Company does not have any share ownership in GCCT. However, the Company has determined that it has the ability to direct the relevant activities and returns of GCCT and has control over GCCT. GCCT is consolidated in these financial statements.

²Franchise Trust is a legal entity sponsored by third-party banks that originates loans to Dealers. The Company does not have any share ownership in Franchise Trust. However, the Company has determined that it has the ability to direct the relevant activities and returns of the portion (silo of assets and liabilities) of Franchise Trust that issues loans to Dealers under the Dealer loan program and related credit enhancement funds and hedging activities. The Company has control over the silo of assets and liabilities of Franchise Trust, and is therefore consolidated in these financial statements.

17.2 Details of non-wholly owned subsidiaries that have material non-controlling interest:

The non-controlling interests of CT REIT were initially measured at fair value on the date of acquisition. The portion of net assets and income attributable to CT REIT third party unit holders is reported as non-controlling interests and net income attributable to non-controlling interests on the consolidated balance sheets and statements of income, respectively.

Details of non-wholly owned subsidiaries of the Company that have a material non-controlling interest are as follows:

(C\$ in millions)	2013
CT Real Estate Investment Trust	
Net income attributable to non-controlling interests	\$ 3.2
Carrying amount of non-controlling interests	282.6

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

(C\$ in millions)	2013
	CT REIT
Non-controlling interests percentage	16.9%
Current assets	\$ 62.7
Non-current assets	3,548.5
Current liabilities	(30.6)
Non-current liabilities	(1,800.3)
Net assets	1,780.3
Non-controlling interests share of net assets	300.9
Adjustments	(18.3)
Carrying amount of non-controlling interests	282.6
Revenue	63.0
Net income and comprehensive income	31.0
Net income attributable to non-controlling interests ¹	\$ 3.2

¹Net Income attributable to non-controlling interests is based on net income of CT REIT adjusted to convert to the Company's cost method, including recording of depreciation expense and eliminating fair value adjustments.

17.3 Continuity of non-controlling interests

(C\$ in millions)	2013
Balance at beginning of year	\$ -
Issuance of CT REIT Units	283.0
Comprehensive income attributable to non-controlling interests for the year	3.2
Distributions	(3.6)
Balance at end of year	\$ 282.6

18. Income taxes

18.1 Deferred income tax assets and liabilities

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

(C\$ in millions)	2013				
	Balance, beginning of year	Recognized in net income	Recognized in other comprehensive income	Recognized in equity	Acquired in business combination
Reserves and deferred income	\$ 104.3	\$ 16.0	\$ -	\$ -	\$ (0.4)
Property and equipment	(55.8)	(3.7)	-	2.2	0.3
Intangible assets	(142.3)	(2.4)	-	-	(1.6)
Employee benefits	33.1	1.2	(3.6)	(0.2)	-
Financial instruments	0.7	-	(17.7)	-	-
Finance lease assets and obligations	11.8	(1.0)	-	-	-
Site restoration and decommissioning	3.1	0.5	-	-	-
Deferred items	0.1	(10.6)	-	-	(2.9)
Inventory	0.2	0.6	-	-	(0.7)
Non-capital loss	7.9	(6.2)	-	-	-
Transaction costs	-	(0.4)	-	4.2	-
Other	(0.7)	-	-	-	-
Net deferred tax asset (liability)¹	\$ (37.6)	\$ (6.0)	\$ (21.3)	\$ 6.2	\$ (5.3)

¹Includes the net amount of deferred tax asset of \$36.4 million and deferred tax liabilities of \$100.4 million.

(C\$ in millions)	2012				
	Balance, beginning of year	Recognized in net income	Recognized in other comprehensive income	Acquired in business combination	Balance, end of year
Reserves and deferred income	\$ 103.5	\$ 0.8	\$ -	\$ -	\$ 104.3
Property and equipment	(52.6)	(3.2)	-	-	(55.8)
Intangible assets	(135.1)	(7.2)	-	-	(142.3)
Employee benefits	27.3	1.9	3.9	-	33.1
Financial instruments	(4.0)	-	4.7	-	0.7
Finance lease assets and obligations	11.6	0.2	-	-	11.8
Site restoration and decommissioning	2.8	0.3	-	-	3.1
Deferred items	1.0	(0.9)	-	-	0.1
Inventory	(2.0)	2.3	-	(0.1)	0.2
Non-capital loss	17.9	(10.0)	-	-	7.9
Other	-	(0.7)	-	-	(0.7)
Net deferred tax asset (liability)²	\$ (29.6)	\$ (16.5)	\$ 8.6	\$ (0.1)	\$ (37.6)

²Includes the net amount of deferred tax assets of \$40.1 million and deferred tax liabilities of \$77.7 million.

No deferred tax is recognized on the amount of temporary differences arising from the difference between the carrying amount of the investment in subsidiaries and associates accounted for in the financial statements and the cost amount for tax purposes of the investment. The Company is able to control the timing of the reversal of these temporary differences and believes it is probable that they will not reverse in the foreseeable future. The amount of these taxable temporary differences was approximately \$2.1 billion at December 28, 2013 (2012 – \$132.7 million). The increase in taxable temporary differences during the year resulted from the Company's contribution of real property to CT REIT on a tax deferred basis on October 23, 2013.

18.2 Income tax expense

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

(C\$ in millions)	2013	2012
Current tax expense		
Current period	\$ 216.8	\$ 169.7
Adjustments in respect of prior years	(2.6)	(8.3)
	\$ 214.2	\$ 161.4
Deferred tax expense		
Deferred income tax expense relating to the origination and reversal of temporary difference	\$ 6.0	\$ 14.7
Deferred income expense resulting from change in tax rate	-	1.8
	\$ 6.0	\$ 16.5
Income tax expense	\$ 220.2	\$ 177.9

Reconciliation of income tax expense

Income taxes in the consolidated statements of income vary from amounts that would be computed by applying the statutory income tax rate for the following reasons:

(C\$ in millions)	2013	2012
Income before income taxes	\$ 784.6	\$ 676.8
Income taxes based on the applicable statutory tax rate of 26.49% (2012 - 26.38%)	207.8	178.5
Adjustment to income taxes resulting from:		
Non-deductibility of stock option expense	15.0	3.5
Adjustments of prior year's tax estimates	(2.6)	(6.2)
Lower income tax rates on earnings of foreign subsidiaries	(0.8)	0.5
Non-controlling interests in income of flow-through entities	(0.9)	-
Prior years' tax settlements	-	(2.1)
Changes in tax rates	-	1.8
Other	1.7	1.9
Income tax expense	\$ 220.2	\$ 177.9

The applicable statutory tax rate is the aggregate of the Canadian federal income tax rate of 15.0 per cent (2012 – 15.0 per cent) and Canadian provincial income tax rate of 11.49 per cent (2012 – 11.38 per cent). The increase in the applicable statutory tax rate from 2012 is primarily due to changes to provincial tax rates.

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

As a result of the Company's investment in and development of certain information technology Scientific Research and Experimental Development (SR&ED) projects, a claim was filed during the year with the Canada Revenue Agency (CRA) for SR&ED tax credits relating to a prior period (which is currently under audit by the CRA).

No amounts were accrued during the year in the Company's financial statements in respect of the claim for SR&ED tax credits. The 2013 income tax expense, however, has been reduced by \$2.6 million (2012 - \$6.2 million) due to adjustments to prior years' tax estimates.

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

19. Deposits

Deposits consist of broker deposits and retail deposits.

Cash from broker deposits is raised through sales of GICs through brokers rather than directly to the retail customer. Broker deposits are offered for varying terms ranging from 30 days to five years and all issued broker GICs are non-redeemable prior to maturity (except in certain rare circumstances). Total short-term and long-term broker deposits outstanding at December 28, 2013, were \$1,537.9 million (2012 – \$1,579.7 million).

Retail deposits consist of HIS deposits, retail GICs and TFSA deposits. Total retail deposits outstanding at December 28, 2013, were \$792.5 million (2012 – \$843.1 million).

For repayment requirements of deposits see Note 5.4.

The following are the effective rates of interest:

	2013	2012
GIC deposits	3.51%	3.73%
HIS account deposits	1.60%	1.90%

20. Trade and other payables

(C\$ in millions)	2013	2012
Trade payables and accrued liabilities	\$ 1,737.8	\$ 1,548.9
Deferred revenue	43.2	41.2
Insurance reserve	16.7	13.8
Derivatives	-	13.1
Other	19.7	14.3
	\$ 1,817.4	\$ 1,631.3

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

Other consists primarily of sales taxes payable.

The average credit period on trade payables is five to 120 days (2012 – five to 90 days).

21. Provisions

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

(C\$ in millions)	2013					2012
	Sales and warranty returns	Site restoration and decommissioning	Onerous contracts	Customer loyalty	Other	Total
Balance, beginning of year	\$ 111.3	\$ 34.6	\$ 4.7	\$ 73.2	\$ 16.8	\$ 240.6
Charges, net of reversals	234.9	7.6	0.5	131.8	8.6	383.4
Utilizations	(236.7)	(6.1)	(2.0)	(133.8)	(8.8)	(387.4)
Unwinding of discount	-	0.6	-	-	1.4	2.0
Change in discount rate	-	(4.3)	-	-	-	(4.3)
Balance, end of year	\$ 109.5	\$ 32.4	\$ 3.2	\$ 71.2	\$ 18.0	\$ 234.3
Current provisions	105.4	9.4	3.0	69.8	8.5	196.1
Long-term provisions	\$ 4.1	\$ 23.0	\$ 0.2	\$ 1.4	\$ 9.5	\$ 38.2

22. Contingencies

Legal matters

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

The Bank is the subject of two class action proceedings regarding allegations that certain fees charged on the Bank-issued credit cards are not permitted under the Quebec Consumer Protection Act. The Bank has determined that it has a solid defense to both actions on the basis that banking and cost of borrowing disclosure are matters of exclusive federal jurisdiction. Accordingly, no provision has been made for amounts, if any, that would be payable in the event of an adverse outcome. If the court rules against the Company, the total aggregate exposure would be approximately \$28.3 million at December 28, 2013.

23. Short-term borrowings

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

24. Loans payable

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

Loans payable, which are initially recognized at fair value and are subsequently measured at amortized cost, are due within one year.

25. Long-term debt

Long-term debt includes the following:

(C\$ in millions)	2013		2012	
	Face value	Carrying amount	Face value	Carrying amount
Senior notes ¹				
Series 2006-2, 4.405%, May 20, 2014	\$ 238.7	\$ 238.6	\$ 238.7	\$ 238.7
Series 2008-1, 5.027%, February 20, 2013	-	-	600.0	599.5
Series 2010-1, 3.158%, November 20, 2015	250.0	249.3	250.0	249.0
Series 2012-1, 2.807%, May 20, 2017	200.0	199.2	200.0	199.0
Series 2012-2, 2.394%, October 20, 2017	400.0	398.4	400.0	398.0
Series 2013-1, 2.755%, November 20, 2018	250.0	248.6	-	-
Subordinated notes ¹				
Series 2006-2, 4.765%, May 20, 2014	13.9	13.9	13.9	13.9
Series 2008-1, 6.027%, February 20, 2013	-	-	34.9	34.9
Series 2010-1, 4.128%, November 20, 2015	14.6	14.6	14.6	14.6
Series 2012-1, 3.827%, May 20, 2017	11.6	11.6	11.6	11.6
Series 2012-2, 3.174%, October 20, 2017	23.3	23.3	23.3	23.3
Series 2013-1, 3.275%, November 20, 2018	14.6	14.6	-	-
Medium-term notes				
4.95% due June 1, 2015	300.0	299.7	300.0	299.6
5.65% due June 1, 2016	200.0	199.2	200.0	198.9
6.25% due April 13, 2028	150.0	149.5	150.0	149.4
6.32% due February 24, 2034	200.0	199.2	200.0	199.1
5.61% due September 4, 2035	200.0	199.2	200.0	199.2
Finance lease obligations	151.3	151.3	166.6	166.6
Promissory note	1.1	1.1	2.6	2.6
Total debt	\$ 2,619.1	\$ 2,611.3	\$ 3,006.2	\$ 2,997.9
Current	\$ 272.2	\$ 272.2	\$ 661.9	\$ 661.9
Non-current	2,346.9	2,339.1	2,344.3	2,336.0
Total debt	\$ 2,619.1	\$ 2,611.3	\$ 3,006.2	\$ 2,997.9

¹ Senior and subordinated notes are those of GCCT.

The carrying amount of long-term debt is net of debt issuance costs of \$7.2 million (2012 – \$7.7 million) and the benefit on the effective portion of the fair value hedges of \$0.6 million (2012 – \$0.6 million).

Senior and subordinated notes

Asset-backed series senior and subordinated notes issued by the Company are recorded at amortized cost using the effective interest method.

Subject to the payment of certain priority amounts, the series senior notes have recourse on a priority basis to the related series ownership interest. The series subordinated notes have recourse to the related series ownership interests on a subordinated basis to the series senior notes in terms of the priority of payment of principal and, in some circumstances, interest. The series notes, together with certain other permitted obligations of GCCT, are secured by the assets of GCCT. The entitlement of note holders and other parties to such assets is governed by the priority and payment provisions set forth in the GCCT Indenture and the related series supplements under which these series of notes were issued.

Repayment of the principal of the series 2006-2, 2010-1, 2012-1, 2012-2 and 2013-1 notes is scheduled to commence and be completed on the expected repayment dates indicated in the preceding table. Following repayment of principal owing, and in some circumstances interest, under the series senior notes, collections distributed to GCCT in respect of the related ownership interests will be applied to pay principal owing under series subordinated notes.

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

- the Bank failing to make required distributions to GCCT or failing to meet covenant or other contractual terms;
- the performance of the receivables failing to achieve set criteria; and
- insufficient receivables in the pool.

None of these events occurred in the year ended December 28, 2013.

Medium-term notes

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

Finance lease obligations

Finance leases relate to distribution centres, fixtures and equipment. The Company generally has the option to renew such leases or purchase the leased assets at the conclusion of the lease term. During 2013, interest rates on finance leases ranged from 0.8 per cent to 10.1 per cent. Remaining terms at December 28, 2013, were one to 156 months.

Finance lease obligations are payable as follows:

(C\$ in millions)	2013			2012		
	Future minimum lease payments	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments
Due in less than one year	\$ 27.9	\$ 9.1	\$ 18.8	\$ 34.5	\$ 9.6	\$ 24.9
Due between one year and two years	25.4	8.2	17.2	25.8	8.6	17.2
Due between two years and three years	21.0	7.3	13.7	23.3	7.8	15.5
Due between three years and four years	17.3	6.6	10.7	18.9	7.0	11.9
Due between four years and five years	15.4	6.0	9.4	15.2	6.4	8.8
More than five years	106.3	24.8	81.5	118.5	30.2	88.3
	\$ 213.3	\$ 62.0	\$ 151.3	\$ 236.2	\$ 69.6	\$ 166.6

Promissory notes

Promissory notes were issued as part of franchise acquisitions (Note 7.2). These notes are non-interest-bearing.

Debt covenants

The Company has provided covenants to certain of its lenders. The Company was in compliance with all of its covenants as at December 28, 2013.

26. Other long-term liabilities

(C\$ in millions)	2013	2012
Employee benefits (Note 27)	\$ 115.4	\$ 124.9
Deferred gains	21.3	24.2
Deferred revenue	14.3	18.3
Derivatives	-	0.2
Other	77.3	44.8
	\$ 228.3	\$ 212.4

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

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

27. Post-employment benefits

Profit-sharing plan for certain employees

The Company has a profit-sharing plan for certain of its employees. The amount awarded to employees is contingent on the Company's profitability. A portion of the award, ("Base Award"), is contributed to a DPSP for the benefit of the employees. The maximum amount of the Company's Base Award contribution to the DPSP per employee per year is subject to limits set by the Income Tax Act. Each participating employee is required to invest and maintain 10 per cent of the Base Award in a Company share fund of the DPSP. The share fund holds both Common Shares and Class A Non-Voting Shares. The Company's contributions to the DPSP in respect of each employee vest 20 per cent after one year of continuous service and 100 per cent after two years of continuous service.

In 2013, the Company contributed \$19.8 million (2012 – \$20.0 million) under the terms of the DPSP.

Defined benefit plan

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

(C\$ in millions)	2013	2012
Change in the present value of defined benefit obligation		
Defined benefit obligation, beginning of year	\$ 124.9	\$ 107.4
Current service cost	2.2	2.5
Interest cost	4.9	4.9
Actuarial loss arising from changes in demographic assumptions	4.1	(0.6)
Actuarial (gain) loss arising from changes in financial assumptions	(17.4)	8.3
Actuarial gain arising from experience adjustments	(0.3)	5.7
Benefits paid	(3.0)	(3.3)
Defined benefit obligation, end of year ¹	\$ 115.4	\$ 124.9

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

(C\$ in millions)	2013	2012
Components of non-pension post-retirement benefit cost		
Amounts recognized in net income:		
Current service cost	\$ 2.2	\$ 2.5
Interest cost	4.9	4.9
Total recognized in net income	\$ 7.1	\$ 7.4
Amount recognized in other comprehensive income:		
Actuarial loss arising from changes in demographic assumptions	\$ (4.1)	\$ 0.6
Actuarial gain (loss) arising from changes in financial assumptions	17.4	(8.3)
Actuarial gain arising from experience adjustments	0.3	(5.7)
Total recognized in other comprehensive income	\$ 13.6	\$ (13.4)

Significant actuarial assumptions used:

	2013	2012
Defined benefit obligation, end of year:		
Discount rate	4.90%	4.00%
Net benefit plan expense for the year:		
Discount rate	4.00%	4.50%

For measurement purposes, a 6.20 per cent weighted average health care trend rate is assumed for 2013 (2012 – 6.20 per cent). The rate is assumed to decrease gradually to 4.50 per cent for 2032 (2012 – decrease gradually to 4.50 per cent for 2032) and remain at that level thereafter.

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

The cumulative amount of actuarial losses before tax recognized in equity at December 28, 2013, was \$27.2 million (2012 – \$40.8 million).

Sensitivity analysis:

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

A one-percentage-point change in assumed health care cost trend rates would have the following effects for 2013:

(C\$ in millions)	Increase	Decrease
Total of current service and interest cost	\$ 0.4	\$ (0.4)
Accrued benefit obligation	8.2	(6.8)

A fifty basis point change in assumed discount rates would have the following effects for 2013:

(C\$ in millions)	Increase	Decrease
Total of current service and interest cost	\$ (0.1)	\$ 0.1
Accrued benefit obligation	(8.7)	9.8

A one year change in assumed life expectancy would have the following effects for 2013:

(C\$ in millions)	Increase	Decrease
Total of current service and interest cost	\$ 0.2	\$ (0.2)
Accrued benefit obligation	2.4	(2.4)

The weighted average duration of the defined benefit plan obligation at December 28, 2013 is 16.5 years (2012 – 17.5 years).

28. Share capital

(C\$ in millions)	2013	2012
Authorized		
3,423,366 Common Shares		
100,000,000 Class A Non-Voting Shares		
Issued		
3,423,366 Common Shares (2012 - 3,423,366)	\$ 0.2	\$ 0.2
76,560,851 Class A Non-Voting Shares (2012 - 77,720,401)	586.8	687.8
	\$ 587.0	\$ 688.0

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

During 2013 and 2012, the Company issued and repurchased Class A Non-Voting Shares. The net excess of the issue price over the repurchase price results in contributed surplus. The net excess of the repurchase price over the issue price is allocated first to contributed surplus, with any remainder allocated to retained earnings.

The following transactions occurred with respect to Class A Non-Voting Shares during 2013 and 2012:

(C\$ in millions)	2013		2012	
	Number	\$	Number	\$
Shares outstanding at beginning of the year	77,720,401	\$ 687.8	78,020,208	\$ 710.3
Issued				
Dividend reinvestment plan	63,903	5.4	69,545	4.6
Stock option plan	5,217	0.4	200	-
Employee Profit Sharing Plan	-	-	59,078	4.1
Dealer profit sharing plans	-	-	54,724	3.7
Repurchased	(1,228,670)	(105.9)	(483,354)	(33.1)
Excess of issue price over repurchase price	-	(0.9)	-	(1.8)
Shares outstanding at end of the year	76,560,851	\$ 586.8	77,720,401	\$ 687.8

Conditions of Class A Non-Voting Shares and Common Shares

The holders of Class A Non-Voting Shares are entitled to receive a preferential cumulative dividend at the rate of \$0.01 per share per annum. After payment of preferential cumulative dividends at the rate of \$0.01 per share per annum on each of the Class A Non-Voting Shares with respect to the current year and each preceding year and payment of a non-cumulative dividend on each of the Common Shares with respect to the current year at the same rate, the holders of the Class A Non-Voting Shares and the Common Shares are entitled to further dividends declared and paid in equal amounts per share without preference or distinction or priority of one shares over another.

In the event of the liquidation, dissolution or winding-up of the Company, all of the property of the Company available for distribution to the holders of the Class A Non-Voting Shares and the Common Shares shall be paid or distributed equally, share for share, to the holders of the Class A Non-Voting Shares and to the holders of the Common Shares without preference or distinction or priority of one shares over another.

The holders of Class A Non-Voting Shares are entitled to receive notice of and to attend all meetings of the shareholders; however, except as provided by the *Business Corporations Act* (Ontario) and as hereinafter noted, they are not entitled to vote at those meetings. Holders of Class A Non-Voting Shares, voting separately as a class, are entitled to elect the greater of (i) three Directors or (ii) one-fifth of the total number of the Company's Directors.

The holders of Common Shares are entitled to receive notice of, to attend and to have one vote for each Common Share held at all meetings of holders of Common Shares, subject only to the restriction on the right to elect those directors who are elected by the holders of Class A Non-Voting Shares as set out above.

Common Shares can be converted, at any time and at the option of each holder of Common Shares, into Class A Non-Voting Shares on a share-for-share basis. The authorized number of shares of either class cannot be increased without the approval of the holders of at least two-thirds of the shares of each class represented and voted at a meeting of the shareholders called for the purpose of considering such an increase. Neither the Class A Non-Voting Shares nor the Common Shares can be changed by way of subdivision, consolidation, reclassification, and exchange or otherwise unless at the same time the other class of shares is also changed in the same manner and in the same proportion.

Should an offer to purchase Common Shares be made to all or substantially all of the holders of Common Shares (other than an offer to purchase both Class A Non-Voting Shares and Common Shares at the same price and on the same terms and conditions) and should a majority of the Common Shares then issued and outstanding be tendered and taken up pursuant to such offer, the Class A Non-Voting Shares shall thereupon be entitled to one vote per share at all meetings of the shareholders and thereafter the Class A Non-Voting Shares shall be designated as Class A Shares.

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

As of December 28, 2013, the Company had dividends declared and payable to holders of Class A Non-Voting Shares and Common Shares of \$35.0 million (2012 – \$28.5 million) at a rate of \$0.4375 per share (2012 – \$0.35 per share).

On February 13, 2014 the Company's Board of Directors declared a dividend of \$0.4375 per share payable on June 1, 2014 to shareholders of record as of April 30, 2014.

Dividends per share declared were \$1.4875 in 2013 (2012 – \$1.25).

Dilutive effect of employee stock options is 528,391 (2012 – 370,376).

29. Share-based payments

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

The Company's share-based payment plans are described below. There were no cancellations or significant modifications to any of the plans during 2013.

Stock options

The Company has granted stock options to certain employees that enable such employees to exercise their stock options and subscribe for Class A Non-Voting Shares or receive a cash payment equal to the difference between the daily weighted average share price of the Company's Class A Non-Voting Shares on the exercise date and the exercise price of the stock option. The exercise price of each option equals the weighted average closing price of Class A Non-Voting Shares on the Toronto Stock Exchange for the 10-day period preceding the date of grant. Stock options granted prior to 2006 generally vested on a graduated basis over a four-year period and are exercisable over a term of 10 years. Stock options granted in 2006 and 2007 vested on a graduated basis over a three-year period and are exercisable over a term of seven years. Stock options granted from 2008 to 2011 generally vest on the third anniversary of their grant and are exercisable over a term of seven years. Stock options granted in 2012 and 2013 generally vest on a graduated basis over a three-year period and are exercisable over a term of seven years. At December 28, 2013, approximately 2.0 million Class A Non-Voting Shares were issuable under the stock option plan.

Compensation expense, net of hedging arrangements, recorded for stock options for the year ended December 28, 2013, was \$15.4 million (2012 – \$9.5 million).

Stock option transactions during 2013 and 2012 were as follows:

	2013		2012	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at beginning of year	2,406,383	\$ 60.62	2,563,916	\$ 55.22
Granted	737,209	69.13	742,802	63.76
Exercised and surrendered	(1,012,039)	58.91	(744,620)	44.31
Forfeited	(121,631)	66.36	(155,715)	64.81
Expired	(23,568)	63.71	-	-
Outstanding at end of year	1,986,354	\$ 64.26	2,406,383	\$ 60.62
Stock options exercisable at end of year	479,363		876,505	

¹The weighted average market price of the Company's shares when the options were exercised in 2013 was \$83.50 (2012 - \$67.28).

The following table summarizes information about stock options outstanding and exercisable at December 28, 2013:

Range of exercise prices	Options outstanding			Options exercisable	
	Number of outstanding options	Weighted average remaining contractual life ¹	Weighted average exercise price	Number exercisable at December 28 2013	Weighted average exercise price
\$ 71.90 to 84.53	79,253	0.63	\$ 73.44	73,708	\$ 72.61
66.04 to 69.01	711,311	6.17	68.97	2,706	66.04
63.67 to 63.67	531,563	5.20	63.67	108,290	63.67
62.30 to 63.42	457,416	3.59	62.51	89,684	63.39
40.04 to 56.71	206,811	2.86	49.90	204,975	49.87
\$ 40.04 to 84.53	1,986,354	4.75	\$ 64.26	479,363	\$ 59.11

¹Weighted average remaining contractual life is expressed in years.

Performance share unit plans

The Company grants performance share units ("PSUs") to certain employees. Each PSU entitles the participant to receive a cash payment in an amount equal to the weighted average share price of Class A Non-Voting Shares traded on the Toronto Stock Exchange during the 10 calendar day period commencing on the first business day after the last day of the performance period, multiplied by a factor determined by specific performance-based criteria. The performance period of each plan is approximately three years from the date of issuance. Compensation expense, net of hedging arrangements, recorded for these PSUs for the year ended December 28, 2013, was \$27.0 million (2012 – \$20.1 million).

Deferred share unit plans

Directors

The Company offers a Deferred Share Unit Plan ("DSUP") for members of the Board of Directors. Under this plan, each director may elect to receive all or a percentage of his or her annual compensation, which is paid quarterly, in the form of notional Class A Non-Voting Shares of the Company called deferred share units ("DSUs"). The issue price of each DSU is equal to the weighted average share price at which Class A Non-Voting Shares of the Company trade on the Toronto Stock Exchange during the 10 calendar day period prior to and including the last business day of the calendar quarter in which the DSU is issued. The DSU account of each director includes the value of dividends, if any, as if reinvested in additional DSUs. The director is not permitted to convert DSUs into cash until retirement. The value of the DSUs when converted to cash will be equivalent to the market value of the Class A Non-Voting Shares at the time the conversion takes place pursuant to the DSUP details. Compensation expense recorded for the year ended December 28, 2013, was \$2.4 million (2012 – \$0.4 million).

Executives

The Company also offers a DSUP for certain executives. Under this plan, executives may elect to receive all or a percentage of their annual bonus in the form of DSUs. The issue price of each DSU is equal to the weighted average share price at which Class A Non-Voting Shares of the Company trade on the Toronto Stock Exchange during the five business days prior to the tenth business day following the release of the Company's financial statements for the year in respect of which the annual bonus was earned. The DSU account for each employee includes the value of dividends, if any, as if reinvested in additional DSUs. The executive is not permitted to convert DSUs into cash until his or her departure from the Company. The value of the DSUs when converted to cash will be equivalent to the market value of the Class A Non-Voting Shares at the time the conversion takes place pursuant to the DSUP details. Compensation expense recorded for the year ended December 28, 2013, was \$0.6 million (2012 – \$0.1 million).

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

	2013		2012	
	Stock options	PSUs	Stock options	PSUs
Share price at end of year (C\$)	\$99.84	\$99.84	\$69.11	\$69.11
Weighted average exercise price ¹ (C\$)	\$64.18	N/A	\$60.53	N/A
Expected remaining life (years)	4.7	1.2	3.3	1.2
Expected dividends	1.8%	2.2%	2.3%	3.1%
Expected volatility	26.9%	21.8%	25.2%	19.8%
Risk-free interest rate	2.0%	1.3%	1.5%	1.3%

¹Reflects expected forfeitures.

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

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

(C\$ in millions)	2013		2012	
Expense arising from share-based payment transactions	\$	99.6	\$	34.2
Effect of hedging arrangements		(54.2)		(4.1)
Total expense included in net income	\$	45.4	\$	30.1

The total carrying amount of liabilities for share-based payment transactions at December 28, 2013, was \$122.2 million (2012 – \$66.0 million).

The intrinsic value of the liability for vested benefits at December 28, 2013, was \$29.4 million (2012 – \$13.9 million).

30. Revenue

(C\$ in millions)	2013		2012	
Sale of goods	\$	10,305.9	\$	10,005.8
Interest income on loans receivable		754.1		707.2
Services rendered		362.2		361.3
Royalties and licence fees		349.4		340.3
Rental income		14.0		12.6
	\$	11,785.6	\$	11,427.2

Major customers

The Company does not have reliance on any one customer.

31. Cost of producing revenue

(C\$ in millions)	2013	2012
Inventory cost of sales	\$ 7,678.0	\$ 7,545.3
Net impairment loss on loans receivable	262.2	261.2
Finance costs on deposits	65.2	72.5
Other	57.9	50.3
	\$ 8,063.3	\$ 7,929.3

Inventory writedowns as a result of net realizable value being lower than cost, recognized in the year ended December 28, 2013, were \$76.9 million (2012 – \$82.6 million).

Inventory writedowns recognized in previous periods and reversed in the year ended December 28, 2013, were \$21.2 million (2012 – \$17.3 million). The reversal of writedowns was the result of actual losses being lower than previously estimated.

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

32. Operating expenses by nature

(C\$ in millions)	2013	2012
Personnel expenses	\$ 1,019.9	\$ 988.3
Occupancy	589.8	571.6
Marketing and advertising	378.1	341.0
Depreciation of property and equipment and investment property	253.8	248.9
Amortization of intangible assets	91.5	86.2
Other	495.8	464.6
	\$ 2,828.9	\$ 2,700.6

33. Finance income and finance costs

(C\$ in millions)	2013	2012
Finance income		
Tax instalments	\$ 0.1	\$ 0.1
Mortgages	7.7	8.2
Short- and long-term investments	10.7	8.4
Other	1.6	1.4
Total finance income	\$ 20.1	\$ 18.1
Finance costs		
Subordinated and senior notes	\$ 41.3	\$ 57.4
Medium-term notes	59.2	59.2
Loans payable	13.2	13.5
Finance leases	9.9	10.9
Short-term borrowings	1.4	3.1
Other ¹	4.7	4.0
	129.7	148.1
Less: Capitalized borrowing costs	3.8	3.8
Total finance costs	\$ 125.9	\$ 144.3
Net finance costs	\$ 105.8	\$ 126.2

¹Includes \$1.7 million of amortization of debt issuance costs (2012 – \$2.1 million).

34. Notes to the consolidated statements of cash flows

Changes in operating working capital and other comprise the following:

(C\$ in millions)	2013	2012
Change in operating working capital		
Trade and other receivables	\$ 68.4	\$ 77.4
Merchandise inventories	80.3	(41.5)
Income taxes	(1.8)	1.4
Prepaid expenses and deposits	(27.7)	5.8
Trade and other payables	147.8	(65.3)
Total	267.0	(22.2)
Change in other		
Provisions	8.8	(8.4)
Long-term provisions	(14.0)	(8.0)
Other long-term liabilities	8.4	8.8
Total	3.2	(7.6)
Changes in operating working capital and other	\$ 270.2	\$ (29.8)

Supplementary information

During the year ended December 28, 2013, the Company acquired property and equipment and investment property at an aggregate cost of \$426.3 million (2012 – \$268.5 million). During the year ended December 28, 2013, intangible assets were internally developed or acquired at an aggregate cost of \$117.8 million (2012 – \$66.3 million).

The amount related to property and equipment and investment property acquired that is included in trade and other payables at December 28, 2013, is \$60.0 million (2012 – \$47.6 million). The amount related to intangible assets that is included in trade and other payables at December 28, 2013, is \$17.3 million (2012 – \$5.4 million).

During the year ended December 28, 2013, the Company also included in the property and equipment, investment property and intangible assets acquired non-cash items relating to finance leases, asset retirement obligations and capitalized interest in the amount of \$9.6 million (2012 – \$25.1 million).

35. Financial instruments

35.1 Fair value of financial instruments

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

The carrying amount of the Company's cash and cash equivalents, trade and other receivables, loans receivable, bank indebtedness, trade and other payables, short-term borrowings and loans payable approximate their fair value either due to their short-term nature or because they are derivatives.

The carrying amount of the Company's long-term receivables and other assets approximates their fair value either because the interest rates applied to measure their carrying amount approximate current market interest or because they are derivatives.

Fair values of financial instruments reflect the credit risk of the Company and counterparties when appropriate.

Investments in equity and debt securities

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

Derivatives

The fair value of a forward exchange contract is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

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

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

The fair value measurement of debt and deposits is categorized within Level 2 of the fair value hierarchy (see Note 35.3). The fair values of the Company's debt and deposits compared to the carrying amounts are as follows:

(C\$ in millions)	December 28, 2013		December 29, 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Liabilities carried at amortized cost				
Debt	\$ 2,611.3	\$ 2,707.4	\$ 2,997.9	\$ 3,162.5
Deposits	\$ 2,330.4	\$ 2,341.4	\$ 2,422.8	\$ 2,453.5

The difference between the fair values and the carrying amounts (excluding transaction costs, which are included in the carrying amount of debt) is due to decreases in market interest rates for similar instruments. The fair values are determined by discounting the associated future cash flows using current market interest rates for items of similar risk.

Cash flows from cash flow hedges are expected to flow over the next 16 months and are expected to be recognized in net income over the period ending in November 2015 subject to review at each reporting year-end.

35.2 Items of income, expense, gains or losses

The following table presents certain amounts of income, expense, gains or losses arising from financial instruments that were recognized in net income or equity:

(C\$ in millions)	2013	2012
Net gain (loss) on:		
Financial instruments designated at FVTPL	\$ 0.7	\$ 0.7
Financial instruments classified as HFT ¹	36.6	2.2
Gain on AFS financial assets recognized in other comprehensive income	0.1	0.5
Gain on AFS financial assets reclassified to net income	-	2.2
Interest income (expense):		
Total interest income calculated using effective interest method for financial instruments that are not at FVTPL	772.3	724.8
Total interest expense calculated using effective interest method for financial instruments that are not at FVTPL	(191.8)	(213.4)

¹Excludes gains (losses) on foreign exchange contracts.

35.3 Fair value of financial assets and financial liabilities classified using the fair value hierarchy

The Company uses a fair value hierarchy to categorize the inputs used to measure the fair value of financial assets and financial liabilities, the levels of which are:

Level 1 – Inputs are unadjusted quoted prices of identical instruments in active markets.

Level 2 – Inputs are other than quoted prices included in Level 1 but are observable for the asset or liability, either directly or indirectly.

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

The following table presents the financial instruments measured at fair value classified by the fair value hierarchy:

(C\$ in million)		2013		2012	
Balance sheet line	Category	Level		Level	
Short-term investments	Fair value through profit & loss	2	\$ 211.9	2	\$ 9.4
Short-term investments	Available for sale	2	204.7	2	159.5
Long-term investments	Fair value through profit & loss	2	7.6	2	7.3
Long-term investments	Fair value through profit & loss	3	-	3	-
Long-term investments	Available for sale	2	127.1	2	175.4
Trade and other receivables	Derivatives	2	72.9	2	6.5
Long-term receivables and other assets	Derivatives	2	40.3	2	4.4
Trade and other payables	Derivatives	2	-	2	13.1
Other long-term liabilities	Derivatives	2	-	2	0.2

Changes in fair value measurement for instruments categorized in Level 3

Level 3 financial instruments include asset-backed commercial paper. The following table presents the changes in fair value measurements for these instruments:

(C\$ in millions)	2013	2012
Balance, beginning of year	\$ -	\$ 6.6
Fair value gains, net of losses, recognized in net income ¹	-	0.7
Transfer out of Level 3 ²	-	(7.3)
Balance, end of year	\$ -	\$ -

¹ Reported in other income in the consolidated statements of income.

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

There were no transfers in either direction between categories in 2013.

36. Operating leases

The Company as lessee

The Company leases a number of retail stores, distribution centers, petroleum sites, facilities and office equipment under operating leases with termination dates extending to 2062. Generally, the leases have renewal options, primarily at the Company's option.

The annual lease payments for property and equipment under operating leases are as follows:

(C\$ in millions)	2013	2012
Less than one year	\$ 322.9	\$ 306.1
Between one and five years	992.8	930.0
More than five years	862.4	896.6
	\$ 2,178.1	\$ 2,132.7

The amounts recognized as an expense are as follows:

(C\$ in millions)	2013	2012
Minimum lease payments	\$ 309.5	\$ 296.6
Contingent rent	3.5	4.5
Sublease payments received	(36.0)	(38.2)
	\$ 277.0	\$ 262.9

Due to the redevelopment or replacement of existing properties, certain leased properties are no longer needed for business operations. Where possible, the Company subleases these properties to third parties, receiving sublease payments to reduce costs. In addition, the Company has certain premises where it is on the head lease and subleases the property to franchisees. The total future minimum sub-lease payments expected to be received under these non-cancellable subleases were \$99.8 million as at December 28, 2013 (2012 – \$103.3 million). The Company has recognized a provision of \$3.1 million (2012 – \$4.4 million) with respect to these leases (Note 21).

The Company as lessor

The Company leases out a number of its investment properties, and has certain sublease arrangements, under operating leases (Note 15), with lease terms between one to 20 years, and a majority of them have an option to renew after the expiry date.

The lessee does not have an option to purchase the property at the expiry of the lease period.

The future annual lease payments receivable from lessees under non-cancellable leases are as follows:

(C\$ in millions)	2013	2012
Less than one year	\$ 26.9	\$ 26.9
Between one and five years	92.3	84.2
More than five years	46.3	62.2
	\$ 165.5	\$ 173.3

37. Guarantees and commitments

Guarantees

In the normal course of business, the Company enters into numerous agreements that may contain features that meet the definition of a guarantee. A guarantee is defined to be a contract (including an indemnity) that contingently requires the Company to make payments to the guaranteed party based on (i) changes in an underlying interest rate, foreign exchange rate, equity or commodity instrument, index or other variable that is related to an asset, a liability or an equity security of the counterparty; (ii) failure of another party to perform under an obligating agreement; or (iii) failure of a third party to pay its indebtedness when due.

The Company has provided the following significant guarantees and other commitments to third parties:

Standby letters of credit

Franchise Trust, a legal entity sponsored by a third-party bank, originates loans to Dealers for their purchase of inventory and fixed assets. While Franchise Trust is consolidated as part of these financial statements, the Company has arranged for several major Canadian banks to provide standby LCs to Franchise Trust to support the credit quality of the Dealer loan portfolio. The banks may also draw against the LCs to cover any shortfalls in certain related fees owing to it. In any case where a draw is made against the LCs, the Company has agreed to reimburse the banks issuing the standby LCs for the amount so drawn. The Company has not recorded any liability for these amounts due to the credit quality of the Dealer Loans and to the nature of the underlying collateral represented by the inventory and fixed assets of the borrowing Dealers. In the unlikely event that all the LCs had been fully drawn simultaneously, the maximum payment by the Company under this reimbursement obligation would have been \$170.4 million at December 28, 2013 (2012 – \$164.0 million).

Business and property dispositions

In connection with agreements for the sale of all or a part of a business or property and in addition to indemnifications relating to failure to perform covenants and breach of representations and warranties, the Company has agreed to indemnify the purchasers against claims from its past conduct, including environmental remediation. Typically, the term and amount of such indemnification will be determined by the parties in the agreements. The nature of these indemnification agreements prevents the Company from estimating the maximum potential liability it would be required to pay to counterparties. Historically, the Company has not made any significant indemnification payments under such agreements, and no amount has been accrued in the consolidated financial statements with respect to these indemnification agreements.

Lease agreements

The Company has entered into agreements with certain of its lessors that guarantee the lease payments of certain sublessees of its facilities to lessors. Generally, these lease agreements relate to facilities the Company has vacated prior to the end of the term of its lease. These lease agreements require the Company to make lease payments throughout the lease term if the sublessee fails to make the scheduled payments. These lease agreements have expiration dates through January 2016. The Company has also guaranteed leases on certain franchise stores in the event the franchisees are unable to meet their remaining lease commitments. These lease agreements have expiration dates through January 2016. The maximum amount that the Company may be required to pay under these agreements was \$9.4 million (2012 – \$6.2 million), except for five lease agreements for which the maximum amount cannot be reasonably estimated. In addition, the Company could be required to make payments for percentage rents, realty taxes and common area costs. No amount has been accrued in the consolidated financial statements with respect to these lease agreements.

Third-party financial guarantees

The Company has guaranteed the debts of certain Dealers. These third-party financial guarantees require the Company to make payments if the Dealer fails to make scheduled debt payments. The majority of these third-party financial guarantees have expiration dates extending up to and including June 28, 2014. The maximum amount that the Company may be required to pay under these debt agreements was \$50.0 million (2012 – \$50.0 million), of which \$38.3 million (2012 – \$40.3 million) was issued at December 28, 2013. No amount has been accrued in the consolidated financial statements with respect to these debt agreements.

Indemnification of lenders and agents under credit facilities

In the ordinary course of business, the Company has agreed to indemnify its lenders under various credit facilities against costs or losses resulting from changes in laws and regulations that would increase the lenders' costs and from any legal action brought against the lenders related to the use of the loan proceeds. These indemnifications generally extend for the term of the credit facilities and do not provide any limit on the maximum potential liability. Historically, the Company has not made any significant indemnification payments under such agreements, and no amount has been accrued in the consolidated financial statements with respect to these indemnification agreements.

Other indemnification commitments

In the ordinary course of business, the Company provides other additional indemnification commitments to counterparties in transactions such as leasing transactions, service arrangements, investment banking agreements, securitization agreements, indemnification of trustees under indentures for outstanding public debt, director and officer indemnification agreements, escrow agreements, price escalation clauses, sales of assets (other than dispositions of businesses discussed above) and the arrangements with Franchise Trust discussed above. These additional indemnification agreements require the Company to compensate the counterparties for certain amounts and costs incurred, including costs resulting from changes in laws and regulations (including tax legislation) or as a result of litigation claims or statutory sanctions that may be suffered by a counterparty as a consequence of the transaction.

The terms of these additional indemnification agreements vary based on the contract and do not provide any limit on the maximum potential liability. Historically, the Company has not made any significant payments under such additional indemnifications, and no amount has been accrued in the consolidated financial statements with respect to these additional indemnification commitments.

The Company's exposure to credit risks related to the above noted guarantees and commitments are disclosed in Note 5.

Other commitments

As at December 28, 2013, the Company had other commitments. The Company has not recognized any liability relating to these commitments:

The Company has obtained documentary and standby letters of credit aggregating \$41.8 million (2012 – \$24.0 million) relating to the importation of merchandise inventories and to facilitate various real estate activities.

The Company has entered into agreements to buy back franchise-owned merchandise inventory should the banks foreclose on any of the franchisees. The terms of the guarantees range from less than a year to the lifetime of the particular underlying franchise agreement. The Company's maximum exposure as at December 28, 2013, was \$68.5 million (2012 – \$70.0 million).

The Company has committed to pay \$9.1 million (2012 – \$9.2 million) for various commitments and contingent liabilities, including a customs bond and the obligation to buy back two franchise stores.

The Company has committed to pay \$18.8 million (2012 – \$41.4 million) in total to third parties for credit card processing and information technology services mainly in support of the Company's credit card and retail banking services for periods up to 2017.

38. Related parties

The Company's majority shareholder is Ms. Martha G. Billes, who controls approximately 61 per cent of the Common Shares of the Company through two privately held companies, Tire 'N' Me Pty. Ltd. and Albikin Management Inc.

The Company has related-party relationships with members of the Board of Directors, key management personnel and other entities over which they exercise control. Key management personnel include the Board of Directors, the Company's Chief Executive Officer, President, Chief Financial Officer and certain other senior officers. Close family members of these key management personnel, members of the Board of Directors and any entities over which they exercise control are also defined as related parties. Transactions with members of the Company's Board of Directors who were also Dealers represented less than one per cent of the Company's total revenue and were in accordance with established Company policy applicable to all Dealers. Other transactions with related parties during the year were not significant.

Key management personnel compensation, including Directors' fees recorded comprises:

(C\$ in millions)	2013		2012
Salaries and short-term employee benefits	\$	12.8	\$ 11.8
Share-based payments		37.2	11.1
Other long-term benefits		1.9	1.8
	\$	51.9	\$ 24.7

39. Comparative figures

Certain of the prior year figures have been restated to correspond to the current year presentation or as a result of the retrospective implementation of IAS 19 – *Employment Benefits*. Further details are provided in Note 2 under Post-employment benefits.