The power of the triangle

Canadian Tire
Annual Report
2009

Everyday living in Canada is everything to us. It is at the heart of our business model and our deep-rooted customer relationships. It also inspires our corporate aspirations:

1. **To remain one of the most respected and trusted brands in Canada**
2. **To establish and sustain long-term earnings growth and deliver shareholder value**
3. **To meet customer expectations every day**
4. **To have a performance-driven, customer-focused culture**

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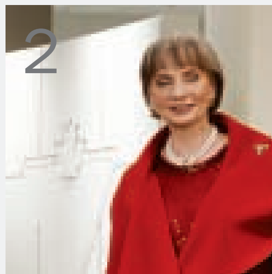

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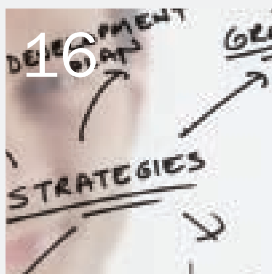

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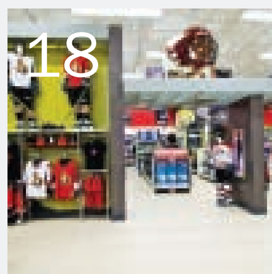

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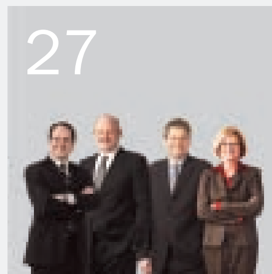

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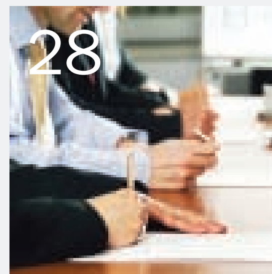

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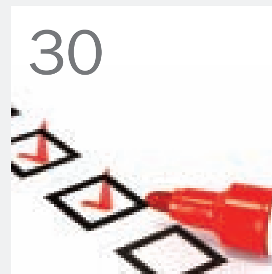

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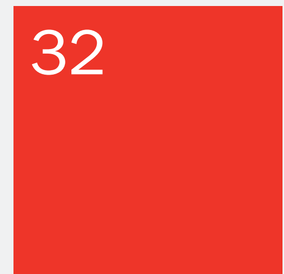

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The power
of the triangle

Cover: **CTR Dealer, Elwin Derbyshire,** is shown on the cover helping customers at his 83,000 square foot Kingston, Ontario store, the largest store in our network. Elwin, a long-time member of the Canadian Tire family, has consistently delivered exceptional customer service with a focus on innovation, and was recognized with the Canadian Tire Dealer Award of Excellence in 2001 (see page 26 for 2009 winners).

Strengthening the core

Canadian Tire Corporation offers goods and services that meet life's everyday needs. We are a proud Canadian company employing 58,000 people under one of the nation's most-trusted brands, the iconic red triangle.

Canadian Tire is now channeling efforts behind its core business – Canadian Tire Retail – as the main engine of growth. Armed with one of Canada's largest and newest store networks and near-universal brand awareness, we are focused on delivering excellence in value, customer service and innovation.

Canadian Tire Retail

Canadian Tire Retail (CTR) is Canadian Tire's core business and one of Canada's most-shopped general merchandise retailers with 479 stores across the country serving over 180 million customers a year. CTR is the Canadian market leader in each of its three main product divisions: Automotive, Home and Leisure. CTR stores are operated by Dealers who are independent business owners.

Key facts:

- Canadian Tire consistently ranks among the top 10 brands in Canada
- CTR stores are conveniently located to serve more than 90 per cent of the population
- 50–60 per cent of Canadians shop in CTR stores every month; 90 per cent every year
- 67 per cent of CTR's 19 million sq. ft. of retail selling space is new or was retrofitted in the last five years

Canadian Tire Automotive

Automotive is the cornerstone of the Canadian Tire brand and one of our most significant future growth areas. We have combined our automotive strengths and resources – including PartSource®, Petroleum, CTR auto service bays, hard parts, accessories, service centres and tires – with a single strategic focus and leadership. Together, they will extend our market leadership and create opportunities that no single entity could achieve on its own.

Canadian Tire Petroleum (Petroleum) is one of Canada's largest independent gasoline retailers with 272 agent-operated gas bars, 267 convenience stores and kiosks and 73 car washes. Petroleum builds customer loyalty by distributing Canadian Tire 'Money'® to use in CTR stores and supports the growth of Financial Services credit cards.

PartSource is a chain of 26 franchise and 61 corporate specialty automotive stores staffed by experts catering to serious do-it-yourselfers and professional installers. By enhancing our breadth of capabilities and reaching a broader spectrum of automotive customers, PartSource plays a critical role in reinvigorating our focus on the automotive sector.

Key facts:

- 5,500 CTR auto service bays
- Canadian Tire is Canada's #1 automotive aftermarket company
- Over one-third of Petroleum's gas bars are new or have been upgraded in the last three years
- Canadian Tire pumps double the industry average in gasoline per site
- Petroleum distributes approximately $35 million annually in Canadian Tire 'Money' redeemable only at CTR
- 31 per cent of gas from Petroleum locations is purchased on Canadian Tire credit cards
- 87 PartSource stores, including 10 larger hub stores
- Up to 35,000 in-stock, nationally branded auto parts at PartSource

Canadian Tire Financial Services

Canadian Tire Financial Services® (Financial Services) offers Canadian Tire branded credit cards, personal loans, lines of credit, insurance and warranty products, as well as guaranteed investment certificates (GICs) and high-interest and tax-free savings accounts. It manages Canada's third largest MasterCard® franchise.

Key facts:

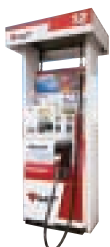
- One in five Canadian households has a Canadian Tire credit card
- More than five million Canadian Tire MasterCards are in circulation
- All Options® MasterCards include PayPass® technology[1]
- More than $92 million of Canadian Tire 'Money' on the card is distributed annually, redeemable only in CTR stores

Mark's Work Wearhouse

Mark's Work Wearhouse® (Mark's), known as L'Équipeur® in Quebec, is one of Canada's leading apparel retailers with 378 stores across Canada. Under the Clothes That Work® banner, Mark's sells men's and women's work, work-related, casual and active-wear clothing and footwear as well as health care and business-to-business apparel.

Key facts:

- Mark's is the largest industrial apparel and footwear retailer and the second largest casual pants and jeans retailer in Canada[2]
- Seventh largest seller of women's wear in Canada[2]
- Women's accessories and women's health care wear led growth categories in 2009
- Over 75 per cent of Mark's products are private-label
- 52 Mark's stores are co-located with CTR stores



For more information about Canadian Tire Corporation, visit our website at http://corp.canadiantire.ca/en/aboutus

[1] MasterCard and PayPass are registered trademarks of MasterCard International Incorporated. Used under licence.
[2] Data is based on 2008 Trendex report.

2009 highlights

Strongest financial position in a decade
Despite a year that was impacted by unseasonable weather and a challenging economy, Canadian Tire is in its strongest financial position in a decade, with successful credit management initiatives that are outpacing the rest of the financial services industry, reduced capital expenditures, tightly controlled costs, improved liquidity, retirement of long-term debt and good access to capital.

The challenging market conditions affected Canadian Tire's performance in 2009 and led to an increase in loan losses at Financial Services; however, the Company achieved its number one priority of successfully managing through uncertain times, focused on margin performance, optimizing capital expenditures, retiring expensive debt and lowering on-hand inventory at CTR.

($ in millions, except per share amounts)	**2009** [1]	2008 [2]	% change
Consolidated			
Retail sales	**$ 10,020.9**	$ 10,614.4	(5.6)%
Gross operating revenue	**8,686.5**	9,121.3	(4.8)%
Earnings before income taxes	**479.2**	543.0	(11.8)%
EBITDA	**873.7**	891.8	(2.0)%
Net earnings	**335.0**	375.4	(10.8)%
Cash generated from operating activities before changes in other working capital components	**694.7**	588.4	18.1%
Cash generated from operating activities	**418.8**	181.5	130.7%
Capital expenditures[3]	**273.1**	471.9	(42.1)%
Dividends paid	**68.7**	66.4	3.5%
Per share			
Net and diluted earnings	**$ 4.10**	$ 4.60	(10.9)%
Cash generated from operating activities before changes in other working capital components	**8.51**	7.21	18.1%
Cash generated from operating activities	**5.13**	2.22	130.7%
Dividends declared	**0.84**	0.84	0.0%
Shareholders' equity	**45.19**	43.69	3.4%
Weighted average number of shares outstanding (thousands)	**81,679**	81,518	
Ratios			
Adjusted earnings before income taxes as a percentage of gross operating revenue (%)	**5.7%**	6.3%	
Financial Services return on average total managed portfolio[4] (%)	**3.6%**	5.0%	
Retail return on invested capital[5] (%)	**7.7%**	8.9%	

[1] Results reflect a 52 week period for the year compared to 53 weeks for the year in 2008.
[2] 2008 figures have been restated for the implementation, on a retrospective basis, of CICA HB 3064 – Goodwill and Intangible Assets and the amendments to CICA HB 1000 – Financial Statement Concepts.
[3] Capital expenditures include fixed and software intangible assets, presented on an accrual basis.
[4] Calculated as earnings before income taxes as a percentage of Gross Average Receivables and excludes securitization activities, costs associated with the sale of the mortgage portfolio and gain (loss) on disposal of assets.
[5] Retail return on invested capital excludes Financial Services and capitalized operating leases and has been calculated using adjusted earnings, which excludes the impact of various non-operating items.

[1] Compounded annual growth rate

Message from the Chairman

Maureen J. Sabia
Chairman of the Board

What a delight it is for me to contemplate the theme of this Annual Report – the Power of the Triangle.

The word "power" is an interesting one. It is defined in a number of relevant ways. It means the ability to do or act. It means vigour and energy, influence and authority. All of these meanings are apposite to Canadian Tire and its familiar icon.

It has been my good fortune to have had a long history with Canadian Tire, but I have not before felt the sense of excitement about our future that I am experiencing now.

Our strategy is built around the Power of the Triangle. We are thinking very hard about where that power can take us. Yes, we have to make sure that our foundation or our core is as sound as it can be, and we are working diligently to make it so, but we are now daring to explore how far the immense faith our customers have in the Triangle can take us. And that is very exciting. Building on our strengths, we intend to exploit every opportunity to ensure that Canadian Tire is the "go to" place for the everyday needs of Canadians. Everyday living in Canada is everything to us.

We believe in the importance of what we do and in the role we play in peoples' lives.

To this end, Stephen Wetmore has put together a vastly restructured management team intent on high performance and accountability, intent on strengthening our brand, intent on productivity and innovation, intent on customer service and on communication, and intent on our relationship with our dealers, all of which is designed to improve faith in, and the success of, the triangle.

The Board of Directors has played a significant role in the development of our strategy and monitors its implementation at each and every board meeting. Management worked with the Board over several meetings, drawing on the knowledge and expertise of its members to develop our strategy.

My colleagues and I have been greatly impressed by the rigour with which the CEO and his management are going about this task. Our strategy does not merely reflect short term thinking, but is designed to ensure the sustainability, growth and success of our enterprise for many, many years to come. It is a strategy for the long term.

Our strategic aspirations are to strengthen the Canadian Tire brand for sustainable growth; to improve the performance of each of our strategic business units, while ensuring that they reinforce the core retail business; to develop a high-performing organization that supports the future evolution of the Corporation; and, over time, to build on the core Canadian Tire brand and enhance our capabilities in order to position us to exploit new avenues of growth. We are confident that these are the correct aspirations for Canadian Tire and we are confident that under Stephen Wetmore's leadership we will achieve them.

In the nineties, in response to the arrival in Canada of some very strong competitors, Canadian Tire began to rebuild its store network, making it one of the most modern networks of stores in North America. Doing so was a large part of the reason why we were able to compete so successfully for market share. But life evolves and it is now time for us to put our emphasis on knowing our customers better and responding to their needs. Customer service, in all its manifestations, will be our focus. Canadian Tire's track record of being a responsive organization is clear. We intend to demonstrate that yet again with our renewed priority on the customer experience.

We will also be very focused on achieving a better return on invested capital for our retail businesses, in effect, getting more from our existing assets. And we will refocus on our automotive business. This Company had its beginnings in that business, our two founders selling tires and servicing cars.

I would like to comment now on a few other matters.

Canadian Tire is well known for its commitment to the best in governance practices. We intend to continue and continually enhance that commitment. But we remain convinced that boards of directors should continue to bear the responsibilities that our current corporate model demands of them.

We are certainly aware of the shareholder initiatives that are being discussed currently. Many of these have merit. At Canadian Tire we believe that we must consider these initiatives as a whole, and not react to them on an ad hoc basis. It is our intention to study these initiatives and develop a policy that works for the Corporation and is responsive to the fundamental concerns of our shareholders. We will publish that policy which will include our reasons for adopting, or not, these initiatives.

Canadian Tire has an independent-minded Board, dedicated to serving our shareholders and their interests. Our Board members have a well-honed understanding of our businesses, a disciplined approach to compensation issues, succession and risk management. We are vigilant about hiring and retaining skilled executives. In short, we know our Company and are committed to our strategy for returning value to our shareholders. We believe that a skilled and committed Board is the best assurance shareholders can have.

Our Board and management have taken a unique approach to "sustainability" issues. For us at Canadian Tire, sustainability is a business issue and we see it as another aspect of our strategy. Management is establishing metrics to measure performance accurately each quarter and will report against those metrics as part of our quarterly financial results. Sustainability is an important issue, but it often gets marginalized. Not so at Canadian Tire. We have a full time executive to drive it from management's perspective and the Board's Social Responsibility Committee guides and oversees Canadian Tire's sustainability initiatives.

The Board and management are aligned in their view that we must balance our responsibilities to the communities in which we operate with our responsibility to our shareholders to operate a strong and profitable company.

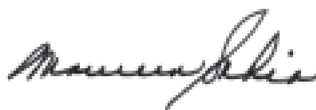
I would be remiss if I did not express, on behalf of my fellow directors, our appreciation to management for all that they have accomplished during the past year. Stephen Wetmore's leadership, his candour with the Board, his commitment to enhancing the power of our brand, and his relentless pursuit of building a high performance organization based on knowing our customers and serving their needs has commanded our utmost respect.

In June of 2009, the Board invited Peter Saunders to join the Board of Directors, to fill the vacancy left by the departure of Suzanne Perles. Peter brings his enormous retailing experience, both Canadian and international, to us and is making a very significant contribution to Canadian Tire and its Board. We thank Sue for her dedication over the several years she served as a director.

2010 will mark a milestone in the life of Martha Billes, as it will mark her thirtieth year as a member of the Board. Martha is an exemplary director, passionately committed to the best in governance practices and wholly determined to work through her Board of Directors. Martha takes great care to ensure that the Corporation has a strong, independent-minded group of directors. And as Chairman of Canadian Tire's Jumpstart™ Charities, she has led the way towards helping over 216,000 disadvantaged children get a jumpstart on a better life since inception of the Jumpstart program.

It only remains for me to express my gratitude to my colleagues on the Board for their wisdom, and the hard work and commitment to the Tire that they have demonstrated over the past year. In my experience there are very few Boards of Directors, if any, who work harder than your Board of Directors.

Canadian Tire's strategy is a carefully honed one. The achievement of it will only be reached by effort, but it will assure endless possibilities for an exciting future.



Maureen J. Sabia
Chairman of the Board

Message from the President and Chief Executive Officer

Stephen G. Wetmore
President and CEO

Without a doubt, our greatest single asset is the Canadian Tire brand.

It takes a long time, and the efforts of many, to build something that evokes the emotion of our red triangle. It is our responsibility to preserve that brand equity and also to do whatever it takes to ensure its development. Quite simply, our pursuit of future growth avenues and long-term performance depends on our ability to ensure that every customer experience lives up to our own high standards expected of our brand. A customer experience that, in itself, continues to increase the strength of our brand.

Today, as I reflect on the past year, I am proud of our accomplishments. 2009 was a challenge, probably one of the toughest economic climates many of us have ever endured. I believe our performance in 2009 met expectations – especially given the decline of the financial services industry, a challenging economy and unseasonable weather in every season of the year. Despite those challenges, we ended 2009 in our strongest financial position as a company in a decade and I believe we have entered 2010 in a position of strength.

In 2009, we had an opportunity to undertake a complete strategic review of our business. Strategies are generally developed on the basis of one of two premises; to address challenges or to pursue opportunities. In our case, we have cause for both.

Improving returns on invested capital (retail ROIC)
We have made significant, and necessary, capital investments in our business in recent years. With tremendous assets in place, it is now time to make those assets more productive for the Company. Simply put, we need to be earning more from our investments and selling more per square foot in every store. We have the capacity to do it and we are now tackling this issue with many programs across our asset base – from improvements in our supply chain to stores, to enhanced processes, to technology. This is an essential element of our strategy. We need to get more out of our existing assets before we invest in any significant new expansions.

The changing landscape
Our mid- to long-term strategy has been developed to capitalize on a changing retail landscape in Canada, driven by new global entrants to the market, the ever-accelerating impact of new technologies, and the changing lifestyles and increasing diversity of Canadian consumers.

Although for several years we enjoyed the explosive growth witnessed at Mark's and Financial Services, the economy of 2009 brought all retailers back to reality. Our reality at Canadian Tire is that our Company – and all our business units – are tied to the strength of our core brand. The growing strength of our core business – Canadian Tire Retail – will drive our Company's growth, in part because of its relative size as a percentage of our revenue and in part because the intrinsically valuable brand properties attached to our triangle are primarily built through customer experiences in CTR stores.

Building a great CTR

In 2009, we started aligning CTR to meet the changing retailing landscape I have described. We rolled out 25 retrofits under our "Smart Store" concept, a capital-light changeover that is generating outstanding results; advanced productivity initiatives to drive greater operating efficiencies; and aligned internal processes in marketing, merchandising and store operations to increase resources available to improve customer service.

We aligned all of our automotive assets under a new President of Automotive with a single strategy and focus to drive growth. We centralized all key corporate functions to decrease operating expenses and better support our business units. Across the board, we tightly managed operating expenses, lowered capital expenditures and successfully managed on-hand inventory levels at CTR.

These changes have set us up to now differentiate ourselves and evolve in ways that are more relevant to our customers. This will require responding to new understanding and insights about our customers and their preferences. It will also require a consistently high standard of customer experiences so that we remain the preferred destination for products and services that respond to the everyday needs of Canadians. We will better use our assets to deliver an unparalleled customer experience. Our customers have a choice. We must make sure they continue to choose Canadian Tire and our brands.

Aligning our business

Building on 88 years of successfully adding new avenues of growth to our core business, our long-term strategic plan will create an even greater Canadian Tire brand by keeping our customers' everyday needs at the centre of everything that we do.

In essence, we are not just a leading Canadian retailer of merchandise aligned to meet the needs of everyday living. We are a gas company. We are a clothing company. We are an automotive service and hard parts company. We are a company that provides high interest savings and credit card products through our bank. It is the strength and alignment of all these core assets with CTR that give us a competitive advantage and unique position among Canadian retailers. We will continue to grow and strengthen all our core assets – and better link our customer back to our core brand. At the end of the day, we are one Company – serving one customer – for all their everyday needs in Canada.

A high performing organization

Canadian Tire's 58,000 people, including corporate and store employees, Canadian Tire Dealers, PartSource Franchisees, Petroleum Agents and Mark's Franchisees have played – and will continue to play – a critical role in this strategy. I would like to thank every one of them for their remarkable efforts over the past year and encourage all of us to expect more from ourselves in 2010, aspiring to the performance standards of colleagues such as Elwin Derbyshire who is profiled on the front cover of this annual report.

A true performance culture is required for a company to become "great". I'm buoyed by the quality of people that I have met and the passion with which they come to work every day. I've observed individual initiatives by store employees to help military families. I was proud to see our employees rally to support those in need in Haiti and have seen first-hand the impact that our Jumpstart charity has had on the lives of thousands of Canadian children. I've been impressed by the passion and commitment of the staff in our distribution centres where the average tenure is more than 20 years in a physically demanding and fast-paced environment.

Our goal

Drive sustainable long-term earnings growth

Our strategic objectives

1. **Strengthen the core – create a great CTR with a strong Automotive division**
2. **Align business units to support core CTR growth, including Automotive, and deliver strong performance**
3. **A high-performing, customer-focused organization**

We will do more to drive a performance culture at Canadian Tire – and as we reinforce our commitment to a common goal – strengthening our core business so we can grow our brand without boundaries – we will surely prosper together. If we make the right decisions now and increase the impact of all our investments, we will gradually earn the right to pursue new growth opportunities. In the future, every business or service that we choose to apply the triangle to will be perceived as trustworthy and excellent – and will benefit from the power of the brand.

Our greatest asset is our brand, which already embodies a significant amount of trust and equity created over many decades. Today, Canadian Tire is one of the most trusted brands in Canada, but this hard-fought position must be constantly managed – and earned. Sustaining our great brand will require each of our businesses – Mark's, Financial Services, Petroleum and PartSource – to make a substantial contribution to the core.

I believe that with our crystal clear focus on the strength of our brand and through successful execution of our strategy, we can transform the power of our triangle into an even greater consumer symbol for quality and trust and the standard-bearer for everyday living in Canada.

Stephen G. Wetmore
President and CEO

Strengthening the Canadian Tire brand

The power of the triangle

[1] Debbie Travis & Design is a trademark of Debbie Travis Branding Inc. Used under licence.
[2] NASCAR Advantage is a trademark of the National Association for Stock Car Auto Racing, Inc. Used under licence.

Canadian Tire is among the most trusted brands in Canada. Under our triangle, we own or exclusively license a number of other leading consumer brands. These brands contribute to the power of the triangle – sharing strong consumer loyalty as well as high customer expectations. Our goal is to continue to strengthen our brands in anticipation of the changing competitive landscape and consumers' everyday needs.

MotoMaster®

Canadian Tire Options®

Garrison TM/MC

Denver Hayes™

Mastercraft™

Dakota™

imagewear™ a division of Mark's

Jobmate®

WindRiver Outfitting Co.™

Likewise TM/MC

NASCAR Advantage[2]

ispiri™

Mastercraft Maximum™

1.

Strengthen the core – Create a great CTR with a strong Automotive division

Canadian Tire Retail has grown over the past 88 years on the strength of its ability to evolve through a constantly expanding product and service offering, as well as an ongoing focus on new store concepts. Strengthening and growing this core business is a key priority in 2010 and beyond.

Smart store format (late 2008)
Average retail square footage: **55,000**

The Smart store is our newest store format, which focuses on productivity and an improved customer experience for higher returns. Smart stores are designed to make every visit enjoyable for our customers with a racetrack layout, easy-to-read directional signage, and improved customer service features such as department-specific customer assistance desks, price look-ups and a customer pick-up area.

Small Market store format (mid-2008)
Average retail square footage: **17,000**

The Small Market format, which includes a Petroleum gas bar and Mark's wherever possible, allows CTR to enter incremental markets and replace select existing traditional stores. The Small Market store makes more use of outdoor space and employs intense merchandising, boosting our reach into areas that were formerly underserved by Canadian Tire.

Left: We use customer feedback to help drive a better overall customer experience, whether improving signage, adding more product information or ensuring a more consistent customer satisfaction level.

Right: Our automotive business is a key competitive advantage, central to our brand image, and is one of our most promising business opportunities.

A great Canadian Tire

Great brands that endure and grow start with a sound core business and strong capability. With billions of dollars invested over the past 15 years to create one of the youngest store networks in North America, our task today is to make our current assets deliver more for us, our customers and our shareholders.

The core of our assets lies in our 479 Canadian Tire Retail stores that are found in nearly every major community in the country and are the heart and soul of our iconic red triangle brand.

Back to our roots – building our cornerstone automotive business
Intricately tied to this core retail chain are our Canadian Tire automotive assets. Our Automotive division is a key competitive advantage, central to our brand image, and one of our most promising business opportunities.

We are now accelerating our efforts by aligning all of our automotive resources under one common strategy and leadership. By combining the existing strengths and resources in CTR, PartSource, Petroleum, automotive hard parts, accessories, CTR service centres, tires and all other aspects of automotive, we will drive a single strategy to deliver growth and great performance.

The Company is now focused on aligning all of its business units to grow the core business – Canadian Tire Retail – with a strong Automotive division.

Continued store renewals
We have opened 36 new or retrofitted Smart stores and nine Small Market stores over the past two years. Most of the Smart stores are capital-light retrofits of existing stores, optimizing investments already made in square footage. Retrofits cost less than $300,000 each and are expected to generate approximately 6 to 8 per cent same store sales growth in the first year alone. The Smart store has been designed to drive growth and improve sales productivity by putting more sales activity through the existing square footage. This has been achieved through reallocating space inside the store to high-growth and traffic-driving businesses like storage and organization, sports and recreation and pet products.

Improving the customer experience was a significant component in developing the Smart store concept. The Smart store is now easier to navigate, has better signage and more logical adjacencies, such as placing tools, and home repair and maintenance products back together in the store flow. In addition, the stores have enhanced service features, including more service desks, call buttons, price look-up machines around the aisles and customer pick-up locations built into the store.

The Small Market stores are low-cost buildings that have the ability to flex into additional outdoor space in season. Most Small Market stores have a Mark's store inside the building and a Petroleum gas bar where appropriate. This format allows us to extend our reach to smaller, previously underserved markets, potentially attracting new customers with customized products, services and store formats.

Acting on customer feedback
We're measuring and listening to customer feedback in more meaningful ways with our recently-developed customer service index (CSI) survey. This helps us obtain feedback from 50,000 CTR customers every month, and provides Dealers with real-time, actionable feedback from in-store experiences. While overall satisfaction scores are high, there remain areas for improvement. Individual Dealer scorecards provide granular data that will help drive a better overall customer experience, whether improving signage, adding more product information or ensuring a more consistent customer satisfaction level.

Loyal customers at the heart of everything
Our future success lies in our ability to understand, anticipate and serve our customers more effectively than the competition.

True customer-centric retailing involves targeting our merchandise, advertising, marketing, communications and in-store experience to be responsive to the shopping habits and expectations of customers. This requires customer data, which is often collected through electronic loyalty programs. We obviously have a significant head start with Canadian Tire 'Money', which is well-understood and well-used by Canadians, but it lacks the capability required to deliver data to effectively enable customer-centric retailing.

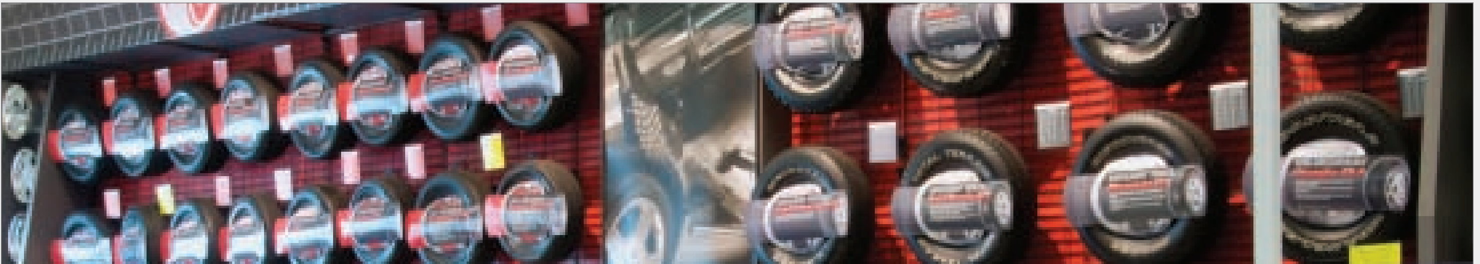
We will pilot a program in 2011 designed to capture, analyze and apply customer insights across our business.

2.

Align business units to support core CTR growth, including Automotive, and deliver strong performance

Canadian Tire's recent growth has been driven in part by the development of supporting businesses that build upon our brand and drive customers to our core business. It is important that each of the Company's business units continues to grow

Automotive



Automotive

Automotive is critical to our brand and our financial performance, and we have recently combined our automotive strengths and resources with a single strategic focus. This includes our 479 **CTR** stores, more than 5,500 service bays, 87 **PartSource** stores, and 272 **Petroleum** sites, and will provide the opportunity to optimize our combined automotive assets, expand our market share and improve the strength and consistency of the customer experience.

PartSource

PartSource will grow its business, in the near term, through implementation of the Automotive Infrastructure (AI) initiative and the resulting focus on building out the hub store model, which will continue to improve our market share and competitive position in the automotive sector. PartSource will continue to support CTR by delivering better service and performance throughout this period. To improve business unit performance, PartSource will concentrate on improving margins and reducing operating costs, while improving store disciplines and processes. Upon completion of the AI initiative, the focus will shift again to increasing the number of non-hub store locations in the network.

Petroleum

Customer counts average over one million per week at our Petroleum sites, and our loyalty programs and customer service will continue to drive traffic to CTR and support credit card receivables at Financial Services. Our program to retrofit or replace existing sites will continue to bring more of our network up to standard, further enhancing the Canadian Tire brand image in the marketplace. Performance within the business will be driven by continued growth of gasoline volume and non-gas sales, and strong operating expense management.

and meet its specific performance objectives. It is also critical that each business complements CTR and enhances the performance of the core business. This can be achieved in a number of ways, from cross-marketing initiatives that drive traffic to CTR, to sharing customer information that will enhance customer service.

Financial Services
Financial Services will continue to be an integral part of our offering to Canadian Tire customers by continuing to grow its portfolio of credit card, insurance and warranty services. This will lead to an increase in average balances and higher sales on its credit cards.

Financial Services will also play a core role in developing a more comprehensive loyalty program that will allow us to better tailor rewards for each valued customer and ensure enhanced rewards for our best customers.

Mark's
Mark's continued multi-channel network growth will provide more opportunities to co-locate with CTR stores.

To ensure solid operating performance, Mark's will focus on growing same store sales while advancing the Clothes That Work brand evolution and its leadership in innovation, customer focus and productivity.

3.

A high-performing, customer-focused organization

58,000 people aligned behind a common goal can be incredibly powerful. Canadian Tire is fortunate to have one of the top corporate and retail cultures of any business in Canada. Our average tenure is close to nine years and our programs to reward and celebrate employees are among the best anywhere. Canadian Tire still shares the profits of the Company with corporate employees – a practice started by the Company's founders more than 40 years ago.

Left: Our renewed strategy is based on an accountable, performance-driven culture with plans and goals developed from the perspective of the customer experience.

Right: We recently completed a third-party review of our risk management function at Financial Services and our continued benchmarking shows that Financial Services is one of the best run businesses in the sector.

Putting the customer at the heart of all decision-making

The Company's renewed strategy is based on an accountable, performance-driven culture – applying metrics, measures and incentives to drive employee and Dealer performance and results.

While we are intensely focused on enhancing core productivity and efficiency, perhaps no measure is as important as our customer service levels and how our customers regard our brand. We will put the customer at the heart of all our decision-making. Our plans and goals will be developed from the perspective of the customer experience. We will also establish a truly customer-focused culture through programs that engage our people as customer-focused brand ambassadors.

Every interaction that customers have with Canadian Tire influences their perception of the brand, whether through a store or gas bar visit, a website search or a television commercial. Perception is affected as much by the little things as the big things. By establishing shared goals and celebrating individual achievements, we will be able to build a shared vision and alignment around our corporate-wide strategies.

Left: Our distribution centres are an integral part of our customer-centric focus. Our Montreal Distribution Centre, shown here, was completed and put into operation in 2009, thereby increasing the throughput capacity required for future growth, and ultimately allowing us to deliver products to our CTR stores more efficiently.

To drive these strategies and their execution, we have established a new function led by our former CFO, that will drive enterprise-wide strategic planning and execution by providing a single, central view of operating and financial strategy. This group will play a critical role in strategic planning, monitoring execution and performance tracking. We have also centralized key corporate functions that will balance business unit decision-making flexibility with the need for common strategies and approaches that benefit the whole Company.

These structural changes will allow us to make and act upon decisions more quickly; consider more efficient common platforms, solutions and vendors; instill common disciplines and best practices across the enterprise; make more effective use of people, technology and financial resources; and enhance career opportunities for employees.

Driving productivity and efficiency

Many of the initiatives established over the past few years to drive improvements in performance will continue. Under our operational excellence program, we will continue to revitalize operating processes and technologies within our retail businesses to deliver future productivity improvements. We've established a new approach to our core store audit, a process that will more effectively allow us to share best practices developed at high-performing CTR stores with every store in the network.

We have recently undertaken a third-party review of our risk management function at Financial Services and our continued benchmarking shows that Financial Services is one of the best run businesses in the sector. To continue in our efforts to manage credit risk at Financial Services, we will continue to reduce credit limits for cardholders where appropriate, enhance predictive scorecards to identify high-risk customer behaviour, enhance collection strategies and develop more precise bankruptcy model scorecards. At the same time, investments in technology and process improvements continue to drive down operating costs as a percentage of receivables.

To enhance merchandising capabilities, CTR has a program underway to develop more efficient promotional planning, pricing management and vendor relationship management. In addition, under the IT multi-year renewal program, we are upgrading the technology infrastructure that supports CTR, Petroleum and PartSource to provide increased functionality, reduced risk, lower operating costs and a simplified technology architecture.

New avenues
for growth

Success in executing our strategy and strengthening our brand will earn us the right to pursue new avenues of growth across all of our business units.

Innovative

The road to long-term growth

At Canadian Tire, we are continually challenging ourselves to create innovative solutions for tomorrow's consumer demands. By successfully executing our strategic objectives of strengthening the core CTR business with a strong Automotive division, aligning the Company to support core growth and entrenching a customer-focused, high-performance culture, we are building a strong foundation for our future and positioning ourselves so we can expand our products and services to meet those future demands.

The retail environment is evolving and consumer interests and shopping patterns are changing. By building on our existing relationship with our customers, our position as one of Canada's most trusted brands will allow us to explore new avenues of growth within our crucial role of supporting everyday living in Canada.

There are significant opportunities across the Company to expand into new services and solutions that complement our existing products and services offering and that will help drive overall earnings growth. These include a focus on:

- Key categories at CTR, such as backyard living and exercise;
- Innovative products and services, such as instant credit and deferred instalment services, offered by Financial Services;
- New retail store concepts and renewals that reallocate space to new and innovative products and services;
- Supply chain enhancements that allow for a broader product assortment and faster access to products, parts and accessories, including in our Automotive division;

categories and products

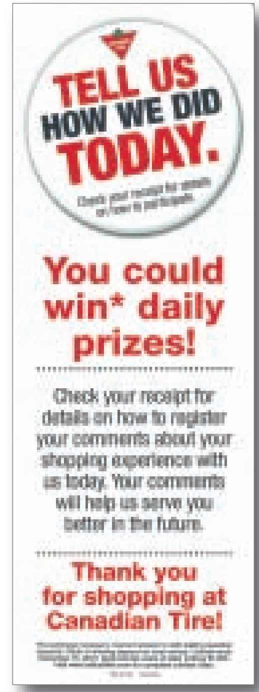
New services

Our pursuit of future growth avenues and long-term performance depends on our ability to ensure that every customer experience lives up to the high standards expected of our brand.

- Changes to our loyalty program that will continue to bring customers to our stores and gas bars and will enable the collection of shopping data to further tailor offerings in our retail and apparel businesses; and
- Transforming the in-store customer experience to enhance customer loyalty to our retail and apparel stores and gas bars

Against this backdrop of planned growth, the Company is in its strongest financial position in a decade. Throughout 2009, the business was managed well in uncertain economic times, with a focus on optimizing margin performance, reducing inventory on hand at CTR, strengthening liquidity and of course, effectively managing the Financial Services division.

Financial stability is not the only measure for successful growth. Companies need to earn the right to pursue new avenues of growth – partly through financial strengths and partly through the value of their brands. In the future, every brand, business or service to which we choose to apply the triangle will be perceived as trustworthy – and all will benefit from the power of the brand.



We're listening to customer feedback in more meaningful ways, including getting feedback from 50,000 CTR customers every month to ensure that our customer experience consistently matches our brand promise.

2010 strategy and initiatives

Our overall goal is to drive sustainable long-term earnings growth

2010 strategic objectives

Strategic objectives	Initiatives	Key activities
1 **Strengthen the core – create a great CTR with a strong Automotive division**	• Continue rollout of new concept CTR stores	• Open approximately 60 Smart store retrofits, 4 new Smart stores, and 4 replaced or expanded stores • Open 3 new Small Market stores
	• Develop a redesigned and enhanced loyalty program and customer-centric retailing approach to provide deeper customer insights	• Pilot loyalty program in 2011 • Initiate analysis of customer shopping data
	• Continue to execute process changes within CTR Marketing, Merchandising, Store Operations, and Automotive to improve core processes and enhance customer experience at store level	• Continue performance improvement program for under-performing stores • Pilot and roll out Automotive Infrastructure initiative
2 **Align business units to support core CTR growth, including Automotive, and deliver strong performance**	• Expand the business units' store network to drive an enhanced customer experience	• 13 new or rebranded outlets at Petroleum, PartSource, and Mark's
	• Expand Financial Services through continued growth of portfolio of services and managed growth of receivables	• Test new credit cards and financing programs to drive new avenues of growth and to support CTR marketing initiatives • Ongoing focus on credit risk management at Financial Services
	• Focus on service and performance at PartSource and Petroleum to support the Automotive division and enhance customer experience	• Bring more auto parts closer to customers by building new PartSource hub stores • Continued growth of the number of Petroleum transactions and marketing initiatives to support CTR
	• Develop Mark's Clothes That Work strategy to enhance the brand and customer experience	• Grow number of innovations engineered that support Clothes That Work • Pilot store rebranding "Mark's Work Wearhouse" to "Mark's"
3 **A high performing, customer-focused, organization**	• Evolve key productivity and efficiency initiatives	• Complete centralization of key corporate centre functions across the Company • Achieve key milestones on CTR Change Program, including simplifying pricing, promotional planning, and vendor engagement • Upgrade the technology infrastructure that supports CTR, PartSource and Petroleum to increase functionality, reduce risk, lower operating costs, and simplify overall architecture
	• Improve returns on invested capital for our retail businesses	• 2010 consolidated CAPEX of approximately $280 to $300 million • Reduce operating expenses as a percentage of sales
	• Drive business sustainability as a business strategy	• Improve key sustainability metrics and report progress on a quarterly and annual basis
	• Grow Canadian Tire Jumpstart Charities to support community-based programs that give a boost to financially challenged families and kids	• Help 95,000 kids by covering registration, equipment and transportation costs for sport and recreation activities

Innovation and business sustainability

The Pop-Up Beach Shelter sets up in two seconds by tossing it into the air and folds back up in seconds into an easy-to-carry disk.

The Retail Council of Canada awarded our new Smart store format with the 2009 Excellence in Retailing Award for retail store design for a large chain.

A continued focus on innovation

From our unique assortment, to new store designs, to our pioneering marketing programs – including one of Canada's first and most-loved loyalty programs, Canadian Tire 'Money', Canadian Tire is known for its ability to innovate. We continuously refresh our store designs and introduce new products, programs and services that help improve the customer experience. Our new CTR Smart stores; Mark's unique clothing designs and recently launched clothes vending machines; and Financial Services' new credit card products and High Interest Savings Accounts are just a few examples of our evolving capacity for innovation.

Our core business continuously offers new products with innovative features at competitive prices within a unique mix of Automotive, Home and Leisure products not matched by any other retailer in Canada. An example of a new innovative product that will be available at CTR in 2010 is the Pop-Up Beach Shelter, which sets up in two seconds by tossing it into the air and folds back up in seconds into an easy-to-carry disk for our customers.

Mark's brand promise – Clothes That Work – is built upon providing innovative apparel and footwear products, such as T-Max™ Insulation, Flextech® and Curvetech™ technologies, now extended throughout Mark's products that are engineered and guaranteed to perform, last, protect and feel better than ordinary clothes and shoes. New innovations for 2010 include the 50 Wash T-Shirt – tested to last 50 washes and treated with Freshtech, an anti-microbial and anti-odour treatment.

Left: Mark's new Clothes That Work store features interactive demonstrations that allow customers to try the technology out for themselves, including a footwear test ramp.

The newest expression of the Mark's brand was unveiled with the opening of its 27,000 square-foot store in Edmonton, Alberta, which features interactive demonstrations that allow shoppers to try Mark's technology out for themselves. The footwear test ramp, for example, has three different surfaces for customers to test footwear on before they make a purchase.

In 2009, The Retail Council of Canada recognized CTR's new Smart store with the Retail Store Design Award in recognition of innovative, original and visually enticing layout and store design. Mark's won the Multi-Channel Retailing Award, which recognizes accomplishment in satisfying the ever-increasing consumer appetite for retail channel choice. PartSource also opened a new concept store in 2009 in Welland, Ontario, introducing further enhancements to the brand as we continue to ensure PartSource can more effectively grow and support CTR.

Canadian Tire Bank® recently became one of Canada's first dual credit card issuers by offering both MasterCard and Visa branded credit cards in a pilot program that will test its ability to attract new customers who have a brand preference. As a dual card issuer, Canadian Tire Bank has the opportunity to grow market share by adding product offerings that attract new customers with an affinity for Canadian Tire but a preference for Visa branded credit cards.

During the year, Financial Services also introduced the Curve MasterCard, a uniquely shaped credit card with contactless technology featuring cash back rewards. The card is tailored to appeal to young professionals who value receiving cash back, another example of how Canadian Tire can attract new customers with an innovative offering.

Business sustainability

Sustainability at Canadian Tire is viewed as a business strategy and not simply an environmental or green initiative. We continually look for opportunities that not only reduce our overall environmental footprint but also make good business sense because they allow us to operate our businesses more efficiently and effectively.

Canadian Tire is currently working to establish metrics that best reflect the realities of the retail sector. It will match widely accepted criteria such as carbon emissions or landfill diversion with sector-specific metrics affecting supply chain, packaging, and retailing of products. Beginning in 2010, some sustainability metrics will be reported quarterly with others summarized annually.

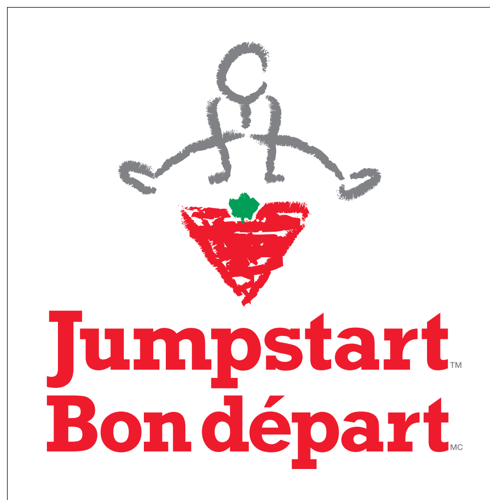
As we work towards enhancing our reporting in this area, we continue to put energy and cost savings into action. For example, in 2009 we continued our work on a program introducing energy efficient lighting into 360 CTR stores, saving over 65 million kilowatt hours of energy. In addition, we are testing on-site renewable energy generation and new energy-efficient technologies in selected new Smart stores. Viable technologies will be considered for all our new CTR stores.

To highlight its ongoing sustainability efforts and related business, environmental and social benefits, Canadian Tire also launched a "virtual community" that engages visitors through an interactive website. The Sustainability Report and website showcase initiatives have been underway for several years and can be found at

www.CTSustainabilityInAction.ca

Canadian Tire Jumpstart helps kids in financial need participate in organized sport and recreation, such as hockey, dance, swimming and basketball.

Giving back to the community



Helping over 216,000 Canadian kids "get in the game"

Since 1922, Canadian Tire has been a strong supporter of charitable causes and community efforts. Several years ago, the company amalgamated all of its charitable activities under a single banner and in 2005, the charity was renamed "Canadian Tire Jumpstart".

As Canada's leading sporting goods retailer, Canadian Tire has strong community connections to organized sport and many physical activities for children. Unfortunately, 1 in every 3 families can't afford to involve their children in such programs. In other cases, some lower income communities don't have programs available for all the kids who would want to participate. A lack of organized programs – or resources – means that kids that would otherwise benefit from a structured environment are finding themselves on the street or falling in with the wrong groups at an early age. This is a serious problem that Canadian Tire Jumpstart decided to tackle head-on with a more focused mandate to help children at risk get involved in organized physical activity.

Our employees and vendors generously pledged their support and, since 2005, Canadian Tire Jumpstart has helped more than 216,000 kids participate in organized physical activities, which would not have been possible without our charity's great work.

In 2009, Canadian Tire Jumpstart charities supported more than 65,000 kids. Our sports program helps kids (from ages 4 to 18) participate in organized sport and recreation by paying for registration, equipment and transportation costs. Our national network of 290 local chapters work with community organizations to ensure that funds collected are directed to the kids that need the most help. We have a devoted network of volunteers organizing these community chapters, including Canadian Tire store staff, Dealers and Petroleum Agents. Each year, we are invited by more communities to expand our chapter network and form new partnerships to help "give kids a sporting chance".

Canadian Tire Jumpstart and key partners pay for all the administrative costs of the programs, allowing 100 per cent of donations received to go directly to support kids in our communities. In addition, Canadian Tire Corporation matches donations from employees, along with the several million dollars per year the Company donates to the charity.

A smaller but important part of Canadian Tire Jumpstart's mandate is to support "Community Crisis" and "Regional Disaster Recovery" programs that help families and communities put the pieces back together after facing natural disasters in Canada.

In 2010, Canadian Tire Jumpstart will help upwards of 95,000 kids get involved in organized sport and physical activities across Canada.

For more information visit
www.canadiantire.ca/jumpstart

[1] Ipsos Reid 2009

Our operational strengths

Canadian Tire has extensive store assets that are the foundation of our ability to grow. They allow us to adapt to changes in the market and to achieve our goal of delivering sustainable, long-term earnings growth. We have expertise in merchandising, real estate, marketing and advertising, supply chain and logistics, and assessing credit risk, which contributes to our success in keeping our store formats fresh, placing them in high-traffic, sought-after locations and filling them with great products and services at competitive prices.

Our competitive advantage is created through the trust in our brands, market leadership and the kind and breadth of products and services that we offer, along with operating and financial strengths established over 88 years in business.

One of Canada's most recognized brands

Not only are virtually all Canadians aware of our brand, they have also shopped in our stores at least once in the past year. CTR shares that brand with Financial Services and Petroleum, leveraging the loyalty, trust and emotional appeal embedded in the triangle.

Entrenched customer loyalty

Over 50 years ago, Canadian Tire's 'Money' loyalty program was launched as a customer traffic-builder for Canadian Tire's gas bars. Today, it is one of Canada's most popular loyalty programs, offering greater value to customers who shop at our stores and fill up at our gas bars when they pay with cash or use their Canadian Tire MasterCard.

Reach and scale

From modest beginnings in 1922 to more than 1,200 stores in a diverse retail network, Canadian Tire has a substantial market presence. In fact, more than 90 per cent of Canadians live within 25 km of a Canadian Tire store and make it one of the most shopped general merchandise retailers in Canada. Financial Services operates one of the largest MasterCard franchises in Canada. Petroleum sites pump twice the industry average, as customers are drawn to our Canadian Tire 'Money' rewards. With approximately 1.8 million active credit card accounts, Canadian Tire cardholders trust us to be their financial services provider. Our reach and breadth ensure that Canadian Tire offers value to Canadians each and every day.

World-class supply chain

Canadian Tire has built a supply chain capable of supporting growth and efficiently managing the increasing number of products that we source overseas. Our supply chain infrastructure is one of the most modern in Canada, supported by advanced operations planning capabilities and excellent order management technology. In 2009, we opened a new distribution centre in Coteau du Lac, Quebec. This facility has the latest technology and material handling systems to ensure quick and effective delivery of products to our stores in Ontario, Quebec and Atlantic Canada.

Credit risk management

Canadian Tire has more than 45 years of experience managing credit card risk with an experienced team of professional financial and data managers, analysts, and statisticians using sophisticated industry-standard and proprietary credit-scoring models to manage credit risk. As a result, our team is able to make an informed assessment of the credit quality of each customer account and tailor our products to ensure that we achieve an appropriate balance of risk and return.

Innovative products and services

We have an unrelenting focus on meeting the everyday needs and wants of Canadians and continually strive to provide new and innovative products to meet those needs. From our new Smart stores; Mark's unique clothing material and designs and recently launched clothes vending machines; and Financial Services' new credit card products, Canadian Tire is known for its ability to innovate.

Solid financial management

We have developed diverse financing sources and forms to support our growth strategy, including access to capital markets, lines of credit, broker deposits and property sale/leasebacks. A focus on managing our financing in a conservative and structured way meant that at the end of 2009, Canadian Tire was in its strongest financial position of the last 10 years.

Financial strengths/ strategies

Canadian Tire has sustained its financial flexibility despite the tumultuous markets through an increased focus on optimizing cash flow, maintaining an array of funding sources and an unwavering commitment to conservative financial management policies and practices.

Financial strength and flexibility are crucial to our long-term success and future growth. We ended 2009 in a strong financial position: $786 million in cash and cash equivalents, $1.17 billion in available lines of credit, and the lowest long-term debt-to-equity ratio (excluding deposits) in several years. This healthy balance sheet has allowed us to maintain strong financial flexibility.

Our focus in 2009 has been on lowering capital expenditures and reducing inventory on hand at CTR. Overall, capital investments slowed significantly as construction of the Montreal Distribution Centre was completed during 2009. We also shifted our focus to capital-light retrofits and store concept renewals, which are significantly less capital-intensive than the previous store rollout (Concept 20/20). After a multi-billion dollar development program that transformed one of the oldest retail networks in Canada into one of the youngest, our gross capital expenditures declined to $273 million in 2009 from $472 million in 2008.

Through diligent monitoring of performance at each of our businesses, we were also able to adjust the allocation of capital to help optimize the highest possible return adjusted for perceived risk. This reduced internal demand for capital has made more cash flow available to fund productivity and growth initiatives.

The current condition of the credit markets is dramatically different than the very tight circumstances that constrained access to credit at the end of 2008. This changed environment combined with our brand equity, business performance during the recession and our financial acumen has allowed Canadian Tire to secure multiple sources of funding at cost-effective rates.

These enhancements in our financial flexibility were achieved in a year that saw our broker deposits and high-interest rate savings deposits grow substantially, exceeding our requirements to fund receivables in Financial Services.

As we move further into 2010, we will continue to manage our financing in a conservative and structured way. A high percentage of our debt costs are fixed and we have minimal short-term exposure to interest rate variation. We will continue to balance our funding between multiple sources by selectively moving between high-interest rate savings deposits, broker deposits and securitization of receivables depending on cost and availability.

At the same time, our ongoing foreign exchange hedging program will continue to reduce the volatility in our acquisition costs for goods and services purchased in US dollars, while enhancements to our enterprise risk management capabilities will ensure our principal business risks are effectively managed.

Given the challenges of 2009 and continued economic uncertainties around a recovery in 2010, Canadian Tire has proven itself to be exceptionally resilient in keeping with our long history of enduring successfully through difficult times. The strength of our brand, our store network and strong balance sheet will allow Canadian Tire to continue to prosper over the long term – as it has for the past 88 years.

Construction of our Montreal Distribution Centre was completed in 2009, which has significantly slowed the pace of our capital investment expenditures.

> **Driving improved earnings performance combined with lower capital expenditures will lead to significantly improved returns from our retail assets.”**

Marco Marrone, Chief Financial Officer and Executive Vice-President, Finance

Debt[1,2]

($ millions) Retail Financial Services

3,000
2,000
1,000
0
2005 2006 2007 2008 **2009**

Cash flow[3,4]

($ millions)

600
400
200
0
2005 2006 2007 2008 **2009**

Capital expenditures

($ millions)

600
400
200
0
2005 2006 2007 2008 **2009**

Retail debt is stable while Financial Services’ deposits grew to support liquidity

Retail debt has remained relatively stable over the past five years and we expect it to decrease in the near term. Prior to 2007, Financial Services’ primary source of funding was through securitization of its receivables. Co-ownership interests in these receivables were sold to Glacier Credit Card Trust and therefore these receivables were reported off-balance sheet. In 2006, Financial Services started offering deposit accounts through Canadian Tire Bank, which are recorded on the consolidated balance sheet. Subsequent growth in this area has helped to increase our liquidity during tight credit market conditions over the past three years.

Cash flows generated from operating activities are on the rise

Improvements in our working capital components and increased earnings have resulted in greater cash flows generated from operating activities over the past few years.

Capital expenditures are declining due to capital-light store formats

With the completion of the Concept 20/20 store renewal program, we are now ready to realize the investments in our real estate assets. Our Smart stores and our Small Market stores are aimed at making our real estate assets even more productive with a minimal amount of capital outlay. We also selectively managed our capital expenditures in 2008 and 2009, following the tough economic conditions in the markets, to align with our strategy to preserve cash flow and maintain sufficient liquidity.

Notes:
1 Retail debt includes the current and long-term portion of debt and excludes current and long-term deposits held at Financial Services.
2 Financial Services debt represents current and long-term deposits which were not offered prior to 2007. In addition, it excludes the Senior and Subordinated Notes related to loans receivable, which are held off-balance sheet.
3 Cash flow represents cash generated from operating activities.
4 As detailed in our MD&A and Consolidated Financial Statements and accompanying notes, reclassifications related to deposits for Financial Services and securitization activities impacted the presentation of our cash flows in 2007 and 2008. Prior period’s figures have been restated to conform to the current year’s presentation.

2009 Dealer Awards

Top to Bottom: Raymond Gagné, Dave Urso, Al Abbott, Ken MacEachern and Pat Higgins

In the world of retailing, Canadian Tire's Dealer model has proven to be a unique competitive advantage.

The opportunity to play a key role in the success of one of Canada's leading retail brands helps attract superior business people with great ideas and a love of retailing. The personal investment that Dealers make in Canadian Tire stores brings a commitment to not only running the business efficiently, but also to effectively serving local customers and communities.

A long-standing tradition, the Canadian Tire Awards of Excellence are an opportunity to celebrate the best of the best of the CTR Dealer community, our highest-performing Dealers, who are key to our success and our ability to drive our strategic priority of improving the customer experience across the network. Once a year, the Corporation formally recognizes a small selection of our top Dealers for their outstanding focus on customer service, retail leadership, store team development and outreach in the community.

Selected from 475 Dealers across the country, the 2009 award winners are:

- Raymond Gagné from Longueuil, Quebec has been treating his staff like family and offering a generous profit sharing program. The commitment to his employees is evident – 55 per cent have been in his store for over five years.
- David Urso from Bowmanville, Ontario is committed to staff learning and customer service excellence, which was proven by his store earning Canadian Tire's e-Learning Gold Certification. As a result of his customer service initiatives, the average store transaction has grown by 14 per cent since 2006.
- Al Abbott of Nanaimo, British Columbia is recognized as employee driven and a community supporter. Al's commitment to fostering an open and friendly working culture is seen through his store's high employee retention, with many of his employees having over 10 years experience working at Canadian Tire.
- Ken MacEachern's trademark is the outstanding merchandising in his store. Well-stocked shelves are what his customers have come to know and love. Ken's efforts generated a nine per cent increase in sales in the first year and service centre sales have increased 21 per cent since he took over the Charlottetown, PEI store.

The Community Involvement Award was awarded to Pat Higgins of Uxbridge, Ontario This award recognizes a Dealer's exemplary standards of performance and leadership, in addition to giving generously of their time to make a meaningful difference in their community.

Officer team

A deeply experienced and long-tenured team of professionals, each with significant functional and leadership expertise

Stephen G. Wetmore, President and Chief Executive Officer
Appointed Canadian Tire CEO in January 2009, Stephen is an internationally experienced Chief Executive Officer who has successfully led a number of public companies and managed complex businesses in different industries, including telecommunications, information technology and transportation. In addition to being an independent member of the Canadian Tire Board of Directors since 2003, he has also served as a Director on numerous public company boards and educational and charitable organizations.

Marco Marrone, Chief Financial Officer and Executive Vice-President, Finance
Marco was appointed CFO in November 2009 with all finance functions aligned under his leadership. During his 23 years with Financial Services, Marco served in finance, credit risk management, IT, marketing and operations before becoming President in 2006. Marco was involved in developing strategic growth strategies, including the creation of Canadian Tire Bank, and developing the country's third largest MasterCard franchise.

G. Michael Arnett, President, Canadian Tire Retail
Bringing more than 30 years of retailing expertise to his current role, Mike is responsible for the retail chain's marketing, merchandising, technology and supply chain, as well as the development and implementation of new store formats. Previously, Mike has held executive positions in Canadian Tire Retail marketing and in corporate strategy and new business development.

Michael B. Medline, President, Canadian Tire Automotive and Dealer Relations
Michael is responsible for the development and execution of the automotive strategy, business plan and operations encompassing all of Canadian Tire's automotive businesses, including automotive hard parts, accessories, service centres, tires, PartSource and Petroleum, as well as continued accountability for the Dealer Relations Group. Previously Chief Corporate Officer and President, Diversified Businesses, Michael joined Canadian Tire in 2001 and since then has held a number of progressively senior executive roles.

Robyn A. Collver, Senior Vice-President, Secretary and General Counsel
Robyn oversees the provision of legal and corporate secretary services to Canadian Tire, its subsidiaries and its Board of Directors. Robyn has over 18 years of experience practising law, including 11 years at a major Canadian law firm, almost four years as Associate General Counsel of Canadian Tire, and four years as Vice-President of Regulatory Affairs and General Counsel of Canadian Tire Financial Services and Canadian Tire Bank.

Kenneth Silver, Senior Vice-President, Corporate Strategy and Real Estate
Ken is responsible for the Corporation's real estate portfolio, corporate strategy development, new business development, and sustainability initiatives. He joined Canadian Tire in 1995 and has more than 20 years of development and retail real estate experience in Canada and the United States.

Paul D. Wilson, President, Mark's Work Wearhouse Ltd.
Paul joined Mark's in 1992 as General Manager, Western Canada, and served in progressively senior roles until being appointed President, Mark's Work Wearhouse, and an officer of Canadian Tire Corporation in 2006. Paul was instrumental in building the Mark's Clothes That Work brand positioning and Mark's network expansion. Paul has more than 25 years of retail management experience.

Dean McCann, President, Canadian Tire Financial Services
Dean was appointed President of Financial Services in November 2009. Dean joined Canadian Tire in 1996 and prior to his current position, was Vice-President of Customer Service and Operations, Retail Banking and Membership Services at Financial Services. Over his 13-year career with Canadian Tire, Dean has held a number of progressively senior roles, including Chief Financial Officer of Financial Services and led the project to establish Canadian Tire Bank.

Sharon J. Patterson, Senior Vice-President, Human Resources
Sharon has accountability for leadership development, succession planning, compensation, benefits, capital accumulation, learning, staffing, organizational development, change strategies and enterprise-wide alignment of Human Resources (HR) approaches. With more than 20 years of HR experience, Sharon has a proven track record of leading high-impact HR programs and systems.

Patrick R. Sinnott, Executive Vice-President, Technology and Supply Chain
Pat is responsible for Canadian Tire Corporation's technology and for the timely, cost-effective flow of products and information across the supply chain. Before joining Canadian Tire in 1993, Pat had 13 years of logistics experience, including four years as a partner in Ernst & Young's logistics practice. Pat holds Master's Degrees in both Mathematics and Business Administration and is an internationally recognized expert and speaker in logistics and distribution.

Kristine Freudenthaler, Senior Vice-President, Information Technology and Chief Information Officer
Kristine joined Canadian Tire in 1994. In 2009, she was appointed to her current position with accountability for developing enterprise-wide technology governance and strategies. Kristine is an accomplished business leader with 20 years experience in technology applications, supply chain and general management in Canada and the United States.

Huw Thomas, Executive Vice-President, Financial Strategy and Performance
Canadian Tire's CFO for nine years, Huw was appointed to a new role in 2009 and is now senior strategic advisor to the CEO with responsibility for providing corporate-wide alignment of strategy and maximizing financial performance across the organization. Accountabilities include managing the strategic and annual planning process, ongoing performance monitoring, integrating enterprise risk management principles into planning activities, developing a centralized corporate project management office, overseeing new business opportunities and leading investor relations.

Stanley W. Pasternak, Senior Vice-President and Treasurer
Stan has leadership accountability for treasury and taxation. Stan has more than 30 years of financial and banking experience, including progressively senior positions in corporate banking and planning, finance and retail banking with one of Canada's top banking institutions.

Corporate governance

"Canadian Tire has an independent-minded Board, dedicated to serving our shareholders and their interests. Our Board members have a well-honed understanding of our businesses, a disciplined approach to compensation issues, succession and risk management. We are vigilant about hiring and retaining skilled executives. In short, we know our Company and our strategy for returning value to our shareholders."

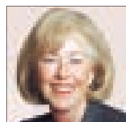
Maureen J. Sabia, Chairman of the Board

Maureen J. Sabia, Toronto, Ontario, Canada

Non-Executive Chairman of the Board since March 8, 2007

Current Activities:
Miss Sabia is Non-Executive Chairman of the Board of the Company and President, Maureen Sabia International, a consulting firm. She is also a director of Canadian Tire Bank. Miss Sabia co-authored *"Integrity in the Spotlight – Opportunities for Audit Committees"* published in 2002 and *"Integrity in the Spotlight – Audit Committees in a High Risk World"* published in 2005. Miss Sabia is Chairman of the Foreign Affairs and International Trade Canada Audit Committee. She is also Vice-Chairman of the Public Accountants Council for the Province of Ontario, a body mandated by the *Public Accounting Act, 2004* (Ontario) to oversee, in the public interest, the regulation of public accounting.

Past Activities:
Miss Sabia, a lawyer, has had careers in the public and private sectors and served as Chairman of the Export Development Corporation. She is past Chairman of the Audit Committee of Canadian Tire. Miss Sabia was formerly a director of Gulf Canada Resources Limited, Hollinger Inc., Laurentian General Insurance Company Inc., O & Y FPT Inc., O & Y Properties Corporation and Skyjack Inc.



Martha G. Billes, Calgary, Alberta, Canada

Member of:
- Management Resources and Compensation Committee
- Governance Committee

Current Activities:
Ms. Billes is President and a director of Albikin Management Inc., an investment holding company. She is Chairman of Canadian Tire Jumpstart Charities. Ms. Billes is the daughter of Canadian Tire co-founder A.J. Billes and has beneficially owned or controlled a majority of the Common Shares of the Company since 1997. She is also a director of Marlore Enterprises Ltd. and Tire 'N' Me Pty. Ltd. Ms. Billes was recently appointed by the Federal Government to the Board of Directors of the Toronto Organizing Committee for the 2015 Pan American and Parapan American Games.

Past Activities:
Ms. Billes received an Honorary Doctorate of Commerce degree from Ryerson University in 2002. She is also Honourary Consul Emeritus for the Republic of Chile, Southern Alberta Region and past member of the Board of Trustees of the Sunnybrook Medical Centre Foundation and the Calgary Women's Emergency Shelter – Endowment Fund Trust.

Owen G. Billes, St. Catharines, Ontario, Canada

Member of:
- Social Responsibility Committee

Current Activities:
Mr. Billes is President, Sandy McTyre Retail Ltd., which operates a Canadian Tire store in Welland, Ontario. He is the son of Martha G. Billes and grandson of Canadian Tire co-founder A.J. Billes. Mr. Billes is also a director of Canadian Tire Jumpstart Charities and Canadian Tire Bank.

Past Activities:
Mr. Billes joined Canadian Tire in 1992 as Changeover Consultant, Dealer Changeover. He has worked at Canadian Tire in the Operations Planning Centre, Dealer Operations, Logistics and Automotive Marketing, New Business Development and Petroleum, in Customer Service Strategic Development at Canadian Tire Financial Services Limited and at four Canadian Tire stores. Mr. Billes has also served as a member of the Board of Governors for Niagara College.

Stephen G. Wetmore, Mississauga, Ontario, Canada

Current Activities:
Mr. Wetmore is President and CEO of the Company and a director of Canadian Tire Financial Services Limited and Mark's Work Wearhouse Ltd.

Past Activities:
Mr. Wetmore was previously President and CEO, Bell Aliant Regional Communications Income Fund, Group President, Corporate Performance and National Markets, Bell Canada and Executive Vice-President, BCE Inc., President and CEO of Aliant Inc., President and CEO of NewTel Enterprises Ltd., President of Air Atlantic, and Managing Director of Scotia Holding PLC. He also served as a director of Aliant Inc., Axia NetMedia Corporation, Manitoba Telecom Services Inc. and Stratos Global Corporation. Mr. Wetmore was Chair of the Atlantic Provinces' Economic Council and Nova Scotia Council on Higher Education and has actively promoted education through his leadership affiliations with Dalhousie University, Memorial University, University College of Cape Breton, the Shad Valley Institute, RCS Netherwood and the Canadian Youth Business Fundraising Committee. He has also been a director of the C.D. Howe Institute, and a member of the Financial Executives Institute.

Daniel E. Fournier, Outremont, Quebec, Canada

Member of:
- Audit Committee
- Management Resources and Compensation Committee

Current Activities:
Mr. Fournier is President of ACNG Capital, a real estate value creation and strategic planning firm, and Chairman of the Genivar Income Fund.

Past Activities:
Mr. Fournier was Executive Vice-President and Chief Investment Officer of SITQ Inc., a real estate subsidiary of Caisse de dépôt et placement du Québec. Mr. Fournier was the founding Chairman of NF (Neurofibromatosis) Canada. He was formerly Chairman and the majority shareholder of Jas. A. Ogilvy Inc., and Chairman of Ritz-Carlton Canada. Mr. Fournier has served as a member of the Board of Directors of The Brick Warehouse Corporation, Standard Life Canada, Standard Life Trust Company, Hartco Corporation, Canadian Tire Bank, and as a trustee and member of the Independent Committee of Summit REIT.

Robert M. Franklin, Toronto, Ontario, Canada

Member of:
- Audit Committee
- Governance Committee
- Social Responsibility Committee (Chairman)

Current Activities:
Mr. Franklin is President of Signalta Capital Corporation, a private investment holding company. He is a director of Barrick Gold Corporation, Canadian Tire Bank, First Uranium Corporation, and Toromont Industries Ltd.

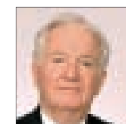
Past Activities:
Mr. Franklin was Chairman of Placer Dome Inc. from 1993 until it was taken over by Barrick Gold Corporation in 2006. He also served as Chairman of Clublink Corporation, ELI Eco Logic Inc., Glenayre Electronics Inc. and Photowatt Technologies Inc., and as a director of Algonquin Mercantile Corporation, Barrington Petroleum Ltd., Call-Net Enterprises Inc., Great Lakes Carbon Income Trust, Resolve Business Outsourcing Income Fund, Royster-Clark Ltd. and Serica Energy Corporation. Mr. Franklin was also a trustee for Stratos Global Corporation.

Keith E. Gostlin, Kelowna, British Columbia, Canada

Member of:
- Social Responsibility Committee

Current Activities:
Mr. Gostlin is President, K.E. Gostlin Enterprises Ltd., which operates a Canadian Tire store in Kelowna, British Columbia.

Past Activities:
Mr. Gostlin became a Canadian Tire Dealer in 1967. He was president of the Canadian Tire Dealers' Association from 1990 to 1993, and remained on its board as past president until 1995. Mr. Gostlin has also served as chairman for three Dealer groups, as a director for C.T.C. Dealer Holdings Limited and on numerous Canadian Tire Dealers' Association committees. In addition, he has chaired various committees for the Dealers working together with the Company in connection with e-business, PartSource and the Dealer contract. Mr. Gostlin is a recipient of the Canadian Tire Award of Excellence. He has also served on the board of the Kelowna General Hospital and the Kelowna Economic Development Commission.



Frank Potter, Toronto, Ontario, Canada

Member of:
- Management Resources and Compensation Committee (Chairman)
- Governance Committee

Current Activities:
Mr. Potter is Chairman, Emerging Market Advisors, Inc., a consulting firm dealing with international direct investment, and Chairman of Canadian Tire Bank. He is a director of Penn West Energy Corporation, Biovail Corporation, CA Bancorp Inc. and Sentry Select Capital Corp., a private company that manages a number of exchange-traded investment trusts and each of the trusts and funds in the Sentry Select family. Mr. Potter is also Chairman of Imagine Group Holdings Limited, a private Bermuda reinsurance company.

Past Activities:
Mr. Potter is a former international banker, executive director of The World Bank and senior advisor at the Department of Finance.

We believe that a skilled and committed Board is the best assurance shareholders can have."

Maureen J. Sabia, Chairman of the Board

Iain C. Aitchison, Howell, New Jersey, U.S.A.

Member of:
- Social Responsibility Committee

Current Activities:
Mr. Aitchison is President, "K" Line Total Logistics, LLC and President & CEO, Century Distribution Systems, Inc., international transportation and logistics companies in the U.S.A.

Past Activities:
Mr. Aitchison entered the field of international transportation in 1964, over the years serving with Dalgety (East Africa), Ltd. in Kenya and Tanzania, Gilman & Company, Ltd. in Hong Kong, Kawasaki Kisen Kaisha, Ltd. in Japan and "K" Line/Kerr Corporation in the United States.

Peter W. Currie, Belleville, Ontario, Canada

Member of:
- Audit Committee

Current Activities:
Mr. Currie is a director of Affinion Group Inc., Atomic Energy of Canada Limited and ARISE Technologies Inc. Mr. Currie is also a member of the Board of Directors and Chairman of the Audit Committee for Intelius Inc. and a member of the Financial Executive Institute.

Past Activities:
Mr. Currie was previously Executive Vice-President and Chief Financial Officer, Nortel Networks Corporation, Vice Chairman and Chief Financial Officer, Royal Bank of Canada, Senior Vice-President and Chief Financial Officer, Nortel Networks Corporation (Northern Telecom Limited) and Executive Vice-President and Chief Financial Officer, North American Life Assurance Company. He has served as Chairman of the Board and Chairman of the Audit Committee, Symcor Inc. Mr. Currie was a member of the Board of Directors and Chairman of the Audit Committee for C.D. Howe Research Institute and Toronto East General Hospital.

Brian G. Domelle, Toronto, Ontario, Canada

Member of:
- Social Responsibility Committee

Current Activities:
Mr. Domelle is President, Brian Domelle Enterprises Limited, which operates a Canadian Tire store in Toronto, Ontario

Past Activities:
Mr. Domelle became a Canadian Tire Dealer in 1976. Prior to becoming a Canadian Tire Dealer, he was a chartered accountant with Ernst and Young (formerly Clarkson Gordon). Mr. Domelle was President of C.T.C. Dealer Holdings Limited, and has also served as Chairman of the Metro Toronto Associate Dealers group, as a director and Secretary–Treasurer of the Canadian Tire Dealers' Association and as Secretary of the Ottawa Valley Dealers' Association. He has been actively involved with Upper Canada College as a member of its Association Council and Fundraising Committee.

H. Garfield Emerson, Q.C., Toronto, Ontario, Canada

Member of:
- Management Resources and Compensation Committee

Current Activities:
Mr. Emerson is Principal, Emerson Advisory, an independent advisory firm, and a Corporate Director. He is a director of CAE Inc., Pelmorex Investments Inc., and Sentry Select Capital Corp., and an Executive in Residence, Faculty of Public Affairs, Carleton University.

Past Activities:
Mr. Emerson is the past National Chair of Fasken Martineau DuMoulin LLP (2001–2006). Mr. Emerson was previously President and Chief Executive Officer of NM Rothschild & Sons Canada Limited (1990–2001), investment bankers, non-executive Chairman of the Board of Rogers Communications Inc. (1993–2006) and a senior partner of Davies, Ward & Beck. He has also served as a director of Canada Deposit Insurance Corporation, University of Toronto Asset Management Corporation, NM Rothschild & Sons Limited, Marathon Realty Company Limited, Open Text Corporation, Genstar Capital Corporation, Rogers Wireless Communications Inc. and Sunnybrook Health Sciences Centre.

Timothy R. Price, Toronto, Ontario, Canada

Member of:
- Audit Committee
- Management Resources and Compensation Committee

Current Activities:
Mr. Price is Chairman, Brookfield Funds, Brookfield Asset Management Inc., an asset management company. He is Chairman of the York University Foundation, the lead director of Astral Media Inc., and a director of Brookfield Homes Corporation, HSBC Bank Canada, St. Michael's Hospital Foundation and the Centre for Addiction and Mental Health Foundation.

Past Activities:
Mr. Price was previously President and CEO of Hees Enterprises Limited and Chairman of Trilon Financial Corporation, which were companies that merged into Brookfield Asset Management Inc. He was formerly Chairman of Q9 Networks Inc., a trustee of Morguard REIT and a governor of York University.

James A. Riley, Toronto, Ontario, Canada

Member of:
- Management Resources and Compensation Committee
- Governance Committee (Chairman)

Current Activities:
Mr. Riley is a Partner of Goodmans LLP, a law firm. He is also a director of The Canadian Stage Company.

Past Activities:
Mr. Riley has more than 25 years of experience practicing law in the areas of banking, financial intermediary regulation and mergers and acquisitions. Mr. Riley has been recognized as one of Canada's leading lawyers in these and other practice areas by legal ranking guides. He has served as a director or equivalent of several other for-profit and not-for-profit organizations.

Peter B. Saunders, Naples, Florida, U.S.A.

Member of:
- Management Resources and Compensation Committee

Current Activities:
Mr. Saunders is the Lead Director of Godiva Chocolatier and Chairman of Jack Wills Ltd., a specialty apparel retailer in the UK.

Past Activities:
Mr. Saunders was previously Chairman (2008–2009) and CEO (2002–2008) of The Body Shop International PLC and Chief Operating Officer of T. Eaton Co. Ltd. (1995–1997).

Graham W. Savage, Toronto, Ontario, Canada

Member of:
- Audit Committee (Chairman)
- Governance Committee

Current Activities:
Mr. Savage is a director of Canadian Tire Bank and Cott Corporation.

Past Activities:
Mr. Savage was previously Chief Financial Officer and a director of Rogers Communications Inc. He has also been a director of AT&T Long Distance Co., Alias Corp., FMC Financial Models Limited, Leitch Technology Corp., Lions Gate Entertainment Corp., MDC Corp., Microcell Inc., Royal Group Technologies Limited, Sun Media Corp., Sun Times Media Group, Inc. and Vitran Corporation, among others.

2009
performance
scorecard

Performance on 2009

Growth initiatives

2009 goal

1. Expand the retail network at CTR, Mark's, Petroleum and PartSource

39 incremental outlets

- 6 CTR stores
- 4 Petroleum sites
- 14 Mark's stores
- 15 PartSource stores

74 retail outlets replaced, retrofitted, converted or expanded

- 34 CTR stores
- 20 Petroleum sites
- 13 Mark's stores
- 7 PartSource stores

Square footage growth at CTR and Mark's of approximately 2% and 5%, respectively

2. Continued growth of CTR/PartSource automotive business through improved customer-facing processes and technology, and a more efficient supply chain

- Complete the design, build and test phases of a new store-based automotive management system
- Increase breadth of auto parts assortment by 10% to 20%

3. Expand the Financial Services business through managed growth of receivables

- Benefit from relaunched credit cards with *PayPass* capability
- Test new credit cards
- Select investments in balance transfer offers

strategic goals

2009 result

- 4 incremental CTR stores, net of 1 closed store (CTR opened 5 new stores)
- Decrease of 1 Petroleum site, net of opened sites (Petroleum opened 3 sites but closed 4 sites)
- 6 incremental Mark's stores, net of 5 closed stores (Mark's opened 11 new stores)
- 1 incremental PartSource store (PartSource opened 3 new stores but closed 2)

In light of the challenging economic conditions in 2009, management decided to exercise caution and prudence in capital spending. Instead of pursuing a full growth agenda, management decided to maintain liquidity to fund current operations and to protect the business from the current effects of the recessionary economy.

- 34 CTR stores replaced/retrofitted/expanded
- 11 Petroleum sites refurbished/rebuilt
- 10 relocations and 2 expansions at Mark's
- 7 PartSource franchise stores converted into corporate stores

---

- Increased CTR's retail square footage by 1.6%
- Increased Mark's retail square footage by 3.2%

- Completed the high-level design of the new store-based automotive management system. Development of the detailed design, build and testing of the system was initiated in 2009 and is scheduled for completion in 2010 with an in-store pilot in early 2011
- Increased automotive parts assortment by more than 20%

- Gross average loans receivable were $4.1 billion for the year. The growth reflects a 7.7% increase in the average account balance, partially offset by a 3.4% decrease in the number of accounts carrying a balance versus the same period last year

Productivity initiatives

2009 goal	2009 result
1. Advance the Automotive Infrastructure program • Improve technology and supply chain capability at CTR's core automotive business • Bring more auto parts assortments closer to customers by building 8 additional PartSource hub stores	• The Calgary automotive warehouse management technology was substantially completed for implementation in early 2010 • Completed the physical retrofit of three automotive distribution centres so that the assortment could be increased to more than 50,000 SKUs • 10 PartSource hub stores serve 149 CTR stores. Two of the hub stores were established in 2009
2. Advance the CTR Change Program • Simplify pricing, promotional planning and vendor management • Integrate merchandising planning and streamline organizational structures	• Completed and implemented software upgrade to enable pricing and master data management capabilities • Build of technology solution for promotional planning capability, commencement of rollout of processes and testing of technology • Completed and implemented prototype of sales and operational planning enhancements across all CTR merchandise divisions • Progressed work on new processes and technology to improve returns desk practices at store level and online
3. Advance the multi-year technology infrastructure initiative • Upgrade the technology infrastructure that supports CTR, PartSource and Petroleum to increase functionality, reduce risk, lower operating costs, and simplify overall architecture	• Replaced uninterrupted power supply to improve availability and reduce risk • Implemented new storage capabilities to reduce cost and improve performance • Implemented wireless capabilities in office facilities and upgraded wireless in distribution facilities to improve security and productivity
4. Drive operating efficiencies across CTC businesses • Continue operational efficiency reviews at Financial Services • Improve effectiveness of CTR store renewal in Smart store retrofits	• Financial Services continued ongoing process reviews that targeted cost reduction and improved customer experience • Financial Services' core operating expense ratio (excluding Retail Banking) declined 6 bps in 2009 compared to 2008 • CTR improved the effectiveness of its store renewal program by leveraging existing assets and driving productivity through the reallocation of space and expanded assortments. 25 stores were re-merchandised to the Smart store format in Fall 2009 in less time and at a lower cost than the Concept 20/20 retrofit program
5. Advance organizational effectiveness • Improve and align organizational structures	• Brought alignment of automotive assets underneath one officer • Centralized corporate functions within the Company to achieve organizational efficiencies and effectiveness • Increased focus on financial strategy and performance led by former CFO, with a mandate to improve retail ROIC and financial performance throughout the Company

Shareholder and corporate information

Home office

Canadian Tire Corporation, Limited
2180 Yonge Street
P.O. Box 770, Station K
Toronto, Ontario M4P 2V8 Canada
Telephone 416-480-3000
Fax 416-544-7715
Website http://corp.canadiantire.ca

Shareholder contacts

Karen Meagher
Associate Vice-President, Investor Relations
karen.meagher@cantire.com

Investor Relations email
investor.relations@cantire.com

Media contact

Amy Cole
Associate Vice-President,
Corporate Communications
amy.cole@cantire.com

Annual and special meeting of shareholders

MaRS Collaboration Centre
101 College Street
Toronto, Ontario
Thursday, May 13, 2010
10:00 a.m. (EDT)

Exchange listings

The Toronto Stock Exchange:
Common Shares (CTC)
Class A Non-Voting Shares (CTC.A)

Auditors

Deloitte & Touche LLP
Chartered Accountants

Bankers

Canadian Imperial Bank of Commerce
Bank of Montreal
Royal Bank of Canada
The Bank of Nova Scotia
The Toronto-Dominion Bank
National Bank of Canada
HSBC Bank Canada
BNP Paribas (Canada)
RBS ABN Amro Bank
Alberta Treasury Branches

Registrar and transfer agent

Computershare Trust Company of Canada
100 University Avenue
Toronto, Ontario M5J 2Y1
Canada
Telephone: 514-982-7555
Toll-free: 1-800-564-6253
Fax: 1-866-249-7775
Email: service@computershare.com

To change your address, eliminate multiple mailings, transfer Canadian Tire shares, inquire about our Dividend Reinvestment Program or for other shareholder account inquiries, please contact the principal offices of Computershare Trust Company of Canada in Halifax, Montreal, Toronto, Winnipeg, Calgary or Vancouver.

Disclosure documents

Corporate governance disclosure and other investor information are available online from the investor relations pages of the Company's website at http://corp.canadiantire.ca/en/investors.

Additional copies of this Annual Report and other disclosure documents such as the Company's Management Information Circular, the Annual Information Form and quarterly reports can be downloaded or requested in print form from the same website.

Version française du rapport

Pour télécharger la version française du rapport annuel de Canadian Tire ou en demander un exemplaire, veuillez consulter le site Web de Canadian Tire, à l'adresse http://corp.canadiantire.ca/fr/investors.

2009 dividends declared

Declaration date	Record date	Payable date	Amount payable per share
Feb 12, 2009	Apr 30, 2009	Jun 1, 2009	$0.21
May 14, 2009	Jul 31, 2009	Sep 1, 2009	$0.21
Aug 13, 2009	Oct 30, 2009	Dec 1, 2009	$0.21
Dec 10, 2009	Jan 29, 2010	Mar 1, 2010	$0.21

Dividends paid by the Corporation in 2009 and subsequent years are considered "eligible dividends" for tax purposes.

Canadian Tire Corporation, Limited

Financial Report 2009

The power of the triangle

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Canadian Tire Corporation is one of Canada's most respected companies and it was an honour to assume the role of Chief Financial Officer in the fourth quarter of 2009.

I step into this position during one of the most challenging periods in our history. Yet despite tough economic conditions, we ended the year in one of our strongest financial positions of the last decade. We accomplished this by focusing on our margins, controlling capital expenditures, and retiring expensive debt.

Prudent operating and financial management will remain important, however in 2010 we will be more tightly focused on improving our retail return on invested capital (ROIC) and growing free cash flow. As CEO Stephen Wetmore explains in his letter to shareholders in our Annual Report, we intend to drive our retail ROIC by focusing on our core business – Canadian Tire Retail (CTR). After 15 years of steady investments, today we can turn our attention to improving sales productivity and the return on the retail assets that we have built.

The timing of this increased focus on retail ROIC could not have been better. In 2009, during tight credit markets and constrained consumer demand, we were able to reduce capital expenditures to $273 million from an anticipated $390 million while continuing to enhance our assets with our new capital-light store formats, the Smart and Small Market stores. We plan to maintain capital expenditures in a range between $280 million and $300 million to more closely match depreciation charges, but we'll do this without compromising our ability to grow or establish an enhanced, and consistent, customer experience.

Message from the Chief Financial Officer

The strength of our financial position will make it possible to retire $300 million in debt maturing in 2010. We do not plan to refinance this debt, and we do not have any corporate debt maturing in 2011 or 2012. We have ample sources of funding available, including $1.2 billion in committed lines of credit and $2.1 billion in deposits, ensuring sufficient cost-effective funding to support our businesses.

The success of any business depends as much on managing risks as it does on capturing opportunities. During 2009, we launched a comprehensive review of the risks to our performance as well as our risk management processes and capabilities. Canadian Tire manages risk strategically through its Enterprise Risk Management (ERM) program. While improvements to ERM were identified and will be implemented in 2010, the performance of our businesses during the recession made it evident that our risk management capabilities are amongst the best in the industry. For example, the credit risk management strategies adopted over the years by Canadian Tire Financial Services (Financial Services) have resulted in Financial Services experiencing a lower growth in bankruptcies than the Canadian average in 2009. This is quite an accomplishment given the challenging economy.

As CFO, I will also shepherd this great Company through the change to International Financial Reporting Standards (IFRS). You'll find a thorough discussion of our approach to the transition to IFRS in the MD&A. I can assure you that we will not only be ready, we will make every effort to ensure a smooth transition for the Company and the investment community that follows our stock.

Finally, I am proud to confirm our commitment to disclosure transparency and thoroughness. In 2009, Canadian Tire was honoured with a Corporate Reporting Award from the Canadian Institute of Chartered Accountants. This was the sixth consecutive year that we received this award, but we will not be complacent. In fact, the transition to IFRS will make it even more important that we seek ways to deliver the information that shareholders need to make sound investment decisions.

Canadian Tire remains one of the strongest and most beloved brands in Canada. Our commitment to earning that trust is unwavering – in our stores and in our financial management and disclosure practices. It is a commitment that will, in turn, create long-term value for our shareholders.

Marco Marrone
Chief Financial Officer and Executive Vice-President, Finance

Management's Discussion and Analysis

March 11, 2010

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INTRODUCTION

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

Definitions

In this document, the terms "we", "us", "our", "Company" and "Canadian Tire" refer to Canadian Tire Corporation, Limited and its business units and subsidiaries. For commonly used terminology (such as retail sales and same store sales), see section 5.3 (Business segment performance) and the Glossary of Terms at the end of this financial report.

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 March 11, 2010.

Quarterly and annual comparisons in this MD&A

Unless otherwise indicated, all comparisons of results for the fourth quarter (13 weeks ended January 2, 2010) are against results for the fourth quarter of 2008 (14 weeks ended January 3, 2009) and all comparisons of results for the full year of 2009 (52 weeks ended January 2, 2010) are against results for the full year of 2008 (53 weeks ended January 3, 2009).

Restated figures

Certain of the prior periods' figures have been reclassified or restated to conform to the current year's presentation or to be in accordance with the adoption of the Canadian Institute of Chartered Accountants' (CICA) new accounting standards. Please refer to Notes 1 and 22 in the Notes to the Consolidated Financial Statements for further information.

Accounting estimates and assumptions

The preparation of consolidated financial statements that conform with Canadian generally accepted accounting principles (GAAP) requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the Consolidated Financial Statements and the reported amounts of revenue and expenses during the reporting period. The Company calculates its estimates using detailed financial models that are based on historical experience, current trends and other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from those estimates. In our judgment, the accounting policies and estimates detailed in Note 1 of the Notes to the Consolidated Financial Statements for the year ended January 2, 2010 do not require us to make assumptions about matters that are highly uncertain and accordingly none of the estimates are considered a "critical accounting estimate" as defined in Form 51-102F1 published by the Ontario Securities Commission, except as noted in section 15.0.

Forward-looking statements

This MD&A contains statements that are forward-looking. Actual results or events may differ materially from those forecasted in this disclosure because of the risks and uncertainties associated with Canadian Tire's business and the general economic environment. See section 22.0 in this MD&A for additional important information and a caution on the use of forward-looking information. This is especially important in view of the current uncertain economic environment.

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

1.0 OUR COMPANY

1.1 Overview of the business

Canadian Tire has been in business for 88 years, offering everyday products and services to Canadians through its growing network of interrelated businesses. Canadian Tire, our Dealers, store operators, franchisees and Petroleum agents operate more than 1,200 general merchandise and apparel retail stores and gas bars. Canadian Tire Financial Services Limited and Canadian Tire Bank also offer a variety of financial services to Canadians, including the Canadian Tire Options® MasterCard®, personal loans, lines of credit, insurance and warranty products, guaranteed investment certificates (GICs) offered through third-party brokers and directly to the public, and high-interest and tax-free savings accounts.

Canadian Tire's four main businesses are described below.

Canadian Tire Retail (CTR) is one of Canada's most shopped general merchandise retailers, with a network of 479 Canadian Tire stores that are operated by Dealers, who are independent business owners. Dealers buy merchandise from the Company and sell it to consumers in Canadian Tire stores. CTR includes PartSource. PartSource is a chain of 87 specialty automotive hard parts stores that cater to serious "do-it-yourselfers" and professional installers of automotive parts. The PartSource network consists of 26 franchise stores and 61 corporate stores.

Mark's Work Wearhouse (Mark's) is one of Canada's leading clothing and footwear retailers, operating 378 stores nationwide, including 335 corporate and 43 franchise stores, that offer men's wear, women's wear and industrial wear. Mark's operates under the banner "Mark's", and in Quebec, "L'Équipeur®". Mark's also conducts a business-to-business operation under the name "Imagewear, a Division of Mark's Work Wearhouse™".

Canadian Tire Petroleum (Petroleum) is one of Canada's largest independent retailers of gasoline with a network of 272 gas bars, including 267 convenience stores and kiosks, 73 car washes, 11 Pit Stops and 88 propane stations. The majority of Petroleum's sites are co-located with Canadian Tire stores as a strategy to attract customers to Canadian Tire stores. All of Petroleum's sites are operated by agents.

Canadian Tire Financial Services Limited (Financial Services) markets a range of Canadian Tire-branded credit cards, including the Canadian Tire Options® MasterCard® and Gas Advantage® MasterCard®. Financial Services also markets personal loans, lines of credit, insurance and warranty products and an emergency roadside assistance service called Canadian Tire Roadside Assistance®. Canadian Tire Bank (CTB), a wholly-owned subsidiary of Financial Services, is a federally regulated bank that manages and finances Canadian Tire's consumer MasterCard, VISA and retail credit card portfolios, as well as the personal loan and line of credit portfolios, and is the issuer of GICs offered through third-party brokers. CTB also offers high-interest and tax-free savings accounts and retail GICs in all provinces except Quebec. CTB is a member of Canada Deposit Insurance Corporation (CDIC) and eligible deposit products issued by CTB may qualify for CDIC insurance coverage.

2.0 CORE CAPABILITIES

2.1 Brand equity

Canadian Tire is one of the most recognized and trusted names in Canadian business. CTR, Financial Services and Petroleum all share our logo, leveraging the loyalty, trust and emotional appeal embedded in the Canadian Tire name. In addition, CTR and Mark's have developed high-quality, private-label brands, such as Mastercraft® and Denver Hayes®, respectively, that have earned a level of credibility that is on par with national brands. Financial Services has developed into a thriving financial services business on the strength of the Canadian Tire brand and loyalty program and its own customer-focused culture. By leveraging the brand, and operating best-in-class call centres, Financial Services has extended its business into new growth areas. PartSource is an automotive parts specialty business that is winning customer loyalty by offering professional expertise and quality parts at competitive prices.

2.2 Loyalty program

Over 50 years ago, Canadian Tire's 'Money' loyalty program was launched as a customer traffic-builder for Canadian Tire's gas bars. Today, Canadian Tire 'Money' is one of Canada's most popular loyalty programs for customers who shop at our stores and fill up at our gas bars when they pay with cash or use their Canadian Tire-branded credit cards.

Commencing in 2009 and continuing into 2010, we began development of a redesigned and enhanced loyalty program to provide deeper customer insights.

2.3 National reach and scale

CTR's stores are conveniently located to serve more than 90 per cent of the population, and, with a distribution to more than 11 million homes, our weekly flyer is one of the most widely read advertising vehicles in Canada. Financial Services and Petroleum leverage Canadian Tire's national customer reach to encourage cross-shopping and build loyalty. Our shopping website, canadiantire.ca, is one of the country's most visited websites.

2.4 Innovative store formats, products and services

CTR has demonstrated expertise in the art of retailing – delivering innovative store designs and a merchandise selection that customers need and want. We continually refresh our store network and have built a reputation as an innovator by introducing new products, programs and services that address the everyday needs of customers. The objective is to launch new products with innovative features, at compelling prices, that enhance our unique mix of automotive, home and leisure products and that are not sold by any other retailer in this combination. Mastercraft® Swing Drill, Armor All® Windshield Wiper blades, Mastercraft Universal Socket Set, Kiddle Remote Hush Smoke Alarm, Shark Steam Pocket Mop, and Yardworks® Lawn Vac are all examples of new products recently introduced by CTR.

Mark's is also providing innovative apparel and footwear products, such as dri-WEAR® apparel, FRESHTECH® anti-microbial apparel, Tarantula® Anti-slip footwear and never-iron shirts for men and women. The combination of quality, style and functionality of these products is unique to Mark's.

2.5 Store network at a glance

Number of stores and retail square footage	**January 2, 2010**	January 3, 2009
Consolidated store count		
CTR retail stores[1]	**479**	475
PartSource stores	**87**	86
Mark's retail stores[1]	**378**	372
Petroleum gas bar locations	**272**	273
Total stores	**1,216**	1,206
Consolidated retail square footage (in millions)		
CTR	**19.0**	18.7
PartSource	**0.3**	0.3
Mark's	**3.3**	3.2
Total retail square footage[2] (in millions)	**22.6**	22.2

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

[2] The average retail square footage for Petroleum's convenience stores was 455 square feet per store in 2009. It has not been included in the total above.

2.6 Real estate management

Canadian Tire owns and manages more than $2 billion (net book value) in unencumbered real estate associated with our CTR, PartSource and Mark's stores and Petroleum sites. Our expertise in real estate enables us to expand quickly and efficiently, securing high-traffic, sought-after locations for our stores. We own more than 70 per cent of our CTR store properties. Since 1994, CTR has added, expanded or replaced over 400 stores and has sold many of the properties that became redundant.

2.7 CTR supply chain

CTR's supply chain is responsible for managing the flow of information and goods among our suppliers, CTR's supply chain partners and CTR stores. Supply chain partners include common carrier trucking companies, third-party logistics companies, ocean carriers and railways. Supply chain involves most aspects of product replenishment and product information flow at Canadian Tire.

Most of CTR's products are distributed to stores from the A.J. Billes Distribution Centre (located in Brampton, Ontario), the Brampton Distribution Centre, the Calgary Distribution Centre or the Montreal Distribution Centre (formerly referred to as the Eastern Distribution Centre). The A.J. Billes and Brampton Distribution Centres are operated by CTR and are staffed primarily by CTR employees. The Calgary and Montreal Distribution Centres are operated by a third-party logistics company. CTR also engages other third-party logistics companies to provide distribution capability in Toronto, Halifax and Vancouver. CTR utilizes additional space that it owns or leases primarily for product storage and returns processing.

To support growth in automotive hard parts sales and service, three Express Auto Parts distribution centres, which are situated in Calgary, Toronto and Montreal, provide overnight order processing six nights per week for nearly all CTR and PartSource stores and provide order delivery to most store locations between 24 and 48 hours from receipt of an order. CTR has entered into an agreement with an automotive parts vendor to supply CTR stores and PartSource stores with emergency auto parts not stocked within CTR's overall product assortment. The agreement expires in 2011.

Canadian Tire has been sourcing products outside North America since the 1970s and has built strong relationships with overseas suppliers and supply chain partners.

2.8 Mark's supply chain

Mark's engages a third-party logistics company to transport its product shipments from its two distribution centres to its stores and to transport most of its product shipments directly to its stores from domestic suppliers. The same third-party logistics company operates both Mark's distribution centres in Calgary and Brampton pursuant to an outsourcing arrangement with Mark's. Both distribution centre facilities are leased to Mark's by third-party lessors. The Brampton location continues to operate in its 182,300 square foot facility while the Calgary facility was relocated from its 125,500 square foot facility to a new, larger 186,500 square foot facility over the December 2008 to January 2009 timeframe. The movement of goods from offshore suppliers to these two distribution centres is managed by Mark's supply chain mostly through CTR's network of third-party logistics companies. Mark's also receives domestic transportation services from other third-party logistics companies.

2.9 Credit risk management

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

2.10 Call centres

Financial Services' commitment to creating lifelong relationships with our customers is reflected in the success of our customer call centres. Financial Services' call centres were recognized in seven of the last 10 years as the best in North America by an independent research company, Service Quality Measurement Group Inc., which measures over 300 call centres across North America on both cost and quality. In credit industry studies, credit card holders cited customer service as one of the primary reasons for deciding which credit card they use.

3.0 ECONOMIC OUTLOOK

3.1 Economic outlook and Company strategy

The year ahead is projected to remain challenging for retailers due to the slow pace of economic recovery and high unemployment levels, with the consequent impact on consumer confidence. If the Canadian economy and employment were to remain weak, the Company could, potentially, experience declining same store sales and margins in its retail businesses, lower growth in receivables at Financial Services as consumers reduce their credit card usage, higher bankruptcies and write-offs and further increases in funding costs across its businesses.

The Company is well positioned, however, in that:

> By the end of 2009 we were in one of our strongest financial positions in the last decade due to successful credit management initiatives, reduced capital expenditures, tightly controlled costs, improved liquidity, the retirement of long-term debt and good access to capital;

> CTR has strong consumer brands, a loyal customer base and a wide range of everyday products that are competitively priced and relevant to a cost-conscious consumer;

> Mark's emphasis on private-label products, many of which have added features and benefits to improve customer satisfaction and provide a compelling value proposition, has, in the recent past, allowed Mark's to continue to grow its business and increase its market share, despite temporary adverse business conditions; and

> Over the past few years, Financial Services has taken numerous steps to reduce its exposure to accounts with higher credit risk.

In 2010 the Company will take a balanced approach, maximizing earnings through focused growth initiatives, strong expense management and ongoing improvements in financial flexibility, while continuing to invest in long-term growth and productivity initiatives, positioning the Company for accelerated growth in any subsequent business cycle upturn.

4.0 2010 STRATEGIC PRIORITIES

The long-term growth and success of CTC will primarily be driven by a healthy core CTR business. During 2010, the Company will focus on programs to increase the long-term return on the assets employed in the business. These will include programs to improve the overall customer experience and consistency in customer service between stores, leveraging industry-leading core assets in the automotive business, and positioning each Canadian Tire business unit to actively support and drive consumers to the core CTR business. This strategy will enable the Company to optimize the significant investments already made in store and supply chain infrastructure and is expected to drive sustainable, long-term earnings growth.

Key areas of focus in 2010 will build on the momentum of significant programs and initiatives that are underway:

- Continued rollout of capital-light CTR Smart stores;
- Continuation of key productivity initiatives including the CTR change and IT renewal programs designed to improve operating efficiencies and project execution;
- Development of a redesigned and enhanced loyalty program providing deeper customer insights;
- Significant staffing and process changes within CTR Marketing, Merchandising and Store Operations to improve core processes and to increase the resources available to drive an enhanced customer experience at store level;
- Refocused and aligned core automotive assets with a singular focus on gaining market share and strengthening the Canadian Tire brand;
- Centralized key support functions designed to decrease operating costs and improve operating efficiencies for business units;
- Reduced operating expenses and lowered on-hand inventory levels at CTR;
- Development of enhanced supply chain and operations capabilities at Mark's through new technology investments;
- Ongoing focus on credit risk management at Financial Services;
- Strong financial management resulting in improved liquidity, a strong balance sheet and reconfirmed credit ratings; and
- Focused initiative on enhancing performance management across the organization, including improved execution on key strategic initiatives and better integrated operating and strategic planning processes.

All of these activities are expected to start delivering benefits in 2010/2011, including improvements in return on invested capital (ROIC) in our retail businesses. However, the benefits will be partially offset by a number of expected costs in 2010:

- $8 million to $10 million impact in new financial service regulations at Financial Services;
- $8 million cost for a new "chip card" launch at Financial Services;
- $5 million to $8 million cost of International Financial Reporting Standards (IFRS) implementation, impacting all business units;
- $5 million impact of sales tax harmonization; and
- Increase in year-over-year costs to support key strategic initiatives, principally at CTR.

The Company will share more details of its strategic priorities at an investor conference and media day on April 7, 2010.

5.0 OUR PERFORMANCE IN 2009

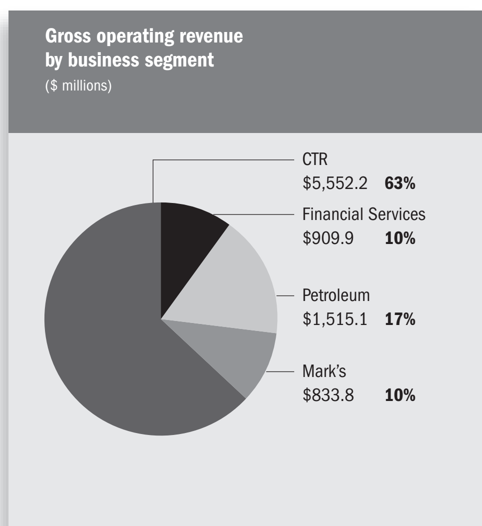
Unless otherwise indicated, all comparisons of results for the fourth quarter (13 weeks ended January 2, 2010) are against results for the fourth quarter of 2008 (14 weeks ended January 3, 2009) and all comparisons of results for the full year of 2009 (52 weeks ended January 2, 2010) are against results for the full year of 2008 (53 weeks ended January 3, 2009).

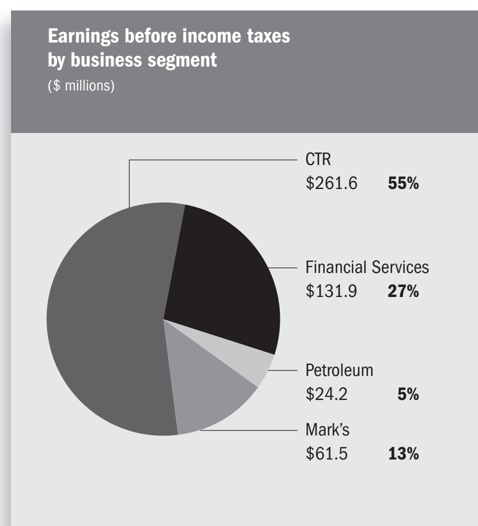
Throughout this document, we refer to adjusted pre-tax and after-tax earnings before the impact of non-operating items. Non-operating items are generally the net gains and losses from transactions that are not consistent from quarter to quarter, such as securitization activities and dispositions of surplus property and equipment. In addition, we occasionally include unusual and/or non-recurring items, which are identified and explained at the time. We believe the adjusted figures allow for a clearer assessment of earnings for each of our businesses and provide a more meaningful measure of our consolidated operating results. Please refer to section 18.0 for more information on these and other non-GAAP measures that we use in this MD&A.

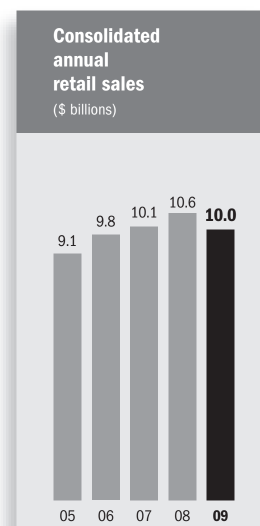
5.1 Consolidated financial results

($ in millions except per share amounts)	Q4 2009	Q4 2008[1]	Change	2009	2008[1]	Change
Retail sales[2]	**$ 2,993.0**	$ 3,219.6	(7.0)%	**$ 10,020.9**	$ 10,614.4	(5.6)%
Gross operating revenue	**2,437.7**	2,587.8	(5.8)%	**8,686.5**	9,121.3	(4.8)%
EBITDA[3]	**248.7**	276.8	(10.1)%	**873.7**	891.8	(2.0)%
EBITDA, excluding Financial Services[3,4]	**191.7**	218.9	(12.4)%	**668.4**	673.7	(0.8)%
Earnings before income taxes	**141.4**	149.8	(5.6)%	**479.2**	543.0	(11.8)%
Effective tax rate	**32.0%**	32.3%		**30.1%**	30.9%	
Net earnings	**$ 96.2**	$ 101.5	(5.2)%	**$ 335.0**	$ 375.4	(10.8)%
Basic earnings per share	**$ 1.18**	$ 1.24	(5.4)%	**$ 4.10**	$ 4.60	(10.9)%
Adjusted basic earnings per share[3]	**$ 1.28**	$ 1.60	(20.0)%	**$ 4.26**	$ 4.86	(12.4)%

[1] 2008 figures have been restated for the implementation, on a retrospective basis, of CICA Handbook Section (HB) 3064 – Goodwill and Intangible Assets and the amendments to CICA HB 1000 – Financial Statement Concepts. See sections 17.1 and 17.2 for additional information.
[2] Represents retail sales at CTR (which includes PartSource), Mark's corporate and franchise stores and Petroleum's sites.
[3] See section 18.0 for non-GAAP measures.
[4] EBITDA excluding Financial Services has been reported in this table, as EBITDA (similar to ROIC) is not the most relevant measure for Financial Services.







Highlights of top-line performance by business

	As reported[1]		Adjusted[2]	
(year-over-year percentage change)	Q4 2009[1]	Q4 2008	Q4 2009[2]	Q4 2008[3]
CTR retail sales[4]	**(8.3)%**	9.1%	**(3.1)%**	4.0%
CTR gross operating revenue	**(8.7)%**	3.3%	**N/A**	N/A
CTR net shipments	**(8.6)%**	3.0%	**N/A**	N/A
Mark's retail sales[5]	**(4.1)%**	5.9%	**0.7%**	1.6%
Petroleum retail sales	**(3.0)%**	(3.5)%	**N/A**	N/A
Petroleum gasoline volume (litres)	**(8.1)%**	4.1%	**N/A**	N/A
Financial Services' credit card sales	**3.4%**	1.4%	**N/A**	N/A
Financial Services' gross average receivables	**1.8%**	6.6%	**N/A**	N/A

[1] Fiscal 2009 sales and earnings figures are based on a 13-week period for the fourth quarter compared to 14 weeks for the fourth quarter in 2008.
[2] Fiscal 2009 retail sales figures have been provided on a comparable "same calendar week basis" to fiscal 2008, to make fiscal 2009's results more comparable to the prior year.
[3] Fiscal 2008 retail sales figures exclude week 53.
[4] Includes sales from Canadian Tire stores, PartSource stores and the labour portion of CTR's auto service sales.
[5] Includes retail sales from Mark's corporate and franchise stores.

Fourth quarter

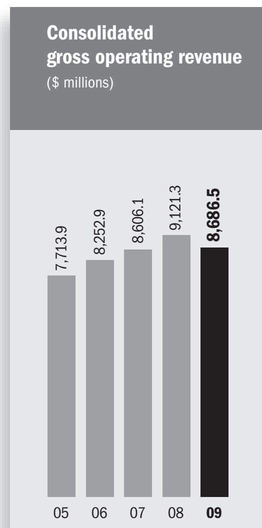
Consolidated gross operating revenue Reported consolidated gross operating revenue for the quarter declined 5.8 per cent from the prior year primarily as a result of a reduced number of selling days in comparison with the prior year comparatives. Net shipments at CTR declined 8.6 per cent due, in part, to an additional fifty-third trading week in the 2008 comparative results. Furthermore, Dealers are managing their winter-related inventory in a climate of minimal snowfall accumulation in the provinces of Ontario and Quebec. Mark's gross operating revenue declined by 4.3 per cent and Petroleum's gross operating revenue decreased by 3.7 per cent, mostly due to the reduced number of selling days. Partially offsetting these was Financial Services, whose revenue remained strong in the fourth quarter, with gross operating revenue up 11.9 per cent due to a higher yield and growth in account balances.

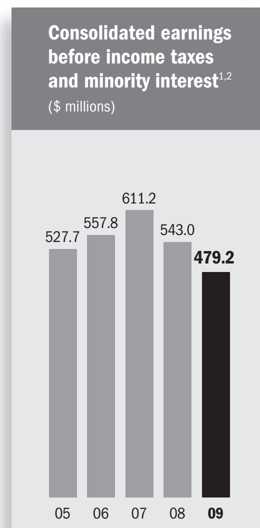
Consolidated net earnings Consolidated net earnings for the quarter decreased 5.2 per cent from the prior year due to a reduced number of selling days as referenced above and a higher loan loss provisioning at Financial Services attributable to the weak economic environment. Financial Services also experienced higher interest expense due to carrying excess liquidity. Partially offsetting the decrease in Financial Services' earnings were CTR supply chain cost efficiencies and savings realized in personnel, advertising and other operating expenses due to effective cost management. In addition, the prior year's fourth quarter earnings were significantly influenced by the impact of the unwind of the delayed-start interest rate swap, a non-operating item referred to below.

Full year 2009

Consolidated gross operating revenue Partly due to the reduced number of selling days referenced above, consolidated gross operating revenue decreased 4.8 per cent compared to 2008. Gross operating revenue at Petroleum fell due to a decrease in pump prices experienced through 2009 as compared with 2008. Mark's gross operating revenue decreased by 4.4 per cent as sales of men's wear and industrial wear declined in a softer and challenged economy. Financial Services experienced a 10.9 per cent increase in gross operating revenue, due mainly to growth in credit card balances.

Consolidated net earnings Consolidated net earnings decreased 10.8 per cent compared to the same period of 2008. In addition to the reduced number of selling days referenced above, the decrease was caused by higher loan loss provisioning due to the economic environment and higher interest expense attributable to carrying excess liquidity at Financial Services. Non-operating items, referenced below, also affected the annual results.





[1] 2008 results have been restated for the implementation, on a retrospective basis, of CICA HB 3064 – Goodwill and Intangible Assets and the amendments to CICA HB 1000 – Financial Statement Concepts. See sections 17.1 and 17.2 for additional information. Data required to restate the information prior to 2008 is not available.

[2] The Company had minority interest up to 2006.

Impact of non-operating items The following table shows our adjusted consolidated earnings on a pre-tax and after-tax basis, after taking into account certain non-operating and/or non-recurring and unusual items.

Adjusted consolidated earnings before and after income taxes[1]

($ in millions except per share amounts)	**Q4 2009**	Q4 2008[2]	Change	**2009**	2008[2]	Change
Earnings before income taxes	**$ 141.4**	$ 149.8	(5.6)%	**$ 479.2**	$ 543.0	(11.8)%
Less pre-tax adjustment for:						
Former CEO retirement obligation[3]	**0.0**	(6.2)		**0.5**	(5.1)	
Redemption of debentures[3]	**(7.7)**	–		**(6.1)**	–	
Net effect of securitization activities[4]	**(1.0)**	(10.6)		**(7.8)**	(2.9)	
Delayed-start interest rate swap[3]	**–**	(28.7)		**–**	(28.7)	
Costs associated with sale of mortgage portfolio[5]	**(5.3)**	–		**(5.3)**	–	
Gain (loss) on disposals of property and equipment	**1.9**	3.0		**(0.4)**	5.4	
Adjusted earnings before income taxes[1]	**$ 153.5**	$ 192.3	(20.2)%	**$ 498.3**	$ 574.3	(13.2)%
Income taxes	**49.1**	62.2		**150.3**	177.9	
Adjusted earnings after income taxes[1]	**$ 104.4**	$ 130.1	(19.8)%	**$ 348.0**	$ 396.4	(12.2)%
Basic earnings per share	**$ 1.18**	$ 1.24	(5.4)%	**$ 4.10**	$ 4.60	(10.9)%
Adjusted basic earnings per share[1]	**$ 1.28**	$ 1.60	(20.0)%	**$ 4.26**	$ 4.86	(12.4)%

[1] See section 18.0 on non-GAAP measures.
[2] 2008 figures have been restated for the implementation, on a retrospective basis, of CICA HB 3064 – Goodwill and Intangible Assets and the amendments to CICA HB 1000 – Financial Statement Concepts. See sections 17.1 and 17.2 for additional information.
[3] The former CEO retirement obligation, the redemption of debentures and the delayed-start interest rate swap have been recorded in CTR. See section 5.3.1.3.
[4] Includes initial gain/loss on the sale of loans receivable, amortization of servicing liability, change in securitization reserve and gain/loss on reinvestment.
[5] The costs associated with the sale of the mortgage portfolio have been recorded in Financial Services. See section 5.3.4.5.

Selected annual consolidated financial information and trend analysis

($ in millions except per share amounts)	**2009**	2008[1]	2007[2,3]	2006[3,4]	2005[3,4]
Gross operating revenue[5]	**$ 8,686.5**	$ 9,121.3	$ 8,606.1	$ 8,252.9	$ 7,713.9
Net earnings	**335.0**	375.4	411.7	354.6	330.1
Basic earnings per share	**4.10**	4.60	5.05	4.35	4.04
Fully diluted earnings per share	**4.10**	4.60	5.05	4.31	3.98
Cash dividends declared per share (annualized basis)	**0.84**	0.84	0.74	0.66	0.58
Total assets	**8,789.5**	7,783.8	6,764.8	5,804.6	5,955.6
Long-term debt (excluding current portion)	**1,101.9**	1,373.5	1,341.8	1,168.4	1,171.3
Long-term deposits (excluding current portion)	**1,196.9**	598.7	3.8	–	–
Financial Services gross average receivables (total portfolio)	**4,071.5**	3,913.0	3,650.4	3,409.0	3,042.3
Number of retail locations	**1,216**	1,206	1,168	1,130	1,112

[1] 2008 results have been restated for the implementation, on a retrospective basis, of CICA HB 3064 – Goodwill and Intangible Assets and the amendments to CICA HB 1000 – Financial Statement Concepts. See sections 17.1 and 17.2 for additional information.
[2] 2007 results have been restated for the implementation, on a retrospective basis, of CICA HB 3031 – Inventories.
[3] 2005, 2006 and 2007 have not been restated for the implementation, on a retrospective basis, of CICA HB 3064 – Goodwill and Intangible Assets and the amendments to CICA HB 1000 – Financial Statement Concepts. Data is not available.
[4] 2005 and 2006 results have not been restated for the implementation, on a retrospective basis, of CICA HB 3031 – Inventories. Data is not available.
[5] Gross operating revenue has been restated for the reclassification of passive interest income to short-term interest expense from 2005 to 2007.

The five-year trend chart shown above demonstrates growth in gross operating revenue between 2005 and 2008, attributable to growth in our retail businesses, expansion of our loan portfolio and rising gasoline prices at Petroleum. In 2009, gross operating revenue declined due to the impact of the economy on our retail businesses and a reduction in gasoline prices at Petroleum. Despite the challenging economic conditions in 2009, gross operating revenue increased four out of the past five years across all of our business units due to:

- higher shipments to CTR Dealers as our store network has grown and the layout in our newer store concepts has improved;
- increased sales at Mark's due to network growth, enhancements to product assortment and a strategy that focuses on the Clothes That Work campaign;
- higher sales at Petroleum due to rising gas prices over the period, and an increased focus on ancillary products and services such as convenience store offerings and car washes; and
- increased revenue at Financial Services due to growth in the portfolio of loans receivable, as well as insurance and warranty services.

Long-term debt grew between 2006 and 2008 largely due to continued investment in the growth of our retail businesses and expanded distribution capacity. In 2009, we retired $150 million of debentures prior to their maturity date. Long-term debt as a percentage of total assets over the period has declined due to the proportion of financing that is being supported by Financial Services' short-term deposit balances.

Deposits have increased over the past few years as a result of a change in financing strategy for our credit card receivables at Financial Services. Tight credit market conditions since August 2007 were not conducive to securitization activities on credit card receivables. Deposits from broker and retail GICs provided an alternative and effective strategy to finance the credit card receivables.

Financial Services' gross average receivables (total portfolio) have increased each year over the five-year period. This is due to efforts by Financial Services to grow the total portfolio through increasing the number of accounts with a balance and increasing the average balance per account. In addition, 2008 saw the successful relaunch of the Options MasterCard, with Pay Pass capability.

For our retail network, the focus is now on leveraging existing assets by driving productivity through the reallocation of space and expanded assortments, all at a lower capital cost than the previous generation Concept 20/20 stores. The Smart store format, launched in fall 2008, features category dominance in key heritage businesses, improved customer experience and a focus on improving in-store operations via a new program called "Operational Excellence". The Small Market format, launched in summer 2008, is used to replace existing small traditional stores in their markets, and also allows CTR to enter incremental markets. Small Market stores also incorporate a Mark's outlet and Petroleum gas bar where feasible. In addition, the Mark's store network continued to expand under a common banner and PartSource converted a number of its franchise stores into corporate stores.

Seasonal trend analysis The second and fourth quarters of each year are typically when we experience stronger revenues and earnings in our retail businesses because of the seasonal nature of some merchandise at CTR and Mark's and the timing of marketing programs. The following table shows our financial performance by quarter for the last two years.

Consolidated quarterly results[1]

($ in millions except per share amounts)	**Q4 2009**	**Q3 2009**	**Q2 2009**	**Q1 2009**	Q4 2008	Q3 2008	Q2 2008	Q1 2008
Gross operating revenue	**$ 2,437.7**	**$ 2,165.9**	**$ 2,324.8**	**$ 1,758.1**	$ 2,587.8	$ 2,257.5	$ 2,450.7	$ 1,825.3
Net earnings	**96.2**	**85.4**	**103.7**	**49.7**	101.5	109.1	97.7	67.1
Basic and diluted earnings per share	**1.18**	**1.04**	**1.27**	**0.61**	1.24	1.34	1.20	0.82

[1] 2008 quarterly results have been restated for the implementation, on a retrospective basis, of CICA HB 3064 – Goodwill and Intangible Assets and the amendments to CICA HB 1000 – Financial Statement Concepts. See sections 17.1 and 17.2 for additional information.

Items that affected the usual seasonal pattern noted above include:

- Q2 2008 was negatively impacted by a $12.0 million pre-tax book-to-physical inventory adjustment at Mark's;
- Q2 2008 was negatively impacted by a $9.7 million pre-tax expense related to the Options MasterCard relaunch at Financial Services;
- Q3 2008 was positively impacted by an $8.6 million reduction in the tax provision, most of which related to the impact of the sale-leaseback transactions entered into since 2005;
- Q4 2008 was negatively impacted by a $28.7 million pre-tax expense related to a delayed-start interest rate swap adjustment at CTR;
- Q1 2009 was positively impacted by a $4.6 million reduction in the tax provision related to the retroactive change in the taxation of gains realized from the disposition of shares during 2006 and 2007;
- Q4 2009 was negatively impacted by a $7.7 million expense related to the early redemption of $150 million debentures at CTR; and
- Q4 2009 was negatively impacted by a $5.3 million expense related to the costs associated with the sale and wind-down of the mortgage portfolio activity at Financial Services.

5.2 Business unit 2009 performance overview

Canadian Tire Retail

2009 Performance highlights

> grew network to 479 stores;
> increased total retail space by 1.6 per cent; and
> continued development of new store formats by converting 34 stores to Smart stores and opening five Small Market stores.

PartSource 2009 performance highlights

> grew network to 87 stores;
> 10 hub stores now in the PartSource network; and
> grew sales by 12.7 per cent through strong commercial sales.

Mark's Work Wearhouse

2009 Performance highlights

> grew network to 378 locations and increased total retail space by 3.2 per cent;
> introduced new "CLOTHES THAT WORK®" prototype store; and
> continued to grow Mark's sales in women's wear, its major growth category in 2009.

Canadian Tire Financial Services

2009 Performance highlights

> grew gross average receivables for the total managed portfolio by 4.1 per cent;
> continued growth in the broker GIC portfolio; and
> sold the mortgage portfolio for $162 million.

Petroleum

2009 Performance highlights

> 272 gas bars and 267 convenience stores;
> refurbished 10 gas bars as part of the initiative to improve the overall customer experience at Petroleum's sites; and
> grew convenience store business by 14.2 per cent over the prior year.

The following sections outlining the Company's business segment performance highlight the respective segments' achievements to date against key initiatives identified in our Strategic Plan. The initiatives have been divided into growth (increase sales primarily through network growth, new stores and new products) and productivity (improve customer service metrics, service levels, cost-effectiveness and rates of return).

5.3 Business segment performance

5.3.1 Canadian Tire Retail

5.3.1.1 2009 Strategic Plan performance

The following outlines CTR's performance for the fourth quarter and full year 2009 in the context of our Strategic Plan.

Canadian Tire Retail growth initiatives

New store program
20/20 stores have been the cornerstone of CTR's growth agenda since 2003. This program is now complete and CTR has developed new store concepts which are designed to build on the successes of the 20/20 store program with a greater focus on improving sales and productivity at a lower capital cost. Plans for 2010 include opening new Smart store retrofits that will have the same focus on improving sales and productivity, as well as providing a more exciting customer experience, and Small Market stores which are designed to expand our presence in smaller markets.

2009 Key initiatives	2009 Performance
With the completion of the 20/20 program in 2008, CTR's strategy was to test/roll out the next versions of the CTR store. This included the building of, and conversion to, the new Smart stores and new Small Market stores which were an important aspect of the Strategic Plan.	*Fourth quarter* During the fourth quarter CTR: > replaced one traditional store with a Smart store incorporating a full Mark's store; > opened 25 Smart store retrofits; > opened three incremental Small Market stores, two of them incorporating a full Mark's store. *Full year 2009* > 34 Smart stores, four of them incorporating a full Mark's store; > five Small Market stores, four of them incorporating a full Mark's store; > closed one traditional store; and > closed two Mark's satellite stores operating within a Canadian Tire store. The store network now totals 479 stores, 52 of which include a Mark's component.

Customer experience

Canadian Tire is committed to building customer loyalty, largely through fostering a positive, consistent and memorable customer experience. In 2008, CTR began working on a new strategic model for the organization that will lead to a stronger emphasis on customer service.

2009 Key initiatives	2009 Performance
CTR planned to improve the customer service experience by implementing the Customer Service Index (CSI) to identify our core strengths and opportunities in order to grow sales.	***Fourth quarter*** CTR launched a national store rewards and recognition program to measure and reward store employees on sales increases and customer experience metrics. In conjunction with the rewards and recognition program, CTR started piloting new technology to assist customers in locating products and navigating the stores and began delivering store-based workshops for Dealers on methods to improve the customer experience. ***Full year 2009*** CTR restructured its Store Support division to help deliver a better customer experience. The new organization includes a larger and more focused field team, and new best practices focused on store operations such as in-stock, technology training, communications and merchandising position standards. The new CSI will give us the potential to reach an estimated one million additional customers (over and above the former "Store Intercept" program), providing real-time online reporting results to Dealers.

PartSource network expansion

PartSource will continue its expansion into new markets through a combination of new stores and small-scale acquisitions. PartSource's strategy to buy small local businesses and convert them to the PartSource banner has resulted in high rates of customer retention after conversion.

2009 Key initiatives	2009 Performance
PartSource planned on building CTR as a new commercial account for emergency shipments, updating the organizational structure, testing new operating systems and developing a new auto parts catalogue.	***Fourth quarter*** During the quarter, PartSource continued making progress on building the CTR commercial account. The entire PartSource network (which consists of hub stores, corporate stores and franchise stores) supplies emergency auto parts to approximately 210 Canadian Tire stores. PartSource converted three franchise stores to corporate stores. ***Full year 2009*** In 2009, PartSource built three new stores including one hub store, retrofitted one existing store to a hub store, converted seven franchise stores to corporate stores and closed two stores. As a result, there were 87 stores at the end of the year, including 10 hub stores.

Canadian Tire retail productivity initiatives

CTR Change Program
During 2007, CTR began to implement its multi-year productivity effort with projects designed to overhaul and upgrade internal processes and IT systems. The benefits of these projects include the ability to make faster and better decisions and improve our agility and speed to market.

2009 Key initiatives	2009 Performance
In 2009, CTR planned to implement productivity/control initiatives in the area of sales and operational planning, and analyze and build requirements for 2010 implementation in the areas of promotional planning and vendor relationship management.	***Fourth quarter and full year 2009*** Progress made on the CTR Change Program included: > completed and implemented of first phase of sales and operational planning enhancements across all CTR merchandise divisions; > completed and implemented software upgrade; > built technology solution for promotional planning capability; commenced rollout of processes and testing of technology; > built and tested new processes and technology to improve returns desk practices at store level and online; and > continued analysis of vendor engagement including scope definition and process design work.

Automotive Infrastructure initiative
The Automotive Infrastructure initiative is intended to drive growth in the Company's automotive businesses and improve the automotive customer experience at Canadian Tire and PartSource stores. The program is comprised of three primary components:

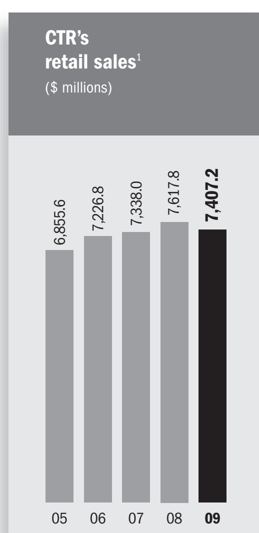
- significantly expanding Canadian Tire's automotive parts assortment and replacing aging assortment planning technology with a commercially available, best-of-breed decision rule and predictive modelling-based solution;
- upgrading CTR's automotive retail operating systems by replacing legacy-based "green screen" applications with Windows-based automotive management software, parts application and data management technology to drive a stronger customer experience; and
- creating a network of approximately 23 PartSource hub stores across Canada to enhance supply of auto parts at the local market level and training CTR front-line automotive staff on associated new processes.

2009 Key initiatives	2009 Performance
Throughout 2009, CTR planned to open eight PartSource hub stores. There was planned investment in the physical retrofit of the automotive distribution centres. New warehouse management software planned to be implemented in the Calgary auto parts distribution centre. The investment in distribution assets planned to support a 20 per cent increase in the number of auto parts in the assortment. Planned to implement an industry-leading automotive hard parts catalogue will begin in 2009.	***Fourth quarter and full year 2009*** Progress on the Automotive Infrastructure initiative included: Emergency supply processes: > 10 PartSource hub stores serve 149 Canadian Tire Retail stores. Two of the hub stores were established in 2009. Assortment deployment processes: > Now stocking approximately 52,000 stock keeping units (SKU) in two automotive distribution centres; and > Progress was made in placing the Calgary automotive warehouse management technology into production in early 2010. Customer experience processes: > CTR and our chosen vendors are developing the technology to support an improved customer experience process for do-it-yourself (DIY) and do-it-for-me (DIFM) customers.

5.3.1.2 Key performance indicators

The following are key measures of CTR's sales productivity:

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



[1] Includes sales from CTR and PartSource stores and the labour portion of CTR's automotive service sales. Prior to 2009, retail sales also included CTR's online web store.

CTR total retail and same store sales

(year-over-year percentage change)	**Q4 2009**	Q4 2008	**2009**	2008
Total retail sales[1,4]	**(8.3)%**	9.1%	**(2.8)%**	3.8%
13 weeks compared to 13 weeks[2,3,4]	**(3.1)%**	4.0%		
52 weeks compared to 52 weeks[2,3,4]			**(1.1)%**	2.3%
Same store sales[2]	**(9.4)%**	7.3%	**(4.2)%**	1.8%
13 weeks compared to 13 weeks[2,3,5]	**(4.1)%**	2.2%		
52 weeks compared to 52 weeks[2,3,5]			**(2.6)%**	0.3%

[1] Fiscal 2009 total retail sales and same store sales are based on a 13-week period for the fourth quarter and a 52-week period for the year compared to 14 weeks for the fourth quarter in 2008 and 53 weeks for the year 2008.
[2] Fiscal 2009 total retail sales and same store sales figures have been provided on a comparable "same calendar week basis" to fiscal 2008, to make fiscal 2009's results more comparable to the prior year.
[3] Fiscal 2008 retail sales and same store sales figures exclude week 53.
[4] Includes sales from Canadian Tire and PartSource stores and the labour portion of CTR's auto service sales.
[5] Includes sales from Canadian Tire and PartSource stores, but excludes sales from the labour portion of CTR's auto service sales.

CTR's retail sales
Retail sales represent total merchandise sold at retail prices at CTR stores and PartSource stores, and the labour portion of automotive sales to consumers across CTR's network of stores.

CTR's same store sales
Same store sales include sales from all stores that have been open for more than 53 weeks (in a 52-week fiscal year) or 54 weeks (in a 53-week fiscal year, such as in the case of the fiscal year ended January 3, 2009).

CTR store network definitions

Our store network has evolved as we have introduced new store formats into our store categories, which we define as follows:

Smart store format (late 2008) Average retail square footage: 55,000	Small Market store format (mid-2008) Average retail square footage: 17,000	Updated and Expanded store format (1994 to mid-2008) Average retail square footage: 43,000	Traditional store format (1994 and prior) Average retail square footage: 16,000	PartSource stores (2009 and prior) Average retail and warehouse square footage: 7,200. Hub stores: 15,000
Next store concept renewal, building off the 20/20 store with a focus on growth and improving productivity through inspiring layouts, refreshed assortments and more environmentally responsible options. Stores range in size from 28,000 to 83,000 square feet. There are currently 36 Smart stores in the network, the first of which opened in November 2008.	Smaller format launched in July 2008, ranging in size from 14,000 to 19,000 square feet. Small Market stores meet the needs of underserved rural markets and include customized product selection to serve a particular region, easy-to-navigate signage and walkways, prominent heritage departments (e.g.: hockey) and generously sized outdoor areas that "expand" the store in peak periods. There are currently nine Small Market stores in the network.	A combination of our newer format stores, including "20/20", "Class-of" and "Next Generation" stores. These stores, previously referred to as "standard stores", range in size from 16,000 to 89,000 square feet, and most were opened or converted to these formats between 1994 and mid-2008. "Updated and expanded" format stores make up approximately 83 per cent of the retail square footage in the CTR network (excluding PartSource).	Smaller than the "updated and expanded" store format on average. Traditional stores have various sizes and layouts ranging in size from 3,000 to 36,000 square feet. Traditional stores make up approximately six per cent of the retail square footage in the CTR network (excluding PartSource).	PartSource is an automotive parts specialty store designed to meet the needs of major purchasers of auto parts, professional automotive installers and serious do-it-yourselfers. Stores carry a tailored product assortment based on local vehicle needs and are easily recognizable with the checkerboard flooring design. Beginning in 2007, new larger warehouse locations (hub stores) were opened to help bring more parts inventory closer to customers at both CTR and PartSource stores.

CTR store count

	2009	2008	2007	2006	2005
Updated and expanded stores[1]	**363**	393	381	363	345
Traditional stores	**71**	76	92	105	117
Smart stores	**36**	2	–	–	–
Small Market stores	**9**	4	–	–	–
Total updated and expanded, traditional, Small Market and Smart stores	**479**	475	473	468	462
PartSource stores	**87**	86	71	63	57

[1] "Updated and expanded" stores decreased by 30 in 2009. They were converted into 30 Smart stores (one Smart store in Q1, four Smart stores in Q2 and 25 Smart stores in Q4).

CTR continues to retrofit its store network with a focus on converting selected traditional and "updated and expanded" existing stores to the latest formats. The 20/20 store format program was completed by the end of 2008 and two new formats (Small Market and Smart stores) were tested in late 2008 and in early 2009. These latest formats have been well received by customers to date. For example, the five replacement Smart stores that opened in 2009 experienced a sales uplift of over 25 per cent with average transactions up 14 per cent. The four retrofit expansion stores have experienced an 11 per cent sales uplift and a 6 per cent increase in average transactions. The real test to the Smart store strategy will be to look at how the format performs in a retrofit environment which allows us a low cost way to leverage our current assets while improving the shopping experience for our customers. We converted 25 stores to the Smart store concept in the fall of 2009 and early sales results are very positive with customer reaction to the concept being very well received. There have been significant increases in sales in growth categories such as storage and organization, pet food and accessories, exercise equipment, hockey equipment and kitchen. We are pleased with the results to date of our food test, and are extending it to one more store in the spring of 2010, bringing our total food test stores to 10. We will review the results of the test program in 2010 to determine the merits of expanding a food offering across all or part of the store network.

In 2010, we plan to retrofit approximately 60 stores as CTR Smart stores and bring six new CTR stores, consisting of two Smart stores and four Small Market stores, to market.

Average retail sales per CTR store[1,2]

($ in millions)	2009	2008
Updated and expanded stores	**$ 15.3**	$ 15.9
Traditional stores	**7.6**	7.8

[1] Retail sales are shown on a 52-week basis in each year and exclude sales from PartSource stores and the labour portion of CTR's auto service sales.
[2] Only includes stores that had been open for a minimum of two years as at the end of the year.

The "updated and expanded" stores typically experience higher customer traffic and increases in average transaction value compared to traditional store formats. For the rolling 12-month period, the average retail sales for the "updated and expanded" stores, as well as the traditional stores, experienced a decline.

The decline in sales per store is partially attributable to a weaker economy as well as unseasonable weather conditions in key markets which impacted our sales of seasonal merchandise such as winter tires and shovels.

Average sales per square foot of CTR retail space[1,2,3]

	2009	2008
Retail square footage[1,3] (millions of square feet)	**19.0**	18.7
Updated and expanded stores[2,3] ($ sales per square foot)	**$ 404**	$ 419
Traditional stores[2,3]	**485**	497

[1] Retail square footage is based on the total retail square footage including stores that had not been open for a minimum of two years. It represents a point in time (instead of a rolling 12-month period) as at the end of the year.
[2] Retail sales are shown on a 52-week basis in each year for those stores that had been open for a minimum of two years as at the end of the current quarter. Sales from PartSource stores and the labour portion of CTR's auto service sales are excluded.
[3] Retail space does not include warehouse, garden centre and auto service areas.

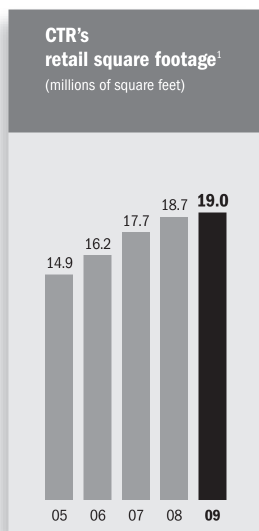
Retail square footage increased by approximately 0.3 million square feet year-over-year due to the network expansion and retrofit activities noted above.

Average sales per square foot of retail space in the larger "updated and expanded" store formats are lower than in traditional stores because additional space is designed to display more merchandise, accommodate wider aisles, include more appealing product displays and provide a more compelling shopping experience overall. The larger "updated and expanded" stores do however, on average, generate more total sales than the traditional stores.

Retail sales by product division[1,2]

($ in millions)	2009	2008	Change
Home	$ 2,606.2	$ 2,655.5	(1.9)%
Leisure	2,551.2	2,586.6	(1.4)%
Automotive	1,916.6	1,932.7	(0.8)%
Total	$ 7,074.0	$ 7,174.8	(1.4)%

[1] Retail sales are shown on a 52-week basis in both years and include sales from Canadian Tire and PartSource stores. PartSource retail sales on products not sourced from CTR and the labour portion of CTR's auto service sales have been excluded.
[2] Certain of the prior year's figures have been reclassified to conform with the current year's product groupings.

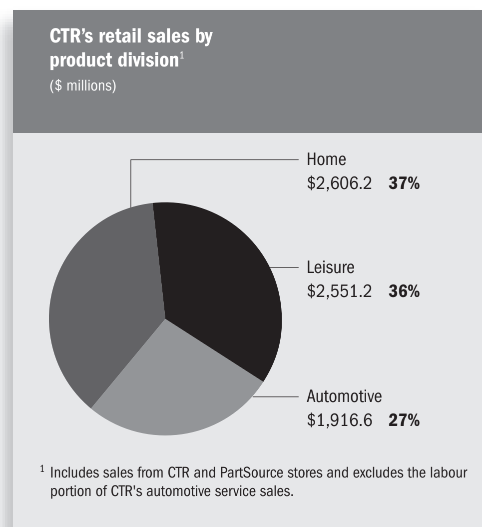


[1] Excludes PartSource stores.

Sales in each of our major product divisions experienced a decline in 2009, attributable to unseasonable weather throughout Canada for much of the year as well as the impact of the recession on discretionary items, as noted below.

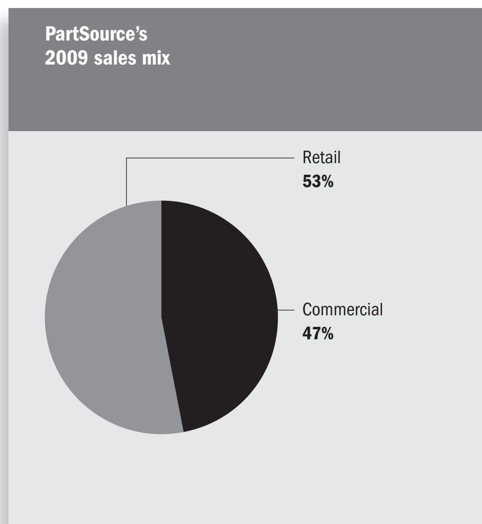
CTR retail sales

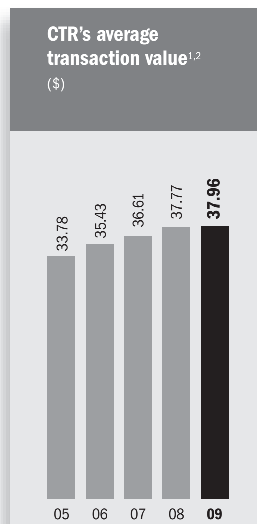
Fourth quarter Total retail sales for CTR for the 13-week fourth quarter of 2009 decreased 8.3 per cent compared to the 14-week fourth quarter of 2008, while same store sales decreased 9.4 per cent. On a same calendar week basis (13 weeks in 2009 compared to 13 weeks in 2008), total retail sales were down a more modest 3.1 per cent and same store sales decreased 4.1 per cent compared to the prior year. CTR's decreased retail sales reflect softness in winter-related merchandise sales during the quarter, influenced by the lack of snow, especially in Ontario and Quebec. Sales of winter tires, seasonally oriented auto parts, shovels and snowblowers were substantially lower than the fourth quarter of 2008. Discretionary items, such as electronics, were also negatively impacted by the recession, which affected consumer confidence throughout much of the year. In addition, the prior year's retail sales also benefited from the introduction of winter tire legislation in Quebec.



[1] Includes sales from CTR and PartSource stores and excludes the labour portion of CTR's automotive service sales.

PartSource experienced a decline in sales in the 13-week fourth quarter of 2009 compared to the 14-week quarter of 2008. On a more comparable 13-week basis, PartSource experienced another quarter of year-over-year sales increases driven by both the continued expansion of the network and improved product assortment. The nature of PartSource's business also makes it somewhat resilient during economic downturns as consumers will tend to repair rather than replace their vehicles at such times, especially in view of the uncertainty in the North American auto sector. In addition, PartSource shipments to Dealers continue to increase as components of the Automotive Infrastructure initiative rolled out.





Full year 2009 On an annual basis, total retail sales for CTR for the 52-week period of 2009 decreased 2.8 per cent compared to the 53-week period of 2008. On a same calendar 52-week basis (52 weeks in 2009 compared to 52 weeks in 2008), total retail sales were down only 1.1 per cent from 2008 sales levels. On this comparable basis, retail sales were strongest in some of our growth categories including pet care, household cleaning and exercise and weakest in electronics, footwear and apparel. As noted above, retail sales were affected by unseasonable weather experienced across the country and a challenging economy.

[1] Based on all stores (excluding PartSource).
[2] The calculation methodology was modified in 2009. The customer count denominator no longer deducts customers who return merchandise to our stores. The five-year chart has been restated for the new methodology.

5.3.1.3 CTR's financial results

($ in millions)	Q4 2009	Q4 2008[1]	Change	2009	2008[1]	Change
Retail sales	**$ 2,167.8**	$ 2,364.2	(8.3)%	**$ 7,407.2**	$ 7,617.8	(2.8)%
Net shipments (year-over-year % change)	**(8.6)%**	3.0%		**(2.4)%**	3.5%	
Gross operating revenue	**$ 1,494.4**	$ 1,636.4	(8.7)%	**$ 5,552.2**	$ 5,669.1	(2.1)%
EBITDA[2]	**114.6**	129.1	(11.1)%	**535.7**	527.0	1.7%
Earnings before income taxes	**38.0**	26.7	42.4%	**261.6**	249.4	4.9%
Less adjustment for:						
Redemption of debentures	**(7.7)**	–		**(6.1)**	–	
Delayed-start interest rate swap	**–**	(28.7)		**–**	(28.7)	
Gain on disposals of property and equipment	**2.2**	3.7		**1.8**	7.4	
Former CEO retirement obligation	**0.0**	(6.2)		**0.5**	(5.1)	
Adjusted earnings before income taxes[2]	**$ 43.5**	$ 57.9	(24.8)%	**$ 265.4**	$ 275.8	(3.7)%

[1] 2008 figures have been restated for the implementation, on a retrospective basis, of CICA HB 3064 – Goodwill and Intangible Assets and the amendments to CICA HB 1000 – Financial Statement Concepts. See sections 17.1 and 17.2 for additional information.
[2] See section 18.0 on non-GAAP measures.

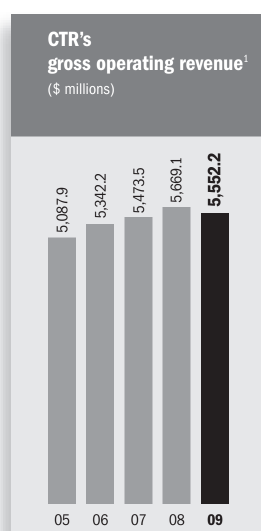
CTR's net shipments

CTR's net shipments includes merchandise shipped to Canadian Tire Retail stores and PartSource franchise stores and sold at corporate PartSource stores, less discounts and net of returns.

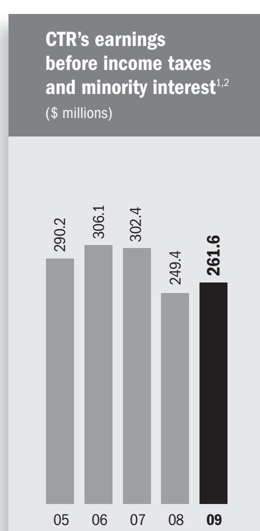
Explanation of CTR's financial results

Fourth quarter The decrease in gross operating revenue was aligned with the decrease in net shipments of 8.6 per cent for the quarter based on a 13-week period in 2009 as compared to a 14-week period in 2008.

Pre-tax earnings in CTR increased in the fourth quarter despite the decrease in net shipments, as operating margins were supported by reductions in supply chain and advertising costs. These were offset by an increase in depreciation expense, primarily due to the new Montreal Distribution Centre and higher restructuring costs. Pre-tax earnings were also affected by several non-operating items including a $7.7 million expense related to the early redemption of $150 million of debentures. While the net cost associated with this redemption decision impacted the current quarter negatively, it will result in significant interest savings in future quarters. The retired debentures carried a coupon rate of 12.10 per cent.



[1] Gross operating revenue numbers from 2005 to 2007 have been restated for the reclassification of passive interest income to short-term interest expense.



[1] 2008 results have been restated for the implementation, on a retrospective basis, of CICA HB 3064 – Goodwill and Intangible Assets and the amendments to CICA HB 1000 – Financial Statement Concepts. See sections 17.1 and 17.2 for additional information. Data required to restate the information prior to 2008 is not available.
[2] The Company had minority interest up to 2006.

Full year 2009 The decrease in gross operating revenue was aligned with the decrease in net shipments of 2.4 per cent for the year based on a 52-week period as compared to a 53-week period in 2008. Despite a decline in net shipments year over year, CTR maintained a stable operating margin rate as a percentage of gross operating revenue.

Pre-tax earnings in CTR increased over the prior year due to reductions in supply chain costs and advertising expenses. The prior year was also affected by non-operating items such as the $28.7 million delayed-start interest rate swap mark-to-market adjustment and the $5.1 million in executive retirement obligations.

5.3.1.4 Business trends

Canada's retail industry has experienced significant change over the past 10 years. Competition in the retail market generally and in individual sectors has intensified, with domestic retailers expanding and international retailers such as Walmart, Home Depot and, more recently, Lowe's entering and expanding in Canada. The industry has also experienced consolidation as many department stores and other retailers either have gone out of business or have been acquired.

Retail formats have continually increased in terms of store size and merchandise breadth, creating a situation where retailers are competing both within a specific industry segment (e.g., automotive and specialty) and across sectors (e.g., general merchandise and grocery). In order to maintain our competitive position, we believe we must have a clear and unique value proposition and be able to respond to the changing demographics and lifestyles of Canadian consumers, who demand choice, convenience, quality, value and service. Price competitiveness and promotional effectiveness are increasingly important factors in retail success.

Retail consumers faced significant challenges in 2009 due to the economic recession felt across Canada. The resulting job losses, slower income growth, and decrease in the value of investments have created greater uncertainty in consumers' minds and led to lower spending levels which are expected to continue into 2010.

The Company is taking these factors into account particularly in determining its future capital spending plans, focusing even more on productivity and cost-saving initiatives and continuing to support its value proposition across all businesses.

5.3.1.5 Business risks

CTR 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 CTR's operations. Refer to section 14.2 of this MD&A for a discussion of some other industry-wide and company-wide risks affecting the business.

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

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

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

5.3.2 Mark's Work Wearhouse

5.3.2.1 2009 Strategic Plan performance

The following outlines Mark's performance for the fourth quarter and full year of 2009 in the context of our Strategic Plan.

Mark's Work Wearhouse growth initiatives

Network expansion
A critical aspect of Mark's growth plan revolves around its objective of capturing an increasingly significant share of overall apparel sales in each geographic market in which Mark's competes. To increase Mark's market presence, the Company plans to continue with its goal of expanding the network of Mark's stores.

2009 Key initiatives

Mark's continued network development through opening new stores, relocating or expanding existing stores and renovating older stores to the newest Mark's format. For 2009, we planned to:

> open 14 new stores;

> relocate 10 stores;

> expand three stores; and

> grow the retail square footage by 5 per cent.

2009 Performance

Fourth quarter

> opened five new corporate stores, three of which are Combo stores with CTR (one Smart store and two Small Market stores);

> expanded one corporate store and one franchise store;

> relocated one franchise store; and

> closed one corporate store.

Full year 2009

> opened 11 new stores (six of which were combination stores with CTR);

> relocated 10 stores (two of which were combination stores with CTR and one of which was a franchise store);

> expanded two corporate stores and one franchise store; and

> increased total retail square footage by 3.2 per cent to 3.3 million retail square feet.

The economic conditions in 2009 caused Mark's to adjust growth plans mid-year and, ultimately, deliver fewer stores and lower incremental retail square feet than originally planned.

The store network now totals 378 stores, 52 of which are CTR/Mark's Combo stores.

New store concepts
In addition to adding incremental stores to the total network, Mark's is in the process of developing new store concepts that will be rolled out over the Plan period.

2009 Key initiatives

While participating in the Mark's portion of the newly developed concepts for CTR/Mark's Combo stores, such as Smart stores and Small Market stores, Mark's developed a new, stand-alone "CLOTHES THAT WORK®" store that will be tested in 2009.

2009 Performance

Fourth quarter
The three Combo stores opened in the fourth quarter were new format stores, consisting of one Smart store and two Small Market stores.

Full year 2009
In the third quarter of 2009, Mark's opened its first "CLOTHES THAT WORK®" prototype store. This Edmonton store includes a "product-testing freezer", where customers can plunge into a deep-freeze cold to try out our latest winter fashions, and a footwear test ramp. Customers have responded positively to these innovations. Sales at this relocated store were up 37.8 per cent when comparing the last 19 weeks of 2009 to the last 19 weeks of 2008.

Category expansion

Mark's growth goals for the Strategic Plan period will be supported by category expansion in its three major product lines. Although growth in women's wear was modest in 2007, 2008 and 2009, women's wear is still expected to be the fastest growing segment of the business over the Plan period as it is the least developed of the Mark's main category lines. Improvements in the product assortment in the women's wear category are expected to bring continued growth during the Plan period.

2009 Key initiatives

In 2009, Mark's planned to expand its product assortment in the three main categories of apparel and footwear with a focus on the Clothes That Work campaign.

2009 Performance

Fourth quarter – corporate sales

- sales of women's wear increased by 5.5 per cent (11.4 per cent when compared to only 13 weeks on a same calendar week basis instead of 14 weeks in the fourth quarter of 2008);
- sales of industrial wear decreased by 8.7 per cent (4.3 per cent when compared to only 13 weeks on a same calendar week basis instead of 14 weeks in the fourth quarter of 2008); and
- sales of men's wear decreased by 4.5 per cent (0.1 per cent when compared to only 13 weeks on a same calendar week basis instead of 14 weeks in the fourth quarter of 2008).

Full year 2009 – corporate sales

- sales of women's wear increased by 4.2 per cent (5.5 per cent when compared to only 52 weeks on a same calendar week basis instead of 53 weeks in 2008);
- sales of industrial wear decreased by 6.9 per cent (5.6 per cent when compared to only 52 weeks on a same calendar week basis instead of 53 weeks in 2008); and
- sales of men's wear decreased by 7.4 per cent (6.2 per cent when compared to only 52 weeks on a same calendar week basis instead of 53 weeks in 2008).

During the year, Mark's launched its fall 2009 TV advertising campaign, with most advertisements geared towards advancing "CLOTHES THAT WORK®" such as DENVER HAYES SOFT™ women's sweaters, DH U35™ underwear and the Perfect Fit Panty. dri-WEAR® is technology now used in Mark's underwear, socks, T-shirts polo shirts and the lining of some outerwear. CURVETECH™ shape-enhancing technology is used in Mark's women's wear category. QUAD COMFORT® technology is found in both men's and women's footwear at Mark's.

5.3.2.2 Key performance indicators

The following are key performance indicators for Mark's:

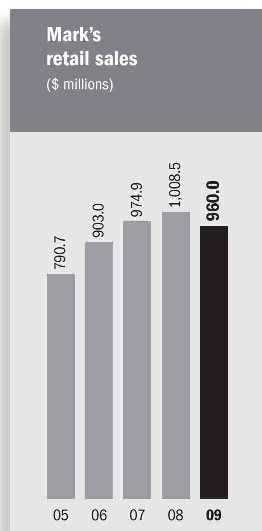
- retail and same store sales growth;
- average sales per corporate store; and
- average sales per square foot of retail space.

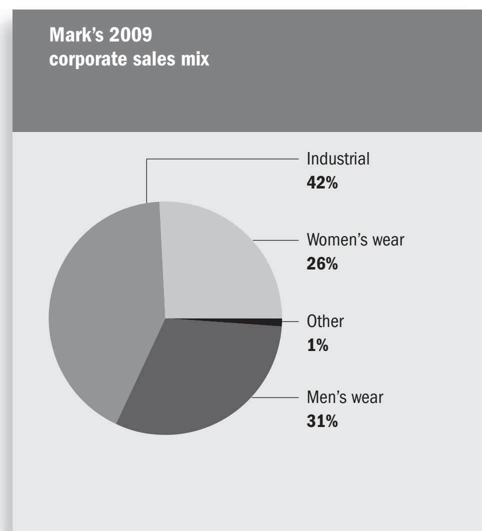
Mark's retail and same store sales growth

(year-over-year percentage change)	Q4 2009	Q4 2008	2009	2008
Total retail sales[1,4]	**(4.1)%**	5.9%	**(4.8)%**	3.5%
13 weeks compared to 13 weeks[2,3]	**0.7%**	1.6%		
52 weeks compared to 52 weeks[2,3]			**(3.5)%**	1.8%
Same store sales[1,4,5]	**(4.9)%**	3.9%	**(6.0)%**	0.3%
13 weeks compared to 13 weeks[2,3]	**(0.2)%**	(0.3)%		
52 weeks compared to 52 weeks[2,3]			**(4.7)%**	(1.4)%

1 Fiscal 2009 total retail sales and same store sales are based on a 13-week period for the fourth quarter and a 52-week period for the year compared to 14 weeks for the fourth quarter in 2008 and 53 weeks for the year 2008.
2 Fiscal 2009 total retail sales and same store sales figures have been provided on a comparable "same calendar week basis" to fiscal 2008, to make fiscal 2009's results more comparable to the prior year.
3 Fiscal 2008 retail sales and same store sales figures exclude week 53.
4 Includes retail sales from corporate and franchise stores.
5 Mark's same store sales exclude new stores, stores not open for the full period in each year and store closures.

Mark's retail sales
Mark's retail sales represent total merchandise sales to consumers and business-to-business customers, net of returns, across Mark's entire network of stores, fulfillment centres and Mark's online web store, recorded at retail prices.





Fourth quarter Mark's retail sales for the 13-week fourth quarter of 2009 decreased 4.1 per cent compared to the 14-week fourth quarter of 2008, while same store sales decreased 4.9 per cent. On a same calendar week basis for the 13-week period, total retail sales increased by 0.7 per cent and same store sales decreased a modest 0.2 per cent compared to the prior year.

Mark's retail sales during the fourth quarter of 2009 decreased in winter-related merchandise sales in total due to a lack of winter weather and continued to be impacted by fragile economic conditions across Canada, with significant sales decreases noted in Alberta and British Columbia (which are particularly important markets for Mark's industrial wear), offset by modest sales growth in the Atlantic Provinces. Women's wear sales in total overcame the economic slowdown in the fourth quarter with corporate store sales posting a growth of 5.5 per cent (13 weeks compared to 14 weeks). The largest dollar corporate store sales increases were in women's accessories, outerwear and knit tops. Corporate store sales in industrial wear were down 8.7 per cent (13 weeks compared to 14 weeks) with the largest dollar decreases occurring in men's industrial footwear and men's industrial workwear. This is reflective of weakness in the labour market conditions in the resource-based provinces of Alberta and British Columbia and decreased winter-related workwear and work footwear merchandise sales. Corporate store sales of men's casual clothing declined 4.5 per cent (13 weeks compared to 14 weeks) with categories such as outerwear and jeans showing the greatest softness.

Mark's continues to focus on its "CLOTHES THAT WORK®" strategy and has maintained its pricing to support the brand and to focus on optimizing margins rather than driving unprofitable sales volumes.

Full year 2009 Mark's total retail sales for the 52 weeks of 2009 decreased 4.8 per cent compared to the 53-week period of 2008, with same store sales decreasing 6.0 per cent (52 weeks compared to 53 weeks) from 2008 annual same store sales. On a same calendar week basis for the 52-week period, total retail sales decreased 3.5 per cent over 2008 sales, with same store sales down 4.7 per cent compared to the previous year.

Throughout 2009, Mark's retail sales continued to be impacted by fragile economic conditions across Canada, with significant sales decreases noted in Alberta and British Columbia, offset by modest sales growth in the Atlantic Provinces. Mark's women's wear was least affected by the economic slowdown in 2009 with corporate store sales posting a growth of 4.2 per cent (52 weeks compared to 53 weeks). The largest dollar corporate store sales increases were in women's accessories, healthwear, outerwear and footwear. Corporate store sales in industrial wear were down 6.9 per cent (52 weeks compared to 53 weeks) with the largest dollar decreases occurring in men's industrial footwear and men's industrial workwear. This is reflective of weakness in the labour market conditions in the resource-based provinces of Alberta and British Columbia. Corporate store sales of men's casual clothing declined 7.4 per cent (52 weeks compared to 53 weeks) with categories such as outerwear, jeans, casual bottoms, woven shirts, t-shirts and casual footwear leading the decline.

Average corporate store sales[1]

	For the 52 weeks ended January 2, 2010	For the 53 weeks ended January 3, 2009	For the 52 weeks ended December 29, 2007
Average retail sales per store ($ thousands)[2]	**$ 2,510**	$ 2,728	$ 2,803
Average sales per square foot ($)[3]	**288**	321	338

[1] Calculated on a rolling 12-month basis.
[2] Average retail sales per corporate store include corporate stores that have been open for 12 months or more.
[3] Average sales per square foot is based on sales from corporate stores. We have prorated square footage for corporate stores that have been open for less than 12 months.

Mark's average retail sales per store and average sales per square foot have been declining since the end of the second quarter of 2007, primarily due to the economic slowdown which began then, combined with the fact that Mark's has, through new stores, store relocations, store expansions and franchise repatriations, increased its corporate store retail square footage by 22.6 per cent over that time frame.

According to a market research company that tracks the clothing industry retail trends, Mark's continued to increase its market share of the total Canadian apparel market in 2008 and maintained or slightly increased its market share through the first nine months of 2009, the latest data available. Mark's believes that with its continued network expansion and product innovation, it will be well positioned to increase its market share and resume improving its average retail sales per store and average sales per square foot when the Canadian apparel market recovers from the current recession.

5.3.2.3 Mark's financial results

($ in millions)	**Q4 2009**	Q4 2008[1]	Change	**2009**	2008[1]	Change
Retail sales[2]	**$ 391.7**	$ 408.4	(4.1)%	**$ 960.0**	$ 1,008.5	(4.8)%
Gross operating revenue[3]	**340.3**	355.7	(4.3)%	**833.8**	872.4	(4.4)%
EBITDA[4]	**70.5**	78.8	(10.5)%	**90.5**	102.9	(12.0)%
Earnings before income taxes	**63.1**	71.2	(11.4)%	**61.5**	75.0	(18.0)%
Less adjustment for:						
Loss on disposals of property and equipment	**(0.4)**	(0.5)		**(1.2)**	(0.9)	
Adjusted earnings before income taxes[4]	**$ 63.5**	$ 71.7	(11.4)%	**$ 62.7**	$ 75.9	(17.4)%

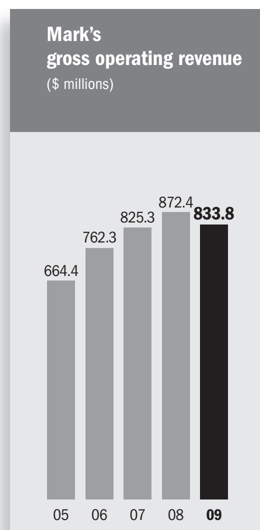
[1] 2008 figures have been restated for the implementation, on a retrospective basis, of CICA HB 3064 – Goodwill and Intangible Assets and the amendments to CICA HB 1000 – Financial Statement Concepts. See sections 17.1 and 17.2 for additional information.
[2] Includes retail sales from corporate and franchise stores.
[3] Gross operating revenue includes retail sales at corporate stores only.
[4] See section 18.0 on non-GAAP measures.

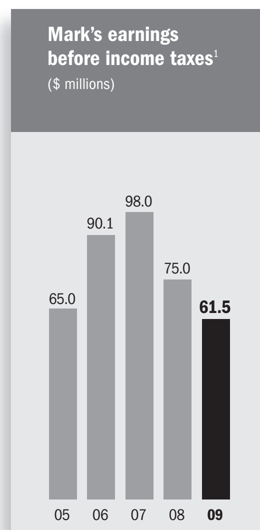
Explanation of Mark's financial results

Fourth quarter Gross operating revenue declined 4.3 per cent in the fourth quarter compared to the prior year, in line with the decline in retail sales as referenced above.

Mark's pre-tax earnings decreased in the fourth quarter of 2009 as a result of the decrease in gross operating revenue as well as erosion in gross profit margins. The gross margin rate on merchandise sold declined 132 basis points due to lower initial purchase markup, currency effects and slightly higher markdowns as compared with the fourth quarter of 2008, offset by slightly improved net freight costs.

Total operating expenses decreased by $4.0 million, or 3.8 per cent, during the fourth quarter of 2009 compared to the fourth quarter of 2008. Favourable store payroll, interest expense, distribution centre costs and mark-to-market adjustments on financial instruments led the expense decrease in the quarter. Partially offsetting these decreases were increases in depreciation expense as a result of having more software development costs to amortize and of having six more corporate stores in the network versus the fourth quarter of 2008 as well as increased systems-related costs associated with the outsourced offshore service provider.





[1] 2008 results have been restated for the implementation, on a retrospective basis, of CICA HB 3064 – Goodwill and Intangible Assets and the amendments to CICA HB 1000 – Financial Statement Concepts. See sections 17.1 and 17.2 for additional information. Data required to restate the information prior to 2008 is not available.

Full year 2009 Gross operating revenue declined 4.4 per cent in 2009 compared to the prior year, in line with the decline in retail sales as referenced above.

On an annual basis, Mark's pre-tax earnings decreased 18.0 per cent from 2008, as a result of the decrease in gross operating revenue and higher expenses due to network expansion and infrastructure investment in recent years, offset to some degree by a higher annual gross margin rate.

The annual gross margin rate on merchandise sold increased in the year by 115 basis points as it was favourably impacted by reduced inventory shrinkage during Mark's annual inventory count in the second quarter and lower markdowns through the application of a new advanced integrated merchandising planning system, offset to some degree by a weaker initial purchase markup and currency effects.

Total expenses increased by $5.1 million, or 1.5 per cent, for 2009 in comparison to 2008. The main expense increases over 2008 relate to occupancy and depreciation, mostly driven by the continued growth in the store network and new systems and computer services as Mark's transitioned to an outsourced operation with an offshore service provider during 2009. Offsetting these expenses were reductions in staff costs, advertising costs, interest expense and favourable mark-to-market adjustments on financial instruments.

5.3.2.4 Business trends

Two long-term trends that have affected Canada's approximately $20 billion apparel market are the move from traditional business attire to business casual clothing in the workplace and the increasing number of Canadians who are leading more active lifestyles.

The market for traditional retailers has experienced price deflation due to intensifying competition, increased global sourcing and a softening in consumer spending on apparel. Winning retailers are inspiring customers with strong brands and a destination-store strategy, targeting specific customer needs.

Consumer retail markets faced major challenges in 2009 due to the recession that was felt across Canada with job losses in all provinces. While some improvement is expected in 2010, uncertainty is likely to remain in Canadian consumers' minds going forward, and this may be reflected in cautious consumer spending patterns throughout 2010 and beyond.

5.3.2.5 Business risks

Mark's 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 Mark's. Refer to section 14.2 for a discussion of some other industry-wide and company-wide risks affecting the business.

Seasonality risk Mark's business remains very seasonal, with the fourth quarter typically producing the largest share of sales and earnings. In 2009, this seasonality was exacerbated by the economic environment during 2009 resulting in the fourth quarter producing about 41 per cent of total annual retail sales and approximately 103 per cent of annual pre-tax earnings resulting from the proportionate increase in consumer spending for winter clothing and Christmas-related purchases. 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 Christmas 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.

Market obsolescence risk All clothing retailers are exposed, to varying degrees, to the vagaries of consumers' fashion preferences. Mark's mitigates this risk through its brand positioning, consumer preference monitoring, demand forecasting and merchandise selection efforts. Mark's specifically targets consumers of durable everyday wear and is less exposed to changing fashions than apparel retailers offering high-fashion apparel and accessories.

5.3.3 Canadian Tire Petroleum

5.3.3.1 2009 Strategic Plan performance

Petroleum plays a strategic role in increasing customer loyalty and driving traffic and transactions for CTR and Financial Services. Petroleum increases Canadian Tire's total value proposition by offering Canadian Tire 'Money' loyalty rewards on gas purchases paid for in cash or by Canadian Tire's Options MasterCard. Petroleum also supports other cross-marketing promotions and joint product launches, such as Canadian Tire's Gas Advantage MasterCard, which has gained wide popularity since its introduction in Ontario in mid-2006. Customers who have a Canadian Tire MasterCard and purchase gas at Petroleum are Canadian Tire's most loyal and profitable customers.

The following outlines Petroleum's performance for the fourth quarter and full year of 2009 in the context of our Strategic Plan.

Canadian Tire Petroleum growth initiatives

Network renewal and new store concept

Petroleum's business is an integral part of the Canadian Tire organization as customers that use Petroleum's gas bars drive sales and traffic to our other business units. Over the Strategic Plan period, Petroleum will continue to develop its real estate plan, focusing on introducing new site concepts into its existing network of locations, while continuing to focus on renewing its current sites to enhance the customer experience.

2009 Key initiatives	2009 Performance
In 2009, Petroleum continued to strengthen the existing network by opening new sites and refurbishing or rebuilding existing sites.	***Fourth quarter*** > opened one new gas bar; > refurbished six existing sites; and > closed two gas bars. ***Full year 2009*** > opened three new gas bars; > refurbished 10 existing sites and rebuilt one site; and > closed four gas bars. At the end of the year, Petroleum had 272 gas bars, including 37 rebranded sites. Management monitored the external economic environment and adjusted the pace of capital spending in light of an uncertain economy.

Canadian Tire Petroleum productivity initiatives

Enhancing interrelatedness

Petroleum's business is integrated with CTR and Financial Services through Canadian Tire 'Money' and various cross-marketing programs designed to build customer loyalty. Petroleum is in the process of enhancing its interrelatedness strategy to further extend its marketing leverage across the Company.

2009 Key initiatives

In 2009, Petroleum will aggressively seek out additional cross-marketing opportunities to further leverage its interrelatedness strategy to drive customer traffic, transactions, customer loyalty and earnings across the enterprise.

2009 Performance

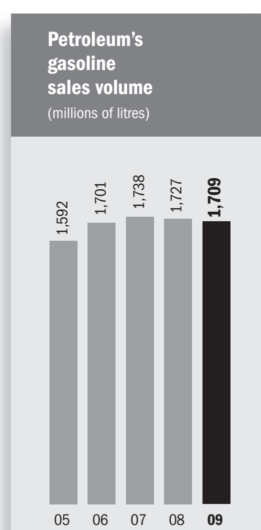
Fourth quarter and full year 2009

> executed cross-marketing national contest at gas bars, driving traffic to CTR and Mark's stores and Financial Services' Canadian Tire Options® MasterCard®; and

> issued multiplier coupons that increase the Canadian Tire 'Money' offered on gas purchases paid for in cash or by Canadian Tire Options MasterCard.

5.3.3.2 Key performance indicators

Gasoline sales volume is a top-line performance indicator for Petroleum, as measured by the number of gasoline litres sold. Fluctuations in the wholesale and retail price of gasoline may result in fluctuations in Petroleum's margin and profitability.



Gasoline sales volume

	Q4 2009	Q4 2008	Change	**2009**	2008	Change
Sales volume (millions of litres)[1]	**431.3**	469.1	(8.1)%	**1,708.8**	1,727.0	(1.1)%
13 weeks compared to 13 weeks[2]	**431.3**	439.1	(1.8)%			
52 weeks compared to 52 weeks[2]				**1,708.8**	1,697.0	0.7%

[1] Fiscal 2009 sales volume (millions of litres) is based on a 13-week period for the fourth quarter and a 52-week period for the year compared to 14 weeks for the fourth quarter in 2008 and 53 weeks for the year 2008.

[2] Week 53 has been excluded from the fourth quarter and the full year 2008, in order to make the fiscal 2009 sales volume (millions of litres) results more comparable to the prior year.

Petroleum has continued to grow its market share in a mature market, largely due to our loyalty program, customer service experience at our gas bars and an increased combined penetration rate on our Canadian Tire Options MasterCard and Gas Advantage MasterCard. On a same site basis for the 13-week fourth quarter of 2009, gasoline volume decreased by 8.8 per cent compared to the 14-week period in 2008. On a more comparable 13-week basis, same site gasoline sales volume decreased a modest 2.5 per cent during the fourth quarter of 2009, due to reduced consumer demand for gasoline.

For the 52-week period of 2009, same site gasoline sales volume decreased by 2.7 per cent from the 53-week period of 2008, largely due to a weak economy. On a more comparable 52-week basis, same site gasoline sales volume decreased by 1.0 per cent.

Petroleum's convenience and car wash sales

(year-over-year percentage change)	**Q4 2009**	Q4 2008	**2009**	2008
Total retail sales				
Convenience store sales[1]	**6.7%**	13.5%	**14.2%**	10.2%
13 weeks compared to 13 weeks[2]	**15.0%**	5.3%		
52 weeks compared to 52 weeks[2]			**16.5%**	8.0%
Car wash sales[1]	**3.1%**	1.3%	**7.0%**	(12.7)%
13 weeks compared to 13 weeks[2]	**8.5%**	(3.7)%		
52 weeks compared to 52 weeks[2]			**8.4%**	(13.7)%
Same store sales				
Convenience store sales[1,3]	**5.2%**	11.4%	**12.0%**	8.4%
13 weeks compared to 13 weeks[2,3]	**13.6%**	3.2%		
52 weeks compared to 52 weeks[2,3]			**14.3%**	6.3%
Car wash sales[1]	**3.9%**	1.2%	**7.4%**	(12.8)%
13 weeks compared to 13 weeks[2]	**9.3%**	(3.8)%		
52 weeks compared to 52 weeks[2]			**8.7%**	(13.8)%

[1] Fiscal 2009 total retail sales and same store sales are based on a 13-week period for the fourth quarter and a 52-week period for the year compared to 14 weeks for the fourth quarter in 2008 and 53 weeks for the year 2008.
[2] Fiscal 2008 retail sales and same store sales figures exclude week 53.
[3] Convenience same store sales excludes three "Q" convenience stores.

Convenience store sales were very strong in both the fourth quarter and the full year 2009, especially in the confectionary, tobacco and lottery categories, which are more resilient during economic downturns. Car wash sales were very strong in both the fourth quarter and the full year 2009 when compared to the prior year. With lower pump prices throughout 2009, consumers had more room for discretionary purchases, such as car washes and warmer winter weather encouraged greater purchase incidence for car washes.

5.3.3.3 Petroleum's financial results

($ in millions)	**Q4 2009**	Q4 2008	Change	**2009**	2008	Change
Retail sales	**$ 433.5**	$ 447.0	(3.0)%	**$ 1,653.7**	$ 1,988.1	(16.8)%
Gross operating revenue	**398.8**	414.3	(3.7)%	**1,515.1**	1,871.2	(19.0)%
EBITDA[1]	**6.6**	11.0	(40.5)%	**42.2**	43.8	(3.8)%
Earnings before income taxes	**1.9**	6.1	(69.1)%	**24.2**	26.6	(9.1)%
Less adjustment for:						
Loss on disposals of property and equipment	**(0.3)**	(0.2)		**(0.7)**	(0.5)	
Adjusted earnings before income taxes[1]	**$ 2.2**	$ 6.3	(65.6)%	**$ 24.9**	$ 27.1	(8.4)%

[1] See section 18.0 on non-GAAP measures.

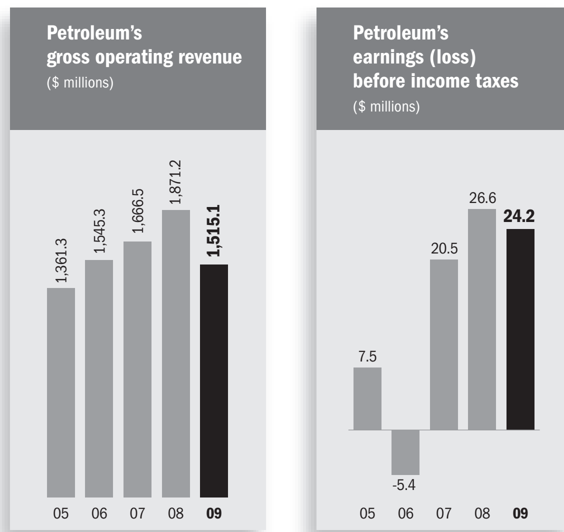
Petroleum's retail sales

Retail sales include the sales of gasoline at Petroleum's entire network of petroleum sites, including rebranded sites, recorded at retail pump prices, and excluding goods and services taxes and provincial sales taxes, where applicable. Retail sales also include sales of products sold at our convenience stores, car wash sites, propane and Pit Stop sites.

Gasoline pricing

Petroleum maintains long-term wholesale agreements with major refiners to source competitively priced gasoline across Canada. This fuel is then sold through Petroleum retail locations at market prices.

Explanation of Petroleum's financial results



Fourth quarter Petroleum's gross operating revenue declined 3.7 per cent in the fourth quarter of 2009 compared to the prior year, due in part to an additional fifty-third trading week in the 2008 comparative quarter. Gasoline margins declined late in the year compared to a year ago due to margin pressure in the market. Convenience store sales and car wash sales continued to show strong growth, up 15.0 per cent and 8.5 per cent, respectively, when adjusted for the fifty-third trading week.

Full year 2009 Lower gasoline sales prices and one less selling week, partially offset by an increase in convenience store sales and car washes, contributed to Petroleum's decrease in revenue in 2009. Average gasoline prices during 2009 decreased by 18.6 per cent compared to 2008, resulting in the decrease in revenue. Petroleum's pre-tax earnings were down 9.1 per cent from 2008, mostly due to gasoline margin pressure in Q4 and one less selling week. Operating expenses were well managed for the year, exhibiting only modest growth over 2008.

5.3.3.4 Business trends and economic outlook

Canada's petroleum market is mature, exhibiting only modest growth. Given this market, gasoline retailers are evolving in response to changing lifestyles: Canadians are increasingly looking for convenience and value. Key drivers of success in this market are perceptions of value, convenience and trust, providing an advantage to chains with well-known brands and strong rewards programs. Growth prospects within the market are being shaped by the development of other services that generate higher margins and take advantage of Petroleum's real estate, such as convenience stores. With higher customer traffic, Petroleum has the ability to drive further growth with an expanded menu of products and services.

5.3.3.5 Business risks

Petroleum 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 Petroleum's operations. Please refer to section 14.2 for a discussion of some other industry-wide and company-wide risks.

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, potential supply chain disruptions from natural and human-caused disasters, as well as commodity speculation. To mitigate this risk to profitability, Petroleum tightly controls its operating costs and enters into long-term gasoline purchase arrangements with integrated gasoline wholesalers.

Environmental risk 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 our reputation. Petroleum mitigates its environmental risks through a comprehensive regulatory compliance program, which involves environmental investigations and the remediation of contaminated sites, as required. Petroleum also has environmental insurance coverage.

5.3.4 Canadian Tire Financial Services

5.3.4.1 2009 Strategic Plan performance

The following outlines Financial Services' performance for the fourth quarter and full year of 2009 in the context of our Strategic Plan.

Canadian Tire Financial Services growth initiatives

Total managed portfolio of loans receivable (credit card, personal and line of credit loans)
Financial Services plans to grow its portfolio through increases in average balances, new account acquisition and the introduction of new credit cards.

2009 Key initiatives	2009 Performance
For 2009, Financial Services targeted the increase of gross average receivables mainly through increases in average account balances.	***Fourth quarter*** Gross average loans receivable were $4.1 billion in the fourth quarter. The growth reflects a 5.8 per cent increase in the average account balance, partially offset by a 3.8 per cent decrease in the number of accounts carrying a balance versus the same period last year. ***Full year 2009*** Gross average loans receivable were $4.1 billion for the year. The growth reflects a 7.7 per cent increase in the average account balance, partially offset by a 3.4 per cent decrease in the number of accounts carrying a balance versus the same period last year.

Retail banking
Financial Services began offering retail banking products, including high-interest savings accounts, retail GICs and residential mortgages, in two pilot markets in October 2006. In 2007, the pilot was expanded to include a third market in Ontario along with the launch of the Canadian Tire One-and-Only™ account. In November 2009, Financial Services decided to exit the mortgage portion of its retail banking pilot and sold its mortgage portfolio, including the Canadian Tire One-and-Only accounts. Financial Services also expanded the retail deposit products nationally, excluding Quebec.

2009 Key initiatives	2009 Performance
Financial Services' retail banking planned on increasing the ending mortgage portfolio balance and retail deposit balances. Financial Services estimated approximately $17 million in net expenses associated with the marketing and operations of the retail banking initiative in 2009.	***Fourth quarter and full year 2009*** Financial Services had accumulated over $545 million in retail deposits as at the end of 2009. Retail deposits are a cost-effective funding source for credit card receivables. Financial Services sold its mortgage portfolio to National Bank of Canada for proceeds of $162.2 million in the fourth quarter. Financial Services incurred $6.4 million in net expenses associated with the marketing and operation of the retail banking initiative during the fourth quarter of 2009 and a total of $18.4 million for the full year, including $5.3 million of costs relating to the sale of the mortgage portfolio, essentially at book value.

Insurance and other ancillary products
Financial Services plans to enhance its insurance and warranty product offering to credit card customers. Revenues from insurance and warranty products have increased significantly in the last five years through direct marketing to Canadian Tire's growing base of customers.

2009 Key initiatives	2009 Performance
Financial Services planned to increase revenues from insurance and warranty products during 2009.	***Fourth quarter and full year 2009*** Revenues from insurance and warranty products decreased 6.3 per cent in the fourth quarter versus the same period last year, due largely to an expected decrease in accounts with insurance coverage. On a full year basis, revenues increased 0.2 per cent over 2008.

5.3.4.2 Key definitions

Total managed portfolio Financial Services' total managed portfolio consists of credit card, personal and line of credit loans. The total managed portfolio includes all loans receivable that have been issued by Financial Services, before managed allowances, including those that have been securitized. Please see section 8.1.5 and below for additional information about our securitization program.

Securitization of loans receivable Securitization is the process by which interests in financial assets are sold to a third party. Financial Services securitizes credit card loans receivable by selling co-ownership interests in the loans receivable to Glacier Credit Card Trust® (GCCT). Financial Services records these securitization transactions as a sale, and as a result, these assets are not included on the Company's Consolidated Balance Sheets, but are included in our total and net managed portfolios of loans receivable.

Gross average receivables (GAR) GAR is the monthly average of Financial Services' total portfolio of loans receivable averaged over a specified period of time.

5.3.4.3 Key performance indicators

The following are key indicators of Financial Services' performance:
> size of the total managed portfolio;
> profitability of the portfolio; and
> quality of the portfolio.

Financial Services' total managed portfolio of loans receivable

($ in millions, except where noted)	**Q4 2009**	Q4 2008	Change	**2009**	2008	Change
Average number of accounts with a balance (thousands)	**1,781**	1,851	(3.8)%	**1,794**	1,856	(3.4)%
Average account balance ($)	**$ 2,300**	$ 2,174	5.8%	**$ 2,270**	$ 2,109	7.7%
Gross average receivables (GAR)	**4,096.5**	4,023.7	1.8%	**4,071.5**	3,913.0	4.1%
Total managed portfolio (end of period)				**4,108.5**	4,120.9	(0.3)%
Net managed portfolio (end of period)				**3,982.4**	4,023.6	(1.0)%

Net managed portfolio
Financial Services' net managed portfolio is the total value, after allowances, of loans receivable, including those that have been securitized, and consists of credit card, personal and line of credit loans.

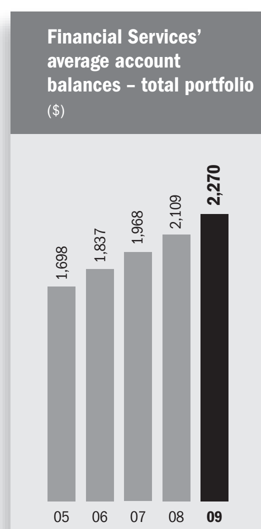
As management believes that the full picture of trends in Financial Services' business can best be derived by evaluating the performance of both securitized and non-securitized loans receivable portfolios, the portfolios have been presented to include all securitized loans receivable. Financial Services presents loans receivable information on a managed basis to evaluate the credit performance and overall financial performance of the underlying loans.

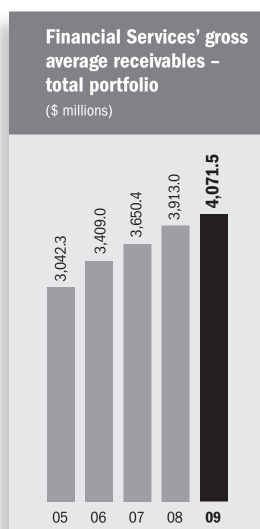
Financial Services' gross average receivables were up 1.8 per cent in the fourth quarter, due primarily to select credit card limit increases, balance transfer offers and a lower customer payment rate, offset by the sale of the mortgage portfolio.

Financial Services believes that its future growth will be driven by increases in average account balances, modest increases in new accounts and the introduction of new credit card and insurance products. Management has integrated its deposit business into its operations and regards deposits as a cost-effective source of financing credit card receivables.

Financial Services' net managed portfolio of loans receivable

($ in millions)	December 31, 2009	December 31, 2008
Securitized	**$ 1,693.4**	$ 2,216.0
Non-securitized	**2,289.0**	1,807.6
Net managed loans receivable	**$ 3,982.4**	$ 4,023.6





Financial Services' gross average receivables growth slowed during the fourth quarter due primarily to the sale of the mortgage portfolio.

Financial Services' portfolio of credit card loans receivable

($ in millions, except where noted)	Q4 2009	Q4 2008	Change	2009	2008	Change
Average number of accounts with a balance (thousands)	**1,761**	1,818	(3.1)%	**1,768**	1,819	(2.8)%
Average account balance ($)	**$ 2,247**	$ 2,083	7.9%	**$ 2,179**	$ 2,031	7.3%
Gross average receivables	**3,956.7**	3,786.3	4.5%	**3,852.8**	3,693.9	4.3%
Total managed portfolio (end of period)				**4,056.2**	3,873.6	4.7%

Gross average credit card loans receivable grew 4.3 per cent to $3.9 billion at the end of the year primarily due to a 7.3 per cent increase in the average account balance compared to the previous year. The increase in average account balances is largely a result of marketing programs designed to achieve this objective, but is also due to slowing customer payments.

Financial Services' profitability

Financial Services' profitability measures are tracked as a percentage of GAR, shown in the table below.

***Profitability of total managed portfolio*[1]**

	2009	2008	2007	2006	2005
Total revenue as a % of GAR[2]	**25.14%**	24.42%	24.78%	24.98%	25.47%
Gross margin as a % of GAR[2]	**10.49%**	12.35%	12.99%	13.07%	13.14%
Operating expenses as a % of GAR[3]	**6.92%**	7.36%	7.84%	7.97%	8.37%
Return on average total managed portfolio[2,3,4]	**3.57%**	5.00%	5.15%	5.10%	4.75%

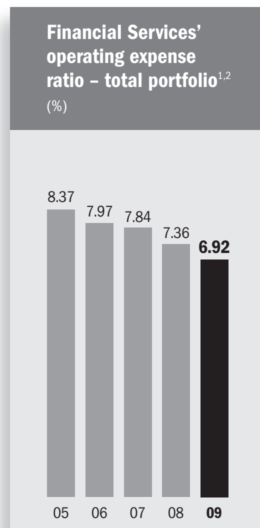
[1] Figures are calculated on a rolling 12-month basis and comprise the total managed portfolio of loans receivable.

[2] Excludes the net effect of securitization activities, gain on disposal/redemption of investment, costs associated with the sale of the mortgage portfolio and gain/loss on disposal of assets.

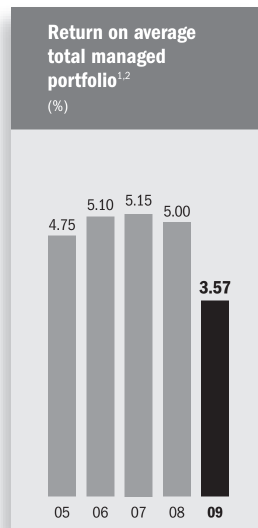
[3] Figures have been restated for the implementation, on a retrospective basis, of CICA HB 3064 – Goodwill and Intangible Assets and the amendments to CICA HB 1000 – Financial Statement Concepts. See sections 17.1 and 17.2 for additional information.

[4] Return is calculated as adjusted earnings before taxes as a percentage of GAR.

Gross margin
Gross margin is Financial Services' total revenue less direct expenses associated with credit card, personal and line of credit loans and insurance and warranty products. The most significant direct expenses are the provision for credit losses associated with the loan portfolios, the loyalty program and interest expense.



[1] Figures have been restated for the implementation, on a retrospective basis, of CICA HB 3064 – Goodwill and Intangible Assets and the amendments to CICA HB 1000 – Financial Statement Concepts. See sections 17.1 and 17.2 for additional information.
[2] Excludes the impact of the 2006 stock option modification.



[1] Figures have been restated for the implementation, on a retrospective basis, of CICA HB 3064 – Goodwill and Intangible Assets and the amendments to CICA HB 1000 – Financial Statement Concepts. See sections 17.1 and 17.2 for additional information.
[2] Excludes the net effect of securitization activities, gain on disposal/redemption of investment, costs associated with the sale of the mortgage portfolio and gain/loss on disposal of assets.

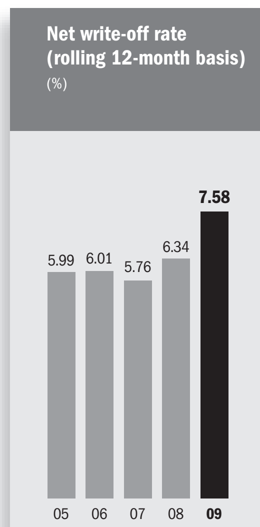
The return on the total managed portfolio has decreased in comparison to 2008. The Canadian economy continues to be challenged with an increase in unemployment rates resulting in rising consumer bankruptcies, a deterioration of the aging of receivables and increased write-offs. Other variable costs also increased such as an increase in interest expense caused by carrying excess liquidity.

Financial Services' credit card accounts (MasterCard, VISA and proprietary store cards) provide increased earnings potential through the cross-selling of balance-based insurance products and other financial services being offered by Financial Services. As Financial Services introduces lower rate credit cards and other loans receivable, the reduction in gross margin as a percentage of gross average receivables will be offset by continued growth in loans receivable, higher sales of insurance and warranty products and ongoing improvements in the operating expense ratio.

As part of the strategic planning process, management set a long-term goal of managing Financial Services' pre-tax return on the average total managed portfolio in the target range of 4.5 to 5.0 per cent. As shown in the table above, Financial Services has met or exceeded this target over four of the last five years, but missed the target in 2009 for the reasons noted above. Management believes the pre-tax return on the average total managed portfolio will fall within the target range in the longer term, as unemployment levels and consumer spending behaviour return to historical norms.

Portfolio quality

	2009	2008	2007	2006	2005
Net write-off rate (rolling 12-month basis)	**7.58%**	6.34%	5.76%	6.01%	5.99%
Account balances less than 30 days overdue at end of period	**95.92%**	96.46%	96.36%	96.44%	96.31%
Allowance rate	**3.07%**	2.36%	2.41%	2.42%	2.52%



Net write-offs
Net write-offs represent account balances that have been written off, net of collections of amounts previously written off. Net write-off rate is the net write-offs expressed as a percentage of gross average receivables in a given period.

The 2009 rolling 12-month net write-off rate on the total loans portfolio was negatively impacted by an increase in write-offs and consumer bankruptcies as a result of a significantly more challenging economic environment and rising unemployment levels as well as a reduction in the rate of portfolio growth.

While bankruptcy costs increased, analysis of the business segment's performance versus national statistics indicates that Financial Services continues to experience lower costs than would be expected compared to its peers due to its effective credit risk strategies over the past few years, which improved the quality of the loan portfolio.

Periodic fluctuations in write-offs, aging and allowances occur as a result of a variety of economic influences such as job growth or losses, personal debt levels and personal bankruptcy rates, as well as changes caused by adjustments to collection strategies. The increase in the allowance rate compared to 2008 is due to an increase in the credit card portfolio aging. However a number of actions have already been taken to manage the quality of the portfolio and write-off rates are expected to return to acceptable levels over the longer term.

Allowance methodology Financial Services is required to maintain an allowance for future write-offs that will be incurred in the receivables portfolio.

Allowance
The allowance is an estimate of the amount of receivables as at the balance sheet date that will be written off, over a set period, pursuant to Company policy. It is determined using historical loss experience of account balances based on the aging and arrears status, with certain adjustments for other relevant circumstances influencing the recoverability of the loans.

5.3.4.4 Insurance and ancillary products

An important part of our Financial Services business is the ability to provide our large credit card customer base with additional products and services that enhance their loyalty to Canadian Tire and increase the return on our portfolio of receivables. These products and services include insurance offerings (credit protection, life and accident), warranty coverages, roadside assistance and identity theft coverage. We are continually searching for and testing additional value-added products and services for our customer base.

Of the earnings from these ancillary products and services, our creditor insurance and warranty services businesses are the most significant. These products and services have been offered to customers for more than 20 years. Financial Services is very experienced in managing the associated risks. The creditor insurance risk and warranty risk relate primarily to our card customer base and are borne by our reinsurance subsidiary which operates in Bermuda under professional management, together with the services of reputable and experienced actuarial and administrative services organizations.

5.3.4.5 Financial Services' financial results

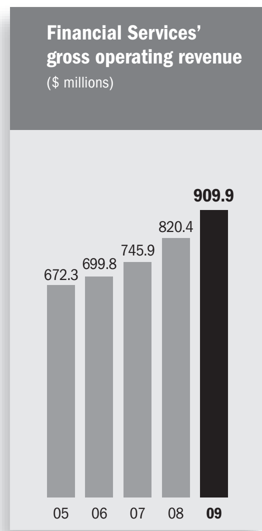
($ in millions)	**Q4 2009**	Q4 2008[1]	Change	**2009**	2008[1]	Change
Gross operating revenue	**$ 237.7**	$ 212.4	11.9%	**$ 909.9**	$ 820.4	10.9%
EBITDA[2]	**57.0**	57.9	(1.4)%	**205.3**	218.1	(5.9)%
Earnings before income taxes	**38.4**	45.8	(16.0)%	**131.9**	192.0	(31.3)%
Less adjustment for:						
Costs associated with sale of mortgage portfolio	**(5.3)**	–		**(5.3)**	–	
Gain (loss) on disposals of property and equipment	**0.4**	–		**(0.3)**	(0.6)	
Net effect of securitization activities[3]	**(1.0)**	(10.6)		**(7.8)**	(2.9)	
Adjusted earnings before income taxes[2]	**$ 44.3**	$ 56.4	(21.5)%	**$ 145.3**	$ 195.5	(25.7)%

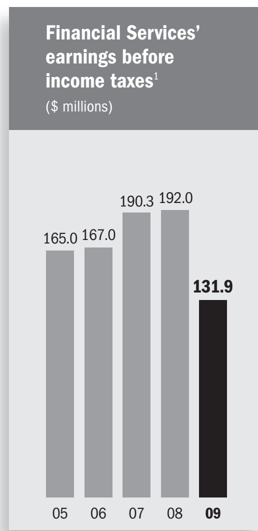
[1] 2008 figures have been restated for the implementation, on a retrospective basis, of CICA HB 3064 – Goodwill and Intangible Assets and the amendments to CICA HB 1000 – Financial Statement Concepts. See sections 17.1 and 17.2 for additional information.
[2] See section 18.0 on non-GAAP measures.
[3] Includes initial gain/loss on the sale of loans receivable, amortization of servicing liability, change in securitization reserve and gain/loss on reinvestment.

Explanation of Financial Services' financial results

Fourth quarter Financial Services' gross operating revenue increased by 11.9 per cent over the fourth quarter of 2008 largely as a result of an increase in credit interest earned due to an increase in yield and an overall growth in the gross average receivable balance. This was partially offset by a 6.3 per cent decrease in revenue from insurance services.

Earnings before income taxes for the fourth quarter decreased significantly in comparison to the same quarter last year. The primary reason for the decline in earnings growth during the quarter was the increase in loan loss provisioning resulting from a softening economy and credit market conditions and its consequent impact on consumer bankruptcy and write-off rates, as noted above. It was also attributable to an increase in interest expense caused by carrying excess liquidity. These increased funding and bankruptcy costs were partially offset by a continued effort to reduce ongoing operating costs. The operating expense ratio as a percentage of GAR was 6.92 per cent versus 7.36 per cent at the end of 2008. In addition, Financial Services incurred non-operating costs associated with the sale and wind-down of mortgage activities of $5.3 million.





[1] 2008 results have been restated for the implementation, on a retrospective basis, of CICA HB 3064 – Goodwill and Intangible Assets and the amendments to CICA HB 1000 – Financial Statement Concepts. See sections 17.1 and 17.2 for additional information. Data required to restate the information prior to 2008 is not available.

Full year 2009 Financial Services' gross operating revenue increased in 2009 due to an increase in average account balances in the loans portfolio leading to growth in loans receivable, albeit at a slower pace than in previous years, as well as higher credit sales and a slowing of customer payments.

Earnings before income taxes for 2009 decreased significantly in comparison to 2008. The primary reason for the decline in earnings growth during 2009 was due to the increase in the loan loss provisioning as discussed above under the fourth quarter results. There was also a substantial increase in interest expense, as noted above. Offsetting these costs were well-managed operating expenses in 2009 compared to 2008.

5.3.4.6 Business trends

The total Canadian bank card market (which is comprised of all MasterCard and VISA branded credit cards as reported by the Canadian Bankers Association) has grown consistently over the past five years, offering an attractive growth opportunity despite intense competition. While Canada's major banks are the market leaders, U.S.-based credit card issuers are gaining market share and are redefining customer expectations. With the increasing number of credit cards available, consumers are looking for relationships with organizations that offer good value, exceptional service and programs that reward them for their loyalty. Growth of the credit card portfolio and the continued strength of the Canadian Tire brand provides an opportunity to grow the number of credit card customers that have one or more of our ancillary products and services.

5.3.4.7 Economic overview

As noted above, the year ahead is projected to remain challenging due to the slow pace of economic recovery and high unemployment levels, with the consequent impact on consumer confidence. Financial Services expects credit card write-offs over the next year to remain at the current elevated level.

Financial Services continually monitors bankruptcy rates in Canada and adjusts its lending policies according to current trends and economic indicators. Consumer bankruptcies in Canada have increased 31.2 per cent year-over-year (as of November 2009). Meanwhile, Financial Services' bankruptcy growth rate of 23.6 per cent was well below the national average.

Efforts to reduce the exposure to higher credit risk associated with increased bankruptcies have been underway over the last several quarters through measures such as reducing credit limits for inactive accounts, actively changing the percentage of near-prime consumers in the portfolio mix, improving predictive scorecards to identify high-risk customer behaviour and further enhancing collection strategies.

5.3.4.8 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. We have undertaken a third-party review of risk management and the results were positive. The following are some of the business risks specific to Financial Services' operations. Please refer to sections 14.2, 14.4 and 14.5 for a discussion of some other industry-wide and company-wide risks affecting the business.

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

- employing sophisticated credit-scoring models to constantly monitor the creditworthiness of customers;
- using the latest technology to make informed credit decisions for each customer account to limit credit risk exposure;
- adopting technology to improve the effectiveness of the collection process; and
- monitoring the macro-economic 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 Canadian Tire, involving the sale of co-ownership interests in credit card loans to Glacier Credit Card Trust (GCCT) and, previously, the sale of personal loans to another third-party trust. Securitization enables Financial Services to diversify funding sources and manage risks and capital requirements. Financial Services' securitization program relies on the marketability of the asset-backed commercial paper (ABCP) and asset-backed term notes issued by GCCT as described in section 8.1.4 and section 8.1.5, respectively. Developments in 2008 in the international credit markets and the resulting decline in the marketability of commercial paper and term notes required the Company to rely on other available sources of funding. Refer to section 8.0 for additional information on the sources of funding available to the Company in 2009 and beyond.

It should be noted that, while changes to accounting for securitization transactions will be forthcoming as Canada moves to IFRS in 2011, the Company still plans to use asset securitization transactions to the extent that they continue to provide a cost-effective source of financing (see section 17.9 below regarding our transition to IFRS).

Interest rate risk The Company's sensitivity to movements in interest rates is substantially limited to its cash and short-term investments. A one per cent change in interest rates would not materially affect its earnings, cash flow or financial position.

Most of Financial Services' revenue is not interest rate sensitive as it is generated primarily from Canadian Tire MasterCards, which carry a fixed interest rate appropriate to customer segments with common credit ratings. The securitization and other financing programs, as described in sections 8.0 and 8.1.5 of this MD&A, reduce Financial Services' funding requirements. Canadian Tire constantly monitors the potential impact of interest rate fluctuations on its fixed versus floating rate exposure and manages its overall balance to reduce the magnitude of this exposure.

As the success of Financial Services is dependent upon its ability to access capital markets at favourable rates, maintaining the quality of the total managed portfolio and securitized loans receivable is a key priority of Financial Services. For additional information on Canadian Tire's financing activities, please refer to section 8.0 below.

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 a failure to adapt to current and changing regulations or regulatory expectations.

Financial Services' regulatory compliance strategy is to manage regulatory risk through the promotion of a strong compliance culture and the integration of solid controls within the Company. Primary responsibility for compliance with all applicable regulatory requirements rests with senior management of the Company and extends to all employees.

Financial Services' Compliance Department is responsible for the development and maintenance of a legislative compliance management system and reports on a quarterly basis to Canadian Tire Bank'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.

6.0 NEW BUSINESS DEVELOPMENT

Canadian Tire will continue to identify and evaluate opportunities to enhance our growth and profitability beyond the Strategic Plan period. Our business development team is focused on identifying potential retail and retail-related business opportunities that leverage our core capabilities and fit within our existing network of businesses.

7.0 CAPITAL MANAGEMENT

In order to support our growth agenda and meet the objectives enumerated in our Strategic Plan, the Company actively manages its capital in the manner indicated below.

7.1 Capital management objectives

The Company's objectives when managing capital are:

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

The current economic environment has not changed the Company's objectives in managing capital, although the Company did place greater emphasis on the second of these objectives when credit markets were constrained in 2008 and much of 2009.

7.2 Definition and management of capital

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

($ in millions)	2009	% of total	2008[1]	% of total
Capital components[2]				
Current deposits	**$ 863.4**	**12.0%**	$ 540.7	9.0%
Current portion of long-term debt	**309.3**	**4.3%**	14.8	0.2%
Long-term debt	**1,101.9**	**15.3%**	1,373.5	22.9%
Long-term deposits	**1,196.9**	**16.6%**	598.7	10.0%
Other long-term liabilities[3]	**1.3**	**0.0%**	3.2	0.1%
Total debt	**$ 3,472.8**	**48.2%**	$ 2,530.9	42.2%
Share capital	**720.4**	**10.0%**	715.4	11.9%
Contributed surplus	**0.2**	**0.0%**	–	–%
Retained earnings	**3,013.7**	**41.8%**	2,752.4	45.9%
Total capital under management	**$ 7,207.1**	**100.0%**	$ 5,998.7	100.0%

[1] 2008 figures have been restated for the implementation, on a retrospective basis, of CICA HB 3064 – Goodwill and Intangible Assets and the amendments to CICA HB 1000 – Financial Statement Concepts. See sections 17.1 and 17.2 for additional information.

[2] Included in our definition and management of capital are "components of other comprehensive loss" relating to derivative or hedged items only. For 2009 and 2008, the balance was $nil.

[3] Long-term liabilities that are derivative or hedge instruments related to capital items only.

The Company monitors its capital structure through measuring its various debt-to-capitalization ratios and ensures its ability to service debt and meet other fixed obligations by tracking its interest and other fixed charges coverage ratios. The Company monitors the impact of the growing Financial Services business on the consolidated metrics. The total debt to total capital ratio has increased from 42.2 per cent at the end of 2008 to 48.2 per cent at the end of 2009 largely due to the increase in deposits issued by Canadian Tire Bank (CTB).

The Company has in place various policies which it uses to manage capital, including a leverage and liquidity policy and a securities and derivatives policy. As part of the overall management of capital, management's Financial Risk Management Committee and the Audit Committee of the Board of Directors review the Company's compliance with, and performance against, these policies.

In addition, those committees perform periodic reviews of the policies to ensure they remain consistent with the risk tolerance acceptable to the Company and current market trends and conditions.

7.3 Constraints on managing capital

To assess its effectiveness in managing capital, management monitors certain key ratios to ensure they are within targeted ranges.

Under the existing debt agreements, key financial covenants are monitored on an ongoing basis by Management to ensure compliance with the agreements. The key covenants are as follows:

- maintaining a specified minimum net tangible assets coverage, which is calculated as:
  - total assets less intangible assets, current liabilities (excluding current portion of long-term debt) and liability for employee future benefits,
  - divided by long-term debt (including current portion of long-term debt).
- limitations on surplus available for distribution to shareholders whereby the Company is restricted from distributions (including dividends and redemptions or purchases of shares) exceeding its accumulated net income over a defined period.

The Company was in compliance with these key covenants during the period. Under these covenants, the Company currently has significant flexibility to fund business growth and maintain or amend dividend rates within our existing dividend policy.

It should be noted that various accounting measures will change as Canada moves to IFRS in 2011. The Company is in the process of ensuring that changes do not affect the Company's compliance with these covenants (see section 17.9 below).

The Company manages its capital structure with a view to maintaining investment grade ratings from two credit rating agencies. Management calculates ratios on an alternative basis from time to time to approximate the methodology of debt rating agencies and other market participants.

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 normal course issuer bids (NCIBs), issue new shares, issue new debt, issue new debt with different characteristics to replace existing debt, engage in additional sale/leaseback transactions of real estate properties and/or increase or decrease the amount of sales of co-ownership interests in loans receivable to Glacier.

In addition, we are required to comply with regulatory requirements associated with the operations of CTB, our federally chartered bank, and other regulatory requirements that impact our business operations, which are noted below.

7.4 CTB's regulatory environment

The Company's wholly-owned subsidiary, CTB, manages its capital under guidelines established by the Office of the Superintendent of Financial Institutions Canada (OSFI). The regulatory capital guidelines measure capital in relation to credit, market and operational risks. CTB has a capital management policy, an internal capital adequacy assessment process and procedures and controls which it utilizes to achieve its goals and objectives. CTB's objectives include:

- providing sufficient capital to maintain the confidence of depositors;
- being an appropriately capitalized institution, as measured internally, defined by regulatory authorities and compared with CTB's peers; and
- achieving the lowest overall cost of capital consistent with preserving the appropriate mix of capital elements to meet target capitalization levels.

CTB's total capital consists of three tiers of capital approved under OSFI's current regulatory capital guidelines. As at December 31, 2009 (CTB's fiscal year-end), Tier 1 capital includes common shares and retained earnings reduced by adjustments due to net securitization exposures. CTB currently does not hold any instruments in Tier 2 or Tier 3 capital. Risk-weighted assets (RWA), referenced in the regulatory guidelines, 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.

CTB's ratios are above internal minimum targets for Tier 1 and Total capital ratios. CTB is within its internal maximum target for the assets-to-capital multiple. OSFI's minimum Tier 1 and Total capital ratios for Canadian banks are 7 per cent and 10 per cent, respectively. During the 12 months ended December 31, 2009 and the comparative period, the Bank complied with the capital guidelines issued by OSFI under the "International Convergence of Capital Measurement and Capital Standards – A Revised Framework" (Basel II).

8.0 FINANCING

Credit markets have shown consistent improvement from mid-2009 and onwards and Canadian Tire's financing capabilities remain strong. In June 2009, the Company issued a $200 million, 5.65 per cent coupon, seven-year medium-term note and executed a committed credit facility for $800 million and a bilateral credit agreement totaling $370 million which are available to the Company until late 2010 and beyond. A number of alternative financing sources are available to the Company and CTB to ensure that the appropriate level of liquidity is available to meet our strategic objectives. These sources may be summarized as follows:

Summary of Canadian Tire's financing sources

Financing source	Amount available	Description
Committed bank lines of credit	$1.17 billion	Provided by 10 domestic and international financial institutions and include support for the $800 million commercial paper program noted below, which is covered by the bank lines on a dollar for dollar basis. No amounts were drawn on the bank lines as at January 2, 2010 by the Company; however, Glacier Credit Card Trust (GCCT) had issued $163 million of commercial paper, fully supported by the syndicated facility.
Commercial paper program	$800 million	Canadian Tire had no commercial paper outstanding as at January 2, 2010. GCCT had $163 million of commercial paper outstanding at January 2, 2010.
Medium-Term Notes (MTN) program	$750 million	A new Shelf Prospectus was completed as of April 8, 2009, providing the Company with access of up to $750 million for 25 months from that date. A $200 million medium-term note was issued under this prospectus in June 2009.
Securitization of receivables	Transaction specific	Securitization transactions handled through GCCT have historically proven to be a relatively cost-effective form of financing. Financial Services securitized $100 million of credit card receivables in November 2009 as part of the GCCT CP program.
Broker GIC deposits	No specified limit	This funding source ramped up in the second half of 2008 and funds continue to be readily available through broker networks. As at January 2, 2010, Financial Services held $1.5 billion in broker GIC deposits.
Retail deposits	No specified limit	Retail deposits consist of High Interest Savings Accounts, Tax-Free Savings Accounts and retail GIC deposits. As at January 2, 2010, Financial Services held $545 million in retail deposits.
Sale/leaseback transactions	Transaction specific	Additional sources of funding available on strategic transactions involving Company-owned properties as appropriate. No sale/leaseback transactions were completed in 2009.

As indicated in the table above, as of January 2, 2010, the Company had $1.17 billion in committed bank lines of credit, $800 million of which is available under a two-year syndicated credit facility. The syndicated facility is available to the Company until June 2011 and can be extended for an additional 364-day period in June 2010. The balance of credit lines have been established pursuant to bilateral credit facility agreements that are available to the Company until late 2010. At the end of each quarter, the Company has the ability to request an extension of each of the bilateral credit facilities each quarter for an additional 90-day period.

As of January 2, 2010, the GCCT commercial paper program has access of up to $800 million of the total Canadian Tire committed credit lines. GCCT has achieved compliance with Dominion Bond Rating Service (DBRS®) Global Liquidity Standards.

Debt market conditions Credit markets have shown signs of marked improvement over the course of 2009 and 2010 to date as evidenced by reduced credit spreads and higher investor demand for bond transactions. Although few public asset-backed securitization transactions have been completed in 2009, credit spreads in this market have also tightened and investor demand is improving. Canadian Tire participates in the asset-backed security markets through the use of commercial paper and issuance of MTNs. Throughout 2008 and 2009, GCCT has continued to refinance its maturing commercial paper and had $163 million of commercial paper outstanding as of January 2, 2010 ($62 million of commercial paper outstanding as of January 3, 2009), fully backed by the bank credit lines. In November 2010, a five-year $365 million GCCT-issued MTN series will be maturing. As per the Series Purchase Agreement, GCCT is required to accumulate the principal liquidation amounts for these notes from credit card collections over the two or three months preceding maturity in the Liquidation Principal Funding account.

Should the Company not seek to complete a credit card securitization transaction in the near-to-medium term, the Company has access to other sufficient sources of financing as indicated in the table above.

In December 2009, Canadian Tire received confirmation from Standard & Poor's on its various funding programs, all of which had a stable outlook, and DBRS is expected to complete a ratings review in April 2010. As at January 2, 2010 there has been no change in the ratings.

The Company has a $300 million medium-term note at 5.22 per cent that will mature in October 2010. Based on current market conditions, we do not plan to refinance this debt.

Credit rating summary

	DBRS	S&P
Canadian Tire		
Commercial paper	R-1 (low)	A-1 (low) (Cdn)
Debentures	A (low)	BBB+
Medium-term notes	A (low)	BBB+
Glacier Credit Card Trust[1]		
Asset-backed commercial paper	R-1 (high)	–
Asset-backed Senior Notes	AAA	AAA
Asset-backed Subordinated Notes	A	A
Trend or outlook	Stable	Stable

[1] Asset-backed Series 2004 Senior and Subordinated Notes were discontinued on November 20, 2009.

Long-term debt On June 1, 2009, the Company issued $200 million, seven-year medium-term notes, which mature and are repayable on June 1, 2016, and bear interest at 5.65 per cent, payable semi-annually.

Redemption of debentures The Company redeemed all $150 million of the May 2010 12.10 per cent debentures on October 22, 2009.

Broker deposits CTB continues to be very successful in issuing broker GIC deposits. CTB broker GIC deposits raise cash through sales of GICs through brokers rather than directly to the retail customer. CTB broker GICs 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). Given that the overall size of the broker GIC market in Canada is estimated to be greater than $66 billion, CTB believes that there is ample room in the market to maintain CTB broker GIC deposits as a permanent alternative funding source to the securitization of credit card receivables at reasonable and cost-effective interest rates.

As at the end of 2009, CTB had approximately $1.5 billion in total short-term and long-term CTB broker GIC deposits outstanding.

Retail deposits Retail deposits consist of High Interest Savings Accounts (HIS), Tax-Free Savings Accounts (TFSA) and retail GIC deposits. CTB has been successful in generating deposits from HIS and TFSA accounts and retail GIC deposits and at the end of 2009, CTB had $545 million in retail deposits. Retail deposits provide another cost-effective alternative funding source to credit card securitization and broker deposits.

Sale of mortgage portfolio On November 6, 2009, the Company sold its mortgage portfolio (including the Canadian Tire One-and-Only accounts), totaling approximately $162 million, to the National Bank of Canada, essentially at book value. The transition of customer accounts was completed by the end of January 2010. Costs associated with the sale of the mortgage portfolio were $5.3 million, mostly related to the wind-down of the portfolio. These costs were included in cost of merchandise sold and other operating expenses for the quarter-ended January 2, 2010.

8.1 Funding program

8.1.1 Funding requirements

We fund our capital expenditures, working capital needs, dividend payments and other financing needs, such as debt repayments and Class A Non-Voting Share purchases under the NCIB (as described in section 9.0 below), from a combination of sources. In the fourth quarter of 2009, the primary sources of funding were:

- $213 million of cash generated from operating activities before other changes in working capital;
- $162 million of cash arising from the sale of the mortgage portfolio; and
- $130 million of cash arising from the maturity of short-term investments.

During 2009, the primary sources of funding were:

- $917 million of cash generated from deposits;
- $695 million of cash generated from operating activities before other changes in working capital;
- $200 million of cash arising from the issuance of long-term debt; and
- $162 million of cash arising from the sale of the mortgage portfolio.

8.1.2 Cash and cash equivalents

At January 2, 2010, the Company's cash and cash equivalents totaled $786.0 million versus $429.0 million at January 3, 2009. This change in cash balance was positively impacted by the increase in net deposits. The cash balance at January 3, 2009 was used, in part, to fund the receivables financed by GCCT upon maturity of the 2004-1 series in the third and fourth quarters of 2009. There was no commercial paper for the Company outstanding at the end of 2009 and 2008. GCCT had $163.0 million of commercial paper outstanding at the end of 2009 and $62.2 million outstanding at the end of 2008. In addition, during the fourth quarter of 2009, we used cash for the following:

- $265 million for the repayment of deposits;
- $152 million for the repayment of long-term debt;
- $52 million for additions to property and equipment;
- $19 million for additions to intangible assets, primarily computer software; and
- $17 million in dividends paid.

During 2009, we used cash primarily for the following activities:

- $532 million for the net securitization of loans receivable;
- $220 million for additions to property and equipment;
- $209 million for the net growth in loans receivable;
- $69 million in dividends paid; and
- $68 million for additions to intangible assets, primarily computer software.

8.1.3 Working capital

Optimizing our working capital continues to be a long-term priority in order to maximize cash flow for use in the operations of the Company. The table below shows the change in the value of our working capital components at the end of the fourth quarter of 2009 from the fourth quarter of 2008.

Comparable working capital components

($ in millions)	**January 2, 2010**	January 3, 2009[1]	Increase (decrease) in working capital
Short-term investments	**$ 64.0**	$ –	$ 64.0
Accounts receivable	**835.9**	824.1	11.8
Merchandise inventories	**933.6**	917.5	16.1
Income taxes recoverable	**94.7**	64.6	30.1
Prepaid expenses and deposits	**40.7**	40.2	0.5
Accounts payable and other	**(1,391.4)**	(1,444.2)	52.8
			$ 175.3

[1] 2008 figures have been restated for the implementation, on a retrospective basis, of CICA HB 3064 – Goodwill and Intangible Assets and the amendments to CICA HB 1000 – Financial Statement Concepts. See sections 17.1 and 17.2 for additional information.

The short-term investments increase, as well as the cash and cash equivalents increase, is reflective of the increase in deposits and the corresponding requirement for liquidity reserves. The short-term investments balance sheet classification in particular is due to the original term to maturity of the short-term investments.

The change in income tax recoverable is primarily due to the payment of prior year tax liabilities.

The decrease in accounts payable was mostly due to a discontinuation of a financing arrangement for Petroleum.

8.1.4 Asset-backed commercial paper

The market for Canadian third-party asset-backed commercial paper was greatly affected by the global disruption in the market experienced in August 2007. The Company holds $8.9 million in ABCP on a gross basis and has made pre-tax impairment provisions since the valuation of the ABCP came into question and as relevant information became available. At the end of January 2, 2010, the net book value of the ABCP investment was $4.5 million.

As referenced in section 8.0, due to the amount of funds we have available through committed lines of credit and various other forms of funding, the Company has sufficient credit facilities to satisfy its financial obligations as they come due.

8.1.5 Loans receivable

Our loans receivable securitization program is designed to provide a cost-effective source of funding for Financial Services. At the end of the fourth quarter of 2009, net managed loans receivable were 1.0 per cent lower than at the end of the fourth quarter of 2008 due primarily to the sale of the mortgage portfolio.

CTB sells co-ownership interests in credit card loans to GCCT. Since the Company does not have a controlling interest in GCCT, we do not include financial results of GCCT in our Consolidated Financial Statements.

We record the sale of loans receivable in accordance with CICA's Accounting Guideline 12, "Transfers of Receivables". See Note 1 in the Notes to the 2009 Consolidated Financial Statements. See section 17.9 below regarding pending changes to the accounting for asset securitization transactions as publicly accountable enterprises in Canada move to IFRS in 2011.

We expect the continued growth in the average balances of Canadian Tire branded credit card accounts to lead to an increase in total loans receivable in 2010. Financial Services expects to continue to fund this increase over the long term through the sale of co-ownership interests in credit card loans to GCCT and raising deposits by CTB. GCCT is a third-party trust that was formed to buy co-ownership interests in our credit card loans and also issues debt to third-party investors to fund its purchases. The success of the securitization program is dependent on GCCT's ability to obtain funds from third parties by issuing debt instruments with high credit ratings. Refer to section 8.0 above for a listing of GCCT's credit ratings and prevailing market conditions.

The trustee and custodian for GCCT, Computershare Trust Company of Canada, manages the co-ownership interests and acts as agent for, and on behalf of, CTB and GCCT, as the owners of the co-ownership interests. BNY Trust Company of Canada acts as indenture trustee with respect to GCCT and manages the security interests of the holders of the Senior and Subordinated Notes issued by GCCT. We are currently not aware of any events, commitments, trends or uncertainties that may have a negative impact on our arrangement with GCCT.

Cash flows from loan securitizations

($ in millions)	**Q4 2009**	Q4 2008	**2009**	2008
Proceeds from new securitizations	**$ 100.0**	$ –	**$ 100.0**	$ 634.9
Decrease in securitized ownership interests	**(208.7)**	(262.7)	**(624.3)**	(649.2)
Repurchase of personal loan portfolio	**–**	–	**–**	(27.1)
Proceeds from collections reinvested in previous securitizations	**1,649.6**	2,140.2	**6,805.7**	8,734.6
Other cash flows received on retained interests	**1,415.6**	813.2	**4,735.5**	2,565.1

In 2009, Financial Services securitized approximately $100 million of loans receivable through its securitization program via the issuance of GCCT commercial paper.

The table below lists the details of the outstanding asset-backed notes issued by Glacier.

Glacier Credit Card Trust asset-backed notes outstanding

($ in millions)	**At January 2, 2010**	At January 3, 2009	Repayment of principal begins	Expected final payment dates
Series 1997-1 Commercial Paper Notes[1]	**$ 163**	$ 62		
4.274% Series 2004-1 Senior Notes[2]	**–**	591	Aug. 1, 2009[4]	Nov. 20, 2009
4.187% Series 2005-1 Senior Notes[2]	**345**	345	Aug. 1, 2010[5]	Nov. 19, 2010
4.271% Series 2006-1 Senior Notes[2]	**300**	300	Aug. 1, 2011[5]	Nov. 18, 2011
4.405% Series 2006-2 Senior Notes[2]	**239**	239	Feb. 3, 2014[5]	May 20, 2014
5.027% Series 2008-1 Senior Notes[2]	**600**	600	Nov. 1, 2012[5]	Feb. 20, 2013
4.674% Series 2004-1 Subordinated Notes[3]	**–**	34		
4.507% Series 2005-1 Subordinated Notes[3]	**20**	20		
4.571% Series 2006-1 Subordinated Notes[3]	**17**	17		
4.765% Series 2006-2 Subordinated Notes[3]	**14**	14		
6.027% Series 2008-1 Subordinated Notes[3]	**35**	35		
Total	**$ 1,733**	$ 2,257		

[1] Commercial Paper Notes mature on a business day within one year of the date of issue.
[2] Repayment of principal begins from allocations to GCCT in the previous month. In some instances, earlier prepayment may be required. Expected final payment dates are estimated based on assumptions about the performance of the credit card loans and other factors.
[3] Repayment of principal for Subordinated Notes begins after all principal owing under the related series of Senior Notes has been repaid in full. Subordinated Notes have the same expected repayment dates as the Senior Notes.
[4] At a minimum, repayment to occur over a three-month period prior to expected final payment date, based on the performance of the credit card loans.
[5] At a minimum, repayment to occur one month prior to expected final payment date, based on the performance of the credit card loans.

8.2 Funding costs

The table below shows total funding costs, not including those of Glacier. The figures include the impact of interest rate swaps, which are part of our interest rate risk management program.

Interest expense

($ in millions)	**2009**	2008
Long-term interest[1]	**$ 130.0**	$ 117.9
Short-term interest[2]	**17.0**	4.7
Total	**$ 147.0**	$ 122.6
Cost of debt – long-term[3]	**5.20%**	6.11%
Cost of debt – short-term[4]	**2.84%**	4.05%

[1] Long-term interest is increased or decreased by the interest rate differentials paid or received on interest rate swap contracts and includes mark-to-market adjustments on interest rate derivatives that do not receive hedge accounting.
[2] Short-term interest includes passive interest income. Short-term interest expense (before allocating passive income) totaled $26.2 million and $19.6 million for the fiscal periods ended January 2, 2010 and January 3, 2009, respectively.
[3] Represents the weighted average cost of long-term debt during the period.
[4] Represents the weighted average cost of short-term debt during the period.

9.0 EQUITY

The book value of Common and Class A Non-Voting Shares at the end of the fourth quarter of 2009 was $45.19 per share compared to $43.69 at the end of the fourth quarter of 2008.

We have a policy of repurchasing Class A Non-Voting Shares to offset the dilutive effect of shares issued to fulfill the Company's obligations under various employee profit sharing, stock option and share purchase plans and the dividend reinvestment plan. In the long term, these repurchases are expected to offset the issuance of new Class A Non-Voting Shares. In addition, the Company may purchase additional Class A Non-Voting Shares if the Board determines, after consideration of market conditions and the Company's financial flexibility and investment opportunities, that a purchase of additional Class A Non-Voting Shares is an appropriate means of enhancing the value of the remaining Class A Non-Voting Shares.

On February 11, 2010, we announced our intention to initiate an NCIB to purchase up to 3.5 million of the issued and outstanding Class A Non-Voting Shares over the 12-month period ending February 18, 2011. In the prior year, a total of approximately 0.7 million Class A Non-Voting Shares were purchased under the previous NCIB.

An NCIB is a bid by a listed company to buy back its shares, up to a prescribed number, on a stock exchange, subject to certain rules that protect investors.

Shares outstanding

	January 2, 2010	January 3, 2009
Class A Non-Voting Shares (CTC.A)		
Shares outstanding at beginning of year	**78,178,066**	78,048,062
Shares issued under plans[1]	**742,198**	649,804
Shares purchased under NCIB	**(742,198)**	(519,800)
Shares outstanding at end of year	**78,178,066**	78,178,066
Common Shares (CTC)		
Shares outstanding at beginning and end of the year	**3,423,366**	3,423,366

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

Dividends Dividends of approximately $68.6 million were declared on Common and Class A Non-Voting Shares in 2009 compared to dividends of approximately $68.5 million in 2008, reflecting the Board of Directors' decision in February 2009 to maintain the annual dividend rate at $0.84 per share.

The following chart summarizes our quarterly dividend distribution in 2009 payable to the shareholders as of the record date:

Quarterly dividend	Date of declaration	Record date	Date payable	Amount payable per share
First quarter	February 12, 2009	April 30, 2009	June 1, 2009	$ 0.21
Second quarter	May 14, 2009	July 31, 2009	September 1, 2009	$ 0.21
Third quarter	August 13, 2009	October 30, 2009	December 1, 2009	$ 0.21
Fourth quarter	December 10, 2009	January 29, 2010	March 1, 2010	$ 0.21

Dividend policy Canadian Tire's policy is to maintain dividend payments equal to approximately 15 to 20 per cent of the prior year's normalized basic net earnings per share, after giving consideration to the period-end cash position, future cash requirements, capital market conditions and investment opportunities. Normalized earnings per share for this purpose excludes gains and losses on the sale of credit card and loans receivable and non-recurring items but includes gains and losses on the ordinary course disposition of property and equipment.

10.0 INVESTING ACTIVITIES

10.1 2009 Capital expenditures program

Canadian Tire's capital expenditures, on an accrual basis, totaled $81 million in the fourth quarter of 2009 (including intangible assets such as software acquisitions), approximately 40 per cent lower than the $135 million spent in the fourth quarter of 2008.

Overall, capital investment has slowed since the fourth quarter of 2008, as construction of the Montreal Distribution Centre (formerly referred to as the Eastern Distribution Centre) is complete, as is the Concept 20/20 store rollout program. We have begun to focus on the next store concept renewals, such as our Smart and Small Market stores, which are less capital-intensive than the Concept 20/20 store format.

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

($ in millions)	**2009**	2008
Real estate projects (including CTR's new store projects)	**$ 161**	$ 272
Information technology	**55**	59
CTR distribution centres (excluding Montreal)	**13**	9
Automotive Infrastructure	**13**	10
Montreal Distribution Centre	**5**	57
Other purposes	**26**	65
Total capital expenditures	**$ 273**	$ 472

10.2 2010 Capital expenditures plan

We continue to invest in our retail store network by converting older format stores into the new Smart and Small Market stores. In addition, we plan to invest in productivity and efficiency initiatives such as information technology and the automotive infrastructure program. Our 2010 capital plan is in the range of $280 million to $300 million and consists of:

- $161 million for real estate projects, including $125 million associated with the rollout of CTR's new store formats;
- $63 million for information technology;
- $28 million for CTR distribution centres;
- $15 million for Automotive Infrastructure;
- $11 million for CTR change program; and
- up to $22 million for other purposes.

11.0 FOREIGN OPERATIONS

Since the late 1970s, the Company has established operations outside Canada for a variety of business purposes. This has resulted in a portion of the Company's capital and accumulated earnings being in wholly-owned foreign subsidiaries. As there are currently no plans to repatriate the capital and earnings, Canadian and foreign taxes that might arise upon such repatriation have not been provided for. These funds have been accumulated in the following international operations:

- U.S.-based subsidiaries hold highly rated short-term securities and loans to the Company and its wholly-owned Canadian subsidiaries. The capital and earnings of these U.S.-based subsidiaries arose from investments made to offset net operating losses incurred by U.S. retail operations closed in the 1980s and 1990s and from the reinsurance of risks relating to certain insurance products marketed to customers of Financial Services and other reinsurance activities;
- subsidiaries operating in the Pacific Rim have provided the Company with a variety of important services related to product sourcing, logistics and vendor management. These subsidiaries have earned commissions for such services for over 20 years. In 2008, several representative offices of the Company were created to perform the activities formerly provided by the subsidiaries due to changes in local regulations and the need to enhance operational efficiencies; and
- a Bermuda-based reinsurance company was established in 2004 to reinsure the risk of certain insurance products marketed to customers of Financial Services. In addition to its reinsurance activities, this company invests in highly rated short-term securities and makes loans to the Company and its wholly-owned Canadian subsidiaries.

12.0 TAX MATTERS

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

The main issues challenged by the Canada Revenue Agency (CRA) relate to the tax treatments of commissions paid to foreign subsidiaries of the Company (covering periods from 1995 to 2007), and dividends received on an investment made by a wholly-owned subsidiary of the Company related to reinsurance (covering periods from 1999 to 2003). The applicable provincial tax authorities have reassessed and are also expected to issue further reassessments on these matters for the corresponding periods.

The Company has agreed with the CRA to settle the commissions issue for the period 1995–2003, although the determination of the final tax liability pursuant to the settlement is subject to the verification by the CRA of certain information provided by the Company. The Company believes the provincial tax authorities will also reassess on the same basis. The Company does not have a significant exposure on this issue subsequent to the 2003 taxation year.

The reassessments with respect to the dividends received issue are based on multiple grounds, some of which are highly unusual. The Company has appealed the reassessments and the matter is currently pending before the Tax Court of Canada. If the CRA (and applicable provincial tax authorities) were entirely successful in their reassessments – an outcome that the Company and its tax advisors believe to be unlikely – it is estimated that the total liability of the Company for additional taxes, interest and penalties could be approximately $193 million. Although the Company has appealed these reassessments, current tax legislation requires the Company to remit to the CRA and its provincial counterparts approximately $120 million related to this matter, all of which has been remitted.

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

The year to date tax provision has been reduced by $9.1 million due to the retroactive change in legislation relating to the taxation of gains realized from the disposition of shares during 2006 and 2007 and revision to the prior year's estimated tax expense.

13.0 OFF-BALANCE SHEET ARRANGEMENTS

13.1 Glacier Credit Card Trust

As noted earlier, Glacier was formed to buy co-ownership interests in our credit card loans, and it issues debt to third-party investors to fund its purchases. Refer to section 8.1.5 for additional information on Glacier.

13.2 Trust financing for Dealers

A financing program has been established to provide an efficient and cost-effective way for Dealers to access the majority of the financing they require for their store operations, with specified support from us as described below.

Trust In 1995, a major Canadian bank set up a trust (the Trust) to provide financing to retail franchisees and, in 1997, began providing loans to our Dealers (Dealer Trust Loans) to finance a portion of their purchases of inventory from the Company and fixed assets. Each of these Dealer Trust Loans is secured by the assets of the respective Dealer's corporation. The amount of Dealer Trust Loans was reduced to $757.4 million at January 2, 2010, compared to $970.9 million at January 3, 2009, largely as a result of Dealers choosing to access funding directly from banks rather than through the Trust. In addition, participating Dealers use subordinated operating lines of credit from Canadian banks to finance seasonal fluctuations in inventory levels and meet other regular business needs.

Co-owner Trusts In 2004, the Trust sold all of its rights in the Dealer Trust Loans to independent trusts (the Co-owner Trusts) that were set up by major Canadian banks. The Trust continues to advance new Dealer Trust Loans to Dealers that are immediately sold to the Co-owner Trusts. The Co-owner Trusts raise funds in the capital markets to fund their initial and ongoing purchases of Dealer Trust Loans from the Trust. The Trust continues to act as servicer of the Dealer Trust Loans.

Each bank administers its Co-owner Trust, provides it with a global style liquidity line and, in one case, is counterparty to the Trust (ultimately benefiting the Co-owner Trusts) in interest rate swaps. The interest rate swaps are used to convert fixed rate interest payments received on some Dealer Trust Loans into variable interest payments to offset the Co-owner Trusts' variable rate debt raised in the capital markets.

Major Canadian trust companies are the trustees of the Co-owner Trusts and, as such, are accountable for the interests of the Co-owner Trusts' third-party beneficiaries.

Approximately two-thirds of our Dealers participate in this program, and have individual loan obligations that are ultimately owed to the Co-owner Trusts.

Program support We provide program support, ultimately to the Co-owner Trusts, in the following ways:

> we provide credit enhancement to the Trust in the form of guarantees of standby letters of credit (ultimately benefiting the Co-owner Trusts) issued by several Canadian banks with acceptable credit ratings;

> we have agreed to indemnify the Co-owner Trusts and certain other parties against shortfalls in payments owed by the Co-owner Trusts resulting from certain events such as changes in laws and regulations (including tax legislation). The terms of these indemnification agreements do not put a limit on our total potential liability;

> we have provided a waiver, ultimately to the Co-owner Trusts, of certain statutory rights that we have with respect to the Dealers as their landlord and merchandise supplier; and

> we have agreed to indemnify the interest rate swap counterparty for amounts owing in the event that the Trust, as servicer, cannot collect amounts owing to the Co-owners from a Dealer who has fixed an interest rate(s) on his/her Dealer Trust Loan.

To date, we have made only a few nominal payments under the program support provided, and we have not accrued any such amount in our Consolidated Financial Statements.

The Company receives consideration for our program support and out-of-pocket costs from the Trust and/or the participating Dealers. The Trust, as servicer, pays us a program support amount, pursuant to a formula, that depends on the average amount of Dealer Trust Loans outstanding and the average amount of credit enhancement provided by the Company.

We pay fees to the banks that provide the letters of credit to the Co-owner Trusts. The amount of our guarantees of the standby letters of credit provided by banks to the Trust was $178.8 million at January 2, 2010 compared to $267.4 million at January 3, 2009. The letters of credit benefit the Co-owner Trusts by helping them achieve a high credit rating on the debt they issue to fund their initial and ongoing purchases of Dealer Trust Loans. The following table summarizes the program support received and letters of credit fees paid by us.

($ in millions)	**Q4 2009**	Q4 2008	**2009**	2008
Program support received[1]	**$ 3.3**	$ 3.3	**$ 13.4**	$ 10.0
Letters of credit fees paid	**1.6**	0.3	**3.3**	1.0

[1] Amount received is net of out of pocket/reimbursable expenses.

The amount of credit enhancement required is based on a defined formula that considers the net liquidation value of the inventory and fixed assets of the participating Dealers; it will generally increase if the value of the participating Dealers' inventory and fixed assets goes down or the participating Dealers increase the amount of their Dealer Trust Loans.

No amount has ever been drawn on the letters of credit. The Trust and Co-owner Trusts can, however, draw on the letters of credit in various situations, including the following:

> if a Dealer defaults on a Dealer Trust Loan and if we choose not to buy such loan, the Co-owner Trusts can draw on the letter(s) of credit for the amount of the Dealer Trust Loan (including any unpaid interest and costs) and then must assign the Dealer Trust Loan obligation and related security documentation to us;

> if collections from Dealers and the interest rate swap counterparty are insufficient to cover all fees and expenses owing by the Co-owner Trusts, the Trust can draw on the letter(s) of credit to cover such shortfall;

> if we do not provide sufficient credit enhancement, the Co-owner Trusts can fully draw on the letter(s) of credit and realize on the Dealer Trust Loans' underlying security; and

> upon termination of the program.

We must reimburse the banks for any amounts the Co-owner Trusts draw under the letters of credit.

Terminating the arrangement The agreement with the Trust and the Co-owner Trusts for the Trust financing program for Dealers has been amended and extended. Except for the termination rights set forth below, neither the Company, the Trust nor the Co-owner Trusts can unilaterally terminate the financing program before December 31, 2010, and any party deciding to terminate participation in the program must provide six months' written notice to the other parties. Such written notice may be delivered at any time after June 29, 2010.

The arrangement can be terminated if:

> we become insolvent or default on a material covenant contained in agreements governing this Dealer financing program;

> we do not provide sufficient credit enhancement or indemnify the Co-owner Trusts in certain events;

> the debt funding the interest in Co-ownership assets cannot be rated at the current highest rating by reason of the Dealer financing program (after reasonable time to address underlying issues – during which time no new Dealer Trust Loans will be advanced); or

> after at least 180 days' notice, at least one of the banks which administer a Co-owner Trust no longer provides such Co-owner Trust with a liquidity line (and such Co-owner Trust(s) is not immediately replaced by us).

13.3 Bank financing for Dealers and PartSource franchisees

We have guaranteed the bank debt of some Dealers and some PartSource franchisees. If a Dealer or PartSource franchisee fails to make scheduled debt payments on bank loans we have guaranteed, we may be required to pay the amount guaranteed to the bank. All of the credit guarantees expire in 2010 and are regularly extended, upon expiry, at our option.

As of January 2, 2010, the maximum authorized limit of financial guarantees to certain financial institutions in support of specific Dealers is not to exceed $50.0 million, of which $34.1 million had been issued and outstanding at January 2, 2010, compared to $42.0 million at January 3, 2009. We have not accrued any specific amount for these guarantees in our Consolidated Financial Statements.

14.0 ENTERPRISE RISK MANAGEMENT

To preserve and enhance shareholder value, the Company approaches the management of risk strategically through its Enterprise Risk Management (ERM) program. The Company's ERM program sets out principles and tools for identifying, evaluating, prioritizing, monitoring and managing risk effectively and consistently across the Company.

The intent of our ERM program is to ensure an integrated approach to managing risks to assist in achieving our strategic objectives. Our ERM program is:

> designed to provide an understanding of significant risks across the Company and the potential impacts of risks across the organization;

> cross-functional in its perspective to provide a consistent discipline for managing risks;

> designed to allow for improved capital allocation decisions to optimize the risk/reward relationship; and

> designed to incorporate a number of approaches for managing risk, including avoidance, mitigation, insurance and acceptance.

A key element of our ERM program is the periodic review, identification and assessment of our Principal Risks. We define a Principal Risk as one that, alone or in combination with other interrelated risks, can have a significant adverse impact on Canadian Tire's performance, reputation or ability to service its customers, and has, in the absence of controls, a credible probability of occurring.

Based on our experience over the past five years, we continue to enhance the processes and procedures that support the ERM program, including our setting of the Company's risk appetite, monitoring of risk metrics and Board reporting. We are also enhancing our integration of risk management activities within our strategic and operational planning and reporting processes.

The officer in charge of each business and support unit is accountable for ensuring that risks are managed effectively within his or her business area.

A management Enterprise Risk Committee has been in place since 2006 to enhance the sustainability of the ERM program. The Executive Committee oversees CTC's risk profile and ensures the appropriate management of Principal Risks and other enterprise-wide risks and has the responsibility for reviewing and approving, for recommendation to the Board of Directors, the ERM policy and program and specific policies addressing each of the Principal Risks. This risk oversight is conducted under the leadership of the Executive Vice President, Financial Strategy and Performance with the support of the Risk Management Services group. Management has completed a detailed review and update of its Principal Risks, which have been presented and approved by the Audit Committee and the Board.

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

In 2009 there was an outbreak of the H1N1 flu virus with confirmed cases in Canada. The Company's crisis management and emergency response structures and protocols were applied during this outbreak to protect our employees, customers and suppliers. The Company used the learnings from this event to enhance our existing practices.

14.1 Board accountability

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 our 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 ensures that the ERM Policy continues to accurately state our risk philosophy, as well as our 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 our business and our assumptions underlying our Strategic Plan; and
- effectively assesses, monitors and manages Principal Risks in compliance with the ERM Policy.

14.2 Principal Risks

We have identified 10 Principal Risks. Information management is an integral component of all these Principal Risks. Effective information management is of paramount importance to the organization, and the risk of not having or not appropriately using and safeguarding the information needed to drive strategy and execute processes is significant.

The following table provides a high-level perspective on each identified Principal Risk and describes the main strategy that we have in place to mitigate the potential impacts of these risks on our business activities and on our reputation and brand.

Principal Risks	Our risk management strategy
Business continuity	
> hazards, disasters and business interruptions may compromise the safety of our employees or customers and our ability to provide products and services on a continuous basis	Our strategy in this area is a combination of prevention, mitigation and laying off of risk through third-party insurance. Crisis management and emergency response structures and protocols and business continuity plans are being enhanced to ensure we can appropriately respond in the event of business interruptions. Disaster recovery plan exercises are conducted twice annually. In addition, a comprehensive insurance program is in place with a number of carriers to provide coverage for major risks in this area in a cost-effective manner. The insurance program is reviewed annually with the Audit Committee.
Consumer lending	
> failure or inability to accurately predict the creditworthiness or credit behaviour of our customers may significantly affect our earnings	Policies and processes are employed to strategically target the quality of our consumer lending portfolio as outlined in section 5.3.4.8. Further information regarding the Company's exposure to consumer lending risk is provided in section 14.3.
Financial markets	
> lack of sufficient capital to absorb the impact of unexpected losses > lack of sufficient liquidity or financing to fund operations and strategic initiatives > significant volatility in exchange rates and interest rates resulting in adverse impact on our product pricing, gross margins and net interest expense > inappropriate hedging strategies for mitigating our foreign exchange, interest rate and equity exposures could cause a significant negative impact on earnings	Various policies and processes are in place to manage capital and funding risks. The Financial Risk Management Committee provides oversight on policy compliance. Further details are set out in sections 7.2 and 7.3. Various policies and processes are employed to manage our hedging activities which are designed to mitigate the Company's exposure to volatility in exchange rates, interest rates and equity markets. Treasury processes ensure hedges are placed with highly rated financial institutions and are monitored against policy limits. The Financial Risk Management Committee provides oversight on policy compliance. Further details are set out in sections 8.0 and 14.3.
Financial reporting	
> financial information and reporting that lacks integrity or is not compliant with accounting standards may have a negative impact on our reputation	Numerous professional accountants are employed within the Company's finance groups, and policies and processes are in place to ensure the validity, completeness and accuracy of recorded transactions, as well as segregation of duties. Finance processes are in place to monitor and respond to changing regulations and standards governing accounting and financial presentation. Financial reporting processes, including CEO/CFO Certification, are overseen by the Audit Committee.
Formulation and execution of strategy	
> failure to formulate, plan, adjust, execute and communicate an effective strategy and aligned initiatives could have a negative impact on our mid- to long-term success as an organization	CTC regularly prepares a long-term strategic plan and identifies several key initiatives therein as being vital to its long-term success. Operating plans set out each year's objectives required as part of the successful longer term execution of these initiatives. The Board receives reports on progress against the operating plan on a quarterly basis.

Principal Risks	Our risk management strategy
Key contractual relationships	
> inadequate management of our relationships and contracts with key business partners, including our exposure to their risks, can result in inadequate products and services, disruptions to the delivery of products and services including inadequate customer service, and legal disputes which may have a negative impact on our earnings, reputation and brand	Processes are in place to ensure the management of risks arising from key contractual relationships, including a policy requirement for review by the Legal department of key contracts prior to signing. A Supplier Code of Conduct is also in place to ensure that our suppliers and vendors abide by CTC's high standards of ethical business conduct.
Legal and legislative compliance	
> failure to comply with laws and regulations could result in sanctions and financial penalties that could negatively impact our earnings and reputation > non-compliance with expectations arising from common law can give rise to legal action that may result in financial or reputational damage > areas of most significant risk are product safety, environmental, occupational health and safety, competition, privacy, disclosure, insider trading and the Bank Act	Policies are in place setting out expectations regarding processes for ensuring compliance with legislation and regulations, including specific policies for each of the eight areas of most significant risk. The Legislative Compliance department provides compliance oversight and guidance to the organization. Each of the business units have also established processes for complying with the laws and regulations of most significance to their business activities. The Audit Committee and Governance Committee have an oversight role in this area. Further information regarding the Company's exposure to legal and regulatory risks is provided in sections 14.4 and 14.5.
Marketplace	
> economic conditions, the competitive landscape, domestic or international political environments, the demographics of the Canadian population, the buying behaviour of consumers, and the available shopping, product and service 'technologies' could have a significant impact on our earnings	Processes are in place to actively monitor and analyze economic, competitive, demographic, consumer behaviour and competitive developments in Canada. The Treasury and Strategic Planning departments have key roles in these processes. Results are shared with the Company's executives, who are accountable for any necessary adjustments to the strategic and operational plans and for ongoing investment decisions. The Board of Directors has an oversight role in ensuring the Company's strategy takes into account shifts in macro-economic factors.
People	
> external pressures and/or ineffective internal human resource practices can negatively impact our ability to attract and retain appropriately skilled people who espouse our values and strive to achieve our strategic objectives	Various policies and practices are in place regarding organizational design, employee recruitment programs, succession planning, compensation structures, ongoing training and professional development programs and performance management. Our Code of Business Conduct sets out expected 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. Processes are also in place for the recruitment, training and mobility of Associate Dealers, and for the development of training programs for employees across the Associate Dealer network.
Technology including information systems	
> not having the right technology and information may affect our ability to compete effectively and achieve our strategic objectives	Processes are in place for assessing business needs and monitoring systems capabilities, performance, availability, capacity and currency to ensure appropriate investments are made to deliver on the needs of our businesses. A multi-year program designed to upgrade our technology infrastructure is currently underway.

14.3 Financial instruments

The following discussion on risks and risk management includes some of the required disclosures under the CICA Handbook Section 3862 – Financial Instruments – Disclosures related to the nature and extent of risks arising from financial instruments, as required by the standard. Further information is also available in Note 19 of the Notes to the Consolidated Financial Statements.

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 January 2, 2010 and January 3, 2009 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 interest rate swaps, 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 interest rate swaps were valued using discounted cash flow models based on year-end market interest rate curves. 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 the counterparties based on year-end market interest rates, implied Company volatility values and the year-end closing share price of the Class A Non-Voting Shares of the Company on the Toronto Stock Exchange.

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

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

- deal only with counterparties that are highly rated financial institutions;
- restrict the amount of hedging we can transact with any one counterparty; and
- regularly monitor the market value of the hedge portfolios by counterparty.

The credit exposure with respect to hedges and similar financial instruments is spread across 10 financial institutions and represents the current replacement value of only those contracts which are in a gain position.

The Company's maximum exposure to credit risk is as follows:

($ in millions)	**2009**	2008
Assets held for trading	**$ 922.5**	$ 694.3
Assets held to maturity	**13.8**	14.6
Loans and receivables	**3,185.1**	2,519.3
Undrawn loan commitments	**16,062.7**	14,006.4
Securitized receivables	**1,732.9**	2,257.4
Guarantees	**236.6**	318.0
Total	**$ 22,153.6**	$ 19,810.0

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 which are considered adequate to provide for future credit losses. A continuity of the Company's allowances for credit losses is as follows:

	Credit card loans		Other loans[1]		Accounts receivable		Total	
($ in millions)	**January 2, 2010**	January 3, 2009	**January 2, 2010**	January 3, 2009	**January 2, 2010**	January 3, 2009	**January 2, 2010**	January 3, 2009
Balance, beginning of year	**$ 51.8**	$ 51.5	**$ 3.5**	$ 2.7	**$ 3.3**	$ 5.0	**$ 58.6**	$ 59.2
Provision for credit losses	**175.6**	78.0	**5.6**	9.3	**3.0**	1.0	**184.2**	88.3
Recoveries	**19.8**	15.0	**0.8**	0.7	**0.2**	0.3	**20.8**	16.0
Write-offs	**(163.3)**	(92.7)	**(7.8)**	(9.2)	**(3.0)**	(3.0)	**(174.1)**	(104.9)
Balance, end of period	**$ 83.9**	$ 51.8	**$ 2.1**	$ 3.5	**$ 3.5**	$ 3.3	**$ 89.5**	$ 58.6

[1] Other loans include personal loans and line of credit loans.

Foreign currency risk The Company has significant demand for U.S. dollars, due to global sourcing. To mitigate the impact of fluctuating foreign exchange rates on the cost of our globally sourced merchandise and, consequently, earnings, the Company has a comprehensive foreign exchange risk management policy in place which 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 allowed the Company to achieve some margin stability for 2009 as a significant amount of the U.S. dollars required for U.S. dollar-denominated purchases were available at hedge rates more favourable than the average spot reference rate. The outcome of the Company's hedge portfolio for 2010 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.

Liquidity risk The following table summarizes the Company's contractual maturity for its financial liabilities. The table includes both interest and principal cash flows.

($ in millions)	1 year	2 years	3 years	4 years	5 years	Thereafter	Total
Non-derivatives							
Deposits	$ 872.2	$ 160.5	$ 239.9	$ 470.1	$ 326.4	$ –	$ 2,069.1
Accounts payable and other	1,253.3	–	–	–	–	–	1,253.3
Long-term debt	309.3	21.2	8.5	6.7	3.6	1,058.5	1,407.8
Interest payment[1]	120.2	97.5	95.8	114.5	90.3	633.5	1,151.8
Derivatives	80.8	0.9	–	5.1	1.3	–	88.1
Total	$ 2,635.8	$ 280.1	$ 344.2	$ 596.4	$ 421.6	$ 1,692.0	$ 5,970.1

[1] Includes interest payments on deposits and long-term debt.

Interest rate risk The Company is exposed to interest rate risk, which it manages through the use of interest rate swaps. 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.

14.4 Legal risk

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

In October 2004, a motion for authorization to proceed with a class action against CTB and a number of other banks was filed by Option Consommateurs, a Quebec-based consumers' group. The class action alleges that the cash advance transaction fees charged by CTB (and other banks) are not permitted under the Consumer Protection Act (Quebec). The claim seeks a return of all fees assessed against cardholders for cash advances, plus punitive damages of $200 per class member. The class action was certified against CTB on November 1, 2006. The class is comprised of all persons in Quebec who have a credit card agreement with CTB and who have paid CTB fees for cash advances in Canada or abroad since October 1, 2001. CTB believes it has a solid defense to the claim on the basis that banks are not required to comply with provincial legislation because banking and cost of borrowing disclosure is a matter of exclusive federal jurisdiction. Accordingly, no provision has been made for amounts, if any, that would be payable in the event of an adverse outcome. If adversely decided, the present total aggregate exposure to CTB is expected to be approximately $16 million.

In June 2009, a similar lawsuit against another financial institution was heard by the Quebec Supreme Court questioning the legality of foreign exchange fees on credit cards transactions. The Court ruled in favour of the plaintiff, although the decision is being appealed to the Quebec Court of Appeal. One consequence of this decision is that it may affect other outstanding lawsuits, including the action filed by Option Consommateurs against CTB noted in the preceding paragraph.

14.5 Regulatory risk

On September 30, 2009 the Federal government enacted new regulations focused on credit cards and other lending products. The regulations impose additional disclosure obligations in credit card applications, on credit card monthly statements and in credit agreements. They also impose rules related to payment allocation, calculation of interest charges, credit limit increases and debt collection practices. These regulations will have a negative impact on all federally regulated financial institutions that issue credit cards in Canada. The implementation of the regulations is to be phased in over time with the first set of changes required for January 1, 2010 and the second set for September 1, 2010. The January changes relate to debt collection practices and disclosure obligations in applications and credit agreements and prohibit credit limit increases without consent. The September changes relate to interest calculation, payment allocation and disclosure obligations on monthly statements. Financial Services has assembled a project team that is working towards ensuring compliance with the regulations by the respective deadlines and is exploring any mitigating actions that can be taken. The preliminary estimate on the negative impact to Financial Services in 2010 as a result of these regulatory changes is in the range of approximately $8 million to $10 million pre-tax. As of January 1, 2010, Financial Services was in compliance with the first set of changes.

14.6 Other risks

In addition to the Principal Risks identified in section 14.2 and the business-specific risks identified in section 5.3.1.5 for CTR, section 5.3.2.5 for Mark's, section 5.3.3.5 for Petroleum and section 5.3.4.8 for Financial Services, operational business risks that may cause actual results or events to differ materially from those forecasted in this MD&A include:

- 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 impact the timing of construction;
- changes in commodity prices could also affect the profitability of CTR and Mark's; and
- fluctuating foreign currency exchange rates could impact cross-border shopping patterns and employment levels in the manufacturing and export sectors and, consequently, negatively impact consumer spending practices.

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

15.0 CRITICAL ACCOUNTING ESTIMATES

The Company estimates certain amounts reflected in its financial statements using detailed financial models that are based on historical experience, current trends and other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from those estimates. In our judgment, the accounting policies and estimates detailed in Note 1 of the Notes to the Consolidated Financial Statements for the year ended January 2, 2010 do not require us to make assumptions about matters that are highly uncertain and accordingly none of the estimates is considered a "critical accounting estimate" as defined in Form 51-102F1 published by the Ontario Securities Commission, except as noted below.

In view of the recent turmoil in credit markets and economic recession being experienced in Canada, the Company reviewed the allowance for credit losses at Financial Services and considers it to be a "critical accounting estimate". The allowance for credit losses adjusts the value of the Financial Services loan portfolio to reflect its estimated realizable value. Financial Services' allowance for impaired loans receivable for each of credit card, personal and line of credit loans is determined using historical loss experience of account balances based on the aging and arrears status, with certain adjustments for other relevant circumstances influencing the recoverability of the loans receivables. A robust model is used and is based on economic conditions and trends specific to Financial Services. The allowance for impaired credit card loans (the largest portfolio) is comprised of general, bankruptcy and fraud risk components. Changes in circumstances including, but not limited to, changes in the aging of accounts and changes in the bankruptcies experienced may cause future assessments of credit risk to be materially different from current assessments, which could require an increase or decrease in the allowance for credit losses. The impairment provisions for personal loans and line of credit loans operate in similar fashion.

16.0 CONTRACTUAL OBLIGATIONS

($ in millions)	Total	2010	In years 2011–2012	In years 2013–2014	After 2014
Long-term debt[1]	$ 1,367.2	$ 302.1	$ 15.0	$ 0.1	$ 1,050.0
Capital lease obligations	40.6	7.2	14.7	10.2	8.5
Operating leases	2,091.7	238.5	414.5	354.5	1,084.2
Purchase obligations	853.1	680.2	133.1	39.8	0.0
Financial Services' deposits	2,069.1	872.2	400.4	796.5	0.0
Other obligations	29.7	8.1	9.7	4.1	7.8
Total contractual obligations	$ 6,451.4	$ 2,108.3	$ 987.4	$ 1,205.2	$ 2,150.5

[1] Interest obligations are not included.

17.0 CHANGES IN ACCOUNTING POLICIES

17.1 Financial Statement Concepts

Effective, January 4, 2009 (the first day of the Company's 2009 fiscal year), the Company applied the amendments issued by the CICA to HB 1000 – Financial Statement Concepts, which clarify the criteria for recognition of an asset and the timing of expense recognition, specifically, deleting the guidance permitting the deferral of costs. The new requirements are effective for interim and annual financial statements for fiscal years beginning on or after October 1, 2008. The Company applied the amendments to CICA HB 1000 in conjunction with CICA HB 3064 – Goodwill and Intangible Assets.

17.2 Goodwill and Intangible Assets

Effective, January 4, 2009, the Company implemented, on a retrospective basis with restatement, the CICA HB 3064 – Goodwill and Intangible Assets, which was effective for interim and annual financial statements for fiscal years beginning on or after October 1, 2008.

This new standard provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets, including internally developed intangibles, and is consistent with the revised asset definition and recognition criteria in CICA HB 1000 – Financial Statement Concepts. Under the new standard, costs related to development projects can be recorded as assets only if they meet the definition of an intangible asset.

Additionally, the new standard requires that internally developed computer software that is not an integral part of the related hardware (previously included in property and equipment) be included in intangible assets. As these costs have a limited useful life, they continue to be amortized over a five year period.

As a result of the retrospective implementation of these standards, the cumulative impact on previously reported balances on the following dates is as follows:

($ in millions)	Increase (decrease) January 3, 2009	Increase (decrease) December 29, 2007
Retained earnings	$ (3.1)	$ (4.3)
Long-term receivables and other assets	(3.3)	(4.6)
Intangible assets	189.5	174.0
Property and equipment	(190.9)	(175.8)
Income taxes recoverable	0.4	0.4
Future income tax liabilities	(1.2)	(1.7)

In addition, the retrospective impact on depreciation and amortization for the 14 weeks and 53 weeks ended January 3, 2009 was a decrease of $0.8 million and $2.7 million, respectively. The retrospective impact of the write-off of deferred development costs on cost of merchandise sold and all other operating expenses for the 14 weeks and 53 weeks ended January 3, 2009 was an increase of $0.5 million and $0.9 million, respectively. The retrospective impact on net earnings for the 14 weeks ended January 3, 2009 was an increase of $0.3 million, or $nil per share, and for the 53 weeks ended January 3, 2009 was an increase of $1.2 million, or $0.01 per share.

17.3 Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

Effective, January 4, 2009, the Company implemented, on a retrospective basis without restatement of prior periods, the CICA Emerging Issues Committee (EIC) 173 – Credit Risk and the Fair Value of Financial Assets and Financial Liabilities, which is effective for interim and annual financial statements for periods ending on or after January 20, 2009.

This EIC clarifies that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments, rather than using a risk-free rate.

Entities are required to re-measure the financial assets and liabilities, including derivative instruments, as at the beginning of period of adoption (i.e. the beginning of fiscal 2009) to take into account its own credit risk and counterparty credit risk. Any resulting difference would be recorded as an adjustment to retained earnings, except a) derivatives in a fair value hedging relationship accounted for by the "shortcut method", in which case the resulting difference would adjust the basis of the hedged item; and b) derivatives in cash flow hedging relationships, in which case the resulting difference would be recorded in accumulated Other Comprehensive Income (OCI).

As a result of the retrospective implementation of this new standard, opening accumulated other comprehensive income decreased by $2.5 million and opening retained earnings increased by $1.1 million.

17.4 Business Combinations

In January 2009, the CICA issued CICA HB 1582 – Business Combinations, which will replace CICA HB 1581 – Business Combinations. The CICA also issued CICA HB 1601 – Consolidated Financial Statements and CICA HB 1602 – Non-Controlling Interests, which will replace CICA HB 1600 – Consolidated Financial Statements. The new standards are effective for fiscal years beginning on or after January 1, 2011, with early adoption permitted. The objective of the new standards is to harmonize Canadian GAAP for business combinations and consolidated financial statements with the International and U.S. accounting standards. The new standards are to be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011, with earlier application permitted. Assets and liabilities that arose from business combinations whose acquisition dates preceded the application of the new standards will not be adjusted upon application of these new standards. The Company has elected not to adopt the new standard prior to 2011.

17.5 Financial Instruments – Recognition and Measurement

In April 2009, the CICA amended CICA HB 3855 – Financial Instruments – Recognition and Measurement. The amendment included a paragraph relating to embedded prepayment options. This amendment is effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011 with early adoption permitted. The new standard has no impact on the Company.

17.6 Financial Instruments – Disclosures

In June 2009, the CICA amended CICA HB 3862 – Financial Instruments – Disclosures, which adopted the amendments recently issued by the International Accounting Standards Boards (IASB) to IFRS 7 – Financial Instruments: Disclosures, which was issued in March 2009. These amendments are applicable to publicly accountable enterprises and those private enterprises, co-operative business enterprises, rate-regulated enterprises and not-for-profit organizations that choose to apply Section 3862.

The amendments enhance disclosures about fair value measurements, including the relative reliability of the inputs used in those measurements, and about the liquidity risk of financial instruments. Section 3862 now requires that all financial instruments measured at fair value be categorized into one of three hierarchy levels, described as follows, for disclosure purposes. Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities:

- Level 1 – inputs are unadjusted quoted prices of identical instruments in active markets;
- Level 2 – inputs are other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 – inputs are not based on observable market data.

The amendments are effective for annual financial statements for fiscal years ending after September 30, 2009, with early adoption permitted. To provide relief for financial statement preparers, and consistent with IFRS 7, the CICA decided that an entity need not provide comparative information for the disclosures required by the amendments in the first year of application. Further information is available in Note 19 of the Notes to the consolidated financial statements.

17.7 Financial Instruments – Impairment on Debt Instruments

In August 2009, the CICA amended CICA HB 3855 – Financial Instruments – Recognition and Measurement and concurrently CICA HB 3025 – Impaired Loans. These amendments affect the classifications that are required or allowed for debt instruments, as well as the impairment model for held-to-maturity financial assets. The amendments, which are effective for annual financial statements relating to fiscal years beginning on or after November 1, 2008, have no impact on the Company.

17.8 Multiple Deliverable Revenue Arrangements

In December 2009, the EIC issued EIC-175 – Multiple Deliverable Revenue Arrangements, which may be applied prospectively and should be applied to revenue arrangements with multiple deliverables entered into or materially modified in the first annual fiscal period beginning on or after January 1, 2011. Early adoption is permitted.

This EIC requires a vendor to allocate arrangement consideration at the inception of an arrangement to all deliverables using the relative selling price method. It also provides guidance on the level of evidence of the stand-alone selling price required to separate deliverables when more objective evidence of the selling price is not available. Given the requirement to use the relative selling price method of allocating arrangement consideration, it prohibits the use of the residual method. The Company will assess the potential impact of this standard.

17.9 International Financial Reporting Standards (IFRS)

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

Given the magnitude of the effort involved in this conversion, the project (which employs formal project management practices) has been developed in three main phases.

Phase One: Preliminary Scoping and Diagnostic Impact Assessment

This phase consisted of a high-level assessment to identify key areas of Canadian GAAP–IFRS differences that were most likely to impact the Company. The assessment was completed over the period 2007–2008 and was integral in prioritizing and resourcing the work streams identified below to enable the subsequent steps in the process. Activities in this phase also included the recruitment and training of core internal technical resources to be deployed on the conversion project and retained afterwards to support ongoing training of other finance personnel dealing with the more complex technical accounting requirements of IFRS.

Phase Two: Detailed Analysis and Design

This phase commenced in Q4 2008, and involved the detailed assessment, from an accounting, reporting and business perspective, of the changes that will be caused by the conversion to IFRS. This phase initiated the launch of 13 accounting topic-specific "work streams" that are most relevant to the Company and four general work streams. This phase also included the standardization of criteria used to assess the appropriateness of accounting policy choices in cases where choices are permissible under IFRS.

Accounting specific work streams included revenue recognition, tangible assets (including leases), impairments, provisions, contingent liabilities and contingent assets, business combinations, consolidations, securitization transactions, borrowing costs, compensation and benefits, financial instruments, income taxes, software and intangibles and financial statement presentation and disclosure. General work streams included contract review, employee education and training, information systems and communication. The design deliverables coming out of these accounting specific work streams included the documentation of the rationale supporting accounting policy choices, new disclosure requirements and their sources and implementation guidance for business units and corporate groups as they undertake the execution phase noted below. Substantially all of the accounting specific work streams were completed by the end of Q4 2009. Some of the general work streams, such as the education and training and communication work streams will continue throughout the duration of the conversion project. The latter will involve not only key finance employees but also other staff and management as well as the Audit Committee, Board of Directors and external parties such as investors and analysts.

Phase Three: Execution

This phase involves executing the work identified in phase two by making changes to business and accounting processes and supporting information systems within each business unit and corporate group as well as the formal documentation of the final approved accounting policies and procedures compliant with IFRS. A quantification of anticipated business impacts is being undertaken as well as a drafting of the pro-forma financial statement formats and notes thereto that will exist under IFRS. Details surrounding the collection of comparative financial and other data in 2010 are also being finalized during this stage. This stage also involves the cascading of the training plan to all staff having key accounting and reporting and investor relations functions.

This phase is expected to be complete by the end of Q4 2010.

The following table summarizes our progress to date against the milestones contained in the key elements of the transition plan:

IFRS transition progress

Key activity	Milestones/Target dates	Progress to February 28, 2010
Project governance > steering committee formation > project resourcing > progress reporting protocols > project management practices	December 31, 2008	> governance practices established > program office, steering committee and working committee formed > project status reporting developed and implemented
Financial statement preparation > identification of differences in Canadian GAAP/IFRS accounting policies and choices > selection of entity's continuing accounting IFRS policies > selection of IFRS 1 accounting policy choices > financial statement format, including alternative performance measures > changes in note disclosure > quantification of IFRS 1 disclosures for 2010	Ready for commencement for 2011 financial year; quantification of effects of change for IFRS 1 disclosures and comparative 2010 financial statements including note disclosure by the end of Q1 2011	> fundamental Canadian/IFRS differences identified > criteria for accounting policy choice selection established > work stream teams dealing with individual policy selection recommendations substantially complete
Infrastructure: IFRS expertise > retraining of key finance and operational staff > education of management, Audit Committee and external constituents regarding IFRS implications	Internal education and communication ready for issuance in Q2 2010 External education and communication ready for issuance in Q4 2010	> resource requirements identified and secured > internal and recruited resources deployed > additional consulting support utilized on an as-needed basis > initial training completed for core project staff, senior management, Board of Directors, Audit Committee and work stream members
Infrastructure > information systems changes to support IFRS requirements	Ready for capturing 2010 comparative data by the end of Q4 2010 and ready for capturing 2011 data by the end of Q4 2010	> system impact assessed and required changes in process of being implemented
Business implications assessment: financial covenants and practices (including securitization) > business contract review/renegotiation > financial debt covenant assessments > off-balance sheet Trust assessments	GAAP-based clauses to be identified for potential renegotiation with counterparties mid-2010 as applicable. Renegotiation is a business matter that is outside the scope of the conversion project.	> process to review contracts has been established and is in the process of being implemented
Control environment: internal control over financial reporting (ICFR)	Approval and sign-off of all accounting changes and CEO/CFO certification process complete by end of Q4 2010	> will commence in 2010 upon completion of required process changes

17.10 Impact of International Financial Reporting Standards (IFRS) on the 2011 Consolidated Financial Statements

There are currently several differences between IFRS requirements and our existing Canadian GAAP accounting policies. Some of the more significant ones at present, as they relate to our Company, are set out in the table below, along with their directional impact on financial reporting in 2011 (and restated 2010 comparatives), where currently determinable. The following table highlights the differences management considers the most relevant but should not be viewed as an all-encompassing listing at this time.

In situations where choices were permitted under IFRS, the Company selected those that management believed to best reflect the Company's circumstances. Where choices arose amongst equally acceptable alternatives, the Company gave preference to alternatives that:

a) minimized earnings volatility that is not related to the Company's core operation;
b) minimized initial conversion and ongoing compliance costs;
c) had a neutral impact on taxes; and
d) were comparable with other organizations operating in the same or similar industry to enhance comparability.

Standards	Comparison between Canadian GAAP ("CGAAP") and IFRS	Preliminary findings
Consolidations (including IAS 27, 28)	CGAAP: > Variable interest entities (VIE) (where control is exercised by means other than share ownership) are consolidated if the reporting entity is the primary beneficiary of the VIE's earnings. > Qualifying special purpose entities are exempt from consolidation. IFRS: There is no concept of qualifying special purpose entities under IFRS. There is no concept of variable interest entities under IFRS. Rather, entities are to be consolidated if the Company has the majority of the risks and rewards of ownership over the subject entity. The control factors considered in this case include: > a majority share ownership; > ability to control the Board; > power to govern financial and operating policies; > contracted arrangements conferring effective control.	The relationship with Glacier Credit Card Trust (GCCT) has been assessed and meets the definition of control under IAS 27 and thus will be consolidated upon adoption of IFRS. Impacts will include, but are not limited to, increasing both the assets and the liabilities on the Consolidated Balance Sheets. The Company has assessed that the relationships with CTR Dealers, PartSource franchisees, Mark's franchisees and entities such as Canadian Tire Jumpstart Charities (our charitable organization) do not meet the criteria for consolidation under IFRS. It should be noted however that these relationships will be monitored continuously for potential changes. The Company is currently assessing the remaining entities, such as Franchise Trust.

Standards	Comparison between Canadian GAAP ("CGAAP") and IFRS	Preliminary findings
Securitizations (included in IAS 39)	CGAAP: Under AcG 12, "Transfer of Receivables", securitization transactions result in the recording of a sale of receivables and the consequent derecognition of these assets from the Consolidated Balance Sheets where the entity has surrendered control over the transferred assets and does not maintain control over these either through an agreement that obligates the entity to reacquire them or unilaterally re-acquire specific transferred assets. IFRS: Financial assets can only be derecognized under IAS 39 if: > the entity's contractual rights to the asset expire; > it has transferred the asset and substantially all of the risks and rewards of ownership; and > if some of the risks and rewards have not transferred, the other party has the unilateral right to sell the assets.	Securitization transactions with GCCT will no longer meet the derecognition criteria upon adoption of IFRS. As noted above, GCCT will be consolidated with the Company.
Borrowing costs (IAS 23)	CGAAP: Borrowing costs may be capitalized on major projects. IFRS: Capitalization of borrowing costs is required on qualifying assets, which are assets that require an extended period of preparation before they are usable or saleable.	The Company has historically chosen to capitalize borrowing costs on major real estate projects only. Upon adoption of IFRS, the Company will capitalize borrowing costs only on those real estate projects that meet the qualifying asset criteria. Additionally, the Company will also extend borrowing cost capitalization to other classes of assets (e.g.: major IT projects) that meet the qualifying asset criteria. The net impact is currently being determined by the Company.
Property, plant and equipment ("Fixed assets") (IAS 16)	CGAAP: The historical cost model is required. Assets are to be recorded at cost upon initial acquisition and are to be depreciated over their useful lives. IFRS: After initial recognition, there is the option to measure fixed assets using the cost model or the revaluation (mark-to-fair-market value) model.	We will continue to use the cost model. There is no impact on the consolidated financial statements. Certain of our fixed assets will be re-componentized as of the opening Balance Sheet date. The net impact is currently being determined by the Company. It should be noted, however, that much more extensive disclosure is required under IFRS in the notes to the consolidated financial statements in the area of fixed assets.

Standards	Comparison between Canadian GAAP ("CGAAP") and IFRS	Preliminary findings
Leases (IAS 17)	CGAAP: Canadian GAAP has established quantitative guidelines to distinguish between operating leases and capital (financing) leases. Leases are treated as financing if, at the inception of the lease: > there is reasonable assurance that the lessee will obtain ownership of the leased asset at the end of the lease term or if there is a bargain purchase option; > the lease term is 75 per cent or more of the economic life of the leased asset; or > the present value of the minimum lease payments is 90 per cent or more of the fair value of the leased asset at the inception of the lease. IFRS: There are no specific quantitative guidelines to determine whether the risks and rewards of ownership of the leased asset have been transferred. Each asset must be assessed qualitatively to make the determination.	The Company determined that there are instances where assets under operating leases for CGAAP purposes will be treated as financing leases under IFRS. This will result in an increase in assets and liabilities in the Opening IFRS Consolidated Balance Sheets. The Company is in the process of determining the net impact.
Impairment of assets (IAS 36)	CGAAP: Periodic asset impairment testing is required and a two-step approach is used but discounting is not required at the initial step. IFRS: Single-step impairment testing of assets at the independent cash generating unit (CGU) level will be required. In addition, future cash flows used to determine the value of assets for impairment testing are discounted.	Impairments are likely to occur more often under IFRS. The Company is assessing its cash generating units, which vary by business unit, and the consequent impact
Share-based payments (IFRS 2)	CGAAP: Awards of stock-based compensation result in a liability when the employee can compel the company to settle the award with a cash payment instead of issuing equity instruments. Accordingly, these are measured using the difference between the quoted market price of the company's shares and the option price. IFRS: All stock-based awards must be recorded at fair value. Share-based payment awards for which the counterparty has a choice of requesting settlement in cash or with an equity instrument is a compound instrument with a debt component and an equity component.	The Company is currently assessing the impact of accounting for these awards at fair value and as compound instruments.
Compensation and benefits (IAS 19)	CGAAP: Gains and losses related to defined benefit obligations are recorded using a 10 per cent corridor approach. IFRS: Gains and losses related to the revaluation of defined benefit obligations can be recorded using a 10 per cent corridor approach or be immediately recognized in other comprehensive income.	We will be recording revaluation gains and losses (for our obligation to provide certain health care, dental care, life insurance and other benefits for certain retired employees pursuant to Company policy) immediately in other comprehensive income. This will result in an increase to our liabilities and a decrease to our equity.

The Company also assessed other relevant standards, including, but not limited to, IAS 37 (*Provisions, Contingent Liabilities and Contingent Assets*) and IFRIC 13 (*Customer Loyalty Programs*) and determined that these were likely to have less significance.

We have also made choices concerning certain exemptions from retrospective application of IFRS standards at the time of changeover that are provided by IFRS 1, some of which are set out in the following table. The Company's current intentions in this regard are also indicated.

Optional exemption	CTC election
Business combinations	Under this exemption, the Company may elect not to apply IFRS 3 retrospectively to past business combinations. The standard may be applied prospectively from the date of the opening IFRS balance sheet. The Company intends to use this exemption.
Share-based payment transactions	A first time adopter is encouraged, but not required, to apply IFRS 2 to equity instruments that were granted on or before November 7, 2002. A first time adopter is encouraged, but not required, to apply IFRS 2 to equity instruments that were granted after November 7, 2002 and vested before the later of the date of transition to IFRS and January 1, 2005. The Company intends to apply this exemption to the extent possible.
Fair value or revaluation as deemed cost	This exemption allows the Company to initially measure an item of Property, Plant and Equipment upon transition to IFRS at fair value or a previous GAAP valuation (ie: historical cost). The Company will selectively apply this exemption when historical information is not available for specific assets.
Employee benefits	This exemption permits the Company to reset the cumulative actuarial gains and losses to zero by recognizing the full amount in the retained earnings of the opening IFRS balance sheet. The Company intends to use this exemption.
Cumulative translation differences	This exemption permits the Company to reset the cumulative translation differences to zero by recognizing the full amount in the retained earnings of the opening IFRS balance sheet. The Company intends to use this exemption.
Designation of previously recognized financial instruments	This exemption permits an entity to designate any financial asset that qualifies as available-for-sale at the date of transition to IFRS. Additionally, at the date of transition to IFRS, the Company is permitted to designate any financial instrument that qualifies as fair value through profit and loss. The Company intends to use this exemption for certain financial assets.
Decommissioning liabilities included in the cost of property, plant, and equipment	This exemption permits the Company not to comply with IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*, which requires specified changes in a decommissioning, restoration or similar liability to be added to or deducted from the cost of the asset to which it relates. The Company intends to use this exemption.
Borrowing costs	This exemption allows the Company to adopt IAS 23, which requires the capitalization of borrowing costs on all qualifying assets, prospectively from the date of the opening IFRS balance sheet. The Company intends to use this exemption.

The above impact assessment is based on IFRS as it stands at present. It should be noted, however, that accounting standards and interpretations are always subject to change and that the Company's initial reporting under IFRS for the 2011 fiscal year (and prior year comparatives presented) will be based on standards that are effective at the end of that fiscal year. The Company will thus continue to actively monitor developments in the standards as proposed and issued by the International Accounting Standards Board (IASB) and the Canadian Accounting Standards Board (AcSB) as well as regulatory standards issued by Canadian Securities administrators and OSFI and adjust its implementation plan accordingly.

18.0 NON-GAAP MEASURES

The following measures included in this MD&A do not have a standardized meaning under Canadian generally accepted accounting principles (GAAP) and may not be comparable to similar measures presented by other companies:

> EBITDA (earnings before interest, income taxes, depreciation and amortization);
> adjusted earnings; and
> same store sales.

EBITDA With the exception of Financial Services, we consider EBITDA to be an effective measure of the contribution of each of our businesses to our profitability on an operational basis, before allocating the cost of income taxes and capital investments. EBITDA is also commonly regarded as an indirect measure of operating cash flow, a significant indicator of success for many businesses.

A reconciliation of EBITDA to the most comparable GAAP measure (earnings before income taxes) is provided as follows:

Reconciliation of EBITDA to GAAP measures[1]

($ in millions)	**Q4 2009**	Q4 2008[2]	**2009**	2008[2]
EBITDA[3]				
CTR	**$ 114.6**	$ 129.1	**$ 535.7**	$ 527.0
Financial Services	**57.0**	57.9	**205.3**	218.1
Petroleum	**6.6**	11.0	**42.2**	43.8
Mark's	**70.5**	78.8	**90.5**	102.9
Total EBITDA	**$ 248.7**	$ 276.8	**$ 873.7**	$ 891.8
Less: Depreciation and amortization expense				
CTR	**$ 50.4**	$ 46.9	**$ 191.2**	$ 174.4
Financial Services	**2.4**	2.8	**11.0**	11.0
Petroleum	**4.7**	4.9	**18.0**	17.2
Mark's	**7.1**	6.5	**27.3**	23.6
Total depreciation and amortization expense	**$ 64.6**	$ 61.1	**$ 247.5**	$ 226.2
Interest expense[3]				
CTR	**$ 26.2**	$ 55.5	**$ 82.9**	$ 103.2
Financial Services	**16.2**	9.3	**62.4**	15.1
Mark's	**0.3**	1.1	**1.7**	4.3
Total interest expense	**$ 42.7**	$ 65.9	**$ 147.0**	$ 122.6
Earnings before income taxes				
CTR	**$ 38.0**	$ 26.7	**$ 261.6**	$ 249.4
Financial Services	**38.4**	45.8	**131.9**	192.0
Petroleum	**1.9**	6.1	**24.2**	26.6
Mark's	**63.1**	71.2	**61.5**	75.0
Total earnings before income taxes	**$ 141.4**	$ 149.8	**$ 479.2**	$ 543.0

[1] Differences may occur due to rounding.
[2] 2008 figures have been restated for the implementation, on a retrospective basis, of CICA HB 3064 – Goodwill and Intangible Assets and the amendments to CICA HB 1000 – Financial Statement Concepts. See sections 17.1 and 17.2 for additional information.
[3] Eliminations of inter-company transactions (eg. a loan of funds from one business unit to another), previously disclosed as a separate line item, are now presented net of these transactions.

References to adjusted earnings In several places in this MD&A, we refer to adjusted pre-tax and after-tax earnings before the impact of non-operating items. Historically, non-operating items have included the net effect of securitization activities and dispositions of surplus property and equipment. The timing and amount of gains and losses from these items are not consistent from quarter to quarter. We believe the adjusted figures allow for a clearer assessment of earnings for each of our businesses and provide a more meaningful measure of our consolidated and segmented operating results.

From time to time adjusted earnings may also contain additional unusual and/or non-recurring items which are explained in detail at that time.

Same store sales Same store sales is the metric used by management, and most commonly used in the retail industry, to compare retail sales growth in a more consistent manner across the industry. CTR's same store sales includes sales from all CTR and PartSource stores that have been open for more than 53 weeks (in a 52-week fiscal year) or 54 weeks (in a 53-week fiscal year, such as in the case of the fiscal year ended January 3, 2009) and therefore allows for a more consistent comparison to other stores open during the period and to results in the prior year. CTR's same store sales exclude the sales from the labour portion of CTR's auto service sales.

19.0 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 (CEO) and the Chief Financial Officer (CFO), so that appropriate decisions can be made by them regarding public disclosure.

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

As required by CSA National Instrument 52-109 (NI 52-109), Certification of Disclosure in Issuers' Annual and Interim Filings, an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures was conducted, under the supervision of management, including the CEO and CFO, as of January 2, 2010. 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 of January 2, 2010.

Internal control over financial reporting Management is also responsible for establishing and maintaining appropriate internal controls over financial reporting. Our 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. Our procedures for financial reporting also include the active involvement of qualified financial professionals, senior management and our Audit Committee.

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

As required by NI 52-109, management, including the CEO and CFO, evaluated the design and effectiveness of our internal control over financial reporting as defined in NI 52-109 as at January 2, 2010. In making this assessment, management, including the CEO and CFO, used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control – Integrated Framework. This evaluation included review of the documentation of controls, evaluation of the design and testing the operating effectiveness of controls, and a conclusion on this evaluation. Based on its evaluation, the CEO and the CFO have concluded that, as at January 2, 2010, our internal control over financial reporting is effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

Management has evaluated whether there were changes in our internal controls over financial reporting during the quarter ended January 2, 2010 that materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting. Management has determined that no material changes occurred in the fourth quarter.

20.0 BUSINESS SUSTAINABILITY

Our sustainability strategy is driven by the corporate strategy team, while specific initiatives are executed by employees across the enterprise. The Board provides governance oversight in the area.

Our execution focus, centered on operations (buildings and transportation) and products includes: energy and climate; waste and packaging; product and service innovation. Our business sustainability strategy aspirations are to:

- profitably grow our business without increasing the carbon footprint of the economy;
- eliminate unnecessary packaging and send zero waste to landfill sites; and
- provide products and services that meet customers' needs – today, without compromising the ability of future generations of customers to meet their needs, tomorrow.

We are now working to establish appropriate and robust sustainability target metrics appropriate for the retail sector using widely-accepted criteria such as carbon emissions or landfill diversion and packaging content.

Some of our initiatives on sustainability currently include the following:

- "Zero waste" at our Home Office in Toronto, Ontario;
- Creation of "Green Teams" at our Home Office, Retail City and Financial Services locations;
- Reducing and diverting waste at our Toronto-area distribution centres;
- Reducing paper usage;
- Vehicle tire and battery recycling;
- Energy-efficient lighting in our Canadian Tire Retail stores;
- Building energy-efficient stores, including LEED-certified stores;
- Encouraging the development of renewable energy efficient products;
- Implementing an Energy Management Program to reduce energy consumption and greenhouse gas (GHG) emissions; and
- Product packaging – reducing packaging waste, product damage and transportation costs.

Some initiatives, such as the discontinuation of our annual printed catalogue several years ago and the availability of reusable bags at checkouts, have already had a positive contribution to reducing our carbon footprint.

In February 2010, we published our first Community and Business Sustainability Report on our website at http://corp.canadiantire.ca/EN/CSR/Pages/default.aspx.

21.0 JUMPSTART

Canadian Tire's charitable efforts are reflected in the work of Canadian Tire Jumpstart Charities. The Jumpstart organization, formerly the Canadian Tire Foundation for Families, underwent a name change in 2009 to reflect the success of the Jumpstart program, which helps financially disadvantaged children gain the life benefits that are associated with participating in organized sports and recreation activities. National in scope but local in focus, Canadian Tire Jumpstart has delivered support since 2005 to children through a Canada-wide network of local chapters. To date, 285 Jumpstart chapters have been created in communities across the country and have contributed to help over 216,000 children.

During 2009, Jumpstart has raised over $11.3 million across Canada ($9.4 million during 2008), helping over 65,000 children participate in sports and recreation programs (47,945 children helped during 2008). Jumpstart continues to grow and help more children. In 2010, Jumpstart Charities has a target to help over 75,000 children.

22.0 OTHER INVESTOR COMMUNICATION

Caution regarding forward-looking information

This MD&A contains forward-looking information that reflects management's expectations related to expected future events, financial performance and operating results of the Company. All statements other than statements of historical facts included in this MD&A, including statements regarding the prospects of the industries in which the Company operates, future plans, expected financial position and business strategy of the Company, may constitute forward-looking information. Forward-looking information includes, but is not limited to, statements concerning possible or assumed future results set out herein, our strategic goals and our priorities, and the economic and business outlook for us, for each of our business segments and for the economy generally. Often, but not always, forward-looking information can be identified by the use of forward-

looking terminology such as "may", "will", "expect", "believe", "estimate", "plan", "could", "should", "would", "outlook", "forecast", "anticipate", "foresee", "continue" or the negative of these terms or variations of them or similar terminology. Forward-looking information is based on the reasonable assumptions, estimates, analysis and opinions of management made in light of its experience and perception of trends, current conditions and expected developments, as well as other factors that management believes to be relevant and reasonable at the date that such statements are made. The forward-looking information contained in this MD&A is presented for the purpose of assisting the Company's security holders in understanding its financial position and results of operation as at and for the periods ended on the dates presented and the Company's strategic priorities and objectives and may not be appropriate for other purposes. By its very nature, forward-looking information requires the Company to make assumptions and is subject to inherent risks and uncertainties, which give rise to the possibility that the Company's predictions, forecasts, projections, expectations and conclusions will not prove to be accurate, that the Company's assumptions may not be correct and that the Company's objectives, strategic goals and priorities will not be achieved. Although the Company believes that the predictions, forecasts, projections, expectations and conclusions reflected in the forward-looking information are based on information and assumptions which are current, reasonable and complete, this information is necessarily subject to a number of factors that could cause actual results to differ materially from management's predictions, forecasts, projections, expectations and conclusions as set forth in such forward-looking information for a variety of reasons. These factors include (a) credit, market, operational, liquidity and funding risks, including changes in interest rates or tax rates; (b) the ability of Canadian Tire to attract and retain quality employees, Dealers, Petroleum agents and PartSource and Mark's store operators and franchisees; (c) the willingness of customers to shop at our stores or acquire our financial products and services; and (d) risks and uncertainties relating to information management, technology, product safety, competition, seasonality, commodity price and business disruption, consumer credit, securitization funding, and foreign currency. The key risks and uncertainties that could cause actual results or the material factors and assumptions applied in preparing forward-looking information to differ materially from predictions, forecasts, projections, expectations or conclusions, are discussed in section 14.0 (Enterprise risk management) and all subsections there under of this MD&A. Additional risks related to specific business segments can be found in section 5.3.1.5 (CTR's business risks), section 5.3.2.5 (Mark's business risks), section 5.3.3.5 (Petroleum's business risks) and section 5.3.4.8 (Financial Services' business risks).

For more information on the risks, uncertainties and assumptions that could cause the Company's actual results to differ from current expectations, please also refer to the Company's public filings available at www.sedar.com and at http://corp.canadiantire.ca/en/investors. We caution that the foregoing list of important factors is not exhaustive and other factors could also adversely affect our results. Investors and other readers are urged to consider the foregoing risks, uncertainties and assumptions carefully in evaluating the forward-looking information and are cautioned not to place undue reliance on such forward-looking information. Statements that include forward-looking information do not take into account the effect that transactions or non-recurring or other special items announced or occurring after the statements are made have on the Company's business. For example, they do not include the effect of any dispositions, acquisitions, asset write-downs or other charges announced or occurring after such statements are made. The forward-looking information in this MD&A reflects the Company's assumptions and expectations as of March 11, 2010, and is subject to change after that date. The Company does not undertake to update any forward-looking information, whether written or oral, that may be made from time to time by 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 above does not form part of this MD&A. All references in this MD&A to websites are inactive textual references and are for your information only.

Commitment to disclosure and investor communication Canadian Tire strives to maintain a high standard of disclosure and investor communication and has been recognized as a leader in financial reporting practices. In many cases, the Company's disclosure practices exceed the requirements of current legislation. Reflecting our commitment to full and transparent disclosure, the Investor Relations section of the Company's website includes the following documents and information of interest to investors:

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

The Company's Annual Information Form, Management Information Circular and quarterly reports are also available on the SEDAR (System for Electronic Disclosure and Retrieval) website at www.sedar.com and the Company's own website for investor information at corp.canadiantire.ca/en/investors.

If you would like to contact the Investor Relations department directly, call Karen Meagher at (416) 480-8058 or email investor.relations@cantire.com.

Management's Responsibility for Financial Statements

The management of Canadian Tire Corporation, Limited is responsible for the accompanying consolidated financial statements and all other information in the Annual Report. The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles, which recognize the necessity of relying on some best estimates and informed judgements. All financial information in the Annual Report is consistent with the consolidated financial statements.

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

The Board of Directors oversees management's responsibilities for the consolidated financial statements primarily through the activities of its Audit Committee, which is composed solely of directors who are neither officers nor employees of the Company. This Committee meets with management and the Company's independent auditors, Deloitte & Touche 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 & Touche LLP, who were appointed by shareholder vote at the annual shareholders' meeting. Their report is presented below.

Stephen G. Wetmore
President and
Chief Executive Officer
March 11, 2010

Marco Marrone
Chief Financial Officer and
Executive Vice-President, Finance

Auditors' Report

To the Shareholders, Canadian Tire Corporation, Limited

We have audited the consolidated balance sheets of Canadian Tire Corporation, Limited as at January 2, 2010 and January 3, 2009 and the consolidated statements of earnings, changes in shareholders' equity, comprehensive income and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at January 2, 2010 and January 3, 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants
Licensed Public Accountants
Toronto, Ontario
March 11, 2010

Consolidated Statements of Earnings

For the years ended ($ in millions except per share amounts)	**January 2, 2010** (52 weeks)	January 3, 2009 (53 weeks)
		(Restated – Note 22)
Gross operating revenue	**$ 8,686.5**	$ 9,121.3
Operating expenses		
Cost of merchandise sold and all other operating expenses except for the undernoted items (Note 3)	**7,788.1**	8,200.5
Interest		
Long-term debt	**130.0**	117.9
Short-term debt	**17.0**	4.7
Depreciation and amortization	**247.5**	226.2
Employee profit sharing plan (Note 13)	**24.7**	29.0
Total operating expenses	**8,207.3**	8,578.3
Earnings before income taxes	**479.2**	543.0
Income taxes (Note 14)		
Current	**135.2**	209.1
Future	**9.0**	(41.5)
Total income taxes	**144.2**	167.6
Net earnings	**$ 335.0**	$ 375.4
Basic and diluted earnings per share	**$ 4.10**	$ 4.60
Weighted average number of Common and Class A Non-Voting Shares outstanding (Note 12)	**81,678,775**	81,517,702

Consolidated Statements of Cash Flows

For the years ended ($ in millions)	**January 2, 2010** (52 weeks)	January 3, 2009 (53 weeks)
		(Restated – Note 22)
Cash generated from (used for):		
Operating activities		
Net earnings	**$ 335.0**	$ 375.4
Items not affecting cash		
Depreciation	**193.7**	168.6
Net provision for loans receivable (Note 2)	**181.2**	87.3
Amortization of intangible assets	**53.8**	57.6
Future income taxes	**9.0**	(41.5)
Employee future benefits expense (Note 11)	**6.0**	6.4
Other	**4.0**	7.9
Impairments on property and equipment (Note 7)	**1.9**	2.5
Loss on disposal of mortgage portfolio	**0.6**	–
Impairment of other long-term investments	**1.1**	2.0
Gain on disposals of property and equipment	**(1.6)**	(7.8)
Changes in fair value of derivative instruments	**(11.4)**	55.6
Gain on sales of loans receivable (Note 2)	**(39.2)**	(73.7)
Securitization loans receivable	**(39.4)**	(51.9)
	694.7	588.4
Changes in other working capital components (Note 15)	**(275.9)**	(406.9)
Cash generated from operating activities	**418.8**	181.5
Investing activities		
Net securitization of loans receivable	**(532.3)**	(31.7)
Additions to property and equipment	**(220.0)**	(359.5)
Investment in loans receivable, net	**(208.5)**	(140.5)
Additions to intangible assets	**(67.8)**	(76.5)
Other long-term investments	**(50.7)**	(19.6)
Short-term investments	**(38.0)**	–
Other	**(7.7)**	(3.6)
Purchases of stores	**(6.1)**	(36.5)
Long-term receivables and other assets	**(3.1)**	(27.2)
Proceeds on disposition of property and equipment	**27.8**	239.5
Proceeds on disposal of mortgage portfolio (Note 2)	**162.2**	–
Cash used for investing activities	**(944.2)**	(455.6)
Financing activities		
Net change in deposits	**917.3**	1,024.1
Issuance of long-term debt (Note 9)	**200.1**	0.2
Class A Non-Voting Share transactions (Note 12)	**(0.9)**	7.0
Repayment of long-term debt (Note 9)	**(165.4)**	(156.3)
Dividends	**(68.7)**	(66.4)
Cash generated from financing activities	**882.4**	808.6
Cash generated in the year	**357.0**	534.5
Cash and cash equivalents, beginning of year	**429.0**	(105.5)
Cash and cash equivalents, end of year (Note 15)	**$ 786.0**	$ 429.0

Consolidated Statement of Comprehensive Income

For the years ended ($ in millions)	**January 2, 2010** (52 weeks)	January 3, 2009 (53 weeks)
		(Restated – Note 22)
Net earnings	**$ 335.0**	$ 375.4
Other comprehensive income (loss), net of taxes		
(Loss) gain on derivatives designated as cash flow hedges, net of tax of $33.7 (2008 – $68.9)	**(80.7)**	139.7
Reclassification to non-financial asset of gain on derivatives designated as cash flow hedges, net of tax of $31.1 (2008 – $10.1)	**(58.5)**	(20.5)
Reclassification to earnings of (gain) loss on derivatives designated as cash flow hedges, net of tax of $0.9 (2008 – $12.0)	**(1.9)**	28.0
Other comprehensive (loss) income	**(141.1)**	147.2
Comprehensive income	**$ 193.9**	$ 522.6

Consolidated Statements of Changes in Shareholders' Equity

For the years ended ($ in millions)	**January 2, 2010**	January 3, 2009
		(Restated – Note 22)
Share capital		
Balance, beginning of year	**$ 715.4**	$ 700.7
Transactions, net (Note 12)	**5.0**	14.7
Balance, end of year	**$ 720.4**	$ 715.4
Contributed surplus		
Balance, beginning of year	**$ –**	$ 2.3
Transactions, net	**0.2**	(2.3)
Balance, end of year	**$ 0.2**	$ –
Retained earnings		
Balance, beginning of year as previously reported	**$ 2,755.5**	$ 2,455.1
Transitional adjustment on adoption of new accounting policies – HB 1000/3064 (Note 1)	**(3.1)**	(4.3)
Balance, beginning of year as restated	**2,752.4**	2,450.8
Transitional adjustment on adoption of new accounting policies – EIC 173 (Note 1)	**1.1**	–
Net earnings for the year	**335.0**	375.4
Dividends	**(68.7)**	(68.4)
Repurchase of Class A Non-Voting Shares	**(6.1)**	(5.4)
Balance, end of year	**$ 3,013.7**	$ 2,752.4
Accumulated other comprehensive income (loss)		
Balance, beginning of year	**$ 97.2**	$ (50.0)
Transitional adjustment on adoption of new accounting policies – EIC 173 (Note 1)	**(2.5)**	–
Other comprehensive (loss) income for the year	**(141.1)**	147.2
Balance, end of year	**$ (46.4)**	$ 97.2
Retained earnings and accumulated other comprehensive income (loss)	**$ 2,967.3**	$ 2,849.6

Consolidated Balance Sheets

As at ($ in millions)	January 2, 2010	January 3, 2009
		(Restated – Note 22)
ASSETS		
Current assets		
Cash and cash equivalents (Note 15)	**$ 786.0**	$ 429.0
Short-term investments (Note 15)	**64.0**	–
Accounts receivable	**835.9**	824.1
Loans receivable (Note 2)	**2,274.8**	1,683.4
Merchandise inventories (Note 3)	**933.6**	917.5
Income taxes recoverable	**94.7**	64.6
Prepaid expenses and deposits	**40.7**	40.2
Future income taxes (Note 14)	**82.8**	20.2
Total current assets	**5,112.5**	3,979.0
Long-term receivables and other assets (Note 4)	**110.6**	262.1
Other long-term investments, net	**48.8**	25.2
Goodwill (Note 5)	**71.8**	70.7
Intangible assets (Note 6)	**265.4**	247.9
Property and equipment, net (Note 7)	**3,180.4**	3,198.9
Total assets	**$ 8,789.5**	$ 7,783.8
LIABILITIES		
Current liabilities		
Deposits (Note 8)	**$ 863.4**	$ 540.7
Accounts payable and other	**1,391.4**	1,444.2
Current portion of long-term debt (Note 9)	**309.3**	14.8
Total current liabilities	**2,564.1**	1,999.7
Long-term debt (Note 9)	**1,101.9**	1,373.5
Future income taxes (Note 14)	**49.8**	44.7
Long-term deposits (Note 8)	**1,196.9**	598.7
Other long-term liabilities (Note 10)	**188.9**	202.2
Total liabilities	**5,101.6**	4,218.8
SHAREHOLDERS' EQUITY		
Share capital (Note 12)	**720.4**	715.4
Contributed surplus	**0.2**	–
Accumulated other comprehensive income (loss)	**(46.4)**	97.2
Retained earnings	**3,013.7**	2,752.4
Total shareholders' equity	**3,687.9**	3,565.0
Total liabilities and shareholders' equity	**$ 8,789.5**	$ 7,783.8

Maureen J. Sabia
Director

Graham W. Savage
Director

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation The Consolidated Financial Statements include the accounts of Canadian Tire Corporation, Limited and its subsidiaries, collectively referred to as the "Company".

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 2009 and 2008 are the 52-week period ended January 2, 2010 and the 53-week period ended January 3, 2009, respectively.

The results of certain subsidiaries which have different year-ends from the Company have been included in the Consolidated Financial Statements for the 12 months ended December 31.

Consolidation of variable interest entities The Canadian Institute of Chartered Accountants (CICA) Accounting Guideline 15 (AcG-15), Consolidation of Variable Interest Entities, requires a variable interest entity (VIE) to be consolidated by the primary beneficiary, who is the party that will absorb the majority of the VIE's expected losses, receive a majority of the VIE's expected residual returns, or both. A VIE is any type of legal structure not controlled by voting equity, but rather by contractual or other financial arrangements.

The Company reviews all legal structures in which the Company has a potential financial interest including Associate Dealer (Dealer) corporations, Petroleum Agent corporations, PartSource and Mark's Work Wearhouse (Mark's) franchisee corporations, financing trusts and external suppliers.

The Company enters into various forms of agreements with independent owner-operators of Canadian Tire Associate Stores (Dealers) and franchisees of Mark's and PartSource stores. The Company's agreement with each Dealer generally permits the Dealer to own and operate the retail business of a Canadian Tire Associate Store under the Canadian Tire trademark. The Company has a policy to offer new Dealers smaller Canadian Tire Associate Stores and, based upon successful operation of their Canadian Tire Associate Stores, to offer such Dealers relocation to larger Canadian Tire Associate Stores from time to time. When eligible, Dealers may obtain financing through a structure involving independent trusts to facilitate the purchase of inventory and fixed assets. These trusts are administered by independent major Canadian banks. Dealers may also obtain financing through traditional financial institutions. The Company monitors the financial condition of its Dealers and provides for estimated losses when appropriate.

The Company's agreements with each Mark's and PartSource franchisee also permit the franchisees to own and operate retail businesses under their respective trademarks. Franchisees obtain financing through traditional financial institutions. The Company monitors the financial condition of its franchisees and provides for estimated losses when appropriate.

While the Company is the primary beneficiary of a small number of these entities, these VIEs have not been consolidated in these financial statements, as the impact was not material.

Translation of foreign currencies Transactions in foreign currencies are translated into Canadian dollars at rates in effect at the date of the transaction. Assets and liabilities denominated in foreign currencies are translated at the exchange rates in effect at each accounting period end date. Exchange gains or losses are included in net earnings.

For foreign subsidiaries that are considered self-sustaining, the current rate method of translating foreign currencies has been used. Under this method, assets and liabilities are translated into Canadian dollars at the exchange rates in effect at each accounting period end date, and revenues and expenses are translated at average exchange rates for the period. Gains or losses arising from the translation of the financial statements of these foreign subsidiaries are included in other comprehensive income (loss). The Company does not own any self-sustaining foreign subsidiaries.

For foreign subsidiaries that are considered integrated, the temporal method of translating foreign currencies has been used. Under this method, monetary items are translated into Canadian dollars at the exchange rates in effect at each accounting period end date. Non-monetary items and their related amortization are translated at their historical exchange rates. Revenues and expenses are translated at average exchange rates during the period. Gains or losses arising from the translation of the financial statements of these foreign subsidiaries are included in net earnings.

Financial statement concepts Effective January 4, 2009 (the first day of the Company's 2009 fiscal year), the Company applied the amendments issued by the CICA Handbook section (HB) 1000 – Financial Statement Concepts, which clarify the criteria for recognition of an asset and the timing of expense recognition, specifically, deleting the guidance permitting the deferral of costs. The new requirements are effective for interim and annual financial statements for fiscal years beginning on or after October 1, 2008. The Company applied the amendments to CICA HB 1000 in conjunction with CICA HB 3064 – Goodwill and Intangible Assets.

Credit risk and the fair value of financial assets and financial liabilities Effective January 4, 2009, the Company implemented, on a retrospective basis without restatement of prior periods, the CICA Emerging Issues Committee (EIC) 173 – Credit Risk and the Fair Value of Financial Assets and Financial Liabilities, which is effective for annual financial statements for periods ending on or after January 20, 2009.

EIC 173 clarifies that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments, rather than using a risk-free rate.

Entities are required to re-measure the financial assets and liabilities, including derivative instruments, as at the beginning of the period of adoption (i.e. the beginning of fiscal 2009) to take into account their own credit risk and counterparty credit risk. Any resulting difference would be recorded as an adjustment to retained earnings, except: a) derivatives in a fair value hedging relationship accounted for by the "shortcut method", in which case the resulting difference would adjust the basis of the hedged item; and b) derivatives in cash flow hedging relationships, in which case the resulting difference would be recorded in accumulated other comprehensive income (AOCI).

As a result of the retrospective implementation of this new standard, opening accumulated other comprehensive income decreased by $2.5 million and opening retained earnings increased by $1.1 million.

Financial instruments

Financial instruments – Recognition and measurement CICA HB 3855 establishes standards for recognizing financial assets, financial liabilities and non-financial derivatives. It requires that financial assets and financial liabilities, including derivatives, be recognized on the Consolidated Balance Sheets when the Company becomes a party to the contractual provisions of a financial instrument or non-financial derivative contract. Under this standard, all financial instruments are required to be measured at fair value on initial recognition.

The standard also requires the Company to classify financial assets and liabilities 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) held for trading – measured at fair value with changes in fair value recorded in net earnings; b) held to maturity – recorded at amortized cost with gains and losses recognized in net earnings in the period that the asset is derecognized or impaired; c) available for sale – measured at fair value with changes in fair value recognized in other comprehensive income (loss) until realized through disposal or impairment; and d) loans and receivables – recorded at amortized cost with gains and losses recognized in net earnings in the period that the asset is derecognized or impaired. Classification choices for financial liabilities include: a) held for trading – measured at fair value with changes in fair value recorded in net earnings, and b) other – measured at amortized cost with gains and losses recognized in net earnings in the period that the liability is derecognized. Any financial asset or liability can be classified as held for trading as long as its fair value is reliably determinable.

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.

In accordance with CICA HB 3855, the Company's financial assets and liabilities are generally classified and measured as follows:

Asset/Liability	Category	Measurement
Cash and cash equivalents	Held for trading	Fair value
Short-term investments	Held for trading	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Deposits	Held for trading	Fair value
Loans receivable	Loans and receivables	Amortized cost
Long-term receivables and other assets	Loans and receivables	Amortized cost
Other long-term investments	Held for trading	Fair value
Bank indebtedness	Held for trading	Fair value
Commercial paper	Other liabilities	Amortized cost
Accounts payable and other	Other liabilities	Amortized cost
Deposits	Other liabilities	Amortized cost
Long-term debt	Other liabilities	Amortized cost
Other long-term liabilities	Other liabilities	Amortized cost

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

- investments in highly liquid equity instruments, which are included in short-term investments, are classified as available for sale and are measured at fair value;
- interest-only strip related to the sale of loans receivable, which is included in long-term receivables and other assets, is classified as held for trading and measured at fair value; and
- certain investments which are included in long-term receivables and other assets have been classified as held to maturity and measured at amortized cost.

Other balance sheet accounts, such as merchandise inventories, prepaid expenses, current and future income taxes, goodwill, intangible assets and property and equipment, are not within the scope of these accounting standards as they are not financial assets or financial liabilities.

Transaction costs related to financial liabilities classified as other liabilities are expensed as incurred, except for transaction costs related to deposits, which are added to the initial carrying amount of deposits and are amortized using the effective interest method.

Credit card promotions offered by the Company at rates not equal to market value are measured at fair value at date of acquisition and then subsequently accounted for at amortized cost using the effective interest method. The difference between the promotional rates offered and the market rates is recorded as an expense over the expected life of the offer.

1. Significant Accounting Policies (continued)

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.

Comprehensive income Comprehensive income consists of net earnings and other comprehensive income (OCI). OCI represents changes in shareholders' equity during a period arising from transactions and other events with non-owner sources and includes unrealized gains and losses on financial assets classified as available for sale, unrealized foreign currency translation gains or losses arising from self-sustaining foreign subsidiaries and changes in the fair value of the effective portion of cash flow hedging instruments. The Company reports a financial statement entitled Consolidated Statement of Comprehensive Income for the changes in these items, net of taxes.

The cumulative changes in OCI are included in accumulated other comprehensive income (loss) (AOCI), which is presented as a separate category in shareholders' equity on the Consolidated Balance Sheets. The AOCI represents the cumulative portion of comprehensive income not already included in net earnings.

Hedges CICA HB 3865 specifies the criteria that must be satisfied in order for hedge accounting to be applied and the accounting for each of the permitted hedging strategies. The Company enters into various derivative contracts as part of the Company's strategy to manage its exposure to interest and foreign currencies. The Company also enters into equity derivative contracts to hedge certain future stock-based compensation expenses. For each derivative, a determination is made as to whether hedge accounting can be applied. Where hedge accounting can be applied, a hedging relationship is designated as a fair value hedge, a cash flow hedge or a hedge of foreign currency exposure of an investment in a self-sustaining foreign subsidiary. For our detailed accounting policy on hedge accounting, refer to the Derivatives section below in Note 1.

Financial instruments – disclosures In June 2009, the CICA amended CICA HB 3862 – Financial Instruments – Disclosures, which adopted the amendments issued by the International Accounting Standards Board (IASB) to IFRS 7 – Financial Instruments: Disclosures, which was issued in March 2009. These amendments are applicable to publicly accountable enterprises and those private enterprises, co-operative business enterprises, rate-regulated enterprises and not-for-profit organizations that choose to apply CICA HB 3862.

The amendments enhance disclosures about fair value measurements, including the relative reliability of the inputs used in those measurements, and about the liquidity risk of financial instruments. CICA HB 3862 requires that all financial instruments measured at fair value be categorized into one of three levels of hierarchy. Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities:

- Level 1 – inputs are unadjusted quoted prices of identical instruments in active markets;
- Level 2 – inputs do not have quoted prices but are observable for the asset or liability, either directly or indirectly; and
- Level 3 – inputs are not based on observable market data.

The amendments are effective for annual financial statements for fiscal years ending after September 30, 2009, with early adoption permitted. To provide relief for financial statement preparers, and consistent with IFRS 7, the CICA decided that an entity need not provide comparative information for the disclosures required by the amendments in the first year of application. The required disclosures are provided in Note 19.

Financial instruments – impairment of debt instruments In August 2009, the CICA amended CICA HB 3855 – Financial Instruments – Recognition and Measurement, and concurrently CICA HB 3025 – Impaired Loans. These amendments affect the classifications that are required or allowed for debt instruments, as well as the impairment model for held-to-maturity financial assets. The amendments, which are effective for annual financial statements relating to fiscal years beginning on or after November 1, 2008, have no impact on the Company.

Capital management disclosures CICA HB section 1535 – Capital Disclosures, which is effective for fiscal years beginning on or after October 1, 2007, requires entities to disclose information about their objectives, policies and processes for managing capital, as well as their compliance with any externally imposed capital requirements. The adoption of this standard did not require any changes to the Company's accounting, but did require additional note disclosure, which is included in Note 18.

Revenue recognition The Company's shipments of merchandise to Canadian Tire Retail's (CTR) Dealers and PartSource franchisees (retail store owner-operators) are recorded as revenue when delivered and are net of returns. Revenue on the sale of gasoline by Canadian Tire Petroleum (Petroleum) is recorded upon sale to the customer. Revenue for Mark's is recognized at the time goods are sold by its corporate-owned stores to its customers and is net of returns. Royalties, based on sales by Mark's franchisees, are recorded in income as they are earned. Interest income and service charges on loans receivable are accrued each month according to the contractual provisions of the loan agreements. Merchant and interchange fees on credit card transactions are taken into revenue at the time transactions are recorded. Revenue from separately priced extended warranty contracts is recorded on a straight-line basis over the term of the contracts.

Cash consideration given to a customer The Company generally records cash consideration given to a customer as a reduction to the selling price of the Company's products or services and reflects it as a reduction of revenue when recognized in the income statement. Certain exceptions apply where the Company receives an identifiable benefit in exchange for the consideration, and the Company can reasonably estimate the fair value of the identifiable benefit, in which case the cost is reflected in operating expenses.

Stock-based compensation plans Stock options (referred to as "stock options with tandem stock appreciation rights") are granted with a feature that enables the employee to exercise the stock option or receive a cash payment equal to the difference between the market price of a Class A Non-Voting Share at the exercise date and the exercise price of the stock option. As the employee can request settlement in cash and the Company is obligated to pay cash upon demand, compensation expense is accrued over the vesting period of the stock options based on the expected total compensation to be paid upon the stock options being exercised. The obligation is revalued at each reporting period based on the changes in the market price of the Company's Class A Non-Voting Shares for the unexercised stock options subject to vesting.

Compensation expense is recognized for the Company's contributions under the Employee Profit Sharing Plan and the Employee Stock Purchase Plan. Compensation expense is also recorded for the Deferred Share Unit Plan, the Performance Share Unit Plan, the Performance Conditioned Share Unit Plan, the Performance Driven Share Unit Plans and the Deferred Share Unit Plan for Executives (see Note 13).

Earnings per share Basic earnings per share is calculated using the weighted average number of shares outstanding during the accounting period. The diluted earnings per share calculation uses an increased number of shares, determined using the treasury stock method (see Note 12).

Cash and cash equivalents Cash and cash equivalents is defined as cash and short-term investments less bank indebtedness. Short-term investments held include primarily Canadian and United States government securities and notes of other creditworthy parties 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 deposits, commercial paper or other securities, primarily Canadian and United States government securities and notes of other creditworthy parties with an original term to maturity of more than three months and a remaining term to maturity of less than one year.

Loans receivable Loans receivable include credit card, personal, residential mortgage and line of credit loans. Loans receivable are recorded at cost, net of unearned interest income and of allowances established for future credit losses. An allowance for credit losses is calculated using the historical loss experience of account balances based on aging and arrears status, with certain adjustments for other relevant circumstances influencing the recoverability of the loans.

A loan is classified as impaired when there has been a deterioration in the credit quality to the extent that there is no longer reasonable assurance of the timely collection of the full amount of principal and interest. Interest income on impaired loans is not recognized.

Credit card loans that have a payment which is 180 days past due are considered impaired and are written off. Personal loans are considered impaired when principal or interest payments are over 90 days past due and are written off when they are one year past due. Residential mortgage loans are considered impaired when principal or interest payments are over 90 days past due except when fully secured or fully insured. Fully secured residential mortgage loans are classified as impaired when principal and interest payments are over 180 days past due. Fully insured residential mortgage loans are classified as impaired when principal and interest payments are 365 days past due. Line of credit loans that have a payment which is 180 days past due are considered impaired and are written off.

When a loan has been identified as impaired, the carrying amount of the loan is reduced to its estimated realizable amount, measured by discounting the expected future cash flows at the effective interest rate inherent in the loan. Recoveries of amounts previously written off and any increase in the estimated realizable value of the loan are credited to the provision for credit losses. Where a portion of a loan is written off and the remaining balance is restructured, the new loan is carried on an accrual basis when there is no longer any reasonable doubt regarding the collectability of principal or interest and payments are current.

The Company recognizes gains or losses on its loans receivable securitizations that qualify as sales. The gain or loss on the sale of the loans receivable depends in part on the previous carrying amount of the loans involved in the sale. The carrying amount is allocated between the assets sold and the retained interests based on their relative fair values at the date of sale. The Company estimates fair value based on the present value of future expected cash flows using management's estimates of the key assumptions (see Note 2).

Loan securitization The Company sells co-ownership interests in a pool of credit card receivables to a third-party Trust (the Trust) in transactions known as securitizations. The transactions are accounted for as sales in accordance with CICA Accounting Guideline 12 (AcG-12), Transfers of Receivables, and the receivables are removed from the Consolidated Balance Sheets.

In accordance with AcG-12, an asset called an "interest only strip" is created to account for the difference between the market value of the transfer and the proceeds received. It represents the present value of the excess spread to be earned over the expected life of the receivables, specifically the yield less the write-offs and interest expense of the Trust. Similarly, a servicing liability is established representing an estimate of Canadian Tire Bank's (the Bank) cost to service the receivables over the expected life.

The Trust's recourse to the Company is limited to customer payments received on the portion of receivables in the pool that represent over-collateralization. The proceeds of any sale are the sum of the cash proceeds and the increase in the interest-only strip, less the sum of any transaction costs and increase in the servicing liability.

The assets and liabilities of the Trust have not been consolidated in these financial statements because the Trust meets the criteria for a qualified special purpose entity and therefore is exempt from consolidation.

1. Significant Accounting Policies (continued)

Merchandise inventories Merchandise inventories are carried at the lower of cost and net realizable value, with cost being determined as weighted average cost.

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

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

Income taxes Income taxes are accounted for using the asset and liability method. Under this method, future income tax assets and liabilities are recognized for temporary differences between financial statement carrying amounts of assets and liabilities and their respective income tax bases. A future income tax asset or liability is estimated for each temporary difference using substantively enacted income tax rates and laws for the year when the asset is realized or the liability is settled. A valuation allowance is established, if necessary, to reduce any future income tax asset to an amount that is more likely than not to be realized.

Goodwill and intangible assets Goodwill represents the excess of the purchase price over the fair value of net assets of acquired businesses. Goodwill is not amortized but is tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. When the carrying amount of a reporting unit's goodwill exceeds the estimated fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess, if any.

Intangible assets which have indefinite lives are not amortized, but are tested for impairment annually, or more frequently if events or changes in circumstances indicate that the assets might be impaired. The impairment test compares the carrying amount of the intangible assets with their fair value, and an impairment loss is recognized in an amount equal to the excess, if any. Intangible assets with finite useful lives are amortized over their useful lives and are also subjected to an assessment for impairment.

Effective January 4, 2009, the Company implemented, on a retrospective basis with restatement, the CICA HB 3064 – Goodwill and Intangible Assets, which was effective for annual financial statements for fiscal years beginning on or after October 1, 2008. This standard replaced CICA HB 3062 – Goodwill and Other Intangible Assets, and CICA HB 3250 – Research and Development Costs.

This new standard provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets, including internally developed intangibles, and is consistent with the revised asset definition and recognition criteria in CICA HB 1000 – Financial Statement Concepts. Under the new standard, costs related to development projects can be recorded as assets only if they meet the definition of an intangible asset.

Additionally, internally developed computer software that is not an integral part of the related hardware was previously included in property and equipment. The new standard requires these costs to be included in intangible assets. As these costs have a limited useful life, they continue to be amortized over a five-year period.

As a result of the retrospective implementation of these standards, the cumulative impact on previously reported balances on the following dates is as follows:

	Increase (decrease)	
($ in millions)	January 3, 2009	December 29, 2007
Retained earnings	$ (3.1)	$ (4.3)
Long-term receivables and other assets	(3.3)	(4.6)
Intangible assets	189.5	174.0
Property and equipment	(190.9)	(175.8)
Income taxes recoverable	0.4	0.4
Future income tax liabilities	(1.2)	(1.7)

In addition, the retrospective impact on depreciation and amortization for the year ended January 3, 2009 was a decrease of $2.7 million. The retrospective impact of the write-off of deferred development costs on cost of merchandise sold and all other operating expenses for the year ended January 3, 2009 was an increase of $0.9 million. The retrospective impact on net earnings for the year ended January 3, 2009 was an increase of $1.2 million, or $0.01 per share.

Property and equipment Property and equipment are stated at cost. The cost of real estate includes all direct costs, financing costs on specific and general corporate debt relating to major projects until project completion and certain pre-development costs. Depreciation is provided for using the declining balance method commencing in the month that the equipment or facilities are placed into service.

Amortization of leasehold improvements and lease inducements, and lease expense are recognized on a straight-line basis over the terms of the respective leases. Depreciation relating to each capital lease for fixtures and equipment is provided for on a straight-line basis over the term of the lease, unless the terms of the lease provide for the transfer of ownership or a bargain purchase option at the end of the term of the lease. In these cases, depreciation is provided for using the declining balance method for comparable owned assets.

Property and equipment are subjected to an assessment for impairment. Property and equipment assets are grouped with other assets and liabilities to form an asset group at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. An impairment loss is recognized when the carrying amount of property and equipment is not recoverable and exceeds its fair value.

Asset retirement obligations Legal obligations associated with site restoration costs on the retirement of property and equipment are recognized in the period in which they are incurred if a reasonable estimate of fair value can be made. The obligations are initially measured at fair value and discounted to present value. A corresponding amount equal to that of the initial obligation is added to the capitalized costs of the related asset. Over time, the discounted asset retirement obligation amount accretes due to the increase in the fair value resulting from the passage of time. This accretion amount is charged to income for the period. The initial costs are depreciated over the useful lives of the related property and equipment.

Actuarial liabilities Actuarial liabilities for reinsurance of coverages provided to the Company's credit card holders include an amount determined from loss reports and individual cases and an amount, based on past experience, for losses incurred but not reported. These estimates are continually reviewed and are necessarily subject to the impact of future changes in such factors as claim severity and frequency. While management believes that the amount is adequate, the ultimate liability may be in excess of, or less than, the amounts provided, and any adjustments will be reflected in the periods in which they become known. These amounts are included in accounts payable and other in the Consolidated Balance Sheets.

Employee future 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 future benefits over the periods in which the employees earn the benefits. The cost of employee future benefits earned by employees is actuarially determined using the projected benefit method prorated on length of service and management's best estimate of salary escalation, retirement ages of employees, employee turnover and expected health and dental care costs. The discount rate used is based on market rates as at the measurement date. The net actuarial gains and losses that exceed 10 per cent of the accrued benefit obligation are amortized on a straight-line basis over the expected average remaining service life of employees.

Derivatives Derivatives are utilized by the Company in the management of its foreign currency and interest rate exposures. The Company also enters into equity derivative contracts to hedge certain future stock-based compensation expenses. All derivative instruments are recorded on the Consolidated Balance Sheets at fair value, including derivatives that are embedded in financial or non-financial contracts that are not closely related to the host contracts. Each derivative is classified as either accounts receivable, accounts payable, long-term receivable, or long-term liability, depending on its financial position on the report date and its contractual settlement date. For each derivative, a determination is made as to whether hedge accounting can be applied.

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

Fair value hedges For fair value hedges, the carrying value of the hedged item is adjusted for changes in fair value attributable to the hedged risk and this adjustment is included in net earnings for the period. 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 earnings. When hedge accounting is discontinued, the carrying value of the hedged item is no longer adjusted and the cumulative fair value adjustments to the carrying value of the hedged items are amortized to net earnings over the remaining term of the hedged item using the effective interest method.

The Company enters into fair value hedges, including certain interest rate swap contracts. In fair value hedges, the changes in fair value of both the hedged item attributable to the risk being hedged and the entire hedging item are recorded in net earnings for the respective period.

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

The Company enters into foreign currency contracts to hedge the exposure to foreign currency risk on the future payment of foreign currency denominated inventory purchases. The changes in fair value of these contracts are included in other comprehensive income to the extent the hedges continue to be effective. Once the inventory has been recognized, the Company has elected to reclassify the related accumulated other comprehensive income amount to merchandise inventories. Subsequent changes in the fair value of the foreign exchange contracts are recorded in net earnings. The Company enters into equity derivative contracts to hedge certain future stock-based compensation expenses. The changes in fair value of these contracts are included in other comprehensive income to the extent the hedges continue to be effective. The related other comprehensive income amounts are reclassified to net earnings based on vesting of the respective stock-based share units.

Use of estimates The preparation of the Consolidated Financial Statements in conformity with Canadian generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the Consolidated Financial Statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates. Estimates are used when accounting for a number of items including, but not limited to, income taxes, impairment of assets (including goodwill), employee benefits, product warranties, inventory provisions, amortization, uncollectible loans, environmental reserves, asset retirement obligations, financial instruments and the liability for the Company's loyalty programs.

1. Significant Accounting Policies (continued)

Future accounting changes

Business Combinations In January 2009, the CICA issued CICA HB 1582 – Business Combinations, which will replace CICA HB 1581 – Business Combinations. The CICA also issued CICA HB 1601 – Consolidated Financial Statements and CICA HB 1602 – Non-Controlling Interests, which will replace CICA HB 1600 – Consolidated Financial Statements. The objective of the new standards is to harmonize Canadian GAAP for business combinations and consolidated financial statements with the international and U.S. accounting standards. The new standards are to be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period, commencing January 1, 2011, with earlier application permitted. Assets and liabilities that arose from business combinations whose acquisition dates preceded the application of the new standards will not be adjusted upon application of these new standards. The Company has elected not to adopt the new standard prior to 2011.

Financial Instruments – Recognition and Measurement In April 2009, the CICA amended CICA HB 3855 – Financial Instruments – Recognition and Measurement. The amendment included a paragraph relating to embedded prepayment options. This amendment is effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011, with early adoption permitted. The new standard has no impact on the Company.

Multiple Deliverable Revenue Arrangements In December 2009, the EIC issued EIC 175 – Multiple Deliverable Revenue Arrangements, which may be applied prospectively and should be applied to revenue arrangements with multiple deliverables entered into or materially modified in the first annual fiscal period beginning on or after January 1, 2011. Early adoption is permitted.

EIC 175 requires a vendor to allocate arrangement consideration at the inception of an arrangement to all deliverables using the relative selling price method. It also provides guidance on the level of evidence of the standalone selling price required to separate deliverables when more objective evidence of the selling price is not available. Given the requirement to use the relative selling price method of allocating arrangement consideration, it prohibits the use of the residual method. The Company is assessing the potential impact of this standard.

International Financial Reporting Standards (IFRS) In February 2008, the CICA announced that Canadian GAAP for publicly accountable enterprises will be replaced by International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011. Accordingly, the conversion from Canadian GAAP to IFRS will be applicable to the Company's reporting for the first quarter of 2011, for which the current and comparative 2010 information will be prepared under IFRS. The Company expects the transition to IFRS to impact accounting, financial reporting, internal control over financial reporting, taxes, information systems and processes as well as certain contractual arrangements. The Company is currently assessing the impact of the transition to IFRS in the above areas and has deployed additional trained resources and formal project management practices and governance to ensure the timely conversion to IFRS.

2. LOANS RECEIVABLE

Quantitative information about loans receivable managed and securitized by the Company is as follows:

	Total principal amount of receivables[1]		Average balances[1]	
($ in millions)	**2009**	2008	**2009**	2008
Total net managed credit card loans	**$ 3,932.8**	$ 3,780.4	**$ 3,742.4**	$ 3,601.5
Credit card loans sold	**(1,693.4)**	(2,216.0)	**(2,044.1)**	(2,592.9)
Credit card loans held	**2,239.4**	1,564.4	**1,698.3**	1,008.6
Total net managed personal loans[2]	**34.0**	83.8	**56.2**	114.2
Personal loans sold	**–**	–	**–**	(17.8)
Personal loans held	**34.0**	83.8	**56.2**	96.4
Total net managed mortgage loans[3]	**–**	138.8	**141.0**	76.0
Total net managed line of credit loans	**15.6**	20.6	**18.1**	23.7
Total loans receivable	**2,289.0**	1,807.6	**$ 1,913.6**	$ 1,204.7
Less: long-term portion[4]	**14.2**	124.2		
Current portion of loans receivable	**$ 2,274.8**	$ 1,683.4		

[1] Amounts shown are net of allowance for credit losses.
[2] Personal loans are unsecured loans that are provided to qualified existing credit card holders for terms of three to five years. Personal loans have fixed monthly payments of principal and interest; however, the personal loans can be repaid at any time without penalty.
[3] Mortgage loans are issued for terms of up to 10 years, have fixed or variable interest rates, are secured and include a mix of both high and low ratio loans. High ratio loans are fully insured and low ratio loans are partially insured. During the year, the Company sold its mortgage portfolio, with a book value of approximately $162.8 million, resulting in a pre-tax loss of $0.6 million.
[4] The long-term portion of loans receivable is included in long-term receivables and other assets.

Net credit losses for the owned portfolio for the year ended January 2, 2010 were $181.2 million (2008 – $87.3 million). Net credit losses for the total managed portfolio for the year ended January 2, 2010 were $337.7 million (2008 – $249.2 million). Net credit losses consist of total write-offs (including regular and bankruptcy write-offs and consumer proposals), net of recoveries and any changes in allowances.

The following table outlines the key economic assumptions used in estimating the fair value of retained interests. The table also displays the sensitivity of the current fair value of residual cash flows to immediate 10 per cent and 20 per cent adverse changes in those assumptions at year-end.

Credit card loans

	Assumptions	Impact of adverse changes on fair value of retained interest[1]		Assumptions
($ in millions)	**2009**	10%	20%	2008
Yield[2]	**15.92%**	$ (8.4)	$ (16.6)	15.46%
Liquidation rate[3]	**25.53%**	(7.1)	(12.9)	26.23%
Expected credit losses[2]	**7.76%**	–	(0.1)	6.34%
Discount rate[2]	**12.00%**	–	–	12.00%
Servicing rate[2,4]	**2.00%**	(1.0)	(2.0)	2.00%

[1] These sensitivities are hypothetical and should be used with caution. As the figures indicate, changes in fair value based on a 10 per cent or 20 per cent variation in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, in these tables, the effect of a variation in a particular assumption on the fair value of the retained interest is calculated without changing any other assumption; in reality, changes in one factor may result in changes in another (for example, increases in market interest rates may result in lower payments and increased credit losses), which might magnify or counteract the sensitivities.

[2] Yield, expected credit losses and discount and servicing rates are forecasted for the next 12 months.

[3] Based on historical patterns, credit card loans are estimated to be collected in 12 months.

[4] The servicing liability as at December 31, 2009 (Canadian Tire Bank's fiscal year-end) was $9.9 million (2008 – $13.0 million) and is included in accounts payable and other.

Details of cash flows from the securitization of loans are as follows:

($ in millions)	**2009**	2008
Proceeds from new securitizations	**$ 100.0**	$ 634.9
Decrease in securitized ownership interests	**(624.3)**	(649.2)
Repurchase of personal loan portfolio	**–**	(27.1)
Proceeds from collections reinvested in previous securitizations	**6,805.7**	8,734.6
Other cash flows received on retained interests[1]	**4,735.5**	2,565.1

[1] Represents total cash flows from collections, not reinvested in previous securitizations.

3. MERCHANDISE INVENTORIES

Included in "cost of merchandise sold and all other operating expenses except for the undernoted items" for the year ended January 2, 2010 is $5,856.0 million (2008 – $6,422.0 million) of inventory recognized as an expense, which included $55.7 million (2008 – $68.2 million) of write-downs of inventory as a result of net realizable value being lower than cost of inventory. Inventory write-downs recognized in previous periods and reversed in the current year and the comparative year were insignificant.

4. LONG-TERM RECEIVABLES AND OTHER ASSETS

($ in millions)	**2009**	2008
		(Restated – Note 22)
Loans receivable (Note 2)	**$ 14.2**	$ 124.2
Mortgages receivable	**54.9**	49.3
Derivatives (Note 19)	**1.3**	36.9
Interest-only strip	**19.6**	28.7
Pledged collateral (Note 9)	**13.8**	14.6
Other receivables	**5.9**	7.4
Other assets	**0.9**	1.0
	$ 110.6	$ 262.1

5. GOODWILL

The change in the carrying amount of goodwill by business segment (Note 20) is as follows:

($ in millions)	CTR	Mark's	2009 Total	2008 Total
Balance, beginning of year	**$ 16.0**	**$ 54.7**	**$ 70.7**	$ 51.8
Goodwill acquired	**0.9**	**0.2**	**1.1**	18.9
Balance, end of year	**$ 16.9**	**$ 54.9**	**$ 71.8**	$ 70.7

6. INTANGIBLE ASSETS

The intangible assets consist of:

($ in millions)	Cost	Accumulated amortization	2009 Net book value	2008 Net book value
				(Restated – Note 22)
Finite-life intangible assets				
Purchased/customized software	**$ 620.8**	**$ 413.8**	**$ 207.0**	$ 189.5
Indefinite-life other intangible assets				
Mark's Work Wearhouse/L'Équipeur store banner	**46.0**	**–**	**46.0**	46.0
Mark's franchise locations	**6.0**	**–**	**6.0**	6.0
Mark's private label brands	**4.4**	**–**	**4.4**	4.4
Mark's franchise agreements	**2.0**	**–**	**2.0**	2.0
	58.4	**–**	**58.4**	58.4
Balance, end of year	**$ 679.2**	**$ 413.8**	**$ 265.4**	$ 247.9

Purchased/customized software includes software purchased and the capitalized cost of internal IT professionals developing and tailoring software being used in the business. All software is recorded at cost and amortized on a straight-line basis over a period of up to five years and includes $67.7 million (2008 – $85.8 million) pertaining to projects under development yet to be amortized. The aggregate amount of software acquired during the year was $70.3 million (2008 – $77.4 million).

Intangible assets are assessed for impairment at least annually and when an event or change in circumstances indicates that the assets might be impaired. As a result of annual impairment testing, no impairment write-downs were required in 2009 and 2008.

7. PROPERTY AND EQUIPMENT

($ in millions)	2009 Cost	2009 Accumulated depreciation and amortization	2009 Net book value	2008 Cost	2008 Accumulated depreciation and amortization	2008 Net book value	Depreciation/ amortization rate/term
				(Restated – Note 22)	(Restated – Note 22)	(Restated – Note 22)	
Land	**$ 748.6**	**$ –**	**$ 748.6**	$ 727.9	$ –	$ 727.9	
Buildings	**2,566.7**	**876.3**	**1,690.4**	2,347.2	787.1	1,560.1	4%–10%
Fixtures and equipment	**721.2**	**455.6**	**265.6**	645.3	434.5	210.8	10%–33%
Leasehold improvements	**506.2**	**157.7**	**348.5**	460.5	143.5	317.0	Term of lease
Assets under capital lease	**55.0**	**14.7**	**40.3**	55.8	9.8	46.0	Term of lease/ 12.5% declining balance
Construction in progress	**87.0**	**–**	**87.0**	337.1	–	337.1	
	$ 4,684.7	**$ 1,504.3**	**$ 3,180.4**	$ 4,573.8	$ 1,374.9	$ 3,198.9	

Included in property and equipment are land and buildings held for sale with a cost of $7.3 million and $18.9 million, respectively (2008 – $14.3 million and $25.7 million, respectively), and accumulated depreciation of $11.8 million (2008 – $14.8 million). Land and buildings held for sale relates to Canadian Tire Retail stores 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.

Gains/losses on the sale of assets held for sale are reported in "cost of merchandise sold and all other operating expenses except the undernoted items" in the Consolidated Statements of Earnings.

The Company capitalized interest of $1.8 million (2008 – $15.2 million) on indebtedness related to property and equipment under construction.

Impairments of property and equipment charged against earnings for the year were $1.9 million (2008 – $2.5 million) and are reported in "cost of merchandise sold and all other operating expenses except the undernoted items" in the Consolidated Statements of Earnings.

8. DEPOSITS

Deposits consist of broker deposits and retail deposits.

Cash from broker deposits is raised through sales of guaranteed investment certificates (GICs) through brokers rather than directly to the retail customer. Individual balances up to $100,000 are Canada Deposit Insurance Corporation (CDIC) insured. Broker deposits are offered for varying terms ranging from 30 days to five years, and all issued GICs are non-redeemable prior to maturity (except in certain rare circumstances). Total short-term and long-term broker deposits outstanding at January 2, 2010 were $1,514.8 million (2008 – $926.8 million).

Retail deposits consist of high-interest savings deposits, retail GICs and tax-free savings deposits. Total retail deposits outstanding at January 2, 2010 were $545.5 million (2008 – $212.6 million).

Repayment requirements

($ in millions)	
2010	$ 367.7
2011	160.5
2012	239.9
2013	470.1
2014	326.4
Current and long-term guaranteed investment certificates	1,564.6
High-interest and tax-free savings accounts	504.5
Total deposits[1]	$ 2,069.1

[1] The carrying value of deposits as of January 2, 2010 is net of $8.8 million (2008 – $5.1 million) of deferred transaction costs.

9. LONG-TERM DEBT

($ in millions)	**2009**	2008
Medium-term notes		
5.22% due October 1, 2010	**$ 300.0**	$ 300.0
4.95% due June 1, 2015	**300.0**	300.0
5.65% due June 1, 2016	**200.0**	–
6.25% due April 13, 2028	**150.0**	150.0
6.32% due February 24, 2034	**200.0**	200.0
5.61% due September 4, 2035	**200.0**	200.0
Debentures, 12.10% maturing May 10, 2010	**–**	150.0
Capital lease obligations	**40.6**	47.2
Fair value hedge adjustment	**3.4**	15.7
Promissory note	**13.0**	13.4
Other	**4.2**	12.0
Total long-term debt	**1,411.2**	1,388.3
Less: amounts due within one year	**309.3**	14.8
Total – net of current portion	**$ 1,101.9**	$ 1,373.5

9. Long-term Debt (continued)

Medium-term notes On June 1, 2009, the Company issued $200.0 million of seven-year medium-term notes, which mature and are repayable on June 1, 2016, and bear interest at 5.65 per cent, payable semi-annually.

Debentures On October 22, 2009, the Company redeemed $150 million of debentures, which were to mature on May 10, 2010, and bore interest at 12.10%. As a result of this redemption, the Company paid a redemption premium of $9.4 million on the redemption date. The debentures were hedged by interest rate swaps that were to mature on May 10, 2010 but were terminated early in connection with the redemption. Hedge accounting for these swaps ceased upon the redemption announcement. As a result, a $3.3 million benefit was amortized to earnings, and a $6.1 million pre-tax loss was recorded. These amounts were included in long-term interest expense.

Promissory note On March 31, 2006, a mortgage payable on a shopping centre in Kitchener, Ontario, with a maturity date of October 2011 and an interest rate of 7.6 per cent that was assumed in 2005, was refinanced with a promissory note with the same terms and conditions. The promissory note is secured by a portfolio of bonds and cash totaling $13.8 million, which is included in long-term receivables and other assets (see Note 4).

Capital lease obligations The Company has capital lease obligations for trailers, fixtures, equipment and computer software. These assets are the security for the respective obligations. The leases have an average interest rate of 4.65 per cent and an average remaining term of 70 months.

Debt covenants The Company has provided covenants to certain of its lenders. All of the covenants were complied with during 2009 and 2008.

Repayment requirements

($ in millions)	2010	2011	2012	2013	2014	Thereafter	Total
Medium-term notes	$ 300.0	$ –	$ –	$ –	$ –	$ 1,050.0	$ 1,350.0
Capital lease obligations	7.2	7.2	7.5	6.6	3.6	8.5	40.6
Promissory note	0.4	12.6	–	–	–	–	13.0
Other	1.7	1.4	1.0	0.1	–	–	4.2
	$ 309.3	$ 21.2	$ 8.5	$ 6.7	$ 3.6	$ 1,058.5	$ 1,407.8

The carrying value of long-term debt includes the effective portion of fair value hedges as of January 2, 2010 of $3.4 million (2008 – $15.7 million).

10. OTHER LONG-TERM LIABILITIES

($ in millions)	**2009**	2008
Deferred gains	**$ 104.2**	$ 110.9
Employee future benefits (Note 11)	**59.8**	56.3
Derivatives (Note 19)	**7.3**	17.9
Asset retirement obligations	**17.6**	17.1
	$ 188.9	$ 202.2

11. EMPLOYEE FUTURE BENEFITS

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

($ in millions)	2009	2008
Accrued benefit obligation, beginning of year	**$ 64.8**	$ 71.6
Current service cost	**1.2**	1.8
Interest cost	**4.9**	4.0
Benefits paid	**(2.5)**	(2.1)
Actuarial losses (gains)	**3.6**	(10.5)
Accrued benefit obligation, end of year[1]	**72.0**	64.8
Unamortized past service costs	**2.2**	2.6
Unamortized net actuarial losses	**(14.4)**	(11.1)
Accrued benefit liability	**$ 59.8**	$ 56.3
Elements of benefit plan costs recognized		
Current service cost	**$ 1.2**	$ 1.8
Interest cost	**4.9**	4.0
Actuarial losses (gains)	**3.6**	(10.5)
Elements of employee future benefit costs before adjustments to recognize the long-term nature of employee future benefit costs	**9.7**	(4.7)
Differences between costs arising in the period and costs recognized in the period in respect of:		
Actuarial gains (losses)[2]	**(3.3)**	11.5
Plan amendments	**(0.4)**	(0.4)
Benefit costs recognized	**$ 6.0**	$ 6.4

[1] The accrued benefit obligation is not funded as funding is provided when benefits are paid. Accordingly, there are no plan assets.
[2] Includes actuarial (gains) losses amortized of $0.3 million (2008 – $1.0 million) less actuarial (gains) losses incurred of $3.6 million (2008 – $(10.5) million).

Significant actuarial assumptions used:

	2009	2008
Accrued benefit obligation		
Discount rate	**6.50%**	7.50%
Benefit costs recognized		
Discount rate	**7.50%**	5.50%

For measurement purposes, a 7.37 per cent weighted average health care trend rate was assumed for 2009 (2008 – 8.09 per cent). The rate was assumed to decrease gradually to 4.50 per cent for 2029 (2008 – decrease gradually to 4.50 per cent for 2029) and remain at that level thereafter. The expected average remaining service period of the active employees covered by the benefit plan is 16 years (2008 – 16 years).

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

Sensitivity analysis:

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects for 2009:

($ in millions)	Increase	Decrease
Total of service and interest cost	$ 0.7	$ (0.5)
Accrued benefit obligation	7.6	(6.3)

12. SHARE CAPITAL

($ in millions)			2009		2008
Authorized					
3,423,366	Common Shares				
100,000,000	Class A Non-Voting Shares				
Issued					
3,423,366	Common Shares (2008 – 3,423,366)	**$**	**0.2**	$	0.2
78,178,066	Class A Non-Voting Shares (2008 – 78,178,066)		**720.2**		715.2
		$	**720.4**	$	715.4

During 2009 and 2008, the Company issued and repurchased Class A Non-Voting Shares. The net excess of the issue price over the repurchase price results in contributed surplus. The net excess of the repurchase price over the issue price is allocated first to contributed surplus, if any, with any remainder allocated to retained earnings.

The following transactions occurred with respect to Class A Non-Voting Shares during 2009 and 2008:

	2009			2008		
($ in millions)	**Number**		**$**	Number		$
Shares outstanding at the beginning of the year	**78,178,066**	**$**	**715.2**	78,048,062	$	700.5
Issued						
Dividend reinvestment plan	**68,151**		**3.4**	58,579		3.2
Stock option plan	**7,700**		**0.3**	500		–
Employee Stock Purchase Plan	**521,804**		**25.6**	477,661		26.6
Employee Profit Sharing Plan	**85,927**		**4.3**	60,348		4.0
Associate Dealer profit sharing plans	**58,616**		**3.0**	52,716		3.1
Repurchased	**(742,198)**		**(37.5)**	(519,800)		(29.9)
Excess of repurchase price over issue price	**–**		**5.9**	–		7.7
Shares outstanding at the end of the year	**78,178,066**	**$**	**720.2**	78,178,066	$	715.2

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

Subsequent to the end of the fiscal year, from January 3, 2010 to March 11, 2010, the Company issued 123,457 Class A Non-Voting Shares for proceeds of $6.7 million and repurchased 123,300 Class A Non-Voting Shares at a cost of $6.5 million.

All outstanding stock options have 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 a Class A Non-Voting Share at the exercise date and the exercise price of the stock option. As the employee can request settlement in cash and the Company is obligated to pay cash upon demand, compensation expense is accrued over the vesting period of the stock options based on the expected total compensation to be paid upon the stock options being exercised. Accordingly, outstanding stock options have no dilutive impact on the average number of shares outstanding.

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 in respect of the current year and each preceding year and payment of a non-cumulative dividend on each of the Common Shares in respect of 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.

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.

The holders of Class A Non-Voting Shares are entitled to receive notice of and to attend all meetings of the shareholders but, except as provided by the Business Corporations Act (Ontario) and as hereinafter noted, are not entitled to vote thereat. 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 directors 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 the other class. Neither the Class A Non-Voting Shares nor the Common Shares can be changed by way of subdivision, consolidation, reclassification, exchange or otherwise unless at the same time the other class of shares is also changed in the same manner and in the same proportion.

Should an offer to purchase Common Shares be made to all or substantially all of the holders of Common Shares (other than an offer to purchase both Class A Non-Voting Shares and Common Shares at the same price and on the same terms and conditions) and should a majority of the Common Shares then issued and outstanding be tendered and taken up pursuant to such offer, the Class A Non-Voting Shares shall thereupon be entitled to one vote per share at all meetings of the shareholders.

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 at January 2, 2010, the Company had dividends payable to holders of Class A Non-Voting Shares and Common Shares of $17.1 million (2008 – $17.1 million).

13. STOCK-BASED COMPENSATION PLANS

The following describes the Company's stock-based compensation plans.

Profit sharing plan for certain employees The Company has a profit sharing plan for certain of its employees. The amount awarded to employees is contingent on the Company's profitability. The maximum contribution is 6.75 per cent of earnings before income taxes, after certain adjustments. A portion of the award is contributed to a Deferred Profit Sharing Plan (DPSP) for the benefit of the employees. The maximum amount of the Company's contribution to the DPSP per employee per year is subject to limits set by the Income Tax Act. Each participating employee is required to invest and maintain 10 per cent of his or her holdings in the 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 2009, the Company contributed $19.1 million (2008 – $18.5 million) under the terms of the DPSP, towards the Trustee-managed investment portfolio. As of January 2, 2010, the DPSP held 419,280 Common Shares (2008 – 419,280) and 1,153,217 Class A Non-Voting Shares (2008 – 1,120,315) of the Company.

Employee Stock Purchase Plan The Company offers an Employee Stock Purchase Plan (ESPP) to its employees, whereby employees can choose to have up to 10 per cent of their annual base earnings withheld to purchase Class A Non-Voting Shares of the Company. The purchase price of the shares is calculated monthly and is equal to the weighted average share price at which Class A Non-Voting Shares of the Company trade on the Toronto Stock Exchange for a given month. The Company may elect to match up to 50 per cent of employee contributions to the ESPP. The Company's matching contribution vests in increments of 10 per cent for every year of an employee's service.

In return for employee contributions, the Company issued to employees 521,804 Class A Non-Voting Shares in 2009 (2008 – 477,661). The Company's matching contribution of $11.8 million in 2009 (2008 – $11.4 million) was used to purchase Class A Non-Voting Shares in the open market. In addition, the Company recorded as compensation expense $6.5 million (2008 – $6.5 million) for reimbursement of employee income tax liabilities relating to the ESPP.

Deferred Share Unit Plan The Company offers a Deferred Share Unit Plan (DSUP) for members of the Board of Directors. Under the DSUP, each Director may elect to receive all or a percentage of his or her annual compensation in the form of notional Class A Non-Voting Shares of the Company called deferred share units (DSUs). The issue price of each DSU is equal to the weighted average share price at which Class A Non-Voting Shares of the Company trade on the Toronto Stock Exchange during the 10-day period prior to the last day of the calendar quarter in which the DSU is issued. A Director may elect to participate or change his or her participation in the DSUP upon written notice. 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. The value of the outstanding DSUs as at January 2, 2010 was $4.4 million (2008 – $3.4 million).

2006 and 2007 Performance Driven Share Unit Plans The Company had granted performance driven share units (PDSUs) to certain employees. Each PDSU 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 for the 20-day period commencing the day after the last day of the performance period. Compensation expense related to PDSUs is accrued over the term of the respective performance period based on the expected total compensation to be paid out at the end of the respective performance period. Compensation expense recorded for PDSUs for the year ended January 2, 2010 was $4.8 million (2008 – $6.9 million).

2008 Performance Share Unit Plan The Company has granted 2008 performance share units (PSUs) to certain employees. Each PSU entitles the participant to receive a cash payment in an amount equal to the weighted average closing price of Class A Non-Voting Shares traded on the Toronto Stock Exchange for the 20-day period commencing the day after the last day of the performance period, multiplied by an applicable multiplier determined by specific performance-based criteria. Compensation expense related to the PSUs is accrued over the term of the performance period based on the expected total compensation to be paid out at the end of the performance period. Compensation expense recorded for PSUs for the year ended January 2, 2010 was $(2.9) million (2008 – $2.9 million).

13. Stock-Based Compensation Plans (continued)

2009 Performance Share Unit Plan The Company has granted 2009 performance share units (PSUs) to certain employees. Each PSU entitles the participant to receive a cash payment in an amount equal to the weighted average closing price of Class A Non-Voting Shares traded on the Toronto Stock Exchange for the 20-day period commencing the day after the last day of the performance period, multiplied by an applicable multiplier determined by specific performance-based criteria. Compensation expense related to the PSUs is accrued over the term of the performance period based on the expected total compensation to be paid out at the end of the performance period. Compensation expense recorded for PSUs for the year ended January 2, 2010 was $5.3 million (2008 – nil).

Deferred Share Unit Plan for certain executives The Company has granted deferred share units (DSUs) to certain executives. The DSU account for each executive includes the value of dividends, if any, as if reinvested in additional DSUs. Each DSU entitles the executive 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 on the tenth business day prior to the settlement date. Compensation expense related to these DSUs for the year ended January 2, 2010 was nil (2008 – $(0.7) million).

Stock options The Company has granted stock options with tandem stock appreciation rights to certain employees for the purchase of Class A Non-Voting Shares. 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 vest 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 vest on a graduated basis over a three-year period and are exercisable over a term of seven years. Stock options granted in 2008 and 2009 fully vest after three years and are exercisable over a term of seven years. At January 2, 2010, approximately 2.5 million Class A Non-Voting Shares were issuable under the stock option plan.

The compensation expense recorded for stock options for the year ended January 2, 2010 was $1.1 million (2008 – $4.3 million).

The outstanding options as at January 2, 2010 were granted at prices between $16.47 and $83.16 and expire between February 2010 and October 2016.

Stock option transactions during 2009 and 2008 were as follows:

	2009		2008	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Outstanding at beginning of year	**1,646,290**	**$ 56.97**	1,293,477	$ 55.30
Granted	**765,706**	**40.40**	513,437	62.56
Exercised	**(140,965)**	**28.62**	(27,432)	31.64
Forfeited and expired	**(122,187)**	**62.33**	(133,192)	67.53
Outstanding at end of year	**2,148,844**	**$ 52.62**	1,646,290	$ 56.97
Stock options exercisable at end of year	**818,311**		761,234	

The following table summarizes information about stock options outstanding at January 2, 2010:

	Options outstanding			**Options exercisable**	
Range of exercise prices	**Number of outstanding options**	**Weighted average remaining contractual life**[1]	**Weighted average exercise price**	**Number exercisable at January 2, 2010**	**Weighted average exercise price**
$ 71.90 to 83.16	**424,154**	**4.20**	**$ 72.47**	**279,200**	**$ 72.47**
62.96 to 71.04	**681,237**	**4.36**	**64.01**	**285,877**	**64.75**
40.04 to 56.71	**790,719**	**6.17**	**40.82**	**500**	**41.47**
25.26 to 33.51	**177,764**	**2.77**	**28.12**	**177,764**	**28.12**
16.47 to 21.03	**74,970**	**1.03**	**19.29**	**74,970**	**19.29**
$ 16.47 to 83.16	**2,148,844**	**4.75**	**$ 52.62**	**818,311**	**$ 55.25**

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

14. INCOME TAXES

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

($ in millions)		2009		2008
				(Restated – Note 22)
Income taxes based on a combined Canadian federal and provincial income tax rate of 32.03% (2008 – 32.60%)	**$**	**153.5**	$	177.1
Adjustment to income taxes resulting from:				
Prior years' tax adjustment		**(10.4)**		(0.5)
Lower income tax rates on earnings of foreign subsidiaries		**(2.3)**		(4.0)
Non-taxable portion of gain on other real estate disposition		**(0.6)**		(0.9)
Future tax rate adjustment		**0.8**		–
Net tax adjustment of sale/leaseback of various properties		**–**		(6.6)
Prior years' tax settlements		**–**		(0.3)
Other		**3.2**		2.8
Income tax expense	**$**	**144.2**	$	167.6

The following are the components of the income tax provision:

($ in millions)		2009		2008
				(Restated – Note 22)
Current tax expense	**$**	**135.2**	$	209.1
Future income tax expense (benefit) relating to the origination and reversal of temporary differences		**8.2**		(41.5)
Future income tax expense resulting from change in tax rate		**0.8**		–
Income tax expense	**$**	**144.2**	$	167.6

The tax-effected temporary differences which result in future income tax assets and (liabilities) are as follows:

($ in millions)		2009		2008
				(Restated – Note 22)
Current				
Reserves and deferred income	**$**	**71.5**	$	64.3
Other comprehensive income		**17.9**		(49.1)
Deferred items		**(8.1)**		2.0
Capital lease obligations		**1.3**		2.1
Other		**0.2**		0.9
Current future income taxes	**$**	**82.8**	$	20.2
Long-term				
Property and equipment	**$**	**(66.1)**	$	(60.6)
Goodwill and Intangible assets		**(32.6)**		(34.4)
Reserves and deferred income		**24.5**		26.7
Post retirement benefits		**15.4**		16.2
Capital lease obligations		**9.4**		11.6
Deferred items		**(4.9)**		(6.9)
Other		**4.5**		2.7
Long-term future income taxes	**$**	**(49.8)**	$	(44.7)

14. Income Taxes (continued)

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

The main issues challenged by the Canada Revenue Agency (CRA) relate to the tax treatment of commissions paid to foreign subsidiaries of the Company (covering periods from 1995 to 2007) and dividends received on an investment made by a wholly-owned subsidiary of the Company related to reinsurance (covering periods from 1999 to 2003).

The applicable provincial tax authorities have reassessed and are also expected to issue further reassessments on these matters for the corresponding periods.

The Company has agreed with the CRA to settle the commissions issue for the period 1995–2003, although the determination of the final tax liability pursuant to the settlement is subject to the verification by the CRA of certain information provided by the Company. The Company believes the provincial tax authorities will also reassess on the same basis. The Company does not have a significant exposure on this issue subsequent to the 2003 taxation year.

The reassessments with respect to the dividends received issue are based on multiple grounds, some of which are highly unusual. The Company has appealed the reassessments and the matter is currently pending before the Tax Court of Canada. If the CRA (and applicable provincial tax authorities) were entirely successful in their reassessments – an outcome that the Company and its tax advisors believe to be unlikely – it is estimated that the total liability of the Company for additional taxes, interest and penalties could be approximately $193 million. Although the Company has appealed these reassessments, current tax legislation requires the Company to remit to the CRA and its provincial counterparts approximately $120 million related to this matter, all of which has been remitted.

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

The full year provision for 2009 has been reduced by $9.1 million due to the retroactive change in legislation relating to the taxation of gains realized from the disposition of shares during 2006 and 2007 and a revision to the prior year's estimated tax expense.

15. NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

Working capital components

($ in millions)	**2009**	2008
Cash generated from (used for):		
Accounts receivable	**$ (176.7)**	$ (104.8)
Accounts payable and other	**(105.0)**	(104.6)
Income taxes recoverable	**(30.1)**	(10.8)
Merchandise inventories	**36.4**	(176.0)
Prepaid expenses and deposits	**(0.5)**	(10.7)
Change in other working capital components	**$ (275.9)**	$ (406.9)

Cash and cash equivalents The components of cash and cash equivalents are:

($ in millions)	**2009**	2008
Cash (bank overdraft)	**$ (48.5)**	$ 59.2
Cash equivalents	**834.5**	369.8
Cash and cash equivalents	**$ 786.0**	$ 429.0

Cash equivalents are highly liquid and rated certificates of deposit or commercial paper with an original term to maturity of 3 months or less.

Investments in highly liquid and rated certificates of deposits, commercial paper or other securities with an original term to maturity of more than 3 months and a remaining term to maturity of less than one year are classified as short-term investments.

Supplementary information For the year ended January 2, 2010, the Company paid income taxes amounting to $165.2 million (2008 – $220.1 million) and made interest payments of $173.9 million (2008 – $108.7 million), including $31.8 million related to the settlement of delayed-start interest rate swaps and $9.4 million related to the early redemption of debentures.

For the year ended January 2, 2010, property and equipment were acquired at an aggregate cost $202.8 million (2008 – $394.5 million). The amount of property and equipment acquired that is included in accounts payable and other at January 2, 2010 was $22.7 million (2008 – $101.2 million).

For the year ended January 2, 2010, intangible software was acquired at an aggregate cost of $70.3 million (2008 – $77.4 million). The amount of intangible software acquired that is included in accounts payable and other at January 2, 2010 was $2.6 million (2008 – $0.9 million).

16. LEASES

Operating leases The Company is committed to minimum annual rentals (exclusive of taxes, insurance, and other occupancy charges) for equipment and properties under leases with termination dates extending to 2043.

The minimum annual rental payments for equipment and property under operating leases are as follows:

($ in millions)	
2010	$ 238.5
2011	216.3
2012	198.2
2013	185.0
2014	169.5
2015–2043	1,084.2
	$ 2,091.7

Capital leases The minimum annual rental payments for equipment under capital leases are as follows:

($ in millions)	
2010	$ 9.0
2011	8.6
2012	8.6
2013	7.3
2014	4.0
2015–2018	8.9
Total minimum lease payments	46.4
Less: financing expenses included in minimum lease payments	5.8
	$ 40.6

17. GUARANTEES, COMMITMENTS AND CONTINGENCIES

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 to third parties:

Standby letters of credit and performance guarantees The Company has arranged for several major Canadian banks to provide standby letters of credit (the LCs) to an independent trust (the Independent Trust), which provides loans to Dealers for their purchase of inventory and fixed assets (the Dealer Loans). During 2004, the Independent Trust sold all of its rights in the LCs and the then outstanding Dealer Loans to other independent trusts set up by major Canadian banks (the Co-owner Trusts) that raise funds in the capital markets to finance their purchase of these undivided co-ownership interests. As a result, the Independent Trust's only remaining role is that of originator, seller and servicer of the Dealer Loans. Total Dealer Loans as at January 2, 2010 were $757.4 million (2008 – $970.9 million).

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 elect 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 unlikely event that all the LCs had been fully drawn simultaneously, the maximum payment by the Company under this reimbursement obligation would have been $178.8 million at January 2, 2010 (2008 – $267.4 million). The Company has not recorded any liability for these amounts, due to the credit quality of the Dealer Loans and to the nature of the underlying collateral, represented by the inventory and fixed assets of the borrowing Dealers.

Business and property dispositions In connection with agreements for the sale of all or a part of a business or property and in addition to indemnifications relating to failure to perform covenants and breach of representations and warranties, the Company has agreed to indemnify the purchasers against claims from its past conduct, including environmental remediation. Typically, the term and amount of such indemnification will be determined by the parties in the agreements. The nature of these indemnification agreements prevents the Company from estimating the maximum potential liability it would be required to pay to counterparties. Historically, the Company has not made any significant indemnification payments under such agreements, and no amount has been accrued in the Consolidated Financial Statements with respect to these indemnification agreements.

Lease agreements The Company has entered into agreements with certain of its lessors that guarantee the lease payments of certain sub-lessees 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 sub-lessee 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 is $7.8 million (2008 – $8.6 million), except for four lease agreements for which the maximum amount cannot be reasonably estimated. In addition, the Company could be required to make payments for percentage rents, realty taxes and common area costs. No amount has been accrued in the Consolidated Financial Statements with respect to these lease agreements.

Third party debt agreements The Company has guaranteed the debt of certain PartSource franchisees and Dealers. These third party debt agreements require the Company to make payments if the franchisee or Dealer fails to make scheduled debt payments. The majority of these third party debt agreements have expiration dates extending to January 31, 2010. The maximum amount that the Company may be required to pay under these types of debt agreements is $50.0 million (2008 – $42.0 million), of which $34.1 million (2008 – $12.6 million) has been issued at January 2, 2010. 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 which 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 the Independent Trust and Co-owner Trusts 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 will vary based on the contract and do not provide any limit on the maximum potential liability. Historically, the Company has not made any significant payments under such additional indemnifications and no amount has been accrued in the Consolidated Financial Statements with respect to these additional indemnification commitments.

Other commitments and contingencies As at January 2, 2010, the Company had the following other commitments and contingencies. In accordance with Canadian GAAP, the Company has not recognized a liability relating to these commitments and contingencies except for a provision for legal proceedings:

The Company has obtained documentary and standby letters of credit aggregating $25.5 million (2008 – $31.6 million) relating to the importation of merchandise inventories and to facilitate various real estate activities for the Company's merchandise operations.

The Company has commitments of approximately $17.5 million (2008 – $61.5 million) for the acquisition of property and equipment and the expansion of retail store facilities and its distribution centres in Ontario and Quebec.

The Company has committed to pay $123.9 million (2008 – $140.6 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 2014.

The Company has committed to pay $22.7 million (2008 – $22.0 million) for various commitments and contingent liabilities including merchandise inventory buy-back agreements, a customs bond, and the obligation to buy back two franchise stores.

18. CAPITAL MANAGEMENT DISCLOSURES

The Company's objectives when managing capital are:

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

The current economic environment has not changed the Company's objectives in managing capital, although the Company did place greater emphasis on the second of these objectives when credit markets were constrained during 2008 and much of 2009.

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

($ in millions)	**2009**	**% of total**	2008 (Restated – Note 22)	% of total
Capital components[1]				
Current deposits	**$ 863.4**	**12.0%**	$ 540.7	9.0%
Current portion of long-term debt	**309.3**	**4.3%**	14.8	0.2%
Long-term debt	**1,101.9**	**15.3%**	1,373.5	22.9%
Long-term deposits	**1,196.9**	**16.6%**	598.7	10.0%
Other long-term liabilities[2]	**1.3**	**0.0%**	3.2	0.1%
Total debt	**$ 3,472.8**	**48.2%**	$ 2,530.9	42.2%
Share capital	**720.4**	**10.0%**	715.4	11.9%
Contributed surplus	**0.2**	**0.0%**	–	–%
Retained earnings	**3,013.7**	**41.8%**	2,752.4	45.9%
Total capital under management	**$ 7,207.1**	**100.0%**	$ 5,998.7	100.0%

[1] Included in our definition and management of capital are "components of other comprehensive loss" relating to derivative or hedged items only. For 2009 and 2008, the balance was $nil.
[2] Long-term liabilities that are derivative or hedge instruments related to capital items only.

The Company monitors its capital structure through measuring its various debt to capitalization ratios and ensures its ability to service debt and meet other fixed obligations by tracking its interest and other fixed charge coverage ratios. The Company monitors the impact of the growing Financial Services business on the consolidated metrics. The total debt to total capital ratio has increased from 42.2% at the end of 2008 to 48.2% at the end of 2009 largely due to the increase in deposits issued by the Bank.

The Company has in place various policies which it uses to manage capital, including a leverage and liquidity policy and a securities and derivatives policy. As part of the overall management of capital, Management's Financial Risk Management Committee and the Audit Committee of the Board of Directors review the Company's compliance with, and performance against, these policies.

In addition, those committees perform periodic reviews of the policies to ensure they remain consistent with the risk tolerance acceptable to the Company and current market trends and conditions.

To assess its effectiveness in managing capital, Management monitors certain key ratios to ensure they are within targeted ranges.

18. Capital Management Disclosures (continued)

Under the existing debt agreements, key financial covenants are monitored on an on-going basis by Management to ensure compliance with the agreements. The key covenants are as follows:

- maintaining a specified minimum net tangible assets coverage ratio, which is calculated as:
  - total assets less intangible assets, current liabilities (excluding current portion of long-term debt), and liability for employee future benefits,
  - divided by long-term debt (including current portion of long-term debt).
- 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 its accumulated net income over a defined period.

The Company was in compliance with these key covenants during the year. Under these covenants, the Company currently has significant flexibility to fund business growth and maintain or amend dividend rates within our existing dividend policy.

Various accounting measures will change as Canada moves to IFRS in 2011 and the Company is in the process of ensuring that these changes do not affect the Company's compliance with these covenants.

The Company manages its capital structure with a view to maintaining investment grade rating from two credit rating agencies. Management calculates ratios on an alternative basis from time-to-time to approximate the methodology of debt rating agencies and other market participants.

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 normal course issuer bids (NCIBs), issue new shares, issue new debt, issue new debt with different characteristics to replace existing debt, engage in additional sale/leaseback transactions of real estate properties and/or increase or decrease the amount of sales of co-ownership interests in loans receivable to the Trust.

In addition, the Company is required to comply with regulatory requirements associated with the operations of Canadian Tire Bank (the Bank), its federally chartered bank, and other regulatory requirements that impact our business operations.

The Bank manages its capital under guidelines established by the Office of the Superintendent of Financial Institutions Canada (OSFI). The regulatory capital guidelines measure capital in relation to credit, market and operational risks. The Bank has a capital management policy, an internal capital adequacy assessment process and procedures and controls which it utilizes to achieve its goals and objectives. The Bank's objectives include:

- providing sufficient capital to maintain the confidence of depositors;
- being an appropriately capitalized institution, as measured internally, defined by regulatory authorities and compared with the Bank's peers; and
- achieving the lowest overall cost of capital consistent with preserving the appropriate mix of capital elements to meet target capitalization levels.

The Bank's total capital consists of three tiers of capital approved under OSFI's current regulatory capital guidelines. As at December 31, 2009 (the Bank's fiscal year end), Tier 1 capital includes common shares and retained earnings reduced by net securitization exposures. The Bank currently does not hold any instruments in Tier 2 or Tier 3 capital. Risk-weighted assets (RWA), referenced in the regulatory guidelines, 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.

The Bank's ratios are above internal minimum targets for Tier 1 and Total capital ratios and below its internal maximum target for the assets to capital multiple. OSFI's minimum Tier 1 and Total capital ratios for Canadian banks are 7 per cent and 10 per cent, respectively. During the 12 months ended December 31, 2009 and the comparative period, the Bank complied with the capital guidelines issued by OSFI under the "International Convergence of Capital Measurement and Capital Standards – A Revised Framework" (Basel II).

19. FINANCIAL INSTRUMENTS

The Company records financial instruments classified as held for trading, including all derivative instruments, at fair values. Fair value of a financial instrument is the amount at which the financial instrument could be exchanged in an arm's length transaction between knowledgeable and willing parties under no compulsion to act. 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 January 2, 2010 and January 3, 2009 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 interest rate swaps, 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 interest rate swaps were valued using discounted cash flow models based on year-end market interest rate curves. 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 the counterparties based on year-end market interest rates, implied Company volatility values and the year-end closing share price of the Class A Non-Voting Shares of the Company on the Toronto Stock Exchange.

Carrying value and fair value of financial instruments

The following table provides a comparison of carrying and fair values of financial instruments as at January 2, 2010 and January 3, 2009:

2009

($ in millions)	Held for trading (fair value)	Available for sale (fair value)	Held to maturity investments (amortized cost)	Loans and receivables (amortized cost)	Other financial liabilities (amortized cost)	Total carrying amount	Fair value
Cash and cash equivalents	**$ 786.0**	**$ –**	**$ –**	**$ –**	**$ –**	**$ 786.0**	**$ 786.0**
Short-term investments	**59.2**	**4.8**	**–**	**–**	**–**	**64.0**	**64.0**
Accounts receivable[1]	**4.5**	**–**	**–**	**834.4**	**–**	**838.9**	**838.9**
Loans receivable	**–**	**–**	**–**	**2,274.8**	**–**	**2,274.8**	**2,274.8**
Deposits (recorded in prepaids and deposits)	**3.1**	**–**	**–**	**–**	**–**	**3.1**	**3.1**
Long-term receivables and other assets[2]	**20.9**	**–**	**13.8**	**75.9**	**–**	**110.6**	**109.4**
Other long-term investments	**48.8**	**–**	**–**	**–**	**–**	**48.8**	**48.8**
Accounts payable and other[3]	**$ 80.8**	**$ –**	**$ –**	**$ –**	**$ 1,304.9**	**$ 1,385.7**	**$ 1,385.7**
Current deposits	**–**	**–**	**–**	**–**	**863.4**	**863.4**	**863.4**
Long-term debt	**–**	**–**	**–**	**–**	**1,411.2**	**1,411.2**	**1,414.7**
Other long-term liabilities[4]	**7.3**	**–**	**–**	**–**	**–**	**7.3**	**7.3**
Long-term deposits	**–**	**–**	**–**	**–**	**1,196.9**	**1,196.9**	**1,242.8**

2008

($ in millions)	Held for trading (fair value)	Available for sale (fair value)	Held to maturity investments (amortized cost)	Loans and receivables (amortized cost)	Other financial liabilities (amortized cost)	Total carrying amount	Fair value
Cash and cash equivalents	$ 429.0	$ –	$ –	$ –	$ –	$ 429.0	$ 429.0
Accounts receivable[1]	169.9	–	–	656.2	–	826.1	826.1
Loans receivable	–	–	–	1,683.4	–	1,683.4	1,683.4
Deposits (recorded in prepaids and deposits)	4.6	–	–	–	–	4.6	4.6
Long-term receivables and other assets[2]	65.6	–	14.6	179.7	–	259.9	266.8
Other long-term investments	25.2	–	–	–	–	25.2	25.2
Accounts payable and other[3]	$ 43.0	$ –	$ –	$ –	$ 1,409.4	$ 1,452.4	$ 1,452.4
Current deposits	–	–	–	–	540.7	540.7	540.7
Long-term debt	–	–	–	–	1,388.3	1,388.3	1,243.6
Other long-term liabilities[4]	17.9	–	–	–	–	17.9	17.9
Long-term deposits	–	–	–	–	598.7	598.7	618.5

[1] The fair value and carrying amount of accounts receivable include derivative assets of $4.5 million as at January 2, 2010 (2008 – $169.9 million).
[2] The fair value and carrying amount of long-term receivables and other assets include derivative assets of $1.3 million as at January 2, 2010 (2008 – $36.9 million).
[3] The fair value and carrying amount of accounts payable and other include derivative liabilities of $80.8 million as at January 2, 2010 (2008 – $43.0 million).
[4] The fair value and carrying amount of other long-term liabilities include derivative liabilities of $7.3 million as at January 2, 2010 (2008 – $17.9 million).

19. Financial Instruments (continued)

Fair value of assets and liabilities classified using the fair value hierarchy The Company uses a fair value hierarchy, as described in Note 1, to categorize the inputs used to measure the fair value of assets and liabilities. The following table presents the financial instruments measured at fair value classified by the fair value hierarchy:

($ in millions)	Level 1	Level 2	Level 3	Total
Financial assets				
Held-for-trading other than derivatives	$ 308.2	$ 584.4	$ 24.1	$ 916.7
Available-for-sale	4.8	–	–	4.8
Derivatives	–	5.8	–	5.8
Financial liabilities				
Derivatives	$ –	$ 88.1	$ –	$ 88.1

Changes in fair value measurement for instruments categorized in Level 3 Level 3 financial instruments include asset-backed commercial paper and the interest-only strip (see Loan Securitization in Note 1). The following table presents the changes in fair value measurements for these instruments:

($ in millions)	**2009**
Balance, beginning of year	**$ 34.3**
Additions to other assets	**72.4**
Amortization of other assets recognized in net income	**(84.5)**
Fair value gains, net of losses, recognized in net income	**1.9**
Balance, end of year	**$ 24.1**

Derivative instruments The Company enters into various cash flow hedges with approved creditworthy counterparties to manage exposure to predetermined risks. Interest rate swap contracts manage the Company's current and anticipated exposure to interest rate risk. Foreign exchange contracts, primarily in U.S. dollars, hedge future purchases of foreign currency denominated goods and services. Equity derivative contracts hedge certain future stock-based compensation expenses. The notional principal amounts of these outstanding financial instruments are not recorded on the Consolidated Balance Sheets. The fair value of these contracts is included in the Consolidated Balance Sheets as accounts payable and other, other long-term liabilities, accounts receivable or long-term receivables and other assets depending on the derivative's maturity and value. Changes in fair value of these contracts are included in other comprehensive income (loss) for cash flow hedges to the extent the hedges continue to be effective. The related other comprehensive income (loss) amounts are reclassified to net earnings in the same period in which the hedged item affects net earnings or in the period in which it is determined that the originally anticipated transaction will not occur.

The Company does not hold or issue derivative financial instruments for trading or speculative purposes, and controls are in place to detect and prevent these activities. The maximum length of time over which the Company is hedging its exposure to future cash flow variability for anticipated transactions is five years.

The following table presents the fair values of all derivative instruments categorized by their hedging relationships, as well as derivatives that are not designated in hedging relationships:

	2009[1]			2008[1]		
	Designated as hedging instruments in hedging relationships		**Not designated in a**	Designated as hedging instruments in hedging relationships		Not designated in a
($ in millions)	**Cash flow hedges**	**Fair value hedges**	**hedging relationship**	Cash flow hedges	Fair value hedges	hedging relationship
Assets	**$ 0.3**	**$ 4.5**	**$ 1.0**	$ 190.5	$ 15.7	$ 0.6
Liabilities	**78.8**	**1.3**	**8.0**	15.5	–	45.4

[1] The assets and liabilities in this table represent the in-the-money and out-of-the-money positions, respectively, of derivative instruments, the majority.

No non-derivative financial instruments were designated as hedging instruments during the year.

During the year, there were no gains or losses from cash flow hedges that were excluded from effectiveness assessment (2008 – $5.6 million pre-tax loss, which was recorded in long-term interest expense).

During the year, the Company did not reclassify any gains or losses from accumulated other comprehensive income to net earnings resulting from the discontinuance of hedge accounting (2008 – $28.7 million pre-tax loss was reclassified).

The Company has estimated that the net amount of gains and losses reported in accumulated other comprehensive income, which is currently expected to be reclassified to net earnings within the next 12 months, is a loss of $40.5 million (net of tax).

Interest rate risk The following table identifies the Company's financial assets and liabilities that are exposed to interest rate price risk, which is the risk that the fair value of the asset or liability will change when interest rates change, or to interest rate cash flow risk, which is the risk that the cash flows of the asset or liability will change when interest rates change.

($ in millions)	**2009** Interest rate price risk	Interest rate cash flow risk	No interest rate risk	Total	2008 Interest rate price risk	Interest rate cash flow risk	No interest rate risk	Total
Cash and cash equivalents	**$ 479.7**	**$ 13.6**	**$ 292.7**	**$ 786.0**	$ 305.9	$ 3.9	$ 119.2	$ 429.0
Short-term investments	**59.2**	**–**	**4.8**	**64.0**	–	–	–	–
Accounts receivable	**4.5**	**–**	**834.4**	**838.9**	–	–	826.1	826.1
Loans receivable	**2,274.8**	**–**	**–**	**2,274.8**	1,584.0	99.4	–	1,683.4
Deposits (recorded in prepaids and deposits)	**–**	**–**	**3.1**	**3.1**	–	–	4.6	4.6
Long-term receivables and other assets	**106.1**	**–**	**4.5**	**110.6**	213.7	24.4	21.8	259.9
Other long-term investments	**44.3**	**4.5**	**–**	**48.8**	19.6	5.6	–	25.2
Accounts payable and other	**$ 2.9**	**$ –**	**$ 1,382.8**	**$ 1,385.7**	$ 34.0	$ –	$ 1,418.4	$ 1,452.4
Current deposits	**358.9**	**504.5**	**–**	**863.4**	374.7	166.0	–	540.7
Long-term debt	**1,411.0**	**0.2**	**–**	**1,411.2**	1,376.3	12.0	–	1,388.3
Other long-term liabilities	**1.3**	**–**	**6.0**	**7.3**	3.3	–	14.6	17.9
Long-term deposits	**1,196.9**	**–**	**–**	**1,196.9**	598.7	–	–	598.7

The Company is exposed to interest rate risk, which it manages through the use of interest rate swaps. 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 enters into interest rate swap contracts to manage its exposure to interest rate risk. As at January 2, 2010, the Company had entered into contracts that exchanged a net notional amount of $250.0 million from fixed to floating interest rate exposure (2008 – $300.0 million exchanged from fixed to floating). In addition, as at January 2, 2010, the Company had entered into forward rate agreements maturing in less than one year, to exchange $450.0 million of floating interest rate exposure back to a fixed rate of interest. These contracts hedge the Company's net balance sheet interest rate sensitivity position. A one per cent change in interest rates would not materially affect the Company's earnings, cash flow or financial position.

The following table presents interest revenue, interest expense and net fee revenue related to financial assets and financial liabilities that were not classified as held for trading:

($ in millions)	**2009**	2008
Interest revenue[1]	**$ 553.4**	$ 489.4
Interest expense	**165.3**	95.8
Fee revenue[2]	**20.6**	22.5
Fee expense[2]	**3.6**	3.4

[1] The amount of interest revenue reported in gross operating revenue is $546.3 million (2008 – $479.9 million) and the amount of interest revenue reported in net interest expense is $7.1 million (2008 – $9.5 million).
[2] Fee revenues and expenses are reported in gross operating revenue.

Credit risk The Company's exposure to concentrations of credit risk is limited. Accounts receivable are primarily from Dealers spread across Canada, who, individually, generally comprise less than one per cent of the total balance outstanding. Similarly, loans receivable are generated by credit card, personal loan and line of credit customers, a large and geographically dispersed group. Maximum 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 credit exposure with respect to hedges and similar financial instruments is spread across ten financial institutions and represents the current replacement value of only those contracts which are in a gain position.

19. Financial Instruments (continued)

As at January 2, 2010, the Company's maximum exposure to credit risk includes the following:

($ in millions)	**2009**	2008
Assets held for trading	**$ 922.5**	$ 694.3
Assets held to maturity	**13.8**	14.6
Loans and receivables	**3,185.1**	2,519.3
Undrawn loan commitments	**16,062.7**	14,006.4
Securitized receivables	**1,732.9**	2,257.4
Guarantees (Note 17)[1]	**236.6**	318.0
Total	**$ 22,153.6**	$ 19,810.0

[1] The prior year previously reported as $523.6, however, this amount included intercompany guarantees.

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 which are considered adequate to absorb future credit losses. A continuity of the Company's allowances for credit losses is as follows:

	Credit card loans		Other loans[1]		Accounts receivable		Total	
($ in millions)	**January 2, 2010**	January 3, 2009	**January 2, 2010**	January 3, 2009	**January 2, 2010**	January 3, 2009	**January 2, 2010**	January 3, 2009
Balance, beginning of year	**$ 51.8**	$ 51.5	**$ 3.5**	$ 2.7	**$ 3.3**	$ 5.0	**$ 58.6**	$ 59.2
Provision for credit losses	**175.6**	78.0	**5.6**	9.3	**3.0**	1.0	**184.2**	88.3
Recoveries	**19.8**	15.0	**0.8**	0.7	**0.2**	0.3	**20.8**	16.0
Write-offs	**(163.3)**	(92.7)	**(7.8)**	(9.2)	**(3.0)**	(3.0)	**(174.1)**	(104.9)
Balance, end of period	**$ 83.9**	$ 51.8	**$ 2.1**	$ 3.5	**$ 3.5**	$ 3.3	**$ 89.5**	$ 58.6

[1] Other loans include personal loans and line of credit loans.

Foreign currency risk The Company has significant demand for foreign currencies, primarily United States dollars, due to global sourcing. However, it manages its exposure to foreign exchange rate risk 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's exposure, however, to a sustained movement in the currency markets is impacted by competitive forces and future prevailing market conditions.

Liquidity risk The following table summarizes the Company's contractual maturity for its financial liabilities. The table includes both interest and principal cash flows.

($ in millions)	1 year	2 years	3 years	4 years	5 years	Thereafter	Total
Non-derivatives							
Deposits	$ 872.2	$ 160.5	$ 239.9	$ 470.1	$ 326.4	$ –	$ 2,069.1
Accounts payable and other	1,253.3	–	–	–	–	–	1,253.3
Long-term debt	309.3	21.2	8.5	6.7	3.6	1,058.5	1,407.8
Interest payment[1]	120.2	97.5	95.8	114.5	90.3	633.5	1,151.8
Derivatives	80.8	0.9	–	5.1	1.3	–	88.1
Total	$ 2,635.8	$ 280.1	$ 344.2	$ 596.4	$ 421.6	$ 1,692.0	$ 5,970.1

[1] Includes interest payments on deposits and long-term debt.

20. SEGMENTED INFORMATION

The Company's reportable operating segments are strategic business units that offer different products and services. The Company has four reportable operating segments: Canadian Tire Retail (CTR), Canadian Tire Financial Services (Financial Services), Canadian Tire Petroleum (Petroleum) and Mark's Work Wearhouse (Mark's). CTR derives its revenue primarily from shipments of merchandise to Dealers and PartSource franchisees. Financial Services, which has a wholly-owned bank, is primarily engaged in financing and managing customer credit accounts that arise from customers' use of their Canadian Tire credit cards and also derives revenue from a personal loan, mortgage and line of credit portfolio and from ancillary products such as extended warranty contracts. Petroleum revenue arises primarily from the sale of petroleum products through its agents. Mark's revenue arises from the sale of merchandise to customers from its corporate-owned stores.

The accounting policies of the segments are the same as those described in the significant accounting policies in Note 1. The Company evaluates each segment's performance based on earnings before income taxes. The only significant non-cash item included in segment earnings before income taxes is depreciation and amortization.

	CTR		Financial Services		Petroleum		Mark's		Eliminations		Total	
($ in millions)	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008
Gross operating revenue[1]	**$ 5,552.2**	$ 5,669.1	**$ 909.9**	$ 820.4	**$ 1,515.1**	$ 1,871.2	**$ 833.8**	$ 872.4	**$ (124.5)**	$ (111.8)	**$ 8,686.5**	$ 9,121.3
Earnings before income taxes	**261.6**	249.4	**131.9**	192.0	**24.2**	26.6	**61.5**	75.0	**–**	–	**479.2**	543.0
Income taxes											**(144.2)**	(167.6)
Net earnings											**$ 335.0**	$ 375.4
Interest revenue[1]	**$ –**	$ –	**$ 548.0**	$ 479.9	**$ –**	$ –	**$ –**	$ –	**$ (1.5)**	$ –	**$ 546.5**	$ 479.9
Net interest expense[2,3]	**82.9**	103.2	**62.4**	15.1	**–**	–	**1.7**	4.3	**–**	–	**147.0**	122.6
Depreciation and amortization	**191.2**	174.4	**11.0**	11.0	**18.0**	17.2	**27.3**	23.6	**–**	–	**247.5**	226.2
Total assets	**5,810.7**	5,801.8	**3,319.0**	2,550.6	**279.7**	352.9	**493.3**	509.0	**(1,113.2)**	(1,430.5)	**8,789.5**	7,783.8
Capital expenditures[4]	**215.5**	383.3	**6.4**	9.2	**23.3**	36.5	**27.9**	42.9	**–**	–	**273.1**	471.9

[1] Gross operating revenue includes dividend and operating interest revenue.
[2] Interest expense is not allocated to Petroleum.
[3] Net interest expense includes interest on short-term and long-term debt, offset by passive interest income. Interest on long-term debt for the year ended January 2, 2010 was $130.0 million (2008 – $117.9 million).
[4] Capital expenditures are presented on an accrual basis and include intangible software (see Note 15).

21. LEGAL MATTERS

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

In October 2004, a motion for authorization to proceed with a class action against the Company's wholly-owned subsidiary, Canadian Tire Bank, and a number of other banks was filed by a Quebec-based consumers' group. The class action alleges that the cash advance transaction fees charged by the Bank are not permitted under the Consumer Protection Act (Quebec). The claim seeks a return of all fees assessed against cardholders for cash advances, plus punitive damages of $200 per class member. The class action was certified against the Bank on November 1, 2006. The class is comprised of all persons in Quebec who have a credit card agreement with the Bank and who have paid fees for cash advances in Canada or abroad since October 1, 2001. The Company believes it has a solid defense to the claim on the basis that banks are not required to comply with provincial legislation because banking and cost of borrowing disclosure is a matter of exclusive federal jurisdiction. Accordingly, no provision has been made for amounts, if any, that would be payable in the event of an adverse outcome. If adversely decided, the present total aggregate exposure to the Bank is expected to be approximately $16 million.

In June 2009, a similar lawsuit against another financial institution was heard by the Quebec Supreme Court questioning the legality of foreign exchange fees on credit cards transactions. The Court ruled in favour of the plaintiff, although the decision is being appealed to the Quebec Court of Appeal. One consequence of this decision is that it may affect other outstanding lawsuits, including the action filed against the Bank noted in the preceding paragraph.

22. COMPARATIVE FIGURES

Certain of the prior period's figures have been restated to correspond to the current year presentation or as a result of the retrospective implementation of CICA HB 3064 – Goodwill and Intangible Assets. Further details are provided in Note 1 under Goodwill and intangible assets.

Supplementary information: Interest coverage

The Company's long-term interest requirements for the 52 weeks ended January 2, 2010, after annualizing interest on long-term debt issued and retired during this period, amounted to $111.5 million. The Company's earnings before interest on long-term debt and income taxes for the 52 weeks ended January 2, 2010 were $608.2 million, which is 5.5 times the Company's long-term interest requirements for this period.

2009 Quarterly Information

($ in millions, except per share amounts) (Store numbers are cumulative at end of period)	First Quarter (January 4, 2009 to April 4, 2009)	Second Quarter (April 5, 2009 to July 4, 2009)	Third Quarter (July 5, 2009 to October 3, 2009)	Fourth Quarter (October 4, 2009 to January 2, 2010)	Total
Canadian Tire Retail					
Gross operating revenue	$ 1,099.3	$ 1,550.0	$ 1,408.5	$ 1,494.4	$ 5,552.2
Earnings before income taxes	32.8	95.2	95.6	38.0	261.6
Canadian Tire Petroleum					
Gross operating revenue	321.9	390.8	403.6	398.8	1,515.1
Earnings before income taxes	6.0	7.8	8.5	1.9	24.2
Mark's Work Wearhouse					
Gross operating revenue	147.1	182.2	164.2	340.3	833.8
Earnings (loss) before income taxes	(4.9)	7.1	(3.8)	63.1	61.5
Canadian Tire Financial Services					
Gross operating revenue	217.3	232.9	222.0	237.7	909.9
Earnings before income taxes	32.5	42.3	18.7	38.4	131.9
Total					
Gross operating revenue	$ 1,758.1	$ 2,324.8	$ 2,165.9	$ 2,437.7	$ 8,686.5
Cost of merchandise sold and all other operating expenses except for the undernoted items	1,597.8	2,065.9	1,939.8	2,184.6	7,788.1
Net interest expense	30.4	36.6	37.3	42.7	147.0
Depreciation and amortization	59.3	61.1	62.5	64.6	247.5
Employee profit sharing plan	4.2	8.8	7.3	4.4	24.7
Earnings before income taxes	66.4	152.4	119.0	141.4	479.2
Income taxes	16.7	48.7	33.6	45.2	144.2
Net earnings	49.7	103.7	85.4	96.2	335.0
Basic and diluted earnings per share[1]	0.61	1.27	1.04	1.18	4.10
Canadian Tire Retail					
Retail sales growth[2]	4.0%	(1.0%)	(2.3%)	(3.1%)	(1.1%)
Same store sales growth[2]	2.5%	(2.7%)	(3.8%)	(4.1%)	(2.6%)
Net shipments growth (year-over-year)	2.0%	(1.4%)	0.3%	(8.6%)	(2.4%)
Number of expanded and updated stores	392	388	388	363	
Number of traditional stores	75	73	72	71	
Number of Small Market stores	5	5	6	9	
Number of Smart stores	4	9	10	36	
Cumulative number of Canadian Tire Retail stores	476	475	476	479	
Number of PartSource stores	87	88	87	87	
Canadian Tire Petroleum					
Gasoline sales volume (millions of litres)	408.8	435.1	433.5	431.3	1,708.8
Number of gas bars	274	273	273	272	
Number of car washes	74	73	73	73	
Number of convenience stores	267	267	268	267	
Mark's Work Wearhouse					
Retail sales growth[2]	(2.3%)	(9.8%)	(2.5%)	0.7%	(3.5%)
Same store sales growth[2]	(4.1%)	(11.3%)	(3.7%)	(0.2%)	(4.7%)
Number of Mark's Work Wearhouse stores	374	375	374	378	
Canadian Tire Financial Services[3]					
Average number of account with a balance (thousands)	1,804	1,799	1,791	1,781	1,794
Average account balance ($)	2,222	2,250	2,308	2,300	2,270
Gross average receivables	4,009.1	4,047.9	4,132.6	4,096.5	4,071.5
Class A Non-Voting Shares					
High	$ 48.74	$ 56.99	$ 60.75	$ 58.70	$ 60.75
Low	38.12	43.80	49.50	52.10	38.12
Close	45.79	54.94	56.47	57.50	57.50
Volume (thousands of shares)	17,347	12,101	11,784	11,396	52,628
Common Shares					
High	$ 60.00	$ 68.99	$ 65.99	$ 66.50	$ 68.99
Low	48.05	55.01	61.65	60.01	48.05
Close	57.26	65.00	64.23	61.74	61.74
Volume (thousands of shares)	23	25	18	23	89

[1] Quarterly basic and diluted earnings per share are calculated using the weighted average number of Common and Class A Non-Voting shares outstanding for the quarter, while annual basic and diluted earnings per share are calculated using the weighted average number of Common and Class A Non-Voting shares outstanding for the full year.

[2] Retail and same store sales growth for Q4 2009 and full year has been presented on a "same calendar week basis" to fiscal 2008, to make fiscal 2009's results more comparable to the prior year.

[3] Total portfolio of loans receivable.

2008 Quarterly Information

($ in millions, except per share amounts) (Store numbers are cumulative at end of period)	First Quarter[1] (December 30, 2007 to March 29, 2008)	Second Quarter[1] (March 30, 2008 to June 28, 2008)	Third Quarter[1] (June 29, 2008 to September 27, 2008)	Fourth Quarter[1] (September 28, 2008 to January 3, 2009)	Total[1]
Canadian Tire Retail					
Gross operating revenue	$ 1,071.3	$ 1,562.1	$ 1,399.3	$ 1,636.4	$ 5,669.1
Earnings before income taxes	43.6	85.1	94.0	26.7	249.4
Canadian Tire Petroleum					
Gross operating revenue	422.8	514.8	519.3	414.3	1,871.2
Earnings before income taxes	5.0	8.0	7.5	6.1	26.6
Mark's Work Wearhouse					
Gross operating revenue	147.4	200.6	168.7	355.7	872.4
Earnings (loss) before income taxes	(3.4)	7.3	(0.1)	71.2	75.0
Canadian Tire Financial Services					
Gross operating revenue	208.7	201.5	197.8	212.4	820.4
Earnings before income taxes	54.2	44.4	47.6	45.8	192.0
Total					
Gross operating revenue	$ 1,825.3	$ 2,450.7	$ 2,257.5	$ 2,587.8	$ 9,121.3
Cost of merchandise sold and all expenses except for the undernoted items	1,644.5	2,226.6	2,024.3	2,305.1	8,200.5
Net interest expense	21.1	16.6	19.0	65.9	122.6
Depreciation and amortization	54.0	55.2	55.9	61.1	226.2
Employee profit sharing plan	6.3	7.5	9.3	5.9	29.0
Earnings before income taxes	99.4	144.8	149.0	149.8	543.0
Income taxes	32.3	47.1	39.9	48.3	167.6
Net earnings	67.1	97.7	109.1	101.5	375.4
Basic and diluted earnings per share[2]	0.82	1.20	1.34	1.24	4.60
Canadian Tire Retail					
Retail sales growth[3]	(1.9%)	1.5%	4.1%	4.0%	2.3%
Same store sales growth[3]	(4.0%)	(0.5%)	2.0%	2.2%	0.3%
Net shipments growth (year-over-year)	(0.2%)	3.2%	7.6%	3.0%	3.5%
Number of expanded and updated stores	384	390	390	393	
Number of traditional stores	89	83	81	76	
Number of Small Market stores	–	–	2	4	
Number of Smart stores	–	–	–	2	
Cumulative number of Canadian Tire Retail stores	473	473	473	475	
Number of PartSource stores	74	75	82	86	
Canadian Tire Petroleum					
Gasoline sales volume (millions of litres)	413.8	429.6	414.5	469.1	1,727.0
Number of gas bars	266	267	269	273	
Number of car washes	74	74	74	74	
Number of convenience stores	259	260	262	266	
Mark's Work Wearhouse					
Retail sales growth[3]	(3.2%)	5.3%	2.6%	1.6%	1.8%
Same store sales growth[3]	(7.0%)	0.9%	(1.0%)	(0.3%)	(1.4%)
Number of Mark's Work Wearhouse stores	360	364	364	372	
Canadian Tire Financial Services[4]					
Average number of accounts with a balance (thousands)	1,849	1,861	1,862	1,851	1,856
Average account balance ($)	2,072	2,066	2,123	2,174	2,109
Gross average receivables	3,831.7	3,844.9	3,951.8	4,023.7	3,913.0
Class A Non-Voting Shares					
High	$ 75.36	$ 70.00	$ 56.95	$ 50.85	$ 75.36
Low	55.78	52.40	47.93	36.56	36.56
Close	65.22	53.70	49.75	44.29	44.29
Volume (thousands of shares)	19,390	21,370	23,998	21,155	85,914
Common Shares					
High	$ 101.50	$ 82.45	$ 73.45	$ 56.99	$ 101.50
Low	67.10	68.01	55.99	41.00	41.00
Close	78.00	69.99	56.50	45.00	45.00
Volume (thousands of shares)	43	25	28	32	128

1 2008 figures have been restated for the implementation, on a retrospective basis, of CICA HB 3064 - Goodwill and Intangible Assets and the amendments to CICA 1000 - Financial Statement Concepts.

2 Quarterly basic and diluted earnings per share are calculated using the weighted average number of Common and Class A Non-Voting Shares outstanding for the quarter, while annual basic and diluted earnings per share are calculated using the weighted average number of Common and Class A Non-Voting Shares outstanding for the full year.

3 Retail and same store sales growth for Q4 2008 represent 13-weeks compared to 13-weeks in Q4 2007. The full year 2008 represent 52-weeks compared to 52-weeks in 2007.

4 Total portfolio of loans receivable.

Ten-Year Financial Review

($ in millions except per share amounts)	2009	2008[1,2]	2007
Consolidated Statements of Earnings			
Gross operating revenue[3]	$ 8,686.5	$ 9,121.3	$ 8,606.1
Earnings before interest, income taxes, depreciation and amortization and minority interest[3]	873.7	891.8	881.2
Earnings before income taxes and minority interest	479.2	543.0	611.2
Income taxes	144.2	167.6	199.5
Net earnings before minority interest	335.0	375.4	411.7
Minority interest	–	–	–
Net earnings	335.0	375.4	411.7
Cash generated from operations[4]	694.7	588.4	528.7
Cash generated from operating activities[4]	418.8	181.5	61.6
Earnings retained and reinvested	266.3	307.0	351.3
Capital expenditures	273.1	471.9	592.7
Consolidated Balance Sheets			
Current assets	$ 5,112.5	$ 3,979.0	$ 3,138.2
Long-term receivables and other assets[5]	496.6	605.9	343.0
Property and equipment	3,180.4	3,198.9	3,283.6
Total assets	8,789.5	7,783.8	6,764.8
Current liabilities	2,564.1	1,999.7	2,113.7
Long-term debt (excludes current portion)	1,101.9	1,373.5	1,341.8
Long-term deposits (excludes current portion)	1,196.9	598.7	3.8
Other long-term liabilities	188.9	202.2	125.6
Future income taxes	49.8	44.7	71.8
Minority interest	–	–	–
Shareholders' equity	3,687.9	3,565.0	3,108.1
Consolidated per share[6]			
Basic earnings per share	$ 4.10	$ 4.60	$ 5.05
Diluted earnings per share	4.10	4.60	5.05
Cash generated from operations[4]	8.51	7.21	6.49
Cash generated from operating activities[4]	5.13	2.22	0.76
Dividends declared	0.84	0.84	0.74
Shareholders' equity	45.19	43.69	38.15
Statistics at year-end			
Number of Canadian Tire stores	479	475	473
Number of PartSource stores[7]	87	86	71
Number of gas bars	272	273	266
Number of car washes	73	74	74
Number of Mark's Work Wearhouse stores[8]	378	372	358

1 53-week period

2 2008 figures have been restated for the implementation, on a retrospective basis, of CICA HB 3064 – Goodwill and Intangible Assets and CICA HB 1000 – Financial Statement Concepts. Data required to reclassify the information prior to 2008 is not available.

3 Gross operating revenue and EBITDA for 2007 and prior years have been restated for the reclassification of passive interest income to short-term interest expense.

4 Certain 2006 cash flow figures have been reclassified to conform to the 2007's year presentation with respect to securitizations and net provision for loans receivable. Data required to reclassify the information prior to 2006 is not available.

5 Includes other assets, other long-term investments (net), goodwill and intangible assets.

6 Per share numbers are calculated using total shares outstanding as at the Company's year-end date.

7 Total in 2005 includes three unbranded PartSource stores purchased in December 2005 which were branded in 2006.

8 Mark's Work Wearhouse was acquired on February 1, 2002.

2006	2005	2004	2003[1]	2002	2001	2000
$ 8,252.9	$ 7,713.9	$ 7,062.1	$ 6,486.8	$ 5,888.9	$ 5,321.8	$ 5,168.5
809.0	789.1	702.0	597.0	546.3	487.0	442.7
557.8	527.7	460.9	365.9	311.3	272.1	236.0
200.8	190.0	162.5	116.0	103.0	98.0	90.9
357.0	337.7	298.4	249.9	208.3	174.1	145.1
2.4	7.6	6.9	8.7	7.4	0.6	–
354.6	330.1	291.5	241.2	200.9	173.5	145.1
410.1	700.7	630.4	534.5	460.1	362.4	350.0
395.3	413.5	413.1	520.1	442.0	189.4	504.1
300.8	282.7	251.0	208.7	169.3	142.0	113.8
557.4	391.1	340.7	278.9	249.8	358.4	382.3
$ 2,541.0	$ 2,973.1	$ 2,434.6	$ 2,291.5	$ 2,303.1	$ 1,985.0	$ 1,519.6
382.3	238.6	223.4	156.7	211.5	134.4	122.9
2,881.3	2,743.9	2,585.2	2,444.9	2,351.1	2,245.0	2,098.4
5,804.6	5,955.6	5,243.2	4,893.1	4,865.7	4,364.4	3,740.9
1,663.6	1,821.0	1,487.4	1,612.0	1,577.0	1,106.5	1,119.6
1,168.4	1,171.3	1,081.8	886.2	1,125.2	1,310.0	1,115.0
–	–	–	–	–	–	–
112.4	63.2	55.6	46.9	43.7	38.6	34.2
75.0	89.0	67.2	30.9	23.7	15.0	18.9
–	300.0	300.0	300.0	300.0	300.0	–
2,785.2	2,511.1	2,251.2	2,017.1	1,796.1	1,594.3	1,453.2
$ 4.35	$ 4.04	$ 3.60	$ 2.99	$ 2.54	$ 2.21	$ 1.85
4.31	3.98	3.53	2.95	2.51	2.19	1.85
5.03	8.57	7.78	6.63	5.82	4.61	4.47
4.85	5.06	5.10	6.45	5.59	2.41	6.43
0.66	0.58	0.50	0.40	0.40	0.40	0.40
34.19	30.83	27.75	24.98	22.49	20.29	18.50
468	462	457	452	451	450	441
63	57	47	39	33	30	28
260	259	253	232	212	203	206
74	67	58	47	33	20	16
339	334	333	322	306	–	–

Directors

Maureen J. Sabia
Ontario, Canada
Non-Executive Chairman of the Board of the Company; President, Maureen Sabia International, a consulting firm; and Corporate Director

Iain C. Aitchison[4]
New Jersey, U.S.A.
President, "K" Line Total Logistics, LLC and President and CEO, Century Distribution Systems, Inc., international transportation and logistics companies in the U.S.A.

Martha G. Billes[2,3]
Alberta, Canada
President, Albikin Management Inc., an investment holding company

Owen G. Billes[4]
Ontario, Canada
President, Sandy McTyre Retail Ltd., which operates a Canadian Tire Store

Peter W. Currie[1]
Ontario, Canada
Corporate Director

Brian G. Domelle[4]
Ontario, Canada
President, Brian Domelle Enterprises Limited, which operates a Canadian Tire Store

H. Garfield Emerson, Q.C.[3]
Ontario, Canada
Principal, Emerson Advisory, an independent advisory firm; and Corporate Director

Daniel E. Fournier[1,3]
Quebec, Canada
President, ACNG Capital Inc., a real estate value creation and consulting firm

Robert M. Franklin[1,2,4]
Ontario, Canada
President, Signalta Capital Corporation, a private investment holding company; and Corporate Director and Trustee

Keith E. Gostlin[4]
British Columbia, Canada
President, K.E. Gostlin Enterprises Ltd., which operates a Canadian Tire Store

Frank Potter[2,3]
Ontario, Canada
Chairman, Emerging Market Advisors Inc., a consulting firm dealing with international direct investment

Timothy R. Price[1]
Ontario, Canada
Chairman, Brookfield Funds, Brookfield Asset Management Inc., an asset management company

James A. Riley[2,3]
Ontario, Canada
Partner, Goodmans LLP, a law firm

Peter B. Saunders[3]
Florida, U.S.A.
Corporate Director

Graham W. Savage[1,2]
Ontario, Canada
Corporate Director

Stephen G. Wetmore
Ontario, Canada
President and Chief Executive Officer of the Company

[1] **Audit Committee**
Chairman, Graham W. Savage

[2] **Governance Committee**
Chairman, James A. Riley

[3] **Management Resources and Compensation Committee**
Chairman, Frank Potter

[4] **Social Responsibility Committee**
Chairman, Robert M. Franklin

Further information on Canadian Tire's corporate governance is provided in the Company's Management Information Circular which is available on the System for Electronic Document Analysis and Retrieval at www.sedar.com, or in the investor relations section of Canadian Tire's website at **http://corp.canadiantire.ca/en/investors**

Officers

Maureen J. Sabia
Chairman of the Board

Stephen G. Wetmore
President and Chief Executive Officer

G. Michael Arnett
President, Canadian Tire Retail

Marco Marrone
Chief Financial Officer and Executive Vice-President, Finance

Dean McCann
President, Canadian Tire Financial Services Limited

Michael B. Medline
President, Canadian Tire Automotive and Dealer Relations

Patrick R. Sinnott
Executive Vice-President, Technology and Supply Chain

J. Huw Thomas
Executive Vice-President, Financial Strategy and Performance

Paul Wilson
President, Mark's Work Wearhouse Ltd.

Robyn A. Collver
Senior Vice-President, Secretary and General Counsel

Kristine Freudenthaler
Senior Vice-President, Information Technology and Chief Information Officer

Stanley W. Pasternak
Senior Vice-President and Treasurer

Sharon Patterson
Senior Vice-President, Human Resources

Kenneth Silver
Senior Vice-President, Corporate Strategy and Real Estate

Candace A. MacLean
Vice-President and Assistant Treasurer

Asset-backed commercial paper (ABCP)
A secured short-term debt obligation. Traditionally, the underlying assets of ABCP are made up of mortgages and various types of consumer loans and receivables.

Associate Dealer/Dealer
The independent business owners who operate our Canadian Tire retail stores.

Bank card
A credit card offered by, or with, VISA or MasterCard.

Basis point
One hundredth of a percentage point.

Broker deposits
Cash deposits raised through the sale of guaranteed investment certificates through broker networks that are offered in 30-day to five-year terms and are non-redeemable prior to maturity, except under rare circumstances.

Comprehensive income
A component of the shareholder's equity financial statement comprised of net income and other comprehensive income (see also other comprehensive income).

Concept 20/20 store
Canadian Tire store format that was introduced in 2003 and rolled out through 2008. These stores are bigger, brighter and have, among other features, wider aisles and displays that draw attention to featured merchandise than our previous store formats. This store format is now referred to as an "updated and expanded" store. A Concept 20/20 store may include a Mark's Work Wearhouse store.

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

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

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

Delayed-start interest rate swap
A regular interest rate swap with the exception that the start date is not immediate (see also interest rate swap).

Derivative
A financial instrument whose value depends upon the values of underlying assets, interest rates, currency exchange rates, or indices.

Derivative equity contract
A financial instrument used to hedge the anticipated exposure relating to certain stock-based compensation plans.

Diluted earnings per share
The amount of earnings for the period available to each share outstanding during the period, including the potential impact of dilutive share options using the Treasury Stock Method, and to each share that would have been outstanding, assuming the issuance of shares for all dilutive potential shares outstanding during the period.

Discount rate
An interest rate applied to a single cash flow that will not be paid or received until a future date in order to calculate the present value of that future cash flow.

Documentary letter of credit
A financial instrument issued by a bank on behalf of a customer whereby the issuing bank has guaranteed payment of a financial obligation to a third party upon presentation of specified documents. The customer in turn reimburses the bank.

Embedded derivative
A component of a hybrid (combined) instrument that also includes a non-derivative host contract, with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative.

Fair value
The amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

Financial instrument
Any contract that gives rise to a financial asset of one party and a financial liability or equity instrument of another party.

Foreign exchange contract
An agreement between parties to exchange stipulated amounts of one currency for another currency at one or more future dates.

Hedge
A risk management technique used to manage interest rate, foreign currency exchange or other exposures arising from regular business transactions.

High interest savings account
A form of savings deposit at Canadian Tire Bank which pays higher interest than a traditional chequing or saving account with no minimum balance or withdrawal restrictions.

Hub store
A PartSource store that is designed to provide a broader assortment of automotive hard parts inventory to service a particular region's Canadian Tire and PartSource customers.

Interest coverage
Earnings before interest and income taxes divided by interest expense.

Interest rate risk
The potential impact on the Company's earnings and economic value due to changes in interest rates.

Interest rate swap
A contractual agreement between two parties to exchange fixed and floating rate interest payments based on a notional value in a single currency.

Interest-only strip
Represents the present value of the Company's share of the spread to be earned over the collection period on the loan receivables sold.

Loans receivable
The aggregate amount of outstanding balances owed to the Company by Canadian Tire credit card holders and personal loan and line of credit customers.

Long-term debt to total capitalization
Long-term debt (including current portion of long-term debt) and long-term deposits divided by the sum of short-term debt, long-term debt, long-term deposits, future income taxes, other long-term liabilities, and shareholders' equity.

Mark-to-market
The valuation of financial instruments using prevailing market prices or fair value as of the balance sheet date.

Medium-term note (MTN)
Debt instrument with maturity of at least one year and a maximum of 30 years that can be offered by the Company during the term of a short form base shelf prospectus, which has a current term extending until May 8, 2011.

Minority interest
A reference to shareholders – individuals, corporations or partnerships – that own less than 50 per cent of a subsidiary's outstanding voting common stock. In the past, the minority shareholders held an interest in the subsidiary's net assets and share earnings with the majority shareholder. The Company had minority interest between 2001 and 2006.

Net managed portfolio
The total value, after allowances, of the loans receivable portfolio, which includes credit card receivables, personal loans and line of credit loans. A significant portion of the managed loan portfolio has been securitized.

New-format store
A Canadian Tire store format that was used in stores opened starting in 1994. This format was phased out starting in 2003 with the launch of the Concept 20/20 format. It incorporates, among other features, a larger, more convenient layout and expanded merchandising offering. This store format is now referred to as an "updated and expanded" store. A new-format store may include a Mark's Work Wearhouse store.

Notional amount
The amount considered as principal when calculating interest and other payments for derivative contracts.

Off-balance sheet financial instrument
An asset or liability that is not recorded on the balance sheet, but has the potential to produce positive or negative cash flows in the future.

Other comprehensive income (OCI)
An amount representing changes in shareholders' equity during a period arising from transactions and other events with non-owner sources and includes unrealized gains and losses on financial assets classified as Available-for-Sale, unrealized foreign currency translation gains or losses arising from self-sustaining foreign operations, net of hedging activities, and changes in the fair value of the effective portion of cash flow hedging instruments.

Projected benefit method
An actuarial valuation method whereby a distinct unit of future benefit is attributed to each year of credited service with equal portions of the total estimated future benefit attributed to each year of service in the attribution period. The actuarial present value of that unit of benefit is computed separately for the period during which it is presumed to have accrued.

Rebranding
In the context of Canadian Tire Petroleum's strategy, rebranding is the conversion of a competitor's gas bar and kiosk (in most cases) to the Canadian Tire brand. Generally, Petroleum incurs relatively low costs to convert the site. In exchange for the conversion, the rebranding partner participates in the profits of the converted site or is paid a fixed rent, depending upon the agreement.

Related party
Related parties exist when one party has the ability to exercise, directly or indirectly, control, joint control or significant influence over the other. Two or more parties are related when they are subject to common control, joint control or common significant influence. Related parties also include members of the Board of Directors, management and immediate family members.

Retained interest
A beneficial interest in the assets transferred over which a seller has not relinquished control, including servicing assets, residual interest, cash or securitization reserve accounts and securities backed by the transferred assets.

Return on equity
Net earnings divided by average shareholders' equity.

Return on invested capital
After-tax earnings before interest, income taxes and minority interest divided by average invested capital. Invested capital is the sum of current assets, current portion of long-term debt, property and equipment, goodwill, intangible assets, long-term receivables and certain other assets, less current liabilities.

Same calendar week basis
Fiscal 2009 retail sales and same store sales are based on a 13-week period for the fourth quarter and a 52-week period for the year compared to a 14-week period for the fourth quarter in 2008 and a 53-week period for the year in 2008. To provide a better comparison of retail sales and same store sales, the 13-week period for the fourth quarter of 2009 and the 52-week period for the year are compared to the same 13-week period for the fourth quarter in 2008 and the same 52-week period for the year in 2008.

Same store sales (CTR)
Include sales from stores that have been open for more than 53 weeks (in a 52-week fiscal year) or 54 weeks (in a 53-week fiscal year, such as in the case of the fiscal year ended January 3, 2009).

Same store sales (Mark's Work Wearhouse)
Include sales from stores that have been open for more than 12 months. Stores in transition (eg: renovation or relocation) to a newer format are not closed and thus their store sales are included in the same store sales calculation.

Securitization
The process by which financial assets are sold to a third party. At Financial Services, credit card loan receivables are routinely financed through a co-ownership interest sold to Glacier Credit Card Trust. We record these transactions as a sale, and as a result, these assets are not included in our Consolidated Balance Sheets.

Servicing
The collection of principal and interest from borrowers, accounting for the cash flows due and the cash flows received, and remitting the cash flows to the entitled recipients.

Servicing liability
A contract to service receivables under which the estimated future revenues from contractually specified servicing fees, late charges, and other ancillary revenues are not expected to adequately compensate the company that is servicing the receivables.

Small Market store
A Canadian Tire store that has a smaller format and focuses on meeting the needs of underserved rural markets. This store format was introduced in 2008. The Small Market store may include a Mark's Work Wearhouse store.

Smart store
The Canadian Tire store format which replaced the Concept 20/20 store and was introduced in 2008. This store format focuses on growth and improving productivity and is less capital intensive than the former Concept 20/20 store format. The Smart store may include a Mark's Work Wearhouse store.

Standby letter of credit
A financial instrument issued by a bank on behalf of a customer whereby the issuing bank has guaranteed payment of a financial obligation to a third party should the customer fail to meet its obligation to the third party.

Total managed portfolio
The total value, before allowances, of the loans receivable portfolio, which includes credit card receivables, personal loans and line of credit loans. A significant portion of the managed loan portfolio has been securitized.

Traditional store
A Canadian Tire store that is not an "updated and expanded", Small Market or Smart store. Traditional stores were built prior to the introduction of the new-format store in 1994.

Treasury stock method
A method of recognizing the use of proceeds that could be obtained upon exercise of options and warrants in computing diluted earnings per share. It assumes that any proceeds would be used to purchase common shares at the average market price during the period.

Undivided co-ownership interest
A partial legal or beneficial ownership of account assets.

Updated and expanded
A single term used to describe our 20/20 and new-format stores when reporting on their various metrics and statistics.

Variable interest entity (VIE)
An entity that by design does not have sufficient equity at risk to permit it to finance its activities without additional subordinated financial support, or in which equity investors do not have the characteristics of a controlling financial interest.

Weighted average number of shares
The number of shares determined by relating the portion of time within the reporting period the shares have been outstanding to the total time in that period.

Shareholder and Corporate Information

Home office

Canadian Tire Corporation, Limited
2180 Yonge Street
P.O. Box 770, Station K
Toronto, Ont. M4P 2V8 Canada
Telephone 416-480-3000
Fax 416-544-7715
Website http://corp.canadiantire.ca

Shareholder contacts

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Associate Vice-President, Investor Relations
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Investor Relations Email
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Media Contact

Amy Cole
Associate Vice-President,
Corporate Communications
amy.cole@cantire.com

Annual and special meeting of shareholders

MaRS Collaboration Centre
101 College Street
Toronto, Ont.
Thursday, May 13, 2010
10:00 a.m. (EDT)

Exchange listings

The Toronto Stock Exchange:
Common Shares (CTC)
Class A Non-Voting Shares (CTC.A)

Auditors

Deloitte & Touche LLP
Chartered Accountants

Bankers

Canadian Imperial Bank of Commerce
Bank of Montreal
Royal Bank of Canada
The Bank of Nova Scotia
The Toronto-Dominion Bank
National Bank of Canada
HSBC Bank Canada
BNP Paribas (Canada)
RBS ABN Amro Bank
Alberta Treasury Branches

Registrar and transfer agent

Computershare Trust Company of Canada
100 University Avenue
Toronto, Ont. M5J 2Y1
Canada
Telephone: 514-982-7555
Toll-free: 1-800-564-6253
Fax: 1-866-249-7775
Email: service@computershare.com

To change your address, eliminate multiple mailings, transfer Canadian Tire shares, inquire about our Dividend Reinvestment Program or for other shareholder account inquiries, please contact the principal offices of Computershare Trust Company of Canada in Halifax, Montreal, Toronto, Winnipeg, Calgary or Vancouver.

Disclosure documents

Corporate governance disclosure and other investor information are available online from the investor relations pages of the Company's website at http://corp.canadiantire.ca/en/investors.

Additional copies of this Annual Report and other disclosure documents such as the Company's Management Information Circular, the Annual Information Form and quarterly reports can be downloaded or requested in print form from the same website.

Version française du rapport

Pour télécharger la version française du rapport annuel de Canadian Tire ou en demander un exemplaire, veuillez consulter le site Web de Canadian Tire, à l'adresse http://corp.canadiantire.ca/fr/investors.

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